IS IT TIME TO DEVELOP AN ASC?

PART 1: STRATEGIC AND FINANCIAL CONSIDERATIONS
Bruce Maller

PART 2: UNDERSTANDING THE DEVELOPMENT PROCESS
Jeffery S. Eckert, AIA
Stephanie Harvey, MBA

Financial Disclosure

Eckert Wordell is a full-service architecture, engineering and interior design firm that provides facility planning, design and ophthalmic consulting services on a fee basis to health care providers.

Developing an ASC: The Two Buckets

Facility Operations
Developing an ASC: The Two Buckets

Facility (Product)  Operations (People)

Session Agenda

- Vision, strategy and goals
- Financial requirements
- Go / No-go

- Design
- Construction
- ASC start up
Planning Survey Questions to Consider:
1. Have you completed an Operational Narrative defining the ASC goals?
2. What are your financial development goals?
3. Do you have capital to invest?
4. How much money are you willing to personally guarantee?
5. How will developing an ASC benefit:
   - The practice
   - The patient
   - Myself / my family
6. What is your biggest fear of not succeeding in this development?

Vision, Strategy and Goals

Ownership Models

Own / Self Develop:
- Physician ownership
- Physician and key staff ownership

Developer / Owner:
- Physician / private developer partnership
- Private developer / lease

Remember: The ASC is a tenant to the development.

How Big of a Building Do I Need?

Three things which affect the building size:
- Type of cases
- Volume of patients / cases
- Regulatory and accreditation requirements
How Big of a Building Do I Need?

Programming: Parts of an ASC
- Entry
- Administrative
- Pre- and post-op areas
- Surgical suite
- Staff areas
- Utility

Case Study:
2 O.R. ASC in 6,000 square feet

Financial Considerations: Ownership

Land / Property
Building / Construction
Site Construction
Professional Fees
Financing Costs

ANNUAL FACILITY COSTS
Property: How Much Land Do I Need?

Size of land is based on:
- Building footprint
- Required parking
- Required green space
- Civil/site requirements
- Local zoning requirements

Parking:
- Number of Parking Spaces = ((# Cases / Hour * Length of Stay) + (# Staff)) * 10%
- Area of Parking = (# of Parking Spaces) * (385 sq. ft.)

Green Space:
- Green Space = (Building Footprint + Parking Area) * Green Space Factor
  - Factor Range = 0.9 to 1.4

Total Land Required:
= (Building Footprint + Parking Area + Green Space)

Land Cost:
- Land values in San Diego range from $500,000 to $900,000 / acre
- Verify cost, single biggest LOCAL variable
Building / Construction Cost

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Cost Per Unit (SQ FT)</th>
<th>Unit (SQ FT)</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Shell and Fixtures</td>
<td>$1,000.00</td>
<td>x 6,000</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>HVAC</td>
<td>$500.00</td>
<td>x 6,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>General Concess</td>
<td>$300.00</td>
<td>x 6,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Site Development</td>
<td>$200.00</td>
<td>x 6,000</td>
<td>$1,200,000</td>
</tr>
</tbody>
</table>

Contingency: 10% = $1,850,000

Total Construction Cost: $18,750,000

Site Construction Cost

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Cost Per Unit (SQ FT)</th>
<th>Unit (SQ FT)</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance (SQ FT of building)</td>
<td>$20.00</td>
<td>6,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>10%</td>
<td></td>
<td>$12,000</td>
</tr>
</tbody>
</table>

Total Site Construction Cost: $132,000

Soft Costs

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Cost Per Unit</th>
<th>Unit</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Builders risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost to construct the building</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Soft Costs: $20,000
Financial Considerations: Ownership

- Land / Property
- Building / Construction
- Site Construction
- Professional Fees
- Financing Costs

Total Facility Costs

- Cost Per Sq. Ft. 2,501,857 $ ÷ 6,000 sf = 416.98$
- Rental Rate Cap Rate @ 8.00% = 33.36$

Annual Facility Costs: Rent

- Cap Rate:
  - San Diego approximately 8%
  - The actual rate will be dependent on the financing and "Cash on Cash" return investors require (risk vs. reward)
  - Varies by market value and location
**T/I Fit-up Construction Cost**

<table>
<thead>
<tr>
<th>Description</th>
<th>Total SF</th>
<th>Cost per SF</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Shell and Systems</td>
<td>6,000</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Interior Fit-up</td>
<td>6,000</td>
<td>$125</td>
<td>$750,000</td>
</tr>
<tr>
<td>Covered Canopy</td>
<td>350</td>
<td>$65</td>
<td>$22,750</td>
</tr>
<tr>
<td>Site Improvements</td>
<td>6,000</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td></td>
<td></td>
<td>$772,750</td>
</tr>
<tr>
<td>Contingency</td>
<td></td>
<td></td>
<td>$38,638</td>
</tr>
<tr>
<td>Tenant Improvement Allowance</td>
<td>6,000</td>
<td>$35</td>
<td>$210,000</td>
</tr>
<tr>
<td><strong>Total Construction Cost</strong></td>
<td></td>
<td></td>
<td>$601,388</td>
</tr>
</tbody>
</table>

**Soft Costs**

<table>
<thead>
<tr>
<th>Description</th>
<th>Total SF</th>
<th>Cost per SF</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultant Fees</td>
<td>811,388</td>
<td>10.00%</td>
<td>$81,139</td>
</tr>
<tr>
<td>Development Fees</td>
<td>811,388</td>
<td>0.00%</td>
<td>$0</td>
</tr>
<tr>
<td>Legal Fees / Other</td>
<td>811,388</td>
<td>2.00%</td>
<td>$16,228</td>
</tr>
<tr>
<td><strong>Contingency</strong></td>
<td></td>
<td></td>
<td>$8,114</td>
</tr>
<tr>
<td><strong>Total Soft Costs</strong></td>
<td></td>
<td></td>
<td>$105,480</td>
</tr>
</tbody>
</table>

**Financing Costs**

<table>
<thead>
<tr>
<th>Description</th>
<th>Total SF</th>
<th>Cost per SF</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Interest</td>
<td>10 months@ 7.00%</td>
<td></td>
<td>$20,617</td>
</tr>
<tr>
<td>Commitment Fees</td>
<td></td>
<td>0.50%</td>
<td>$3,534</td>
</tr>
<tr>
<td><strong>Contingency</strong></td>
<td></td>
<td></td>
<td>$2,415</td>
</tr>
<tr>
<td><strong>Total Financing Costs</strong></td>
<td></td>
<td></td>
<td>$26,566</td>
</tr>
</tbody>
</table>

**Financial Considerations: Rental**
Rental Cost Pro Forma

| Rental Category | Cost Per Sq. Ft. | Total Project Cost
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Lease Rate</td>
<td>$122.24</td>
<td>$733,434</td>
</tr>
<tr>
<td>Additional Lease Rate</td>
<td>$36.61</td>
<td></td>
</tr>
<tr>
<td>Utilities, etc.</td>
<td>$0</td>
<td>$219,650</td>
</tr>
</tbody>
</table>

Total Lease Rate: $219,650

ANNUAL FACILITY COSTS $T O T A L

Cost Per Sq. Ft. $2,501,857 ÷ 6,000 sf = $416.98

Rental Rate Cap Rate @ 8.00% = $33.36

Ownership Total Annual Facility Costs: $200,149

Own vs. Rent

ANNUAL FACILITY COSTS $T O T A L

Cost Per Sq. Ft. $733,434 ÷ 6,000 sf = $122.24

Financing Rate 6.0% @ 10 yrs

Debt 100% = $733,434

Equity 0% = $0

Base Lease Rate $20.00

Additional Lease Rate $16.61

Utilities, etc. $0

Total Lease Rate $36.61

Rental Total Annual Facility Costs: $219,650

Total Lease Rate: $219,650

IS IT TIME TO DEVELOP AN ASC? UNDERSTANDING THE DEVELOPMENT PROCESS

© 2015 Eckert WordeLL
Own vs. Rent: Pros

- Investment opportunity
- Equity requirements
- Control the design vs. a set of givens leading to compromises
- Vision of practice personality (branding)
- Single use facility limited market value
- Long term control own vs. lease
- Long term practice goals
- Personal guarantees
- Expense to ASC

Decision Process

- Gain consensus to move forward
- Finalize location site / building
- Draft legal documentation

Engage Project Team

Facility:
- Design professionals
- Construction group
- Developer

Operations:
- Owner representative
- Legal consultants
- Financial entity
- Accountant

© 2015 ECKERT WORDELL
Project Approach

Step 1: FIRST STEP ANALYSIS
- Go!

Step 2: VISION PHASE
- Design

Step 3: IMPLEMENTATION PHASE
- Construction
- ASC start up

THANK YOU. QUESTIONS?

IS IT TIME TO DEVELOP AN ASC?
PART 2: UNDERSTANDING THE DEVELOPMENT PROCESS

Jeffery S. Eckert, AIA
jeckert@eckert-wordell.com
Stephanie Harvey, MBA
sj.harvey@sbcglobal.net