

Expertise, perseverance pay off for Tenet in MOB monetization

Like most real estate transactions, Tenet Healthcare Corp.'s widely reported plan to sell part of its medical office building (MOB) portfolio had to be put on hold during the financial crisis and recession of 2007-08. But with perseverance and the benefit of the healthcare and real estate expertise of Jones Lang LaSalle, that plan is back on track and delivering significant financial and operational results for the Dallas-based hospital system.

As of Sept. 30, 2007, Tenet's subsidiaries operated 58 general hospitals, a cancer hospital and a critical access hospital, for a total of 15,268 licensed beds in 12 states. The firm also owned or leased various related healthcare facilities, including a rehabilitation hospital, a long-term acute care hospital, a skilled nursing facility and a number of medical office buildings (MOBs), all of which were located on or near its hospital campuses. Tenet executives recognized that selling some of those multi-tenant MOBs would free the organization of leasing and property management responsibilities, and allow it to focus on its core business of caring for patients.

Meanwhile, with MOB sale prices near an all-time high, the "monetization" of those non-core assets would unlock substantial cash from the balance sheet that could be reinvested in Tenet's primary business of healthcare. The sales could also be structured to require the new owners of the MOBs to pay for needed capital improvements, and an experienced healthcare real estate firm would be better equipped to improve occupancy rates, which were less than 80 percent in some of the buildings. Through it all, Tenet wanted to maintain a degree of control over the buildings because they were situated on or near its hospital campuses. To address those many objectives and opportunities, Tenet engaged Jones Lang LaSalle.

In fall 2007, Jones Lang LaSalle conducted what it refers to as a "Phase I" analysis: evaluating the physical, operational and financial condition of the existing MOB portfolio. For each property, the Jones Lang LaSalle team identified and documented such attributes as their strategic importance; the size, age and quality of the facility; the tenant mix, rental rates and existing lease terms; supply and demand for medical office space in the local market; historical and projected net cash flows; and other factors.



Challenge

- Make costly capital improvements to the MOBs
- Improve tenant occupancy rates, which were less than 80 percent in some cases
- Determine if the assets could be monetized to unlock cash from the balance sheet, and to free Tenet Healthcare Corp. of real estate responsibilities

Solution

- Evaluate the physical, operational and financial condition of the existing MOB portfolio
- Market 34 of the MOBs

Results

- Unlocked capital from Tenet's balance sheet
- Freed the system of real estate responsibilities, allowing it to focus on its core business of healthcare
- Improved the occupancy rate under new ownership.
- Funded capital improvements and remedied deferred maintenance issues via investment by the new owner
- Enabled Tenet to retain partial control over the properties through ground lease and reciprocal easement agreements



It was concluded that it would indeed be beneficial to monetize some of the assets. Tenet could maintain a measure of control by retaining ownership of the underlying land and negotiating long-term ground leases with the buyers.

In early 2008, Tenet selected Jones Lang LaSalle to also spearhead Phase II of the assignment: marketing and selling the chosen assets. In May 2008, Tenet formally announced that it planned to sell 34 MOB's totaling about 2.4 million square feet throughout the Southeast, as well as Texas, Florida and California. Marketing continued throughout the spring and summer and, by fall 2008, Jones Lang LaSalle had secured qualified bids for the entire portfolio. However, potential buyers decided not to proceed due to the economic downturn.

Fortunately, economic conditions improved, and Jones Lang LaSalle relaunched the marketing effort in summer 2009 – with positive results. In October 2010, the healthcare real estate investment firm AW Property Co. and its joint venture partner, Behringer Harvard, announced that they had paid \$47.1 million for nine of Tenet's South Florida MOB's totaling about 630,000 square feet. Jones Lang LaSalle represented Tenet in the all-cash transaction, which was the culmination of a relationship the firm had begun cultivating more than three years before. In April 2011, Jones Lang LaSalle represented Tenet in the sale of another of the MOB's – the two-story, 30,192 square foot JFK Medical Plaza in Bermuda Dunes, Calif. – which was sold to a joint venture involving Omni West Group Inc. and HG Capital LLC.

Currently, the remaining 24 properties are in the process of being sold and more closings are anticipated in the near future. If anything, the market for value-added real estate opportunities is even stronger today than it was in 2007, so demand is high. Thanks to the healthcare and real estate expertise that results from its nationwide network of brokers – as well as its tenacity – Jones Lang LaSalle continues to bring Tenet Healthcare nearer to its real estate objectives.

Join the healthcare real estate conversation

www.us.joneslanglasalle.com/healthcare



Real value in a changing world

