WEEKLY HRE BRIEFING: HOSPITAL BAD DEBT AND CHARITY CARE COSTS CONTINUE TO RISE | HOSPITAL CONSTRUCTION CONTINUES TO ACCELERATE | DEAL VOLUME EXPECTED TO GROW IN 2026

1. Revista published a pair of interesting blog posts: (1) the amount of general hospital space under construction in Q3 of 2025 has continued a multi-year climb that started in 2022; and (2) noting that the least expensive MOB rents (bottom 10th percentile) have grown at just 1.3%/yr since 2018, while moderately priced properties (50th percentile base rent) have grown at 1.7%/yr and the most expensive properties (90th percentile base rents) have grown 2.7%/yr over the same period.
2. At a recent conference, industry experts made predictions about the health care real estate market in 2026. Fundamentals (including overall occupancies and population growth) are expected to remain strong; however, rising labor costs and potential elimination of ACA subsidies mean uncertainty for the sector. Additionally, interest rates have come down, but cap rates have not yet followed.
3. A recent KFF poll found that, in the past year, nearly half of U.S. adults have had difficulty covering health care costs, while one-third reported skipping or postponing care due to cost and one-fifth stated they had chosen not to refill a prescription because of cost reasons.
4. Kaufman Hall's latest Hospital Flash Report indicated that hospital bad debt and charity care costs continue to rise nationally, with growth particularly accelerating in the West and Midwest. On a per-day basis, national bad debt and charity care increased 5% in October 2025 compared to October 2024. Year to date, levels are up 10% compared to the prior year and 40% higher than in 2022.
5. A PwC outlook predicted that, despite a slight cooling in overall health care deal activity in 2025, health services deal volume and value will grow in 2026, led by increasing quality in marketed assets and more favorable market conditions. PE investors are expected to shift away from reimbursement and regulatory exposure toward software and services platforms supporting care delivery, and carveouts of non-core health system assets (e.g., lab, home health, revenue cycle units) are expected to accelerate.
6. According to a recent CBRE podcast interview, J.P. Morgan Asset Management is optimistic about the real estate sector in 2026, driven by expectations of lower interest rates and resilient fundamentals. Top-performing assets and strong operators are expected to outperform, and retail and high-quality office assets are expected to accelerate momentum, particularly in large urban markets.
7. A recent survey of over 100 health system executives focused on the biggest challenges to hospital operations over the past year. Consistent themes that emerged: (1) non-labor expenses increased 6%-10% over the year; (2) over half are using AI in supply chain operations; (3) 77% said ED holds were the most significant capacity constraint; and (4) only 30% expect to improve cash balances over the next 12 months.
8. An Alabama county recently passed a referendum to increase property taxes with the express purpose of supporting health care facilities. The vote highlights the operational difficulties of hospitals in smaller communities. The Alabama Hospital Association said 83% of Alabama's rural hospitals and 71% of all Alabama hospitals operate at a loss.
9. The $1.1B modernization of SUNY Downstate Hospital in Brooklyn, NY, is set to begin the design phase. After being threatened with closure last year, the NY State Legislature approved $750M in funding for the hospital to repair infrastructure, modernize inpatient rooms and expand the ED.
10. Baylor Scott & White announced a JV with Surgery Partners, Inc. to jointly own The Physicians Centre Hospital in Bryan, TX, making the specialty surgery center part of the health system. Doctors who already own a portion of The Physicians Center Hospital will retain a share of the 16-bed hospital's operation.

For more information, please contact:

- Andrew Dick at adick@hallrender.com or (317) 977-1491;

THIS IS AN ADVERTISEMENT
© 2002-2024. Hall, Render, Killian, Heath & Lyman, P.C. All Rights Reserved.

- Joel Swider at jswider@hallrender.com or (317) 429-3638; or
- Your primary Hall Render contact.

Hall Render blog posts and articles are intended for informational purposes only. For ethical reasons, Hall Render attorneys cannot give legal advice outside of an attorney-client relationship.

THIS IS AN ADVERTISEMENT
© 2002-2024. Hall, Render, Killian, Heath & Lyman, P.C. All Rights Reserved.