

## **Medical office developer adding space alongside St. David's in Austin**

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HealthCare Facilities Development Corp. has finished one medical office project in Austin and is developing another this year totaling \$46 million in construction costs. And it has one planned for South Austin next year, proving that the medical office market is more resilient than other commercial property types.

Austin-based HealthCare Facilities Development Corp.'s project under way is in North Austin, while it's recently completed project is in Central Austin. Both are next to hospitals owned by St. David's Healthcare System.

Next year, HCFD plans to convert a single-tenant 31,000-square-foot office building that houses the Austin Diagnostic Clinic, which will not be renewing its lease, into a multitenant building, said Kent Ferguson, president of HCFD. Similar to HCFD's current projects, that building is across from St. David's South Austin Medical Center.

Meanwhile, St. David's Healthcare System will be renovating about 10,000 square feet of medical office at the South Austin location as part of an ongoing \$72 million expansion of its hospital there.

In North Austin, HCFD is building Medical Oaks Pavillion III, a 70,000-square-foot medical office building. The \$14 million project is at least 50 percent preleased and will be ready for occupancy early next year. HCFD, which has owned land in the area since 1990, has completed 110,000 square feet of medical office there. Ferguson said the company will be releasing the names of sizable tenants in the near future.

Meanwhile, the developer is continuing to lease its \$32 million, 82,000-square-foot, eight-story medical office building adjacent to St. David's Medical Center on East 32nd Street. The offices are above a five-story stacked garage with 638 parking spaces. The Central Austin project has been more challenging because the site was constrained. "It was an 18-month construction schedule because of the complexity," Ferguson said.

Similar to retail following rooftops, medical office projects are driven by the growth of the hospitals they shadow. These specific projects are being prompted by the growth of St. David's hospitals, said Malcolm Belisle, vice president of corporate services for St. David's HealthCare. "St. David's Medical Center [in Central Austin] has added some new service lines and taken that out into a tertiary care area, like in neurosciences, and that has created some additional office demand," Belisle said.

In 2009, St. David's North Austin Medical Center completed its \$83 million St. David's Women's Center of Texas, bringing more obstetricians and gynecologists to the area. "We are looking at expanding other service lines at the [North Austin] hospital, and that just creates more and more office demand," Belisle said. "Health care is a little bit slower and steadier in real estate than most fields. ... It doesn't have the real lows and doesn't have the real highs. It just increases as the population increases."

Ferguson agrees, but adds that health care reform did impact his industry somewhat. "The health care debate slows things down, but we've seen an increase in activity following the passage of the legislation," he said.

Belisle said HCFD's South Austin project will be a welcome addition to St. David's campus there. "We are well into our expansion project there," Belisle said. "As it gets closer to coming online, there will be more demand as doctors see the expansion of the hospital." Belisle said St. David's is in talks with several physician groups to lease the nearby 10,000-square-foot medical office space that it plans to begin renovating this fall.

Interestingly, HCFD built the South Austin medical office building for one of its first Austin clients, Austin Diagnostic Clinic, 18 years ago. "We've learned a lot over the last 25 years," Ferguson said. "We've done this specialty in health care real estate, and the industry continues to evolve, so we learn something new on every project."