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SPEAKERS

Trisha Talbot, Zach Lemaster, Adam Schroeder

T Trisha Talbot 00:00

Today's episode is my interview on the Rent to Retirement podcast. I am asked to dive deep into the real estate fundamentals of healthcare properties. The host asked me questions on why this asset is attractive from both an owner user and investor standpoint, we discussed lease rates, lease terms, lending and tenant improvements from both vantage points.

T Trisha Talbot 00:23

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 00:38

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.

A Adam Schroeder 01:04

Hey, everybody, welcome back to the Rent to Retirement Podcast! We want to thank everybody for joining us for another episode, and this is Adam Schroeder here with Zach Lemaster again, and we are joined today by Trisha Talbot. She is the managing principal of DOCPROPERTIES. And DOCPROPERTIES represents investors of medical office buildings and the health care companies that occupy them, then she'll explain it a little bit more in depth. But Trisha, welcome to the show!

T Trisha Talbot 01:31

Thank you. Thank you for having me.

A Adam Schroeder 01:33

Absolutely. Can you tell us a little bit about kind of how you got started in the real estate space initially, like was it from the beginning? Did you kind of fall into it later, kind of how did you get started there?

T Trisha Talbot 01:46

Well, I live in Phoenix, Arizona, which is very, it's a high growth market, and commercial real estate has always been a very healthy industry just because companies are moving here they're expanding. And I started my commercial real estate career at a developer that specifically developed, managed, and leased medical office buildings. So, I was in the leasing department there for a couple of years and then moved to a third party brokerage and did the same thing and then went to a national brokerage firm, until I started my own firm here late last year. So, I grew up doing a lot of landlord leasing, and then moved into sales and investment sales.

A Adam Schroeder 02:39

And what made you decide to focus on the doc properties? Like what about the medical field? Is it just the whole you know, you hear the healthcare never goes into recession type thing? Was that what led you to it? Or what drew you to that?

T Trisha Talbot 02:54

Well, my first job in commercial real estate, I think, you know, when you go into commercial real estate, you have to pick between, there's, I think five food groups, they say, is the office, industrial, land, retail or you know, multifamily. So I definitely felt more attracted to office. And then I think my first job being introduced to working at a firm that specifically concentrated and focused on the healthcare real estate asset class, I think what drew me to it is it's a demand driven mission critical development. So, you know, there's a purpose for it. It's also very purpose driven. Physicians can't do surgery, and they can't operate out of their house. They have to have a facility to do that in for everybody's safety and regulations.

T Trisha Talbot 03:50

And, so, there's a reason why these facilities exist. And then working with the physicians, I liked how they operate, they need information quickly, they tend to need to make decisions quickly. You know, they appreciated the help that they got, because they have obviously a day job doing something very non real estate related, and then they needed, you know, when you're going through a real estate transaction, there's just a lot of information. There's some decisions that have to be made, someone has to tell you the economic impacts of the different decisions, and it was really, I enjoyed advising them through that process and putting all that information together and helping them be able to make these decisions and then at the end of the day, it's a facility or something that they use to then, you know, treat their patients.

Z

Zach Lemaster 04:44

Trisha you do a lot. I mean, can we just really quickly for the audience define what DOCPROPERTIES exactly does. I mean, it sounds like you're working with, you know, the actual health care provider if there's going to be an owner occupied space or health care groups. It sounds like you're working on the, you know, identification and leasing aspect, building the business model, you're working with investors that want to own those potential spaces, possibly some ground up development, can you just give us kind of a full scope of exactly what DOCPROPERTIES does?

T

Trisha Talbot 05:15

Sure. It's healthcare real estate investments, and I advise third party investors in either selling or purchasing medical office buildings. And then I work with, I call them physician owners. So I tend to not do as much leasing, if there's somebody that needs some help doing a renewal or something, I will help them. But typically it is finding a new space more for the larger healthcare companies, how that usually happens is we're working on a property that they a market that they want to preferably buy in, but there's no product to buy, so then I'll help them find a space to lease.

T

Trisha Talbot 05:56

But I typically work with physician owners and physician owners, they are, you know, it's a practice typically, that they want to own the building, because they get a lot of economic benefits from owning a building. And start the reimbursements when they own a facility are higher than if they're renting, or if they're in a hospital. So they have a lot of operational benefits to owning a facility. And they also do this to, it's a wealth building machine for them as well. It's obviously an investment for the long term that, you know, they'll typically buy it at one price, and then they'll sell it, you know, with a lot more value, and at the end of the day.

T

Trisha Talbot 06:38

So, my clients are investors or physicians, I call them physician owners, because they're typically going to use the property, and I do have a lot of physicians that are, kind of, wanting to invest in properties and maybe not occupy them as third party owners. So, I know it's hard to get around. But it's really either the health care physician owners that want to invest in a property, the healthcare property that they're going to operate, or the third party investor that wants to own a building.

Z Zach Lemaster 07:07

Excellent. Thank you for that clarity. So you're working in an advisory role, really to assist the the owner, the healthcare provider? And that could be one and same as the investor or potentially third party investors that want to operate in the medical use space. Right?

T Trisha Talbot 07:23

That's correct.

Z Zach Lemaster 07:24

Very good. Do you find that most of the clinics and the investor/healthcare provider for these buildings, is it usually a one dedicated building, or there often you know, like, retail strips where they could, you know, occupy one space and have the other spaces for investment purpose? And things like this? I know that, and can we talk about the financing a little bit too.

Z Zach Lemaster 07:49

This was particularly interesting to me, personally, because I have a background in healthcare as an optometrist in a previous life, and we owned, you know, a few different clinics and we also invest quite heavily in retail space. We have a lot of spaces right now. That are medical use primary care. We have a dermatology, optometry, dentist, veterinary space. I'm missing, oh, we have some chiropractic space as well. And, so, we see you know, something, a lot of these guys coming in to occupy these spaces in different capacities. But going back, what is a typical owner use that you're seeing? And what, how does the financing work? I know on if someone can potentially get a small business loan or something like this, where hey, they, they need to occupy say, like 60% of the space, but then 40% is unoccupied. And I don't know if I'm correct on these numbers, but they may be able to have an additional space. Can you talk, I'm throwing a lot at you. But...

T Trisha Talbot 08:46

Yeah, yeah, yeah. So, the retail trend that you're talking about, so, it's called in the healthcare real estate asset class space, it's defined as "medtail." So, a lot of physician, a lot of practices, and, and they're looking at retail space, one, it has to do with the fact that there's a lot of shifts in retail space, as you've seen, you know, that I guess the Amazon effect has affected a lot of them. And so retail has gone through, sort of pivoting of its own and, and in that, they, you know, Medical Office users have been interested in the space as they, the parking, that you know, offers good parking. For them, parking is always an issue for medical office, a lot of office landlords sometimes when they're having a hard time leasing up their space, and even now what's happening with them, a lot of office buildings, having available space due to people working more from home, they'll just say, hey, you know, we're gonna make this medical, well, there's some concerns with that one is parking. So, in a municipality, but in general, it's usually five for one parking, which is a lot.

T Trisha Talbot 09:26

And so retail, you typically already has this available retail offers visibility. So a lot more practices are looking to have signage that's viewable from the street, they no longer want to be tucked behind something. So visibility is big. And retail offers that for some medical practices. And so that's been attractive pad sites to, they can purchase a retail pad. You've seen this, with the trend, a lot of hospitals are putting urgent cares on corners, just like kind of CVS and Walgreens but now you see some in different markets.

T Trisha Talbot 10:20

So in my market, Banner Health is pretty big, Dignity Health is big. Those are some of the big systems so that they've done, there's been a hub and spoke model for healthcare where, you know, the the acute care hospitals want to, they have constantly been trying to get the outpatient care out of the hospital. So they built these outpatient clinics, urgent care centers more in the communities where the patients don't have to drive as far and they're typically like being in a pad site in the corner of a retail center. So that, you know, there's a lot of drive by traffic, and it's easy to get to. So that's sort of the medtail trend that you're talking about.

Z Zach Lemaster 11:27

So, then that's what you're saying yes, is that we're seeing more of a transition a little bit to medical use in a retail center, because of the visibility and things like this. I mean, one thing I want to talk about with you is just how COVID has potentially affected some of this? I think that's very relevant. Generally, in the commercial space, no one wants to touch office right now to your your points in general, about people being able to work from home, we've seen that.

Z Zach Lemaster 11:53

And I think it's a volatile space right now is pure office, but medical use office is, you know, maybe an area that is a little bit more, you know, withstanding. It has a little bit more resiliency, and in times like this, because they need the medical office, people can't work from home, they need to have care in the facility. How do you think, I guess two part question for you would be, how is medical use in general operated through COVID? And what do you think in is medical use compared to say office space and other commercial asset classes? How does it fare?

T Trisha Talbot 12:31

So medical office has probably been the healthiest throughout COVID. The the rental payments have stayed, you know, in the high 90's for most of the investors that I have spoken to. A couple of reasons for that one. You know, the doctors still had to operate a lot of practices qualified for the PPP loans, so they were able to pay rent, but they still, you know, I know there was some shutdowns with some what they termed as elective surgeries that was soon as they ramped back up, I think they're here in Arizona, it was probably maybe a six week period. And then after that everybody was back to work. So everybody, you know, a lot of the clients I work with, and physicians that I speak to, you know, they're not, they don't work from home, I mean, they were in the office every day, they're still providing surgeries.

T **Trisha Talbot** 13:24

And they've put I mean, still today, even though Arizona is not necessarily having mask mandates, every physician office that I go into, still requires everybody to wear masks. So, they're really trying to keep the other staff healthy for one and also be able to treat patients. So, medical office has been incredibly resilient. That's not to say that the other asset classes have not have, you know, office, there's, there's a lot of space that I think people are definitely reanalyzing how they're going to bring their workforce back. Since I, that's not what I do. I, I will I read about it, and I'm aware of it, I haven't really, you know, been affected by it. But I other than going in to meetings that office buildings that are very vacant.

T **Trisha Talbot** 14:21

A lot of I hear with the office is, you know, the buildings with elevators, people are trying to get out of, and, you know, and here in Arizona, they can you know, there's a lot of exterior loaded buildings where, you know, you can go up, you know, two stories, so they only have to go up one flight of stairs. You know, that's not true in every market, and not every market can do that. So, you know, it's going to be interesting in this next couple of years to see how office fairs, how they pivot, and what they do to succeed and, and come out of the COVID effect.

Z **Zach Lemaster** 14:57

So, basically the medical spaces has been doing quite fine even, you know, potential short term shutdowns and changing some procedures. They've been pretty resilient. Let's kind of apply this to to our listener database. A lot of our clients in investor database is looking to build and scale rental portfolio, this usually starts with single family. On the residential side, maybe they want to scale up over time, look at a commercial asset to diversify or maybe 1031 into over time, what would you say is important from someone that's evaluating a medical building or a building that has medical use in it from a tenant perspective?

Z **Zach Lemaster** 14:58

You know, is that a safe I think we talked about that already with being a resilient type of tenant, are you typically seeing these people that aren't using an owner occupied space or just looking at leasing, triple net leases, long term leases, personal guarantees, what's important for an investor looking at a potential retail center that doesn't have or a medical use center that doesn't have any experience? What are some important things to know that that's going to be a strong tenant?

T **Trisha Talbot** 16:09

So, that's always the rub with new people into the market. First of all, I would really, you know

So, that's always the rub with new people into the market. First of all, I would really, you know, tour a lot of medical buildings, read a lot about the market. It's not rocket science, but the tenants are the key, the tenants and the building. So, medical office has, you know, some new product, and then there's a lot of older product, and you'd have to be careful, you know, of gluttony in the middle. So, first of all, just to answer a few of your points. The attractiveness to medical office and its resiliency is the long term leases. The reason there's long term leases is because a landlord has to provide a significant amount of capital for a tenant improvement allowance, because the tenant does sign a long term lease and the tenant still, you know, has to supply a lot of capital.

T Trisha Talbot 17:05

So, just to give them a little bit of reference, you know, an office building, if it's second generation, you can probably budget $15 to $20 a square foot for retenanting the space. In medical office, if you second generation, I would say you still cannot budget less than 50 bucks a square foot, because you want to get in there, you know, there might be some changes to plumbing. There's probably say electrical, it becomes, it starts to become really expensive, because each particular medical use has a specific purpose for that space. So, you know, to your point, if you're a family practice, and you're gonna occupy a space that was previously optometry, while there might be some things that you can save, in optometry, you typically don't have, you don't necessarily have sinks and all of your exam rooms, you don't necessarily need them.

T Trisha Talbot 18:01

But in a family practice, you absolutely need to have sinks at every exam room. So there's a plumbing expense there that can well you know, the exam rooms themselves might still be reused and some of the basic stuff like the waiting room, and reception area, and some physician offices, the exam rooms are going to have to be completely reconfigured in order to make that space productive for a family practice and that's what you have to analyze when you go in there is you know, how how much money am I going to anticipate having to go into having to put into this space.

T Trisha Talbot 18:41

So if it's 50 bucks a square foot for the entire cost, and that's I think more that's more on a, you know, that's an easy, I think build out, I would think on shelf space, the cost for medical space, it used to be 80 bucks a square foot now it's 100. But you know, they typically right now with costs, I think, you know, you have to budget somewhere up to 120 bucks a square foot. So if you're a landlord, and you're saying, Hey, I'm going to offer, it's going to cost the total cost 120, you as a landlord have to offer up 75 bucks or so. And then you can ask for tenure deal.

Z Zach Lemaster 19:17

So, what you're talking about for someone that's not familiar with TIs is is your your tenant improvements, whenever you have a new tenant that's moving into a space, depending on, you know, what condition the space is in, you know, whether it's vanilla space where it's not really built out, or if it you really have to transition, you're offering an allowance, and this is open to negotiation sometimes but is really the landlord has to pay out out of the gates to, you know, a lot of money to transition this space, and sometimes tenants take on part of that. It could be built into the rent or, you know, figured out over time, but but there's a large expense of putting the tenant into the space. And so that's why they they're looking for long term leases. So, let's kind of move on to a few other topics with, are you involved in financing aspects, you know, assisting with different lenders? I mean, what kind of, I guess I'll ask that first and then yeah, if it's a yes. And we'll go into more financing questions.

Trisha Talbot 20:11

Sure. And just one point with the tenant improvement is, you know, typically, in medical buildings, the lease rates are higher than general office to account for the tenant improvement costs, but personal guarantees, and making sure that the tenants are financially viable is a huge part of that, because obviously, you need to make sure that outlay as an investor is guaranteed some way. So just finishing up on those points, which, you know, have a lot more layers into it.

Trisha Talbot 20:39

But with regard to financing, so for physician owners, if it's a, you know, if it's a group that wants to do an SBA loan, and I think SBA loans go up to...5 million? Anyway, so yeah, so they require that the whoever's taking it out is occupies 51% or more of the property. So, and that works for some practices, and some, if they've been doing this over and over again, they have a banking relationship, and they can get conventional lending as well. So, typically, they like to have just like any other business, they like to have two years of financial history. They like to have, you know, they, you go through what I call a financial proctology exam, you have to be able to supply everything to them.

Trisha Talbot 21:03

So, you just have to be prepared for that. But SBA, the cost of capital for these healthcare groups that can use it, it typically is the lowest cost of capital for them. If they want to do a bigger building, say they want to do like, it's a very large group, and they're like, hey, I want to do a 20 to 30 to 40,000 square foot building, we're going to do this, you know, 15,000 square foot surgery center, that might be a little big for surgery center. So let's do like 10,000, we're going to occupy, you know, for our practice, a floor, but then, you know, we want to build it a little bigger for either future expansion that we aren't, we don't know, or there's other groups. So, like let's say, it's a cardiology group, they want to build a cath lab, there are large cardiology group, they have a lot of diagnostic services that they offer, they take up a large space, but then they might want to have an internal medicine group, that they work with for a referral for them. So or they might have a cardiac stem specialty that they also want to occupy.

Zach Lemaster 22:32

So, someone who is I mean, in the medical space, or even office space, in general, a good way to go about breaking into the, into the commercial investing space is to have, I mean, your best to go about breaking into the, into the commercial investing space is to have, I mean, your best financing available is going to be on an owner occupant type of scenario, however, you can, if you can occupy the majority of that building, you can have other office spaces or retail spaces that you can lease out to acquire a larger space and have tenants that are you know, you can put in that are complimentary to your business and then can also create a larger investment. So, that's an option. You can look at just if you're ever not going to own or occupy. I mean, you have your conventional in all sorts of different type of financing options to buy commercial space, which we cover in other videos and podcasts, if you're interested in breaking into the commercial. Today, we're just kind of going through a little bit of a sector of commercial, you know, or you can do the joint venture aspect and bring in private capital, whether or not you're doing owner occupant type of scenario. So, Adam, what kind of I know I've been cutting you off. What questions do you have for Trisha?

T Trisha Talbot 22:32

So, you create this referral mix inside of the building, so they want to buy this, they want to get this bigger building. And they need more financing, there are, there are a lot of people in the space that do what's called joint ventures. So, they do lose some percentage of the ownership, but it's like everything, you either have a, you know, a partial percentage of a bigger pie, or you you know, try to just have one small pie. So in that case, you know, the joint ventures come in, and it's a combination of a lot of private capital that they have raised, and they specialize in investing in the medical office asset class, so they can analyze the opportunity in the market and the physician group really effectively and efficiently. And they can raise money that way, as well. And sometimes it's a combination, sometimes they get, you know, debt for some and, and equity from these joint ventures for another portion of it.

A Adam Schroeder 24:46

Well, I'm not surprised that the former optometrist had a lot of questions about the medical space, but one of the things that has concerned me is, you know, there's a whole lot of physician occupied. Things like a lot of physicians are operating surgical centers. That seems like at least here in Austin, like every third building is a surgical facility in a lot of places. So how much runway? Do you think there still is on these, you think it's anywhere near kind of saturation, where they're going to have to go into, you know, smaller places or go back to hospitals or something like that? Or is it something that can kind of just continue because of the fact that, you know, as long as they have a general customer base, they can own their own building, and it won't be a problem?

T Trisha Talbot 25:29

I don't think it's going away. And there's a couple of reasons for that. One, the hospitals don't want necessarily to have outpatients surgeries. There's a lot of surgeries that don't need to happen in the hospital. And you know, as anybody who has had some outpatient surgeries, I mean, they have you in and they want you gone. They want you to home. And it's better for a patient to, I mean, because hospitals are, their purpose of acute care facilities is to tend and treat acute care - trauma, very complicated surgeries, things that need to be done in that acute care setting.

Trisha Talbot 26:13

So more and more hospitals are understanding, and that's how a hospital also is able to be financially viable as they concentrate on acute care stuff. They have been purchasing family practices and, and other practices in order to keep the referrals going. But the you know, obviously, those practices are located outside of the hospital, the surgery centers, I think they're going to continue to be successful, because also if you are a physician, and you're trying to get, you know, trying to use a hospital surgery center or surgery room in a hospital, you run the risk of being bumped for a trauma, surgery that needs to happen.

Trisha Talbot 27:01

So for physicians, you know, coming looking at it from their lens. One, they get higher reimbursements doing it in their own outpatient facility that they own. Secondly, you know, if you're a surgeon, you want to be as efficient as possible. And typically, as you know, you know, the surgeon will plan back to back surgeries, like one or two days a week, and that's their surgery day. And then they'll do pre and post op visits in their clinical office on other days. But, you know, so they like to, you know, set these cases up and do them one right after another. If you dependent on the hospital surgery room, you end up not necessarily being able to be as efficient. And you have to wait and make sure that that surgery room is available for you.

Zach Lemaster 27:51

Do you think that there's any benefit in, what are you seeing in proximity in few hospitals? Often what we see in evaluating a new commercial space, is you have this large hospital, and then you have some ancillary office base and or larger offices that are probably intended medical use because of proximity to the hospital. And then those price per square foot rents are astronomically higher than say if it was a mile down the road, even though it has good visibility. Do you see that there's a true benefit in successful clinics that have that proximity to the hospital? Is that worth the clinic paying the much higher rent to be there?

Trisha Talbot 28:36

Yeah, so all of this goes into, you know, a healthcare practices business plan and business model, which is specific to each practice. So, for instance, if you're an OBGYN, typically those are located near or sometimes on hospital campuses, because they have to get to the hospital quickly. So it really depends on the practice. if you are owned by the hospital, they're gonna put you as close to the hospital as possible. So, if you're a cardiology group that is owned by the hospital, they're going to put you on or near the campus. For others, it just depends if it makes sense. There's orthopedic groups that you know, a lot of orthopedic surgeries are now done outpatient, so they're no longer dependent on the hospital. And while they might want to be somewhere in the vicinity of the hospital, they don't necessarily need to be on campus or campus adjacent.

Zach Lemaster 29:41

That's a really good point you just brought up and I want to talk a little bit about the the advances of medical practices and anything that you foresee in the general future. That someone that isn not an end user. Not an occupied owner, but someone that's just purely looking to invest in medical office space, what are some changes that we're seeing coming up in the medical world that are changing the dynamic of people leasing? We talked a little bit about this with people moving to a retail type of setting. But what other things are you seeing advances medically, that are going to change the dynamic of the office space that they're using, that they're looking for?

T Trisha Talbot 30:22

I think that as more and more procedures are being moved, outpatient clinics and outpatient facilities, I think are going to be the wave of the future for a lot of practices. And, you know, obviously, I'm not a physician, so I'm not exactly sure what technologies you're talking about, but I know, you know, just in imaging, the equipment is incredibly expensive, and getting more so. And, you know, obviously being able to detect things earlier and earlier.

T Trisha Talbot 31:01

And, you know, because of the expense of all of that, it's, it's really hard to just to lease. So imaging is a perfect example. So I'm in imaging center, let's say, you know, a full diagnostic imaging center, I had a client, it's a million dollars to open up the center between the cost of the build out and the equipment. So, if you are a physician, or practice that's going to put, you know, the cost of your build out, it's like 175 bucks a square foot. So, this is imaging, this can be for some really other diagnostic intensive groups. So, cancer centers and all of that, it's really hard to make sense, you know, you're gonna sign a 10 year lease, even though the landlord may give you 70 bucks, you're still putting in $100 a square foot of your own money. When you start to look at this, you're like, and I'm not going to own it. And then 10 years, I have to renew. And, you know, if for some reason, you know, they need to do tenant improvements during that time, they're likely to have to do it themselves that they want and the landlord, at the end of that term, they may give them like paint and carpet to renew, maybe, you know, depending on how long they renew a little bit more.

T Trisha Talbot 32:16

But if they own the building, they get the economic benefit of doing that. They can recapitalize it, they can get, and they can refinance, and all of that stuff. So, they have a lot more flexibility. So, I do think that as technology increases, and groups are having to purchase more expensive equipment, their build outs are having to become more specialized, it's going to be really hard for them to lease just be straight leasing. Now, there are investors that do allow physician ownership in their buildings. And it's just a case by case and it depends, it's typically more on new space, rather than second generation. But I do see these trends, it's just that the cost of these build outs are becoming so high and specialized, that it's hard for that.

A Adam Schroeder 33:02

Probably means we're all going to be paying a lot more for medical in the future.

T Trisha Talbot 33:09

Well, that's tough, because, you know, the technology, well, I think it's unfortunately gonna go into different ways it's gonna go where there is medical care for population health. And then there is going to be those practices that tend towards those just in private insurance and or that can pay out of their pocket.

Z Zach Lemaster 33:32

Did you notice anything, I know a couple of years ago, I read a few articles that were talking about the ownership factor of it, and kind of questioning whether it should be allowed since they can direct people towards their own facility and kind of double dip in terms of facility and charging for the services that they're offering. Has there been any movement on that? Like, is that something that a physician group should be at all concerned about if they're going to be buying, you know, a building to practice in?

T Trisha Talbot 34:04

So, there's that regulation called Stark regulations. So, typically, what happens is a group they'll when they they have to separate LLCs. So they'll have an LLC that that owns and operates the building, the property and then they'll have an LLC for their practice, typically, they will still, the LLC and the practice will sign a lease that they have with the LLC that owns the building because sometimes not all of the physicians in the practice want to own the building. And, you know, so there that just comes in a little bit different variety, that lease rate has to be in line with market conditions, so they can't, you know, they can't pay something that is too low and you know, why would you want to pay something that's too high, so they have to be in line with market conditions and they have to pay a market that's called the market lease.

T Trisha Talbot 35:01

A couple of reasons for the Stark regulations, which, you know, that's more of a legal thing. And I don't know enough to go into it with that expert advice. So, we'll stay a little bit away from there. But also, you know, they own the building, and they lease it to another group, they can't give that other group like a special deal for leasing space, it has to all be at market conditions. And this is where a lot of getting advice from somebody from the market because unless they're doing deals all day long, it's hard to understand where exactly the market is for market rates, you can certainly find out but typically you, you want to just make sure that you're all in the legal and compliance part of that. So I think that answers your question.

Z Zach Lemaster 35:47

When do you see medical use not being successful in a particular space. I know, just with some of the buildings we own that we bought from developers, we've seen issues where they weren't, the clinic was not budget, or this could do for any tenant for this matter. But they're, weren't, the clinic was not budget, or this could do for any tenant for this matter. But they're, you know, in triple net leases, you're covering the tax insurance, and CAM, your common area maintenance with with a building. So that's that really means that that's all on the tenant, if insurance goes up over time, if taxes go up over time, you know, you need to be the the clinic needs to be or any tenant needs to be budgeting for that appropriately. Of course, as they become more stabilized their you know, their revenue should also increase. But one thing that we've seen is where the developer puts in a tenant into a space, and after its newly built and the taxes are very low, at that point in time, and after the property sells and say like five or five and a half cap, it's reassessed, and taxes will go up three or four times. And that's really not viable for the tenant to have to cover those taxes, and they go dark. But I mean, that's just one scenario, what what type of things are you seeing where a medical office is not successful or having issues?

T

Trisha Talbot 37:02

So, you know, first you have to buy them on what I would say is sound real estate fundamentals. As a medical practice, is just like any business, they have to purchase the property and make the real estate decisions that makes sense for their particular practice, which happens to be, you know, how much money they make, either through insurance reimbursements, which this is the broad because enforcement keeps getting pushed down and rents are going up. So, they really have to take a look at what cost they can afford for either the mortgage that they're going to have to pay, or the least expense that they're going to have to pay. And they do need to factor in all of the costs, you know, taxes are uncontrollable, they go up, if they own the building, though, you know, won't get reassessed because they're going to sell it. So that's, you know, a little bit of protection there.

T

Trisha Talbot 37:57

But in leasing, and in a lot of medical buildings are triple net, just because there's some practices that use more electricity than others. So, it's not fair for the electricity to be pro rata share against everybody, because it's got an imaging center and a building, and then you have a family practice, and the family practices a lot to pay for the electrical expense of an imaging center. So, it's typically triple net. And in that, you know, uncontrollable expenses are building insurance and taxes. So, it's always get negotiated out when someone wants to control the expenses, because that's not something the landlord can control. And you have to expect that, you know, the landlord, if you're in a 10 year lease you, you have to go into it thinking the landlord that I have now in three to five years may not be the same landlord that I have, and it may trade twice during a 10 year period. Who knows.

T

Trisha Talbot 38:44

So, you have to go into that, knowing that it will likely trade, which is I think, you know, for medical practice the way because while they do continue to stay in business and practice in their space, there's the whole other layer, which, you know, that you would take another two hours to discuss that has to do with, you know, health care costs, what doctors are making, insurance and all of that. So there's that whole layer kind of surrounding the space to that, you know, doctors have to make sound real estate decisions. I don't know if office condos were a popular thing in your market, but they were, you know, here in I don't know, in the early 2000s where developers would create these, you know, they're usually 10,000 square foot footprints and they would cut them into fourths and then they would sell them to smaller practices, you know, just 175 bucks for the shell and then they have to put you know, then they own it. So they have to do all of the tenant improvements which could range anywhere from 80 to 100 bucks. So they're you know, they're all in 200+ bucks a square foot before are they even open. To me, that takes, you know, a long time to recoup those costs.

A Adam Schroeder 40:07

Trisha, are we moving towards a socialized medicine healthcare setting?

T Trisha Talbot 40:12

That's a question I can't answer.

A Adam Schroeder 40:14

Don't answer that. I'm just kidding.

T Trisha Talbot 40:15

I have no idea.

Z Zach Lemaster 40:18

You have been very, very helpful.

A Adam Schroeder 40:21

Thank you so much, Trisha Talbot for joining us. She is managing principal at DOCPROPERTIES. You can check them out at docproperties.com. That's docproperties.com. Trisha, is there anything else you want to leave our listeners with or any other websites you'd like to promote?

T Trisha Talbot 40:37

No, my website has a lot of information about me. And my track record and I try to, you know, advise physicians and answer questions and happy to do so. And all my contact information is on there if they want to reach me.

A Adam Schroeder 40:52

Absolutely. So I really appreciate your time today. I hope our listeners do as well. I hope it's been informative for all of you, you can check us out at renttoretirement.com That's renttoretirement.com. We'd really appreciate you leaving us a review on your podcast platform. And if you have any questions for us or want to want us to reach out to Trisha and ask her a question for you it's podcasts@renttoretirement.com. That's podcasts@renttoretirement.com. I really appreciate you all joining us today, and we'll see you on the next episode.

T Trisha Talbot 41:24

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