

# OMAHA, NEBRASKA MEDICAL OFFICE MARKET OVERVIEW

Volume I



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DECEMBER 31, 2013



## INTRODUCTION

The Omaha Metropolitan Area is not unique with regard to growing and changing medical needs amidst a lackluster national economy that continues to be somewhat paralyzed by financial concerns of the Patient Protection and

Affordable Care Act (“PPACA”) or commonly referred to as the Affordable Care Act (“ACA”) or “ObamaCare”. To say the Medical Industry is undergoing major changes is an understatement. The change, to be sure, is monumental. The impact of ObamaCare will forever change the way medical services are delivered, consumed and paid for.

## ECONOMIC OVERVIEW

The national economy is indeed improving, albeit at a slow pace. During the Great Recession at its worst, five years ago, the national unemployment rate was 10%; today it is 7%. Annual growth of Gross Domestic Product (“GDP”) has averaged 2% the last four years. The 2014 Economic Outlook suggests more improvement with a yearend unemployment rate approximating 6.5% and annual growth of GDP approximating 3%.

During the Great Recession and its recovery, Nebraska has fared well comparatively. The State’s unemployment rate has typically been 60% of the national average. Today it is 53% or 3.7%.

## HEALTHCARE AND THE ECONOMY

The Healthcare industry in the United States represents a significant portion of GDP, currently at 17.9%. This translates to approximately 2.9 trillion dollars of annual expenditures for hospital visits, medications and other healthcare. By 2021, it is forecasted that healthcare expenditures will approximate 20% of GDP. Healthcare, most certainly, plays a vital role in our economy.

## NATIONAL AND STATE DEMOGRAPHICS AND IMPACT ON HEALTHCARE

An aging population, to be sure, is the biggest driver for healthcare. Today, as a percentage of total population, 14% of Nebraskans are 65 + years of age, representing approximately 260,000 individuals. This

percentage is expected to blossom to 21% by 2025, while the national average will be 18.5%. So in approximately eleven years, that segment of the population in Nebraska will increase by approximately 150,000 individuals to 410,000 people. Nebraskans are living longer than most Americans. The Nebraska longevity rate is currently 79.2 years; the national average, 78.3 years. The national average is forecasted to increase to 82 years by 2030. Based upon current trends, one could conclude that Nebraskans may very well be living a year or two beyond 82 years of age.

Not only is aging population driving the need for more health care, but poor habits are too. Believe it or not, 63% of the national population is considered to be obese (65% in Nebraska), which leads to many devastating medical conditions including heart disease, diabetes and other serious ailments.

Lastly, the additional health care coverage of 32 million Americans brought about by ObamaCare, will no doubt have the effect of increased healthcare delivery nationwide, including Nebraska.

*Statistical Sources:*

*Bureau of Labor Statistics, The Federal Reserve Bank and U.S. Census Bureau*



## NATIONAL, REGIONAL AND LOCAL TRENDS

- Increased emphasis of Hospitals for acute care only
- Increased emphasis of Ambulatory Care Centers (“ACC”), located in retail suburban settings, to serve consumers more conveniently for outpatient services
- Continued decline in the number of small Physician Groups
- Continued increase of alignment of larger Physician Groups to particular Hospital Systems
- Increased consumer spending as a percentage of Gross Domestic Product (GDP).

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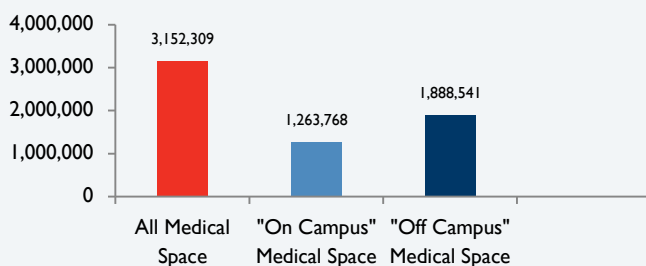
## CURRENT MEDICAL OFFICE BUILDING “MOB” STATISTICS – OMAHA, NEBRASKA

Among 114 buildings recently surveyed, there is approximately 3.1M SF of MOB inventory in the metropolitan area. Available space reflects approximately 300K SF or approximately 10% of all medical space. In contrast, the traditional office building (albeit non owner-occupied) market approximates 20.8M SF of inventory with 2.7M SF or 13% of space availability.

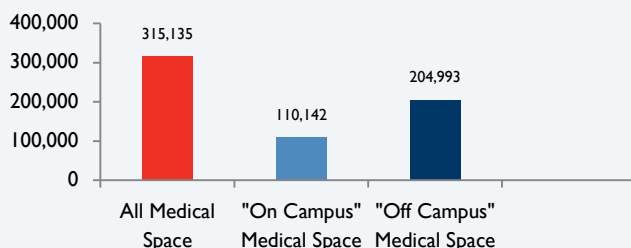
Approximately 1.3M SF of total MOB space reflects “On-Campus” space, space located on Hospital campuses; while the remaining 1.9M SF, “Off-Campus” space. Space availability in each category reflects 100K SF (9%) and 200K SF (11%), respectfully.

It is important to note that several hospitals are not categorizing some of their current vacant space in their On-Campus MOB’s as “available space” as they are reserving it either for temporary relocation space to accommodate displaced medical operations as a result of construction activity or are reserving such space for undetermined long-term use.

### TOTAL MARKET SF



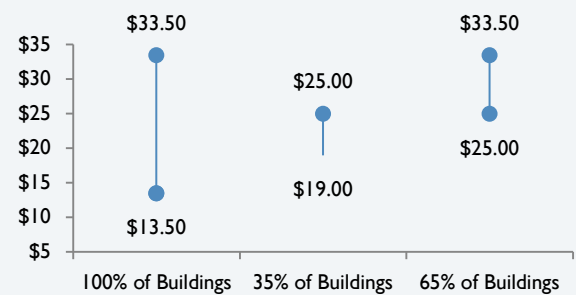
### AVAILABLE SF



## MAJOR ANNOUNCEMENT AND HAPPENINGS

- Alegent-Creighton’s purchase of the former Blue Cross Blue Shield Corporate Headquarters, 72nd & Mercy Road (140 K SF) for principally administrative use.
- Nebraska Medical Center’s ground breaking of the 577K SF, \$325M Fred & Pamela Buffet Cancer Center on its campus. The project is scheduled to be completed in 2016.
- Methodist Healthsystem’s continued \$90M renovation and expansion of its on campus surgical center. The scheduled completion date is January, 2015.
- Alegent-Creighton’s announcement of its intent to relocate the Creighton University Trauma and Clinic Operations to the Bergan Mercy Campus.
- Madonna Rehabilitation’s announcement of a \$93M, 110 - bed, approximate 250K SF Rehabilitation Hospital at 175<sup>th</sup> & Burke Street. The scheduled completion date is late 2015.
- Alegent – Creighton’s plan to build an approximate 30K SF ACC at 160th & West Maple Road.
- Tetrad Property Group’s announcement of its intent to construct a six-story, approximate 120K SF, \$42M Medical Office Building at 71st & West Center Road.
- A new VA Hospital, an approximate \$560M project, planned on the same site as the existing complex, 42nd & Center Streets continues to be in limbo as it is dependent upon federal funding.
- Nebraska Medical Center & University of Nebraska Medical Center’s announcement of an integration of their governance and clinic operations. The integration is slated to take effect July 1, 2014.

### FULL SERVICE RENT PSF



Based upon 48 buildings surveyed.