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Docs double-dip via new MOB project SAN ANTONIO PHYSICIANS HAVE EQUITY IN BOTH THE BUSINESS AND THE BUILDING

By Jessica Griffith

When Specialty Surgery Center of San Antonio opened in 1998, its surgeons initially performed about 2,500 procedures annually.

PROJECT CASE STUDY

The practices within the center, however, have witnessed a Texas-sized boom. The practices now handle some 6,000 cases a year, mostly in ophthalmology and ear-nose-throat with some podiatry and pain management.

The 7,700 square foot center, with two operating rooms, no longer has enough space for the rapidly expanding surgical businesses.

“They built it to a volume where they needed a replacement facility,” says Gregory Cunniff, vice president of finance and treasurer of National Surgical Care (NSC) in Chicago.

NSC, which acquires, develops, and manages freestanding ambulatory surgery centers in partnership with physicians in their local markets, purchased an ownership stake in Specialty Surgery Center last year.

“Our goals were to find a new location, build a larger center and market it to new physicians,” Mr. Cunniff says. The company succeeded in all three.



National Surgical Care partnered with local physicians to develop the \$5 million, 12,000 square foot Specialty Surgery Center in San Antonio, Texas. Photo courtesy of National Surgical Care

Room to boom

“We were just stuck,” says Steven Blom, center administrator, in reference to the present building.

“There were no plausible options for staying in that location and expanding the business.”

The physician groups within the surgery center all were growing, in part because many surgeons are leaving hospitals for outpatient centers. This mirrors a national trend toward increased use of outpatient care for many routine procedures; the most common outpatient surgery is cataract surgery, a procedure that once required hospitalization for several days.

Hospitals simply are not as efficient as outpatient clinics, Mr. Blom says.

Specialty Surgery Center’s original location is in a medical office building (MOB) within a few miles of three hospitals. After a review of several sites, NSC and the physicians chose a building about one mile from the existing center.

The company acquired a 16,000 square foot MOB from the developer. About 12,000 square feet will be dedicated to the surgery center, and part of the remaining space is leased to a pediatric practice. The last chunk of space could be leased to another doctor or saved for future surgical center expansion.

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The site is located on a larger parcel and the developer plans to build additional MOB's on the property, Mr. Cunniff says.

Physicians get a share

Although NSC retains an undisclosed majority share in the Specialty Surgery Center, the physicians continue to own a minority share and the number of doctors in the partnership increased by 40 percent, to 20 physicians.

A number of non-partner physicians also practice at the center, Mr. Cunniff says, and a few of the owners are not tenants.

NSC owns and operates 23 surgical centers, including the San Antonio facility. Like many of its competitors, it prefers to hold little or no stake in the buildings it occupies.

NSC helped the doctors create a real estate partnership for the building. Shares in a private placement were offered to tenant surgeons and other doctors in the region, and NSC retained a 1 percent share in the new MOB.

The surgery partnership leases the space from the real estate partnership, and NSC provides accounting and tax support. The real estate partnership has no plans to sell the building.

"This fits perfectly with our strategy," Mr. Cunniff says.

"NSC is less interested in owning the real estate but extremely interested in the operations. Our specialty is the improvement and increased efficiency of operations.

"We're happy that physicians want to take an active role and be involved in the real estate."

The real estate partnership purchased the building in January and began construction in April. Specialty Surgery Center will occupy the space this fall.

Mr. Cunniff says the cost of the entire project is just short of \$5 million.

Dollars for the project came from San Antonio-based Frost Bank in the form of acquisition financing and a construction loan, plus 30 percent equity from the physician partnership.

Designed for surgery

Specialty Surgery Center partners worked with a design team to create an efficient surgery center that would provide comfortable flow for patients and doctors even on days with a heavy workload.

The center will open with four operating rooms and shell space for a fifth.

"We know how we work," Mr. Cunniff says.

"Since we had a clean slate, if we thought we needed to put the instrument washers in a certain place, we could do that. This lets us take it to the next level."

"There's a lot to be said for a facility you can plan and design as you like," Mr. Blom adds.

"I have more capacity to compete. I just topped off (in the old space) and now we will be able to fit in more cases per day."

Mr. Cunniff agrees.

"We now have a more mature center that fits our needs," he says.

He says company officials have discussed the expansion of the center into a full surgical hospital, meaning it could accommodate overnight patients, but no plans exist.

"The vast majority of our business is outpatient surgery," Mr. Blom says.

"We now have a facility where we can control our own destiny, whatever our needs may be in the future." □

Jessica Griffith is a business writer specializing in commercial real estate.

Specialty Surgery Center SAN ANTONIO, TEXAS

STATS

- Cost: About \$5 million in development and construction costs
- Size: About 12,000 square feet, including four operating rooms, with shell space for a fifth OR.

PLAYERS

- Owner: The outpatient surgery practice is owned by a partnership of National Surgical Care (NCS), Chicago, (majority owner) and the practicing physicians (minority owner). The real estate is owned by a partnership of surgery center physicians and other investors (99 percent) and NCS (1 percent). The real estate partnership leases space to the surgery practice and other tenants.
- Developer: National Surgical Care
- Architect: Polkinghorn Architects Group Inc., Austin, Texas
- General contractor: FJW Co., Arlington, Texas
- Lender: Frost Bank, San Antonio, Texas