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Healthcare reform: Good or bad for real estate

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With the Affordable Care Act (ACA) passed by Congress and verified by the Supreme Court, its impact on our lives is still anything but certain. Certain facets do not take effect for years, while others require regulations to be written, policies to be adopted, and agencies to be created and funded. People disagree on the cost and the benefits.

I assumed that, from a real estate perspective, it must be good. After all, 35 million people who do not have health coverage, now will, and the baby boom is going to deliver 68 million people into retirement age, Medicare and Medicaid. We real estate people will certainly create and rent the health care facilities that will be needed for this quickly growing population. But, as with the act itself, not so fast!

What does the ACA actually do, as a matter of fact for positive impact on real estate:

- * It creates immediate demand from coverage for the 35 million people, who will now be using health care facilities.
- * It emphasizes quality of care vs. quantity, with focus on prevention.
- * It will create consolidation in health practices, potentially leading to new campus model styles of development for medical centers.

On the hand, it could have impact that could be contrary to growth:

- * As noted, there will be consolidation that may lead to lower use of space.
- * There will be declining reimbursement rates, starting with Medicare and then impacting private health plans, which will cause consolidation in independent doctor practices.
- * Doctor practices as well as hospitals will tend to preserve capital, and as a result look for flexible alternatives with shorter term commitment.

Some real estate groups are betting on growth trumping consolidation. Skanska is projecting about a 2 to 4% increase in healthcare related construction starts, potentially going to 8% in 2013-2014. They and others say a real estate formula for calculating medical space suggests about 1.9 s/f of medical office per patient. With the growth of 35 million people being added to the ranks of the insured that equates automatically to potential demand for 66 million s/f of additional medical space.

As often noted in the election debates, Mass. adopted healthcare changes similarly to the ACA, well before the National legislation. From 2006 to 2009, it is estimated that a direct consequence of the Commonwealth Care Act Insurance Program created an additional 1.8 million s/f of medical space, or 14% increase.

For the visionaries among us, newer and more exotic models may be developed. A study by McKinsey & Company global executive finds that outpatient spending is growing at the rate of 7.5% annually while hospital stay inpatient use has declined. They suggest that healthcare facilities of the future will be campus oriented facilities with primary care, imaging, diagnostics, outpatient surgery

and freestanding emergency departments, so that preventive medicine can be delivered in convenient and patient centered environments. They believe that there will be a strong focus on wellness centers and healthcare villages, associated with local hospitals, but destinations for people in community oriented settings.

Whether fantasy or reality, only time will tell. Part of these changes are already underway, with densely developed medical neighborhoods such as those being created around Mass. General Hospital. The greatest puzzle is whether the growth of more people needing healthcare, potentially leading to new facilities, will be mitigated by the consolidation of hospitals, practitioner practices, etc. Start thinking though, because what ever is coming will be different from what is.

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