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A new method to open a medical clinic

An option to choose real estate investment funds (Part II)

"SPARX Asset Trust & Management" in Minato Ward, Tokyo, with President Tetsufumi Isayama (pictured), a subsidiary company of the SPARX Group, an independent asset management company, is aggressively investing in the healthcare industry by using real estate investment funds.

President Isayama explains the mechanism of real estate investment funds

Real estate investment funds are financial instruments, with which securities companies and investment corporations raise funds from investors, acquire real estate properties such as apartment buildings, generate profits from rental income or selling properties, and distribute profits to investors. The revision of the Act on Investment Trusts and Investment Corporations in 2000 added it to the items in which investment trusts can invest.

President Isayama emphasizes that real estate investment funds can meet financial demands required for not only constructing new hospitals and clinics, but also reconstructing and providing seismic strengthening to existing buildings. In addition, he claims that when a doctor who also works as a chief director of a hospital, borrows a large amount of money from banks, it would result in an excessive burden to adjust balance sheets and the doctor will most likely experience difficulties in concentrating on the medical practice, which will have a negative impact on the system for providing medical care. Therefore, instead of having to deal with such negative problems, the doctor should utilize real estate investment funds to pay rental fees, and spend his own personal funds for renovating medical apparatus and recruiting excellent human resources to raise competitiveness of the hospital.

Merits of utilizing real estate investment funds

- Fixed assets will not inflate since the development will be based upon an off-balance- sheet transaction.
- Equity ratio will not decrease since the borrower is not a medical corporation but the investment company.
- Doctors prioritize spending their own personal funds to recruit excellent human resources and acquire cutting-edge medical apparatus.

When newly building or renovating hospitals or clinics, we have often witnessed that actual costs significantly exceed forecasted costs due to the price hike of construction materials or rising labor cost of construction workers. Anticipating the Tokyo Olympic and Paralympic Games in 2020, domestic construction demand is now increasing. In such a situation, we should expect it to be riskier to newly build or renovate hospitals or clinics.

The “Tokyo Hip Joint Clinic” in Setagaya Ward, Tokyo, supervised by clinic director Dr. Satoru Kariya, specializing in artificial hip joint surgery, equipped with 19 beds, and the “Tokyo Medical Imaging Clinic” supervised by Director Shunichiro Ikeda, specializing in imaging examination and diagnosis, opened in a five-story building facing a main street in the affluent district of Setagaya on August 1. The total construction cost of this building, accommodating two clinics, was over 2 billion yen. The Tokyo Hip Joint Clinic is equipped with two operation rooms, an inpatients’ ward, and a rehabilitation facility.

The Tokyo Medical Imaging Clinic is equipped with the latest 1.5 Tesla MRI (magnetic resonance imaging), which is equivalent to the apparatus equipped in university hospitals, and the newest version of the 320-row area detector CT (computerized tomography).
Each clinic has guaranteed an environment that will enable doctors to

concentrate on providing medical care to patients. This has become possible thanks to the use of real property investment funds.

■Reconstruction of hospitals will continue for the coming 10-15 years.

The most efficient way of reconstructing a hospital is supposedly "to reconstruct by moving to a new location," which means to start moving into a new building while continually operating in the existing one. This method, however, requires land for the new building in addition to the land of the existing hospital, increasing costs significantly.

Another method is to repeat the process of demolishing and rebuilding part of the existing building until the entire building is reconstructed. Since this will prolong the construction term, we need to anticipate the high risk of inflating construction costs.

When examining the number of hospital constructions, it is clear that a sudden increase appeared before the first revision of the Medical Care Act in 1985. This was due to anticipating the amendment of the regulation for the number of hospital beds. The year of 1981 revised the Seismic Criterion under the Building Standards Act. These two incidents left many hospitals only able to meet the old standards.

As 30-35 years have passed since then, many hospital directors are now under pressure to find concrete solutions to handing down their practices to the next generation.

In the past, it was common for a hospital or clinic to conduct clinical management while owning their own real estate and to obtain long-term bank loans with directors individually holding joint and several liability. Now, while medical fee revisions continue to decrease profits, it is becoming harder or even impossible to ask the next generation to take on hospital management by requesting them to obtain long-term mortgage loans or to hold joint and several liabilities. Hereafter, we may need to reconstruct hospitals for the purpose of promoting bed classification and integrating care. We are probably now facing the situation where we have to examine diversified financing methods in order to meet demand for funds hereafter.

■**Questions and answers on real estate investment funds.**

President Isayama answered questions on real estate investment funds.

Q: Is it possible for investors in real estate investment funds to interfere with the policies of medical institutions and influence the method of providing medical care?

A: Our investment stands on the premise of acquiring profits from fixed rent. In other words, we are the landlord of a building into which hospitals or clinics will move. Being aware of the management structures of hospitals and clinics, we will always maintain our position as an owner in assisting them. We will never interfere with clinical management.

Q: How are real estate investment funds different from bank loans or leases?

With bank loans or leases, the management entity of a hospital or clinic will owe “liabilities for debt” and continue making long payments. When utilizing real estate investment funds, we will own real estate through funds, and the funds will owe liabilities for debt related to acquiring and possessing real estate. Therefore, such liabilities are off-balance sheets items for the hospital or clinic.

Q: I understand the merits of real estate investment funds. Can you point out some demerits of which we should be aware?

A: We do not intend to invest in real estate to assist just any type of hospital or clinic, disregarding their conditions. We will continue to monitor whether the clinical management remains sound. In order to examine the clinical management status, we will ask to regularly disclose relevant and fundamental figures.