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Today's Lending Conditions Make Owning Medical Space An Attractive Option

By William S. Kramer

Historically, the vast majority of doctors and medical professionals have chosen to lease rather than own their offices. Generally, leasing is considered easier and in the short-term, involves less of a financial outlay, but today's lending conditions are creating a perfect scenario for purchasing and owning medical space. In my experience, the most preferred commercial borrowers are doctors and healthcare industry professionals building or buying offices for their personal use.

While traditional lending has been extremely limited from mid-2008 through the real estate downturn, last year represented the first signs of increased real estate based lending activity. However, even with the so-called loosening of the loan purse strings, commercial real estate backed loans to investors, speculators and developers are not lenders' preferred choice due to a variety of reasons, whether it be enhanced laws and regulations governing real estate based loans by lending institutions, an overly conservative business plan by lending institutions, or a combination of those and other reasons. Rather, the preferred lender model is owner/users with personal guaranties; i.e. – borrowers with a lot of "skin in the game."

Although there is some degree of uncertainty in the healthcare industry due to the impact of the Patient Protection and Affordable Care Act, this appears to be a very good time for doctors to consider ownership of their offices for a number of reasons.

Real Estate Prices
From about 2003 through 2010, doctors were hit particularly hard after investing in speculative properties. Any real estate purchased during that time is most likely worth less today. However, real estate has generally proven to be a good investment over time. Price trends are always subject to multiple variables, but the general consensus among real estate experts is that prices have bottomed out and are on the rise. So, while there is no guaranty of substantial appreciation, it seems reasonably safe that real estate prices should not decrease as we move forward.

Interest Rates
Interest rates today are at historic all-time lows. Adjustable rate loans are available at less than the current prime rate (presently 3.25 percent) and fixed rate loans are available in the 4-to-5 percent range for highly qualified borrowers. There are a number of options in determining the type of fixed rate loans with the utilization of interest rate swaps. Those are not the derivative type investments that created the problems on Wall Street; rather, these are simply instruments that allow a lender to lock in a fixed rate for a longer term while minimizing the lender's risk of rising interest rates. The only risk to the borrower (which is minimal these days) is what could be a hefty prepayment penalty in the event the property is sold or the loan is otherwise paid off early. This would only occur, however, in the event interest rates decreased below the loan rate, which is highly unlikely in this environment.

Loan Types
Perhaps the most important reason to consider purchasing and owning office space today is that lenders value the "total relationship." If lenders are able to package a loan with operating and personal accounts, they are more willing to offer the best mortgage loans available, including:
• Traditional bank loans with variable or fixed interest rates and amortization terms generally in the range of 10 to 15 years.
• Fixed rate loans from banks or other lenders with interest rate swaps that generally provide slightly lower interest rates, but carry a slight risk of a hefty prepayment penalty if the loan is paid early due to a sale or otherwise.
• SBA based loans, which are particularly useful where there is a construction aspect. Interest rates are comparable, if not slightly lower; however, costs are higher. But, typically, a higher percentage may be financed, which means the out-of-pocket costs at closing are less.

Each loan type provides varying benefits. Be sure to make comparisons and review your prospective purchase with a lawyer and tax advisor.

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