



The Cushman & Wakefield / 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., Partner, Cushman & Wakefield/Lund Company, a 38-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

Global economies have been hit hard by COVID-19 ("COVID") and our national economy is no exception. Gross Domestic Product ("GDP") growth for 2020 was supposed to be 2.2% and unemployment was to remain at 3.5%. Latest projections for GDP growth, however, indicate a 2.4% contraction, and an unemployment rate increase to 6.7% for the year. Fortunately, these final estimates are unremarkable relative to the abrupt shutdown of our economy during March and April. GDP shrank 31.4% during the second quarter. Unemployment spiked to 14.7% at the end of April. On a brighter note, Nebraska's unemployment rate only increased to 8.7% in April. Currently, its rate is back to a Pre-COVID level, 3%. Still, the Pandemic effects on the economy are lingering and will continue to be until vaccines are effectively administered.

The more positive economic conditions currently experienced are no accident. Major fiscal and monetary policies have been enacted to "save our economy". The Government passed the Coronavirus Aid Relief and Economic Security Act (CARES Act) in March (n/k/a "CARES ACT I"). The \$2.2 trillion bill was passed urgently to immediately support households, employers, financial markets and state and local governments. It was the largest stimulus package in history, representing nearly 10% of GDP. In addition, the President on December 28, 2020 signed the \$900 billion "CARES ACT II" bill to provide further stimulation to the economy. As a matter of perspective, the two combined \$3.1 trillion spending bills equate to \$24,000 per taxpayer or \$9,000 per citizen. The legislation will be funded by increasing our national debt. In

addition to these congressional actions, the Federal Reserve earlier this year reduced its discount rate from 2.25% to .25% to facilitate lending to its member banks, which in-turn made loans more appealing to businesses and consumers. The Federal Reserve, moreover, bought massive amounts of securities to keep credit markets running smoothly.

While we believe we have weathered the storm, a COVID resurgence is occurring and there are fears of widespread lockdowns in the meantime. In addition, political bickering during this past election year was at an all-time high and unfortunately, permeated all levels of government, local, state, and national. Social unrest reared its ugly head, partly the result of the political partisanship, but mainly due to either real or perceived systemic racism. All these issues made individuals and businesses more fearful of the future and thus uncertain about the economy during this year. However, regardless of all these issues, our economy appears resilient and its future bright. Now that the election is over there is hope for political and social stability. Moreover, two COVID vaccines have been approved and the massive rollout for administration has begun, while a third vaccine is getting closer for approval/distribution. The Federal Reserve has recently become more bullish about the 2021 forecast for the economy and is now forecasting a 4.2% GDP increase and unemployment rate reduction to 5%. Interestingly, the stock market has seemed to be oblivious to all our troubles during 2020; the Dow Jones Industrial Average ("DJIA") reached an all-time high (30,606) at year-end. This reflects a 7.2% increase year-over-year. In contrast, year-ending comparisons of 2018 and 2019 yielded a 5.1% increase.

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Lincoln Medical Office Market Overview: Volume 2 | 1



Healthcare

Post COVID-19

The recent Pandemic has proven that the U.S. and the World for that matter, was not adequately prepared to deliver required critical care to COVID-19 and non-COVID-19 patients simultaneously. Moreover, others desiring more preventative or elective care, either chose to or were mandated to delay such appointments or surgery. The Pandemic will influence forever how and where care will be provided in the future. Fundamental shifts are already occurring in the areas of design and construction of facilities, training of healthcare workers and the sourcing and management of critical care equipment and personal property equipment and optimal settings for care. For example, there will be an increasing trend for hospitals to care for only the critically ill and consequently, hospitals will spontaneously need to be prepared to convert some of its regular beds to critical care beds. Moreover, there will be a separation of COVID patients from regular critical care patients. Virtual Intensive Care Units are already being established outside of the hospital setting. Nurses, managed by specialists at the hospitals, are administering critical care to patients at home. Physical care at ambulatory facilities and at home will flourish as patients avoid hospital admission because of COVID concerns. On-line health and Tele-health will continue to emerge as alternative sources of care, reducing the number of physical meetings with a physician in an office/hospital setting, and in some cases, eliminating a visit.

Currently, facilities delivering healthcare whether it be hospitals, ambulatory centers or physician offices within a medical office building or traditional building, have set up protocols for all visitors and occupants. Policies for masks and

pre-screening at building entrances and suite entrances are required with requests or mandates for social distancing in common areas and suite open areas. Hand sanitizer stations have been strategically placed throughout common areas of facilities and physician offices to accommodate patients. Janitorial services in medical buildings have increased both in frequency and scope of work, including the use of stronger disinfectants on surfaces. Existing HVAC systems are being adapted with more filtration and fresh-air intake. Finally, touchless technology is being addressed to provide sanitary ways to access entrance/exit doors, elevators, plumbing and lighting.

Healthcare Trends

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 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.



Current Medical Office Building Statistics | Lincoln, Nebraska



Space Availability

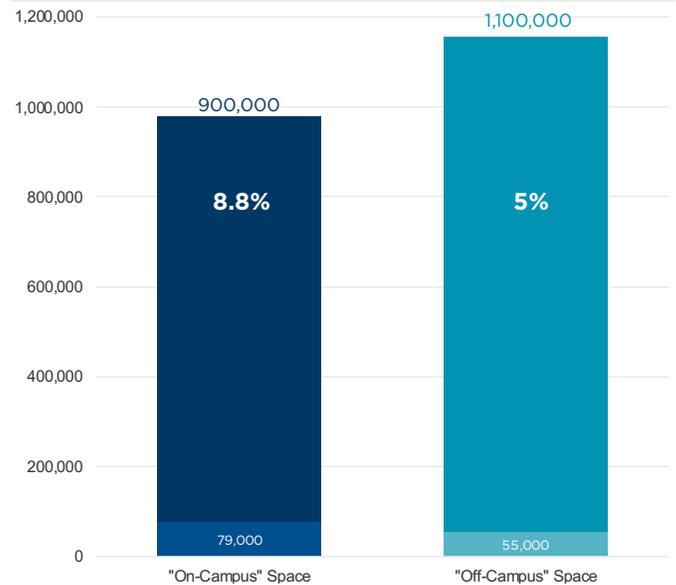
Among 81 buildings recently surveyed, there is approximately 2 M SF of Medical Office Building (“MOB”) inventory in the metropolitan area. Available space reflects approximately 134 K SF or approximately 6.7% of all medical space. In contrast, nationwide, average medical office space vacancy approximates 7.9%. Lincoln, to be sure, has a healthy Medical Office Building market.

Approximately 45% (900 K 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 79 K SF (8.8%) and 55 K SF (5%), respectfully.

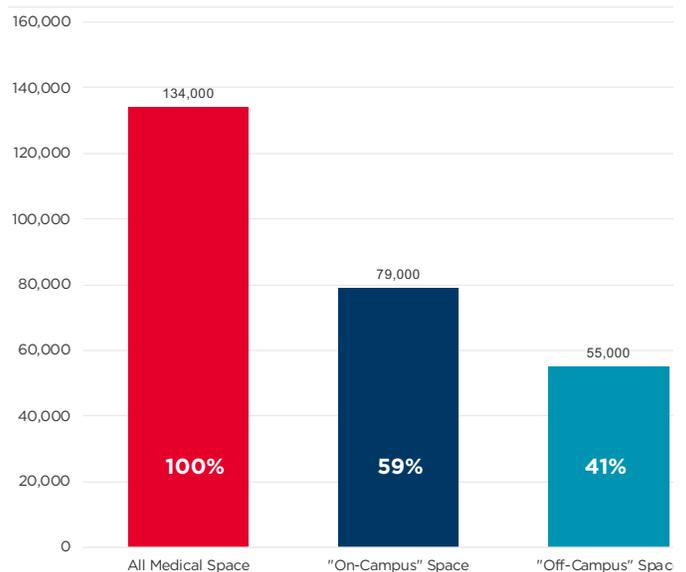
Market SF Lincoln, Nebraska



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. As a result, 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 (37%) to the current market that is dominated by more non-traditional private equity and private investors (49%). The balance of the investor pool for medical office buildings reflect users (14%). As in 2019, 2020 saw nominal changes in capitalization rates. There was a slight decline (5 basis points) in Class A and Class B product. Current national averages are 5.70% and 6.00% 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 6.6% the past year.

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Recent Project Completions

- Bryan Health has completed construction of its Southeast Lincoln Family Medicine/Internal Medicine & Urgent Care facility, 4333 South 86th Street. The 17 K SF facility represents a three-fold increase in size of its former location at the Pioneer Greens Office Park.



Projects Under Construction

- A new \$23.9M VA Nebraska/Western Iowa Health Care System Outpatient Clinic (72 K SF) is nearly completed with patient visits beginning after the first of the year. 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 (known as “Victory Park”), 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 Southeast Lincoln Family Medicine/Internal Medicine & Urgent Care

**Project Activity | Lincoln, Nebraska****Projects Under Construction (Cont.)**

- Bryan Health is continuing its modernization and expansion of surgical facilities at its east campus. The project is estimated to cost \$47M. Phase One of the Four-Phase project has been completed. The entire project generally will consist of the following:
 - o A transformed entrance to Bryan East Campus
 - o Creation of an open staircase to connect 1st and 2nd floor waiting areas inside the Acklie Tower
 - o 115 K SF of renovated space to include:
 - o 14 large operating rooms to accommodate current and emerging technologies
 - o 2 specialty procedure rooms
 - o 42 private patient rooms for care before and after surgery
 - o 18 rooms for recovery after surgery
 - o 4 private consult rooms for families to meet with doctors and get updates on their loved ones
 - o Expanded waiting areas offering family seating, quiet places, work areas with charging stations and complimentary refreshment area
- Madonna Rehabilitation Hospitals has begun its \$57M expansion/renovation project at its campus, 5401 South Street. The project will include the addition of an approximate 112 K SF, three-story patient wing that will replace 59 patient rooms, creation of a new front entry to the existing buildings, exterior gardens for additional daily therapy and renovation of 50 K SF of existing space. Completion is expected January 2023.

**Announcements**

- CHI Health intends to develop an approximate 40K SF clinic at 40th & Yankee Hill Road. Ground-breaking is slated for Spring or Summer 2021
- Bryan Health, in partnership with Southeast Nebraska Cancer Center, announced plans for a \$45M, 140 K SF Comprehensive Community Cancer Center to be located on approximately 10 acres at 40th & Rokeby Streets. The Center will provide treatment, care, and counseling for cancer patients. Groundbreaking for the facility is projected to occur late 2021 with completed Building delivery mid to late 2023. The 10-acre site is part of the 29-acre Bryan Hospital controlled area that may also contain approximately 180 K 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".

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