U.S. Research Report

RETAIL DIMENSIONS OF HEALTH CARE

May 2017

Accelerating success.

Part I: Health Care in the Retail Setting

The world of retail today is all about adapting to the rapidly evolving needs of consumers. Now, other industries are beginning to adopt the retail mindset — both in terms of developing a responsive, customer-centric approach and a retail-centered location strategy.

Health care is one of the newest frontiers for this kind of "retailization." Particularly as consumers are taking on an increasing proportion of health care costs, many people think of medical expenses as part of the household budget — and thus, subject to similar methods of planning and evaluation as other spending decisions.

In this two-part report, we will explore the ways health care facilities are approaching location in retail and community settings, as well as the ways retailers are leasing space in hospitals and other medical properties. We also examine the rise of urgent care centers as one response to consumer preferences.

In Part I, we examine the factors driving the increased presence of health care in retail properties from three perspectives: those of the consumers, providers and landlords.

Consumers: Convenience is King

While quality of care and specialist skill level are key, convenience is also a critical factor for consumers in selecting health care providers. Increasingly, consumers are demanding proximity, reduced waiting time, same-day scheduling and extended opening hours (including weekends) from their providers. In terms of proximity, locating services in a retail setting — whether it be a mall, neighborhood center or street-level retail — has grown rapidly.

Beyond location, there are multiple consumer needs that health care providers are increasingly responding to:

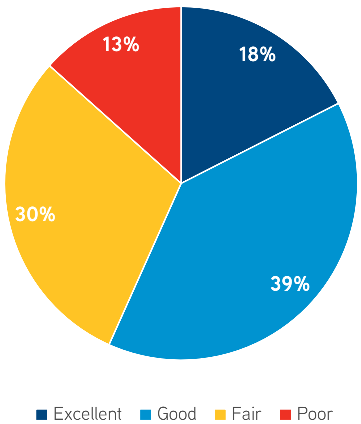
One-stop shopping: Consumers are looking for efficiency — they want to be able to see a doctor and have an X-ray in the same location. The greatest response to this demand has been the rise of urgent care centers.

Online research, scheduling and more: Many consumers turn online before making almost any spending decision. In the health care realm, this means being able to understand the cost of services and read customer reviews on websites such as Yelp and Angie's List. Health care-specific websites such as Guroo and Zocdoc have also emerged. At a minimum, people want to be able to schedule appointments online but this online preference is also translating into a growing offering of telemedicine or virtual doctor visits. Price transparency is also important; consumers prefer to know up front what the service costs will be.

Quality of experience: In the same way that in-store ambience and service influence consumers in the traditional retail sphere, health care facility design is increasingly focusing on creating a customer-friendly environment. By locating facilities in retail space, there are also greater options for visitors. Rather than sitting in a reception area waiting for a friend or family member's appointment to conclude, there are shopping and dining options immediately available.

A joint study in 2016 by National Public Radio (NPR), Robert Wood Johnson Foundation and Harvard T.H. Chan School of Public Health, titled "Patient Perspectives on Healthcare in the United States," surveyed patients across seven U.S. states on health care topics. A marked share of the survey sample (43%) stated that the U.S. health care system was fair or poor. Meeting the demands highlighted above is one important way that providers can improve consumer perceptions.

U.S. Health Care System: Patient Ratings*



*Average of seven states surveyed
Source: NPR, Robert Wood Johnson Foundation, Harvard T.H. Chan School of Public Health

Providers: Retail Settings and Strategies Provide Health Care with New Business Opportunities

A series of interviews conducted by *Becker's Hospital Review* in February 2017 provides insightful perspective on the ways providers are responding to changing consumer needs. Gary Brock, executive vice president of Dallas-based Baylor Scott & White Health, commented that: "We want to be more accessible to the consumer in their communities. We want to see patients close to home when they want to be seen."

In addition to providing more outpatient visits, including surgery and specialist services, providers are also offering more consumer education. Lee Penrose, COO for Acute Care Delivery with Irvine-based St. Joseph Hoag Health, noted that: "We've placed a major emphasis on wellness, opening Wellness Corners in workplace and retail locations across the county that offer those services most needed in their neighborhoods."

In major urban areas, providing care in convenient settings can require many locations. Johnese Spisso, president of UCLA Heath and CEO of UCLA Hospital System, commented: "It's important for us to go where the patients are. As part of that strategy, we operate about 160 clinics in about 70 different locations throughout Los Angeles that include primary care, urgent care and select specialty care as well."

Providers Are Building Their Brands

In response to consumer demands, health care providers are increasingly promoting themselves as marketable brands. Locating in shopping centers is one aspect of this strategy and it's an opportune time to do so. At this point in the retail cycle, options for locating health care in retail settings are on the rise. Resulting from internet shopping, over-storing and reduced profitability, retailers such as BeBe, Wet Seal, Payless and Limited are shuttering their stores. Health care is helping fill the void.

As landlords seek to re-lease the vacant space, this is providing health care providers with consumer-convenient locations at competitive costs. The influx of health care providers in these locations can lead to an increase in foot traffic for adjacent stores and grow their bottom lines at a time when costs are increasingly under the microscope.

Yet location varies by the type of service being provided, such as primary care, urgent care, specialist care and wellness operations. Mall locations are attracting larger-scale facilities. For example, Vanderbilt University Medical Center leased the entire upper floor of the 100 Oaks Mall in Nashville. Operations that already have a more retail-oriented structure are often drawn to neighborhood and community centers. Heartland Dental, which supports 775 clinics across 34 states, stopped opening new clinics in medical offices in 2011 and now prefers grocery-anchored shopping centers that draw more foot traffic. They plan to open 36 more clinics this year, all in retail centers.

There is a parallel trend in cosmetic health care, with services such as skin care and weight-loss being offered in-store, including Target Clinics. This can help offset cyclical lows when the cold and flu season winds down. Operators such as H-E-B are developing their own retail chains where medications can be purchased.

At the more basic end of health care services is the retail health clinic concept, dealing mostly with preventative care (vaccinations in particular) and low-acuity care. Often these clinics are offered within retailers such as CVS, Target and Walgreens or at separate street-level operations.

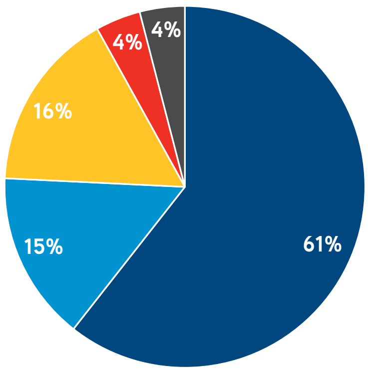
The Association of American Medical Colleges has reported a growing deficit in the number of primary care doctors, and retail health clinics are one response to meeting this shortage. But the biggest growth in recent years has been the rise of urgent care centers seeking to provide a wide spectrum of outpatient care in convenient settings.

The Rise of Urgent Care

Urgent care centers are a response to the shift from inpatient to outpatient care. As evidenced by the NPR study, the majority of patients (61%) visit urgent care centers due to a minor wound or illness. While they may be referred on to a hospital, just 15% of visits are for a major wound or illness. Only 4% of visits are for proactive care through routine screenings.

Research by the Urgent Care Association of America (UCAOA) in its 2016 Benchmarking Report states that there were almost 7,400 urgent care centers in the U.S. in 2016 — a rise of 650 from the 2015 count. The same study also underlines the efficiency of urgent care centers. Just 3% of visitors were diverted to an emergency department and 92% of urgent care centers achieved wait times of 30 minutes or less in 2015.

Urgent Care Centers: Reason For Visit



Source: NPR, Robert Wood Johnson Foundation, Harvard T.H. Chan School of Public Health

Landlords: Health Care Influx Boosts Stability and Consumer Spending

In adding more health care providers to their retail mixes, a key benefit to landlords is that doctors and medical centers often have higher credit ratings than retailers. Many also have a greater level of stability, with the need for health care being viewed as somewhat recession-resistant.

In addition, medical service providers tend to take on longer leases; 10–12 years is the norm, compared to the typical five-year lease for traditional retailers. While tenant improvement costs for medical service providers are often higher, they can be offset by the length of the lease term. Clinics also tend to have lower parking requirements than retailers, which is also attractive to landlords.

Medical operators can also boost the operations and profitability of surrounding retail tenants. The ability to pay a high deductible for medical services tends to favor patients with higher spending power, which can have a spillover effect for nearby retailers.

Most landlords welcome single-service health care providers, as achieving variety in the overall mix can help minimize risk. The exceptions are facilities like pain management clinics that can come with a perceived stigma. In addition, operations that provide cosmetic services, such as Botox®, tend to occupy small units that can prove difficult to lease depending on the health of the retail cycle.

Summary and Outlook

Consumer demands are driving a shift in the mindset and strategies of health care providers. This includes moving to more convenient locations, which are often in retail settings. The rise in urgent care centers typifies this trend by providing "one-stop shops." Retail landlords are embracing health care tenants due, in part, to their perceived stability and ability to drive foot traffic and increase profitability.

In Part II of this report, we will address the converse but parallel trend of retailers taking space in hospitals and other medical facilities.

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