



# Real Estate Considerations Of Ambulatory Surgery Centers

Relationships. Results.

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**dm** DAVIS MOORE  
HEALTHCARE

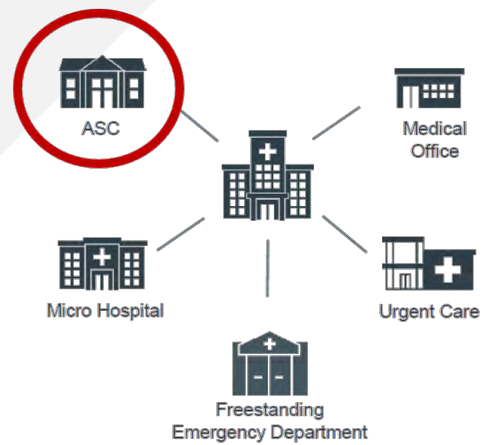
# — Ambulatory Surgery Centers are an Essential Part in the Deployment of Ambulatory Networks

One of the growing trends in health care systems nationwide is the emergence of Ambulatory Surgery Centers (ASCs) that provide patients and payers with more accessible and lower-cost treatment options for many procedures.

These ASCs are a key part of the ambulatory network model that decentralizes patient care, and distributes treatment options away from a centralized solution to a network of delivery sites that include ASCs, medical office buildings (MOBs), urgent care facilities, micro hospitals, and free standing emergency departments, each of which offers unique benefits to the enterprise and the patient. Ambulatory network facilities allow wide choices in location, more favorable and ample parking, easy wayfinding and a less foreboding atmosphere for the patient.

## Care Close to Patients

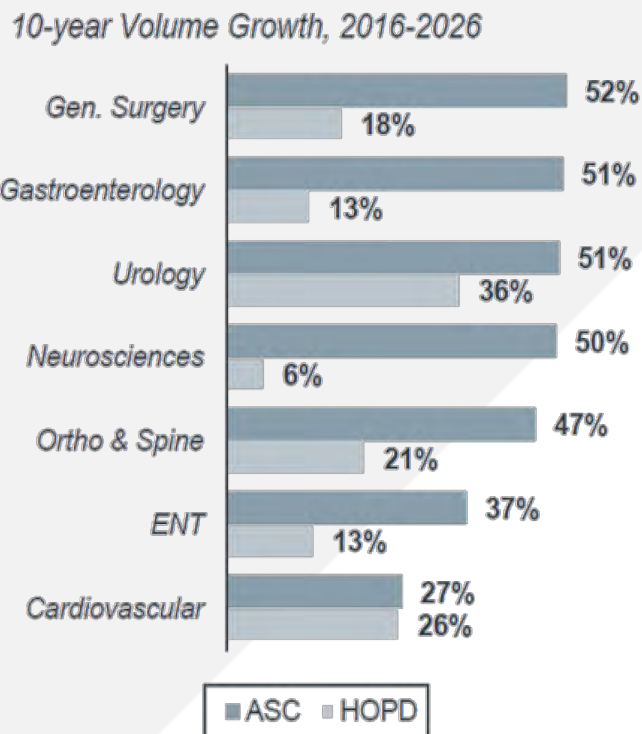
The ambulatory site expansion away from the centralized campus places care closer to the patient, while extending the footprint of the enterprise and growing the brand. Convenient locations and consistent branding are not only drivers for growth, ambulatory networks also provides greater flexibility in the real estate portfolio, quicker time to market and better utilization of capital. Site selection options are more numerous, the planning/design/permitting/construction cycle shorter, and occupancy quicker when contrasted with that of centralized campuses.



Source: Advisory Board Interviews and analysis

**This distributed network model not only provides patients with more accessible treatment options and reduced costs, it also offers better utilization of capital, greater brand visibility, and shorter response times to changing demographics in the market space.**

The projected 10-year growth (2016 to 2026) in procedures performed at ASCs ranges from double to triple the growth at centralized hospital outpatient departments (HOPDs), including a four-fold growth in GI, tripling of ENT and general surgery, and nine-fold expansion in neuroscience procedures.



Source: "Number of Ascs per State," Advancing Surgical Care, June 2016; Advisory Board Interviews and analysis

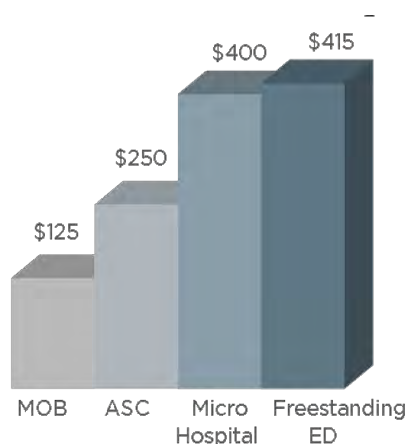
Almost all of the Davis Moore health system clients are seriously considering an increasing reliance on ASCs as part of their ambulatory networks.

# — ASC Real Estate Considerations

There are similarities and differences in the approaches to such things as site selection, construction methods, infrastructure requirements and mechanical systems for each facility type. In addition, some facilities lend themselves to shared resources that permit flexibility and growth of the facility.

ASCs and MOBs share many characteristics and features and are perhaps the most similar when considering options for an ASC. There are differences and intricacies between the two that should be considered during the early planning stages.

- How do the performance requirements differ for ASCs and MOBs?
- What are the infrastructure differences between ASCs, MOBs and other ambulatory facilities?
- What are the best site options for ASCs?
- How can ASCs and MOBs be integrated into the same facility?
- How can physician partners benefit from synergies with real estate partners?
- Can a health system create best-in-class ASCs at a lower cost than hospital space?
- What floor plate sizes work best for ASCs?
- What is the correct ratio of recovery beds to operating rooms? Does it change for different procedures?
- What are the opportunities for expansion?



ASCs require more capital than MOBs, but require less than hospitals and freestanding emergency departments.

Source: Advisory Board Interviews and analysis

# Comparing ASC & MOB Infrastructure Requirements

ASC infrastructure requirements are more stringent than those of MOB, as the following table demonstrates. The differences in mechanical, electrical, and plumbing systems, for example, are higher for ASCs than MOB. A new ASC will cost between \$450 and \$550 per square foot for the physical structure, depending on the size of the facility and the type of procedures are performed.

	Medical Office Building	ASC
<b>Ceiling Height</b>	14	16.5
<b>Electrical Services</b>	<ul style="list-style-type: none"><li>• Approximately twenty (20) watts per square foot</li><li>• Generator not required</li></ul>	<ul style="list-style-type: none"><li>• Approximately forty (40) watts per square foot</li><li>• Generator backup required</li></ul>
<b>HVAC</b>	<ul style="list-style-type: none"><li>• Approximately 1 ton per 350-500 square feet</li><li>• Usually conventional roof top equipment</li></ul>	<ul style="list-style-type: none"><li>• Typically more tonnage required</li><li>• Usually chiller style system with redundancy and filtration</li></ul>
<b>Ambulance Access</b>	<ul style="list-style-type: none"><li>• Sometimes required</li></ul>	<ul style="list-style-type: none"><li>• Always required</li><li>• Preferable to have separate private access for ambulance</li></ul>
<b>Fire Code</b>	<ul style="list-style-type: none"><li>• Typically standard office code</li></ul>	<ul style="list-style-type: none"><li>• Potentially different exit ratings</li><li>• Upgraded fire alarm</li><li>• Base building panel requires more expansion ability</li></ul>

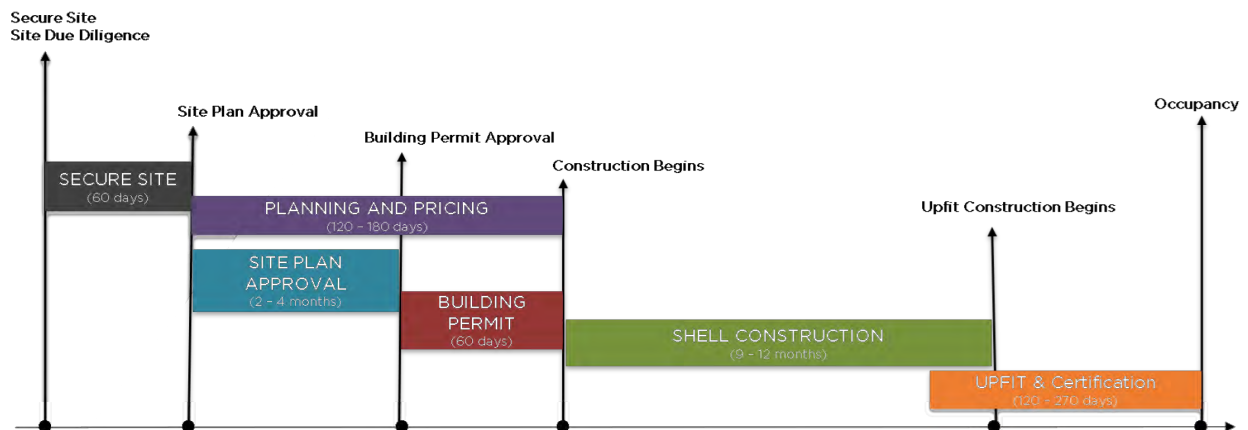
# Budget Considerations \ When Considering an ASC

<b>Land Costs</b>	<b>Construction Costs</b>
<p>These costs include all outlays associated with site selection and acquisition of the building site. Generally, these costs range from \$20 to \$100 per square foot of buildable space and compromise up to 15 percent of the budgeted cost for the new facility.</p>	<p>These costs include site preparation and other civil work, building construction for the facility and parking deck, landscaping, parking lot. This category ranges from \$130 to \$190 per square foot for the shell building and \$30 to \$60 per square foot for parking decks. These costs are highly variable depending on the site, and often carry the most risk on a project. This is a major consideration when selecting a site.</p>
<b>Upfit Costs</b>	<b>Soft Costs</b>
<p>This includes the costs associated with interior tenant improvements to the shell building to create the ASC work environment. Property owners typically provide an allowance for this work, but it seldom covers the cost for ASC-level finishes. Planners should expect upfit costs for an ASC to range from \$200 to \$330 per square foot, not including furniture, fixtures, and equipment.</p>	<p>This category covers all costs not associated with the acquisition of land and construction of the physical facility. They include architectural, engineering, financing, development fees, permits, entitlement fees, legal, and commissions.</p>

# — The Development Cycle

The cycle from site selection to occupancy can vary in length depending on a number of factors, including complexity of site selection and acquisition to weather that can hamper site preparation and construction. The steps to occupancy follow a normal sequence of stages, as shown in the following graphic.

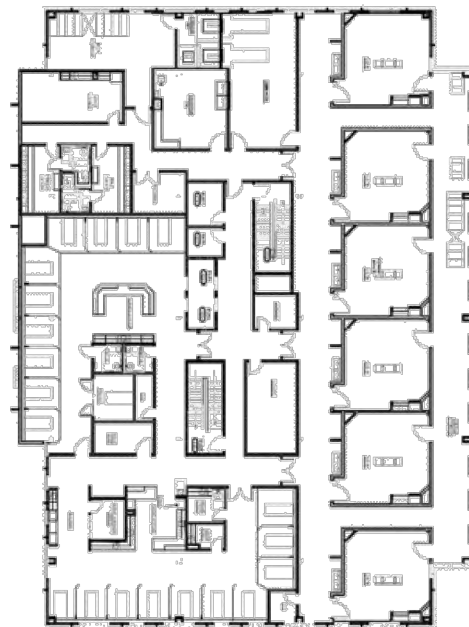
## Sample Timeline of Delivery





## ASC Project in Durham, NC

This project consists of a ground-up development of a new ASC in Durham, NC, and combines an ASC, medical office space, and an orthopedic urgent care facility in a single structure. It is a patient-friendly, 35,000 square foot, two-story facility with easy access, ample parking, and simple wayfinding in a suburban setting. The building is jointly owned by Davis Moore and a physician partnership that allows individual physicians to invest in their own success.





## — About Davis Moore

Physician practice groups and health care systems turn to Davis Moore to provide assistance in strategic planning and development of ambulatory network growth. Over the past 20 years, Davis Moore principals have provided leadership in more than 300 medical facility transactions totaling more than 4 million square feet. We understand the issues and opportunities that affect today's health care providers and can tailor ambulatory real estate solutions to meet each provider's specific goals.

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