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Industry Pulse

MAPLE GROVE, Minn. – Here in Minnesota, where **Healthcare Real Estate Insights**™ is headquartered, there hasn't been a new hospital built with new beds since a moratorium was enacted by the state legislature back in 1984. Well, Minnesota's first new hospital with new beds opened in recent weeks. The $138.9 million, 225,000 square foot **Maple Grove Hospital**, in the northwestern suburbs of Minneapolis, has an initial bed count of just 30. However, the facility can be expanded to 90 beds in the somewhat near future, and eventually, with some new construction, it could have up to 300 beds. The hospital is owned and operated by a partnership of Robbinsdale, Minn.-based **North Memorial Health Care** (75 percent) and Minneapolis-based **Fairview Health Services** (25 percent). The new hospital is expected to alleviate growing demand for services in the expanding northwestern part of the Twin Cities metropolitan area,

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First buy for G&E REIT II

TRUST OFF AND RUNNING WITH DEAL IN MINNESOTA

By John Mugford

Here comes Grubb & Ellis Healthcare REIT II. The newly formed, privately held real estate investment trust (REIT) recently entered an agreement to make its first medical office building (MOB) acquisition: a 36,600 square foot, two-building facility in Sartell, Minn.

The Santa Ana, Calif.-based REIT has agreed to purchase the Center for Neurosurgery and Spine for $6.5 million. The buildings sit on a 3.7-acre site in a suburb of St. Cloud, Minn., which is about an hour north of Minneapolis. The seller of the property is St. Cloud-based Stingray Properties LLC.

While the agreed upon price is not earth-shattering in the arena of MOB sales, the transaction is a significant one for a company that expects to be an active MOB buyer and owner in coming years. Grubb & Ellis Healthcare REIT II was incorporated in early 2009 and is sponsored by Santa Ana-based Grubb & Ellis Co. (NYSE: GBE).

NEWS & ANALYSIS

The two-building property in Sartell is fully occupied and is leased to five tenants, including the Center for Pain Management, Central Minnesota Neurosciences, and Central Minnesota Center for Diagnostic Imaging. The MOB complex is located about a half mile from a large health plaza and about three miles from the 393-bed St. Cloud Hospital, both of which are part of St. Cloud-based CentraCare Health System.

(See "Grubb & Ellis" on Page 18)

Merger of med & retail

PROFESSIONALS SAY TREND FINALLY TAKING SHAPE

By Dan Emerson

The passage of healthcare reform legislation notwithstanding, no one can predict exactly what the country's healthcare delivery system will look like five, 10 or 20 years from now.

But one possibility for the future of such a delivery system can be glimpsed in Nashville, Tenn., where Vanderbilt Medical Center leases nearly half of the 850,000 square foot indoor shopping center called One Hundred Oaks, a previously moribund property where the remaining retail tenants are now thriving.

After a year that saw the bankruptcies of several major retail chains and numerous store closings in other companies, the retail real estate sector is in its worst shape in decades.

PRODUCT FOCUS

Nationwide, retail vacancies are expected to reach nearly 12 percent by the end of 2010, according to a recent

(See "Retail" on Page 19)

(For more information on HTA, please see "G&E REIT plans changes" in the April, 2009, edition of **Healthcare Real Estate Insights**™.)

At that time, we did not know about Grubb & Ellis's plans for its new Grubb & Ellis Healthcare REIT II.

In its SEC filings, the new REIT provides an indication of what some of its strategies will be. For example, the firm says that it plans to borrow funds to finance portions of its acquisitions.

"We anticipate that, after an initial phase of our operations (prior to the investment of all of the net proceeds of our offerings of shares of our common stock) when we may employ greater amounts of leverage to enable us to purchase properties more quickly and, therefore, generate distributions ... sooner, our overall leverage will not exceed 60 percent of the combined market value of our real estate and real estate-related investments," the company writes in the SEC filing.

Also in SEC documents, the company states: "Grubb & Ellis Healthcare REIT II intends to qualify as a real estate investment trust that seeks to preserve, protect and return investors' capital contributions, pay regular cash distributions, and realize growth in the value of its investments upon the ultimate sale of such investments.

"Grubb & Ellis Healthcare REIT II is seeking to raise up to approximately $3 billion in equity and to acquire a diversified portfolio of real estate assets, focusing primarily on medical office buildings and other healthcare-related facilities."

As of Oct. 30, the REIT had accepted subscriptions for 351,392 shares of its common stock, leaving about 299.65 million shares available. ❑

RETAIL (Continued from Page 1)

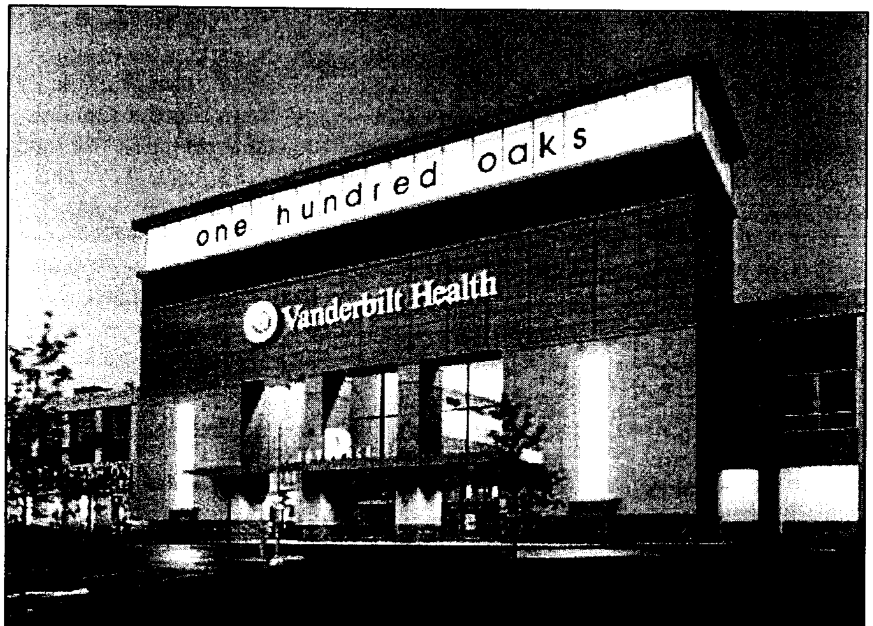
report by Santa Ana, Calif.-based Grubb & Ellis Co. (NYSE: GBE)

But demand for healthcare real estate has remained relatively strong as providers strive to position themselves for a delivery system that is expected to place more emphasis on outpatient care. Providers want to be closer to their patients – both existing and prospective – many of whom are located in the same desirable suburban areas coveted by retailers.

The concept of putting outpatient clinics in retail spaces has been tried before, with mixed results. On the surface, the concept would seem to make sense, appealing to the needs of retailers, landlords, providers and their patients.

To retail landlords, healthcare providers represent potential long-term tenants with relatively stable balance sheets who can boost customer traffic, which in turn helps other retailers.

After years of discussion and some experimentation, the retail clinic concept has been somewhat slow to take hold. So far, most retail clinics have located within chain drugstores and supermarkets such as Walgreen's, CVS, Rite Aid and Kroger's.



Close to the customer: The Vanderbilt Health facility at 100 Oaks Mall in Nashville, Tenn., is flanked by a KG Fashion Superstore and a TJ Maxx.
Photo courtesy of Gresham Smith and Partners

But the concept is picking up steam, according to Tine Hansen Turton, executive director of Philadelphia-based Convenient Care Association, a national trade group founded in 2006 that promotes the retail clinic concept, helps monitor the quality of care, tracks legislation and lobbies on behalf of the industry.

"We think it's going to be a tremendous growth area for hospitals and health systems," he adds.

"They've been coming to us more and more...

"The growth of retail clinics has shown healthcare providers that if you locate where retail is, and are willing to stay open longer hours, you can build business, and people will be more likely to utilize care appropriately, rather than going to a hospital emergency room for minor care. And it's a great traffic-driver for retailers."

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The big one

Large-scale retail clinics like the one in Nashville, the largest in the nation, could become even more prevalent in the future.

The One Hundred Oaks retail center opened in 1962 as Nashville's first enclosed, destination mall. Like many first-generation malls, it eventually lost its luster. When Dallas developers Tony Ruggeri and Frank Mihalopoulos bought the property in December 2006, it was only 50 percent occupied.

Seven months later, Vanderbilt signed a 12-year lease for the mall's entire second floor and all levels of its five-story tower. After a $99 million renovation designed by Nashville-based architectural and engineering firm Gresham Smith & Partners, Vanderbilt began moving in selected ambulatory services, including women's health, dermatology, adolescent medicine, medical infusion, and multiple sclerosis and pediatric allergy clinics.

The One Hundred Oaks clinic also features consumer-friendly technology such as touch-screen kiosks for check-in, beepers that allow patients to browse the mall while waiting, and monitors to help nurses keep track of patients after they are checked in.

Once the economy picks up, Vanderbilt plans to add a 60,000 square foot fitness center, with a swimming pool, for cardiac rehab. John Forster, a partner with Atlanta-based The Shopping Center Group, which manages One Hundred Oaks, says the venture has been a winner for everyone involved.

"Vanderbilt's impact on retailers there has been tremendous," he says. "Since they opened there last year, everyone has been 'up' in sales, some as much as 25 to 28 percent over last year."

Most of those retailers have remodeled and upgraded their spaces, he notes.

"With 1,100 Vanderbilt employees, 1,000 to 2,000 patient-visits a day and the people who bring the patients there – those people have driven retail sales," Mr. Forster notes.

The amount of "true retail" available for rent in One Hundred Oaks has dropped from 115,000 square feet to about 28,000 square feet, Forster reports.

"The only reason that space is left is demand for (store) sizes we can't fit without wasting space."

What was the biggest challenge in bringing in the medical component?

"Getting the (existing retailers) to buy-in as to how the parking was going to work and how the change of use would affect them," Forster explains. "That's been the most time-consuming part of the whole project, above and beyond trying to market the space."

He adds: "Some of the larger tenants had certain contract stipulations pertaining to change-of-use rights. Every retailer was offered the chance to pay off their lease and walk, but nobody did. At first, I didn't have people standing in line to do deals with me, but this has been a win-win for everybody, a wonderful thing for the property and retailers.

"I hope I get a chance to do another one of these deals somewhere, now that I can see the positive effect."

Gaining momentum

John Pfarr, an SVP with Jacksonville, Fla.-based Regency Centers Corp. (NYSE: REG), one of the country's largest owner-operators of grocer-anchored shopping centers, also believes the retail clinic trend is gaining momentum.

"Three or four years ago, this wasn't on our radar screen. But more and more, it's become a trend we embrace. "It's all about convenience. Instead of taking the kids to the orthodontist in the medical office park, consumers love dropping the kids at the orthodontist two doors down (in the mall) while they do the grocery shopping."

Regency's 40-plus centers nationwide have more than 400 healthcare tenants, including 200 dental offices, 62 optometrists and about twice that many medical providers.

"Everything from acupuncture to physical therapy," Mr. Pfarr says. "I don't know how dentists or physical therapists differentiate themselves, other than through word of mouth. So they need walk-by traffic to get new patients."

Grocer-anchored retail centers typically average 22,000 shopper-trips per week, he notes.

Of course, landlords must also factor in other tenant preferences.

"Could we put a 25,000 square foot outpatient hospital in our center? Probably not," Pfarr adds. "But, the dentists, pediatricians and chiropractors can be 'sprinkled in' very nicely. Three years ago, that would have been considered a lazy leasing effort. But today it's really embraced, for the most part, because the customers like it."

Mr. Pfarr considers healthcare "a recession-proof, necessity business. Medical users have very high credit-worthiness and low reliance on promotional sales. So it's extremely rare for them to default on a lease."

Regency's marketing efforts typically target small healthcare practitioners with print ads and direct mail campaigns, even door-to-door canvassing.

"I think this is a trend you're going to see a lot of shopping center companies at our level start to run with."