



# The Pulse


## Oregon's Healthcare Real Estate Market Report




2024 Market Insight Report

# Portland's Healthcare Real Estate Market | 2023 - Year in Review


## Rental Rate

Statewide	Forecast
<b>\$25-49/SF FSE</b> Rates have increased an average of \$1-\$2/SF from 2022	

## Vacancy Rate


Statewide	Forecast
<b>5.0%</b> Vacancy up 0.4% in 2023 from 4.6% in 2022	

## Net Absorption

Statewide	Forecast
<b>-58,942 SF</b> 29,429 SF in 2022	

Net Absorption is the total amount of space (given in square feet) that has been leased, minus the amount of space that has been vacated. Positive net absorption shows you that more space has been leased than vacated, vice-versa.

## Cap Rate Range

Statewide	Forecast
<b>6.25%-8%</b> 5.5%-7% in 2022	

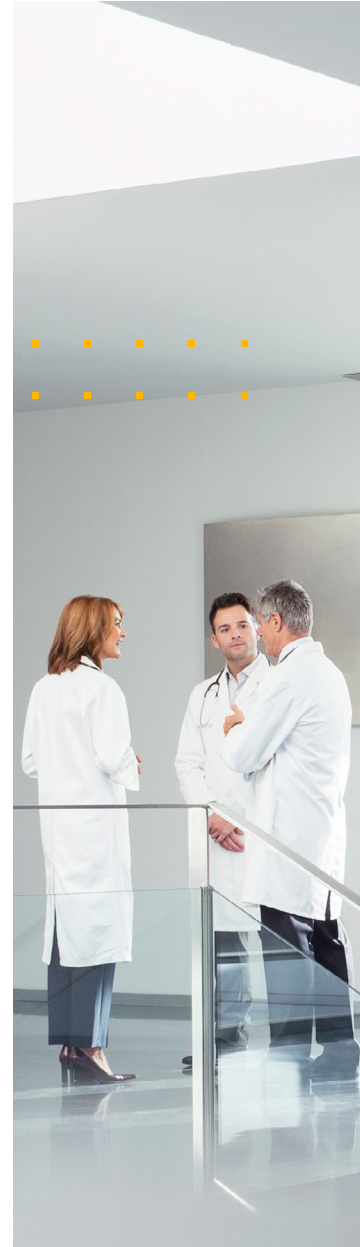
Source: CoStar, Class A & B Office Buildings, 4,000 SF+



## Notable Sale Transaction

**Legacy Health - Emanuel Hospital | 501 N Graham St. | Portland, OR**

<b>Sale Price:</b>	\$60.5M	<b>Sale Date:</b>	10/4/23
<b>Price/SF:</b>	\$506.70	<b>Building SF:</b>	119,400 SF
<b>Sale Type:</b>	Investment/Ground Lease (Leasehold)		



**Inventory:**  
**10.1M SF**  
(15M Statewide)



# Portland's Healthcare Real Estate Market

## Key Market Highlights

### Leasing Highlights:

- Leasing velocity slowed somewhat in 2023 compared to 2022 with approximately **110 leases completed (318,098 SF)** compared to **126 leases completed in 2022 (357,221 SF)**. Statewide, we see a similar trend with 110 leases completed compared to 126 in 2022.
- Vacancy rates **ticked up** slightly to 5% compared to 4.6% in 2022.
- Across 2023, **rental rates increased** an average of \$1-\$2/SF, likely due to increased costs of construction and a continuation of tight supply for existing medical space.

### Sales Highlights:

- Sales of medical office buildings also **slowed** in 2023 with **24 transactions** completed, totaling an estimated **\$127.7M** compared to **52 transactions** completed in 2022 totaling **\$157.6M**. The likely culprit was rapidly rising interest rates in 2022/23, coupled with rising cap rates, significantly diminished the valuation of fully leased products.
- The majority of the buyers in the market were 1031 buyers. Product with longer term and high credit tenancy tended to trade. If you were a seller of a fully leased asset in 2023 market, you likely received a discount on valuation. The best pricing will be seen with owner-user products and motivated buyers interested in migrating from leased assets.
- In 2024, **cautious optimism** is a theme with economists suggesting we've achieved the "soft landing" and a hope for interest rate increases later in the year. We anticipate a larger pool of buyers entering the market and transaction volume to increase.

### Market Trends & Insight:

- The themes for 2024 are **ongoing financial pressures, staff shortages, and adaptability**. As practices enter the Post-Covid recovery period, they will need to remain **nimble and proactive** in order to navigate through the headwinds. Despite these hurdles, 2024 offers an opportunity for healthcare groups to optimize operations through **adoption of AI, strategic review of real estate footprint** and **offering more competitive benefits packages** to retain and attract employees. The implementation of more efficient processes and technologies will likely strengthen practices in the long term.
- Key Tip: Across the board, **deals are taking longer**. Groups that are more proactive and explore market options at least 14 months prior to their desired commencement date will be in the best position to leverage the marketplace and achieve more favorable outcomes.



# Insights & Trends

## Healthcare



### Workforce Challenges and Talent Shortages:

- More than half of health system executives (57%) expect talent shortages and workforce challenges will impact their organization's strategy in 2024—down from 68% a year ago.
- Overall, most executives surveyed said they intend to focus on the mental health and well-being of their employees in 2024 while offering more compelling benefits packages.

### Real Estate Optimization:

- Real estate expenses constitute a significant portion of a health system's budget, ranging between 8% and 12%.
- Monetization strategies such as sale-leaseback can provide opportunities to unlock capital trapped in real estate, offering flexibility for strategic financial decisions.

### Location Strategy for Revenue:

- Patients currently rank location/proximity as the second highest factor influencing healthcare decision behind "acceptance of insurance."
- Strategic placement of healthcare facilities, driven by demographic and consumer analysis, can significantly impact revenue by attracting and growing patient populations.
- Patients traveled the shortest time for primary, urgent and emergency care and were willing to travel longer for more specialist care.

### Value-Based Care and Financial Models

- The rise in analytics driven by digital health, combined with escalating fee-for-service costs, is propelling value-based care adoption.
- Medicare Advantage plans, receiving a set fee from CMS per participant, incentivize payors to limit healthcare spending per enrollee, emphasizing overall participant health.

### Disruption in Consumer-Focused Care

- The shift from inpatient to outpatient care accelerates, driven by external entrants like technology companies, retail, private equity, and for-profit operators.
- The trend towards "medtail" or the "retailization" of healthcare, emphasizing consumer proximity and a range of services in one location, becomes increasingly important for health systems.

### AI in Healthcare Operations

Health care organizations appear to be at the midway point in their adoption of AI and other digital technologies. AI technology is now helping healthcare operators optimize facility utilization and planning by understanding how and where a provider's time is spent, allowing for informed decisions on facility usage.

### Potential Uses for AI in Patient Care:

- Care navigation and managing chronic conditions
- Prediction and diagnosis of health conditions
- Remote patient monitoring
- Analyzing surgeries for efficiency

### Potential Uses for AI in Healthcare Facilities:

- Optimizing facility utilization and planning
- Predicting maintenance
- Improving energy efficiency
- Analysis of facility security

### Areas of Growth:

- Large Ambulatory Surgery Center (ASC) operators are strategically forming joint venture partnerships to expand their outpatient services.
- With 47% of Americans facing shortages in behavioral health services, there is a targeted focus on its expansion.
- Growth is anticipated in ASCs, behavioral health, and specialty hospitals in 2024 as hospitals adapt to rising competition in outpatient and telehealth services.

Sources: 2024 Outlook for Health Care | Deloitte US, Weekly Health Care Real Estate Briefing: Our Predictions for 2024 – A Mixed Bag of Optimism Tempered by Regulatory Headwinds | Hall Render, U.S. Bureau of Labor Statistics, retrieved via FRED, Lightcast, Pitchbook, retrieved December 7, 2023

# Insights & Trends

## Dental



### Technological Innovations:

- 80% of dentists are anticipated to adopt 3D printing technology in 2024. The integration of 3D printing enhances accuracy and reduces production time for custom dental prosthetics by 40%.
- AI-powered diagnostics has proven helpful by aiding in early issue detection from dental images, which can result in a 20% reduction in diagnostic costs.
- AI-driven scheduling through automation contributes to a 30% improvement in operational efficiency and a 15% reduction in appointment no-show rates.
- TeleDentistry usage is increasing for its ability to offer patients pre/post-op follow-up consultations, emergency consultations, and help expand service reach to remote areas.

### The Staffing Dilemma:

- In response to persistent staffing shortages, 40% of dental practices are strategically shifting to remote and offshore workers.

### Personalized Treatment Plans:

- The integration of genomic insights into dental practices marks a revolutionary shift, with a substantial 60% of surveyed practices incorporating genetic factors into patient discussions, reshaping prevention, diagnosis, and management.

### Decrease in Dental Practice Consolidations:

- Economic factors, particularly higher interest rates, are expected to lead to a decrease in dental practice consolidations or DSO purchases in 2024, impacting around 30% of dental practices.

### Preventive Care Focus:

- The industry's shift towards preventive measures not only emphasizes regular cleanings and personalized care plans, but also reflects changing societal awareness. This is evident in the observed decrease in dental visits from 65.5% (2019) to 62.7% (2020), underlining a growing emphasis on proactive oral health management.

### New Models of Care Delivery:

- Dental practices may work more closely with other healthcare providers, such as primary care physicians, physical therapists, or integrated behavioral health groups, to provide more comprehensive care to patients.
- This collaboration aligns with the Patient-Centered Medical Homes (PCMH) model, emphasizing preventive care and reflecting dentistry's evolving role in overall health. Additionally, the emergence of Accountable Care Organizations (ACOs), networks comprising diverse healthcare professionals, aims to deliver coordinated care, improve quality, enhance patient outcomes, and control costs through shared responsibility and financial incentives.

### Looking Forward:

The key themes for dentistry in 2024 lie in the seamless integration of technology, demographic adaptability, and a proactive focus on preventive care.

Sources: <https://www.shiftacct.com/blog/post/5-predicted-dentistry-trends-look-out-2024>, <https://thedentistceo.com/the-future-of-dentistry-predictions-and-trendsfor-2024/>

# Word on the Street



## Healthcare Tenant

**DICK CLARK** PDX

"Independent health care practices in the Pacific Northwest continue their transformation during the post-COVID recovery period. These practices are challenged by many head winds, including pressure to sell to larger entities, provider recruitment scarcity, tough payor stances on rate increases, shortage of qualified labor and the physical space calculus between telehealth and in-person care. Yet, these independent practices are innovative, nimble and committed to maintain local control and collaborate with each other to navigate this sea change." - Dick Clark, founder of DickClarkPDX and former CEO of The Portland Clinic



## Dental Tenant



"I see a continuing trend in 2024 toward strong competition for talent while similar companies endure higher interest rates, increased costs and lagging reimbursement increases that are far from commensurate with inflation. We are also noticing an uptick in cyberthreats among vendors critical to our RCM and seeing a general continued slowing of consolidation with lower multiples across the board. I do see an expansion of AI in all aspects of dentistry, from the clinicians hands to the front desk to the marketing to the RCM." - Cody Mast, PIP Pediatric CEO



## Lender



"We continue to see strong demand for owner occupied real estate, not only from sole practitioners but also from large group practices in all areas of Health care . Requests include existing spaces but also a surge in ground up construction. The trend is also continuing for "roll up" groups forming in all areas of the Health Care space." - Scott A. Beard, SVP Director of Health Care Banking



## Portland General Contractor



"Costs are holding steady and supply chain issues finally seem to have been resolved. We are currently in the best construction environment since the pandemic. Election years are historically good years for investment as interest rates typically go down (or at the very least hold steady) and the federal government ensures that money is available for investment. All in all, this year should be a good window of opportunity for those wanting to build a new practice, expand or remodel their existing." - Rick Shandy, BnK Construction



## Portland Attorney



"Over the third and fourth quarter, likely in response to inflation cooling somewhat, we saw landlords expanding their tenant improvement allowances and focusing on longer extension terms. In turn, material prices and construction costs have also stopped rising so steadily, prompting the commencement of many construction projects. We expect the market to continue to improve for tenants as rates decrease (hopefully)." - Alex Trauman, Partner, Elevate Law Group



## Commercial Insurance



"AI integration in Healthcare is both a fascinating concept as well as a frightening one. While efforts to streamline processes and adopt methods to improve efficiencies are rapidly evolving, the question of how to better understand the risk implications associated with these efforts are numerous. One of the biggest issues in Healthcare currently is a stretched workforce. More and more health systems are utilizing AI to address workplace concerns." - Gilian Fenner, VP, West Region, Marsh



## Investment



"Given the latest commentary from the Federal Reserve, it's Evergreen Medical Properties' expectation that outpatient medical price volatility will moderate, and transaction volume will increase in 2024. However, we will continue to see transactional headwind perpetuated by higher interest rate associated bid-ask disparities and illiquidity with lending institutions." - Josh Richmond, Evergreen Medical Properties



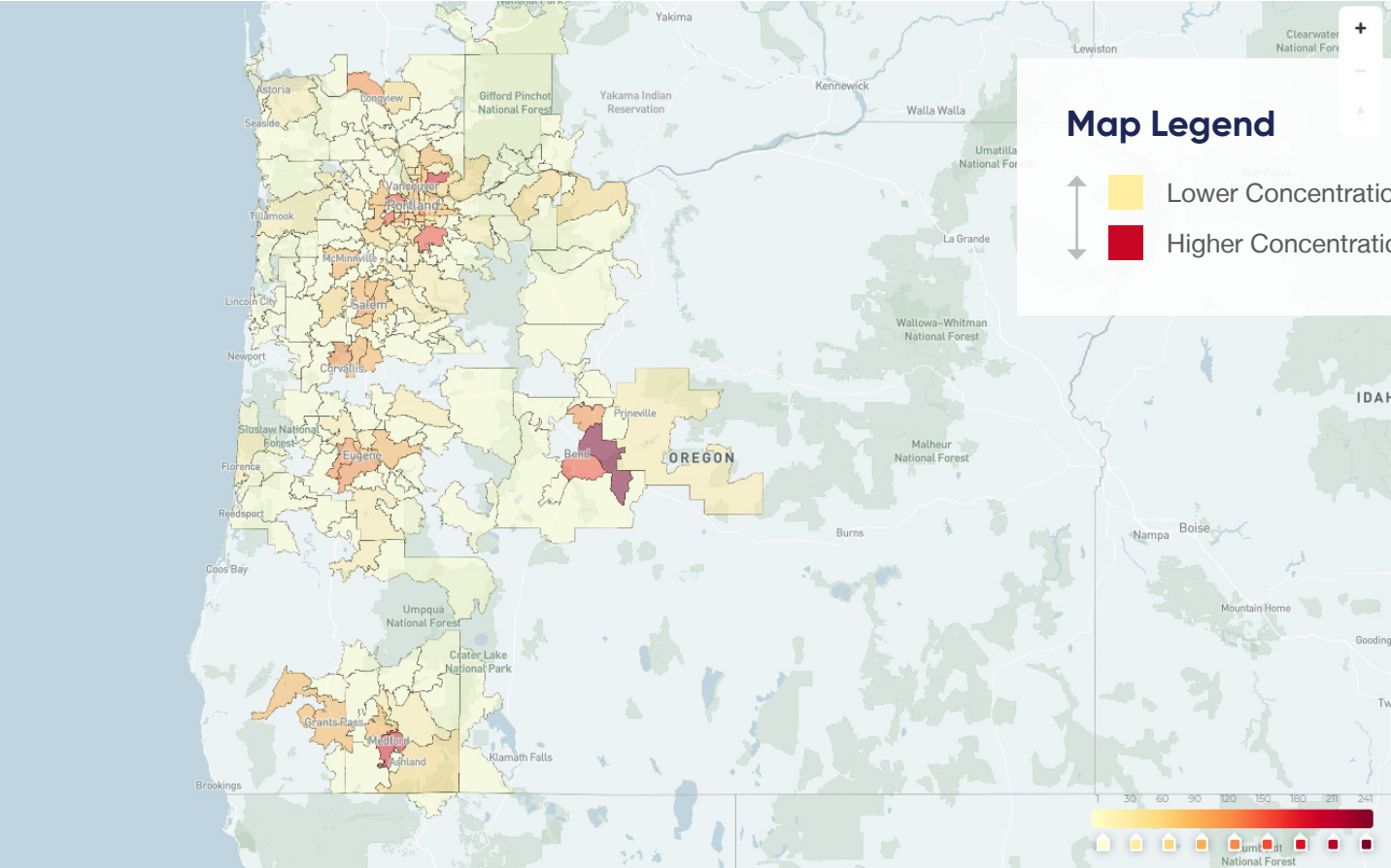
## Practice Consulting & Revenue Cycle Managment



"The transformation of medical office space is an inevitable response to the dual forces of technological advancement and the rising prevalence of telemedicine and virtual visits. This evolution reflects a broader shift in healthcare delivery models, from traditional, in-person consultations to a hybrid model that embraces the flexibility and accessibility of digital health services. As we navigate this transition, the needs of medical office space demand a reimagined approach to design and utilization that supports both physical and virtual patient care." - Jill Arena, CEO, Health E Practices



# Labor Spotlight | Medical Assistants (Portland)



## Medical Assistants

Market Wage:	\$22.49/hr
Labor Availability:	1.13 (Above US national average of 1.0)
# of Medical Assistants:	6,174
YOY Growth/Decline:	1.93% increase or 118 additions to workforce (6,056 previous year)
Projected # of Medical Assistants by 2025:	6,630

Note: The data above is pulled within 30 min drive time radius from downtown Portland.

Source: Cresa Analytics



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## Local Healthcare News



Doctors Weigh in on Bill to Curb Private Equity in Health Care

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## Healthcare News



2024 Outlook for Health Care Planning for the Future of Health: Top Trends for 2024

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Weekly Health Care Real Estate Briefing: Our Predictions for 2024 – A Mixed Bag of Optimism Tempered by Regulatory Headwinds

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## Dental News



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The Future of Dentistry: Predictions and Trends for 2024 and Beyond

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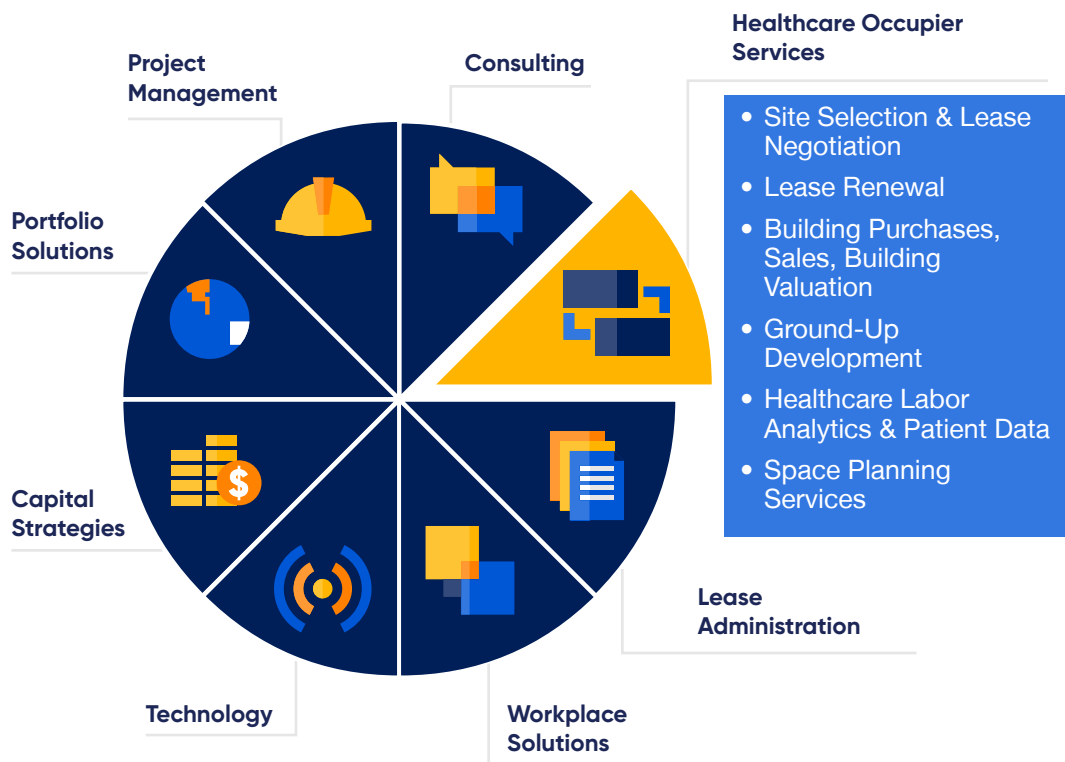
How to Prepare for DSO Negotiations

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# Why Cresa?

## Our Integrated Services



## Pacific Northwest's Healthcare Real Estate Experts



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**Need help with your real estate?**  
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[Contact Team](#)

## What sets us apart?

- Trusted partner of healthcare tenants nationally
- Ability to handle real estate requirements anywhere in the US with our national team of healthcare real estate experts
- Occupier-focused, no Landlord/Developer representation
- Sized to serve
- Employee owned

## Our Healthcare Focus:

- Medical, Dental, Veterinary
- Health System, DSO, MSO Portfolios
- Physician Network Location Strategies
- Clinical Outpatient Facilities
- Long Term Care Facilities
- Laboratories
- Other Healthcare Office Space