Education Partners for Florida Hospitals

PYA | **FHA**

5 Key Components of a Successful Hospital Real Estate Program

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Complex Challenges, Smart Solutions
For Healthcare Real Estate

Introduction

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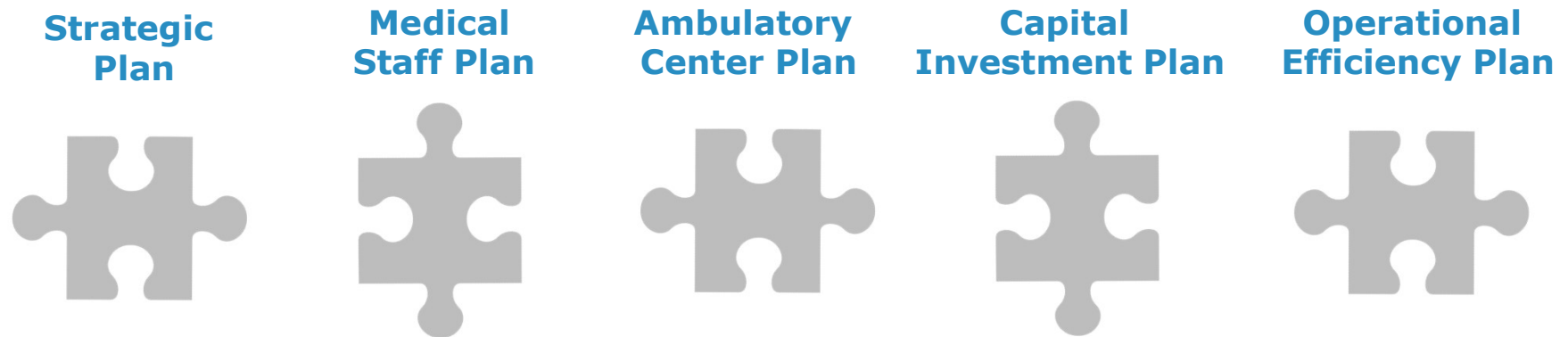
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Healthcare Delivery is evolving

- Population is aging

- Costs are increasing

- Reimbursements are declining

- Competitors are consolidating

- Disruptors are disrupting

More than ever, Health Systems must balance quality, access, operations and strategy in a fiscally responsible manner to remain relevant.

A well organized and solution-oriented real estate department can provide considerable value to the Health System.

HEALTH SYSTEM INITIATIVES

| Strategic Plan | Medical Staff Plan | Ambulatory Center Plan | Capital Investment Plan | Operational Efficiency Plan |

"Real estate should follow strategy"

Strategic Real Estate Plan

Real estate departments are "enablers" for the organization

There are 5 key attributes to every successful Hospital Real Estate Program:

1. Consistent Portfolio Management and Reporting

2. Space Optimization and Consolidation

3. "Mindset" for Operational Efficiencies

4. Strong Compliance Program and Staff Training

5. Ability to Leverage Technology

#1 - PORTFOLIO MANAGEMENT AND REPORTING

Challenge

- **Real estate responsibilities and decision-making are often distributed across the organization**

    – Hospitals within a system

    – Departments / VP's

    – Geographies

- **There is not a single repository for all real estate holdings**

    – Legacy assets

    – Assets acquired through mergers / acquisitions

    – Organizational silos

Solution

- **Create single repository/database ("Rent Roll") for all real estate holdings and economic obligations**

    – Hospital as Tenant leases (expense to Hospital)

    – Hospital as Landlord leases (income to Hospital)

    – Sub-leases / Timeshare leases

    – Ground leases

    – Owned Land Inventory

- **Analyze each facility location, with information relating to size, age, land area, use and ownership entity**

- **Identify critical lease options (renewals, ROFO / ROFR, termination rights, etc.)**

- **Create structure around updating and distributing Rent Roll on monthly basis to system stakeholders**

Best Practice: Rent Roll

SUITE	TENANT	SQUARE FEET	% OF BUILDING	LEASE TERM		BEGIN	RENTAL RATES PER RSF			ANNUAL PAYMENTS			OPTIONS
				LEASE START	LEASE EXPIRATION		BASE RENT	OP EXP	TOTAL RENT	BASE RENT	OP EXP	TOTAL RENT	
Main Street MOB - 123 Main Street, Anytown, USA													
Current Leases													
100	Imaging	9,035	12.5%	6/1/2008	5/31/2026	Current	$18.75	$9.30	$28.05	$169,406	$84,026	$253,432	Renewal: (1) renewal term of (5) years
						Jun-20	$19.59	$9.30	$28.89	$177,009	$84,026	$261,035	
						Jun-21	$20.46	$9.30	$29.76	$184,840	$84,026	$268,866	
						Jun-22	$21.35	$9.30	$30.65	$192,906	$84,026	$276,932	
						Jun-23	$22.27	$9.30	$31.57	$201,214	$84,026	$285,240	
						Jun-24	$23.22	$9.30	$32.52	$209,771	$84,026	$293,797	
						Jun-25	$24.19	$9.30	$33.49	$218,585	$84,026	$302,611	
110	Café	504	0.7%	2/1/2012	1/31/2020	Current	$6.70	$9.30	$16.00	$3,377	$4,687	$8,064	
120	OP Rehab	11,375	15.7%	9/1/2010	8/30/2021	Current	$18.75	$9.30	$28.05	$213,281	$105,788	$319,069	
						Sep-20	$19.45	$9.30	$28.75	$221,258	$105,788	$327,045	
130	Behavioral Health	1,565	2.2%	12/1/2016	11/31/2022	Current	$16.30	$9.30	$25.60	$25,510	$14,555	$40,064	
						Dec-19	$17.07	$9.30	$26.37	$26,711	$14,555	$41,266	
						Dec-20	$17.86	$9.30	$27.16	$27,949	$14,555	$42,504	
						Dec-21	$18.67	$9.30	$27.97	$29,225	$14,555	$43,779	
200	Smith Orthopedics	24,538	33.9%	1/1/2013	12/31/2024	Current	$18.20	$9.30	$27.50	$446,592	$228,203	$674,795	Renewal: 1 of 2 - (5) Year Renewal
						Jan-20	$18.75	$9.30	$28.05	$460,088	$228,203	$688,291	Renewal: 2 of 2 - (5) Year Renewal
						Jan-21	$19.31	$9.30	$28.61	$473,853	$228,203	$702,057	
						Jan-22	$19.88	$9.30	$29.18	$487,894	$228,203	$716,098	
						Jan-23	$20.47	$9.30	$29.77	$502,216	$228,203	$730,420	
						Jan-24	$21.06	$9.30	$30.36	$516,825	$228,203	$745,028	
300	Oncology	9,234	12.8%	7/1/2018	6/30/2023	Current	$18.20	$9.30	$27.50	$168,059	$85,876	$253,935	
						Jul-20	$19.03	$9.30	$28.33	$175,677	$85,876	$261,553	
						Jul-21	$19.87	$9.30	$29.17	$183,523	$85,876	$269,400	
						Jul-22	$20.75	$9.30	$30.05	$191,605	$85,876	$277,482	
310	Baptist Podiatry	3,223	4.5%	4/1/2015	3/31/2020	Current	$18.75	$9.30	$28.05	$60,431	$29,974	$90,405	
320	Neurology	2,583	3.6%	8/1/2014	7/31/2021	Current	$18.75	$9.30		$48,431	$24,022	$72,453	
325	VACANT	2,321	3.2%			$0	$0.00	$9.30	$0.00	$0	$21,585	$0	
330	VACANT	7,965	11.0%			Aug-20	$19.31	$9.30	$28.61	$49,880	$24,022	$73,902	
						$0	$0.00	$9.30	$0.00	$0	$74,075	$0	
Total Current		**72,343**								**Current Year Total**	$1,184,967	$622,737	$1,786,119
										Total	$5,666,119	$2,749,061	$8,319,521

	Total Units	Total Area	Percentage	Monthly Rent	Annual Rent
Occupied	10	72,343	90%	$148,843	$1,786,119
Vacant	2	7,965	10%		
Total	**12**	**80,308**	**100%**	**$148,843**	**$1,786,119**

Expected Benefits

- Better information = better decisions

    - Identifies duplication of services

    - Identifies "gaps" in service delivery by location

    - Identifies areas for consolidation of services / locations

    - Identifies underutilized assets

    - Provides comparative data to identify areas for rent and OpEx savings

- Single repository protects against knowledge gaps within the organization

- Helps avoid compliance pitfalls.

    - Expired leases

    - Incorrectly billed rent / expense treatment

    - Incorrect square footage

Additional Information Link:
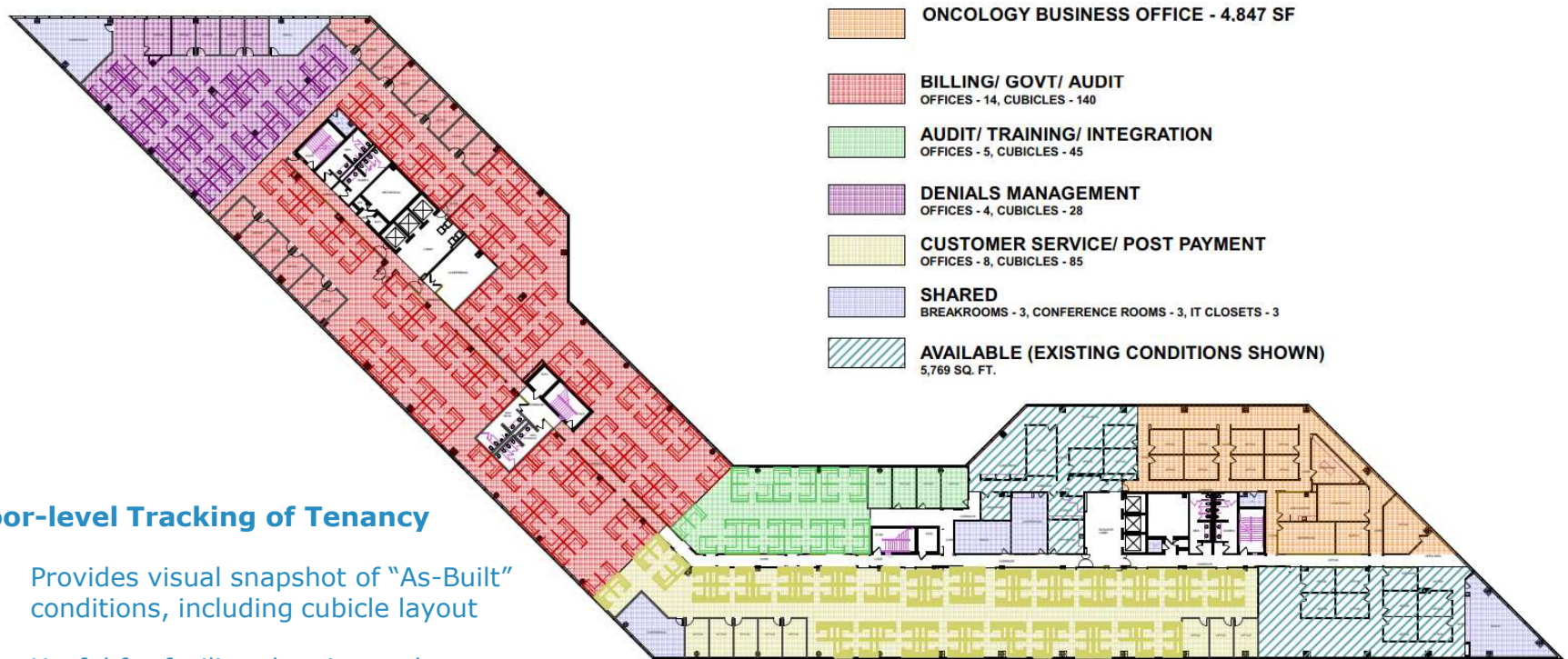
Ballad Health Case Study

Challenge

- **Independent "location" decisions are made within organization without global context**

  - Outpatient clinical operations / depts

  - Physician expansions / relocations

  - Administrative staff requirements

  - Strategic Land Acquisitions

- **Planning initiatives are not always communicated across organization**

  - Admin growth projections

  - Physician recruitment

  - Acquisitions

- **Stakeholders may have conflicting goals. How does the system prioritize decision?**

  - Financial impact (Cost vs value)

  - Clinical result

  - Relationship status

Solution

- **Create additional tools that inform decision-making:**

  - Floorplate Planning

  - Stacking Plans

  - Master Programming (Admin. head counts)

  - Vacancy Reports

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This is the hardest component because it impacts more stakeholders

Best Practice: Floorplate Planning

ONCOLOGY BUSINESS OFFICE - 4.847 SF

BILLING/ GOVT/ AUDIT
OFFICES - 14, CUBICLES - 140

AUDIT/ TRAINING/ INTEGRATION
OFFICES - 5, CUBICLES - 45

DENIALS MANAGEMENT
OFFICES - 4, CUBICLES - 28

CUSTOMER SERVICE/ POST PAYMENT
OFFICES - 8, CUBICLES - 85

SHARED
BREAKROOMS - 3, CONFERENCE ROOMS - 3, IT CLOSETS - 3

AVAILABLE (EXISTING CONDITIONS SHOWN)
5,769 SQ. FT.

- **Floor-level Tracking of Tenancy**

  – Provides visual snapshot of "As-Built" conditions, including cubicle layout

  – Useful for facility planning and occupancy cost allocations between departments

  – Provides adjacency planning

  – Requires space planner / architect

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Best Practice: Stacking Plan
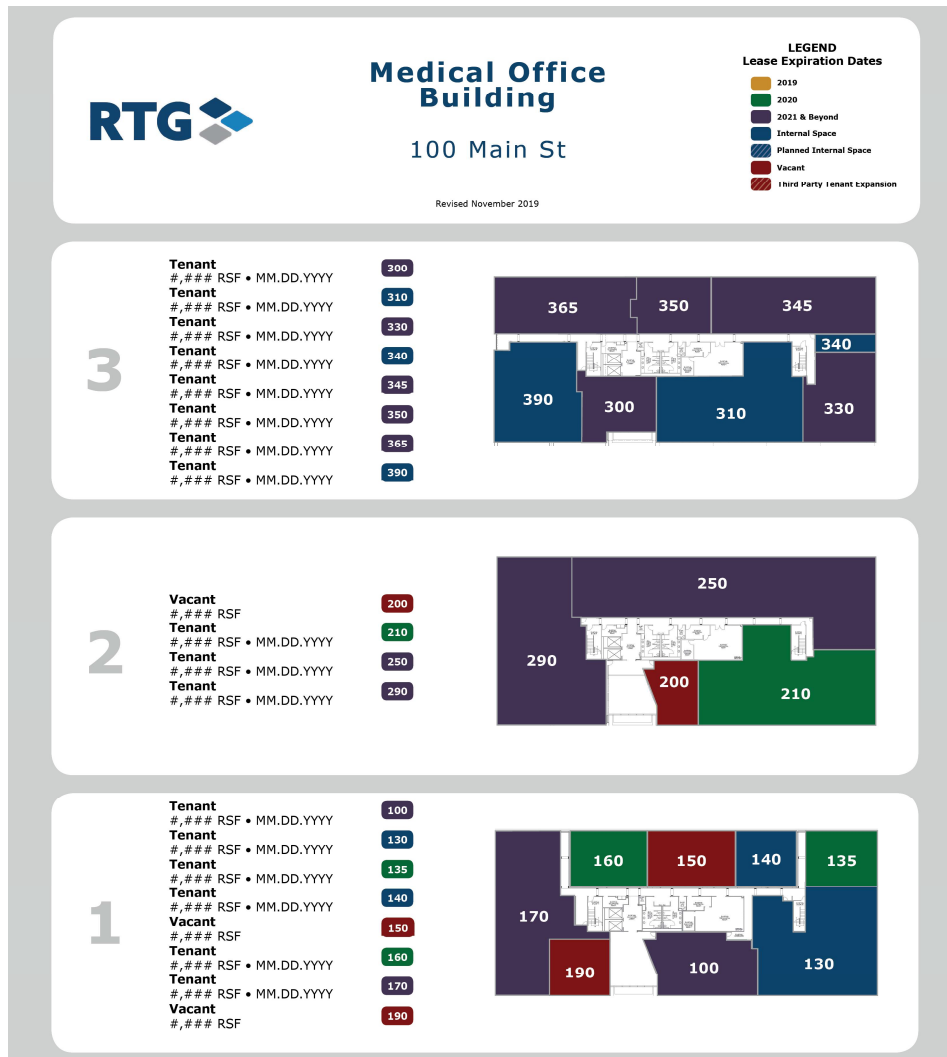
- **Building-level tracking of tenancy**
  - Provides visual snapshot of building occupancy and rent roll expirations
  - Useful to discuss leasing activity in buildings (renewals, expansions, relocations, etc.)
  - Provides adjacency planning

Best Practice: Department Planning / Master Programming

Department	Current FTE Count			Building	Suite	Current SF	Current FTE / 1,000 SF	Occupancy Cost per SF	Occupancy Cost / FTE	5 Year Growth Projection			Total (Current + 5-Yr. Growth)			
	Cubicle Count	Office Count	Total Count							Cubicle Count	Office Count	Total Count	Cubicle Count	Office Count	Total Count	Growth %
Total Government / Audit / Billing / PPD																
Audit	13	1	14	Building A	Suite 100	2,000	7.00	$ 25.00	$ 3,571	3	-	3	16	1	17	21%
Medicare Billing/Collections	30	2	32	Building A	Suite 100	4,500	7.11	25.00	3,516	6	1	7	36	3	39	22%
Medicaid Billing/Collections	15	1	16	Building A	Suite 100	2,000	8.00	25.00	3,125	11	1	12	26	2	28	75%
Commercial Billing	14	1	15	Building A	Suite 100	2,300	6.52	25.00	3,833	2	-	2	16	1	17	13%
Government Post Payment Review	22	1	23	Building A	Suite 100	4,000	5.75	25.00	4,348	7	1	8	29	2	31	35%
Current Growth Space	3	1	4	Building A	Suite 100	600	6.67	25.00	3,750	-	-	-	3	1	4	0%
Total Government / Audit / Billing / PPD	97	7	104			15,400	6.75	$ 25.00	$ 3,702	29	3	32	126	10	136	31%
Ins.Verification / Pre-Reg																
Insurance Verification	22	1	23	Building B	Suite 200	4,500	5.11	$ 22.00	$ 4,304							
Surgery Pre-Registration	43	1	44	Building B	Suite 200	8,000	5.50	22.00	4,000							
Radiology Pre-Registration	46	2	48	Building B	Suite 200	10,000	4.80	22.00	4,583							
Sleep/POB/Infusion	16	1	17	Building B	Suite 200	4,000	4.25	22.00	5,176							
Current Growth Space	3	1	4	Building B	Suite 200	1,000	4.00	22.00	5,500							
Total Insurance Verification / Pre-Reg	130	6	136			27,500	4.95	$ 22.00	$ 4,449							
Training/Audit/Integration																
QA Auditors	13	1	14	Building C	Suite 300	3,000	4.67	$ 20.00	$ 4,286							
Integration Specialist	7	1	8	Building C	Suite 300	1,500	5.33	20.00	3,750							
Revenue Cycle Trainers	9	1	10	Building C	Suite 300	1,500	6.67	20.00	3,000							
Total Training/Audit/Integration	29	3	32			6,000	5.33	$ 20.00	$ 3,750							
GRAND TOTAL	256	16	272			48,900	5.56	$ 22.70	$ 4,081							

- **Department-level tracking of current and future space needs**
  - Establishes baseline for long-term master planning
  - Provides detailed info on office utilization and space efficiency
  - Compares departments and location occupancy cost per full time employee ("FTE")
  - Typically would require space planner / architect for efficiency modeling

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#2 - SPACE OPTIMIZATION AND CONSOLIDATION

Expected Benefits

- Knowing vacancy / adjacency information helps inform operational decisions

- Helps reduce / avoid unnecessary renovation costs

- Use information for medical staff / administrative office planning (office expansions)

- Avoid duplication of services / personnel

- Create meaningful adjacencies (clinical and administrative)

- Re-purpose under-utilized space, if possible

Additional Information Link:

Optimization White Paper

#3 – "MINDSET" FOR OPERATIONAL EFFICIENCIES

Challenge

- **In addition to real estate following strategy, and real estate being compliant, a hospital real estate program must be efficient with cost**
  - Owned Properties
    - Service Contracts
    - Utility Management
    - Property Taxes
    - Lease economics to other tenants
  - Leased Properties
    - Rent economics
    - Outpatient clinical operations / depts
- **Strong fundamentals in Property Management and customer satisfaction lead to positive Tenant (Physician) Relationships**
  - Tenant Satisfaction Surveys
  - Tenant Appreciation Events

Solution

- **Develop cost tracking benchmarks and portfolio-wide comparisons**
  - What is your market rent (income / expense) compared to others in market (FMV Rent Opinion)?
  - How does your operating expenses per building compare against your portfolio? Overall market?
- **Create operational plans by building / campus**
  - How much capital investment (renovation) is expected for next three years?
  - What is the "utilization profile" of your buildings? Percentage of clinical versus non-clinical; Primary care versus specialty care; Hospital services per building.
- **Consider consolidation of certain service contracts**
- **Ask tenants how you are performing. Measure results**

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#3 – "MINDSET" FOR OPERATIONAL EFFICIENCIES

Best Practice: Operating Expense Summary

Overview

	Baseline	Bldg. 1	Bldg. 2	Bldg. 3
Administrative	$ 1.17	$ 1.08	$ 1.25	$ 1.01
Cleaning and Janitorial	$ 1.81	$ 1.72	$ 1.57	$ 1.32
Repairs and Maintenance	$ 1.02	$ 0.88	$ 0.88	$ 0.64
Utilities	$ 2.34	$ 2.66	$ 2.15	$ 2.60
Security	$ 0.16	$ 0.25	$ 0.15	$ 0.28
Management Costs	$ 0.26	$ 0.32	$ 0.20	$ 0.28
Insurance	$ 0.14	$ 0.16	$ 0.15	$ 0.14
Property Taxes	$ 3.61	$ 3.61	$ 3.25	$ 3.76
Other	$ -	$ -		$ -
Total	**$ 10.52**	**$ 10.69**	**$ 9.60**	**$ 10.03**
% of Baseline		**102%**	**90%**	**104%**

Comparison Against Baseline

	Baseline	Bldg. 1	Bldg. 2	Bldg. 3
Administrative	$ 1.17	$ (0.09)	$ 0.08	$ (0.16)
Cleaning and Janitorial	$ 1.81	$ (0.10)	$ (0.24)	$ (0.50)
Repairs and Maintenance	$ 1.02	$ (0.14)	$ (0.14)	$ (0.38)
Utilities	$ 2.34	$ 0.32	$ (0.19)	$ 0.26
Security	$ 0.16	$ 0.08	$ (0.01)	$ 0.12
Management Costs	$ 0.26	$ 0.06	$ (0.06)	$ 0.02
Insurance	$ 0.14	$ 0.02	$ 0.01	$ (0.01)
Property Taxes	$ 3.61	$ 0.00	$ (0.36)	$ 0.15
Other	$ -	$ -	$ -	$ -
Total	**$ 10.52**	**$ 0.16**	**$ (0.92)**	**$ (0.49)**

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Best Practice: Operations Dashboard

Building Engines Report — January 1-May 31, 2019

135 TOTAL USERS TO DATE
98% ADOPTION RATE

AVG. RESPONSE TIME TO WORK ORDER COMPLETION **2H 52M**

567 TOTAL WORK ORDERS THIS PERIOD
166 PROPERTY MGR GENERATED
8 PROPERTY MGR FOR TT
393 TENANT GENERATED
1:2.4 PM TO TT GENERATED

WORK ORDER RATINGS FROM 23 RESPONDENTS

RESPONSE RATE	18%
👍 GOOD	100% (23)
✋ AVERAGE	0% (0)
👎 POOR	0% (0)

AVERAGE 2019 "GOOD" RATING **100%**

5/31/19 PREVENTIVE MAINTENANCE SCORECARD

PM TASKS	#
Fired*	206
Open	0
Completed	206
Past Due	0
% Completed	100%

*Since 1/1/2019

Data from 1/1/2019 through 5/31/2019

Used with permission from Physicians Realty Trust

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Expected Benefits

- Consolidation of contracts can lead to savings and additional quality control. Include success targets utilizing KPI for vendors. Target 8-12% decrease in overall operational costs.

- Energy Management should be a specific performance initiative across the portfolio.

- Consistently reconcile property taxes across various jurisdictions.

- Determine the "true cost" of vacant / under utilized properties. Are these costs identifiable by property or are they "rolled up" into an overall departmental budget?

- Do not forget about Tenant Satisfaction / Patient Satisfaction. Building operations can have impact on HCAHPS survey.

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Challenge

- **Real estate has a high degree of compliance risk due to referral relationships between hospitals and physicians.**

  - Hospital-owned MOB's leased to physicians

  - Physician-owned MOB's leased to hospital

  - Acquisition of physician-owned MOB (stand-alone transaction)

  - Acquisition of physician-owned MOB (as part of practice acquisition)

  - Syndication of real estate

  - Development of real estate

Solution

- **Create a comprehensive lease administration and compliance policy that includes:**

  - Policies and Procedures in place for real estate contracts.

  - Annual training of staff.

  - Lease testing (sample size) addressed in Annual Audit Plan.

  - FMV rent studies on regular cycle across portfolio.

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Best Practice: Real Estate Compliance Pitfalls

Compliance Pitfalls	Transactional	Operational
Rent	Rent Rates Rent Abatements Rent Escalators	Rent Collection Rent Escalation Late Fees Holdover Premiums
Square Footage	Identifications and Size of Premises	Space Creep
Tenant Improvements	TI Allowances	TI Overages
Operating Expenses	Types of Leases Operating Expense Components	Operating Expense Reconciliations
Off-Lease Benefits	Unaccounted for in the Rent Rate Not mentioned in the Lease	Medical Waste Removal Parking and Valet Services Telephone and Internet Meals
Timeshare/Space-sharing Arrangement	Defining the Premises Space Allocation Rent Rate Determination	Space Creep Schedule Enforcement Services Supplies and Staffing Data Security Issues HIPAA Concerns

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Expected Benefits

- Aligns work efforts across departments (legal, compliance, audit, real estate).

- Improves leasing function and interaction with medical community.

- Mitigate risk of penalties for non-compliance.

Additional Information Link:

RTG Best Practice - 5 Key Transaction Compliance Pitfalls

Challenge

- **Investment in technology for real estate may not be a high priority for a health system.**

- **Procurement process and integration into other hospital-based systems (accounting, capital/operating budgets)**

- **Technology is rapidly changing;**

    - When to invest in tech start-ups

    - Impact of tech companies once acquired

    - Security of your data?

- **Training and staff adoption required for return on investment**

Solution

- **Evaluate in-place technologies**

- **Create Gap Analysis / prioritize needs**

    - Cost

    - Adoption Rate

    - Impact to organization

    - Security

- **Evaluate alternatives for needs**

    - Build vs. Buy

    - Hire experts to assist in identification / negotiation and implementation

#5 – LEVERAGE TECHNOLOGY

Opportunities to leverage technology within the real estate department include:

- Space Stacking Plans

  PlanGrid · Adobe Illustrator · AUTOCAD · matterport

- Construction Costs

  e-Builder A TRIMBLE COMPANY · PMWeb · kahua

- Property Management / Accounting

  YARDI · appfolio PROPERTY MANAGER · CoStar · lease accelerator

- Work Orders

  YARDI · Building Engines

Is your investment in staff training sufficient for "next generation" technologies?

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Best Practice: Portfolio Dashboard
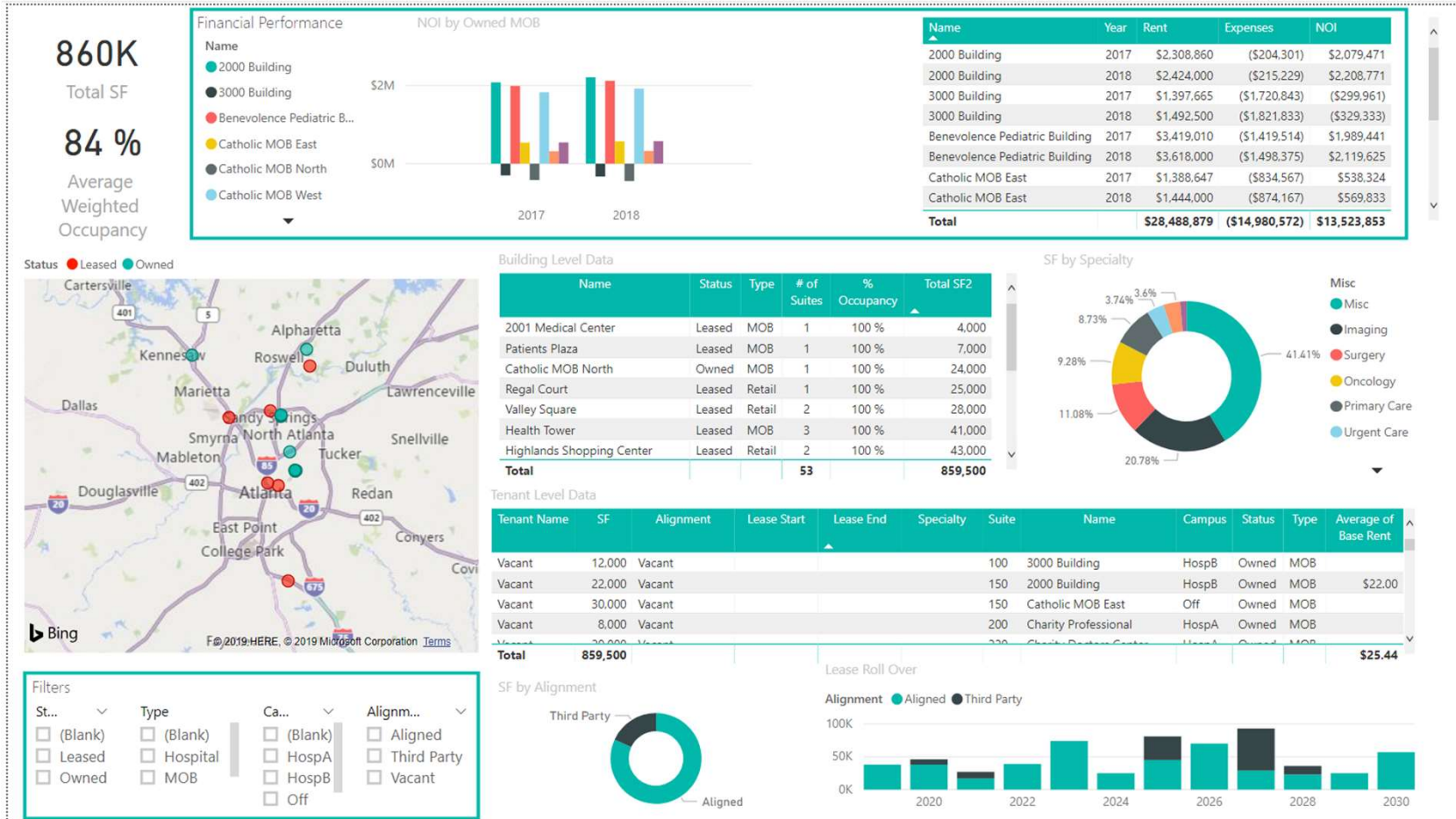
Expected Benefits

- More efficient execution on real estate location decisions.

- Timely response on work orders improves tenant satisfaction.

- Tracking of historical construction costs leads to better forecasting.

- Integration of accounting and property management helps anticipate compliance risk.

Additional Information Link:

RTG Best Practice - Increasing Profitability of Your MOB Through Technology

Begin work with a focus first on

Portfolio management and reporting

and next on

Ability to leverage technology

QUESTIONS?

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