

**T**here's been a lot of talk in recent years about ambulatory strategy in the healthcare and healthcare real estate industries.

But what does the term really mean in today's era of sprawling suburban areas and high-tech medical equipment and procedures?

That was a question asked by Neil J. Carolan, chief physician development officer of Tucson, Ariz.-based Carondelet Health Network, at the outset of a panel discussion during the "2007 Medical Office Building and Healthcare Facilities Seminar" prior to BOMA International's annual conference in New York this past summer.

"Today's healthcare environment is significantly different than yesterday's healthcare environment, which doesn't look anything like the healthcare environment of five years ago – we all know that," Mr. Carolan told a crowd at the BOMA MOB conference.

"We want to talk more about the relationship – I call it the marriage – between the developer and the hospital or the healthcare system ... the needs of the healthcare system in terms of the clinical integration of the development of buildings and services," he added.

Mr. Carolan was on a panel discussion titled "Reaching New Markets: Building Ambulatory/Off Campus Strategy."

The other panelists were George Milligan, president of Des Moines, Iowa-based The Graham Group; Cindy Alloway, chief operating officer of Omaha, Neb.-based Alegent Health Lakeside Hospital; and Malcolm Sina, CEO of Palm Beach Gardens, Fla.-based DASCO Cos.

"I want to talk about taking care away from the hospital setting and bringing it more into the neighborhoods, which is becoming more and more popular and much more a part of how care is provided," Mr. Carolan noted.

# The Healthcare Paradigm Shift

By John Mugford



*Parker Adventist Professional Building, photo courtesy of Dasco Cos.*

That's because the delivery of healthcare has undergone a paradigm shift, according to Mr. Carolan and the panelists.

"Hospitals are now for the very, very sick," Mr. Carolan said. "If you're sick you have more choices. More and more of the higher-level of acuity care is going to ambulatory settings ... ancillary care facilities are seeing more ill patients than they did five years ago."

This move to providing acute-care in outpatient settings has been made possible because of technological advances, Mr. Carolan said. "We now have better and more complex diagnostic care at the ambulatory setting."

"The world is changing," he added, "and as a result of the healthcare world changing, the real estate goes along with that."

The panelists talked about three different healthcare delivery strategies and the facilities needed for each. Those developments include the following: single-building outpatient facilities, such as MOBs with surgery centers; multi-building medical malls that concentrate solely on healthcare; and healthcare villages, which incorporate healthcare facilities, including hospitals and outpatient facilities, with support buildings such as retail, restaurants and hotels.

Each provides a unique way of delivering healthcare and ambulatory healthcare services, the panelists said in their presentations.

## Outpatient strategy

The definition of ambulatory strategy is the decentralization of clinical care, according to Mr. Carolan. He further defined it as the delivery of care outside of the hospital setting.

"It provides more efficient access, easier parking and while it may be on a hospital campus it is typically away from the main hospital," Mr. Carolan said.

"I go back to the underside of clinical care because the developers can no longer just build buildings, they've got to integrate closely with the provider ... to make sure the buildings they are building are going to provide the clinical services that are necessary and convenient and that are in close proximity to where the patient wants it," he said.

Mr. Milligan of The Graham Group talked about how deals come together between developers and health systems, and what role developers play in implementing the strategy of delivering a provider's healthcare services. As an example, he pointed to a project the company did for Iowa Health System and its Iowa Methodist Hospital in Des Moines.

"The hospital had a radiation therapy unit that was in the bowels of the hospital, level C, you know, 40 feet below grade in a 1940s kind of setting," Mr. Milligan said. "They wanted to make this service more visible and they ... had received a very large gift from an individual that they wanted to take advantage of."

The first thing The Graham Group did was convince hospital administrators to incorporate the cancer center into a large new on-campus MOB. Administrators had been hoping to build two separate buildings on campus: an MOB and an adjacent cancer center.

"As people in this room here know, land on a campus is a very valuable commodity," Mr. Milligan said. "It took us 18 months to convince Methodist that it made more sense for them to put the cancer center in the lower level of our building, with room for expansion, than to build two separate structures."

When the new building was complete, the oncology department had three doctors.

"I called one of the docs before I came to this conference and asked how many docs they have today," Mr. Milligan said. "The answer was 16. And he figured they were doing about

# NexCore by the Numbers

## FOCUS ON HEALTHCARE REAL ESTATE

# \$255 billion

Estimated value of U.S. medical office buildings, NAREIT, 2007

# \$500 million

Asset value of NexCore Group healthcare real estate portfolio

"With a national presence and a growing portfolio of healthcare real estate, NexCore offers hospitals and healthcare systems effective business strategy insights and competitive capital structures for successful medical facilities."

NEXCORE PRESIDENT & CEO  
GREG VENN



## Extracting value from healthcare real estate is what NexCore Group does

for hospitals, healthcare systems, and physician networks nationwide. We're experts in the dynamics of real estate development as it applies to the complex industry of healthcare, medicine, physician management and your business. On campus and off — our track record speaks for itself.

## The Results Are In NexCore Group

HEALTHCARE REAL ESTATE  
BALTIMORE | CHICAGO | DENVER

DEVELOPMENT | ASSET MONETIZATION |  
FINANCING | LEASING | PHYSICIAN OWNERSHIP  
| ASSET & PROPERTY MANAGEMENT |

[www.nexcorehealthcare.com](http://www.nexcorehealthcare.com)

40 percent of the oncology services in the state of Iowa from that building. ... It has been a success story. I think Methodist would say that without this facility they never would have achieved the market share they have today.”

The second example Mr. Milligan talked about was an 85,000 square foot orthopedic and neurosurgery project for Morton Plant Hospital in Clearwater, Fla. The hospital wanted to grow its orthopedics and neuroscience service lines.

“So they made a conscious decision to create an orthopedic, neuro-themed building and we were asked to create a world class ortho-neuro pavilion,” Mr. Milligan said

To get the project rolling, The Graham Group helped attract two Clearwater-area orthopedic groups to the on-campus facility. Neither of the groups was growing, as each was located in off-campus, Class C buildings a couple of miles from Morton Plant.

“Neither group had a clear vision of how to grow,” Mr. Milligan recalled. “One group had three docs, today they have six, while the other group started with seven physicians and today has 14.”

“Our job was to implement (the hospital’s) strategy – and that’s how we as a developer view our role with these projects.”

## Remain flexible

Mr. Sina of DASCO also shared what he feels are important roles for the developer as it builds buildings and relationships with hospital systems. He shared DASCO’s experiences working on several projects in different areas of the country.

“One on the East Coast, one in the South in Texas and then one out in Colorado,” Mr. Sina said. “I’m talking about different parts of the country, different market shares, different strategies as they relate to the outpatient ancillary services. The three different projects show how a developer needs to remain flexible and respond to the wants and needs of the health system.”

One of the examples is in Houston, where DASCO completed two projects for Memorial Hermann Health Systems, which has a 20 percent market share in the Houston market.

Each of the new MOBs was built on land where a hospital was planned in the future. Each has an ASC and in each case Memorial Hermann entered a joint venture with physician/tenants, which DASCO helped facilitate.

Another example is in Towson, Md., just north of Baltimore.

“The game plan was not necessarily to expand the outpatient concept into the suburban area but to really expand the outpatient concept right on the campus,” Mr. Sina said.

The third example is in Parker, Colo., where DASCO developed an MOB that shares the main entrance with Parker Adventist Hospital.

“This is a full integrated model of outpatient services as well as acute care services from the ground up.”

## It takes a village

As the discussion moved into defining healthcare villages, Ms. Alloway talked about Alegen’s healthcare village projects – one well established and another planned for the future – in Omaha.

“Omaha is a rapidly growing area with three-quarters of a million population and Alegen Health has very strategically placed our hospitals throughout the community.”

As she summed up the benefits of healthcare villages, Ms. Alloway said the concept creates a destination in a growing area.

“The healthcare village offers a collection of services that focus on health, healthy living, and complementary services such as health food stores, book stores – the types of things that complement our healthcare services,” she said. “There is a strong appeal to consumers because it is responsive to their wants as well as their needs. And it’s all within a very attractive environment.”

To meet the needs of a growing population, a health system cannot simply obtain a couple hundred acres of land and build a “humongous” hospital, Ms. Alloway said.

“You have to start off as you normally would because population grows over a span of time,” she said. That’s why Alegen chose to eventually build a healthcare village around Lakeside Hospital, making it a destination for people seeking a variety of healthcare services.

Like the other panelists, Ms. Alloway noted that bringing in primary care physicians – pediatricians, OB/GYN and family doctors – is one of the keys to successfully developing a growing healthcare services site.

“I’ve been in this business for years and I can tell you that you need to have a good primary care base for referrals because otherwise the specialists will not even look at your location,” she said. “That’s when the specialists will come.”

## Medical malls

Mr. Carolan talked about the Carondelet network’s development of two medical malls outside of Tucson. The system began an aggressive ambulatory strategy when it conducted a study seven years ago in southern Arizona.

“People didn’t know who we were or what we were,” Mr. Carolan said. So the system set out to beef up its ambulatory strategy.

The reason Carondelet finds the medical mall concept so advantageous, Mr. Carolan said, is because the system covers such a large geographic area of southern Arizona.

“That means our patients are spread out over a large area and we need to take the care away from the two-day hospitals in the city and get it more out into the suburbs and outside of the suburbs,” he said. “The medical mall concept is very successful for us.” □

*This article originally appeared in the October 2007 edition of Healthcare Real Estate Insights™.*