

## CONSIDERATIONS FOR REDEVELOPMENT OF BIG BOX RETAIL INTO AMBULATORY CARE CENTERS

Hospitals and health systems are ever growing, changing, merging, and competing for market share. As each system looks to reinforce and expand their brand, ambulatory care settings continue to push the leading edge of delivery models for healthcare in the country. After thoughtful consideration to establishing a foothold in a new market, health systems are looking for good visibility, cost effectiveness, speed to market, and quality buildings for long-term impact.



Healthcare and retail sectors are coming together like never before. With the closing of several large retailers in recent years, landlords are looking for creative ways to repurpose the existing inventory. The International Council of Shopping Centers (ICSC) has been tracking the advantageous of healthcare tenants with increasing interest over the past decade and in 2019 the RECon Global Convention held its first dedicated conference focusing on health and wellness in retail, with buzzwords referring to the “retailization” of healthcare or simply “medtail”.

Healthcare systems are having success with taking available anchor tenant locations in regional shopping centers, such as Emory Healthcare’s announcement to occupy a former Sears store at Northlake Mall in Atlanta and Quincy Medical Group’s plan to build a surgery center at the Quincy Mall in Illinois. In Arizona, PMB provided a redevelopment of a 55,000sf cinema for Abrazo Community Health directly adjacent to their West Campus in Goodyear.

While there is growing interest from retail landlords in attracting healthcare providers as tenants to complement an overall mix of a shopping center, some healthcare systems have their sights set on acquiring stand alone buildings. These big-box healthcare settings can take the form of an anchor building in a retail development or a wholly privately-owned real estate acquisition by the healthcare provider. In either real estate structure, the physical retail to healthcare conversion has some common issues that need to be evaluated.

### GOOD BONES

A particular advantage in re-purposing an existing big box retail building is the large existing volume and structural bay spacing of the building, allowing for greater flexibility in healthcare planning.

New ambulatory care centers typically have lower floor-to-floor heights, 14’ is typical, where retail provides 17’-19’ height and allow for higher ceiling volumes.

Considering the existing building has already been through the paces of community review and approval, it can be assumed that the exterior design was found acceptable by the jurisdiction. This allows the new owner to focus only on changes to accommodate the branding image of the healthcare system. The entire front facade and visible portions of the sides can be stripped and refaced with a number of cladding materials. Rear and side views that are



*Tall ceiling spaces in repurposed retail building*

less visible can be repaired and cleaned up to maintain the life of the building.

Brick, EIFS, and metal panel can all be installed over existing concrete block walls. Large sections of wall can be removed at the entrance to provide expanses of glass, bringing light into the building where needed. Around the perimeter, individual windows can be punched in the building wall.

### GOING PUBLIC

When looking for new locations, market research provides health systems with the demographic trends to determine areas of maximum impact. A good site selection involves high visibility to the local community with potential for greater exposure if freeway access is available. Existing retail centers and mixed-use developments are attractive options for large ambulatory sites, since successful developers secure sites that meet these criteria for their retail tenants. Available development lots and abandoned retail buildings are located in areas where community residents are already familiar and frequenting.

Recently, McLaren Health was looking to expand in the mid-Michigan community of West Branch. Three sites were evaluated; space within an existing strip retail center with good freeway visibility, an abandoned big box retail site without freeway exposure but surrounded by community development, and a vacant site. After careful consideration, the shopping center was ruled out due to the long, thin nature of the building which was not conducive to a large ambulatory building that relies on interactive adjacencies of medical disciplines. The greenfield site was ruled out for many of the reasons discussed in this paper. The available big box retail site was selected for the available community access, construction cost savings and reduced project schedule.



*New entrance canopy and vestibule*

### SPEED TO MARKET

Once a site selection is made, development schedule is a critical factor when market competition is present. Repurposing retail buildings can shorten the duration to bring the facility online for revenue generating use.

#### > **Community Entitlements**

Planning departments/commissions, engineering, and city councils can take months worth of time for new buildings where everything is scrutinized including driveways, parking, building design, utilities, and easements which can extend the process. Abandoned buildings on the brink of blight often receive accommodations when a stable owner comes to reinvest in the community and restore a potential eyesore. However, redevelopment projects can be an



*Original K-Mart store in West Branch, MI*

opportunity for the community to negotiate bringing the site up to current standards, including landscape and storm water retention systems.

> **Construction Start**

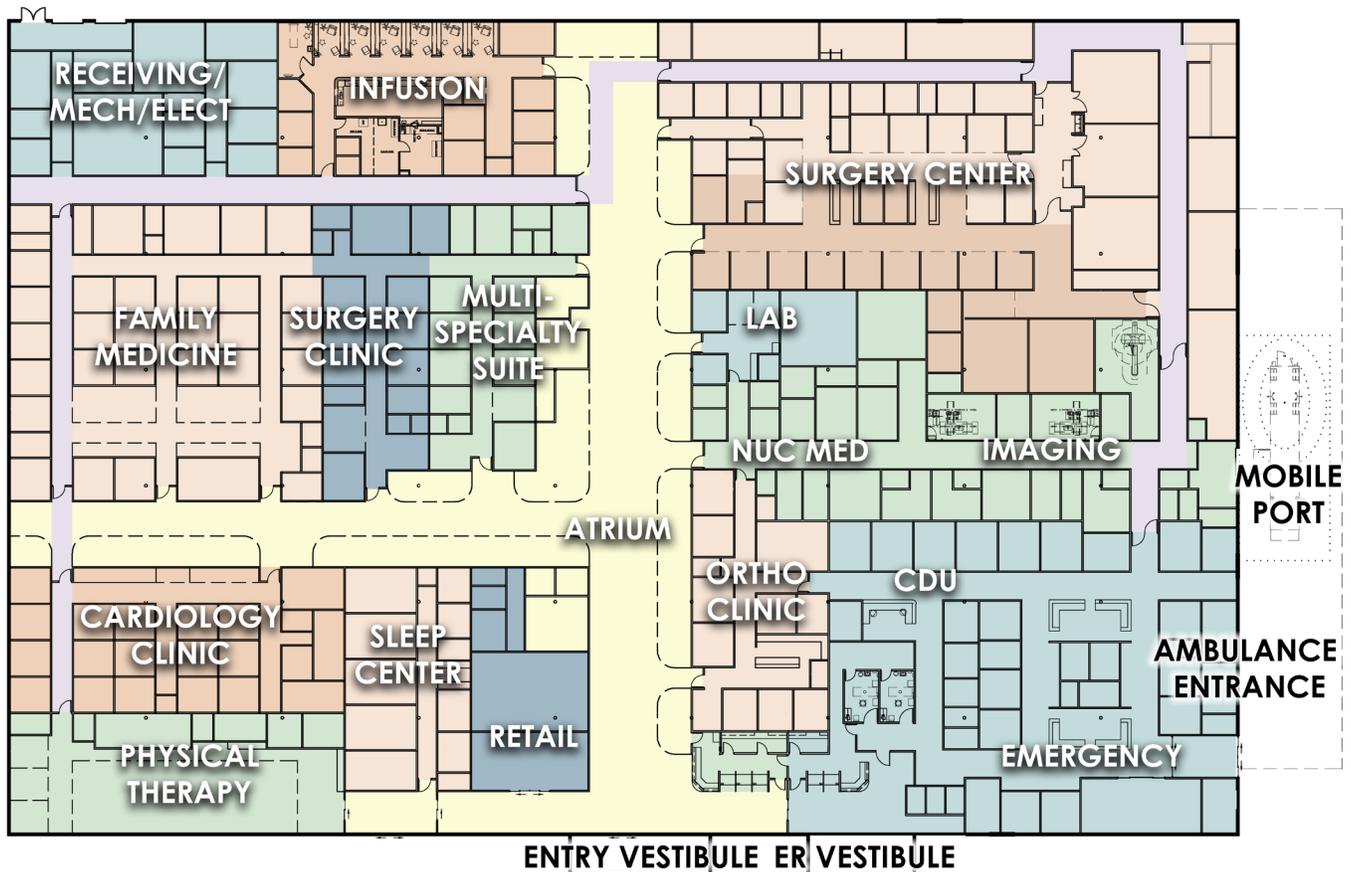
Vacated buildings will need to be evaluated for asbestos and hazardous material abatement, but this can be done while design is in progress, allowing the contractor to have a fast start on the actual construction. Land clearing and earth moving are not in the picture and therefore the site is construction ready. Contractors have ready pads for setting up field offices and parking.

> **Build Time**

With the building already enclosed, any exterior work can be isolated and interior trades can begin almost immediately. With so many building components already in place, a new ambulatory care center can be completed months ahead of ground-up construction.



*Henry Ford Health - Bloomfield, MI redevelopment came with an attached parking structure serving the campus development*



*88,000-square-foot retail center affords planning for a variety of clinics and departments*

THREE DEVELOPMENT STRUCTURES



**Henry Ford Health – Bloomfield, MI**  
Landlord-lead mixed-use development site, with redevelopment of an abandoned two-story retail project for ambulatory care center.



**Henry Ford Health – Plymouth, MI**  
Health system owned, big box store razed to make way for multi-story, branded ambulatory care center.



**McLaren Health – West Branch, MI**  
Health system owned, big box retail store redeveloped into ambulatory care center.

MORE FOR LESS

Where health systems have decided to purchase a site, the choice to rehabilitate a big box retail building typically outweighs the cost of new building construction. A number of construction cost factors come into play:

- > **General Conditions**  
Included in the contractor’s cost are factors which result in savings to a project: Electrical/Gas/Water service are available reducing the need for power-generating rental equipment, parking lots for contractor parking and lay-down area is available, building is enclosed and ready to begin construction at any time of the year.
- > **Utilities**  
Electrical, gas, water, and sewer service each need to be evaluated and while some may need to be upgraded to larger service size, typically there are savings over all-new installation cost.
- > **Sitework**  
Earthwork cost for grading and paving are practically eliminated at existing retail sites. Paving will need to be evaluated in the case of aging retail centers which may have reached the end of useful life. Often a less costly fix is available when compared to site compaction and pavement specifications at new developments.
- > **Structure**  
Buildings will need only minor reinforcing to support new rooftop mechanical units, which is a tremendous savings over the cost of new building structural system of steel/masonry/foundations. The size and scope of a single-story structure retail conversion would typically not require added fireproofing in most jurisdictions, even for surgery centers.
- > **Building Envelope**  
With a majority of existing exterior masonry walls remaining, added insulation can be provided on the interior side of the wall and covered with metal studs and drywall as required to maintain fire-ratings for combustible insulation.
- > **Roofing**  
A complete roof inspection should be completed to determine the useful life of the roofing, and evaluation of wet/damaged insulation.



*Concept rendering for McLaren Health - West Branch, MI*

Where healthcare systems decide to lease, such as shopping center anchor stores there are a variety of lease considerations that need to be weighed that are outside the normal retail tenant structure. These include: higher cost for tenant fit-out allowance, existing mechanical systems that are not suitable for all types of healthcare applications, the need to install emergency generators, different hours of operation, and reserved parking considerations. These topics are often included in medical office landlord leases, and retail landlords are also now getting acclimating to the terms that differentiate medical tenants from retail tenants.

For healthcare systems expanding the boundaries of their footprint and creating new market share, creative retail-based real estate solutions may provide the answer.

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