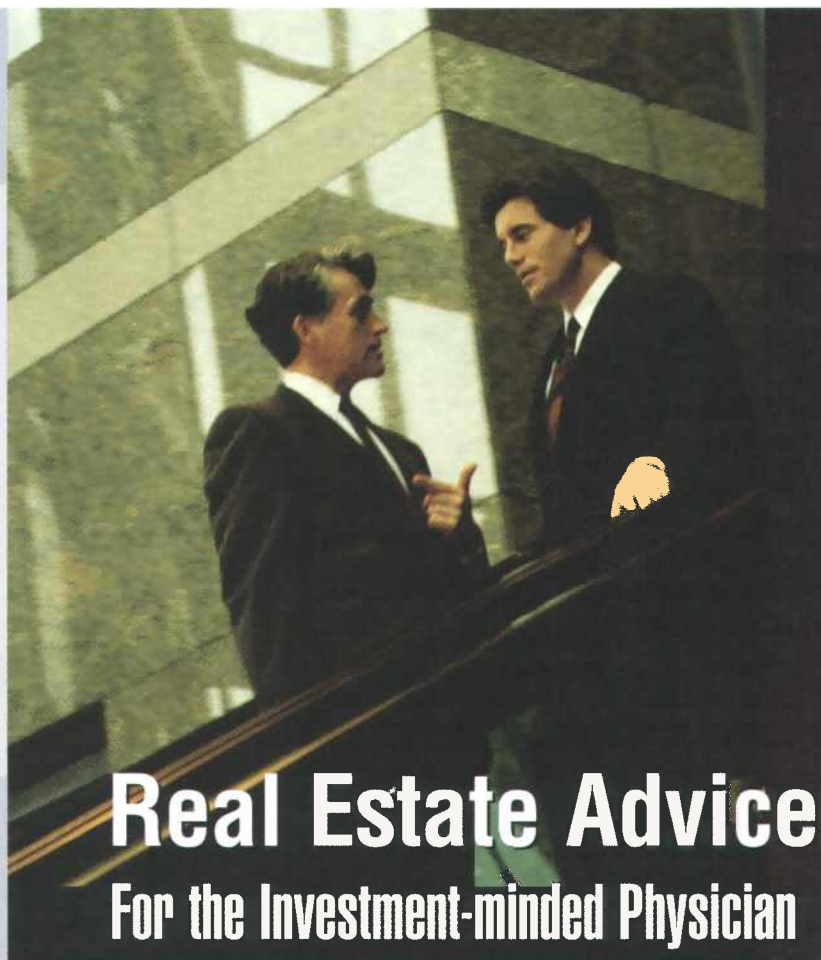

Real Estate Advice

For the Investment-minded Physician

"People are **living longer** than ever before, a phenomenon undoubtedly made **necessary** by the 30-year mortgage."

—Doug Larson

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For many, owning a home represents the American dream and, according to some analysts, the timing might be right to make that purchase. Chief economist of the National Association of Realtors, David Lereah, says, "...it appears that buyers are becoming more comfortable, sensing the timing is good and that their local market has bottomed out...2007 promises to be the fourth best year on record."

Robin Wilson, founder and CEO of Robin Wilson Homes, agrees. Wilson explains that while many people are still waiting for the housing bubble to burst, there's a general concensus that the market may have already bottomed out.

If that's the case—if sales are slowing and prices are weakening—it might be an excellent time for buyers to obtain some leverage in the market.

The Allure of Commercial Property

Many doctors want to invest in real estate to build personal wealth, but they do not want the management headaches that come with many types of investment real estate. For the doctor who never owned investment real estate before, the natural inclination is to choose a type of real estate that is most familiar or perceived to be easy to understand. For this reason, many first–time physician investors choose apartments to purchase. But, according to Mark Alexander, CCIM, senior medical office advisor for Sperry Van Ness Real Estate Advisors, this type of investment is highly maintenance intensive, so they will need to hire a local real estate firm to help them manage the property.

"First–time apartment owners often cut corners on operating expenses in an effort to save money and don't realize the need to maintain the property in top condition to insure high occupancy and high rental rates," Alexander explains. "So, when management starts cutting corners on the property condition, that often starts the slow spiral downward toward deferred maintenance, which causes tenant turnover, higher vacancies, and a lower return on their investment."

34%

Percentage of homeowners who don't know what type of mortgage they have.
(Bankrate.com, 2007)

The easier solution for the first-time investor, Alexander says, is to purchase triple net lease income properties like office or medical office properties.

"With a single tenant, triple leased property, there is no need to hire a management firm because the tenant takes care of all maintenance issues and property expenses such as insurance and real estate taxes. The investor just gets a check in the mail each month so this investment resembles a bank CD. That is why this type of single tenant, triple net lease investment is called a coupon clipper, and it is the investment of choice for physicians heading into retirement who need safe income from their property investments during retirement when they are no longer earning a paycheck."

Being Aware of the Snags

Wilson is an advocate of commercial property purchases, but he cautions that today there are more issues of concern, caused by overbuilding of commercial property in many markets, which can lead to vacancies.

"Many sellers are savvy and want the maximum revenue without thinking about the fact that the new buyer may not be able to cover debt service with existing tenants unless rents are raised," Wilson explains. "Always look carefully at the sales ads that tout 'long-term leases' in place, which may translate into an inability for the new investor to dislodge a tenant who is receiving a very low lease rate."

A long-term tenant may produce stabilization in your space and will ensure that your investment begins to pay for itself. On the negative side, a nonpaying tenant with a long lease can create eviction issues that are quite expensive and time-consuming.

"For the doctor who never owned investment real estate before, the natural inclination is to choose a type of real estate that is most familiar or perceived to be easy to understand."

Investing Trends to Consider

An investment in a condo-hotel conversion property is another way to maintain value, lower maintenance costs, and have a residence in a second city, but also to receive "hotel" income when not in the location. This can be quite advantageous, Wilson says, but it is important to understand the rules for the property and to calculate wear and tear on your personal belongings.

Location is, as always, a key factor in selecting this type of investment property. However, you should determine if your goal is cash-flow or appreciation.

"If you seek cash-flow, but appearances are not important, you may wish to pick a high-transient location such as a college campus, hospital, or low-income community," Wilson suggests. "If you want to see appreciation, then we suggest making a purchase from a developer at the lowest negotiable price during the preconstruction phase. Then, as the development sells, you may be able to put your property back on the market to see a gain."

But there is a risk, Wilson cautions. For example, people who made an investment in 'hot' markets such as Las Vegas were unable to place their investment spaces on the market with a gain because the market plunged as the area overbuilt. Keep in mind that commercial property is drastically different from residential, and should be purchased only

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after thorough investigation of the financials associated with the selected property. Make sure to do the research before speculating.

In addition, Wilson believes that physicians should select a space for investment that will be in a low-tax community so that no matter the rental income, the gains will not be taken away. And it is always a good idea to ensure that maintenance is a priority because you don't want to retire and wish to rely on the income, only to be faced with making significant repairs.

Alexander adds that while location is always important, its degree of importance varies between property types. "For example, if you are buying an industrial warehouse property, you want to make sure the building is located on a street with good access to the nearest Interstate and airport," Alexander says. "Conversely, when buying a triple net lease property like a CVS Pharmacy or Good Tire Store, location will have less importance because you are really buying the strength of that tenant and its ability to pay you rent over its long lease term, which typically ranges from 10 to 25 years."

Sticking with What You Know

One aspect of real estate that the housing bubble does not affect, Alexander says, is medical office sale/leaseback transactions. He explains that doctors who get within 5 to 7 years of retirement are using the sale/leaseback to create "above appraised value" sales for the medical office building they own and occupy with their medical practice.

"After the sale/leaseback transaction closes, the trend is for doctors to roll their sale proceeds into buying a triple net lease income replacement property as part of a 1031 exchange to save tax dollars on their sale and to provide secure income for retirement," Alexander explains. "Separating their medical office property value from their medical practice value allows them to secure a property value that is 20% to 30% higher than they could get if they packaged the medical building together with the sale of the practice. Investors seeking a good return will always pay a higher price than an incoming doctor who wants to use the property for his or her business."

After the sale/leaseback closes, Alexander says, it becomes easier for the doctor to retire and sell the practice to another doctor who will need to come up with much less cash because he is just buying the practice and taking over the existing lease. Because most medical practice buyers have not been out of residency very long and they tend to have hefty school debt outstanding, this arrangement helps these doctors buy practices.

The sale/leaseback "enables them to create top-of-the-market sales prices for the property and makes it easier to retire when they are ready to sell their practice," Alexander says. For more information on sale/leaseback, contact a CPA who is experienced in this type of investing.—*Ed Rabinowitz*

Private Financing: A Conversation

Trends come and go, but one real estate trend that gained much momentum in 2006 and has shown little sign of slowing down in 2007, is private financing for mortgages and down payments.

Instead of turning to banks, many consumers are now looking to family for help. This type of intra-family lending is considered a great option not only for first-time homebuyers but for those looking to purchase a second property as well.

Specialty loan administration companies, like CircleLending, focus solely on facilitating these types of loans. *Physician's Money Digest* spoke with Jim Smith, vice president of CircleLending, about this trend.

PMD: When did the trend start?

Mr. Smith: Private lending is as old as the hills. Private loans and mortgages have been used by the wealthy for years and years and are now becoming more of a middle-class phenomenon.

For entrepreneurs, friends and family financing has always been a way to raise start-up capital. As banks moved away from underwriting loans based on the four Cs of credit—capacity, capital, collateral, and character—and began to rely solely on one C—credit score—it became impossible for many young companies to finance themselves any other way.

PMD: What kind of numbers are we talking about?

Mr. Smith: According to data from the Federal Reserve, there is $89 billion in private loans outstanding and 6 million new private loans transacted every year. About 10% of first-time homebuyers report using a loan from friends and family to purchase their home, and more than a quarter of small business owners got funds from relatives or friends to get started. Our own business of documenting and servicing these loans has been growing 25% every quarter for several years.

PMD: What has prompted the recent uptrend?

Mr. Smith: In real estate, high home prices made it difficult for many first-time home buyers to come up with a traditional 20% down, so these folks are turning to parents for down-payment loans at rates that are much more attractive. And, we are increasingly seeing people with variable rate mortgages refinance with loans from family members when their payments start to ratchet up.

Also, in today's market, home sellers are finding that offering to finance all or part of the purchase price attracts more potential buyers and could result in a faster close.

PMD: What are the key pros and cons to private lending?

Mr. Smith: Private lending can result in a win for both lenders and borrowers. Private loans offer flexibility and can be structured to meet the needs of both parties. When the parties are related, they frequently cite being able to keep money used for interest payments in the family as one reason for doing a private loan.

Lenders can earn a higher rate of return on a private loan than they might on a fixed-income investment of similar duration. In the case of a mortgage, that income stream can be secured by real estate.

On the downside, private lenders face the risk of late payments and even default, which is why we recommend professional repayment management. Having an independent party service the loan significantly improves loan performance. Plus, in a family situation, you don't want a late payment to become a topic of discussion over family dinner. Having a third party to help deal with those issues can be very important to people.

LEXAPRO® (escitalopram oxalate) TABLETS/ORAL SOLUTION

(3% and <1%); Anorgasmia[3] (2% and <1%). *Events reported by at least 2% of patients treated with Lexapro are reported, except for the following events which had an incidence on placebo ≥ Lexapro: headache, upper respiratory tract infection, back pain, pharyngitis, inflicted injury, anxiety. [1]Primarily ejaculatory delay. [2]Denominator used was for males only (N=225 Lexapro; N=188 placebo). [3]Denominator used was for females only (N=490 Lexapro; N=404 placebo). **Generalized Anxiety Disorder Table 3** enumerates the incidence, rounded to the nearest percent of treatment-emergent adverse events that occurred among 429 GAD patients who received Lexapro 10 to 20 mg/day in placebo-controlled trials. Events included are those occurring in 2% or more of patients treated with Lexapro and for which the incidence in patients treated with Lexapro was greater than the incidence in placebo-treated patients. The most commonly observed adverse events in Lexapro patients (incidence of approximately 5% or greater and approximately twice the incidence in placebo patients) were nausea, ejaculation disorder (primarily ejaculatory delay), insomnia, fatigue, decreased libido, and anorgasmia (see **TABLE 3**). **TABLE 3: Treatment-Emergent Adverse Events: Incidence in Placebo-Controlled Clinical Trials for Generalized Anxiety Disorder* [Lexapro (N=429) and Placebo (N=427)]: Autonomic Nervous System Disorders:** Dry Mouth (9% and 5%); Sweating Increased (4% and 1%). **Central & Peripheral Nervous System Disorders:** Headache (24% and 17%); Paresthesia (2% and 1%). **Gastrointestinal Disorders:** Nausea (18% and 8%); Diarrhea (8% and 6%); Constipation (5% and 4%); Indigestion (3% and 2%); Vomiting (3% and 1%); Abdominal Pain (2% and 1%); Flatulence (2% and 1%); Toothache (2% and 0%). **General:** Fatigue (8% and 2%); Influenza-like symptoms (5% and 4%). **Musculoskeletal:** Neck/Shoulder Pain (3% and 1%). **Psychiatric Disorders:** Somnolence (13% and 7%); Insomnia (12% and 6%); Libido Decreased (7% and 2%); Dreaming Abnormal (3% and 2%); Appetite Decreased (3% and 1%); Lethargy (3% and 1%); Yawning (2% and 1%). **Urogenital:** Ejaculation Disorder[1,2] (14% and 2%); Anorgasmia[3] (6% and <1%); Menstrual Disorder (2% and 1%). *Events reported by at least 2% of patients treated with Lexapro are reported, except for the following events which had an incidence on placebo ≥ Lexapro: inflicted injury, dizziness, back pain, upper respiratory tract infection, rhinitis, pharyngitis. [1]Primarily ejaculatory delay. [2]Denominator used was for males only (N=182 Lexapro; N=195 placebo). [3]Denominator used was for females only (N=247 Lexapro; N=232 placebo). **Dose Dependency of Adverse Events** The potential dose dependency of common adverse events (defined as an incidence rate of ≥5% in either the 10 mg or 20 mg Lexapro groups) was examined on the basis of the combined incidence of adverse events in two fixed-dose trials. The overall incidence rates of adverse events in 10 mg Lexapro-treated patients (66%) was similar to that of the placebo-treated patients (61%), while the incidence rate in 20 mg/day Lexapro-treated patients was greater (86%). **Table 4** shows common adverse events that occurred in the 20 mg/day Lexapro group with an incidence that was approximately twice that of the 10 mg/day Lexapro group and approximately twice that of the placebo group. **TABLE 4: Incidence of Common Adverse Events* in Patients with Major Depressive Disorder Receiving Placebo (N=311), 10 mg/day Lexapro (N=310), 20 mg/day Lexapro (N=125)]: Insomnia** (4%, 7%, 14%); **Diarrhea** (5%, 6%, 14%); **Dry Mouth** (3%, 4%, 9%); **Somnolence** (1%, 4%, 9%); **Dizziness** (2%, 4%, 7%); **Sweating Increased** (<1%, 3%, 8%); **Constipation** (1%, 3%, 6%); **Fatigue** (2%, 2%, 6%); **Indigestion** (1%, 2%, 6%). *Adverse events with an incidence rate of at least 5% in either of the Lexapro groups and with an incidence rate in the 20 mg/day Lexapro group that was approximately twice that of the 10 mg/day Lexapro group and the placebo group. **Male and Female Sexual Dysfunction with SSRIs** Although changes in sexual desire, sexual performance, and sexual satisfaction often occur as manifestations of a psychiatric disorder, they may also be a consequence of pharmacologic treatment. In particular, some evidence suggests that SSRIs can cause such untoward sexual experiences. Reliable estimates of the incidence and severity of untoward experiences involving sexual desire, performance, and satisfaction are difficult to obtain, however, in part because patients and physicians may be reluctant to discuss them. Accordingly, estimates of the incidence of untoward sexual experience and performance cited in product labeling are likely to underestimate their actual incidence. **Table 5** shows the incidence rates of sexual side effects in patients with major depressive disorder and GAD in placebo-controlled trials. **TABLE 5: Incidence of Sexual Side Effects in Placebo-Controlled Clinical Trials** [In Males Only: **Lexapro** (N=407) **and Placebo** (N=383)]: Ejaculation Disorder (primarily ejaculatory delay) (12% and 1%); Libido Decreased (6% and 2%); Impotence (2% and <1%). [In Females Only: **Lexapro** (N=737) **and Placebo** (N=636)]: Libido Decreased (3% and 1%); Anorgasmia (3% and <1%) There are no adequately designed studies examining sexual dysfunction with escitalopram treatment. Priapism has been reported with all SSRIs. While it is difficult to know the precise risk of sexual dysfunction associated with the use of SSRIs, physicians should routinely inquire about such possible side effects. **Vital Sign Changes** Lexapro and placebo groups were compared with respect to (1) mean change from baseline in vital signs (pulse, systolic blood pressure, and diastolic blood pressure) and (2) the incidence of patients meeting criteria for potentially clinically significant changes from baseline in these variables. These analyses did not reveal any clinically important changes in vital signs associated with Lexapro treatment. In addition, a comparison of supine and standing vital sign measures in subjects receiving Lexapro indicated that Lexapro treatment is not associated with orthostatic changes. **Weight Changes** Patients treated with Lexapro in controlled trials did not differ from placebo-treated patients with regard to clinically important change in body weight. **Laboratory Changes** Lexapro and placebo groups were compared with respect to (1) mean change from baseline in various serum chemistry, hematology, and urinalysis variables, and (2) the incidence of patients meeting criteria for potentially clinically significant changes from baseline in these variables. These analyses revealed no clinically important changes in laboratory test parameters associated with Lexapro treatment. **ECG Changes** Electrocardiograms from Lexapro (N=625), racemic citalopram (N=351), and placebo (N=527) groups were compared with respect to (1) mean change from baseline in various ECG parameters and (2) the incidence of patients meeting criteria for potentially clinically significant changes from baseline in these variables. These analyses revealed (1) a decrease in heart rate of 2.2 bpm for Lexapro and 2.7 bpm for racemic citalopram, compared to an increase of 0.3 bpm for placebo and (2) an increase in QTc interval of 3.9 msec for Lexapro and 3.7 msec for racemic citalopram, compared to 0.5 msec for placebo. Neither Lexapro nor racemic citalopram were associated with the development of clinically significant ECG abnormalities. **Other Events Observed During the Premarketing Evaluation of Lexapro** Following is a list of WHO terms that reflect treatment-emergent adverse events, as defined in the introduction to the **ADVERSE REACTIONS** section, reported by the 1428 patients treated with Lexapro for periods of up to one year in double-blind or open-label clinical trials during its premarketing evaluation. All reported events are included except those already listed in **Tables 2 & 3**, those occurring in only one patient, event terms that are so general as to be uninformative, and those that are unlikely to be drug related. It is important to emphasize that, although the events reported occurred during treatment with Lexapro, they were not necessarily caused by it. Events are further categorized by body system and listed in order of decreasing frequency according to the following definitions: frequent adverse events are those occurring on one or more occasions in at least 1/100 patients; infrequent adverse events are those occurring in less than 1/100 patients but at least 1/1000 patients. Cardiovascular - *Frequent:* palpitation, hypertension. *Infrequent:* bradycardia, tachycardia, ECG abnormal, flushing, varicose vein. Central and Peripheral Nervous System Disorders - *Frequent:* light-headed feeling, migraine. *Infrequent:* tremor, vertigo, restless legs, shaking, twitching, dysequilibrium, tics, carpal tunnel syndrome, muscle contractions involuntary, sluggishness, coordination abnormal, faintness, hyperreflexia, muscular tone increased. Gastrointestinal Disorders - *Frequent:* heartburn, abdominal cramp, gastroenteritis. *Infrequent:* gastroesophageal reflux, bloating, abdominal discomfort, dyspepsia, increased stool frequency, belching, gastritis, hemorrhoids, gagging, polyposis gastric, swallowing difficult. General - *Frequent:* allergy, pain in limb, fever, hot flushes, chest pain. *Infrequent:* edema of extremities, chills, tightness of chest, leg pain, asthenia, syncope, malaise, anaphylaxis, fall. Hemic and Lymphatic Disorders - *Infrequent:* bruise, anemia, nosebleed, hematoma, lymphadenopathy cervical. Metabolic and Nutritional Disorders - *Frequent:* increased weight. *Infrequent:* decreased weight, hyperglycemia, thirst, bilirubin increased, hepatic enzymes increased, gout, hypercholesterolemia. Musculoskeletal System Disorders - *Frequent:* arthralgia, myalgia. *Infrequent:* jaw stiffness, muscle cramp, muscle stiffness, arthritis, muscle weakness, back discomfort, arthropathy, jaw pain, joint stiffness. Psychiatric Disorders - *Frequent:* appetite increased, lethargy, irritability, concentration impaired. *Infrequent:* jitteriness, panic reaction, agitation, apathy, forgetfulness, depression aggravated, nervousness, restlessness aggravated, suicide attempt, amnesia, anxiety attack, bruxism, carbohydrate craving, confusion, depersonalization, disorientation, emotional lability, feeling unreal, tremulousness nervous, crying abnormal, depression, excitability, auditory hallucination, suicidal tendency. Reproductive Disorders/Female* - *Frequent:* menstrual cramps, menstrual disorder. *Infrequent:* menorrhagia, breast neoplasm, pelvic inflammation, premenstrual syndrome, spotting between menses. *% based on female subjects only: N= 905 Respiratory System Disorders - *Frequent:* bronchitis, sinus congestion, coughing, nasal congestion, sinus headache. *Infrequent:* asthma, breath shortness, laryngitis, pneumonia, tracheitis. Skin and Appendages Disorders - *Frequent:* rash. *Infrequent:* pruritus, acne, alopecia, eczema, dermatitis, dry skin, folliculitis, lipoma, furunculosis, dry lips, skin nodule. Special Senses - *Frequent:* vision blurred, tinnitus. *Infrequent:* taste alteration, earache, conjunctivitis, vision abnormal, dry eyes, eye irritation, visual disturbance, eye infection, pupils dilated, metallic taste. Urinary System Disorders - *Frequent:* urinary frequency, urinary tract infection. *Infrequent:* urinary urgency, kidney stone, dysuria, blood in urine. **Events Reported Subsequent to the Marketing of Escitalopram** - Although no causal relationship to escitalopram treatment has been found, the following adverse events have been reported to have occurred in patients and to be temporally associated with escitalopram treatment during post marketing experience and were not observed during the premarketing evaluation of escitalopram: abnormal gait, acute renal failure, aggression, akathisia, allergic reaction, anger, angioedema, atrial fibrillation, choreoathetosis, delirium, delusion, diplopia, dysarthria, dyskinesia, dystonia, ecchymosis, erythema multiforme, extrapyramidal disorders, fulminant hepatitis, hepatic failure, hypoaesthesia, hypoglycemia, hypokalemia, INR increased, gastrointestinal hemorrhage, glaucoma, grand mal seizures (or convulsions), hemolytic anemia, hepatic necrosis, hepatitis, hypotension, leucopenia, myocardial infarction, myoclonus, neuroleptic malignant syndrome, nightmare, nystagmus, orthostatic hypotension, pancreatitis, paranoia, photosensitivity reaction, priapism, prolactinemia, prothrombin decreased, pulmonary embolism, QT prolongation, rhabdomyolysis, seizures, serotonin syndrome, SIADH, spontaneous abortion, Stevens Johnson Syndrome, tardive dyskinesia, thrombocytopenia, thrombosis, torsade de pointes, toxic epidermal necrolysis, ventricular arrhythmia, ventricular tachycardia and visual hallucinations.

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