

Medical Office Buildings

Keeping Physician Tenants Happy And Staying Out of Jail

Section of Real Property, Trust & Estate Law, ABA
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Hospital-owned Medical Office Buildings

Challenges for Many Urban Hospitals and Their Tenants:

- ❑ Aging physical plant
- ❑ Lack of capital for improvements
- ❑ Diminishing volumes and revenues
- ❑ Mostly public payers
- ❑ Older, sicker patients
- ❑ Aging tenant base with poor succession planning
- ❑ Increasing segmentation in the local market
- ❑ Increasingly complicated regulatory oversight



What Hospital-Owners Need from Physician Tenants

- **The rent paid on time**
- **A steady stream of referrals**
- **Enough of the right kind of sub-specialties to serve the community**
- **Participation in the life of the hospital**
 - Committee service
 - On-call availability
 - Attention to quality and utilization issues



What Physician Tenants Need from the Hospital

- **Low rents**
- **The right tenant mix to foster referrals but limit competition**
- **The right patient mix – (i.e., well insured)**
- **Access to state-of-the-art equipment and staff**
- **Increasingly, payment for service to the hospital**



Opportunities for Conflict ABOUND...

- **Disappointments in the state of the office property**
- **Mutual disappointments in referral volume**
- **Lack of specialty coverage in emergency and in-patient settings**
- **Lack of attention to leases**
 - **Expired leases**
 - **Under market value leases**
 - **“Usage creep”**
- **Special treatment for favored tenants**



Solutions

- **Sell the property**
- **Proactively establish advisory tenant committees and subcommittees**
- **Involve the tenants in succession planning and recruitment efforts**
- **Encourage collaborative efforts**
 - **Identify group practice or space-sharing opportunities**
 - **Offer to establish a management services organization to assist with staffing, billing, purchasing, etc.**

