



*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.

**Richard Secor, Jr.**  
Partner  
(402) 548 4010  
richard.secor@lundco.com

*Independently Owned and Operated / A Member of the Cushman & Wakefield Alliance*

450 Regency Parkway, Suite 200  
Omaha, NE 68114  
+1 402 393 8811  
**lundco.com**

Omaha Medical Office Market Overview: Volume 8 | 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 | Omaha, Nebraska



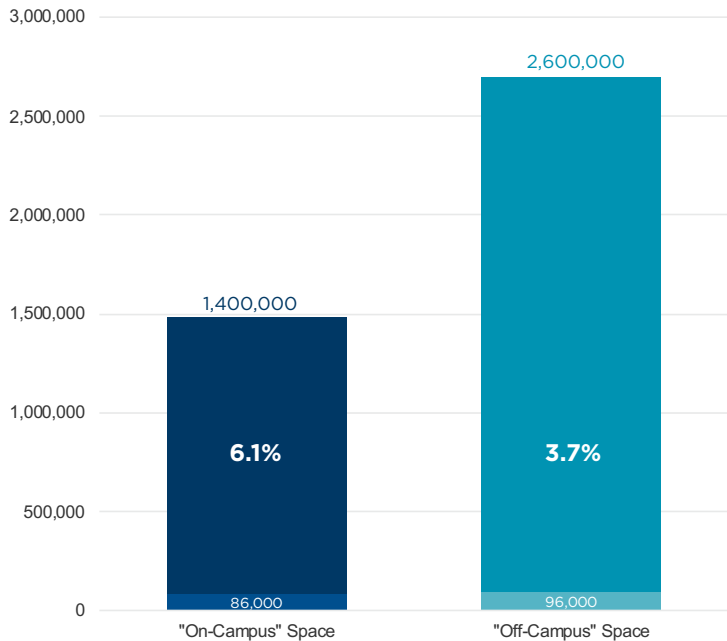
### Space Availability

Among 140 buildings recently surveyed, there is approximately 4 M SF of Medical Office Building ("MOB") inventory in the metropolitan area. Available space reflects approximately 182 K SF or approximately 4.6% of all medical space. In contrast, nationwide, average medical office space vacancy approximates 7.9%. Omaha, to be sure, continues to possess a healthy Medical Office Building market.

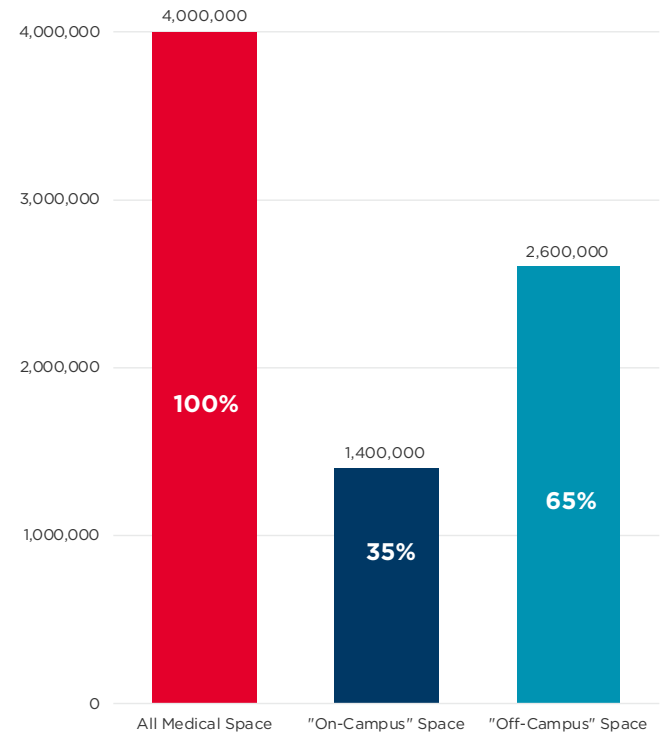
Approximately one-third (1.4 M SF) of total MOB space reflects "On-Campus" space, square footage located on hospital campuses; while the remaining two-thirds (2.6 M SF), "Off-Campus" space. Space availability in each category reflects 86 K SF (6.1%) and 96 K SF (3.7%), respectfully.

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 either for temporary relocation space to accommodate displaced medical operations due to construction activity or are reserving such space for long-term use.

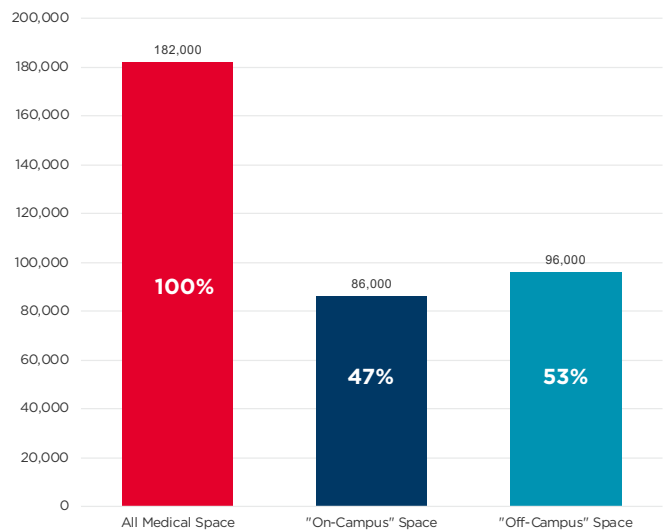
### Campus Available SF Omaha, Nebraska



### Market SF Omaha, Nebraska



### Market Available SF Omaha, Nebraska



Note: All numbers have been rounded.





## Investment Activity & Pricing

For two years in a row, a significant sale transaction has occurred. Noddle Companies has acquired the UNMC Physicians Village Pointe Medical Office Buildings, 110 & 111 North 175th Street, (158 K SF) for \$73.7M or approximately \$466 PSF. The firm also acquired the adjoining vacant land parcel (approximately 4 Acres), 17401 Burke Street, for \$3.3M or \$18.70 PSF. The firm will be integrating the two buildings, land and an adjacent UNMC Physicians facility site (2.6 Acres) as part of a redevelopment of the entire 18-acre site that will include a new 180 K SF building that will connect each existing building. The development will also contain two parking garages. The additions, estimated to cost approximately \$100M, are expected to be in place late 2022 or early 2023. The primary occupant will continue to be UNMC; the secondary occupant is Children's Hospital. The expansion of the medical campus will mainly be the result of consolidation of Nebraska Medicine space from other West Omaha locations. Provided services at the campus will continue to be outpatient surgery, cancer, and primary care.

An investment group has acquired two adjacent single-story medical office buildings (36 K SF), 16945 & 17055 Frances Street, for \$7.2M or approximately \$200 PSF.

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

***"National rental rates have increased 6.6% the past year."***

change in the medical office buyer profile in recent years transitioning from a market dominated by institutional and Public/REIT buyers (29%) to the current market that is dominated by more non-traditional private equity and private investors (57%). 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 MOB on and off campus, respectively; 7.30% and 8.00% for Class B MOB, correspondingly



## Rental Rates & Trend

Of reported rents of 58 buildings, representing 41% of total buildings surveyed, local on-campus MOB full-service rental rates range from \$18.50 to \$31.00 PSF with off-campus \$16.00 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. While local rental rates have remained generally flat, national rental rates have increased 6.6% the past year.

### Full Service Rent PSF Omaha, Nebraska



***"2020 saw nominal changes in capitalization rates. There were slight declines (5 basis points) in Class A and Class B product."***



## Project Activity | Omaha, Nebraska



### Recent Project Completions

- The Veterans Administration (VA) Hospital Clinic Facility (157 K SF), VA Campus, 42nd & Center Streets: The facility provides primary, specialty, and ambulatory surgery. The development was a unique public-private partnership between the Department of Veterans Affairs and Heritage Services, a local non-profit. The VA and Heritage Services provided \$56M and \$30M, respectively, for the \$86M development.
- CHI Medical Clinic (39 K SF), 5045 South 153rd Street: The facility contains 59 exam rooms for general primary care with specific focus on radiology, ultrasound, behavioral health, nutrition, and physical therapy.
- Methodist Physicians Clinic (16 K SF), 20021 Manderson Avenue (Elkhorn): The \$8.2M facility contains 24 exam rooms and three treatment rooms. Services include primary and urgent care and X-ray services.



### Projects Under Construction

- Children's Hospital Expansion & Renovation (460 K SF Expansion & 100 K 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.
- Madonna Rehabilitation Hospital is adding approximately 8 K SF to its 263 K SF Facility. The approximate \$5.5M addition, to be completed in early 2021, will be primarily for outpatient psychiatry and therapy services.
- New Street Development has broken ground on a 30 K SF Orthopedic & Physical Therapy facility at the Southwest corner of 204th & Vinton Streets. OrthoNebraska will be the occupant. The facility will include 16 exam rooms, two procedure rooms, radiology services and approximately 9.5 K SF of physical therapy space. OrthoNebraska will also be providing 7-day orthopedic urgent care at the facility. Construction completion is scheduled for fall 2021.
- Methodist Hospital is doubling the size of its Emergency Room Department from 12 to 24 rooms. The \$25 M Project, occurring in six phases, will be completed in 2022.



Veterans Administration Hospital Clinic, 42nd & Center Street



CHI Medical Clinic, 153rd & Q Street





## Announcements

- The Veterans Administration (VA) will be constructing a \$18.8M, 29 K SF, medical office building for the specific purpose of physical therapy and prosthetics. Scheduled completion is December 2021.
- Noddle Companies will be breaking ground on the redevelopment of the UNMC Physicians Village Pointe Medical Office Campus, 175th & Burke Streets. An approximate 180 K SF connector building will join the two existing medical office buildings (one, approximately 72 K SF; the other, 85 K SF) for an adjoined three-building facility containing approximating 337 K SF. Two parking garages will also be constructed on the Campus. Redevelopment costs are estimated to be \$100M. The expected delivery date is late 2022 or early 2023.
- The University of Nebraska Medical Center has announced preliminary plans for a \$2.6B project that would effectively serve local patients for a variety of needs while potentially caring for victims of pandemics and natural disasters. The project, identified as “Project NeXT”, will be a partnership between UNMC and Nebraska Medicine. The Nebraska Legislature has approved \$300M in contingency funding, provided those resources are matched by \$1.3B in private donations and Federal Government funding. No timetable for construction commencement nor completion has been announced.



*Children's Hospital 10-Story Expansion & Renovation, 84<sup>th</sup> & Dodge Streets*

Market Report Sources: The Omaha World Herald, The Conference Board Economic Forecast of the U.S. Economy, U.S. Bureau of Labor Statistics, The Federal Reserve, Cushman & Wakefield 2020 Medical Office Investor Survey, Cushman & Wakefield “Recovery Readiness Healthcare Office” Publication, Cushman & Wakefield October 14, 2020 Healthcare Advisory Group “State of Healthcare” Webinar Presentation (Guest Presenter: Benjamin Umansky, Managing Director and Expert Partner, Advisory Board “State of the Union Address”)