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IMAGINE ATLANTA WITHOUT A NET

How do you kill three birds with one stone? It doesn't happen often, but in 2016 DTSpade helped two of the city's most critical organizations execute a plan that helped one of Atlanta's most vital hospitals expand its campus, secure more parking, and ensure a long term future for a critical community program.

Transaction Type & Details

Transaction Date:

July 29, 2016

Transaction Type:

Lease

Building Type:

Office

Building Size:

51,059 SF

Rent Price:

\$12,578,538

The Client's Challenge

In mid-2015, the hospital had three strategic initiatives regarding real estate:

1. Expand the campus footprint,
2. Secure additional parking on the campus, and
3. Find a long-term home for its Behavioral Health Program.

The hospital entered 2015 with a strong non-profit board structure, a management team built to grow, profitability,

and improving financials. But there were challenges too:

- Implementation of the Accountable Care Act and Georgia's rejection of Medicaid expansion meant that the hospital would have to plan for a much different future without additional funds in 2015.
- Development and Georgia State University's growth limited options for growth on campus while staff and patient populations continued to grow.

- Their national award winning Behavioral Health program provided care for some of those in the city with the greatest need, but because of the patient population the program was challenged to establish a foothold in a dense downtown environment. The hospital needed a long term home to continue to grow the program.

Fulton County's Challenge

Fulton County, established in 1853, is a 528-square-mile sovereign jurisdiction in Georgia. It stretches over 70 miles and encompasses nearly one million residents, the majority of Atlanta, and ten other cities.

Fulton County began the year by appointing Richard "Dick" Anderson as County Manager. His business-minded approach to governance brought a reexamination of the county's use of capital and operating expenses, among other initiatives. One problem was the Aldredge Building.

The Aldredge Building is a 76,499-square-foot building on 1.85 acres with 310 parking spaces at the front door to the hospital. A long time centerpiece of Fulton County Health Services, it provided the community with public records, and HIV, STD, Hepatitis B, and dental services. Deferred maintenance, functional obsolescence and increasing operating expenses conspired to make the facility untenable going forward. The county had two options: fund significant capital expenses to continue to run a building that no longer met the programmatic needs, or sell the building and find a new facility (with proximity to the hospital and public access) to house the program.

Consensus Building

By the end of 2015, a plan was created to meet the challenges of each organization's goals. All that was left was to execute.

First, data brought the two organizations together. Working cooperatively with Fulton County, DTSpade modeled the operating expenses and capital requirements needed if Fulton County were to stay at Aldredge. The analysis revealed that the consolidation of clinical activities into a smaller (contiguous) footprint meant that moving to a new facility would provide a better healthcare delivery system at no additional operating cost, and instead of investing in more capital for renovation, selling the building would result in capital infusion.

Purchasing Aldredge would satisfy their first two initiatives: expand the campus and lay hold of another 310 parking spaces. Fulton County would sell—if its clinical programs could be supported elsewhere.

Door Number One

Supporting Fulton County's program was no easy task. Downtown Atlanta was recovering like other parts of the city, albeit slower. Most of the office buildings are older with the better buildings being institutionally owned. Average square footage for Class A-B properties is at 176,264 and median at 57,480 sq. ft. That meant that Fulton County would need to find a landlord willing to mix a fairly sick population of clinical patients into a multi-tenant office environment.

Meanwhile, hospital's third real estate initiative was in trouble. In 2012, Bryant Cornett, SIOR, had placed their Behavioral Health clinic into two floors at 10 Park Place on a medium term

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lease. The building had since struggled through a number of real estate cycles, and in April 2015, amidst hospital negotiating an expansion, the building was put into receivership. New ownership meant a new direction for the building.

As the months ticked by, new management and leasing came into the building. The special servicer was only willing to allow the hospital's Behavioral Health clinic to expand in the building if they committed to more space than they needed. The hospital had an option to extend their current lease terms, but needed a longer term home and room to expand at their own pace—not a short term reprieve. The special servicer felt the debt holders might recoup their investment by converting 10 Park Place to a residential use if they could get the hospital Tenant to leave.

The hospital knew they wanted their Behavioral Health Clinic to stay, but needed Fulton County to lease the extra space required by the special servicer.

Door Number Two

By December of 2015, it was decided that the hospital would long-term master lease space for its Behavioral Health Program and Fulton County's programs in exchange for the Aldredge Building. Then discussions broke down. The special servicer was still deciding what it wanted to do. The hospital was clear on its mission and Fulton County knew what it wanted, but not what the market would support. Discussions continued, but slowly.

The Way Forward

By February of 2016, the structure was set. Fulton would sell and the hospital would pay a market price for Aldredge to expand their campus if: 1) they could lease the space directly to house their

program in the market, 2) with little up front capital cost, 3) at a market rate, and, 4) with annual rights to cancel.

The hospital had six months to exercise its right to extend for Behavioral Health at 10 Park Place, and Fulton would help satisfy the larger leasing requirements by moving their Health Services to the building, as well. Everyone, even the special servicer, could see that 10 Park Place was the solution.

Out of Time

Plans were drawn. Consensus was reached. Agreements were fully negotiated. But in April of 2016, the special servicer pulled out. Assumptions on exit valuations were fell short of expectations and the special servicer elected to go straight to the market—a buyer had emerged. 10 Park Place was no longer the answer. A sale would take months to close and Aldredge's deferred maintenance was on a more aggressive schedule. We had to find another option.

The Home Run

Two of the hospital's strategic initiatives required replacement facilities for Fulton County, so DTSpade dug in to find it. Finding a building willing to mix in a strong clinical use with high tenant improvements, and at a fair market rate would prove difficult. But in the search, we uncovered the 10 Park Place buyer when Joel & Granot Real Estate (JGRE), founded by Dan Granot, SIOR, and fellow principal, Alan Joel, took an interest in the building and pulled together a team of partners to create a strong new ownership. JGRE recognized the value in shoring up these two prominent Atlanta entities within the building and working. Retrading a few items, hospital's extension and Fulton County's lease was back on at 10 Park Place by May of 2016.

Throughout June of 2016, new lease documents with a new Landlord were negotiated. The special servicer agreed to sell the property, and the new Landlord/Buyer agreed to purchase the property if hospital and Fulton County executed leases. Timing County Commissioner meetings and submittal dates were paramount. Even after the closing date was set, lending requirements complicated agreements in the eleventh hour. Four individual purchasers, three brokers, two governmental agencies, and one special servicer (plus a lender) all had to agree on terms for a lease based on the (potential) sale of real property while knowing that all documents would fall apart by July 15.

On Friday, July 1, 2016 the lender funded the transaction and leases were executed. The hospital had the Aldredge property for its expansion, as well as a long-term home to build out its Behavioral Health program. Fulton County had a better, cheaper, and newer way to deliver healthcare services to the community. The special servicers bondholders were made whole, and the citizens of Atlanta and Fulton County became just a little safer, cleaner, and healthier that day.

DTSpade was built to help our communities' irreplaceable organizations make one decision excellently so we never have to imagine a city without a safety net. ♥