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Attendee Comments

"I always enjoy listening to Mr. Wood!"

"Networking. Morning sessions seemed more focused."

"Liked the info on what is changing in healthcare operations/billing. also like the challenges faced with leased properties."

"Dr. Holmen's presentation."

"Regulatory panel."

"Liked the format - discussion groups kept moving, facility was a bonus - parking + ability to sit, stand, or step away during summit."

"Diversity of speakers and topics."

"Good topics, good variety of speakers/contributors."

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Minneapolis 2018 - Post Summit Recap

MIDWEST HOSPITAL, OUTPATIENT FACILITIES & MEDICAL OFFICE BUILDINGS SUMMIT

Takeaway Messages

October 10, 2018 - Minneapolis, MN

Reported by Dan Emerson, a freelance writer based in Minneapolis. Emerson also writes for Healthcare Real Estate Insights.

What the Future Holds for Healthcare Facilities

***Dr. Kenneth Holman, M.D.**, President and CEO, CentraCare Health*

- **Minnesota is not immune to disruption.** The Minnesota Model has been high-performing, but healthcare is complicated. "We have not yet had enough of the disruptive factors cascading down on us to make us change significantly, but I would suggest it is coming. We will see more consolidation and regionalization of healthcare services. We don't really need 13 open heart programs in the Twin Cities metro."
- **Quality of care is more important than ever.** The shift from volume to value will not go away. After all, the rest of the American economy does not function that way: the price you pay is tied to that product. Plus, it's a tough business model where 25 percent of your net margin is not received until your fiscal year is over.
- **Politicians don't have the answers.** Politicians are not well-equipped to come up with practical solutions to improve quality and access to care. On both the right and the left, the solutions people want to implement are simplistic. We need to understand the problem, and not start with ideology.
- **Doing something about healthcare costs.** The cost of healthcare is related to two fundamental factors: demand and price. Increased competition doesn't decrease healthcare costs; it increases demand. Sixty percent of the cost of healthcare is spent on people, so any significant effort to reduce healthcare costs will involve a substantial shift in how we manage people.
- **Dealing with accelerating change.** The pace of change is accelerating at an exponential rate. Only 30 percent of a person's healthcare journey now occurs in a facility we build. How do we have a more robust discussion on partnerships to improve community health
- **Developing facilities that improve health and decrease costs.** It is essential to stay abreast of disrupters. Technology is going to be an enormous expense; how do we manage the drivers of technology? There will be continued integration, mergers acquisitions and consolidations; how do we manage that?
- **Major competition coming from outside the healthcare industry.** Big data companies from outside of the healthcare industry will be major disrupters in the coming years. How will the traditional healthcare system deal with online competitors like Google, Apple, and Amazon? While you are competing on very slim margins, they have got the technology and the data. We need to develop a culture, message, and brand promise that says, 'Trust us with your health, rather than Amazon.' We do have something that Amazon does not have – a relationship. But a relationship can only take you so far; after that, you must deliver. If they can get it for less cost somewhere else, they will go there. Healthcare has been isolated for a while, but I think disruption is coming.

"Dr. Holmen's presentation. I appreciated that the presentations were kept short and there was a variety of speakers."

"Venue"

"The size of the event allowed for lots of questions and conversation."

"National and futuristic trends information."

"Conversation w/ familiar people."

"Variety of content."

"Very knowledgeable speakers/ presenters."

"Some new voices on the podium."

"The range of presenters from different medical fields."

"Short sessions- generally interesting over all. I feel that from an owners perspective the content validated what we already have in place or structured today."

"Dr Holmen's presentation."

"Listening to the 'C Suite perspective'."

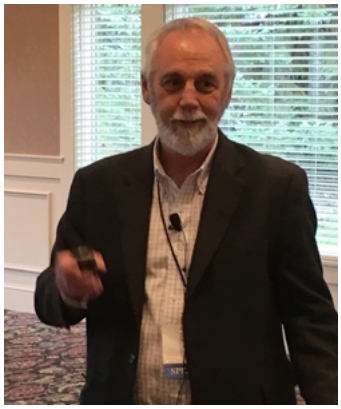
"Upcoming trends and new technology."

"Tim Grote's comments very detailed & excellent correction plan."

"It was a great day of presentations and Dr. Ken Holman was very interesting."

"CentreCare Presentation (Holmen); and Purging presentation (Arafa)"

Evolution of U.S. Healthcare System: Understanding How It's Organized and Why It Matters More than Ever



Dr. Michael Wood, M.D., *director of national construction, Medxcel, and immediate past president of the Health Care Institute*

- **The Affordable Care Act, aka Obamacare, is confusing and contradictory.** With 22 statutes, 3,600-plus pages, and nine phases, the biggest thing it has done is enhance the powers of the Department of Health and Human Services and Centers for Medicare and Medicaid Services (CMS). And the reality is it has only been partially implemented. Full implementation has been pushed back to January 1, 2020, and it may be pushed farther back. The ACA is practically defunct; it is only working well in four states. It has created market chaos, four Supreme Court cases and created frenzied activity in electronic health records systems implementation.
- **We have widespread confusion in the healthcare marketplace.** Today, the U.S. healthcare system is consumer-driven, whether we are shopping for best practices, pricing or the best cardiac care system. In the near future, we are going to see large employers shopping for best practices, best in class care, and they are going to move patients to wherever that is for the best outcomes. The present confusion in the marketplace, surrounding unpredictable revenue and expense streams, creates both chaos and opportunity. The time to respond with care, compassion and acumen is upon us.

- **More physicians are employed than ever before.** Rather than owning their own practices about 80 to 82 percent of practicing physicians are now employed by a hospital or health system.
- **Healthcare spending will continue to grow.** Healthcare consumption currently accounts for 19.8 percent of the GDP; it has been hovering around that level for three years. "We keep wondering when we will hit the 20 percent mark. We thought we would see it by 2020… if pharmacy costs continue to go up, we will reach that mark sooner."
- **The traditional insurance model is outdated and failing.** It doesn't work and is not economically viable. We need to focus on individual choice and accountability. Your monthly health insurance premium is going to be based on how you are managing your health. It's already happening. And, we are going to be asked to design spaces that respond to that.

Which Direction is the Healthcare Pendulum Swinging?

Rachel Bartling *(left), senior healthcare development manager, Mortenson and* ***Mike Pederson*** *(right), general manager, Mortenson, presented the results of Mortenson's 2018 study of more than 900 professionals, including healthcare administrators, facility leaders and the architects who support them. Previous surveys were taken in 2013, 2014 and 2015.*

- **The big 3 challenges cited by healthcare providers:** limited resources, growing pains and project delivery challenges.
- **Still, the pace of facility investment activity is picking up.** Of providers who plan to increase investments over the next two years, 33% say they will substantially increase investment; another 33% will moderately increase facility investment.
- **Healthcare providers top priorities:** improving patient outcomes/experience (45%); becoming leaner and more efficient (33%); expanding ambulatory and/or preventative care (16%); new information technology (5%); and expanding their patient base (1%).
- **More patients are shopping around for low cost care.** In 2018, 83% of respondents believe patients have increased their willingness to shop around for low cost care options. Technology may provide a new option for lowering costs: today 85% of providers believe most patients don't require an in-person evaluation by a physician (excluding acute care). That's up from 49% three years ago. That means healthcare providers will become much less reliant on physical structures to deliver goods and services than they are today.
- **ACA's acceptance among providers is dropping.** In 2015, 52 percent of providers said they believed the ACA is burdening their organizations with challenges and financial

uncertainty. Today that is up to 97 percent.

- **Social media has become a major factor in consumers' decision-making process**. "What's out there [on social media] is the most relevant thing in their decision process," Bartling said. "We need to be thinking ahead about how to address it in the interests of the patient. We should be helping give patients real, quality information to help them manage their own care."

Woodbury: Why It's Still a Hot Healthcare Market

Steve Miller, *(left) vice president, acquisitions and asset management, MSP Commercial****; Janelle Schmitz*** *(center), assistant community development director, city of Woodbury****; Steve Brown,*** *(lright) executive vice president, partner, Healthcare Real Estate Advisory, The Excelsior Group*

- **A fast-growing healthcare market.** Woodbury, a southeastern Twin Cities suburb, has had one of the fastest growing populations in the metro area in recent years. The population growth has helped make Woodbury a hot healthcare market, along with the city's development of a Medical Campus district along Interstate 494. Woodbury currently has about 70,000 residents, and the city's 2040 plan projects the addition of 20,000 more residents. Woodbury was ranked by Money magazine as the 10th best place to live in the U.S.
- **Great demographics.** Healthcare providers have been attracted to Woodbury by demographic characteristics that "check all the boxes," Brown said. It has an average resident age of 37.9 years, and new housing stock that makes it conducive to young families. With over-65 residents accounting for 12% of the population, "we're starting to see growth in that sector. Retired parents want to move to Woodbury to be near their families, and that drives demand for healthcare." Also, Woodbury has a healthy median household income of more than 101,000, compared to $90,000 for the entire Twin Cities metro area.
- **A magnet for healthcare consumers.** Woodbury's healthcare providers draw plenty of business from outside of the city. A market study commissioned by Woodwinds Hospital, an 18-year-old facility owned by the HealthEast system, showed that healthcare consumers come to Woodbury from 21 different zip codes in Minnesota and western Wisconsin. Woodbury has plenty of room for more development, Miller said. "We're about one-half to two-thirds full." MSP commercial will start its seventh project in Woodbury this fall. Currently, the biggest challenges for city planners is a large amount of retail space that will probably need to be re-purposed, Brown said.
- **The medical campus district.** Based on those market study numbers, the city created a medical campus around the hospital "to preserve space there so that we could get the highest and best uses for that area," said Schmitz. There are seven medical facilities in the district, with one more being planned. Healthcare accounts for 20.1 percent of the jobs in Woodbury; 14 percent of the businesses in the city are in healthcare.
- **City government cooperation.** For developers and realtors, the city of Woodbury "has been easy to work with," Miller said. Beginning in the late '80s and early '90s, the city adopted a pro-development approach. The city's philosophy has been based on the idea of healthcare being a service," Brown said, noting that healthcare real estate has become more like retail, than office space, with signage, branding and other aspects of retail. Another attraction for developers is that the city has same-day inspections, "which I don't think any other city does," Brown said. "If you call before 9 am, you will get an inspection by 11:30."

Avoiding Regulatory Compliance Pitfalls in Leased Medical Buildings

Moderator: ***Ann Duginske,*** *Development Director Healthcare, Ryan Companies*

Tim Grote, *vice president of real estate, Allina Health*

Robert Imholte, *President, Fire Safety Resources*

Adam McLane, *senior healthcare architect, Ryan Companies*

- **Outpatient facility requirements.** Outpatient clinics face many of the same regulatory requirements as hospitals, but because of their "remote" locations they don't have facility staff who are there every day. Also, they are they are usually part of a multi-tenant office building, which can pose many challenges. "We [Allina] are heavily reliant on landlords and owners to make sure they are maintained correctly," Grote said.
- **The rules are changing** so clinics now must be on a hospital campus to be considered hospital-based; regulators are "grandfathering in" some clinics.
- **Leasing vs. owning.** Eighty percent of Allina's clinics are leased from a third-party owner. This preference is because it's cheaper to get into a lease. "It's also nice to have the option of easily leaving a site if necessary, due to with business and demographic changes," Grote said.
- **Off-site problem areas.** Off-site facilities face difficulty largely in four areas:
    1. "When the Joint Commission surveyor or fire marshal shows up at a leased site, one of the first things they ask for is the main fire alarm panel. If you're a tenant and you don't have access to that room, that can lead to problems," Imholte said.
    2. Inadequate maintenance of emergency equipment, which is subject to rigorous testing, inspection and maintenance requirements. Hospital maintenance staffs know and understand the requirements, but some landlords may not be aware of that, which can lead to deficiencies.
    3. In a multi-tenant building, the actions of other tenants can adversely affect survey results.
    4. Off-site clinics often forget that because they are a department of the hospital, they must do some of the same things, like have fire safety and emergency plans, and conduct fire and disaster drills.

- **Landlords must help handle problems:** "These are medical office buildings, but we run into a lot of people who want to treat these as office buildings. But you must know healthcare to own and operate these, and help tenants do what they want to do," Imholte said.
- **Consider an off-site Facilities Department.** "Not just property owners – we have had compliance issues with internal managers, as well," Grote said. "When it comes to going around a 12,000-square-foot clinic building checking fire extinguishers, we found we couldn't do that with facility staff. So we are doing that with a (dedicated) facilities team."

The 2018 Outlook for Medical Real Estate

Alan Whitson, *President of Corporate Realty, Design & Management Institute*

Source of Data: Revista, owner of one of the nation's largest medical buildings databases

- **Size and scope of the HCRE sector:** as of Dec. 31, 2017, there were 5,522 hospital/inpatient facilities in the U.S. with total square feet of 1.6 billion and total value of $640 billion. There are 32,158 medical office buildings, totaling 1.3 billion square feet, and total value of $372 billion. Twin Cities ranks 2nd nationally in terms of outpatient building deliveries and 4th for total deal volume.
- **Users own the majority of the MOB sector:** 51 percent hospitals and health systems; 19 percent private investors; 14 percent other providers; 11 percent REITs; and 5 percent government/other.
- **The MOB/outpatient sector is moving away from campus.** Since the mid-'80s, median miles to the nearest hospital has increased from 0.7150 miles to 1.67 miles.

- **HCRE transaction activity has been moderating.** After growing steadily from $12.5 billion (hospitals and MOB) in 2014 to $23.6 billion in 2017, transactions dropped to $8.1 billion in 2018. The buyer landscape is changing. In 2014 REITs accounted for 55 percent of transactions, private investors, 24 percent, and hospitals and health systems, 18 percent. In 2018 private investors account for 59 percent of volume; hospitals and health systems 31 percent; and REITS just 8 percent.
- **The good, the bad and the uncertain.** Good: Financial strength as measured by levels of cash is as high or higher than before the "Great Recession." Continuing operations will be funded by multiple sources including cash on hand, cash flow, philanthropy, and borrowing at low interest rates. Bad: Rising operating costs such as salaries, pharmaceuticals, and the transition from volume to value has reduced operating margins, meaning capital spending has to be very selective. Competition has become more intense from our "usual competitors" because of mergers and acquisitions. Uncertain: "Non-traditional" competitors are moving into healthcare. Regulatory uncertainty abounds. Size and scale of insurers affect reimbursement rates. There will be a continued shift from volume to value (better health care outcomes).

Forces Driving the Direction of Healthcare Real Estate

Michael Sharpe, *Davis Group*

Matt O'Keefe, *bdh+young Architects*

- **The retailization of healthcare.** Retail spaces are being pursued for healthcare development, which creates a cost issue, since that land tends to be a bit more expensive than sites we traditionally pursue. However, healthcare providers seem to be not going into strip center sites as much but looking to centrally located in the core hub of communities like Woodbury, in retail zoned areas.
- **Retail sites come with certain issues.** Allina put a clinic in an old furniture store in Maple Grove and had to get it signed off on by 49 other retailers because of a use restriction, Sharpe shared. There are also some hidden costs you have to account for as you move forward. "Big retail spaces can leave a little bit to be desired. I don't see that many retail centers' storefronts becoming all healthcare at this point," O'Keefe said. "A couple of years ago, we knew we started a little bit of a trend, but I don't see it changing to strictly 'We're going to a shopping center for healthcare.'"
- **The changing MOB marketplace.** With so many physicians employed by health systems, there are fewer and fewer players. "We're dealing quite a bit with specialty practices that own their MOB space but are finding that is becoming a competitive disadvantage, because it's another capital investment new physicians coming into the practice have to buy into," Sharpe said. A number of physician practices are looking to shed ownership because it's less of a hurdle for recruitment of physicians.
- **Are healthcare systems being their own developers?** Sharpe said many don't have the internal resources to do that, but healthcare companies are becoming more sophisticated in how they deal with real estate. "We don't think spec development works very well in healthcare. Healthcare providers are coming to developers like ourselves saying 'We have a market need, please help us with that.'" O'Keefe added, "Most healthcare players are hesitant to leverage the position they bring to the table. But we encourage all clients to look at a variety of developers. When you go through a competitive process, it always leads to a better product."

Twin Cities Orthopedics Clinics – Case Study in Replicating Success

(left to right) ***Rodney Hintz,*** *Vice President, Healthcare, RJM Construction;* ***Ross Hedlund,*** *Senior Vice President, CCIM, RPA, Frauenshuh Commercial Real Estate;* ***Nick Sperides,*** *Principal, NCARB, AIA, Sperides Reiners Architects;* ***Aaron Johnson,*** *Chief Operating Officer, Twin Cities Orthopedics*

Purging Wasted Space When Designing a Clinic in a Multi-Tenant MOB

Ayman Arafa, *Senior Architect, Ryan Companies*

Lessons Learned from 25 Years of Building Healthcare Facilities

Mike Becchetti, *(left) CHC, LEED AP, Construction Executive, Kraus-Anderson;* ***Dwight***

Elthon, *(right) MBA, LEED AP, Manager Design & Construction at North Memorial Health and Adjunct Professor at University of Minnesota in Construction Management Program*

Tips, Tricks of the Trade & Traps to Avoid

Paul Cassidy, *Cambridge Sound Management*

Tom Hume, *nora systems, Inc*