



HOSPITAL JOINT Ventures



*By Malcolm Sina
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Chief Executive Officer*

It should come as no surprise that there is a continuing interest in physician ownership of healthcare real estate. Joint ventures (JVs) offer hospitals and physicians alike an attractive option for real estate ownership. Joint ventures may be hospital-led or physician-led. Hospitals prefer to be proactive, not reactive, and from our perspective as a developer/owner, hospital involvement can be very beneficial.

In many JVs, a third-party developer/owner is brought into the mix to provide development expertise to the project. The benefits of third-party developer involvement include:

- Hospitals and physicians have an investment opportunity
- Hospital and physician interests remain closely aligned with a

third-party who coordinates the process

- Professional real estate oversight (management, leasing, financing) is now available
- Operational risk is minimized
- Potential friction between the hospital and physician-investors over the day-to-day operations of the facility is reduced
- The value of the asset is preserved

The JV team might also include a surgical services company who operate ambulatory surgery centers (ASCs), specialty hospitals and diagnostic facilities. In addition to operating the venture, they may also invest in the operations.

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Joint VENTURES

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DASCO recently completed two projects in the Houston area, partnering with Memorial Hermann Healthcare System in Pearland and Cy-Fair, Texas in the development of two 80,000 square foot ambulatory surgery centers/medical office buildings (ASCs/MOBs). Memorial Hermann did not choose to manage the ASCs themselves. United Surgical Partners International (USPI) was engaged to syndicate the JV and to manage day-to-day operations of the surgery center; USPI also invested in the ASCs (which will total 12 across the Houston market). DASCO and USPI, in light of their mutual goal — securing tenants — worked together, trading leads to ensure high levels of occupancy for both facilities. DASCO does not require physician-investors to move forward with a project, particularly in situations where the infusion of additional cash is necessary.

We have found the most common JVs to be with ASCs and imaging centers. These entities act as “anchor”

There are multiple factors to consider — developer and hospital together — when evaluating the feasibility of a venture:

Timing • Capitalization
Tenant Mix • Entity Structure

tenants in the facility and as such, determine which practices need to be targeted to fill the medical office component. There are multiple factors to consider — developer and hospital together — when evaluating the feasibility of a venture:

Timing

- It takes months to syndicate a JV. If the hospital feels a sense of urgency to validate the planned project, a master lease might be

considered which would allow for earlier commencement of construction.

Capitalization

- Determine if the hospital wishes to invest, and if so, how much.
- Find out how many physician-tenants want to be part of the endeavor and to what dollar amount.
- Determine if the manager of operations has a desire to invest, and if so, to what level.
- The greater the amount invested by these parties, the more viable the venture in that all involved have a “vested” interest in the success of the JV.

Tenant mix

- The type of JV determines the categories of healthcare that are the most compatible with the venture.
- For example, orthopaedic surgeons and general surgeons are prime candidates for ASCs. The practices are compatible in that the frequency of procedure, length of procedure, and staffing requirements are similar. Their services also mandate higher revenue than other specialties.
- An ophthalmologist, for instance, in order to be revenue comparable, would require much higher turnover in patients. Ophthalmologists also have different staffing needs which would not be compatible with the surgeons.
- Imaging centers dictate a different set of specialties, such as internists, neurosurgeons, radiology, oncologists, etc.

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Entity structure

- Joint venture ownership structures result in a new entity where both the hospital and the physician investors maintain an ownership stake in a real estate asset. The most common structures for JV real estate entities are limited liability companies or partnerships.

There are serious legal considerations when structuring a JV. As the third-party developer coordinating the creation of JVs, we religiously turn to our in-house counsel as well as outside counsel in the process of drafting the documents which define the entity. We undertake an in-depth evaluation to ensure compliance with all state and federal laws, including but not limited to Stark Regulations, the Federal Anti-Kickback Law and Regulatory Safe Harbors.

Joint ventures are an effective means of solidifying a hospital's competitive position and increasing market share. By virtue of their investing, physicians are provided a chance to bolster their revenues. The collective infusion of cash contributes to new services, advanced technology and improved operations — a win-win for all involved.



Since joining DASCO in 1994, Malcolm S. Sina, chief executive officer, has been involved in all areas of the company including development, construction, transaction structuring, finance, operations, marketing and leasing, and asset and property management. He has structured and negotiated more than 70 transactions representing more than \$750 million. In conjunction with the executive team, he develops the overall strategic direction of the company. Mr. Sina graduated from the University of Wisconsin with a Master of Science degree in Real Estate Appraisal and Investment Analysis and a Bachelor of Business Administration degree with a double major in finance and real estate. He is a member of the Healthcare Financial Management Association (HFMA) and the American College of Healthcare Executives (ACHE), as well as the ACHE CEO Circle.

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Even with the many changes to
health care over the last 20 years,

DASCO™
remains one constant,
trusted partner in
medical real estate.

A photograph of a modern, multi-story hospital building with large windows and a prominent entrance. Overlaid on the image is a circular logo celebrating 20 years of DASCO. The logo features the text 'BUILDING RELATIONSHIPS' at the top, 'DASCO' in the center, '20 YEARS' in a large font, and 'FOR THE LONG TERM' at the bottom. Below the logo, the text '800/452.8121' and 'www.dascomed.com' is displayed. To the right, the words 'development', 'acquisition', 'management', and 'leasing' are listed vertically.

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