Survey results: How healthcare facilities are transforming for the future

Healthcare's real estate needs are rapidly evolving. The industry is moving away from a traditional model of hospital-centric operations to one that serves patients in settings that are not only safe, but also more conveniently accessible and affordable.

This transition was accelerated by COVID-19, which forced healthcare organizations to embrace telehealth utilization and reconfigure physical spaces in the interest of safety for both patients and staff, and to align with consumer preferences. But while pandemic-related restrictions have relaxed, the future of healthcare will require leaders to consider new ways of thinking about real estate assets. Healthcare organizations must make sound investments that maximize limited resources and anticipate future service needs. Sustainability, safety and efficiency are some of the top considerations as leaders evaluate the design, location and size of their facilities. Added to that are capital constraints for many hospitals due to increased expenses—like staffing agency costs, as seen in 2022. Hospitals' labor expenses have soared as staffing shortages drive heightened reliance on contract staffing firms that charge increasingly steep rates. This means leaders are being extremely thoughtful about their investments in other areas.

To better understand how organizations are navigating this new era for healthcare real estate, Ryan Companies partnered with Modern Healthcare Custom Media to survey healthcare professionals on the matter. The results were illuminating.

In this executive brief, we'll explore the results of the survey—from top real estate priorities to barriers to implementing strategy. We will discover how the pandemic affected capital availability, how organizations are using COVID-19 relief funds, and how survey participants view leasing versus owning facilities in today's healthcare landscape. Plus, healthcare professionals shared insights on who and what influences investment decisions, including sustainability efforts and supply chain disruptions.

The majority of the 98 survey participants were employed at hospitals (30%), medical clinics and groups (21%) and health systems (18%). Most respondents were in senior management (26%), general administration (19%) and operations management (18%) roles.

The key findings are highlighted in the following pages.

Mike McMahan,
Executive Vice President of Healthcare,
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Healthcare real estate was a top focus during COVID-19

Thirty-two percent of respondents said that their organization's focus on real estate strategy has increased since the onset of the pandemic, while 29% said it remains just as high a priority as it was before. Nearly 1 in 4 respondents indicated that real estate investments were a low priority before the pandemic and remain a low priority now, possibly a result of capital constraints or conflicting capital priorities. Just 16% of healthcare professionals said their organizations are focusing less on real estate strategy.

One particularly interesting finding is that 23% of survey participants cited unclear future service needs as a top barrier to creating and implementing real estate strategy. With the trajectory of COVID-19 surges difficult to predict, and at the same time catering to an aging U.S. population with unique needs and expectations, it's understandable that some organizations don't have a clear path forward. This is where partnering with a company that has deep experience in all aspects of healthcare real estate can help shed light on the strategies and innovative thinking that other organizations have employed and found success deploying. Another 18% pointed to conflicting capital priorities as the top barrier, and lack of available capital was the top barrier for 14%.

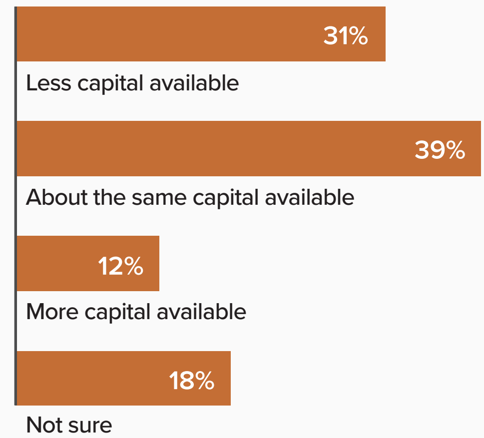
> 70% said their organizations are likely to consider leasing vs. owning

Leasing offers appealing alternative to ownership

As part of the survey, respondents were asked to share how their capital availability has or has not changed. Nearly one-third of respondents said their organizations have less capital available for real estate investment now compared to before the COVID-19 pandemic (Figure 1). Thirty-nine percent have about the same level of capital availability for real estate at their organizations. Just 12% said more capital has been freed up for real estate. The 18% who said they were not sure is in line with the fact that 80% of respondents said capital decisions regarding facilities and/ or real estate falls within the purview of the C-Suite, versus clinicians, administrators and board members.

FIGURE 1

How healthcare organizations' capital availability has changed



When asked which areas their organizations will devote COVID-19 relief funds to, and given the option to select more than one answer, respondents' top selections were staff recruitment and retention (58%), improving technology or IT infrastructure (38%) and procuring additional medical supplies or equipment (28%). These responses reflect some of the major challenges facing today's organizations, as they grapple with staffing shortages of historic proportions, increasingly damaging cybersecurity incidents, and rapidly changing technology and consumer preferences.

That said, roughly one quarter of respondents said some relief funding will be used for physical improvements or expansion. Nearly 1 in 5 respondents said their organizations will put relief funding toward remodeling or renovating existing buildings (19%), while a mere 5% said these funds would go toward building de novo inpatient facilities. This could indicate that organizations are more inclined to make the most of assets they already have and invest in existing facilities rather than investing in new, high-acuity facilities or expanding into new geographic markets.

These findings could help explain why most organizations are likely to consider leasing instead of owning facilities in

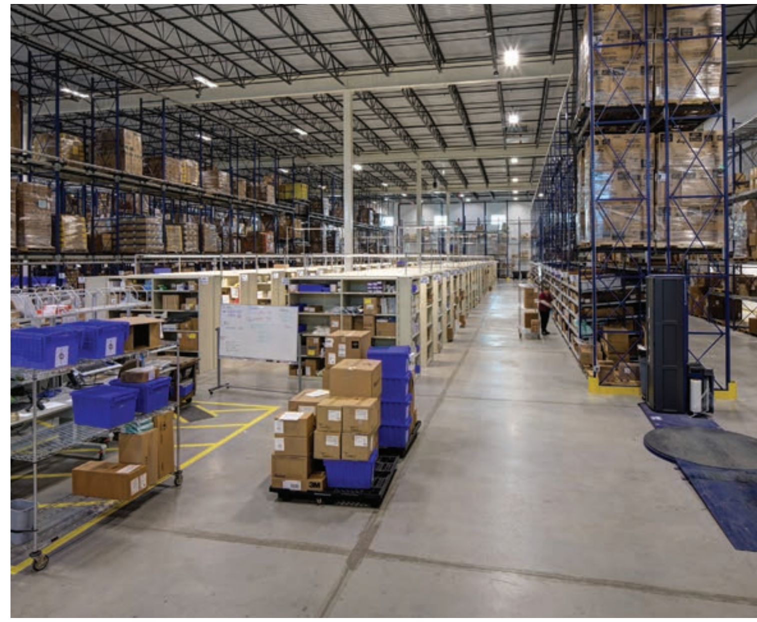
the future. An attention-grabbing 70% said they are either somewhat likely (40%), likely (17%), or very likely (13%) to consider leasing instead of owning in the future. On the other hand, 30 percent said they were not likely to consider leasing instead of owning.

To examine these results more closely, respondents were grouped according to their organization type, with hospital, health systems and medical clinic respondents in group one, and nursing home, insurance company and other respondents in group two.

Overall, it's clear that leasing is an option that offers more flexibility with real estate dollars. However, the two groups did differ on the strength of the likelihood.

Group one was generally more neutral on the possibility of leasing versus owning. Compared to group two, half as many respondents in group one said they are "likely" or "very likely" to lease instead of own property. A much greater portion of respondents in group one said they are just "somewhat" likely to lease.

The differing perspectives on leasing among the two groups may reflect heightened spending-consciousness among health insurers, nursing home operators, and others allied to the field, but it could also signify these organizations' interest in testing new markets. While less certain of their organizations' potential to lease instead of own, a significant portion of health systems, hospitals and medical clinics are also recognizing the advantages that leasing offers for spending flexibility and expansion into new areas. Additionally, there is a continued drive to move patients to the outpatient environment, which likely is impacting health system leaders' openness to leasing versus owning their facilities. Leasing is becoming more favorable as limited capital is available for asset ownership.



Current events are influencing investment decisions

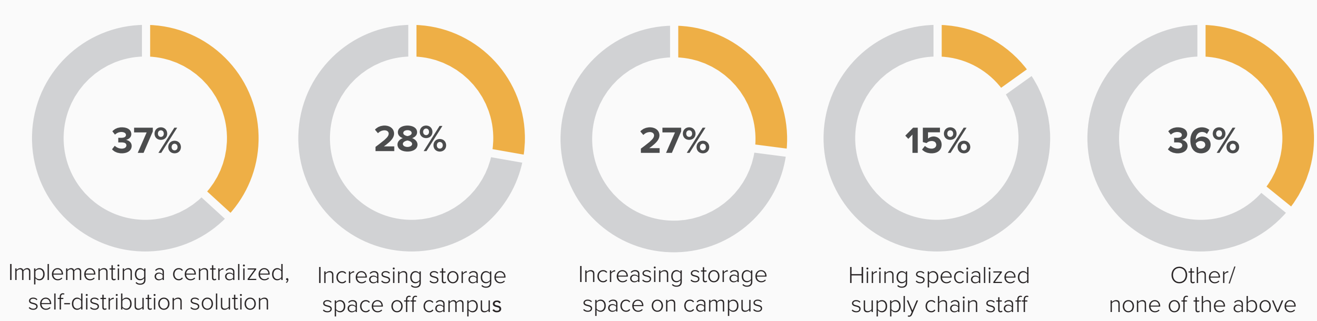
Healthcare organizations have many priorities to balance and new constraints arising every day.

When asked which actions their organizations are likely to consider as a result of supply chain disruptions in particular, 67% selected multiple strategies. The breakdown is that 55% are likely to consider increasing storage space either on- or off-campus; 37% are likely to consider implementing a centralized, self-distribution solution (i.e., consolidated service center); and 15% said hiring specialized supply chain staff is on the table (Figure 2). One-third of respondents said they weren't likely to consider any of these decisions. Still, the majority sharing that supply chain disruptions have motivated new storage, staffing and distribution strategies is significant from a real estate perspective.

When asked to rank from 1 to 5 how much of a priority their organizations consider sustainable buildings and operations

FIGURE 2

What organizations are considering due to supply chain disruptions



Percentages don't total 100% because respondents were permitted to select multiple options.

to be, 37% of survey participants said this ranked highly at 4 or 5. Twenty-nine percent said it falls in the mid-priority range, and 34% rated sustainability as a low priority. This is evidence that investment in sustainable buildings and operations is coming to the forefront. As healthcare catches up to other industries on embracing the framework of Environmental, Social and Governance (ESG), building or renovating with sustainability in mind is a core component. It will be especially important to calculate the return on investment of the capital dollars needed to implement sustainability features, and to ensure that these components do not add operational costs related to ongoing building maintenance and management.

Even though the industry has come a long way from the financial lows that hit organizations during COVID-19 lockdowns, they continue to prioritize and work toward cost containment. To control operational costs within facilities, 59% of those surveyed indicated their organizations are offering remote work when possible. This result may have major implications for the square footage and size of facilities that will be necessary as remote work becomes more widespread. It may also influence what other support staff can be co-located alongside off-campus Consolidated Service Centers. For instance, class A office space may better accommodate staff in marketing, IT or other departments whose roles don't necessarily require being physically present at a main hospital campus. Along with offering additional amenities that wouldn't be found on a traditional hospital campus, off-campus facilities present an opportunity to reduce costly on-campus square footage for the health system overall.

Additionally, 35% are consolidating their real estate footprint as a way of controlling operational costs. Other measures being taken include building facilities with more efficient staff movement in mind (30%), cutting staff or reducing staff hours (18%) and deferring building maintenance (7%). The latter is certainly a tempting route for short-term returns, but organizations should know that delaying maintenance could have serious downstream consequences, especially if ongoing issues pose a direct threat to patient safety.

Building partnerships that last

Organizations looking to understand how to meet their current and future real estate and facility needs can turn to Ryan Companies, a committed partner with expertise across the full life-cycle of healthcare real estate, including strategic planning, development, design, construction, property/facility management and financing. For more information, please visit: ryancompanies.com/healthcare

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About the Survey

Modern Healthcare Custom Media, on behalf of Ryan Companies, commissioned Signet Research, Inc., an independent company, to conduct a survey of healthcare professionals. The objective of this study was to learn about organizations' real estate priorities, including barriers to strategy implementation and factors influencing physical space utilization.

On March 3, 2022, Modern Healthcare Custom Media sent a broadcast email to Modern Healthcare registrants asking them to participate in a survey. Subsequent reminder emails and invitations to participate were sent between March 7 and April 13. By the closing date of April 15, 98 responses had been received. The base used is the total number of respondents who answered each question. Survey findings may be considered accurate to a 95% confidence level, within a sampling tolerance of approximately +/- 9.9%.