

Real Estate Developers Fill Physical and Fiscal Needs for Healthcare Community

BY ANN HALPERN

Medical buildings are more than commercial buildings filled with physicians. Hospital proximity usually is more important than demographics, traffic patterns or rent. Ownership and operation also can set medical buildings apart. Even structural requirements are affected by the work done inside.

Location is always a key real estate consideration. "A building is either strategic and relevant to a provider or is not," says

Rance Sanders, president and CEO of The Sanders Trust. He believes any medical office building must be on a hospital campus. "It will always be full. It's more convenient for the patient and the physician." He explains that an off-campus property might be in a hot area today, but 15 years from now it might not be. On-campus locations stay viable because of the hospital access.

"We like to be as close to a major medical center as possible," agrees David Fowler, a partner with Inkana Development. "The best locations are attached to the hospital." The goal is to make it as convenient as possible for physicians to move between their offices and the hospital.

"The most significant element of healthcare real estate today is that it is so capital intensive in an industry that starving for new capital to provide new services," said Sanders. Hospitals and physicians need real estate, but seek outside capital. "The most signif-

icant service our organization provides is related to balance sheet management."

Hospitals often prefer outside financing for projects such as medical office buildings so they can direct their



Rance Sanders

President and CEO of The Sanders Trust. The firm focuses on developing healthcare projects, particularly outpatient facilities on hospital campuses. In its first seven years, Sanders has developed 22 projects in eight states totaling \$145 million.

own money to mission-related needs.

Investors profit and the hospital gets the building and doctors it wants without spending a dime.

On the physician side, the dynamic is a little different. A clinic or medical office building may be owned by a small group of senior physicians who lease it to the practice. Sanders says this kind of arrangement often leads to some resentment on the part of younger members of the group.

"To resolve this kind of dissonance, the senior doctors sell the property to us," explained Sanders. "They get their cash out and we just lease the building back to the clinic." He says this process is increasingly popular with large practices.

"Just a few months ago we acquired for \$11.3 million a new medical office building on the Shelby Bap-

tist campus," said Sanders. "The doctors are very pleased and we're excited to have a good investment on arguably the fastest-growing campus in the Birmingham area."

Developed by several physician practices, that facility includes offices as well as the hospital's outpatient surgery center. "The doctors created a lot of value with the building and were able to realize that value after just a few years," said Sanders. The Sanders Trust will continue to lease to existing

tenants on a long-term basis.

"Physicians expect developers to have a working knowledge of healthcare terminology and equipment," says Fowler. Physicians also expect developers to be sensitive to the needs of patients and the nursing staff.



David Fowler

A partner with Inkana Development, an eight-year-old full-service real estate firm specializing in acquisition and turnkey development of healthcare facilities. The company name derives from a Native American word alluding to reciprocity of friendship.

Fowler says physicians are always interested in ownership. "They want to be able to look at flexible leasing and ownership structures." Ownership of each project is negotiated to suit the needs of those involved. "We keep in mind that the physicians who are our tenants are the main engine and rev-

enue generators for the hospitals," says Fowler. "We never lose sight of the fact that the physicians are the life blood of the hospital. As a hospital grows, they usually need to grow their physician base – more physicians, different specialties."

Structural requirements set healthcare properties apart from other commercial real estate. There are codes and requirements for everything from layout of exam rooms and hand-washing capabilities to safety equipment and venting hoods for laboratories. Use of various chemicals can affect drainage and plumbing-collection systems.

Medical buildings typically have a lot of wall-hung and ceiling-mounted equipment. "Hospital and clinical spaces want everything off the floor so they can turn over rooms very quickly," says Fowler.

Structures must be able to support very heavy equipment such as x-ray machines and bariatric scales. Diagnostic equipment such as MRIs requires special shielding and cooling. "We're seeing more equipment such as MRIs outside the hospital," says Fowler.

Even the appearance of a healthcare building can differ from other commercial buildings. "We also spend more time and attention on the finishes, the outward appearance, to make patients feel more comfortable," says Fowler. "You want it to have a more homey feel than a generic office building."