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# TWO TRENDS ARE DOMINATING THE FOREFRONT OF HEALTHCARE REAL ESTATE

By Matthew Rothstein

Courtesy: Simone Healthcare Development

As the healthcare industry continues to react and reorganize in the wake of the Affordable Care Act, two distinct trends have emerged in the way they use commercial real estate, and both of them will be discussed at Bisnow's

National Healthcare Innovation & Expansion Series at the Westin Philadelphia on Nov. 8.

The ACA increased significantly the number of people in America who have health insurance, and thus use healthcare systems. But it also decreased the amount of money providers make from each customer. Those two factors combined to produce an environment in which providers compete for customers, which has forced drastic changes to business models.

"The ACA is making the healthcare environment become a market share game," says Anchor Health Properties CEO Ben Ochs. "So health systems are pursuing volume drivers for their systems, which means putting primary care and urgent care clinics in strategic locations."

Strategic locations to pull consumers have long been a driving factor in retail, from which healthcare is now taking cues. Smaller urgent care centers are an increasingly common sight alongside shops and restaurants in commercial areas, to increase visibility as well as convenience.

"Rather than sitting in a waiting room," says Simone Healthcare Development president Guy Leibler, "you can go have a coffee or go to the pharmacy—things we do in the course of our normal day." Adapting to a different industry's real estate model comes with its challenges. Not only are traditional retail sites more expensive per square foot than traditional medical ones, but they also are often owned by landowners who are used to operating on faster, retail-oriented timelines than the cautious healthcare industry is used to (or comfortable with).

Healthcare buildings are traditionally meant to take the long view of usability, whereas retail spaces have to primarily focus on the first few years of occupancy to remain solvent, after which they take problems as they come. As a result, developers like Ben are attempting to work with providers to accelerate their deal-making to make sure they get the sites they need. Anchor Health Properties has developed a model called a Preliminary Development Program for its clients, which is designed to accelerate the decision-making process and ultimately the healthcare system's speed to market, hoping to bridge the gap between impatient landowners and the time and process typically incurred by healthcare networks.

Capitalizing quickly on marketplace trends is obviously important, but providers take the longer view for a reason—they want their buildings to last decades, not years, and that means construction that can last and adapt to future developments. One way to do that with urgent care centers is to build on less than the full footprint of the land acquired. “Even if we’re just doing a small urgent care presence,” Ben says, “we try to find a site up to two acres, because that’ll allow us to get up to 20k SF on a site, even if we’re only building 7k to 10k initially…So we’re giving a lot of thought on the front end for these types of facilities to ensure that we’re thinking about a day in which the facilities can expand.”

While proliferating across and into markets is important, it comes with a similar risk to retail—namely, that not every location will succeed. “I think we will see an urgent care center on every block for a while,” Guy says, “and we will see some consolidation and some failure after that.” It’s a scary proposition to provider networks that are already dealing with tighter margins, requiring greater efficiency at every level of their organizations.

That need has driven the other emerging trend in healthcare, which is the consolidation of multiple, disparate practices within a network to one site. Simone is building such a site in the Bronx, which will bring together nine practices from the same network, once scattered across the New York metropolitan area, into one complex. “You can imagine how much better it is,” Guy says, “not just for the practice but for the patient, to have these nine different practices in one building.”

By putting practices not just in different specialties of medicine, but of different stages in care, in one place, providers can more efficiently communicate within their network and shorten the referral process for patients. “That could be a complex where people get 90% of their care,” Guy says. Such efficiency isn’t just about making a healthcare provider more appealing to consumers—it’s about shortening the process for treating patients, allowing doctors to see more in a day. That is absolutely crucial to compensate for the loss in per-patient revenue precipitated by the ACA. It’s a tough balance to strike between belt-tightening and expanding to gain market share, but it’s a necessary one that has forced a wave of mergers and consolidations across the industry.

"Everyone's realized that they need scale and a big balance sheet to survive," Ben says. Networks that grow also need to retain and increase the efficiency mentioned above, which means better communication and infrastructure is a must. Collaborating with developers to build more efficient workplaces is only part of the equation. "You've got larger systems trying to implement best practices across the board," Ben says, "so it's prompted more of a streamlined approach to delivering medicine."

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