

Summer **2013** Medical Office
Market Report

Healthcare
Division



NAI James E. Hanson

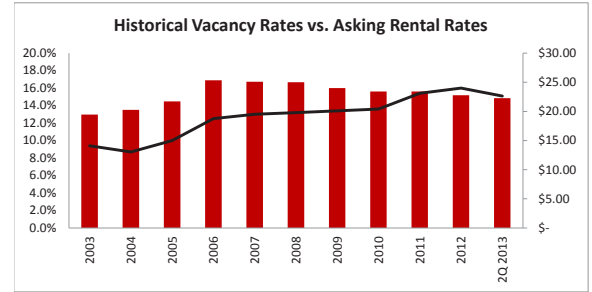


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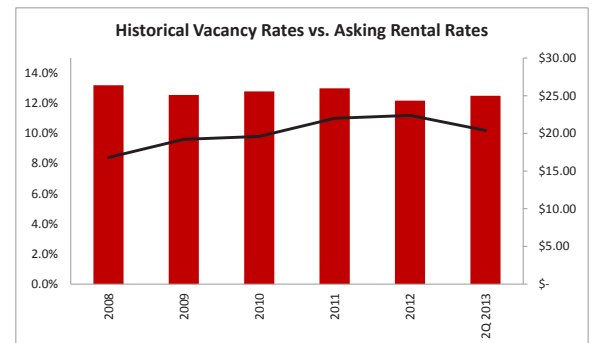
Healthcare
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NAI James E. Hanson
Commercial Real Estate Services • Middlesex

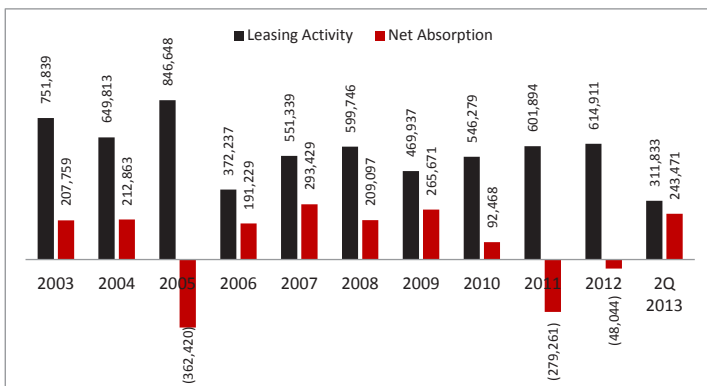
- Medical tenants are viewed as stable due to the high cost of establishing offices and moving equipment. Some depend on their location near a hospital or other medical offices to reach a steady clientele.
- Medical tenants tend to have good credit and leases that provide for rent growth over the term of the lease. These factors have heightened interest in medical net lease assets in recent months. A total of 44 properties traded during 2013, totaling \$115,194,097 in sales volume at an average price per square foot of \$171.00. Assets that sold three years ago at cap rates in the 8.0% to 10.0% range now trade between 7.0% and 7.5%.
- At a time when real estate investors still have concerns about the future performance of many traditional property types, including office, retail and multifamily, some have started to set aside capital for alternative assets. Such assets, include senior housing and medical office buildings. Some specialties in medical sites are growing rapidly, such as dialysis clinics.
- The medical office market in New Jersey was the only sector where properties were transacting throughout the economic downturn because investors felt they were less risky than traditional office, industrial and retail properties.
- We predict there will be a lot more demand for medical office space. Investors are very active in not only buying and selling available properties, but they are even going to existing hospitals and asking if they will sell as well as purchasing standard office buildings and repositioning the assets as medical office buildings.
- Municipalities within State are beginning to create new zoning districts for medical office use, like in Teaneck which will ease the way for medical offices and other health-related changes. This will eliminate restrictions on some buildings which the owners who had long sought to rent space to medical professionals, but were barred from doing so.
- Going forward, these new zoning districts will permit physicians and other health care professionals, including physical therapists; health-related businesses such as laboratories and medical clinics to expand their business within their towns and around nearby hospitals.



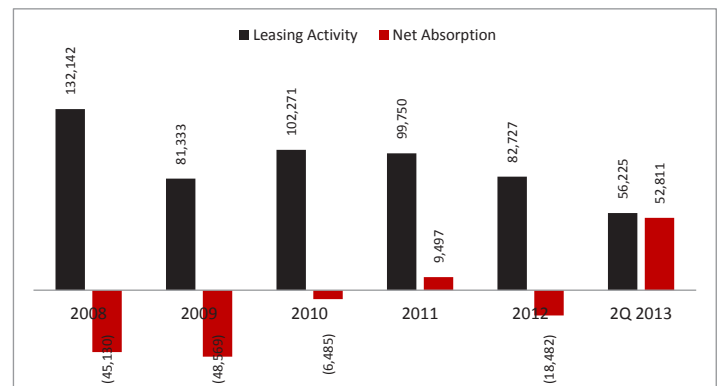
New Jersey



Bergen County



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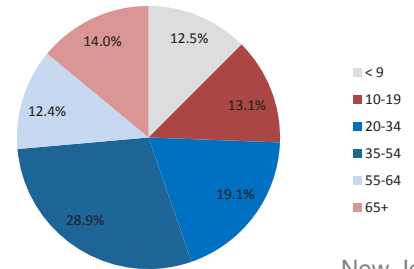
- Demographics are playing a huge part in investors' decisions to pursue such specialized properties as seniors housing, student housing and medical offices.
- The aging populace is expected to increasingly seek medical services, and the Affordable Care Act will expand insurance rolls, while improvements in medical services will also heighten demand.
- The market is being driven by the 78 million baby boomers that are nearing retirement age and the 80 million "echo boomers," many of whom are entering their college years.
- The majority of the aging population in both New Jersey and Bergen County are within the 35-54 age group and represents nearly 30% of the entire population.
- The 65+ age group consists of 15% of the population for both the State and County.

New Jersey is the 11th-most populous and the most densely populated of the 50 United States with 8,830,455 inhabitants and lies mostly within the expansive metropolitan areas of New York City and Philadelphia. New Jersey is also the second-wealthiest U.S. state. The 2012 average household income registered \$90,863.

Bergen County is the most populous county in New Jersey and is home to 905,771 inhabitants. Bergen is also considered one of the most affluent counties in the state and in the entire country.

Over 40% of the work force earns more than \$100,000 per annum and the average household income is \$105,689 per year.

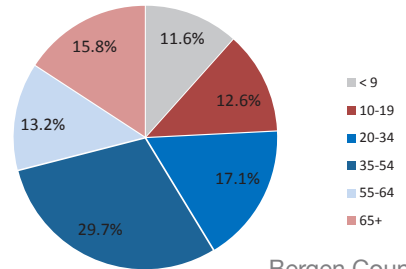
Population By Age



New Jersey



Population By Age



Bergen County

Property Address	City	County	Bldg SF	Sale Price	Price PSF
377 Skinner Memorial Drive	Jersey City	Hudson	68,000	\$ 23,217,085	\$ 341.43
140 Rte 17 N	Paramus	Bergen	64,208	\$ 11,725,000	\$ 182.61
601 Pavonia Avenue	Jersey City	Hudson	24,000	\$ 6,200,000	\$ 258.33
88 Princeton Hightstown Road	Princeton Junction	Mercer	25,000	\$ 4,500,000	\$ 180.00
66 East Avenue	Woodstown	Salem	9,350	\$ 3,670,000	\$ 392.51
40 Morristown Road	Bernardsville	Somerset	14,592	\$ 3,600,000	\$ 246.71
200 Engle Street (2 Properties)	Englewood	Bergen	32,081	\$ 3,470,000	\$ 108.16
1907 State Highway 35	Oakhurst	Monmouth	12,880	\$ 3,000,000	\$ 232.92
8 Reading Road	Flemington	Hunterdon	22,424	\$ 2,200,000	\$ 98.11
651 John F Kennedy Way	Willingboro,	Burlington	11,000	\$ 1,801,177	\$ 163.74
155 State Street	Hackensack	Bergen	21,000	\$ 1,666,500	\$ 79.36
208 Bunn Drive	Princeton	Mercer	4,911	\$ 1,500,000	\$ 305.44
298 Applegarth Road	Monroe	Middlesex	50,000	\$ 1,346,836	\$ 26.94
1900 Arena Drive	Hamilton	Mercer	9,711	\$ 1,200,000	\$ 123.57

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Northern New Jersey vs. Bergen County

# Bldgs	Total RBA	Total Vacant Available SF	Total Vacant Avail %	Occupied SF	Occupied %	Total Net Absorption	Total SF Leased	# Under Const	Direct Average Rate	Sublet Average Rate	Total Average Rate
1,612	21,070,868	3,187,560	15.1%	17,837,180	84.7%	243,471	311,833	0	\$ 22.26	\$ 24.48	\$ 22.27
256	3,421,457	342,197	10.0%	3,077,560	89.9%	52,811	56,225	0	\$ 25.03	\$ 20.05	\$ 25.00

Market Snapshot 2Q2013

- **The Northern New Jersey Medical Office Market** consists of 1,612 medical office buildings totaling 21,070,868 sf.
- Occupancy Rates in Northern New Jersey remained stable over the last 10 years, currently 85%.
- Vacancy rates are down one percentage point since 2012, now 15.1%.
- Sublease rents, now \$24.48 psf, registered \$2.22 psf higher than Direct Rents, currently \$22.26 psf.
- Leasing activity totaled 311,833 sf during the first half of the year, while net absorption registered a positive 243,471 sf.
- **The Bergen County Medical Office Market** consists of 256 medical office buildings totaling 3,421,457 sf and represents 16.3% of the Northern New Jersey market.
- Historically the Bergen County medical office market has remained strong with occupancy rates consistently registering between 88%-90% over the last 10 years.
- Like the New Jersey market, Bergen County also experienced a decrease in vacancy from 11.2% at year-end 2012 to 10.1% during the second quarter 2013.
- Sublease and Direct rents were on par with each other registering \$20.03 and \$20.05 respectively.
- Leasing activity in Bergen County totaled 56,225 sf and net absorption registered a positive 52,811 sf.



CURRENT LISTINGS

- 99 W. Essex Street
Maywood, NJ - 950 - 3,476 SF
- 385 Prospect Avenue
Hackensack, NJ - 1,497-5,533 SF (7 units)
- 200 Riverfront Boulevard
Elmwood Park, NJ - 4,500 SF
- 122 E. Ridgewood Avenue
Paramus, NJ - 2,224 (divisible)
- 97 E Linden Avenue
Elmwood Park, NJ - 6,120 (divisible) + 1,500 SF storage
- 190 Midland Avenue
Saddle Brook, NJ - 5,376 - 11,000 SF
- 1225 McBride Avenue
Woodland Park, NJ - 1,000 - 103,178 SF

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