

HEALTH CARE REFORM'S IMPACT ON HOSPITAL REAL ESTATE DEVELOPMENT

PART 2 OF 2

If it survives the current legal challenge in the U.S. Supreme Court, the mandatory coverage aspect of the Affordable Care Act ("ACA") will not take effect until 2014. This timing has the effect of making hospitals tentative about capital deployment in general and for real estate in particular.

Besides timing and uncertainty, there are other aspects of the ACA and the general economic environment that diminish current and short-term spending by hospitals for new real estate development:

- there will likely be a trend towards migration of care to patients' homes and community-based (off campus) outpatient locations
- there will likely be an increase in employer-based clinics
- health care reform's emphasis on reporting and record keeping is placing a higher priority on health information technology and electronic medical records than on new construction
- the projected shortage of physicians over the next decade
- focus on increased utilization of existing space through process improvement and re-design
- consolidation of hospitals and health systems
- no expansion of physician-owned hospitals (due to new limitations included in the ACA)
- continued unavailability of credit for speculative medical office construction
- absorption -- medical office average vacancy rates nationally remain around 11.5%
- retail vacancies have and will likely continue to drive an increase of retail absorption as these are suitable sites for wellness, prevention, urgent care and health education
- new construction in the skilled nursing, independent and assisted living facilities has been strong and will increase (not so much due to health care reform as demographic shift)
- capital constraints on hospitals will increase, not decrease, with health care reform

Even though the shift in demographics and the probability of more insureds create a need and demand for more medical and hospital space, there are several factors that foster uncertainty and competing claims on scarce capital. All of these factors are causing delay in the timing of new real estate development projects.