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Rance Sanders, left, and Bart Starr are back in business together in Birmingham after a brief hiatus. The health-care property experts say they have no problem borrowing big bucks to buy medical office buildings nationwide.

Medical real estate stays healthy despite market

Local loan specialists buy hospitals, rent space

By **RUSSELL HUBBARD**
News staff writer

One segment of the credit market has remained vibrant as residential and commercial construction lending has dried to a trickle: loans to Birmingham's thriving firms that buy and sell health-care real estate.

"Health-care delivery is almost a recession-proof business," said Rance Sanders, founder and principal of The Sanders Trust, a Birmingham-based firm whose partners include former University of Alabama quarterback Bart Starr. "The population is aging, lifespans are growing and care is getting more efficient, which means more physician visits."

It's the other side of the national banking story. Residential lending debacles and sub-prime mortgage defaults have severely reduced some types of loans made by local, regional and national banks. Risky loans are out; selling new shares and cutting dividends to shore up the balance sheet and reassure investors and regulators is in.

Except when it comes to lending for the purchase of health-care properties. Last week, Sanders Trust closed on the \$34 million purchase of five medical office buildings in Appleton, Wis., from privately held hospital chain ThedaCare. Birmingham-based Regions Bank was the principal lender.



Sanders Trust picked up this building and four others in \$34 million purchase with ThedaCare in Appleton, Wis.



Sanders Trust owns the DePaul Medical Atrium Building in Norfolk, Va.

HEALTHY REAL ESTATE

COMPANIES

Sanders Trust, Medical Properties Trust

BUSINESS

Birmingham-based companies that buy health-care real estate nationwide and lease it back to the original owners.

ADVANTAGE

Buyers benefit from hospitals and physician groups wanting to sell real estate for a cash influx.

HOW MUCH

It takes big loans to buy health-care real estate. A small hospital can cost more than \$30 million.

WHAT'S NEW

Both companies report no problem borrowing from banks even as the national credit crisis continues.

HEALTHY: Hospitals tire of being landlords

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"No problems at all," Sanders said of borrowing the money for the Wisconsin deal. "They were eager, and have been a great partner of ours."

Sanders Trust owns 20 health-care properties nationwide in its \$135 million portfolio. The company buys buildings from hospitals, which want to sell them for cash and to get out of the landlord business. Companies such as Sanders Trust then charge the office tenants — doctors and other professionals — a monthly rental fee.

Banks and other investors in the industry, such as pension and mutual funds, don't mind backing such ventures because doctors don't have

much choice: the ones who want the top practices and the highest incomes have no choice but to rent space in the best hospitals available. That translates to pricing power for the landlord.

"It's a bit of an economic moat," Sanders acknowledged.

Another company able to borrow amid the wider credit crisis is Birmingham-based Medical Properties Trust, a real-estate investment trust that specializes in buying entire hospitals, not just their office buildings.

\$93 million in deals

This month, the company spent \$93 million on five hospitals, three of which were bought by a third party with Medical Properties Trust's money. The other two were bought by the company, which said it did the deals by tapping a \$220 million credit line and a new \$30 million

loan arranged by Cleveland-based Key Bank.

"It's more expensive to borrow than a year ago, and things are a little strained, but there is good money out there," CEO Ed Aldag said. "The local banks especially have been responsive."

Aldag said his firm has completed \$400 million in acquisitions this year, buying hospitals from California to West Virginia. That's double what the company had projected for 2008, and there are still more than four months left. Shares of Medical Properties, which owns about 30 properties nationwide, have fallen 13 percent in the past year.

"We get lumped in with the real-estate investment trusts," Aldag said. "But we are really in the health-care business."

Sanders and Starr, who occupy offices in the same building as Medical Properties

Trust, have been back in business together for about three years after a brief hiatus. Their earlier real-estate company, Starr Sanders Trust, was bought by a Nashville company, and Starr agreed to work for them for a few years.

"Business is really all about teamwork," said Starr, who is also a National Football League Hall of Famer after a 15-year career with the Green Bay Packers. "You bring people together for a common goal."

At Sanders Trust, it's a 10-person team that evaluates about two proposals a day to buy a building, usually settling on about one per month, Sanders said.

"We've had no trouble attracting financing, and see none coming," Sanders said. "We plan on doing another \$25 million worth of transactions during the rest of the year."

E-MAIL: rhubbard@bhamnews.com