

# To monetize or not to monetize

That is the question... and here is how to find the answer

It's becoming difficult to remember the days when the idea of monetizing non-core real estate assets – primarily medical office buildings (MOBs) – was considered an unconventional financial management strategy for hospitals and health systems.

Back in the 1950s and '60s, the idea of having a third-party own a hospital MOB was almost unheard of. MOBs were developed and owned strictly by hospitals, which leased space to affiliated physicians. Then, starting in the late 1970s, it became relatively common for physicians to invest in real estate – including MOBs – using passive losses as a tax reduction strategy.

But by the mid-1980s, hospitals returned to the forefront of MOB

development and ownership. Physicians lost interest in MOB investing for many reasons, including the Tax Reform Act of 1986, making real estate ownership less attractive to passive investors.

Then, in the late 1990s, third-party development and ownership of MOBs began to enjoy a renaissance that continues today.

Now, physicians aren't the only potential buyers. Some of the other investors that have warmed to the idea of acquiring medical real estate include:

- Private healthcare real estate developers
- Real estate investment trusts (REITs)
- Mainstream commercial real estate firms
- Institutional investors
- Private equity firms
- Individual investors

## Why monetize?

Clearly, there are plenty of potential buyers. But why should a hospital sell? Monetizing non-strategic real estate assets can:

- Unlock cash from illiquid real estate holdings, which often amount to half of a system's total assets. That cash can then be redeployed in ways that better support the hospital's core mission of delivering healthcare services. Often, hospitals maintain control over these buildings and real estate through the use of long-term ground leases, deed restrictions or restrictive covenants.
- Improve the hospital's financial position by reducing balance sheet debt and boosting its overall return on assets
- Get the hospital "out of the real estate business" – a strategic decision allowing hospital personnel to focus on their core mission while avoiding conflicts that could negatively impact hospital-physician relationships. This also allows the hospital to rely on qualified real estate professionals for routine – but specialized – tasks, including marketing, leasing and property management.
- Reduce the regulatory and legal risks – from fraud and abuse


*Top photo: Green Valley Ranch (Colo.) Medical Office Building.  
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laws, particularly the federal Stark Laws – that can arise when a hospital plays landlord to the same physicians it relies on for patient referrals.

Of course, monetizing isn't always the right decision. If a hospital or health system is considering a monetization, it should start by analyzing its real estate assets in light of its long-term organizational mission and objectives.

That process might determine that some – or even none – of its real estate assets should be monetized. Sometimes it makes sense for a hospital to continue to own some of its non-core real estate.

But if a monetization seems justified, the next step is to assess the alternative types of transactions, including:

- Joint ventures between third parties and hospitals, possibly with physician-tenants also as part of the JV
- 100 percent third-party ownership
- Sale/leasebacks, which enables a hospital to continue to occupy a facility while extracting the cash value

After weighing those options from a credit and accounting standpoint, the hospital should proceed with a desired transaction structure in mind.

The next step is to create and implement a strategic marketing plan for the property or portfolio. The plan should be based on the hospital's objectives for a potential sale, and should include a targeted list of potential investors.

A detailed request for proposals (RFP) or offering memorandum

should then be distributed to the target list. After responses are gathered, the hospital must work through a process to narrow the list of finalists, followed by negotiations with the chosen buyer and culminating in the closing of the deal.

## Where to begin

This all looks great on paper, but the monetization process can be extremely complex and labor-intensive. So the question becomes: Who is qualified to be responsible for the process?


I have been reporting and writing about commercial real estate for more than 20 years, and I have focused on healthcare real estate for the past five. So I have developed a fairly sophisticated working knowledge of how a successful monetization process might work. But that's not the same as actually doing it.

Likewise, some healthcare executives might have a basic understanding of monetizations, and they might even be tempted to go it alone. But, again, that's a far cry from actually doing it.

Fortunately, there are a growing number of specialized, highly qualified medical real estate brokers, investment banks, advisors and consultants. My recommendation is to learn more about these firms so you can make your own informed choice.


*Murray W. Wolf is the Publisher and Founding Editor of Healthcare Real Estate Insights™.*

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