

# Speculative Austin developer keeping the faith

## No buyers yet but Plaza North still a go

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A local developer has started construction on a \$6.5 million, ground-up medical office building in North Austin. It's most noteworthy because the project is speculative at a time when many competitors are still pre-leasing or pre-selling most of a project before any dirt turns.

Plaza North will be a 36,000-square-foot, three-story medical office building over one level of parking at 12319 N. MoPac Expressway, across from the North Austin Medical Center. The shell is expected to be completed in August.

Plaza North is the first medical office project Austin-based Land/Creek Development has started building since the recession began. Its most recent projects include Shady Hollow, a medical office building in South Austin completed in 2008, and Arboretum Park, an 18,000-square-foot retail and office project at 9707 Anderson Mill Road in North Austin.

Most medical office developers are waiting until they have at least 50 percent to as much as 100 percent sold or leased before building a project, but Land/Creek Development President **Scott Taylor** said he has letters of intent for about 20 percent of the building and is mulling new ways to fill the space.

"We are thinking that with the rare ability to have great signage along Mopac, that maybe a high-tech firm like an Apple Inc. would want to be the anchor tenant, and then we'd fill the space out with medical tenants," Taylor said.

Even though the building is one of the largest new spaces to come on the market in recent years, Taylor would only need to find a half-dozen or so medical practices to fill the entire building. Taylor said Plaza North stands out among competitors mainly because it offers full ownership of the medical office spaces, rather than a lease or purchase of a partnership interest in the building as some competitors do.

Taylor hopes to benefit from the momentum in the area, including a new Texas MedClinic in front of Plaza North that opened last year, as well as St. David's North Austin Medical Center nearby. St. David's is a 652,000-square-foot, full-service hospital that last year completed an \$88 million expansion for a women's services center.

Momentum for medical office construction in 2011 will be the result of low vacancy rates for medical office space during the recession.

The medical office market's midyear vacancy rate in 2010 was 13.3 percent, according to the midyear Medical MarketScope, a report produced by **Gail O'Connor** of Austin-based real estate company Site Solutions Inc. The 13 percent rate is well below the midyear vacancy rate for non-medical office properties of 24.1 percent, according to CB Richard Ellis' midyear report, and O'Connor anticipates end-of-year numbers she's working on will show a continued low vacancy rate for medical office.

Land/Creek has been developing since 1993 and has developed, built and sold 15 commercial projects, totaling more than 250,000 square feet. Taylor's weathered a few local recessions while continuing to build, so real estate experts have said the company is set to reap the rewards of its gamble on the market.

"Land/Creek has done a lot of successful projects and are pretty smart about their risk and see the area's clinic and hospital could lead to a number of referrals to tenants at Plaza North," O'Connor said. "Also, we have a number of medical office projects announced, but doctors can't wait too long on a space if their practice is growing, so Plaza North could snap them up fast."

Next to Plaza North, 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. Cedar Bend is at least 30 percent leased, and Live Oak-Gottesman is waiting to reach 50 percent before it starts construction, CEO **Rob Golding** said.

"I see that area as the new hub of medical office development, next to the area near Seton in Central Austin, which is also seeing momentum," O'Connor said. "But it looks like Plaza North is jumping ahead first for speculative development and condo ownership."

Other area developers do have projects in the works, such as OnAir Development, which is about to start construction on a fully leased, 41,500-square-foot medical office project in Kyle.

Austin-based HealthCare Facilities Development Corp. is working on three projects, including a 70,000-square-foot medical office building in North Austin named Medical Oaks Pavilion III. The \$14 million project is at least 50 percent preleased, and its shell is under construction with delivery expected in February, said **Kent Ferguson**, president of HCFD.