

Microhospitals – A New Chapter in Patient Care

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Large inpatient hospitals, usually thought of as a cornerstone of traditional healthcare, have been faced with new challenges over the last few years that have led many health providers to reevaluate how, and where, their hospitals should operate.

Faced with declining reimbursement, inpatient volumes and the rising cost of doing business, coupled with a growing competitive ambulatory market, large hospitals are no longer needed in every community. Instead, health providers are increasingly investing in smaller, easier to manage inpatient facilities known as microhospitals, which can represent attractive opportunities for growth while cost effectively addressing smaller markets, including underserved communities.

Smaller Can Be Better

The concept behind microhospitals is that not every market requires a full-fledged hospital, and this idea isn't a new one. Over the last few years many health systems have begun to close their doors in smaller markets where they are losing money. Of concern, hospitals in rural markets are out of balance with underlying demographics as roughly 20% of the U.S. population resides in rural areas, however nearly half of all acute care hospitals are located in these same regions. Several hospitals in these smaller markets have either repurposed themselves or split off into specialty centers tailored to better serve local demographics. Similarly, consumers around the country have seen freestanding emergency departments (FSED) and urgent care facilities pop up around their communities because health providers recognize that many medical issues no longer require a trip to the hospital emergency room, which can often be an extremely time-consuming and costly experience where hospital metrics are emphasizing patient throughput and not necessarily patient satisfaction. However, unlike a specialty care facility or urgent care operation, a microhospital is a licensed acute care facility that meets the same state and federal regulations as any acute care hospital, but possesses more of a consumer-friendly, outpatient atmosphere and are cheaper to build and more efficient to maintain and operate.

While a microhospital is very similar to a traditional hospital on paper, they do differ in several important ways. Specifically, microhospitals, as the name suggests, are smaller than the average hospital. They typically focus on a smaller number of patients and have a limited amount of beds, typically around 10-12 beds compared to a regular-sized hospital, which could have anywhere from 100 to 500+ beds, according to data from the CDC. With this smaller size, these hospitals can emphasize patient-focused care and customize its service offering to match that of the local community needs. In terms of size, they are usually 15 - 60 thousand square feet and because of this the initial investment to build one is much cheaper than a full-size hospital, making it easier for regional health providers to deploy them in new markets or areas with a service gap. Further, these newly constructed facilities are strategically situated in growing areas of a market with higher population density and/or traffic. In addition, because microhospitals follow the same rules as a normal hospital, they offer increased cost transparency for patients compared to a FSED or similar standalone facility emphasizing their efficient site of care metrics.

Finding the Right Market

Due to their size and often limited reach, most microhospitals are partnered with a larger health system to fully meet the needs of their community and market. A recent report from CannonDesign reveals that geographically, microhospitals are typically at least 20 miles away from larger health facilities, so while the services offered may not always be as comprehensive as a traditional hospital, they usually have an emergency room, screening centers and additional services in demand from their specific market or community. For instances where they cannot accommodate a patient, the patient often will not need to go too far out of their way to receive any specialized or tertiary care they may require. With the rise of telemedicine, patients sometimes have the option to avoid the extra drive and simply speak with a specialist from another care facility directly from their local microhospital. This creates a more convenient, patient-centered environment for residents while also enhancing the hospital or health system's ability to keep the patient in their network.

More Micros in the future?

Microhospitals may have started emerging a couple years ago but they are still in their infancy. Across the United States, there are still fewer than 100 microhospitals and only a handful of major health providers have been quick to enter the space, including Dignity Health Care, Baylor Scott and White, and SCL Health. Geographically, some states also require a Certificate of Need, a legal document that prevents new hospitals from being constructed unless they can first prove a "need" for it in the market. This, coupled with existing regulations around building new hospital facilities, has significantly increased the amount of time needed to design and construct new microhospitals. Despite these challenges, the low cost to build a microhospital and their ability to help curb patient leakage in underserved markets is why I expect more regional health providers to begin to enter the space, and why we will likely see more and more microhospitals emerge over the next few years.

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