Healthcare

Bernie Sanders accused Hahnemann owners of a plan to make money off real estate. Is that realistic?

Some suspect that Joel Freedman and his main backer, Harrison Street Real Estate Capital, had their sights on the Hahnemann real estate from the start.

Messages in some of the windows at Hahnemann University Hospital on July 25 after medical residents and staff of the hospital were informed that their residencies would end soon.
ELIZABETH ROBERTSON / Staff Photographer

by Harold Brubaker
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Politicians, union leaders, and employees have raged against the prospect that Hahnemann University Hospital's owner could make money off the closure of the Center City hospital that treated poor patients.

"It's insane," Bernie Sanders told CBS3 last month. "If you look at this thing objectively and you say that in the midst of a health-care crisis, a hospital is being converted into a real estate opportunity in order to make some wealthy guy even more money, ignoring the health-care needs of thousands of people, that is pretty crazy."

The "wealthy guy" the Vermont senator referred to is owner Joel Freedman, who split Hahnemann real estate into separate companies and then kept them out of the bankruptcy filed June 30 just after announcing the hospital's closure.

Someone will make money redeveloping the Center City properties that Hahnemann occupies.

It almost certainly will not be Freedman, the California investment banker who borrowed most of the $170 million needed to buy Hahnemann and St. Christopher's Hospital for Children from Tenet Healthcare Corp. early last year.

"Not knowing the intricacies here, I think he cut up the pieces, leveraged them as much as possible, which is what investment bankers do, and rolled the dice," said Jason Friedland, a partner at Iron Stone Real Estate Partners, a Philadelphia firm that redeveloped the former Medical College of Pennsylvania Hospital.

The gamble failed, led to a bankruptcy with a highly uncertain outcome, and could result in years of litigation involving Freedman, Tenet, a union pension fund, and others. "I think he's going have very little left of these assets," Friedland said.

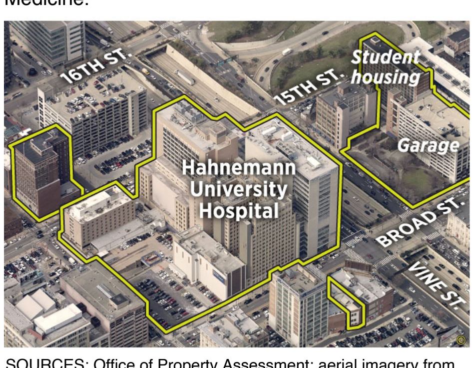
Some suspect that Freedman and his main backers, Harrison Street Real Estate Capital and MidCap Financial, had their sights on the Hahnemann real estate from the start. That's impossible for an outsider to know, but a lot of effort — including talks with city and state officials and an offer to turn ownership over to Drexel University for a nominal sum — went into keeping the hospital open.

Drexel, which used Hahnemann as the main teaching hospital for its medical school, told employees in a July 22 post on its website: "Drexel would have been interested, if the hospital had been economically viable. But Hahnemann came with liabilities of more than $300 million."

Now that it is effectively closed — there have been no inpatients for more than a week — it's hard to know how much the Hahnemann real estate would be worth in a sale. Weighing on prospects for redevelopment is the worry that the U.S. economy is slowing after a record-long expansion.

Hahnemann's Center City Real Estate

Ownership of the real estate at Hahnemann University Hospital is split between Joel Freedman and Harrison Street Real Estate. Freedman owns the main hospital buildings. Harrison Street owns the parking garage north of Vine Street and buildings used by the Drexel University School of Medicine.



SOURCES: Office of Property Assessment, aerial imagery from Pictometry International
JOHN DUCHNESKIE / Staff Artist

The uncertainty over value also goes for the 188-bed St. Christopher's Hospital for Children, set to be sold at a bankruptcy auction Sept. 18. That sale is Freedman's best short-term chance to raise money to pay off creditors. Little is known by outsiders about the hospital's financial condition. A bankruptcy filing said the hospital had $54 million in pretax profit last year, but that might not include some money-losing operations.

It's no surprise that Freedman, who had scant experience in day-to-day hospital management and displayed little patience with the executives he brought in to run the two hospitals, was unable to turn them around.

Hahnemann racked up $938 million in operating losses in the final 14 years Tenet owned it and St. Christopher's last made a profit in 2010, according to the Pennsylvania Health Care Cost Containment Council. Continued losses at the two hospitals landed Freedman, who was unavailable last week, in a complicated bankruptcy involving more than $330 million in liabilities.

His companies owe more than $70 million in loans secured by Hahnemann and St. Christopher's real estate. Plus a pension plan for many of the lowest-paid workers at Hahnemann has a nearly $60 million claim.

Unsecured creditors, who are owed more than $200 million, are expected to attempt to force the real estate into the bankruptcy, so they have a chance of getting more than pennies on the dollar for their claims. That's a long shot, two attorneys said, but that is not likely to stop the committee from trying.

Key players

It's not unusual for transactions involving distressed businesses such as Hahnemann and St. Christopher's to be complex, but Freedman's deal took that to an extraordinary level.

The complexity came, in part, from the split of real estate ownership between Freedman and Harrison Street entities, ownership ties between the two, and interlocking claims. Here's a rundown of the key players, besides Freedman, who are circling one another to get the best they can from what is proving to be a messy bankruptcy:

Harrison Street. This $18 billion Chicago real estate investment firm contributed a $51 million loan toward Freedman's purchase of the hospitals. Harrison Street declined to say how that loan is secured.

Harrison Street, touted as Freedman's partner in the original deal announcement, also purchased a significant portion of the real estate: buildings used by Drexel's medical school and parking garages at Hahnemann and St. Christopher's. Public records show that it paid $70 million for those properties.

Freedman has a 10 percent ownership in the Harrison Street entities that own real estate at Hahnemann and St. Christopher's.

MidCap. This $20.5 billion corporate lender based in Bethesda, Md., and operated by Apollo Global Management contributed an unspecified amount to the purchase of the Tenet properties under a $100 million credit facility that was secured by Hahnemann and St. Christopher's accounts receivables. Later, a $20 million term loan secured by real estate was added.

At the time of the bankruptcy, the hospitals owed MidCap at least $57.4 million, not including unpaid interest. After the bankruptcy, $5 million of the term loan was repaid. All the money owed to MidCap is secured by mortgages on Hahnemann real estate owned by Freedman that was not included in the bankruptcy.

Tenet. After nearly 20 years in Philadelphia and more than one attempt to sell its hospitals here, Tenet did not completely pull up stakes with the sale to Freedman. Instead of collecting $170 million up front, Tenet accepted a promise that Freedman would pay $17.5 million later. That loan is secured by a mortgage on the St. Christopher's real estate owned by Freedman.

Tenet also continued providing information technology and other services to Hahnemann and St. Christopher's, and claims that it was owed $58 million before the bankruptcy. Freedman sued the Tenet units in Delaware last year, alleging that they provided poor services.

District 1199C pension fund. So far, the largest unsecured claim in the bankruptcy is a $59.4 million withdrawal liability for a pension plan for members of District 1199C for Hospital and Health Care Employees that will not be easy to slough off. Under federal law, fund attorney Andrew Kelser said, it can pursue Freedman and his family — the ultimate owners — for the money.

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