

# Slump, what slump? Healthcare construction booming in Western PA

**By Daniel Casciato**

Having worked in the healthcare construction industry for the past two decades, Bralynn Newby sees a huge shift in how care is delivered and how space is used.

"It's more expensive to operate and maintain space, and advances in technology have changed business models," says Newby, a project manager experienced in healthcare construction and corporate facility planning in Sacramento, Calif. "With the advent of electronic medical records and digitized screening, the infrastructure required to support it has grown exponentially."

Newby adds that shared jobs and telecommuting is reducing the amount of private offices required, and a team approach to care delivery changes the row of offices along a corridor traditional model to more open work/meet spaces.

"Green building practices and a focus on wellness and wholeness has revolutionized the way we build, as well as the look and feel of the spaces we build," she says. "Healthcare also competes more for market share in this economy and increasingly savvy culture. Our facilities have to look great, cutting-edge, like we know what we're doing and we're glad you came."

Despite the economic woes, credit crisis, and impending healthcare legislation, healthcare construction projects in Western Pennsylvania totaled over \$330 million last year, according to the Master Builders' Association of Western Pennsylvania. Also, after an additional 17 new centers were built between June 2008 and May 2009, the Pennsylvania Health Care Cost Containment Council reports that the Commonwealth is now home to 261

ambulatory surgery centers—quadrupling what it had last decade.

In Western Pennsylvania, as in most of the country, medical office buildings (MOB) and ambulatory surgery centers construction is one of the more appealing types of real estate development. Thomas M. Korpiel, director of Pittsburgh-based Integra Realty Resources, attributes this to an increased demand in outpatient services,



attempts to provide convenience for patients, advanced medical technology, restricted insurance reimbursements, as well as more physician partnerships and health service groups expanding into areas outside the hospital centers and developing relatively small- to medium-size office buildings.

"While new MOB construction has been stymied in the past year due to the lack of available debt capital, it

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still remains an appealing investment," he says.

CoStar, a real estate data service in the Pittsburgh region, reports an MOB occupancy level of 93.5 percent as of the current quarter, compared with the Pittsburgh conventional office building occupancy rate of 89.7 percent. It identifies about seven million square feet of medical office space in the Pittsburgh market, an increase of more than 600,000 since the beginning of the decade.

"Some of this additional space includes new construction, while the remaining inventory includes older conventional office space converted for medical office use," says Korpiel. "Older MOBs, even those built in the 1990s, are upgraded with state-of-the-art medical technology and are being repositioned in the market."

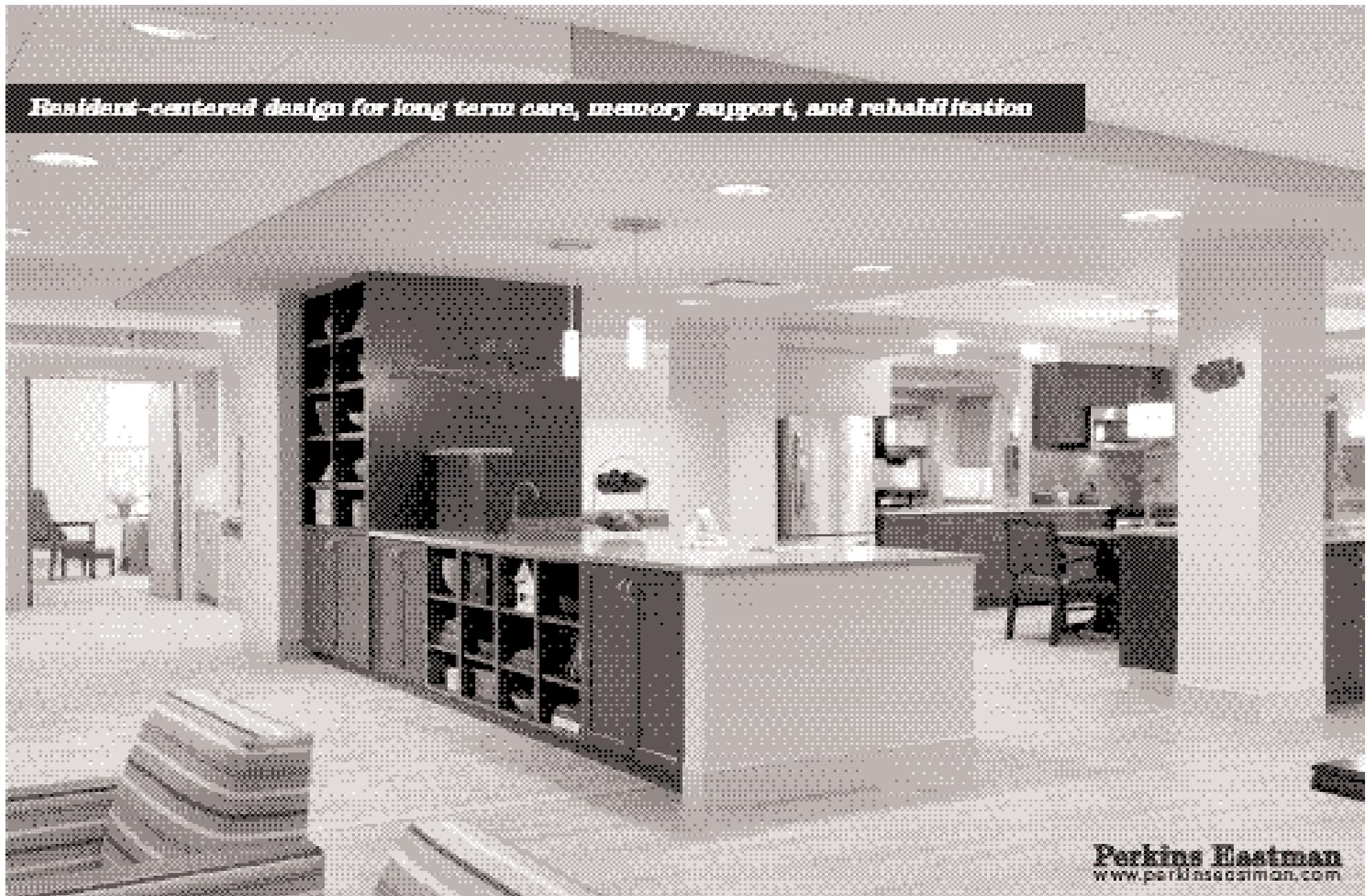
### HEALTHCARE CONSTRUCTION MARKET REMAINS HEALTHY

This is great news for builders such as Wexford-based Landau Building Company.

"Healthcare construction has not experienced a downturn in Western Pennsylvania, in my opinion," says Steve Bishop, senior project manager for Landau. "I see the near-term future promising."

Healthcare facilities in Western Pennsylvania are becoming outdated in two ways. First, the physical structure, such as air conditioning and heating, is wearing out. Second, there is change in healthcare delivery systems and new technology, and changes in the expectations of patients, their families, and their physicians. These factors

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*Resident-centered design for long term care, memory support, and rehabilitation*

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have caused organizations to examine their existing facilities and either update what they have or build new. Another key factor is demographic changes. More people are moving to the suburbs and many hospitals want to be closer to their populations and have added satellite facilities to their building stock.

Landau recently worked on the new Heritage Valley Beaver Emergency Department Auxiliary. The \$19 million addition and renovation project included a 45,000-square-foot, three-story addition at Heritage Valley's Beaver Campus. The new space includes: a new lobby; three endoscopy rooms; a fluoroscopy room; 42 exam rooms; advanced medical gas delivery systems; and complex custom HVAC equipment.

Landau is also currently remodeling the former emergency department into a new 11,000-square-foot Cardiac Catheterization Lab. The expansion was necessary because Heritage Valley has outgrown its 30-year-old emergency department.

"They're expanding to accommodate the number of annual visits," says Bishop. "They also want to provide better patient care and better working environment for the staff."

Heritage Valley is not alone in this endeavor. The Department of Veterans Affairs VA Butler Healthcare facility, which serves over 18,000 veterans throughout Armstrong, Butler, Clarion, Lawrence and Mercer counties; and parts of Ohio, has invested \$8.8 million in stimulus dollars on its 88-acre campus to improve and maintain its currently expanding 485,000-square-foot infrastructure including boilers, water system, electrical and HVAC improvements, sanitary and storm sewer refurbishments, and energy conservation.



VA Butler Healthcare is also actively working on the design and construction of a 60-bed Community Living Center (CLC) (\$6.5 million), and a 56-bed domiciliary (project bids not open yet), both of which are the first new structures built there since 1938. The CLC will feature a transitional care model, meaning a community setting with private rooms and baths. The domiciliary will be more akin to an apartment instead of a dormitory setting.

"For some veterans this is the first time to have such a home," says Jeffrey Heiger, PE, CEM, chief engineer at the VA Butler Healthcare facility. "The VA has made the commitment to continually improve the veterans' experience and satisfaction through program improvements and evolving patient care models. Our infrastructure project continually makes the existing space fit that model, and the new construction, obviously, is geared toward providing the best care possible with the improved space layout and accessibility to care."

Last December, VA Butler Healthcare also completed work on a new Community Based Outpatient Clinic in Cranberry Township in partnership with Valor Healthcare, which will provide primary care, lab, prescription and radiology services, as well as women's healthcare, preventive health and wellness programs, and behavioral health services.

## HEALTHCARE DESIGN AND CONSTRUCTION TRENDS

Today, the biggest trends in healthcare design and construction are a movement toward specialized facilities and a greater adoption of sustainable practices. There has also been a reduction of patient beds in hospitals, including the elimination of beds in existing facilities, as well as fewer beds being included in new facilities.

"In addition, there is a greater emphasis on evidence-based design in the planning process, and a greater emphasis on the comfort of patients and their care partners," says Timothy Sean Black, a LEED AP (Leadership in Energy and Environmental Design Accredited Professional), managing director for AE Design, Inc.'s Seattle regional office. "Aside from the aging population, perceived and functional obsolescence has contributed to the upswing in healthcare construction."

In a society with ever-increasing mobility, Black says healthcare facilities are competing in an open market for patients.

"Being perceived as providing the best care in the safest and most comfortable setting is critical to this competition," he says. "In addition, they must do so in a bottom-line driven environment, where providers must do more with fewer dollars. This is forcing many healthcare facilities to in effect retool in order to become more competitive and efficient."

Martin Valins agrees. "We're now in a financial outcome model," says Valins, a principal in the Philadelphia office of Stantec, an Edmonton, Alberta-based architectural firm that has designed hospitals across Pennsylvania. "The healthcare construction industry had a perfect storm: an economic recession and at the same time, some level of 'wait and see' in regards to impending healthcare reform. As this debate continues, providers are cautious in proceeding with their programs. The number one priority is still the benefit to the patient but that has to be connected to making sense to the patient financially."

What better way to improve patient care and save money than investing in green technology? Building a green facility is healthier for the patient and saves on energy costs for the healthcare organization. Incorporating sustainable features was important

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to Humility of Mary Health Partners in Youngstown, Ohio, which recently built a radiation oncology center. It designed its new facility to become LEED-certified.

"Being a faith-based organization one of our missions is to be good stewards of our environment, says Wayne Tennant, vice president of Support Services for the organization. "So certainly, developing processes and efforts that speak to that is extremely important to us. Whether that's basic recycling efforts, how we utilize and purchase materials, or how we consume our energy. An opportunity to build a building that can be all of those things in one package from the ground up is certainly in line with our values and our mission."

With Humility of Mary Health Partners dealing with several aging structures, Tennant expects it'll have to do more extensive renovation or expand new facilities that have been built recently.

His facility's 14,000-square-foot radiation oncology center was engineered around Elekta Volumetric Modulated Arc Therapy (VMAT), the world's most advanced radiation therapy technology. Elekta VMAT is a new treatment option for cancer patients and promises to significantly improve patients' experience and the quality of care. The new technology reduces the time required for radiotherapy sessions to five minutes or less, while giving the ability to treat targets more aggressively than ever before.

Sustainable design is always included in every project that VA Butler Healthcare initiates as well. It routinely set goals for the use of recycled materials in project designs, and also tasks contractors to recycle old materials that used to be removed and land filled.

"We monitor our success with this, and continually try to improve the ratio of recycled/non recycled materials used," says Heiger. "We also focus a lot of attention to energy conservation, looking at minimizing our cost/square foot, and also the MMBTUs/square foot, which aren't always the same thing. We currently have projects to install energy efficient boilers and chillers, and a window replacement projects as well to highlight a few."



## CHALLENGES FACING HEALTHCARE FACILITY MANAGERS

Two key challenges facing healthcare decision makers are financing and expertise. A building project can be a substantial undertaking, so many decision makers find it beneficial to engage the services of a program manager or developer early in the project, who not only can assist in the design and construction, but its business planning, financing and acquisitions as well.

"This takes a substantial load off of existing staff, which not only may not have sufficient capacity to oversee a project, but may not have sufficient experience, either," says Black. "Whatever path the decision maker takes to the completion of a project, it's important for them to get their design or construction professional involved early in the process."

According to Black, changes to healthcare construction mirror changes to the construction industry as a whole. Healthcare facility administrators have new programs and practices at their disposal allowing for deeper design planning, greater precision in construction, and better communication and collaboration amongst team members.

"It's important for administrators to educate themselves with regard to best practices in the construction industry, in order to advocate the delivery model with the best outcome for their project type, rather than falling back on dated methodologies," he adds.

For Ken DeFurio, president and CEO of Butler Health System, the greatest challenge faced by his organization was access to capital and tax-exempt bonds.

"Just at the time we were ready to go to the market, the market collapsed and there was no debt being sold," DeFurio says. "We were already under construction, using cash reserves to pay for it. A year ago when it was time to go to the bond market there was no credit available anywhere. Nobody could have anticipated that we'd be dealing with Wall Street the way we were."

Ultimately, Butler Health System received the capital it needed to construct a 200,000-square-foot new patient tower for Butler Memorial Hospital. Construction of the new patient tower is scheduled for completion this summer. Fifty-seven beds were added as well as a new entrance, and the facility will include a technologically advanced

education center and auditorium, a new chapel, coffee bar, outpatient pharmacy, durable medical equipment, and more. Access to the tower will be from a new entrance that comes off of an entirely new access route to the campus—a new serpentine driveway coming directly off Route 68, eliminating the need for vehicles to access the hospital through narrow neighborhood streets.

Total costs will be about \$152 million. About \$126 million will be funded by new money issuance and \$19 million will be funded by the hospital's existing cash reserves. The remaining \$7 million will be raised in its capital campaign.

Cost will always play a major factor in an organization's decision on whether to renovate or build. Valins says that the riskiest and costliest option is to do nothing.

"To plan for the future is to be sure that you're in alignment with your market and your mission," he says. "To do nothing in the face of the inevitability of change is to take a reckless gamble with history."

**TIPS AND RECOMMENDATIONS**

A critical element in construction, whether new or renovation, is to assemble your team together as early in the process as possible.

"Choosing an architect and general contractor early on enables the owner to know the costs as the project is being designed," says Joseph A. Massaro III, president and COO, Massaro Construction. "It lends itself to have proactive discussions regarding design elements and green initiatives as well as pre-qualifying major subcontractors to ensure the subs are capable of completing the project on time and within budget."

Massaro has worked on a number of construction projects for UPMC including: UPMC Shadyside Catherization Lab Renovations (completed in 2009); Western Psychiatric Institute, Merck Unit (not started yet); UPMC Cancer Centers; UPMC Horizon, Shenango Campus (currently in preconstruction); UPMC Magee Women's Research Institute Addition and Renovations; and UPMC Cumberland Woods Senior Living.

Maintaining the quality of care for patients throughout a renovation project in an occupied environment is also crucial. "It is imperative to know your customers needs so that we can build a more efficient effective working environment," says Massaro.

Heiger recommends starting the planning cycle as early as possible; establish stakeholders; meet socioeconomic goals; report regularly to your facility management group; work from a strategic plan that includes coordination of funding, design, construction and strong project scopes—all while allowing care to continue; and finally to collaborate, schedule, and move forward on decisions.

"I firmly believe that none of us is as smart as all of us, and a collaborative effort brings success, and minimizes any subsequent changes to the contract," he says.

DeFurio would add to do your homework and understand what best practices look like as you're designing your facility.

"It requires studying and learning from others," he says. "You may build a new facility like this once or twice in a career. Since it's not something you do often, I strongly suggest that you go to the outside and work with construction managers who do this kind of work all of the time. It's what they do and it is their area of expertise."

Finally, DeFurio says, be as decisive as possible upfront. "Define the project, define the programming inside the building, define your budget and really stick to it. If you're making changes once those decisions have been made, then it becomes far more expensive to make in the midst of construction versus doing it proactively and upfront before you ever stick a shovel in the ground."



**THE FUTURE OF HEALTHCARE CONSTRUCTION**

In the foreseeable future, there are two challenges in the Western Pennsylvania healthcare construction market. Healthcare reform may have profound implications on the money people are willing to spend on brick-and-mortar facilities.

"Also, in the near term are the challenges that relate to the 2007-2009 recession," says Jeff Burd of the Master Builders' Association of Western Pennsylvania. "The region's larger hospital systems are nonprofits and the reduction in market value of investments cut the amount of working capital available for construction. Funds distributed as part of the American Recovery and Reinvestment Act that supported research were insufficient to offset this, and most of those funds were sent to the educational side of healthcare, which was a benefit to the University of Pittsburgh or Hershey Medical for example, but did little for clinical advancement."

While the region's demographics and the regional makeup supports a long-term expansion of medical facilities and the region is well-positioned to respond to any increased investment in research, regardless of the clinical specialty or technology, Burd expects for at least two years, the lingering financial difficulties from the recession and the uncertainty of the long-term solutions to reimbursement for services will keep the regional healthcare systems from investing to the degree they did in the last five years.

Whether or not the construction boom continues, DeFurio says that healthcare

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organizations should be careful not to duplicate services.

"There needs to be some rational thought brought to the process so facilities are not being built simply in the spirit of competition versus a true community need," he says. "Ultimately healthcare costs are going to be managed and controlled with healthcare reform. Because facilities are very expensive and there are limited healthcare dollars out there, I think we need to get better at managing those resources as time marches on."

For more information, visit:

- Integra Realty Resources ([www.irr.com](http://www.irr.com));
- Landau Building Company ([www.markslandau.com](http://www.markslandau.com));
- VA Butler Healthcare ([www.butler.va.gov](http://www.butler.va.gov));
- Heritage Valley Beaver ([www.heritagevalley.org](http://www.heritagevalley.org));
- AE Designs ([www.ae-design.com](http://www.ae-design.com));
- Stantec ([www.stantec.com](http://www.stantec.com));
- Humility of Mary Health Partners ([www.hmpartners.org](http://www.hmpartners.org));
- Butler Health System ([www.butlerhealthsystem.org](http://www.butlerhealthsystem.org));
- Massaro Construction ([www.massarocorporation.com](http://www.massarocorporation.com));
- Master Builders' Association of Western PA ([www.mbawpa.org](http://www.mbawpa.org)).

\* The chart below shows the volume of hospital projects in 2000, 2005-2009 and a forecast for 2010.

Year	# of Projects	Contract value
2000	52	\$ 53,192,373
2005	85	\$ 332,819,745
2006	92	\$ 227,386,557
2007	67	\$ 236,231,904
2008	84	\$ 301,580,705
2009	74	\$ 330,130,445
2010	40	\$ 120,000,000

\* From the Masters Builders' Association of Western Pennsylvania

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