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On the cover: An undisclosed institutional investor reportedly paid \$39.3 million, or \$615 per square foot, recently for The Orthopedic Institute building in Hattiesburg, Miss. (Photo courtesy of Forrest Health System)



Big MOB rehab shaping up in Atlanta

HealthAmerica starts project at one of the city's most desirable medical locations



When completed in summer 2016, the 150,000 square foot NorthWest Medical Center outpatient building in the Buckhead area of Atlanta will have a much “friendlier” look, according to the architect on the project, Larry Sweat of MSTDS Inc.

Rendering courtesy of HealthAmerica Realty Group

By John B. Mugford

For a number of years now, Thomas W. “Tommy” Tift III and his team at Atlanta-based HealthAmerica Realty Group waited for the right time to start a major remodeling of its signature medical office building (MOB) in the northern part of the company’s hometown.

It was actually some bad news – with a positive caveat – that propelled the company to get moving on the largest capital project in its 20-year history.

The bad news came from one of the MOB’s longstanding tenants, a dermatology practice that informed Mr. Tift and Steve Hall, a partner and senior VP, that it would not renew its lease and was relocating to another building a couple of miles away.

While the news was indeed disappointing, Mr. Tift and the executives at HealthAmerica were well aware that the building, the 150,000 square foot, 41-year-old NorthWest Medical Center in the well-heeled, glitzy Buckhead area of northern Atlanta, was showing its age.

In addition to its somewhat outdated, tired-looking exterior of dark windows, dark steel beams and concrete columns, parts of the building were settling on a top layer of in-fill on the site, causing some minor aesthetic problems and a rather large, unattractive dip in the driveway just outside the front door.

“We were losing prospective tenants when they stepped out of the car,” Mr. Tift recently told **Healthcare Real Estate Insights**™ during a tour of the building about a month or so after construction had started on the remodeling project.

Even though Mr. Tift and the team had long planned to remodel NorthWest Medical Center, they had been reluctant to move forward in recent years because of Atlanta’s high MOB vacancy rate – caused, for the most part by an overbuilding of medical space – as well as the after-effects of the Great Recession and the unwillingness of many providers to commit to leases during a time of uncertainty related to healthcare reform and reductions in federal reimbursements.

But with MOB vacancies tightening up in the Atlanta market and a scarcity of new medical projects coming online, the company decided now was the time to act.

“The head of the dermatology practice told us that they were leaving, but that if we moved forward with our remodeling project we’d probably be able to fill the building,” Mr. Tift recalls.

“Because, as she told us, this building is in the best location of any off-campus, multi-tenant medical office building in Atlanta, and medical groups, health systems and doctors will want to locate here for strategic reasons.”

After taking the message to heart, HealthAmerica Realty Group is now a couple of months into an \$18 million project to completely remake the exterior, remedy the ground-settling problems, create a new main entry, update an outdoor courtyard that’s surrounded by the building on three sides, add a new entry to what could become a large provider suite on the terrace level, overhaul the lobbies in the building’s two wings, and, eventually, as tenants take space, update and remodel the suites.

Parking is not an issue, as the site includes a 600-space deck, providing a ratio of 1 space per 4,000 square feet of space.

And while uncertainty still lingers for providers both large and small because of falling and changing federal reimbursements, several factors make the NorthWest Medical Center remodeling project a good bet, according to Mr. Tift and others involved.

For one thing, the location is second-to-none, as the building’s area of the city, known as Buckhead, has what Mr. Tift calls perhaps the strongest demographics in the Southeast region of the country. There is also a scarcity of land for new projects, be they medical or other types.

Also showing confidence in the project are two major financial backers: Birmingham, Ala.-based Protective Life Insurance Co., which is providing debt financing, and Chicago-based Harrison Street Real Estate Capital, which is infusing equity.

“We really look at this as a value-add opportunity that really is quite low-risk,” says Mark Burkemper, a senior VP involved with healthcare transactions at Harrison Street. “We really like the demographics of the area, the rare chance to convert a building into a Class A healthcare asset that has great visibility and access, and the company that’s doing it. Tommy Tift and his group know the Atlanta market as well as anyone.”

Also bullish on the project is the lead architect, Larry Sweat of Atlanta-based MSTDS Inc.

“I watch the medical market and the consumer market closely here in Atlanta, and I can tell you that there is lots of demand in Buckhead for medical space and practices there, and not just from doctors but mostly from patients who want to have their doctor and their children’s doctors and dentists and other providers closer to home and right in that neighborhood,” says Mr. Sweat. “I think the people at HealthAmerica are doing the right thing in moving forward; the timing is right.”

That timing, just as MOB leasing is picking up and vacancies are falling throughout Buckhead as well as all of Atlanta, means that outpatient space is even more difficult to come by in the nearby vicinity of NorthWest Medical Center. In the immediate area are two condominium medical buildings and another physician-owned MOB, none of which have much space left.

The building’s most-notable competitor could be considered the 264,000 square foot Piedmont West MOB, a couple of miles to the south on I-75. At this point in time, however, Piedmont West, which was acquired by Chicago-based MB Real Estate in 2013, is virtually filled.

Speed to market

“In addition to our location, one of the things that gets us fired up about our project is that after the remodeling we will be offering basically a brand new building, but our construction costs will amount to about \$200 per square foot and we’ll be able to keep rents much lower than for any new construction project,” Mr. Tift notes. “If we were going to tear down the building and rebuild it on the site, our construction costs would be in the \$350 to \$370 range per foot. And if you had to buy a new site for a new project, construction costs would be even higher.”

Plus, even if another new MOB project is announced in the area in the not-too-distant future, HealthAmerica will finish its remodeling project much earlier.

“If someone announced a project today it would be at least 15 to 18 months, maybe even two years or more, before they would have it completed,” Mr. Tift adds. “But we’ll be completed by late May (2016).”

“And with construction costs high in Atlanta right now because two new stadiums are being built (one for the Braves professional baseball team and one for the Falcons football team), rents for another new MOB would have to be in the range of \$40 per square foot or more. We’re going to be much lower than that, which means a lot to healthcare providers, who are facing reduced reimbursements as they move forward. And, we’re still going to have a brand-new looking building.”

So far, the reaction from prospective tenants for the remodeled NorthWest Medical Center has been “very exciting,” Mr. Tift notes, with a number either on the verge of signing leases or seriously contemplating doing so.

OUTPATIENT PROJECTS

"We have a lot of tours lined up and a lot of interested potential tenants," says Mr. Hall, who is in charge of leasing for the building. "But one of the most difficult things about developing projects, or doing a redevelopment like this, is that tenants often don't commit to a lease until they see the project completed, or at least nearly completed.

"So, I really think momentum is going to pick up after the first of year, when the actual physical appearance will have changed and the building will be looking good from the street."

The prospective tenants that Mr. Hall is talking to include a wide variety of specialties and ownerships, from health system practices to independent ones. Included are women's health practices, pediatrics groups, dentists, dermatologists, plastic surgeons, orthopedics groups, and others.

As of late November, HealthAmerica estimates that if all of the potential tenants who say they are "very" interested in leasing space indeed sign agreements, NorthWest Medical Center's occupancy, or preoccupancy, would be about 70 percent. At the start of construction in September 2015, occupancy was about 35 percent.

Location is key

For those at HealthAmerica Realty Group, the message from the departing dermatologist only reiterated what they say they already knew about NorthWest Medical Center: Its location as an off-campus, multi-tenant MOB is second to none in Greater Atlanta.

"It's as good as it gets," Mr. Hall notes. "It's in Buckhead, but it's also not in the main business district of Buckhead, where traffic can be very bad."

Situated at 3280 Howell Mill Road NW on a parcel that's highly visible and quickly accessible from U.S. Interstate 75, the four-story building is about 7 miles north of downtown Atlanta.

When it was completed in 1974, NorthWest



Thomas W. "Tommy" Tift III, shown in his Atlanta office, says an \$18 million remodeling of his firm's NorthWest Medical Center will restore the building's stature as one of the signature medical buildings in Atlanta.

Photo by John B. Mugford

Medical Center was next to the relatively new West Paces Ferry Hospital, which had been started in 1970 by a group of doctors known as NorthWest Hospital Corp. Those doctors eventually formed a partnership with what is now Nashville, Tenn.-based HCA Holdings Inc. (NYSE: HCA).

The hospital, however, closed in 1999 and was eventually torn down. Today, the nearest major hospital is about 5 miles away, the 484-bed Piedmont Atlanta Hospital.

Since the hospital next to NorthWest Medical Center closed, there's been plenty of speculation about what could be built on the vacant, 9-acre site, which also fronts I-75 and which is still ground-leased by HCA and owned by the group of doctors. According to recent reports, there are plans to develop the site as a 1.2

million mixed-use project that would not include any new MOB space.

Such a development, coupled with the strong demographics of Buckhead, would certainly bolster HealthAmerica's remodeled MOB.

"Buckhead is one of the best areas, in terms of demographics, not only in Atlanta but in all of the southeastern part of the country," Mr. Tift says. He's also quick to point out that the MOB is within a few minutes of plenty of shopping, high-end homes and a number of the city's top private schools, making it a prime location for pediatric medical and dental practices.

Even so, for a number of years now NorthWest Medical Center has been losing tenancy, in large part because of the need for an upgrade and also because,

as noted earlier, the Atlanta market has experienced an oversupply of MOB space for some time. Landlords, as a result, have had to cut low-rent deals to attract and retain tenants.

HealthAmerica acquired NorthWest Medical Center in 2002 from Nashville, Tenn.-based Healthcare Realty Trust (NYSE: HR). At the time, Mr. Tift's company was providing property management services at the building. With a vacancy rate below 50 percent, Mr. Tift's firm, upon acquiring the building, made some immediate improvements, such as replacing the roof. It also brought leasing in house from a third-party brokerage firm.

"Putting on the new roof saved \$150,000 a year in expenses and, by cutting overhead costs, we were cash-flowing on the property rather quickly," Mr. Tift recalls. "And we worked really hard on the leasing, providing tenant improvements from that new cash flow; we got the occupancy up to 60 percent."

But years later, the outdated building began to lose tenants as more projects were built nearby and throughout Greater Atlanta; the ground-settling problems did not help matters, either.

As the architect, Mr. Sweat notes that the construction project and new design, with a new "color palette" and a clear glass skin, will give the building a much "friendlier" look that fits in with the designs of other nearby, newer general office buildings.

The project will also permanently solve the settling issues, Mr. Sweat says, which are the result of the top portion of the site being filled with dirt from the construction of the adjacent interstate.

"Tenants have an image that they need to keep up, and we're not talking about wanting to be in a Taj Mahal but just a nice-looking, functional building," Mr. Tift adds. "We realize that our building wasn't providing that. But our remodel is going to change that. It's going to be a great-looking building in a great location and with rents significantly lower than new construction."

Massive, \$500 million facility to bolster outpatient care at Rush in Chicago

CHICAGO – With its outpatient space busting at the seams, Rush University Medical Center plans to build a new facility just across the street from its main hospital tower just outside of downtown Chicago.

The nine-story, \$500 million outpatient center is planned for a site east of the hospital tower. With 620,000 square feet of space, the facility would consolidate several services that are now scattered across the hospital system's campus, which is just south of the Eisenhower Expressway, as well as in buildings on the north side of the expressway.

The project is part of Rush's goal to continue to upgrade its campus, a strategy it started in 2012 with the opening of a \$683 million, butterfly-shaped patient tower that is visible from the expressway.

"The signature statement (of the last 10 years of campus transformation) is reflected in the butterfly tower," noted Peter Butler, president of Rush University Medical Center, in a statement. "This is the twin to that on the outpatient side."

The future outpatient center is planned for a site at the corner of West Harrison Street and South Ashland Avenue, just across the street from and connected to the butterfly tower.

The new outpatient tower, scheduled for completion in 2020, would most likely offer primary care and specialty physician offices, the Rush Ambulatory SurgiCenter, and nearly all outpatient clinical and diagnostic services.

Officials add that the building will be able to absorb an anticipated 30 percent to 40 percent growth in outpatient services. They say that Rush's outpatient services have been growing at a yearly rate of about 5 percent during the past three years.

While the new facility will not represent an increase in the system's current outpatient capacity, it will be built with increased efficiencies to allow for

the anticipated growth. Rush is also planning the facility at a time when some healthcare consultants say hospitals in the Chicago area are experiencing drops in inpatient admissions.

In order to move forward on the project, Rush University will need to receive an approval from the Illinois Health Facilities and Services Board; the system submitted its proposal in recent weeks.

Financing for the project would come from operating revenue, debt financing and fundraising. The system raised nearly \$389 million for the butterfly tower.

Duke Realty's outpatient project on new campus in Illinois moving forward

HUNTLEY, ILL. – Indianapolis-based Duke Realty Corp. is planning an 80,000 square foot MOB, maintenance facility and ambulatory care mall on a new campus being built by Centegra Health System in Huntley, a far northwestern suburb of Chicago.

Duke Realty's plan for the project is currently working its way through the city approval process, as a planned unit development was, in recent weeks, being reviewed by the city's Plan Commission. So far, according to local reports, the project has received positive feedback from city officials.

The facility would be built on a site of the under-development Centegra Hospital-Huntley, a 360,000 square foot, 128-bed facility that's scheduled to open in summer 2016 at Algonquin and Haligus roads.

Practices in the MOB will offer specialized care services as well as a simulator lab for Rosalind Franklin University.

"It's going to be not only a great building for people to get care in, but it'll also be one where students will be educated," said a hospital spokesperson of the Duke Realty complex. Duke Realty plans to start construction in early 2016 with a targeted opening of March 2017. □