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Medical Office Development - Doing More With Less

By Matt Robertson, VP, Commercial Real Estate

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There's a new trend in medical office development – a move away from larger medical centers to smaller facilities in neighborhood settings that provide more convenience for an ever-increasing number of patients.

Retiring Baby Boomers and the implementation of the Affordable Care Act (ACA) have set the stage for increased demand for medical care. In fact, the Congressional Budget Office estimates that 32 million more Americans will have health insurance by 2017.

While there won't be any shortage of patients requiring medical care, healthcare providers are facing reduced reimbursements from Medicare and private insurance sources under the guidelines of the ACA. As a result, the pressure is on for providers to decrease their dependence on traditional inpatient hospital facilities and to diversify their outreach to neighborhood settings where care can be provided more cost effectively.

The new medical facility

These trends are creating a shift in medical office space development with a focus on consolidating medical practices and moving away from regional hospital settings into smaller ambulatory care spaces that are closer to patients. In essence, medical providers are "doing more with less."

Regional hospitals are also taking more of a "retail" approach to care by adapting existing retail facilities. For example, spaces within well-located retail centers or strip malls now often act as front-line facilities for major health systems, occupying the 10,000 to 20,000-square-foot sites formerly occupied by banks and other retailers.

Delivering services in an outpatient setting provides several advantages:

- It's a more cost-effective alternative than care delivered at a health system's primary campus.

- A strip mall location or smaller medical office setting also provides advertising advantages and better visibility than a traditional medical office where providers' names are often lost in a long list in the office lobby.

- Repurposing retail or non-medical office space for outpatient care use, and vice versa, can often be a relatively swift and straightforward process for property owners.

Today, ambulatory care centers can provide additional convenience for patients, with access to a physician, lab or imaging capabilities or therapeutic centers all in one facility. In the Chicago area, Irgens, which provides development and property management services to commercial and healthcare clients nationwide, has helped three healthcare systems—Edward Health Ventures, Little Company of Mary, and Vista Health System—to broaden their reach to their patient base by providing urgent care, diagnostic imaging and lab facilities all under one roof.

Hospitals have also been purchasing independent physicians' practices, partly in response to the proliferation of drug store chains such as Walgreens and CVS, which potentially can take patients away from hospitals by offering basic healthcare services at their in-store clinics.

Changes in medical office financing

The ever-changing nature of the medical landscape challenges developers to think about strip mall tenants or medical office developments differently than in the past. Banks are supporting the effort by financing construction and acquisition opportunities for local developers who can help hospitals meet the new demands for healthcare. Those developers find properties that have hospital-backed leases and/or medical office buildings which are in close proximity to hospital campuses and can offer complementary services.

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These trends will not abate soon. The Urban Land Institute estimates that the demand for medical office buildings will increase by 19 percent by 2019. With the shift in the way people receive care, medical office development is finding its own niche—one in which cost effectiveness combines with convenience and accessibility to provide a wide variety of services for an increasing number of patients.

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