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## To Limit Costs, Hospital Projects Rely on Designer-Contractor Teamwork

By ALISON GREGOR

While medical real estate is often seen as recessionproof, hospitals and health care institutions still have strong reason to control construction costs.

A case in point: The first free-standing hospital project in New York State in more than two decades, according to the state's Department of Health, is being built in Middletown, using an unusual construction method to cut costs by almost a third.

To build what is estimated to be a \$269 million hospital, Orange Regional Medical Center chose a construction company that uses the design-build method, which differs from traditional

### Using an architect and contractor from one company is unusual.

construction because the architect and general contractor are from one company.

The design-build company, the HBE Corporation of St. Louis, is responsible for design and construction of the seven-story hospital. Traditionally, the architect and general contractor operate independently.

"This was the only route that was affordable to Orange Regional Medical Center," which is to open in March 2011 as a 621,000-square-foot hospital with 374 beds, said Wayne Becker, vice president for new projects at the hospital. He said the hospital should "last us another 50 years."

The private nonprofit Orange Regional Medical Center, which is about 65 miles from Manhattan, is itself a con-

solidation of Arden Hill Hospital in Goshen and Horton Medical Center in Middletown. Both will close when Orange Regional opens.

Mr. Becker said that with the traditional method of hospital construction, the cost per bed is typically \$1 million to \$1.5 million. Using the design-build method, Orange Regional will cost about \$720,000 a bed, he said. The contract was negotiated based on the total cost of the project.

Fred S. Kummer, president of HBE, says the efficiency and cost-cutting that can be achieved with the design-build method are particularly striking in hospital construction, which is why his company uses it. HBE has built 1,100 hospitals, hospital wings or medical buildings nationwide.

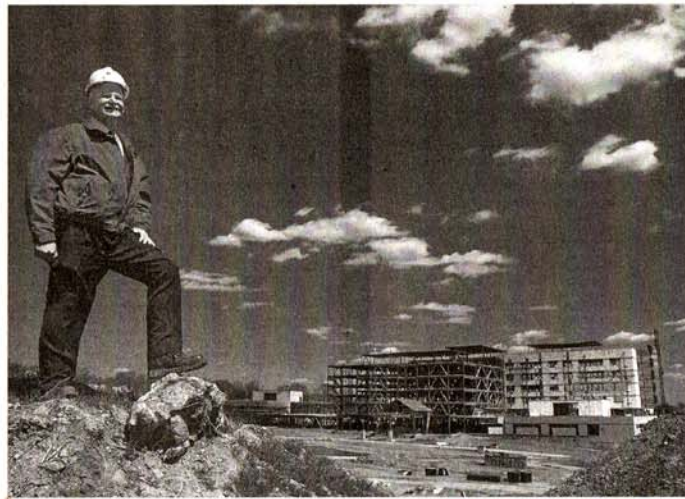
"The results are particularly profound the more complex the project," he said. "There are no buildings that are more complex than a hospital."

Initially, in 2005, the Orange Regional hospital board solicited bids from architects and construction managers to build a hospital using the traditional method. The hospital's budget at the time was \$255 million, which included \$48.6 million in grants from New York State under the Health Care Efficiency and Affordability Law. The grants are awarded to nonprofit clinics, hospitals, nursing homes and health departments to improve buildings and efficiency.

The lowest bids came in well over budget, and Orange Region was facing the prospect of having fewer beds than it wanted, Mr. Becker said.

At an impasse, Orange Regional decided to investigate companies that used the design-build method. HBE, which had specialized in hospitals for nearly 50 years, "floated to the top," Mr. Becker said.

According to the weekly health care industry publication *Modern Health-*



Wayne Becker, vice president for new projects at Orange Regional Medical Center, now rising in Middletown, N.Y., using the design-build method.

care, nationwide only about 9 percent of total square footage of all health care institutions in 2008 was built using the design-build method.

Orange Regional is the largest hospital in square footage that HBE has built, Mr. Kummer said.

The design-build method is not necessarily a routine consideration for new hospitals; the number constructed with the method in the last three years is in the single digits, said Nisan Gertz, vice president of the health care group at the commercial real estate services company Jones Lang LaSalle, which consulted on the Orange Regional project.

But it can save hospitals money because the method, by eliminating turf

battles between architects and construction managers, tends to limit the schedule and scope of construction projects.

"In a design-build project, the scope is set at the very beginning," he said. "It allows tighter control over what's included and what's added, which helps control cost." From the time that HBE started designing the hospital to the beginning of construction in March 2008, only 20,000 square feet of space was added to the project, and the cost increased only about 5 percent, Mr. Gertz said. By industry standards, that is minimal for a construction project of this size.

"It was really nothing," said Mr.

Gertz, whose company is now the lead consultant on a hospital project in Tennessee that is using the design-build method. "You generally don't get that type of control over a project."

HBE has chosen to remain relatively small to cultivate its team skills. It has about 500 employees in its corporate office handling \$2 billion worth of projects, all hospital related.

Mr. Gertz said teamwork between architects and construction managers is particularly important with design-build, which can be a "colossal failure" with the wrong players.

Mr. Kummer agreed. "In the design-build method, you have to work with people who you can almost complete their sentences for them," he said. "That's the kind of organization we have."

Orange Regional has been successful so far in meeting its budget, but since construction will not be finished until March 2011, its final cost is not known. While the design-build method is intended to prevent large cost overruns, in some cases final costs have greatly exceeded initial estimates.

Critics say that another weakness in the method has been that the focus on controlling costs can lead to cutting corners on design and construction, because no independent architect oversees the process.

"You're going to get the naysayers about HBE and design-build who say, 'They don't build a quality product; they cut corners,'" Mr. Becker of Orange Regional acknowledged. "But I truly believe HBE has two things on their side. One is their experience. And two, you have everything under one roof, eliminating the finger-pointing and the professional competition, which makes them more efficient and cost-effective."