

Cogdell Spencer Inc.
Form 10-K
March 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the transition period from to

Commission file number 001-32649

COGDELL SPENCER INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)
4401 Barclay Downs Drive, Suite 300
Charlotte, North Carolina
(Address of principal executive offices)

20-3126457
(I.R.S. Employer
Identification No.)
28209
(Zip code)

Registrant's telephone number, including area code:
(704) 940-2900

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, \$0.01 par value	New York Stock Exchange, Inc.

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
<input type="checkbox"/>	<input checked="" type="checkbox"/>	(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a Shell Company (as defined in rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common equity held by non-affiliates if the registrant as of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was \$250,295,386 (based on the closing sale price of the registrant's common stock on that date as reported on the New York Stock Exchange).

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 17,711,839 shares of common stock, par value \$0.01 per share, outstanding as of March 12, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the registrant's 2009 Annual Meeting, to be filed within 120 days after the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

COGDELL SPENCER INC.

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Statements Regarding Forward-Looking Information

When used in this discussion and elsewhere in this Annual Report on Form 10-K, the words “believes,” “anticipates,” “projects,” “should,” “estimates,” “expects,” and similar expressions are intended to identify forward-looking statements with the meaning of that term in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and in Section 21F of the Securities and Exchange Act of 1934, as amended. Actual results may differ materially due to uncertainties including:

the Company’s business strategy;

the Company’s ability to comply with financial covenants in its debt instruments;

the Company’s access to capital;

the Company’s ability to obtain future financing arrangements;

estimates relating to the Company’s future distributions;

the Company’s understanding of the Company’s competition;

the Company’s ability to renew the Company’s ground leases;

legislative and regulatory changes (including changes to laws governing the taxation of REITs and individuals);

increases in costs of borrowing as a result of changes in interest rates and other factors;

the Company’s ability to maintain its qualification as a REIT due to economic, market, legal, tax or other considerations;

changes in the reimbursement available to the Company’s tenants by government or private payors;

the Company’s tenants’ ability to make rent payments;

defaults by tenants;

market trends; and

projected capital expenditures.

Forward-looking statements are based on estimates as of the date of this report. The Company disclaims any obligation to publicly release the results of any revisions to these forward-looking statements reflecting new estimates, events or circumstances after the date of this report.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect the Company’s business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from

those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

PART I

Item 1. Business

The Company

Cogdell Spencer Inc., incorporated in Maryland in 2005, together with its subsidiaries (the “Company”) is a fully-integrated, self-administered, and self-managed real estate investment trust (“REIT”) that invests in specialty office buildings for the medical profession, including medical offices and ambulatory surgery and diagnostic centers. The Company focuses on the ownership, development, redevelopment, acquisition, and management of strategically located medical office buildings and other healthcare related facilities in the United States of America. The Company has been built around understanding and addressing the specialized real estate needs of the healthcare industry. The Company operates its business through Cogdell Spencer LP, its operating partnership subsidiary (the “Operating Partnership”), and its subsidiaries.

In March 2008, the Company acquired Marshall Erdman & Associates, inc., now operating as Erdman Company, a subsidiary of Cogdell Spencer Inc. The Company, as a fully integrated healthcare facilities company, provides services from strategic planning to long-term property ownership and management. Integrated delivery service offerings include architecture, engineering, construction and capital project development.

The Company’s growth strategy includes leveraging strategic relationships for new wholly-owned or partially-owned developments, new design-build construction projects for third parties, and off-market acquisitions. The Company will also continue to enter into development joint ventures with hospitals and physicians.

The Company derives a majority of its revenues from two main sources: 1) from rents received from tenants under existing leases in medical office buildings and other healthcare related facilities, and 2) from revenue earned from design-build construction contracts and development contracts.

The Company’s properties have favorable leases generally with consumer price index (“CPI”) increases and cost pass through to the tenants. The Company’s property portfolio is stable with an occupancy rate of 92.4% as of December 31, 2008. The Company derives a lesser portion of its revenues from fees that are paid for managing medical office buildings (“MOB”) and other healthcare related facilities for third parties. The Company’s property management team, Cogdell Spencer Advisors, has a proactive, customer-focused service approach that leads to faster response times and greater resources to serve tenants. The Company’s management believes a strong internal property management capability is a vital component of the Company’s business, both for the properties the Company owns and for those that the Company manages. Strong internal property management allows the Company to control property operating costs, increase tenant satisfaction, and reduce tenant turnover.

MEA Holdings, Inc., the parent company of Erdman Company (together, “Erdman”), a taxable REIT subsidiary (“TRS”) of the Company, is a national full-service planning, design and construction firm specializing in healthcare facilities. Headquartered in Madison, Wisconsin, Erdman provides fully integrated solutions to healthcare facilities throughout the United States, including planning, architecture, engineering, construction, materials management, manufacturing, capital and development services. Erdman is a leading design-builder of healthcare facilities with specialized expertise and concentration in high growth healthcare market segments and facility types. Founded in 1951 and having completed more than 5,000 healthcare facilities nationwide, Erdman has a 57 year track record of and reputation for delivering healthcare facilities with appropriate design, longevity, sustainability and excellent operational efficiency. Exclusively focused on the healthcare facilities market, Erdman maintains long-term “trusted advisor” status with over 50,000 physicians nationwide. Erdman has successfully cultivated a client mix that is diversified in both geography and market focus and includes physician group practices and healthcare systems.

Erdman was ranked as the number one healthcare design-build firm for 2007 by Modern Healthcare's 2008 Construction and Design Survey.

As of December 31, 2008, the Company's portfolio consisted of 116 medical office buildings and healthcare related facilities, serving 24 hospital systems in 13 states. The Company's aggregate portfolio at December 31, 2008, was comprised of 62 consolidated wholly-owned and joint venture properties, 3 unconsolidated joint venture properties, and 51 managed medical office buildings. At December 31, 2008, approximately 80.9% of the net rentable square feet of the Company's wholly-owned properties were situated on hospital campuses. As such, the Company believes that its assets occupy a premier franchise location in relation to local hospitals, providing its properties with a distinct competitive advantage over alternative medical office space in an area. The Company believes that its property locations and relationships with hospitals will allow the Company to capitalize on the increasing healthcare trend of outpatient procedures.

At December 31, 2008, the Company's aggregate portfolio contained approximately 5.8 million net rentable square feet, consisting of approximately 3.3 million net rentable square feet from consolidated wholly-owned and joint venture properties, approximately 0.2 million net rentable square feet from unconsolidated joint venture properties, and approximately 2.3 million net rentable square feet from properties owned by third parties and managed by the Company. As of December 31, 2008, the Company's 61 in-service, consolidated wholly-owned and joint venture properties were approximately 92.4% occupied, with a weighted average remaining lease term of approximately 4.5 years.

The Company's Management and Design-Build Construction Companies

The Company elected to be taxed as a REIT for U.S. federal income tax purposes. In order to qualify as a REIT, a specified percentage of the Company's gross income must be derived from real property sources, which would generally exclude the Company's income from providing architectural, construction, development and management services to third parties. In order to avoid realizing such income in a manner that would adversely affect the Company's ability to qualify as a REIT, some services are provided through the Company's subsidiaries of Erdman, Cogdell Spencer Advisors, LLC ("CSA LLC"), and Consera Healthcare Real Estate, LLC ("Consera"). Erdman, CSA LLC and Consera and their subsidiaries have elected, with the Company, to be treated as TRSs. Erdman, CSA LLC and Consera are wholly-owned and controlled by the Operating Partnership.

Management

The Company's senior management team has an average of more than 21 years of healthcare real estate experience and has been involved in the development, redevelopment, engineering, design and construction, management, and acquisition of a broad array of medical office buildings and healthcare facilities. The Company's Chairman and founder, James W. Cogdell, has been in the healthcare real estate business for more than 37 years, and Frank C. Spencer, Chief Executive Officer, President and a member of the Board of Directors (the "Board of Directors"), has more than 13 years of experience in the industry. Scott Ransom, Erdman's Chief Executive Officer and President, has more than 15 years of experience in the industry. Six members of the senior management team have entered into employment agreements with the Company. At December 31, 2008, the Company's senior management team owned approximately 12.9% of the units of limited partnership interest in the Operating Partnership ("OP Units") and Company common stock on a fully diluted basis.

Business and Growth Strategies

The Company's primary business objective is to develop and maintain client relationships in order to maximize total return to the Company's stockholders through growth in cash available for distribution and appreciation in the value of the Company's assets.

Operating Strategy

The Company's operating strategy consists of the following principal elements:

Strong Relationships with Physicians and Hospitals.

Healthcare is fundamentally a local business. The Company believes it has developed a reputation based on trust and reliability among physicians and hospitals and believes that these relationships position the Company to secure new development projects and new property acquisition opportunities with both new and existing parties. Many of the Company's healthcare system clients have collaborated with the Company on multiple projects, including the Company's five largest healthcare system property management clients, with whom the Company has an average relationship lasting more than 19 years. The Company's strategy is to continue to grow its portfolio by leveraging these relationships to selectively develop new medical office buildings and healthcare related facilities in communities in need of additional facilities to support the delivery of medical services. The Company believes that physicians particularly value renting space from a trusted and reliable property owner that consistently delivers an office environment that meets their specialized needs.

Active Management of the Company's Properties.

The Company has developed a comprehensive approach to property and operational management to maximize the operating performance of its medical office buildings and healthcare related facilities, leading to high levels of tenant satisfaction. This fully-integrated property and operating management allows the Company to provide high quality seamless services to its tenants on a cost-effective basis. The Company believes that its operating efficiencies, which consistently exceed industry standards, will allow the Company to control costs for its tenants. The Company intends to maximize the Company's stockholders' return on their investment and to achieve long-term functionality and appreciation in its medical office buildings and healthcare related facilities through continuing its practice of active management of its properties. The Company manages its properties with a view toward creating an environment that supports successful medical practices. The properties are clean and kept in a condition that is conducive to the delivery of top-quality medical care to patients. The Company understands that in order to maximize the value of its investments, its tenants must prosper as well. Therefore, the Company is committed to maintaining its properties at the highest possible level.

Key On-Campus Locations

At December 31, 2008, approximately 80.9% of the net rentable square feet of the Company's wholly-owned properties were situated on hospital campuses. On-campus properties provide the Company's physician-lessees and their patients with a convenient location so that they can move between medical offices and hospitals with ease, which drives revenues for the Company's physician-lessees. Many of these properties occupy a premier franchise location in relation to the local hospital, providing the Company's properties with a distinct competitive advantage over alternative medical office space in the area that are located farther away from the local hospital. The Company has found that the factors most important to physician-lessees when choosing a medical office building or healthcare related facility in which to locate their offices are convenience to a hospital campus, clean and attractive common areas, state-of-the-art amenities and tenant improvements tailored to each practice.

Loyal and Diverse Tenant Base.

The Company's focus on maintaining the Company's physician-lessees' loyalty is a key component of the Company's marketing and operating strategy. A focus on physician-lessee loyalty and the involvement of the physician-tenants and hospitals as investors in the Company's properties results in one of the more stable and diversified tenant bases of any medical office company in the United States. As of December 31, 2008, the Company's 61 in-service, consolidated wholly-owned and joint venture properties had an average occupancy rate of approximately 92.4%. The Company's tenants are diversified by type of medical practice, medical specialty and sub-specialty. As of December 31, 2008, no single tenant accounted for more than 7.5% of the annualized rental revenue at the wholly-owned properties and no tenants were in default.

Unique Focus.

The Company focuses exclusively on the ownership, development, redevelopment, acquisition and management of medical office buildings and healthcare related facilities in the United States of America. The focus on medical office buildings and healthcare related facilities allows the Company to own, develop, redevelop, acquire and manage medical office buildings and healthcare related facilities more effectively and profitably than its competition. Unlike many other public companies that simply engage in sale/leaseback arrangements in the healthcare real estate sector, the Company also operates its properties. The Company believes that this focus may position the Company to achieve additional cash flow growth and appreciation in the value of its assets.

Development and Acquisition Strategy

The Company's development and acquisition strategy consists of the following principal elements:

Project delivery.

The Company's project delivery teams focus on the development and design-build components of the integrated business model specializing in healthcare real estate. The Company and predecessor companies have developed and/or designed-built over 5,000 healthcare facilities including hospitals, medical office buildings, ambulatory surgery centers, wellness centers and multi-specialty clinics. The Company's project delivery unit operates as a wholly-owned subsidiary of Cogdell Spencer Inc., and provides fully integrated healthcare real estate services from strategic planning and development to architecture to construction. The Company has built strong relationships with leading non-profit and for-profit healthcare systems who look to provide real estate solutions that will support the growth of medical communities built around their hospitals and regional medical centers. The Company focuses exclusively on medical office buildings and healthcare related facilities and believe that its experience and understanding of real estate and healthcare gives it a competitive advantage over less specialized developers. Further, the Company's specialized regional focus provides extensive local industry knowledge and insight across the United States. The Company believes the network of relationships that have been fostered in both the real estate and healthcare industries that span over five decades provides access to a large volume of potential development and acquisitions opportunities.

Selective Development and Acquisitions.

The Company intends to leverage its strong healthcare real estate track record and extensive client network to continue to grow its portfolio of medical office buildings and healthcare related facilities by selectively acquiring existing medical office buildings and by developing new projects in communities in need of expanded facilities to support the delivery of medical services. While the Company intends to continue the evaluation of acquisition opportunities primarily within the joint venture partnership with Northwestern Mutual, the focus of capital deployment has shifted to development and design-build project delivery. As of December 31, 2008, the joint venture partnership with Northwestern Mutual did not have any acquisitions under contract that the Company expects to go forward.

Develop and Maintain Strategic Relationships.

The Company intends to build upon its key strategic relationships with physicians, hospitals, not-for-profit agencies and religious entities that sponsor healthcare services to further enhance the Company's franchise. The Company expects to continue entering into joint ventures with individual physicians, physician groups and hospitals. These joint ventures have been, and the Company believes will continue to be, a source of development and acquisition opportunities. Of the 63 healthcare properties the management team developed or acquired over the past 13 years, 36 of them represent repeat transactions with an existing client institution. The Company anticipates that it will also continue to offer potential physician-lessees the opportunity to invest in the Company in order that they may continue to feel a strong sense of attachment to the property in which they practice. The Company intends to continue to work

closely with its tenants in order to cultivate long-term working relationships and to maximize new business opportunities. The Company works closely with its clients and carefully considers their objectives and needs when evaluating an investment opportunity. The Company believes that this philosophy allows the Company to build long-term relationships and obtain franchise locations otherwise unavailable to the Company's competition.

Investment Criteria and Funding.

The Company intends to expand in its existing markets and enter into markets that research indicates will meet its investment strategy in the future. The Company generally will seek to select clients and assets in locations that the Company believes will complement its existing portfolio. The Company may also selectively pursue portfolio opportunities outside of its existing markets that will not only add incremental value, but will also add diversification and economies of scale to the existing portfolio. In assessing a potential development or acquisition opportunity, the Company focuses on the economics of the medical community and the strength of local hospitals. The analysis focuses on trying to place the project on a hospital campus or in a strategic growth corridor based on demographics.

