



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 Lincoln, 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.

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**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.

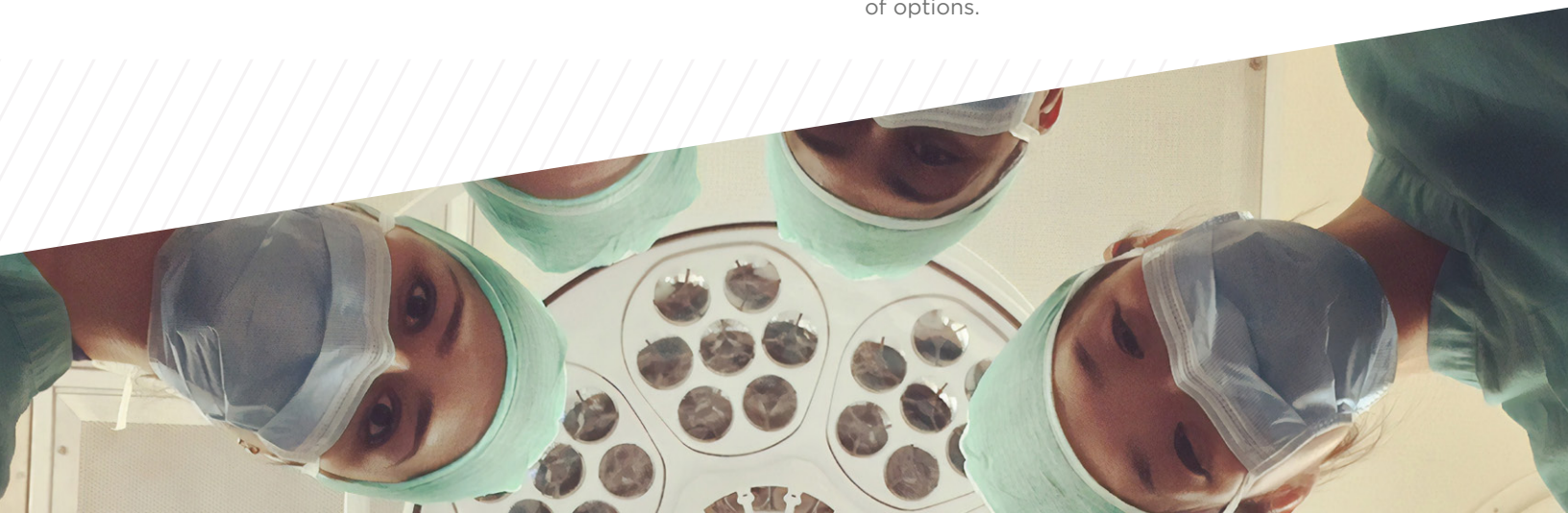
Healthcare, to be sure, is not only vital to living but is a large part of our economy. U.S. national healthcare expenditures approximate \$4 trillion. Healthcare spending is estimated to increase at an average annual rate of 5.5% through 2027, reaching nearly \$6 trillion by 2027, at which time healthcare 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.





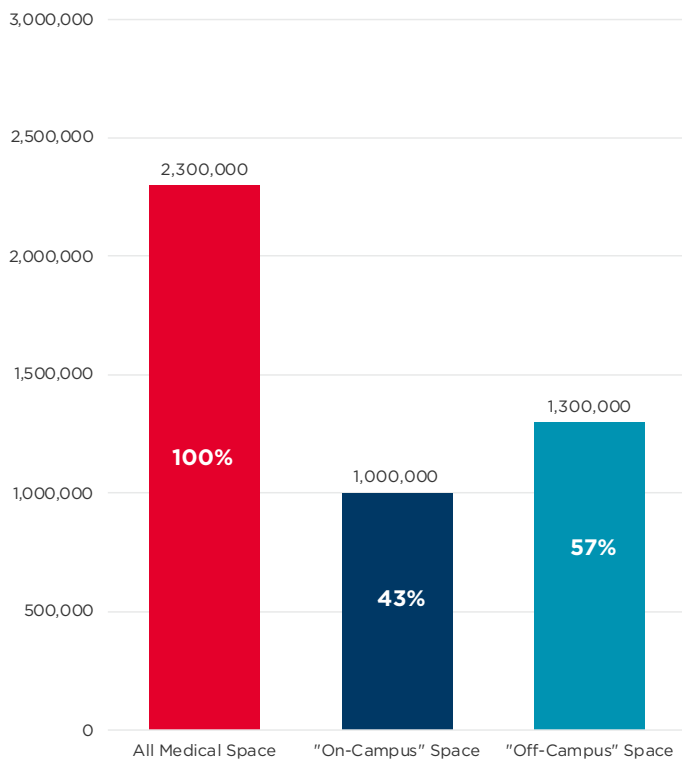
SPACE AVAILABILITY

Among 90 buildings recently surveyed, there is approximately 2.3M SF of Medical Office Buildings “MOB” inventory in the metropolitan area. Available space reflects approximately 117K SF or approximately 5% of all medical space. In contrast, nationwide, average medical office space vacancy approximates 8%. Lincoln, to be sure, has a healthy MOB market.

Approximately 43% (1M SF) of total MOB space reflects “On-Campus” space, square footage located on hospital campuses; while the remaining 57% (1.3 M SF) “Off-Campus” space. Space availability in each category reflects approximately 58K SF (5.8%) and 59K SF (4.6%), respectfully.

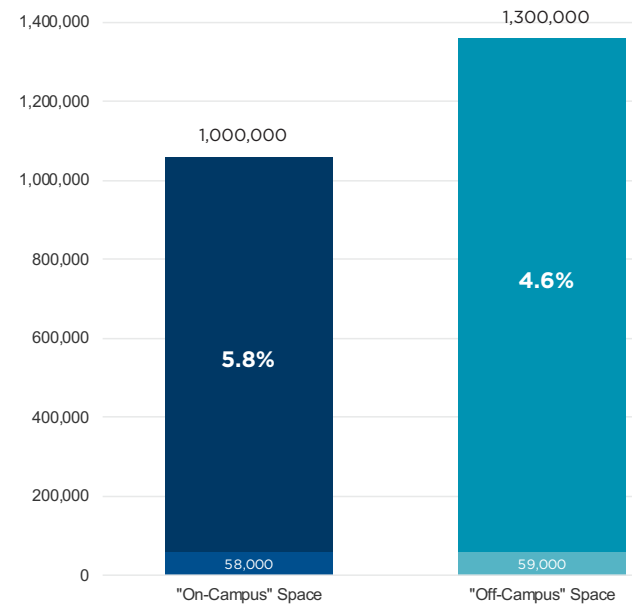
Market SF

Lincoln, Nebraska



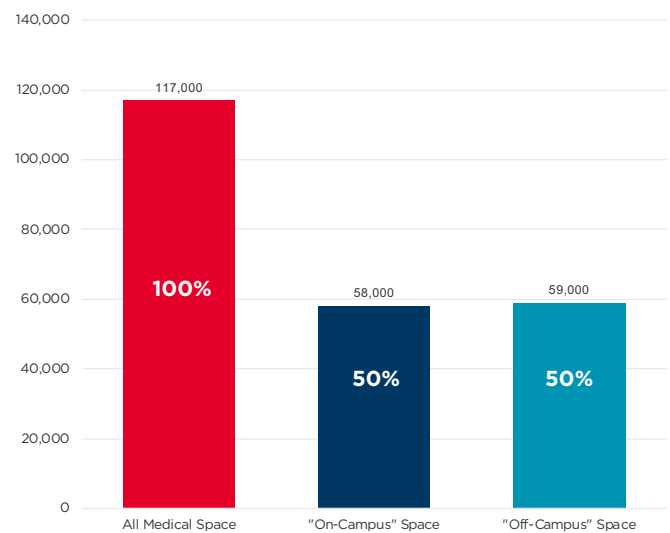
Campus Available SF

Lincoln, Nebraska



Market Available SF

Lincoln, Nebraska



Note: All numbers have been rounded.

**NATIONAL INVESTMENT ACTIVITY,
TRENDS & PRICING***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.

**RENTAL RATES & TRENDS**

Of the reported rents, on-campus MOB full-service rental rates range from \$22.00 PSF to \$28.25 PSF with off-campus \$17.25 PSF to \$28.50 PSF. The surveyed rents generally do not reflect specialty medical space (i.e., surgical, dialysis, etc.) as this space commands a higher full-service rent due to improvement costs. Local rental rates have generally followed national rental rate increases of 2-3%/year.

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



COMPLETED PROJECTS

- **CHI Health** has completed construction on its clinic located at 40th Street & Yankee Hill Road (34,668 SF). Services at the recently opened clinic include full-time primary care, behavioral health care, cardiology and orthopedic specialty clinics, diagnostic and lab testing, and physical and occupational therapy. In addition, the facility provides urgent care services.
- **Bryan Health** recently finished its fourth and final phase of the \$47M **Bryan East Campus** expansion project. The recent phase added two specialty procedure rooms for bronchoscopy procedures and 12 new surgery prep/recovery rooms to merge the needs of all surgery patients into one space.
- **Nebraska Neurosurgery Group** has completed construction of its new offices and surgery center at 27th Street and Old Cheney Road. The two-story 22K SF medical office building contains a 13K SF ambulatory surgical center on the upper level and 9K SF of clinic space on lower level.
- **Nebraska Pain Institute** has opened its new offices at Nebraska Highway 2 & Pine Lake Road. In addition to the firm's space, an ambulatory surgery center and space for additional medical office users comprise the approximate 40K SF facility.



PROJECTS UNDER CONSTRUCTION

- **Bryan Health** is creating a new angiography suite and a new inpatient dialysis center at its west campus.



Bryan Health South Campus: *Comprehensive Community Cancer*

- Construction continues on the **Bryan Health – Southeast Nebraska Cancer Center \$45M (April Sampson Cancer Center, 40th & Rokeby Streets)**. The 140K SF comprehensive community cancer center will provide treatment, care, and counseling for cancer patients. The 10-acre site is part of the 29-acre Bryan Hospital controlled area that may also contain approximately 180K SF of future medical office space. The site area will evolve to become “Bryan Health South Campus”. The site abuts other development ground that someday will contain 180 residential units and commercial space. The entire development area is known as “Grandale South”. A summer 2023 construction completion date is planned for the cancer center.
- **Madonna Rehabilitation Hospitals** has made significant progress on the \$57M expansion and renovation of its Lincoln campus. The entire project, which includes a 112,000 SF expansion that will add a new patient wing, state-of-the-art conference center, new cafeteria and dining area, gardens and green space, remodeled therapy gyms and 59 new private rooms, won't be fully complete until spring 2023.



ANNOUNCEMENTS

- **CHI** has announced plans for a new **Women's Health Center** in the medical office plaza space at St. Elizabeth, where the current mammography center is. The new center will offer mammography, ultrasound and bone density screenings and will house the multidisciplinary breast clinic, which offers genetic testing and a team-based approach to cancer care.



Madonna Rehabilitation Hospitals