

Project Case Study

Getting all your docs in a row

ORION'S PHYSICIAN-FRIENDLY MODEL REDUCES RISK FOR INVESTOR-OWNERS

By Brian Busek

Like many investors, some physicians are becoming increasingly interested in real estate as an alternative to the roller-coaster financial markets.

But, while they might be drawn to the notion of investing in bricks and mortar – especially the opportunity to own their own building – many physicians remain hesitant to take the plunge.

Publicly traded developer-operators of turnkey medical office buildings (MOBs) and ambulatory surgery centers (ASCs) – firms like AmSurg Corp., Nova-Med Eyecare Inc. and HealthSouth Corp. – often propose deals that call for physician-investors to have a majority interest in the real estate and a minority stake in the healthcare practice that occupies the building.

But, that's the exact opposite of what most physicians want. Healthcare providers usually know far less about real estate than they do about managing a medical practice. So, it's understandable that they might be hesitant to put up most of the capital for the real estate while ceding control of day-to-day management.

Orion Medical Services LLC of Eugene, Ore. has recognized those issues and turned that model on its head.

Orion, which specializes in developing and managing small



Skyway Medical Center is being developed with a model that appeals to physician-investors. (Rendering courtesy of Affolter West & Jones PC)

ASCs and MOBs, accepts most of the real estate risk and lets the physicians retain a majority interest on the business side.

Model minimizes risk

That seemingly simple formula has given Orion the opportunity to develop several ASC and MOB projects in the Pacific Northwest during the past several years, including the \$9.7 million Skyway Medical Center, now under construction in Chico, Calif.

Jim Cobb, president, CEO and founder of Orion, has been working with physician groups in a variety of roles for about 25 years. Before forming Orion about five years ago, he headed one of the largest eye surgery center chains in the Pacific Northwest.

Now, he specializes in structuring deals that appeal to risk-averse physician investors.

“We put together both investors and doctors,” Mr. Cobb explains. Unlike developers that expect the physicians to be the majority owners of the real estate, Orion structures deals to give the doctors a minority interest. So, the doctors get equity and “nice cash flow” with a minimum of risk.

“I think we’re fairly unique,” he says. “We believe that we have a niche area because the doctors have a majority position” in the management. But, Orion retains a minority stake, which he says the physicians like because it is an incentive for the developer to remain attentive to responsibilities like accounting, billing, collections and human resources.

Another major selling point for Orion is the expertise it brings in gaining Medicare certification and an in meeting voluntary Accreditation Association for Ambulatory Health Care (AAAHC) standards, Mr. Cobb says. Meeting those requirements is important because they have an impact on the kind of contracts an ASC can get with insurance companies and other third-party payors, which largely dictates profitability.

Mr. Cobb says ASCs can deliver high-quality healthcare at a lower cost than hospitals for the same procedures. Also, company studies show that patients endure less stress in its “family style” facilities than in the more institutional setting of a hospital, he says.

Chico project is typical

The Skyway Medical Center project reflects Orion’s usual approach. Both Orion and the physicians have equity in the real estate and the medical practice. But, Orion has a majority interest in the limited partnerships that own the real estate (Skyway Professional Investors LP for the MOB and Skyway ASC Investors LP for the ASC), and the physicians have a majority interest in the medical practice (Skyway Surgery Center LP). Orion is also the property manager.

Orion paid about \$1.4 million for the seven-acre Chico site. The firm is using about four acres for the two-story, 26,000 square foot MOB and a one-story, 12,600 square foot ASC, which Mr. Cobb figures amounts to land costs of about \$400,000 per building. The

remaining land, about three acres, could accommodate future expansion. Development costs are about \$3.2 million for the MOB and about \$2.9 million for the ASC, plus another \$2.8 million for furniture, fixtures and equipment (FF&E) for the ASC.

Noting that the FF&E for the ASC will cost almost as much as the building, Mr. Cobb says Skyway Medical Center will be one of the most technologically sophisticated ASCs in its region. Every specialty will have the latest equipment, and facility will have three state-of-the-art operating rooms and two procedure rooms.

In some markets, Orion does ASCs concentrating on a certain specialty. In others, like Skyway Medical Center, it’s a mix.

One reason to do a mix is to attract and spread the risk across more physicians. Physician-investors for the Chico project include specialists in orthopedics, urology,

gastroenterology, anesthesia and pain management, anesthesiology, and general and vascular surgery.

So far, the Chico project has been fairly routine, Mr. Cobb says. The only downside was that it rained for about a month straight after they broke ground.

“We broke the drought down there when we started building,” he jokes. Despite the delay, they hope to have Skyway Medical Center open by November.

Physicians remain cautious

Even with Orion’s physician-friendly model and its years of experience, Mr. Cobb says getting doctors to invest in a project remains the biggest challenge.

“We’d do more of these projects,” he says. “But, forming the group is 90 percent of it. That’s the hard part.” □

Skyway Medical Center Chico, Calif.

Stats

- Cost: Development costs of \$3.2 million for MOB and \$2.9 million for ASC; furniture, fixtures and equipment for ASC of \$2.8 million; and land costs of about \$400,000 per building
- Size: two-story 26,000 square foot MOB and one-story 12,600 square foot ASC on about four acres

Players

- Owners: Skyway Professional Investors LP (MOB), Skyway ASC Investors LP (ASC) and Skyway Surgery Center LP (operator)
- Developer/Property Manager: Orion Medical Services LLC, Eugene, Ore.
- Architect: Affolter West & Jones PC, Eugene, Ore.
- General Contractor: BCM Construction Co., Chico, Calif.
- Construction Financing: US Bank