

OMAHA, NEBRASKA MEDICAL OFFICE MARKET OVERVIEW

Volume 2



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Cushman & Wakefield / The Lund Company's 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 for 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 32 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. Activation, particularly with consumer registration on the Exchanges has been slow and burdensome. With all its criticisms, the fact that there has been an approximate 25% decline in the number of uninsured (estimated to reflect 8-11M 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. 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 are beginning to feel budget constraints due to less overall revenue, healthcare reform readiness costs, softer demand and the shift from a payment system of fee-for-service to value-based. These are to be sure, challenging times for all businesses, but in particular, the medical industry.

THE ECONOMY

The national economy continues to improve. While 2014 increase of Gross Domestic Product ("GDP") is estimated to be 2.2%, the Economic Outlook suggests much more vibrant growth of 3.3% during 2015.

Unemployment at the start of 2014 was 6.7% and is now 5.6%, a six-year low. Nebraska, along with Utah, ranks third among all states regarding a favorable unemployment rate (3.4%). Only North Dakota and South Dakota have superior rates (2.8%).

The current oversupply of oil due to lessening Asia demand and U.S. production via hydraulic fracturing and horizontal drilling has profoundly impacted our economy as of late. Notably, the approximate 50% decline in the price of oil from \$107/barrel in June to \$55/barrel currently has provided \$150B of potential consumer spending power, a major driver of our economy.

Because of all of the positive leading indicators, The Federal Reserve has stopped buying bonds, but continues to hold the federal funds rate at 0%. The Federal Reserve will be meeting on March 18, 2015 to discuss whether or not to raise the interest rate. The Fed continues to maintain that the federal funds rate will not increase if there continues to be uncertainty in the economy.

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.



Sources: Bureau of Labor Statistics, AHA 2015 Environment Scan and USA Today

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Omaha, Nebraska

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.

NATIONAL, REGIONAL & 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-corporate 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)

Sources: Bureau of Labor Statistics, AHA 2015 Environment Scan and USA Today



CURRENT MEDICAL OFFICE BUILDING "MOB" STATISTICS – OMAHA, NE

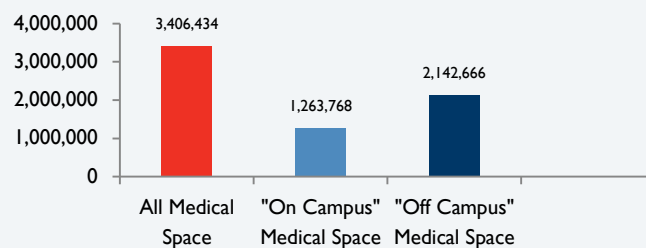
SPACE AVAILABILITY

Among 116 buildings recently surveyed, there is approximately 3.4 million square feet (msf) of MOB inventory in the metropolitan area. Available space reflects approximately 200K sf or approximately 6% of all medical space. In contrast, the traditional office building (albeit non owner-occupied) market in Omaha approximates 20.8 msf of inventory with 2.7 msf or 13% of space availability. Nationwide, average medical office space vacancy approximates 9.9%. Omaha, to be sure, has a healthy Medical Office Building market.

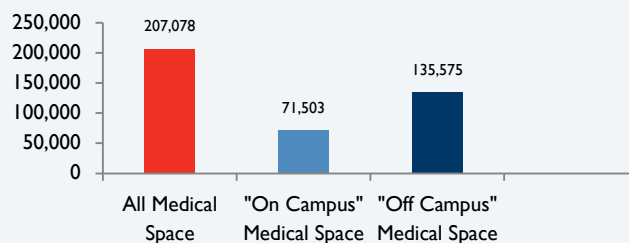
Approximately 1.3 msf of total MOB space reflects "On-Campus" space, space located on Hospital campuses; while the remaining 2.1 msf, "Off-Campus" space. Space availability in each category reflects 72K sf (5.7%) and 136K sf (6.3%), respectively.

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



AVAILABLE SF



MEDICAL OFFICE MARKET OVERVIEW

Omaha, Nebraska

INVESTMENT ACTIVITY AND PRICING

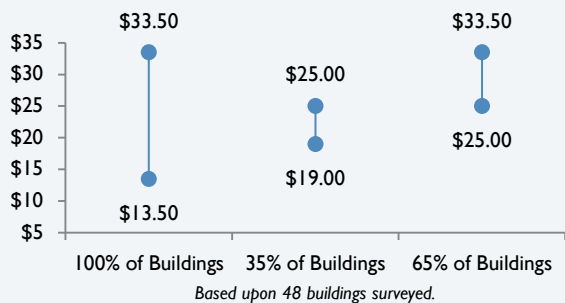
Although there has been little investment activity in the local Medical Office Building sector to date, average capitalization rates continue to compress nationwide with rates declining 3-5% depending upon class of product and location whether on or off campus. Current national averages are 6.46% and 6.93% for class "A" MOB's on and off campus, respectively; 7.62% and 8.49% for class "B" MOB's, correspondingly.

National Statistical Sources: Marcus & Millichap Medical Office Research-2nd Half 2014 Report and Cushman & Wakefield 2014 Medical Office Investor Survey.

RENTAL RATES AND TRENDS

General local on campus MOB full service rental rates range from \$18.50 to \$31.50 per square foot (psf) with off campus \$13.25 to \$33.50 psf. The significant lower rate ranges in both building classifications reflect older MOB's.

FULL SERVICE RENT PSF



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 Sources: Marcus & Millichap Medical Office Research-2nd Half 2014 Report and Cushman & Wakefield 2014 Medical Office Investor Survey.

RECENT PROJECT COMPLETIONS

- CHI Health Clinic (28,000 sf), 31st & West Broadway, Council Bluffs, IA
- CHI Health Clinic (37,000 sf), 160th & West Maple Road vicinity



PROJECTS UNDER CONSTRUCTION

- CHI Health Clinic (28,000 sf), 42nd & "L" Streets. Scheduled fall, 2015 completion.
- Nebraska Medicine Fred & Pamela Buffet Cancer Center (577,000 sf; \$325M), Nebraska Medicine Campus, 42nd & Farnam Vicinity. Scheduled 2016 completion.
- Nebraska Medicine Lauritzen Outpatient Center (170,000 sf; \$70M), 40th & Emile Streets. Scheduled August 2016 completion.
- Methodist Physicians Clinic (14,200 sf; \$3.2M), 11946 Standing Stone Drive, Gretna, NE. Scheduled summer, 2015 completion.
- Think Whole Person Healthcare (150,000 sf; \$40M), 72nd & West Center Road. Scheduled summer, 2015 completion.
- Madonna Rehabilitation Hospital (250,000 sf; 110 beds; \$70M), 175th & Burke Streets. Scheduled fall, 2016 completion.
- Methodist Hospital Surgical Center Expansion & Renovation (\$90M), 84th & Dodge Streets. Scheduled 2017 completion.

ANNOUNCEMENTS

- CHI Health Creighton University academic, in patient services and trauma unit to relocate to CHI Health Bergan Mercy Hospital, 75th & Mercy Road in 2017.
- CHI Health Creighton University Clinic construction (90,000 sf; \$35M), 24th & Cuming Streets. Scheduled fall, 2016 completion.
- CHI Health Alegent-Creighton Clinic to open a health center inside Union Pacific Railroad Corporate Headquarter's Building, 1400 Douglas Street, in January, 2015. Clinic will replace health center that was formerly operated by Union Pacific Railroad Employees Health System.
- Nebraska Medicine Village Pointe Medical Center (42,000 sf) vacant space build out, 176th & Burke Streets. Scheduled fall, 2015 completion.
- Nebraska Health Network is new name for Nebraska Medicine and Methodist Health System Accountable Care Organization
- Veterans Administration (VA) Hospital, 42nd & Center Streets, is evaluating if Creighton University Medical Center, 601 North 30th Street, would satisfy long-term needs versus building new. Preliminary cost estimates are \$250M for relocation/renovation versus \$560M to build new.