CRAIN'S NEW YORK BUSINESS

Hospitals shift spending to outpatient facilities

More clinics built as hospitals focus on costs, demographics.

By Tina Traster
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As a result of last year's Affordable Care Act, hospitals in New York face challenges that range from converting to electronic records to preparing for tens of thousands of newly insured patients. The institutions must also clear those hurdles under the threat of increasingly lower Medicaid reimbursement rates.

After spending heavily through the recession to expand and modernize facilities, providers in the city are investing billions more—much of it on building—as they update operations to better deal with the industry's emerging realities.

“The [law] is forcing hospitals to shift gears from high-cost settings to new modalities to control spending,” said Marisa Manley, president of Healthcare Real Estate Advisors.

Sixty percent of the care that hospitals nationwide provide is inpatient, and 40% is ambulatory, estimates Jeffrey Cooper, executive managing director of the North America health care practice at Savills, a real estate firm.

“Over the next five years, those percentages will be reversed,” Mr. Cooper said, because outpatient facilities help lower costs and broaden the patient base.

In fact, hospitals and other health care facilities accounted for nearly a quarter of the $8.1 billion in construction projects initiated over the two years ending April 2010, according to a New York Building Congress analysis of recent data. Among the largest of those is a trio of projects still under way on the Upper East Side.

The recession hardly even registered “in the health care [spending] dialogue,” said Ms. Manley.

The largest of the three is a $650 million research facility Weill Cornell Medical College is putting up on East 69th Street between York and First avenues. The 480,000-square-foot, 18-story building will double the institution's research space. It is slated to open in spring 2014, according to Tishman Construction, which is overseeing the project.

Nearby, Rockefeller University is spending $290 million on the Collaborative Research Center, with work supervised by Turner Construction of New York. The centerpiece of the complex project is two renovated historic buildings linked with a brand-new glass structure that will house the labs. It is scheduled to open next year.

Further north, the Mount Sinai School of Medicine is proceeding with its $264 million, 410,000-square-foot Center for Science and Medicine. The 11-story research facility is going up on Madison Avenue between East 101st and East 102nd streets. The builder, Bovis Lend Lease, expects to have it ready for an opening next year.

Health care providers outside the city have also been investing in new facilities. Among them is Blythedale Children's Hospital in Westchester, which is spending $65 million on its first major expansion in 40 years. Its new building, also being constructed by Bovis Lend Lease, is scheduled to open in December.

With providers more focused on the bottom line, experts have noticed a movement in spending—away from the hospital campus to more outpatient and ambulatory facilities.

Illustrating that shift are Memorial Sloan-Kettering Cancer Center's plans for the former Cabrini Medical Center on East 19th Street. MSK, which bought the five-building complex last October for $83 million, intends to convert it to an ambulatory care center, among other things.

NYU Langone Medical Center has also been aggressively moving into neighborhoods far from its base on First Avenue between East 30th and East 34th streets. In the past three years, it has established 11 ambulatory care centers in Manhattan, Brooklyn, Queens and Long Island.

***KEEPING UP:** After spending heavily through the recession to expand and modernize facilities, health care providers in the city are investing billions more—much of it on building—as they update operations to better deal with the industry's emerging realities.*

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NYU Langone Trinity Center, a 22,000-square-foot comprehensive facility downtown with physicians in 10 specialties, opened in 2008. The 20,000-square-foot NYU Langone's Center for Women's Health on the Upper East Side is opening this summer. Two more group practices are planned for Manhattan, and another eight for Brooklyn and Queens in the next three years.

“Outpatient facilities are the new trend because it makes sense from a real estate perspective,” said Michael Perez, director of health care services at construction consultancy Gardiner & Theobald.

Mr. Perez was recently appointed project and cost manager for the $27 million modernization of NYU's Hospital for Joint Diseases, on East 17th Street. “Real estate inside the hospital needs to be used for acute care,” he said.

That is part of the thinking behind North Shore-LIJ's plans in the West Village. The system is spending $110 million to redevelop the O'Toole building at the shuttered Saint Vincent Catholic Medical Center. The 160,000-square-foot facility, due to open in 2013, will be the metro area's first stand-alone 24-hour emergency and ambulatory surgical facility. Patients requiring stays of more than 24 hours will be transferred to local hospital beds.