

HOW A REGIONAL HEALTH SYSTEM SAVED CAPITAL, TIME, AND RESOURCES DEVELOPING AN AMBULATORY NETWORK



Genesis Health System - Three HealthPlex Locations - Davenport, IA ■ Bettendorf, IA ■ Moline, IL

Long-term Partnership with Healthcare Real Estate Expert Supports Health System's Strategic Goals

STRENGTHENING COMPETITIVENESS THROUGH A NEW FACILITY MODEL

As is frequently the case in healthcare, Genesis Health System's primary care physicians tended to be widely scattered, with small groups housed in older offices across a broad swath of two states. "It was clear the offices needed to be replaced. They didn't reflect the image we wanted to have, and they weren't necessarily visible," says Doug Cropper, President and CEO of Genesis Health System, the only locally owned and operated regional healthcare system serving the Quad Cities metropolitan area and surrounding communities in Iowa and Illinois.

A dozen years ago, Genesis Health System decided to tackle

this challenge with a strategy focused on building multiple HealthPlexes – one-stop health and wellness destinations that aggregate 20 to 30 providers, into a walk-in convenient care clinic with extended hours, imaging and lab services in a single location. The first HealthPlex, built in a prime location in the heart of Moline, IL, proved so successful that Genesis has replicated the model in two other cities, and has a fourth one in the works. "The model has served us very well and done everything we wanted it to strategically and operationally," Cropper observes.

CAPITAL - A SCARCE RESOURCE

From the get-go, Genesis knew the success of the strategy depended

on minimizing their capital outlay, given their limited resources in the face of drastically declining reimbursement rates and other financial challenges. "We are always having to prioritize capital, so we wanted to take this off our balance sheet," Cropper says. To preserve capital and move the initial HealthPlex project forward quickly, Genesis Health System turned to MedCraft Healthcare Real Estate, a national leader in the development, financing, strategy and management of ambulatory care and medical office buildings.

MedCraft brought deep healthcare industry experience expertise and an established track record of developing similar "HealthPlex" models with other systems, in addition to providing the necessary



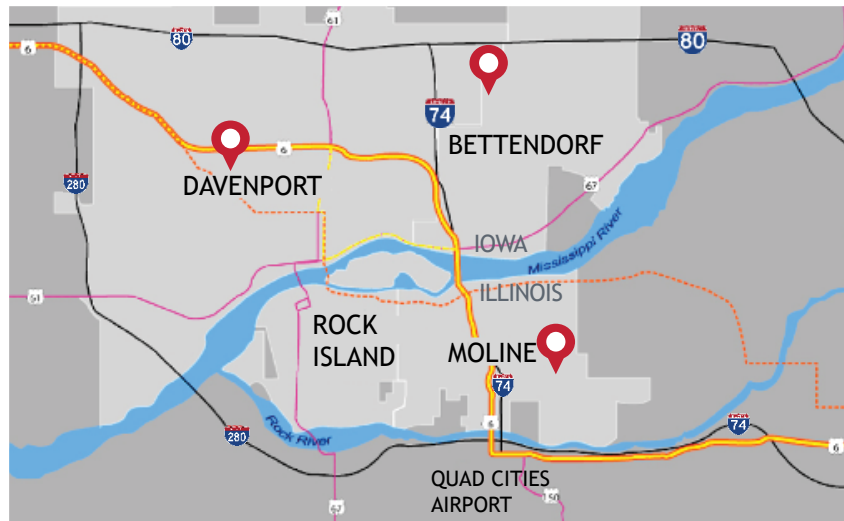
capital. Genesis Health System owned the project site for the initial project and leased the property to MedCraft under a long-term ground lease. MedCraft worked with Genesis Health System to build a facility that met its specifications, then master-leased it back to them. "With this financing strategy, our outlay is only about one-fifth of the total typically required, so we can make our capital go much further," Cropper notes.

On this first project, MedCraft earned the trust of Genesis Health System through their openness, honesty and transparency, along with their ability to manage the development process, capitalize on design and construction best practices, and flexibly incorporate changes and adjustments to the project scope. Ultimately, MedCraft delivered a welcoming and efficient facility that enabled Genesis Health System to meet its patient care, physician alignment and capital preservation goals.

"All our interactions with MedCraft were very positive. They made it very easy to deal with them and they understood exactly what we wanted," Cropper says.

FORGING A TRUSTED PARTNERSHIP

Given the success of the initial project, enlisting MedCraft to partner with them on subsequent HealthPlex projects made perfect sense to Genesis Health System. The financial and lease arrangements, development processes, design elements and exterior signage of the first HealthPlex served as models for an additional two projects in two cities, expediting their completion and minimizing costs. Each new project also provided an opportunity to build in continued improvement by applying lessons learned.



"We have a standard playbook, which we tweak if something's not working or we want to make something work even better," says Kevin Rossmiller, Executive Director, Construction and Design, at Genesis Health System. "For each project, we've also used the same general contractor and core team, including for mechanical and plumbing. That continuity is huge."

Genesis Health System values the benefits of working with a trusted and responsive partner

who understands their needs. For example, when winter weather substantially delayed construction of the newest HealthPlex, MedCraft came to the rescue. "Because they were so familiar with working with the core partnership team, they were able to push the heck out of them and we made up about six weeks," Rossmiller says. "I can't stress enough how pleased we are with MedCraft."

The partnership with MedCraft continues to strengthen despite increased competition. "Other



real estate developers want to do this with us now, regionally and locally,” Cropper says. “But when you have an established partnership like we have with MedCraft, you want to stick with it.”

LEVERAGING THE PARTNERSHIP FOR STRATEGIC ACQUISITIONS

Recently, the partnership branched out into new territory when a private group of pulmonary physicians began discussing employment with Genesis Health System. The physicians wanted Genesis to acquire the medical building they owned as well as their practice. While willing to employ the physicians and lease them space, Genesis Health System felt it was an unwise use of capital to buy the building and were reluctant to take on the responsibility of finding them other office space.

Enter MedCraft, with a win-win solution. MedCraft agreed to buy the physicians' building,

“Working in healthcare, and with physicians, is not like any other industry. So the fact that MedCraft understands both the healthcare side of things and the real estate side of things is hugely beneficial.”

Doug Cropper, Chief Executive Officer
Genesis Health System

freeing Genesis Health System to acquire the practice only. MedCraft helped the physicians navigate the complexities of their existing building financing, educated them about their options, and worked with them to determine a fair market valuation and negotiated a lease-back rate with Genesis. “It’s a whole other business reality that takes us down a different path with MedCraft. The physicians like this solution because they no longer have the financial responsibility of real estate ownership, and we like it because it doesn’t tie up our capital,” Cropper says. Genesis Health System has

been so pleased with the acquisition strategy that they are already evaluating additional similar transactions. Cropper is especially enthusiastic because it eliminates the need to change his capital plan mid-year in order to employ more physicians and nurse-practitioners. “It solves a huge problem for me that would be very disruptive. I can work with someone who’s a trusted partner to deal with the real estate portion of deals like this. It allows me to focus on physician strategy without having to worry about real estate strategy,” he says. “It’s a beautiful thing.”



THE VALUE OF A TRUSTED PARTNERSHIP

From the perspective of the Genesis Health System team, MedCraft's expertise and experience in both healthcare and real estate is an ideal combination. "Working in healthcare, and with physicians, is not like any other industry," he says. "So the fact that MedCraft understands both the healthcare side of things and the real estate side of things is hugely beneficial."

MedCraft's commitment to being an integrated resource partner

who delivers on its promises further strengthens its relationship with Genesis. "Bottom line, as a full-service partner, the MedCraft team makes our life easier," Rossmiller says. "We trust them, they're solid financially, and they're willing to partner with us. We know they've been a great partner so we continue to go back to them."

Looking ahead, Cropper is convinced that the partnership will only grow in value, given

ongoing financial constraints. "For people in my role across the industry, unless you're really not worried about your capital budget being tight, this development and acquisition strategy is a no-brainer now," he says. "I don't even think twice any more. I just say to the CFO, let's get MedCraft in on that one. It's literally that easy for me."



"Bottom line, as a full-service partner, the MedCraft team makes our life easier. We trust them, they are solid financially, and they're willing to partner with us. They've been a great partner so we continue to go back to them."

Kevin Rossmiller
Executive Director Construction and Design
Genesis Health System



Genesis HealthPlex - Moline, IL



TRUSTED PARTNERS. PROVEN RESULTS.