

AUGUST 2024

Enhancing Ambulatory Healthcare Delivery

Location, location, location...
important but not everything



Healthcare and real estate: key takeaways and opportunities

01

Increasing demand

The demand for outpatient care is rapidly growing, driven by cost and convenience to address factors such as aging population and increases in chronic disease prevalence.

02

Strategic placement

Healthcare providers need a data-driven real estate strategy to optimize their portfolios and choose the right locations and property types for their outpatient facilities.

03

Product type selection

There are various types of outpatient facilities, each with its own advantages and disadvantages, such as build-to suits, single-tenant buildings, repurposed office spaces, Medtail, and medical office buildings.

04

Enhance brand equity

By strategically planning their real estate, healthcare providers can optimize their outpatient care delivery, which improves patient and clinician experiences, and enhances brand equity.

Addressing outpatient care through real estate strategy

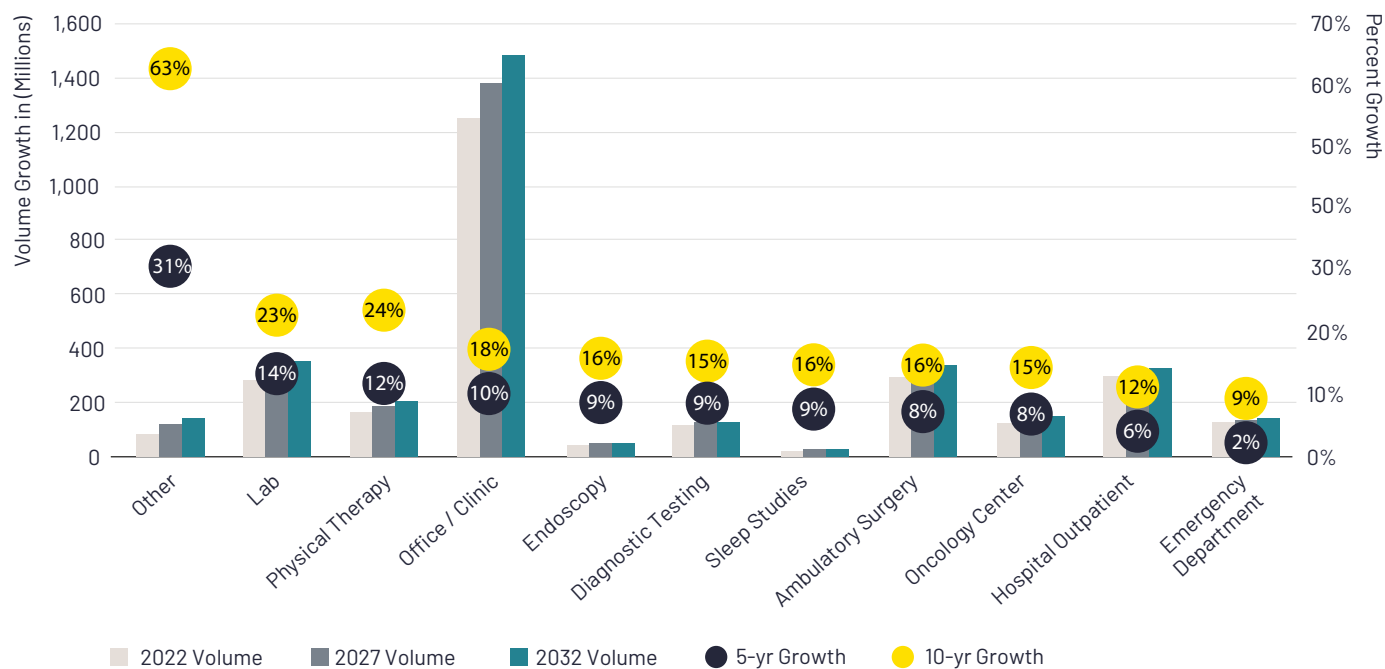
The shift towards outpatient care is one of the most significant and dynamic trends the healthcare industry has experienced in recent history.

According to Sg2, a Vizion company, overall outpatient volumes are expected to grow 26% over the coming decade.* Recently, the Centers for Medicare and Medicaid Services announced that hospital outpatient departments and ambulatory surgery centers will see a 3.1% increase in Medicare reimbursements. Driven by a myriad of factors—from cost to access to competition to regulatory changes and beyond—the outpatient shift presents challenges and requires sound strategic planning, yet can yield fruitful opportunities for providers.

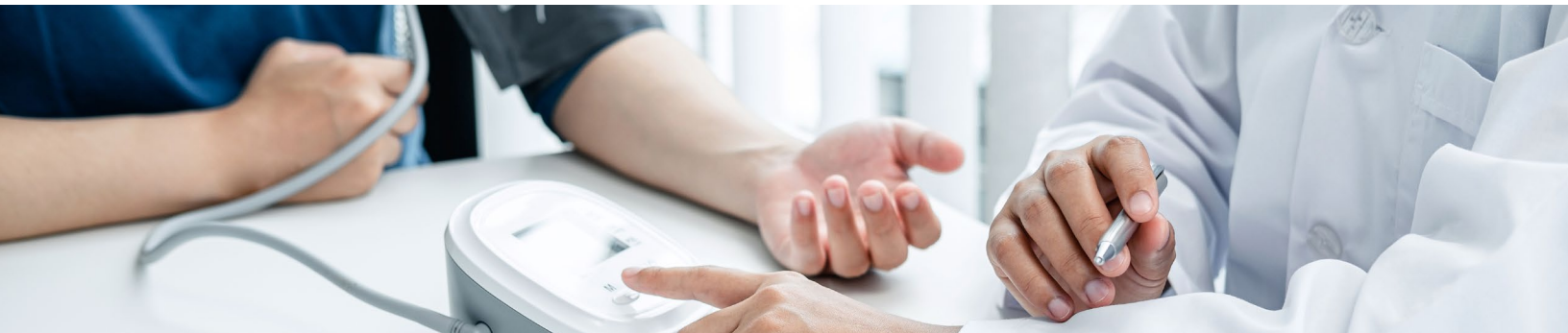
Outpatient volumes are expected to grow 26% over the next decade

* Source: [Healthcarefinancenews.com](https://www.healthcarefinancenews.com) (accessed June 12, 2024)

Outpatient sites expected to see rapid growth



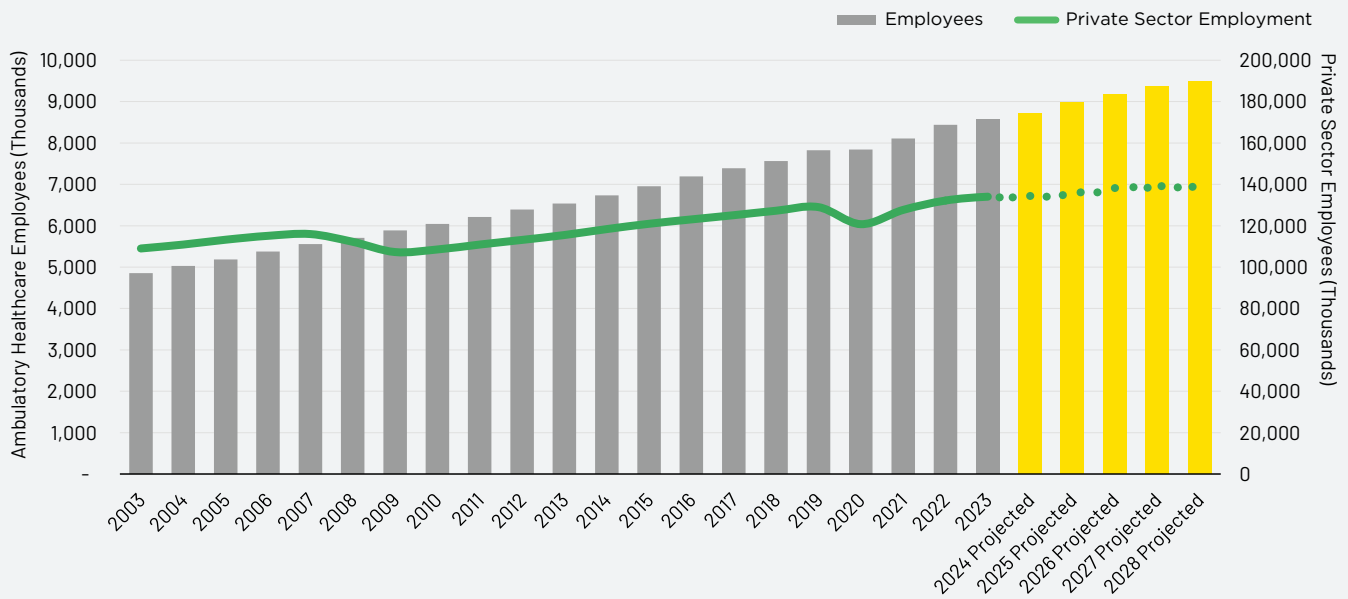
Source: Advisory Board, Market Scenario Planner, 2023



According to Modern Healthcare’s 2024 Construction & Design Survey (published June 10), healthcare systems are focusing on construction and design projects that meet this shifting demand in patient services. Many healthcare organizations are focusing on facilities that support outpatient care such as ambulatory surgery centers, medical office buildings, clinics and cancer centers. Similarly, Definitive Healthcare’s 2023 survey of 195 leaders among healthcare provider organizations found 60% of respondents’ strategic goals for the next 24 months included aligning facilities and services with changing patient demand. Additionally, ambulatory healthcare employment is projected to grow 12% through 2028.

Ambulatory healthcare service employees vs. private sector employees

Ambulatory healthcare labor is projected to grow 12% through 2028



Source: Bureau of Labor Statistics, Lightcast Labor Analysis

A proactive and data-driven real estate strategy is an essential component for any provider in the outpatient space. One aspect of a sound real estate strategy is to leverage data to identify optimal locations based on multiple variables including patient demand, access, demographics, payer mix, partner and competitor locations, and more. However, while location is important, it is not the only factor to consider. Once the locational parameters are identified, it is critical to understand the different types of physical assets healthcare providers should consider, and the impact each type can have.



Ambulatory healthcare product types

The property type chosen not only determines a healthcare provider's ability to deliver accessible, high quality and efficient care but also impacts patient satisfaction and brand perception. Each property type—from single-tenant buildings and serene campus-like settings to second generation office or retail spaces—brings unique benefits and challenges that can significantly impact operational, financial and experiential success and alignment with a provider's objectives.

Understanding these different real estate options is essential for healthcare providers looking to enhance their care delivery and expand their reach. Here we introduce five key property types to consider when looking to develop a robust and proactive ambulatory network.

Single-tenant build-to-suit

A single-tenant building, whether built-to-suit or an existing structure, offers healthcare providers complete control over parking, branding, and signage. While this option can be costly, it provides asset control and a fully customized space tailored to the specific services and types of care offered at the location. This asset type offers the flexibility to lease or own, and there are various financing mechanisms that can be employed to create more cost effective structures. These buildings boost brand visibility and improve both patient and clinician experience. Additionally, the location can significantly impact patient, family, and caregiver experience by providing proximity to ancillary services like labs and X-rays, which are crucial for seamless healthcare delivery. Flexibility for changing environments can be built into the plan, and a site also might include additional buildable area that the user warehouses for future development.

Within this category, some healthcare providers seek significant setbacks with abundant greenspace around the building to provide a serene environment that enhances the patient experience. This combines the benefits of a single-tenant facility—such as control and branding—with the therapeutic advantages of park-like settings. Ultimately, this not only enhances the provider brand but also contributes positively to the patient and caregiver experience, providing a comforting environment that can support treatment and healing.



Single-tenant



Single-tenant park-like setting



Second-generation office building

Repurposing second-generation office buildings, whether single-tenant or multi-tenant for healthcare use, can be a cost-effective option, especially given the amount of excess office space available in the current environment. These buildings often require infrastructure upgrades and thoughtful design and planning. In some cases, parking needs to be addressed and additional parking needs to be constructed or valet services implemented as office parking ratios are typically lower than optimal medical office parking ratios. Second-generation office buildings are typically located relative to strong demographics, and may be situated at visible and accessible intersections. They often offer exterior branding and signage opportunities.

In the case of multi-tenant buildings, exclusive use rights are critical to ensure that the healthcare provider can operate in the facility without conflicts and other tenants/services that could erode the provider's brand and/or revenue.



Second-generation office building

Adaptive re-use

Redevelopment of other types of commercial buildings for conversion to medical office use has become more common in recent years. This type of facility can offer unique attributes such as high ceilings, vintage brick facades, and wide open space that can be easily customized to meet a healthcare provider's needs. The cost basis of the underlying asset is typically lower, but the extent of the redevelopment can vary based on the condition of the property.

These can be single-tenant or multi-tenant buildings, and they can be owned or leased.



Adaptive re-use (before)



Adaptive re-use (after)



Medtail

Medtail

Medtail involves converting retail spaces into clinical settings. In retail centers with high vacancy, this can yield excellent transaction terms. Healthcare providers typically look at these settings as leased facilities. Medtail spaces also provide a unique opportunity for healthcare providers to locate in dense populations, potentially increasing foot traffic. The rights to signage and branding, along with the tactical placement of these facilities, play a critical role in brand enhancement and patient accessibility.

However, Medtail locations come with unique disadvantages. Given the high ceilings and low level of infrastructure that are common in retail buildings, construction costs can be high. Other drawbacks are that retail landlords traditionally do not like to provide options to expand. It can also be more challenging to obtain dedicated parking in certain types of retail settings.



Medical office building

Medical office building

Typically located on or near medical campuses, medical office buildings are often multi-tenant settings. These buildings offer a sense of institutional credibility, can be dependable referral sources for providers, and offer proximity to ancillary services such as imaging. However, negotiating lease terms can be tricky, with less flexibility due to the owner's perception of tenants as confined to the campus. The ability to negotiate strong signage rights is critical in these settings to ensure visibility, brand recognition, and wayfinding. In some cases, medical office buildings located on hospital campuses can be difficult to access due to limited parking and unclear wayfinding.



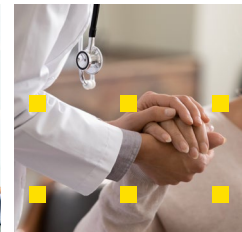
Call to action

The transition to outpatient and ambulatory care presents a significant opportunity for health systems to optimize their real estate strategies. By focusing on convenient locations, adaptable facilities, and innovative utilization models, providers can not only adapt to this shift but also thrive in the evolving healthcare landscape.

This white paper has provided a foundational understanding of the different outpatient property types and key considerations for strategic real estate decisions around same. To delve deeper and explore how to implement these strategies for your organization, we recommend you:

- 1** Develop a long-term real estate strategy that aligns with your overall healthcare delivery goals, enhances your brand, and incorporates flexibility for future growth and innovation.
- 2** Evaluate your existing portfolio to identify opportunities for renovation, repurposing, or divestiture to create a more efficient and patient-centered environment.
- 3** Conduct a thorough market analysis to identify optimal locations that balance cost, accessibility, and patient demographics.

By proactively embracing this new healthcare landscape, you can ensure your facilities are not just costs, but strategic assets that contribute to your organization's long-term success.



For more information, please contact:

Colleen Risk

Vice Chairman
crisk@savills.us
+1 972 692 1397

David Mahoney

Executive Managing Director
dmahoney@savills.us
+1 312 595 2955

Zoe Paige

Senior Research Analyst,
Industry Insights
zpaige@savills.us
+1 310 444 1051

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