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Real estate trends under the Affordable Care Act - be ready to observe and capitalize on them

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The passage and implementation of the nation's historic healthcare reform law is causing a stir in the New England real estate community. Healthcare providers are consolidating and betting big on suburban, outpatient facilities.

The Affordable Care Act (ACA), among other things, attempts to eviscerate the old model of "fee for service" care, which compensates healthcare providers for the number of visits and tests ordered to one based on the "value" of care delivered. Under the ACA reimbursement will be directly tied to delivering high quality care at a lower cost.

The failure to meet specific quality and cost measures will result in reduced payments to providers. Thus, very expensive sophisticated IT systems are required to coordinate and manage care and track performance. Electronic medical records are also necessary.

As a result, hospitals, physician groups, and other providers are consolidating and forming networks to obtain scale and to develop ways to more efficiently provide care and defray real estate, technology and administrative costs. Some of the smaller groups of providers are also demanding flexibility relative to their leasing costs. This might mean the need for shorter terms, termination options, kick outs, or options to purchase the leased property.

Another major trend resulting from the passage of the ACA is a rapid rise in the number of outpatient facilities being built, purchased, or repurposed. The delivery of care is shifting to outpatient settings which are more convenient for patients and costs tend to be lower. Inpatient facilities, especially in the ACA framework, are simply too costly to run. Consequently, the use of medical office buildings in suburban settings that include an array of services - urgent care, imaging, labs, rehab and same day surgery - will likely increase.

Given New England's prominence in the healthcare sector, it is no surprise that we are already seeing such consolidation and migration in our own back yard. Earlier this year, New England Baptist Hospital announced that it intended to leave its 100 year old Mission Hill home because the venerable hospital is outdated and it cannot afford the renovations needed to update the facilities. According to The Boston Globe, it may take New England Baptist Hospital years to move its facility. One possibility the group has explored, and consistent with the observed consolidation activity, is to relocate and partner up with Beth Israel Deaconess Medical Center. Such a partnership would alleviate the financial burden in the post ACA landscape, yet it also allows Partners to capitalize on the growing trend of servicing patients in a more suburban, convenient location.

Other New England-based hospitals and provider groups are entertaining similar prospects.

New England real estate professionals should be ready to observe, and capitalize on, these trends in the near future. Leasing, development, and acquisition activity will no doubt be on the rise. Be prepared to see some major healthcare related real estate transactions in the coming months.

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