

Market Trends in Health Care Real Estate

By Joseph P. Heins
Phillips Lytle LLP



Joseph P. Heins
Special Counsel

Real estate strategy is quickly becoming a top-of-mind issue as a key driver of growth and long-term competitiveness for health care providers and hospital systems in Western New York and across the country. Unlike traditional commercial real estate asset classes, health care real estate is shaped not only by market forces, but also by regulatory complexity, evolving care delivery models and unique operational demands. Several converging trends are now redefining how providers build and manage their portfolios.

The Accelerating Shift to Outpatient Care

The most significant structural change is the ongoing migration of care away from hospital campuses and into outpatient settings. Advances in technology and patient preference for convenience have enabled more procedures to be performed safely outside the hospital. Health care providers must now go to where the patients are, instead of the patients coming to the providers.

As a result, health systems are aggressively expanding networks of medical office buildings (MOBs), ambulatory surgery centers and neighborhood-based clinics. These facilities are increasingly located in retail corridors and suburban hubs, bringing care closer to where patients live and work. That shift, however, introduces new and often overlooked real estate challenges. Unlike hospital campuses, retail and mixed-use properties are frequently subject to strict site constraints and private land use controls. Higher patient volumes can strain existing parking allocations, while site plans may include no-build areas that limit future expansion. In addition, restrictive covenants and tenant exclusives can prohibit certain medical uses or service lines altogether.

At the same time, health care providers are negotiating their own exclusivity rights and radius restrictions to protect market share, creating added complexity across a multi-site portfolio. The result is a more fragmented and highly negotiated real estate landscape, where site selection and lease terms must be carefully structured to preserve operational flexibility and long-term growth.

The Rise of Complex, Multi-Use Facilities

Modern outpatient facilities are no longer single-physician office buildings. Today's MOBs frequently

integrate imaging, surgical suites, lab services and specialty care under one roof.

This complexity creates new challenges, including higher

construction costs, more sophisticated infrastructure needs and increased coordination among multiple providers. It is also forcing health systems to operate more like real estate companies. Providers are now directly involved in negotiating construction contracts, managing architect and engineering agreements and overseeing project delivery—functions traditionally handled by third-party developers.

These projects require careful coordination of design, clinical

requirements and risk allocation, particularly where highly specialized buildouts are involved. Lease structures are evolving as well, with providers often taking on greater responsibility for tenant improvements and project execution.

At the same time, adaptive reuse is emerging as a viable strategy, with underutilized retail and office properties being converted into health care facilities. While these projects can accelerate market entry, they further reinforce the need for health care organizations to quickly obtain new expertise in real estate, construction and development.

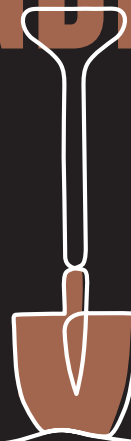
Take Away

For modern health care providers and hospital systems, real estate is no longer a purely administrative function—it is a strategic asset

that directly affects access to care, operational efficiency and financial performance. Health systems that approach real estate proactively—integrating legal, development and operational considerations from the outset—will be better positioned to adapt, compete and grow.

Joseph P. Heins, Special Counsel and member of Phillips Lytle's Real Estate Industry Team, provides counsel to landlords and tenants alike to service their real estate portfolios, including in the areas of leasing, sales, acquisitions, financing, public-private partnerships, project development and title matters. He can be reached at (716) 847-7004 or jheins@phillipslytle.com.

MORE THAN A LAW FIRM. A GROUND BREAKER.



Digging into complex issues to keep development projects on track. That's The Phillips Lytle Way.

The attorneys on our Real Estate and Project Development Teams combine the day-to-day "dirt work" of traditional real estate development with specialties like the Brownfield Cleanup Program, land use and zoning, construction compliance (including MWBE requirements), SEQRA and historic tax credits. Our law firm has deep knowledge in emerging areas like New York State electrification mandates and climate change impact analysis. Our multidisciplinary Real Estate Team has played a crucial role in some of the most prominent projects in the Rochester area, including Innovation Square, Silver Hill Technology Park, The Dome Arena, The Village at Mill Landing, University Square and an 85,000 sq. ft. distribution facility. Sophisticated developers know our team works tirelessly to turn "it's a no" into "it's a go." So, no matter how challenging the hurdles you're facing, there are no issues we can't handle.

Talk to us and learn why clients keep building trust in Phillips Lytle.



Phillips Lytle LLP

Visit us at [PhillipsLytle.com/ProjectDevelopment](https://www.phillipslytle.com/ProjectDevelopment)



Scan for Real Estate & Project Development information