



Health Care: A Growing Force in Retail Real Estate (Part I)

What Landlords Should Know in Eyeing Tenants From a \$3.5 Trillion Industry

Abstract: This article is based on an interview recently conducted with Chad Pinnell, Managing Director of JLL's Health Care Solutions group. It covers U.S. health care and its environment, focusing on demographic factors behind the growing interest in this area; the political trends affecting delivery; principal health-care facility types; the impact of the changing patient-consumer experience; and how consumer experiences are affecting health care in retail real estate settings.

The growth of health-care tenants in U.S. shopping centers has been significant in recent years, but for a variety of reasons is likely to become even more so within a short time. **About 12,000 of the approximately 116,000 U.S. shopping centers have a health-care tenant/use inside the property**, according to CoStar Group, a commercial real estate data provider.

The presence of health-care tenants is even more apparent when retail real estate more generally is considered. There were an estimated **2,800 medical clinics in retail space in the U.S. at the end of 2017**, according to Accenture, a global professional services company involved in strategy, consulting, digital, technology and operations.

In projecting the size of the health-care industry in retail real estate, "retail clinics" can be used as a proxy. According to Accenture, the number of such facilities expanded from 351 in 2006 to the estimated 2,800 for 2017, **with 47% growth in the last three years alone**. Applying that growth rate going forward, Chad Pinnell projects that the **number of retail health-care clinics could reach 4,000 by 2020**.

Demographics underlie the growing interest in health care

Two age groups have especially contributed to this changing American health infrastructure, including:

- **Baby Boomers:** The U.S. population over 65 years old is projected to more than double from 2015 to 2060, from 48 to 105 million.¹ Those in this age group spend five times more on annual medical expenses than the average patient-consumer. They require more care—higher acuity care, and more frequent care. That trend will likely continue over the next several years. (See Chart 1.)
- **Millennials:** Born between approximately 1981 and 1999, they desire convenience and specialized locations. Their concern for physical fitness (they favor tracking everyday activities and frown upon smoking) and sheer numbers (82% of babies born in 2018 have Millennial parents) mean that they possess the ability to "bend the health-care curve" for the better, now and into the near future. Moreover, their significant brand loyalty to environmentally friendly retailers has particular implications for health-care delivery. Similar to

Lessons Learned

- About 12,000 of the approximately 116,000 U.S. shopping centers have a health-care tenant/use inside the property.
- There were an estimated 2,800 medical clinics in retail space in the U.S. at the end of 2017.
- The number of retail health-care clinics has increased 47% in the last three years alone, and at that growth rate is projected to reach 4,000 by 2020.
- Two demographic groups crucial to U.S. growth in health-care spending are baby boomers (who spend five times more on annual medical expenses than the average patient-consumer) and Millennial women (who are responsible for nearly 80% of health-care decisions for themselves and their families).
- The Affordable Care Act has transformed the U.S. from its century-old model of treating episodic, acute care to its present one of preventative care.
- The U.S. health-care industry is expected to grow from \$3.5 trillion in 2017 to almost \$5.7 trillion in 2026.
- Health systems' delivery models have changed from emphasizing the importance of a doctor's "bedside manner" to the entire experience and environment surrounding the patient-consumer.
- The evolving status of patients as consumers represents a doorway for retailers and their landlords to enter health care.

¹ ["An Aging Nation"](#) (infographic), U.S. Census Bureau, April 10, 2017.

banking, a health system tends to be “sticky”—i.e., once Millennials connect to a system through wellness and tracking information, they will likely remain tied to it through medication management and predictive health analytics, to the point that changing providers incurs high switching costs. A key subgroup is *Millennial (Gen Y) women*, which is most responsible for changing health-care buying trends. Women in this group are responsible for nearly 80% of health-care decisions for themselves and their families (including children, Baby Boomer parents and husbands).²

How political and business trends affect U.S. health care

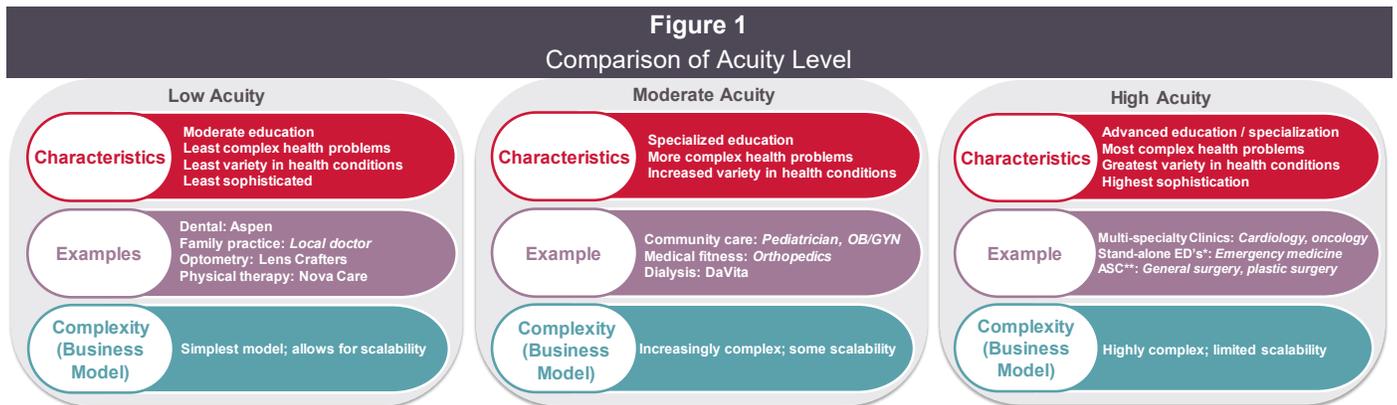
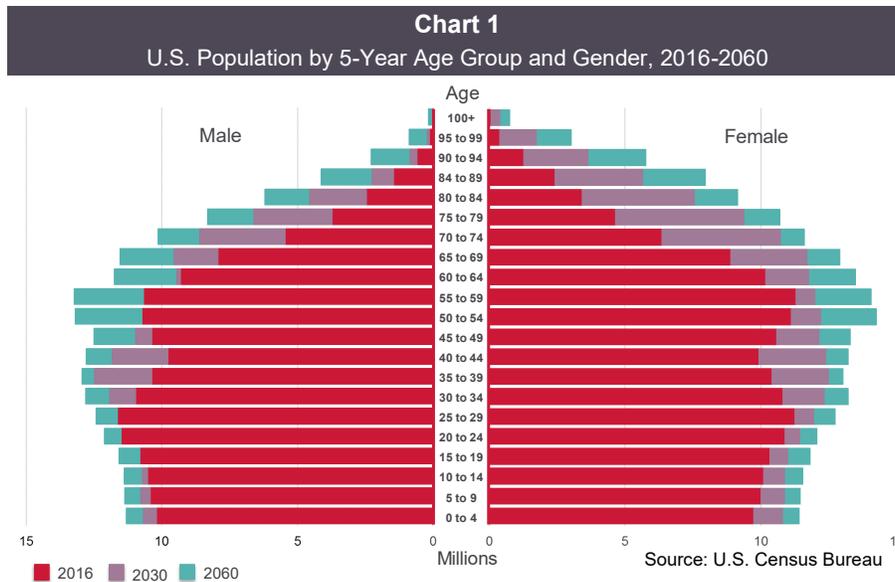
Although demographics created the conditions necessary to transform American health care, additional political and business trends ensured that the changes came massively and swiftly.

Nearly a decade ago, the Affordable Care Act (ACA, or *Obamacare*) moved the then-\$2 trillion American health-care industry from its century-old model of treating episodic, acute care³

to its present one of preventative care. (See Figure 1 for comparisons of low, moderate and high acuity.)

But reimbursing for non-acute care is doing more than just helping avoid expensive surgery (such as after heart attacks) in favor of more frequent, much less-costly doctor appointments. It has also led to more careful locational decisions. This coincided with a recession that created numerous retail vacancies, prompting prominent owner-developers to take a second look at a tenant type once dismissed as a temporary space holder. What they found were tenants that could drive traffic, promote center stability by renting for long periods, and achieve good credit ratings.

Moreover, the dramatic impetus that Obamacare gave to changes in population health management, covered lives, and capitated payments, together with the even greater impact of Baby Boomers’ increased care needs, moved the health-care business to its current \$3.5 trillion size. *By 2026, the industry is expected to reach almost \$5.7 trillion.*⁴



* ED: Emergency department ** ASC: Ambulatory surgery centers

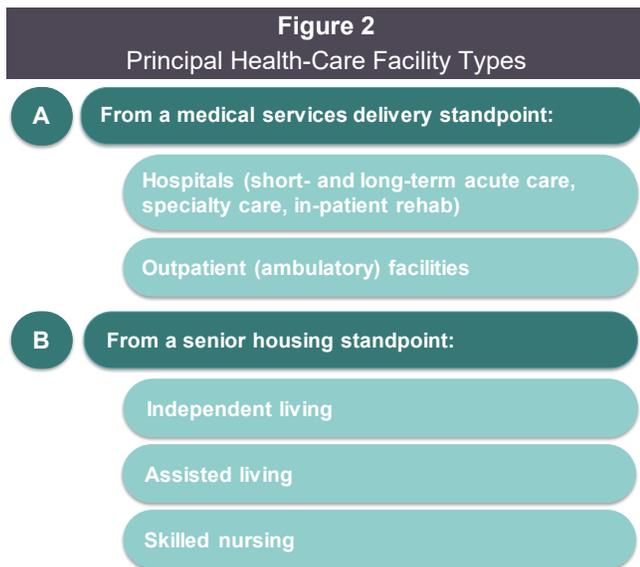
² National Partnership for Women and Families

³ The World Health Organization has proposed a definition of this term that “includes the health system components, or care delivery platforms, used to treat sudden, often unexpected, urgent or emergent episodes of injury and illness that can lead to death or disability without rapid intervention. The term acute care encompasses a range of clinical health-care functions, including emergency medicine, trauma care, pre-hospital emergency care, acute care surgery, critical care, urgent care and short-term inpatient stabilization.” See Jon Mark Hirshon, Nicholas Risko, et. al., “[Health Systems and Services: The Role of Acute Care](#),” *Bulletin of the World Health Organization*, Vol. 91, 2013, pp. 386-388.

⁴ Centers for Medicare and Medicaid Services, “[National Health Expenditure Data: NHE Fact Sheet](#),” containing “NHE Projections 2017-2026—Tables,” Table 1.

Concurrently, accountable care organizations (ACOs) and other more advanced alternative payment models have been pushing higher levels of hospital and health system merger and acquisition activity, from 84 in 2000 to 115 in 2017, according to consulting firm Kaufman Hall.⁵ All of this has been accelerating consolidation across payers, providers and physician groups. At the same time, big business has been driving wellness plans because of incentives to work with health coaches, insurers and providers to promote a healthier workplace. As a result, the lines have blurred among the medical, insurance and retail realms.

The effect of all of this was a greater prevalence of convenience, on-demand, customized, and frequent-care models—from high-acuity traditional hospitals to low-acuity ambulatory centers. Another way to view this is as *a change in focus from the institutional to the individual*. (See Figure 2.)



Impact of the evolving patient-consumer experience

As individual patients came into focus, so did their needs and comfort levels. The ACA required health systems to be graded and judged. An example in this process is the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS), a patient satisfaction survey required by the Centers for Medicare and Medicaid Services for all hospitals in the United States.

The new patient focus is transforming the design of health systems' delivery models. Now, it is not only a doctor's "bedside manner" that is important, but the entire experience and environment surrounding the patient-consumer. Consequently, health systems are looking to Starbucks, Marriott, Hilton, and others as models for understanding this impact.

The evolving status of patients as consumers—and how they experience their settings—is putting many health systems in jeopardy. But it also represents a doorway for retailers and their landlords to enter health care.

How consumer considerations affect health care in retail real estate settings

Consumers are impacting health care in the retail real estate environment in several different ways:

- **Acuity level:** High-acuity care, traditionally served by hospitals, now also involves stand-alone emergency departments and hospitals—i.e., high acuity in a retail environment. Business models for urgent care and in-store clinics are now entering their third- or fourth-generation of maturity—meaning that a track record of results now exists in greater detail for analysis.
- **Service lines (modalities):** Increasingly, a key responsibility of asset managers is to discover the unique traits of a health-care modality (i.e., a therapeutic agent or regimen) and relate it to a retailer's characteristics or offerings. For example, the demographic characteristics of dental practice consumer decision-makers—30-plus years old, 80% female, willing to drive three miles or more for appointments—might match closely those of a major supermarket chain.
- **Population traits (patient-consumer profiles):** Developing patient-consumer profiles and mapping them to retail consumer profiles will produce logical tenant mixes for shopping centers.
- **Physical distribution:** Health care systems are absorbing a lesson from the rise of Amazon: the importance of distribution control. Major retailers represent potential partners for big health systems trying to capture large populations quickly with minimal investments, because of the stores' existing physical structures. (Dollar stores, for instance, could offer thousands of distribution points in communities across the United States to health systems with low overhead needs.)

Conclusion

The points above may be the most important for one to consider before tackling the specifics of health-care facilities in the context of retail real estate. The demographic, political, business, and consumer trends underlying the rise of this dynamic sector need to be as thoroughly understood as retail itself as shopping center landlords assess the optimal circumstances for placing these facilities in their centers' tenant mix.

Part II will explore more specifically the operational and locational issues involved with health care in retail real estate.

ICSC Research would like to thank *Chad Pinnell* for sharing the insights that inform this article.

⁵ Kaufman Hall data cited in Jacqueline LaPointe, "How Hospital Merger and Acquisition Activity is Changing Healthcare," <https://revcycleintelligence.com>.

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