

The Physician's Guide to Selling Medical Real Estate



SCHIER CAPITAL GROUP, LLC

Healthcare Investment
Banking and Medical Real
Estate Advisory

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
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WHY CONSIDER SELLING?

- **Timing** – Is now a good time to sell? Have we considered the overall economy, medical real estate supply/demand, interest rates and availability of financing, intrinsic attributes of the property, and capital gains rates? 
- **Intrinsic value** – Do we have a lot of value locked up in the property? Have prices risen? Has debt been paid down? Do we have a high weighted average remaining lease term? Is our real estate more valuable than practice equity? 
- **Property management experience** – Could somebody else manage the property better? Does the property need capital investment? Are lease terms sub-optimal? Is vacancy a chronic problem?
- **Use of proceeds** – Do we have a compelling use for the sale proceeds? Does the practice have other capital demands? Do owners prefer to diversify personal portfolios?
- **Support** – Do all owners support a sale? Are there group dynamics at play that will make agreement to a sale difficult to achieve? Are all owners equally incentivized to pursue a transaction? 

WHAT ARE WE WORTH?

- **Location** – Is the geographic market attractive? Are we in a primary, secondary, or tertiary market? Are we on a hospital campus or nearby? Is the submarket a medical destination? 
- **Building characteristics** – What is the age of the building? Any highly comparable sales in the market? Could the building be repurposed if necessary?
- **Credit quality of tenants** – How does our balance sheet look? Other creditworthy tenants in the building?
- **Weighted average remaining lease term** – Are remaining lease terms short or long in duration?

WHO ARE THE BUYERS?

- **REITs/MOB funds/private equity** – Is the medical real estate market currently active? Who has cash sitting on the sidelines with a pressing need to deploy? Have buyers been active in our area recently?

WHO ARE THE BUYERS? (cont.)

- **Capital sources** – Are equity and debt plentiful and available on attractive terms?
- **Lease structure** – Are we an acquisition target for single-tenant or multi-tenant buyers? Are the leases NNN, full-service gross, modified gross?
- **Chemistry** – Do we get along with the buyers? Do we know who we will be interacting with after the sale? Is the buyer experienced in our type of property and tenancy? What is the buyer's hold period? Is there an opportunity for us to re-invest some of our proceeds?



SHOULD WE HIRE A BROKER/ADVISOR?

- **Evaluating the offer** - Have we been approached by interested/credible buyers? Do we know enough to negotiate ourselves? Can pricing be meaningfully improved? Are there structuring advantages an advisor could provide?

SHOULD WE HIRE A BROKER/ADVISOR? (cont.)

- **Finding somebody** – Is the broker/advisor licensed to provide the needed services? Does the advisor understand healthcare, our particular value proposition, and can he articulate that to the market or the proposed buyer?





HOW CAN WE DRIVE VALUE?


- **Lease terms** – Can we improve term, rent rate, escalators, master leasing, NNN lease features, rent coverage provisions, additional security, etc. to increase value?
- **Strategic buyers** – Would the local health system be interested in the property? Are there investors with existing assets in the area that would be willing to pay more?



WHAT OBSTACLES MAY CROP UP?

- **Lease terms** – Are the terms of the leases in the buildings market and salable? Are there security deposits, guaranties, requirements to submit financial statements? Are capitalized terms properly defined? 
- **Other paperwork** – Do we have the certificate of occupancy? Is parking within code requirements and appropriately documented? Is the management contract at market rates?
- **Adjoining properties** – Any cross-access easements in place or needed? Are there documented parking agreements with neighbors?
- **Other rights/claims** – Any rights of first refusal (ROFRs) on space within the building? Any ROFRs or rights of first offer (ROFOs) for ownership of the building? Should there be, for our benefit? Are there restrictions on leasing or sales to competitors of ours? Should there be? Do we or the future landlord have rights to move tenants in the buildings if needed? Are estoppel and subordination and non-disturbance agreement terms favorable to the landlord or tenant? 

WHAT OBSTACLES MAY CROP UP? (cont.)

- **Perceived risks** – If buyers conduct tenant interviews, do we know how other tenants will respond to probing questions? Are relations with the other tenants on solid footing? Are terms of the leases properly enforced, and if not, can they be post-sale? 

WHAT HAPPENS AFTER THE SALE?

- **Reporting** – Who performs rent billing and collection for property tenants? Do we have staff that will no longer be needed?
- **Interactions with the buyer** – Will we be dealing with someone we met during the sale process? Can we provide our own property management services after the sale? Can the buyer re-sell the property without our approval? What if our escalated future rental rate exceeds the fair market rate?

WHAT HAPPENS AFTER THE SALE? (cont.)

- **Who pays** – If capital expenditures are required, who pays for them? What about maintenance to capital items? How about property insurance?



ANY REASONS NOT TO SELL?

- **Instability** – Will the practice be selling/moving in the near- to mid-term? Any potential change in the number of providers that may make the lease difficult to afford? Do group dynamics make a sale difficult/unlikely?
- **Market terms** – Are the leases below fair market rental rates? Are remaining lease terms of short duration? Are property taxes likely to rise considerably due to re-assessment?
- **Reinvestment risk** – Do the owners lack a suitable reinvestment alternative for the proceeds?



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