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Property Trends: Health and Wellness, and the CRE Implications

Even before "coronavirus" became a household name, there had been a general increase in focus on health and wellness in recent decades especially in countries with aging populations and longer life expectancies. Today, data from McKinsey puts the value of the global wellness market at more than $1.5 trillion, with expected annual growth of 5% to 10%.

The current pandemic has only boosted this increased interest in the topic, and in the offerings or promises of the industry – feel better, live longer. The knock-on effect is that this market growth has simultaneously cast the health spheres of commercial real estate (CRE) into sharp focus too – something a savvy developer or broker needs to keep an eye on.

Applying Wellness Everywhere

The use of the plural 'spheres' above is deliberate, because 'health and wellness' can be a factor in several distinct CRE categories. In traditional terms, healthcare property includes hospitals, nursing homes, assisted living facilities, medical offices and more.

Taking a more holistic view, the category expands dramatically. Take, for example, the focus on "lifestyle" property developments, mega wellness retail stores and the growing need for private healthcare and mental healthcare facilities. Additionally, as healthcare provider businesses grow, they will be in the market for brokerage and advisory. Clearly, the trend is not one-dimensional.

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High Engagement Requirement

Commercial real estate (CRE) professionals should note though that as they make their way up the value chain, this can be an increasingly niche and demanding development task. Developing a property for a healthcare provider is not for the faint-hearted because it is not a "cookie cutter" build.

If you're developing an acute or sub-acute hospital, for example, the briefing process will need to be utterly comprehensive, especially when it comes to building services and systems. Then throughout the fitting, high engagement with the client is recommended, making sure you have approvals and "buy-in" at every step to avoid pitfalls at handover.

The flipside of this is that "healthcare leases are generally triple-net [meaning] tenants are responsible for property taxes, building insurance, and most maintenance expenses".

REITs Get In On the Game

There is also a less direct route for investors, such as real estate investment trusts (REITs) that focus on healthcare or health and wellness property holdings.

In Australia, Home Consortium's Healthcare and Wellness REIT was the second biggest IPO of 2021 so far, raising some AU$650 million in July. It is the country's first "pure-play healthcare property trust", according to the Financial Review. Here in the US, there are several more specialized REITs like this.