TRENDS IN HEALTH CARE REAL ESTATE

Since 2010, the healthcare industry has been preparing for the Patient Protection and Affordable Care Act (ACA). As surgeons, physicians and nurses prepped for the insurance exchanges to open up this October, it is still unclear what will happen in 2014.

Medical professionals are proceeding with extreme caution when making major decisions that will impact their core business operations, specifically with regards to their real estate expenses. Hospital administrators are increasingly looking at their real estate to control costs in response to revenue constraints and operating cost pressures. Much of this uncertainty has resulted in mergers, acquisitions and strategic alliances. These consolidations are providing medical practitioners easier access to capital and greater bargaining power with insurance companies.

While the future is somewhat uncertain, the healthcare sector is expected to remain relatively robust because of an aging "Baby Boomer" population and the expansion of health insurance increasing traffic to health care facilities. The following are three distinct trends that we continue to see within hospitals, healthcare systems, surgery centers and physician practices.

Renovation – In Space for Wellness/Preventative Care

Medical startups and established practices continue to look for cost efficient ways to lease office space. Wellness and other preventive care practices will see vacant space in retail, office or even industrial buildings as a potential home. The build-outs and rental rates in these repurposed spaces will be significantly lower than what is being offered in newly built medical office buildings. Retailers such as Wal-Mart, CVS and Walgreens have already started offering up space in their stores to medical professionals. We expect this trend to continue, as more retailers follow this affordable care pattern.

Medical Practice Consolidation

Healthcare consolidation is not a new trend in the industry. In 1995 Illinois' Evangelical Health Systems Corporation and Lutheran General Health System created what is now the largest fully integrated health care delivery system in the state - Advocate Health Care. While a number of self-supporting hospitals remain steadfast in retaining their independence, we continue to see them entering into discussions regarding mergers and affiliations with larger partners. This past June alone, over 90 mergers and acquisitions with a value of $20.6 billion took place throughout the U.S.[1] These changing dynamics may force hospitals and physician groups to consider larger space options to accommodate for consolidation.

Relocation for Higher Acuity Care

Not long ago it was a matter of course for patients to go to a hospital for surgery and other complex procedures. Today, higher acuity care is increasingly being delivered in freestanding emergency departments (FEDs), ambulatory surgery centers (ASCs), medical office buildings (MOBs) and other outpatient spaces, rather than in a highly regulated inpatient facility. With the downward pressure of government regulations and fear of lower reimbursements, higher acuity medical practices, will look to cut costs. MOBs and other outpatient facilities offer an attractive solution because they cost less to build, operate, and maintain than hospitals and inpatient facilities, for both physical and regulatory reasons. Close to 300 hospitals throughout the U.S. opened up FEDs in 2011, nearly double than in 2005[1]. Medical office buildings within close proximity to hospitals will continue be in high in demand, and hospitals will continue to develop freestanding emergency departments in urban locations where they lack presence.

[1] Source: American Hospital Association