

# ASSET CONSOLIDATION AND OPTIMIZATION WILL SURGE

## The Dynamic Competitive Landscape Will Force Providers to Think Differently About How to Manage Their Asset Portfolios

The business of healthcare has been disrupted by the confluence of decreased demand resulting from payer transformation from fee to value, emphasis on wellness and prevention, higher out-of-pocket obligations, reduced collections, and the increasing sophistication and demands of the consumer. Concierge medicine, virtual care, and retail health are now common terms within the industry's lexicon.

Providers are responding to disruption by consolidating, restructuring, and optimizing their asset portfolios. For 2018, we see the following market dynamics continuing:

- Acquisition of physician practices will continue despite the "losses per employed physician" that have resulted thus far for some providers who have made this type of acquisition.
- The unfortunate and unintended consequences of healthcare systemwide M&A activity already experienced by some providers, will continue:
  - Excessive and/or unfavorable strategic commitments due to lack of appropriate upfront due diligence
  - Negative effects on balance sheet/cash flow from capital commitments made during the initial transaction
  - Excess capacity due to overlapping service offerings and lower demand
  - Service gaps, omissions, or redundancies
  - Lack of brand integration and services coordination across sites, leading to patient dissatisfaction and provider loyalty
  - Lack of standardized and efficient property management, thus increasing costs
- Consumer demand for greater convenience and faster, better services, coupled with a great experience, will continue its upward trajectory, placing increased importance on ambulatory networks that deliver the right programs, sizing, and distribution of facilities.

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**“Patients, payers, physicians’ preferences for outpatient care, and increasing competition will require providers to think differently about where, what, how, and with whom they locate their physical assets.”**

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### WHAT PROVIDERS NEED TO DO:

The key to success for real estate asset optimization is integrating the strategy, real estate, facilities, operations, physician, and financial considerations into the planning and development process.

- Develop an integrated real estate and facility planning exercise to study:
  - Existing, as well as proposed, real estate/facilities and leased vs. owned facilities.
  - The impact on the balance sheet and income statement; operating expenses; redundancies; duplication of services; physician by specialty; as well as service gaps throughout primary, secondary, and new market opportunities.
- Planning and design priorities for ambulatory development/facilities should focus on:
  - Implementing new operating models that are leaner, more efficient, and will create higher levels of accountability.

- Flexible design that enables changes to spatial layout and service offerings due to market dynamics.
- Developing new markets and consistent branding.
- Convenient locations with co-located services and proximity to public transportation.
- Hospitality-like environments, amenities to enhance the experience (i.e., kiosks, digital messaging).
- Consider developing mixed-use healthcare or village-like campuses that incorporate wellness, ambulatory care, research, education, post-acute care, hospitality, retail, and other synergistic uses.
- Consider micro-hospitals to anchor outpatient/ambulatory investments.
- Develop prototypical models and templates that reduce costs and increase speed to market, and create a unified brand experience across facilities/markets.

## ABOUT NAVIGANT HEALTHCARE REAL ESTATE

Navigant's team of professionals assist hospitals in managing the planning, design and construction of facility projects to support their healthcare mission. We offer an end-to-end solution — from concept to reality — throughout all phases of a project. Our professionals do strategic and operational work on the front end, and then drive that through to a brick-and-mortar solution as warranted. We are entrusted by our clients to help them take control of their future, and BUILD, MANAGE, and PROTECT their business value.

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OF COMPLETED  
PROJECTS

ACCESS TO OVER  
**\$2 BILLION**   
IN COMPETITIVE BALANCE SHEET-READY CAPITAL



ASSISTED OVER 300  
HOSPITALS, & ACADEMIC  
HEALTH SYSTEMS & MEDICAL CENTERS



COMPLETED MORE THAN **\$12 BILLION** IN CAPITAL IMPROVEMENT  
PROJECTS, INCLUDING PROVIDING PROGRAM MANAGEMENT SOLUTIONS FOR  
**20 NEW HOSPITAL PROJECTS** AND DEVELOPING  
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