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SPEAKERS

Daniel Williams, Trisha Talbot

Trisha Talbot 00:00

How are they trying to affect their operation with this decision, because at the end of the day, whatever real estate decision they are making it is, they're thinking of something in their practice that they're wanting to do differently, or change, or expand or, you know, what have you. So there's some sort of operational reason as to why they're wanting to make a real estate decision.

Trisha Talbot 00:24

So I ask that so that I can better understand kind of where my parameters are with helping them with their real estate decision, because depending on their answer if they're like, oh, you know, we want to buy a building.

Trisha Talbot 00:41

So depending on their answer to the operational questions, and the inventory available, or a bunch of other decisions along the way, I can say, you know, this I know is what your primary goal is, but here is you know, other options that still get you to your operational goal that you're trying to achieve just in maybe a little bit different way.

Trisha Talbot 01:05

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.

Trisha Talbot 01:20

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.

Trisha Talbot 01:45

This week's episode is my interview on the Medical Group Management Association's podcast, another interview picking my brain about the benefits of healthcare real estate, and what a practice needs to consider if they are going to sell or build or purchase and then own and operate their own medical office building.

Daniel Williams 02:08

Well, Trisha, thanks so much for joining us on The MGMA Insights Podcast!

Trisha Talbot 02:13

Thanks for having me.

Daniel Williams 02:15

Yeah! So, you are the founder of Doc Properties, you have roughly 20 years of healthcare real estate experience. So, just take us down that career path. How did you kind of land on this focus of healthcare, real estate?

Trisha Talbot 02:31

Well, I was getting into commercial real estate and I was also going to school at the same time. And I, I accepted a market research opportunity for a developer of medical office building. And they were building a new on campus medical building, it needed kind of a market analysis. So I completed that for them while I was going to school, and then they hired me in the leasing department.

Trisha Talbot 03:03

So I started there, and then you know, commercial real estate, it has several groups, office, industrial land, retail, and multi-family, which is apartments, and medical is really kind of underneath office. And as I was getting to know the commercial real estate industry and doing the same for the, this in, for this developer in house, you know, I really just enjoyed, I enjoyed the, the idea that you know, healthcare, real estate, it's, it's mission critical and demand driven.

Trisha Talbot 03:42

So you know, there's a reason for it to be there, this was right around the dotcom bust. And so, I was also kind of looking at how technology and you know, everyone having a computer and what was that going to look like, you know, 20-40 years down the road? Are people really going to come to an office every day.

Trisha Talbot 04:03

So, when I was thinking about where I wanted to spend the time, you know, I really enjoyed working with these physicians, working with healthcare, healthcare companies, and helping them locations where they can serve patients. So, for me, it felt like there was some purpose to it, so I really enjoyed that, and therefore stayed in it, haven't left.

Daniel Williams 04:28

Great! All right! Well, thanks for sharing that with us. So let's just go over who your primary clients are, then when you're working in healthcare, real estate, who are you dealing with? Is it the physicians, the practice administrator, some other leader, who, who is your point of contact there?

Trisha Talbot 04:50

Yeah, it's um, you know, it's like an independent physician and entrepreneurial physician. I'm usually dealing with physician for a couple of things. Sometimes they're purchasing the real estate in their personal through their, their, their personal funds. So, you know, I'm dealing with them personally, if it is through a, it's a health expert health care company, I usually start the conversation with the physician. If there's several physicians, if it's a partnership, sometimes I end up having to give a presentation to the entire partnership.

Trisha Talbot 05:28

And then if it's a large company, you know, the physician will be involved. But then typically, real estate, I would say, more often than not, it's either under legal or a CFO. So you either work with the corporate counsel or the CFO for the most part of operations, if they have it. And then you know, you're you're dealing with them, but at the end of the day, once you submit the information, it goes to a committee that makes the final decision, but, but typically, so, so that's how it works I think within healthcare companies or physician groups.

Daniel Williams 05:28

Okay! Okay! Now, just wanted to go over a few things, I was researching a little of your background, went to your website lists some areas of expertise, including exit strategies, purchase strategies, build a suit project. So, walk us through a little bit about that. I know when you're meeting with those clients, how does that, how are those decisions made? How do you reach those decisions with the client on what they need to do and that decision making process?

Trisha Talbot 06:41

Sure, you know, I, typically they're looking, so if they're looking to exit out of their real estate, a couple of things are happening. They are wanting to expand and they're wanting to use this as an income stream in order to you know, they, they are able to put a lease on, so this is common and sale, sale leaseback for exit strategies.

Trisha Talbot 07:05

Or, you know, if they have an investment, let's say, multi-tenant building, that's a little more complicated, but you know, they are looking for a sale leaseback it's typically it's single tenant, so they're the tenant in the building, they want to sell this property, and then maybe go and buy a couple more.

Trisha Talbot 07:24

So they use it for expansion of their operation is one business reason that they do it. If they have a multi-tenant building, sometimes they, you know, it's leased up, it's at the top of, the top of the market, and they just see it as an opportunity to, to monetize it, and you know, enjoy the proceeds from that sale. Typically, that's, that's, you know, the LLC, it's in their names personally, or if it's a group, you know, it's a personal investment.

Trisha Talbot 08:00

And, you know, they leased it up and ready, you know, they're just taking advantage of the market that one, you know, since there's multiple tenants, sometimes the tenants are the partners of the building, and sometimes they're not so, so, but either way, that it's, they feel that it's, at its highest value, and they're looking to get out.

Trisha Talbot 08:20

A lot of times, they're maybe tired of being a landlord of a multi-tenant building. Sometimes it's because if it's a partnership, some of the physicians are retiring, and they want to, you know, they don't, you know, want to be in a real estate asset investment anymore.

Trisha Talbot 08:40

So if you're purchasing it's because they're, typically they're growing. So, they're wanting to grow, they're, if they're a group that has a lot of expensive and specialty tenant improvements, such as imaging, or nephrology, or, you know, if it's the cardiology group, and they want to put some cath labs in there, you know, that's highly specialized, so they're looking to purchase it, and then build it, or rehab an existing building, put the T.I.'s in there, and then sometimes they sell it right after and sometimes they hold on to it.

Trisha Talbot 08:40

And then build a suit, you know, again, build a suit is typically they're growing and so it happen in new markets, a lot of the times where there isn't any existing inventory to choose from, so they tend to build their own or like I said, it's a specialty project or they're, they have themselves and a couple others, a complementary uses, or you know, a referral pattern with a couple other practices and they want to go and build their own building. So those are, so those are the reasons why they would look at some of those strategies.

Trisha Talbot 09:15

But it's, you know, for them to do that, rather than go into another landlords property where they only get a tenant improvement allowance, then at the end of their lease term, the tenant can stay with the landlord. You know, for some types, there's the, the economics of doing that makes more sense for them to do it themselves.

Daniel Williams 10:16

Okay! I want to go over just, because we're talking about healthcare space. So, just from a fundamental aspect of this, how does a clinician own medical facilities and still be able to practice medicine? You know, we already know about burnout, and administrative overload, and administrative burdens being placed on the physicians, and all the stuff really, so how can you, how can someone manage those dual roles?

Trisha Talbot 10:48

I strongly encourage them to, to hire professional property management companies, there's several that specialize specifically in health care facilities. So, you know, they're, they're familiar with hazardous waste, traffic generators, you know, if they need a certain tenant needs more electricity, or, you know, needs to have a room with, you know, a room that, you know, for one HVA, you know, one HVAC unit for, you know, a couple of rooms, because it needs to be cooler for, for a specific reason.

Trisha Talbot 11:28

This is also great for partnerships, because, you know, typically someone has to raise their hand for taking care of the building, to and, you know, they, they work with the vendors during normal business hours, whereas physicians, it's, you know, they typically can have calls on their ways, sometimes to, you know, to the office or on their way back.

Trisha Talbot 11:28

So, these sort of like, fundamental mechanics of a medical office property they're very familiar with, and they have expertise in, they can really help take the thought of having a piece of investment, healthcare, you know, investment, real estate, you know, they take some weight off of the physician shoulder, so it's not like a second job.

Trisha Talbot 12:18

If a vendor needs, anyone knows, if they've dealt with anything, just send their own personal house, when you, you know, they goes out, or, you know, you have a plumbing issue, the vendors aren't necessarily on a specific schedule, one, because, you know, they can't, they have to fix some previous job, and sometimes, you know, they're problem solving.

Trisha Talbot 12:38

So, a physician, if they're doing a procedure, you know, someone shows up two hours late, they can't just leave the procedure. So, I highly recommend that they, you know, pay for that, you know, there comes as a, it is a cost. But I think if they talk about the services that are offered, and the convenience they provides, you know, especially if they have a multi-tenant building.

Trisha Talbot 13:02

But even if they just have their own building, this can take the strain off of an office manager, as well as typically given the responsibility of taking care of the facility, where, you know, in their, you know, I think their primary job is to manage the office, and, you know, they have insurance companies and employees and patients and, you know, billing and all this other stuff.

Trisha Talbot 13:27

And then on top of it, so, and then the property accounting, I think having somebody manage the property accounting, which you know, is, you know, you want to know how much it's costing you to run your building, and then, you know, every year you want to look at that and say, Hey! What are some of these things that maybe are a little high that need to be sent out to a couple other vendors for some quotes?

Trisha Talbot 13:51

Or, you know, could you know, if you look at your expenses, just like anything else, you can say, oh, you know, this is really high, is there something wrong that I need to get looked at? So, you know, obviously, you want to continue them to make sure you know, how much it's costing you to, to run your property?

Daniel Williams 14:07

Mm hmm, um, let me, let me follow up to that then. So, let's say that healthcare leader, that, that decision maker is looking at making some changes to their space, whatever that might be. It could be any of these options you've already provided with what should they do to go about selecting a health care you know, real estate adviser, what are those factors they should be paying attention to?

Trisha Talbot 14:37

Um, so, I think the, you know, what, I always asked them, what they so you know, how is, how are they trying to affect their operation with this decision? Because at the end of the day, whatever real estate decision they are making, it is, they're thinking of something in their practice that they're wanting to do

differently, or change or expand or, you know, what have you. So there's, there's some sort of operational reason as to why they're wanting to make a real estate decision.

Trisha Talbot 15:18

So I asked that so that I can better understand kind of where my parameters are with, with helping them with their real estate decision, because depending on their answer is they're like, oh, you know, we want to buy a building. But depending on their answer to the operational questions, and the inventory available, or a bunch of other decisions along the way, I can say, you know, this, I know is what your primary goal is, but here is, you know, other options that still get you to your operational goal that you're trying to achieve just and maybe a little bit different way, because they're, you know, this is what exists in the market or, or what have you.

Trisha Talbot 16:06

I would say, you know, there being a broker, you have to have a certain level of confidence, just to get through your day, there's just a lot of, a lot of things that you have to manage and problem solving and whatnot.

Trisha Talbot 16:21

And I would say the, you know, if some, if a healthcare company calls, you know, an advisor, and they're just talking about how great they are, and not asking them questions about their healthcare company, and what this real estate, how this real estate decision is going to impact them from operational sites, I'd say that's probably the biggest red flag because, you know, the whole, the whole point of the decision is to help them with some, something in their healthcare operation that they're trying to achieve.

Daniel Williams 16:54

Mm hmm, okay, thank you for that! So, for the next several questions, really want to look at some of those nuts and bolts questions in case a practice leader is beginning that decision making process regarding property? So, first of all, how do they go about understanding the value of their medical facility? What's the, what are the steps there? What should they be looking at?

Trisha Talbot 17:21

Yeah, they need to see, to talk to somebody that is involved in transactions on a regular basis. So that happens to be a lot in the brokerage community, you know if you have, you know, somebody on the financing side or capital market side that they can help as well, because what you really need to know is where the value of your property and, in relation to the current rent, rental rates and cap rates, and the only way, you know that is if you're doing deals in the market all the time, because they're, they fluctuate with, you know, economic indicators and whatnot.

Trisha Talbot 17:58

So, you really need to get with somebody that can give you that information, based on, you know, and relative to your property, then also be able to help you say, Okay, this is what the value is today. And maybe if you do these few different things, you can increase your value significantly.

Trisha Talbot 18:23

There's usually a few things you can do that, they may cost some money, but they could really increase your, the value of a property, when you go to market just like, you know, if you were thinking of

your house, I mean, if you did a few different things to improve some, some of the things of your house or rental property, you know, you could put it on the market for a lot more than, you know, what it is today and, and make more money.

Trisha Talbot 18:53

So, and it's more important than an investment opportunity that investment properties. You know, so, you know, understanding what their asset, and then what it could be, you know, relative to what they want to invest, and, you know, and what they can get after they, you know, if they do choose to make a couple of changes.

Daniel Williams 19:14

Okay. So, one of the next things is then, so once they've done that process, and they've evaluated everything, they believe they want to, I think they want to sell their medical office. So, when did they sell it? I mean, how do they go about that? What are the steps there that they're gonna want to take?

Trisha Talbot 19:34

Yeah, I mean, obviously. So, this is, I would say, a three prong decision, obviously selling it, you want to do at the top of the market and not the bottom, so that's obviously, you know, one of the main factors but then you also want to take into consideration, you know, tax laws and interest rates and that sort of thing. So, you want to kind of put all of these together, and then, you know, pick the, pick the right time for the investor, because, you know, it's either a physician investor or, or another investor.

Trisha Talbot 20:12

So, you know, so a lot of people right now are selling, because they're concerned that the interest rates are going to go up. And then also, capital gains taxes might change. So there's a lot of uncertainty for that now with healthcare, real estate, it's long term. So, you know, they can, if they have, they have typically have 10 year, 10 year plus leases. So they can typically write out any short term economic fluctuations like that.

Trisha Talbot 20:45

But at the end of the day, it really depends on you know, the value that you can get, and then other just economic conditions and then making a decision for what is the right time for that particular person.

Daniel Williams 21:00

Okay, same thing then with the purchase side of it, what what are some of those steps then in that evaluation you go through if you want to purchase a medical office?

Trisha Talbot 21:11

So, the biggest thing I recommend with purchasing is to have, have some runway, you don't want to have to purchase a medical office, because you're, you feel like your your hair was on fire, and you know, you've waited, you've waited to the last minute and you have to get in someplace is the best way and knowing how much you can spend.

Trisha Talbot 21:36

So depending on, if you're gonna get away, you know, how you're going to, how you're going to pay for it? You know, a lot of healthcare, smaller health, you know, independent physicians, they can get small business loans. So, what does that look like? There is JV options where you don't have to put up the

capital, you can just lease space in the building, and sometimes different, different joint ventures, you can get a part of the ownership too.

Trisha Talbot 22:07

So, there's people out there that want to partner with healthcare companies. So, figuring out, you know, how you're going to pay for it because it's expensive. And then, then therefore you have your budget, and you'll know, kind of what is the best scenario should you go and find an existing building and do an adaptive reuse? Or should you look for land and do a ground up development?

Daniel Williams 22:33

Okay! Allright! Well, um, I think one of the things we want to do now is just for our audience, because there are a lot of people who make those kinds of decisions for their practices. Do you have a case study? I mean, that was out on your, your website, there were some really cool testimonials from people you had worked with in the past. Just wondering if you have a case study you can share with us of a successful real estate transaction in the healthcare space, what that would look like?

Trisha Talbot 23:02

Yeah, I have, I have several. But a lot of mine, I think surround, are surrounded by physician owners. So, it is physician investors and owners that wanted to invest in real estate, and get the economic benefit of putting together, you know, one or multiple properties and fill them up with themselves and other tenants that, you know, is a good tenant referral mix for the property.

Trisha Talbot 23:35

A lot of them did, you know, this is to also enter into new markets, where at the time, there were no medical office buildings that currently existed, and they were able to either expand into multiple sites across the valley and that, you know, in Phoenix, Arizona, it's a lot of big construction.

Trisha Talbot 23:55

And then they got to a point where they said, you know, this has reached the highest value, and it's now it's time to sell, and then they monetized pretty much all of their assets. And they were able to, you know, over, over time, it was they were able to buy a building, build it where they wanted to practice, reach a patient base that was you know, new, grow and then some, what, you know, we're gonna stop practicing, some just wanted to, not have as much on their plate and then you know, they put in, they put 10 year lease on their property and then they sold it to an investor. So, a lot of my, that's kind of an aggregate of a lot of my transactions.

Daniel Williams 24:50

Okay, okay, before we sign off then, I really want to dig down a little bit deeper as far as what resources tools might be available to our audience? Is there anything you can share? Direct them to any, any papers, blogs, anything that you've got there, that might be helpful to them?

Trisha Talbot 25:12

Um, so a lot of the stuff that I use you have to pay for. And, you know, it's not like, you know, 20 bucks a month, you got, you know, you have to buy a subscription, and there's several \$100 a month. So I know loop net, they can go on loop net, that's open to the public, that they can go on.

Trisha Talbot 25:38

But, I'm trying to think, Luna is very properties specific. But as far as getting into really detailed information, a lot of it is either with brokers and because you know, that, especially cap rates and rental rates, you know, you can, you can, I think you can get through loop net for, for the most part, but the asking rate, and then, you know, what is actually being traded in the market.

Trisha Talbot 26:17

But, you know, thinking, trying to think I mean, this is where it, so healthcare is, you know, I would say for them, to look where new hospitals are being built, where they're seeing some, a lot of high growth, you know, in those markets, and to, then see what medical services are, are currently there, and what is needed.

Trisha Talbot 26:42

And if they can, you know, putting, putting a site out there, offers an opportunity for the community to get either new or expanded services for that particular, you know, healthcare needs. Because we're, you know, I would say, again, where hospitals are growing, expanding, you know, so I'm referencing Phoenix, which is a lot different than some other big, more dense geographic locations.

Trisha Talbot 27:12

But, you know, if you see a hospital going up, you know, and you don't want to be on campus, you want to find something, as you know, as close to campus, maybe across the street or down the road. You know, where it's easy for patients to get into, where they're coming from medical care anyway, those are some, I think, things to look at.

Daniel Williams 27:37

Okay, any, any final words that you'd like to share with us about the healthcare real estate market, whether it's trends you're seeing or, you know, steps, advice, anything else before we sign off?

Trisha Talbot 27:51

Yeah, I mean, I think what's happening now, you know, typically, when I started a lot of practices, were going into multi-tenant medical buildings. And I think, you know, as retail has pivoted, a lot of, a lot of healthcare companies have looked at retail, they call it a tale, where it's easier for the, for the patient to get to the parking is plentiful, and retail centers, and they have high visibility.

Trisha Talbot 27:54

So, I see a lot of health care companies not necessarily wanting to be in that medical building where someone has to walk in and go up an elevator and then find them that they'd rather be easy for the patient to find them and kind of shed their, you know, if they're, if they're already out doing things, it's easy for them to come and get care.

Trisha Talbot 28:50

And I think this is developing because, you know, there's obviously certain practices that cannot do that. You wouldn't put an OBGYN necessarily in a retail center doesn't make any sense. But

Trisha Talbot 29:03

prefer you know, physical therapy, if there's, maybe even some, I've seen some pain management in there, a lot of urgent care, primary care. You know, where the patient doesn't, you know, there's no

trauma, there's no critical care need, it's just that they need to come in for either a routine wellness check, or, you know, they have a sinus infection or something that is pretty routine.

Daniel Williams 29:03

Right! Right!

Trisha Talbot 29:37

I see, I see medical practices wanting to be in these locations, you know, where it makes sense. So, I see that especially also, I think, with the ACA putting an emphasis on, you know, wellness care where they're wanting, I think that's the, was the ultimate goal, obviously, I'm not sure or how it will, in practice and up, but, you know, I think, I think they're trying to make it where they're wanting, you know, primary care to be the first line of defense and trying to keep patients healthy before they, you know, have something that is obviously more critical.

Trisha Talbot 30:18

And because of that, you know, they can go into these lighter medical property situations, so to speak. But I see that as a huge trend, and I see, you know, just as it is in retail, whether the lifestyle centers are being created, I see, like, I hear, you know, some of these health care companies wanting it to be more of an experience for the patient. I'm not sure if it's an apples to apples analogy, but where, you know, the patient can come in, and I, you know, I think through COVID, whether people, you know, any good could come up COVID.

Trisha Talbot 31:02

But I think having, you know, the scheduled, the scheduled, I mean, they were always scheduled meetings, but they're, you know, like, you pick a slot online scheduling very pragmatic and easy ways for a patient to get care to say, to, you know, telemedicine for, you know, follow up or, you know, basic appointments and then schedule for different specialty and more in depth appointments elsewhere.

Trisha Talbot 31:32

So, you know, I think that healthcare is trying, in a way to become more efficient, I know, it has a very long way to go. But, you know, I think strategically placing health care sites, where it's easy to reach a patient and make it easy for the patient to come to, to get care. I do think at some point, we'll help in some way with the, with, with the efficiency.

Trisha Talbot 32:00

Because at the end of the day, as I go back to what I mainly said, it's mission critical and demand driven. So, you know, as population grows, and new communities are created, putting health care services out there so that they can get the services, especially for primary wellness care, and then, you know, obviously being referred to the hospitals or other more specialty care as needed.

Trisha Talbot 32:25

You know, I do think, you know, it's helpful, no one wants to drive 40 minutes to get, to get medical care anymore. Not that they ever did, but, you know, I think really being in a patient's traffic bubble, you know, where they live,

Daniel Williams 32:41

Right!

Trisha Talbot 32:42

will make, I think make healthcare more efficient in the long run.

Daniel Williams 32:47

Okay! Well, Trisha, thank you again, and thanks for you know, joining us just shedding some light on the commercial real estate market and just really what's going on in that healthcare space. So thank you so much for that!

Trisha Talbot 33:01

Yeah, you bet! Thank you for having me!

Trisha Talbot 33:03

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