



How to Know if a Shopping Center Works for Urgent Care

These Medical Units Are Viable Tenants—If Sufficient Patient Volume Is Generated

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Abstract: Urgent care clinics, one of the fastest-growing segments of the medical industry, are a targeted use for many building owners and developers. Although they are desirable tenants, not every shopping center has the necessary attributes to support a profitable urgent care center. Owners could be making a risky investment by signing up and providing tenant improvement (TI) money to an operation that may be unable to establish the necessary patient volume. The purpose of this article is to help readers better understand if a shopping center has the attributes necessary to help an urgent care clinic generate 35 patients per day, the minimum for a strongly performing unit.

What is Urgent Care?

As defined by the American Academy of Urgent Care Medicine, urgent care medicine is “the provision of immediate medical service offering outpatient care for the treatment of acute and chronic illness and injury....Urgent care does not replace your primary care physician. An urgent care center is a convenient option when someone’s regular physician is on vacation or unable to offer a timely appointment. Or, when illness strikes outside of regular office hours, urgent care offers an alternative to waiting for hours in a hospital Emergency Room.”¹

There are approximately 10,000 urgent care clinics in the United States.² The total number of operators is about 4,200, 70% of which are single-unit operators. This marketplace is highly fragmented, currently without a dominant operator on a national or regional basis using proven methods and guidelines to select sites. This lack of consistency often results in operators making poor decisions when selecting their real estate location, leaving the landlord unable to collect rent and repayment for TI dollars that were offered to help reduce the anticipated refit cost of \$120 per square foot (sf).

Lessons Learned

- A vacant retail building may not have the attributes necessary to promote adequate stabilized patient volumes.
- A tenant using the rental rate as the primary decision-making factor, rather than trade area and property attributes, may forego optimal patient volumes.
- A tenant willing to contribute elevated TI dollars does not necessarily remove the landlord’s risk of the lease value and their TI contribution.
- Population density may help determine the type of market setting; however, population per provider should be prioritized when evaluating trade area potential.
- Having the ideal number of people in a trade area is not the same as having the right number of consumers with a high frequency or propensity of use for a product or service.
- When examining estimated rental costs, it may be beneficial to reduce large numbers to something more tangible; i.e., rather than examining annual costs, ask how many sales per hour are needed to meet the targeted rent.

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¹ American Academy of Urgent Care Medicine, “[What is Urgent Care?](#)”, retrieved May 10, 2017.

² This estimate comes from an internal database of urgent care center and retail medical providers maintained by National UC Realty. Operations are classified based on scope of service, hours of operation, and specialty. The number includes remote emergency rooms, pediatric urgent care locations, orthopedic urgent care facilities, and similar establishments.

Operations and Staff

Urgent care clinics offer the same types of services found at primary care offices, plus X-ray services and additional medical procedures usually reserved for emergency rooms (ERs). Some clinics specialize in pediatric care (the treatment of children), occupational medicine (the treatment of work-related injuries), and orthopedic services (the treatment of muscle and bone injuries). Most clinics operate without large staffs; for example, one MD or mid-level provider, one to two registered nurses or medical assistants, and one to two staffers. Clinics generally operate 10-12 hours per day, seven days per week, and 360-365 days per year.

Income vs. Rent Costs

Most of the income generated by a clinic comes in the form of insurance reimbursements. Nationally, the typical reimbursement collected per patient visit is approximately \$120, but this can vary by state. This amount becomes one of the key metrics used when evaluating a potential site. The goal is to keep the daily cost of the rent equal to the revenue generated by two to three patients per day. Therefore, the target daily cost of the real estate would range from \$240 to \$360; the monthly cost, from \$7,200 to \$10,800; and the annual cost, from \$86,400 to \$129,600. So, if the space leased was 3,200 sf, the cost would range from \$27.00 to \$40.50 per sf.

Another way to determine whether the rent costs are within an acceptable target range is to calculate the hourly cost of the real estate. Hourly cost is calculated by dividing the total rentable area by the total hours of operation. If the clinic operated 10 hours per day, 7 days per week, 365 days per year, then it operated 3,650 total hours per year. An annual cost of \$86,400 divided by the annual hours of operation produces an hourly cost of \$23.67.

The general overhead to operate a clinic is between \$175 and \$200 per hour. With a \$175 overhead added to a \$23.67 hourly real estate cost, the hourly operating cost for staff and rent would be \$198.66. By dividing the total hourly operating cost by the typical reimbursement of \$120 per patient, the clinic would have to see 1.65 patients per hour, or 16.5 patients per day, to pay the staff and rent overhead costs. The rule of thumb to operate a clinic is that the breakeven patient volume ranges from 20 to 24 patients per day. A clinic is considered a strong performer if the daily volume is above 35 patients per day, which equates to slightly more than 12,000 patients per year.

One more measure to consider is the gross rent cost vs. the annual revenue. If a clinic has 12,000 visits with \$120 of collectible income, the annual gross revenue is \$1,440,000. If the annual rent is \$86,400, the rent vs. gross revenue is 6%. Operators should strive to maintain gross rent at 5% to 7% of gross revenue.

Trade Areas

Site selection for an urgent care facility is similar to many other retail tenants. Having a major anchor or draw in an area is key to creating consistent patient volume. Because the consumer's need for urgent care is limited to an event stemming from illness or

injury, it is helpful to build brand awareness by locating in an area with "flow-to traffic" vs. "flow-thru traffic." Consumers' familiarity with the retail environment may help them identify their destination more quickly when the need arises.

Over 1,000 urgent care clinics were studied by National UC Realty to determine the typical amount of retail space located within their core retail zones.³ The study found that the median amount of retail space was 468,000 sf, and the vacancy rate was less than 3%. Urgent care trade areas generally offer a wide variety of retail options including grocery stores, banks, fast food and sit-down restaurants, drug stores, coffee shops, workout facilities and other services that will be used on a regular basis by the consumer. Areas like malls and power centers generate large amounts of traffic but not the same repeat visits found in neighborhood grocery-anchored centers. Urgent care facilities in open-air centers lacking a major draw risk being out-positioned by a competitor located within a dominant retail-anchored center.

Trade Area Sizes

Trade areas can be evaluated using a variety of methods; drive-times and radius-based trade areas are two of the most common ways to analyze a market. Urgent care centers, like traditional retailers, may rely on different trade area zones depending on the composition of the marketplace. For instance, a location in New York City will not have the same consumer-draw characteristics as one in rural Alabama. One approach to establishing potential trade area coverage is to examine the population within a short drive time of a potential site. Consider, for example, potential sites with:

- *A population greater than 50,000 in 10 minutes:* This is representative of an urban marketplace. In an effort to ensure that the appropriate trade area is examined, the 1.5-mile radius and the 5-7 minute drive time area should be emphasized.
- *A population between 20,000 to 50,000 in 10 minutes:* The general trade area for the urgent care facility is typically three miles and a 10-12 minute drive time area.
- *A population less than 20,000 in 10 minutes:* This typically has a general trade area of 7.5 miles and a 15-20 minute drive time.

Trade areas subject to natural barriers (rivers, mountains, or lakes) and man-made barriers (highways, railroads or airports) should be adjusted to exclude the portion of the population that has restricted access or a reduced likelihood of utilization. Creating a polygon to identify the probable trade area is an effective alternative to the traditional radius analysis.

Demographic Targets

Although there are hundreds of demographic variables to consider, several items are key in the overall analysis of a site:

1. *Population:* A large population may be irrelevant if several urgent care competitors exist in the area. The most effective

³ A list was compiled of urgent care operators, each with at least five units. This was used as a sample set for the retail square footage because operators with more than five units would be considered established.

measure of population would be to determine the population per urgent care (PPUC). The target PPUC when compared to the median PPUC of existing locations nationally is 16,000 to 18,000 PPUC. Another key population figure is the population per physician (PPP). A low PPP indicates a large presence of medical alternatives in the area, which could impact patient flow to the urgent care center. Target ranges for PPP would be over 1,200 people per physician.

2. *Median Age:* The population surrounding an urgent care center, this is typically in the mid 30's. The target percentage of children under the age of 15 should be greater than 18% and the over-55 population generally does not exceed 24%.
3. *Income:* While a high median income is desirable for many retailers, this does not always translate to increased visits for an urgent care location. Higher income individuals have access to a larger pool of medical options, including concierge medicine, which provides immediate access to a physician.
4. *Psychographic targets:* Having a population density that is high enough to support an urgent care facility is important, but having the right mix of people is also essential. Locations with the right mix of Millennials, Generation Xers and Baby Boomers offer the most attractive mix of potential patients. Millennials and Gen Xers look for quick and easy medical care and many do not have a relationship with a primary care provider. Parents of small children frequently need immediate medical treatment without wanting to make an appointment or wait many hours in the ER. Baby Boomers also frequent urgent care centers for themselves and their children. The other end of the psychographic spectrum would be "low-probability urgent care users." This group is comprised of individuals who typically have lower incomes and lower net worths, while living more often in urban areas. An interesting correlation is that the higher the percentage of low-probability users, the higher the percentage of crime.

Site Expectations

Urgent care centers need visibility and immediate access without restrictions like a median or right in/out limitations. The ideal location for an urgent care facility is a freestanding building in front of a major traffic generator like a grocery store. Former banks, fast food or video stores have been frequent targets for conversion to urgent care centers. These types of units usually offer prime visibility and signage. A freestanding building with prominent visibility and access has been calculated to generate from five to seven additional patient visits per day when compared to an in-line or end-cap space. This increase in daily patient volume can be worth approximately \$1,000 of gross income every day or approximately \$365,000 per year. Savvy operators realize that a location which maximizes patient volume is better than an inferior location with cheaper rent. A potentially viable alternative to a freestanding building is an end cap or a unit with a location adjacent to a grocery store entrance.

The typical size for an effective operation ranges from 2,800 to 3,500 sf. If a space is too small, the services offered may be too limited and the waiting area may be inadequate during peak times like flu season. If the unit is too large there could be excess exam rooms that sit empty, increasing the start-up costs without helping to generate regular income. A 3,000-sf space can provide four or five exam rooms, a procedure room for more intense medical services, and an X-ray room. The waiting area usually has room to accommodate 15-20 seats for patients. Many clinics are designing their space with more of a spa-like atmosphere. Waterfalls, plants, and soft music, as well as coffee, tea and soft drinks enhance patient comfort during their waiting time. The overall plan is to have a patient in and out of the clinic in less than one hour.

TI Costs

Enhanced improvements for urgent care locations come with a cost. For instance, there may be as many as three bathrooms: one in the waiting area, one for staff, and one set aside for patients and drug tests. Each exam room may have a sink and supply cabinets. In some of the newer clinics the exam rooms have a TV for viewing while patients wait for treatment. HVAC requirements can be as high as one ton for every 250 sf, and power should be 3-phase and able to support the X-ray and other medical equipment. The water line should be at least 1.5 inches to accommodate the quantity and specialization of the clinic's fixtures. There is usually additional insulation between rooms for sound privacy, and the doors are generally solid core. In keeping with the spa-like environment, there is a wide range of colors for the paint and the wall coverings that are used to give the space a warm feel. This level of finish has a considerable impact on the overall cost, which ranges from \$90 to \$110 per sf.

Lease Term

Urgent care facilities are especially desirable tenants because of their willingness to sign leases with terms ranging from 10 to 15 years, with options to extend beyond. Due to the high cost of preparing the space, and in an effort to receive the maximum contribution from the landlord for interior improvements, the extended term is often necessary to achieve the economic structure that produces the highest return. Unlike a traditional retailer, a start-up clinic may expect 18-24 months before achieving a stable patient volume of over 35 patients per day. In the early months, daily patient volume may not exceed 10 patients which is about half of the necessary volume to break even. A rule of thumb is that a clinic will need about \$500,000 in ready cash to help pay the overhead costs during the start-up phase of the operation. When the cost of the TI and marketing are added to the total expenses for setting up an urgent care facility, it is not uncommon to anticipate between \$750,000 and \$1,000,000 in start-up costs. This is why it is essential to find a location that has all the necessary attributes for a clinic to grow its volume to a minimum of 35 patients per day.

Conclusion

Not every vacant space or available building has the attributes necessary to foster long-term viability for an urgent care center. Operators who prioritize proximity to their homes, the cheapest rental rates, or the allure of the newest developments may be overlooking items in the population's composition, market competition, or real estate attributes that could hinder growth and sustainability. Overlooking key elements has prevented numerous urgent care operators around the country from achieving a profitable patient volume.

In addition to the risks faced by urgent care operators, building owners who accept urgent care users as tenants could also make

poor real estate decisions if they are not able to determine if their site has the attributes necessary to accommodate the retail medical provider. In addition to the rental value of the lease, many landlords provide TI dollars that often exceed \$25 per sf. If an urgent care user vacates the property prematurely, the landlord may not be able to recapture their cost of the TI contribution. They may also be faced with the additional cost of demolishing the user's vacated space, along with the leasing costs of obtaining a replacement tenant.

A full market study should be conducted by both parties to make that sure the use and the property are the right match.



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