



# A Checkup on the Healthcare Industry

The impact of COVID-19 on the healthcare industry has caused long-term effects on real estate operations and values. The pandemic put a strain on the industry’s workforce and infrastructure and is now forcing both private and public providers to adapt. How providers respond will shape their ability to navigate from recovering to thriving in the post-pandemic world.



## Top Trends for 2021

- Increased outdoor access, touchless technology, more intensive air purification systems, dedicated telehealth spaces, and on-site clinics
- Rapid adoption of virtual health and digital offerings
- Increased partnerships between senior living providers and healthcare facilities
- Dramatically higher expenses, including insurance premiums and labor and equipment costs
- Longer leasing timelines
- Supply vs. Demand
- Medical offices converting to testing centers and labs
- Impact of real estate value on senior care centers with pharmacy and vaccination in-house facilities
- Delays in procedures at elective surgery centers, resulting in less revenue
- Tenants struggling to pay medical office building rent

## Property Types with Special Valuation Issues

- Assisted Living Facilities
- Memory Care Facilities
- Medical Office Buildings
- On-Campus
- Off-Campus
- Surgery Centers
- Laboratory and X-Ray Centers
- Cannabis Retailers
- Dental Centers
- Pet Hospitals
- For-Profit Satellite Hospitals and Emergency Clinics

## Effects on Commercial Real Estate

The pandemic has forever changed patient expectations, and healthcare property owners need to thoroughly evaluate their portfolios in response to current trends and patient preferences.

Eliminating real estate assets minimizes liabilities. For example, human capital investments such as facility maintenance and upkeep, as well as the increased frequency of deep cleaning, can amount to a costly expense.

In Q4 2020, occupancy for senior housing was down to 80.6% and rent growth was 1.6%. Performance of senior housing facilities continued to be impacted by COVID-19 in Q1 2021, with occupancy declining to 78.8% and rent growth flattening to 0.9%.

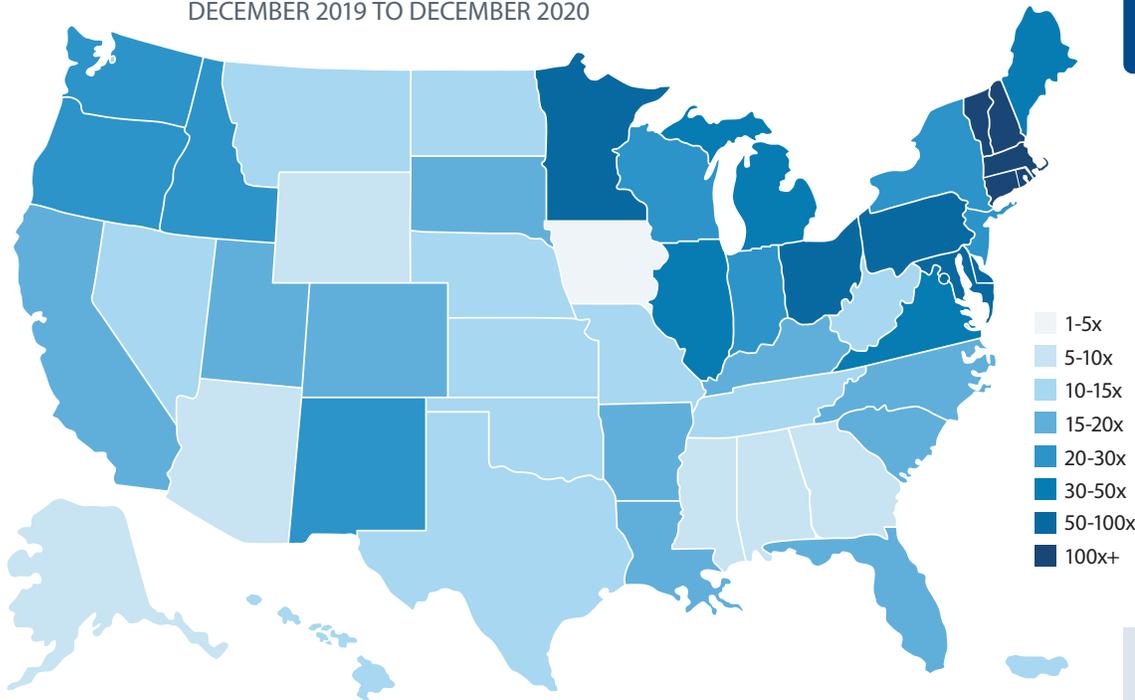
ACTIVITY	FOURTH QUARTER 2020	FIRST QUARTER 2021
Occupancy	80.6%	78.8%
Annual Rent Growth	1.6%	0.9%
Annual Absorption	-5.5%	-7.4%
Annual Inventory Growth	2.9%	2.8%
Construction vs. Inventory	5.6%	4.9%

Source: NIC, MAP Market Fundamentals

## Long-Term Impact of Telehealth

The pandemic has led to an increased adoption of telehealth/telemedicine with claims increasing from 1.5% in February 2020 to 49.4% in April 2020. This leveled off to 23.8% by December 2020, but patients continue to drive demand for telehealth. Factors such as reduced appointment time and the need for less office space allow physicians to see more patients and spend less on facilities. The telehealth industry is expected to grow over the next eight years, reaching more than \$30 billion by 2027.

### GROWTH IN MONTHLY TELEHEALTH CLAIMS DECEMBER 2019 TO DECEMBER 2020



### About Ryan Commercial Real Estate

As the firm with the most local market property tax professionals in North America and relationships in nearly every jurisdiction, Ryan's experience and success are unmatched by any other national, regional, or local provider.

## How Have Trends Impacted Property Values?

To accommodate patient demands and changes to health industry regulation and reimbursement, it makes sense to ensure efficient use of all facilities and implementation of tax minimization strategies. Assessors in many jurisdictions often use the cost approach on medical facilities, resulting in problematic assessments. Factors such as changes in income streams, operating expenses, vacancies, and collection rates should be considered, but most assessors do not know if the financial impact of COVID-19 is on the real estate value, business, or both and how to allocate implications on intangibles. Healthcare property types vary greatly, and each requires specialized valuation techniques for assessment purposes. There is an increase in assessor error resulting when real estate and business impacts are not being argued and property owners do not have the necessary documentation to support appeal efforts.

### Items to Share with Assessors

- Rent deferrals
- External obsolescence arguments
- Rent abatements
- Delinquent mortgage payments and/or in receivership/foreclosure
- Tenants' notice of leaving
- Co-tenant renegotiation options

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