



United States | 2017

Outpatient Renovation Cost Guide

*A tool for healthcare
organizations*

JLL Research



Contents

This guide is a powerful tool that JLL has created to help healthcare organizations understand the full cost of renovating an outpatient facility across the United States, leveraging the granular data behind hundreds of JLL PDS managed healthcare projects and budgets.

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Hello,

You have in your hands JLL's U.S. Outpatient Renovation Cost Guide, developed by a partnership of JLL's Healthcare Project and Development Services (PDS), Research and Business Intelligence groups. This guide is a powerful tool we've created to help you understand the real cost of renovating an outpatient facility, covering every major city across the nation. This cost guide leverages the granular data behind hundreds of JLL PDS managed healthcare projects and created a data set that is actionable and proven.

Choosing to renovate an existing outpatient facility is a big step that comes with a range of costs. We want to arm you with the data and intelligence you need to make educated decisions that achieve your long term goals. We know that location is fundamental in the commercial real estate and healthcare worlds, and is vital to your business. Comparing market costs side by side, we are demystifying the impact that geography may have on how much an outpatient facility renovation truly costs.



Parkview Regional Medical Center

This guide is... a comprehensive data driven tool which provides comparison and transparency of build-out costs across U.S. markets.

This guide isn't... a cost estimating or cost of occupancy tool. Renovation costs vary greatly based on the scope and requirements of the user. This guide provides a holistic picture of total build costs and how geography can greatly affect the bottom line.

We thoroughly enjoyed creating this guide and are excited to share the findings with you. Our hope is that it helps your company feel empowered to make informed decisions about your healthcare real estate footprints.

- Mason, Steve & Roger



What

This guide details what you can expect to pay to renovate an existing outpatient facility across the nation.



How

This guide leverages over 300 JLL project budgets to create actionable and accurate insights.









Why

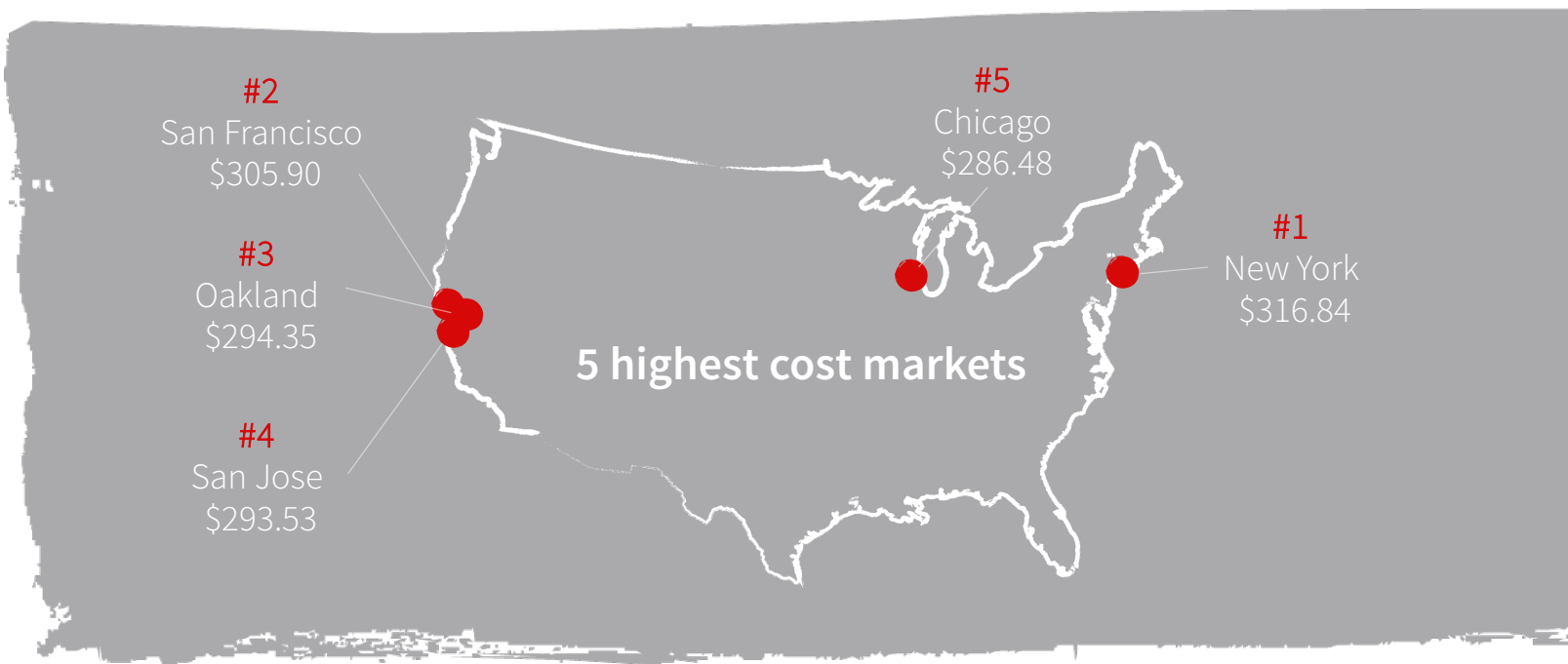
It is meant to provide clients with powerful understandings and data surrounding outpatient renovation projects.

Executive summary

National average per-square-foot cost to renovate an outpatient facility



	Hard Costs		Soft Costs		Design and Fees		FF&E		Tenant Factors		Contingency
	\$159.15		\$15.94		\$25.57		\$10 - \$35		\$18 - \$45		\$12.42



Optional medical equipment modifiers:

+\$15/s.f.

Basic outpatient space without imaging capabilities

+\$70/s.f.

Outpatient space plus modest capabilities (X-ray, ultrasound, nuke med, physical therapy, etc.)

+\$215/s.f.

Outpatient space plus intense capabilities (MRI, Linacs, CT, Cath Lab, Operating rooms, etc.)

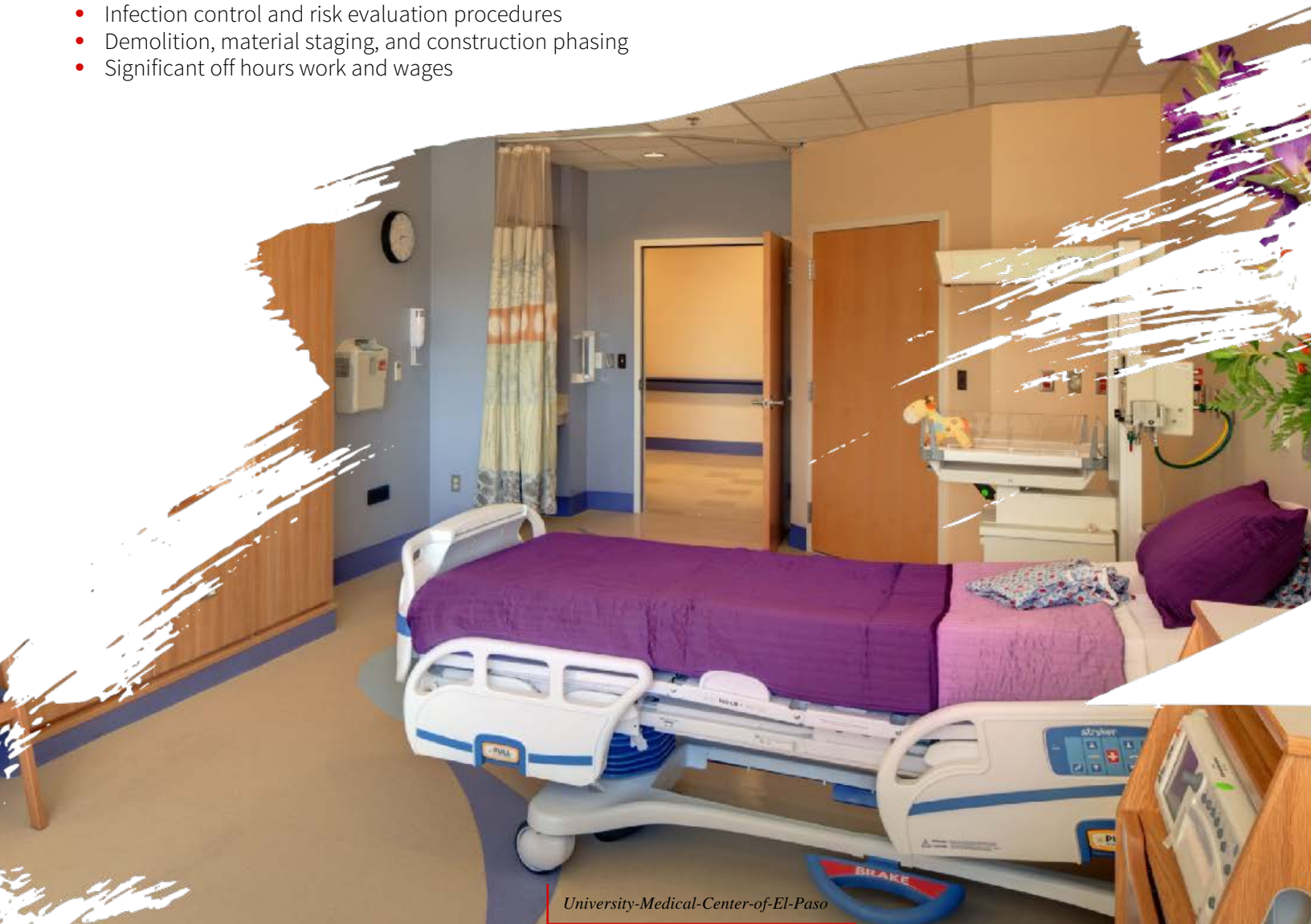
Guide assumptions

The renovation costs for each market depict the average expenses of renovating a comparable outpatient facility across the country, and take into account the unique cost elements of each city. These totals were created by compiling nearly 300 JLL Project and Development Services managed projects from 2013 to 2017, and paint a comprehensive picture of the average amount you will pay for a renovated facility. Renovations can also be more costly than a new fit-out from shell due to the complexities involved in constructing alongside existing operations of healthcare facilities, and many factors can affect the final budget. The costs shown in this guide provide a mid-point and take into account the factors listed to the right.

The typical project covered by this guide can include these unique elements:

- Structural and infrastructure modifications
- Infection control and risk evaluation procedures
- Demolition, material staging, and construction phasing
- Significant off hours work and wages

- Hard costs
- Soft costs
 - Fees, assessments, permits, studies, taxes, insurance, bonds, etc.
- Design and service fees
 - Architecture, engineering, project management, consulting and additional fees
- Furniture, fixtures and equipment (FF&E)
- Tenant factors
 - Audio / video installation
 - Security costs
 - IT and technology costs
 - Moving fees
- Contingency
 - Represents contingency used during project



Key trends

Key trends affecting the healthcare and outpatient industry

1. Focus on finances.

In anticipation of declining reimbursements, healthcare organizations are focused on improving their financial performance. Organizations are improving their bottom line in various ways, including mergers and acquisitions (M&A) that create scale and leverage risks, the monetization of existing assets and the renovation of existing facilities to extend their lifetime, among others.

2. Policy and potential impact.

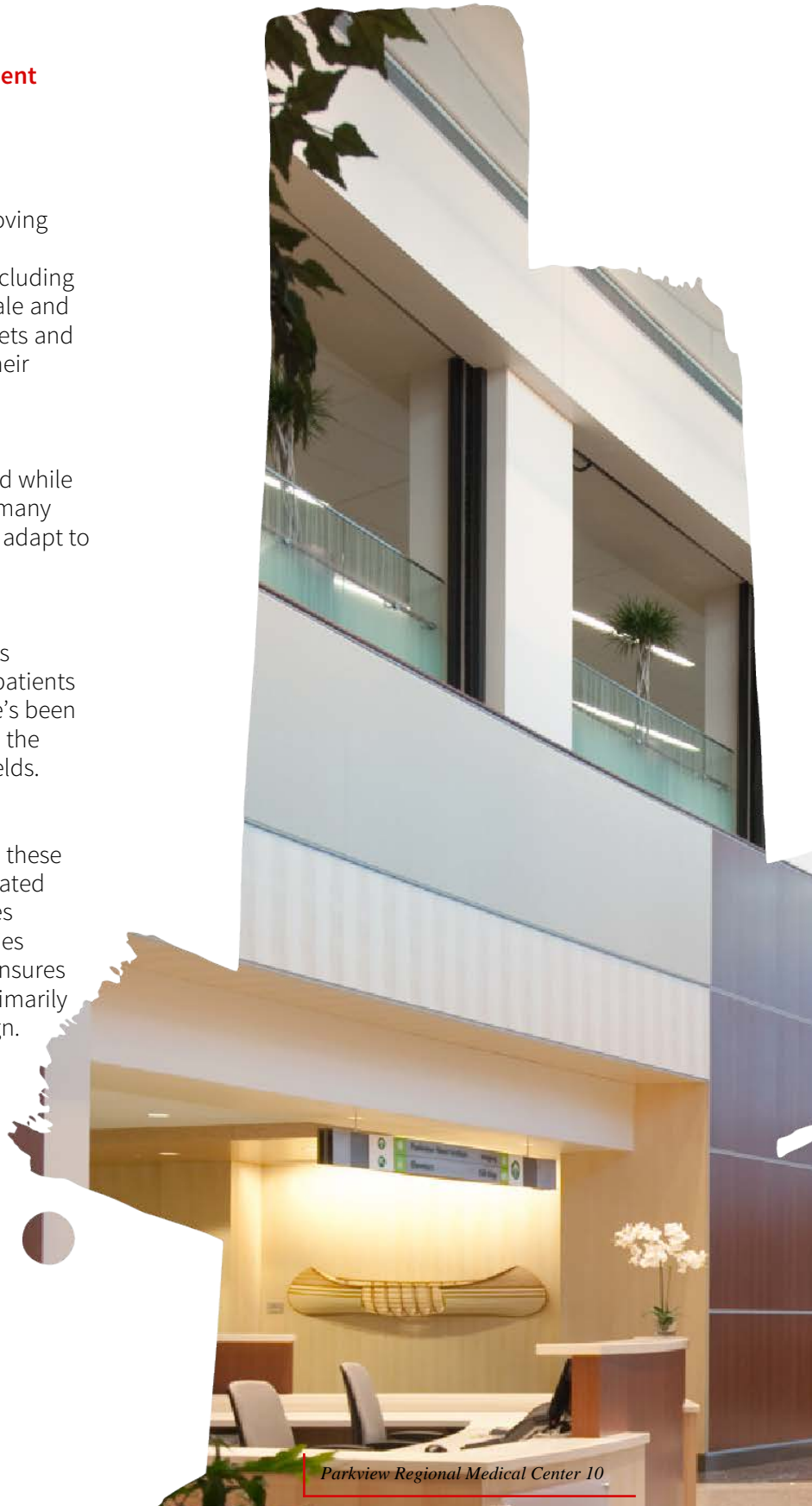
Healthcare policy continues to be debated, and while potential changes are not known at this time, many organizations are orienting their operations to adapt to future possibilities.

3. Continued focus on ambulatory care.

The healthcare industry has been expanding its ambulatory network to provide healthcare to patients in a lower-cost facility setting. As a result, there's been significant innovation and new construction in the outpatient, tele-medicine and at-home care fields.

4. The rise of 'wellness communities.'

Commonly referred to as "healthcare villages", these communities include a range of healthcare-related facilities which complement acute care services offered by a nearby hospital. These communities provide high quality services in a setting that ensures convenient access to specialty care and are primarily age-friendly with a socially vibrant urban design.

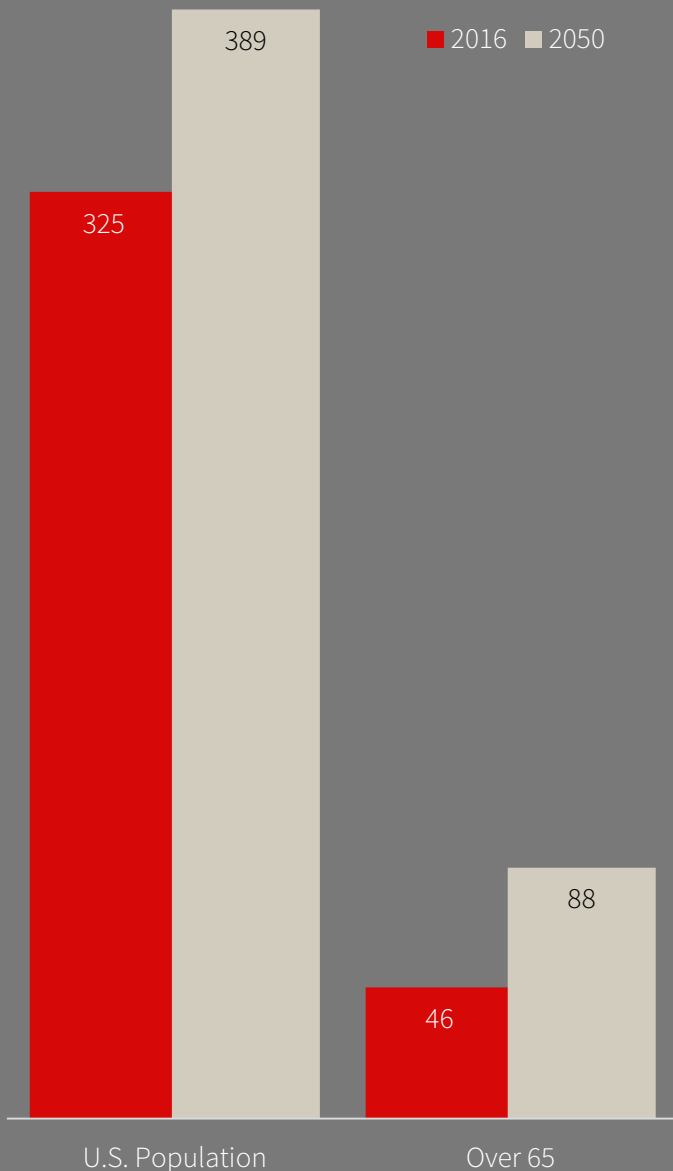


Parkview Regional Medical Center 10

National outlook

Projections for population growth and aging demographics are strong, supporting continued steady demand for healthcare services. To put things in perspective, today's U.S. population of 325 million people is projected to grow 23 percent by 2050. The over-65 population, representing the greatest draw on health services, will account for one out of every five individuals – nearly doubling today's statistic.

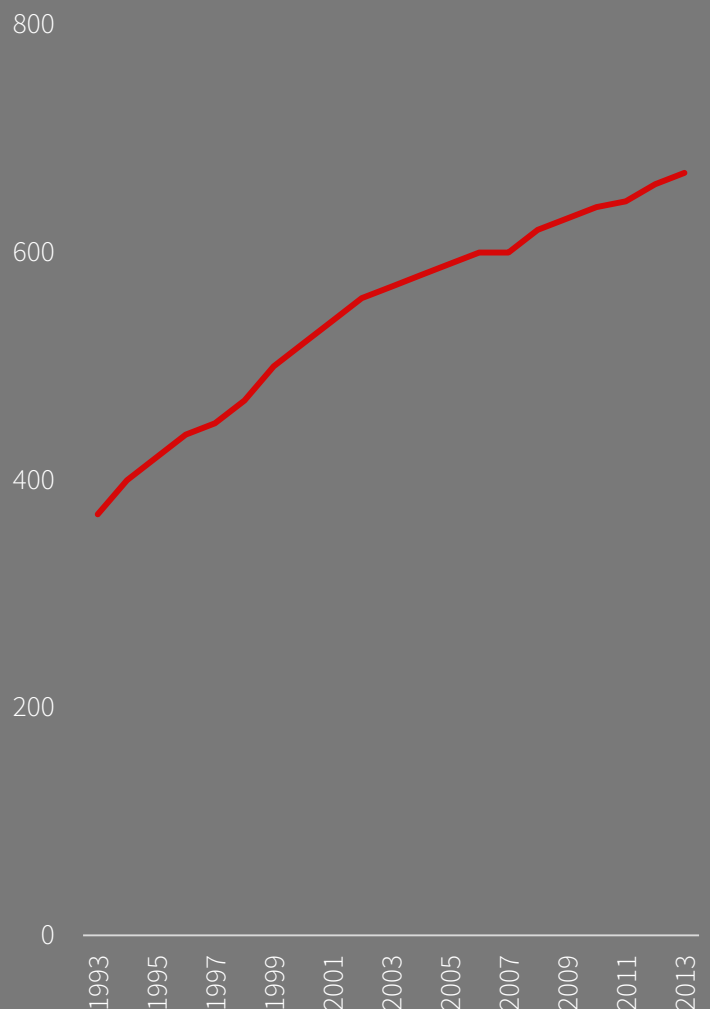
U.S. population growth, 2016–2050 (in millions)



The catalysts for M&A activity, which includes; health system consolidation, physician group acquisition, and health insurance companies, are continuing regardless of any changes to healthcare and part of a longer-term trend for mergers and acquisitions. Deloitte estimates that only half of the 1,833 non-government health systems operating in 2014 will exist by 2024 and virtually none of the survivors will be independent systems.

The trend toward outpatient care continues to grow. In 1975, there were nearly 1.5 million hospital beds. By 2014, the bed count shrank to 900,000, a decline of nearly 40 percent, while the U.S. population grew by 50 percent. Outpatient visits during this time more than doubled.

Total hospital outpatient visits (in millions)



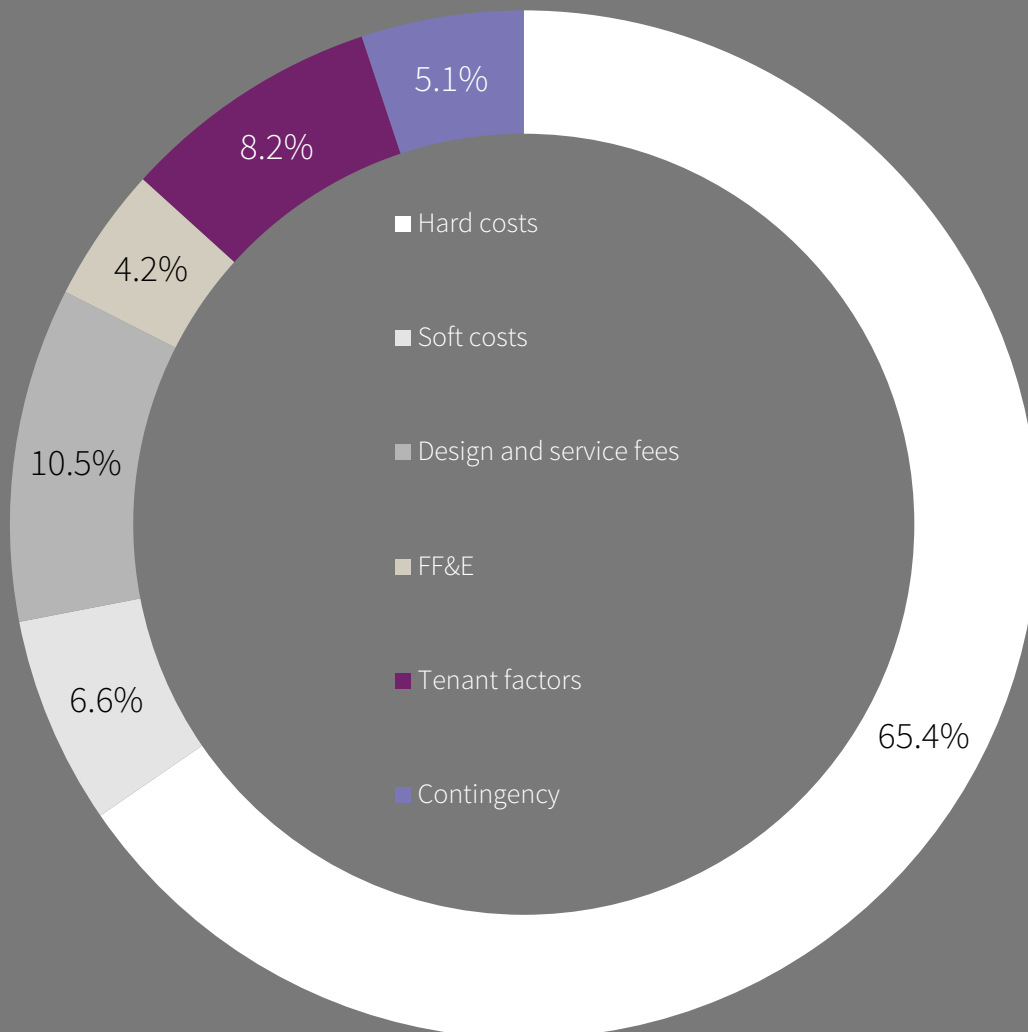
Current healthcare trends are here to stay, regardless of any changes to the Affordable Care Act (ACA). The movement to value-based reimbursement, population health management, site-neutral payments for post-acute care, bundled payments and further penetration of Medicare Advantage is propelled by improving patient outcomes at a lower effective cost.

The unknown impact of any changes to the ACA and timing for full legislative efforts may cast doubt on the future state of healthcare coverage, as well as volumes and reimbursement. Uncertainty may cause some hospitals to

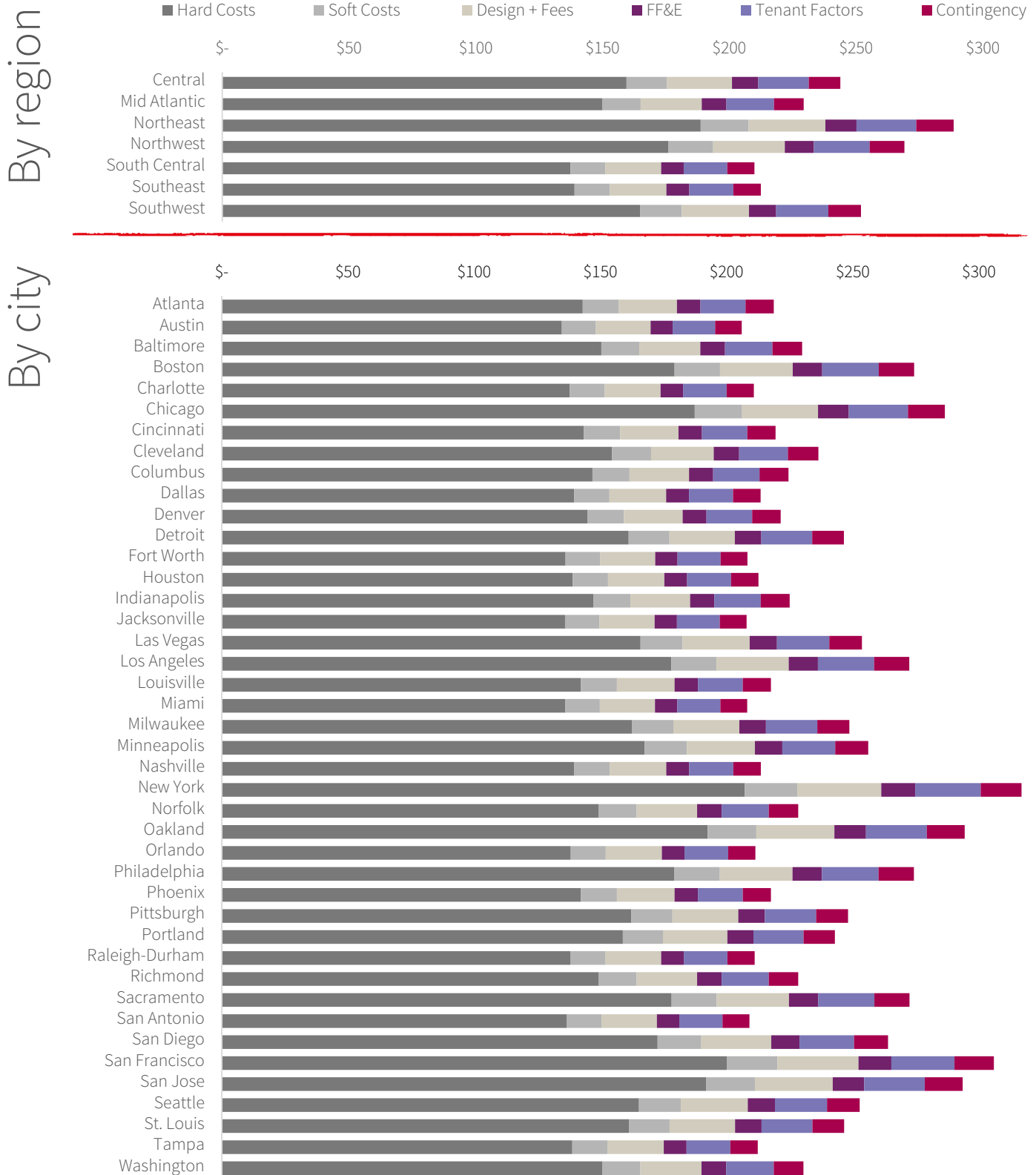
hit the pause button for capital and leasing decisions, as many did when the ACA was enacted in 2010.

Following successive years of growth, new development could be affected by a slowdown in decision-making, although the trend to outpatient care as well as retail-oriented healthcare will continue unabated. Outpatient projects already in the pipeline, totaling an estimated 17 million square feet of deliveries (Revista), should sustain the industry over the next two years.

Total Outpatient Renovation Costs - National Average

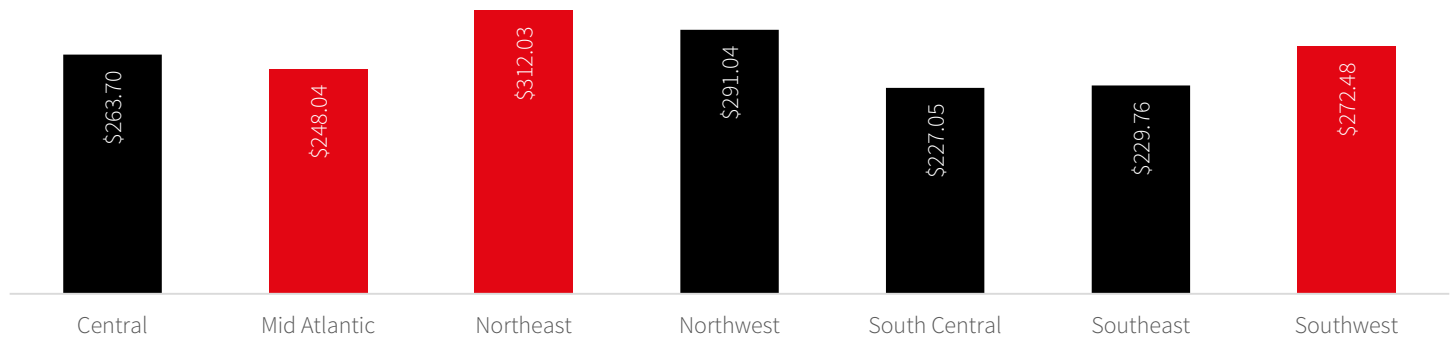


Average out-of-pocket cost per square foot



Geography spotlights

Total Renovation Cost - Regional Average (\$/s.f.)



Source: JLL Research

Healthcare is consistently evolving. The physicians, administrators and professionals within the industry must find ways to deal with the challenges that come with that change. As new technology that reduces the invasiveness and intensity of procedures emerges, care that was once inpatient will soon become outpatient care. See how select markets and regions are responding.



Regional Spotlights

Southwest Region:

The Southwest has seen a decline in inpatient volume which is transforming the way healthcare in the region is being delivered. As these changes begin to challenge the status quo, healthcare providers must ensure that patients are cared for more efficiently, without affecting quality. This means that care will need to migrate to less intensive and lower-cost outpatient treatments. The cost of building construction is also on the rise in the Southwest due to increasing materials costs and the ongoing labor shortage of skilled workers.

-Tim Fyffe, SVP, Southwest PDS

Mid-Atlantic:

In the Mid-Atlantic, uncertainty around healthcare laws and requirements for reimbursement is pushing healthcare facility operators to make conservative decisions regarding which requirements to follow for their outpatient facilities. This uncertainty is driving outpatient facility costs as some construction cost escalations in the region, with the lack of availability of experienced tradesmen exacerbating these pressures.

-Mark Ahern, Managing Director, Mid-Atlantic PDS

Northeast

In the Northeast, many of the funds planned for capital projects in the region have been diverted to acquisitions and mergers to gain market share in other geographies. The inpatient hospital settings continue to be renovated but at a much reduced pace. Emergency departments are becoming main entries into the hospitals, therefore more effort is being spent on increasing efficiencies there. Renovations to diagnostic imaging facilities as well as significant infrastructure upgrades are prominent in the region. This comes at a time where construction costs continue to steadily rise in the Northeast.

-Vince Knoll, Managing Director, Northeast PDS





Local Spotlights

Northern California:

Demand for outpatient facility construction in Northern California remains high despite construction cost increases outpacing the overall local market inflation rate. High demand in office, industrial and other sectors, combined with uncertainty in healthcare policy, are the primary drivers behind this condition. Subcontractors in particular are choosing to focus on other sectors, resulting in reduced competition and higher pricing. Large healthcare systems are needing to rely on long term relationships to secure sufficient bid coverage, while smaller systems with less leverage are left at the mercy of the market.

-Jason Bredbury, VP, Northern California PDS

Florida:

Florida is continuing to experience significant demand for construction of all types of healthcare facilities, including acute, ambulatory and senior living properties. This growth, combined with competition from other market sectors, like hotel and hospitality properties, is escalating construction material and labor costs. In recent news, the devastation created by Hurricane Irma and the reconstruction efforts will undoubtedly escalate construction costs and stress labor for years to come for healthcare and all market sectors.

-Samer Hamde, VP, Florida PDS

Houston:

As a result of the recent flooding, Houston is experiencing a sizeable slowdown in permitting as the flood related work takes precedence. There is a small spike in materials pricing, but we can expect a minor increase in the foreseeable future. Commercial contractors still have capacity for more work, but they are quickly beginning to load up as work is identified and as insurance adjusters finish inspections. The core trade workers are being stretched, and will be extremely busy for the next several months as work normalizes.

-John Roberts, Managing Director, Houston PDS

Markets by the numbers

Fit out cost breakdown

Region	Market	Hard Costs	Soft Costs	Design and service fees	FF&E	AV + IT	Security	Moving	Contingency
Central	Chicago	\$187.37	\$18.77	\$30.10	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.54	\$14.62
Central	Cincinnati	\$143.50	\$14.37	\$23.06	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.18	\$11.20
Central	Cleveland	\$154.60	\$15.48	\$24.84	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.27	\$12.06
Central	Columbus	\$146.84	\$14.71	\$23.59	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.21	\$11.46
Central	Detroit	\$161.22	\$16.15	\$25.90	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.33	\$12.58
Central	Indianapolis	\$147.18	\$14.74	\$23.65	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.21	\$11.49
Central	Milwaukee	\$162.62	\$16.29	\$26.13	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.34	\$12.69
Central	Minneapolis	\$167.51	\$16.78	\$26.91	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.38	\$13.07
Central	Pittsburgh	\$162.29	\$16.25	\$26.07	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.34	\$12.67
Central	St. Louis	\$161.29	\$16.15	\$25.91	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.33	\$12.59
Mid Atlantic	Baltimore	\$150.39	\$15.06	\$24.16	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.24	\$11.74
Mid Atlantic	Norfolk	\$149.38	\$14.96	\$24.00	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.23	\$11.66
Mid Atlantic	Richmond	\$149.38	\$14.96	\$24.00	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.23	\$11.66
Mid Atlantic	Washington, DC	\$150.74	\$15.10	\$24.22	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.24	\$11.76
Northeast	Boston	\$179.41	\$17.97	\$28.83	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.48	\$14.00
Northeast	New York	\$207.23	\$20.76	\$33.30	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.71	\$16.17
Northeast	Philadelphia	\$179.34	\$17.96	\$28.81	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.48	\$14.00
Northwest	Denver	\$144.84	\$14.51	\$23.27	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.19	\$11.30
Northwest	Oakland	\$192.52	\$19.28	\$30.93	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.58	\$15.02
Northwest	Portland	\$158.88	\$15.91	\$25.53	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.31	\$12.40
Northwest	Sacramento	\$178.21	\$17.85	\$28.63	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.47	\$13.91
Northwest	San Francisco	\$200.08	\$20.04	\$32.15	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.65	\$15.61
Northwest	San Jose	\$191.98	\$19.23	\$30.85	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.58	\$14.98
Northwest	Seattle	\$165.30	\$16.56	\$26.56	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.36	\$12.90
South Central	Austin	\$134.74	\$13.49	\$21.65	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.11	\$10.51
South Central	Dallas	\$139.62	\$13.98	\$22.43	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.15	\$10.90
South Central	Fort Worth	\$136.21	\$13.64	\$21.88	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.12	\$10.63
South Central	Houston	\$139.08	\$13.93	\$22.35	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.14	\$10.85
South Central	San Antonio	\$136.74	\$13.70	\$21.97	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.13	\$10.67
Southeast	Atlanta	\$143.03	\$14.33	\$22.98	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.18	\$11.16
Southeast	Charlotte	\$137.88	\$13.81	\$22.15	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.13	\$10.76
Southeast	Jacksonville	\$136.01	\$13.62	\$21.85	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.12	\$10.61
Southeast	Louisville	\$142.29	\$14.25	\$22.86	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.17	\$11.10
Southeast	Miami	\$136.14	\$13.64	\$21.87	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.12	\$10.62
Southeast	Nashville	\$139.69	\$13.99	\$22.44	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.15	\$10.90
Southeast	Orlando	\$138.28	\$13.85	\$22.22	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.14	\$10.79
Southeast	Raleigh-Durham	\$138.08	\$13.83	\$22.19	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.14	\$10.78
Southeast	Tampa	\$138.88	\$13.91	\$22.31	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.14	\$10.84
Southwest	Las Vegas	\$165.90	\$16.62	\$26.65	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.37	\$12.95
Southwest	Los Angeles	\$178.14	\$17.84	\$28.62	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.47	\$13.90
Southwest	Phoenix	\$142.29	\$14.25	\$22.86	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.17	\$11.10
Southwest	San Diego	\$172.66	\$17.29	\$27.74	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.42	\$13.47
United States		\$159.15	\$15.94	\$25.57	\$10 - \$35	\$14 - \$40	\$2 - \$3	\$1.31	\$12.42

Want more information?

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About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. A Fortune 500 company, JLL helps real estate owners, occupiers and investors achieve their business ambitions. In 2016, JLL had revenue of \$6.8 billion and fee revenue of \$5.8 billion and, on behalf of clients, managed 4.4 billion square feet, or 409 million square meters, and completed sales acquisitions and finance transactions of approximately \$136 billion. At year-end 2016, JLL had nearly 300 corporate offices, operations in over 80 countries and a global workforce of more than 77,000. As of December 31, 2016, LaSalle Investment Management has \$60.1 billion of real estate under asset management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com/pds.

About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

About JLL PDS

[JLL Project and Development Services](#) is a leader in the development, design, construction and branding of commercial real estate projects for the world's most prominent corporations, educational institutions, public jurisdictions, healthcare organizations, industrial facilities, retailers, hotels and real estate owners. Ranked No. 3 in Building Design + Construction's 2016 Construction Management Giants survey and No. 5 on Engineering News Record's 2016 list of Top 100 Construction Management-for-Fee Firms, JLL's project management team comprises 4,895 project managers across 51 countries and is actively managing \$31.1 billion under construction.