

2024 HEALTH CARE REAL ESTATE YEAR IN REVIEW

The health care real estate industry experienced breakthroughs and challenges in 2024. Below are key takeaways and trends tracked throughout the year.

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FED LOWERED INTEREST RATES

In 2024, the Federal Reserve lowered the federal funds rate three consecutive times. The Fed cut the rate by 50 basis points in September, followed by 25-point reductions in November and December. The December rate cut reduced the federal funds target range upper limit from 4.75% to 4.50%, the lowest level since February 2023.

Lower interest rates led to reduced borrowing costs, giving health care organizations more access to capital and increased flexibility to invest in capital expenditures, including renovation projects. However, these tailwinds were countered by headwinds from rising construction costs and delays.

BANKRUPTCY OF STEWARD HEALTH CARE SPURRED INCREASED HOSPITAL M&A ACTIVITY

Steward Health Care's filing for Chapter 11 bankruptcy reshaped hospital M&A activity in 2024. Following its May filing, the Dallas-based system decided to sell 31 U.S. hospitals, driving sustained deal volume throughout much of the year.

In the third quarter, 11 of 27 publicly announced M&A deals stemmed from Steward's bankruptcy. Through the first three quarters of 2024, Kaufman Hall reported 58 hospital transactions, approaching the total number of M&A transactions for all of 2023.

MOBS HIT INFLECTION POINT

After a challenging 2023 marked by high interest rates and construction costs, the U.S. medical office building (MOB) market hit an inflection point in 2024. Lower interest rates, increased demand for health care services, and the trend of moving more procedures from hospitals to MOBs or ambulatory surgery centers (ASCs) boosted confidence in the sector. The MOB sector is poised for a strong finish to 2024, supported by U.S. health care employment growth, lower vacancy rates, and rising rents.

PE DEALMAKING IN HEALTH CARE DOWN FROM 2023

The total number of private equity (PE) deals in health care is estimated to have declined by 15% in 2024 compared to 2023, according to a Pitchbook report. In the third quarter, 148 PE deals were announced or closed, down from 185 in the second quarter. Since peaking in 2021, the number of PE deals has decreased as firms have adopted a more cautious approach due to higher interest rates, rising labor costs, and increased regulatory scrutiny.

DEMAND OUTPACED SUPPLY FOR SENIOR LIVING AND LONG-TERM CARE

As a record number of baby boomers reached retirement age in 2024, demand for senior housing surged. Despite this, construction of new senior housing communities reached one of its lowest levels in recent history. New construction starts are at their lowest level since 2009, with the third quarter seeing the fewest units under construction since 2014. By 2027, senior housing inventory is projected to grow by 4.1%, which will meet only half of the expected demand for the same period.

STATES CONTINUED PARING DOWN CERTIFICATE OF NEED LAWS

Certificate of Need (CON) laws remain a frequent topic of debate among state legislators. By 2021, 15 states had eliminated or modified CON laws. Since then, additional states have made changes to allow greater flexibility in establishing new hospitals and health care facilities. Currently, 35 states require CON review in some form for new hospitals or health care facilities. Alabama, Georgia, North Carolina, and South Carolina have either recently modified or are considering changes to their CON laws.

RISE OF OUTPATIENT SERVICES

More than 80% of surgeries in the U.S. are now performed in outpatient settings, according to the Ambulatory Surgery Center Association. Outpatient facilities, such as ASCs and primary care clinics, continue to expand due to their cost-effectiveness and convenience for patients.

These settings often result in lower overhead costs and better resource optimization compared to inpatient care. Advances in technology, including minimally invasive procedures and telehealth, have accelerated this shift, making outpatient care increasingly accessible and attractive to both providers and patients. As states reform or repeal CON laws, ASCs may experience additional growth from new facility development. Growth in outpatient services is further supported by favorable reimbursement rates offered by health care insurance plans for lower-cost settings.

DEMAND FOR BEHAVIORAL HEALTH SURGED

Demand for behavioral health facilities continued to rise amid a mental health crisis that intensified during the pandemic. About 25% of U.S. adults experienced mental illness in 2021 compared to 17.8% a decade earlier, according to the Substance Abuse and Mental Health Services Administration. In response to this demand, new construction and adaptive reuse projects for behavioral health facilities increased in 2024 despite a continued shortage of facilities.

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