WHITE PAPER

ACCESSING CAPITAL THROUGH HEALTHCARE REAL ESTATE

RTG

Aligning Strategy, Driving Growth
Through Healthcare Real Estate

RealtyTrustGroup.com

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Now more than ever, healthcare providers face growing demands for financial capital. Whether to fund ongoing operations, expansion initiatives, alignment opportunities, or technology investments, hospitals and physician groups must evaluate various capital sources to meet these needs. When properly structured, a strategic real estate recapitalization can provide significant capital to fund key initiatives, improve liquidity and financial ratios, and support broader organizational goals.

In this white paper, Realty Trust Group explores common strategies that healthcare providers use to unlock capital through real estate.

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A Look Back and the Evolution of the Medical Office Sector

Before 1997, most hospitals and health systems owned their facilities "by default" as Medicare's cost-based reimbursement program provided little incentive to pursue alternative structures.

With the introduction of the Prospective Payment System and the eventual elimination of cost-based reimbursements, many health systems monetized billions of dollars of existing medical office buildings (MOBs) between 1997 and 2008. These organizations adopted a new financial theory: harvest and re-direct low-yielding capital from bricks and mortar toward higher yielding investments in medical equipment, service expansion, and strategic alignment. Institutional investors, including pension funds, insurance companies, and real estate investment trusts (REITs), became enamored with the attractive fundamentals of healthcare real estate and increasingly invested in the new asset class. Transaction volume grew year over year.

Despite the 2008 Financial Market Crisis, when health systems faced unprecedented financial and operational challenges causing them to temporarily shelve healthcare real estate monetization and new development plans, the market demand for healthcare real estate assets remained.

With the passing of the Affordable Care Act (generally known as "ObamaCare") in 2010 and more extensive overall economic recovery from 2012 through 2020, health systems worked diligently to reposition themselves for value-based care and population health management initiatives, driving the need for new, modern ambulatory facilities. New federal lease accounting standards threatened to reshape hospital balance sheets, and health system-backed monetization activity remained low. Yet, low-interest rates fueled the fire for healthcare real estate investments, while competition for premium assets drove down cap rates and elevated prices. Investors, troubled by high investment demand and a low supply of available assets, turned to non-hospital owners and sellers, including physician practices, urgent care clinics, and dialysis providers. Despite this shift, asset pricing grew to peak levels.

> ***Rising interest rates, inflation, and labor shortages have reshaped the healthcare real estate market, forcing both providers and investors to recalibrate their strategies.***

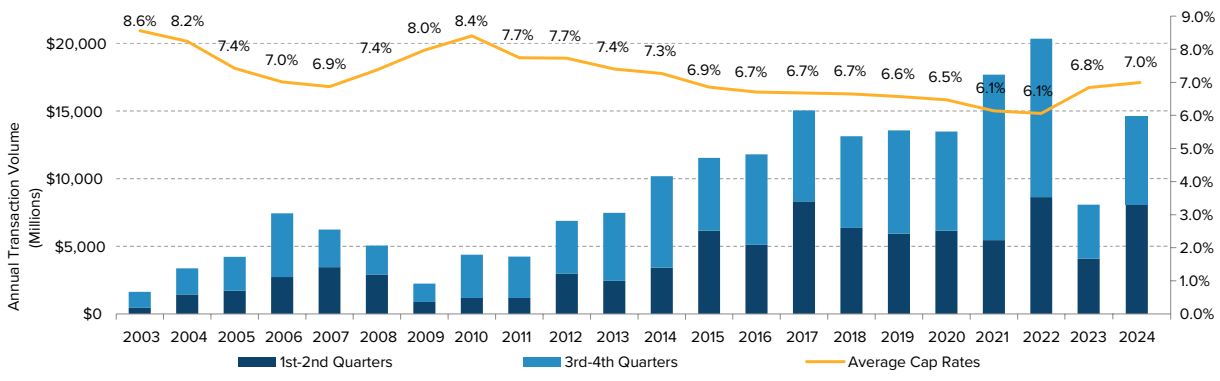
In March 2020, the World Health Organization declared a global pandemic. The effects of the pandemic were far-reaching, but perhaps no industry was impacted as severely as healthcare. As hospitals scrambled to respond to peaking COVID volumes, elective procedures halted, emergency department visits vanished, and staffing challenges mounted. The federal government responded with a massive economic stimulus package, including Provider Relief funding, broader economic support programs like the Paycheck Protection Program, and sustained record-low interest rates. Providers "weathered the storm," but the underlying economic fundamentals of traditional healthcare models were unstable, and the future remained uncertain. Although broader healthcare real estate investment activity remained strong, large health system-backed monetization activity was virtually non-existent.

As the country emerged from the COVID-era, healthcare real estate markets recalibrated amid a mix of macroeconomic and policy-driven pressures. Rising interest rates, persistent inflation, elevated construction costs, and labor shortages cooled transaction activity. Cap rates rose, and the bid-ask spread between buyers and sellers widened, leading many to pause or delay deals. Investor caution increased, especially for assets without long-term leases or strong credit tenants.

The recently enacted One Big Beautiful Bill Act (OBBBA) adds a new layer of complexity. While the legislation includes provisions aimed at catalyzing development and expanding capital flows, it also introduces healthcare-specific challenges. Stricter requirements for Medicaid and ACA marketplace plans, reduced provider taxes, and the expiration of pandemic-era subsidies are expected to increase the number of uninsured patients. This may accelerate the shift toward outpatient care and drive demand for lower-cost, community-based facilities like medical office buildings (MOBs) and ambulatory surgical centers (ASCs).

In this environment, healthcare real estate remains a resilient but increasingly strategic asset class. Providers and investors alike must navigate a more nuanced landscape—balancing capital needs, operational flexibility, and policy implications—to unlock value and support long-term organizational goals.

Year-over-Year Healthcare Real Estate Sales Volume & Cap Rates • *$ Transaction Volume in Millions*



Source: Real Capital Analytics

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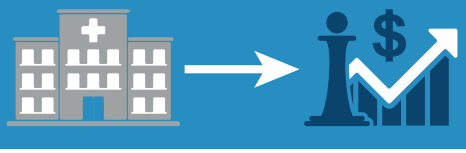
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What's Next for Healthcare Providers?

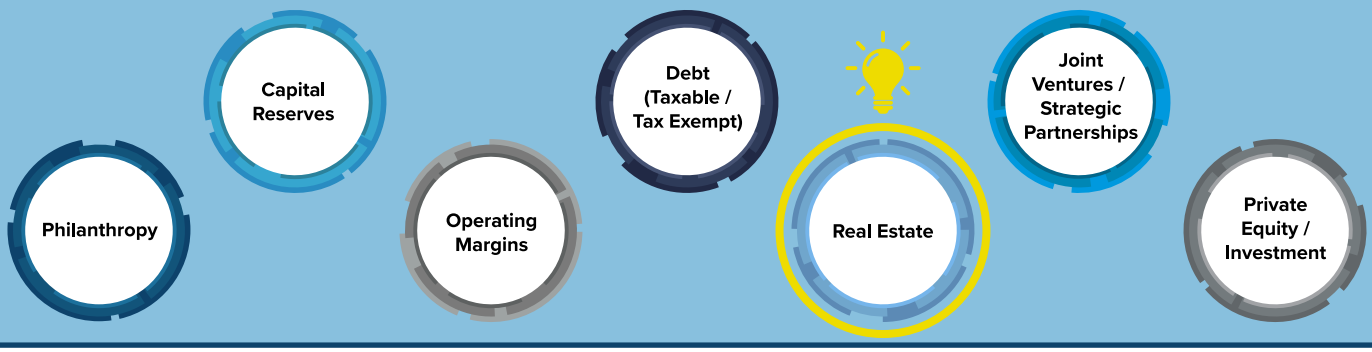
For most healthcare providers, the need for cost-effective capital is as great as ever. Demand for capital is high as providers balance competing needs to address routine capital and maintenance needs, operational improvement initiatives, physician employment and alignment objectives, medical equipment modernization, and investment in both inpatient facilities for high acuity needs and ambulatory facilities to expand community-based services.

As healthcare executives evaluate their range of options for capital, real estate likely is not the single solution, but it is often an important piece of the puzzle, offering strategic opportunities to creatively recapitalize existing assets and finance new construction projects, ultimately preserving operational capital and debt capacity to support other organizational strategic objectives.

For most healthcare providers, real estate has evolved from a "must own" physical asset to a valuable strategic asset and capital resource.



Health System Capital Alternatives





CASE STUDY

West Tennessee HEALTHCARE

Project Type: Portfolio Sale-Leaseback Transaction

Portfolio: 187,000 SF

Total Transaction Value: $35M

To read more, download the full Case Study

Select RTG Recapitalization Transaction Experience



Hospital MOB Development with Take-Out Partner

- 169,000 SF medical office building
- Approximately $83 million transaction
- Strategic control via ground lease



Physician Group Portfolio Monetization

- 334,000 SF six-building portfolio
- Approximately $90 million transaction
- Long-term master lease



Inpatient Facility Repositioning

- 160,000 SF acute care hospital
- Approximately $60 million transaction
- Strategic disposition

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Key Considerations

For any healthcare organization or physician practice considering a real estate recapitalization, it is important to first consider the fundamental strategic, economic, and operational considerations, and then determine which strategy best aligns with their long-term objectives.



STRATEGY FIRST

A healthcare organization should first evaluate its financial position relative to its larger strategic initiatives, then quantify the potential capital need or "gap." With this information, leadership can evaluate and prioritize capital needs and timing. This exercise ensures a "strategy first" approach and helps develop a frame of reference to best evaluate and prioritize potential assets for recapitalization. For example, the shifting healthcare environment has led many providers to reconsider the traditional "core vs. non-core" asset discussion, as off-campus assets grow in size, scope, and strategic importance. Traditional "core" assets like inpatient facilities and on-campus MOBs may now be considered for new debt placement, monetization, or third-party investment opportunities to support funding for new strategically located ambulatory care centers. A judicious process (rather than a real or perceived "fire sale") will allow the organization to evaluate options and timing, select an approach that best aligns with broader objectives, and be positioned to strategically redeploy capital at a higher rate of return to support strategic initiatives elsewhere in the organization.



ECONOMICS (Lease vs. Own)

So what's the real estate worth? It is an obvious first question, but the answer requires careful evaluation. While bricks and mortar carry a certain value, from an investment perspective, the true value lies in the underlying lease and resulting revenue stream. The organization should assess its long-term interest in each property and determine an appropriate level of retained control. If applicable, the terms of a space lease (e.g., lease rate and term) and ground lease will be the most significant determinants in the valuation equation, followed closely by the underlying credit of the tenant responsible for making the lease payments, as well as the location and mix of services offered at the property. Many variables, including accounting treatment (FASB – ASC 842 and GASB 87) and potential property tax exposure, must be analyzed to fully evaluate the trade-offs between the initial valuation and the long-term lease / own costs and benefits to the organization.



OPERATIONS

In addition to strategic and economic factors, healthcare providers must consider the potential operational impacts of a recapitalization transaction. Depending on the transaction structure, the organization may be able to shift certain operational responsibilities to third parties while other duties may remain with the healthcare provider. Significant operational real estate responsibilities include:

Management – Personnel resources associated with property management, leasing, lease administration, and accounting functions.

Maintenance – Recurring operating expenses for taxes, insurance, utilities, janitorial and related items, as well as capital expenditures for facility maintenance and upgrades.

Compliance – Potential regulatory compliance risk exposure where there are landlord/tenant relationships between health systems and referring physicians.

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Real Estate Strategies

Once the key considerations related to strategy, economics, and operations have been evaluated, healthcare providers may consider multiple potential real estate capital strategies and should evaluate the relative pros/cons of each approach relative to broader organizational objectives.

	PROS	CONS
HOLD AS-IS Organization continues to hold real estate.	• Maintain Status Quo • No Additional Resources or Transaction Risk • Maintain Full Control	• No Additional Capital Generated • Responsibility for Ongoing Maintenance and Capital Costs • Ongoing Management Responsibilities
HOLD AND REFINANCE Organization maintains current ownership and seeks additional financing through bank or bond financing.	• Maintain Ownership and Control • Monetize Accumulated Equity (Cash Out) • Maintain Existing Rental Expense and Third-Party Rental Income Stream	• Debt Proceeds Likely Limited to 80-90% of Value • May Require Lease Extension • Ongoing Maintenance and Management Responsibilities • May Reduce Future Strategic or Operational Flexibility
PHYSICIAN SYNDICATION Organization transfers certain real estate assets to a new entity and promotes physician real estate investment opportunities.	• Realize Partial Capital Without Introducing Third-Party Owner • Strategic Alignment with Physician Partners • Maintain Control via Ground Lease and Operating Agreement	• Proceeds May be Limited Based on Physician Participation Level • Regulatory Considerations • Entity / Partnership Management Requirements (Potential Third-Party Manager)
SALE / LEASEBACK Organization receives up front capital infusion, transfers ownership to an investor, and enters new long-term lease.	• Monetize Full Property Value – Equity Cash Out • Maintain Certain Controls via Ground Lease • Transfer Certain Maintenance and Management Responsibilities to New Owner • Potential Third-Party Rental Income to Offset Primary Lease Commitment	• Introduces New Third-Party Real Estate Owner (REIT or Private Investor) • Requires Long-Term Lease Commitment • Organization May Retain Certain Maintenance Responsibilities via Lease or Ground Lease • Potential Property Tax Implications
FOUNDATION MODEL Organization receives up front capital infusion, transfers ownership to a separate 501 (c)(3) entity, and enters long-term lease to amortize sale price.	• Finance up to 100% of Property Value • Typically lower cost of capital, resulting in lower fixed rental rate structure • Opportunity for property tax savings • Opportunity to fully amortize the debt over the lease term and retain reversionary interest in the property • Maintain operational control through ground lease	• Best Suited for Single-Tenant, Master-Leased Properties • Requires Long-Term Lease Commitment • Extensive Underwriting Process • Health System Auditor to Confirm Lease Accounting Treatment
DISPOSITION Organization receives capital through outright sale of non-strategic or underutilized assets.	• Provides for Exit Strategy for Unneeded Assets • Reduce Real Estate Footprint and Costs of Ownership • Opportunity to Redeploy Capital Elsewhere in Organization	• May Not Maximize Value of Asset Without a Long-Term Commitment • No Longer Control Property

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Conclusion

Healthcare organizations will continue to require capital to re-invest in their core business of providing patient care. Health systems and physician groups considering a recapitalization transaction should carefully assess organizational objectives and evaluate various real estate strategies to determine the appropriate course of action. The professionals at RTG have successfully advised our hospital, health system, and physician practice clients on multiple real estate capital strategies and are committed to ensuring an objective evaluation of various recapitalization opportunities on our clients' behalf.

About Realty Trust Group

Realty Trust Group, LLC (RTG) is a national leader in providing comprehensive real estate solutions for the healthcare industry. Since 1998, we have worked alongside healthcare leaders to leverage real estate as a strategic asset helping to save money, manage risks, create physician alignment, and increase market share.

At RTG we lead with an advisory-first approach, delivering innovative strategies and operational best practices that help healthcare leaders optimize their real estate portfolios. Our services span advisory, development, transactions, operations, and regulatory compliance, allowing us to tailor solutions for specific projects or provide long-term portfolio management.

What sets us apart is our ability to combine objective advice with scalable implementation capabilities. We don't offer one-size-fits-all solutions—instead, we provide customized, data-driven strategies that address the unique challenges and goals of each client. Fostering collaboration, our team of best-in-class professionals, creates exceptional client experiences that propel healthcare missions forward.

For more information about RTG, visit www.realtytrustgroup.com, Facebook, LinkedIn, YouTube or call 865.521.0630.

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