



## HEALTHCARE CONSOLIDATION: The Disappearing Independent Doctor and Healthcare's Growth in Sacramento

– Colliers Sacramento's February 2019 Special Report –



**February 26, 2019 – Sacramento, CA** – The independent family practitioner is disappearing. Current U.S. healthcare trends are changing how patients receive care and how doctors work. Private practice physicians are dealing with more regulations, insurance mandates and changes, detailed reporting requirements, rising costs, lower reimbursements, urgent care demand, and the industry's accelerating consolidation. All of this has resulted in more and more traditional independent physician joining large healthcare groups.

### **National Trends**

In reviewing the statistics from a few recent studies, the move by independent doctors into large hospital groups is unmistakable.

According to [The American Medical Association's 2016 Physicians Practice Benchmark Survey](#):

- For the first time in 2016, less than half ([47.1%](#)) of all physicians who provide at least 20 hours of patient care per week owned their own practices, this is down about 6 percentage points from 2012
- [57.8%](#) of physicians surveyed worked in practices with 10 or fewer physicians, down from 61% in 2012



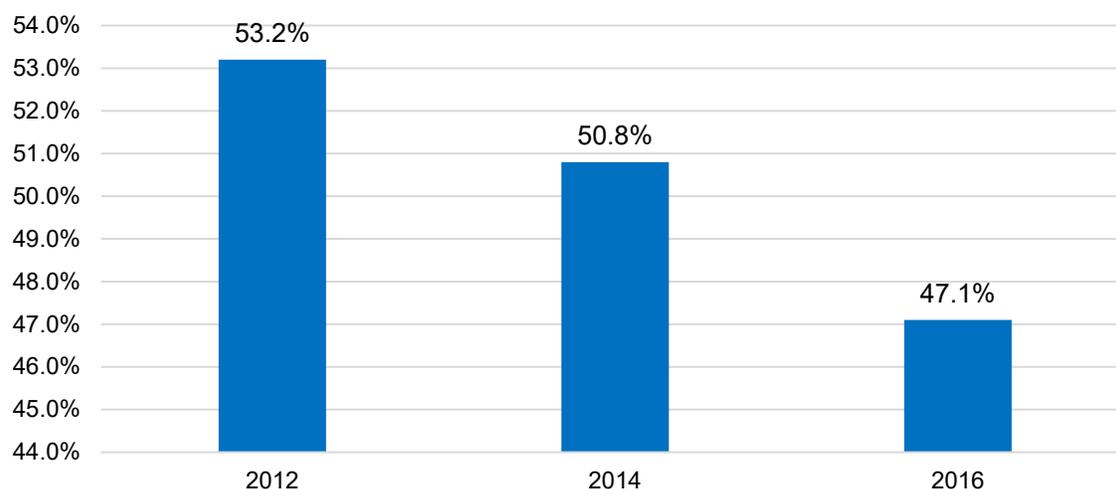
The Physicians Foundation released its [2016 Survey of America's Physicians](#) which found similar trend lines and increased stress in the healthcare industry:

- [33%](#) of doctors identified themselves as independent practice owners or partners, as compared to 48.5% in 2012
- Physicians today spend 21% of their time on non-clinical paper work
- Just [17%](#) of physicians are in solo practice, down from 25% in 2012
- Although driven into large provider-controlled practices, most physicians do not feel this is a positive trend
- Only 11% of physicians said keeping electronic health records improved their interactions with patients, while 60% said they detracted from patient interaction
- 49% of doctors often or always experience feelings of burn-out
- 80% of physicians claim to be overextended or at capacity, with no time to see additional patients or interact fully with existing patients
- 48% of physicians plan to cut back on hours, retire, take a non-clinical job, or switch to "concierge" medicine

In July 2015, Accenture stated:

- [Only one in three physicians will be in private practice by the end of 2016](#), with reimbursement pressures and rising overhead costs being the primary reasons for this shift in medical employment

### Percentage of Physicians Owning Their Practice



### Drop in Primary Care & Private Practice

Patients are choosing retail clinics and urgent care centers in strip malls and shopping centers where nurses and physician assistants can administer care faster and cheaper than in a doctor's office. There are some [12,000 of these on-demand clinics open across the country](#).



[According to the Health Care Cost Institute](#), office visits to primary care doctors have dropped 18 percent from 2012 to 2016. Also, the low pay and long hours that come with pediatric or private family practices is deterring aspiring physicians away from these practices.

As of 2016, large hospital groups [employ some 43 percent of the nation's primary care doctors](#). This is almost double the 23 percent in 2010.

### **Mega-Mergers**

Major healthcare provider mergers are [giving large systems more power](#). Hospital mergers and acquisitions hit a new record in 2017 with [11 deals involving parties with at least \\$1 billion in revenue](#), according to Kaufman Hall & Associates LLC.

[Walmart and Humana are in talks to merge](#). Humana would use Walmart's stores to expand its offering of clinics nationwide to meet the rising demand for one-stop medical care in a convenient setting.

At the end of November 2018, the [\\$69 billion merger between CVS and Aetna](#) closed. This move was in response to UnitedHealth's recent addition of a large medical practice at the end of 2017, which doubled the number of areas where its OptumCare doctors will be to 75 U.S. markets. UnitedHealth is also experimenting with putting MedExpress urgent care clinics into Walgreens stores.

In March 2018, regulators approved a merger between Midwestern hospital groups Advocate Health Care and Aurora Health Care, creating a new system with \$11 billion in total revenue.

Even Amazon, JPMorgan, and Berkshire Hathaway are jumping into healthcare. They have decided to [join forces to implement a new healthcare strategy for its employees](#) due to widespread frustration with the current state of medical care in the U.S.

### **California Trends**

Mega-mergers, large growing hospital groups, and shifting healthcare dynamics have come to affect California's 40 million residents. [Half of all California hospitals are now in a multi-hospital system as of 2016](#), according to USC.

Catholic Health Initiatives (CHI) and Dignity Health [finalized its massive merger at the end of January 2019](#). This \$28 billion merger of two large hospital groups will create [a 150,000 employee company with 700 medical office and hospital locations in 28 states](#) (including 30 hospitals in California). San Francisco-based Dignity Health's deal with CHI, a horizontal merger combining major players in the same sector, is the latest in a number of significant consolidations in the healthcare industry. The new company is now [CommonSpirit Health](#).

### **Sacramento Trends and Developments**

In Sacramento, similar trends are playing out although here the number of physicians not associated with major providers is, 53 percent, lagging national and statewide numbers. We feel over the next few years Sacramento will come into line with the national numbers.



Sacramento is seeing an increase in medical office and hospital projects.

- Oakland-based Kaiser Permanente, after opening its new Downtown Commons Medical Offices last June, closed on 18 acres of land in early January 2019 for its [Railyards Medical Center, a \\$749.5 million, 1.2 million square foot facility](#) set to open north of Downtown Sacramento by 2025. The Railyards hospital will replace the dated Morse Avenue location. Kaiser is also building a new medical office project in Roseville that should be done by the end of 2019.
- [California Northstate University Medical Center](#) will be a new 250-bed hospital in Elk Grove totaling 475,000 square feet. The \$750 million project is projected to create more than 24,000 new jobs over the next decade and generate more than \$4 billion in regional economic output. This medical center on 11 acres will also act as a teaching hospital. The university hopes to start construction by mid-2019 and be done by 2022.
- Aggie Square is a 25-acre proposed development on the south end of UC Davis Medical Center in Sacramento that will act as a hub for student innovation and technology. [Announced in August 2018](#), the first Aggie Square project to go up will be a \$60 million UC Davis Rehabilitation Hospital. The university is partnering with Kindred Healthcare, a Kentucky-based company that will manage day-to-day operations for the 48,000 square foot hospital.
- In North Natomas, [Vibra Healthcare Rehabilitation Hospital](#) is a \$20 million, 6.23 acre project off Interstate 5 that received city approval in August 2018. The two-story, 59,506 square foot hospital will have 50 beds. Vibra expects to break ground on the development in early 2019 and plans to add 150 jobs.
- Dignity Health (now CommonSpirit Health) has also been in expansion mode. In South Sacramento, Dignity leased 8,600 square feet in November near Kaiser's South Sacramento hospital. In October, Dignity expanded 12,055 square feet in Point West. Dignity is also building out its new 68,000 square foot medical office building in Citrus Heights that completed at the end of 2018 while also looking at additional Sacramento area options for expansion in 2019.



*Dignity Health's new office building at Greenback Lane and Fountain Square Drive, expected to open spring 2019 / Photo from Citrus Heights Sentinel*



The good news for Sacramento is the new jobs will bring new demand for healthcare workers. Centene is bringing around 2,000 new health insurance jobs to North Natomas and Penumbra, an Alameda-based medical device manufacturing company, will bring up to 300 new jobs to the Roseville area by June.

Perhaps the most impactful issue facing healthcare in California is the state's push toward a single-payer health system. This change being championed by our new governor is sure to have a major impact on California healthcare for the foreseeable future.

### **Conclusion**

With the independent doctor disappearing and physicians grappling with rapid change in the industry, healthcare will continue to evolve and change in 2019. Be on the lookout for new state laws impacting healthcare. It is imperative to have an advocate on your side as you navigate the intricate world of healthcare.

Our clients are living with these constant changes in the healthcare industry. We help them make smart decisions about their practice and their real estate. Contact Colliers Sacramento's [Northern California Healthcare Advisory Group](#) for advice on how to manage your office space in 2019 and beyond.

When independent doctors sell their practice or their building, what are their options?

- Own the building and lease it back to a major health system as an investment
- Sell the building, then join a major healthcare group or retire
- Have the lease bought out by a major health system and work for a large health group

Reach out to Colliers Sacramento's [Northern California Healthcare Advisory Group](#) to learn how to best evaluate your real estate options and stay abreast of the many changes to healthcare both locally and nationally.

### **Northern California Healthcare Advisory Group**



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