



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 34 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 purchase, sale, 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



President-elect Donald Trump had advocated a complete repeal of the Affordable Care Act during his candidacy, but is now calling for a reformed Act that may retain at least a couple of key

components: preservation of coverage for preexisting conditions and continued ability for children to be covered under parents insurance until age 26. The specific overhaul of the Act of course, won't be taking place soon. In the meantime, and for the immediate future, employers, employees, and individuals will need to continue to act as if there will be little change.

The Exchange, where individuals on-line can compare available health plans, sign up for coverage, and qualify for income tax credits and other subsidies to reduce out-of-pocket costs, continues to be plagued with issues, one in particular is the dropping out of several national insurance companies. Insurance claims or benefits are exceeding premium costs due to an unbalanced pool of unhealthy versus healthy enrollees, including those with preexisting conditions, broader coverage, and "drop in-drop out" enrollees, those that discontinue paying premiums once they receive needed medical care. During 2017, in Nebraska, there will be only two insurance companies offering programs on the Exchange: Medica Health and Aetna Health. The impact for the 82,000 Nebraskans with fewer competitors to choose from will be an approximate 15% increase in premiums in addition to those already anticipated.

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With all its criticisms, the fact that there has been an approximate 38% decline in the number of uninsured (estimated to reflect 17.8M people) since the inception of the Act, 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. 12.7M people currently have coverage in individual programs. 7M people have coverage though Medicaid expansion and other entitlement programs. Even though there are more insured, the majority of hospital systems interestingly, are providing more uncompensated care because insured individuals either can't afford the out of pocket costs or choose not to pay. The implication of many more insured, coupled with a growing 65+ year old population base, should continue to fuel the need for medical services and thus additional medical office space demand.

Those individuals covered in Group Insurance Programs or Employer sponsored programs, are seeing rising deductibles, as much as 12%, and less coverage. Premium costs continue to rise with Group Health Programs with an average increase of 6.5% slated for 2017. Employers consequently, are focusing on wellness plans and offering more narrow plans as a means of controlling long-term and short-term costs, respectively.

In general, Hospital Systems and Physician Groups continue to experience budget constraints due to less overall revenue (primarily due to cuts in reimbursements

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from Private Insurance, Medicare and Medicaid) and the shift from a payment system of fee-for-service to value-based.

THE ECONOMY



The National economy continues to improve, albeit slowly. 2016 should result in the addition of 2.2M jobs while it is further estimated that 1.8M jobs will be added during 2017. The current national unemployment rate (4.6%) is expected to drop 10 basis points to 4.5% by the end of 2017. Nebraska's current unemployment rate is 3.2%, which ranks fourth in the country. South Dakota has the lowest rate, 2.8%.

The national economy experienced a robust 2.9% growth in GDP during 3rd quarter, 2016, the strongest pace for an individual quarter in two years. Job growth, consumer expenditure increases and stronger exports are just a few of the reasons for the dramatic change. Although there now appears to be GDP growth momentum, the final estimate for 2016 is just 1.6%, which is unimpressive relative to 2015's 2.6%. We are said to be entering a "new normal" of slow growth. The 2017 GDP growth forecast is 2.2%. For the next five years, average annual growth in GDP is estimated to be 2.5%. In contrast, the U.S. average annual growth in GDP, 1948-2015, was 3.1%

However, there is greater optimism among investors, economists and policymakers that the economy will dramatically improve as the result of President-elect, Donald Trump's plans for tax cuts and less government regulation. This hope is driving the Stock Market to record gains with the Dow Jones Industrial Average now very close to 20,000.

As a measure to curb anticipated inflation, The Federal Reserve recently raised the Federal Funds Rate (the rate of which banks borrow from one another) 25 basis points in recognition of the 3rd Quarter increase of GDP, job growth and consumer expenditure increases. This is the

first increase in a year. Three more gradual increases are scheduled during 2017, provided the Economy continues to improve.

Although there appear to be signs of improvement, the Economy still remains somewhat fragile. There are still major concerns of inflation, consumer confidence, sustained job growth and a major stock market correction.

HEALTHCARE AND THE ECONOMY



The healthcare industry in the United States represents a significant portion of GDP, currently at 17.8%. This translates to approximately 3.2 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. More than 10% of jobs (1 of 9) are in healthcare. Healthcare, to be sure, plays a vital role in our economy.

Although there appears to be a slight slow down in healthcare cost growth, it still is rising more rapidly than the overall economy. Overall healthcare costs increased 5.8% during 2015, the fastest rate in eight years. As a matter of perspective, on average, \$9,990 is spent per individual on healthcare in this country. This figure of course, is substantively skewed because of treatment costs for the very sick people. Consumers continue to incur substantial increases in costs due to higher deductibles and premium costs. It is estimated that health insurance premium costs will rise on average 9% for those participating in the Exchange and 6.5% in Employer Sponsored Programs.

“1 of 9 jobs in America are in Healthcare.”



Healthcare and the Economy

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 to 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.

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National, Regional, and Local Healthcare Trends

- Increased consumer spending as a percentage of Gross Domestic Product (GDP)
- Consumer transition from being a "Passive Patient Purchaser" to "Active Healthcare Consumer"
- Provider shift from "Fee-For-Service" to "Value-Based Payment" Model

- Provider shift to "better patient experience"
- Continued improvement of Hospital System efficiency to address value-based care
- Increased emphasis of Hospitals for acute care only
- Increased emphasis of Ambulatory Care Centers ("ACC"), located in retail suburban settings, to serve consumers more cost efficiently and conveniently for outpatient services
- Increased employment of physicians by Hospitals
- Continued increase of alignment of larger Physician Groups to particular Hospital Systems
- Continued decline in the number of small Physician Groups
- Continued emergence of "Quick or Urgent Care" practices within existing general practice clinics (expansion of hours), in units that are in-line or freestanding locations built for the purpose and units within discount stores, grocery and drugstores and in corporate office settings
- Continued growth of Tele-Health programs that enable patients to receive diagnosis, schedule appointments and to comparatively shop for specific care
- Increasing electronic medical records use among physicians, nurses and consumers allowing for instant access to patient records
- More high tech data analysis for better patient care
- More behavioral healthcare demand

Sources: Bureau of Labor Statistics, AHA 2015 Environment Scan, The Washington Post, Deloitte University Press, The Atlantic, The New York Times, The Kiplinger Letter, USA Today, Forbes, Fortune, Omaha World-Herald, Midwest Real Estate News, Cushman & Wakefield 2016 Medical Office Investor Survey and various white papers from Cushman & Wakefield Healthcare Practice Group and Centers for Medicare & Medicaid Services (NHE Fact Sheet)

Current Medical Office Building Statistics

Space Availability



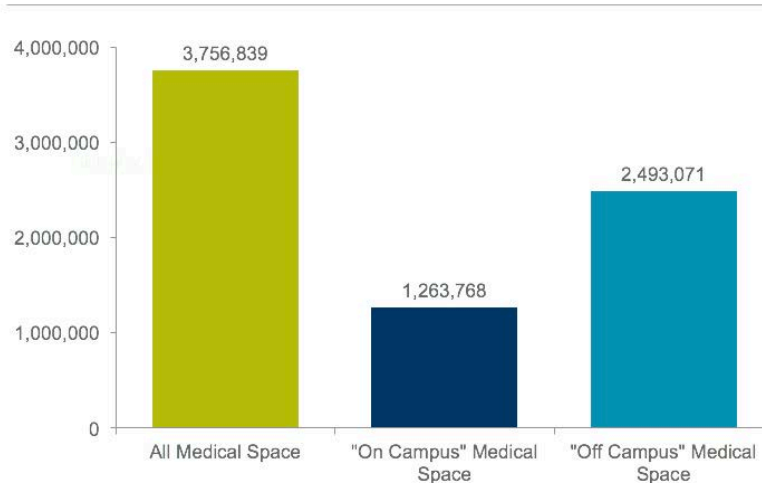
Among 128 buildings recently surveyed, there is approximately 3.8M SF of MOB inventory in the metropolitan area. Available space reflects approximately 200K SF or approximately 5.3 % of all medical space. Nationwide, average medical office space vacancy approximates 9%. In contrast, the traditional office building market in Omaha (non-owner-occupied) approximates 21M SF of inventory with 2.4M SF or 11.3% of space availability (vacant and sublease space). Omaha, to be sure, has a healthy Medical Office Building market.

Approximately 1.3M SF of total MOB space reflects “On-Campus” space, space located on Hospital campuses; while the remaining 2.5M SF, “Off-Campus” space. Space availability in each category reflects 60K SF (4.6%) and 140K SF (5.6%), 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.

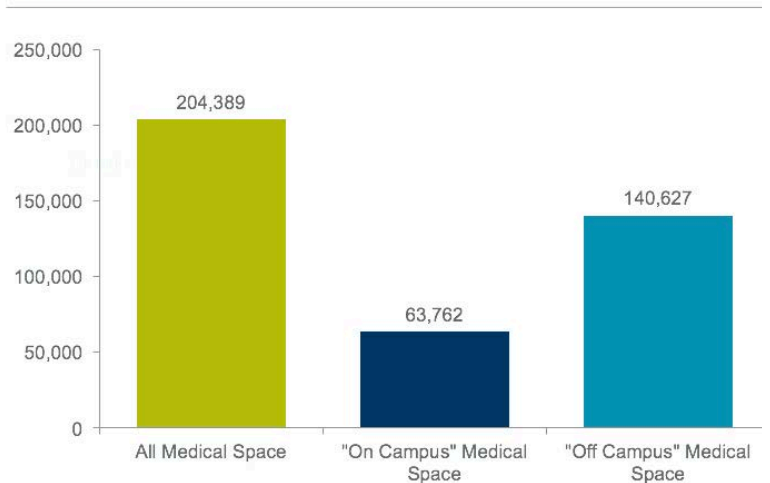
Total Market SF

Omaha, Nebraska



Available SF

Omaha, Nebraska



Current Medical Office Building Statistics

Investment Activity & Pricing



Other than Physicians Realty Trust's (DOCREIT) acquisition of a portion of CHI Health's buildings, there has been little investment activity in the local medical office building sector. DOCREIT recently bought

the Midlands Two Professional Building (Multi-tenant; 28,200 SF), 401 East Gold Road, Papillion, NE; Lakeside Wellness Center (Single-tenant; 44,800 SF), 16940 Lakeside Hills Plaza, Omaha, NE; Lakeside Two Professional Building (Multi-tenant; 67,700 SF), 17030 Lakeside Hills Plaza, Omaha, NE; and, Lakeside Three Professional Building (Multi-tenant; 21,000 SF), 16929 Frances Street, Omaha, NE. The portfolio sale price is reportedly \$27.5M or approximately \$170.07 PSF.

Nationally, over the last year, MOB rental rates have increased on average 5.4% versus traditional office buildings, 3.6%. Average capitalization rates continued to compress nationwide during 2016, albeit at a very slow rate, 6-12 basis points depending upon class of product and location whether on or off campus. Current national averages are 5.85% and 6.40% for Class "A" MOB's on and off campus, respectively; 7.30% and 8.25% for Class "B" MOB's, correspondingly. This is the smallest decline since 2010. Capitalization rates are now considered to be stabilized. Nationally, sales volumes have declined not because of demand but supply, particularly for Class "A", "Trophy" Buildings.

CHI Health recently sold the majority of the Creighton University Medical Center property, 30th and Cuming Streets, to NuStyle Development Corporation. NuStyle will be converting the property primarily to a 700-unit apartment project. The conversion will include retail space. The Omaha Public School System bought the remainder of property, a large parking lot, for the construction of an elementary school. Creighton University will be relocating its medical school to CHI Bergan Mercy, 72nd & Mercy Road, mid-2017.

Rental Rate & Sale Trends

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Source: Cushman & Wakefield 2016 Medical Office Investor Survey.

Full Service Rent PSF

Omaha, Nebraska



*Based upon 54 buildings surveyed.

Project Activity

Recent Project Completions

- Boys Town Pediatrics Clinic (7,000 SF), 180th & Harrison Streets.
- Nebraska Medicine Lauritzen Outpatient Center (170,000 SF; \$70M), 41st & Leavenworth Streets.
- Madonna Rehabilitation Hospital (250,000 SF; 110 beds; \$70M), 175th & Burke Streets.
- CHI Health Creighton University Clinic (80,000 SF; \$35M), 24th & Cuming Streets.
- Children's Hospital (10,000 SF; \$6.5M) space buildout for an outpatient surgery center at Village Pointe, 110 North 175th Street.
- Nebraska Medicine (\$21M) outpatient surgery and imaging center buildout and clinic expansion, Village Pointe, 111 North 175th Street

Projects under Construction

- 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 mid-2017.

- Nebraska Medicine Fred & Pamela Buffet Cancer Center (577,000 SF; \$323M), 44th & Dewey Avenue vicinity. The scheduled completion is mid-2017.
- Nebraska Medicine Clinic (13,000 SF), 86th & Giles Road. Scheduled completion is summer, 2017.
- Methodist Hospital Surgical Center Expansion & Renovation (\$90M), 84th & Dodge Streets. The scheduled completion is mid-2017.
- Methodist Women's Hospital Neonatal Intensive Care Unit (NICU) expansion (\$18M), 192nd & West Dodge Road. The scheduled completion is fall, 2017.
- Kountze Memorial Lutheran Church Medical Clinic (17,500 SF (4,400 SF Clinic area to be administered by Methodist Hospital ("Methodist Community Health Clinic")), 26th & Douglas Streets. The \$5M project will be completed mid-2017.
- Hope Lodge, a cancer-only lodging facility for patients and their families (32 rooms), 81st & West Dodge Road. Scheduled completion is fall, 2017.



Nebraska Medicine Lauritzen Outpatient Center



Madonna Rehabilitation Hospital

Project Activity

Announcements

- Children's Hospital Pediatric Clinic (8,000 SF), 147th & West Maple Road. Scheduled ground breaking is spring, 2017; scheduled completion is winter, 2017-2018.
- Methodist Health System's relocation of its corporate headquarters from 84th & Dodge Streets to 168th & Pacific Streets. Scheduled ground breaking for the three-story, 160,000 SF, building is mid 2017 with completion, late 2018.
- Children's Hospital Expansion & Renovation (500K SF Expansion & 100K SF Renovation; \$450M), 84th & Dodge Streets. The expansion project includes construction of a 10-story building to house relocation of the NICU from Methodist Hospital, new and expanded pediatric intensive care unit (PICU), surgical areas, a larger emergency department, a fetal care center and expansion of hematology and oncology. As a matter of perspective, this project represents a two-fold increase of Gross Leasable Area (GLA) on campus. Scheduled ground breaking is spring-2017; scheduled completion is spring, 2021.
- A new Veterans Administration (VA) Hospital, to provide primary care, specialty care and ambulatory surgery to be located on current VA campus, 42nd & Center Streets (157,000; SF \$136M). This is a scaled down project relative to the planned original 1M SF, \$560M project. This is a planned public-private partnership whereby funding will be provided by the VA (\$56M) and Private Donors (\$80M).
- Nebraska Medicine Clinic (13,000 SF), 168th & Giles Road. Scheduled ground breaking is spring, 2017; scheduled completion is winter, 2017-2018.
- Nebraska Medicine Global Center for Advanced Inter-professional Learning (134K SF; \$102M), 42nd & Emilie Streets. The facility will house the National Center for Health Security and Bio-preparedness, including quarantined 20-beds for observing people exposed to infectious diseases. In addition, the facility will contain the iEXCEL (Inter-professional Experiential Center for Enduring Learning) program. Groundbreaking is scheduled for spring, 2017 with completion late 2018.
- Children's Hospital and Nebraska Medicine have signed an agreement to "explore building on their existing relationship". The intention is not necessarily a merger, "but an outcome that would provide an integrated health system for children in the community".
- Catholic Health Initiatives (Englewood, CO), the 5th largest Health System (33 Hospitals) in the country, parent of CHI Health in Nebraska and western Iowa, signed a non-binding letter of intent to explore "aligning itself" with Dignity Health (San Francisco, CA), the 4th largest Health System (36 Hospitals).

Children's Hospital 10-story Expansion and Renovation

