

# The time to sell is now.

*ASC/MOB Real Estate*

*ASC Strategic Transactions*

**ASK US WHY...**

**SEMINAR**

**Saturday, October 26: 9:25 — 10:05 AM**

Sale and Leaseback of ASC/MOB Real Estate:  
How to Maximize Value

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# Why sell real estate now?

- More buyers than sellers
- Buyers want to buy ASC properties
- High valuations due to low cost of capital
- Interest rates may increase = lower values
- Sell & leaseback - no increase in rent or costs
- Opportunity to take \$\$\$ off table

# Sale and leaseback transactions

- Owners sell ASC/MOB real estate and lease it back at same rent as before
  - Owners receive cash to invest in higher yielding investments
  - Tenant responsible for NNN\* expenses =  
Drs. have control over expenses
- \*NNN = tenant pays insurance, taxes, maintenance, same as before sale
- Limited or no personal guarantees

# **When to Sell Your Real Estate**

- When you have full control of the lease
- When you can commit to long-term lease
- Prior to selling to a strategic partner
- When physician ownership is changing
- When your MOB building is 100% leased

# Who are the buyers?

- Real estate investment companies
- Individuals seeking long-term income
- Family foundations
- Private investment funds
- Real Estate Investment Trusts (REITs)

Why are they buying ASC real estate?

ASCs are highly profitable, stable businesses, with a long-term time horizon, safety

# What are buyers looking for?

- ASCs with track record of profitability  
= proven ability to pay rent
- NNN lease = no landlord responsibilities
- Long-term lease: 10 years or more
- Annual rent increases: 2% to 3%
- Lease guaranteed by the ASC entity
- Sale and leaseback to the sellers

# What To Include in Your Lease

- Long-term lease of 10 years or more
- Multiple tenant renewal options
- No landlord obligations
- Annual rent increases throughout lease
- Limited or no personal guarantees

# How is value determined & maximized

- Value determined by rent: establish FMV
- Higher rent = higher sale price
- Sale price based on Cap Rate
- Cap Rate: determined by risk level
- The lower the Cap Rate the higher the price

Maximize value by highest FMV rent  
and minimum risk to buyer



# Interest Rates: Impact on Value

- Purchasers finance acquisitions
- All-cash transactions determined by rates
- Loan rates set to 10-year treasuries spreads
- Fed policies impact property values
- Higher rates will lead to lower valuations

# Interest Rates & Valuations

Example: \$400,000/year rent, Single Tenant ASC

Expected Property Value/Sale Price  
(National Averages)

Valuations

**\$6,153,000**  
**\$5,925,000**  
**\$5,714,000**  
**\$5,517,000**  
**\$5,330,000**  
**\$5,161,000**  
**\$5,000,000**

6.50% CAP

6.75% CAP

7.00% CAP

7.50% CAP

8.00 % CAP

2.50%

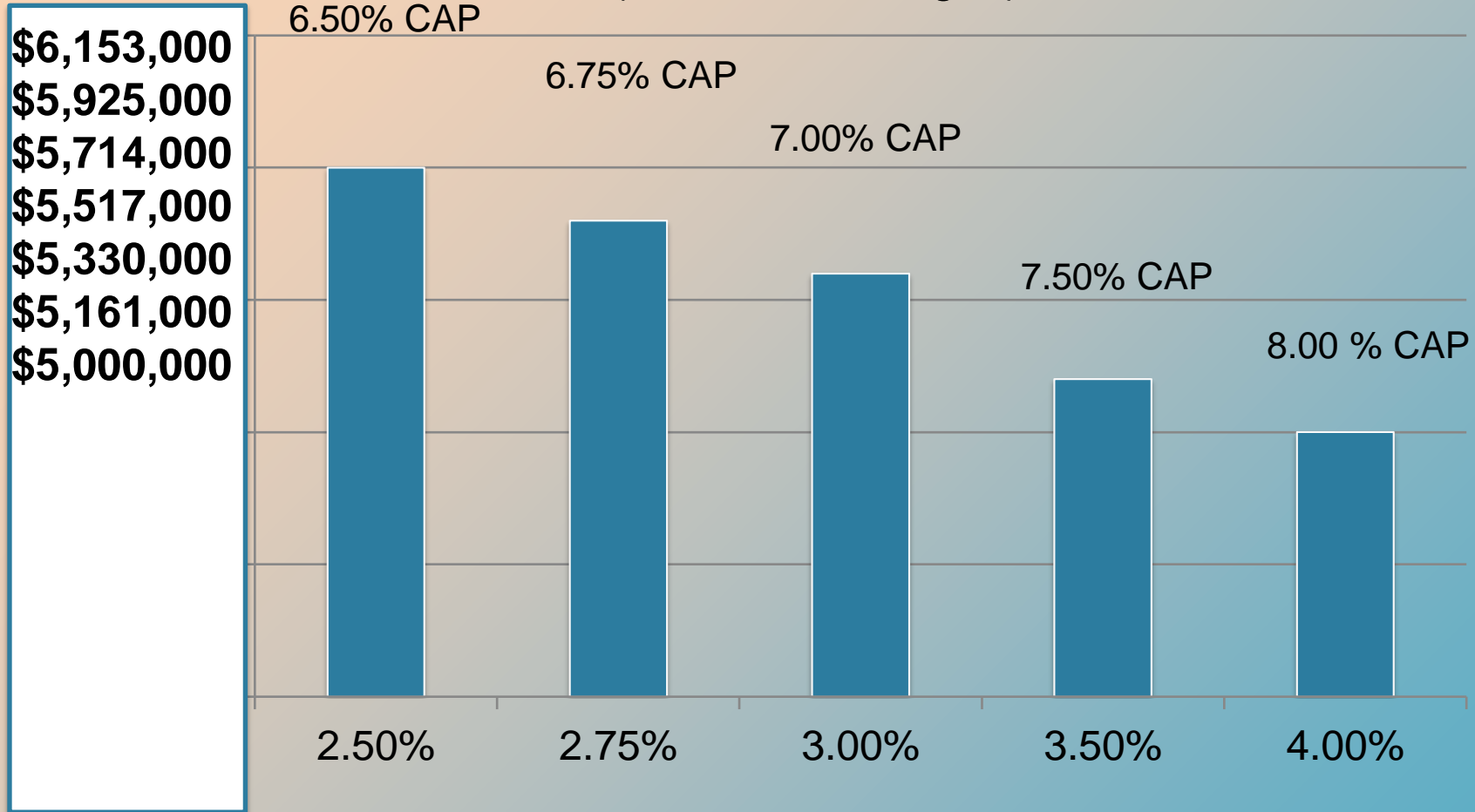
2.75%

3.00%

3.50%

4.00%

10-year Treasury Rates



# **Impact of Sale of Real Estate on Value of your ASC Business**

- Minimal impact on valuation
- As long as rent is within FMV range
- Removes real estate from creating conflicts
- Removes real estate from inclusion in buy-ins
- Strategic partners are not real estate buyers

# Maximizing ASC Value: EBITDA or Rent?

- Increasing the rent lowers EBITDA
- Decreasing the rent increases EBITDA
- 7-to-9 times Multiple of EBITDA commonly paid on majority interests of ASC Business
- CAP rate formula for real estate leads to higher multiples of real estate rents
- Average multiple for real estate is 14 times net rent

# Common Seller Mistakes

- Not understanding that the national market is better than the local market.
- Not knowing the current CAP rates.
- Not securing long-term lease and market lease terms with strategic partners.
- Underpricing or overpricing real estate.
- Not understanding the best time to sell.

# Defer taxes with 1031 exchanges

- Goal: Shelter capital gains from taxes
- 1031 exchanges: taxes are deferred through the purchase of a “like-kind” property.
- “Like-kind” property may be any income-producing property.
- Exchange property identified within 45 days of closing and acquired within 180 days.

# Advantages of 1031 Exchanges

- Defer capital gains taxes
- Diversification of assets
- Generate positive cash flow
- Returns on cash from day one
- Add debt to purchase for greater price
- Increase Depreciation basis
- Shelter additional rental income
- Higher return on investments

# Resource material available

- *How to Maximize Total Value of ASC Business and Real Estate*
- *What ASC Physician-owners Need to Know About ASC Real Estate Sales and Leasebacks*
- *Sale/Leaseback Deals Attract ASC Owners*
- *What's New in Selling ASC/MOB Real Estate*
- *Internal Revenue Code section 1031*