

HEALTHCARE SECTOR: RECESSION PROOF OR IS COVID-19 ITS KRYPTONITE?

DECEMBER 2020

Contents

- Overview
- Healthcare's performance
- The COVID-19 recession
- Looking forward

Overview

IS COVID-19 HEALTHCARE'S KRYPTONITE?

Will the arrival of COVID-19 be the event that highlights the vulnerability of the healthcare sector and leads to a reassessment of its recession resistance? Or is this a temporary one-off event that, when it passes, will be followed by a return of steady, recession-proof growth?

HEALTHCARE'S DECADES-LONG PERFORMANCE

For the past three decades the healthcare sector has been one of the steadiest growth performers in the economy. It hasn't mattered if the rest of the economy was growing or in recession—spending in the healthcare sector continued to grow, creating more jobs and more demand for commercial real estate. The healthcare sector's performance has been driven by strong underlying fundamentals, particularly an aging population and rapid advances in medical technology. This combination of steady growth and strong fundamentals has led to the perception that healthcare is recession-proof and that demand for medical space will rise no matter what happens to the rest of the economy.

THE PANDEMIC'S IMPACT

When COVID-19 hit and precipitated a recession, it raised doubts about the wherewithal of the healthcare sector. As the economy was shutdown and the healthcare system focused on the pandemic, spending on healthcare collapsed, physician offices were closed temporarily and healthcare employment fell sharply.

LONG-TERM PROSPECTS

Looking ahead, the future remains bright for the healthcare sector as the fundamental drivers will likely remain strong. An aging population both in the U.S. and globally will mean increasing demand for healthcare. Once the pandemic is behind us, this sector will resume its long-term trend.

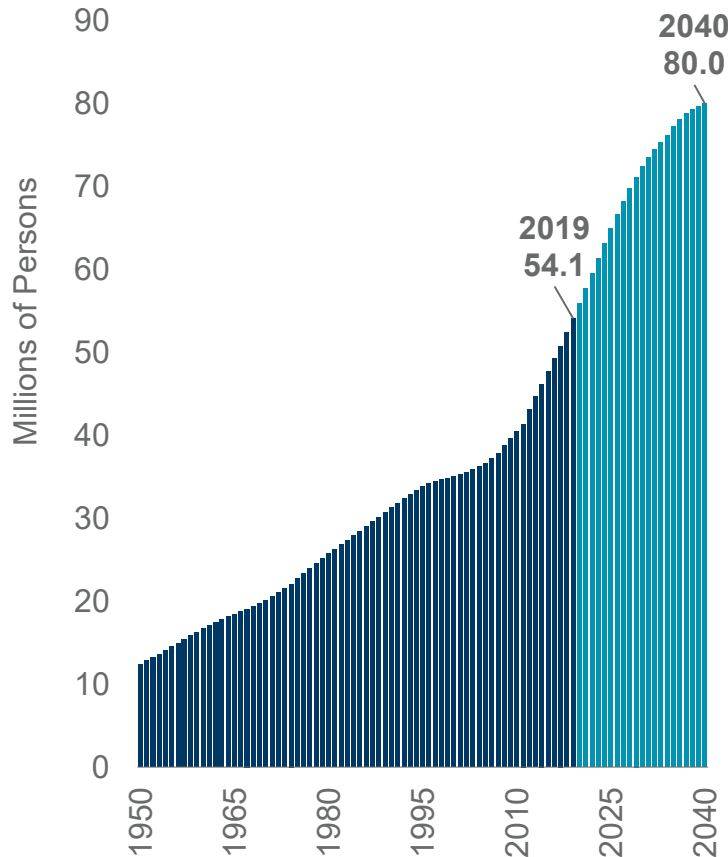
Healthcare Performance

- Fundamental drivers
- Recession resistance
- Strong real estate performance

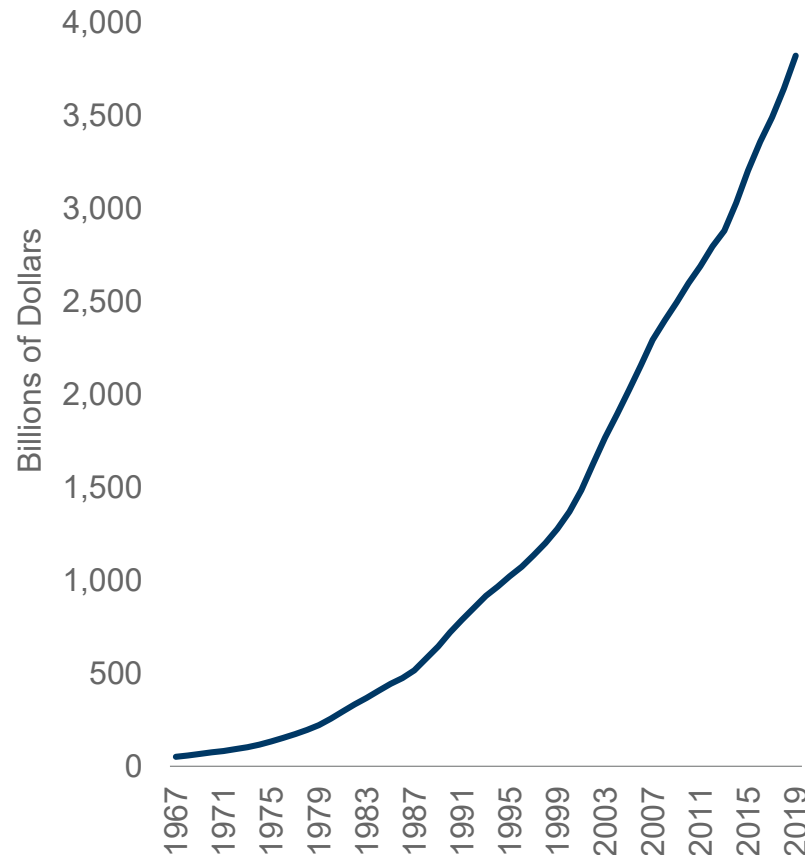
WHY HEALTHCARE IS SEEN AS INVULNERABLE

EVERYONE IS LIVING LONGER, DEMANDING MORE HEALTHCARE

Aging Population: 65 or older



Spending on Healthcare



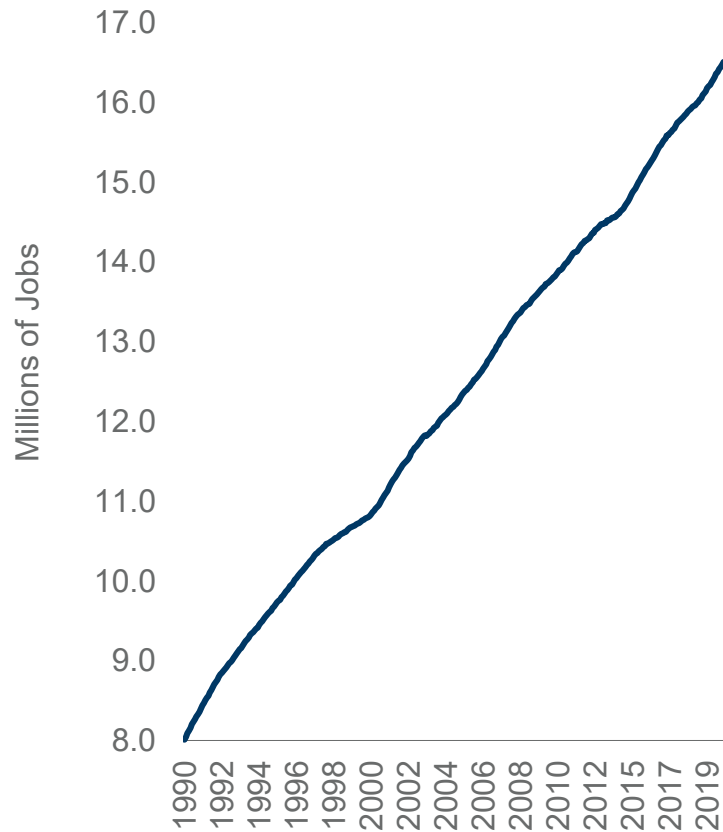
Takeaways

- In 1950 12.4 million people in the U.S. were 65 or older. Today more than four times as many are in that age range, and by 2040 there will be nearly 80 million people 65 or older.
- At 16.5% of the population, this age group continues to be a driver of healthcare spending, accounting for approximately 36% of all healthcare spending in the U.S.
- Healthcare spending has been roughly doubling every 13 years with no end in sight. In 2019 it accounted for nearly 18% of GDP, up from 13% in 2000.

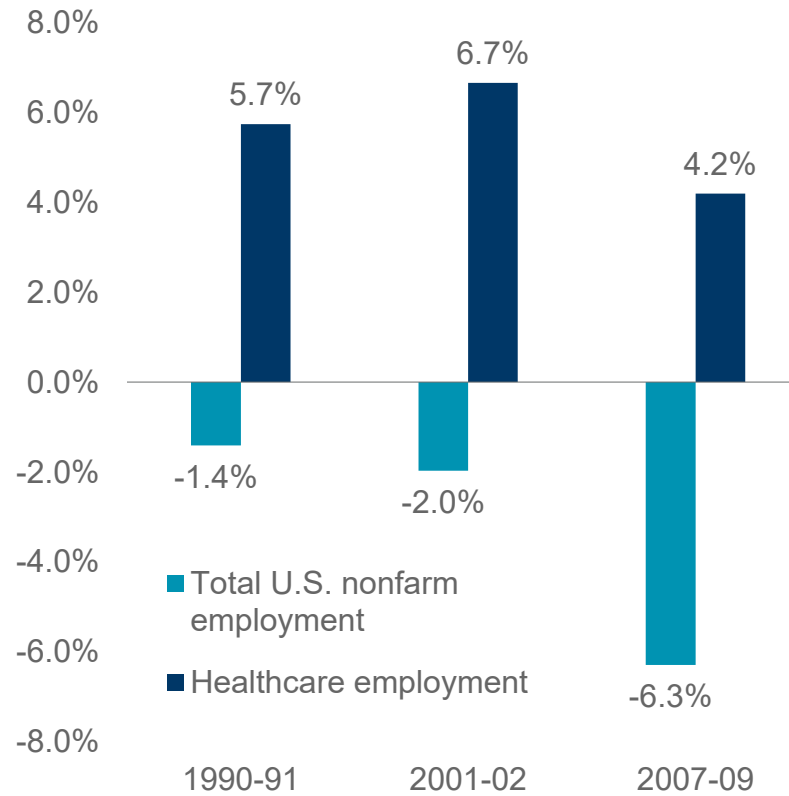
EMPLOYMENT GROWTH ENGINE

HEALTHCARE EMPLOYMENT CONTINUES TO INCREASE NO MATTER THE CYCLE

Healthcare Employment



**Change in Employment
Last Three Recessions**



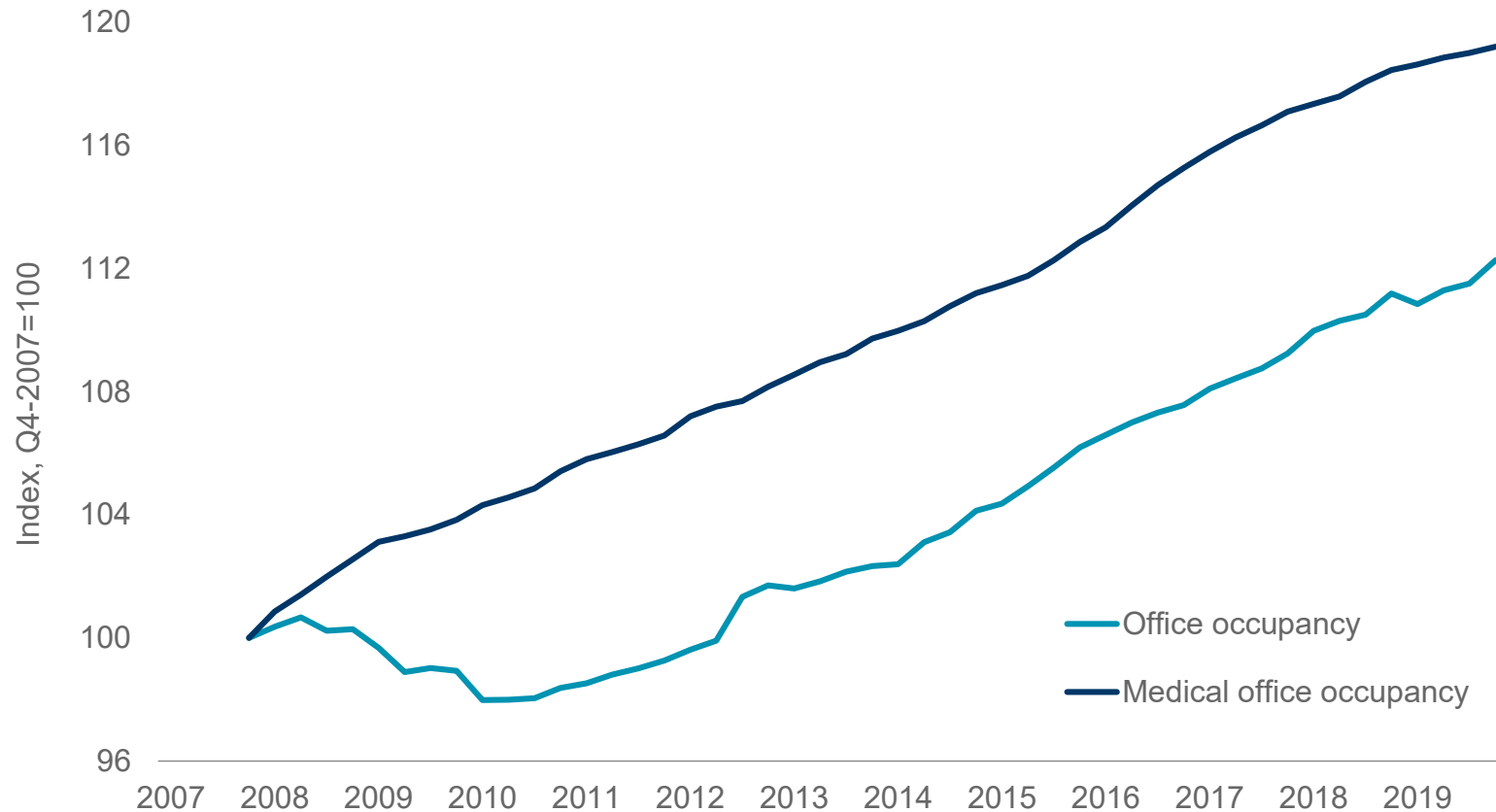
Takeaways

- Healthcare employment has more than doubled since 1990, increasing from 8.0 million jobs to 16.5 million just before COVID-19 hit.
- There were three recessions between 1990 and 2010. Each downturn saw total U.S. employment decline.
- The recessions had no impact on healthcare employment as job growth continued during each economic downturn.

OCCUPANCY ROSE EVEN DURING THE 2007-09 GFC

CONSISTENTLY RISING MOB DEMAND

Occupancy Growth: Office vs. Medical Office

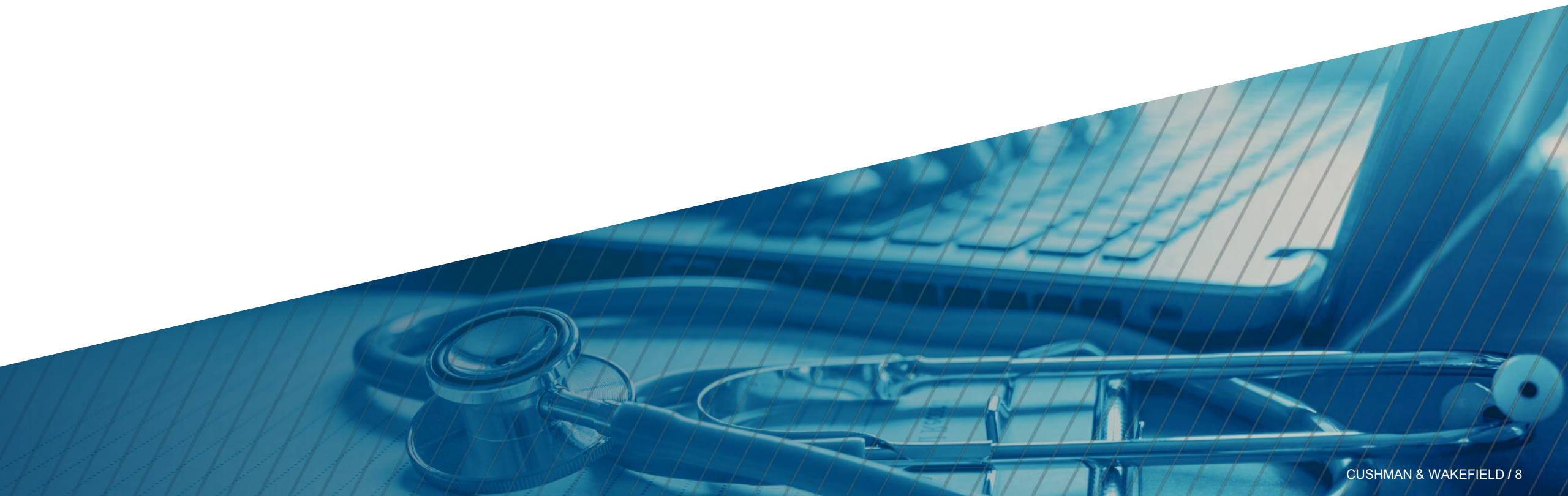


Takeaways

- A rapidly growing older population and higher healthcare spending have propelled occupancy growth for medical office space at a faster pace than non-medical office space.
- During the Global Financial Crisis (GFC), the worst recession since the Great Depression, U.S. office occupancy fell by 2.7% (or 111 msf). During the same time period, medical office occupancy increased steadily, rising more than 29 msf.
- In the decade from 2009 to 2019, MOB occupancy increased by approximately 16% (roughly 160 msf), a faster pace of occupancy growth than the national office market where occupancy rose slightly less than 12%.

The COVID-19 Recession

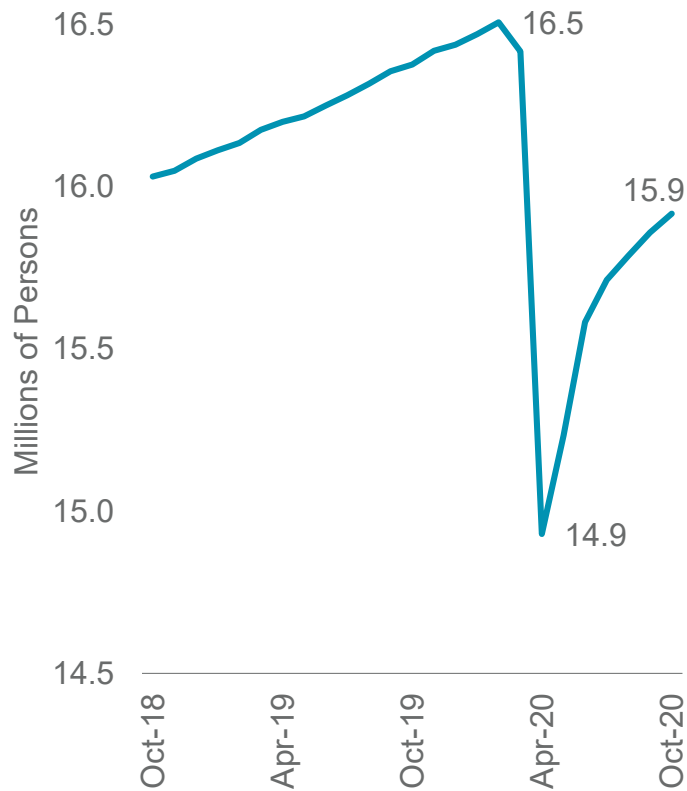
- MOB gets hit for the first time



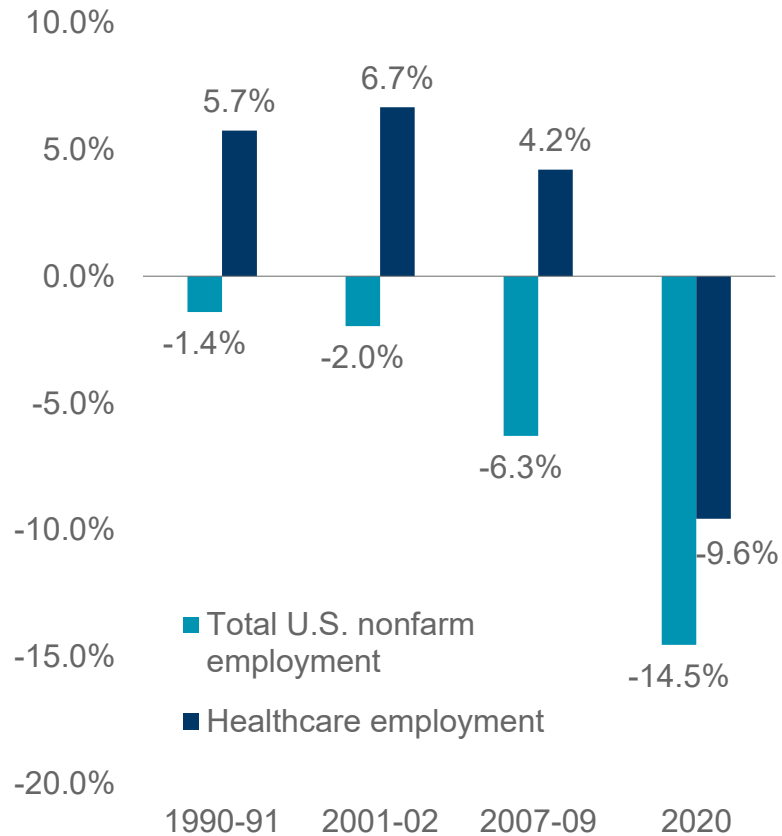
EMPLOYMENT GROWTH ENGINE STALLS

THIS TIME, HEALTHCARE IS LIKE EVERY OTHER SECTOR

Healthcare Employment



Change in Employment 2020 Recession



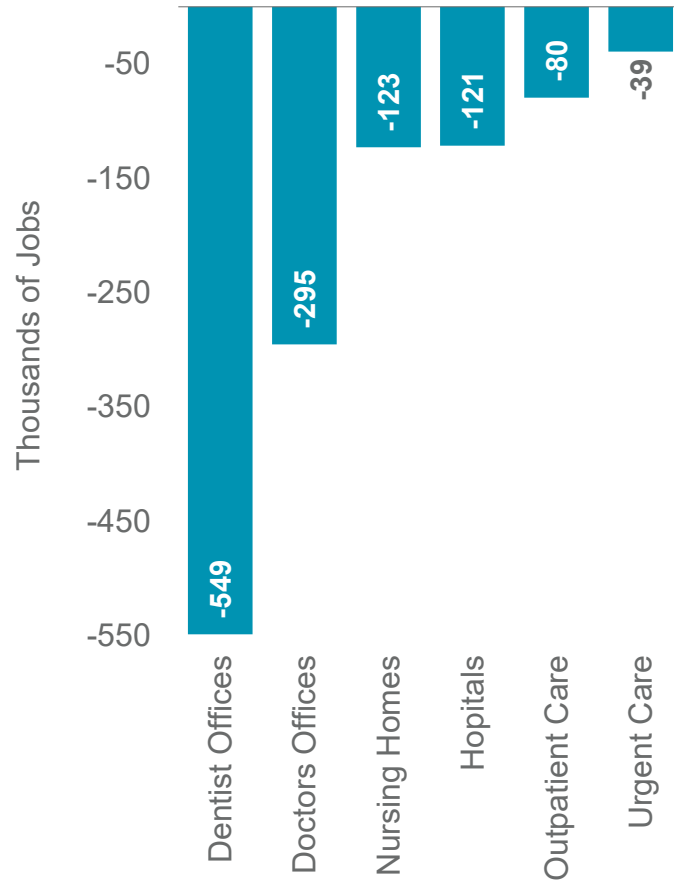
Takeaways

- Healthcare employment collapsed in 2020 just like every other segment of the economy.
- While the collapse was not as large as the U.S. as a whole, the nearly 10% decline in employment was a record for the sector.
- Healthcare's employment rebound has been only modestly faster than the rest of the economy. As of October, 63% of healthcare jobs lost have been recovered, compared to 54% of all U.S. jobs.

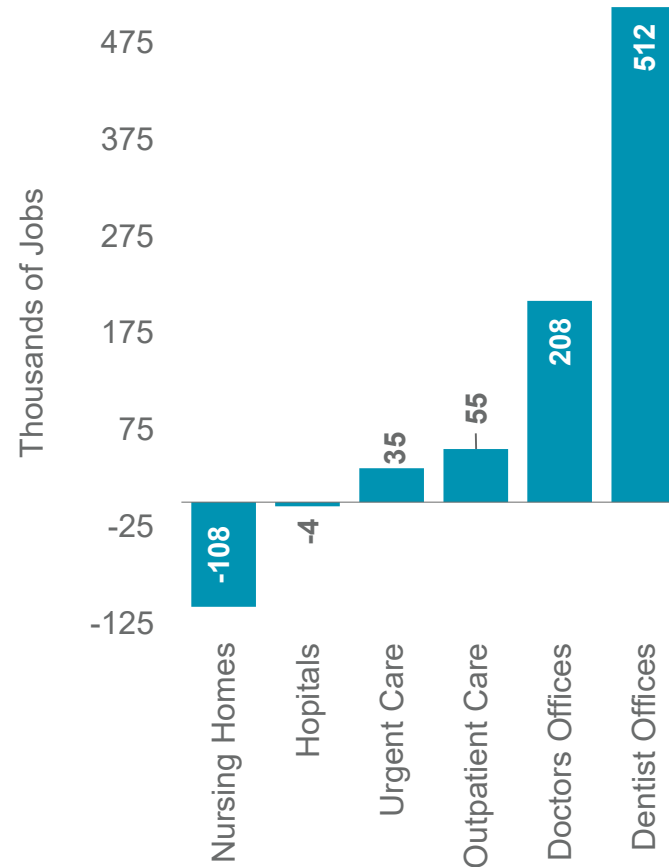
SECTORS HIT THE HARDEST

THE RETAIL SIDE GETS THE BIGGEST HIT

Jobs Lost (2/20-4/20) by HC Sector



Jobs Recovered (4/20-9/20) by HC Sector

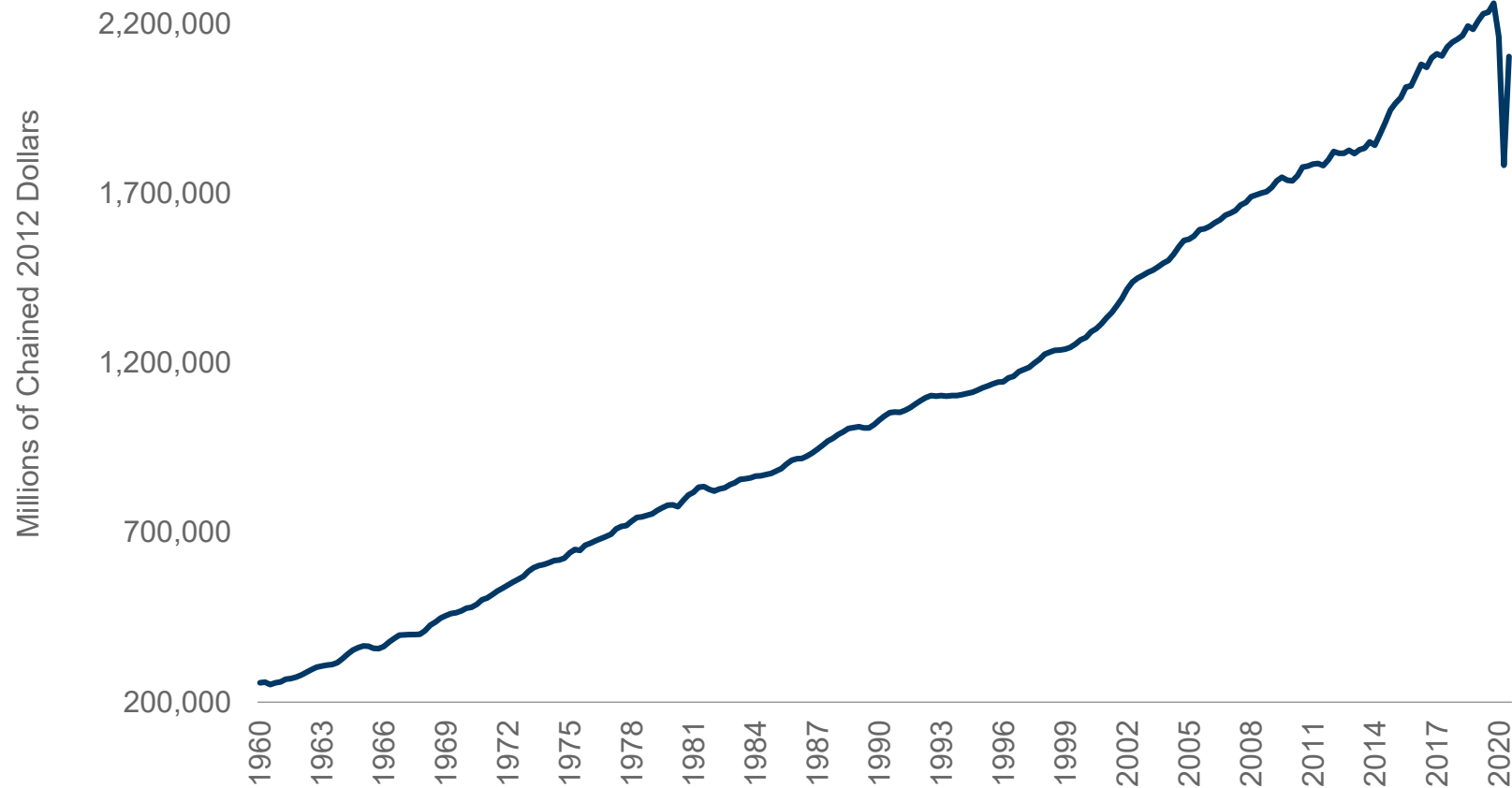


Takeaways

- Dentist and doctor's offices were closed early in the pandemic. They represented 54% of all the healthcare jobs lost in the recession even though they account for only 23% of healthcare jobs. Sectors more directly tied to COVID-19 treatment saw smaller declines (outpatient -8.1%, home healthcare -7.0% and hospitals -2.3%).
- But dentist and doctor's offices bounced back quickly. By October, there was a rapid recovery in employment at offices of dentists (95.3%), and doctors (75.7%) as well as a recovery of most outpatient care jobs (87.9%).
- Nonetheless, healthcare employment remains below its pre-recession level as the patient population remains cautious.

CONSUMER SPENDING ON HEALTHCARE

UNPRECEDENTED DECLINE AND RAPID RECOVERY

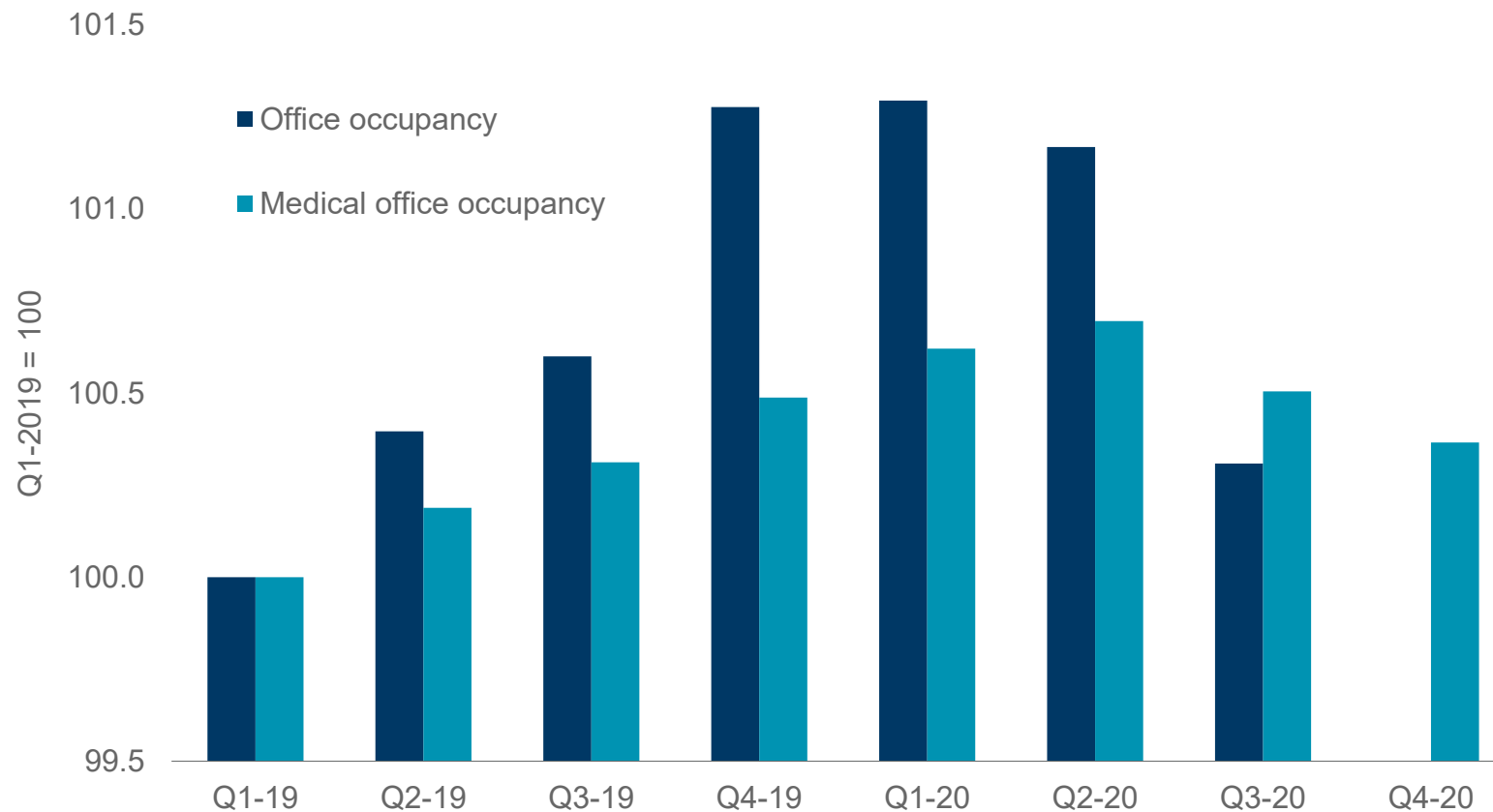


Takeaways

- Consumer spending on healthcare, adjusted for inflation, has been steadily rising for more than 60 years. From 1959 to 2019, the average annual growth rate was 3.7%.
- Over those 66 years (or 243 quarters) spending only declined 23 times and on average the drop was 2.1% annually rated.
- In the second quarter of 2020, consumer spending on healthcare plunged at a -54% annual rate causing a sharp decline in revenue for healthcare providers.
- Spending bounced back strongly in Q3, (+94%). Nevertheless, it still remains 7.0% below the level at the end of 2019.

OCCUPANCY DURING THE PANDEMIC

OCCUPANCY FALLS FOR THE FIRST TIME IN THE PAST DECADE



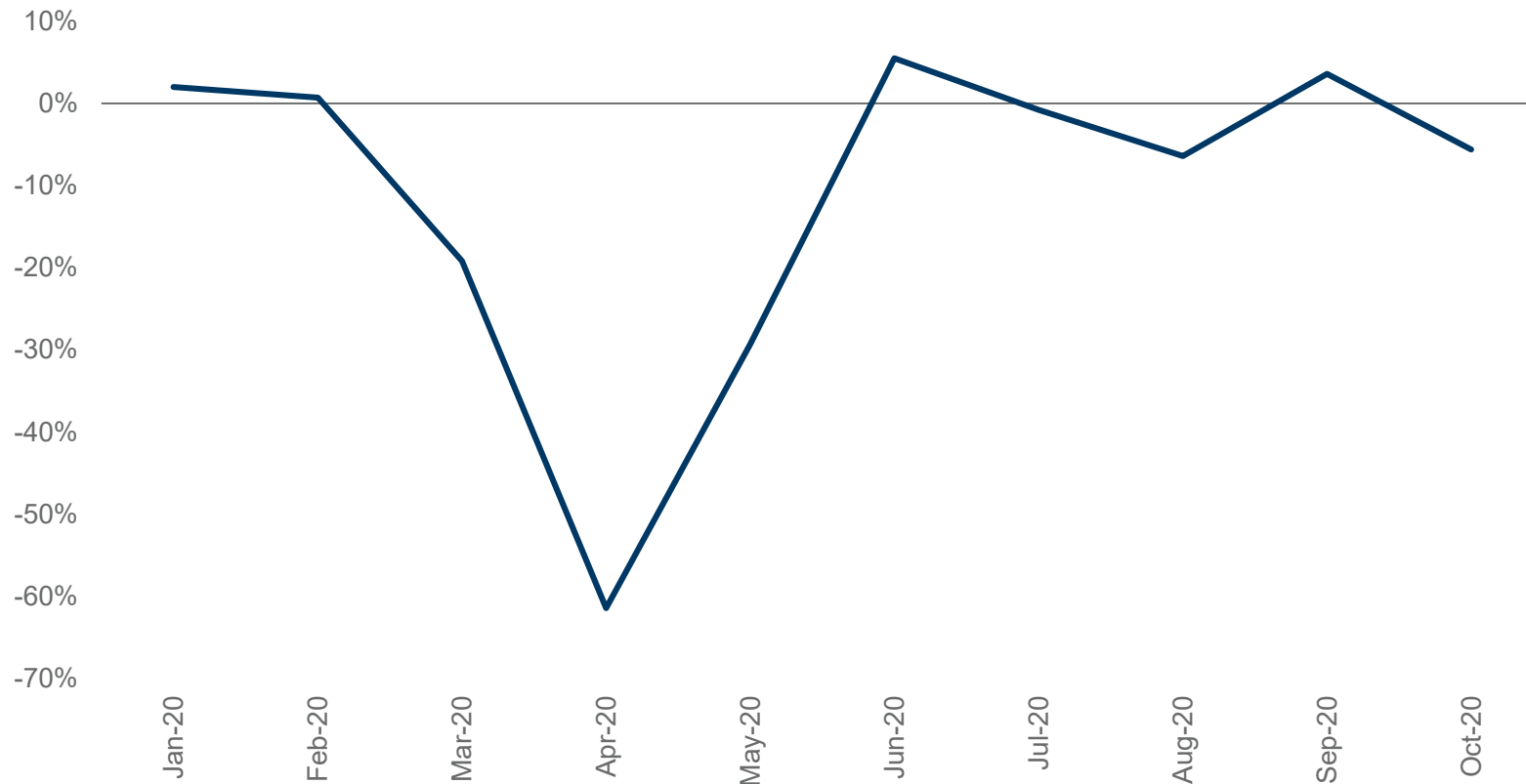
Takeaways

- As employment and spending fell, for the first time in the last 13 years, MOB occupancy declined.
- The decline was not as severe as in the office sector, which has seen even greater demand decline.
- But it does raise questions about the healthcare sector's vulnerability in the event of another pandemic-induced downturn.

IMPACT OF ELECTIVE PROCEDURE CUTBACKS

THE PIPELINE WAS SHUTDOWN

YEAR-OVER-YEAR PERCENT CHANGE IN OPERATING ROOM MINUTES



Takeaways

- The pipeline of elective surgeries is the primary source of revenue for hospitals and their affiliated offices. When COVID-19 led to a temporary government mandated shutdown of all elective procedures, it cut off most revenue in the sector.
- There has been a rebound since the spring. The Advisory Board reported in October that outpatient procedures are down only 10% YoY, suggesting we are still in a "rebound" phase and there will be a net reduction in revenue for the year.
- In addition, job loss throughout the economy most likely led to a reduction in preventive care.
- Any event that leads to fewer elective procedures will likely place hospitals under financial strain.

Looking Forward

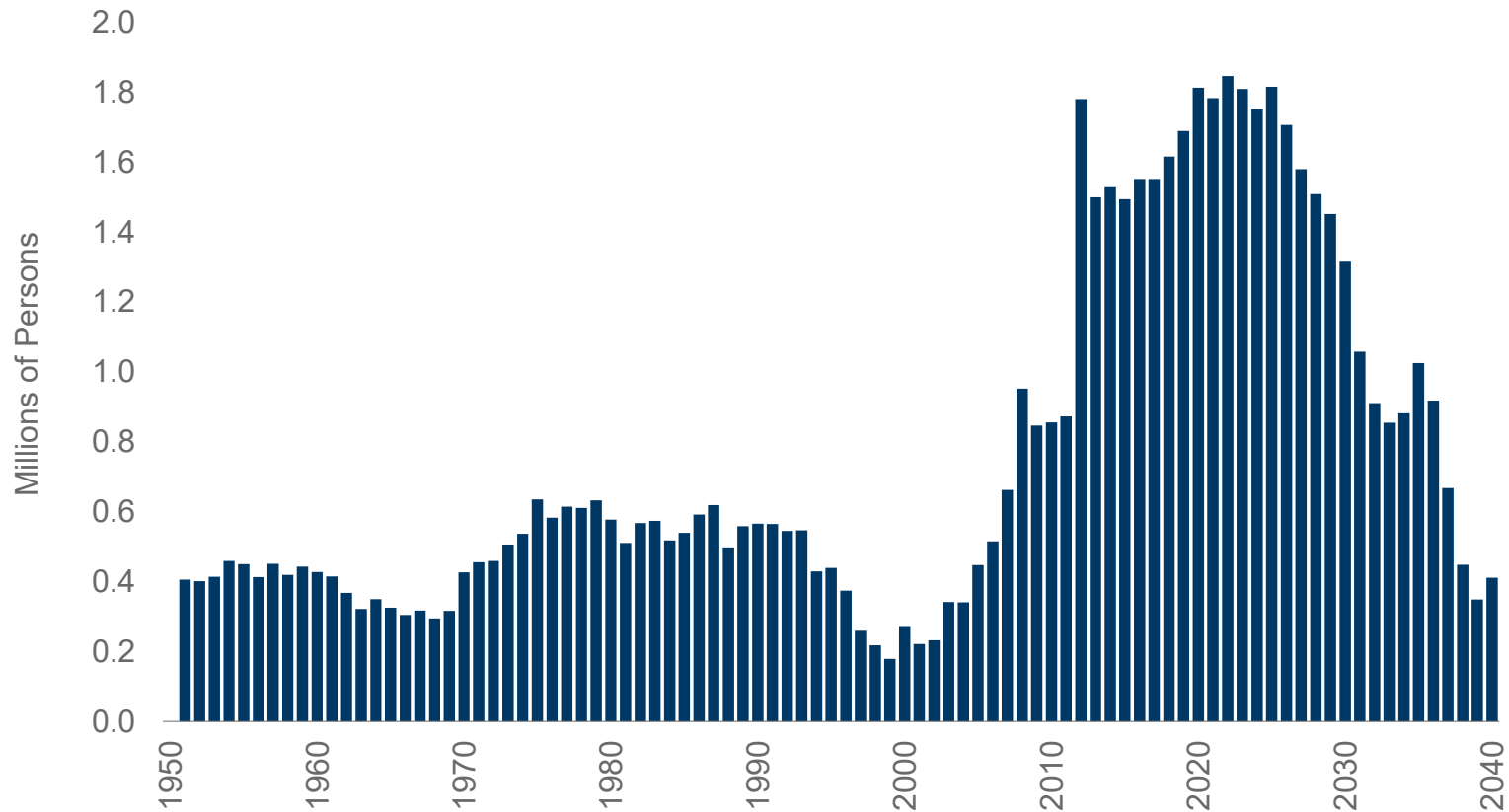
- Why healthcare's long-term prospects are positive



DEMAND DRIVERS WILL CONTINUE TO RAMP UP

DEMOGRAPHICS WILL KEEP PUSHING DEMAND & SPENDING HIGHER

Annual Growth in Population 65 or Older



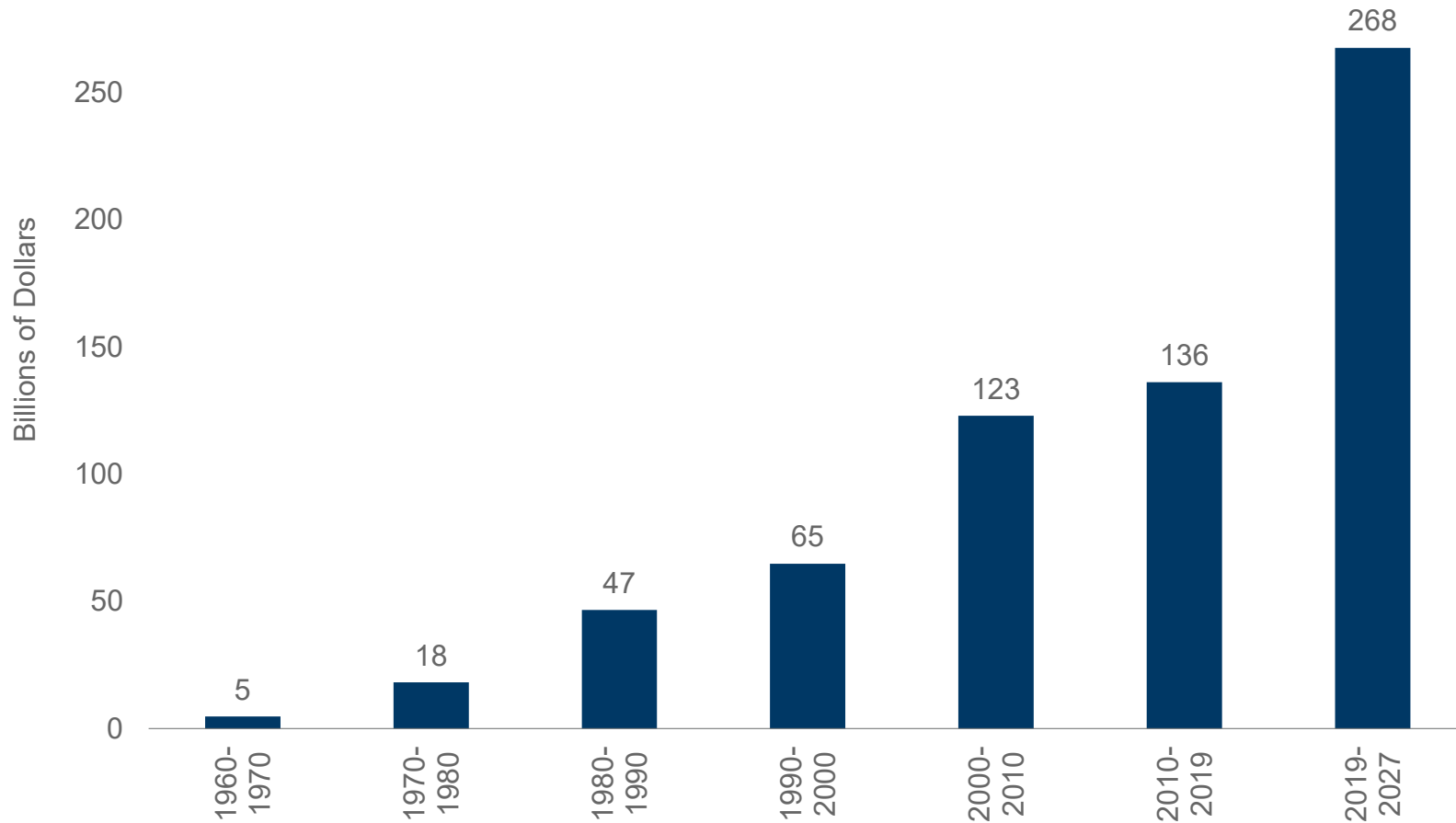
Takeaways

- The next 10 years will see the fastest growth in the 65 and over population, ramping up demand for medical services at the fastest rate in history.
- From 2010 to 2019, the U.S. population 65 and over increased by 1.4 million people per year. Over the next 10 years, that growth will accelerate to 1.7 million per year, the fastest increase for that age group in history.

TOTAL SPENDING ON HEALTHCARE PROJECTED TO SURGE

INCREASE IN SPENDING OF 55% FROM 2019 TO 2027

Annual Growth in Healthcare Spending



Takeaways

- The incremental growth in spending is rising. From 2010 to 2019, spending on healthcare increased by \$136 billion per year.
- As the number of people seeking services and the cost of those services both continue to rise, spending growth will accelerate.
- From 2019 to 2027, the Centers for Medicare and Medicaid Services (CMS) project that healthcare spending will rise by approximately \$268 billion per year, nearly twice as much each year as the previous decade.

Takeaways

Despite the challenges COVID-19 has placed on the healthcare sector and healthcare real estate, this pandemic is not the sector's Kryptonite. Short-term, healthcare has adapted since early 2020 and appears to be recovering well.

Long-term, the future remains bright for the healthcare sector as the fundamental drivers will likely remain strong. An aging population both in the U.S. and globally will mean increasing demand for healthcare services. According to the UN, there were about 700 million people globally age 65 or older in 2019. By 2050, that number is expected to double. A larger older population will increase demand for healthcare and will continue to push spending higher— leading to more money than ever being directed to healthcare services. According to CMS, between 2020 and 2027 healthcare spending is projected to increase by \$1.9 trillion in the U.S. alone.

While future pandemics may again cause short-term challenges, the healthcare sector is likely to prove resilient which bodes well for medical office buildings.

CONTRIBUTORS:

Ken McCarthy

Economist, Global Research
ken.mccarthy@cushwake.com

Casandra Dominguez

Director, Philadelphia Research
casandra.dominguez@cushwake.com

FOR MORE INFORMATION:

Lorie Damon

Managing Director
Healthcare Advisory Practice
lorie.damon@cushwake.com

ABOUT CUSHMAN & WAKEFIELD:

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow [@CushWake](https://twitter.com/CushWake) on Twitter.

©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.