



Vanderbilt Health at One Hundred Oaks in Nashville, Tenn. Photo courtesy of Gresham Smith & Partners

MERGER OF MED & RETAIL?

Professionals say trend finally taking shape

By Dan Emerson

The passage of healthcare reform legislation notwithstanding, no one can predict exactly what the healthcare delivery system will look like five, 10 or 20 years from now.

But one possibility for the future of such a delivery system can be glimpsed in Nashville, Tenn., where Vanderbilt Medical Center leases nearly half of the 850,000 square foot indoor shopping center known as One Hundred Oaks, a previously moribund property.

After a year that saw the bankruptcies of several major retail chains and wholesale store closings by others, the retail real estate sector is in its worst shape in decades. Nationwide, retail vacancies are expected to reach nearly 12 percent by the end of 2010, according to a recent report by Santa Ana, Calif.-based Grubb & Ellis Co. (NYSE: GBE)

But demand for healthcare real estate has remained relatively strong, as providers strive to position themselves for a delivery system that may place more emphasis on outpatient care. Providers want to be closer to their patients – both existing and prospective – many of whom are located in the same desirable suburban areas coveted by retailers.

The concept of putting outpatient clinics in retail spaces has been tried before, with mixed results. On the surface, the concept would seem to make sense, appealing to the needs of retailers, landlords, providers and their patients.

After years of discussion and some experimentation, the retail clinic concept has been somewhat slow to take hold. So far, most retail clinics have located within chain stores and supermarkets: Walgreen's, CVS, and Rite Aid.

But the concept is picking up steam, according to Tine Hansen Turton, executive director of Philadelphia-based Convenient Care Association, a national trade group that promotes the retail clinic concept, monitors quality, tracks legislation and lobbies on behalf of the industry.

“We think it’s going to be a tremendous growth area for hospitals and health systems,” he adds. “They’ve been coming to us more and more...”

“The growth of retail clinics has shown healthcare providers that if you locate where retail is, and are willing to stay open longer hours, you can build business, and people will be more likely to utilize care appropriately, rather than going to a hospital emergency room for minor care. And it’s a great traffic-driver for retailers.”

THE BIG ONE

Large-scale retail clinics like the one in Nashville, the largest in the nation, could become even more prevalent in the future.

One Hundred Oaks opened in 1962 as Nashville’s first enclosed, destination mall. Eventually it lost its luster. By the time Dallas developers Tony Ruggeri and Frank Mihalopoulos bought the property in late 2006, occupancy was 50 percent.

Seven months later, Vanderbilt signed a 12-year lease for the mall’s entire second floor and all levels of its five-story tower. Following a \$99 million renovation designed by Nashville-based

architectural and engineering firm Gresham Smith & Partners, Vanderbilt began moving in selected ambulatory services, including women's health, dermatology, adolescent medicine, medical infusion, and others.

Vanderbilt Health at One Hundred Oaks also features consumer-friendly technology such as touch-screen kiosks for check-in, beepers that allow patients to browse the mall, and monitors to help nurses keep track of patients after they are checked in.

John Forster, a partner with Atlanta-based The Shopping Center Group, the mall's manager, says the venture has been a winner for everyone involved.

"Vanderbilt's impact on retailers there has been tremendous," he says. "Since they opened there last year, everyone has been 'up' in sales, some as much as 25 to 28 percent over last year." Most of those retailers have remodeled their spaces.

GAINING MOMENTUM

John Pfarr, an SVP with Jacksonville, Fla.-based Regency Centers Corp. (NYSE: REG), one of the largest owner-operators of grocer-anchored shopping centers, also believes the retail clinic trend is gaining momentum.

"It's all about convenience. Instead of taking the kids to the orthodontist in the medical office park, consumers love dropping the kids at the orthodontist two doors down (in the mall) while they do the grocery shopping."

Regency's 40-plus centers nationwide have more than 400 healthcare tenants, including 200 dental offices, 62 optometrists and many medical providers.

"Everything from acupuncture to physical therapy," Mr. Pfarr says. "I don't know how dentists or physical therapists differentiate themselves, other than through word of mouth. So they need walk-by traffic to get new patients."

Mr. Pfarr considers healthcare "a recession-proof, necessity business. Medical users have very high credit-worthiness and low reliance on promotional sales. So it's extremely rare for them to default on a lease."

According to Mill Valley, Calif.-based retail real estate consultant Jeff Green, one of the keys to successfully marrying retail and healthcare is to get "retail developers and medical providers to speak the same language.

"Medical providers don't think like retailers, and medical and retail (property owners and brokers) don't understand some of the specifics required for medical build-outs."

On the positive side, according to Mr. Green, medical conversions "don't necessarily require a large space."

"Initially, what we're seeing on the West Coast is small specialty and primary care providers going into strip centers – 1,000 to 5,000 square foot spaces. That's going to be the trend for a while, until the medical community and retail developers can get together on how to best utilize large spaces." Those include the vacant spaces left behind by mall anchor stores.

CJ Follini, CEO of New York-based Noyack Medical Partners, believes the medical-retail trend is here to stay.

"It's just beginning, but it will be the paradigm shift of all paradigm shifts," he says. "It's been in the making for decades. It's early, but there is tremendous opportunity." □

An Integrated Approach That Delivers Outstanding Results

Advisory | Capital Funding | Facility Development | Property Management



Loma Linda University Medical Center | Cancer Center and Ambulatory Care Facility | Beaumont, CA

Innovations in –

- Cancer Centers
- Ambulatory Surgery Centers
- Medical Office Buildings
- CareCenterSM


Lillibridge
... excellence in
healthcare real estate

lillibridge.com

312 408 1370 main

877 545 5430 toll free