



THE VETERINARY PROFESSION WAS NOT IMMUNE TO CHANGE DURING THE PANDEMIC—AND IT WON'T BE AS WE COME OUT OF IT, EITHER. MANY VETERINARY PRACTICES HAVE UNDERGONE DRASTIC CHANGES OVER THE LAST FEW YEARS, AND WE'RE STILL SEEING IT ALL PLAY OUT IN REAL-TIME.

For one, the trend toward larger corporate veterinary hospitals will continue to put further pressure on smaller independent practices. Increasingly, younger pet owners seek the same conveniences in their veterinary choices as they experience in other aspects of their lives.

Meanwhile, we're still seeing an arms race for talent. Veterinary practices aren't just trying to attract and retain clients, they're trying to attract and retain veterinarians and technicians, too. Those practice owners with business acumen are seeing this and are making changes accordingly; others are running out of time to move their practice into the future.

Here are five major trends that are impacting veterinary facilities and their overall real estate:

1. EASE OF ACCESS RESHAPES PROPERTY NEEDS.

Like many other medical facilities,

the veterinary office changed a lot to meet virus-related protocols. There were increases in curbside drop-offs, mobile offices and telehealth appointments, and many pet owners appreciated the ease of access these services provided.

These trends aren't going anywhere now that virus mitigation efforts are dwindling. Many pet owners are going to expect the same conveniences, and it will have a real impact on how many veterinary practices think about their parking lots and, in turn, their real estate.

Will you need to add more parking spaces? Should your parking lot be designed in a way that lends itself to curbside pickups and drop-offs? These are real considerations many office owners are thinking about today, and it will have an impact on the industry into the future.

2. OFFICE DESIGN GAINS A GREATER PURPOSE.

The homey, converted house that has long been a staple in veterinary medicine and other medical practices has seen a significant drop. Once viewed as the standard, these cottage-style facilities no longer meet the needs of today's veterinarians or their clients. Instead, veterinary real estate owners are looking for spaces that are thoughtfully designed to optimize flow and enable growth.

It's no secret that the veterinary industry is facing a labor shortage.¹ Vets are quickly burning out while trying to keep up with the increasing number of pets and appointments, which spiked during the pandemic.² To help make their jobs easier, working in an office that is well-laid-out, has the necessary space and allows to efficiently care for clients is crucial.

This change in design also makes

attracting and retaining talent easier since veterinarians and technicians don't love being forced to work in tight quarters. Giving them larger, cleaner and more modern facilities keeps morale elevated in a profession that is already stressful, and is only becoming more so due to workloads.

This focus on purposeful design is also forward-looking. Working in larger, more open spaces allows your practice to prepare for growth. More pets in homes and more American pet owners working from home will also mean an increase in visits to the veterinarian.

3. PRACTICES ARE BUILDING FROM SCRATCH AROUND NEW TRENDS.

The last few years have seen an increased focus from corporate veterinary owners launching new practices. This has resulted in retrofitting of existing buildings and ground-up construction to house newly created veterinary practices and hospitals.

Well-established corporate veterinary groups are designing new veterinary offices with more purpose, thereby changing the way we think about the veterinary facility. These facilities, with modern amenities and well-intentioned buildouts, are becoming trendsetters in their specific markets. They impact the way other veterinary practices in the region think about hospital design. In fact, many corporate groups were already focused on purposeful renovations and new office buildouts, but the increasing focus on growth through new practice creation has amplified the concentration on design.

4. RELOCATIONS AND RENOVATIONS CONTINUE (WITH A TWIST).

Twenty or 30 years ago, a veterinary practice may have started in a strip mall and stayed at the same location for years. Nowadays, smaller practices are recognizing that these strip-mall storefronts may not fit their business needs, and many are ditching those

facilities to expand and better situate themselves for growth.

We're seeing an increase in these relocations—from shopping centers to freestanding facilities—in order for practices to take advantage of some of the aforementioned benefits. We're also seeing an increase in renovations to existing veterinary practices.

Given the labor market, these relocations and renovations are also an effort to keep staff. It used to be that practitioners were nervous about losing clients if they moved locations; now, they're more worried about losing talent to other facilities.

5. INTEREST RATES ARE CLIMBING.

You can't write a real estate story right now without mentioning a jump in interest rates. Rapidly rising inflation is being combatted, in part, with The Federal Reserve elevating interest rates.³

The question now is, when will rising rates affect cap rates and the overall value of real estate? Typically, when rates go up, value eventually comes down. We're already starting to see an increase in the desire to sell as a result.

SO, WHAT DOES THE FUTURE LOOK LIKE?

The veterinary real estate space has undergone a lot of change over the last few years, and we will continue to see the impacts into the future.

Here are a few things to watch out for:

- We're going to continue to see larger groups of general practices in those more purposefully built buildings that are seeing an increase in clients (with satellite locations, too).
- Expect to see growth in specialty emergency hospital facilities. There is a real sense that many major metro areas in the U.S. lack sufficient specialty emergency veterinary hospitals.
- Practices in those old, converted homes are not likely to be able to recruit and retain veterinarians and technicians as well as the

more modern facilities.

- Similarly, while strip-mall practices may work in certain metro areas, they are not likely to be as successful as other freestanding locations.
- Innovation (telemedicine, mobile house calls, etc.) will continue to put pressure on smaller practices. +

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Daniel Eisenstadt is the Founder and CEO of Terravet Real Estate Solutions. Terravet Real Estate Solutions is an internally managed real estate group that owns and manages veterinary properties and certain other healthcare properties across the United States. Terravet owns approximately 1,000,000 square feet of veterinary and healthcare real estate located in 31 states. Terravet partners with strong veterinary and healthcare operators and provides flexible solutions including sale-leasebacks, joint ventures, and renovation and expansion programs. The Terravet team is comprised of real estate, finance, and operating professionals and brings decades of expertise to the transactions it leads.