Modern Healthcare

Report: Retail Clinics Have What Patients, Healthcare Execs Want

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Early next year, shoppers visiting a Boston area mall to browse the racks at Express or grab lunch at Red Robin could pop in for an oncology visit just down the way.

Dana-Farber Cancer Institute plans to lease about 34,000 square feet of space at Patriot Place, a shopping and entertainment center in Foxborough, Mass., where it will offer both cancer treatment and hematology services.

"We are continually seeking ways to provide cancer patients with access to Dana-Farber's world-class physicians and medical professionals closer to their homes," Dr. Craig Bunnell, Dana-Farber's chief medical officer, said in a statement.

Oncology and infusion are among next generation of specialties predicted to shift into retail settings, along with the management of chronic diseases like diabetes, asthma and hypertension. That's according to a new report from professional services firm JLL that outlines the sweeping factors behind that shift.

There were an estimated 2,800 medical clinics in retail space in the U.S. in 2017, according to Accenture, compared to just 351 in 2006. That includes a 47% jump in the last three years alone. If that trend continues, JLL said the number of healthcare tenants in retail could nearly double by 2022.

Changing dynamics in healthcare reform, technological advances, demographic shifts and consumer preferences are driving healthcare providers to adopt new locations in retail centers, the report said. In 2018, 73% of healthcare construction was happening off of hospital campuses, compared with just 56% in 2014, according to data from Revista.

In response, health systems are working to evolve their organizations to rely more on outpatient revenue and less on inpatient. Dallas-based Baylor Scott & White Health recently reported its admissions fell 7% and outpatient surgeries grew 7% year-over-year in the nine months ended March 31. Even as that happens, its operating margin is well above the national average among not-for-profit health systems.

JLL's new report said retail settings were designed to deliver exactly the kind of experience healthcare executives are now trying to create for patients: convenient, accessible locations, consistent branding and high visibility. They also offer parking and have easily accessible entrances. A survey by NRC Health found 80% of patients would switch healthcare providers for convenience alone.

A number of prominent physician groups, fed up with the high cost of doing business in medical office buildings on hospital campuses, are moving their practices to off-campus retail settings where rent is cheaper and the locations are convenient for patients, said Greg Hagood, senior managing director with SOLIC Capital. He thinks that trend will accelerate with the influx of inexpensive, vacant retail space as companies like Dressbarn shutter hundreds of stores.

"It's the Walmart or Kmart that went out of business," he said. "You pull right up. The parking is easy. The patient is likely to come more often."

The losers, however, are health systems currently spending hundreds of millions of dollars on medical office buildings and healthcare real estate investment trusts, Hagood said.

Dana-Farber won't be the only medical provider in a sea of dress pants and frozen yogurt. Brigham and Women's/Mass General already has a clinic there that provides urgent care, cardiology, dermatology, pain management, gastrointestinal surgery and rehabilitation, among other things. Oncology is not listed among the services it offers, so it apparently won't compete with Dana-Farber, although it does offer lab services. Patriot Place also has a CVS pharmacy and a handful of fitness studios.

Brian Earley, general manager of the complex, said in a statement that the addition of Dana-Faber builds on the "world-renowned medical care" already provided at Patriot Place and furthers its commitment to providing world-class healthcare closer to home.

Adding healthcare to retail settings benefits landlords, too, JLL's report said. Physician and hospital groups tend to have better credit ratings, more commitment to the community and extended hours to drive shoppers to other retail tenants.

Medical providers also typically take on longer leases: 10 to 12 years compared to 5 years for traditional retailers, according to the report. Medical leases tend to be long term not only because they're more expensive to build out, but it's expensive to relocate specialized equipment.

Retail locations are uniquely positioned to capitalize on the fact that consumers are more actively managing their healthcare as they're forced to take on larger shares of their costs, the report said. Since 2007, the average consumer's out-of-pocket healthcare spending has increased by almost 23%, the report said, citing the Kaiser Family Foundation.

Moving healthcare into retail settings is widely seen as a way to cut healthcare spending because it ideally replaces expensive emergency room visits with less expensive clinic visits.

To the contrary, a 2016 Health Affairs study found retail healthcare could actually have the opposite effect if it drives utilization that didn't exist before. Using private insurance claims data, the study found 58% of retail clinic visits for low-acuity conditions represented new utilization, and that retail clinic use was associated with a modest increase in spending of $14 per person per year.

It's kind of like how the introduction of personal computers increased the number of computers sold, or the advent of laparoscopic technology increased the number of gallbladder removals performed.

"In each of these cases, the relative advantage of the innovation increased the number of potential users, thereby increasing utilization and, subsequently, spending," the study said.

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