



PCI | HealthDev[®]
Medical Real Estate Solutions

WHITE PAPER



MEDICAL REAL ESTATE: CHALLENGES AND SOLUTIONS



Hospitals, individual and group physician practices, and other healthcare service providers contend with unprecedented demands on their time and resources in today's dynamic marketplace. New regulations emphasizing accountability, connectivity, and coordination across the healthcare system are augmenting the pressures of dwindling reimbursement and rising overhead costs. For many physicians and providers, these challenges are further compounded by the complexities associated with developing, financing, and managing medical real estate. Healthcare professionals focused on their core clinical missions and business operations often lack the resources and expertise to anticipate and navigate these challenges, resulting in costly inefficiencies, quality problems, missed opportunities, slow speed-to-market, and exposure to economic and regulatory risks.



Challenges

Physicians seeking to own medical real estate are often saddled with substantial liabilities, including high out-of-pocket costs and stringent loan terms, such as personal guarantees and lender indemnifications. Real estate ownership in medical facilities must be structured with great care to avoid physician misalignment and regulatory missteps. Similar pitfalls plague physicians and providers seeking to monetize existing assets as a way to unlock liquidity to fund future growth or retirement.

Indeed, medical real estate ownership, investment, and leasing arrangements are governed by a complex set of rules and regulations aimed at preventing financial conflicts of interest. For example, the conditions under which healthcare providers lease practice space to referring physicians must meet specific criteria to avoid Stark Law violations. Discounts on rent, investment opportunities, and products and services can be interpreted under anti-kickback rules as illegal inducements of or payment for patient referrals.

Without specialized expertise in medical real estate and contract design—for example, in assessing fair market value—physicians and providers struggle to execute arms-length transactions and avoid real or perceived contraventions of conflict-of-interest rules. Even inadvertent violations can

lead to sanctions, including monetary penalties and exclusion from participation in Medicare and Medicaid. By working with real estate developers and contractors who lack the know-how to comply with these rules, physicians and providers can find themselves party to ill-designed property arrangements that expose them to significant financial, reputational, and professional risk.

The real estate construction and development process presents numerous additional challenges. From site acquisition and land development, to facility design and construction, to construction loans and permanent financing, successful property development requires hands-on, expert project management. Yet, projects all too often become bogged down in unanticipated pitfalls, undermining business goals and professional relationships. For example, physicians and providers often lack the deep familiarity with local real estate markets needed to identify strategically advantageous sites that are also economically viable. Failure to properly evaluate, select, and manage vendors can result in cost overruns, quality problems, and costly lags in delivery times. Moreover, mistakes in space-utilization planning at the design phase can pose an ongoing threat to profitability due to workflow inefficiencies and excess overhead.

Solutions

Given these risks and complexities, outside experts can serve an invaluable role in guiding physicians and providers through medical facility development and asset monetization. Third-party experts can facilitate balanced negotiations between providers and physicians to ensure arms-length transactions, incentive alignment, and win-win results. These specialists also minimize risk by streamlining and simplifying facility financing and development, thereby quickening speed-to-market and freeing physicians and providers to focus on their core missions of delivering quality care. Third-party experts should offer comprehensive, complementary expertise in real estate development, financing, healthcare regulations, and public policy. Expert insight into the unique needs of medical professionals allows these firms to offer tailored, customized advice and services to their clients.



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PCI | HealthDev offers turnkey solutions that enable physicians and providers to achieve their real estate ownership goals while eliminating guesswork and minimizing risk. Clients can take advantage of customized whole or fractional ownership structures supported by unique and favorable financing and ownership terms. PCI|HealthDev is managed and owned in part by physicians and other healthcare industry experts, affording it the distinctive expertise to structure smart, cost-effective capital alliances that serve the strategic interests of all stakeholders. Whether clients are developing new facilities (NuBuildSM) or seeking to monetize existing assets (AssetMaxSM), PCI|HealthDev delivers streamlined support through customized solutions and services which include personalized consulting to optimize real estate portfolios, as well as asset monetization services to clients seeking to maximize the value of existing properties. Scalable financing solutions, including access to equity, providing construction loan guarantees, obtaining non-recourse permanent financing, and loan document negotiation, minimize clients' liabilities and initial out-of-pocket costs. Clients can also receive assistance managing their ongoing real estate assets, including accounting, tax, and other services.

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