



*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.

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## Current Medical Office Building Statistics | Omaha, Nebraska



### Space Availability

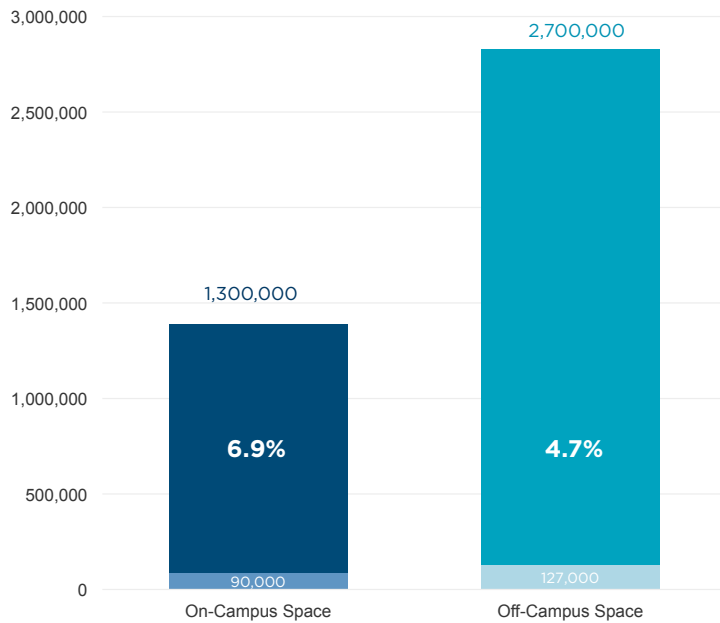
Among 140 buildings recently surveyed, there is approximately 4M square feet (“sf”) of Medical Office Building (“MOB”) inventory in the metropolitan area. Available space reflects approximately 217K sf or approximately 5.4% of all medical space. In contrast, nationwide average medical office space vacancy approximates 8.2%. Omaha, to be sure, continues to possess a healthy MOB market.

Approximately one-third (1.3M sf) of total MOB space reflects On-Campus space, square footage located on hospital campuses; while the remaining two-thirds (2.7M sf), Off-Campus space. Space availability in each category reflects 90K sf (6.9%) and 127K sf (4.7%), 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 for temporary relocation space to accommodate displaced medical operations due to construction activity or are reserving such space for long-term use.

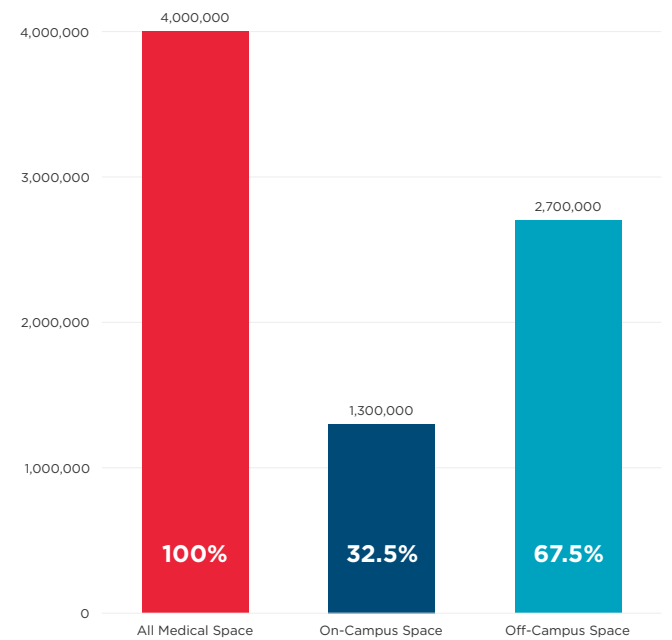
### Campus Available SF

Omaha, Nebraska



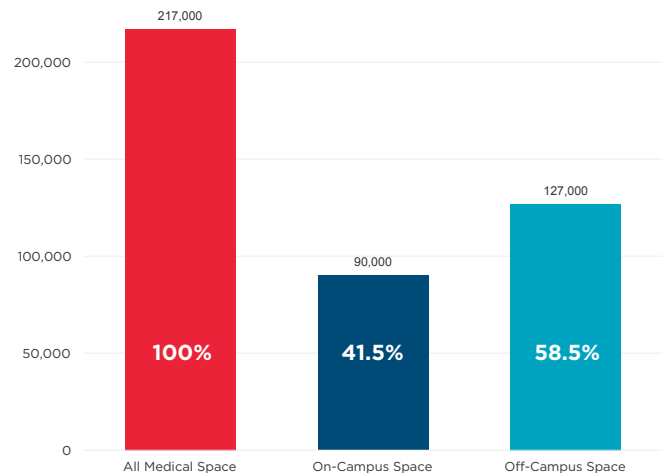
### Market SF

Omaha, Nebraska



### Market Available SF

Omaha, Nebraska



*Note: All numbers have been rounded.*



## Investment Activity & Pricing

In one of the largest transactions to date in Omaha, a Chicago investment group acquired the Think Primary Care building (approximately 143K gross square feet (“GSF”), 7100 West Center Road. The sale price was \$74,625,000 or approximately \$522 per GSF.

Another significant sale was the Nebraska Spine building (approximately 120K GSF), 13616 California Street. The sale price is confidential.

MOBs are still considered a favored asset class among all commercial real estate sectors given the strong demand for office space, due principally, to 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 (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 MOBs reflect users (14%). 2019 saw nominal changes in capitalization rates. There was a slight decline (5 basis points) in Class A product and small 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.

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



## Rental Rates & Trend

Of reported rents of 59 buildings, representing 42% of total buildings surveyed, local On-Campus MOB full-service rental rates range from \$18.50 to \$31.00 per square feet (“psf”) with Off-Campus \$15.50 to \$44.50 psf. The significant lower rate range, particularly in the Off-Campus sector, reflect older MOBs containing available space that probably will not be used as medical office space again because of location, size or condition. The higher rate range in both classifications reflect newer specialty medical space. National rental rates have increased 2.2% the past year.

### Full Service Rent SF Omaha, Nebraska



*\*Based upon 59 buildings surveyed.*

*“2019 saw nominal changes in capitalization rates. There was a slight decline (5 basis points) in Class A product and small increase (5 basis points) in Class B product.”*

**Project Activity | Omaha, Nebraska****Recent Project Completions**

- Children's Physicians has completed construction of its 8K sf freestanding clinic at 50th & "F" Streets. The facility is double the size of its former in-line space at Spring Valley Shopping Center.

**Projects under Construction**

- The four-story, approximate 192K-sf, Nebraska Medicine Davis Global Center for Advanced Inter-Professional Learning at 42nd & Emilie Streets will be completed in April. The \$122M facility will contain the National Center for Health Security and Bio-preparedness, including 20 quarantined beds for observing people exposed to infectious diseases. In addition, the building will include the Inter-Professional Experiential Center for Enduring Learning ("iEXCEL").
- Veterans Administration (VA) Hospital Clinic Facility (157K sf), VA Campus at 42nd & Center Streets: The facility will provide primary care, specialty care and ambulatory surgery. The development is a public-private partnership between the Department of Veterans Affairs and Heritage Services, a local non-profit. The VA and Heritage Services are providing \$56M and \$30M, respectively, for the \$86M development. Scheduled completion is Spring 2020.
- CHI Medical Clinic (39K sf), 153rd & "Q" Streets: The facility will contain 59 exam rooms for general primary care with specific focus on radiology, ultrasound, behavioral health, nutrition and physical therapy. Scheduled completion is spring, 2020.
- Methodist Health Physicians is constructing a clinic at 194th and West Maple Road. The facility will contain 8-10 providers specializing in family medicine and pediatrics. Completion is scheduled for Fall 2020.
- Children's Hospital expansion & renovation (460K sf expansion & 100K sf renovation; \$450M), 84th & Dodge Streets: The expansion project includes construction of a 10-story building to house relocation of the NICU from Methodist Hospital, new and expanded pediatric intensive care unit (PICU), surgical areas, a larger emergency department, a fetal care center and expansion of hematology and oncology. The expansion will enable the Hospital to expand bed count from 140 to 250. Scheduled completion is Spring 2021.



Nebraska Medicine Davis Global Center



CHI Medical Clinic, 153rd &amp; Q Streets

## Projects under Construction (continued)

- Methodist Hospital is doubling the size of its Emergency Room Department from 12 to 24 rooms. The \$25M project is expected to occur in six phases with completion scheduled for 2022.



## Announcements

- Veterans Administration (VA) will be constructing a \$18.8M, 29K-sf, medical office building for the specific purpose of physical therapy and prosthetics. Scheduled completion is December 2021.
- The University of Nebraska Medical Center announced preliminary plans on the NExT (“Nebraska Transformational”) Project, a potential \$4B public-private development that would consist of approximately \$2.6B for a proposed 1,000 – 1,200 bed complex combined with state-of-the-art education facility and federally funded care unit for victims of national disasters, environmental accidents or highly contagious diseases. The development area, the northwest corner of campus, will also be complemented in the vicinity with approximately \$1.4B in private development for office buildings, hotels and a power plant. Plans for funding the Project include \$300M from the State of Nebraska and unspecified amounts from Douglas County and City of Omaha. In addition, several hundred million dollars will be raised by private donors. No timetable for construction commencement nor completion has been announced.

