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**THE RETAILIZATION OF HEALTHCARE AND ITS
EFFECT ON LEASING**

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I. Introduction

Changes in the healthcare industry have dramatically altered the delivery of healthcare services and the real estate in which those services are provided. This paper will examine the effects of the “retailization” of healthcare (or “medtail” as it is becoming known) on leases, as more medical uses continue their migration to more traditional retail settings.

II. Background

A. Retailization Defined. The retailization of healthcare has been a hot topic recently in healthcare and real estate industry circles alike. But what does this term really mean? From a healthcare perspective, it describes the evolution of the delivery of healthcare from a physician-centric model to a more consumer friendly, patient-centric model – much the way retail goods and services have long been delivered to customers. This means providing healthcare services in a much more accessible, convenient and patient-friendly manner than in the past. Most people have experienced the traditional model of receiving healthcare where you would travel a long distance to a sterile hospital campus to visit your primary care physician, often having difficulty finding a parking space due to the fact that all of the closest spaces were “Reserved for Physicians.” The walk to your physician’s office might take you past the emergency room or a pediatric cancer center that would only add to your already uncomfortable feeling of going to the doctor. You were told by the physician’s office to show up 15 minutes before your scheduled appointment, only to see your doctor 45 minutes after your scheduled appointment. It is no wonder why people did not like going to the doctor!

Under the new delivery model, it is the comfort and convenience of the patient, not the physician, that is paramount. Population health initiatives are attempting to shift the focus of healthcare from simply treating sick people to proactively keeping entire populations of people well, while at the same time reducing costs of delivering care. In order to achieve these goals, providers are being forced to pay attention to patient satisfaction metrics and are beginning to provide healthcare services in more comfortable and convenient environments. This means diverting many traditional non-acute healthcare services away from the acute care setting and into comfortable and easily accessible buildings in the neighborhoods where their patients live and work. Inherent in this shift is a recognition that consumers have a choice in their healthcare and convenience and accessibility are key drivers in this choice. In addition, providers recognize that if they can deliver healthcare in a more pleasant and convenient setting, they are more likely to see patients on a more regular basis, which will enable them to better control outcomes and prevent chronic disease. As a result, this emphasis on retailization is good for both the patients and the providers.

B. How Retailization Manifests Itself in the Real Estate World

Many have conflated the broad concept of retailization of healthcare discussed above with the proliferation of healthcare uses in traditional retail real estate settings. While the two are no doubt related, and the latter is a derivative of the former, they should not be confused. Retailization is a broad concept, but its most obvious manifestation is in the choice of real estate used for the delivery of healthcare services. In that regard, over the past several years we have seen many healthcare uses such as primary care, urgent care, imaging, diagnostic services and emergency services migrate from the traditional hospital and/or medical office building setting into purely retail environments. There are two primary factors contributing to this migration – one healthcare related, and one wholly unrelated to healthcare. The first is the shift in the healthcare delivery paradigm discussed above (i.e., increased convenience and accessibility for patients). As convenience and accessibility have become critical drivers in the population health movement, healthcare providers have recognized the need to “go where the people are.”

In the retail world, store locations have historically been chosen for their proximity to large population centers, and the best retail locations happen to be those in the population centers with the highest per capita income. Those demographics are attractive to healthcare providers for the same reasons they are attractive to the retailers. From this perspective, locating healthcare uses in retail shopping centers makes perfect sense.

The second factor contributing to the rise of healthcare uses in traditional retail settings is the fundamental change in the delivery of retail goods brought on by stiff competition from e-commerce. While this has nothing to do with healthcare per se, there is a common thread of consistency with the first factor – i.e., convenience. Just as healthcare providers are finding more convenient ways to deliver healthcare services, so have retailers found a more convenient way to deliver retail goods – the internet. This has led to a crisis in the brick and mortar retail real estate industry, as retailers and retail real estate owners have scrambled to address their own shifting paradigm. With a vast reduction in the number of available anchor tenants and all retailers requiring fewer locations and less space per location, retail tenancy is rapidly declining and landlords are looking for ways to fill the void. Healthcare uses, long locked out of prime retail locations because of the cost of the real estate as well as use restrictions prohibiting them, now don't look so bad to retail landlords and have stepped in to fill some of the available space at a price they can afford to pay.

The convergence of these seemingly unrelated factors has created a “marriage of convenience” between healthcare providers looking for good real estate convenient to their patient population and retail landlords looking to fill orphaned space in their retail malls and shopping centers with non-traditional uses. In addition, since health systems are increasingly becoming the largest employers of physicians, they often become the tenants in these spaces, providing a much better credit to the lease than if the tenant was smaller physician group.

C. Real Synergy or Simply a Marriage of Convenience?

So why are healthcare providers flocking to retail centers at a time when brick and mortar retail is in decline? Is there really any synergy between healthcare and retail uses or is it simply a marriage

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