




MEMORANDUM

TO: Mayor and Council

FROM:  Lauraine Rizer, Officer, Office of Real Estate Services

DATE: November 18, 2016

SUBJECT: Acquisition of HealthSouth Hospital Facility and Parking Garage

The City of Austin (City) owns 1.382 acres at 1215 Red River, just south of Brackenridge Hospital. The land is leased to HealthSouth Rehabilitation Corporation (HealthSouth), who until recently operated an 87,744 SF physical rehabilitation hospital at the site. HealthSouth has offered to sell the City the hospital facility and its neighboring parking garage for \$6.5 million. Staff recommends acquisition of the property at the negotiated price.

Background

In 1988, Brackenridge Hospital did not provide physical rehabilitative services at its facility, so the City offered up the land at 1215 Red River for development in order to attract a physical rehabilitative services provider to Austin. Rehab Hospital Services Corporation (RHSC) subsequently executed a land lease through February 28, 2064, across the property 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 a neighboring 0.349-acre property it owned at 606 East 12th Street into a 62-spot 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 land lease. The company wishes to convey to the City its facilities on or adjacent to the site, including the parking garage. The Office of Real Estate Services (ORES) has negotiated a purchase price of \$6.5 million, 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 Facility & Lease Rights	\$ 24,690,000	Hospital Facility	\$ 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.


12/15/2016 City Council Agenda Item

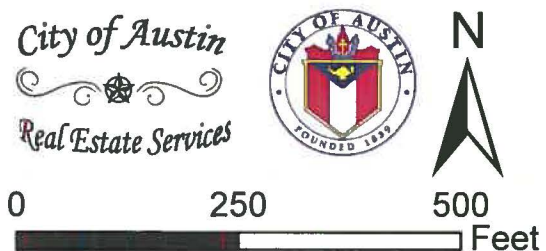
ORES will bring forward an agenda item on December 15, 2016, for the acquisition of the property at the negotiated purchase price of \$6.5 million. The price is well below the appraised market value and represents a significant opportunity for the City. The building is highly adaptable to a number of 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.

Please don't hesitate to contact me at 512-974-7078 if you have any questions.

xc: Elaine Hart, Interim City Manager
Sue Edwards, Assistant City Manager
Greg Canally, Acting Chief Financial Officer

Proposed Acquisition at HealthSouth Property at Red River St & E 12th St

 Property of Interest
2015 Aerial Imagery, City of Austin



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