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COMMERCIAL

Repurposing Closed Hospitals as For-Profit Medical Malls

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Square Feet

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New Jersey has been losing hospitals for more than two decades; 26 have closed in that time, many in poor, urban neighborhoods that are left with an empty shell where a hospital once stood.

But in recent years, a few developers have purchased some of these abandoned structures, reopening them as private medical complexes that offer many of the services the hospitals once provided.

For struggling cities like Paterson, N.J., the new use removes blight from the streets, restores health care services, creates jobs and provides a tax boost when a for-profit company replaces a nonprofit institution.

Since 2008, developers have bought hospitals in Paterson, Jersey City, Hammonton and Trenton, converting the buildings into so-called medical malls that house an array of services like urgent care centers, doctors' offices and dialysis centers.

Critics worry that these new medical complexes are no substitute for the hospitals they've replaced and may siphon off paying patients from them. Unlike a hospital, individual providers in a private medical complex are not required to provide charity care, nor do these complexes have nonprofit missions to serve a community's health needs, although some

tenants are nonprofits.

Nevertheless, these buildings are often ideal for medical uses — an emergency department can be repurposed as an urgent care center. Existing operating rooms can be used for outpatient surgical centers. And an inpatient floor is a natural fit for a subacute care facility. Added to that, the new use is certainly preferable to a deteriorating structure that contributes to urban decay.

Pull into the parking lot of Barnert Medical Arts Complex on a congested street in Paterson, and it might be mistaken for the hospital that closed here in 2008. Red signs direct visitors to an urgent care center that occupies the same space that the emergency department once used. The building also houses three surgical centers, a Planned Parenthood facility and Turning Point, the drug rehabilitation facility where Dennis Rodman stayed in January.

"This was a facility that essentially was empty — the community suffered," said State Senator Bob Gordon, a Democrat representing parts of Bergen and Passaic Counties, who recently reintroduced legislation to provide developers with a tax credit if they repurpose closed hospitals for other medical uses. The developer "was able to transform this facility into one that better matched the needs of the community."

The developer, Community Healthcare Associates of Bloomfield, N.J., bought the building in bankruptcy court in 2008. After a $25 million renovation, the facility now also offers a sleep center, a breast care center and a 54-bed subacute care facility that has crown molding, dark wood floors and plush waiting room furniture. An adult medical day care facility occupies the sixth floor of the building, which was once the maternity ward.

Six years after the developer acquired the 300,000-square-foot property, it is over 95 percent occupied, employs about 700 people and pays about $600,000 in property taxes, although the company is contesting the assessment with the city. In the next few weeks a dialysis center will open on the ground floor.

"We provide almost every service that this hospital used to provide," said Stephen Kirby, a managing partner at Community Healthcare Associates. "So there is still a health care presence here."

These medical malls do offer health care services, but not necessarily the same ones the hospital provided. An urgent care center, for example, is not an emergency room that can admit patients. While a nonprofit hospital is required to serve a community's health needs, a developer's primary goal is to fill space with tenants who can pay the rent. So a primary care doctor or a pediatrician might not be as lucrative a tenant as a radiologist. Barnert, for example, does not have a pediatrician on its roster, while it does have an oncologist, a cardiologist and a psychiatrist.

"The mix of services is radically different" at a medical mall, said Alan P. Sager, a professor of health policy and management at Boston University School of Public Health. "The services added might be more profitable, and if they're not profitable, they are probably going to close."

Barnert developers did, however, actively seek women's health care providers, including Planned Parenthood and a breast center, to replace some services lost when the hospital closed.

Last summer, Global Life Enterprises purchased the shuttered Mercer Hospital in Trenton, which closed in 2011 to make way for a $540 million state-of-the-art facility in suburban Hopewell. Soon, the 650,000-square-foot campus, which dates back to the 19th century, will re-emerge as a health and wellness center, with plans for a hotel-like lobby, a waterfall, an adult medical day care facility, a spa and possibly a yoga center. The complex already has a few tenants, including a smoking-cessation center, a child advocacy group and doctor's offices.

"I am trying to put in services that would complement each other," said Priti Pandya-Patel, founder of Global Life Enterprises, who also owns several sleep centers in the state. "What we're looking to do is to make it into a one-stop health care mall."

New Jersey hospitals have been struggling for decades; eight filed for bankruptcy in the last seven years. All New Jersey hospitals are required to

provide charity care, a requirement that can be financially challenging for urban hospitals, which have a larger mix of uninsured patients. Added to that, Americans spend less time in hospitals than they did a generation ago, as more procedures are performed on an outpatient basis. And insurers are often more stringent in coverage of in-hospital care for many illnesses.

A medical mall escapes many of the challenges the hospitals face: Its tenants can turn away uninsured patients, and it doesn't need to staff a hospital with nurses and on-call specialists available at a moment's notice.

"Our model is allowing for the migration of health care from inpatient to outpatient care," said William J. Colgan, a managing partner at Community Healthcare Associates. "Here there are no inefficiencies. You don't have to have an operating room staffed with nurses and doctors if no patients are here."

But for communities with a high mix of uninsured patients, the services available at a medical mall are inaccessible to a sizable portion of the population. So the remaining hospitals absorb more uninsured patients, while they lose paying patients to a medical mall.

"You make it increasingly hard for the safety-net hospitals that remain to survive," said David Knowlton, president of the New Jersey Health Care Quality Institute. "You could start a downward spiral."

As the federal health care law takes hold, however, 444,000 New Jersey residents are expected to join the ranks of the insured and another 250,000 nonelderly residents will be eligible for Medicaid, according to a report by the Rutgers Center for State Health Policy. Many of these new Medicaid recipients will be heavily concentrated in poorer communities like Paterson and Trenton, according to Joel C. Cantor, who co-wrote the report.

Still, even with expanded coverage, independent providers in these medical complexes are much more likely to offer services that are out of network, which generally translates to much higher out-of-pocket costs for patients, Mr. Knowlton said.

Community Healthcare Associations has been expanding on its model. In 2012, the company bought Greenville Hospital in Jersey City for $1 million. Last summer, it bought Kessler Memorial Hospital in Hammonton for $2.5 million. Both facilities are being renovated — Greenville Hospital has been stripped down to the studs — and will reopen as medical malls in 2014 and 2015.

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