

CBRE

Case Study: New Medical Office Development



Key Information

Client

Ohio
Gastroenterology
Group

Location

430 Altair Parkway
Westerville, OH 43082

Space

New build
42,000 SF

Contact Us



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Intern

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The team collectively has over 12 years
of experience specializing in
healthcare, dental and office properties

The Challenge

A large local gastroenterology group needed a 13,000 SF ambulatory surgical center to service patients in Westerville. Two problems arose when the practice group tried to buy a site on their own:

1. The City of Westerville was not supportive of the small building size. The City had earmarked the sites for large buildings of 40,000+ SF. Additionally, receiving a tax abatement would not be available for a 13,000 sf building.
2. The land prices for alternate smaller sites in the area carried a much higher price that would make the project economically infeasible.

The Solution

The gastroenterology group approached an experience medical office broker, Molly Leach at CBRE, as Molly had recently completed a new build project of 60,000 SF in the City of Westerville. They asked Molly how to purchase a site that could accommodate their 13,000 sf footprint at a reasonable price.

1. Molly proposed grouping together with other specialists in one larger building. This would increase the building to a size the City would support, as well as help to achieve a tax abatement and economies of scale in a construction environment experiencing rapid price inflation.
2. Molly created a proposed development flyer and a preliminary investment proforma. She also walked door-to-door through several medical buildings in Westerville to drum up several more building occupants. She successfully engaged 6 practice groups which included orthopedic, ENT, OBGYN, dermatology and urology. Of the 6 initial practices, three made it to project completion for a total of 4 tenant occupants.
3. Molly recommended that the four practices solicit bids from three different developers to make sure the offer to develop the site was the most competitive in the business.

The Outcome

1. The four practices were able build a 42,000 SF 100% pre-leased building, and the project was able to achieve a 65% 12-year tax abatement
2. The ~30 physicians were able to negotiate an 80%/20% ownership split with the developer, so the physicians were able to maintain vast majority ownership. Typically, developers require 50% ownership, so a 20% split was extremely favorable to the physicians.
3. The physicians did not have to personally guarantee the mortgage or sign the note. We were able to negotiate that the developer would take 100% of the risk of guaranteeing the mortgage on the construction project.
4. The physicians controlled the terms of the operating agreement regarding voting rights for point of sale or refinance, physician retirement, etc.
5. The physicians were able to realize a 15%-25% annual cash on cash return over a 15-year period while keeping rents low at \$17.95 NNN and have a \$65 PSF tenant improvement allowance for interior construction.