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Hospital chain aims to exit real estate business



By **Steven Syre** | GLOBE COLUMNIST NOVEMBER 22, 2011

On the market

Steward Health Care is selling 11 medical office buildings at its hospitals in Massachusetts.

Hospital	Location	Building size (square feet)
St. Elizabeth's Medical Center	Nevins Street, Brighton	45,836
St. Elizabeth's Medical Center	Washington Street, Brighton	30,304
Good Samaritan Medical Center	Oak Street, Boston	46,652
Carney Hospital	Dorchester Ave., Dorchester	33,176
Norwood Hospital	Walnut Street, Foxborough	20,730
St. Anne's Hospital	So. Main Street, Fall River	12,350
St. Anne's Hospital	Middle Street, Fall River	36,302
Nashoba Valley Medical Center	Groton Road, Ayer	15,197
Nashoba Valley Medical Center	Groton Road, Ayer	9,010
Morton Hospital	Bay Street, Taunton	82,158
Holy Family Hospital	East Street, Methuen	19,801

SOURCE: Cushman & Wakefield

Steward Health Care System, the for-profit medical organization that has purchased 10 Massachusetts hospitals in just over a year, plans to sell a number of its medical office buildings, lease the real estate back, and use the proceeds for its hospital operations.

Steward is offering to sell 11 buildings in Brighton, Dorchester, Foxborough, Fall River, Brockton, Taunton, Methuen, and Ayer - more than 350,000 square feet in all - it purchased as part of a series of hospital acquisitions. Nine of the office buildings are situated directly on Steward hospital campuses, and the other two are near hospitals.

As part of a sale-leaseback agreement, Steward would sign a long-term contract to rent the same office space. Marketing material described the on-campus buildings as having “a vacancy rate of 0 percent.”

Steward, which is owned by the private equity firm Cerberus Capital Management, intends to use proceeds from the real estate sale in its hospital operations, spokesman Chris Murphy said. He said Steward would not redirect the money to Cerberus in the form of a stock dividend, a common capital strategy among private equity investors and the companies they own.

“It’s going back into the [Steward] system,” Murphy said. “We’re selling our medical office buildings because we’re not a real estate company. Our focus is on running hospitals and taking care of our patients.”

Steward has not set a formal asking price for the buildings, but the sale would probably yield tens of millions of dollars in cash.

The real estate includes two buildings at St. Elizabeth’s Medical Center in Brighton and one at Carney Hospital in Dorchester. The largest building is on the campus of Morton Hospital in Taunton, an institution Steward bought last month.

Other buildings up for sale are at or near St. Anne’s Hospital in Fall River, Nashoba Valley Medical Center in Ayer, Norwood Hospital, Good Samaritan Medical Center in Brockton, and Holy Family Hospital in Methuen.

Steward began medical operations last year after closing on the acquisition of Caritas Christi Health Care and its six hospitals, then aggressively outbid competitors to buy other hospitals in the state.

It quickly assembled a large medical network that is designed to attract patients who had gone to big Boston hospitals in the past. That meant spending money improving the facilities it acquired.

As a private company, Steward does not provide detailed information on its finances. But its marketing materials for the buildings say Steward has so far invested \$300 million in hospital renovations and \$60 million on information technology upgrades.

Meanwhile, Steward has aggressively wooed doctors who can refer more patients to its hospitals. For example, it recently lured 150 North Shore doctors from the Beth Israel

Deaconess Medical Center's physician group with an offer so generous that Beth Israel's lawyers questioned if the terms amounted to illegal kickbacks. (Steward insists there was nothing wrong with its offer.)

The company is promoting the large tenant base represented by 2,800 health care providers in its network and the unusual opportunity for real estate investors to buy many properties in a single transaction.

"This Massachusetts medical building portfolio is a unique opportunity for an investor to immediately become a major player in one of the highest barrier-to-entry markets in the United States," the company says in real estate marketing material.

Many investors are attracted to sale-leaseback arrangements for medical buildings if the hospital is considered a high-quality tenant willing to sign a lease for at least 15 years, said Mark Alexander, national director of medical office sale/leasebacks at Sperry Van Ness in Fort Myers, Fla.

Tepid demand for other types of commercial real estate has made stable medical office space look relatively appealing, he said.

"There's a big appetite out there," Alexander said. "There's so much demand because there's less demand for everything else."

It is true that many hospitals have considered similar arrangements. But others have not. Vanguard Health Systems Inc., owner of the state's only other for-profit hospitals - St. Vincent's in Worcester and Metrowest Medical Center in Framingham - continues to own all the property on its campuses.

Steward said it is happy to get out of the landlord business, because charging rent to doctors who work for it creates compliance problems. All true, no doubt, but hardly the real reason to sell valuable property.

Steward is known best for the kind of money it's prepared to spend. This time, it's in a position to make a pile of cash.

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