



Owners of Real Estate

One obvious aspect of real estate ownership is the built equity over time. For many Providers though, there are benefits to unlocking that capital and putting it to active and immediate use. For practices that own their real estate, a sale leaseback transaction can be very useful.

Real estate doesn't drive most healthcare practices...so why keep all that money stored in the building? Real estate owners who expect to remain at their location long term but don't need to own the building and have good use for that stored wealth either personally or professionally, a sale leaseback can be a profitable strategy. With a sale leaseback, the owner sells the building they operate out of to a third-party investor and, in turn, sign a long-term lease with the buyer. Providers across the country may want to liquidate their equity to:

- sell the building in a historically strong market (typically anywhere between an 11x–17x multiple on the rent);
- have the ability to convert 100% of equity into cash—whereas a typical refinance will only provide you with 65%–70% of the building value;
- have an alternative source of financing from a bank that has a balloon payment at the end of the term. (A sale leaseback is essentially an interest-only structure with zero balloon-payment obligation);
- fund future expansion to build or acquire new locations for your practice;
- transfer those proceeds into other investment vehicles that will provide a higher rate of return;
- take those proceeds and reinvest back into the practice to fund marketing, improvements, new machinery, equipment, etc.;
- trade that capital into management-free real-estate funds with potential tax deferral benefits.

Finding the right firm to list your real estate and procure the highest-paying buyers in the country (without overpromising and underdelivering) among the many in your local market can be overwhelming. Sellers are often dazzled by overconfident sale prices from a broker trying to win their business—only for their property to sit on the market for a year or more with little or no activity. In the construction industry, there is an unscrupulous saying among some: “*Win the bid; make it up in change orders.*” This similarly applies to

eager brokers capturing a listing with unrealistic promises, knowing full well that they will later greatly reduce the price in order to sell it.

Many inexperienced real estate brokers conduct sale leasebacks without the proper resources and knowledge to underwrite an accurate Broker Opinion of Value for an evaluation. Their

limited experience and relationships fail to procure the highest price possible for return of equity. Real estate owners need the most comprehensive supporting data for their property's value. A strong justification of the purchase price gives the buyer less room to negotiate on the price.

The owner's choice of advocate also generates competition. While local agencies can list real estate in an investment offering, their reach is limited in capacity and exposure compared to a firm that solely specializes in investment real estate.

Client Story: A client contacted me for a local market analysis of his property's worth. He was interested in using the equity to purchase his next practice and wanted me to review what both local investors and the national market may offer compared with more sophisticated REITs and trusts.

Bottom Line: We found that the local real-estate investors would only offer a maximum price that would yield 11% return on their cash-on-cash investment, whereas more sophisticated buyers were offering as low as 7–8% return, resulting in over a \$250,000 difference of value to the seller.

Considerations that attract the highest-paying buyers and value for your real estate:

- length of lease term (*preferably 10–15 years*)
- full-term guarantee (*This can be personal and/or corporate.*)
- strength of guarantor (net worth/value)
- absolute NNN lease(s) (*preferred*)
- condition of real estate (*no anticipated capital expenditures*)
- geographic location
- rental increases (*3% annual*)

Owners contemplating a sale to extract the maximum equity need to prepare for these considerations and, to review their real estate value options, call KLAS for a comprehensive Broker Opinion of Value and assistance in the decision-making process. You will be with a healthcare real estate investment specialist.

Clint Herrema is the Principal Broker with Bridge Commercial Realty, LLC. His knowledge and experience regarding strategies and options available specific to the healthcare industry make him a powerful advocate for Providers and their real-estate needs. He can be reached at (616) 238-7550.