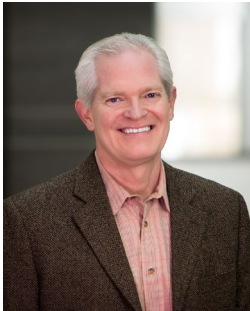


Medical Office Market Overview

Volume 6 | January 1, 2019



The Cushman & Wakefield / Lund Company Medical Office Report (“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, at least one-half of building must be occupied by medical users to be included in the inventory.

The Report is prepared by Richard Secor, Jr., Partner, Cushman & Wakefield/Lund Company, a 36-year veteran of the commercial real estate industry and a member of Cushman & Wakefield’s Healthcare Advisory Group. The Advisory 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.



The Economy

The national economy continues to improve. The unemployment rate is 3.7%, the lowest since December 2000 (3.9%). 24 states are currently below the national average. Hawaii has the lowest rate at 2.2%. Nebraska, tied for the fifth spot with three other states (Minnesota, North Dakota and Virginia), has a 2.8% rate. The national 2019 unemployment rate is projected to remain unchanged at 3.7%.

Gross Domestic Product (“GDP”) real growth (adjusted for inflation) for 2018 is projected to be 2.9%, a 26% increase over 2017 (2.3%). This is remarkable when comparing the average annual index for the previous five-year (2.2%) and ten-year (1.4%) periods. GDP real growth however, is projected to drop to 2.7% during 2019.

While unemployment and GDP statistics would suggest strong fundamentals for a healthy economy into the immediate future, fears of a recession loom as there are

concerns of higher interest rates, slowing housing market, an ongoing U.S. – China trade dispute and indications of a weaker global economy. As a result, 2018 was a year of major volatility in the stock market. The Dow Jones Industrial Average (“DJIA”) index, for example, in just thirteen (13) weeks, has dropped over 12.8% from its all-time high of 26,744 on September 21, 2018 to 23,327 on December 31, 2018. It is important to note however, that the year over year reduction accounts for a less remarkable 5.6% decline. The index on December 31, 2017 was 24,719.

In addition, as a means of targeting a 2% annual inflation rate, The Federal Reserve has raised the Federal Funds Rate (the rate of which banks borrow from one another) 25 basis points for the fourth time this year to 2.5%. Additional increases are anticipated during 2019 with an estimated year-end rate of 3%.

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

450 Regency Parkway, Suite 200
Omaha, NE 68114
+1 402 393 8811
lundco.com

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Current Medical Office Building (“MOB”) Statistics, Omaha, Nebraska



Space Availability

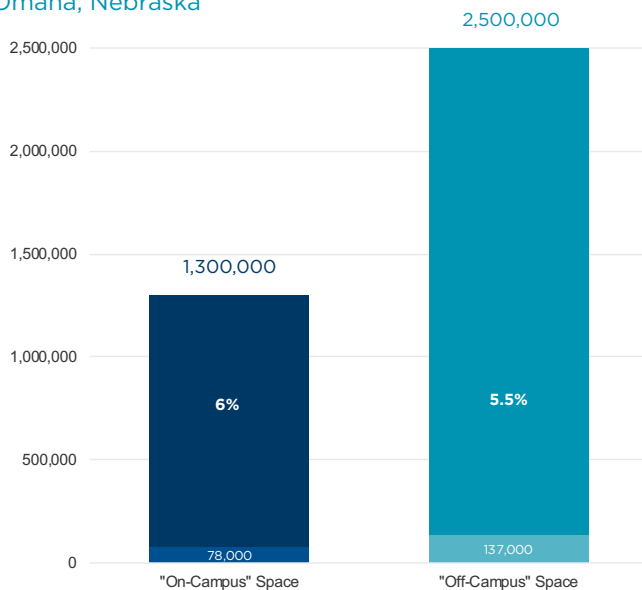
Among 130 buildings recently surveyed, there is approximately 3.8 million square feet (“3.8M SF”) of MOB inventory in the metropolitan area. Available space reflects approximately 215 thousand square feet (“215K SF”) or approximately 5.7% of all medical space. In contrast, nationwide, average medical office space vacancy approximates 7.6%. Omaha, to be sure, has a healthy Medical Office Building market.

Approximately 1.3M SF (34.2%) of total MOB space reflects “On-Campus” space, square footage located on Hospital campuses; while the remaining 2.5M SF (65.8%), “Off-Campus” space. Space availability in each category reflects 78K SF (6%) and 137K SF (5.5%), respectively.

It is important to note that several hospitals continue to categorize some of their current vacant space in their On-Campus MOBs as “unavailable” as they are reserving it either for temporary relocation space to accommodate displaced medical operations due to construction activity or are reserving such space for long-term use.

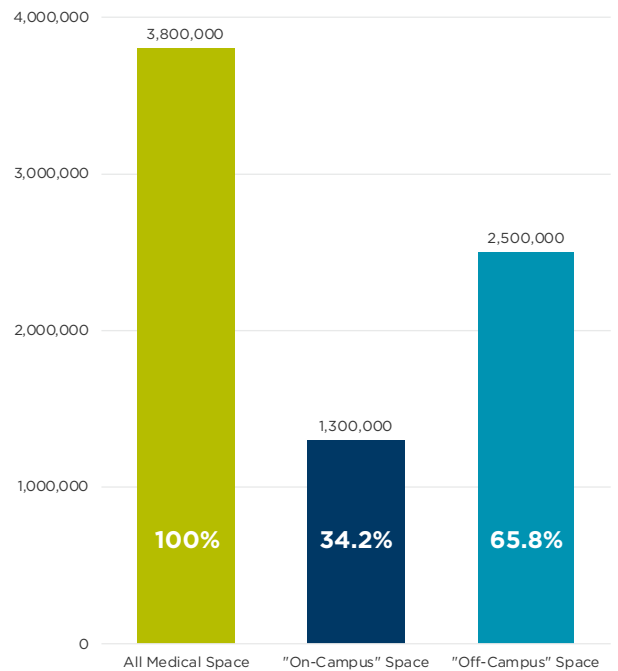
Campus Available SF

Omaha, Nebraska



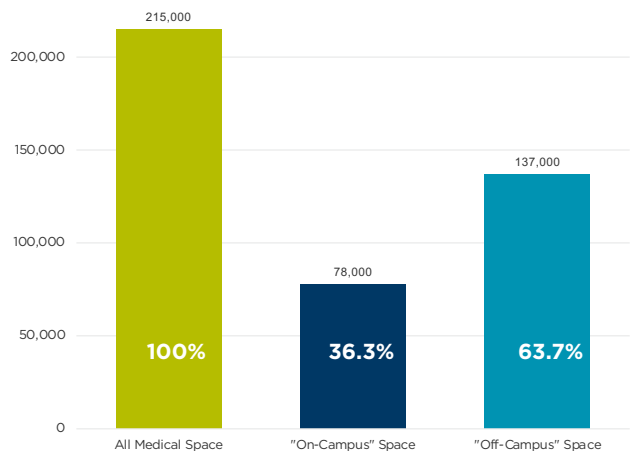
Market SF

Omaha, Nebraska



Market Available SF

Omaha, Nebraska





Investment Activity & Pricing

The Urology Center acquired a two-story, 12,526 square feet (“SF”) facility located at 105 North 90th Street. Sale Price was \$1,791,200 or \$143.00 per square foot (“PSF”). This acquisition will complement Buyer’s current 17,967 SF facility located next door at 111 South 90th Street. In addition, an investment group acquired and renovated the four-story, 14,960 SF Dundee Professional Building, 119 North 51st Street. Sale Price of the building, originally constructed in 1967, was \$890,000 or \$59.49 PSF. Coincident with the renovation, Omaha OB/GYN Associates, PC made lease commitment to Building for approximately 6,300 SF.

Nationally, 2018 saw a return of cap rate compression versus a year ago, when after a seven-year streak of year-over-year declines, average capitalization rates increased 10-15 basis points. The 2017 increase was mainly attributed to uncertainty surrounding the new administration and the fate of the Affordable Care Act. That increase was short-lived however, given the continued appetite for “cycle-resilient” real estate investment that medical and healthcare real estate offers. Cap rates are lower today by as much as 40 basis points for off-campus MOB’s versus 15-20 basis points for on-campus MOB’s. Investor recognition of the “retailization” of healthcare, a location emphasis of MOB’s in affluent suburban markets that are closer to the patients and creditworthiness of tenants, is what is driving the premium pricing for off-campus medical product. Current national averages are 5.80% and 6.10% for Class “A” MOB’s on and off campus, respectively; 7.25% and 7.95% for Class “B” MOB’s, correspondingly. MOB’s are still considered a favored asset class among all commercial real estate sectors given the strong demand for office space due to principally an aging population needing healthcare services. By 2030, all baby boomers will be older than 65, representing 20% of the U.S. population. This 65-and-older age segment is expected to live longer than ever before, which will undoubtedly result in a rise in healthcare related services.

Sale Trends

“2018 saw a return of cap rate compression versus a year ago, when after a seven-year streak of year-over-year declines, average capitalization rates increased 10-15 basis points. Cap rates are lower today by as much as 40 basis points for off-campus MOB’s versus 15-20 basis points for on-campus MOB’s.”

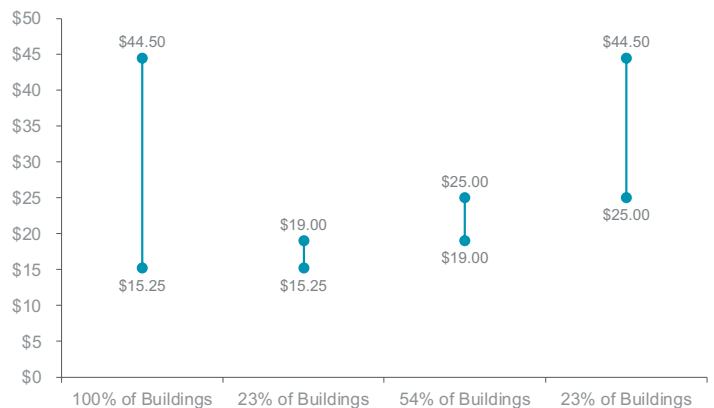


Rental Rates & Trend

General local on-campus MOB full service rental rates range from \$18.50 to \$31.50 PSF with off-campus \$15.25 to \$44.50 PSF. The significant lower rate range, particularly in the off-campus sector, reflect older MOB’s, containing 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. National rental rates have increased 1.7% the past year.

Full Service Rent PSF

Omaha, Nebraska



*Based upon 56 buildings surveyed.



Project Activity



Recent Project Completions

- Hope Lodge (32 rooms), a cancer-only lodging facility for patients and their families, 8030 Farnam Street.
- Methodist Health System new corporate headquarters (160K SF), 168th & Pacific Streets.
- Nebraska Medicine Fontenelle Primary Clinic (13K SF), Omaha Home for Boys Campus, 5005 Ames Avenue.
- Renovation of Dundee Professional Building (15K SF), 119 North 51st Street.
- Nebraska Organ Recovery, 3867 Leavenworth Street, a 22K SF facility to facilitate organ & tissue recovery for transplantations.



Projects under Construction

- 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. The expansion will enable the Hospital to expand bed count from 140 to 250. As a matter of perspective, this project represents a two-fold increase of Gross Leasable Area (GLA) on campus. Scheduled completion is spring, 2021.

- Veterans Administration (VA) Hospital Clinic Facility (157K SF), VA Campus, 42nd & Center Streets: The facility will provide primary care, specialty care and ambulatory surgery. The development is a public-private partnership between the Department of Veterans Affairs and Heritage Services, a local non-profit. The VA and Heritage Services are providing \$56M and \$30M, respectively, for the \$86M development. Scheduled completion is summer, 2020.
- Nebraska Medicine Davis Global Center for Advanced Inter-Professional Learning (192K SF; \$119M), 42nd & Emile 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 Inter-Professional Experiential Center for Enduring Learning ("iEXCEL"). Scheduled completion of the four-story building is July 2019.

Nebraska Organ Recovery

Methodist Health System's new corporate headquarters

Nebraska Medicine Fontenelle Clinic



Announcements

- The Davis Group's intended development of a two-story, approximate 50K SF Medical Office Building, at Southport, 126th & Giles Road, La Vista, NE. The firm is currently marketing the site to various Hospital Systems and Physician Groups. The Project will need to be substantially pre-leased before construction commences. This is the first of two phases planned for the specific site area.
- Methodist Hospital and Fremont Health have formally affiliated with one another. The new entity, Methodist Fremont Health, is part of the Methodist Health System. Facilities in Fremont, NE and surrounding communities, include the 81-bed Fremont Health Medical Center, several primary and specialty care clinics and a long-term care facility.
- Dignity Health (San Francisco, CA) and Catholic Health Initiatives (Englewood, CO), parent of CHI Health in Nebraska and western Iowa, are now expected to close its merger January 31, 2019. The merged system would represent the largest not-for-profit hospital system by revenue (\$28B). Dignity has 39 hospitals; CHI, 100. While the Health System will have a new name, CommonSpirit Health, it will continue to be known locally as CHI Health for the foreseeable future.
- Methodist Hospital will be doubling the size of its Emergency Room Department from 12 to 24 rooms beginning in 2019. The \$25M Project is expected to occur in six phases with completion scheduled for 2022.

