HEALTHCARE REAL ESTATE ADVISORS

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NEW LEASE ACCOUNTING STANDARDS

With the new GAAP/FASB guidelines for leasing inching closer to reality, it is not too soon for hospitals and healthcare organizations to begin thinking strategically about their leases.

If passed, the new guidelines will apply to leases already in existence, and may shift the balance between leasing and purchasing.

Healthcare organizations will be under pressure to gather the market data needed to comply with the new rules. Renewal options and other lease terms, which may have been favorable in the past, could become much less so due to the accounting vagaries they may bring about.

Healthcare providers would be well-advised to begin a careful review of their existing facilities or portfolios, develop strategies for migrating to different real estate solutions as current leases expire, and consider possible options for new lease/purchase arrangements.

For more information, visit the Leases section of the IASB website via **www.ifrs.org** and the FASB website via **www.fasb.org.**

SHIFT IN PHYSICIAN-OWNED PRACTICES

As reported last week in the ***Wall Street Journal***, the number of physicians' groups who are selling their practices to hospitals is growing.   According the the MGMA, hospital employment among doctors has jumped from 25% in 2002 to 50% in 2008 and is likely higher today

Many of these physicians are trading their autonomy for salaried positions -- and relief from some of the business pressures of practice ownership, including acquiring new technology and dealing with insurance and real estate issues. Real estate is the second or third largest fixed cost for many practices -- after staff and insurance costs.

Crain's New York Business reports that Mount Sinai Medical Center in New York City recently purchased a number of practices. "The North Shore-Long Island Jewish Health System has brought on 183 physicians as employees so far this year, about 50% more than in all of last year. (The tally doesn't include 110 doctors from the system's recent merger with Lenox Hill Hospital.) NYU Langone Medical Center added about 100 doctors this year by acquiring practices from the West Side to Great Neck." Crain's adds that the situation is most acute for cardiologists, whose revenue has been hit by federal cuts for diagnostic procedures.

A 2009 survey by the American College of Cardiology found that only 33% of cardiologists expect to remain in private practice or a small group practice. According to ***Dark Daily*****,** this trend may have significant long-term implications for pathologists and the clinical laboratory industry. "As commercial laboratory executives know, when a medical group practice is purchased by a hospital or health system, the clinical laboratory test referrals are redirected to the laboratory outreach program of the new owners. That means a reduction in the number of potential laboratory test clients in that regional market.

For hospital-based clinical pathology laboratories, the trend to more hospital/health system-owned physician practices is likely to mean increasing volumes of outpatient work. With physicians working as employees of hospital/health care systems there is a natural alignment of incentives to send clinical laboratory tests to the hospital's in-house laboratory."

HIDDEN COSTS IN LEASE CLAUSES

Despite getting good advice from lawyers, healthcare executives often sign leases containing restrictions which can limit their facilities' operations. The real estate marketplace is populated by experts who overwhelmingly represent the interests of building owners -- not yours.

We've explored many of the obscure provisions and clauses buried in lease drafts in the ***Harvard Business Review***.

Once such clause affected a doctor in Suffolk County, New York, who signed an eight-year lease for office space. Less than a year later, the building burned down. The landlord sued to keep collecting rent and won, even though he had no obligation to repair the building. New York law would have protected the doctor against this kind of thing, but the lease contained a clause providing that rent wouldn't abate and that his responsibility under the lease would continue even if a casualty destroyed the building. In effect, the doctor signed away his legal rights.

Casualties. Many leases have clauses allowing the landlord to terminate the lease after a minor casualty affecting the building, even though your office space remains quite usable. This clause gives the landlord an opportunity to force you out in a rising market or force you to renegotiate unrelated parts of your lease before it will agree to restore the damage.

Make sure your landlord is obligated to restore the building and your space after a casualty if the work can be done in a reasonable time. You should be able to walk if the damage is so severe that your space can't be restored at all or within a time that's reasonable, given your business' needs. Without this right, you could be forced to pay rent even though you have no more office space.

HCREA IN THE NEWS

National Real Estate Investor recently featured us in its"*10 for 2010 Special Report:* ***Tough Negotiator Gives Tenants Leverage in Leasing Transactions***

You can access the full story at ***Special Report: NREI Names 10 Outstanding Women for 2010.***

MARKET OUTLOOK

The Bureau of Labor Statistics reports that healthcare employers added 24,100 jobs, or 2%, to a workforce of 13.8 million in October.

Hospitals added 5,100 jobs, or 1%, to a workforce of 4.7 million.

Physicians' offices last month added 2,700 jobs, or 1%, to their workforce of 2.3 million.

With an average vacancy rate of 17% in the office sector nationwide, healthcare space users can expect that opportunity for strategic planning and cost-effective growth will continue for some months.

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