



THE BENEFITS OF A SALE-LEASEBACK REAL ESTATE TRANSACTION

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Imagine you are the owner of the medical office building or ambulatory surgery center (MOB) that contains your practice. Your top priority as a physician is to provide quality care to your patients. Yet, as the owner of the real estate, you find yourself facing increasing cost pressures that include expenses for information technology, medical equipment, electronic health records requirements, rising labor costs, and insurance premiums. You want to focus more on the care aspects of medicine and less on the real estate ownership and management issues.

More and more provider-owners are facing those same pressures and capital constraints. A sale-leaseback of your MOB provides an effective solution to unlocking the trapped value of your real estate, while freeing up much-coveted cash. With MOB values near historical highs, the timing may be right to assess a potential sale-leaseback transaction.

What is a sale-leaseback and why is it important?

The basic structure of a sale-leaseback is exactly as it sounds. A provider-owner sells its property and then leases the space back under a long-term lease (typically a 10-15 year lease with extension options on mutually beneficial terms). A sale-leaseback to a long-term real estate partner allows you to hand-pick your landlord, recover capital that was invested in the purchase or development of the property and ongoing improvements, and continue to occupy the property via a long-term lease. This structure creates a true strategic partnership between the physician practice occupying the property and the real estate owner.

Is a sale-leaseback the right option for you?

As you consider a sale-leaseback, it's important to understand how a sale-leaseback transaction provides economic and operational benefits to your practice, especially when compared to conventional financing.





ECONOMIC BENEFITS: A sale-leaseback can provide an infusion of capital into your practice. Unlike traditional financing which typically holds a loan-to-value ratio of 70-80%, a sale-leaseback grants you 100% of the value. In addition, because a sale-leaseback has a long-term lease with established lease terms, you have a clear understanding of operating costs for the foreseeable future.

OPERATIONAL CONTROL: Through a sale-leaseback, you select the real estate partner to be your trusted landlord. This long-term relationship is mutually beneficial and allows you to retain a certain level of control over your property. This includes setting lease terms, tenant improvement allowances over time, and changes to the space as the business evolves.

PRACTICE LIFE CYCLE: In larger physician groups, there may be an imbalance between older physicians nearing retirement and younger physicians coming into a practice. This may create misalignment between the two groups – retiring physicians may be concerned with the return on investment in a real estate sale and younger physicians may be concerned with the rising costs of operations and occupancy. When a sale-leaseback is structured properly, this alleviates the disconnect and benefits all physicians.

TAX BENEFITS: Structures exist to reduce the impact of taxable income a physician-owner may experience due to a sale. These include maintaining a small investment in the opportunity, offering equivalent shares of our publicly-traded company in exchange for proceeds of the sale, and other creative structures. Of course, these are all items we recommend you discuss with your legal and tax advisors.

Conclusion

Many factors influence your decision to execute a sale-leaseback of your building. These include deal terms, asset location, strength of the practice, and tenure of the physicians. Currently, medical office buildings are trading at prices advantageous to sellers. As you review whether the timing may be right to look at a potential sale-leaseback for your real estate, connect with the Physicians Realty Trust team, a trusted industry partner, to learn more. We welcome the opportunity to discuss this with you.

