

From Rite Aid to first aid

Anchor Health Properties converts former pharmacy for Pennsylvania system



Anchor Health Properties found a vacant Rite Aid store in Mountain Top, Pa., for a conversion to a medical clinic for Allentown, Pa.-based Lehigh Valley Health Network. The first phase will have more than 14,000 square feet of space. Rendering courtesy of Anchor Health Properties

By John B. Mugford

During this era in which “retailization” is all the rage in the delivery of healthcare services, it would seem that finding a vacant retail store to convert into an outpatient facility would be a goal for many healthcare providers.

One experienced healthcare development firm, however, cautions that not all retail conversion projects will guarantee success nor save as much in construction and development costs as one might think.

“We always need to be careful about that, as just because there is an existing, vacant retail store building that doesn’t mean that it’s the right facility for a medical provider to convert and occupy,” says Paula Crowley, president of Wilmington, Del.-based Anchor Health Properties, a company that had its start in retail development before shifting to healthcare real estate (HRE) two decades ago.

“And on a cost basis, such projects often can save money, but sometimes some buildings do not offer as much in savings

as you might think. Because in order to convert a building to a healthcare use, you’re probably going to have to take out and replace the MEP (mechanical, engineering and plumbing) systems, which can be the largest percentage of a construction project.”

What is considered more important than perhaps saving on construction costs is speed to market, Ms. Crowley notes, as converting a retail building into a medical facility can typically be completed in a more timely manner because most of the zoning requirements and necessary infrastructure are already in place.

Other benefits of retail conversions include the fact that retail sites are typically highly visible, easily accessible, and have plenty of parking and good signage.

Ms. Crowley and Anchor Health believe they have found a vacant retail store that will not only become a highly successful outpatient facility for a health system client moving into a new market, Mountain Top, Pa., but will also save significant time and, in this case, construction costs.

Mountain Top, a city of about a city of about 11,000 residents in the northeastern part of the state, is just south of Wilkes-Barre, Pa., and part of the Scranton, Wilkes-Barre, Hazleton Metropolitan Statistical Area (MSA), which as of the 2010 U.S. Census had a population of 563,631.

There, Anchor Health has found a vacant Rite Aid store on the city’s main thoroughfare, South Mountain Boulevard (Route 309), that it is in the process of converting into a clinic for Allentown, Pa.-based Lehigh Valley Health Network (LVHN) and its 150-bed Lehigh Valley Hospital-Hazleton in Hazleton, Pa., about a 20-minute drive to the south of Mountain Top.

The former Rite Aid store is the end cap space in a small retail center that’s anchored by the city’s main supermarket, a 47,000 square foot Weis Markets store, part of a well-known chain of 150-plus stores in Pennsylvania, Maryland, New York, New Jersey and West Virginia. Also in the retail center, which is owned by Weis, is a state-owned liquor store and a gas station/convenience store.

When the first phase of the new Health Center at Mountain Top opens in March 2016, it will have more than 14,000 square feet of space and offer mostly primary care services with 13 exam rooms. The clinic will also include gynecology, cardiology, rehabilitation services, radiology, laboratory and other services.

Within about 18 months of the opening of the first phase, Anchor expects to open the second phase after expanding the clinic into three small adjacent retail stores whose leases are expiring.

“Even though we’re a healthcare real estate company with a background in retail, we’re not always looking for retail stores that can be retrofitted because they don’t always check all of the boxes needed for a project,” Ms. Crowley notes. “But in some markets, these can be in the best locations because they are usually part of people’s regular traffic patterns, and that’s clearly what we’ve found in this Rite Aid space, which is next to the main supermarket in Mountain Top.”

Entering a new market

Prior to early 2014, LVHN operated its flagship hospital, Lehigh Valley Hospital, in Allentown, as well as two other campuses and a number of outpatient facilities in surrounding areas.

But then, in early 2014, it expanded its network to the north, bringing the Greater Hazleton Health Alliance (GHHA), which included Hazleton General Hospital, into its fold. Hazleton is about 45 miles north of Allentown.

After that, LVHN officials decided to establish a foothold even farther to the north, in Mountain Top, where competition was heating up and where it already had a 12.6 percent market share despite having no physical presence there.

What it then needed was a place to house a group of physicians. Lehigh Valley Hospital-Hazleton, which is led by CEO John Fletcher, turned to Anchor Health

Properties to find the right location and to develop a facility.

Anchor had a working relationship with both LVHN and the Greater Hazleton Health Alliance before the two systems merged, as it had developed and converted medical facilities for the systems in the past. Included was the 73,255 square foot Hazleton Health & Wellness Center, which Anchor developed in 2007 and which it still owns and manages.

Timeliness was of the utmost importance for LVHN as it looked to move into Mountain Top. At the time, Geisinger Health System of Wilkes-Barre, which is just to the north of Mountain Top, was moving forward with plans to build a new clinic in town as well.

In addition to wanting a new clinic up and running as soon as possible, LVHN officials desired, like most health systems these days, that the new facility would fly its flag in an easily accessible, retail-like location that would help attract new patients and bolster its base in the area.

“We considered this to be the best place in Mountain Top market area, which did not fail as a location for Rite Aid, it’s just that they had decided five years earlier to move to a standalone site about a mile away,” says Ms. Crowley.

“The site met all of the location tests and we were able to offer the health network speed to market, as they were anxious to not only provide hospital clinical services in this market but also wanted to find a home rather quickly for a new group of primary care physicians that they had brought on board.”

Had the project been a ground-up development on a greenfield site, Anchor officials estimate that it would have taken at least six to nine months longer to complete.

And even though Ms. Crowley cautions clients that conversion projects do not always save money, in this case retrofitting the former Rite Aid store will do so, in a couple of ways.

According to Anchor, construction costs for converting the store into the clinic will total about \$124 per square foot (PSF); the cost for developing a freestanding clinic on a greenfield site could have cost, perhaps, as much as double that.

“(There can be) significant savings, assuming the location is right and there are not any unforeseen conditions that would skew the costs – utility work, abatement, excavation work, etc.,” says Ms. Crowley.

She adds that getting into what will appear to be a new building perhaps “six months earlier than building a new facility and having an income stream coming in sooner and having the ability to beat, or at least compete sooner with a competitor already in a market, is when a repurpose project can really make a lot of sense and help the bottom line.”

The \$1.75 million construction project has entailed completely demolishing and retrofitting the entire interior of the former Rite Aid store, according to Kathleen Mullin, a senior development director with Anchor Health.

“The space contained black mastic tile, which had to be abated for asbestos before construction could begin,” she notes.

“Since the new facility includes over 15 exam rooms and four toilet rooms, major plumbing work was required—excavation, pipe installation, etc. — as part of the construction to upgrade the space to LVHN’s standards. All new finishes were also needed to create an inviting space for patients and staff.”

As for the exterior, efforts had to be made to change the look of the former pharmacy. New storefront doors were added, as well as ceramic tile, an exterior installation finishing system (EIFS) cladding system and new signage.

The architect for the project is 3GHC Architects of Swarthmore, Pa., and the construction manager is Target Building Construction of Crum Lynne, Pa. □