

Chicago REIT pays \$61.4 million for medical building at RiverBend in Springfield

A Chicago-based real estate investment firm that gained a foothold in the local student housing market last year is diversifying its Lane County investments with a record-breaking purchase of a medical building.

Harrison Street Real Estate Capital paid \$61.4 million for the five-story, 122,479-square-foot Northwest Speciality Clinics building on the campus of PeaceHealth Sacred Heart Medical Center at RiverBend.

The deal, which comes on the heels of several smaller purchases of medical buildings last year, is seen as an indication of both the growing strength of the commercial real estate market locally and also changes that are occurring in the health care industry.

“I’m guessing the price set a record for all commercial” real estate in the Eugene area, said Mindy Berman, managing director of JLL, a Chicago real estate firm, which represented the seller of the building.

The \$61.4 million price tag breaks down to about \$500 per square foot.

“That’s big numbers for a big building,” local appraiser Rick Duncan said. “Certainly in the Eugene-Springfield area that would be the highest (price) for medical office.”

Recently built medical office buildings, in particular, are sought after because of expected steady demand for the space with the overall aging of the population and the trend toward less-costly and more convenient outpatient services — a focus of health care reform, Berman and other market observers said.

“Real estate is very strong in general right now in this part of the business cycle, and medical office is just a component of that,” Berman said.

“Health care is clearly a mainstay of society and health care represents about 18 percent of GDP, so it’s very important with an aging population,” she said.

“Demographics are working in favor of health care and the needs for medical services,” Berman said. “There’s been a big movement to outpatient services — a lot of activity that takes place outside of the hospital facility — so outpatient buildings have become increasingly popular.

“From an investment perspective, (medical office buildings are) considered very desirable because of the long tenure of tenants (and) the quality of tenants,” she said. “They’re less volatile than office or retail, which can be more cyclical in terms of occupancy.”

The Northwest Speciality Clinics building is home to numerous independent general and specialty surgical practices including Northwest Surgical Specialists, Oregon Lung Specialists, Oregon Neurology Associates, Eugene Gastroenterology Consultants and others. It also houses services, such as Oregon Imaging Breast and MRI Center, and Day Surgery at RiverBend.

Dr. Christine Kollmorgen, president and manager of the seller, NSC Properties LLC, and Northwest Speciality Clinics’ administrative office did not return phone calls from The Register-Guard.

In 2008, The Register-Guard reported that the building was owned by a consortium of 40 doctors from seven different practices, which leased the ground from PeaceHealth.

HSRE Northwest Specialty Clinics at River Bend MOB LLC, which is part of a Maryland-based Harrison Street Real Estate REIT, or real estate investment trust, assumed the ground lease in January, according to Lane County property records.

The building opened in 2009 and has a skybridge that connects to the surgery floor of Sacred Heart Medical Center.

The building's proximity and easy access to Sacred Heart Medical Center at RiverBend were attractive to potential investors, Berman said.

"As an outside observer," she said, "I don't know if the community appreciates the PeaceHealth hospital at RiverBend is a regional powerhouse.

"You're very fortunate in Eugene to have such a distinguished hospital that really provides services throughout the region," she said, adding that RiverBend is among the biggest hospitals between Portland and San Francisco.

"On-campus property is just generally the most desirable and tends to command the highest prices," Berman said. "Also it's a new campus so that means there's going to be a long-term commitment to that location."

A recent report by Marcus & Millichap, a publicly traded investment real estate company, also noted that investors are increasingly interested in modern medical office properties.

"The shift toward a more consumer-centric delivery model ... has encouraged hospitals and health systems to bring more care into communities, mostly by way of outpatient facilities and satellite offices," the report said.

"These large providers tend to favor newer medical office properties, which typically offer flexible designs and incorporate features that promote efficiency and maximize space utility. Aesthetics and visibility also carry more weight in major providers' real estate decisions, as outpatient expansion brings with it tremendous opportunities for marketing and branding.

"To this end, the lion's share of new space demand is now being funneled into modern buildings, driving down vacancy rates and supporting above-average rents for later-vintage assets."

The buyer, Harrison Street Real Estate Capital, did not return a phone call from The Register-Guard requesting comment.

Harrison Street Real Estate Capital, along with its affiliates, manages more than \$7.5 billion in real estate assets through commingled funds and public security products, according to Harrison Street's website.

Since its founding in 2005, Harrison Street Real Estate has acquired or developed more than 430 properties, including more than 54,000 student housing beds; 11,800 senior housing/assisted living units; more than 86,000 self-storage units; and more than 5.1 million square feet of medical office space, the website said.

In March 2014, Harrison Street bought four student housing complexes near the University of Oregon from Eugene developer Dan Neal for about \$40 million.

In the purchase of the Northwest Specialty Clinics, it helped that Harrison Street was already familiar with the area because of its student housing properties and it also owns assisted living facilities in Oregon, Berman said.

When asked whether out-of-area investors might be interested in owning properties near the 126,000-square-foot Veterans Affairs clinic being built in north Eugene, Berman said probably not.

VA facilities are self-contained, she said, and there is virtually no speculative development in health care.

Berman said small ancillary businesses might want to locate near the VA facility, but those buildings would not be of the institutional quality that would attract national investors.