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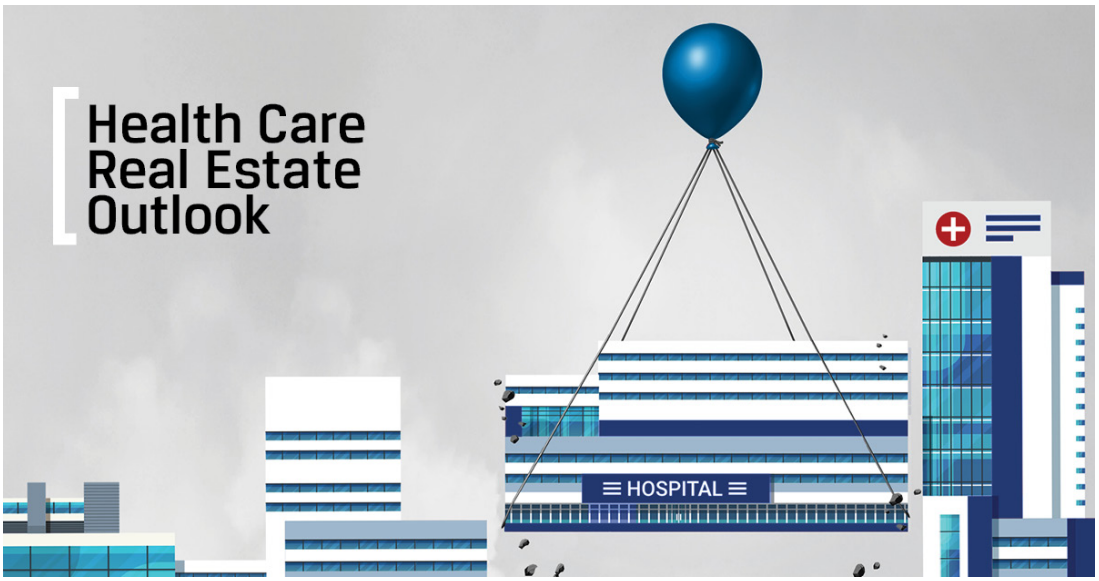

How COVID-19 has changed the landscape

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Will 2020 change our healthcare real estate needs to serve patients going forward? Here, we take stock of what we know and have observed, and look to the horizon for how this may change what and how we build to serve healthcare needs in the future.

First, healthcare real estate is a huge part of the American healthcare ecosystem. Hospitals, physician offices, labs, radiology sites, post-acute care centers, and many other types of buildings hold millions of jobs and account for millions of patient care visits, stays, and encounters across the U.S. So, with all that has occurred already in 2020, what is the outlook for healthcare real estate? To address this, let's examine three sets of issues:

1. ***Certainties*** – Known, unchanging, and ongoing needs for real estate;
2. ***The building tide of change*** – Movements and strategies that have been building over time and continue to change real estate needs and uses; and
3. ***Changes thanks to COVID-19*** – Pandemic-induced changes to the way patients will seek and receive healthcare in the future.

Certainties

Even with all the turmoil of 2020, some things are fixed and unchanging. Below are a few certainties regarding healthcare real estate needs:

1. **Hands-on care needed** - We need other humans to provide key healthcare services to us, such as surgery, colonoscopies, heart attack interventions, x-rays, lab draws, therapies, and many other forms of hands-on care. These services make up the majority of healthcare utilization currently. Cancer care generally involves hands-on treatments by skilled professionals right there with you. These are examples of hands-on health services that will continue to be provided in your local healthcare settings, regardless of any societal changes or external factors.

2. **High acuity care centers are a must** – Trauma, burns, transplants, and other high acuity services need centers of care across the U.S. Unless you are Thurston Howell, III and can afford your own ICU in your home, if you need ICU care, it will need to be provided at an acute care hospital.

3. **Population growth and steady utilization** will require a stable healthcare real estate setting - Our American population continues to grow. Disease and injury incidence remain steady. Basic math - population times incidence - equates to increased capacity needs in the future. Therefore, healthcare real estate capacity in the form of hospital beds, ancillary space, clinic space, post-acute beds, and other healthcare space needs will still be a vital part of our health ecosystem.

The Building Tide of Change

Healthcare is a dynamic industry. Before the pandemic hit, several megatrends were working their way through the healthcare landscape that will have healthcare real estate implications. Below are several of those trends:

1. **Payors are consolidating portions of the continuum** – Insurance companies through buy or build strategies are working to keep their covered lives healthy and away from costly healthcare utilization. To that end, they are focused on wellness, prevention, at-home services, utilization management, health analytics, and other care related investments that support keeping their covered lives healthier.
2. **Consumerism and the changing primary care doctor relationship** – Walmart, Amazon, CVS, and others are now providing alternate care sites for primary care that are affordable and easily accessed. This is a real change to how healthcare is delivered, thus transforming the traditional relationship between a patient and his or her primary care doctor.
3. **Price sensitivity due to rising employee cost sharing** – Paired with consumerism shifts, employees have higher copays, coinsurance, and deductibles, which is converting to price sensitivity which did not exist previously – or certainly not to the extent it exists now. CMS is now regulating price transparency in hopes of pushing costs down. These changes will impact utilization and potentially market share for providers, which will result in changes to real estate needs.
4. **Medical workforce shortage** – We have an older workforce of doctors and nurses over the age of 50 who will retire when the Baby Boomers are at their most critical health utilization age. This shortage may cause a gap in our ability to effectively utilize existing and future healthcare real estate.

5. **Aging healthcare facilities** – Many of our nation's 6,000+ hospitals are old and require reinvestment or replacement. Reinvestment in lean financial times due to the volume downturn spurred by COVID-19 is not plausible, as we have seen countless capital improvement projects put on hold indefinitely. What appears likely to happen, as discussed more specifically below, is "smart" investment in new inpatient facilities and greater reliance on outpatient facilities.
6. **Urban sprawl** – The Industrial Revolution saw millions of rural Americans move to industrial urban cities for work whereas now, technology and lifestyle choices are enabling people to move out of urban centers into suburbs and beyond. This population shift has and will impact real estate needs across a much wider geography than in a dense metropolitan area.
7. **Rural healthcare remains in trouble** – Countless rural hospitals have closed over the last decade, with more on the brink of closure, and limited good ideas have been developed regarding how to replace the care void for Americans living in rural areas. Rural health access sites can be bolstered by telemedicine, but the return on investment for those ventures is poor due to low utilization. Further, telemedicine cannot fully replace the need for hands-on care.
8. **Infection control is now mainstream** – As kids, we would "rub some dirt on it," rarely wash our hands, and celebrate how our immune systems were strong because we were exposed to everything. Over time, hygiene, hand sanitizer, and scientifically proven infection control processes have become part of the fabric of how we live, thus changing the healthcare needs of our communities. 2020 has taken that to a new level. The enhanced desire and need for sanitized spaces will have greater implications on how real estate is designed, built, and operated.
9. **Inpatient conversion to outpatient care** – We have watched over time as inpatient care has transitioned to outpatient care. Outpatient care is less expensive, has similar quality levels, and allows patients to go home faster. This has caused a consolidation of inpatient bed availability across the country. As we have learned, this consolidation is not necessarily a good thing during a pandemic. The Centers for Disease Control ("CDC") as well as Federal, State, and local governments have been reporting on bed counts daily. Ultimately the initial lockdown was instituted to "flatten the curve," or limit the speed of transmission in order to not overwhelm limited inpatient beds and medical equipment across the country. The challenge for real estate here is the need to have multi-purpose beds that can be modified to fit crises such as the COVID-19 pandemic. During the pandemic, we need lots of ICU medical beds with oxygen and ventilators. Current regulations and the designation of bed type does not allow facilities to make those beds interchangeable according to need. The American healthcare system has many available "beds" in physician clinics, PACU/pre-op areas, ERs, psychiatric units, ambulatory surgery centers, and med/surg units that were unavailable for the most part to treat intensive care COVID-19 patients due to regulations, building configurations, or other reasons. This need for multi-use beds should be considered in addressing future real estate needs. Additionally, care that can be delivered on an outpatient basis should be directed to facilities designed more cost effectively for outpatient care.

Changes Thanks to COVID-19

2020 has been a disruptive year thanks to the pandemic. Let's look at changes that will have long-term healthcare real estate implications:

1. **Social distancing** – This is a term we had not heard before COVID-19. Now, it's a common practice to limit the number of people in a room, or on an elevator, or in waiting rooms. This has had an immediate impact on capacity. Architects design spaces based on traditional space requirements. Social distancing expands those space requirements and thus limits capacity, which in turn will limit throughput and operational efficiency. Social distancing requirements will have future implications to real estate planning.

2. **Contactless interactions** – People not only want to be socially distanced from each other, they also want to avoid touching things altogether, including door handles, elevator buttons, pens to sign forms, and credit card machines. Healthcare and all other industries must adapt to this new demand for contactless interactions. This has an immediate impact on healthcare facilities.
3. **Cleanliness to avoid virus exposure** – If they can't stay away from a healthcare facility, people want to see active cleaning, hand sanitizer stations, and contactless automatic doors. Again, this has an immediate and future impact on real estate design and operations.
4. **Telemedicine** –The pandemic pushed telemedicine to the forefront as a result of the lockdown. CMS agreed that telemedicine visits should now be reimbursed, and instituted temporary provisions for Medicare to cover such services. Thus, its popularity has grown and it will remain a viable care interaction option between caregiver and patient. Many physicians like telemedicine visits because it allows them to be productive and mobile. Telemedicine will take time to develop into a predictable volume within healthcare. Real estate may be impacted by needing HIPAA compliant spaces where caregivers can hold telemedicine visits confidentially within clinic spaces. Telemedicine for rural and remote care is also an important bridge to solving rural health needs. Broadband access is a current limitation to widespread telemedicine capabilities, but federal support such as programs contained in the CARES Act will hopefully provide the funding needed to make telemedicine services more accessible in rural areas.
5. **Work from home** – Welcome to 2020! If you can work or attend school from home, that's what has happened and continues to happen across much of the U.S. Most people believe the work-from-home structure is going to stick in some form for a multitude of jobs that can be performed remotely. Many companies have transitioned to remote work for an extended timeframe or permanently already. Organizational culture, team building, and individual accountability will be issues to manage in having a remote workforce. This could result in swaths of current healthcare space such as IT, revenue cycle, financial, or administrative functions being released or repurposed in the near future. Whether that unneeded space can be appropriately repurposed into clinical space is a question to be addressed.
6. **Volume fluctuations** – Across the country, many hospitals saw 50% to 90% reductions in volumes across most if not all clinical service lines during the early days of the pandemic while physician offices closed. Then, as lockdowns eased, infection control protocols were put into place, telemedicine was enabled, much of that volume loss has returned. Even now, many ERs still operate at lower volumes than before due to people's fear of going to the hospital. During the height of the pandemic, many people chose to forego routine medical care such as doctor visits, and untreated health problems resulted in death or heightened medical needs. From a real estate planning perspective, this radical shutdown of American healthcare utilization is a unique occurrence. We are collectively watching to see how and when "normal" volumes will return across all parts of the country.
7. **Building projects on hold** – Most hospitals and health systems have put new building projects on hold due to uncertainties related to the pandemic. It is uncertain at this point when – or whether – these projects may resume. We can expect the design of these facilities that proceed have been altered by what we learned during COVID-19.
8. **The surge was feared** – Many hospitals spent time and money to prepare not only for handling the COVID-19 crisis but also for the expected surge of healthcare utilization that would rush back in after the initial pandemic scare passed. In many parts of the country, volumes have returned slowly without a large surge. It appears that inpatient volume lost during the initial months of shutdowns is for the most part gone, while outpatient services that could be delayed, but not indefinitely, have returned. This pandemic did raise the concern that a deployable surge capacity system is not present within the American healthcare system. Some emergency hospitals were

constructed in convention centers in large urban areas; however, their use appeared to be low while the costs to construct were quite high with little to no reusability. This is a real estate and healthcare issue to resolve for the next American or worldwide crisis.

Takeaways

Changes in healthcare consumption, sprawl outside of urban areas, alternate care options, work-from-home dynamics, telemedicine, and other factors mentioned above will all need to be considered when planning for future healthcare real estate projects. Overall, real estate should be an expression of an organization's strategies and reflect the needs of its customers (generally, patients). Real estate use must adapt to meet the changing needs of the users.

If your organization needs support in planning and responding to real estate challenges, we offer to come along side you and work through these truly unique times in our healthcare journey.

I want to thank two long-time friends and trusted experts in the healthcare real estate field for sharing their thoughts on this topic: John Thomas, President and CEO of Physicians Realty Trust, and Josh Theodore, Vice President and Global Health Practice Leader at LEO A DALY. I am grateful to both of them for their insights.

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