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Effects of COVID-19 on Healthcare Real Estate

The recent COVID-19 outbreak has brought forth significant changes in almost every major market on the planet. The US real-estate market has been no exception. One of the real estate markets that people would not necessarily consider as highly volatile during this period is the Healthcare Real Estate Market. However, this could not be further from the truth. A variety of short term and long-term implications caused by the SARS-COV-2 virus will impact the immediate and continuing trends in the healthcare real estate market. These changes will not only affect healthcare real estate profits but will also have a significant effect on care delivery and healthcare systems moving forward.

In the short term, one of the real estate investments that took a major hit was healthcare Real Estate Investment Trusts (National Association of Real Estate Invesment Trusts, 2020). Diversified Healthcare Trust, a major REIT traded on the NASDAQ is down 71% and New Senior Investment Group is down 56% from a year ago as of Marth 8th (National Association of Real Estate Invesment Trusts, 2020). Overall healthcare REITs are down around 36% from a year ago and down 32% just this year. This is in contrast to the S&P 500 which is only down 6.6% from a year ago and 16.9% on the year (Yahoo Finance, 2020). Why the significant difference between these REITs and a major index of the overall market? It is largely due to REITs portfolios that are heavily focused on senior living facilities. Diversified Healthcare Real Estate Investment Trust, the trust that seems to have taken the biggest hit during the COVID-19 outbreak, has a portfolio which is made up of 43% senior living facilities (Diversified Healthcare Trust, 2020). This is similar to New Senior Investment Group's portfolio which has an even larger percentage of senior living facilities (New Finance Investment Group, 2019). A COVID-19 report distributed by New Senior Investment Group estimates a decrease in net operating income due to increased vacancy due to limitations of tours and visitation and increased expenses in preparation for COVID-19. Additionally, COVID-19's high mortality rates among seniors may be scaring investors away from senior living investment as they anticipate lower demand for these facilities. Whatever the reason may be, all of this evidence points towards significant losses for REITs which are heavily invested in senior living facilities.

In contrast, Medical Properties Trust, a REIT focused solely on hospital investment, is only down 2.24% on the year and Global Medical REIT, which focuses on medical office buildings is up 3.19% this year (National Association of Real Estate Invesment Trusts, 2020) (Global Medical REIT, 2020). This points towards the sectors of healthcare real estate that will remain relatively healthy throughout the COVID-19 outbreak. The limited drop in the Medical Properties Trust indicates revenue difficulties associated with shutting down outpatient procedures will make a quick rebound as the procedures are rescheduled throughout hospital systems. Additionally, the strong performance from Global Medical REIT reflects the dire need for laboratory and testing facilities that fall within many medical office buildings throughout this outbreak. Moving forward these could be investment areas that experience limited to negative to positive impact from the COVID-19 pandemic.

While Global Medical's results may indicate that office buildings will continue to be a strong healthcare real estate submarket, but I believe the long-term effects of COVID-19 may have a drastic effect on these facilities. With the advent of the outbreak a large number of appointments have been moving towards telemedicine platforms. The government has contributed towards the rapid movement towards telehealth. According to the Department of

Health and Human Services they, “will exercise [their] enforcement discretion and will not impose penalties for noncompliance with the regulatory requirements under the HIPAA Rules” (Health and Human Services, 2020). This has allowed physicians to test telehealth methods without concern of potential HIPAA violations. Should these new methods be consistently adopted into mainstream medicine, they could have a catastrophic effect on the market for medical office space. Investment in expanding the IT infrastructure to fully implement telemedicine would most likely come at the expense of capital facility projects (Nelson, 2017). This decrease in demand could make it difficult to profit off large medical office spaces commonly used today.

A combination of these short term and long-term effects on healthcare real estate will change the way care is delivered throughout the United States. An increase in life science and testing facilities and the decreased need for physician office space could lead to the remodeling of current medical office space to fit a more life sciences or laboratory need. Physicians will likely move to smaller facilities or move out of office space all together choosing to work primary through telehealth channels and contracting through hospitals to serve patients at their locations on a need to do basis. The lack of fixed costs associated with this new model of physician could lead to the profession moving back towards private practice’s model used in the past and away from the health system employee model typically used today. As for patients, all of this could make healthcare far more accessible. Physicians could meet patients where they are at and better understand their health environment. This will also allow doctors to provide more environmental health education to patients creating a more prevention focused health system.

While this is all purely speculative, it is important to note the impact that COVID-19 can have on making much needed changes to our healthcare system. In 1976 M.F. Weiner, a physician, said in the journal of Medical Economics, “Don’t Waste a Crisis — Your Patient’s or Your Own.” This crisis is shedding light on a healthcare system that has resisted change over the past two decades. A Global Pandemic may be what it takes to set the stage for one of the greatest healthcare overhauls in the history of our nation.

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