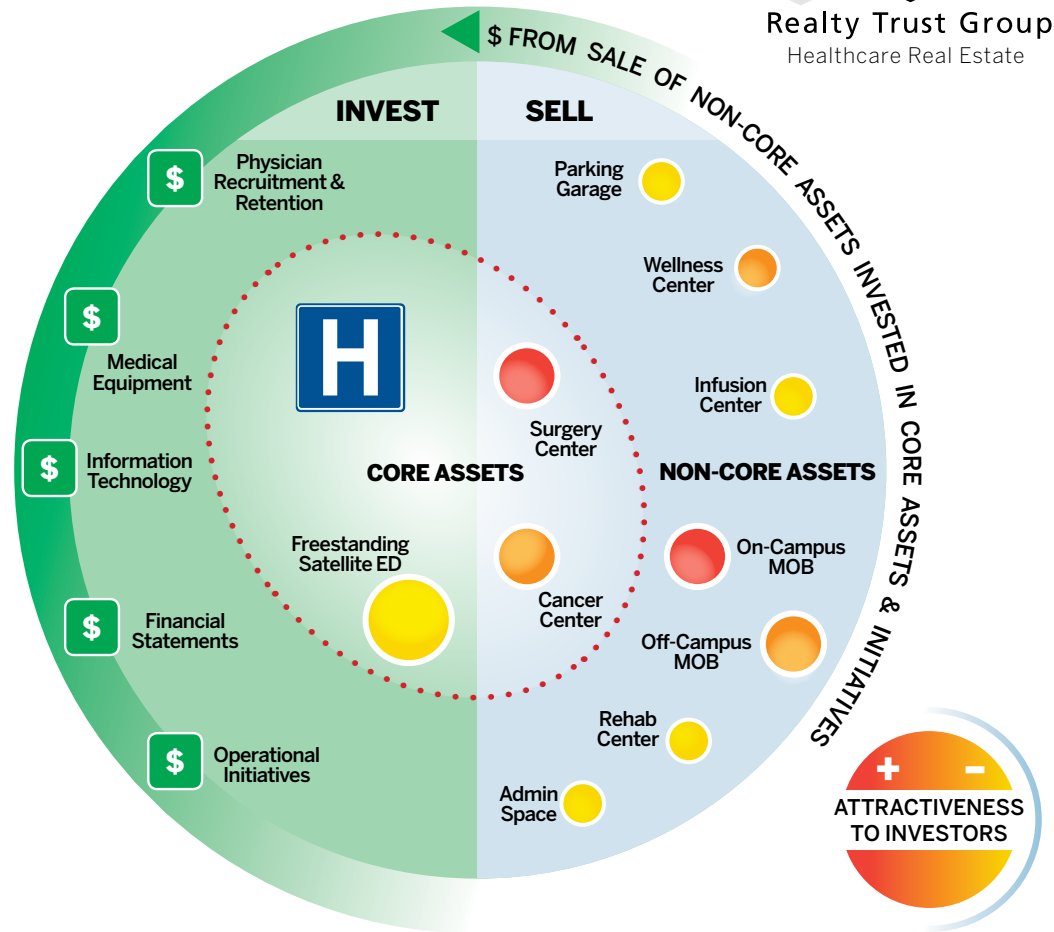


Real Estate Monetization

What Can Monetization Mean to Your Organization?



Healthcare Real Estate Monetization

Real Estate Monetization is exactly what it sounds like: **converting your existing real estate assets into money.** A successful healthcare real estate monetization allows you to convert these assets to liquid capital available for other uses without losing the benefits of ownership and control associated with your real estate.

Most monetization efforts deal with “**non-core**” assets—defined as assets in which ownership is **not mission critical** because of use, proximity to hospital campus, prohibitive capital resource allocation, or specialized management requirements.

A typical premise for making the decision to monetize is “**opportunity cost of capital**”. What return could a health system expect by investing their capital in other core areas of it’s operations?

- Construction / Renovation / Expansion of Core Real Estate Assets
- Physician Recruitment / Retention
- Medical Equipment / Information Technology Purchases

Other reasons to monetize may include:

- **FINANCIAL**—Capital received from monetization can improve liquidity and debt covenant ratios and strengthen a hospital/health system’s balance sheet
- **OPERATIONS**—Monetization allows a hospital/health system to transfer facility maintenance and management costs to a third-party
- **LEGAL & REGULATORY**—Monetization often removes a hospital/health system from a landlord-tenant relationship, offering protection from Stark and Anti-Kickback regulations



Monetization Transaction Structures

Depending on the transaction structure, a hospital can protect certain “benefits” of ownership through ground lease covenants and other restrictions without carrying the “burdens” of ownership. Some common transaction structures for monetization opportunities include:

DIRECT SALE

– Hospital sells non-core assets directly to a 3rd-party

Benefits

- Provides capital for new projects/ operations, reduces outstanding debt, and improves financial ratios
- 3rd-party responsible for property management and maintenance
- Removes hospital from landlord-tenant relationship
- Hospital maintains control through ground lease or restrictive deed covenant

Burdens

- Occupancy costs for tenants may be higher due to the equity return requirement of 3rd-party owner
- Lack of complete control in leasing and marketing
- Introduces 3rd-party into hospital-physician relationship

SALE/LEASEBACK

– Hospital sells non-core assets to a 3rd-party, then master leases the property and subleases space to physicians.

Benefits

- Improves liquid capital position
- Decreases real estate risk
- Hospital maintains control through ground lease or restrictive deed covenants

Burdens

- Does not remove hospital from landlord-tenant relationship
- Occupancy costs for tenants may be higher due to the equity return requirement of 3rd-party owner
- May not substantially improve financial ratios due to accounting treatment and rating agency analysis

JOINT VENTURE

– Hospital sells a partial interest in the non-core assets

Benefits

- Allows physicians an opportunity to participate in real estate ownership
- Aligns physician and hospital economic interests
- Improves hospital's capital position
- Hospital maintains control through ground lease or restrictive deed covenants

Burdens

- Potentially complicated transaction
- Stark and Anti-kickback regulations still apply
- May bring physicians into decision making process
- Interest in property is relatively illiquid

Who might be a potential investor?

- PHYSICIANS
- HEALTHCARE REIT
- INSTITUTIONAL INVESTORS
- PRIVATE DEVELOPER/ PARTNERSHIP

Realty Trust Group’s expert team of Healthcare Real Estate professionals can help you navigate issues like Real Estate Monetization and other complicated topics. Call Greg Gheen: 865.521.0630