nerej CELEBRATING 55 YEARS

Emerging retail clinics are showing up in shopping centers

July 19, 2012 - Connecticut

Since the economic downturn in 2008, retailers have scaled back store expansion and reduced format size in response to slower consumer spending and shrinking profit margins. These trends along with a wave of retail bankruptcies have kept vacancy levels elevated and put downward pressure on rents. During these periods, the question is always asked "who will backfill the space?"

An interesting new group of tenants has emerged called retail clinics. These clinics are showing up in shopping centers alongside supermarkets, discount department stores, coffee shops and restaurants. The transforming healthcare industry is creating a sector of medical practices well-suited to retail locations. Quasi-medical tenants such as eye care and cosmetic procedure providers have long been tenants in shopping centers; but recently, services associated with emergency, primary and preventative care are expanding in the retail sector. This new format of medical practice includes urgent care centers, immediate care centers and walk-in clinics that provide a standardized menu of medical services.

Traditionally, medical practices were located around hospitals and major medical centers. The patient started at a hospital for tests than went to a primary care physician or specialist for the results and follow up. This model with hospitals at the center has been plagued with rising wait times, rapidly growing costs and patient frustration. In response, the hospital industry began opening satellite locations to accommodate scheduled outpatient services and reduce congestion at hospitals. These satellite locations were very well received by patients and proved to be profitable for the hospitals. As a result, outpatient services are forecast to climb more than 20% over the decade, while inpatient treatment is expected to remain flat during the same period.

Healthcare providers have found that conveniently located specialized clinics can schedule a higher the number of appointments per day than a traditional practice, while also providing a more positive experience for the patient. The medical services best suited for this model are diagnostic services such as lab work and imaging, routine screenings, noncritical injuries, occupational medicine and treatment of general illness. Each practice provides a distinct range of services from testing, diagnosis and referrals to filling the patient's prescription. The common denominators in each clinic are the walk in nature of the practice, high volume of people treated per day and short wait times for patients.

These clinics provide accommodating medical care for our busy lifestyles and may be a catalyst to improve occupancy levels in retail centers.

For profit companies and hospitals are currently racing to gain market share and attract new patients through an expanded presence in local communities. According to Sean McDonnell of the National Healthcare Practice Group at Cushman & Wakefield of Connecticut, Inc., clinics build value through high volume and the ability to generate referrals to neighboring hospitals or affiliates. The practices want to be in highly visible, heavily traveled and easily accessible locations. Consequently, more and more medical practices are opening locations in shopping centers or freestanding buildings along heavily traveled retail corridors.

Hospitals in Connecticut have been actively expanding their outpatient care centers. In Avon along Rte. 44, Hartford Hospital leased a 13,000 s/f, retail strip building formerly anchored by Blockbuster Video to open a Family Health Center. The medical center offers urgent and primary care, as well as occupational medicine, with walk-ins welcome. It is located next door to a newly constructed Fresh Market. Other tenants located in the immediate area include Walmart, Marshalls, The Gap, New Balance, Super Stop & Shop, T.J. Maxx, Hoyt's Cinema and Big Y Supermarket.

The Rte. 44 corridor in the Avon, Simsbury and Canton area is a strong retail location commanding one of the highest rental rates in the western section of the Hartford suburbs. Similarly, Saint Francis Hospital leases a 3,400 s/f, end-cap unit for an urgent care center at Copaco Shopping Center in Bloomfield. The 430,000 s/f shopping center is anchored by Lowe's Home Improvement, Super Stop & Shop and Burlington Coat Factory. These are just two examples of healthcare providers expanding into highly visible and convenient retail locations.

This rapidly growing segment of the health care industry is leasing space generally between 2,000 and 4,000 s/f at centers with more than 25,000 people within a 3-mile radius. The most appealing spaces have good exposure to roadways with high traffic counts along with well situated and ample parking areas.

The Urgent Care Association of America estimates there are 8,700 clinics in the United States and the industry is adding approximately 300 new locations per year. It is likely the rate of growth in urgent care and walk-in clinics will accelerate over the next few years to deal with the expansion of preventative care services associated with the Affordable Care Act, as well as the increased in the number of individuals with health care insurance. The inclusion of medical services in retail center tenancy adds another dimension of convenience for shoppers and opportunity for property owners.

Kristine McLaughlin, MAI, is senior director, valuation & advisory for Cushman & Wakefield of Connecticut, Inc., Stamford, Conn.