

Ailing Centers get some medical help

By Steve McLinden

The stubborn vacancy rates at lots of 'B' and 'C' shopping centers have growing numbers of landlords looking at new purposes for their properties. And with the health care sector promising to create some 3 million jobs over the next decade — more than any other industry — and to open hundreds of clinics, landlords see an especially attractive space filler there.

In fact, the sector may be just the cure for what ails many a second-generation shopping center, says Jeff

Green, who heads his own retail consulting firm in Phoenix. "The retail industry has plenty of affordable and well-located space available now, and that's just what the medical industry is looking for as it grows further out into communities that it wants to serve," said Green.

Hospitals in densely populated areas have precious little expansion and parking capacity, of course, but they also must consider physical accessibility as they grow, says Green. "They are also finding they can benefit from the strategically located real estate that some of these empty spaces provide," he said.

Smaller medical users, such as dentists and optometrists, have been leasing shopping center space for years, but now imaging centers, testing labs, physical therapists and pediatric clinics find they can sign long-term leases at better terms than they could in many office buildings, says Green.

Medical tenants are reviving some older malls as well. A renovation at the 1 million-square-foot 100 Oaks Mall, in Nashville, Tenn., converted the 400,000-square-foot second level and an adjacent office building into a medical clinic and offices operated by Vanderbilt University Medical Center. Clinic patients receive a pager to alert them when their provider is ready, which gives them time to visit the shops and restaurants on the mall's first floor. Vanderbilt University Medical Center has leased the site through 2020.

The University of Mississippi Medical Center bought the mostly vacant Jackson (Miss.) Mall in 1995 and converted it to the Jackson Medical Mall Thad Cochran Center. The university and two other colleges are operating the 41-year-old facility as a medical clinic and school. An announced \$10 million expansion will include residences plus additional offices, clinics and labs. Meanwhile, the conversion has helped revive the surrounding trade area with new restaurants, retailers and service businesses.

And yet many retail developers remain reluctant to lease store space to medical or other nonretail users, either for fear of the unknown or because investors dislike or misunderstand the strategy, says Green.

"Some of them are waiting for things to return to where they were before the bust, but in the process, they may be missing out on a long-term lease that will pay them a great deal of money and possibly generate more traffic than retail," Green said.

Sperry Van Ness is marketing a 100,000-square-foot retail building at the Knoxville (Tenn.) Center mall in behalf of Simon Property Group "for a growing new concept — medical and retail combined," according to online listing service LoopNet. The building will be renamed Medical at Knoxville Center and offer space for master or individual lease. Knoxville Center opened as East Towne Mall in 1984; its anchors include Belk, JCPenney and Sears.

Hospitals are discovering what drugstore chains realized years ago: that health care providers benefit from becoming increasingly convenient and visible at main arterials, says Jason Baker, a principal of Houston-based retail real estate brokerage Baker Katz.

Baker recalls hearing a representative of a Houston hospital organization describe plans to open pediatric clinics in the locality, most of which were to open at retail

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centers. The hospital executive pointed out, however, that retail and office brokers tend to speak different languages when it comes to deal terms and tenant improvement expectations. “There is clearly a delta between the two that keeps some deals from getting done,” Baker said. Office brokers sometimes fail to understand the way retail properties operate with regard to co-tenancy, parking requirements and customer access, he says.

On the plus side, medical organizations usually enjoy better credit ratings and can pay a premium above what a typical center tenant can pay, says Green. Individual doctors, by contrast, are typically not business-oriented in the same way, so they may be slow to respond to landlord concerns.

Tenant-improvement costs are usually higher for medical tenants than for retailers — a minor-surgery center may pay upwards of \$200 per square foot, Green says. “Landlords cannot, or should not, pay more than a small percentage of these costs,” Green said. Further, the demands on power and water sources are greater from the likes of rehabilitation centers, testing labs or radiology services.

Retail developers and tenants would rather see an optical or chiropractic clinic or a lab come in, whereas some fear that a dialysis, cancer- or addiction-treatment center will put a drag on things. “Retailers typically don’t have a problem sharing a mall with a dentist with a pretty predictable flow of customers, but they do have a problem with people being wheeled in and out on a gurney,” Baker said.

Generally, older leases have nothing in their co-tenancy clauses to oppose such nonretail uses, but newer leases can be a different story, says Baker. “Retailers are getting wise to the fact that this is happening all over, so they are changing leases.” Entire centers taken over by these services on long-term leases, however, tend to negate these issues, Baker says. Still, he cautions, a conversion to medical use could turn out to be permanent, because henceforth retailers seeking space may tend to bypass that particular center. “The minute you go down that road it’s hard to reverse.”

Even so, smaller retail-to-medical conversions are taking place all around the country. North Plaza, in Greensburg, Pa., once part of the now-defunct Greengate Mall complex, is now home to several medical providers, plus banks and other service businesses.

Jerry Huffman, owner of Plano, Texas-based Huffman Builders, in June bought a shuttered Luby’s Cafeteria building in Fort Worth that he is converting into a dialysis center and physician clinic. Huffman needed a centralized property with a covered area for ambulances plus an area for equipment deliveries from 18-wheelers. The old cafeteria building did fit the bill, but most such buildings do not, so Huffman usually builds his dialysis centers from the ground up. “My clients have very specific building needs and clearly defined areas where they need to be,” Huffman said.

In Middle Township, N.J., Cape Regional Medical Center opened a 4,000-square-foot urgent-care facility at the nearby Acme Shopping Center. This facility, designed for non-life-threatening emergencies, will help ease things at the Cape Regional Medical Center emergency room and allow for expansion of its services into the community.

“If you have a center with a good location, visibility and traffic flow, medical uses can at least take a center from a ‘C’ to a ‘B,’” Green said. The growing health care needs of aging boomers, he points out, means “plenty of recruitment opportunities for retail centers in medical.”