

# Growing Demand for Healthcare Services Drives Medical Office Market

Jessica Rahal | Research Coordinator | South Carolina

## Key Takeaways

- > Increased demand for healthcare services is positively impacting medical real estate markets.
- > The Columbia, SC medical office market experienced declining vacancy and rising rental rates in 2015.
- > Physician practices and hospitals are facing new challenges as a result of mandates enforced by the Affordable Care Act (ACA) consequently motivating mergers and acquisitions.
- > Healthcare employment is on the rise, reaching new record-high levels.

## Demand for Healthcare Services and Real Estate Grows

Demand for healthcare services has been increasing over recent years as the population ages and the Affordable Care Act provides healthcare access to more people. An aging population coupled with a declining uninsured rate contribute to greater demand for healthcare services and consequently climbing healthcare expenditures. Healthcare spending in the U.S. is escalating and topped \$3 trillion in 2014, more than doubling since 2000.

As of 2010, the U.S. Census Bureau predicted that 16.9% of the population in the Columbia, SC metropolitan statistical area (MSA) was over the age of 60. According to ESRI Demographics, in 2015, the 60-year-old and over cohort grew to 19.3% and is expected to account for 21.7% of the MSA's total population in 2020. Meanwhile, the 20-to-59-year-old age cohort is declining as a percent of total population.

The ACA has enabled greater health insurance coverage and is contributing to declining uninsured rates throughout the nation. The Center for Disease Control (CDC) recently reported the uninsured rate in the United States is below 10%, a new record low. The uninsured rate was down to 9.0% at mid-year 2015 from 11.5% the previous year with approximately 7.5 million fewer uninsured individuals than 2014. According to the Henry J. Kaiser Family

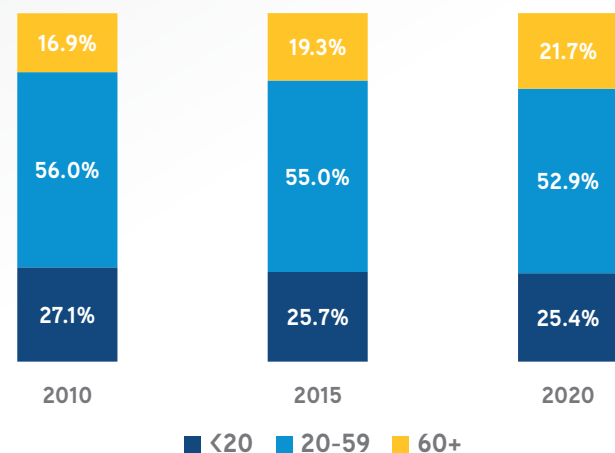
### Market Indicators

Relative to prior period	Q4 2015	Q2 2016*
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↔	↔
RENTAL RATE**	↑	↑

Note: Construction is the change in Under Construction.  
\*Projected

### An Aging Population is Driving Healthcare Demand Columbia, SC MSA Population by Age (%)

In 2020 **one** person in **five** will be **over 60**.



Source: ESRI Demographics, Colliers International

Foundation, the uninsured rate in South Carolina was down to 13.0% in 2014 from 16.0% in 2013. Despite the uncertainty of the future of the ACA, the uninsured rate is expected to decline further.

Changing healthcare dynamics are creating a greater demand for medical office space with markets across the nation reporting declining vacancy rates and increased sales activity. Additionally, the medical office landscape is changing. Advancements in technology are allowing for more collaborative and open medical offices. Clinics are locating in the suburbs, off hospital campuses, providing greater access and ease to patients.

The vacancy rate for the Columbia, SC medical office market was down to 7.3% at year-end 2015 from 7.6% at mid-year 2015 and 8.3% one year ago. Asking rental rates are steadily increasing and averaged \$23.13 per square foot per year (PSF/YR) at the end of 2015, increasing from \$22.49 PSF/YR one year ago.

Construction of new hospital facilities is the strongest testament to the robust demand for healthcare services. In 2014, Palmetto Health completed construction on Palmetto Health Baptist Parkridge in Irmo. The 224,590-square-foot hospital offers 24/7 emergency care, inpatient care, intensive care unit, labor and delivery and a newborn nursery. The \$125-million hospital is connected by a walkway to an approximately 80,000-square-foot medical office building.

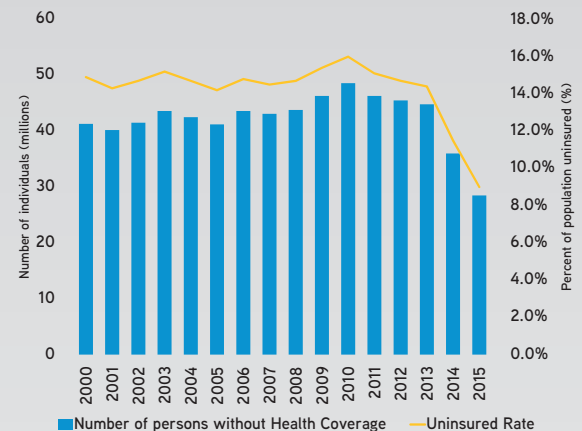
Lexington Medical Center announced plans earlier this year to construct a \$425-million addition to their existing campus in West Columbia. The hospital plans to build an 8-story, 550,000-square-foot tower that will allow the hospital to add approximately 70 patient beds with the ability to add more in the future. If approved, construction may begin in the spring of 2016.

## “Retailization” of Healthcare

Some medical offices are taking on a new shape and occupying space in a retail setting. Existing retail locations offer close proximity to patients and greater visibility than traditional medical office buildings. Additionally, as a growing percentage of the population is over the age of 65, shorter driving distances and greater accessibility are increasingly important.

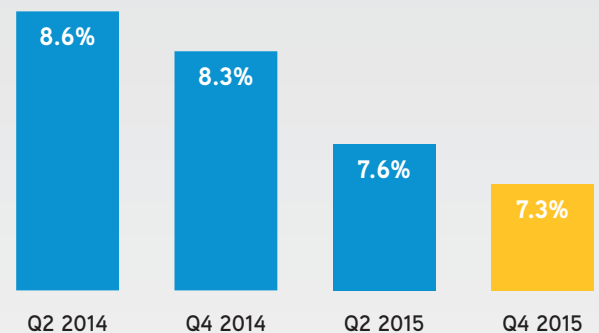
Several retailers such as Walmart and Target, as well as pharmacies such as Walgreens, Rite Aid and CVS, are opening medical clinics within their stores. CVS Minute Clinic and Walmart Care Clinic are the first to open in Columbia. Additionally, some urgent care and primary care practices are occupying former retail space. Doctors Care recently opened along Main Street in Columbia’s Central Business District (CBD). The clinic will satisfy the increasing demand from the submarket’s growing residential population. As Columbia’s residential population grows and convenience continues to be of significant importance to patients, more primary care clinics will likely locate within retail shopping centers and outparcels.

## Percent & Count of Uninsured Individuals in the United States

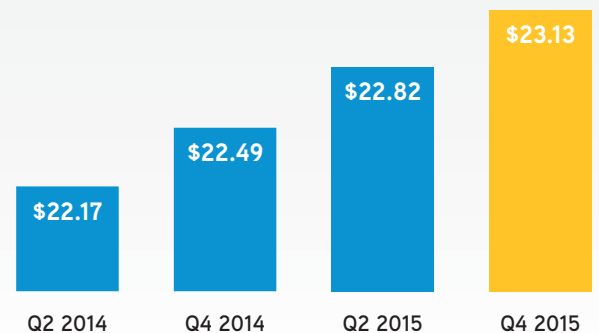


Source: Center for Disease Control

## Columbia, SC Medical Office Market Vacancy Rate Trends



## Columbia, SC Medical Office Market Rental Rate Trends



## Q4 2015 Medical Office Market Summary Statistics

Columbia, SC						
MARKET	BUILDINGS	INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE (%)	Q4 2015 ABSORPTION (SF)	AVERAGE ASKING RENTAL RATE (SF/YR)
<b>CENTRAL BUSINESS DISTRICT</b>						
Multi-tenant	9	330,753	55,560	16.8%	-8,000	\$22.85
Single Tenant	10	134,684	0	0.0%	0	-
<b>CBD Total</b>	<b>19</b>	<b>465,437</b>	<b>55,560</b>	<b>11.9%</b>	<b>-8,000</b>	<b>\$22.85</b>
<b>FOREST ACRES</b>						
Multi-tenant	7	186,949	21,480	11.5%	-3,050	\$27.00
Single Tenant	6	44,999	0	0.0%	0	-
<b>Forest Acres Total</b>	<b>13</b>	<b>231,948</b>	<b>21,480</b>	<b>9.3%</b>	<b>-3,050</b>	<b>\$27.00</b>
<b>IRMO/ST. ANDREWS</b>						
Multi-tenant	8	442,534	37,209	8.4%	6,500	\$23.88
Single Tenant	2	22,954	0	0	0	-
<b>Irmo/St. Andrews Total</b>	<b>10</b>	<b>465,488</b>	<b>37,209</b>	<b>8.0%</b>	<b>6,500</b>	<b>\$23.88</b>
<b>LEXINGTON</b>						
Multi-tenant	20	632,555	44,992	7.1%	1,000	\$19.57
Single Tenant	14	196,796	0	0.0%	0	-
<b>Lexington Total</b>	<b>34</b>	<b>829,351</b>	<b>44,992</b>	<b>5.4%</b>	<b>1,000</b>	<b>\$19.57</b>
<b>NORTH COLUMBIA</b>						
Multi-tenant	10	606,303	21,363	3.5%	10,990	\$22.34
Single Tenant	14	215,495	2,200	1.0%	0	\$18.00
<b>North Columbia Total</b>	<b>24</b>	<b>821,798</b>	<b>23,563</b>	<b>2.9%</b>	<b>10,990</b>	<b>\$21.93</b>
<b>NORTHEAST COLUMBIA</b>						
Multi-tenant	10	208,358	33,532	16.1%	1,600	\$23.75
Single Tenant	10	87,559	10,415	11.9%	0	\$24.00
<b>Northeast Columbia Total</b>	<b>20</b>	<b>295,917</b>	<b>43,947</b>	<b>14.9%</b>	<b>1,600</b>	<b>\$23.81</b>
<b>MARKET</b>						
Multi-tenant	64	2,407,452	214,136	8.9%	9,040	\$23.14
Single Tenant	56	702,487	12,615	1.8%	0	\$22.95
<b>Market Total</b>	<b>120</b>	<b>3,109,939</b>	<b>226,751</b>	<b>7.3%</b>	<b>9,040</b>	<b>\$23.13</b>

## Healthcare Mergers, Acquisitions & Consolidation

The ACA has placed cost pressures on hospitals and caregivers as they adapt to accommodate changing policies such as electronic health records (EHR) system requirements and reduced reimbursements. As a result, smaller hospitals with a declining patient base are struggling to remain profitable and are merging or being acquired by larger health systems. Larger hospitals and health systems are strategically expanding and positioning themselves in the market.

Tennessee-based LifePoint Health has finalized its acquisition of Providence Hospitals. Additionally, Palmetto Health and Tuomey Healthcare System finalized their partnership.

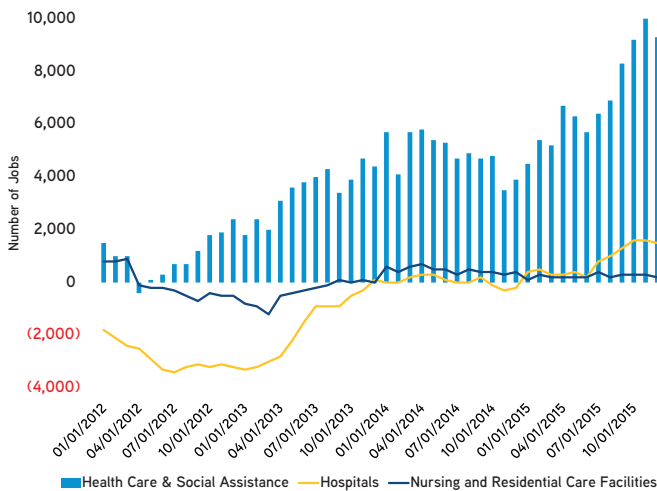
There has also been an expansion in medical university and hospital partnerships. The University of South Carolina School of Medicine's clinical departments have partnered with Palmetto Health's physician practices to create the Palmetto Health-USC Medical Group. The partnership creates the Midlands' largest multi-specialty medical group.

Private physician practices are also feeling additional pressure and are consolidating with health systems. As a result, they are oftentimes vacating their offices and relocating to space owned or leased by the health system. Future consolidations are expected and thus a majority of new lease signings will likely be negotiated by hospital systems or located in health system-owned buildings.

## Healthcare Employment

Healthcare employment is on the rise due to the growing demand for healthcare services and treatment. Unlike other employment sectors, employment in healthcare and social assistance was not adversely affected by the recent economic downturn and is currently at record-high levels in South Carolina, accounting for almost 10.0% of total non-agricultural employment. The healthcare and social assistance sector has been growing and accounted for 14.0% of total employment growth from December 2014 to December 2015. Approximately 9,300 jobs were added to the sector in 2015. Hospital employment accounted for approximately 41,600 jobs in South Carolina as of December 2015, a 3.7% increase over the previous year.

### Annual Change in Healthcare Employment by Month in South Carolina

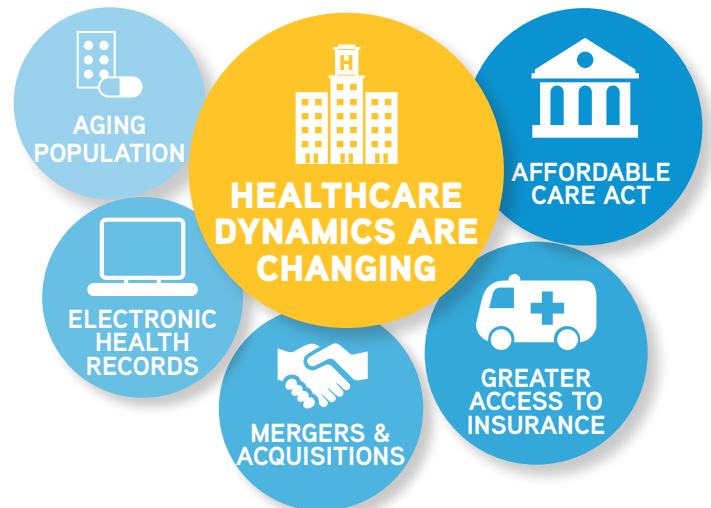


Source: Bureau of Labor Statistics

## 2016 Outlook

The future of healthcare remains unknown, but the impact on real estate is expected to be positive. As the population ages, healthcare services will be in greater demand, benefitting the medical office market. The market will likely see further “retailization” of medical practices with the entrance of new retail clinics. Mergers and acquisitions will continue as private practices are challenged to keep up with changing healthcare requirements. Hospital systems will continue to dominate, and the market may see expansions with new suburban campuses. The northeast submarket has the potential to attract new medical construction as residential development continues in the region. Rental rates will continue to increase, but not as rapidly as those of other property types.

### Factors Influencing Healthcare Real Estate



### FOR MORE INFORMATION

**David C. Lockwood, III, CCIM, SIOR**  
Executive Vice President | South Carolina  
+1 803 401 4211  
david.lockwood@colliers.com

**Liz H. McCary**  
Director of Marketing | South Carolina  
+1 803 401 4269  
liz.mccary@colliers.com

**Jessica D. Rahal, CPRC**  
Research Coordinator | South Carolina  
+1 803 401 4264  
jessica.rahal@colliers.com