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LEADING **HEALTHCARE INSIGHTS**

EVOLVING PORTFOLIO AND REAL ESTATE STRATEGIES IN U.S. HEALTHCARE SYSTEMS: THE RISE OF OUTPATIENT AND AMBULATORY CARE

By Patrick Pilch and Rachel Lauren



Recently, Tenet, the \$16.6 billion Texas-based health system, announced two new deals that will make it the largest operator of ambulatory surgery providers in the country. The two deals are the capstone on a phenomenal 2014 for Tenet, which enjoyed its best annual earnings in the last decade, according to the company. Tenet has achieved strong results in part due to its thrust into outpatient and ambulatory care – a smart way of driving down real estate and facility costs while ramping up patient volume.

As aptly stated by Clint Hailey, Tenet's Senior Vice President and Chief Managed Care Officer, in [Healthcare Dive](#): "The more outpatient you own as a percentage of your portfolio of assets, the lower cost profile you have."

Tenet is not alone. The move toward outpatient care has been a steady and clear shift in U.S. healthcare. In fact, today, outpatient services account for approximately

60 percent of all U.S. hospital revenues, compared to 10 percent to 15 percent in the early 1990s.¹

TAILWINDS DRIVING THE RISE OF AMBULATORY AND OUTPATIENT CARE

In the last four years, the number of standalone outpatient and ambulatory care clinics has risen dramatically as health systems across the country begin to align costs and services for patients and focus on margin drivers.

This shift is focused on moving relatively healthy patients – meaning Americans with non-emergent or non-acute conditions – from an inpatient/hospital setting to a lower-cost ambulatory setting.

Advances in health technology are accelerating the shift, allowing procedures previously conducted inside the four walls of

the hospital facility to be conducted more cost-effectively in the ambulatory setting.

As a result, numerous physicians have begun to establish groups of their own capable of providing urgent care, diagnostic imaging, and preadmission testing services in convenient and accessible settings for patients. From City MD to OrthoNow, new metropolitan standalone clinics have also taken hold.²

To counteract competitive ambulatory care facilities, hospitals and health systems are investing heavily in the development of their own ambulatory care and surgery models. New York Presbyterian Hospital, a Manhattan-based hospital with \$3.7 billion in annual revenue, is building a large-scale ambulatory facility with an expected total cost of close to \$1 billion.³ The new facility will provide surgery, primary care and infusion therapy services, radiology, and MRIs. In addition the new facility is expected to offer comprehensive preventative and specialty services, in an outpatient setting. Other health systems, like Tenet, are rapidly buying surgery centers given the high margins for such procedures. The transition can be perilous, as hospital processes considered efficient best practices in the inpatient setting do not necessarily translate seamlessly to ambulatory and outpatient care models and surgery centers, requiring re-examination of best practices in the new setting.

THE FUTURE EVOLUTION OF HEALTH SYSTEM PORTFOLIOS

Moving forward, outpatient clinics and facilities will continue to increase as a

percentage of U.S. health system portfolio assets. This offers opportunity for health systems and real estate investors.

Standalone rural or nonprofit hospitals – particularly those with higher portions of Medicaid patients – must analyze their portfolios of services sooner rather than later. Additional pressures to transform are arising from newly issued 1115 Medicaid Waivers designed to reduce avoidable hospitalizations and unnecessary ER visits by double-digit percentages. Analytics should inform local communities' health needs to eliminate duplicative services and help articulate the future-state model of care. The right portfolio mix of services, and asset strategies including real estate, optimizes the value of these high-cost and high-value assets. Hospitals may consider partnering with healthcare REITs or other private capital sources.⁴

Hospitals must consider how strategic M&A activity, physician engagement aligned with outcome-focused incentives, and appropriate clinical alignment with larger systems will enhance their portfolios of services. The right M&A strategies will provide such hospitals access to the partners and capital they need to build their own ambulatory capabilities.

In summary, value will be created many ways in this transformational period of healthcare reform. Understanding the implications of synthesizing and aligning capital with outcomes-based reimbursement and delivery models, and with total cost of care, can create tremendous value for patients, investors, lenders and regulators.

With acknowledgment to researcher Marcus Warmington

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FOOTNOTES

- 1 Kutscher, B. Outpatient Care Takes the Inside Track: Ambulatory Services Continue to Account for a Growing Share of Systems' Revenue As They Work to Bring Care Closer to the Customer. *Modern Healthcare*. Retrieved from <http://www.modernhealthcare.com/article/20120804/MAGAZINE/308049929>
- 2 Benson, B. Bronx to get luxury housing instead of medical facility. *Crains, New York Business*. Retrieved from http://www.crainsnewyork.com/article/20150318/REAL_ESTATE/150319845/bronx-to-get-luxury-housing-instead-of-medical-facility
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- 4 Nonko, E. New York's Latest Medical Facilities May Simplify Seeing the Doctor: New projects aim to put more of the specialists patients need to see under one roof. *Wall Street Journal*. Retrieved on 3/25/15, from <http://www.wsj.com/articles/new-yorks-latest-medical-facilities-may-simplify-seeing-the-doctor-1427071460>

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3. Nonko, E. (2015). New York's Latest Medical Facilities May Simplify Seeing the Doctor: New projects aim to put more of the specialists patients need to see under one roof. *Wall Street Journal*. <http://www.wsj.com/articles/new-yorks-latest-medical-facilities-may-simplify-seeing-the-doctor-1427071460>

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