

Given the Economic Downturn, Why Now is Actually a Great Time to Develop a Facility

9th Annual Orthopedic, Spine & Pain Management ASC Conference

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10:55 a.m. - 11:55 a.m.



INSTRUCTOR

John A. Marasco, AIA, NCARB
Marasco & Associates
Healthcare Architects & Consultants
475 Lincoln Street, Denver, CO
80203

Phone: (303) 832-2887

Fax: (303) 861-0760

Web: www.mahca.com

The down side - by the start of 2011

- January unemployment rates - some think these are conservative

	2006	2007	2008	2009	2010	2011
Full-Time Workers	4.7%	4.6%	4.9%	8.2%	10.5%	9.7%
Construction	9.0%	8.9%	11.0%	18.2%	24.7%	22.5%
Professional Services	6.5%	6.5%	6.4%	10.4%	11.1%	10.2%
Education & Health	3.2%	2.9%	2.9%	3.8%	5.5%	5.8%
Government	2.2%	2.2%	2.2%	3.0%	4.3%	5.0%

- The construction industry is the highest by far
- Some say this signals an industry depression

- Commercial Property Price Index
 - Was down ~45% over its 2007 high
 - Its lowest level since 2002
- Commercial Mortgage Default Rate doubled + some
 - Its highest level since 1993



The down side - by the start of 2011

- Architecture Billing Index had fallen to an all time low of 35
 - The previous low was 40 recorded in 2001
 - Anything less than 50 indicates a slowing industry
 - It has been below 50 since 1/2008
- Construction spending was down over its 2007 high
 - All construction spending down ~50%
 - Nonresidential construction spending down ~15% in 2009 alone
 - Expected to increase ~2% in 2011
 - At its lowest level in more than 8 years
- Physicians are effected too
 - From 2006 to 2008 they saw a
 - 9.9% drop in procedures
 - 11.3% drop in patient visits
 - 13% increase in bad debt



The up side

- Year-over-year super-sector employment growth - January data

	2006	2007	2008	2009	2010	2011
Construction	5.4%	4.5%	2.9%	-6.8%	-15.6%	-0.4%
Architectural	5.6%	5.0%	2.4%	-3.7%	-8.0%	-0.3%
Physician Offices	2.6%	2.2%	2.9%	1.3%	1.9%	1.2%
Outpatient Care	4.9%	3.6%	4.5%	3.0%	8.1%	4.8%
Hospitals	1.8%	2.0%	2.3%	2.1%	0.1%	0.8%

 - Healthcare is up while virtually every other sector is down
 - Some considerably
- The bureau of Labor Statistics projects from 2008 to 2018
 - Healthcare & social assistance will add ~4,000,000 positions
 - 772,200 of them in physician offices
 - 109,300 MD's, 106,500 RN's, 107,600 MA's & 248,700 support staff
 - only file clerks are expected to decrease
- According to Sg2 by 2019 outpatient services will increase by ~22%

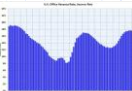
The up side

- Physicians are in the driver's seat
 - They just don't want to be - yet!
- Financing is available again, but banks want more
 - Is the size, scope & expandability of the development appropriate
 - Have the possible alternatives been examined objectively
 - What is the ASC's/practice's growth potential
 - Does the ASC/practice have other revenue sources
 - What are the physician owners ages and retirement plans
 - What is the ASC's/practice's profitability track record
 - What is the ASC's/practices recruitment & retention track record
- The ASC/practice owners & staff to bank with them
 - Deposit money in checking and savings accounts
 - They make money off your money
 - The more you invest in them the more they'll invest in you



The up side

- On the banks side
 - Down payments are up - 25-35% of the development down
 - SBA loans reduce this to 10-15% if you have time & energy
 - Personal guarantees by the owners are up - 125-135% of share
 - Appraisals are a little bit scary right now
 - Be careful
- On your side
 - Owner occupied healthcare facilities are great
 - Assuming your group is credit worthy
 - Interest rates are at historical lows - 5-7%
 - Cities, counties & states are offering financial assistance
 - 90% @ 3.75% for 20-years w/ a 5-year balloon
 - Shop around by initiating a RFP process to several banks
 - Local & regional banks are the most interested right now



The up side

- Construction costs are down (2009)
 - Nationally in 2009 they were down 7.3%
 - Seattle down 14.02%
 - Phoenix down 9.06%
 - Denver down 7.66%
 - Las Vegas down 7.40%
 - Honolulu down 6.98%
 - Washington DC down 6.93%
 - San Francisco down 4.87%
 - Portland down 4.79%
 - Boston down 4.21%
 - Los Angeles down 3.98%
 - New York down 3.56%
 - Nashville down .65%



The up side

- But not everywhere
 - Cincinnati is actually up .47%
- Property (land or existing buildings) acquisition costs are down as well
 - Commercial Property Price Index was down ~45% over its 2007 high
 - Huge deals can be found
 - Including foreclosures if you have the time & energy



Don't miss out on a good opportunity

- Strong-ish health-care market
- Historically low prices
 - Construction as well as architecture, engineering...
 - Financing rates
- It's the perfect storm but time is running out
 - AIA predicts a ~2.5% gain in 2011
 - Construction cost slides are slowing
 - Down only .5% in the last quarter
 - REIT's are buying
 - "Frankly, MOB is the only asset class where developers are finding any positive demand"
 - Jeffrey Cooper Executive Managing Director of Savills US
 - Watch out for inflation
- The pre-construction development process takes time
- Once the market rebounds you don't want to be at the back of the line



Construction costs

- Location within the USA
 - Southern central states - low cost
 - National average - (median cost)
 - Northern West & East coasts - high cost



	5,000 SF	20,000 SF	35,000 SF
New Therapy	\$173-(257)-342/SF	\$119-(176)-234/SF	\$108-(160)-213/SF
New Practice	\$181-(269)-358/SF	\$124-(184)-245/SF	\$113-(167)-223/SF
New Surgery	\$267-(396)-527/SF	\$183-(271)-361/SF	\$166-(247)-329/SF
Site Work *	\$6-(9)-12/SF	\$4-(6)-8/SF	\$4-(6)-8/SF
Remodel Therapy	\$86-(127)-169/SF	\$59-(87)-116/SF	\$53-(79)-106/SF
Remodel Practice	\$93-(139)-185/SF	\$64-(95)-126/SF	\$58-(86)-115/SF
Remodel Surgery	\$179-(266)-354/SF	\$123-(182)-242/SF	\$112-(166)-221/SF

- * 5 SF of site for every 1 SF of building
- Based on 1st quarter 2011 cost data

Construction costs

- Other construction cost drivers
 - Union towns
 - Temporary material shortages
 - LEED or "green" building technologies
 - Quality & esthetic appeal
- Architectural fees
 - 7-12% of the construction cost
- Property development fees
 - Impact fees, tap fees, water retention fees...
- Fixed, operating & tax (FOT or NNN) expenses
 - \$6-12/SF depending on location
- Construction techniques
 - Design/Bid/Build
 - Design/Build
 - or Design/Bid/Design/Bid/Build



Thank You, Any Questions?



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