

How To Maximize The Value Of Your ASC/MOB Real Estate And Defer Taxes In A Sale-leaseback Transaction

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Case Study – Dublin Surgery Center Dublin, Ohio



- 14,416 SF ASC w/ 4 ORs, 2 PRs
- Owned by 14 Doctors

Case Study Transaction Details

- Annual Net lease rent of \$397,200
- 15-year term w/ 2 five-year options
- Rent increases throughout lease
- No personal lease guarantees

Why sell now?

- More buyers than sellers
- High prices due to low cost of capital
- Pricing still at historical high valuations
- Higher interest rates = lower values
- Interest Rates Are Rising
- Sell & leaseback - no increase in rent or costs
- Opportunity to take \$\$\$ off table

Interest Rates: Impact on Value

- Purchasers finance acquisitions
- All-cash transactions determined by rates
- Loan rates set to 10-year treasuries spreads
- Fed continues to raise rates
- Fed policies could lead to lower valuations
- Higher interest rates = lower values

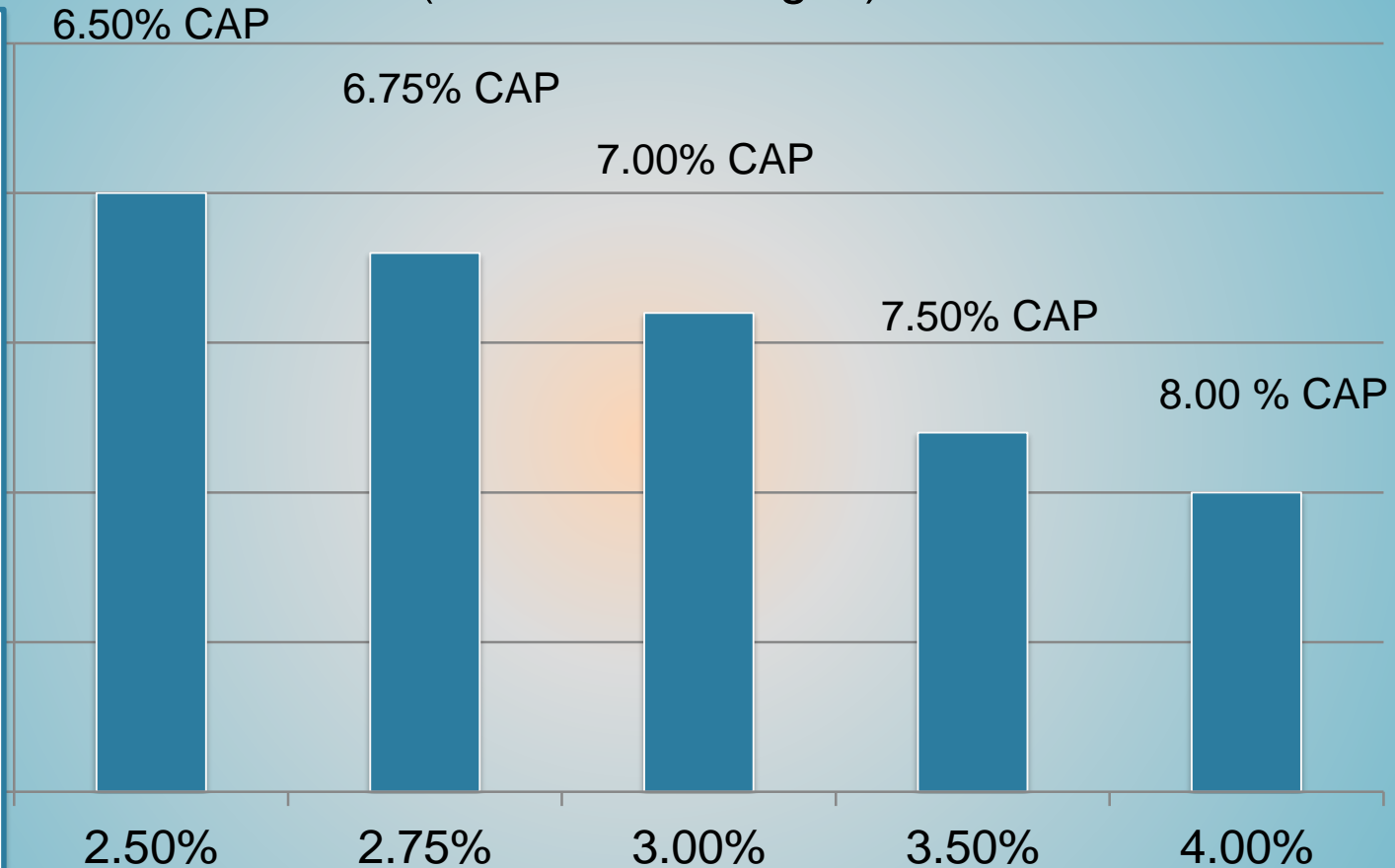
Interest Rates & Valuations

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

Expected Property Value/Sale Price
(National Averages)

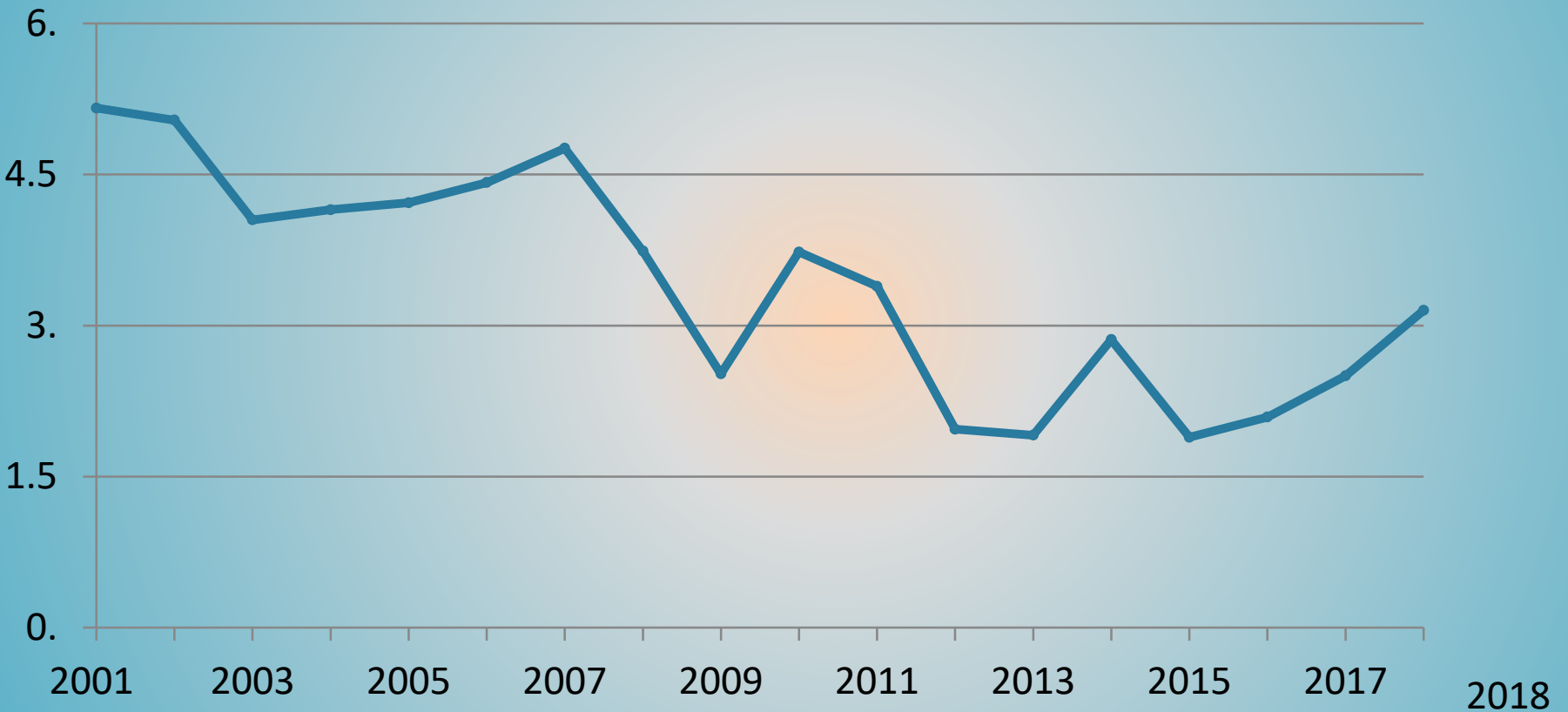
Valuations

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



10-year Treasury Rates

Historical 10-year Treasury Rates
Current Rates Still Low: But
Rising



10-year Treasury Rates

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

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
- **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

Common Seller Mistakes

- Not understanding the national market.
- Not knowing the current CAP rates.
- Not securing longterm lease and market lease terms with corporate and hospital 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 apartments, industrial, medical, office or retail real estate.
- Exchange property identified within 45 days of closing and acquired within 180 days.

Advantages of 1031 Exchanges

- 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

- *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*