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**SPEAKERS**

Trisha Talbot, Brent Lacey

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T Trisha Talbot 00:00

This week's episode of the Providers Properties and Performance podcast is an interview where Brent Lacey interviewed me on his the Scope of Practice podcast. Brent's scope of practice business aims to educate his fellow physicians on financial health and fiscal responsibility. And in this interview, we discuss the economic benefits of physician ownership in the real estate where a clinician practices as well as physicians becoming real estate investors. Brent is also a practicing physician at Texas Digestive Disease Consultants.

T Trisha Talbot 00:34

This is the Providers Properties and Performance podcast. The podcast that brings together leaders in healthcare and investment real estate to consider the possibilities in future at the intersection of practicing medicine and healthcare real estate investment returns.

T Trisha Talbot 00:49

Welcome to the Providers Properties and Performance podcast, I am your host Trisha Talbot. As a healthcare real estate adviser to providers and investors the best solutions occur when the two collaborate together as partners in delivering better patient care. Providers can deliver care to their patients when and where they need it, and investors realize the returns to build and manage facilities. We explore changes in medicine and wellness, the future of healthcare and using real estate as a strategic and financial tool.

B Brent Lacey 01:16

My wife and I lived in apartments and rental homes for 11 of the first 14 years we were married until we finally bought our current home earlier this year. Man are we glad to be done with that, it was a long and involved process. But you know, over the years I've talked to a bunch of friends that have either bought or built houses, and they all agree that the quality of the experience really depends on your realtor, and fortunately we had a really great one.

Brent Lacey 01:41

But you need someone in your corner to help you make the right decision that can be the difference maker. But the same holds true for your business, you're buying a several $100,000 or million dollar plus asset and you want to make the right decision. And that's why I'm so excited to have today's podcast guest to coach us on how to buy or build the right building for our medical practice. Let's kick it!

Brent Lacey 02:05

Hey, y'all! I am so excited to welcome my guest today to the Scope of Practice podcast! She's a healthcare real estate adviser and founder of Doc Properties, Trisha Talbot. Trisha, thanks so much for joining us today!

Trisha Talbot 02:16

Thank you. Thank you for having me.

Brent Lacey 02:18

Yeah, so Trisha I'm really fascinated to talk to you about this subject. I think at some point in the private practice journey, everybody at least starts to consider the idea of owning their own building and maybe that's the very, very beginning of their journey. You know, they're opening their practice, like, I'm gonna build something, I'm gonna buy something, I'm going to do it right now. Or maybe they start off just leasing and then eventually they get to a point, they're like, you know, I would love to just have my own space. And I think it's something that we always consider.

Brent Lacey 02:46

But the thing that was, that was interesting to me was to realize that you know, after talking to you for a bit is that there's people that specialize in this. It's, it's so funny to think about that, because when I think about folks in real estate, I think about, you know, commercial versus maybe residential, but I've never thought about it getting significantly more specialized than that. But you really deal with medical real estate primarily, like that's your niche thing, how did you come to specialize in medical real estate? Why is that so exciting for you?

Trisha Talbot 03:13

Well, I started out wanting to get into commercial real estate, and there's various flavors of that. And I wasn't quite sure exactly what I wanted to do, and when I was finishing up my graduate degree, I worked for a developer of medical office buildings. And I actually did a marketing report for a new on campus building that they were developing, and then I started to work in their leasing department. And I felt, you know, like I had found, I had found my calling, I really enjoyed working with physicians, I felt like I was one, I was doing good, you know, I was helping them find space and operate.

T

Trisha Talbot 03:51

The thing with medical office that's different with the other flavors is, you know that it is mission critical and demand driven. And there's obviously other real estate that is mission critical and demand driven. But physicians, they cannot do procedures out of their home, you know if you need emergency services, you have to go to a hospital, you have to go to a facility to have surgeries. And even with telehealth being I think a tool that will I think enhance healthcare, you have to go to a physician for an in person exam.

T

Trisha Talbot 04:23

So I felt that this was part of real estate that was going to you know, back when I started it was the .com boom, but I was seeing that technology was becoming so prolific. And I'm like, you know, at some point not everyone's gonna have to come into an office to work, you know, if they don't need to, and that's not gonna happen with healthcare, it can't, functionally it cannot.

T

Trisha Talbot 04:47

So and more I got into it and you know, just helping these physicians, they're working all day long and they do need some help and they need the information quickly. They need accurate information, they need to make decisions, they don't have time necessarily, nor do they have a desire to want to go and some do but typically at the end of your day of seeing patients all day, you don't want to have to come home and figure out all of this real estate stuff.

T

Trisha Talbot 05:16

So if you have someone that says, hey! You know, during the day, there's these five documents you need to look at, here's what you really need to pay attention to, here's what I would send to an attorney, here's what I would, you know, have, you know, I would recommend sending to a contractor, just, you know, take a look at them, let me know. And then also, I will then, you know, send them to all of these advisors, for you, obviously, copying you on all of them, but really sort of taking things off of their plate.

T

Trisha Talbot 05:43

And then at the end of the day, you know, altruistically helping them care for people. So it really became like this full circle, I felt like I was doing something good, also helping these busy professionals. And I like working with them, they are highly educated, they are fast paced, for the most part, like to get things done. And, you know, it was just a great connection with who I am, and so it kind of blossomed from there.

B Brent Lacey 06:14

Well, that's wonderful! Well, let's dive right in and talk about this concept of buying up medical spaces, buying up a medical facility, owning your own piece of real estate. And in any kind of business venture, there's gonna be really two things that prevent us from doing something, one is gonna be time and one is going to be money.

B Brent Lacey 06:32

So let's talk about the time aspect of things first, because the number one thing that I hear from physicians is, I just don't have time to add something else on my plate. I'm, they're wall to wall with patients. They've got all these different quality metrics they got to be meaning. They've got all these different credentialing things, and it's just, just there's no time to think about this stuff. And there's no time to think about the idea of running your own space, you know, and having your own real estate, your own facility. So how does a clinician own medical facilities and still practice medicine?

T Trisha Talbot 07:07

Well, that's, that's kind of literally the million dollar question! So I work with, like, for example, I spoke to a hand surgeon yesterday, he and his son are in a practice and they are looking to open a surgery center in a medical office, but then want to buy a bigger building to also have an income investment.

T Trisha Talbot 07:26

And on that scale, you know, SBA is a great tool for the money part. But the time part, you know, when I asked, and this is the question, I always ask, you know, do you still want to practice medicine during the day? And do you want to have a part time job of managing the real estate afterwards? And most typically don't if they're still actively practicing. Quite honestly, they would make more money doing more surgeries than they will managing their real estate.

T Trisha Talbot 07:59

So there's professional property managers that, that also specialize or have a primarily focus on managing healthcare properties. And that has to do with the fact that hazardous waste has to be a part of a medical office building. But also, you know, cleanliness, especially I think, now, out of the pandemic, you know, medical office buildings typically have to be really clean.

T Trisha Talbot 08:26

Trisha Talbot 08:26

And, you know, it's just, I think you feel better as a patient going into a building that is clean versus not. A lot of medical practices do their own janitorial, but they have to do a really good job, they have to have access at night, you know, there's just certain things that have to be managed. If you have a surgery center, that's a whole different level of cleaning, that needs to be taken into account.

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Trisha Talbot 08:47

So they really don't have to be in the day to day, they can just meet maybe quarterly with their property manager or monthly if they want to depending on how hands on they want to be. But developing a relationship with a good property management company so that they don't have to be in the day to day weeds of managing a piece of real estate.

T

Trisha Talbot 08:47

So yeah, there are, there are people that can help these clinicians manage the day to day, there's property you know, the property manager not only handles the vendors for janitorial, but they do property accounting, which is a huge thing, collect the rents, send out late notices If needed, you know, manage the budget for them.

B

Brent Lacey 09:27

Nice! I guess there's an alternative to that if someone had, say, an office manager or someone who was a facilities manager, maybe for a larger practice or an operations manager for smaller practice something like that. Someone else that could take that off their plate. Well, that's so they can focus on medicine, I think that would probably do about the same thing, so that definitely makes that concept more accessible.

B

Brent Lacey 09:47

So okay, so let's talk about the money side of things then. So one of the things that I know a lot of people like to do when they're first, especially when they're first starting out. Is instead of buying a place or building a place, they'll lease some medical space, and there's some advantages to that.

B

Brent Lacey 10:02

But the downside is that you don't own your own place, you can't design it the way you want. And so it's there's, there's some pluses and minuses, can you kind of walk us through, when you are sitting down with someone and they're contemplating buying versus leasing? What are some of the pros and the cons of those two strategies from a money standpoint?

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Trisha Talbot 10:17

Trisha Talbot 10:17

So it's really, it also depends on the specialty. So if it's more of like a community medicine, like family practice, internal medicine, OBGYN, pediatrician, they can go into a second gen, if they're starting out on their own, they can typically find a second generation space that is probably about 90% there, and they might be able to with paint and carpet make it their own.

T Trisha Talbot 10:40

When you get into more, I would say there is like a procedure room, if they're doing any imaging, so imaging has a ton of expense. But what happens is you start analyzing the amount of tenant improvements that the practice will have to spend inside a building. And when you analyze that sometimes those costs are incredibly expensive, new plastic surgeons that do do some procedures in their office, just like I had mentioned this to hand surgeon, they want to have two OR's in a procedure room, that is an expensive build out.

T Trisha Talbot 11:17

And when you start taking the common sense approach and saying, Hey! I'm gonna dump you know, $150 to $185 a square foot into a building, and I don't own it, and after 10 years, I have to probably sign some more time on to that lease, you know. It's like, well, you know, if I bought a building, and even if it's an adaptive reuse, where you're just buying a shell of something, gutting it down to the walls, and then building it out, over that same 10 years, it kind of makes sense, to some degree.

T Trisha Talbot 11:51

And depending on where you live to own the building, rather than put those TIs in and then lease the building. You build equity, you know there's a lot of things that a practice may go through. They might become part of a bigger practice, maybe a hospital will buy them, you know, and if they have their own building, you know, it just makes it a lot easier. There's obviously you can refinance throughout the time. But I think if your, if your cost for tenant improvements is high enough, it really, I think gives you more flexibility and, I would say stability, and also just in better use of your investment dollars to own your property too.

B Brent Lacey 12:33

Yeah, and certainly that's, that makes sense from a long term standpoint, it's the same kind of thing with residential real estate. In the long run, home ownership is an important cornerstone for any financial plan, you just do better if you're putting money into a property that you actually own, as opposed to renting forever.

B Brent Lacey 12:51

But on the front side of things there, you know, as you're first getting started, as you're newly in practice, or as a student, or as you're newly married, those kinds of early, you know, transition times. There's a lot of value in renting, because maybe you don't know what you want, and you'll make a more informed decision, if you've rented for a little while, and you can live in a place and see what your, what kinds of things you want.

B

Brent Lacey 13:10

And you're, you're saving money, you're able to make a more informed decision, especially if you're just moving to a new area. Because a lot of people, you know, they go, let's say they graduate from a residency program in Chicago, and they decide to move down to Miami where they're closer to family, but they don't know the market very well. So they'll make a more informed decision if they've been living there for a couple of years and see what the traffic patterns are and where people live and where their practices evolving and things like that. So yeah, I definitely see that's a lot of thought needs to go into that decision.

T

Trisha Talbot 13:12

Yeah, and the capital side, you had mentioned about the capital side. So you know, if you're just a single practitioner, your practices maybe, you know, a handful of physicians, you know, SBA is a great tool to get started, and they have whole programs specifically for physicians and healthcare companies.

T

Trisha Talbot 14:00

And then, you know, if you are bigger than that, and, you know, several million dollar company, you've got obviously some track record. There are, there's a whole host od private real estate investors that specialize, like they will actually joint venture and bring the capital to a development.

T

Trisha Talbot 14:20

So if you're a practice and you've got some financial strength and some, and they will partner with you so that you don't actually have to outlay the capital. They do want a commitment, there will be some sort of either you know, shared capital investment, maybe a lease or something like that. But there is a way to get some joint venture capital that allows you to still have some control and ownership into the building, but you partner with these capital providers and experienced developers, that can really help you.

T

Trisha Talbot 14:53

I think that's one of the things that, you know, physicians wrestle with, is that they're like, I have to, you know, take on all this debt, I have to go, you know, I'm already in debt, and then I have to take on all this other debt, like when does it ever stop.

T

Trisha Talbot 15:05

And that I think starts to get analysis paralysis and prevents them from expanding if they want to do that. But if they do have an expansion plan, there's always a way to do it and find a capital partner that works with them, not all are the same. But you know, there can be somebody, you know, like myself that understands the personality of a practice, and then knows the partners that might make the most sense for them to talk with and put them together.

B Brent Lacey 15:28

Yeah, and so we had an episode 48, we had Mark Reibolt, on from the Coker Group talking about private equity. And we talked extensively about the importance of really selecting the right partner, because it is easy, easy to find the wrong partner and end up getting hosed in the long run, because you just didn't do your due diligence. So yeah, it's it can be very helpful, but definitely need to do some serious research and make the right choice there.

B Brent Lacey 15:54

Okay, so definitely got a good sense of leasing versus owning your own place. Now, let's break down owning a little bit further. If you want to own your own place, you got a couple of options, you could buy an existing space, or you could build your own place from the ground up. And there's some pluses and minuses to both options, so maybe you could walk us through how you think about that? And how do you coach people on which is the best option for them at that time?

T Trisha Talbot 16:20

So when you're looking at building a building, there is the cost of the shell and then the cost of the tenant improvements. And then along with the cost of the shell there's hard, obviously the hard costs of constructing it, but then there's the soft costs of architectural fees. And there's always people that need to manage the project so there's some project management fees as well.

T Trisha Talbot 16:41

So if you can buy a building with a shell already intact, even if you get out the entire inside and start from scratch, it typically is cheaper than building a building from scratch and, and the tenant improvements. Obviously you have to take into consideration the supply of available buildings and or land and where it is in relation to where you want to be and what that supply looks like.

T Trisha Talbot 17:10

And then figuring out how you, what options are available. Doing adaptive reuse on retail has been a trend in healthcare that has taken off just because retail typically has the parking, has the visibility that a lot of practices are looking for in health care companies. As you see, like a lot of the hospitals have done these urgent care centers right on some corners, just sort of like a CVS Walgreens plan that helps people just, patients have easy access and can find them.

T

Trisha Talbot 17:41

So you know, when you're taking into consideration all those costs, if you can find an existing building and just pay for the hard and soft costs of the tenant improvements, and then you know, if you buy the building. Buying a building is typically less than building it, depending on the court, again it's depending on the market. And that's where, you know, when the prices of buildings become too high, it makes sense to build them from scratch. And if the prices of existing building are low, based on market conditions, it's cheaper to buy an existing building and build it out from there. So a lot of it has to do with, I would say location, market conditions, and then the cost associated with both of those depending on the market.

B

Brent Lacey 18:24

Well, that's all important things to be considering. It's a lot, there's a lot that goes into that. You know, in Episode 56, we talked to a guy named Steve Anderson who does construction, mainly for dental offices, but a lot of medical offices too. So we talked extensively about what goes into building a building. So if anybody wants to get more information on that, definitely go check out episode 56, it was really, really good as well.

B

Brent Lacey 18:46

So okay! Well, let's, let's kind of get more specific here. So now we've decided, let's say that we want to buy a place or we want to build a place. The classic axiom in real estate is location, location, location, right? As most, three most important things. So how do you pick the right location? What are some factors that go into that decision?

T

Trisha Talbot 19:06

Well, the first thing I would say is, I'm hoping that every practice, you know, with all of the patient data that they're looking at, they do have some sort of idea of where their patients are coming from. And I know it's kind of between where the patients are coming from and then where you want to also as a physician where you want to commute to.

T

Trisha Talbot 19:26

And I think that there's a balance, for example, when I, I've had some conversations with physicians that have a lot of workers comp patients, so that is, and they need to be in more of a blue collar area, but they themselves live someplace else. So there's like a happy medium where they can, they have a geographic target zone in order to be able to make it easy for their patients to get to them, but then also, you know, it's not too far of a drive for, for them on a day to day basis.

T

Trisha Talbot 19:59

So a lot of it, I would say the first thing you need to do is find out where your patients are coming from. And then where you are driving to what is your daily route, and then you know, kind of find some target areas to consider from there. There's some practices also that need to be a certain distance from the hospital, they need to be across from the hospital, that obviously has to be taken into consideration as well. But typically, I would say outpatient, you should, my common sense says, find out where your patients are and see how you can make it easy for them.

B

Brent Lacey 20:31

Well, that's really logical definitely makes a lot of sense. It also, I think there's something to the notion of finding out where the city is going. And so to that end, going down to your city planners office, city manager's office, what's the overall plan for the city? And so if you build a location that's on the, say, the south end of town, but the entire expansion plan is northward, then in five years or 10 years, you're going to be at the fringe of where your, where your primary patient base is going to be. And so starting to think ahead of those kinds of things is going to be important too.

T

Trisha Talbot 21:05

Absolutely!

B

Brent Lacey 21:07

Well, how do we start to incorporate that kind of long term strategic thinking into the buying decision or into the building decision? Because we don't want to move seven times over the course of 20 years, right? It is, it's A, it's a humongous hassle B, it's expensive, right? It's a lot more expensive to buy a new place or build a new place than it is just maintain the place that you have. So ideally, if you're gonna build a place or buy a place, you want to have someplace that you're gonna stay for a long time, 10 years, 20 years, maybe longer in some cases.

B

Brent Lacey 21:37

And you know, not every place is gonna be your forever location, necessarily. But definitely want to think far enough ahead, that you're making some strategic moves towards ability to expand, you know, being in the right location, that kind of thing. How do we start to incorporate that long term thinking? What are some of those factors that we need to be considering on a five and 10 and 20 year time horizon?

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Trisha Talbot 21:59

So if you are in a lease that you have three years or less on, I would say you want to start thinking now what you want to do then. The high level is give yourself enough runway to make thinking now what you want to do then. The high level is give yourself enough runway to make these decisions. Because one, it will cost you less in the long term, two you have more time to do due diligence, you have more time to interview vendors, you have more time to consider different options, and then make the best decisions ahead of you.

T Trisha Talbot 22:26

So I used to do a lot of leasing, and you know, these physicians were like, Yeah, I have 30, I've got a 30 day notice from my landlord, I need to find a place, you're like, oh my gosh! I mean, just a bill that just if you find, I mean, getting a lease and doing a build out that is a six to eight month process and the six month process being on the low end, if you're busy. Because you have to find the place, you have to get a lease, you have to negotiate the lease, and then you have to do the build out and depending if you need permits and stuff like that.

T Trisha Talbot 22:54

And when you're considering buying a place, that's even I think you need, you need a lot more runway, you need time to obviously, find a deal, negotiate a deal, not be pressured. I mean, the worst thing in real estate is to be in a position of negotiating without any other options. Just because you don't know until you get into negotiations, how it's gonna go, you know, after an inspection of a building, there might just be too much that you don't want to repair. You know, there's cracks in the concrete and the person you're buying it from doesn't necessarily want to repair it.

T Trisha Talbot 22:55

Those are things you just don't want to be left without any other options and forced to have to only make a decision on the option in front of you. So I personally like to have options for my clients to consider. And maybe they're not all the all the same, there can be an adaptive reuse option, there can be you know, a piece of land that you would buy and build and then you know, a third option, and really sort of analyze one, the cost associated with it and how it's going to fit into their long term plan.

T Trisha Talbot 24:04

So when you're getting towards three years or less on your lease, or if you're in a lease, that's when I would start thinking about it. If you're in a building and you are looking to get another building, I would just say make sure that you give yourself like a three year buffer before you start telling your patients you're going to have another building closer to where they live. Just so that you give yourself the time to find the right place and have some options to consider.

B Brent Lacey 24:34

Nice. I think that's really, really smart advice. Okay. So let's talk a little bit about the upside to owning and buying your place. I mean, there's obviously the something to be said for the fact that you can just design it how you want you can make it out how you want it to a certain extent, depending on if you're buying or building. But let's talk about the financial upside to it, so what kinds of returns should we be able to reasonably expect from a piece of real estate that we own?

T Trisha Talbot 24:58

So it all depends on how you buy it, but typically you can see IRR returns of 16%. But that's a range, so you know, I don't want everyone to, because it can go anywhere from 8% to sometimes 23. But, you know, typically a good real estate investment has an IRR, that's around 15, 16%. It's an internal rate of return, which that's a whole other, that'll take a whole other episode to explain.

T Trisha Talbot 25:26

But there is a ton of upside to having equity, you can also continue to recapitalize it and refinance and pay down your loan or, or things like that. And then you know, when you are done practicing, you know, at this point, I would say you have a network, or maybe even you've hired some younger physicians, and you can somehow, you know, depending on your succession plan, if it's an internal succession plan, you can sort of get out of the operational part of the business, but still own the real estate as an option, and have cash flow.

T Trisha Talbot 26:03

If you do end up at the end of practicing, you could probably find another medical group to take over the building and you can then, then you can either sell the building with the lease to an investor or you as the investor can keep it. So I think it gives you a lot of options for future cash flow and return on investment.

B Brent Lacey 26:25

Nice! Yeah! The, the internal rate of return is certainly a complex process. But yeah! So the, the overall returns have, you know, 6, 16, 23%, I mean, that's, that's got to get people excited, I would think so that's, that's really good to hear.

B Brent Lacey 26:40

So how do we then position ourselves to take advantage of that higher IRR? So because, you know, we want to get that 8% return, a lot of the money is made when we buy it, and we are hopefully getting a good deal. But a lot of the money is gonna be made for selling it for top dollar. And so how do we position that medical space to be, have maximum attractiveness, so we shoot for that 16, 20, 23% level of that range?

T Trisha Talbot 27:09

So the first thing is you need to keep the property in good condition, you don't want to neglect it and then have 20 years of deferred maintenance, that ends up being incredibly expensive. And either you pay for it, or you discount the price when you're trying to sell it.

T

Trisha Talbot 27:28

Selling it with a lease in place to either an, to an investor is where you can, I think you can get the highest and best and you from an income standpoint the, the lease should be market rate. And with Stark laws, you always have to be at market rate anyway. But you need to be at market rate, and you need to have, I would say, a very well managed building, the operating expenses can kill you.

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Trisha Talbot 27:54

So I would make sure that you, you know, HVAC is a huge, like electric utilities, they are huge, property taxes, you know, you know what your property taxes are in your municipality. You know, making sure they're paid is one thing, what they are is a cost. But that's a cost that's associated with the market and it's known, you know, having competitively priced building insurance, you know.

T

Trisha Talbot 28:20

And then as far as your vendors, I mean, you should every year or every couple years, really do a review of, of your vendor costs and make sure that they're still competitive. And then, you know, obviously, if they're not performing well, you know, make a change. But really managing your building from an expensive standpoint, because the lower the expenses, the higher the value. So there's a balance between making sure that it's well maintained, but that you're not overspending with when it comes to expenses.

B

Brent Lacey 28:49

Right! Now, that makes sense! Okay! So let's think about the timing of it, then. So, so obviously, if we're planning on moving out of our current space and into a new space, then the time to sell is whenever we're ready to move out, and that makes sense.

B

Brent Lacey 29:04

But I've definitely talked to a lot of folks, and certainly we've done this in our group, where you build a building for, say, an office building or surgery center or an infusion center or for whatever the purpose is. And you own it for some period of time, the value of the asset, hopefully appreciates, and then you sell it and then lease the space back from the company you're selling it to. So you basically get this big payoff, hopefully, of having sold the place but you remain in the same location, just as a renter instead of as an owner. When is it time to make that move, where we transition from owner to renter, but in the same location?

T

Trisha Talbot 29:44

if you were talking to one of the investors that would buy this, they would say well, we want 12 to 15 years of a lease term, you really need just 10 and sometimes five. But for the ones that know what they're doing and will likely over the long term be a better match, I would say when you're looking at your next 10 years and say you have several buildings and you have different partners that own different pieces of each building and it just like that sort of, it might just be easier to say hey, why don't we do a sale leaseback now? Or, well, there's two reasons to do a sale leaseback one to get the equity out now.

T

Trisha Talbot 30:22

So you just put you put them up for sale, you put 10 year leases on them, there's investors that will buy them. If they're in good, good physical condition, you as a practice are financially healthy, that's when you can compress the cap rates and get incredibly top dollar because you're selling it with the lease in place.

T

Trisha Talbot 30:42

The other reason is, if you're a practice and you're like we need to expand, but we, you know, for whatever reason, you don't want to use other capital resources, it's, it's almost a way to self fund your expansion because again, you can get the equity out of your buildings in the same structure and then use those to maybe you want to buy, maybe you have three buildings that you want to do this to so that you can expand with three other buildings.

T

Trisha Talbot 31:07

So there's a lot of different ways to use a sale leaseback, but it is the way to get a lot of your equity now. A lot of practices like it, when they're, say at the end of 10 years, they're like, you know, I don't want to deal with finding another tenant, and I don't want to manage the building. So I don't want to deal, I just don't, I want to be done with it and I want to move on.

T

Trisha Talbot 31:30

And some people that's attractive to them, so they say, Hey! You know, in 10 years, when I'm done practicing, I want to be out. And it's kind of the same scenario, as you know, maybe you have different partners because there's the LLC of the building, and then there's the operating company, which is the practice. So there might be different investors in the LLC of the building, than there are physicians practicing in the practice.

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Trisha Talbot 31:55

And if there's, for some reason, if the LLC is like, you know what, we don't want to deal with, figuring out what we want to do with this building. Sometimes they want to sell it too because they're going to be getting bought by a hospital. Well, that's win win when an investor gets hospital grade, a hospital grade tenant, too. But they don't, at the end of the day, they just want to be employed physicians and be done with the real estate. So it's a tool, it's a definite tool, I would say you need to use it for specific use. I mean, you have to have the end goal in mind when you're doing it to structure it properly.

Brent Lacey 32:29

Gotcha! That's good advice there. So when we're thinking about owning a piece of property, how do we structure the legal ownership? Do we need to, do we own it personally? Do we own it through the business? Does the business own it? Should we separate the business and the real estate and have like a separate LLC that owns just the real estate separate from the business? What's your recommendation for that?

Trisha Talbot 32:55

So I'm gonna first qualify this answer with I'm not an attorney or an accountant. And I do recommend that your real estate decision is aligned with the advice of those two functions. Typically, what I see is that the real estate, the piece of real estate is owned in an LLC, regardless of if it's the same physicians that practice in the operation or not, but that it is in an LLC, just for liability reasons.

Trisha Talbot 33:23

And then all of the real estate for the rent is collected through the LLC and the expenses are paid through the LLC, so it does serve an entirely different function. And then, you know, the operating practice is owned however, it makes sense for, for the providers in the operating practice, but they are typically different. What that allows is that they're two separate business functions and the real estate, you could make decisions on the real estate independent of the practice. So that's what I typically see, and that I typically hear attorneys recommending to their clients.

Brent Lacey 33:59

Well, it's certainly cleaner that way and easier to make some separations if you, you know, if you're thinking of them as separate entities. Especially if you want to start to sell, trying to figure out how to disentangle the real estate portion from the business portion, could get very tricky very quickly, I could imagine.

Trisha Talbot 34:17

Well, yeah. I mean, if you have, if you're a large practice and you've got 20 partners, you know, that's tough to get any sort of consensus for a real estate decision. And not everybody wants to be a part of the real estate either. So I think it also offers some flexibility to say hey! If you want to invest in the real estate, you know, we divided into units however your practice wants to divide those, you know, based on seniority or based on whatever or equal, you know, it just allows for some different options.

B Brent Lacey 34:47

Nice. If people are looking for a healthcare real estate advisor, someone to really walk them through this kind of thing. What would be some questions that we should ask? Or some things we should look out for? Maybe some red flags to help us figure out who's the right person to ask? Because just like with any physician, you've got a lot of different options, right? And so, there's going to be varying levels of excellence in any industry. So how do we pick the right person to advise us through this process?

T Trisha Talbot 35:19

So the first question I would ask is, have they ever done a medical deal before? And what was it? You know, in real estate, just I mean, like you had mentioned in our episode, I think it gets commoditized, where everyone's like, well, you know what? My sister has a real estate, residential real estate license, so she can go and you know, she can technically transact a commercial property.

T Trisha Talbot 35:39

And I've recently had this experience, they made a change, because they had, it was more of a family and friends. The realtor was a residential agent and didn't have you know, she wasn't tuned in, there's a, there's a lot of some off market stuff that, that we know, different, you know, little movement and practices that may be coming up, you know. I get calls that say, Hey, you know, this isn't official, but I want to give you a heads up, if you can find someone to take over this, I would be interested.

T Trisha Talbot 36:09

And, you know, they don't necessarily want to market it, for whatever reason in the open market, but they do, you know, want people to be aware of it. So those things happen, plus, I would say you you want I mean, so if they've done it before, you want them to know the market and in commercial real estate, medical office, in a lot of firms falls under office, but it really isn't, there's a whole different set of research, there's obviously different players, it's more fine tuned than that.

T Trisha Talbot 36:40

So if they don't, they're not in tune with the market conditions of medical office in their market, you could get into a stressful situation. And there's certain landlords, like there's a lot of properties that the landlords they market as office and medical, that are not medical at all, and some medical groups may go in there, but if they do, I guarantee that they're paying a lot of their own tenant improvements out of their pocket.

T Trisha Talbot 37:09

Because different, if it is a true medical office building, while they, your will have to pay higher rents, the TI package is significant versus going into a building that is owned by an office owner that has only underwritten, you know, carpet and paint or 10, to $15 and tenant improvements. You know, because as a health care company and medical practice, you're not necessarily wanting to use all of your operating capital on building out your space, you actually want it for your business.

T Trisha Talbot 37:39

So it's a different animal, and there's investors and landlords and architects and a whole host of people that do focus on medical office. And if there isn't one in your market, you can get an architect that isn't necessarily in your market, contractors, I would say you do. But there is a network of contractors that specialize in medical office that could likely give a good referral. So there's different ways to make it happen so that you have the proper advisors, and because at the end of the day, that mistakes will cost you and not anybody else to pay for those.

B Brent Lacey 38:17

Yeah and we're talking about in a lot of cases, probably in nearly all cases, a middle to large six figure asset that we're talking about dealing with and so, you know, going cheap on the person who gives us the best advice and coaches us through this process seems to be a hazardous approach to me. Because if you're not getting, you know, if you're not getting the right advice, then it could cost you five times what it costs to pay the right person.

T Trisha Talbot 38:43

Right! Yeah, absolutely, absolutely. I mean, and you know, when you go even throughout the whole life cycle, when you're buying it, or when you're selling it too. I mean, I have buyers that this is all they do, and they can analyze a medical office property and they can understand the tenant mix even if they don't understand the specific tenant itself, you know, depending on the specialty. And they know what they're doing and at the end of the day they'll also be a good owner.

T Trisha Talbot 39:10

So especially in like a sale leaseback you want to make sure whoever's buying your building understands that your healthcare practice and there's some nuances into that. You know, you have to have some good communication. I mean, your tenants they are, they're hardworking, they're highly educated, they're financially strong, you want to be partnered.

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Trisha Talbot 39:16

But the best situation is, when they say they want to be a partner and ensure that you, you yourself, you know, when a landlord just sends a letter like, that they're gonna be doing some just as an example, Hey, we need to do like maintenance on the HVAC systems like when you're managing when you're, when you have a medical tenant in there. You kind of want to say hey, when would be the best time we have to do this HVAC maintenance, but when would be the best time for your practice? Likely not on a Wednesday at 2pm but maybe

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Trisha Talbot 39:34

Saturday you know maybe Saturday morning would be better. You know, I mean, so just things like that, that you know, you have to take into consideration.

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Brent Lacey 39:58

Right.

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Brent Lacey 40:07

Nice. Well, Trisha this have been very, very helpful! And I know that there's a lot of people out there listening that are really gonna get a lot out of this because this is absolutely something that everybody thinks about at some point during their private practice journey. So thank you so much for coming on! If people want to connect to you want to get connected to the podcast, you know more of your content, want to learn more from you, continue the conversation, how can people do that?

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Trisha Talbot 40:32

Absolutely! So my website, it's Doc Properties, docproperties.com, you can get to the podcast from there, which has both physicians and investors that specialize in this asset class, where you can get some information and then the best way to get a hold of me is through email. And my email is ttalbot@docproperties.com. And happy to brainstorm with anyone that's looking, has some questions to ask, I try to be super helpful!

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Brent Lacey 41:04

Awesome! Well, this has been great! We'll make sure to include all of your links in the shownotes and in the podcast description so that people can get a hold of you and get more content from you.

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Brent Lacey 41:05

Well, that was Trisha Talbot, founder of Doc Properties, make sure you connect with her. Learn

Well, that was Trisha Talbot, founder of Doc Properties, make sure you connect with her. Learn more, listen to that podcast, it's got great stuff on there. And yeah! Just continue that conversation. Trisha, Thanks so much for coming on the scope of practice podcast today! Really appreciate it!

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Trisha Talbot 41:27

Thank you!

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Trisha Talbot 41:31

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