

ACEC Market Intelligence Brief

Health Care & Science+Technology

Summer 2024

Market Scope

The health care and science+technology sectors stretch across many diverse industries that include health care services and facilities, pharmaceuticals, biotechnology, the manufacturing of drugs and medical equipment, and distribution. The largest trends impacting this market today include the wave of artificial intelligence (AI), building and operational sustainability, curious investors, M&A activity, and weight loss drugs. The current health care market is worth \$69 billion, up 8% from 2023 (FMI). The increase in our aging population, growing mental health concerns, and a rise in obesity rates will drive demand for additional services and facilities including hospitals, outpatient facilities, specialty medical buildings and medical office buildings.

Top Clients

The list below features the top 10 largest hospitals by number of beds. Capacity is important because a patient's preference for increased comfort and mobility is driving demand and leading to higher utilization rates for hospitals.

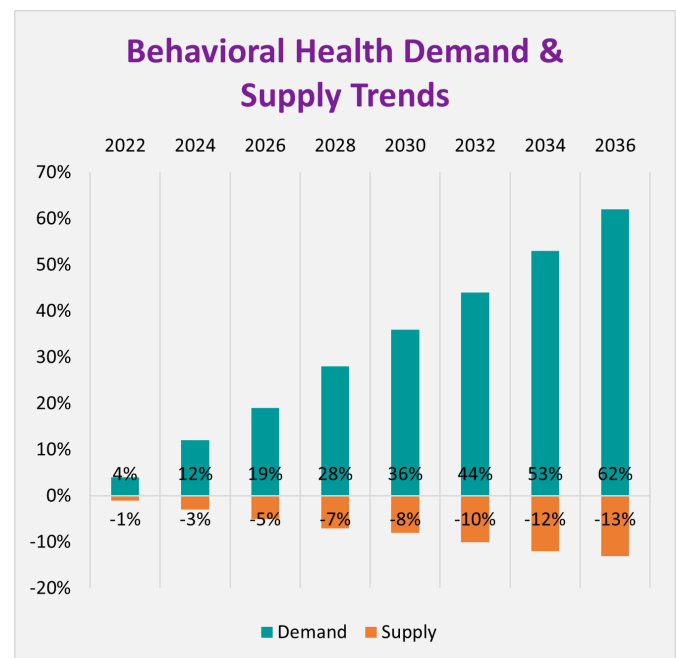
1. **AdventHealth, Orlando, FL:** 2,247 beds
2. **Yale New Haven Hospital, New Haven, CT:** 1,541 beds
3. **Jackson Memorial Hospital, Miami, FL:** 1,500+ beds
4. **Cleveland Clinic, Cleveland, OH:** 1,326 beds
5. **Mayo Clinic Hospital, Rochester, MN:** 1,265 beds
6. **Atrium Health Carolinas MC, Charlotte, NC:** 1,220 beds
7. **Barnes-Jewish Hospital, St. Louis, MO:** 1,259 beds
8. **UAB Hospital, Birmingham, AL:** 1,207 beds
9. **Mount Sinai Hospital, New York, NY:** 1,139 beds
10. **Miami Valley Hospital, Dayton, OH:** 1,113 beds

(Source: [Becker's Hospital Review 2023](#))

5 Current Market Trends

- ▶ **1. Mental Health Surge Demands More Facilities:** One in five American adults (totaling approximately 57.8 million) lives with a mental illness (NIMH and NAMI). In 2023 adults ages 18 to 34 reported a 50% increase in mental health diagnoses, the highest rate among the population (APA). While the U.S. Health Resources & Services Administration projects a 62% increase in demand for behavioral health services by 2036, health care staff is projected to decline by 13% (see chart below). Diagnoses of anxiety and depression increased by 25% during the 2020 pandemic (WHO), leading investors to begin acquiring behavioral health properties at a rapid pace, worth \$3 billion in the last ten years (Colliers). This directly resulted in increased demand and investment into three necessary facility types: outpatient, inpatient, and residential. Outpatient care is office-based, including

(Continued on next page)

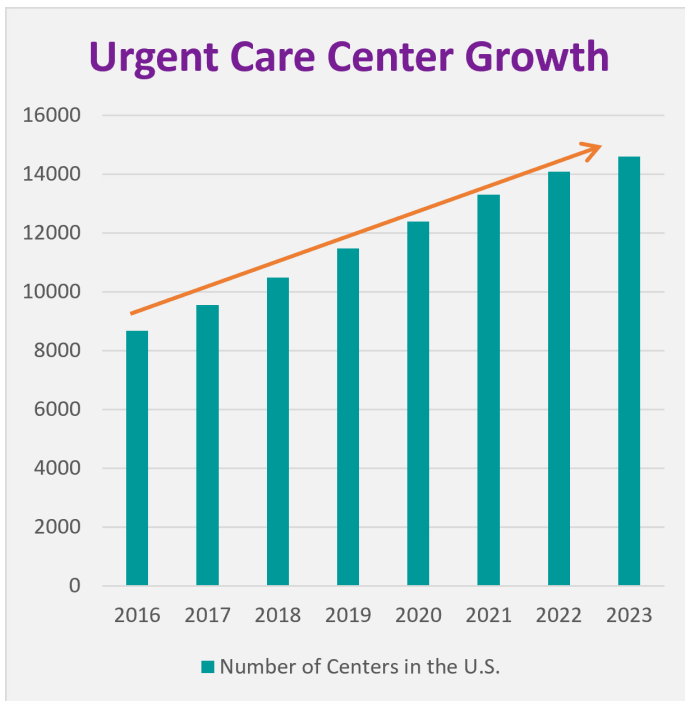


(Source: [Health Resources & Services Administration](#))

Current Market Trends, *continued*

single tenant to multi-tenant medical office buildings. Residential includes longer-term care and in-facility living allowing monitored care, while inpatient facilities include an overnight stay or longer in a standalone hospital or within an acute-care facility. For more data on behavioral health facilities and access to care by state see the map on page 4.

- ▶ **2. Notable Shift from Inpatient to Outpatient Care:** There has been a notable shift from in-patient to outpatient care. Demographics, consumer preference, and advancing technologies are driving this trend. Medical outpatient buildings can include urgent care centers (UCC's), labs, surgery centers, and mental health clinics. The number of UCCs grew 68% from 2016 to 2023 (*Urgent Care Association*). Outpatient volumes are also expected to rise another 26% over the next decade (*AHA*). See chart below for the number of centers in the U.S. and its projected growth.



(Source: [Urgent Care Association](#))

- ▶ **3. M&A Activity on the Rise:** As telehealth demand soars and AI changes the healthcare landscape, mergers and acquisitions (M&A) are expected to increase as the blending of in-person and digital healthcare attracts new investors. When interest rates begin to decline, investors are expected to re-enter the market at the same time as more health systems and hospitals seek to become regional organizations. In 2022, there were 53 announced hospital mergers and acquisitions; in 2023 there were 65 (*Kaufman Hall Report*). Acquisitions from private equity are already on the rise accounting for 30% of for-profit hospitals in the U.S. (*Lown Institute*). The rise in M&A

activity can be linked to a tighter labor market and smaller profit margins. M&A becomes a solution that will allow systems to expand market share, acquire innovative startups, diversify service offerings, and access capital.

- ▶ **4. Weight Loss Drug Advancements Impact Biomanufacturing Real Estate:** Approximately 537 million adults have diabetes, and that number is expected to increase to 643 million by 2030 (*International Diabetes Federation*) and about 40% of adults in America are overweight (*Food Research and Action Center*). Drugs that were initially created to help manage blood sugar levels and lower the risk of cardiovascular problems associated with diabetes have become a growing weight loss trend. Prescriptions for these drugs increased by 300% from 2020 to 2023 (*Trilliant Health*). Demand has led to an increased investment interest in additional outpatient facilities for diagnostic testing and follow-up appointments and cold storage units to store the drugs until use. See list below for top outpatient facility engineering firms by revenue.

Rank	Top Outpatient Facility Engineering Firms in 2023 by Revenue	2022 Revenue
1	Jacobs	\$108,300,000
2	IMEG	\$28,155,760
3	TLC Engineering Solutions	\$11,401,657
4	KPFF Consulting Engineers	\$8,819,522
5	Syska Hennessy Group	\$8,743,805
6	Specialized Engineering Solutions	\$4,700,000
7	I.C. Thomasson Associates	\$4,100,000
8	Newcomb & Boyd	\$3,397,434
9	Affiliated Engineers	\$3,392,676
10	DH Engineering	\$2,416,452

(Source: *BD+C 2023 Giants Report*)

- ▶ **5. Funding for Decarbonizing Labs:** Laboratories in the Life Sciences sector require more complex infrastructure than traditional office buildings including greater load capacity, higher floor-to-ceiling heights, and heavy-duty HVACs. The scientific research conducted within these labs causes them to consume five to ten times more energy per square foot than traditional office buildings (*NREL*) and that requires substantial design from MEP engineers. The Inflation Reduction Act (IRA) contributes \$64 billion in funding to sustainability and renewable energy updates. This funding will aid aging buildings within the sector on their path to reduce carbon emissions. For more on IRA Section 179 D see the Government Affairs column.

Government Affairs Action

- ▶ **Energy Tax Incentives:** The Inflation Reduction Act (IRA) made several modifications to the energy-efficient commercial buildings tax deduction in Section 179D. One key change supported by ACEC is an expansion of the allocation provision. Previously, only governmental entities could allocate the deduction to the primary designer of the energy-efficient systems. The IRA expanded the allocation provision to nonprofit entities, which will include non-profit hospitals and universities.
- ▶ **Latest IRA Update:** Recently Treasury and the IRS finalized regulations to implement prevailing wage and apprenticeship (PWA) requirements in the IRA. Taxpayers may qualify for larger tax credits and deductions if they pay prevailing wages and use apprentices during construction. For Section 17D, the value of the deduction now ranges from a base amount of \$.54 per square foot to a maximum of \$5.36 per square foot if specified energy savings and the PWA requirements are met.
- ▶ **Bill H.R. 8151:** This bill seeks to expand America's telehealth options. Congressman Mike Kelly (R-PA) sponsored H.R. 8151 to permanently expand who can provide telehealth services, impacting the future planning of health systems and their virtual care strategy. The legislation is not expected to move before the election.
- ▶ **CHIPS and Science Act:** The CHIPS and Science Act provided approximately \$52 billion to boost the U.S. semiconductor sector. The chip shortage caused some hospitals to outlay cash in advance for infrastructure projects, which caused a financial hardship. Other hospitals experienced supply chain delays for computer hardware and long lead times for IT and biomedical equipment. Although health system leaders are hopeful that the CHIPS Act will make a difference, benefits likely will not be seen for years. Health systems also are competing with other chip users, including automotive, consumer and industrial industries, which could cause further delays (*Becker's Hospital Review*).

Business Development Insight

The AI Revolution in Health Care

A workforce shortage in the health care sector and a shift in the way consumers conduct their health visits could cause health systems and investors to investigate artificial intelligence (AI) and possibly cause the market to collide with the data center and technology markets.

▶ **Workforce Shortage:** The Association of American Medical Colleges reported that the U.S. will face an 86,000-physician shortage by 2036. The demand for physicians is on the rise due to a growing and aging population, but supply is declining as many physicians are reaching retirement age or leaving the practice of medicine due to burnout.

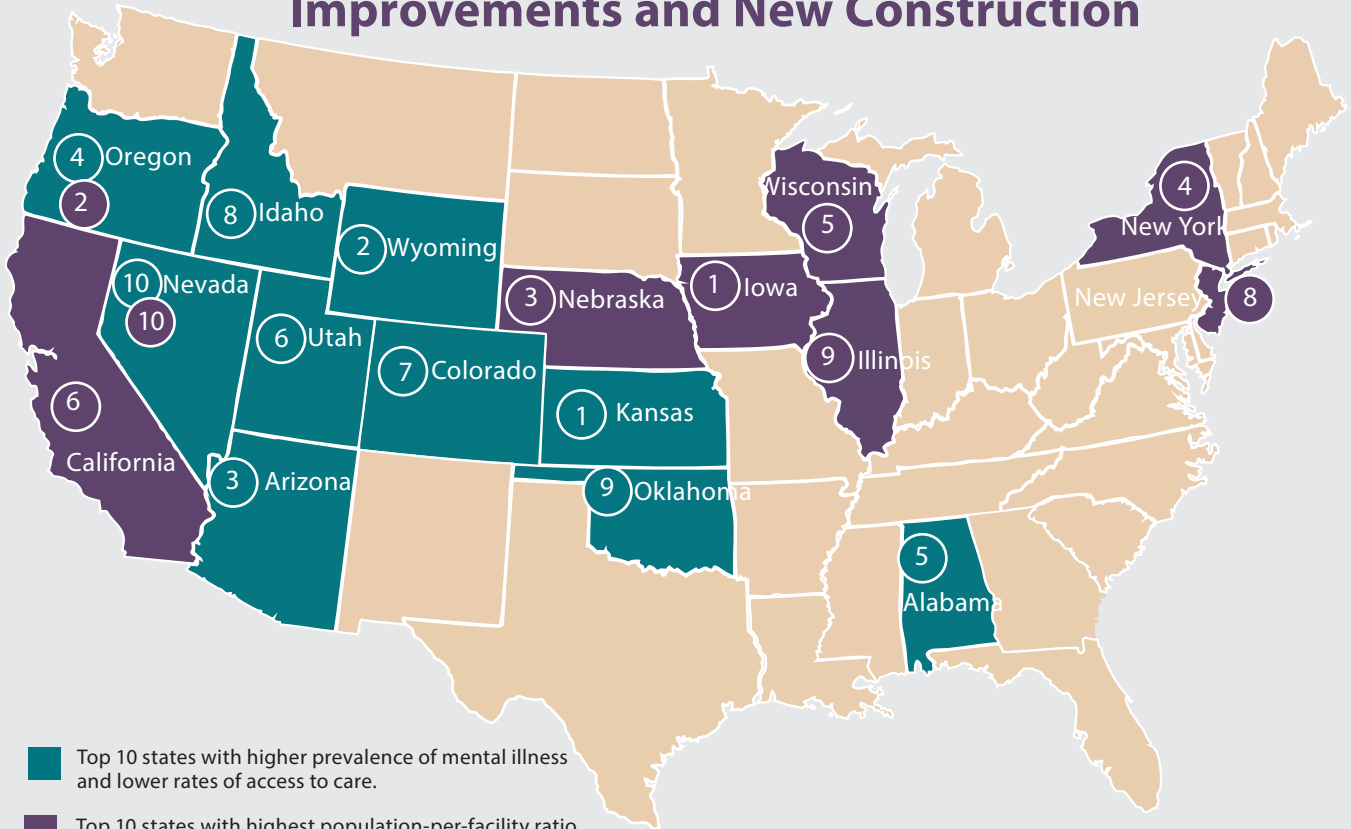
▶ **Virtual Health Care:** Telehealth usage increased by 154% during the pandemic and virtual care is currently 38 times higher than 2019 levels, according to NIH. The global telehealth market was valued at \$83.5 billion in 2022 and the compound annual growth rate (CAGR) is forecasted to grow by 24% from 2023 to 2030, according to JP Morgan.

▶ **Technological Advancements:** Health systems and curious investors turn to AI and machine learning for potential solutions as AI could revolutionize the industry. Its' implementation could result in:

- ✓ Altered hospital design and construction
- ✓ Optimization of business processes
- ✓ Administrative task support
- ✓ Operational efficiencies
- ✓ Alleviating clinician burnout
- ✓ Create predictive analytics
- ✓ Assist with post-acute care
- ✓ Aid in the workforce shortage
- ✓ Alter Biotech R&D through machine learning
- ✓ Increased profit margins

It is still too early to know exactly how AI will affect the industry, but the opportunities bring additional investment and excitement.

Top States for Potential Health Care Facility Improvements and New Construction



- Top 10 states with higher prevalence of mental illness and lower rates of access to care.
- Top 10 states with highest population-per-facility ratio (including Hawaii at #7).

(Source: Colliers U.S. Research Report)

NEW! Market Intelligence Committee

The purpose of the Market Intelligence Committee (MIC) is to identify and analyze key market developments and trends that impact the engineering industry.

In line with ACEC's strategic plan and organizational mission, the MIC will focus on recommending resources and guiding educational programming that delivers market intelligence and essential insights for businesses operating in both public and private markets.

► Join the open MIC committee by scanning the QR code now.

► To learn more about the committee and its leadership visit [here](#).



Market Briefings - Intel for Engineers

Register now for a four-part live series, held quarterly in 2024. Courses will focus on markets forecasted to experience change or growth. Each session will include a panel of speakers including industry experts, clients, and firm or association leaders that will share their market specific trends and insights. [Register here](#) for the Health Care & Life Sciences Briefing. Full schedule below:

- **The Growing Energy Market > On Demand**
- **Adaptive Re-Use, What's Next for Office? > On Demand**
- **Health Care & Life Sciences > LIVE 8/21**
- **Data Centers & Telecommunications < LIVE 11/3**

Diana O'Lare is ACEC's Director of Market Intelligence and Staff Director for the Market Intelligence Committee (MIC).

She can be reached at: dolare@acec.org.

