

FOUR KEY REASONS TO HIRE AN INDEPENDENT ADVISOR FOR A DEVELOPMENT PROJECT

As health systems expand in both size and geographical reach, their real estate requirements become increasingly complex. Yet, the majority of all U.S. hospitals are not part of the top 15 health systems and might lack the in-house expertise or market knowledge to effectively navigate the complex landscape of hospital-related facility development. Health care organizations should engage the services of an independent advisor when contemplating the hiring of a health care real estate development firm or initiating a development services RFP.

The following outlines four important reasons to engage an advisor:

1. KNOW THE MARKET

In the fall of 2023, *Modern Healthcare* released its annual list of the nation's "**Top Healthcare Development**" firms based on the firms' total construction costs of health care projects delivered/completed in 2022. While this ranking offers useful information, it provides an incomplete picture. Some development firms offer "fee-for-service" development management. Commonly known as "fee development", this is essentially total project management without ownership. This is a **very** different business model than a developer that deploys "at-risk-equity" to develop **and own** the health care facility. The numbers used in the *Modern Healthcare* rankings can vary widely between "fee development" vs. "ownership development", so the comparison in the ranking is not equally stacked. This underscores the importance of market knowledge, where a professional advisor becomes invaluable in guiding health care organizations to evaluate the best development options and development firms for their project.

2. CREATE COMPETITION = CREATE SAVINGS

When developers know they are competing in an RFP process to win a hospital-sponsored development project, and when that process is managed by a professional with intimate working experience in the development arena, more cost savings will be achieved. Developers will be implicitly forced to create a sharper budget and provide their most competitive financial terms. A recent project saw our client save nearly \$200,000 in proposed annual rent simply by having firms compete for the development through an RFP process managed by an independent advisor. This savings was achieved without the "sharpen your pencil" and "best and final" sort of ask. This example occurred due to the competitive environment created by a knowledgeable professional who understands the industry players and language.

3. MINIMAL COST TO ACHIEVE SAVINGS

Health care projects are expensive—the preceding referenced project is a \$46 million development. Over the course of a 15-year lease, the client will save nearly \$3 million in rent by using the assistance of a professional advisor. A skilled adviser will provide this economic competition for a flat fee and possibly a small incentive structure to ensure that the client's financial goals are aligned. An advisor's fee should be a small fraction of the total project cost and might only equate to 3-5% of projected rent savings. This is a minor cost to bring reassurance to your executive team that your health care organization will engage with the best development firm for your desired project.

4. SAVE TIME!

Health care executives and management teams are busy. Managing any RFP process takes time, patience and certain expertise suitable for the types of projects. Hiring an independent and experienced development advisor will save you significant time. A skilled advisor will facilitate most or all of the RFP-related paperwork, communication, analysis and competitive scoring. While it's critical to have a strong hospital leader accountable for the process, that person likely has numerous other roles during the workday. Hiring the right development advisor will save time, energy and expertise and will help the hospital leader achieve desirable outcomes for the project.

Our team of skilled advisors can help health care organizations save time, create savings, preserve cash and use best-in-market resources. Contact Hall Render Advisory Services if your hospital or health system is considering a development project, and we will assist you in



ARTICLES

exploring practical options to ensure the success of your project.

Please contact:

- **John Marshall** at jmarshall@hallrenderas.com or (317) 670-8527;
- **Andrew Dick** at adick@hallrender.com or (317) 977-1491;
- Your primary Hall Render Advisory Services contact.

Hall Render and Hall Render Advisory Services blog posts and articles are intended for informational purposes only. For ethical reasons, Hall Render attorneys cannot—outside of an attorney-client relationship—answer specific questions that would be legal advice.