

# Austin medical office strongest niche

**Austin Business Journal - by Francisco Vara-Orta**

Sunday, August 22, 2010

Medical office space continues to outperform traditional office space in Austin. And the niche could see construction within six to 12 months, according to developers and brokers.

The medical office market's midyear vacancy rate was 13.3 percent, according to the midyear Medical MarketScope, a report produced by Austin-based real estate company Site Solutions Inc. While that's up by 2 percent from midyear 2009 and by 1 percent from year-end 2009, it's well below the current midyear vacancy rate for nonmedical office properties of 24.1 percent, according to CB Richard Ellis' midyear report.

In recent years the region benefited from the construction of new medical office buildings tied to major hospital systems, as well as new higher-education buildings. Texas A&M Health Science Center College of Medicine moved into its first building in its new Round Rock campus, and Texas State University's new School of Nursing is welcoming its first students this fall.

There were significant events during the first half of the year, including St. Jude Medical Inc.'s expansion and Hanger Orthopedics Co. announcing its corporate relocation to Austin, said Gail O'Connor, senior vice president of Site Solutions.

"The Central Texas medical office market, totaling nearly 6.1 million square feet of space, has proven to be the most recession-resistant of all the commercial property types," O'Connor said.

About 111,047 square feet of medical office space was leased in the first half of the year. The largest lease deal came from St. Jude Medical, which leased 91,569 square feet at Palisades West II at 6300 Bee Caves Road. Kathy Carr, senior manager of facilities for the medical device maker, said the building adds nearly 30,000 square feet for its growing sales force and training center.

Developers delivered seven new medical office buildings in 2009. O'Connor noted, however, the report found that no new medical office buildings have been delivered to date in 2010 and none are under construction.

What that says is, while medical office space fared better than traditional office space, it wasn't immune to the national recession and collapse of the capital markets," O'Connor said.

At the same time, she said there are projects aiming to start this year, but they must be 50 percent preleased to get financing approved in order to start construction. Developers of local medical office space, only a handful of companies, said their projects will start breaking ground within 12 months. It's unclear which project will be the first to do so.

OnAir Development is planning a 120,000-square-foot medical office building in the University Park mixed-use development on the former Concordia University Texas campus, as well as a 38,000-square-foot medical office project in Kyle near Seton Medical Center Hays. OnAir officials said the University Park project will break ground this fall.

In North Austin, two planned medical office developments are helping spur a new hub of medical services near St. David's North Austin Medical Center, a 652,000-square-foot full-service hospital that completed last year a \$88 million expansion for a women's services center.

Nearby, Live Oak-Gottesman LLC plans to develop and market the Cedar Bend Professional Center, which will span 70,000 square feet and house medical and professional offices with a surgical center. It's been precertified for the silver LEED designation, and Live Oak-Gottesman is offering prospective tenants ownership in the development.

"We are 30 percent preleased and can begin construction at any time; however, our preference is to be 50 percent preleased before breaking ground," Steve Younkman, Live Oak-Gottesman's chief financial officer, said in an email. "We are quite confident of the Cedar Bend Professional Center's future success given its location, visibility, access, ample parking and efficient floor plans."

Next door to Cedar Bend, Land\Creek Development has announced plans to build Plaza North, a 35,000-square-foot, three-story medical office building over one level of parking at 12319 N. Mopac Expressway. Two standalone spots in front of the proposed building are sold: 8,000 square feet for Texas MedClinic under construction and 6,000 square feet for PlainsCapital Bank already open.

Land/Creek President Scott Taylor said he has about 9,000 square feet of the Plaza North building under contract but wants to reach 12,000 square feet to start construction. Flynn Construction is the general contractor, and Sixth River Architects designed the project.

Taylor said he prefers to sell the spots because doctors would rather buy than lease as prices have dropped. He expects to start construction in 30 to 60 days.

"There's been an uptick in the last two months, and there's a lot going on behind the scenes of us showing our plans and spaces in the medical office market," Taylor said.

Meanwhile, in Cedar Park, Dr. Robert Wills recently bought the 35,000-square-foot Cypress Creek Village retail and office building, which was foreclosed on this year and described by reports as suffering from a poor layout and water leakage, leaving puddles to greet potential tenants. Wills confirmed in an e-mail he is working with OnAir Development on quickly revamping it as a medical office building, but he declined to give specifics on his plans.

A description of Cypress Creek on OnAir's website says the project will be anchored by Cedar Park Surgery Center, developed by Arise Healthcare, and include Spicewood Specialty Pharmacy and an imaging center.

According to city documents, Wills, an anesthesiologist and pain management specialist for Austin Pain Associates, was successful in getting the city council to approve a zoning change in May that will allow more outpatient surgery centers and pharmacies.

“Like you see retail follow residential development, you see medical office space construction follow hospitals and clinics,” O’Connor said. “And with our population growth, people living longer and some increased business with the new health care reform bill, construction is right on the cusp.”