



Who's SELLING Medical Real Estate?

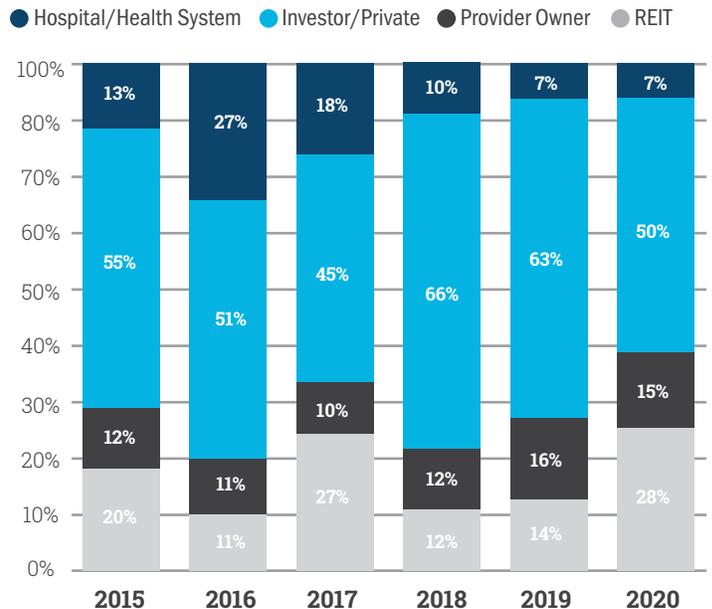
As a follow up to HREA's **Who's Buying Medical Real Estate**, it's worth understanding the breakdown of Who is Selling Medical Real Estate throughout the U.S. along with the circumstances that are driving these transactions.

The year-over-year sale volume activity depicts a consistent increase of real estate transactions by physician-owners. Whether addressing succession planning or capitalizing on historically high valuations, physician practice groups are deciding to explore various liquidity strategies, and in particular, the Hybrid Sale-Leaseback, which allows for both a sale and continued physician-ownership in the real estate.

15x-18x VALUATION MULTIPLES

Providers who own and occupy their medical real estate are increasingly seeing the benefits from selling or partially selling and unlocking the value that has been created from their practice, achieving unprecedented valuations ranging from 15x – 18x EBITDA. This compares favorably to the multiples that are being achieved by monetizing their practice operations by a factor of nearly 2 times.

% OF SALE VOLUME BY OWNERSHIP TYPE



Source: Revista

Another common trend we are seeing is private equity investors making up over 50% of the sales volume.

This is primarily due to these investors acquiring individual assets and rolling them into a large medical portfolio that will eventually be sold to a REIT or larger private equity group. HREA's knowledge to discern between long-term patient capital and short-term "flip" mentality is invaluable.

Having relationships and access to REITs and private capital is essential for providers who are contemplating a sale as they are the most active buyers. At HREA, we navigate the

sale from start-to-finish, in a very discreet manner, strategically aligning our client with the best partner. With over 250 active healthcare real estate buyers throughout the country, HREA is positioned as a physician advocate to provide a myriad of options and solutions to meet our client's needs and requirements.

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Why is now a good time for providers to sell?

- Historically low interest rates and significant amount of investment demand for institutional quality healthcare facilities is driving unprecedented valuations, often ranging from 15x – 18x EBITDA (EBITDA = NNN rent).
- The next 10 years will see the fastest growth in the 65 and over population, ramping up demand for medical services at the fastest rate in history. Subsequently investor demand for medical properties is at an all time high.
- From 2019 to 2027, the Centers for Medicare and Medicaid Services (CMS) project that healthcare spending will rise by approximately \$268 billion per year, nearly twice as much each year as the previous decade.
- Institutional equity is rotating out of other asset classes, such as office and retail, and into medical real estate where investors see stability, positive demographic fundamentals, and a lower correlation between healthcare expenditures and the broader economy.

What are the benefits for providers selling now?

- Free up capital to reinvest back into the business, whether that be directly into the operations or by expanding an existing facilities footprint or developing new buildings.
- Sell and retain a minority ownership interest in the real estate with repurchase rights.
- The ability to sell through a tax deferred structure and reinvest all or a portion of the proceeds.
- Eliminate potential challenges of having disparity of ownership between the practice and the real estate in the future.
- Right to modify or make improvements to the building and site, retain control, as well as multiple lease renewal options at FMV.
- Ownership can transfer the burden of the future tenant improvement costs, structural costs, and roof replacement costs to the new owner – typically \$50/SF - \$100/SF.



Driving a significant amount of the supply and increase in medical real estate transactions have been physician-owners of ASCs and Surgical Hospitals as these groups address succession planning and explore M&A growth and liquidity options.

Most commonly, this comes in the form of a sale-leaseback combined with continued physician-ownership in the real estate and/or a tax-deferred structure through an UPREIT or §1031 like-kind exchange.

The physician mindset of real estate ownership has continued to evolve as more and more physicians opt-out of real estate ownership and opt-in to practice and ASC ownership. Without

addressing a long-term real estate strategy, the ownership alignment between the practice and the real estate has the potential to devolve into disparate ownership. Physician-owners that are aware of this potential outcome have increasingly decided to monetize or partially monetize their real estate to take advantage of the high valuation multiples and to keep their focus on patient care and operational growth opportunities.

Recent Case Study

HREA | Healthcare Real Estate Advisors is pleased to announce the real estate sale transaction involving an outpatient surgery center located in Panama City, Florida.

Consisting of 16,926 SF, the state-of-the-art multi-specialty ambulatory surgery center (ASC) consists of four operating rooms and two GI/pain procedures rooms with 42 board-certified surgeons providing traditional, robotic and laser surgery across a wide array of surgical procedures.

In February 2020, the ASC engaged an investment bank to sell a majority interest to a national surgical managing company. The real estate transaction, structured as a Hybrid Sale-Leaseback, was anticipated and structured in a manner that ensured maximum proceeds and long-term control of the real estate without compromising the overall business strategy.

Ultimately, the real estate sale provided the physician partners with the ability to continue to own a minority share of the real estate (30%) in a non-taxable manner while adding additional tax-deferred liquidity and cashflow through an UPREIT option. In addition, the new lease provides the ASC with capital to expand the building, adding additional ORs, procedure rooms, and clinical areas to support its long-term growth.



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HREA focuses exclusively in working with healthcare providers in advising on transactional real estate strategies. The investor landscape is always changing with new capital being raised. HREA's frequency in the market enables us to align the investment opportunity with a number of capital sources that will pay a premium.

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HREA is a national leader in advising healthcare providers and real estate investors with various monetization strategies, including disposition, debt & equity recapitalization, and tax-deferred structures, such as the §1031 Exchange or UPREIT. In addition, HREA's capabilities also include providing health systems and physician groups with 100% non-recourse financing for new development and expansion, as well as monetizing surplus and non-essential real estate assets.

200+
Represented
Transactions

\$3+
Billion
Healthcare Assets Sold

20+
Years
Healthcare Real
Estate Experience

Healthcare-
Focused
Specializing in MOBs, ASCs, Surgical
Hospitals, Post-Acute & Behavioral



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