

LOBEST.COM EXCLUSIVE: Diversified Capital Buys 598,000-SF Closed St. Joe's

By Connie Gore
August 25, 2005

FORT WORTH-Armed with an innovative plan, Diversified Capital Inc. has plucked the 598,000-sf St. Joseph's Hospital in the Medical District from foreclosure for less than \$2 million. The value-add plan calls for converting the long-dark facility into a mixed-use development for residential, retail and office space.

Bruce Stern, vice president of business development for the Lakewood, NJ-based Diversified, tells GlobeSt.com that he's in talks with executives at two neighboring hospitals about an adaptive reuse with high-end residential units for students and staff, which if successful will be trailed by some retail. The 1401 S. Main St. facility was shuttered in 1995 and sold the following year to Heritage Geriatric Housing Development Inc., which renovated about 100,000 sf into an Alzheimer's assisted living facility that opened in July 1998 and closed two years later.

Stern says the redevelopment tab is still being calculated, but estimates it will take \$2 million just to bring the physical plant on line. He also is facing asbestos remediation, the extent of which is being evaluated. "Definitely there are issues. This is not a walk in the park. By far, this is the riskiest thing that Diversified Capital has ever done," he stresses. "At the end of two years, we'll either look like idiots or we'll have hit a homerun."

Stern says the value-add proposition was brought to him a year ago by a friend. The Bank of New York, which acquired a \$20-million tax-exempt bond note in a trustee buyout, had Herbert K. Horowitz, principal of Shattuck, Hammond & Partners LLC in New York City marketing the property.

"It was very highly leveraged," Horowitz explains, adding Heritage's debt had included working capital. "It was never going to go for the bonds that were outstanding. There were a lot of non-asset bonds in there."

The foreclosure, held two weeks ago, culminated years of marketing, including a fallen-out contract and disman-

ted talks with its neighbor, John Peter Smith Hospital. Diversified Capital was the only bidder at the foreclosure. "It's an attractive site if you can deal with it," he says. "Bruce is able to deal with it. He has the vision to do something with it."



1401 S Main St.

Diversified Capital's first buy in Fort Worth consists of a 598,000-sf hospital with a 12-story patient tower, helipad and 550-space parking garage. The eight-acre foothold abuts John Peter Smith's expansion site. The county hospital's execs are seeking a zoning change to demolish a nuns' residence hall and education building--part of the St. Joseph's site that it bought in the past year--and replace them with a \$48-million, 221,000-sf hospital; \$15-million, 100,000-sf medical office building; and \$12.5-million parking garage with 1,000 spaces.

With \$190 million of construction under way in Fort Worth, the 1,400-acre South Side has struggled to get its fair share of the pie. "The Medical District has been far behind. We had this white elephant sitting over there on Main Street," says Don Scott, executive director for Fort Worth South Inc. "St. Joe's has really been a dead zone. Bruce's work on trying to bring it back will serve to generate collateral all around it."

St. Joseph's Hospital spawned the medical district, built in the late 1800s as a railroad infirmary by the Sisters of the Incarnate Word from San Antonio and expanded into a Catholic-owned hospital and one of six acute-care facilities in South Fort Worth. "Lots of news about St. Joe's hasn't been particularly positive since Heritage," Scott says. "I think this has a high chance of success."

Stern hopes to get commitments within six months from hospital neighbors for the residential units, with an eye on rolling out the red carpet to residents in 18 months on a design being crafted by Dallas-based HDR Architecture Inc. "If I can pull up 200 units of residential and hook it up to JPS," Stern says, "then this building's alive again and maybe we can add retail."