

Current Trends in Capital Investment Strategies for Hospital Systems

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Today's Themes

- Strategic goals for health systems:
 - Growth in multiple dimensions
 - Diversification of service lines, revenue sources
 - Conservation of capital
- Competition and regulation in local markets
- Financing structures and sources

Health System Goals

- Seeking *growth* in multiple dimensions:
 - Geographic reach/footprint
 - Top line revenues
 - Market share and patients served
- Mergers and acquisitions still key tools for health systems – 31 deals in first half of 2024

Systems Seek Diversification

- Diversification in:
 - Revenue sources and service lines
 - Payer mix, seeking more commercially insured patients, reducing reliance on largest payers
 - Geography, with cross-market M&A

Health Construction Growth

- Health construction has grown from \$41 billion annual before pandemic to \$68.1 billion in 2024 (Source: St. Louis Fed)
- All kinds of health systems making capital investments: for-profit, religious, safety net/public, pediatric specialty care

Types of Capital Investment

- Inpatient hospitals – new, replacement, expansion and renovation
- Ambulatory surgery centers
- Free-standing emergency rooms and micro-hospitals
- Urgent care and retail clinics

New Facilities in Three Markets

Market	Acute Care Hospital	Specialty Hospital	Micro Hospital/Free-Standing ER	Surgery Center/Office Building
Colorado Springs, CO	4		1	4
San Antonio, TX	7	2	3	4
Wisconsin	15	8	13	10

Types of hospitals

- General acute care
- Micro-hospitals
- Specialty hospitals for:
 - Rehabilitation
 - Behavioral health
 - Surgery

Strategies for Major Systems

- HCA – build new hospitals in multiple states, but also selling hospitals
- Tenet Health – build and acquire ambulatory surgery centers while selling hospitals
- Ascension – selling or downsizing hospitals in some states, while investing in micro-hospitals

Approaches to Development

- Site selection and land acquisition
- Starting small and expanding as patient volume, population grows
- Replacing and combining older facilities

Issues Affecting Investment

- Regulation of supply, capacity; MI and FL
- State, federal review of transactions
- Impact of COVID-19 pandemic on use of telemedicine, hospital design
- Competition from hospitals, physician groups, national retailers

Financing and Structures

- Debt/bonding
- Private equity, other investors
- Joint ventures of local systems and national developers/operators (specialty hospitals)
- Joint operating agreements
- Sale and lease back

Siting New Facilities

- Identify areas of
 - Population growth
 - Above average household income
 - High percentage with employer sponsored benefits
- Like retail, look for high traffic/visibility

Capital Investment: Policy Issues

- Problems with joint venture partners
- Increased utilization and costs
- Experience of retailers with primary care
- Facility fees charged at satellite clinics

For More Information

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