



## Is a Private Capital Partner Right for Your Practice?

### A partner could help finance your medical real estate ventures

By *Carrie Rossenfeld*

In today's difficult bank lending environment, you may be tempted to bring in a private-capital or "silent" partner to help buy, develop or build-out your medical office. The partner could be either a friend or family member or a private-equity firm that will provide funding for your venture and presumably have no say in how you run your practice.

"Medical practices often form partnerships with non-medical 'silent' (or not so silent) partners for the development of medical office buildings or other real estate ventures," says Anthony D. Shaffer, a healthcare attorney with Squire, Sanders & Dempsey L.L.P. in Cleveland. "The partner or partners may provide needed capital, as well as expertise and services that will allow for the successful development and management of the medical real estate."

Private equity can help turn lending institutions in your favor. Whether your practice is large or small, the private-equity component adds credibility to the financing, says Ben Rosenfield, a principal at Titan Commercial LLC in Chicago. "Credibility beckons stability; stability equates to security in the eyes of any lender. The more security the business has, the more money at lowered rates can be borrowed by the business."

Additional equity from private capital can be used to help buy equipment for your practice that will allow you to provide more services to your patients or even to provide more office space for those services.

#### How is a silent partner used?

A silent partner can participate in the tax and cash flow benefits of the investment, according to Lydia Glatz, a manager at Morrison, Brown, Argiz & Farra LLP, a Florida-based public accounting firm. Such partners can also help fund the acquisition of a medical building, and some private-capital firms specialize in the construction, acquisition and management of the building.

"It's important to choose a capital partner that has the same goals as the business," comments Donald Levin, director of Morrison, Brown, Argiz & Farra. Specialist firms can help you maximize your return on investment and minimize your risk, are familiar with the construction needs of various types of tenants and can help you increase occupancy levels and reduce operating costs so you can focus on your patients and practice.

But, gaining a seasoned private-capital partner can come with the price of higher interest rates or guaranteed payments and/or profits to that partner, Levin warns.

While non-medical partners can lower the overall financial risk for your practice's members, they may ask for some level of control over the real estate venture – including participating in and approving major decisions – until their preferred rate of return is achieved, say Shaffer and Levin.

Before forming any partnership, consider what you're giving up in order to gain the capital you need. You should also think about the silent partner's exit strategy and buyout price and whether they are acceptable to you.

#### The Bottom Line

Before signing on a silent partner, consult your business attorney to make there are no statutes in your area that prevent a non-physician from being a partner in a medical practice, advises Chris Hurn, CEO and co-founder of Mercantile Capital Corp., a Florida-based firm that provides real estate financing for small and mid-sized businesses.

Whether the financier is a friend or family member or a private-equity firm, be sure to put everything in writing upfront. "The more specific, the better," says Keith Drayer, V.P. of financial services at Henry Schein Financial Services in Melville, N.Y. "What are the investors entitled to in terms of return on their investment and exact terms? Is it debt or equity? Do they have a vote or non-vote with their investment? Is the repayment schedule fixed or floating?"

Also, create a real estate holding company (also called an eligible passive concern or EPC) to take title for the property. The financing firm can underwrite your practice, then put a loan in place for the EPC and tie the two entities together with a master lease, Hurn explains.

"This helps for liability purposes as well as for long-term planning purposes, as most physicians either sell or shut-down their practices eventually," Hurn says. "Under this scenario, their practice would have been paying them rent to grow equity in an appreciable asset – real estate."

