



The Cushman & Wakefield / The Lund Company Medical Office Report is produced annually for the benefit of owners, investors, owner-occupants and tenants of medical office buildings throughout the metropolitan Omaha, NE area. Inventory as referenced in the Report includes traditional medical office buildings, owner-occupied community clinics, ambulatory surgery centers and specialized outpatient treatment facilities. If a property caters to both office and medical uses, it must have at least half existing medical occupancy to be included in the inventory.

The Report is prepared by Richard Secor, Jr., Partner, The Lund Company, a 33 year veteran of the commercial real estate industry and a member of Cushman & Wakefield's Healthcare Practice Group. The Practice Group is a national platform of real estate professionals with a focus on the sales, leasing, valuation, management and financing of healthcare properties around the United States, including medical office, assisted living, skilled nursing and hospital facilities.

AFFORDABLE CARE ACT UPDATE



The long-term impact of the Patient Protection and Affordable Care Act ("PPACA") or more commonly referred to as the Affordable Care Act ("ACA") or "Obama Care" will prove to be monumental

in how medical services are delivered, consumed and paid for. The initial activation of consumer registration on the Exchanges, to be sure, was slow and burdensome. Those frustrations have seemingly gone away as the registration process has become much easier and thus more readily accepted. With all its criticisms, the fact that there has been an approximate 35% decline in the number of uninsured (estimated to reflect 16.4M people) since the inception of the ACA, cannot be ignored. The addition of the newly insured however, is not without cost as approximately 50% of those individuals now receive Medicaid, while the majority (85%) of the remaining approximate 50% who now have private insurance, qualify for federal subsidies. Last June's Supreme Court ruling that upheld the ACA's ability to allow nationwide government tax subsidies that make health insurance more affordable to low income individuals, a critical component of sustaining effective funding for the ACA, has essentially reaffirmed that Obama Care is here to stay. Interestingly, the increased insured enrollment, now patient paying consumers, is providing a short-term boost to hospital revenue. However, despite this increased revenue source, hospital systems and physician groups continue to experience budget constraints due to less overall revenue (primarily due to cuts in reimbursements from Private

Insurance, Medicare and Medicaid) and the shift from a payment system of fee-for-service to value-based. These continue to be challenging times for the medical industry.

THE ECONOMY

The national economy continues to improve. While 2015 increase of Gross Domestic Product ("GDP") is estimated to be 2.5%, next year's Economic Outlook suggests growth of 2.8% during 2016.

The national unemployment rate continues to decline. Projections indicate a drop from 5% to 4.6% by the end of 2016. Nebraska is currently experiencing 2.9% unemployment, the country's second lowest rate; North Dakota has 2.8%.

Consumer spending, which accounts for nearly 70% of GDP, was forecasted to increase by nearly 5% by year end 2015 (growth that is substantially attributed to lower gas prices). Nevertheless, the positive effect on our economy has not been fully realized due to the slow-down of other country's economies (i.e., China, South Korea and Japan) and the resulting decline of U.S. exports.

Although it was anticipated that the Federal Reserve would raise the Federal Funds Rate (the rate at which banks borrow from one another) earlier this year, the Fed was reluctant to do so until the economy, and in particular, employment had stabilized. On December 16th, the Federal Reserve Open Market Committee concluded that such stability has occurred and thus recommended that the Federal Funds Rate be increased by 25 basis points. This is the first of many planned similar rate hikes.

Richard Secor, Jr.
Partner
(402) 548 4010
rsecor@lundco.com

450 Regency Parkway, Suite 220
Omaha, NE 68114
+1 402 393 8811
lundco.com

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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.

Although there appears to be a slight slow-down in healthcare cost growth, consumers are still incurring substantive increases. A family of four, for example, today is experiencing an increase in expenses of approximately \$2,000/year. Moreover, healthcare insurance premium costs are expected to increase approximately 12% during 2016.

Demographics and Behavioral Impacts on Healthcare

There are 78 million baby boomers. Those people celebrating their 65th birthday are at the rate of 8,000 per day. Probable life expectancy of a 65 year old today is 84 years of age. As a consequence, nearly 20% of Americans will be 65 years of age or older by 2030. This is a staggering statistic with huge implications on the healthcare industry to accommodate geriatric care.

Interestingly, only 10-15% of one's good health is attributed to healthcare services. The remaining 85-90% is related to behavior, genetics and social determinants. The future emphasis on healthcare, no doubt, will continue to be preventative care.

National, Regional and Local Healthcare 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 emergence of in-store clinics within discount, grocery and drugstores and in-warehouse office settings
- Continued decline in the number of small physician groups
- Continued increase of alignment of larger physician groups to particular hospital systems
- Increased employment of physicians by Hospitals
- Provider shift from Fee-For-Service to Value-Based Payment Model
- Increased consumer spending as a percentage of Gross Domestic Product (GDP)
- Consumer transition from being a "Passive Patient Purchaser" to "Active Healthcare Consumer"

Sources: Bureau of Labor Statistics, AHA 2015 Environment Scan, The Washington Post, Deloitte University Press, The Atlantic, The New York Times, The Kiplinger Letter and USA Today.

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Current Medical Office Building Statistics

Space Availability



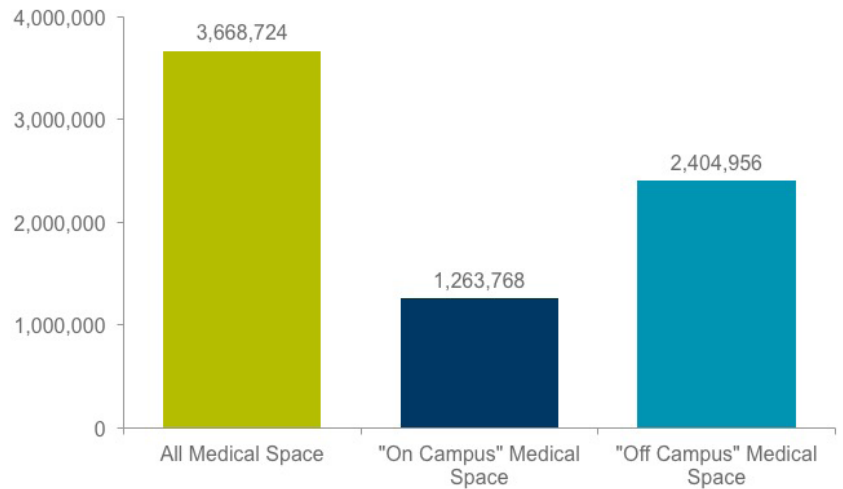
Among 122 buildings recently surveyed, there is approximately 3.7M sf of Medical Office Building (“MOB”) inventory in the Omaha metropolitan area. Available space reflects approximately 265K sf or approximately 7.2% of all medical space. In contrast, the traditional office building (albeit non owner-occupied) market in Omaha approximates 21M sf of inventory with 2.6M sf or 12.4% of space availability. Nationwide, average medical office space vacancy approximates 10%. Omaha, to be sure, has a healthy MOB market.

Approximately 1.3M sf of total MOB space reflects “On-Campus” space, space located on Hospital campuses; while the remaining 2.4 M sf, “Off-Campus” space. Space availability in each category reflects 80 K sf (6.4%) and 185 K sf (7.7%), respectfully.

It is important to note that several hospitals continue not to categorize some of their current vacant space in their On-Campus MOB’s as “available” 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

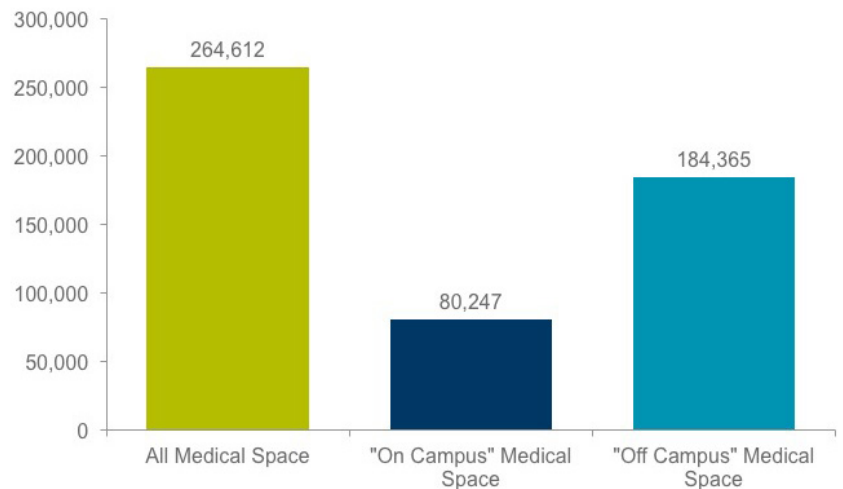
Omaha, Nebraska



33

Available SF

Omaha, Nebraska



34

Current Medical Office Building Statistics

Rental Rates & Trend



General local on-campus Medical Office Building (“MOB”) full service rental rates range from \$18.50 to \$31.50 psf with off-campus \$13.25 to \$43.85 psf. The significant lower rate range, particularly in the

off-campus sector, reflect older MOB’s that contain available space that probably will not be used as medical office space again because of location, size or condition. The higher rate range in both classifications reflect newer specialty medical space i.e. surgical, image, infusion, etc.

Rental rates nationally and locally have increased on average 10% over the past year for new product. The increase is mainly attributed to higher design standards and overall construction cost increases.

National Statistical Source: Cushman & Wakefield 2015 Medical Office Investor Survey.

Investment Activity & Pricing

Although there has been little investment activity in the local medical office building sector to date, average capitalization rates continue to compress nationwide with rates declining 25-50 basis points depending upon class of product and location whether on or off campus. Current national averages are 5.97% and 6.49% for class “A” MOB’s on and off campus, respectively; 7.36% and 8.31% for class “B” MOB’s, correspondingly.

Full Service Rent PSF

Omaha, Nebraska



*Based upon 54 buildings surveyed.

Project Activity

Recent Project Completions

- Think Whole Person Healthcare (150,000 sf), 72nd & West Center Road.
- CHI Health Clinic (18,000 sf), 42nd & “L” Streets
- Methodist Physicians Clinic (14,200 sf), 11946 Standing Stone Drive, Gretna, NE.

Projects under Construction

- Nebraska Medicine Fred & Pamela Buffet Cancer Center (577,000 sf; \$325M), Nebraska Medicine Campus, 42nd & Farnam Vicinity. The scheduled completion is 2017.
- Nebraska Medicine Lauritzen Outpatient Center (170,000 sf; \$70M), 40th & Emile Streets. The scheduled completion is fall, 2016.
- Methodist Hospital Surgical Center Expansion & Renovation (\$90M), 84th & Dodge Streets. The scheduled completion is summer, 2017.
- Madonna Rehabilitation Hospital (250,000 sf; 110 beds; \$70M), 175th & Burke Streets. The scheduled completion is fall, 2016.
- CHI Health Creighton University Clinic (80,000 sf; \$35M), 24th & Cuming Streets. The scheduled

completion is fall, 2016.

- Boystown Pediatrics Clinic (7,000 sf), 180th & Harrison Streets. The scheduled completion is fall 2016.
- CHI Health Creighton University academic, in patient services and trauma unit relocation to CHI Health Bergan Mercy Hospital, 75th & Mercy Road. The scheduled completion is spring, 2017. The current C.U. Hospital site (23 acres) is being marketed for sale in the meantime.

Announcements

- Children’s Hospital (10,000 sf; \$6.5M) space buildout for an outpatient surgery center at Village Pointe, 110 North 175th Street.
- A new Veterans Administration (VA) Hospital, currently located at 42nd & Center Streets, is ranked #10 on VA list for funding. Preliminary cost estimate is \$560M. Discussions are occurring about a possible public-private partnership, as a means of expediting ultimate commitment to Project.
- Nebraska Medicine iEXCEL (Interprofessional Experiential Center for Enduring Learning) (134K sf; \$102M), Nebraska Medicine Campus, 42nd & Emile Streets. The scheduled completion is summer, 2018.

