Current Trends in Physician Real Estate Ownership

Understanding the Factors Affecting Medical Group Decisions

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Changes in the healthcare environment have encouraged many independent physicians to reevaluate their real estate ownership strategies. Although they have historically preferred to own their facilities, many physicians now need to redirect capital to support physician recruitment efforts, foster professional development, implement electronic medical records, and keep pace with ever-changing medical equipment and technology needs. Faced with these varied pressures, new health care regulations, and a continually depressed national economy, many practices are looking to recapture value from their properties.

To help better understand how these trends impact real estate decisions, we spoke with **Greg Gheen** and his team of real estate professionals at **Realty Trust Group** ("RTG") about the benefits and challenges of physician real estate ownership.

Why do physicians choose to invest in real estate?

Medical groups have traditionally chosen to invest in real estate to ensure control over their own facilities. Because medical groups that own their own properties cannot be relocated against their will, nor have their margins eroded by rising rents, many medical groups feel more independent – and more stable – when they are owners.

Likewise, by investing directly in their own facilities, medical groups create something tangible that can accrue value over time and create additional income.

Why are physicians reassessing their real estate strategies now?

Several trends are causing physicians to reevaluate their real estate strategies: reimbursements are declining; younger doctors are less interested in independent practice; and older physicians are looking for an "exit strategy" as they contemplate retirement.

Many medical groups also see their historic office locations as impediments in their efforts to work more closely with hospitals - and some have even taken the step of moving closer to their hospital partners in order to better coordinate patient care. Finally, a medical group in an older property may find it more cost-effective to relocate to a new facility rather than paying to update and maintain their existing, older facilities at current standards.

Are there active buyers for medical office real estate?

Medical real estate is an active market with a number of investors prepared to buy facilities both on and off hospital campuses.

For larger properties, the typical buyer is a real estate investment trust ("REIT"), institutional investor, or private capital group interested in taking advantage of the low interest rates and the stability currently associated with healthcare real estate versus other property types.

In the case of smaller properties, medical groups often sell to local developers and investors. Hospitals – which occasionally purchase real estate as part of a practice acquisition deal – are another option as potential purchasers.

But hospital-physician transactions tend to be somewhat more complicated, given the legal and regulatory requirements such as STARK and Anti-kickback Statute ("AKS") that govern these dealings.

How might the decision to sell the real estate impact the physician practice?

Selling a physician-owned property can have two major effects on medical groups. First, it removes the financial burden of owning and maintaining a property from individual physicians and allows them to focus on other matters in their practice. Second, the proceeds of the sale can be reinvested in the practice to fund critical initiatives that will improve practice operations such as new electronic medical records or other medical technology.

Alternatively, property sales and practice relocations, if not well planned, can introduce uncertainty. Moving away from a medical group's historic location can confuse and irritate patients, and newer office space may require capital investment and add increased operating costs for the practice. Physicians interested in changing their real estate strategy should carefully consider all of their strategic, operational and financial circumstances prior to making a final decision.

Real Estate Strategy In Practice – A Case Study From Harbin Clinic

Real estate has been a strategic asset for the Harbin Clinic. Not only has it helped us expand our regional footprint to be closer to our patients through self-developed clinic locations, but it has also been a dependable source of income for our physicians.

About ten years ago Realty Trust Group helped us combine disparate real estate partnerships that were owned by a few of our physicians into one limited liability company that offered broad ownership to all physician-owners of Harbin Clinic. New members were allowed to join on a regular schedule and we found that this opportunity helped separate us from other practices when we were recruiting new physicians. Governance was vested in an elected Board of Managers and our debt was treated as non-recourse to our members.

As health care reform became more of a reality, we critically examined the potential future capital demands on our independent practice of physicians. We also evaluated our capital structure in light of changes in the financial industry that could impact our borrowing capacity.

Ultimately, we elected to sell the majority of our real estate assets and selected a sale and leaseback with a publicly traded real estate investment trust (REIT) that also allowed us to self-manage the properties going forward. While we continue to own several real estate assets in the same partnership, we have reduced our debt considerably and passed along to our physician-owners a very attractive return on their investment from the sale of the properties in 2012.

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