



Kevin Snitchler



John Sullivan

WHAT LIES AHEAD FOR PROVIDERS IN 2010?

Two system executives answer questions about the not-too-distant future

By John Mugford

What's on the minds of health system executives these days, what with reform still possible, the recession lingering, and a host of other issues on the horizon?

We caught up with a couple of hospital real estate executives recently to ask them about topics affecting their organizations, and subsequently, many readers of *Healthcare Real Estate Insights*.

The executives we talked to are both new members of the **Healthcare Real Estate Insights™** Editorial Advisory Board.

One of the executives we chatted with is Jon M. Sullivan Jr., the VP of real estate operations for Arlington, Texas-based Texas Health Resources (THR). THR is one of the dominant players in North Texas, as it has 14 acute care hospitals, 18,000 employees and is a corporate member or partner in six additional hospitals and surgery centers.

The other is Kevin Snitchler, the AVP facilities development at Madison, Wis.-based Meriter Health, whose flagship facility is the 448-bed Meriter Hospital. The system has about 15 locations, including clinics, labs and offices, in and near Madison.

Mr. Snitchler wants readers to know that he is relatively new to his position with Meriter, as he joined the system in the last year. However, he has a long history in healthcare and was previously the real estate administrator with Dean Health System, a large practice with 500 physicians in the Madison area.

HERE'S WHAT THEY HAD TO SAY:

HREI™: Do you see hospitals embarking on more inpatient construction projects in 2010 than in the last year or more? Why or why not?

Sullivan: Most likely 2010 will see a continuation of the lull in construction of inpatient facilities because of the slow pace of the economic recovery and the uncertainty over the impact of healthcare reform legislation. While the industry has seen some improvement in the financial environment, many hospital systems still have a ways to go to recover from the losses their investments suffered in the last couple of years. Couple that with the slow recovery, and we have a situation where nonprofit health systems still face some challenges in their ability to raise funds by issuing tax exempt debt at reasonable costs.

Snitchler: At Meriter, we're not embarking on any new inpatient construction projects in 2010, however we do have some on the drawing board for subsequent years, maybe 2011 and 2012, and those would be more along the lines of a new ICU and we're doing a lot of private room conversions. That (lack of construction activity) is economy-related, as everyone's volumes are a little soft and like many systems we would be looking at waiting to do more construction projects until volumes pick up again.

HREI™: Do you see hospitals looking to third-party developers to develop and own MOB's on their campuses, or at off-campus locations? Why or why not?

Sullivan: Yes, I believe they'll continue to seek third-party developers to develop and own MOB's on and off-campus. ... There are many competing needs for the hospital systems' capital, and while MOB's are very important they do not need to be owned by the hospital. Each opportunity needs to be carefully evaluated to see what makes the most sense.

Snitchler: We're made up of one hospital, but we do have a growing presence in terms of adding clinics. We're analyzing whether to look to third-party developers and owners, because as we build our own medical group we will have Meriter-employed physicians. When you want to attract independent physicians to your campus, having a third-party developer works very well. But if they all end up being Meriter docs, we might look to self-developing and owning. It comes down to what you want to do in terms of a financing mechanism, and we would analyze that on a case-by-case basis. We would look for the better return.

HREI™: For Mr. Snitchler; How many clinics is your system looking at adding, and do you need any help from third-party service firms? Also, how big is your physician's group?

Snitchler: We just opened a new pediatric clinic and we also have another clinic under construction, and then I'm looking at three projects here in the next 24 months. We've heard from many of the developers from around the country, lots of good firms, but we're pretty well set right now. I've had conversations with several of them and it's just a question of whether we want to self-develop or have a third-party develop the projects. It's a work in progress but we haven't made a final decision yet. As for our physician group, we're at about 60 docs. The goal in the next three years is to get up to 150 docs ... all Meriter employees.

HREI™: We're hearing that quite a few health systems are hiring firms to do their campus master planning. Do you see that as well, and why is that the case if it is true?

Sullivan: We're doing this, and the primary reason is because we are experiencing a lull in our construction volume and we have time to focus more on master planning. We need to find better, more efficient ways of using our facilities without having to spend tons of money on construction of new capacity. The facility planning is more integrated with operations planning and efficiency planning than in the past, (when) it was mostly focused on addressing capacity needs rather than questioning how we are doing business and seeing if there is a way to make improvements without spending money.

Snitchler: There was a master plan in place at Meriter before my arrival. Given the slowdown in healthcare they were trying to look down the road as we have an urban campus and you do need to determine how you can grow and survive in the same location. It makes sense and I definitely see other systems doing this as well.

HREI™: Are hospitals a little better off financially than in the last year or so? Are investment portfolios looking better and patient volumes improving?

Sullivan: I believe hospital systems in general are better off today than a year ago. Many systems have a considerable amount of capital in the stock market and the recovery over the last nine months has improved balance sheets. Cost-cutting measures implemented in 2008 and 2009 have also improved the bottom line. Systems that were able to make adjustments ... are probably in the best shape. In general, we are seeing patient volumes improve but we also don't expect them to return to past levels until we see improvement in unemployment.

Snitchler: We definitely are seeing signs of life out there. Budget-wise, 2009 didn't turn out to be a horrible year. Like a lot of hospitals we were below budget on volumes, but also like a lot of other hospitals we did a good job of managing expenses and ... finished the year on a positive note. As for 2010, almost everyone I talk to at other systems is cautiously optimistic, but of course we'll see if we return to some sort of normalcy.

HREI™: So, what about reform? What are the concerns, or does your organization consider it a positive?

Sullivan: Healthcare reform is something we believe is needed. ... Once a final version is approved we will evaluate the impact to our patients and the communities we serve. If current trends continue, the rising number of uninsured and underinsured could have a significant negative impact on all hospitals. The downturn in the economy and the loss of jobs – as well as employers shifting more costs onto employees – has resulted in increasing bad debt and charity care costs. The current trend is unsustainable.

Snitchler: Healthcare reform, and reimbursement, is first and foremost on everyone's mind, and that's why people are tentative right now, and they don't know if anything will pass and what that would mean for reimbursement, Medicare reimbursement, etc. What health systems are struggling most with is the uncertainty, but once we know the rules of the game we as an organization can finally sit down and figure out what to do from there. □

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