



WHITEPAPER



Developing Ambulatory Surgery Centers: A comprehensive model for success

**KEY CONSIDERATIONS FOR LONG-TERM OPERATIONAL
EFFICIENCY AND AN INCREASE IN REVENUE**

According to the 2019 Ambulatory Surgery Center (ASC) Market Report, the nation's ASC market is estimated to grow \$52-55 billion by 2025. This is being fueled by a drive toward a more value-based model for healthcare and changes in reimbursements for procedures not previously approved for in an outpatient environment.

If you're considering opening an ASC, changing locations or expanding your network of surgery centers, there are some key considerations to enhance the likelihood of success of your new location. An important component is using insight from a variety of data sources when determining the best site for your next ASC.

From site selection to ongoing operations and maintenance of your facility, you will see a positive impact over the short- and long-term by leveraging the right insight from the start, understanding the unique needs and requirements of ASCs and choosing an experienced and well-rounded partner. In this whitepaper you will learn:

- What to consider when choosing the best site, including what data sets provide the best insight.
- Other aspects to consider overall project success, efficiency and an increase in revenue – from design and construction to ongoing operations.

While real estate and facility considerations for ASCs are unique, a streamlined experience and collaborative approach means less headaches and more indemnity of outcome for tenant, operators and other partners.

Unique Real Estate & Facility Needs and Requirements for Ambulatory Surgery Centers

It is important to understand, prior to starting the site selection process, that the real estate needs and requirements for ASCs are unique compared to other outpatient facilities. For example, unlike an urgent care where patients would need to quickly identify the facility from a main thoroughfare, ASCs do not need to be in a direct line-of-sight. ASCs are for planned procedures where people will more likely research the location, opposed to an urgent situation. Considering how your patients will find locations allows for more land options and a less-than premium land cost.

ASCs are complex environments, requiring sterile environments for various types of surgery. One aspect of this, is that it is crucial to consider the HVAC system, which contributes around 50 percent more to the total project cost when compared to a medical office building. More power is needed within an ASC since there are larger rooms, especially for orthopedic surgeries. Therefore, the HVAC system must be more robust to handle a clean air environment inside multiple operating rooms within the ASC, and sometimes considerations for multiple specialties.



According to the Journal of Spine Surgery, there are over 5,300 ASCs in the U.S. performing over 23 million surgical procedures a year.

Site Selection

Using Data to Determine Successful Locations

Site selection for ASCs is an important and unique process; combining data and analysis to determine the best locations help ensure overall success. Using layered data analytics, development experts can work in partnership with you to pinpoint the best site for future business success and then lay the groundwork for the development, design, construction and management of the new facility.

Using a variety of data platforms—like available land parcels, geographic information system mapping, demographics overlays and geological site analysis—allows the real estate team to provide value to ASC operators and tenants and prompts strategic questions that dig deeper into their business objectives. For one, it helps clarify the benefits and drawbacks of choosing a certain site and can inform decisions throughout the rest of the process.



Taking this analysis a step further to look at the performance of any of your existing facilities is a key factor in the site selection process. Understanding the following:

- Are the other locations under or over performing?
- What challenges are being faced at other locations?
- Is there a location you should be in, but aren't?
- Do you already have potential locations in mind?
- Is there a radius where you need to be a certain distance away from another facility or campus?

Additionally, by looking at other ASCs in your market you can sometimes predict what kind of data points and unique considerations they are using to help determine site selection.

The process continues by looking at locations or viable land positions that have favorable demographics – such as age and wealth distribution – within those varied areas. Using analytics to figure out the specific payer mix within this radius, what the growth of the area looks like and what the annual healthcare spend is for each household, all play a part in determining the best site for an ASC. Once analytics are gathered, options are graded on a scale and land positions are determined and narrowed down to a handful of options.

While analytics help determine important key factors that play a role in site options it is simply a tool in the toolbox. Other steps include identifying and hiring architecture and construction teams and engaging them to walk the site, discussing the pros and cons of each location with all stakeholders and then limiting options down to two.

Once the options are narrowed down a proforma analysis is built out—a set of calculations that projects the actual financial return that a real estate development is likely to create—which then estimates revenues that are likely to be realized, the costs that will have to be incurred and the net financial return that the developer expects to achieve. Questions developers should be asking include:

- How does this location grade on this scale?
- What is the feel of the land/what are the obstacles we need to overcome?
- How does location and other unique site considerations affect the overall rental rate?

Strategic Partnership

When it comes to working through real estate deals from a partnership standpoint, a lot of operators wonder what a “good deal” looks like. The answer is there is not one model of financial delivery. There are different types of models that involve joint venture, partnership and full ownership for doctors—where a facility is first developed and then sold to the qualified surgeons on the front- or back-end.

Regardless of financial model, it’s imperative to choose a development partner from the start that is an advocate for the end user and owner. For independent groups considering new ASC locations, it may be wise to choose a developer that has a relationship with a national surgery center operations group. Doing so can ultimately help to protect the overall investment for all parties involved since these groups come with knowledge from previous ASC experience and best practices in development, design, financing, management and operations.

How bringing on design, construction, maintenance and management teams from the start can positively impact success

In addition to development, best practices and forward-thinking perspectives on design, construction, maintenance and management can come together to produce effective facilities. Below is a highlight of how thinking about each of these areas can impact the ultimate success of the new facility from the start.



Virtual Design and Construction

Using virtual design and construction (VDC) services, models and mockups of the site selection(s) give customers an accurate picture of what each completed ASC could look like. These processes also benefit the construction teams by allowing them to detect potential clashes before they arise. This level of “building the facility before it is built” can also help surgeons and center administrators make highly informed decisions for their facilities, such as decisions on interior finishes.

Below is an example of recently built ASC using VDC to show two options for finishes:



<https://vimeo.com/274503785/a3b69c0fe3>

Smart Design for Maximum Flexibility

In order to create the best and safest patient and provider experience, healthcare architects should push the envelope by incorporating components that aren’t typically found in ASCs, but that bring maximum benefit to doctors and patients. Meticulously considering the flow of patients, staff, materials and supplies to create the highest level of efficiency and safety, while designing a better overall experience for the patient as they progress on their journey through the space from check-in to discharge. Flexibility is key. Within a constantly evolving healthcare environment, designing for the future means designing a facility that can adapt to unforeseen change and future unknowns. Focusing on three core areas: improved programming, a superior patient experience and an optimal staff and provider experience will maximize the space and result in a smart ASC that can flex as the healthcare landscape and patient needs evolve.

It is imperative to be looking at revenue and operating expenses when designing an ASC and that starts by looking at the number of operating rooms and asking the following questions:

- What is the number of procedures each day?
- How long will each procedure take?
- What is the recovery time?

Staffing is the most expensive part of an ASC operating budget, and optimizing the space in a way that minimizes turnover time for the room, equipment, and the amount of staff they need to push patients and equipment throughout the space can help lower staffing needs and staff expenses. By working in design efficiencies, it's possible that surgeons will also be able to complete more procedures in a day—even one more procedure a day could equate to hundreds of thousands of dollars of revenue each month.

Another important factor is considering how the pre- and post-operating rooms are being used. Flexing this space so they can ebb and flow with patients can create enormous efficiency. For example, sometimes you have an influx of patients all getting prepped for surgery at the same time, if you don't combine pre- and post-operating spaces then providers are limited to the number of spaces they can use. Creating more efficient, flexible space and designing a less costly facility should always be a major consideration for your design and construction partner/s.

Maintenance and Management

Maintenance and management of an ASC are two separate, important components. ASCs house a variety of sensitive and costly equipment and therefore this team should be mindful of total cost. The square footage is lower than other medical facilities and because of that, the per square foot amount for items tends to increase. It is vital to keep this top of mind when tracking operating expenses.

When a facility management team is involved from day one it can make a world of difference and impact the success of the ASC. When brought in during the development and design phase, this team can offer up ideas with what works and what doesn't. In most cases, the design finishes can often be the hardest to maintain and sometimes can cause the largest issues down the line, so getting your facility manager influence early on can reduce headaches down the road. If given the opportunity this team can do a lot of pre-work with regards to maps, marking locations, mechanical specifications, equipment lists, serial numbers and more, so that come turnover day, the ASC maintenance system is ready for building maintenance.

Overall, the key when thinking about the design, construction, and maintenance of your next ASC is about striking a fine balance between the finishes, budget, schedule and long-term maintenance costs.

According to the 2019 Ambulatory Surgery Center (ASC) Market Report the average ASC's operating expenses were 67 percent of net revenue; in hospital outpatient departments this figure was 97 percent.



QUESTIONS SURGERY CENTER OPERATORS AND PHYSICIAN GROUPS NEED TO BE CONSIDERING WHEN LOOKING TO BUILD AN ASC:

- 1 Are you affiliated with a physician/surgeon group or health system? If so, what does the model look like?
- 2 How important is the land position/location in terms of your overall strategy?
- 3 Is a location you are interested in overseen by an association? If so, the resulting surgery center would also typically be overseen by the association, which means there may be a property management team already in place. This is something to be cognizant of during the site selection process since this leads to other considerations.
- 4 Is there a strategic value of the surgery center that ties into a hospital partnership that might dictate the location?
- 5 What is the surgery center going to specialize in? Is it multi-specialty, orthopedic, ophthalmology, etc.? Understanding this scope on the front end will save time and money as you narrow down sites and as design begins.
- 6 Who is going to use the facility and how often? This will help plan for the size of the operating rooms and determine how many surgeries you are going to perform in the surgery center on an annual basis.
- 7 What are your hours of operations? If insistent on number of operating rooms but hours are 7am-3pm, extending house by 2-3 hours can mean fewer operating rooms, same amount of surgeries and less overall expense.

Benefits of an Integrated Team Approach on Project Outcomes

The benefits of working with an integrated team from the beginning can help ensure that you're thinking about all aspects of your new ASC. At every step, the approach to your project should be informed by a complete team with expertise in development, design, construction, financing, management and ownership, and with a clear understanding of your priorities. The right partner can consider the project not just from the perspective of a builder, but as an owner, operator and user, and can look for ways to navigate the real estate landscape, avoid pitfalls and strategically plan.

Having a team you trust and rely upon, not only to help choose a land position, design and build your ASC but support in lease possibilities and manage the facility is a recipe for success. With a completely coordinated team, the developer understands and takes into consideration how different sites impact construction costs. This level of team integration and a common goal helps answer important questions

and make informed decisions through the process. This takes out a lot of the guesswork up front so time, and likely money, can be saved down the road.

Seemingly minor considerations, like how big the locker rooms need to be, how much storage you need or how you'll receive deliveries at the facility can be easily forgotten or left to last-minute decisions without the right team bringing those questions to the table. There is a purpose for everything and if you don't have the right foundation or are making the right decisions along the way you can easily get off track. Factoring these items on the front end of the project can even help to save money. A collective approach with intelligent evaluation creates long-term efficiencies and benefits. Also, having a team that specializes in ASCs also makes for a more integrated process, due to the unique complexity of these types of facilities.

Conclusion

When looking at viable sites for an ASC it is important to not only look at the price of the land but to consider other data insights such as favorable demographics like age, wealth distribution, payer mix within the radius, the growth trajectory and future changes of the area, annual healthcare spend for households, etc. All play a part in determining the best site for an ASC. With roughly 70-80% of a building's total lifecycle cost coming from ongoing management and maintenance—as opposed to 20-30% from the initial design and construction—it is important to consider the location data but to also consider the benefit of having an integrated team with experience in the development, design, construction and management of ASCs to create long-term operational and functional efficiencies from the inside of the building to the exterior. Doing this work up front and getting the right insight from your team will result in more reliable and consistent revenues for your business.



COVID-19

As a result of COVID-19, providers across the world are developing, planning and implementing modifications to their facilities to address ways to rethink physical customer touch points, incorporate virtual care where it makes sense, and identify potential alternate care sites for future surge capacity.

However, it's widely recognized that the need for physical procedural space will continue to grow as more and more procedures are moved into outpatient facilities instead of hospital ORs. Reimbursements are expected to continue to flex to accommodate a more value-based care approach and the move to outpatient care is also being driven by customer demands for convenience. From an investment standpoint surgery centers are still to be considered one of the strongest assets for all of these reasons.



Surgery Partners on Working with Ryan Companies to Build ASCs Across the U.S.

Ryan Companies and Surgery Partners started working together in 2015. This partnership began with a key relationship between a Ryan developer and Surgery Partners' VP of Facilities. Surgery Partners is the premier operator of ambulatory surgery centers and ancillary services, building surgery centers in a joint venture agreement with physicians, hospitals or both. With more than 180 locations across the country, they work with various groups of physicians to develop facilities that will meet the unique needs of their patients and communities. Their focus is on improving integration between patient and provider, with an eye toward providing care in a safe, convenient,

cost effective manner—a mission that's well-aligned with Ryan's approach to delivering healthcare spaces.

The relationship opened to the door to Ryan's work as a general contract for an ASC in Beverly Hills, CA, which led to more ASCs, increasingly engaging Ryan's services of development, architecture + engineering, construction, management and financing capabilities. To date, a total of five ASC projects have been completed with several more in the pipeline. Brian Blankenship, Vice President of Facility Development for Surgery Partners shares his thoughts below on the ongoing partnership with Ryan Companies:

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What stood out to me from the beginning working with Ryan Companies was the level of diverse expertise of the team and the level of care they take with each project – considering the budget, design and schedule with every decision. What's important to me when developing a new ASC is having a team in place that understands the building type. ASCs are complex projects and on a relatively small scale with a lot of technical components within the footprint of the building. It is refreshing to not have to educate the team every time on what the building type is and what we are trying to accomplish – Ryan gets it.

Everyone at Ryan enjoys what they are doing, and it is reflected in the way they treat customers, user groups and different people they interact with when working on a project. I have a long history of working with various other developers, contractors, architects, etc. in the industry but what is interesting about Ryan is they have all those important components in-house and under one umbrella. It makes the process run smoother and more efficiently because all parties involved are working towards a common goal.

Ryan is a partner from the start, working to add value every step of the way. They understand our business at a deep level and have been instrumental in providing the real estate solutions that allow us to continue to expand and grow.

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About

Ryan Companies US, Inc.

Founded in 1938, Ryan Companies offers comprehensive commercial real estate services as a national developer, architect, capital investment consultant, builder and real estate manager with a focus on bringing lasting value to its customers and the communities in which it works. Ryan market depth includes retail, industrial, healthcare and senior living. Ryan development and corporate build-to-suit work spans a wide range of product types including office, mixed-use, hospitality, multifamily housing and mission critical facilities. Ryan has nearly 1,500 employees in 15 offices and has completed projects in 39 states. For more information, visit ryancompanies.com.

Surgery Partners

Headquartered in Brentwood, Tennessee, Surgery Partners is a leading healthcare services company with a differentiated outpatient delivery model focused on providing high quality, cost effective solutions for surgical and related ancillary care in support of both patients and physicians. Founded in 2004, Surgery Partners is one of the largest and fastest growing surgical services businesses in the country, with more than 180 locations in 30 states, including ambulatory surgery centers, surgical hospitals, a diagnostic laboratory, multi-specialty physician practices and urgent care facilities. For additional information, visit surgerypartners.com.



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