A slight upturn in construction is likely in 2011, based on results of an annual survey by Health Facilities Management (HFM) and the American Society for Healthcare Engineering (ASHE) as well as interviews with industry insiders. However, the volume of new construction remains down from 2008’s high-water mark, many projects still are being deferred and spending plans are being subject to tough scrutiny.

“There’s a lot of ambiguity out there,” says George A. “Skip” Smith, CHFM, SA SH E, 2011 ASHE president and interim vice president of supply chain/clinical engineering and facilities management at Catholic Health Initiatives, Hilliard, Ohio. “Everybody’s trying to figure it out, but nobody knows what the elephant looks like right now.”

Faced with a foggier future than usual, hospitals’ sense of confidence about what to build seems to be missing, according to Dan Cates, director of business development for health care at St. Louis-based McCarthy Building Companies.

Warning was evident on several fronts as the year began:

Dip in new construction. The estimated $24.9 billion of new hospitals and clinics under construction in the fourth quarter of 2010 reflects a 10 percent decline from $27.8 billion a year earlier, notes Reed Construction Data/RSM eans Business Solutions. The planning pipeline has more on the boards than a year ago — $27.7 billion, up from $26 billion — because of projects put on hold, but was down 24 percent from $36.8 billion in 2008.

Renovations the rule. Renovation or expansion accounted for 73 percent of construction projects at hospitals that responded to the HFM/ASHE survey in October and November. That reflected a move to address needs while avoiding the high cost and debt of new construction. Roughly two-thirds of current renovation projects are for less than $3 million, according to Reed Construction Data/RSM eans Business Solutions.

Focus on infrastructure. Infrastruc
ture is getting more attention than in the past. A third of the 996 hospitals surveyed were in the process of replacing or upgrading their air handlers or ventilation systems, 26 percent were doing the same to building services systems to meet IT infrastructure needs in conjunc
tion with the shift to electronic health records, and in one five was upgrading a data center or planning to — a higher percentage than a year ago.

While those numbers aren’t dramatic, Smith and others say there’s clearly a shift in priorities under way from the megaproj
ccts that characterized the boom to more emphasis on IT and other infrastructure.

“People are saying they don’t want to spend on big projects, but they do need to keep the plants running — the automation systems, air handlers, ventilation, those sorts of things,” says Dana Swen
son, senior vice president of facilities and chief facilities officer at UMass Memorial Health Care in Worcester, Mass.

Hesitancy because of health care leg
islation. Hospital organizations are still assessing the combined impact of what’s coming: bundled payments, lower reim
bursement, incentive-based pay and more patients. Passage of the Affordable Care Act last year reduced some of the uncertainty. But with a surge of patients expected when coverage expands in 2014 and $2 million more people can seek health care, there is an increased need to find cost savings in hospital construction and elsewhere — and an ongoing debate how best to achieve it.

Mark Kenneday, CHFM, SA SH E, vice chancellor for campus operations at the University of Arkansas for Medical Sciences in Little Rock, Ark., has been to retreats on health care legislation with other hospital leaders, but concludes it’s...
impossible for anyone to say exactly what it will be like. “When they do, the facilities people have to sit down and figure out how we develop habitats and structures to provide services in. Right now, that’s definitely a gray area.” By no means is the hospital building industry in a tailspin. About 63 projects valued at more than $100 million apiece were under construction as of late 2010, according to RSMeans. Another $20.8 billion of new megaprojects alone is in the planning process, albeit with no assurance when they will go from drawing board to shovel. The continuing momentum reflects a stable industry determined to keep pace with technology and meet the demands of baby boomers as their medical needs increase.

Yet there are fears of a delayed impact from the recession—a pause or slowdown as soon as this year once some big projects are finished. About one in four survey respondents believed 2011 will be worse than 2010 in terms of their previously planned building projects, and 29 percent said projects were on hold or delayed.

“2011’s going to be a very important year,” says Robert Levine, consultant and retired senior vice president for health care at New York-based Turner Construction Co., who thinks the economic downturn will be left this year. “Health care’s always the last to feel the recession and the last to come out of it. We overbuilt coming into the recession and now we’re feeling the consequences.”

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**CONSTRUCTION BUDGETS**
Percentage of hospitals’ capital budgets allocated to construction projects (average)

<table>
<thead>
<tr>
<th>Project Type</th>
<th>2011 Budgeted</th>
<th>2010 Budgeted</th>
<th>2009 Budgeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>New construction</td>
<td>20%</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td>Facility modernization</td>
<td>30%</td>
<td>27%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**HOSPITAL NEW CONSTRUCTION HOT SPOTS BY STATE**
Total dollar value of new construction projects in hospitals and outpatient clinics

- $1 billion or greater (CA, GA, IL, IN, TX, VA)
- $500 million–$999.99 million (AZ, FL, MA, MD, MO, NC, NJ, OH, PA)
- $200 million–$499.99 million (AL, CO, KY, MI, NM, NY, OK, TN, WI, WA)
- $100 million–$199.99 million (AR, DE, IA, ID, KS, MS, OR, SD, UT, WV)
- $20 million–$49.99 million (CT, MT, ND, NE, RI, SC)
- $5 million–$19.99 million (DC, HI)

**HOSPITAL RENOVATION HOT SPOTS BY STATE**
Total dollar value of renovation projects in hospitals and outpatient clinics

- $1 billion or greater (CA, NY, TX)
- $500 million–$999.99 million (FL, IL, MA, NC, NJ, PA)
- $200 million–$499.99 million (CO, GA, ID, IN, KS, MI, MN, MO, MS, NH, OH, OR, WA, WY)
- $100 million–$199.99 million (CT, LA, NY, ME, NE, OK, SC, TN, WI)
- $50 million–$99.99 million (AZ, DC, ND, WY)
- $20 million–$49.99 million (AK, AR, DE, NM, NV, RI, SD, UT, VT, WV)
- $5 million–$13.99 million (HI, MT)
- Less than $5 million (none)

---

**NEW CONSTRUCTION PROJECTS IN HOSPITALS AND OUTPATIENT CLINICS**
Under Construction as of Nov. 1, 2010 (current activity level at this point)

- Planning ** (projects out for bidding Nov. 2010 to Nov. 2011)
- Under Construction * (the bid has been secured and construction is under way)

**RENOVATION PROJECTS IN HOSPITALS AND OUTPATIENT CLINICS**
Under Construction as of Nov. 1, 2010 (current activity level at this point)

- Planning ** (projects out for bidding Nov. 2010 to Nov. 2011)
- Under Construction * (the bid has been secured and construction is under way)

---

**TOTAL DOLLAR VALUE OF NEW CONSTRUCTION PROJECTS**
In hospitals and outpatient clinics

- $100M or greater
- $50M–$99.99M
- $20M–$49.99M
- $10M–$19.99M
- $5M–$9.99M
- Less than $5M

**TOTAL DOLLAR VALUE OF RENOVATION PROJECTS**
In hospitals and outpatient clinics

- $100M or greater
- $50M–$99.99M
- $20M–$49.99M
- $10M–$19.99M
- $5M–$9.99M
- Less than $5M
Many forging ahead
Still, 16 percent of survey respondents had construction work under way on a hospital or specialty hospital and another 13 percent had work planned within the next three years. Other current building projects most commonly involve physical plant improvements, hospital care units, ambulatory care offices, specialty treatment centers and central energy plants.

Three of the specialty hospitals seeing the most construction activity – cancer treatment (21 percent), heart (18 percent) and orthopedics (17 percent) – are preparing for boomers and their ailments, says Howard Alhums, vice president and general manager for the national health care group at Turner. More children’s hospitals (20 percent) also are being built, mostly replacement facilities, as organizations try to bring them up to a new level of technology, he says.

Many of the additions or modernization projects are for emergency departments, imaging, surgery areas or cancer centers. “Hospitals are focusing on the dollars,” explains Alhums. “There are all revenue-producing departments, so there’s a huge focus on them.”

Not so common are such design features as three-story glass atriums and waterfalls in the lobby. “We’re going to see less and less of that, because it’s all about values and clinical outcomes,” says York Chan, CHFM, administrator of facilities for Advocate Health Care in Oak Brook, Ill.

The improvement in financial markets helped spur more activity as 2011 approached. Construction management firm Skanska has seen an increase in work requests since about Nov. 1, reflecting pent-up demand for projects, says Steven Hoggard, R.N., chief operating officer for Skanska’s National Healthcare Center of Excellence in Nashville, Tenn.

Her spots for renovation projects under construction are Texas, California, New York, Massachusetts and Illinois, according to RSMeans. For new construction of hospitals and clinics, the base states are California, Texas, Illinois, Indiana, Virginia and Georgia.

California does all other states with $9.67 billion in new construction projects in planning plus $1.14 billion in renovation projects. The state’s seismic requirements have resulted in high demand for upgrade renovations to existing facilities as well as new construction for replacement hospitals.

Financing outlook improved
After a slow start during the recession, organizations with the strongest finances and credit are spending on building projects again. Hospital surveys indicate roughly twice as much for construction in 2011 – 37 percent of their capital budgets – as they did a year earlier. Fewer 40 percent are dipping into cash reserves to finance projects than in 2009, a time of weaker balance sheets.

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Cheaper material costs are one continuing dividend of the downturn, lopping millions off the price of big projects. Construction projects for hospitals, which had seen increases ranging from 4 to 13 percent annually in the previous five years, fell 1.3 percent in 2010 over the long run. More than two-thirds of respondents said they’re going greener is cost-effective for the fifth consecutive year of the survey. Next were computerized provider order entry, in-room sinks, patient lifts and bar coding for medication administration.

Fletcher Allen Health Care in Burlington, Vt., is planning to install terminals in patient rooms in its eventual patient-bed replacement building in keeping with its shift to electronic health records, while still retaining the option for nursing staff to bring in mobile terminals as needed. “There’s a lot of individual preference among clinicians,” says David Keelty, CHFM, director of facilities planning and development.

Clinical staff at most hospitals have resisted going wireless, but the switch is inevitable, says Howard Alhums, vice president and general manager for the national health care group at Turner Construction Co. “It eliminates not only a lot of costs from wired systems but also provides internet access to most patients,” he says.

Room size may have altered as organizations focus more on cost-effective room design, according to Joseph Spagone, senior vice president and director of health facilities at MKS Architects in Dallas. “Every hospital is trying to get as much either reduced cost or increased efficiency for doing both those ways there’s a lot of individual preference among clinicians,” says David Keelty, CHFM, director of facilities planning and development.

WIRELESS TECHNOLOGIES
smarten patient room designs

The economic downturn hasn’t halted the movement toward patient-oriented rooms seen more like hotel rooms to hospital patients and their visitors. The most popular features being incorporated into room design for comfort show hospitals appealing to what satisfies patients and families, with cost reason. Based on results of the Health Facilities Management/Management/ American Society for Healthcare Engineering survey, they are wireless technologies for patients, individual room temperature control, larger room size, patient entertainment and educational systems and in-room family areas — each being incorporated in about a third or more of new rooms.

Some softer features, such as views of nature, increased exposure to natural light and auditory environment controls to mitigate noise, have fallen out of favor for more-cost-conscious measures since the recession began, the poll shows.

But patient-focused services, starting with improved technology capabilities, now are front and center. According to the survey, there have been a series of five consecutive years of the survey. Next were computerized provider order entry, in-room sinks, patient lifts and bar coding for medication administration.

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**SHIFTING PRIORITIES**

### FACILITIES PROJECTS

- **Hospital**
  - Currently under construction: 30%
  - Planned in the next three years: 22%

- **Hospital—specialty**
  - Currently under construction: 60%
  - Planned in the next three years: 8%

- **Long-term care facility**
  - Currently under construction: 1%
  - Planned in the next three years: 8%

- **Medical office building**
  - Currently under construction: 12%
  - Planned in the next three years: 8%

- **Ambulatory surgical facility**
  - Currently under construction: 5%
  - Planned in the next three years: 11%

- **Ambulatory specialty treatment centers**
  - Currently under construction: 8%
  - Planned in the next three years: 10%

- **Ambulatory care facility**
  - Currently under construction: 12%
  - Planned in the next three years: 17%

- **Parking structure**
  - Currently under construction: 7%
  - Planned in the next three years: 15%

- **Physical plant infrastructure upgrade**
  - Currently under construction: 16%
  - Planned in the next three years: 22%

- **Central energy plant**
  - Currently under construction: 4%
  - Planned in the next three years: 16%

- **Data center (information services)**
  - Currently under construction: 6%
  - Planned in the next three years: 11%

*Oncology, pediatrics, etc.

### SERVICES/DEPARTMENT PROJECTS

- **Ambulatory care**
  - Currently under construction: 7%
  - Planned in the next three years: 14%

- **Bariatric surgery center**
  - Currently under construction: 2%
  - Planned in the next three years: 4%

- **Cancer center**
  - Currently under construction: 10%
  - Planned in the next three years: 11%

- **Cardiology**
  - Currently under construction: 8%
  - Planned in the next three years: 10%

- **Critical care**
  - Currently under construction: 6%
  - Planned in the next three years: 10%

- **Emergency department**
  - Currently under construction: 12%
  - Planned in the next three years: 15%

- **Imaging**
  - Currently under construction: 17%
  - Planned in the next three years: 17%

- **Interventional suite (surgery & imaging)**
  - Currently under construction: 9%
  - Planned in the next three years: 15%

- **Isolation/clean room**
  - Currently under construction: 5%
  - Planned in the next three years: 22%

- **Laboratory**
  - Currently under construction: 9%
  - Planned in the next three years: 15%

- **Neurology/neuroscience**
  - Currently under construction: 4%
  - Planned in the next three years: 10%

- **Orthopedics**
  - Currently under construction: 2%
  - Planned in the next three years: 4%

- **Pediatrics**
  - Currently under construction: 7%
  - Planned in the next three years: 8%

- **Rehabilitation service**
  - Currently under construction: 5%
  - Planned in the next three years: 8%

- **Research**
  - Currently under construction: 5%
  - Planned in the next three years: 14%

- **Sleep disorder center**
  - Currently under construction: 2%
  - Planned in the next three years: 42%

- **Surgery**
  - Currently under construction: 10%
  - Planned in the next three years: 23%

- **Urgent care center**
  - Currently under construction: 2%
  - Planned in the next three years: 10%

- **Wellness center**
  - Currently under construction: 2%
  - Planned in the next three years: 46%

- **Women’s health/obstetrics**
  - Currently under construction: 6%
  - Planned in the next three years: 8%

- **Wound care center**
  - Currently under construction: 2%
  - Planned in the next three years: 7%

*New on survey this year

### Impact of health care reform legislation on building projects

- 27% More likely to move ahead with planned building projects, but re-evaluating all based on health care reform legislation
- 19% All major building projects on hold until determining which ones fit the future health care reform scenario
- 12% Impact analysis conducted and adjustments made to planned building projects
- 10% Impact of health care reform legislation on building projects not yet determined, but proceeding with planned projects

**SHIFTING PRIORITIES**

With the passage of health care reform legislation, have plans for construction projects changed?

- [27%] More likely to move ahead with planned building projects, but re-evaluating all based on health care reform legislation
- [19%] All major building projects on hold until determining which ones fit the future health care reform scenario
- [12%] Impact analysis conducted and adjustments made to planned building projects
- [10%] Impact of health care reform legislation on building projects not yet determined, but proceeding with planned projects

**SOURCE:** HEALTH FACILITIES MANAGEMENT/ASHE 2011 CONSTRUCTION SURVEY
understanding of how to assimilate green into projects. “I just get a general sense across the country that everybody associated with this has some level of accept ance for it,” says Smith.

Among other survey results:
• The major building services equipment currently being replaced or upgraded the most were air handlers/ventilation, electrical switchgear/transformers and plumbing fixtures. Most respondents said it was old equipment that needed to be replaced. Major building services systems being replaced or upgraded most typically were building controls/automation systems, fire alarm/protection systems and security systems. Again, most cited aging equipment.
• Uncertainty since the financial meltdown is evident in master facilities plans. Only 39 percent of respondents had updated their plans within the past year, the fewest in the past five years. Just 30 percent undertake infrastructure projects as part of a master facility plan, with 58 percent doing replacements as needed due to malfunctions or aging equipment. Systems that don’t replace their components on a scheduled basis are mortgag ing their futures, says Kip Edwards, system vice president for design and construction at Phoenix-based Banner Health. “They’re setting themselves up for some nasty surprises,” he says. “Things are going to break – they’re going to face bigger costs in an uncomfortable way.”
• Use of building information modeling software was down significantly from a year earlier in both hospital capital planning (31 percent of respondents) and project management (16 percent). Since it remains widely viewed as a good cost-cutting method, the suspected reason for the one-year dip is the focus on renovations and smaller, less complex projects.
• About half of surveyed hospitals slashed the amount allocated to facility infrastructure projects this year by one-fourth or more, earmarking an average 27 percent to infrastructure in their 2011 capital budgets. That conflicts with other data and anecdotal evidence indicating a heightened focus on infrastructure. Alums suggests it may be because the best-financed systems are up-to-date on infrastructure after installing new control systems during the building boom of the past decade.

Renovate or replace?
Reimbursem ents are set to decline under the health care legislation. Will that lead hospitals to renovate or expand instead of building replacement facilities? Possibly.

About half of those responding said they weren’t considering replacements anyway; the bulk of the remainder said they were still evaluating. Overall, 32 percent said they were unsure about the law’s impact but were proceeding with planned building projects, while 27 percent said they simply didn’t know yet if the law would alter their plans.

One consequence that may slow building plans comes from the push to establish accountable care organizations (ACOs) — entities consisting of hospitals and physician groups that will accept bundled

SHIFTING PRIORITIES

BUILDING SERVICES EQUIPMENT

<table>
<thead>
<tr>
<th>Project time frame</th>
<th>Current project (in the next 12 months)</th>
<th>Plan to replace/upgrade in the next 13–24 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building controls/automation system</td>
<td>25%</td>
<td>9%</td>
</tr>
<tr>
<td>Data infrastructure (wired, cable)</td>
<td>18%</td>
<td>5%</td>
</tr>
<tr>
<td>Data infrastructure (wireless)</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Fire alarm/protection system</td>
<td>20%</td>
<td>6%</td>
</tr>
<tr>
<td>Occupancy sensors</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>Patient entertainment system</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Patient monitoring/nurse call system</td>
<td>14%</td>
<td>7%</td>
</tr>
<tr>
<td>Picture archiving and communications system (PACS)</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Pneumatic tube system</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td>Security system</td>
<td>16%</td>
<td>6%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>19%</td>
<td>6%</td>
</tr>
</tbody>
</table>

SOURCE: HEALTH FACILITIES MANAGEMENT/ASHE 2011 CONSTRUCTION SURVEY

BUILDING SERVICES SYSTEMS

| Building controls/automation system      | 25%                                    | 9%                                              |
| Data infrastructure (wired, cable)       | 18%                                    | 5%                                              |
| Data infrastructure (wireless)           | 14%                                    | 4%                                              |
| Fire alarm/protection system             | 20%                                    | 6%                                              |
| Occupancy sensors                        | 11%                                    | 4%                                              |
| Patient entertainment system             | 12%                                    | 4%                                              |
| Patient monitoring/nurse call system     | 14%                                    | 7%                                              |
| Picture archiving and communications system (PACS) | 7%                                   | 4%                                              |
| Pneumatic tube system                    | 18%                                    | 6%                                              |
| Security system                          | 16%                                    | 6%                                              |
| Telecommunications                       | 19%                                    | 6%                                              |
payments based on integrated care and
discourage unnecessary services.

The issue of bundled payments looms
large in construction decisions, according
to Don McKahan, a health facility plan-
er, architect and principal of McKahan
Planning Group located in San Diego.

“Everybody’s talking about what being an
ACO means for their bricks and mortar,”
he says. “That causes you to do more
thinking before you buy more ground or
initiate a new building campaign.”

Many think a fiscally conservative
approach to building makes sense
because of the coming influx of millions
more patients and other changes that will
make outpatient services and smaller,
outlying facilities a logical alternative.

“Less money, more people, medical
homes, rewards to reduce inpatient vol-
umes, tighter capital markets, payments
for specialties and upgrades will dramati-
cally change the construction of new hos-
pitals,” says Bradley Pollitt, vice president
of facilities for Shands HealthCare in
Gainesville, Fla.

The legislation also is expected to spur
industry consolidation as single hospitals
seek to join large systems to have access
to capital in a tighter financial era. This,
too, could lessen demand for new health
care facilities.

Cause for optimism

Those concerns notwithstanding, pent-up
demand should keep hospital construc-
tion busy for the foreseeable future.

The dynamics that caused the building
boom before 2008 still exist — an aging
population, fast-advancing technology,
older facilities and a push for best prac-
tices — notes Don Twining, vice president
of business development for American
Health Facilities Development, a program
management and facility planning firm
under Quorum Health Resources.

Signs of improvement as 2011 dawned
also were cause for optimism for builders.

“The health care marketplace will contin-
ue to grow,” says Aillum. “It’s not where
we would like it to be. But there is a lot of
positive activity in the marketplace.”

Dave Carpenter is a Chicago-based freelance writer
who frequently covers health care industry topics.
Suzanna Hoppszallern is senior editor of data and
research for Health Facilities Management’s sister publica-
tions, Hospitals & Health Networks.