

Shift Happens – What It Means for Healthcare Construction



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INTRODUCTION

The health care industry is undergoing change at a rapid rate. The increase in the number of insured, the aging of America, the implementation of high-deductible insurance products, new technologies, and less invasive techniques are just a few of the drivers behind these big shifts within the industry. According to Deloitte, the increase in insured individuals due to the Affordable Care Act (ACA) is expected to increase the demand for medical space by 64 million square feet. In the short term, a PricewaterhouseCoopers (PwC) survey estimates an increase in demand for medical space of 2% in 2014 and 6.8% in 2015. The emphasis will shift from the hospital to ambulatory facilities, medical offices, and retail clinics that are more conveniently located for the patients they serve.

NEW TECHNOLOGIES & LESS INVASIVE PROCEDURES

Over the last thirty years, the application of new technologies and less invasive techniques have enabled a shift from

in-patient to out-patient facilities. In 1980, most surgeries required an overnight stay and all surgeries were performed in a hospital. In just 25 years, the number of overnight stays has dropped from 84% to 37%. Over 60% of all surgeries are now performed in an ambulatory center, a number that is expected to rise to 75% by 2020. The shift to more out-patient surgeries is expected to drive demand for lower cost/lower acuity facilities that are conveniently located for patients.

THE AGING AMERICAN BUBBLE AND THE NEWLY INSURED

According to the 2010 Census, 13% of the population was over 65 years old. This group is expected to grow to 16% in 2020 and 19% in 2030. As a group, people 65 years and older have three times the number of doctor's office visits as those under age 45. The aging of America, coupled with shortages in health care workers, will create significant challenges for the industry. The shift to an aging America will drive demand for telemedicine and conveniently located ambulatory facilities for the management of chronic illnesses and serious diseases.

Because 70% of the cases that present themselves at hospital Emergency Departments (EDs) are due to a lack of insurance, increasing the number of insured through the ACA is expected to significantly decrease demand for inpatient facilities. Healthcare systems are expected to place more emphasis on providing care in ambulatory facilities and urgent care clinics which can serve



as low-cost alternatives to the main hospital. In fact, a survey of 500 hospital executives by Health Facilities Management and the American Society for Healthcare Engineering of the American Hospital Association found that 20% of hospitals have an ambulatory facility project planned or in the works in the next three years. Most of these facilities will be strategically placed in close proximity to patient communities. More surgeries and treatments for acute diseases, such as cancer, will take place at them.

HIGH-DEDUCTIBLE INSURANCE PRODUCTS

In an effort to stem the tide of rising healthcare costs and anticipated fees related to the ACA, many employers have turned to high-deductible/consumer-directed (HD/CD) health insurance plans. In 2013, 20% of all workers were enrolled in a HD/CD plan. Of the large employers that participated in a survey conducted by National Business Group on Health, 81% said they will offer at least one HD/CD plan in 2015 and 32% said a HD/CD plan will be the only option available to employees in 2015.

A study by RAND found that a high-deductible plan can reduce healthcare costs by 21%, but at what cost to patient health? While the new plans pay for preventative treatments, the reality is that many people do not understand their plans and are delaying necessary treatment. While the consequences for some patients will involve increased costs in the future, the financial impact on health systems in the short term is significant.



Hospitals report a decline in admissions and an increase in bad debt. Alan House, chief financial officer and vice president of finance at Margaret R. Pardee Memorial Hospital in Hendersonville, NC, reported that HD/CD health plans adversely affected the hospital's admissions by over 4-5% in fiscal year 2013. Pardee and hospitals like it have turned their focus towards building off-campus facilities in order to respond to the shift away from inpatient care.

RENOVATION & REPURPOSING

Besides innovations in technology and surgical procedures, the ACA is changing reimbursement from a pay-for-service model to one based on outcomes and efficiencies. This shift calls for lower cost/lower acuity facilities that are closer to the patient base. Much of the growth is expected to go towards the retailing of healthcare. In 2009, 8.4 million square feet of new medical office space was constructed versus 1.3 million square feet in 2013. This was in part due to the renovation and repurposing of existing office and retail space for



ambulatory centers and urgent clinics. Accenture estimates a rapid expansion of retail clinics by 50% from 2013-2015.

HOSPITALS MERGE AND PHYSICIANS JOIN THEIR RANKS FOR THE PROMISE OF A PAYCHECK

To meet the requirements of the ACA, which incentivizes improved outcomes and better efficiencies, hospitals are merging with one another, implementing IT solutions, and acquiring physician practices. It takes a large system with buying power, a lot of time, and capital to stay current with new technologies and implement effective electronic medical records and systems for a provider network. The time and effort is more than most independent doctors and small practices can afford. As a result, more physicians are expected to join the ranks of the hospital-employed. Mergers of healthcare systems

and acquisitions of physician groups are expected to leave hospital administrators with real estate decisions about where to relocate and combine physician groups, administrative functions and core services. This opens up opportunities for new or repurposed medical office and administrative buildings.

CONCLUSION

Numerous shifts in the healthcare industry are expected to affect healthcare construction. While construction in this sector has been slow for some time, the number of changes in delivery methodologies, the increasing number of insured patients and the pent-up demand for new facilities bode well for the future of the healthcare real estate industry. However, the ambulatory facilities of the future will have to be technologically advanced, adaptable, and based on a retail site selection model in order to sustain growth.

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