



## Sea changes sparking new approaches to health care



A wave of change is sweeping over health care.

No news there, of course. But one big difference these days is that real estate assets have gained new importance in the business of health care.

Health care providers that embrace this change will put themselves ahead of less-nimble competitors, especially as we emerge from the recession.

In the past, health care often seemed to operate in a vacuum. Even in periods of general economic slowdown, the industry grew. In my arena, this usually manifested as hospital expansions and new medical construction.

Today, the struggling economy, demographic shifts, increased consumerism and other factors are driving providers to see health care real estate as a resource that, in managed well, can produce a lucrative return on investment.

Health care real estate development used to follow a pattern. As a geographic area grew, hospitals popped up to serve emerging communities. Then, medical office buildings - often built and owned by the hospitals themselves - took shape around the hospital's perimeter.

Doctors, practice groups, laboratories and other health-care related operations filled these buildings on the assumption the hospitals would drive business their way.

Recently, though, competition has led to overbuilding. In other cases, demographic shifts sent health care practices scrambling to new areas or pushed hospitals to expand in new directions, often cannibalizing existing locations. In still other cases, hospital-linked locations simply fell short of expectations to leave for greener pastures.

As a result, smart medical practices are discovering new models. Practices, clinics and labs with complimentary services are locating together in high-growth areas to improve work-force productivity, patient referrals, operational efficiency, business flexibility and environmental compliance.

For example, sports medicine, physical therapy, imaging and orthopedic practices are coming together in centers - unrelated to big hospitals - to generate a shared referral base and a one-

stop location for patients. Physicians are combining ambulatory surgery centers to increase access and convenience.

Meanwhile, competition is driving an increase in mergers, acquisitions and strategic alliances, and that's leading to shifts in the real estate market, as health care operations consolidate to reduce space redundancy, increase referrals, eliminate staff duplication, and share back-office operations.

While all these changes affect the bottom line, they're also driving a shift that could contribute to the income side of health care operations' ledgers.

Forced to compete more aggressively to fill their spaces, building owners and developers are offering medical practices ownership stakes, often with little or no capital outlay. This gives building owners an incentive to attract physicians and creates a "buy-in" from practices that makes it harder for them to justify future moves. For practices, this turns a former drain on resources into an asset that can produce an ongoing return.

In other cases, landowners are bringing related businesses into clusters. This results in locations where, for example, medical practices, labs and rehab centers might sit side-by-side with opticians, spas, workout facilities and health food stores.

Such projects are on the drawing board in the Indianapolis area as well as in Ohio and Wisconsin. Amenities such as large fitness facilities, indoor aquatics centers, gymnasiums and outdoor sports fields will sit alongside medical services such as physical therapy, cardiac rehabilitation, lab and X-ray operations, and physician practices. They'll also be clustered with health-conscious restaurants and more lifestyle-mall-type settings near residential development.

The long-term vision for projects such as this is that those services would be complemented by more healthy-lifestyle entities, such as health care providers, health-oriented retail, health-conscious restaurants and more.

The new landscape demands greater flexibility and creativity, and will require the ability to make the most of real estate's bottom-line value while juggling demands of core medical services such as evolving technology, government regulations and patient privacy. •

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