THREE TRENDS IN HEALTH CARE REAL ESTATE (APRIL 2021)

With over three million people receiving a COVID-19 vaccine daily in the United States, the return to every day, pre-COVID life seems tantalizingly close. Yet, the economic effects of COVID-19 are unlikely to subside immediately. Health care real estate was and is not immune to the pandemic (although the industry's "symptoms" are mild when compared to other industries in the national economy). As a result, COVID-19 continues to inflect most conversations and trends affecting the health care real estate industry. Three of these trends are listed below.

1. **Permanent Changes to Senior Housing**

Because of the challenges caused by the COVID-19 pandemic, 2020 was a difficult year for the senior housing industry. With an estimated 75% of seniors receiving a COVID-19 vaccine as of early 2021, the industry hopes to rebound in 2021 and to adapt to the post-pandemic environment. The changes include:

1. Hiring new clinical staff and bolstering on-site clinical services offered at senior housing locations;
2. Expanding telehealth options for residents to reduce travel to off-site inpatient and outpatient facilities;
3. Permanently installing and implementing disease and infection prevention policies and procedures to control future outbreaks; and
4. Focusing on active living communities to better balance socialization and privacy, thereby avoiding the isolation many residents experienced during the pandemic.

The COVID-19 pandemic will not only affect the construction and operation of senior housing, but also the location of these facilities. During the pandemic, millions of people moved from large urban areas to less populated locations in middle and smaller markets around the nation. Many of these markets offer a lower cost of living and a warmer climate that may attract aging populations as compared to more densely populated areas. As a result, expect more development in those markets to align with the aging population's migration trends.

2. **Investment in Affordable Housing**

As highlighted in a recent Hall Render webinar about social determinants of health (available in podcast form here), more providers are focusing on population health and the non-health care factors that influence health care outcomes, including affordable housing. For example, CVS Health recently announced it would commit $12.4 million to build affordable housing in Phoenix, Arizona and pledged $600 million over five years to address housing inequality.

The early data on these programs show promising results. A March 2021 analysis of one hospital system's affordable housing program, which includes over eight hundred affordable housing units, found a social return between $1.30 and $1.92 for every dollar spent operating those units. There is still a dearth of research about the social and economic returns of affordable housing and other social determinants programs, but expect more providers to invest in these types of programs if future data supports results like the March 2021 study.

3. **Growth in Real Estate for Life Sciences**

Over the last year, governmental entities and private investors pumped billions of dollars into the life sciences industry. For example, a CBRE report found investments from venture capital into the life sciences industry totaled a record-breaking $17.8 billion for the year through the second quarter of 2020 and anticipated funding from the National Institutes of Health will grow 6% from the prior year ($42 billion total). As a result, the demand for real estate to support that uptick in life sciences work also increased. The amount of laboratory space grew by 12% in 2020, with 95 million square feet of laboratory space in the United States and another 11 million under construction. It makes sense, therefore, that one recent market survey ranked life sciences and biotech as the best risk-adjusted health care real estate opportunity, significantly outperforming medical office buildings and senior housing.

Because COVID-19 testing is widely available and vaccine availability is increasing, capital investment for research and development related to COVID-19 and other infectious diseases is likely to continue. As a result, the demand for real estate to support that research and development should also continue.

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