



by Marshall Heins  
Memorial Hermann

# Health Care Industry Breaks Tradition

*During my construction and development career, health care facility development and real estate transactions have been the most complex, lengthy – yet most rewarding – challenge for me. Health care, due to the almost daily breakthroughs in treatment, technology, payer reimbursement adjustments and research trends, is complex and ever-changing.*



Memorial Hermann - The Woodlands Hospital  
Medical Plaza 3 Joint Venture



Memorial Hermann  
Medical Plaza



Memorial Hermann - The Woodlands Hospital  
Ambulatory Surgery Center Joint Venture

## Tradition Fades to Change

Hospitals and health care systems, partly because of their desire to have full control over their physical assets and real estate, have been accustomed to conservative and traditional real estate/development ownership structures. These care entities, if they are a not-for-profit healthcare organization, typically fund new projects via tax-exempt bond issues. Traditional lending sources are harnessed by for-profit health care systems.

Historically, hospitals and health care systems have self-funded real estate acquisitions, developments and construction. Such is the model for typical hospital campuses, professional/medical office buildings, specialty clinics and treatment centers. However, for many years on a limited basis, Memorial Hermann has designed, developed and purchased physical assets utilizing outside real estate sources for

funding and actual joint venture ownership. Three to four years ago, health care real estate became an area toward which many new developers and lenders focused their marketing efforts. As a result, local, regional and national firms entered our field. It was during this period that Memorial Hermann initiated complex deals with real estate developer partners for “non-core” health care assets. Our most recent transaction is the large expansion at Memorial Hermann Memorial City Hospital.

## The Challenge of Change

During the last several years, Memorial Hermann has created multiple partnerships with DASCO Companies, MetroNational Corporation, Mischer Healthcare and TrammellCrow Company. Unlike traditional real estate development transactions, negotiations can be

extremely lengthy and very, very complex. The health care user must protect against long-term changes in government regulations regarding healthcare, establish long-term exit strategies, include policies or rights to control occupancy of these facilities, use a strategy to permit buy-back by the healthcare entity, conform with the health care user's community mission and, of course, assure affordability.

translate into surgery centers, endoscopy centers and other "centers" where physicians may not only have an equity position in the real estate, but also in the health care business. Houston has several individual hospitals that have been developed with physician partnerships and private developers.

This is a fairly new concept in the greater Houston area, with both the physicians and health care providers sharing a vested interest in this emerging trend. Physician

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### **Our Other "Partner" The Government**

Unlike the typical real estate user or tenant, health care entities are governed by regulations from the Internal Revenue Service (IRS) regarding fraud and abuse, Physician Self-Referral Legislation (STARK) and enurement policies. The IRS established these regulations to ensure that physicians or other private for-profit individuals are not financially rewarded for referrals of patients to these health care complexes. These regulations work to the financial benefit of the individual patient and the greater community.

### **Enter the Doctor as Partner**

Over the last three years, physicians have once again become interested in physical assets and real estate ownership. This trend first surfaced 20 years ago, but, with the real estate tax law changes of 1986, it fell out of favor. Now, with current health care reimbursement challenges, physicians are searching for ways to boost their financial performance via ownership in real estate associated with their health care practice.

Physicians are exhibiting interest in professional office buildings and want to enjoy the ownership benefits of a traditional occupied lease space for extended terms. This real estate interest has now begun to

ownership in a professional office building or other health care real estate building is fairly straightforward and is comparable to ownership of other real estate assets. Ownership in a specialty clinic, surgery center, or even an entire hospital, however, is complex, and the development costs, financing and risks can be very expensive.

Our partnerships with local developers allow us to invest our capital directly into health care facilities and the latest medical technology.

### **We're Lessees, Too**

Along with physician interest in health care real estate, there has been a simultaneous trend toward health care providers utilizing outside developers and lenders to create new health care facilities or campuses. Memorial Hermann has committed a significant amount of capital to the Greater Houston community to enlarge multiple campuses, develop several new professional office buildings, expand numerous campuses, create three new Heart and Vascular Institutes, and develop numerous outpatient service expansions. Tremendous amounts of capital are required to develop these expensive facilities and equip them with the latest medical equipment technology.

### **3.0 Telsa MRI, Not Bricks and Sticks**

Many times, "non-core" health care facilities or real estate assets may be developed by, or in partnership with, a private developer. Why? So the health care provider can focus its available capital and debt capacity on the actual

health care services offered to our community. Although the Memorial Hermann physician joint venture offerings in health care real estate have been successful, the capital raised through these transactions is modest compared to the capital needs of our health care system.

Health care and medical technology changes rapidly and is extremely expensive to purchase and maintain. New technology emerges almost daily, and we desire to offer this new level of quality to our patients. Our partnerships with local developers allow us to invest our capital directly into health care facilities and the latest medical technology. Owing to this, technology once located only in the Texas Medical Center is now available at Memorial Hermann suburban campuses.

### **The Future of Health Care Development**

Memorial Hermann will continue to develop physician joint venture opportunities in new professional/medical office building developments, multiple surgery centers and heart catheterization lab joint ventures. We are always seeking opportunities to align the incentives of our physician partners with the health care system to provide the best possible health care options for our community. The strategies are changing rapidly, and we work diligently to ensure long-term successful outcomes that include continued operation of a health care system for private physicians. Affordability and high quality outcomes for the individual patients and their families are our number one priority.

I am confident that this trend will continue into the future, but the results will be mixed based greatly upon the financial strength, dedication and experience of the individual developers and health care operators.

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*Marshall B. Heins, vice president construction, real estate and support services of Memorial Hermann since November 1994. He completed his undergraduate coursework in business at the University of Houston (BBA) and his graduate coursework in business at Houston Baptist University (MBA). Marshall can be reached via email at [marshall.heins@memorialhermann.org](mailto:marshall.heins@memorialhermann.org).*