



The Cushman & Wakefield/The 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., Cushman & Wakefield/The Lund Company, a 41-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

Similar to 2022, the United States Economy continued to show resiliency during 2023 despite the Federal Reserve Bank's continued increases in the Federal Funds Rate, now ranging 5.25% - 5.5%. The Fed has been implementing these rate hikes as a means of achieving a 2% inflation rate target. This monetary policy tool seems to be working as inflation has dropped from 9.1% in June 2022 to 3.1% in November 2023.

Remarkably, the Fed has been able to effectively bring down inflation without creating a recession thus far. GDP remains strong with a projected 2.8% increase for the year and unemployment remains low at 3.7%. While Federal Funds rates have remained stable during the fourth quarter, the Fed has indicated that additional rate hikes during 2024 are not "off the table". However, as long as inflation remains moderate, it is anticipated that the rate might be reduced to 4.6% by year-end 2024 and 3.6% by year-end 2025. Wall Street is reacting very positively to the latest economic news. The Dow Jones Industrial Average ended the year at 37,690, a 13.7% increase over 2022. Moreover, NASDAQ ended the year at 15,011, a 43.4% increase over 2022.

While favorable statistics and emotions are running high at year end, there is concern of lagging effects of the Federal Reserve's Monetary Policy actions (principally its Federal Funds rate hikes) during 2024. GDP, for example, is forecasted to grow by just 0.7%. Unemployment is slated to increase to 4%. Inflation, while continuing to decrease, is forecasted to be 2.4%, a figure 20% higher than the Fed's 2% target.

The \$550B in commercial real estate debt maturing during 2024 is a concern among borrowers and banks. Consumer spending is forecasted to slow down because of plateauing wage growth, savings depletion, student loan payment reactivations, personal loans and credit card debt servicing. Moreover, continuing geopolitical risk will affect the economy. Rising tensions with China, the Russo-Ukrainian War, Middle East conflict and upcoming United States Presidential election, no doubt will add degrees of instability that will impact the economy.

HEALTHCARE Healthcare Economy

The emphasis of good health in all countries improves the quality of life for its citizens. Health is also an important determinant of economic development. A healthy population means higher productivity. It's a catalyst to economic growth, leading to higher income per capita and of course, affordability to meet financial obligations and/or to just live.

Rising medical supply/equipment and labor costs are pervasive in the healthcare industry. Insurers continue to increase rates to address rising healthcare costs. The average cost that U.S. employers pay for their employees' health care will increase 8.5% to more than \$15,000 per employee in 2024. On average, employers subsidize about 81% of health plan costs, while employees fund the remainder.

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Healthcare systems continue to face inflation, labor shortages, high contract labor costs, reduction in positive margin procedures, increase in negative margin procedures and vanishing federal funding support. Operating margins are predominantly razor-thin and in some cases, negative. As a result, many hospital systems are cutting costs, and a major target is labor. For example, Hospitals are recognizing that paying high premiums for contract labor to address short-staffing, is no longer sustainable and are thus they are reducing this employment pool. Continued cost pressure on healthcare systems will likely drive continued agglomeration into 2024 as they can scale for controlling costs, negotiating contracts with payers and establish a diversified market footprint.

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 reach \$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 health-care goods and services. By 2030, one in every five people in the U.S. will be 65 or over. Interestingly, today people over 65 account for 36% of all healthcare spending, yet they only represent 16% of the population. The healthcare industry is a large employment sector. Nearly one in every ten people employed in the economy have jobs in healthcare and that ratio is expected to rise in the future.

Eight trends continue to emerge:

1. Artificial intelligence is being used to assist clinicians in their practices.
2. Personalized approaches are being used to customize medical treatment for an individual patient's need.

3. Patient wearable devices enable consumers the ability to monitor their health and habits.
4. Virtual patient experiences are emerging for a more efficient and more hygienic mode of treatment. In addition, remote patient monitoring programs are reducing the need for continued hospitalization or new admissions.
5. Social determinants of health are becoming more and more recognized in understanding how non-medical factors influence people's health.
6. Mental health is becoming a priority since many of today's chronic conditions are primarily caused by behavior.
7. Employers are setting up direct-to-employer arrangements with healthcare providers.
8. Unbundling of coverage allows consumers to choose specific levels of coverage from a large menu of options.

In addition to the above, major retail institutions are making significant investments in health services and products. Amazon, for example, recently spent \$4B to acquire primary care chain, One Medical. CVS has acquired Oak Street Health. Walmart will have doubled the size of its in-store clinics (Walmart Health) by the end of 2024.

Finally, the trend of hospital-level care at home continues to emerge with approximately 300 programs currently in place throughout the country. By 2030, it is anticipated that one in six American Hospitals will offer them.



SPACE AVAILABILITY

Current Medical Office Building ("MOB") Statistics

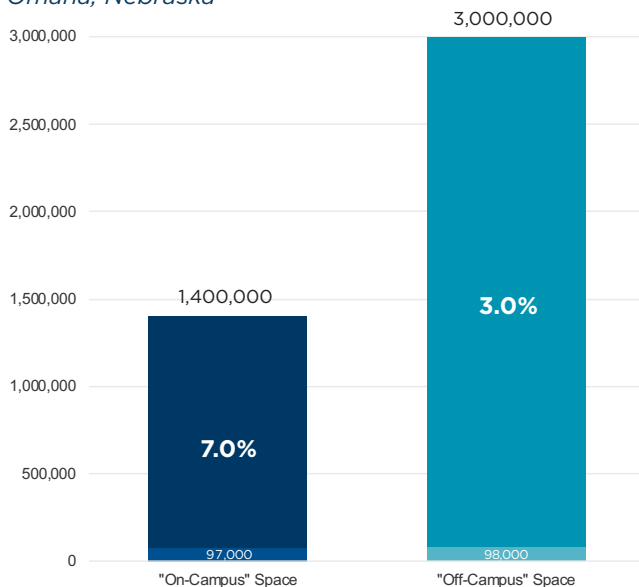
Among 159 buildings recently surveyed, there is approximately 4.4M SF of MOB inventory in the metropolitan area. Available space reflects approximately 195K SF, or approximately 4.5% of all medical space. In contrast, nationwide, the average medical office space vacancy is approximately 7.6%. Omaha, to be sure, continues to possess a healthy MOB market.

Approximately 32% (1.4M SF) of total MOB space reflects "On-Campus" space, square footage located on Hospital campuses; while the remaining 68% (3M SF), "Off-Campus" space. Space availability in each category reflects 97K SF (7%) and 98K SF (3%), 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.

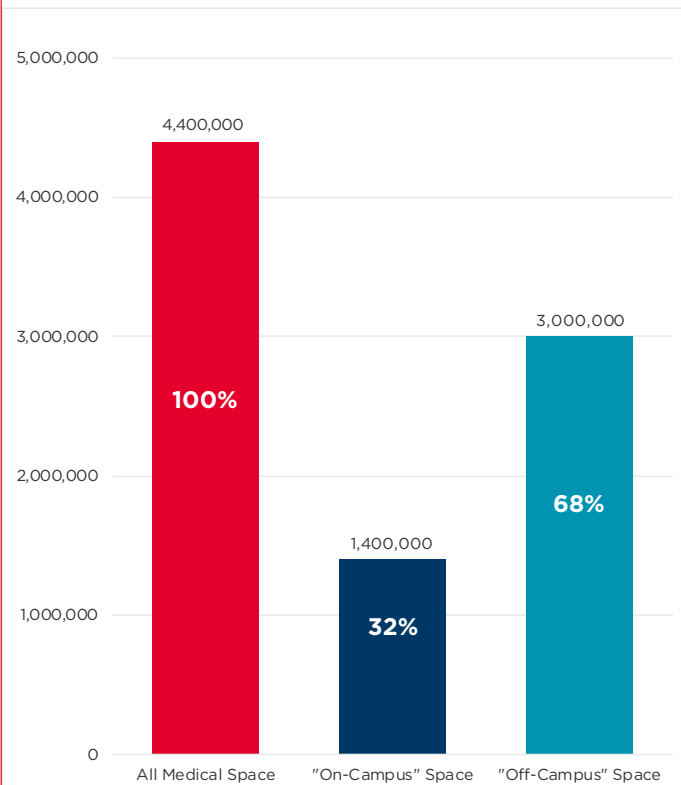
Campus Available SF

Omaha, Nebraska



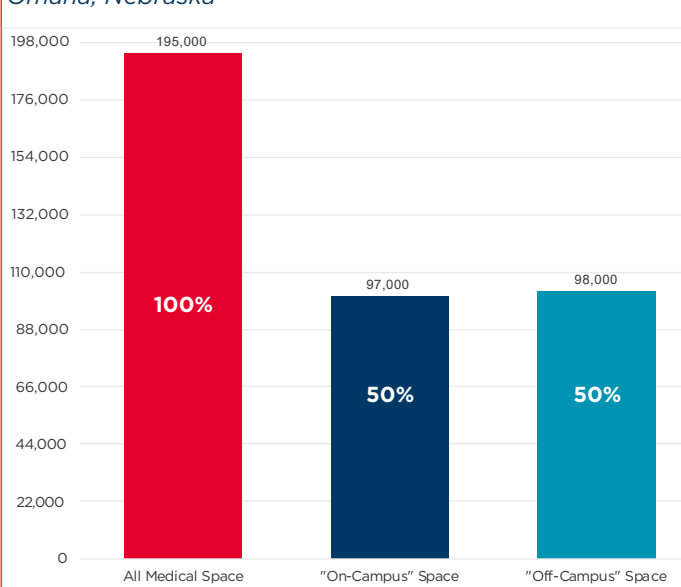
Market SF

Omaha, Nebraska



Market Available SF

Omaha, Nebraska



Note: Numbers for all data tables have been rounded.



INVESTMENT ACTIVITY & PRICING

Local Investment Activity & Pricing

Three medical office building sale transactions occurred locally in 2023. The former DaVita Dialysis, 144 South 40th Street, sold for \$2.595M (\$465 PSF). The two-story facility contains approximately 5.6K SF. A dermatology practice is planning to occupy the building. Children's Hospital sold its new 8K SF clinic, 20011 Manderson Street, for \$5.6M (\$700 PSF) to an investor. The hospital leased back the facility for 15 years. Lastly, OMAHAFACE Plastic Surgery & Med Spa acquired the former CHI Clinic, 1130 North 204th Street, for \$1.445M (\$239 PSF).

National 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 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 consequence, there remains a strong appetite for "cycle-resilient" real estate investment that medical and healthcare real estate offers. The industry has more favorable occupancy than in any other real estate sector, 92%. In contrast the general office market is 84%. Investors are moreover attracted to the "retailization of healthcare", a location emphasis of MOBS in affluent suburban markets that are closer to the patients and to the creditworthiness of tenants. These two attributes continue to drive premium pricing for "off-campus" medical buildings.

Investors are now considering a broader range of healthcare users and tenant types, including behavioral health.

Although telehealth has enjoyed a recent surge in popularity, the widespread adoption and use has not substantially

altered demand for medical office space. Telemedicine is a great supplement, but not a replacement for traditional medical practice. Physicians will still require medical office space to perform traditional office visits.

Buyer profile continues to transition from a market dominated by institutional and Public/REIT buyers (27%) to one with non-traditional private equity and private investors (60%). The balance of the investor pool for medical office buildings is users (13%).

There's been an approximate 65% drop in sale transaction volume due to limited product availability, mainly driven by high price "hangover" expectations (sellers unwillingness to sell relative to current market conditions), and the cost of debt financing. For some larger institutions to grow their portfolio, mergers with or acquisitions of competitors are an opportunistic way to expand. Physicians Realty Trust (aka DOC REIT) and Healthpeak Properties, for example, just announced their merger. The value of the combined entity will approximate \$21B and will involve 52M SF. The transaction is expected to close Q1 2024.

Capitalization rates are on the rise as the cost of capital increases. Class A and Class B "On Campus" product universally experienced a 35-basis point increase, while Class A and Class B "Off Campus" property had a 30-basis point increase, versus a year ago. Current national averages are 5.85% and 6.1% for Class A product "On" and "Off campus", respectively; 7.55% and 8.2% for Class B product, correspondingly.

Despite rising capitalization rates, the demand for medical office buildings is expected to remain strong as additional capital rotates from the more volatile office/retail/hospitality sectors to medical office.

"Nationally, Class A and Class B on-campus and off-campus capitalization rates experienced an average 32.5% - basis point increase versus a year ago."

Development Trends

Nationally, regionally, and locally, today’s projects are focused primarily on behavioral health, outpatient surgery and imaging technology replacement. Many cancer, cardiology and imaging procedures are moving to outpatient facilities. These opportunities avoid hospital visits and provide patients with efficient and high-quality care at more affordable prices. While new project development is preferred in most user cases, renovations provide advantages in speed to market and lower costs compared to new construction translating to lower rent for medical users.

Sites must be close to where the patient works and lives and be visible, accessible, have abundant parking and be close to retail, dining, and other service amenities. New buildings have more advanced mechanical systems, better filtration and humidity levels and patient flow, and ability to quickly adapt to another pandemic with renovations or add-ons with expansion in mind. Interior space design today is patient centric with proper wayfinding access with welcoming environments that prioritize patient comfort, including abundant natural light, soft color palettes and soundproof patient rooms.



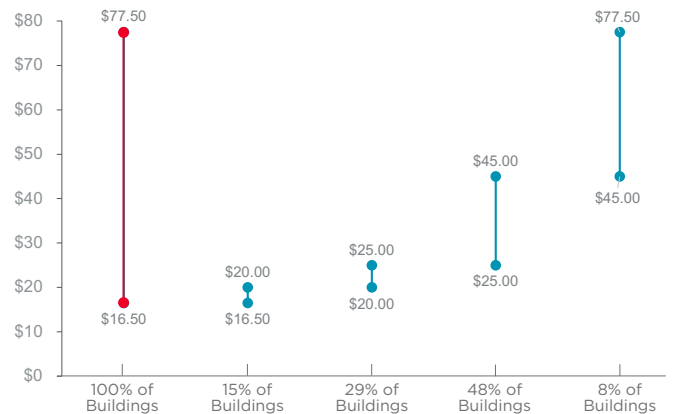
LOCAL RENTAL RATES

Of reported rents of 65 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” \$16.50 to \$77.50 PSF. The significantly lower rate range, particularly in the “off-campus” sector, reflects older MOB, containing available space that probably will not be used as medical office space again because of location, size, or condition. The higher rate range, particularly those that exceed \$35.00 PSF reflect newer specialty medical space. The highest reported rent reflects two micro hospitals added to the survey one year ago. Local rental rates have generally followed national rental rate increases of 2-3%/year.

“Local rental rates have generally followed national rental rate increases of 2-3%/year.”

Full Service Rent PSF

Omaha, Nebraska



*Based upon 65 buildings surveyed.



COMPLETED PROJECTS

- The fourth and last building at **Nebraska Medicine’s Village Pointe Health Center** has been completed. The 90K-Square Foot, \$81M, facility is located at **17405 Burke Street**. Services include heart and vascular, orthopedics, pre-surgical screening and pulmonology, dermatology, as well as an on-site outpatient pharmacy. The building was developed in partnership with Noddle Companies.
- **MD West One Medical Office Building, Fountain Ridge Office Park, 222 N 192nd Street**. The Single-Story, 37.5K SF building is a joint venture with R & R Realty, Des Moines, IA, and MD West One of Omaha. The medical group provides orthopedic, neurosurgery and spine care services.

- **Dermatology Specialists of Omaha, 1825 N. 205th Street.** Single-story, 5K SF.
- **CHI Health Clinic Elkhorn (28.7K SF), 1625 N. 205th Street.** The facility offers primary care, physical therapy, behavioral health services and specialty care, as well as imaging services, a laboratory, and a retail pharmacy.
- **The C.L. Werner Center for Health Sciences Education, Creighton University School of Medicine, SEC Cuming Street & HWY 75** has opened. The \$75M Five-Story facility now serves as the new home of Creighton University's School of Medicine and as a hub for all the University's health sciences schools and colleges, except dentistry. Programs include medicine, nursing, pharmacy, physical therapy, occupational therapy, behavioral health and other disciplines via classrooms, a simulation center, study areas, labs, and administrative areas. It is expected that 5,900 students, faculty and staff will use the center annually.
- Ground has been broken for the **Veterans Affairs Clinic, southwest of 72nd Street & Giles Road.** The development is sponsored by the VA Nebraska - Western Iowa Health Care System. The 25K SF, \$7.5M, facility will provide primary care, women's care, podiatry, an eye clinic, x-rays, audiology, and physical therapy. Construction completion will be late summer 2024.
- Ground has been broken on the \$110M **Behavioral Health & Wellness Center at Children's Nebraska, 84th & West Dodge Road.** The 107.25K SF Facility will provide mental health services to children, teens, and young adults. Children's Nebraska Hospital and Medical Center will operate the Center. The Project, spearheaded by the non-profit Mental Health Innovation Foundation, is primarily funded by private donations (\$79M). The balance of funding is coming from the American Rescue Plan Act (\$16M) and Children's Nebraska Hospital and Medical Center (\$15M). Project completion is slated for early 2026. The facility will include 38 inpatient beds with the ability to expand to 48 beds. In addition to hospitalization, Children's Nebraska will be providing additional services including Behavioral Health Emergency Assessment, a Pediatric Mental Health Urgent Care Center, a Pediatric Primary Care Clinic, an Out-patient Eating Disorder Center, and a Partial Hospitalization Program to provide daily support to former inpatient youths.
- Construction is underway for the **D & J Medical Office Building, 11902 West Center Road.** The 22.7K SF facility will contain a dental office and medical office space. Project completion is planned for early 2024.
- Construction is well underway on the two-story, 60K SF, **Children's Nebraska Hospital Pediatric Outpatient Center, 204th & Harrison Streets.** The \$46M project will open in Spring 2024. Services will include orthopedics and sports medicine, cardiac, pulmonary and eight other specialties, a Children's Physicians primary care clinic, radiology and laboratory services, nutritional care, and some behavioral health services. An outpatient surgery center will eventually complement the development.
- Construction is nearing completion on the **Children's Nebraska Physicians Clinic (10.1K SF), 10705 Hillcrest Plaza.** The facility should be operational during Q1 2024.
- Construction is nearly complete on the \$60M, 120K SF, **Community Alliance Health Center, 7171 Mercy Road.**



PROJECTS UNDER CONSTRUCTION

“Local rental rates have generally followed national rental rate increases of 2-3%/year.”

Funding was secured through the American Rescue Plan Act (\$10M) and Community (\$50M). Community Alliance will expand its primary care offerings, with primary care providers working alongside mental health providers. Services will include a dedicated health and wellness area; expanded access to employment, rehabilitation, family education and care coordination and an on-site pharmacy.

- **Nebraska Medicine (“NM”) and the University of Nebraska Medical Center (“UNMC”) are partnering on the Saddle Creek Road development, bounded by 48th Street to the west, Farnam Street to the north and Leavenworth Street to the south. An Innovation Hub and Administration Tower** will anchor the approximate 30-acre development. In addition to facilities for various office use, it is envisioned that a mixed-use campus will evolve containing recreational green spaces alongside restaurants and retail operations. When completed over the next 10-20 years, the Project will contain 1.75M SF of building space, representing an approximate 20% growth of the medical campus’ current 9M SF.

Innovation Hub

- The former Omaha Steel Works facilities will be transformed into a \$45 million project to be known as “The Catalyst”, to contain approximately 170K SF. This is a joint venture with a private developer. The existing two-structure 140K SF facility will be renovated and expanded into a mixed-use innovation technology campus that will include a food hall, market, an event center and office space. The innovation hub portion,

comprising approximately 50K SF and principally funded by NM and UNMC, will house several existing University of Nebraska Medicine operations, including UNeMed, UNMC’s tech transfer office, and UNeTech, which coordinates the creation of business startups from UNMC and University of Nebraska at Omaha research. In addition, other occupants planned include UNeHealth, UNMC’s contracting and fiscal arm for industry-funded clinical trials, and UNO’s Nebraska Business Development Center. Additional uses will include space for new health technology start-ups. It is hoped that the project when completed will eventually generate \$1B in economic impact for the City of Omaha. Construction completion is scheduled for Fall 2024.

Administration Tower

- “CORE”, a new 350K SF administrative tower complete with a parking garage, will be constructed near the southwest corner of Farnam Street and Saddle Creek Road. The \$87M tiered complex could stretch as high as 17 floors and will house critical functions for the University Medical Center, such as providing workspace and collaboration for clinical faculty as well as serve as the administrative headquarters for many university and health care system functions. The roof of the low-rise parking garage will resemble a small park that extends east and over busy Saddle Creek Road. Serving as a pedestrian crossing, the landscaped bridge will link the new development to the existing UNMC campus. The project is scheduled to be completed in Spring 2026.



Children's Nebraska Hospital Pediatric Outpatient Center
204th and Harrison Street



Behavioral Health and Wellness Center at Children's
84th and Dodge Road



ANNOUNCEMENTS

Two \$60M Douglas County Mental Health Treatment Facilities are being planned. The first is a new building, the **Douglas County Community Mental Health Center**, that will be built at **1601 Jackson Street**. This would be a relocation from the current facility located at 4102 Woolworth Avenue. The second facility will be a mental health unit that would be connected to the Douglas County Jail, **17th & Jones Street**, the **Douglas County Correctional Mental Health Center**. Funding for the project is coming from the 2022 American Rescue Plan Act (\$50M), CARES ACT (\$8M), and Douglas County (\$2M).

The Nebraska Board of Regents unanimously approved allowing the University of Nebraska Medical Center (UNMC) to begin the planning process for a new \$2.19B academic medical center, the largest project in university history. The project named **Project Health (“Building the Healthiest Nebraska”)** will provide modern spaces where UNMC faculty and staff can train the next generation of health care providers. The new facility will replace several of the existing health center buildings, now 50-75 years old, that have nearly \$1B in deferred maintenance. Moreover, the new facility will reduce operating costs, create more efficient and effective care, and provide education program expansion. Project Health will allow UNMC to expand the number of health care providers it educates, including adding about 100 new physician residency positions by 2030.

The identified area on campus is the former Munore-Meyer Institute location, containing approximately 7.5 acres. It is hoped that construction would begin early 2025. Eventually, the development will double as a federal all-hazards response facility, that will include a host of programs focused on providing education and training as well as support for research and surge capacity in the event of pandemics and natural disasters. The project is 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. The City of Omaha has pledged \$93M toward the project. Omaha is one of five pilot sites for the United States to develop a federal program to bolster the Nation’s disaster response capacity.



UNMC Innovation Hub



UNMC Administrative Tower

Market Report Sources: The Omaha World Herald, Lincoln Journal-Star, U.S. Bureau of Labor Statistics, The Federal Reserve, Peterson-KFF health System Tracker: Health Spending, “An early look at what is driving health costs in 2023 ACA markets” (July 18, 2022), SHRM: Benefits, “Medical Plan Costs expected to see bigger rise in 2023” (August 16, 2022), Exploding Topics: “8 Healthcare Trends (2023-2025)” (July 13, 2022), Cushman & Wakefield Webinar: “The State of Healthcare” (September 8, 2022, David Porter, Executive Partner, Advisory Board), CNN Business (October 2, 2022, Allison Morrow), The Conference Board (November 9, 2022), Bankrate (November 11, 2022, Sarah Foster), Cushman & Wakefield Vital Signs 2023: Healthcare Sector Outlook, Cushman & Wakefield 2022 Medical Office Investor Survey, Heartland Real Estate Business (December 2022), AARP Bulletin (September 2023), SHRM Report, Kathryn Mayer (August 17, 2023), Medical Economic Publication, Todd Shryock (August 25, 2023), Heartland Real Estate Business (November 2023), CoStar Analytics (December 13, 2023), J.P. Morgan 2024 Economic Outlook: 10 Considerations for the U.S. Economy (December 6, 2023)