



PCI | HealthDev[®]
Medical Real Estate Solutions

WHITE PAPER



BUILDING WHERE FEW BUILD

AN OVERVIEW

Building a medical clinic in rural or underserved communities entails many distinct challenges and opportunities. With the right guidance early in the process, medical entrepreneurs can develop successful clinics that are both socially beneficial and financially rewarding.

An Opportunity to Do Well and Do Good

Vast swaths of the United States suffer from insufficient medical resources to meet local demand. The U.S. Department of Health and Human Services has identified approximately 6,000 [Health Professional Shortage Areas \(HPSAs\)](#) for primary care, 4,600 for dental care, and 3,700 for mental health.¹ The need is especially high in rural communities, home to about 25% of America's population but only 10% of its physicians.² In these underserved areas, doctors and owners of medical real estate can have a profound impact on the local population's health status.

While the healthcare market in densely populated areas is often saturated and intensely competitive, the rewards of the path less taken are often overlooked—indeed, in rural areas, a reserve of unmet need allows new practices to hit the ground running. Across the country, small-town physicians are integral pillars of their communities who grow successful, relationship-based practices through positive word-of-mouth marketing. They also tap considerable economic benefits, including the relatively low costs of owning or leasing real estate in these markets. By building or refurbishing buildings for clinical use in less-developed areas, medical practices' impact on the community can extend well beyond providing health services. Local officials often take notice and become helpful partners to these practices, which may enjoy access to economic incentives.



Definition: Health Professional Shortage Areas (HPSAs)

A geographic area, population group or facility may be designated as an HPSA or Medically Underserved Area or Population (MUA or MUP) by the U.S. Department of Health and Human Services if it meets specific criteria. As of January 1, 2014, Primary Care HPSAs are based on a physician to population ratio of 1:3,500. It is important to note that there is no generally accepted ratio of physician to population ratio. For additional information on this topic, please visit www.hrsa.gov.

Challenges

Of course, opening a practice and medical clinic in rural and underserved markets may entail considerable challenges. For example, practices must select a site with strong visibility and ample access for patients who may face mobility constraints, such as in communities with low rates of personal vehicle ownership where patients may be tethered to the schedules and routes of public transportation.

In addition to an understanding of transportation flows, successful site selection requires intimate knowledge of the local real estate market. Devoid of this expertise, potential owners can miss out on site prospects with immense hidden potential—low-cost acquisitions that can be cost-effectively developed into iconic

medical establishments. Potential owners also may not be able to fully evaluate potential constraints to developing a specific parcel of land, including civil engineering issues that carry hidden costs (availability and capacity of utilities, topography & drainage, soil stability, etc.) and zoning and permitting issues that could hinder speed-to-market. While true integration with the community requires real estate that conforms to local character, owners sometimes falter in their design choices, turning their practice into an eyesore rather than a source of pride. Moreover, owners lacking local expertise may struggle to accurately assess fair market value, which varies by community and neighborhood. Consequently, they risk overpaying for property or, perhaps more worrying, accidentally contravening Anti-Kickback Statutes.

Other challenges, such as staffing, are ongoing. Some doctors embrace the small-town lifestyle, where their families can enjoy fresh air, open space, and all the benefits of a tight-knit community. However, as many rural medical pioneers have discovered, recruiting and retaining talent in these areas can be difficult. Practices that fail to attract sufficient physicians and staff find themselves overburdened and strained under the responsibility of serving as one of a handful of providers to local residents.

The Solution: Customized Local Guidance

These pitfalls need not deter physicians and medical real estate owners who aspire to establish roots in underserved areas. The real estate professionals at PCI | HealthDev offer a comprehensive suite of solutions to ensure locally sensitive, cost-efficient, and successful medical real estate development. The company often focuses on hard-to-build and rural markets.

PCI | HealthDev helps clients overcome the uncertainty of venturing into new markets. Relying on decades of experience in medical services and real estate, its' team offers deep understanding of local markets across the country and can assist clients at every stage of clinic development. This starts at site selection, with a diligently researched survey of prospective locations to ensure familiarity with the spectrum of possibilities. Growth potential is built into the initial location decision through site evaluations that integrate assessments of transportation flows and patient accessibility, as well as long-term real estate value and potential for expansion. PCI | HealthDev often helps



clients discover “hidden gems” in the local market: low-cost, high-potential buildings with the potential to catalyze future revitalization of the broader neighborhood. When it comes to executing the purchase or lease, PCI | HealthDev helps clients navigate the complexities of Stark Law & Anti-kickback Statute compliance, and achieve sound transactions at fair market value.

Fostering relationships with local officials is a key step toward garnering local acceptance and tapping hidden opportunities. For example, early involvement with city officials to evaluate zoning and permitting can improve speed-to-market and site

selection, as well as open access to economic incentives. PCI | HealthDev helps clients cultivate these relationships with local officials by conveying the win-win outcomes of developing a new practice and associated medical clinic, such as fulfilling unmet medical needs, generating local jobs, and providing a spark for community growth or neighborhood revitalization.

PCI | HealthDev also assists clients in the softer, but still critical, aspects of medical real estate development, such as helping clients develop a building that conforms to the community's vision and neighborhood aesthetic. Clients also benefit from assistance in planning key image-cultivating events and gestures, such as groundbreaking ceremonies and ribbon cuttings, when possible tapping local media to maximize reach and impact. In rural areas steeped in local customs and character, these softer elements can make all the difference in setting a new practice on the path to success.

Physician recruitment and retention pose an additional challenge for which PCI | HealthDev offers crucial solutions. Through its fractional ownership offerings, PCI | HealthDev designs flexible financing and ownership structures that make ownership in medical real estate viable for a large subset of younger professionals seeking to establish roots and grow a practice. These ownership opportunities not only attract talent; they also promote retention and sustainability by fostering both financial and emotional investment in the long-term health of the practice—and the community it serves.



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1 Health professional shortage area population ratios: 1:3,500 for primary care, 1:5,000 for dental, 1:30,000 for mental health. Source: "Shortage Designation: Health Professional Shortage Areas & Medically Underserved Areas/Populations," U.S. Department of Health and Human Services Health Resources and Services Administration, data current as of November 14, 2013, <http://www.hrsa.gov/shortage/>.

2 "About Rural Health," National Rural Health Association, <http://www.ruralhealthweb.org/go/left/about-rural-health>.