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Business

Real estate investors snap up medical office buildings as boomers age

The Canadian health system and the aging population may make medical real estate recession-proof.

DREAMSTIME

Canada's health system and aging population makes medical office space very attractive to real estate investors.

By: Alexandra Posadzki The Canadian Press, Published on Wed Nov 25 2015

As aging baby boomers fuel growing demand for health-care services, investors are increasingly turning their attention to medical office buildings — a niche within the real estate market that some argue is recession proof.

"Doctors are paid by the government in Canada, so they're pretty secure tenants," says Huy Lam, a broker at Colliers International who specializes in the health-care real estate space.

Lam says demand for medical office buildings in Canada has been on the rise in recent years — a trend he expects to continue as the number of seniors in the country balloons.

Ownership in the space is fragmented — everyone from institutional investors such as pension funds to real estate investment trusts to wealthy individuals — making it difficult to quantify how much money is flooding in.

However, Colliers forecasts more than $211 million in medical office building sales in Ontario alone this year. That compares with $126 million back in 2011, according to data compiled by the commercial real estate brokerage.

The Canada Pension Plan Investment Board announced in August that it was taking its first steps into the health-care property space, teaming with a U.S. real estate investment trust to invest in a portfolio of medical office buildings in California worth a total of US$449 million.

"Demographics in certain countries make (health-care) very attractive as a long-term investment," said Peter Ballon, head of CPPIB's real estate investment in the Americas.

“We do think that there’s going to be growing demand for health-care real estate, and we believe that pricing is relatively attractive right now for certain health-care assets.”

One of the features that makes the space attractive to investors is the fact that it’s insulated from most economic turmoil and is unlikely to be threatened by disruptive forces such as e-commerce.

“Demand for health care is not driven by how the economy is doing,” says Chris Potter, a partner at PwC Canada.

In its recent emerging trends in real estate report, the consulting firm noted that while U.S. investors have been eagerly snatching up health-care properties for some time, Canadians have been slow to embrace the sector. That, however, is beginning to change, according to the firm.

In addition to being an essential service, health-care typically often requires an in-person visit, making it immune to the e-commerce pressures facing traditional retailers.

“You can’t go and get your teeth looked at online,” says Potter.

One of the challenges for investors looking to snatch up health-care real estate is lack of available supply.

In Canada hospitals are publicly owned, which leaves investors restricted to purchasing buildings that contain doctors’ offices and other complementary services such as labs, pharmacies and physiotherapy treatment centres.

Construction of such buildings in Canada has been fairly stagnant recently, says Lam.

“It’s very expensive to build them and generally you need more land to build medical buildings because of the parking requirements,” he said.