



# Real Estate Considerations for Rural Health Care Providers

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# AGENDA

1. LEASING VS. OWNERSHIP
2. SPACE USAGE AND ACCESS TO CARE
3. REGULATORY COMPLIANCE
4. PROPERTY TAX AND COST EFFICIENCY
5. COMMUNITY AND LOCAL PARTNERSHIPS
6. SUSTAINABILITY AND RESILIENCE
7. Q & A

# LEASING VS. OWNING



## KEY QUESTION: IS LEASING OR OWNING MORE COST-EFFECTIVE?

- Upfront cost and long-term spending
- Flexibility
- Control
- Commitment of time and energy
- Availability
- Market Volatility

# Health Care Property: Weighing the Pros and Cons

Leasing	Owning
Lower upfront costs	Higher upfront costs
Flexible lease terms	Greater control over property
No maintenance responsibility	Responsible for maintenance and repairs
Predictable monthly payments	Potential for property value appreciation
Limited ability to customize the space	Ability to customize the space to meet specific needs

# Types of Commercial Leases

## TRIPLE NET LEASE (NNN)

**Definition:** The tenant pays base rent and is also responsible for all operating expenses, including utilities, maintenance, and taxes.

**Key features:** Tenant pays a base rent plus a pro-rata share of the property's operating expenses.

**Pros and cons:** Pros - Tenant has more control over costs. Cons - Challenging to administer. Depending on pass through of Landlord costs, Tenant could have higher financial responsibility.

## MODIFIED GROSS LEASE (MG)

**Definition:** A hybrid between a full service gross lease and a triple net lease, where the tenant and landlord share responsibility for certain expenses.

**Key features:** Tenant pays a base rent plus a portion of operating expenses or utilities. The lease specifies who pays what.

**Pros and cons:** Pros - Shared responsibility can be more equitable. Cons - More complex to administer.

## FULL SERVICE GROSS LEASE (FSG)

**Definition:** The landlord is responsible for all operating expenses, including utilities, maintenance, and taxes, which are included in Tenant's payment of rent.

**Key features:** Tenant pays a single, fixed monthly rent amount.

**Pros and cons:** Pros - Predictable, fixed monthly costs for the tenant. Cons - Landlord has less incentive to control costs.

# Rural Health Space Usage and Access to Care



## USE OF MEDICAL FACILITIES

Providing accessible health care spaces in rural communities



## EQUIPMENT RENTALS

Offering medical equipment and devices for health care providers



## COLLABORATIVE PARTNERSHIPS

Working with local organizations to enhance rural health care access

RURAL HEALTH REAL ESTATE ARRANGEMENTS CAN OFFER FLEXIBLE AND INNOVATIVE SOLUTIONS TAILORED TO THE UNIQUE NEEDS OF RURAL COMMUNITIES.

# Documenting Space Usage



## 1. FULL OR PART-TIME LEASE AGREEMENT

- Allows physicians exclusive use of space and equipment on a full-time, part-time or daily basis, reducing overhead costs, and ensuring the space is only used and paid for when needed.
- Exclusive Use
- Specifies intervals, their precise length, and the exact rent for such intervals

## 2. TIMESHARE LICENSE AGREEMENT

- Provides flexibility for rural arrangements. Clearly defines the terms and conditions of the physician's use of the space, equipment, and support services, ensuring compliance with applicable laws and regulations.
- Non-Exclusive Use

## 3. PROFESSIONAL SERVICES AGREEMENT

Establishes the contractual relationship between the health care organization and the physician, outlining the scope of services, compensation, and other relevant terms.

## 4. CHARGING FAIR MARKET VALUE

Ensures that the health care organization is compensated at a rate that reflects the current market value for the space, equipment, and support services provided to the physician.



# REGULATORY COMPLIANCE: STARK LAW EXCEPTIONS

## RENTAL OF OFFICE SPACE

(42 C.F.R. § 411.357(a))

- Written agreement
- Signed by the parties
- Specifies the premises
- Exclusive Use
- Minimum one-year term
- Rent set in advance
- Fair market value
- Commercially reasonable even if no referrals
- Not determined by referrals or other business
- Size does not exceed that which is reasonable and necessary for the legitimate business purposes of the lease
- If the lease expires after at least one year a holdover lease must satisfy requirements

## RENTAL OF EQUIPMENT

(42 C.F.R. § 411.357(b))

- Written agreement
- Signed by parties
- Specifies the equipment
- Exclusive Use
- Minimum one-year term
- Rent set in advance
- Fair market value
- Commercially reasonable even if no referrals
- Not determined by referrals or other business
- Equipment does not exceed that which is reasonable and necessary for the legitimate business purposes of the lease
- If the lease expires after at least one year a holdover lease must satisfy requirements

## TIMESHARE LICENSE ARRANGEMENT

(42 C.F.R. § 411.357(y))

- Written agreement between physician and hospital/physician organization
- Signed by the parties
- Specifies the premises, equipment, personnel, items, supplies, and services
- Predominantly used for the provision of E/M; and on the same schedule
- Equipment in the same building where E/M services are provided, incidental to patient's E/M visit
- No advanced imaging, radiation therapy, clinical/pathology lab services
- Rent set in advance
- Fair market value
- Commercially reasonable even if no referrals
- Not conditioned on referrals or other business
- No possessory leasehold interest

# REGULATORY COMPLIANCE: ANTI-KICKBACK SAFE HARBORS

## SPACE RENTAL

(42 C.F.R. § 1001.952(b))

- Written agreement
- Signed by the parties
- Specifies the premises
- Full Time v Interval: Lease specifies exactly the schedule of such intervals, their precise length, and the exact rent for such intervals
- Minimum one-year term
- Rent set in advance
- Fair market value
- Rent does not consider referrals or other business
- Size does not exceed that which is reasonable and necessary for the legitimate business purposes of the lease

## EQUIPMENT RENTAL

(42 C.F.R. § 1001.952(c))

- Written agreement
- Signed by the parties
- Specifies the equipment
- Full Time v Interval: Lease specifies exactly the schedule of such intervals, their precise length, and the exact rent for such intervals
- Minimum one-year term
- Rent set in advance
- Fair market value
- Rent does not consider referrals or other business
- Size does not exceed that which is reasonable and necessary for the legitimate business purposes of the lease

# Overview of Rural Health Clinic



## RURAL HEALTH CLINIC DEFINITION

A health care facility located in a rural area designated as a shortage area



## SERVICES OFFERED

Primary care and preventative services, outpatient care, basic laboratory tests, minor surgical procedures, behavioral health services, hospice, others



## TARGET POPULATION

Residents of rural communities with limited access to traditional health care facilities



## FUNDING AND REGULATIONS

Receive federal funding and must comply with specific Medicare and Medicaid regulations

**RURAL HEALTH CLINICS PLAY A CRUCIAL ROLE IN PROVIDING ACCESSIBLE AND AFFORDABLE HEALTHCARE TO RURAL POPULATIONS, ADDRESSING THE UNIQUE CHALLENGES AND NEEDS OF THESE COMMUNITIES.**

# How Versatile is My Rural Health Clinic?

- SPECIALTY CLINIC
  - Lease Arrangement distinct from RHC
  - PSA Arrangement
- URGENT CARE
  - Can my RHC serve as an Urgent Care?
- ROTATION OF USES
  - Cost report considerations



# Benefits of Property Tax Exemption



## REDUCED TAX BURDEN

Property tax exemptions can significantly lower the amount of taxes owed, providing financial relief for health care operators.



## INCENTIVES FOR DEVELOPMENT

Property tax exemptions can encourage investment and development in a community, stimulating economic growth.



## FACILITY EXPANSION OR UPGRADES

By reducing property taxes, exemptions make it more affordable for health care facilities to expand or upgrade.



## COMMUNITY BENEFIT

Exemptions can help support important community institutions and acknowledge the hospital is providing a public good—like emergency services, charity care, and community outreach.

# How To: Property Tax Exemption



## APPLICABLE LAW

Check your state and local statutory and regulatory requirements



## APPLICATION PROCESS

Requirements and procedures for applying for the property tax exemption



## QUALIFIED PROPERTIES

Hospitals, medical clinics, and other healthcare-related properties that meet specific criteria



## TAX SAVINGS

Potential cost savings for health care providers through the exemption

HEALTH CARE PROPERTY TAX EXEMPTION CAN PROVIDE SIGNIFICANT FINANCIAL BENEFITS FOR ELIGIBLE HEALTH CARE FACILITIES, HELPING TO REDUCE OPERATIONAL COSTS AND REDIRECT RESOURCES TOWARDS PATIENT CARE.

# State Example: Colorado

## APPLICABLE LAW

Statutory: C.R.S. § 39-3-108(1)(b) (Licensed Health Care Facility )

“(1) Property, real and personal, which is owned and used solely and exclusively for strictly charitable purposes and not for private gain or corporate profit shall be exempt from the levy and collection of property tax if: (a) Such property is nonresidential; (b) Such property is licensed by the state of Colorado as a health-care facility; ...”

Regulatory: 8 Colo. Code Regs. § 1304-2

“[L]icensed health care facility” will only include property, or a portion thereof, that is licensed by [CDPHE...], and/or property, or a portion thereof, that is used for functions that are essential to the operation of a licensed health care facility but that are not required to be licensed. Examples of essential functions include, but are not limited to, parking lots, accounting offices and cafeterias that are used primarily for said licensed health care facility...”

<p style="text-align: center;"> <small>Division of Property Taxation</small>  <b>PHONE: 303-864-7780</b>  <b>TTY: 303-864-7758</b> </p>	<p style="text-align: center;"> <b>COUNTY</b> </p>
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## Application for Exemption of Property Form A – All Applicants

Before you fill out the application forms, carefully review the information on the preceding instruction page.  
**Failure to properly complete and submit your application may result in its rejection, substantial delays or denial of the requested exemption.**

### 1. Property owner (as on deed or title)

Name
Address
Daytime Phone

### 2. Contact

Name
Address (if different than in Section 1)
Daytime Phone (if different than in Section 1)
Email Address (optional)

### 3. County in which property is located

### 4. Type of property (check one or both)

<input type="checkbox"/> -- REAL (land, buildings, mobile homes, leasehold improvements, possessory interest)	<input type="checkbox"/> -- PERSONAL (furniture, equipment, and other moveable items not affixed to land or buildings)
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### 5. Physical location or street address of property (Please attach directions to the property.)

### 6. Legal description of REAL property, as on assessment records/deed (use attachments as needed)

	(check if continued/attached) -->

### 7. Key dates (Month/Day/Year)

<b>7.A. Date of acquisition (as on deed or title)</b> <div style="text-align: center;">/ /</div>	<b>7.B. Date actual use for exempt purposes began</b> <div style="text-align: center;">/ /</div>	<b>7.C. Date construction or renovation began</b> <div style="text-align: center;">/ /</div>
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- The property is owned and used solely for strictly charitable purposes
- The property is not used for private gain or corporate profit
- The property is consistently and actively used for an exempt purpose
- Filed on a rolling basis, \$200 Application Fee

Complete and attach to the primary application form, Form A. Failure to properly complete and submit your application may result in its rejection, substantial delays or exemption denial.

<b>1. Property owner (as on deed or title)</b>	<b>2. Applicant (if different than Section 1)</b>
Name	Name

**3. Property used for a licensed health care facility (check or fill-in each item as indicated)**

**A.** Attach a copy of the health care facility license issued by the Colorado Department of Public Health and Environment for this property. (check as attached) → ☐

**B.** State the gross income derived by the owner from any unrelated trade or business activities\* at the subject property during the most recent fiscal year: \$  (check if no such income) → ☐

**C.** If an amount is listed in B above, state the total gross revenues derived from the operation of the property: \$

*\* As determined pursuant to sections 511 through 513 of the Internal Revenue Code.*

**4.** Is/was the property used by anyone other than the owner? (This should include use by individual members, if the use was not sponsored by the owner.)

☐ -- YES -- Complete and attach supplemental **Form N**, then continue to Form A Section 16.

☐ -- NO -- Return to your Form A and complete Section 16.



# State Example: Colorado – Annual Report

## ANNUAL REPORT FOR EXEMPT PROPERTY REQUIRMENTS



### OWNER INFORMATION

Provide the owner's address, review the owner's name and mailing address and make necessary corrections



### LEGAL DESCRIPTION OF EXEMPT PROPERTY

Verify legal description matches county records, report any changes. Do not add property.



### PROPERTY VALUES

Provide updated values for real and personal property, if change is 10% or more



### CONTACT PERSON

Provide name, phone, and email of authorized contact



### PROPERTY USE

Describe how each building and personal property is used, note any unused portions



### PROPERTY USE BY ANYONE OTHER THAN THE OWNER

List all outside users, usage details, and any income received

# COMMUNITY AND LOCAL PARTNERSHIPS



ENGAGING WITH  
LOCAL  
GOVERNMENT

ENGAGING  
WITH  
COMMUNITY  
STAKEHOLDERS

BUILDING  
PARTNERSHIPS

# Local Partnerships for Rural Health Care



## COLLABORATIVE INITIATIVES

Partnering with local healthcare providers, community organizations, and government agencies to improve access and quality of rural healthcare services.



## TELEHEALTH EXPANSION

Leveraging digital technologies to connect rural residents with specialized medical care and reduce barriers to access.



## COMMUNITY OUTREACH

Engaging with rural residents to understand their unique healthcare needs and concerns, and developing tailored solutions.



## TRAINING AND EDUCATION

Investing in the professional development of rural healthcare providers to enhance their skills and knowledge.

BY FOSTERING STRONG LOCAL PARTNERSHIPS, RURAL COMMUNITIES CAN WORK TOGETHER TO ADDRESS THE UNIQUE HEALTHCARE CHALLENGES THEY FACE AND IMPROVE THE OVERALL WELL-BEING OF THEIR RESIDENTS.

# Successful Community Partnerships



- **Hospital Property Used to Support Essential Community Wellness**
  - Community Greenhouse
  - Large Community Space
  - Community Kitchen
  - Fitness Center
- **Local Governments Work Together to enable long-term senior living solutions in the community**
- **Workforce Housing**
  - Often an issue for more than just the hospital in the community – school, local government, other large employers in the community
  - Successful collaboration supports workforce housing development that each party wouldn't be able to support on its own

# Energy Performance Requirements – Health Care Real Estate

- **ENERGY EFFICIENCY STANDARDS**

Established legal requirements for the energy performance of commercial buildings, including regulations on insulation, HVAC systems, and lighting

- **BUILDING ENVELOPE REQUIREMENTS**

Specifications for the thermal performance of walls, roofs, and windows to minimize heat transfer and optimize energy efficiency

- **HVAC SYSTEM EFFICIENCY**

Mandates for the use of high-efficiency heating, ventilation, and air conditioning equipment to reduce energy consumption

- **LIGHTING POWER DENSITY LIMITS**

Maximum allowable watts per square foot for different types of commercial lighting to promote the use of energy-efficient fixtures

- **RENEWABLE ENERGY INTEGRATION**

Incentives or requirements for the incorporation of renewable energy sources, such as solar panels, into commercial building design

# State Example:

## Colorado's Energy Performance for Buildings



### ENERGY PERFORMANCE FOR BUILDINGS STATUTE

Passed in June 2021, the statute requires large commercial, multifamily, and public buildings (50,000+ sq. ft.) to report energy benchmarking data to the Colorado Energy Office



### COMPLIANCE TIMELINE

Enforcement began in 2024 with penalties for non-compliance. Recent amendments under HB 25-1269 refine compliance timelines and penalties.



### COVERED BUILDINGS

Impacts many hospitals, nursing homes, and other healthcare facilities in Colorado. The Colorado Energy Department has created a Building ID Search Tool to help building owners verify coverage.



### BENCHMARKING REQUIREMENTS

Includes reporting on Energy Star score, monthly energy use, greenhouse gas emissions; \$100 annual fee per covered building



# Colorado Energy Performance Requirements

Step 1: Find and include your Colorado Building ID in your building

Step 2: Benchmarking and Sharing a Property(s)

Step 3: Pay the annual fee, Extension Requests, and Waivers/Non-Covered Buildings

Step 4: Determine your target and select your Compliance Pathway

Step 5: Report and continue to strive towards your performance targets

# State Example: Colorado's Energy Performance for Buildings





# Questions?

For more information on these topics visit [hallrender.com](https://hallrender.com).



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