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Geographic Penetration of Private Equity Ownership and Residential Behavioral Health

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Abstract

Introduction

In recent years, private equity (PE) acquisitions have spanned across health services, but little is known regarding PE activity in behavioral health (BH) care. PE interest in BH is thought to be due to favorable legislation around mental health parity, fragmentation of care delivery, high demand for services, and changing coverage policies.

Methods

To identify PE-acquired BH practices, data from Pitchbook Inc., and Levin Associates Healthcare M&A were used. Mental health and substance use treatment facilities were included. Individual practice locations were identified using a combination of press releases, PE firm, the Internet Wayback Machine, and clinical practice websites. Data were collected from January through July 2023.

Results

A total of 642 mental health and 1,152 SUD facilities underwent PE ownership. 8.9% (57 practices) of mental health facilities and 20.6% (237 practices) of SUD facilities were expansion sites. PE ownership of SUD facilities peaked in 2018 with 257 practices and of mental health facilities in 2022 with 223 practices. Cumulatively, PE-owned mental health practices constituted 14.7% of all mental health facilities and 6.7% of all SUD facilities nationally.

PE penetration was heterogeneous across states. PE-owned mental health facilities were most prevalent in Colorado (26.5%, 40/151), Texas (23.9%, 74/309), and North Carolina (23.0%, 56/244). Eight states had no identified PE activity in mental health care (Arkansas, Hawaii, Nebraska, Rhode Island, Utah, Vermont, Wyoming). Among SUD facilities, PE penetration was highest in Virginia (22.1%, 72/326), Alabama (19.3%, 28/145), Tennessee (18.2%, 59/325), and Ohio (17.6%, 126/750). Four states (Hawaii, Oklahoma, Rhode Island, and Wyoming) had no identified PE activity in SUD care.

Discussion

As with other specialties, PE acquisitions of BH facilities are geographically concentrated with state-level variation in penetration. PE penetration exceeds 25% of facilities in select states, suggesting an important new form of BH practice ownership with potentially high market shares and implications for health care prices, utilization, and quality. Amidst a national BH crisis, persistent workforce shortages and access gaps are potentially at odds with PE's short investment timeframe (usually 3-7 years) and distinct business model. Limitations include incomplete acquisition data, and exclusion of autism, eating disorder, and inpatient facilities.