

A close-up, shallow depth-of-field photograph of a doctor's hands typing on a laptop keyboard. In the foreground, a silver stethoscope with black earpieces lies on a light-colored wooden desk. The background is softly blurred, showing the doctor's white coat and the laptop screen. The overall color palette is cool, dominated by blues and greys.

# WHAT THE **DOCTOR** *Ordered*

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Specialist medical hubs, doctors' practices within shopping centres, large scale health-centric developments changing hands – there's plenty of activity in the medical and health property market in New Zealand. *Total Property* editor, Jody Robb takes the pulse of this growing sector.

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The medical and health sector property market continues to be strong around New Zealand with numerous purpose-built developments under construction and larger-scale acquisitions being finalised.

In a 2012 report, Australian consulting firm Urbis identified some key trends in the medical and health sector property market impacting growth across the Tasman and similar fundamentals appear to be at play in New Zealand.

Urbis said the private sector has benefited from increases in wealth, an expansion of private medical insurance, concern about the adequacy of services and waiting times at public hospitals and a growing awareness in the community of health-related issues.

It said there was growing pressure from health insurers to improve efficiencies by co-locating private hospitals alongside major public hospitals in order to allow specialist services such as pathology and radiology to be shared.

While there is significant growth in the public hospital sector in Australia, there has also been a marked increase in private investors showing an active interest in medical centres.

Typically, income and capital returns on medical centres and hospitals have a very low correlation to the economy – compared to retail, office and industrial real estate – as they are unrelated to the traditional economic drivers like employment, business and consumer confidence, residential housing, and interest rates.

### VITALITY IN THE SECTOR

Vital Healthcare Property Trust (Vital) is an NZSX-listed (ticker code VHP) property trust with close to \$1 billion in assets that invests in high-quality health and medical-related properties in New Zealand and Australia. It is New Zealand's only listed healthcare real estate vehicle.

Vital's New Zealand assets include Ascot Hospital and Clinics in Greenlane, Auckland, and Ascot Central, also in Greenlane; Kensington Hospital, Whangarei; the Napier Health Centre, and Apollo Health and Wellness Centre in Albany, Auckland. Eighty percent of its assets by value are Australian-based.

At the end of 2015, Vital conditionally bought Lower Hutt's Boulcott Hospital (opposite Hutt Hospital) for \$30.7 million. The 38-bed private surgical hospital is leased for 22 years to ASX-listed Pulse Health Group.



Ascot Central, Greenlane

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Vital Healthcare Property Trust chief executive officer, **David Carr**

Vital's chief executive officer, David Carr told *Total Property* the company's overall portfolio strategy is to have a mix across a range of asset classes including hospitals (surgical, mental health and rehabilitation), medical office buildings, aged care and strategic holdings.

“Historically Vital's portfolio has been heavily-weighted towards hospitals. However, investment in alternative classes of healthcare real estate – like our recent portfolio acquisition of four residential aged care assets in Australia – has seen our portfolio weighting to hospitals moderate and our aged care weighting move from zero to five percent by value,” says Carr.

“We assess each healthcare real estate opportunity on its merits and how each opportunity aligns with our overall scale and diversification strategy.”

Carr says Boulcott Hospital is a great addition to Vital's Australasian portfolio.

“Quality healthcare assets and particularly private hospitals, rarely come to the market for sale,” he says.

“Sale and leaseback vendors normally prefer long-term partners who will support their growth aspirations over time. Vital was a natural owner of Boulcott Hospital.

“We were attracted to its track record of performance and having Hutt Hospital – a major public tertiary hospital facility – adjacent to Boulcott, also made

it an appealing opportunity.

“Subject to the receipt of regulatory approvals, we expect to settle on the property in the next few months.”

Carr says while the New Zealand healthcare real estate sector is naturally smaller than Australia's, many of the drivers affecting that market are also evident here.

“We think there are still good healthcare real estate opportunities available in New Zealand, but they may just take a little longer to come to fruition. Being a long-term investor, we're prepared to be patient.

“The big drivers of healthcare real estate are a growing and ageing population which creates rising demand for healthcare services everywhere. Add to this the forecast material increase in demand for aged care, and we see a significant market of opportunity over the longer term.”

Carr says Vital identifies the next big themes in healthcare real estate including continued operator consolidation, a need for additional long-term capital to catch up on the historic under-investment in the sector, and in some areas capital-constrained operators looking for long-term real estate investment partners to support their growth.

“We think the healthcare asset class can continue to perform well.”

According to MSCI (formerly IPD) research, healthcare real estate has outperformed traditional real estate segments showing resilience and lower volatility than other real estate asset classes.

## GREEN CROSS HEALTH

NZX-listed Green Cross Health group is a leading provider of primary healthcare services in New Zealand communities.

Green Cross Health has equity in 32 medical centres around the country and provides services to a total network of 47 practices, with around 20 under The Doctors brand.

The group has 340 pharmacies under its umbrella with a mix of owned, partnership and licensees in its pharmacy network – it has equity in 88 of these.

Via its community health division, Green Cross Health also provides community nursing and home support services to around 23,000 clients in their homes and communities.

Ownership of bricks and mortar medical facilities is not part of the group's strategy. It is not a property trust.

Green Cross Health general manager, medical division, Shaun Smith says in the past its network of medical centres has grown organically and through acquisition.

"Moving forward, our strategy is to focus on areas where Green Cross Health can best service local populations and growth areas, creating regional hubs with a preference for delivering more collaborative and easily accessible healthcare services in the community," says Smith.



We believe that good quality healthcare services and advice should be easily accessible for everyone in New Zealand.

Vital Healthcare Property Trust chief executive officer, **David Carr**



"Customer, or patient, convenience is incredibly important. We believe that good quality healthcare services and advice should be easily accessible for everyone in New Zealand."

A more collaborative approach to healthcare making it easier for people to navigate through the healthcare system is part of Green Cross Health's long-term vision.

"New Zealand's population is growing and ageing," stresses Smith.

"By 2034 it is estimated that the population of New Zealand will be close to 5.5 million. In 2009, there were an estimated 550,000 people aged 65 and over, or around 12.5 percent. By the late 2020s that figure will reach 1 million with one in five New Zealanders aged 65 and over, with more people in this age bracket than children aged 14 and younger.

"The ways in which people want to consume healthcare is also changing and Green Cross Health is well positioned to be able to provide collaborative primary healthcare services to communities via a branded network.

"With immigration on the rise, shifts in demographics and many people moving to

different areas of New Zealand each year, being part of a trusted, recognised branded network becomes increasingly important."

## NEWCOMER TO THE MEDICAL SECTOR

Wellington property developer Ash Pama is currently developing and managing a two-level, 4,000m<sup>2</sup> medical-related project on the corner of Connolly Street and Melling Road, Lower Hutt on behalf of a Hutt Valley-based client.

The 4,000m<sup>2</sup> flat site in front of the temporary Hutt City Council office block was previously being used as a car park.

Pama says despite some negative talk about the Hutt Valley's commercial property fundamentals, this proposed two-level development is an example of 'build it and they will come'.

"In the beginning, the project was not earmarked as medical-centric but the demand is there from medical-related tenants looking for well-located, purpose-built facilities," says Pama.

"We had early commitment from a birthing unit and childcare client and on the back of this, have been fielding loads of enquiry from complementary tenants who see a synergy with these operators.

"This is a good news story for the Hutt."

Pama says he has been involved with many design-build projects in the past for government departments and national corporate clients, but a medical project is a completely different proposition.



Medical tenants have very specific requirements and detailed specifications so a purpose-built facility is a far better option than attempting a retrofit of existing premises.

Wellington property developer, **Ash Pama**





Lower Hutt's newest medical facility, Verve@Connolly.

"Medical tenants have very specific requirements and detailed specifications so a purpose-built facility is a far better option than attempting a retrofit of existing premises," he claims.

"The cost of fitout is incredible. An orthodontist could be looking at \$600,000 to get the specifications required. Hence they do tend to take long-term leases which is great for building owners.

"Medical-related tenants do tend to be well-resourced, and well-established and have leases with personal guarantees attached.

"For valuation purposes on completion, a purpose-built medical hub generally shows a good yield underpinned by a strong tenant covenant."

### DOCTORS TURNED DEVELOPERS

Construction of one of Auckland's newest medical-centric developments – Mauranui Clinic in Epsom – is now complete with just a handful of medical suites remaining unspoken for.

The developers and doctors behind the initiative are Hamish Sillars and Bren Dorman. The pair are ear, nose and throat specialists and were previously owners within Gillies Hospital, a private surgical hospital in Epsom which is a joint venture between Southern Cross Hospitals and surgeons.

**“ We have considered what is important to our patients and the kind of premises we, as professionals, would like. ”**

Mauranui Clinic co-owner, **Dr. Hamish Sillars**

Sillars and Dorman embarked on the project to create a highly-spec'd medical clinic with multiple suites for professionals like themselves. Offering more than 1,000m<sup>2</sup> over two levels with suites ranging from 60m<sup>2</sup> to 100m<sup>2</sup>, the development is situated on a high profile site in the heart of Epsom.

"It's hard to find a decent location for a medical-based development in central Auckland. Remuera Road is 'overdone' and parking is difficult," says Sillars.

"Mauranui Clinic is sited on land that was once part of Dilworth School and divested when its board purchased Hotel du Vin in Pokeno for the school's rural campus.

"When we acquired the land in late-2008 we had rather grand plans for the site which included underground parking. However, projected costs escalated and the economy was a bit grim at the time so what we have ended up with is a high quality development that is not extravagant."

Sillars says many medical and surgical specialists would like to own their own

premises, but as standalone ventures, the maths just doesn't add up – and the market today dictates more than visiting a refurbished villa in a suburban street for specialist services.

"A recent study I read found that patients value ease of access, good parking facilities, nice consulting rooms, and proximity to other services highly when looking at healthcare options," says Sillars.

"That emphasis on physical surroundings and convenience is clearly market-led and in developing Mauranui Clinic, we have considered what is important to our patients and the kind of premises we, as professionals, would like.

"We felt it was a reasonable assumption to make that what would work for us as medical specialists would also work for our colleagues."

The Mauranui Clinic model comprises medical suites designed as standalone facilities for a specialist or surgeon to run a private practice from.

There are no central reception facilities or communal areas – aside from a lunchroom for staff.



Mauranui Clinic in Epsom, Auckland



“Everyone looks after their own costs – it is not like a group practice. Rather, it provides for a collection of medical specialists doing their own thing in a quality development designed exclusively for medical use.”

Sillars says Mauranui Clinic has deliberately kept its tenant profile very specific opting not to include a pharmacy, or alternative practitioners.

### CHAMPIONING GENERAL PRACTICE

Better Health was established in 2009 with the objective of developing a more sustainable future for general practice in New Zealand.

One of its directors, David Jones says Better Health generally gets involved with medical practices when GPs are looking to retire and would like

an exit plan in place. It runs a number of integrated family health centres and has wide connections in the industry.

Better Health’s latest project is underway in eastern Christchurch where it is involved in developing an integrated family health centre within the Eastgate shopping centre called The Loft.

Jones says the project came about when Better Health acquired a Linwood general practice.

“The practice had a 30-year track record and its operators were retiring. Part of our arrangement with this practice saw its land and buildings sold to the Eastgate shopping centre’s owners National Property Trust (NPT),” explains Jones.

“We started looking for alternative sites for the practice, but in the end did a deal with NPT to locate the practice within a purpose-built first level space at the shopping centre.

“We took a punt and designed a 1,000m<sup>2</sup> medical centre planning ahead

for growth and expansion and cast around for medical tenants to join us.”

The concept took off and when it opens officially in early July, the integrated family health centre (IFHC) will be anchored by the Linwood Medical Centre, plus another two local general practices acquired by Better Health. Allied Health Services are involved in the IFHC and include pharmacists, a dispensary, CDHB Older Persons Health, physiotherapy, hand therapy, acupuncture, midwifery, mental health counselling, and other services to be confirmed.

The IFHC will also house the Nurse Maude district nursing coordination service and the Canterbury DHB’s Older Persons Care Coordination service for eastern Christchurch.

Aimed to provide a genuinely convenient and seamless experience for patients, the IFHC will have two main tenants: Better Health Linwood, the general practice and The Alliance, a group



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Better Health director, **David Jones**



of non-governmental organisations (NGOs) within the health and disability sector.

“Better Health has contracted with NPT to complete the fitout for the general practice as that sector does not tend to have access to large amounts of capital,” explains Jones.

“The Alliance has done its own fitout as they have very different drivers to those of general practice.”

Jones says the new medical facilities within the Eastgate shopping centre are designed to be flexible, collegial, and accessible.

“As client demands change, then so too can these facilities,” says Jones.

“Better Health’s involvement in the sector is underpinned by the philosophical conviction that sustainable general practice is important for the country.

“The margins in general practice are modest, but steady. By developing good quality, well-located and well-spec’d facilities, we can attract long-term tenants giving all parties security.

“General practice can be the cornerstone of exciting medical hubs and as with the example of the Eastgate development, part of a broader community facility.”

## CREATING A ONE STOP MEDICAL SHOP

Timaru-based property investor and developer Peter O’Connell of O’Connell Construction is the force behind a new 2,400m<sup>2</sup> medical hub in the South Canterbury city which is on track to open at the end of August.

O’Connell says the project came about after discussions with a medical group who had been looking at another medical hub proposal that did not go ahead.

“Timaru has a large number of small GP practices working from old buildings and converted residential houses that are not ideally suited or purpose-built for a modern medical practice,” says O’Connell.

“The idea of a combined medical centre has been well received especially as the site is within close proximity to the Timaru Public Hospital at the south end of town.”

O’Connell says he has designed the two-level building to cater for a complete medical centre with GPs and pharmacy on the ground floor and provision for other medical-associated practices on the first floor.

“It’s essentially a ‘one-stop medical shop’ sitting on a flat site platform for ease of patient access, with generous

onsite parking, fully wheelchair accessible, provision for ambulance access, a drive-through area for patient drop off, triage areas, after-hours facilities, common links from all areas to the pharmacy, and a stretcher compatible lift,” says O’Connell.

The building is designed as a west and east pod with a common high-glazed link way connecting the two buildings.

“We’ve incorporated a mixture of materials to give the building some relief from the normally more clinical look of some medical centres,” says O’Connell.

“The two first-floor levels are connected by a ‘bridge’ over the common access area below to give a feeling of space and separation for the two pods both upstairs and downstairs.”

O’Connell says this is the first medical development he has directly developed and funded, but he has worked on a number of medical-related building contracts within the construction industry over the years.

“It is a specialist sector. The design and fitout for medical use is quite extensive and requires a considerable amount of extra plumbing, mechanical and electrical facilities as well as extra requirements for access and user-friendly carparking.”



Artist's impression of Timaru's new medical hub. Image: Newlove Browning Architects.