

Sale-Leaseback Deals Offer Physicians Opportunity to Invest Cash into Growing Practices

Physicians who own their medical office building (MOB) may want to consider the sale-leaseback as a means of growing their practice, infusing it with capital, focusing more on their staff and patients and eliminating the burden of debt from their real estate.

BARBERMURPHY Principal Collin Fischer says the MOB sale-leaseback is a transactional real estate opportunity that is stronger than ever. Doctors who actively own and operate healthy medical practices are cashing out of their real estate ownership to devote more time and money to their growing practices.

A sale-leaseback, Fischer says, is an ideal way to channel dollars toward additional medical equipment and technology needs.

In simplest terms, a sale-leaseback is when the owner/occupant of a property sells the real estate to an investor. The owner/occupant, who becomes the seller, simultaneously signs a lease for the property to continue operating their business, now as a tenant who pays the negotiated rent to the buyer/investor.

“We’re representing clients who are seeking this type of investment,” said Fischer. “One scenario we’ve seen recently is a retiring physician who wanted to cash out of his real estate while he continued to practice a few more years, and then transition the business to his associates. A medical office sale-leaseback is also an option for a physician with an established, successful practice to sell the building, lease it back and invest his proceeds into new medical equipment and technology or establish additional locations.”

Fully leased, well-located Class A and Class B medical facilities with lease terms of 10-15 years are ideal candidates for a sale-leaseback transaction, according to Fischer. Typically, the investor is seeking to hold the property for 5-7 years, expecting a good credit tenant to trade at a discount rate of 7 to 8 percent (based upon the first year’s net operating income). Fischer says there are many variables to consider in today’s environment, and every opportunity is unique.

“This is what we’re seeing locally,” Fischer said. “Of course, these transactions are fluid by nature since you’re essentially negotiating a lease and a sale at the same time. There is usually some flexibility on sale price, rate of return, rent payments, lease term and rent escalations that can be used to tailor the best transaction for both sides.”

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Due to the essential nature of the services provided, some medical offices have been less susceptible to the negative economic impacts of COVID. Firms such as BARBERMURPHY can provide MOB owners with expert advice about the structure of the sale-leaseback and the lease terms. “Often we can assist in negotiating a new lease between the investor and seller that enables the physician to pay off his existing real estate debt on the building,” Fischer said.

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“A lot of times, the investor can negotiate some level of guaranty from the seller/tenant that helps lower the risk for the investor,” he said, “and the terms are competitive – if not better – than other investment vehicles...not to mention, you end up owning real property.”

BARBERMURPHY sold the Illinois SW Orthopedics building in Glen Carbon (4802 South State Route 159) in 2019, essentially as a sale-leaseback, Fischer said. The group of physicians that sold the real estate were, at that time, employees of the healthcare company that leased the property.

“Sale-leasebacks are a great way to raise capital for operational medical practices, even now,” said Fischer. “We need more medical office inventory locally, as there’s a solid demand for it in the Southern Illinois market.”

Article by Kerry Smith, Informationworks, Inc.