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Healthcare Real Estate Goes Non-Traditional

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Projections indicate that spending on healthcare in the US will increase from $2.4 trillion in 2009 to $4.4 trillion in 2019. At this level it will consume 19.3% of U.S. GDP—with a growth of more than 10% from current spending levels. The trends foretell increased demand for healthcare real estate and strong implications for health care facilities managers who must expand, relocate and renew their space.

Medical office buildings have long been a staple of non-hospital healthcare delivery. But our work with healthcare clients nationwide suggests that increasingly healthcare providers prefer more varied solutions to providing services to their patients.

Some providers of non-acute healthcare services, including elective surgical procedures using anesthesia have decided that locating in hospitals, once considered a requirement, no longer serves them or their patients. Many of these healthcare providers seek a more accessible and less institutional setting for their patients. They seek an image of hospitality rather than the institutional regime found in some hospitals. These healthcare providers increasingly find new space in class A office buildings, converted residential structures and even, in the case of one high-end elective specialty, a former auto-repair shop.

Such facilities are often smaller scale—12,000 to 50,000 square feet rather than several hundred thousand square feet—making it easier for patients to find their way and be recognized. Healthcare providers who choose this format say that both patients and providers—i.e. doctors and nurses—appreciate the ease of working in a smaller, less regimented facility. At a very granular level, this concern for the patient extends to issues like segregating waiting areas from traffic, and segmenting waiting areas for different patient populations, using asymmetrical layouts to help visitors orient themselves, ample use of natural light, and aligning exam rooms, offices and consult areas—sometimes by arranging them in a pod—to minimize waiting times.

These design features can be implemented in almost any environment, but healthcare providers are increasingly choosing non-hospital environments to implement their new vision. Some healthcare providers that have traditionally operated outside hospitals, such as primary care facilities, now say that facility design that incorporates patient-friendly features is part of their strategy for becoming providers of choice.

If accountable care organizations created by the new healthcare reform law become a feature of the healthcare environment, they may increase the demand for non-institutional, smaller scale clinical facilities. Sixty-two percent of those responding to the BOMA healthcare real estate conference survey this past June believe that ACOs will operate primarily through clinics of 5,000 square feet and less in size.

Trends revealed in the BOMA healthcare survey also remind healthcare space users they must have a deliberate strategy for maximizing the value they receive in the market place. One finding notes a marketplace constant: While the majority of building owners responding provide new healthcare tenants with a workletter contribution of $40/square foot or more, they also advise they will provide renewing tenants with only $20/square foot or less. In other words, as a renewing healthcare tenant, expect to get half the benefits of a new tenant and do not expect a discount on the rent. Healthcare tenants like all others must allow time for multiple negotiations and a rigorous assessment of competing alternatives.

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