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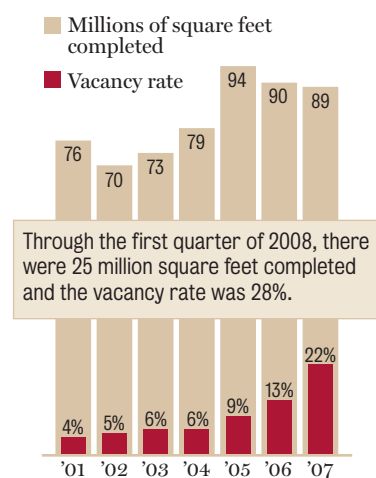
REVITALIZING DEAD SPACE

Vanderbilt University has an ambitious plan to revive an old mall by mixing medical and retail. But with shopping center vacancy rates growing, even the smallest practice might be able to do the same by moving into a commercial location.



SPACE AVAILABLE

Thanks to the bankruptcies of chain retailers, and prodigious retail construction, physicians who are considering moving into a strip mall or similar site have a lot of shiny new options from which to choose.



SOURCE: "YEAR-END NATIONAL RETAIL REPORT," COSTAR GROUP, REPRINTED IN MISH'S GLOBAL ECONOMIC TREND ANALYSIS

When Vanderbilt University Medical Center in Nashville, Tenn., went shopping for a new home for some of its high-traffic clinics, it found it had to look no further than a local mall.

Vanderbilt and the owner of 100 Oaks Mall are working together to transform a half-empty shell of what was once a vibrant shopping destination into a modern, state-of-the-art medical mall — at half the cost of building a new complex. When completed, 16 medical clinics and support services will be housed on the second and third floors of the three-story building, and in an adjoining office tower. Restaurants and existing retail would remain on the first floor.

By making this move, Vanderbilt solves a space crunch at its main campus, which is landlocked and growing at a rate of 6% to 9% a year; provides larger, modern facilities for its clinics and easy access for patients; breathes new life into a deteriorating mall; and offers another alternative for physicians looking for new places to set up offices.

The project, called Vanderbilt Health at One Hundred Oaks, is still in the construction phase — only the pediatric rehabilitation clinic has opened so far. But the concept is being watched, as experts in various fields imagine the possibilities any success could bring to other vacant retail spaces — and to physicians who might be interested in filling them.

Millions of square footage in dying malls across the country could be revived. Boarded-up retail shops and grocery stores could become thriving tax-paying entities. But more important to many landlords is the fact that the glut of new retail space on the market could be filled by traffic-generating physician practices.

U.S. shopping centers ended 2007 with an average vacancy rate of 7.6%, according to a year-end national retail report by CoStar Group, a real estate information provider. The report also shows that the amount of retail space never leased in newly completed shopping centers

has increased each year since 2001, when it was at 4%. And CoStar expects 28% of new space completed in 2008 to remain vacant, as some retailers pull back on expansion plans and others file for bankruptcy.

Kenneth Weston, president of Kenneth Weston & Assoc. in Miami, a health care real estate brokerage, touted advantages to both retail and physicians. "Retail draws a tremendous number of trips per year. And with a medical office in a retail center, one person can see a physician while the family dines or shops."

Family physician Andrew Mills, MD, said his office's location, in a small retail strip in Bixby, Okla., is conveniently situated on a main road that brings in patients from various communities, as well as walk-in clients from the shopping center itself.

"Patients are looking for convenience and good care. If you provide both, you will do well," said Dr. Mills, whose practice moved into a retail space more than 20 years ago. He has never considered moving.

Physicians in California are successfully operating in various types of former retail spaces, including strip malls, former grocery stores and old office buildings, said Richard Frankenstein, MD, president of the California Medical Assn.

"Never underestimate a doctor's ingenuity. And if they can get a lower rental rate than in a medical office, they can lower that cost on to the patient," Dr. Frankenstein said.

With there being so many empty retail spaces, leasing agents and management companies often are willing to negotiate rent, especially with high-volume practices that bring more people into the retail area and don't require a lot of building renovations, leasing agents say.

When Vanderbilt Health at One Hundred Oaks is complete, visitors can shop at one of the retail stores while a family member is being treated at one of the clinics.

A pager will light up when the session is complete or the physician is ready. There will be a pharmacy on-site

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and ample, free parking close to the building. With so many clinics on-site, an individual could schedule appointments back to back or family members could make appointments at the same time at different clinics.

MAKING IT WORK FOR PHYSICIANS, PATIENTS

“We looked at the concept of a medical mall as a whole with the idea that it would be a more convenient location for patients and a less expensive way to add clinic space. The question was, will it work? Our focus groups said yes,” said C. Wright Pinson, MD, associate vice chancellor for clinical affairs at Vanderbilt University Medical Center.

John Huff, MD, director of the Breast Imaging Center at Vanderbilt University, said he originally considered the move unusual, and some physicians had expressed concern about moving off campus and away from the hospitals. But he said they are now excited to expand and to be able to help design the new facility so it will meet the work flow of physicians and ancillary staff.

When considering 100 Oaks Mall, the university looked beyond the shopping center’s empty second floor and dated interior and envisioned a jewel. What the mall lacked in ambience was made up by its amenities — ample parking, easy interstate access, a short commute from the Vanderbilt University campus, plenty of space, and adequate plumbing and electrical infrastructure — all the ingredients needed for the clinics’ new home.

“Patient feedback has been that they don’t have to maneuver medical center traffic anymore. Also, our patients have walkers and crutches and would like not to have to maneuver curbs and elevators. They don’t have to here,” said Eric Hammes, director of the Vanderbilt Children’s Hospital Rehabilitation Service at Vanderbilt Health at One Hundred Oaks.

The university is spending \$64 million on the first phase of construction, which will include transforming 440,000 square feet, or more than half of the mall, and office space into clinics and back shops.

A second phase will include adding more clinics and a

wellness center at a cost of another \$20 million.

Tony Ruggeri, president of ATR Associates in Dallas, said his company invested \$50 million to purchase the mall and another \$40 million to refurbish it. No financial incentives were sought from the city of Nashville or state of Tennessee.

Vanderbilt’s Dr. Wright Pinson said response from the community has been overwhelmingly positive so far. “The city is thrilled with us; the neighborhood is thrilled with us. I have not seen a single negative vibe in the Nashville paper,” he said.

A CONCEPT TO BE COPIED?

Meanwhile, the medical mall is being watched carefully by physicians, health care developers, investment advisers and others. They are excited about the concept and its possibilities — offering convenient care at a lower cost while filling empty retail space.

Another model is the Jackson Medical Mall, a dying shopping center in Jackson, Miss., converted by the University of Mississippi Medical Center and others. The facility combines medical and social services with a small amount of retail.

Kelli Sharpe, spokeswoman for the mall, said there are about 250,000 health care visits there annually. The mall also rejuvenated a blighted area, Sharpe said.

Aaron Kohl, a designated broker with Medical Office Brokers in Scottsdale, Ariz., said combining retail and medical is “a genius concept.” Kohl said existing retail spaces, with big lots on major roads, can offer more parking and visibility than some medical office developments. His company represents physicians in looking for office space, and negotiating leases.

Michael Shedlock, an investment adviser for Sitka Pacific Capital Management, of Seattle, said luring physicians and medical offices is being counted on as a solution as to what to do with the huge glut of retail space expected in the next few years.

“This is a great cure for dying malls. Stores are going bankrupt every day, and there will be more. But medical is recession-proof, and will be able to pay the rent.” ♦

6 TIPS FOR MOVING TO A MALL

1. Find a location that is accessible, well-traveled and generates a lot of foot traffic.
2. Know state and local laws that might apply to your practice, and how being in a retail center might affect them. For example, zoning ordinances might require medical offices to have one parking space for every 100 square feet to 150 square feet compared with one space for every 200 square feet for retail.
3. Make sure your location is close to both regular and handicapped parking spaces. Try to reserve handicapped spaces in front of your office.
4. Hire an architect to make sure the space meets your needs. Can the floor load handle the weight of heavy equipment? Are there sufficient means to dispose of medical waste on the property?
5. Address privacy issues. Make sure windows are covered adequately with blinds and that the rooms are soundproof.
6. Don’t be afraid to negotiate. You might even get a few months free rent if you generate enough traffic.

SOURCE: ANDREW MILLS, MD; WAYNE EDWARDS, A NEW YORK ATTORNEY WHO SPECIALIZES IN HEALTH CARE REAL ESTATE



Work to complete the transformation from shopping to medical mall continues, while leftover signage foreshadows the mall’s new purpose. Children’s Hospital Rehabilitation Services, the first of 16 clinics to move from Vanderbilt’s cramped campus, boasts an 8-foot climbing wall, a zip line and a mock apartment in its expanded, updated new home. The new location also allows easier access for patients, many of whom use walkers or crutches.

