

# OPPORTUNITIES IN HEALTH CARE REAL ESTATE

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RELIABLE. ANSWERS.

Keith Konkoli  
Senior Vice President – Healthcare  
Duke Realty

**Duke**REALTY  
RELIABLE. ANSWERS.

## Duke Realty Overview

- Publicly traded REIT
  - NYSE: DRE
- Total assets: \$7.6 billion
- Listed on S&P MidCap 400 Index
- Solid balance sheet
- Investment-grade debt ratings:  
Moody's and Standard & Poor's
- \$850 million line of credit



Large industrial, healthcare and office REIT with strong balance sheet

## Duke Realty's Healthcare Division

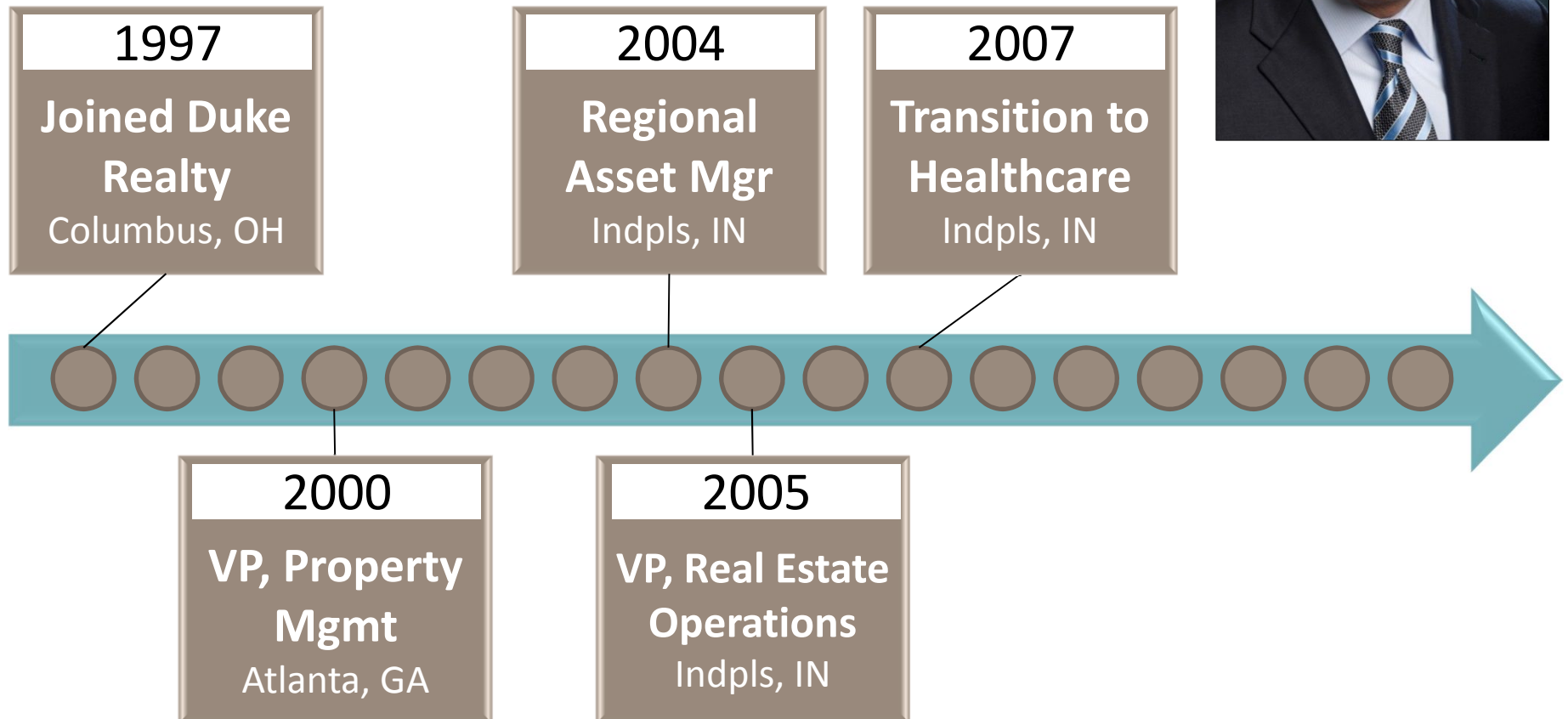
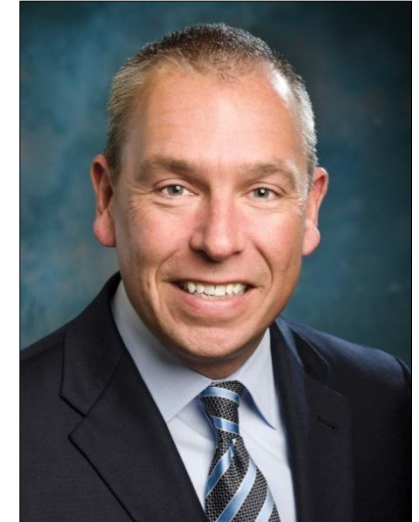
- 22+ years experience in healthcare planning, development, ownership, leasing and management
- Formerly BremnerDuke:
  - Joint-venture 2004
  - Acquired 2007
  - Fully integrated
- \$2.6 billion developed; more than 11 million SF of MOB, ASC, ACC space
- Physician relations: 6.3 million SF managed



Development culture

# Keith Konkoli

Senior Vice President – Healthcare





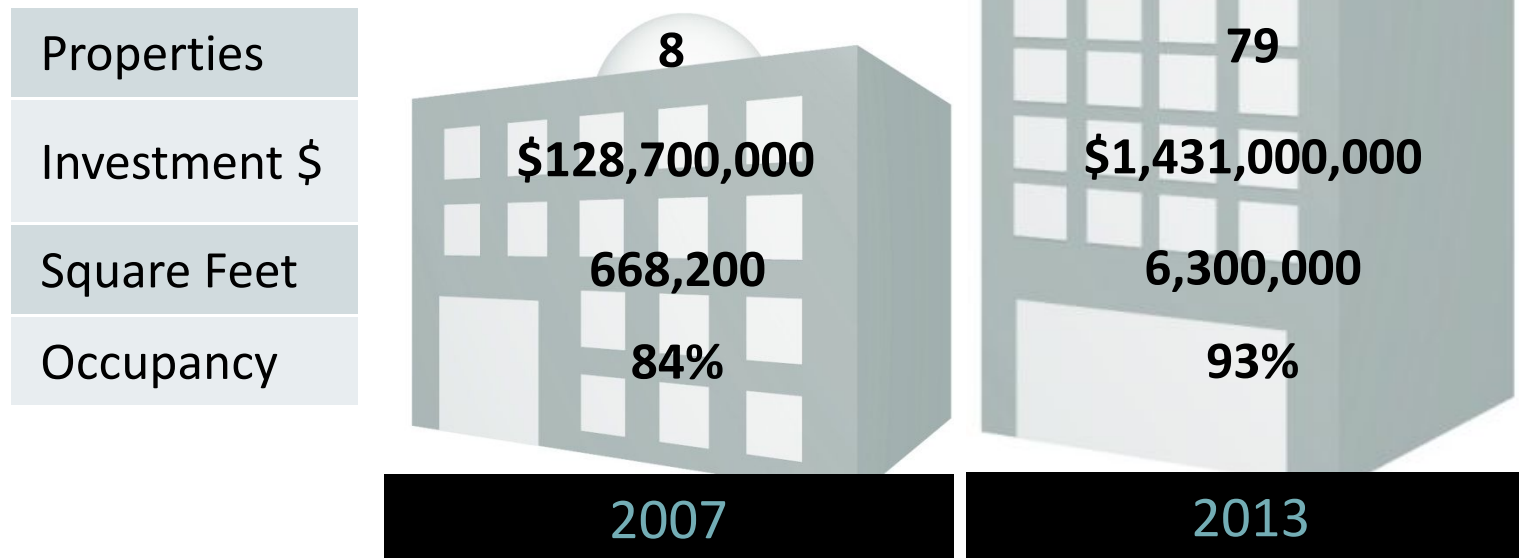
# Why Healthcare?



## Our nation's largest industry

- Represents more than 17% of GDP, predicted to exceed 23% by 2020
- “Silver Tsunami” – 78 million aging baby boomers
- Americans spend more than 5% of pre-tax income on healthcare; Lower income brackets pay 15% or more
- Affordable Care Act - Number of insured to grow 30 to 50 million and number of physicians will increase = **more space demand**

# Medical Office Portfolio Pre-Acquisition vs. Today



# How Did We Grow? Developments

	Total Annual SF Completed
2007	843,186 SF
2008	717,308 SF
2009	793,982 SF
2010	321,935 SF
2011	608,179 SF
2012	297,781 SF
2013 projected	704,000 SF



**Middle Tennessee Medical Center MOB**  
120,000 SF  
Murfreesboro, TN



**St. Vincent Medical Center NE**  
120,000 SF  
Fishers, IN



**St. Joseph Regional Medical Ctr**  
205,591 SF  
Mishawaka, IN



**Good Samaritan Med Ctr – Western Ridge**  
45,000 SF  
Cincinnati, OH



**Baylor Cancer Center**  
459,717 SF  
Dallas, TX



**WakeMed Raleigh Medical Park**  
87,379 SF  
Raleigh, NC



**Eskenazi Health FOB**  
273,479 SF  
Indianapolis, IN

# How Did We Grow? Acquisitions

Project(s) – Year Acquired	Location	SF
Harbin Clinic (7 assets) - 2012	Rome, GA	334,000
Seavest portfolio (14 assets) - 2012	NM, WI, VA, FL, LA, TX	1.2 M
Burr Ridge Medical Center - 2012	Burr Ridge, IL	104,329
CHRISTUS Santa Rosa Hospital & MOB - 2011	San Antonio, TX	110,739
Cedar Park MOB - 2011	Austin, TX	83,393
Hammond Clinic (4 assets) - 2011	Munster & St. John, IN	194,735
St. Vincent Max Simon Primary Care - 2011	Indianapolis, IN	84,436
CHRISTUS St. Catherine Plaza I, II, III - 2011	Katy, TX	169,160
Morehead Medical Plaza I - 2011	Charlotte, NC	190,773



**Harbin Cancer Center**  
Rome, GA



**Celebration Health Plaza**  
Orlando, FL

**Burr Ridge Medical Center**  
Burr Ridge, IL



**CHRISTUS Santa Rosa MOB**  
Santa Antonio, TX



**Cedar Park MOB**  
Austin, TX



**Hammond Clinic**  
Munster, IN



**St. Vincent Max Simon**  
Indianapolis, IN



**CHRISTUS St. Catherine Plaza III**  
Katy, TX



**Morehead Medical Plaza I**  
Charlotte, NC



# It's All About Relationships

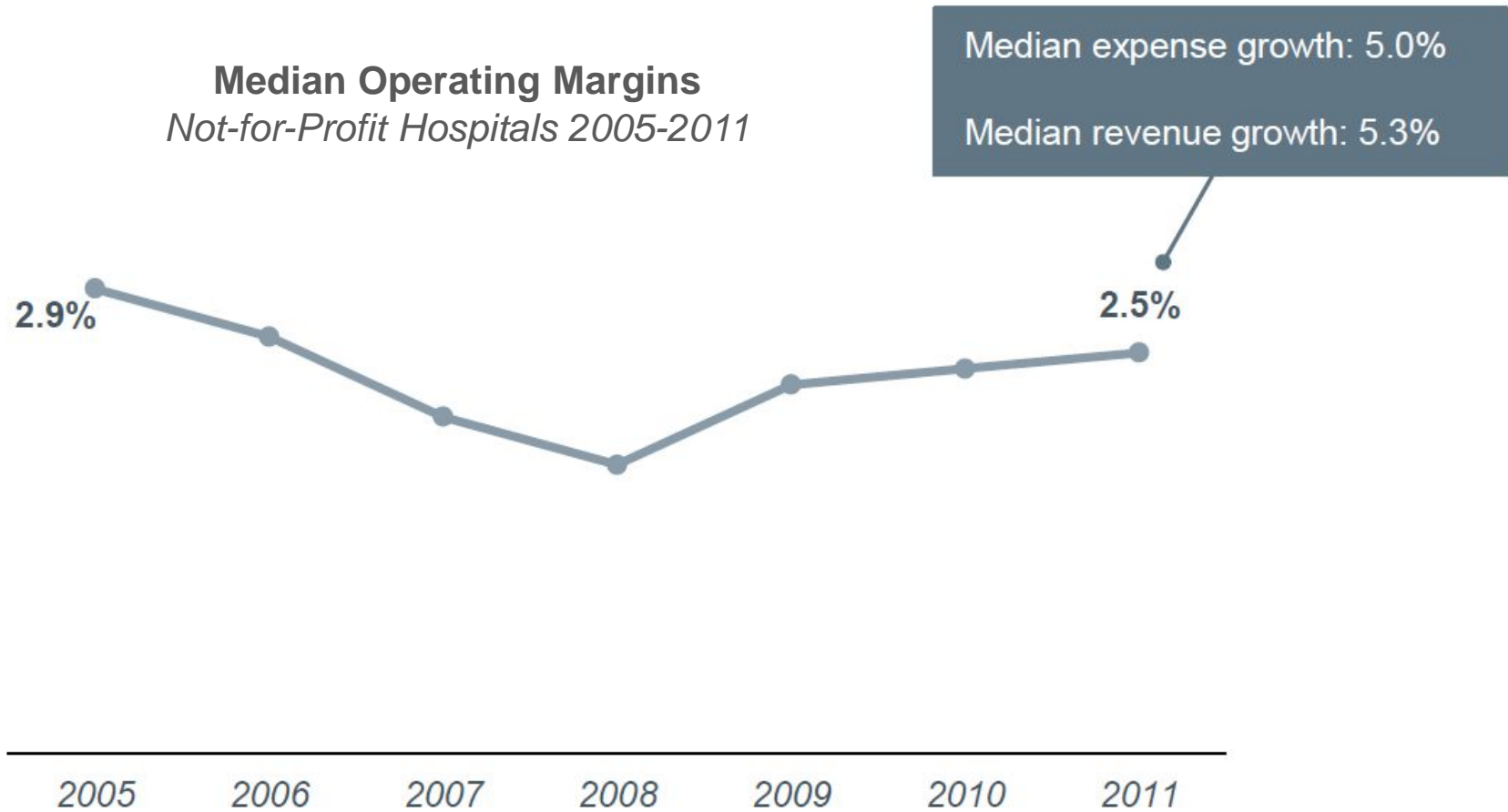


**What are our customers  
focused on today?**





# Growing Margin



## Can Hospitals Grow Their Way Back to Prosperity?

# Migrating from Volume-Based to Value-Based Payment Models

Steady Migration from Volume to Value-Based Payment Models



*Traditional  
Fee-for-Service*

*Fee-for-Service  
Redefined*

*Bundled Payments*

*Shared Savings/ACO*

Variety of methods being tested – stay tuned...



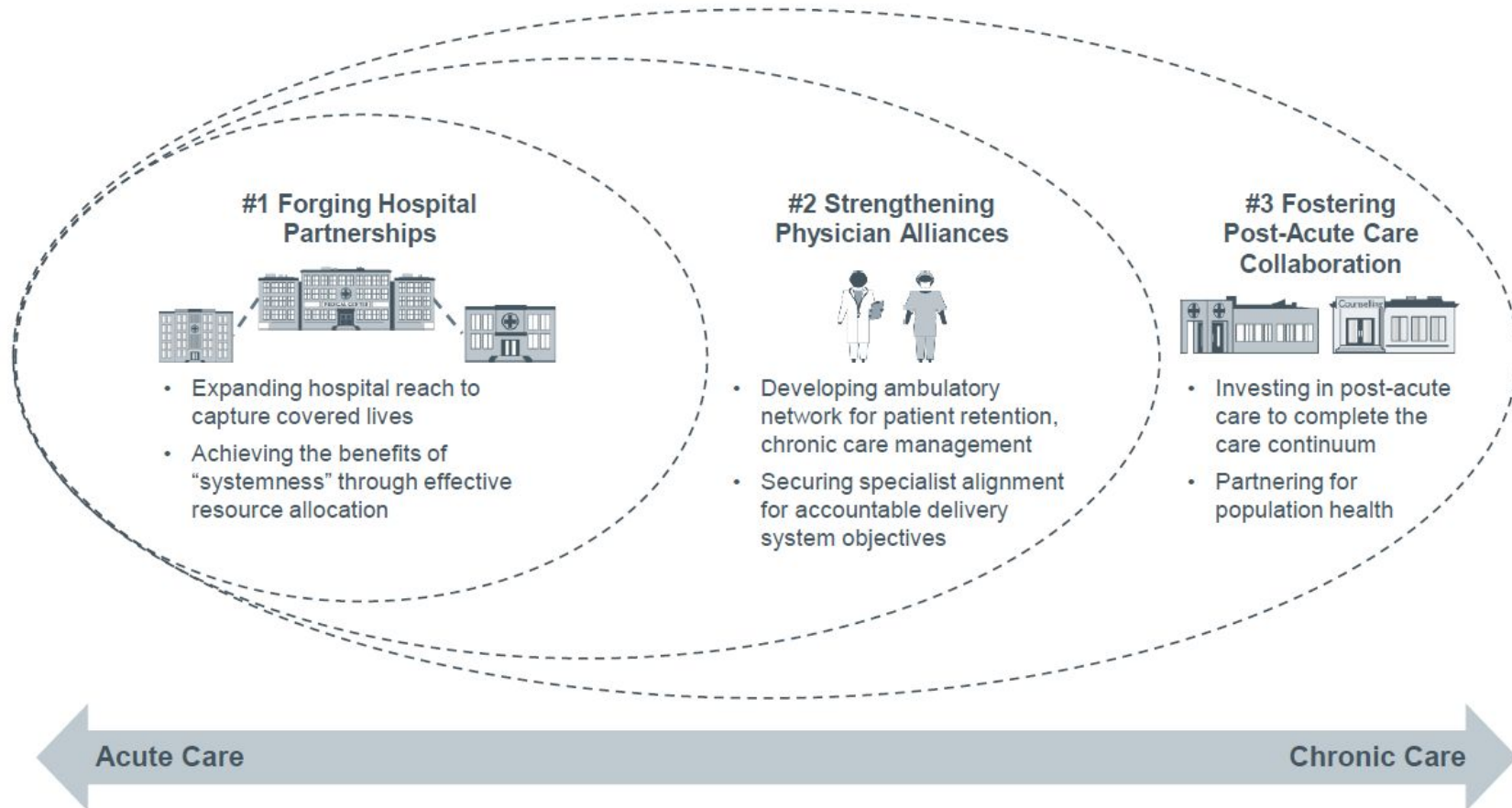
# Managing the Continuum of Care



Volume-based to Value-based

# More Patients – Bigger Footprint

Provider Opportunities for Future Success in a Transitioning Industry

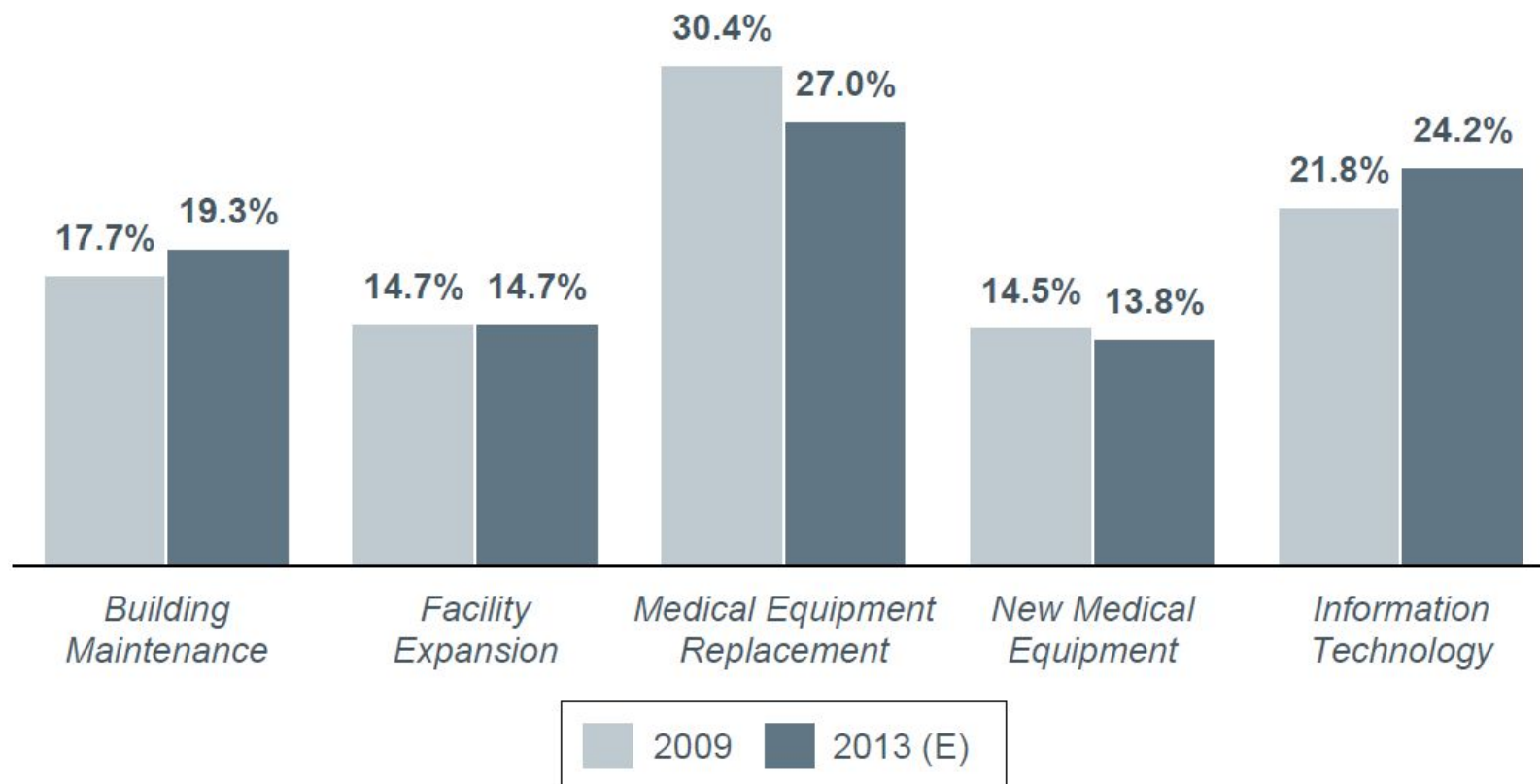


**Partnering for principled growth**

# Managing Capital – Dealing with Limited Resources

## Breakdown of Hospital Capital Expenditures

2009 vs. 2013 (E)



Capital allocation reflecting new market mandates

# How Are These Priorities Affecting Healthcare Real Estate?





# Healthcare Trends



## CHANGE

- Higher acuity uses moving to Medical Office Buildings

## EFFECT

- More sophisticated design requires higher level of understanding of operations and more capital



**Opportunity: Systems need our real estate expertise**

# Healthcare Trends



## CHANGE

- Freestanding ED's being used in new ways



## EFFECT

- Not necessarily a precursor to new hospital
- Increase of patients in the system
- Deliver primary care



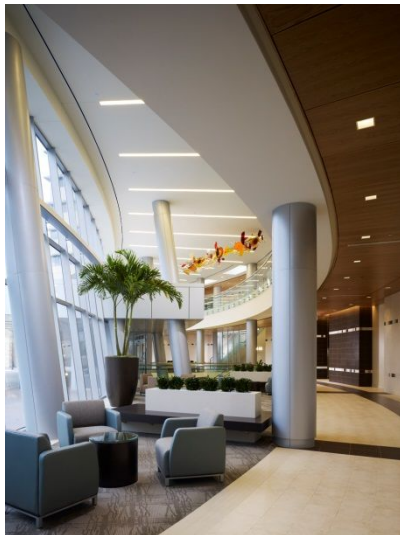
**Opportunity: Increased volume will drive demand for real estate**

# Healthcare Trends



## CHANGE

- Partnering will increase  
Hospitals – Health Systems - Physicians



## EFFECT

- Consolidation
- New relationships
- More patients
- Cost control

**Opportunity: Excess real estate – New market positions**

# Healthcare Trends

694,691	632,6
2,498	3,9
14,239	7,9
47,101	
842,313	
1,985	
84,813	



## CHANGE

- Hospital monetizations continue to grow
- Hospitals need capital – real estate is non-core; Spending 34% of capital on real estate

## EFFECT

- Sale lease-back
- Developer-owner

**Opportunity: Established relationships provide better opportunities**



# Healthcare Trends



## CHANGE

- Repurposing will continue to grow
- Hospitals/systems delivering care close to patients' homes

## EFFECT

- Former big box, retail, theaters will see life as multi-specialty clinics and primary care access points
- Micro-clinics popping up everywhere
  - Kaiser: 300 in next 3 yrs

**Opportunity: Creative real estate solutions abound**

# Healthcare Trends



## CHANGE

- Compliance driving decisions

## EFFECT

- Self-reporting aspects of the healthcare reform act causing systems to question real estate ownership
- Real estate opportunities
- Downstream risk

**Opportunity: Help clients manage risk**

# Summary

