

POSITIONING YOUR FACILITY PORTFOLIO FOR TRANSFORMATION, FLEXIBILITY, IMPROVED FINANCIAL CONTROL

9.21.2023





▶▶ OVERVIEW

1. Collaboration to Optimize Your Clinical Real Estate Portfolio
2. Strategy Objectives and Alignment
 - ▶ Optimizing the Ambulatory Portfolio
3. Challenging Traditional Project Delivery
 - ▶ Containing Costs and Risk
4. Engage Real Estate Team at the Right Time

01

REAL ESTATE STRATEGY

COLLABORATION TO OPTIMIZE YOUR CLINICAL REAL ESTATE PORTFOLIO

Physician Enterprises & Real Estate embark on collaborative effort to optimize the physician clinic real estate portfolio

Background:

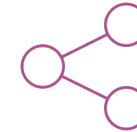
- Historically medical groups focused on **provider metrics** (e.g., wRVUs) rather than **location metrics** (e.g. exam room utilization)
- Many sites became part of portfolio through **practice acquisition**
- Many specialists are **sole user of their space**
- In some cases, **existing sites** predate **current market strategy**



Shared goals across local and national portfolio



Maintain or grow market share



Move to a shared space model for specialists



Right size the portfolio and achieve 70%+ utilization of space



Create management tools to proactively manage the portfolio

Objectives & Anticipated Results

Understand the **CSH “non-hospital” real estate portfolio** - starting with the PE portfolio

Identify opportunities to **maximize controlled space**

Improve **portfolio management**



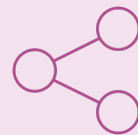
Right size the portfolio and achieve 70%+ utilization

- **Consolidating underutilized or redundant locations** to improve space productivity
- **Optimize and improve occupancy** in the owned & on-campus portfolios
- **Terminate ineffective leases** or subleases when appropriate
- Identify **opportunities to re-negotiate** leases, rates with landlords



Maintain or grow market share

- Locate our existing and new practices in the **best market locations**
- Develop **action plans** for underperforming sites



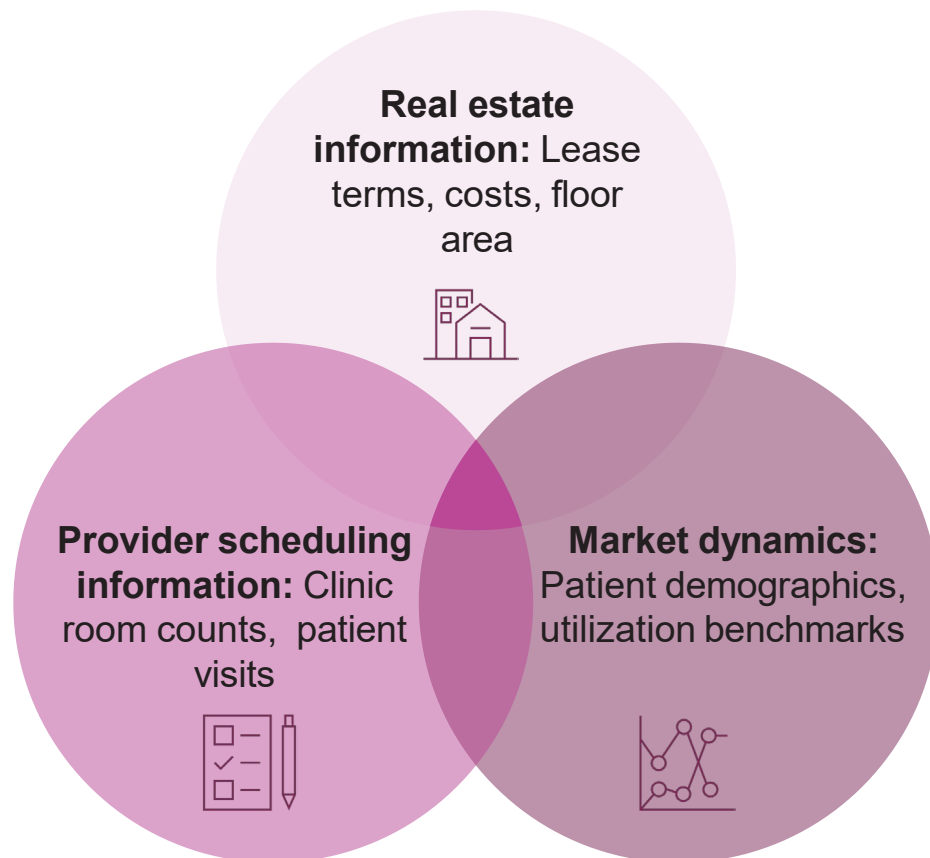
Move to a shared space model for specialists

- Identify existing underutilized space to **place new providers**

Pilot Market

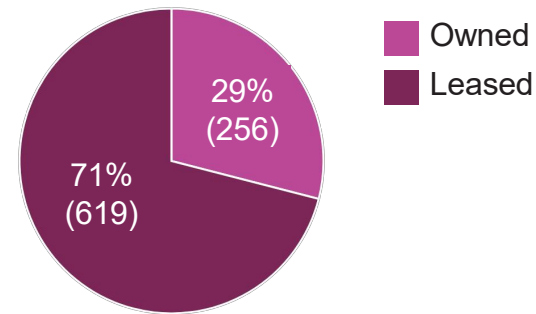
Clinic and market data shows the ambulatory clinic has opportunity for growth

SSOT (Single Source of Truth) was built by combining data from multiple sources....

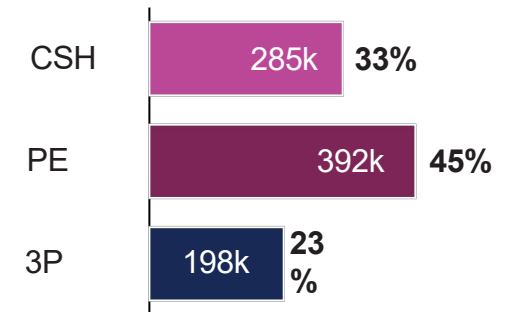


....to give data-driven insights into the ambulatory portfolio in pilot market

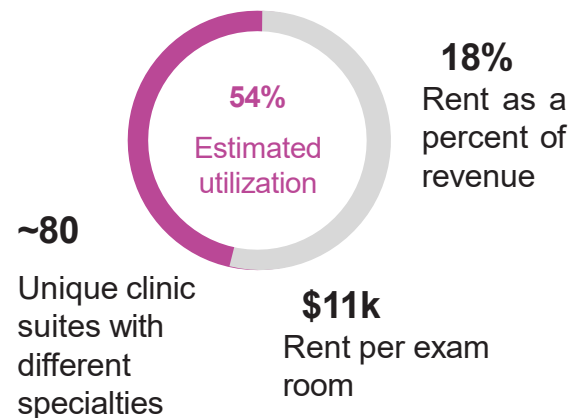
Ownership breakdown K SF, %



Occupier breakdown K SF, %



Space Utilization



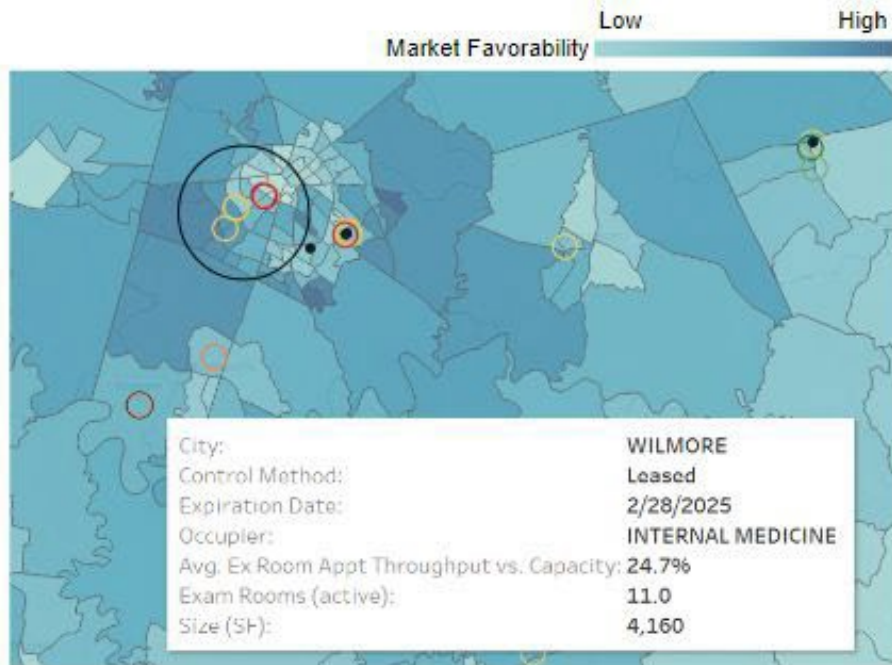
Lease details

\$13.8 M total in annual lease cost

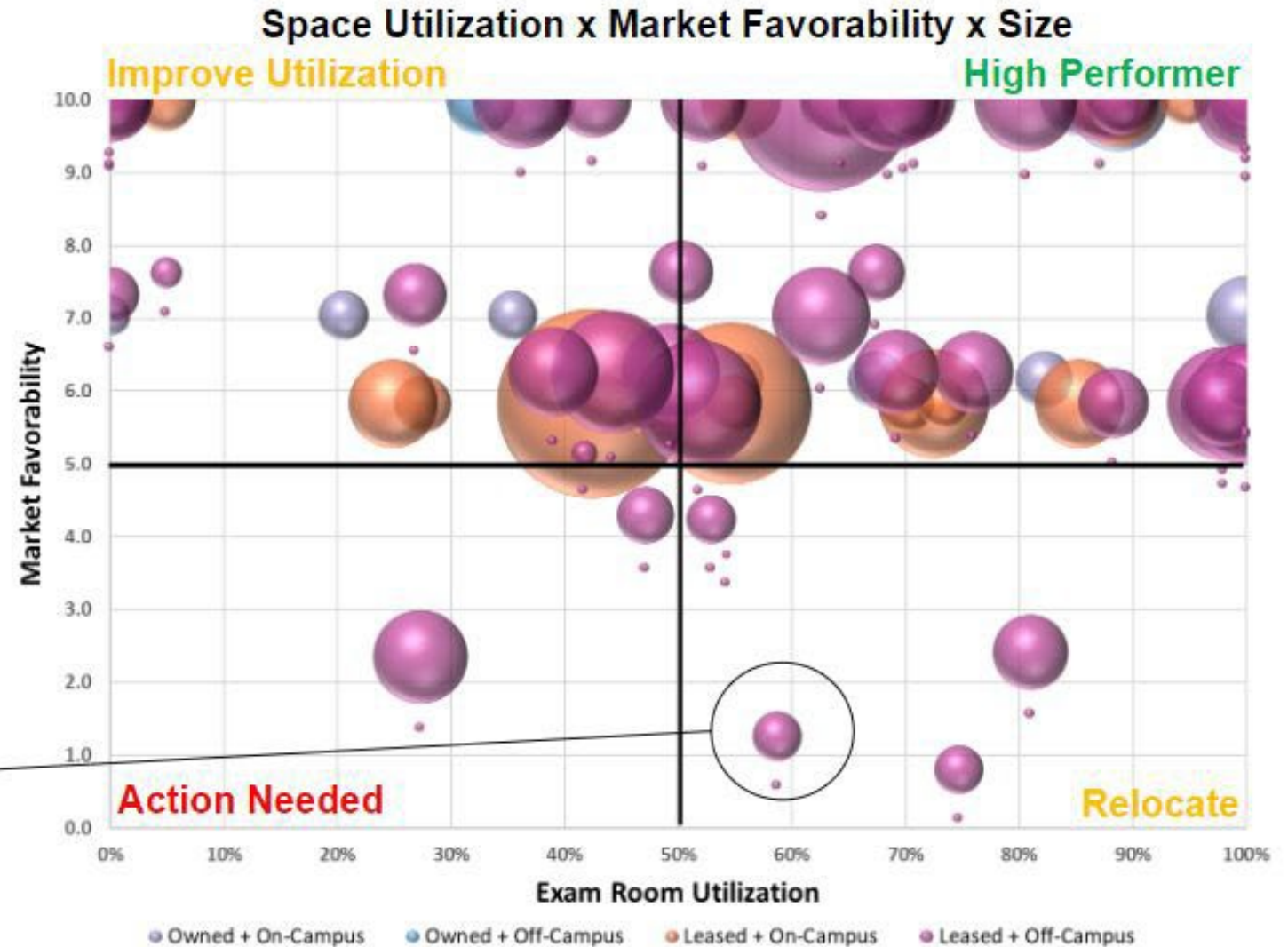
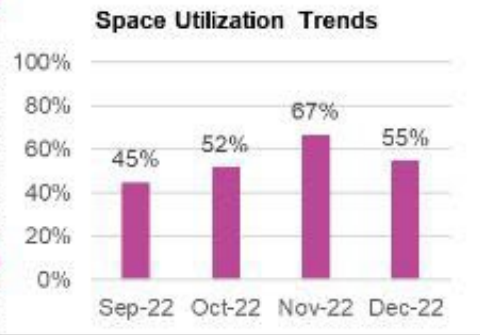
25% of leased SF expires by the end of 2024

50% of leased SF expires by the end of 2026

Depending on market dynamics, real estate, and clinic operations, we can take different actions to optimize the ambulatory portfolio



Real Estate Summary	
Primary Tenant/Leasee	CL SAINT JOSEPH MEDICAL GROUP
Address	322 CENTER ST
State	OHIO
City	WILMORE
Occupier	INTERNAL MEDICINE
Subtype	CLINICAL PC
Control Method	Leased
Expiration Date	2/28/2025
Size (SF)	4,160
Lease Type	NNN
Yearly Rent	\$25,000
Annual Rent per Sq Ft	\$6.01
Cost / Ex Room	\$1,727
Cap / Ex Room	\$1,000



Exam Room Utilization: % of throughput in active exam rooms against benchmark capacity

Market Favorability: Indexed market score (based on 2027 population + income groups)

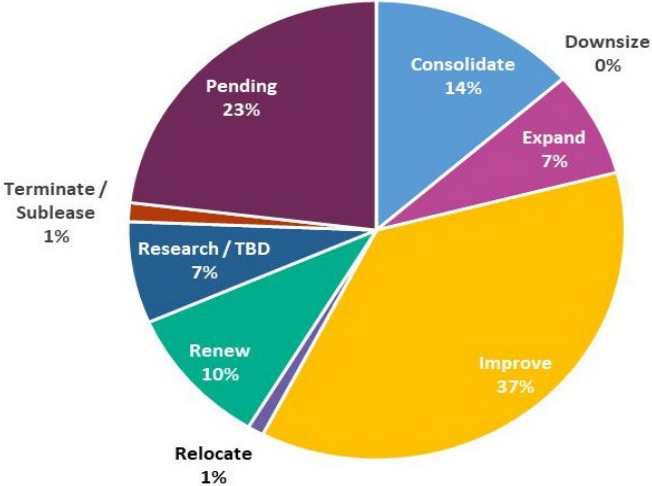
02

STRATEGY OBJECTIVES AND ALIGNMENT

IMPLEMENTING PROACTIVE PORTFOLIO PLANNING TO SUPPORT OPTIMIZATION

In working sessions leaders propose action plans

Action plans by sq. ft. of clinic space



Action Category	SF	Percentage
Consolidate	51,000	14%
Downsize	-	0%
Expand	28,000	7%
Improve	138,000	37%
Relocate	4,000	1%
Renew/Keep	37,000	10%
Research/TBD	26,000	7%
Terminate/Sublease	5,000	1%
Pending	87,000	23%
Total	376,000	100%

Developing proactive comprehensive portfolio plans will support portfolio optimization

Initiatives	Description
1 Real estate expense savings	Clinics that are performing below utilization benchmarks and relocated into clinics with existing underutilized space
2 Operational gains and synergies	For clinics that are consolidated, additional savings gained from optimization of FTEs, IT resources , etc.
3 Increase utilization of clinics	Increasing schedule availability; Recruiting new providers into underutilized sites
4 Growth into new markets	Expanding, relocating, adding new clinics in higher performance markets

Challenges and needs



Analytics

- CHI Markets require **unique schedule data modeling** across markets
- **Validating space utilization** analytics to achieve confidence from market leaders



Action planning / implementation

- Perception that once we give up space, **can't recoup if needed later**
- Using **real estate to defend market** from competition
- No uniform approach to **balancing operational challenges** vs. **optimizing real estate** investment
- Sensitivity / aversion to initiating change with **provider relationships**
- **Aversion to asking for funding** given current financials / capital constraints (e.g. consolidation opps, existing shelled space, etc.)



Support needed

- Continued communication with our markets that **optimizing RE footprint + spend is a CSH priority**
- Support in driving more **aggressive action plans**
- **Automation and dashboard tools** to keep data up-to-date and enable market leaders to plan effectively

03

IMPLEMENTATION AND RESOURCES

GOVERNANCE AND PROCESS TO CONTAINING RISK AND COST, WHILE
ENABLING PRODUCTIVITY AND REVENUE

GOVERNANCE MODEL AND FRAMEWORK

ENTERPRISE GOVERNANCE



Build the Plan

- ▶ Strategic alignment and overall direction
- ▶ Service line leadership and accountability
- ▶ Identify operational and strategic opportunities
- ▶ Financial and operational objectives
- ▶ Escalation and resolution

Who: Enterprise leadership

Accountability for organizational strategy and governance

MANAGEMENT TEAMS



Monitor Performance

- ▶ Drive continuous improvement in service delivery
- ▶ Ensure compliance with policies and procedures
- ▶ Measure savings performance
- ▶ Review and update budgets
- ▶ Manage change control process

Who: Real Estate and Facilities

Internal and external leadership across portfolio management, finance, facilities, design, lease administration, energy management, construction, and project delivery

OPERATING TEAMS AND PARTNERS



Executing on the work

- ▶ Monitor operational deliverables
- ▶ Innovate service delivery
- ▶ Anticipate and address customer issues

Who: Internal and external partners

Capital, Real Estate, Design, Construction, Construction



BUSINESS AND PORTFOLIO STRATEGY

- ▶ Long-term strategy balanced with practical execution
- ▶ 30% – 50% total occupancy savings + 20% productivity gain



TRANSACTION MANAGEMENT

- ▶ Best portfolio results through market insight and action
- ▶ 10% – 20% savings in occupancy costs



LEASE ADMINISTRATION

- ▶ Portfolio transparency helps eliminate business risk
- ▶ 5% – 20% cost savings and avoidance



PROJECT MANAGEMENT

- ▶ Fast, flexible and on-time delivery
- ▶ 25% – 75% project cost savings



INTEGRATED FACILITY MANAGEMENT

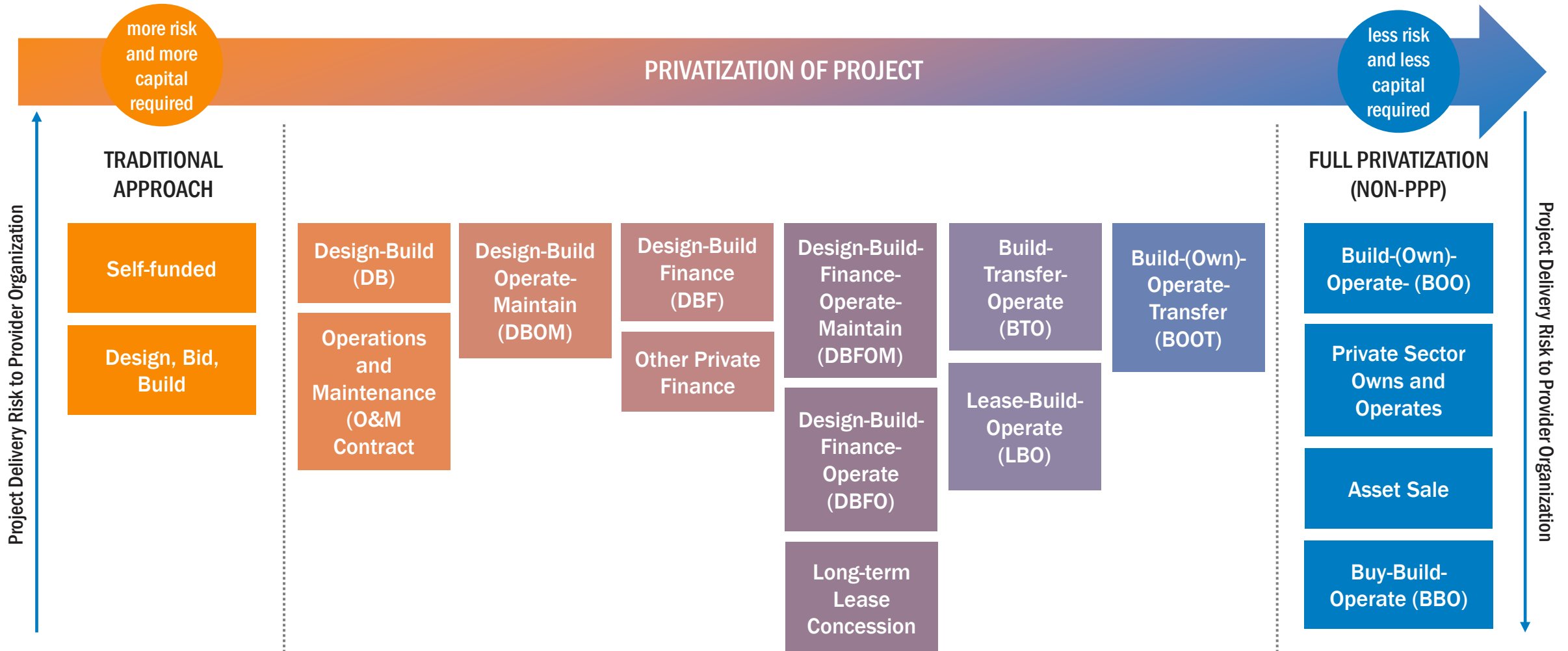
- ▶ Safe, reliable, productive work environments
- ▶ 10% – 20% savings on facility costs

04

PROJECT DELIVERY MODELS

CHALLENGING TRADITIONAL EXECUTION METHODS TO CONTAIN RISK AND COST, WHILE ENABLING PRODUCTIVITY AND REVENUE

PROJECT DELIVERY MODELS ALONG A CONTINUUM OF PRIVATE SECTOR INVOLVEMENT



PARTNERING TO FIND THE **RIGHT PATH** TO THE LOWEST COST OF CARE



LONG-TERM
LEASE

LONG-TERM
OWNERSHIP

INITIAL
CO-INVESTMENT

FUTURE
EXPANSION

INITIAL FOR-PROFIT
TENANCY

LONG-TERM
STRATEGIC ASSET

TAX-EXEMPT BONDED LEASE

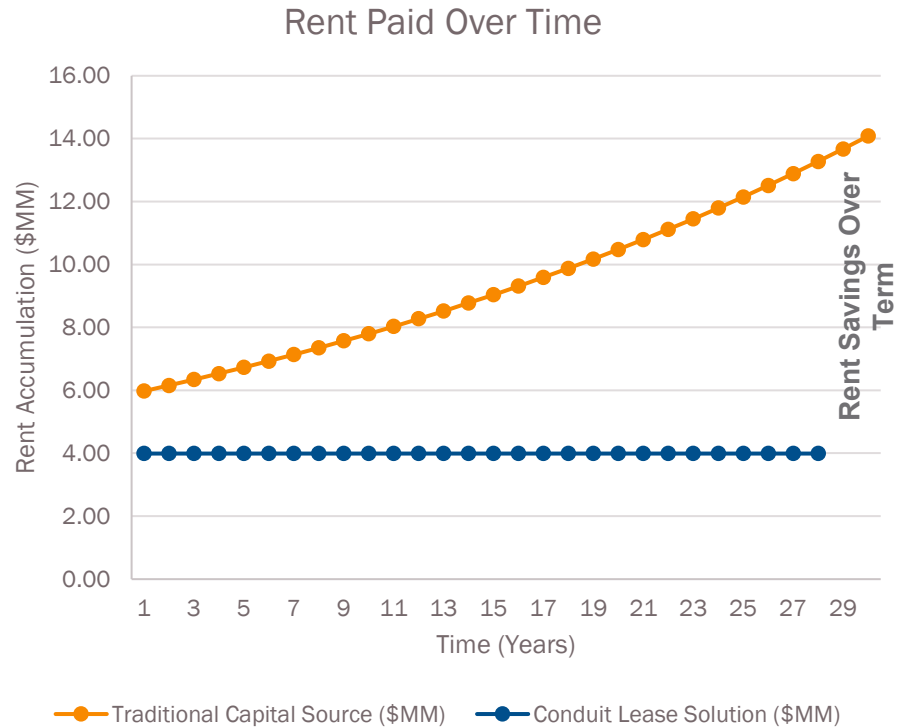
DELIVERED **STRATEGIC SOLUTIONS** THAT WERE
SOLELY FOCUSED ON THE **CUSTOMER.**

TRADITIONAL 15-YEAR LEASE

ULTIMATE **FLEXIBILITY** THROUGHOUT THE PROCESS -
AND DELIVERED THE PROJECT **ON TIME.**

▶▶ A DIFFERENT WAY: CONDUIT LEASE MODEL

Multispecialty Center



Traditional Financing:

- Equity Cost of Capital
- Annual Property Taxes
- Fair Market Value Purchase Price

Mortenson Solution:

- Missions Aligned
- No Annual Rent Increases
- No Annual Property Taxes
- Declining Balance Purchase Price



Traditional Third-Party Proposal

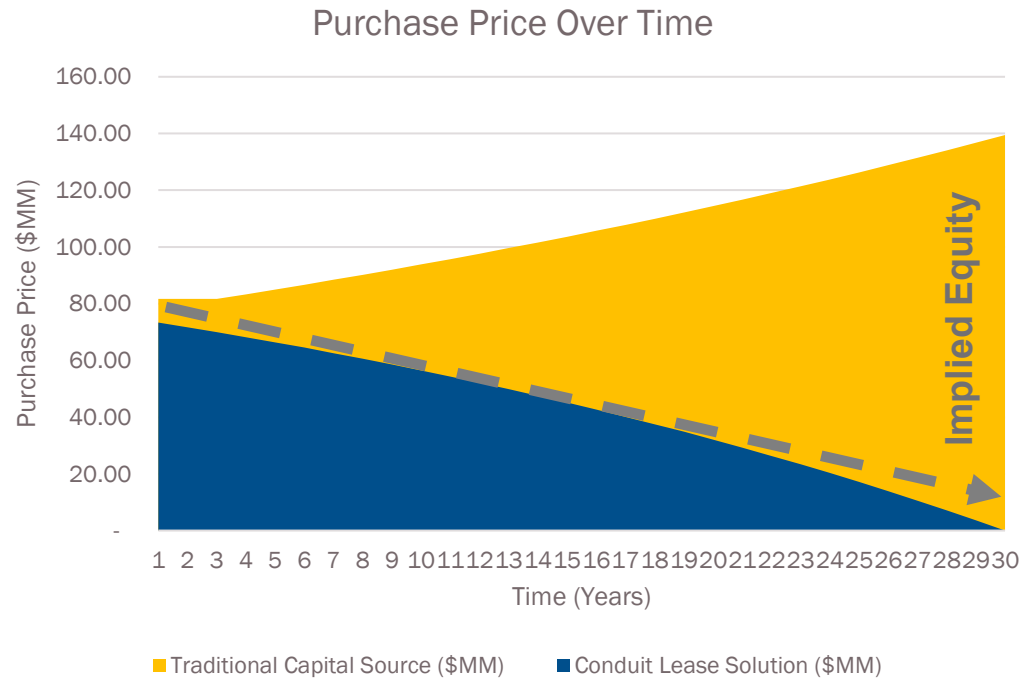


Mortenson Solution

Example based on new ambulatory facility with a finance lease for illustrative purposes only. Rates subject to market, credit rating, etc.

▶▶ A DIFFERENT WAY: CONDUIT LEASE MODEL

Multispecialty Center



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Traditional Third-Party Proposal



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QUESTIONS?