

RE-ADVISORS

Real estate services for the healthcare industry

LESSONS FROM ACROSS THE CORPORATE REAL ESTATE UNIVERSE

“Wait,” you may be thinking, “healthcare is a pretty unique field. What could a high-tech company, my local widget manufacturer or for that matter a retail giant like Target know that could possibly help in the delivery of healthcare?” The answer: more than you think.

REAL ESTATE ADDS VALUE TO AN ORGANIZATION

Corporations further up the evolutionary ladder in their thinking about real estate and facilities, realize corporate real estate holdings, whether owned or leased, bring important *intangible* value to the organization as it pursues its larger business goals. Performance measurements and evaluations of corporate real estate must reach beyond financial analysis and capture the many ways in which corporate real estate supports or fails the company's central business goals. Neither traditional accounting measurements, such as operating or occupancy costs per square foot, nor classic financial analyses, such as calculations of net present value or internal rate of return, can answer the fundamental questions of whether the organization's real estate decisions are supporting its business goals.

The ability of a healthcare real estate portfolio to further and support a healthcare institutions' strategy and vision, will depend in large part on these “intangible” values. Defining these intangibles and identifying ways to quantify and measure their impact is crucial to both the design and development of a healthcare institution's real estate strategy, and to the subsequent evaluation of potential transactions and of existing portfolios. With most healthcare organizations having over half of their assets invested in property, plant and equipment, this work should be a near term priority.

DEFINING THE INTANGIBLE

The idea of identifying something which is “intangible” may feel impossible to some, but, in reality, these “intangibles” are often qualities or characteristics which are so common that they are taken for granted and therefore remain unspecified among decision makers.

Let's define some of these intangible values and a sample framework for evaluating the facilities and real estate holdings of Hypothetical Hospital (HH). HH's mission statement is as follows:

1. Provide superior access to patient care
2. Create a patient-focused culture that values customer service
3. Develop destination clinical programs
4. Position HH as the leading healthcare provider in the community

Now let's identify some of the real estate related intangibles which flow from the mission statement. "Superior access" is a phrase that's easy to comprehend but requires work to define. Examples of parameters for defining access include:

- Location of facilities relative to the patient population
- Accessibility of facilities by both public and private transportation

Definitions of a "patient focused culture" include:

- Increased emphasis on patient use considerations in the facility design process including ease of parking, patient and visitor comfort, and ease of movement among related treatment facilities
- Patient accessibility considerations (see above)

Development of "destination" clinical programs may at first read appear to relate solely to the quality of the program, but in fact a high-quality program may fail to develop into a "destination" if certain facility considerations are overlooked.

- Define the geographic market in which the programs are targeted to become a destination: community, regionally, statewide, nationally or globally.
- Access considerations relevant to the target market. Example once a program draws beyond the immediate community the availability of overnight or extended stay accommodations for patients and their family members will become important. Will air, rail or bus service availability impact the ability to attract patients? Will proximity to an interstate highway be important?

For HH to become the “leading healthcare provider’ in the community, it may need to:

- Modernize inpatient facilities
- Develop or re-position a network of outpatient facilities so it is distributed uniformly throughout the primary population centers of the community.

MEASURING THE INTANGIBLES

Now that the intangibles have been identified, developing ways to measure them is relatively straightforward. The following are examples of measurement or “evaluation” metrics.

Intangible	Metric
Location of facilities relative to the patient population	clinical services located within a “X” minute drive time of 90% of the target service population
Accessibility of facilities by both public and private transportation	Private: distance to interstate, to state road Public: distance to bus stop, frequency of service
Patient use considerations in the facility design process	Parking: amount, covered, cost. Access to other facilities: distance, means of travel
Target market access considerations	# of hotel rooms within .5 miles Distance to: airport, bus terminal, interstate
Outpatient facilities network distribution	Distance to similar HH outpatient facilities

CONCLUSION

Recognizing and evaluating how well facilities and real estate assets support a healthcare organization's business goals is an achievable task. It requires a process which identifies the non-financial or “intangible” ways these assets support the organization's mission statement, and then selects appropriate evaluation metrics.



A healthcare real estate expert with 24 years of experience as a consultant to both community hospitals and major healthcare networks, RE-Advisors’ founder Carol Levin continues to guide healthcare organizations in thinking strategically about real estate. To subscribe to Carol’s free periodic newsletter, “Brainstorms: *Ideas & Developments in Healthcare Real Estate*,” visit www.re-advisors.com.