

WHITE PAPER

HEALTHCARE REAL ESTATE PORTFOLIO MANAGEMENT



Complex Challenges, Smart Solutions
For Healthcare Real Estate



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HEALTHCARE REAL ESTATE PORTFOLIO MANAGEMENT: SHIFTING THE APPROACH TO HEALTHCARE REAL ESTATE MANAGEMENT

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In the ever-growing competitive healthcare landscape, health systems, physician practices, and other providers are constantly challenged to operate more efficiently. They must simultaneously balance the dynamics of continuous growth and high-quality care with a mandate to contain costs and streamline operations. These challenges can make it easy for healthcare providers to overlook the enormous potential for strategic and financial opportunities that may lie within their real estate portfolios. With growing real estate portfolios containing patient care facilities, administrative offices, and vacant land, numerous opportunities for improvement likely exist. A holistic approach to real estate portfolio management, one where real estate is proactively tracked, planned, and managed, can enable strategic alignment, enhance the delivery of services, improve patient and provider relationships, and offer a significant competitive advantage.

This Realty Trust Group white paper explores the distinction between traditional property management, and comprehensive real estate portfolio management and addresses the potential benefits that may be realized when healthcare providers successfully implement these strategies.

Introduction

Many healthcare providers are quick to tell you they are “a healthcare company, not a real estate company.” Yet, most healthcare providers have significant capital investments in their real estate portfolios. Between the various inpatient care and emergency facilities, medical and administrative offices, storage warehouses, and vacant land, healthcare providers often own or lease hundreds of thousands, if not millions, of square feet of real estate. Collectively, real estate and facilities typically equate to one of the largest assets on the balance sheet, and also one of the largest collective expenses on the income statement. Even with the growth of virtual care and telehealth, real estate is, and will continue to be, a critical component in the delivery of healthcare. So, while hospitals may not be a real estate company, most providers are inherently in the real estate business.

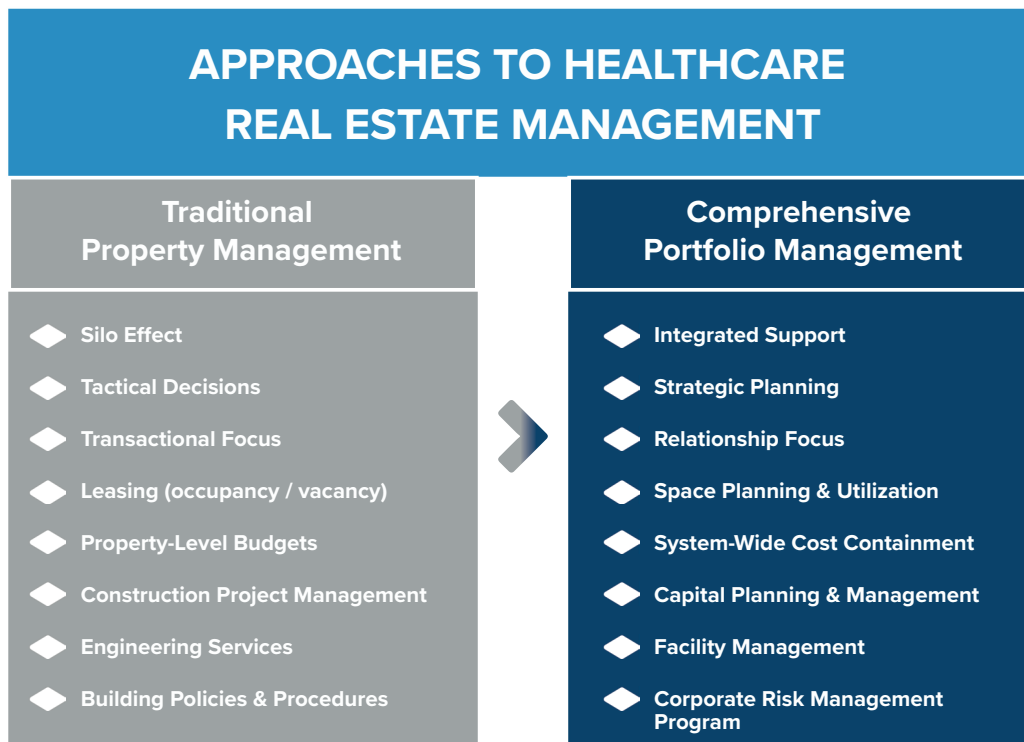
Whether growth has occurred organically over time or incrementally through mergers and acquisitions, healthcare organizations often fail to grasp the full magnitude of their real estate portfolios. As a result, they tend not to allocate the necessary attention and resources to manage the portfolio properly. Many healthcare providers view real estate solely through the lens of property management. They may even use the terms “real estate” and “property management” interchangeably, without a clear delineation or understanding of the underlying distinctions, functions, and responsibilities, thereby overlooking potential operational and strategic opportunities.

In contrast, many progressive healthcare providers have transitioned their perspective on real estate from simply a “necessity,” to a key “strategic asset.” When proactively tracked, planned, and managed, real estate can be a valuable tool to enable organizational strategy, align with physician partners, expand market share, and gain an invaluable competitive advantage.

Understanding the Differences

Property Management vs. Portfolio Management:

Generally, property management is the tactical, day-to-day operational approach to real estate management. Conversely, portfolio management is a broader, holistic approach, grounded in alignment with organizational strategy. While both functions are critical, it is important to understand the fundamental differences, corresponding roles and responsibilities, and specific applications within the healthcare industry.



Key property management responsibilities may include property-level budgeting, maintenance and work order oversight, vendor coordination, minor construction projects, and enforcement of building rules and regulations. In some cases, property managers may also have certain lease administration and financial management responsibilities. When managing medical office buildings and other healthcare facilities specifically, property managers may also coordinate infection control protocols, medical waste vendors, and HIPAA compliance standards. All these functions are imperative to the ongoing management and operation of a medical property, but they are often focused on a single property or subset of properties, without consideration of bigger picture considerations across the system's portfolio.

Expanding upon the foundation of property management, healthcare portfolio management takes a broader, more strategic, life-cycle approach to real estate planning, execution, and management. As the name implies, portfolio management takes a comprehensive view of the overall portfolio, not just a single property or subset of properties, to assess the strengths, weaknesses, opportunities, and threats across the portfolio and the competitive marketplace. As an example, specific healthcare portfolio management considerations may include space utilization studies in conjunction with service line planning and expansion initiatives. This effort may include an analysis of the current service mix within a building or market, future lease rollovers, and potential opportunities to better utilize clinical space.

Further addressed in the following sections, some of the key elements of healthcare real estate portfolio management include:

-  Strategic alignment with the healthcare provider's organizational objectives,
-  Portfolio tracking and reporting tools to promote informed decision-making,
-  Relationship management between the provider's executive leadership team, physician tenants, and other key stakeholders,
-  An enterprise-wide approach to high-quality facility management requirements and ensuring a safe and healthy environment of care, and
-  A thorough understanding and integration of healthcare regulatory compliance considerations into real estate policies and procedures.

Strategic Alignment

Real estate follows strategy, not the other way around. Real estate decisions should be evaluated relative to the healthcare provider's organizational objectives and healthcare services platform. Common healthcare-driven strategic objectives might include physician alignment initiatives, service line expansion, and market share growth.

For example, if a health system has a stated goal to grow its primary care market share by five percent (5.0%), then the real estate team can evaluate opportunities to leverage real estate to support this goal. Common strategic considerations may include:

- Are there market service gaps?
- How do we quickly and efficiently respond to these opportunities?
- What is the most effective real estate solution?

Contrast this strategic approach to an all-too-common scenario where the health system (perhaps inadvertently) allows real estate to dictate strategy. In the same example, a property manager might receive an inquiry about available space for a primary care practice (note that there is no strategic context). The property manager may simply provide a list of the vacant space in a hospital-owned medical office building without considering other potential locations and opportunities. Assume the health system then decides to locate the practice in the vacant space and invests \$500,000 of capital to renovate the space. The group's patient volumes are steady, but the older population in the market is hesitant to change providers and the group sees little new patient growth. Meanwhile, a competing practice locates in an emerging submarket and quickly grows market share as new families move into the area.

In this example, the health system allowed the convenience of existing space to outweigh the strategic objective. While the real estate team was happy to backfill the vacant space, they invested precious capital and failed to meet the strategic goal to grow market share and, in fact, may have lost market share to the competing practice.

To avoid similar scenarios, many progressive healthcare providers have appointed an executive-level Real Estate Director or Portfolio Manager with the ultimate responsibility for the real estate portfolio and related decisions. This real estate executive is integrated with other C-Suite executives, often reporting directly to the Chief Strategy or Chief Financial Officer. This structure helps ensure executive-level focus on real estate decisions, alignment across key organizational functions (e.g., strategy, finance, operations, facilities, legal), and a single point of accountability for real estate decisions and performance.

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**Real Estate
 Follows
 Strategy, Not
 The Other
 Way Around.”**

Portfolio Tracking and Reporting

Knowledge is power. This is especially true when it comes to effectively managing a large, dynamic real estate portfolio.

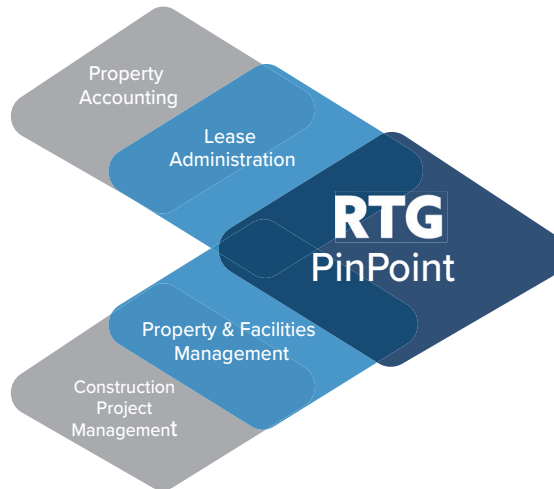
Spreadsheets can certainly be valuable tools for portfolio tracking, but they also present numerous challenges — outdated versions, multiple users, static data, lack of visualization, just to name a few. Alternatively, a number of integrated portfolio database platforms can streamline tracking and reporting functions. When properly developed and deployed, these database tools can be utilized to track both traditional real estate metrics (e.g., occupancy levels, average rents, etc.), and additional healthcare and strategic planning metrics such as tenant or specialty mix, unique patient encounters, and even whether a particular office is subject to joint commission inspections. Prospective planning measures such as future lease rollovers and occupancy cost projections can also provide powerful information for future planning scenarios.

Customized reporting tools provide real-time portfolio statistics, promote transparency, and keep executives up to date to empower informed decision-making across the organization. Standing real estate committee meetings provide a collaborative opportunity for the executive team to align real estate planning with key strategic initiatives.

RTG PinPoint is a web-based reporting platform designed to enable healthcare leadership to effectively and efficiently manage their entire real estate portfolios based on data-driven insights, and to ensure real estate is aligned with organizational objectives.

Common Issues

- Data spread across multiple technology platforms
- Outdated and inaccurate data
- Inability to develop ad hoc reports
- Lack of visualization tools
- Limited user access



RTG PinPoint Solutions

- Data consolidated in a single platform
- Real-time connectivity improves data integrity
- Fully customizable reporting and filtering capabilities
- User-friendly visualization tools
- Controlled user access via interactive secure web-based portal



To learn more about this reporting platform, download our flyer [here](#) or try our demo at bit.ly/PinPointRTG.

Relationship Management

Real estate is often perceived as largely transactional. While transactions are certainly a large part of traditional real estate, successful portfolio management takes a different approach, prioritizing long-term relationships over episodic, one-time transactions. Thus, in many ways, the concept of relationship management becomes inherent in the real estate team.



The Hospital-Physician Relationship Goes Far Beyond Real Estate, But Real Estate Is Often A Key Component Of The Overall Relationship."

The Hospital-Physician relationship goes far beyond real estate, but real estate is often a key component of the overall relationship. In instances where the health system is the landlord, from the initial lease negotiation to the ongoing management and operation of the building, real estate commonly becomes the face of the organization. Just as proper real estate management can have a positive influence on the relationship, poor real estate management can have an even greater negative impact on the overall relationship. It is critical for the real estate team to maintain clear lines of communication and appropriately manage expectations of all parties, which, in addition to the health system and physicians, may also include attorneys, architects, and contractors.

Many larger health systems and other providers have taken it a step further, specifically leveraging real estate as an alternative tool to achieve strategic alignment of interests with the physician community. When properly structured in accordance with the applicable regulatory requirements (as further addressed below) real estate joint ventures and other physician real estate ownership opportunities can be valuable tools to develop and secure long-term physician relationships.

Enterprise Facility Management

The “Environment of Care” is likely the largest single factor in the overall patient experience. From the moment a patient pulls into the parking lot, long before they encounter a healthcare provider, their perception is immediately influenced by everything from landscaping, signage, and parking availability. Once they enter the building, factors such as the temperature, lighting, wayfinding, and cleanliness all further impact their experience and perception of the facility and the provider.

Enterprise facility management is a comprehensive approach that goes beyond traditional maintenance and engineering to align all facility support services and ensure an environment conducive to a positive interaction between the patient and provider and the delivery of high-quality healthcare services.

Effective facility management requires a multi-faceted understanding of the multiple support services and the high level of required interaction. In addition to the patient experience considerations noted above, numerous and varied regulatory compliance items must be monitored and addressed. Although many of the regulatory items are “hidden” from plain view and most people walking through the building will never understand or appreciate them, these regulatory requirements are critical to the success and operation of a healthcare facility. Essential building systems such as fire and life safety, HVAC and indoor air quality, emergency power, and IT systems must be maintained. Environmental services also provide continuous, in-line infection control services, ensuring a healthy environment for both patients and providers.

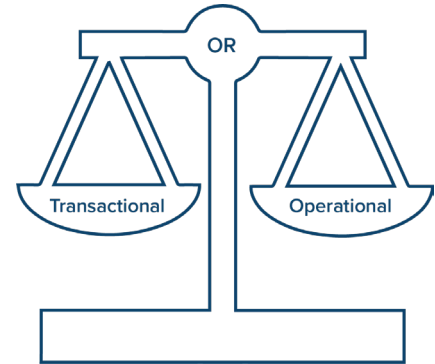
Whether facility management services are provided internally or via an outsourced partner, healthcare providers should develop and implement certain facility management standards to ensure that all buildings within the portfolio are maintained at an appropriate level to support the level of care being provided. Technology and automated building control systems are essential tools to monitor and proactively identify potential issues and avoid any interruption of patient services.

 WORK REQUESTS	 PREVENTATIVE MAINTENANCE	 LIFE CYCLE MANAGEMENT	 QUALITY CONTROL & COMPLIANCE	 LEARNING & PROCESSES	 ENERGY TO CARE
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Eye on Compliance

Healthcare real estate arrangements can present numerous compliance pitfalls, any of which can trigger a violation under the Stark Law and Anti-Kickback Statute. An effective portfolio management approach requires a comprehensive understanding of the applicable statutes and integration of proper controls into corporate real estate policies and procedures.

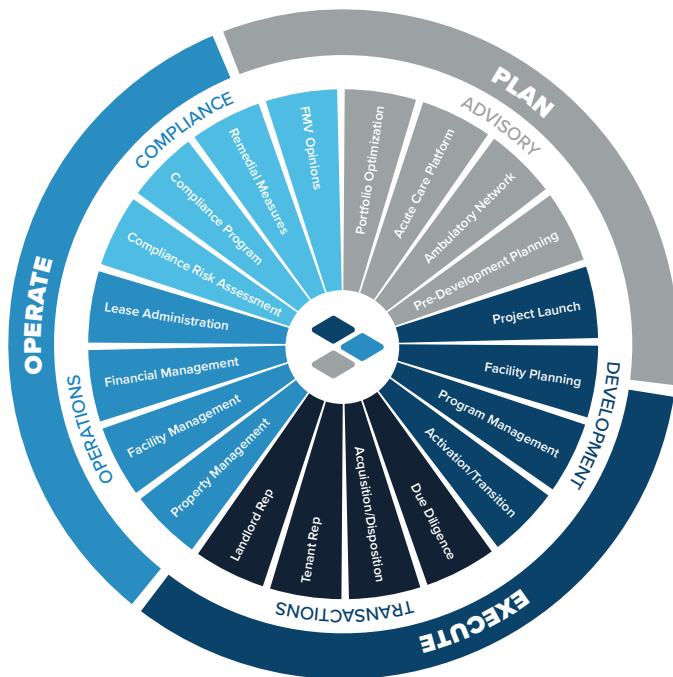
Compliance pitfalls associated with lease arrangements can be generally classified as transactional or operational. Transactional compliance pitfalls stem from the lease arrangement itself and the specific structure of the deal. Operational compliance pitfalls, on the other hand, are derived from the subsequent administration of the lease arrangements. Each type of pitfall can expose healthcare providers to significant liability. Many providers place significant emphasis on the transactional process, but sometimes fail to ensure the same level of ongoing operational oversight. As providers evaluate their real estate portfolio and operational practices, it is important to consider these risks and implement mitigation measures. Integrating risk mitigation protocols into a provider's real estate operation reduces the risk of significant fines and penalties resulting from non-compliance with the requisite healthcare laws and regulations.



To read more about compliance pitfalls, visit our blog, "[Healthcare Real Estate Compliance](#)."

The RTG Difference

Realty Trust Group (RTG) brings together a unique balance of healthcare and real estate experience. We serve as an integrated partner with numerous health systems, hospitals, and physician groups, acting as an extension of the healthcare leadership team and their existing internal resources. We are committed to an advisory-first approach, helping healthcare providers analyze their portfolios and implement industry-leading solutions to improve real estate portfolio management practices.



RTG360 is an integrated service platform used to create customized solutions to your complex challenges. Our diverse service lines and depth and breadth of experience work together to provide unmatched healthcare industry perspective and implementation support.

For related RTG insights and other Healthcare Real Estate Solutions, visit our website [here](#).

About Realty Trust Group

Realty Trust Group, LLC (“RTG”) is a real estate advisory and services firm offering a full-spectrum of real estate services including advisory, development, transactions, operations, and compliance.

Since 1998, RTG has helped hospitals, physician groups, and property owners navigate the rapidly changing industry with growth strategies that gain market leadership as well as enhance patient and physician experiences for better delivery of care. Our philosophy is to provide innovative solutions to the complex and challenging issues found in today’s healthcare real estate market. These solutions include strategic campus and facility planning, portfolio optimization, portfolio monetization, project development, leasing, acquisition and disposition services, portfolio management, regulatory compliance and many other ideas and services. For more information about RTG and our innovative healthcare real estate services, visit www.realtytrustgroup.com, [Facebook](#), [LinkedIn](#), or call 865.521.0630.

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