

# Healthcare Real Estate Rationalization

# Post-COVID-19 considerations to sustained recovery and resilience



COVID-19 has caused many Providers to re-consider their enterprise strategies, triggering an evaluation of their real estate footprint and related costs. Whereas real estate portfolios and related facilities maintenance have traditionally made up a major portion of the expense burden for Providers, learnings from COVID-19 have called into question whether the traditional brick and mortar footprint provides best value to meet enterprise needs going forward.

COVID-19 impacts driving this perspective are both economic and operational:

Key	cov	ID-19	Impact
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#### **Real Estate Portfolio Implication**

Enhanced focus on liquidity and working capital	Underscores focus on <b>cost reduction</b> and <b>rationalization</b> for opportunities to consolidate, divest, and restructure	
Successful remote working for administrative functions	Encourages exploration of a 'new reality' for many functions to balance space requirements with remote working opportunities	
Capacity needs and challenges	Emphasizes importance of data-driven view of facilities portfolio and need for <b>connectivity and flexibility</b> with operational demand	
Accelerated shift in site of service and catalyst for the re-design of care delivery model	Triggers re-think growth strategies and traditional bricks and mortar portfolio in light of <b>changing environments of care</b>	

In addition to COVID-19 drivers, general industry pressure on operating margins and significant M&A activity that existed pre-COVID-19 are yet other reasons for health systems to undertake a holistic assessment of real estate portfolios for consolidation and value enhancement opportunities.

## Real estate rationalization journey

Real estate rationalization is a journey that should align to your enterprise goals and objectives.

## Recovery Considerations

- Surplus facilities and real property
- Significant non-clinical footprint (i.e., back office, administrative, corporate sq. ft.)
- Duplication and overlap within markets
- Large portfolio of non-core assets
- Imbalance in leased vs. owned property
- High cost Per SF to maintain
- Low utilization and high vacancy rates

#### 'Right-Sizing'

- Understand valuation and highest and best use
- Benchmark portfolio costs and identify opportunities for operating efficiencies
- Identify 'low-hanging fruit' and transact when market conditions are optimal
- Explore long-term debt restructuring, lease renegotiations, sale/lease-back and subleasing opportunities
- Consolidate and repurpose where possible
- Transfer risk and optimize value by leveraging non-core assets through partnerships
- Reduce non-clinical / non-revenue generating space through automation and remote working

## Balanced Portfolio

- Balanced footprint to meet enterprise needs
- Rationalized geographic distribution aligned to service line and enterprise strategies
- Enhanced flexibility within the portfolio
- Focus on core assets
- Optimized space usage and operational efficiency
- Per SF costs in line with industry benchmarks
- Strategic partnerships that help reduce debt burden, create efficiencies, and transfer risk

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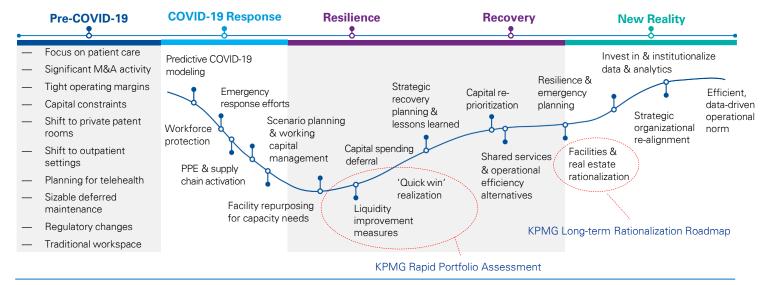
### KPMG's Rapid Portfolio Assessment approach

KPMG's proven frameworks and tools can be used to conduct rapid assessments for near- and long-term value creation opportunities.



## Resilient path to healthcare new reality

For healthcare providers we see a phasedpath to recovery from the pandemic response – from resilience to the new reality. Real estate rationalization is one of several key improvement levers to providers should consider to accelerate the path to recovery.



## **Our experience**

KPMG has extensive experience and capabilities to assist your team with real estate rationalization efforts through this period. We are committed to supporting you from strategy to implementation along your rationalization journey to accelerate your path to recovery and ensure a resilient future for your organization.

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