

A G E N D A



Recommendation for Council Action (Real Estate)

Austin City Council

Item ID:

65663

Agenda Number

38.

Meeting Date:

December 15, 2016

Department:

Office of Real Estate Services

Subject

Authorize the negotiation and execution of all documents and instruments necessary or desirable to acquire from HEALTHSOUTH OF AUSTIN, INC. its interest as tenant of approximately 1.382 acres of land at 1215 Red River Street, including rights to improvements, and title to approximately 0.349 acre of land and improvements located at 606 East 12th Street, for an amount not to exceed \$6,500,000. (District 1) (Related to Items 19 and 20)

Amount and Source of Funding

Funding in the amount of \$6,500,000 is available in the Fiscal Year 2016-2017 Capital Budget of the Office of Real Estate Services.

Fiscal Note

A fiscal note is attached.

Purchasing
Language:

Prior Council
Action:

June 23, 1988 - Council approved the execution of a fifteen-year land lease, plus twelve five-year extension options, with Rehab Hospital Services Corporation for the property at 1215 Red River.
August 5, 2004 - Council amended and terminated the Brackenridge Urban Renewal Plan effective January 1, 2005, thereby removing the restrictive covenants on the property.

For More
Information:

Lauraine Rizer, Office of Real Estate Services, (512) 974-7078; Megan Herron, Office of Real Estate Services, (512) 974-5649.

Boards and
Commission
Action:

MBE / WBE:

Related Items:

Additional Backup Information

A subsidiary of HealthSouth Rehabilitation Corporation, HealthSouth of Austin, Inc. (HealthSouth) has offered to sell the City of Austin (City) its interest as tenant of a 87,744 SF hospital facility at 1215 Red River where the City is the landlord and owner of the underlying property and its 62-space parking garage at 606 East 12th Street owned in fee simple by HealthSouth for \$6,500,000. The building is adaptable to a number of uses and the land is highly attractive in the market. Acquiring the property will allow the City to repurpose or redevelop the combined site and shape the future development of the Northeast District of Downtown. The Office of Real Estate Services (ORES) recommends acquisition of the property at the negotiated price.

Background

The City owns 1.382 acres at 1215 Red River, just south of Brackenridge Hospital. In 1988, Brackenridge Hospital did not provide physical rehabilitative services at its facility, so the City offered the land for development in order to attract a physical rehabilitative services provider to Austin. Rehab Hospital Services Corporation (RHSC) subsequently executed a lease through February 28, 2064, and constructed an 87,744 SF hospital facility on the site in order to provide these necessary services adjacent to Brackenridge Hospital. In 1995, RHSC assigned the lease to HealthSouth, who proceeded to develop an adjacent 0.349-acre property it owned at 606 East 12th Street into a 62-space parking garage to serve the facility.

The business model for providing physical rehabilitative services is changing, and the development of Dell Seton Medical Center at the University of Texas and the pending move of Brackenridge Hospital have rendered HealthSouth's facility unnecessary. Accordingly, in August 2016, HealthSouth announced its intention to close its facility at the site and approached the City about terminating the lease. The company wishes to convey to the City its facilities on the site and the parking garage. ORES has negotiated a purchase price of \$6,500,000, subject to City Council approval.

Appraised Value

ORES engaged an independent appraiser to value the property. The appraiser determined that the value of the hospital facility, the garage, and the underlying land would equal \$36.36 million on the open market. Of note, the appraiser calculated that the City-owned land beneath the hospital would be worth \$12.04 million if it were unencumbered, but its current value is only \$5.12 million due to the presence of the HealthSouth lease. By acquiring the facilities and buying HealthSouth out of its lease, the City could remove the encumbrance on the property and increase the value of the underlying land. The appraised value of the property is broken out as follows:

Current Value		Market Value	
Land (encumbered)	\$ 5,120,000	Land (unencumbered)	\$ 12,040,000
Hospital Facilities & Lease Rights	\$ 24,690,000	Hospital Facilities	\$ 20,960,000
Garage	\$ 3,360,000	Garage	\$ 3,360,000
Total	\$ 33,170,000	Total	\$ 36,360,000

Accordingly, for the \$6.5 million negotiated purchase price, the City would acquire the \$20.96 million building and the \$3.36 million garage, *as well as* increase the value of the City-owned land by \$6.92 million.