



The Cushman & Wakefield / The Lund Company Medical Office Overview 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/The Lund Company, a 37-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 show growth, albeit at a slower rate than 2018. 2018

Gross Domestic Product ("GDP") growth was 2.9%. The final 2019 GDP increase forecast is 2.2% and the 2020 GDP growth expectation is 2%. Continuing national political dysfunction, international trade restriction (particularly the China-United States trade war) and Brexit uncertainty, are all influencing our economy.

On a brighter note, the latest unemployment statistics indicate a national average of 3.5%, matching the lowest in 50 years (May 1969). 15 states are currently below the national average. Vermont has the lowest rate (2.2%); Alaska, the highest (6.2%). Nebraska's unemployment rate is 3.1%. The national 2020 unemployment rate is projected to remain unchanged at 3.5%.

Also, the stock market continues to soar. The Dow Jones Industrial Average ("DJIA") index increased 22.3% from 23,327 December 31, 2018 to 28,538 December 31, 2019.

In addition, as a means of ensuring that our economy at least maintains status quo, the Federal Reserve has reduced the Federal Funds Rate (the rate at which banks borrow from one another) three times during the year. The rate has effectively dropped 75 basis points during 2019 from 2.5% to 1.75%. However, additional decreases during 2020 are unlikely.



Healthcare

Healthcare is not only vital to living but is a large part of our economy. U.S. national healthcare

expenditures approximate \$3.8 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 19.4% of the U.S. GDP. The rapid growth in healthcare spending is attributed by the aging U.S. population and the higher-than-average inflation on the price of healthcare goods and services.

By 2030, one in every five people in the U.S. will be 65 or over. Interestingly, people over 65 accounted for 36% of all healthcare spending, yet they only represent 16% of the population. Rising prices of healthcare goods and services continue to drive increased expenditures. While general inflation is around 1.7% per year; medical care-related inflation has averaged 2.8% per year.

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.

Richard Secor, Jr.
Partner
(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

Lincoln Medical Office Market Overview: Volume 1 | 1

Current Medical Office Building Statistics | Lincoln, Nebraska



Space Availability

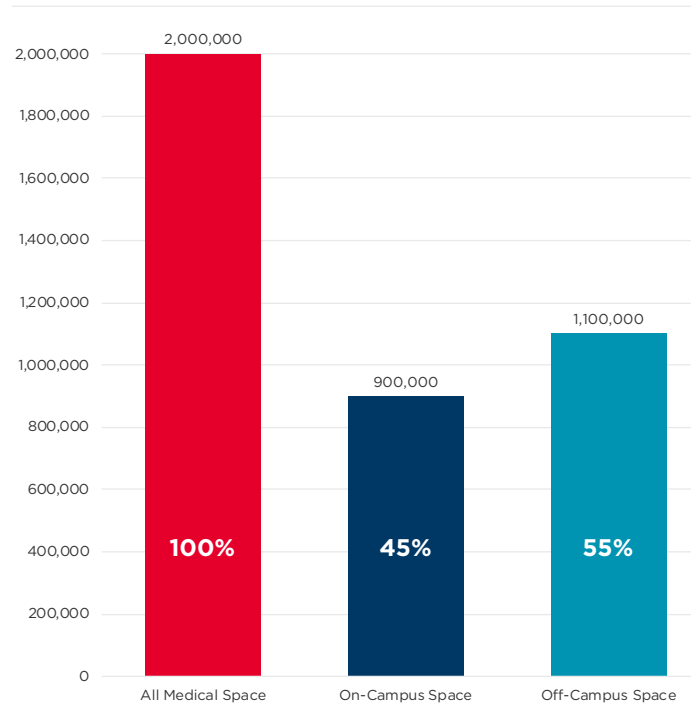
Among 77 buildings recently surveyed, there is approximately 2M SF of Medical Office

Building (“MOB”) inventory in the metropolitan area. Available space reflects approximately 136K SF or approximately 6.8% of all medical space. In contrast, nationwide, average medical office space vacancy approximates 8.2%. Lincoln, to be sure, has a healthy Medical Office Building market.

Approximately 45% (900K SF) of total MOB space reflects On-Campus space, square footage located on Hospital campuses; while the remaining 55% (1.1 M SF) Off-Campus space. Space availability in each category reflects approximately 75K SF (8.2%) and 61 K SF (5.6%), respectfully.

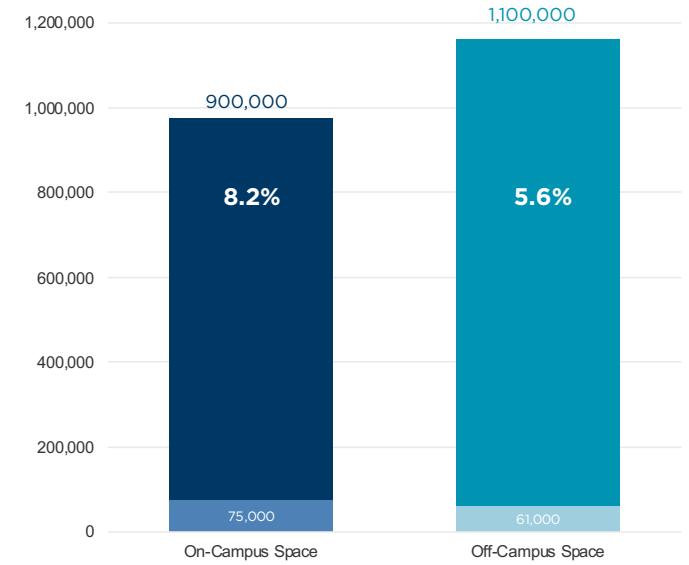
Market SF

Lincoln, Nebraska



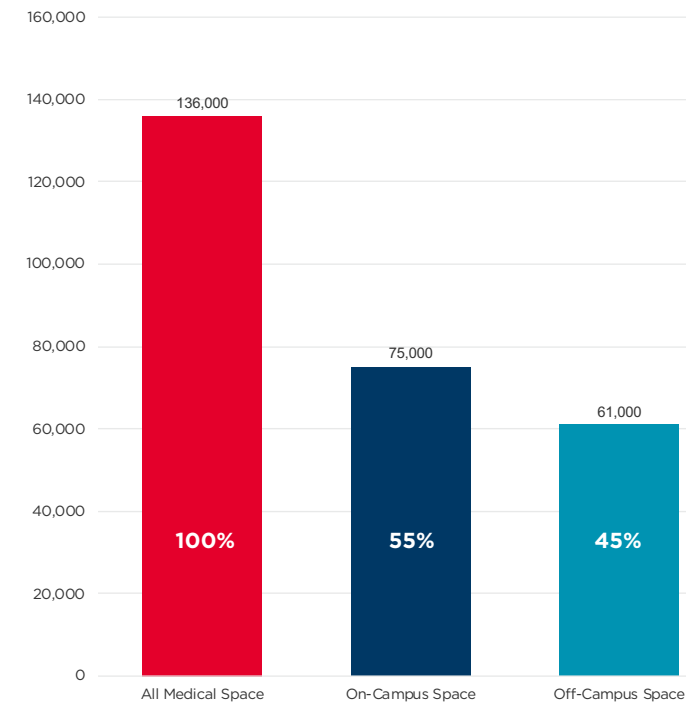
Campus Available SF

Lincoln, Nebraska



Market Available SF

Lincoln, Nebraska





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. Therefore, there remains a strong appetite for “cycle-resilient” real estate investment that medical and healthcare real estate offers. Moreover, investor recognition of the “retailization” of healthcare, a location emphasis of MOBs in affluent suburban markets that are closer to the patients and creditworthiness of tenants, continues to drive premium pricing for off-campus medical product. Interestingly, there has been a significant change in the medical office buyer profile in recent years transitioning from a market dominated by institutional and Public/REIT buyers (34%) to the current market that is dominated by more non-traditional private equity and private investors (52%). The balance of the investor pool for medical office buildings reflect users (14%). 2019 saw nominal changes in capitalization rates. There was a slight decline (5 basis points) in Class A product and slight increase (5 basis points) in Class B product. Current national averages are 5.75% and 6.05% for Class A MOBs on and off campus, respectively; 7.30% and 8.00% for Class B MOBs, correspondingly

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Rental Rates & Trend

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. Specialty medical space in general commands a higher full-service rent due to improvement costs. National rental rates have increased 2.2% the past year.

“National rental rates have increased 2.2% the past year.”



Recent Project Completions

CHI Health St. Elizabeth Hospital recently completed its “Pediatric Place” project adjacent to the Emergency Department. Pediatric Place consists of eight private rooms and was built for the purpose of segregating pediatric emergency patients for specialized care after admittance to Hospital. The project is reported to have cost less than \$1M.



**CHI Health St. Elizabeth Hospital
Pediatric Place**

Project Activity | Lincoln, Nebraska**Projects under Construction**

- A new \$23.9M VA Nebraska/Western Iowa Health Care System Outpatient Clinic (72K SF) is scheduled for completion Fall 2020. The clinic will provide primary care, mental health services, tele-health care, specialty care, laboratory services, physical therapy, prosthetics and pharmacy management. It is part of a \$100M+ redevelopment of the historic 65-acre site (to be known as Victory Park), located on the SEC 70th & O Streets, that will not only include the new clinic, but also medical offices, apartments and town homes. An apartment complex for homeless and near-homeless veterans on the campus has already opened.
- Bryan Health has broken ground on a new Physician Clinic and second Urgent Care Facility, on the SEC 84th & Pioneers Boulevard. Southeast Family Physicians, located nearby, will be relocating to the new facility. Completion is scheduled for Summer 2020.
- Bryan Health is continuing its modernization and expansion of surgical facilities at its east campus. The project is estimated to cost \$47M.

**Announcements**

- CHI Health has acquired land in the vicinity of 40th & Yankee Hill Road and intends to develop a clinic of “substantial square feet” at the site. Ground-breaking is slated for Summer 2020.
- Madonna Rehabilitation Hospitals plans to break ground Spring 2020 on a \$57M construction and renovation project at its campus, 5401 South Street. The project will include the addition of an approximate 112,500 square foot, three-story patient wing that will replace 59 patient rooms, creation of a new front entry to the existing buildings and renovation of 50,000 square feet of existing space. Completion is expected January 2023.
- Bryan Health announced preliminary plans for a 120,000 SF Comprehensive Community Cancer Center to be located on approximately 10 acres at 40th & Rokeby Streets. The 10-acre site is part of the 29-acre Bryan Hospital controlled area that may also contain approximately 180,000 of future medical office space. The site abuts other development ground that some day will contain 180 residential units and commercial space. The entire development area is known as “Grandale South”.

*Bryan Health East Campus:
expansion of surgical facilities**Madonna Rehabilitation Hospitals**VA Nebraska/ Western Iowa Health
Care System Outpatient Clinic*