QuickTake BY NORTHMARQ

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NATIONAL HEALTHCARE GROUP

Healthcare's Vital Signs *Part 5*

Real-Time Market Insights for Advisors

A 100- to 170-basis-point cap rate spread separates provider-owned medical assets from institutionally owned ones, and it traces almost entirely to fixable lease documentation, not building quality. For advisors, that gap is the reason to raise the real estate question early in a practice transition, because sequencing it late permanently impairs a client's most valuable asset.

Market Truth #1

The real estate question **is yours to raise first.**

- Advisors do not need a market update — they need a reason to open the real estate conversation with a client, and this quarter supplies one.
- Real estate is usually the piece of a practice transition addressed last, and it costs the most when handled that way.
- An advisor who raises it early looks prescient to the client.

Market Truth #2

Your client's building **is valued on documents, not square footage.**

- The 100- to 170-basis-point spread between provider-owned and institutionally owned medical assets is largely a function of lease documentation:
  - Term
  - Escalations
  - Rent at market
  - Expense structure
  - Assignment language
- Addressed before a transaction, these items protect real value. Addressed after, the same items become a discount. All of them are fixable in advance.

Market Truth #3

A practice sale that ignores real estate **leaves money in the wrong entity.**

- Private equity and corporate acquirers increasingly separate the practice from the real estate.
- When the real estate question is answered late, the physician-owner tends to end up with a below-market lease, an unfavorable term or both, which permanently impairs the asset.
- Sequencing the decision early is the whole game, and it sits squarely in the advisor's hands.

Opportunity #1

The question worth raising **with every physician-owner this year.**

- Cap rates have held stable for four quarters, private buyer demand sits at a cycle high and occupancy is at a cyclical peak.
- That combination makes the sell, hold or sale-leaseback analysis worth a genuine refresh, including:
  - 1031 exchange positioning
  - Retiring-partner buyouts
  - Cleanup of the real estate entity ahead of a practice transaction

Opportunity #2

Why the appraisal **and the market disagree.**

- The provider-owner cap rate gap has clear mechanics.
- Below-market rent set for tax convenience, short remaining lease term and undocumented expense responsibility each translate directly into a lower clearing price.
- All three are fixable in advance, which is exactly the kind of insight an advisor wants to be the one to deliver.

Opportunity #3

Time the real estate decision **around the practice decision.**

- With REITs now net sellers and private capital more dominant, buyer composition has shifted in ways that affect structure, diligence and closing certainty.
- Advisors who understand who is actually buying can sequence the real estate and practice transactions to the client's advantage.

Learn how Northmarq's National Healthcare Group helps advisors to healthcare and medical office investors and physicians navigate today's market.

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