

Hospitals Move To Main Street

REAL ESTATE: Health providers find retail space lures patients.

By **CAROL LAWRENCE** Staff Reporter



Romick

On its website, **UCLA Health** tells its patients “See you around the neighborhood.” That could be at the large retail shopping center down the street in Woodland Hills, or eventually, next to a French café at a busy Encino intersection.

Moving clinics off hospital campuses into non-medical locations that are also prominent and convenient is a new strategy for many major health systems such as L.A.-headquartered UCLA Health. While the effort is a way to gain more exposure for their brands in the Valley and northern L.A. County neighborhoods, taking retail and regular office space is benefitting building owners by filling vacancies, while also giving a healthy boost to construction projects for local contractors.

UCLA Health’s children’s and women’s health and wellness clinic at the Village at Westfield Topanga shopping center in Woodland Hills, which opened in late 2015, is one of the best examples of this strategy, real estate brokers say. And coming soon is another – a new clinic planned for a ground-floor retail spot next to a Le Pain Quotidien eatery in the Encino Arches building – which sits at a busy intersection.

Managing Director **Scott Romick**, principal with **Lee & Associates-LA North/Ventura Inc.** in

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Blow a Tune on That Gold Bar

MUSIC: Phil Sardo has passion for high-end harmonicas.

By **MARK R. MADLER** Staff Reporter

The high-end harmonicas that **Phil Sardo** has invented come with a hefty price tag – more than \$2,000.

The 81-year-old Woodland Hills resident won’t say whatever money he makes from

sales was not the prime reason why he created the Psardo Chromatic 64 harmonica, one of two models in his new product line.

“This is a passion that I have,” Sardo said. “I wanted to make a perfect, fine instrument. I don’t think anything in this world is perfect, but with this harmonica, we have come as close as you are going to get.”

The Chromatic 64 – the “Stradivarius of Harmonicas” according to Sardo’s website – is



PHOTO BY MIKE BAKER

Please see **MUSIC** page 37 **Toot: Sardo with \$2,695 instrument.**



Grand Opening: Employees greet customers on first day at Ikea in Burbank.

MORE STORE FOR IKEA

Furniture chain opens its largest U.S. location in Burbank

By **HELEN FLOERSH** Staff Reporter

Sixteen years ago, Ikea had a functioning mega-store in Burbank with about a quarter-million square feet. But it wasn’t enough.

The Swedish retailer began searching for a site capable of supporting a large

er furniture footprint. Earlier this month it opened the new store at 805 S. San Fernando Blvd. with 456,000 square feet, making it the largest Ikea in the United States.

About a thousand customers showed up on opening day. The event proved that the short move to a larger location less than a

mile from the old store was worth it, said **Joseph Roth**, head of expansion affairs at Ikea North America.

“We had a limited product offering at the old store,” Roth said. “Now, all of our inventory is here on site.”

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SPECIAL REPORT LAW



EXPERTISE: In L.A.’s crowded legal market, attorneys succeed by specializing. For example, **Howard Jacobs** has become the go-to lawyer for athletes accused of doping. This Special Report looks at three unusual practices – biotech, sports and equine law – on the upswing in the Valley economy.

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PHOTO BY DAVID SPRAGUE

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Real Estate: Landlords Like Medical Office Tenants

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Sherman Oaks, negotiated UCLA Health's lease for the Encino building owner. He said as UCLA, Cedars-Sinai, Providence Tarzana Medical Center and other big health care providers take more non-medical spaces, landlords are finding the stable tenants provide multiple benefits.

"It makes for good business," Romick said. "UCLA and those types of groups – they commit to long term leases, like 10 years. That's longer than most tenants will commit to in this market. UCLA and other (provider) types – they are credit worthy. (And) medical practices and businesses typically do not relocate and move out as often as (more typical tenants), such as a certified public accountant or an attorney."

Big medical tenants

Major health care systems and hospitals have grown their real estate in recent years as the number of patients has increased under the federal Affordable Care Act.

They've done that by buying large doctor groups and consolidating them in big medical office buildings.

Simultaneously, medical procedures have been moving out of costly hospitals into surgical centers and outpatient facilities located in nearby medical office buildings.

Both those factors increased the value of the Cotton Medical Center in Pasadena, a pair of medical office buildings totaling more than 115,000 square feet that sold for \$37.5 million in February 2016 to a division of Calabasas real estate brokerage **Marcus & Millichap Inc.**

The buildings' value was in their location 250 yards away from the Huntington Hospital, substantial parking and large common areas that can be combined, said **Angie Weber**, vice president of health care and medical office with real estate brokerage **Colliers International**. Colliers brokered the sale on behalf of the buyer.

"We're in a time when having large chunks of space is very attractive because so many are putting doctors' groups together in large spaces," she said. "These systems are buying doctors and creating large practice groups. So, then you have economies of scale."

Plus, the medical office market is "a very strong space" right now, Weber said, with a lot of activity and not a lot of new construction.

The medical office market for the overall Valley has tightened by more than a full percentage point between last year's fourth quarter and the same period a year ago. According to **NAI Capital Inc.** in Encino, vacancy rates have fallen to 6.6 percent, compared to 7.8 percent a year ago. Lease activity over the quarter fell to about 41,500 square feet from almost 106,000 square feet a year ago. And asking rates have risen 2 percent to \$2.54 a square foot over the year.

"Overall for the Valley, vacancy for medical is very, very low," said **Jeremy Barbakow**, a senior vice president with NAI. "Of the properties I list, I have very little vacancies."

He and other brokers say the move by providers into neighborhood retail and regular office space is helping fill vacancies in those building types. One reason is because those properties have one thing medical office properties often lack – ample parking.

Cities require medical offices to have five parking spaces for every 1,000 square feet, Barbakow said, but that's hard to find. Retail, however, requires the same amount, so leasing retail space is one way medical providers fulfill the requirement.

Barbakow is in talks with the owner of a retail building in Encino with 7,500 square feet of empty space and a lot of parking. He's contemplating leasing it to a medical user, Barbakow said.

But switching a use to medical from regular office or retail is not as easy as signing paper, according to brokers.

For one thing, the city usually has to sign off on the change of use, even if it's not for the entire property. Whether or not that's required depends on what the medical provider will do there, said **Paulette Toumazos**, a principal with Lee & Associates, who specializes in medical



PHOTO BY THOMAS WASPER

Broker: Scott Romick with Lee & Associates arranged UCLA Health's lease in a retail space at a busy intersection in Encino.

and professional offices.

Another factor is who will pay the fee for the use change, and that varies by the situation, Toumazos added. In some cases, the landlord includes it as part of the tenant improvement allowance provided for a new user.

Finally, as a remodeling project, converting space to medical use is an expensive challenge.

"If we were to say a traditional office space had costs of \$40 a square foot, medical will be \$80 to \$120 a square foot," Toumazos said. Plus, retail landlords don't usually provide tenant improvement allowances, she added.

However, because of those expensive improvements, landlords can usually charge higher rents to medical users and keep them longer, she explained, because the health care providers will stay to spread out the cost of the buildouts over several years.

Barbakow said renting to medical users is helping landlords fill vacant space left behind by smaller retailers who've suffered from the e-commerce industry. But it demands a mindset adjustment from thinking like a retail landlord to a medical landlord.

"They have to decide if it makes sense to give a bit of medical allowance to lease up space that's been sitting vacant for so long," he said. "There are challenges associated with that, but medical could be an option. There's not much of a higher rent gain, but at least it would get leased."

Antelope Valley buildouts

A marriage between retail space and medical users is also in the works in the Antelope Valley, where residents have had limited health care options and often have to drive long distances for their care.

L.A. developer **Thomas Partners Properties** is moving along on the \$200 million Oasis medical and retail concept that would change that, says President **John Thomas**. The Palmdale project has just gotten entitled on the properties surrounding Palmdale Regional Medical Center where he plans to develop a 420,000-square-foot complex that will handle outpatient care, such as surgery, imaging, ambulatory care, primary care and mammography in five, 20,000-square-foot medical facilities. Thomas also intends to include health-oriented retail businesses and restaurants within the complex, as well as walking paths, a gym and a hotel to create what he calls a "wellness village."

He aims to lease to the larger health care



Wellness Village: Rendering of 420,000-square-foot Oasis complex in Palmdale.

providers in the area, but has to first work out with the city issues on the signage that would promote the providers. Those are an example of important details in developing health care real estate, Thomas said.

"First is providing branding opportunities for the hospital and health care systems joining the campus," he said. "Branding is critical."

In Lancaster, public officials hope to turn the more than 100 acres of vacant land around the Antelope Valley Hospital into a walkable, "Medical Main Street" area and possibly convert empty retail stores into medical use.

Seffi Toneman, a broker associate handling leases and sales with **Coldwell Banker Commercial Valley Realty** in Lancaster, said she has yet to see medical providers move into existing retail space, but has heard about the Oasis and Lancaster projects.

"That's what talk has been centered around – more of an incorporation of medical and retail rather than a migration from those users of one type to another," she said.

Such activity would possibly bring new work for her father's construction business, **Toneman Concrete Corp.** in Lancaster, for which she's a broker representative. The company finished three medical office buildings near Antelope Valley Hospital in 2015. So far, one is leased to a dialysis center, a second is in escrow to sell and the third one is still available, she added.

The same trends among health care providers have also injected **S3 Builders Inc.** in Burbank with a healthy boost in business.

The contractor's medical office business saw the number of projects awarded and bid jump 50 percent last year, said Vice President **John Epperly**. Most of the work has been from large health care institutions and includes some projects on retail properties, Epperly said. One is renovating 4,000 square feet within a medical clinic in a retail setting in the West Valley, and a second project is a 3,500-square-foot medical office buildout for a new partnership between a large medical institution and an orthopedic group.

"Instead of maintaining a standalone hospital with a few ancillary medical office buildings, they are expanding into a network that can reach more patients with several destinations," he added. "I believe we will continue to see smaller moves in the same direction: partnerships between larger institutions and specialty clinics, urgent care facilities and general practitioners."

But uncertainty is now brewing as to the impact should the Affordable Care Act be repealed, and if these institutions will continue to have the same patient volumes, Epperly added.

"At this point, the future of the health care law is certainly in doubt, and it stands to reason that any changes in — or repeal of — the ACA will surely affect health care spending, and medical construction as a result," he said.