

Medical Facilities: Key Component of the Non-Retail Tenant Mix

Two Canadian Case Studies Highlight Use in Action

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Abstract: *Non-retail tenants play an increasingly larger role in all but the most dominant regional shopping centers. The blend of viable retail uses and medical facilities has proven to be an excellent combination, as demonstrated in the two Canadian centers spotlighted in this article.*

Introduction

Non-retail tenants are common in all types of shopping centers. In large regional centers, particularly “fortress centers” with at least several department stores, such tenants usually consist of services. There they play a relatively minor role, comprising between 5% and 10% of total retail space.

For mature small regional and community-type centers, however, non-retail tenants play an increasingly more significant role. This can also be the case for a well-merchandised center, with good anchor tenants, that is impacted by a larger, more modern traditional center or power center complex, particularly in a no- or small-growth market.

Non-retail tenants in shopping centers now include a growing assortment of services and special uses. For example, major entertainment features, educational facilities and health clubs are common features, as well as museums, libraries and art galleries. Other frequent non-retail tenants include general office space and regional as well as local government office uses.

In the past, medical tenants were usually found in office buildings. However, one of the most rapidly growing non-retail uses in shopping centers now comprises medical specialist and dental space, together with associated support services such as radiology and dialysis centers, labs and clinics, as well as physical rehab spaces providing outpatient services in a non-acute setting.

The typical layout of a regional mall (or community-type center) and its subdivision into a variety of individual units lends itself well to conversion to medical space, frequently at more affordable rent levels than existing alternatives. Moreover, older centers tend to be located in mature residential areas, where the age structure of the local population requires superior access to a wide variety

of medical services. This article will focus on two Canadian centers that combine viable retailing with medical facilities.

Meadowlark Centre

Currently a one-level, enclosed center with 300,000 square feet (sf) of commercial space, Meadowlark Centre in Edmonton, Alberta, opened as a typical community shopping center in 1963. Its initial anchor tenants included a junior department store; Canadian Tire, a retail and automotive service operation; and Safeway supermarket. As the largest center in its market area, it operated successfully for almost 20 years.

In 1981, West Edmonton Mall (WEM), a super-regional shopping center, opened less than 2 kilometers (km), or about four city blocks, west of Meadowlark. Following rapid expansion, it now comprises several million sf of retail space, including more than 800 tenants and major entertainment facilities.

The opening and subsequent expansion of WEM impacted Meadowlark Centre, not only by attracting some of its major tenants but also by over-saturating the local market area, which was only growing moderately. There was simply not enough market potential for Meadowlark to continue operating in its traditional format.

Gradually, Meadowlark evolved into what it is now known as “Meadowlark Health and Shopping Centre.” Although it was successful in attracting a Wal-Mart store, replacing an existing Zellers discount department store, and maintaining the Safeway as well as Shoppers Drug Mart, its enclosed mall portion was totally reconfigured into a medical mall.

The mall includes some 70 medical professionals, including labs, diagnostic services, medical imaging, a surgical center and an array of medical and dental

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FEATURES

Figure 6-1
Meadowlark Centre (Edmonton, Alberta)



Source: Hermann Kircher. Used with permission.

specialists. (Figure 6-1 shows an exterior shot of the center with tenant Shoppers Drug Mart.)

Due to the great number and diversity of medical services, customers are provided with a one-stop location for most outpatient needs. Car accessibility and abundant available free parking, traditionally associated with any shopping center, are also major attractions for customers, particularly because of the premium parking cost associated with typical medical buildings. The concentration of medical services at Meadowlark has also led to the building of a freestanding medical/professional

Figure 6-2
Store Directory, Meadowlark Centre
(Edmonton, Alberta)



Source: Hermann Kircher. Used with permission.

building adjacent to the shopping center.

The redevelopment of Meadowlark and its successful use of non-retail tenants may be unique, but it does offer a direction for revitalizing some centers with similar locational attributes. Of particular interest is the fact that Meadowlark is still a shopping center, with Wal-Mart, Safeway and Shoppers Drug Mart as significant tenants,

Figure 6-3
Store Directory, Westmount Shopping Centre
(London, Ontario)



Source: <http://www.westmountshoppingcentre.com/>

as seen in the store directory in Figure 6-2. Besides these large retailers, Meadowlark has 18 financial, fast-food and convenience-store tenants, as well as a large governmental office tenant, "Alberta Works Centre," which offers career and employment services, workshops, work search assistance, and information about funding for training.

Westmount Shopping Centre

Westmount Shopping Centre in London, Ontario, is a regional, two-level enclosed center that opened in 1971. Its anchor tenants include Target, Sears, SuperKing SuperMarket, and Cineplex Odeon and VIP Cinemas. Figure 6-3 shows the floor plan of the mall.

Westmount was the dominant shopping center in southwest London for many years, until a power center, comprising about 1 million sf of retail space, opened some 2 km south. Not only did Westmount lose some of its major tenants, but the overall retail market demand was stretched beyond realistic retail space requirements. Not enough retail potential in the market area existed to support both existing and new facilities.

Westmount struggled for some time under different owners before it was finally decided that operating a two-level mall was no longer a realistic goal, despite the prominent anchor tenants. The upper level was successfully converted to non-retail tenants with medical facilities comprising the principal uses. The single largest tenant is the Kidney Care Centre, providing dialysis. There are five other medical services as well as several

FEATURES

financial and educational services. The Municipal Property Assessment Corporation is also a large space user.

It is important to note that though the retail function of the center has moderated due to local economic conditions, Westmount has adjusted to the new reality of a constraint market. This partial re-use of an existing shopping center not only maintained an important service function for the local community but also preserved the value of the investment.

Conclusion

Non-retail tenants, particularly medical uses, will become a more important tenant group in mature non-

dominant regional malls and community centers. This is particularly relevant for centers that maintain a viable retail component. Medical and associated health care tenants tend to have strong credit credentials, usually seek long leases and have a low default rate, thus qualifying as desirable tenants.

In comparison to standard retail store leases, leases suitable to health care tenants need to be moderated regarding permitted uses, exclusives, radius clauses and several other clauses such as operating hours, co-tenancies, odors, and similar factors. One additional benefit of having medical tenants is that they will not likely be impacted by the growing impact of E-commerce.



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