



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, 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., Cushman & Wakefield/The Lund Company, a 40-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**

Remarkably, the US Economy continues to stand resilient despite the Fed's cumulative 4.5% increase in its federal funds rate during 2022. The most recent lower rate hike of 0.5% is a sign that inflationary pressure is weakening. Inflation peaked at 9.1% in June, while the December report indicates a 29% decline to 6.5%. There's still substantial decrease needed as the Fed's ultimate target is 2%. It is anticipated that the Fed will increase the federal funds rate cumulatively another 0.75% during 2023, raising the bank borrowing rate to 5.0% - 5.25%.

Surprisingly, unemployment continues to be low at 3.5%. Jobs are plentiful. There are two job openings for every person seeking work. The consensus among economists, however, is that a global recession is likely sometime in 2023. The U.S. will not be immune. There are five primary reasons here and abroad why a recession is looming:

1. The surging value of the U.S. dollar is decreasing the value of currencies in other countries creating additional inflationary pressure, necessitating governmental intervention to curb inflation, resulting in higher interest rates and business slow down.
2. American shoppers are holding back because of inflation and wages that are not keeping up. Shoppers are having to deal with higher housing costs due to rising interest rates, and escalating prices for

gas, energy, and food, all having the effect of less expenditures for other goods and services. Consumer expenditures are a major driver for any economy and materially less spending dramatically affects an economy.

3. Corporations are beginning to tighten belts with new hiring freezes and some layoffs, and more planned.
4. Wall Street has been hit with a whiplash. The stock market experienced its worst year since 2008. The Dow Jones Industrial Average, S&P 500 and NASDAQ Composite indices are down 8.8%, 19.4% and 33.1%, respectively, since a year ago.
5. World events, to be sure, are another reason for the forthcoming recession. The Russia-Ukraine war, for example, is creating supply shortages of imported oil and curtailing exports to Russia, having a negative impact on our economy. The recent United Kingdom Prime Minister resignation due to misguided policies, has made a bad economy worse in the affiliated countries.

While the rest of the world may get hit hard by the forecasted recession, it is likely that the U.S. will endure because of its strong labor market and resilient consumers. Although 2023 Real GDP growth for the U.S. is expected to be just .5%, the jobless rate is expected to only be 4.6%, which will moderate recessionary impacts to the economy. The recession is predicted to last nine months.

Richard Secor, Jr.
(402) 548 4010
richard.secor@lundco.com

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



HEALTHCARE

Healthcare Economy

The emphasis of good health in all countries improves the quality of life for its citizens. Health is also an important determinant of economic development. A healthy population means higher productivity. It is a catalyst to economic growth, leading to higher income per capita and of course, affordability to meet financial obligations and/or to just live.

Rising medical supply/equipment and labor costs are pervasive in the healthcare industry. Insurers are generally proposing 10% across the board rate increases to address rising healthcare costs. The average cost that U.S. employers pay for their employees' health care will increase 6.5% to more than \$13,800 per employee in 2023.

Healthcare revenues are back to 95% of pre-pandemic levels. Margins, however, are less. Median labor expense, for example, has increased \$1,500 per discharge.

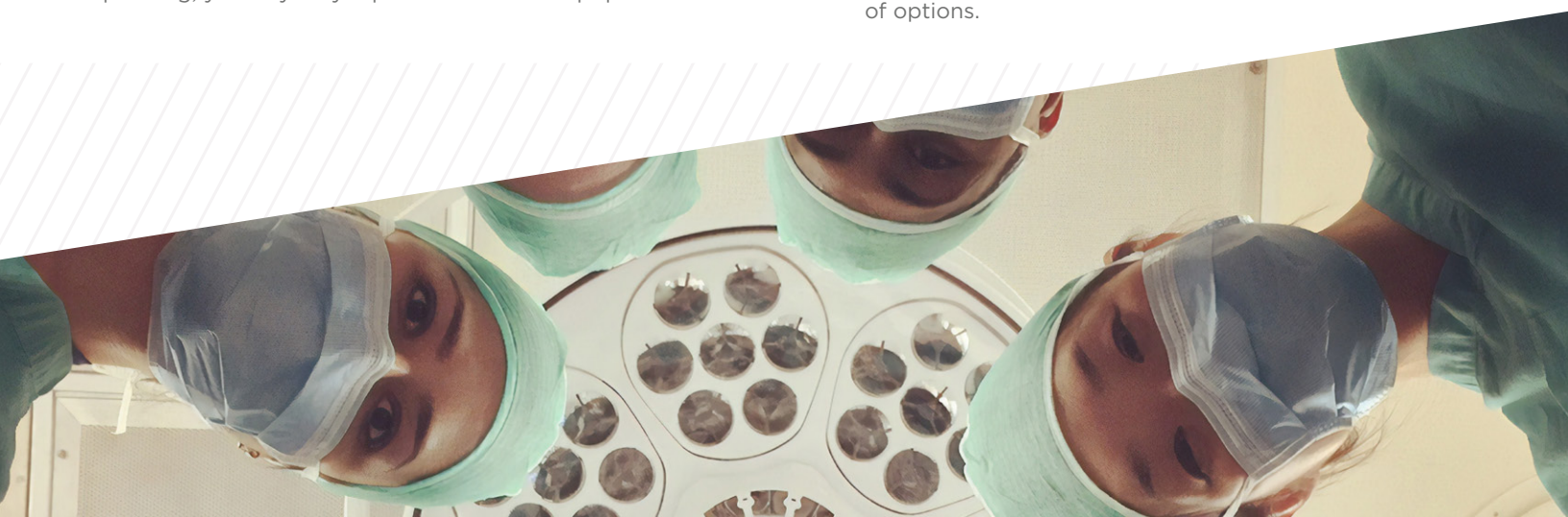
Healthcare, to be sure, is not only vital to living but is a large part of our economy. U.S. national healthcare expenditures approximate \$4 trillion. Healthcare spending is estimated to increase at an average annual rate of 5.5% through 2027, reaching nearly \$6 trillion by 2027, at which time healthcare will represent approximately 20% of the U.S. GDP. The rapid growth in healthcare spending is attributed to the aging U.S. population and the higher-than-average inflation on the price of health-care goods and services. By 2030, one in every five people in the U.S. will be 65 or over. Interestingly, today people over 65 account for 36% of all healthcare spending, yet they only represent 16% of the population.

The healthcare industry is a large employment sector.

Nearly one in every 10 people employed in the economy have jobs in healthcare and that ratio is expected to rise in the future.

Eight trends are emerging:

1. Artificial intelligence is being used to assist clinicians in their practices.
2. Personalized approaches are being used to customize medical treatment for an individual patient's need.
3. Patient wearable devices are enabling consumers the ability to monitor their health and habits.
4. Virtual patient experiences are emerging for more efficient and more hygienic mode of treatment. In addition, remote patient monitoring programs are reducing the need for continued hospitalization or new admissions.
5. Social determinants of health are becoming more and more recognized in understanding how non-medical factors influence people's health.
6. Mental health is becoming a priority since many of today's chronic conditions are primarily caused by behavior.
7. Employers are setting up direct-to-employer arrangements with healthcare providers.
8. Unbundling of coverage is allowing consumers to choose specific levels of coverage from a large menu of options.





SPACE AVAILABILITY

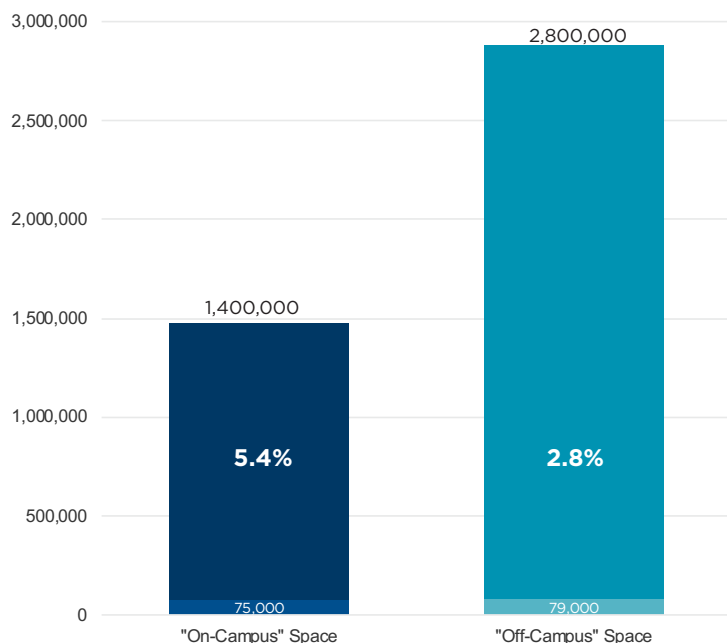
Among 151 buildings recently surveyed, there is approximately 4.2M SF of Medical Office Building "MOB" inventory in the metropolitan area. Available space reflects approximately 154K SF or approximately 3.7% of all medical space. In contrast, nationwide, average medical office space vacancy approximates 8%. Omaha, to be sure, continues to possess a healthy MOB market.

Approximately one-third (1.4M SF) of total MOB space reflects "On-Campus" space, square footage located on hospital campuses; while the remaining two-thirds (2.8M SF), "Off-Campus" space. Space availability in each category reflects 75K SF (5.4%) and 79K SF (2.8%), respectfully.

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.

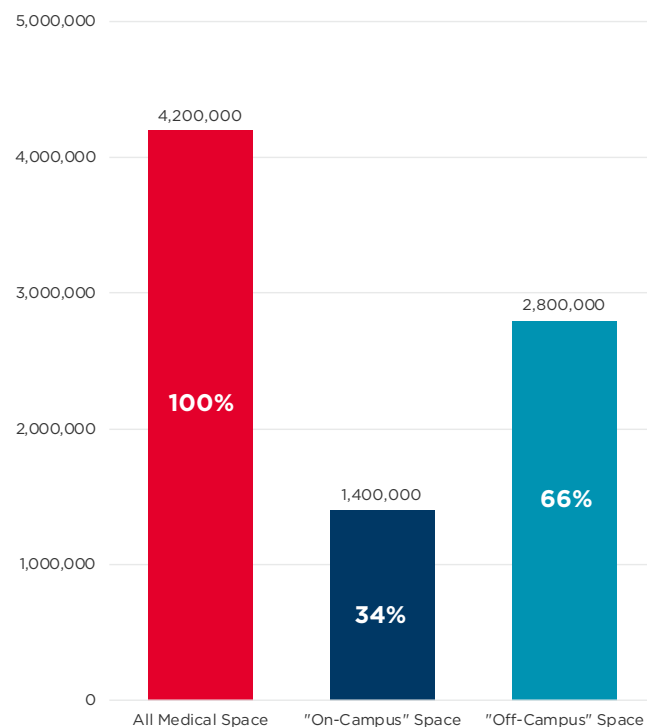
Campus Available SF

Omaha, Nebraska



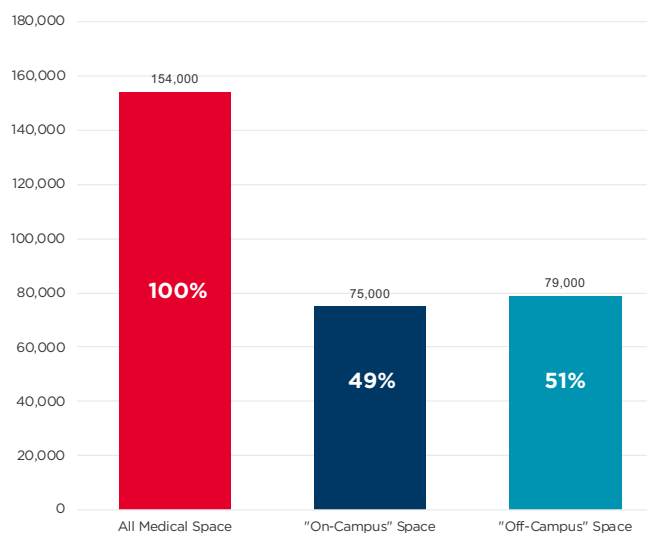
Market SF

Omaha, Nebraska



Market Available SF

Omaha, Nebraska



Note: All numbers have been rounded.

**INVESTMENT ACTIVITY & PRICING***Local Investment Activity & Pricing*

Five significant medical office building sale transactions occurred during 2022. Two separate entities acquired the recently developed micro hospitals, Millard Family Hospital (9.6K SF), 14404 Stoney Brook Boulevard and Papillion Family Hospital (21.9 K SF), 529 Pinnacle Drive. The consideration for each was \$10.2M (\$1,063 PSF) and \$21.5M (\$982 PSF), respectively. In addition, a local investment group has acquired the Midwest OBGYN/Boys Town Pediatrics building (27.8 K SF), 7205 West Center Road, for \$5.5M (\$198 PSF). Also, a local entity has acquired the Oak View Medical Office Building (77K SF), 2727 South 144th Street for \$8M (\$104 PSF). The transaction did not include land area. Finally, a local investor acquired the Vinton Medical Campus, 3201 & 3213 South 24th Street. The two-building complex consists of a 5.7K SF ambulatory surgery center and 7.1K SF MOB. The consideration was \$2.75M (\$215 PSF).

National Investment Activity & Pricing

MOBs 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. As a result, there remains a strong appetite for “cycle-resilient” real estate investment that medical and healthcare real estate offers. The industry has more favorable occupancy than in any other real estate sector, 92%. In contrast the general office market is 84%. Investors are moreover attracted to the “retailization” of healthcare, a location emphasis of MOBs in affluent suburban markets that are closer to the patients and to the creditworthiness of tenants. These two attributes continue

to drive premium pricing for off-campus medical product.

Investors are now considering a broader range of healthcare users and tenant types, including behavioral health. Although telehealth has enjoyed a recent surge in popularity, the widespread adoption and use has not substantially altered demand for medical office space. Telemedicine is a great supplement, but not a replacement for traditional medical practice. Physicians will still require medical office space to perform traditional office visits.

Buyer profile continues to transition from a market dominated by institutional and Public/REIT buyers (28%) to the current market that is dominated by more non-traditional private equity and private investors (58%). The balance of the investor pool for medical office buildings are users (14%).

While individual asset sales still make up most sale transactions, an increasing trend of portfolio sales continue to occur, comprising approximately 25%. Of interest is the recent merger of Healthcare Trust of America (HTA) and Healthcare Realty Trust (HRT), the industry’s largest deal during 2022. The merger resulted in a combined entity with over 700 healthcare properties, representing approximately 44M SF and \$4.6B in value.

Capitalization rates continue to become compressed. All Class A & Class B On-Campus and Off-Campus product universally experienced a 20-basis point contraction versus a year ago. Current national averages are 5.5% and 5.8% for Class A product On and Off-Campus, respectively; 7.2% and 7.9% for Class B product, correspondingly.

Capitalization rates are expected to remain stable and may even compress slightly more in the future as more capital rotates from the more volatile office/retail/hospitality sectors to medical office.

“Nationally, Class A and Class B on-campus and off-campus capitalization rates experienced a 20-basis point contraction versus a year ago.”



LOCAL RENTAL RATES

Of reported rents of 64 buildings, representing 42% of total buildings surveyed, local On-Campus MOB full-service rental rates range from \$18.50 to \$31.00 PSF with Off-Campus \$16.50 to \$77.50 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, particularly those that exceed \$35.00 PSF reflect newer specialty medical space. The highest reported rent reflects two micro-hospitals that recently came online. Local rental rates have generally followed national rental rate increases of 2-3%/year.

Full Service Rent PSF

Omaha, Nebraska



*Based upon 64 buildings surveyed.



PROJECTS UNDER CONSTRUCTION

- Noddle Companies is nearing completion of the **Nebraska Medicine, 90K SF Outpatient Specialty Center, Village Pointe Health Center, east of 111 N. 175th Street**. The building will expand existing clinical services and add

new services. The project is a part of the expansion and redevelopment of the UNMC Physicians Village Pointe Medical Office Campus that will ultimately contain approximately 337K SF of MOB space and two parking garages. Expansion/redevelopment costs are estimated to be \$100M. The expected delivery date is early/mid 2023.

- Construction continues on the **C.L. Werner Center for Health Sciences Education, Creighton University School of Medicine, SEC Cuming Street & Highway 75**. The \$75M five-story facility will serve as the new home of Creighton University's School of Medicine and as a hub for all the University's health sciences schools and colleges. Programs will include medicine, nursing, pharmacy, physical therapy, occupational therapy, behavioral health and other disciplines via classrooms, a simulation center, study areas, labs, and administrative areas. It is expected that 5,900 students, faculty and staff will use the center annually. Completion is slated for Fall 2023.
- The MD West One Medical Office Building, Fountain Ridge Office Park, NWC 192nd & Burke Streets**, will be completed sometime during Spring 2023. The single-story, 38K SF building is a joint venture with R & R Realty, Des Moines, IA, and MD West One of Omaha. The medical group provides orthopedic, neurosurgery and spine care services.
- A summer 2023 delivery is envisioned for the **CHI Health Clinic Elkhorn (28.7K SF), 205th & Main Street, Elkhorn**. The facility will offer primary care, physical therapy, behavioral health services and specialty care, as well as imaging services, a laboratory, and a retail pharmacy.

“Local rental rates have generally followed national rental rate increases of 2-3%/year.”

- Construction is well underway on the new **Community Alliance, 120K SF, Headquarters, 72nd & Mercy Road**. The building will be three times the size of the firm's existing facility, 41st & Leavenworth Streets. The development is being financed with a \$60M capital campaign that includes a portion of the Nebraska \$40M American Rescue Plan Act (ARPA) funds. When completed, the facility will allow Community Alliance to expand its operations in primary care offerings, mainly to allow doctors to work alongside mental health providers. It is hoped that the facility will become a Certified Community Behavioral Health Center. The building will also provide additional space for rehabilitation program and access to employment and education services, including family and peer support, and dedicated health and wellness area. Construction completion is scheduled for late 2023.
- Construction has just begun on the **D & J Medical Office Building, 11902 West Center Road**. The 22.7K SF facility will contain a dental office and medical office space. Project completion is planned for early 2024.

MD West One, 192nd & Burt Street

C.L. Werner Center for Health Sciences Education, Creighton University School of Medicine, SEC Cuming Street & HWY 75



ANNOUNCEMENTS

- **Behavioral Health Facility for Children, 104K SF, 85th & West Dodge Road**: The \$89M facility will be operated by Children's Hospital and Medical Center and will contain 38 inpatient hospital beds, a pediatric mental health urgent care center, a first-in-the-region behavioral health emergency assessment center, an expanded partial hospitalization program and a pediatric primary care clinic with outpatient mental health services. \$16M of funding is coming from Nebraska \$40M ARPA funds; \$15M from Children's Hospital and Medical Center; and \$58M, from the private sector. Groundbreaking is slated for spring or summer 2023 with project completion scheduled to be Spring or Summer 2025.
- Nebraska Medicine ("NM") and the University of Nebraska Medical Center ("UNMC") are partnering on the **Saddle Creek Road development, bounded by 48th Street to the west, Farnam Street to the north and Leavenworth Street to the south**. An **Innovation Hub** and **Administration Tower** will anchor the approximate 30-acre development. In addition to facilities for various office use, it is envisioned that a mixed-use campus will evolve containing recreational green spaces alongside restaurants and retail operations. When completed over the next 10-20 years, the project will contain 1.75M SF of building space, representing an approximate 20% growth of the medical campus' current 9M SF.

- **Innovation Hub**

The former Omaha Steel Works facilities will be transformed into a \$45 million project to be known as “The Catalyst”, to contain approximately 170K SF. This is a joint venture with a private developer. The existing two-structure 140K SF facility will be renovated and expanded into a mixed-use innovation technology campus that will include a food hall, market, an event center, and office space. The innovation hub portion, comprising approximately 50K SF and principally funded by NM and UNMC, will house several existing University of Nebraska Medicine operations, including UNeMed, UNMC’s tech transfer office, and UNeTech, which coordinates the creation of business startups from UNMC and University of Nebraska at Omaha research. In addition, other occupants planned include UNeHealth, UNMC’s contracting and fiscal arm for industry-funded clinical trials, and UNO’s Nebraska Business Development Center. Additional uses will include space for new health technology start-ups. It is hoped that the project when completed will eventually generate \$1 billion in economic impact for the City of Omaha. Construction completion is scheduled Spring 2024.

- **Administration Tower**

A new 350K SF administrative tower complete with a parking garage, will be constructed near the southwest corner of Farnam Street and Saddle Creek Road. The

tiered complex could stretch as high as 17 floors and will house critical functions for the University Medical Center, such as providing workspace and collaboration for clinical faculty as well as serve as the administrative headquarters for many university and health care system functions. The roof of the low-rise parking garage will resemble a small park that extends east and over busy Saddle Creek Road. Serving as a pedestrian crossing, the landscaped bridge will link the new development to the existing UNMC campus.

- The University of Nebraska Medical Center has announced preliminary plans for a \$2.6B project that would effectively serve local patients for a variety of needs while potentially caring for victims of pandemics and natural disasters. The project, identified as “Project NeXT”, will be a partnership between UNMC and Nebraska Medicine. The Nebraska Legislature has approved \$300M in contingency funding, provided those resources are matched by \$1.3B in private donations and Federal Government funding. The City of Omaha has pledged \$93M toward the project. Omaha is one of five pilot sites for the United States to develop a federal program to bolster the Nation’s disaster response capacity. This is a key step toward the project’s reality. No timetable for construction commencement nor completion has been announced.



UNMC Innovation Hub



UNMC Administrative Tower