



MPW Case Study – Neuropsychiatric Hospitals

MPW pay a 200% premium for newly built Neuropsychiatric Hospital. Loss-making tenant consistent with revenue round-tripping model.

PLEASE READ IMPORTANT DISCLAIMER – PAGE 4

February 1, 2023 – In October 2019 MPW committed \$27.5m to develop a NeuroPsychiatric Hospital for the development of a 92-bed facility in Clear Lake, Texas. The facility was estimated to open in Q3 2020.

Additionally, we just closed on a \$28 million behavioral health opportunity with NeuroPsychiatric Hospitals for the development of a 92-bed freestanding hospital in the Houston, Texas market. NPH is a behavioral health company focused on providing best-in-class care for patients with acute, complex, medical or psychiatric conditions and is known as the largest neuropsychiatric care organization in the country. They meet an underserved need in treating the more severe comorbid cases that traditionally psych hospitals are not equipped to take. NPH currently operates 4 facilities with 187 beds in Indiana and is well positioned for near-term growth into new markets in 2020. Construction is underway, with an estimated opening in the third quarter of 2020.

Figure 1 – Q3 2019 earnings call

MPW’s Q3 2020 supplemental information report also shows cash costs incurred on the still incomplete project as of reporting date.

SUMMARY OF CURRENT DEVELOPMENT PROJECTS AS OF SEPTEMBER 30, 2020
(Amounts in thousands)

Operator	Location	Commitment	Costs Incurred as of 9/30/2020	Estimated Rent Commencement Date
NeuroPsychiatric Hospitals	Texas	\$ 27,500	\$ 20,241	Q2 2021
Ernest	California	47,929	16,010	Q4 2021
		\$ 75,429	\$ 36,251	

Figure 2 – Q3 2020 supplemental information report

In MPW’s 2021 10-K, we learn that the project “commenced rent” on December 18, 2020. A subsequent 8-K filed in October 27, 2022, we learn that the committed investment amount increased to \$28.5m.

The Real Construction Costs & Property Appraisal

Project details of the Neuropsychiatric Hospital were submitted to the Texas Department of Licensing and Regulation, which show estimated project costs to be \$7.00m.



Texas Department of Licensing and Regulation
Architectural Barriers Project Details Page

Project #: TABS2019016744 Registration Date: 7/23/2019

<https://www.tdlr.texas.gov/TABS/Projects/TABS2019016744>

PROJECT

Project Name: Medistar Corporation Medical Behavioral Hospital
 Project Number: TABS2019016744
 Facility Name: Medistar Corporation Medical Behavioral Hospital

Location Address: 16650 Buccaneer Lane
Houston, TX 77058

Location County: Harris

Start Date: 8/23/2019
 Completion Date: 6/23/2020

Estimated Cost: \$7,000,000

Type of Work: Renovation/Alteration

Type of Funds: This project is privately funded, on private land for private use.

Scope of Work: Existing non-combustible structure (metal deck over concrete walls) renovated into a private psychiatric hospital with 94 beds and 48466 sf. The project includes a commercial kitchen, parking increase, landscape improvements and fire sprinkler syst.

Square Footage: 48,466 ft²

Are the private funds provided by the tenant? Yes

Current Status: Project Closed

Figure 3 – Extract from TDLR¹

¹ <https://www.tdlr.texas.gov/TABS/Search/Project/TABS2019016744>



Further, Harris County appraisal district ownership history shows that MPT bought the site from Medistar on October 25, 2019 when the appraised valued was listed as \$2.1m. Post completion of the development, it was appraised at \$8.8m.

Ownership History: 0963020000001	
16850 BUCCANEER LN HOUSTON TX 77058	
Owner	Effective Date
MPT OF SOUTH CLEAR LAKE LLC	10/25/2019
MEDISTAR GEMINI LLC	12/09/2013
LEEWARD STRATEGIC PROPERTIES INC	02/24/2012
BLOCK 15 GEMINI J V	01/02/1989
BLOCK 15 GEMINI JOINT VEN	01/02/1986

Figure 4 – HCAD Ownership History extract²

APPRAISED VALUE HISTORY: 0963020000001					
Tax Year:	2023	2022	2021	2020	2019
Appraised Value:	Pending	7,850,250	8,824,549	2,150,000	2,100,000

Figure 5 – HCAD Appraised Value extract³

It is completely unfathomable that MPW claims to have spent \$28.5m on the development of the Neuropsychiatric Hospital given that the cost of development and market value of the land was combined total of \$9.1m.

Further, we question how MPW has accounted for the value of this facility in its books, given that its appraised value is 72% less than the capitalized cost of the facility.

MPW has paid over 3x the market value for the Neuropsychiatric Hospital.

Obscure Structure & Distressed Tenant

Neuropsychiatric Hospitals is the tenant of the Texas Clear Lake facility, however it does not lease the facility from MPW, but from Medistar Corporation.

Medistar were the original owners of the site, conceived the plan for its development into a 92 bed facility, and lodged the project details with the Texas Department of Licensing and Regulation, per Figure 3 above.

Medistar appear to have sold the site prior to development to MPW on leaseback terms. Medistar subsequently leases the site to Neuropsychiatric Hospitals. This is disclosed in a joint press release by Neuropsychiatric Hospitals and Medistar in December 2019, after MPW’s acquisition of the site in October 2019.

HOUSTON, TX AND SOUTH BEND, IN—Medistar Corporation (“Medistar”) and NeuroPsychiatric Hospitals, LLC (“NPH”) are pleased to announce the development of Medical Behavioral Hospital of Clear Lake. The 92-bed facility, located at 16850 Buccaneer Lane in **Houston**, is now in construction and scheduled to open in mid-2020. This will be NPH’s sixth hospital and among only a select number of hospitals nationwide that focus on treating patients with psychiatric issues who also suffer with complex medical and/or neurological conditions. The facility will be leased from Medistar by an affiliate of NPH pursuant to a long-term lease.

Figure 6 – NPH & Medistar press release 30 Dec 2019⁴

²<https://public.hcad.org/records/Ownership.asp?crypt=%94%9A%B0%94%BFg%84%96%85%7Dhf%8E%87tXtYW%9E%99%A2%D3%89%95%C2e%7CU%8A%85>

³<https://public.hcad.org/records/HistoryValue.asp?crypt=%94%9A%B0%94%BFg%84%96%85%7Dhf%8E%87tXtYW%8D%AD%9C%CC%89%A2%C4%9C%AB%9D%D2%B1%C1%CF%87hy%7B%60>

⁴ <https://www.neuropsychiatric-hospitals.net/medistar-corporation-and-neuropsychiatric-hospitals-announce-the-development-of-medical-behavioral-hospital-of-clear-lake-in-houston-tx/>



Viceroy have obtained 2021 financial data for the underlying tenant, Medical Behavioral Hospital of Clear Lake. It shows a severely loss-making operator burdened by debt.

Medical Behavioral Hospital of Clear Lake	
Houston, TX 77058	
CMS Certification Number: 454151	
See column headings for cost reporting periods. / Definitions	
Balance Sheet	
Period ending date	12/31/2021
Number of months in period	12
Cost report status	As Submitted
Assets	
Current Assets	\$2,504,030
Fixed Assets	\$22,535,797
Other Assets	\$7,968,840
Total Assets	\$33,008,667
Liabilities and Fund Balances	
Current Liabilities	\$1,020,600
Long-Term Liabilities	\$34,162,246
Total Liabilities	\$35,182,846
Total Fund Balances	-\$2,174,179
Total Liabilities & Fund Balances	\$33,008,667
Income Statement	
Data are annualized for periods other than twelve months.	
Period ending date	12/31/2021
Number of months in period	12
Cost report status	As Submitted
Inpatient Revenue	\$14,814,914
Outpatient Revenue	\$0
Total Patient Revenue	\$14,814,914
Contractual Allowance (Discounts)	\$8,504,634
Net Patient Revenues	\$6,310,280
Total Operating Expense	\$14,759,598
Operating Income	-\$8,449,318
Other Income (Contributions, Bequests, etc.)	\$0
Income from Investments	\$0
Governmental Appropriations	\$0
Miscellaneous Non-Patient Revenue	\$12,267
Total Non-Patient Revenue	\$12,267
Total Other Expenses	\$0
Net Income or (Loss)	-\$8,437,051
Depreciation Expense (included above)	\$1,481,647

Figure 7 – 2021 Financial Summary of Medical Behavioral Hospital of Clear Lake

Medical Behavioral Hospital of Clear Lake reported a \$8.5m operating loss in 2021. Its liabilities exceed assets by over \$2m.

Key Takeaways

We reiterate our belief that MPW engages in pervasive revenue round-tripping schemes. It is clear that MPW vastly overpaid for this facility, with appraisals and state filings directly contradicting statements from MPW.

The tenant, Medistar Corporation, is subletting this property to a distressed client. We believe this is consistent with round-tripping behavior.

MPW overpaid for the Neuropsychiatric Hospital facility by 3x. It capitalizes these absurd overpayments, and proceeds to borrow more money to make more uncommercial investments.



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