

CONGRESS OF PHYSICIAN-OWNED MEDICAL PROPERTIES

2022



This copy of the CPOMP 2022 session slides are presented as they were during the conference. Over the next few weeks, annotated versions of the slides will be uploaded that highlight some of the outcomes from each presentation and panel discussion.

05b

Mitigating Taxes: Fundamental Techniques Not to Be Overlooked

Speaker

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TAX ISSUES & STRATEGIES

Cost Segregation Study, Fair Market Value Rents, Periodic Refinances

PRESENTER



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1 COST SEGREGATION STUDY

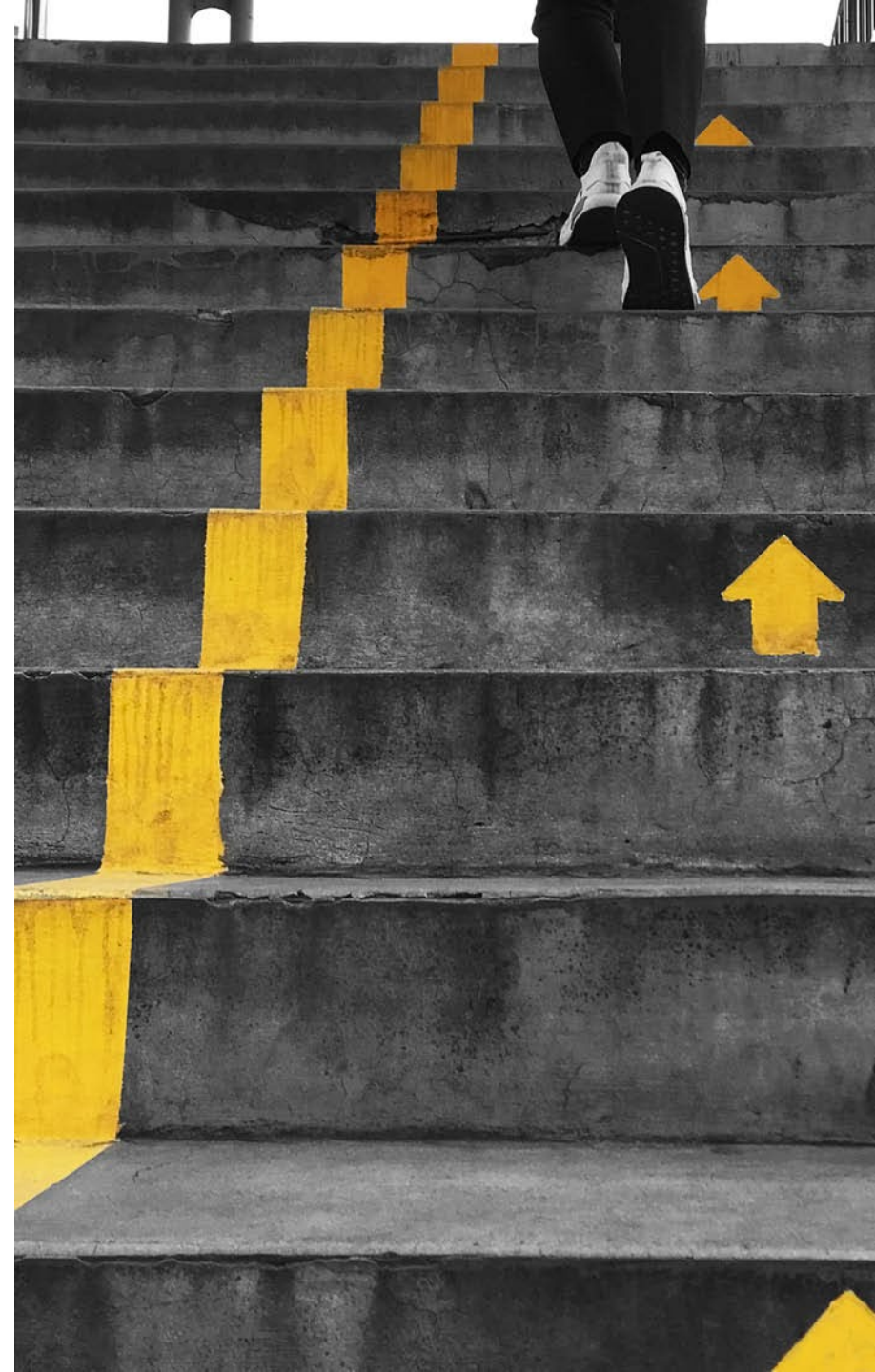
Accelerate Tax Deductions on Real Estate

2 FAIR MARKET VALUE RENTAL STUDY

Pay a FMV Rent and Why

3 PERIODIC REFINANCES

Why Take Equity Out of Real Estate



WHAT IS COST SEGREGATION STUDY?

Engineered
Based

Separates
components of
the structure

Allocates costs to
the components

New
Depreciation
Methods per
component

Shorter Tax lives

New
depreciation
amounts to date

Up-held in Tax
Court (HCA)

Can do a catch-
up Form 3115

COST SEGREGATION STUDY COMPONENTS



- Land – Same
- Furniture - Same
- Office Equipment - Same
- Sink?
- Plumbing?
- Non-bearing Walls?
- Cabinets?

RESULTS OF COST SEG STUDY

- Depreciation Now Has Different Components
- Depreciation Accelerated because Components have Shorter Lives
- Big 1st Year Depreciation
- Even Bigger if Building has been in service for years
- Enough Depreciation to Create a Loss
- Sheltering Current Year Income
- Some advantages to buy in/out

TO GOOD TO BE TRUE

- Cost Benefit?
- Self Rental Issues?
- Grouping Election?



FAIR MARKET VALUE RENT STUDY

- Real Estate = Valuable – Treat it that way
- Self Rental Rules from Cost Seg
- Cash flow to pay out distributions
 - Pay tax, pay buy in note, \$ left over
- Medicare & 199A Tax Savings
- Rent Study every 3-5 years



SAMPLE RENT STUDY

	Subject	Comparable #1		Comparable #2		Comparable #3	
Address	800 N.	Freedom		Main St.		Thrive Drive	
Space Size (SF)	3,217	2,683		2,907		2,765	
Building Type	Class B (2021)	Class A (2019)		Class B (2021)		Class A (2020)	
Proximity to Subject		3 Miles		Less than 10 Miles		Less than 10 Miles	
Rent (SF/Year)		\$19.75		\$20.00		\$23.50	
Lease Type	NNN	FS		NNN		NNN	
Adjustments		Des.	+(-)\$	Des.	+(-)\$	Des.	+(-)\$
Operating Expenses	Excluded	Included	(\$3.50)	Excluded	\$0.00	Excluded	\$0.00
Utilities	Excluded	Included	(\$2.00)	Excluded	\$0.00	Excluded	\$0.00
Janitorial	No	No	\$0.00	No	\$0.00	No	\$0.00
Other	Medical Build Out	Med TI	\$10.00	Med TI	\$10.00	Med TI	\$10.00
Location		Worse	\$3.00	Worse	\$1.00	Better	(\$2.00)
Visibility / Signage	Building Signage	Worse	\$3.00	Worse	\$1.50	Worse	\$2.00
Other	N/A	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00
ADJUSTED RENT		\$30.25		\$32.50		\$33.50	
AVERAGE		\$32.08					

Based upon our review of the current market and property, we have concluded an acceptable lease range of \$31.50 - \$35.00 per SF (NNN).

Some additional factors to consider are:

- 1) Standard Market rate escalations range from 2.5-3%.
- 2) Current market cost for new construction Medical buildout is \$140.00 – 160.00 per SF.
- 3) New construction market average Tenant Improvement Allowance is \$5.00 per SF / Year of lease commitment.
- 4) Previously built-out space average Tenant Improvement Allowance is \$2.50 per SF / Year of lease commitment.



PERIODIC REFINANCES

1. Buildings are already 100% financed
 - Shift lending risk
2. Draw down equity to keep shares affordable
3. Cash out to produce cash flow ROI
4. Refi Distributions go to Notes 1st
5. Caution –
 - Debt Financed Distribution Rules





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QUESTIONS?

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THANK YOU!

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