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"DETERIORATING" FITCH RATINGS AND HOSPITAL WEALTH EXTRACTION: A NON-PROFIT REAL ESTATE SOLUTION

THE CHARITABLE FOUNDATION LEASE SOLUTION - A SOLUTION TO CHALLENGING ECONOMIC CONDITIONS!

1. **Fitch Ratings 2022 Mid-Year Outlook: US Not-for-Profit Hospitals and Health Systems – "Deteriorating"**

2. **Hospitals Experiencing Some of the Worst Margins Since Beginning of Pandemic**

3. **How Public Real Estate Investment Trusts Extract Wealth from Nursing Homes and Hospitals**

We understand these are challenging times for hospitals, and for the past two years, Hall Render Advisory Services has been educating hospitals about the many economic benefits of utilizing a non-profit Charitable Foundation Lease ("CFL") structure. As economic headwinds continue pushing against hospitals and rating agencies forecasting "deteriorating" hospital finances, the CFL offers a profitable solution for hospitals to generate cash, capture value and retain control of leased or even owned real estate assets, thus improving liquidity.

> **1. & 2.** These two short articles highlight what hospitals systems already know: non-profit hospitals, even high credit rated systems, are all facing operating revenue headwinds, amplified by portfolio hits over the past year and dramatic inflationary pressures. Competition for capital within the system remains fierce as hospitals seek to grow service line revenue and navigate a challenging reimbursement climate. Facilities are needed to expand ambulatory networks, and in-patient hospitals need constant upgrades. Now more than ever, real estate (an expensive and mission critical operation) requires creative solutions to capture value, maintain control and improve cash flow liquidity. ***Simply leasing from a REIT or for-profit developer does NOT achieve this objective.***
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> **3.** Real Estate Investment Trusts ("REITs") and Private Equity ("PE") investment funds continue seeking ownership of hospital credit leased medical office buildings and outpatient facilities. On the surface, a REIT or PE funding of a development or sale/leaseback transaction provides or preserves ready capital to fund other ventures. However, these solutions come at a great cost long term. By selling to a REIT or leasing from a traditional PE-backed landlord, hospitals will effectively pay for a building 2-3 times over during the life of its occupancy with all value going to a third party. Rent escalations and "fair market value" purchase options only serve to enhance the landlord's profits at the health system expense. A short-term cash fix turns into a long-term loss of hospital retained value and control.

A better way to approach these and other real estate needs is to consider using a non-profit CFL. A CFL is organized through a mission aligned 501(c)(3) landlord that results in rental rates much lower than traditional market rates. The hospital retains most all controls of the facility in question and retains or captures all accretive long-term real estate value. In addition to significant occupancy cost savings, a charitable foundation lease offers uniquely favorable property reversion rights for the tenant and might even qualify for property tax exemption (in favorable jurisdictions). Simply put, the CFL is a better way to use third party real estate financing.

Please take a moment to review the additional information linked, and please give us a call or email to discuss how this creative structure can help your organization.

If you have any questions or would like additional information about this topic, please contact:

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