

# Hammes

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## Health System Real Estate Portfolio Optimization

HAMMES HEALTHCARE | JULY 2020



# Benefits of Conducting a Real Estate Portfolio Assessment

As we begin thinking about operating in the “new normal,” many health systems are evaluating their real estate portfolios, not only to solve for financial challenges related to lost revenue, but also operationally as the demand for services outside a traditional hospital setting increase and the impact of telemedicine (and reimbursement) is yet unknown.

In a survey conducted by Deloitte between November 2019 and January 2020, more than 50% of healthcare executives anticipated at least a quarter of outpatient care, preventive care and long-term care would move to virtual delivery by 2040. Deloitte now predicts COVID-19 could have accelerated this timeline by as much as a decade.

In addition, a poll conducted by Gartner in March 2020 showed that 74% of CFOs plan to shift at least 5% of previously on-site staff to permanently remote positions “post-COVID-19.” Are health systems prepared for this shift?

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The potential increase in virtual patient visits and the potential for some non-clinical staff to work remotely on a permanent basis have healthcare executives taking a close look at their real estate portfolios. What do we need? Do we have too much? Do we have too little? Do we have the right infrastructure?

Nationally recognized for our leadership in healthcare real estate planning, project management, development and investment, Hammes has deep experience in real estate portfolio strategy. We take an objective, non-broker approach and have worked with health systems across the country on the assessment and development of real estate strategy that is aligned with the systems’ financial, market and service goals.

## Questions We Help Healthcare Executives Answer

### **Strategic**

- Does our approach to managing and directing our real estate portfolio tie directly to our organization’s strategic plan?
- Do we have a defined real estate strategy that supports our ambulatory expansion and medical staff development plans?
- What are our forecasted space needs in order to support our strategic plan?
- From a condition standpoint, do our existing facilities provide the patient experience and brand identity we want to project?
- Are we acquiring our real estate in a reactive or a strategic manner? Is there a way to be more strategic about how we add space to our portfolio?

### **Financial**

- How do our real estate and facility management costs compare to industry and regional benchmarks?

- Are there opportunities to save money by managing our real estate more efficiently?
- Are we maximizing the revenue generating potential of our real estate assets?
- Does the ownership structure of our real estate portfolio provide maximum benefit to our physicians and our organization's bottom line?
- Have we acquired real estate assets that should be repositioned or divested?
- What steps can we take to increase the value of our real estate portfolio?
- Over the next 36 months, what is our plan for each facility, leased and owned? What are the costs to implement those plans?
- What are the financial impacts to our organization for any of the contemplated real estate transactions?

**Operational**

- Could we implement new real estate management practices that create more flexibility for our organization to grow or change in the future?
- If additional space is needed, where should it be located? Are there facilities that should be consolidated or repositioned?

**Our Approach to Real Estate Portfolio Assessment and Strategy Alignment:**

Hammes Company Healthcare has a proven approach to real estate portfolio assessments that not only helps health systems uncover opportunities to optimize their real estate portfolio in a way that is aligned with their overall strategy but also provides a detailed action plan and recommendations. Our goal is to prepare health systems to execute quickly when the right opportunity presents itself.

<p><b>Assessment &amp; Measurement Phase</b></p>	<ul style="list-style-type: none"> <li>• Visual inspections of all designated facilities</li> <li>• Interviews with senior leadership to understand service line growth/capacity needs</li> <li>• Review of leases</li> <li>• Collection of property specific data: operating expenses, utilities, vacancy rates, etc.</li> </ul>
<p><b>Analysis Phase</b></p>	<p>Individual facility reports including:</p> <ul style="list-style-type: none"> <li>• Benchmark of individual facility costs to regional metrics</li> <li>• Near/long-term facility capital needs</li> <li>• Comparison of renovation costs to new construction</li> <li>• Lease vs. own analysis (if applicable)</li> <li>• Review of consolidation/disposition scenarios</li> </ul> <p>Portfolio capacity calculation:</p> <ul style="list-style-type: none"> <li>• Space needs forecast based on leadership interviews</li> <li>• Gap analysis identifying projected surplus/shortfall of facility capacity necessary to support growth plans</li> </ul>
<p><b>Recommendation Phase: Individual Facility Action Plans</b></p>	<p>Work with senior leadership to develop specific plans for each property that balance current facility condition/costs/capacity and future service line space needs; could include consolidation, optimization and/or monetization of assets</p>

## **Academic health system real estate optimization case study:**

### **Challenge**

An academic health system engaged Hammes Company Healthcare to review its existing ambulatory services, identify opportunities to consolidate fragmented and/or redundant services and quantify the space implications of consolidating these services. The goal of site consolidation was to reduce the system's 200+ sites to a more geographically and service-oriented appropriate grouping of sites.

### **Solution**

Hammes performed an in-depth study of the local real estate market to benchmark the system's current facility costs and evaluated the financial impact of pursuing various facility alternatives including the renovation of existing facilities, relocating to alternative leased space and development of a new, consolidated ambulatory facility.

Hammes also completed an analysis of the system's real estate operations including alternatives for more efficient coordination, portfolio enhancement and integration/consolidation of non-core assets. Strategies were developed on an individual asset basis, which incorporated the system's strategic, operational and financial objectives.

### **Value Added**

Hammes specifically looked at opportunities to improve operating efficiencies, lower occupancy costs, and minimize real estate risk on behalf of the health system. Benefits to the health system included:

- Reduced lease costs and improved control of system real estate costs
- Economies of scale and operational efficiencies (reduced total support staff shared space and overhead)
- Larger, more visible and attractive branded sites that increased convenience for patients
- Accommodated growth and promoted clinical group practice in combined flexible sites

"The execution of the [real estate optimization] plan developed by Hammes will result in a savings in excess of \$2,000,000 over the term of the lease. We have reduced cost, area per employee and improved employee satisfaction. Hammes did a fantastic job evaluating our current state and making sound recommendations for the future."

- DIRECTOR OF FACILITIES, REGIONAL HEALTH SYSTEM | COLUMBIA, SC

## **About Hammes Healthcare**

Hammes Healthcare is a national consulting firm that provides planning, project management and other real estate services to the healthcare industry. Our multi-disciplinary team of professionals is one of the most experienced in the healthcare industry, providing leadership and value-added client service to national and regional health systems, academic systems, community hospitals and physician groups. For nearly three decades, our Advisory Services group has been a leading advisor to healthcare organizations offering a full range of strategic, financial, operational and facility consulting services.

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