Leveraging Your Capital Construction Costs through Effective Facility Planning(4)

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"Every money spent on property is money less available for accomplishing your mission."
"Property is not your core business, money spent maintaining and developing your real estate is an expense to your organization and reduces your operating capital."

Those two statements are typical throughout the business world and set the stage for CEOs, COOs, and many times CFO' s to underestimate the vale their property contains and how it may contribute to the success of their core business.

For example:

- How your staff/employees treat a building reflects directly on how much it costs to maintain. If the people pushing carts through patient area are not careful, they will damage walls.
- Deferred maintenance reduces the reliability of your facility. If steam traps, power panels, circuit breakers are not properly maintained, the chances of system failures increase. The loss of heating, cooling, or power greatly impact the ability of your patient care providers to do their job.
- Additional equipment to provide expanded or improved patient care, ie. Imaging equipment, will increase the operational costs of your facility. If the additional cost of power, the added maintenance required on electrical distribution systems is not considered in the original calculations for return on investment, these new hidden costs become the domain of your maintenance department to control.

If "first cost" for construction of buildings is important, so are the costs to operate and maintain a building. The cost of occupancy for any facility which provides healthcare services far exceeds first costs. Generally over the life expectancy of a hospital, the cost to construct the original building will only represent 10-20% of the cost to operate and maintain that building.

The financial benefits are significant when implemented over the life of a building. Properly implemented, the property management process attacks first cost, but focuses on the operational costs of a facility over its life. The core to a property management process is planning, planning, and planning. The people responsible for your real estate have to understand what they have, what it can be developed into and how it is to be used, and how it can be re-merchandized into a new use. Some simple examples of how a property management process can improve your profitability are:

* LOCATION

The location of your property has an impact on your long term profitability. When you are purchasing your new site, your property management should determine:

- The growth of the community you are serving. Is the site in an area where the population will be when the initial phase of the building is complete? The City master plan should help in determining where the population will grow.
- Are the community services extended to the site you plan to purchase, ie. Utilities, roads, and fire protection? If these services are not in the area, added cost will be incurred by someone to extend them to your site.
- How your plan for the property can support other community services and commercial development? Are there strategic partners your organization can join forces with to reduce your site development costs, thereby increasing the value of your land?

* SITE DEVELOPMENT

A master plan for your site is crucial to both your initial success and long term profitability.

- Zone your property the way a developer would a shopping center. This will maximize the utilization of your ground and prevent costly mistakes of locating buildings in an area which will prevent your long-term development plans.
- Do you control enough property to make your intended use profitable? The best time to control your property is in the beginning. If sufficient cash is not available to buy the land you feel necessary, can you control adjacent parcels with purchase options?
- Look at how your facility infrastructure can be developed to support retail / office buildings on your site. By planning for expansion, initial costs can often be recaptured when developing future buildings.

* BUILDING LOCATION

How you locate your building on your property can have huge impacts on the cost to operate it.

- What are the prevailing winds and how can you orient the primary entrances, such as Emergency, away from these winds?
- Can we locate drives in a way to minimize snow

removal?

- Can we locate retention ponds to minimize their impact on development?

* EXIT / RE-MERCHANDISING STRATEGY

We all know it's cheaper to renovate a space than it is to build it new. Additionally, building age in a way that they may not be able to accommodate the functions of the business occupying them. Owner's need to recognize when to dispose of property and have a plan to do so. However, when developing new property, in your planning process you can greatly extend the life expectancy of the building by addressing:

- What alternate uses can the building be used for. By considering this, the Owner will greatly enhance the value of the property if and when they decide to sell it, and becomes the exit strategy for the property.
- What gives us greater flexibility in re-merchandising the building? Added floor to floor height almost always is value-engineered out and is one example of poor planning. Consider the following during the development of your building.
  - Keeping the building to standard geometric forms, the space can be changed and/or added to more cost effectively. It's much easier to expand a building that is square than one that is round.
  - Planning as if you are landlocked. BY condensing your building foot print and forcing the space vertical, you minimize travel distance of your customers from their car. This concept also improves logistic considerations for material distribution and service relationships between departments, if you do expand the footprint.
  - Zoning your property for expansion and development. Show on the site plans where future development might occur and plan for this development.
- The development of your energy plant with business focus in mind. NO one should be able to produce conditioning and distribute power cheaper on your site than, you, the Owner. Take this concept to the extent you leverage your capital investment to become a utility provider to the acute care facility, as well as future developments of medical office buildings and other such support facilities.
- Expansion and improvement of your infrastructure to accommodate future growth. By consolidating your steam and power in one location that can grow as the building grows, you reduce staffing and costs for services in the future.
- The plan for how space can be renovated into something else. By planning for change, you simplify and reduce the costs of changing business functions of space in the future. This allows the Owner to respond to changing market conditions, improvements in technology and patient care procedures more quickly and at lower costs than if they had to build an addition or renovate to accommodate these changes.

Summary

Many of our hospitals are being abandoned because they can no longer meet the current building codes for conditioning or functional requirements for services. These two reasons can be refined down further to one basic problem, the building structure. The building structure as designed does not allow for new utility distribution and/or the structural frame prevents efficient reuse of the space for current processes. The structure of a building generally represents less than 20% of the cost of a building. Yet, we tend to let this first cost determine flexibility and life expectancy of our facilities. Imaging if we spent an additional 1% on a building structure to provide higher floor to floor dimensions or the ability to expand a facility vertically rather than expand the facility horizontally. That additional first cost increases the potential life expectancy of your building generally by more than 10 years. This represents a huge added value in your property for you to use in controlling market share, reducing future costs of building and renovation, and simplifying your future building development processes.