

BRIGHT FUTURE: OPPORTUNITIES FOR DEVELOPMENT IN THE HEALTH CARE INDUSTRY

As the world slowly adjusts to normalcy following the COVID-19 pandemic, the future looks bright for development and investment opportunities in the health care real estate industry. Growth in outpatient facility developments, free-standing emergency departments, and the continued need for dedicated behavioral health facilities, and novel development financing options are just a few areas of new opportunity.

At the Colorado Real Estate Health Care and MOB Conference, John Marshall, Principal Advisor in Hall Render's Advisory Services, moderated an expert panel on these opportunities and some of the challenges ahead. Participating in the panel discussion were Jaimie Northam, Healthcare Vice President at Ryan Companies; Kevin O'Neil, President & CEO at Fidelis Healthcare Partners; Tom Kelly, Development Vice President at NexCore Group; Jim Pisula, EVP at Pisula Development Company; Jake Dinnen, SVP Development at PMB. The following notes a few key takeaways from this expert panel.

POST-COVID: WHAT IS CHANGING IN THE DEVELOPMENT MODEL?

Health care systems will continue to re-evaluate how services are offered to patients as the world comes 'back to normal.' With the increase in telehealth appointments and virtual check-ins, providers should rethink common area and waiting spaces. We are likely to see less restrictive waiting areas and instead see facilities with a stronger community feel but with user-friendly spaces and interface. Additionally, there is a greater need for clinical flexibility and adaptability. As the past almost two years have shown, we can never predict the future and a physician clinic today might need to be something completely different 7-10 years from now. This greater emphasis on flexibility and less restrictive spaces is likely to impact how health care facilities will look and operate.

Additionally, post-COVID, health care facilities will look to create a better strategy for supply chain space and supply chain consolidation. Health care facilities can improve supply chain strategies by prioritizing local sourcing, identifying critical supplies and demand planning.

Several changes in the development model are a result of the lessons learned the past 18 months. With these changes also come increased opportunity for new facilities and investment activities.

WHAT ARE NEW OPPORTUNITIES IN DEVELOPMENT?

The growth in outpatient care facilities will continue. This is mostly driven by hospital-sponsored clinical services, and COVID has escalated this need. Hospitals need to expand into new markets or provide new models of clinical care for their employed physicians clinical partners. Additionally, more people are moving to new cities as a result of remote work and hybrid models. People are wanting to lower cost of living, greater outdoor space and room for a home office. States like Arizona, Colorado, Idaho, North and South Carolina, Florida and Texas are all seeing an influx of people. Many health care systems are following this growth and building these outpatient facilities in locations where people are migrating.

Similarly, there has been growth in hospital partnered free-standing emergency departments and/or urgent care facilities with, many with complimentary physician space. These free-standing facilities are often more conveniently located and offer shorter wait times than a hospital-based ED or even scheduling a primary care visit. These facilities provide another option for care when patients are looking for greater flexibility and convenience and in a less costly setting.

It is no secret that the events of 2020 caused significant stressors in the lives of people around the world, contributing to a greater need for dedicated behavioral health facilities. Hospital providers and clinical operators are collaborating much more effectively to bring new facility solutions to this glaring healthcare need. These dedicated behavioral health facilities can provide greater flexibility in treatments and hopefully remove barriers to access, but these will rely on an enhanced reimbursement model for the providers and their clinical partners.

Growth in outpatient facilities, hospital-partnered free-standing emergency departments and dedicated behavioral health facilities are important opportunities to allow greater access and flexibility for patients in the post-COVID world.

WHAT ARE CHALLENGES IN DEVELOPMENT UNDERWRITING?

Supply chain issues have impacted the health care industry as much as any other industry and this continues to be a challenge in new development projects. The pandemic has caused significant construction cost escalations and it is more challenging than ever to hold to construction pricing. The price for steel, fixtures and furnishings present pricing challenges to projects, and labor constraints in the construction industry make it harder to stick to a set timeline.

When it comes to financing new projects, hospitals that want to occupy most of a new development are not typically seeking developer financing. Instead these hospitals are opting to fund projects themselves or use a less expensive third-party form of financing, like a non-profit foundation structure. This form of financing can allow for faster timing to market and much lower costs than with third-party (for-profit) developer. (For more information on the Non-Profit Foundation Real Estate Model, check out [this podcast episode](#).)

At the start of the pandemic, it was predicted that health systems might look to monetize assets given their pandemic cash burn, but this has not been the case. Most hospitals are not selling any buildings or portfolios. Traditional debt rates remain at an all-time lows and many hospitals struggle to justify a premium for third party capital, resulting in more hospitals self-financing their own ambulatory projects, and retaining direct project ownership.

As the world continues to change and adjust because of the pandemic, the health care industry has a variety of opportunities for development and investment due to the lessons learned from the past 18 months. There is a positive outlook for greater flexibility and access in health care facilities.

If you have additional questions or would like to discuss creative opportunities in development and facility financing, please contact John Marshall at jmarshall@hallrenderas.com.

This article is educational in nature and is not intended as legal advice.