

4Q 2016

Medical Office Report

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Medical Office 4Q'16 Market Report



Medical Office
Market

310 Central Avenue, East Orange

At a Glance...

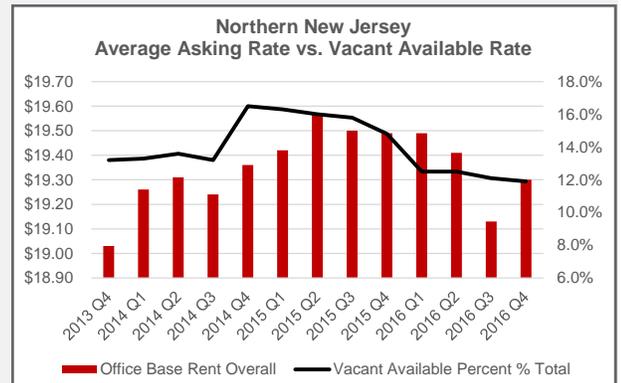
- There are currently 1,958 medical buildings in Northern New Jersey, which consists of 13 counties, representing 26,992,236 square feet.
- The Bergen County market accounts for 290 (15%) of those medical buildings or 3,661,661 square feet.
- Average asking rates ended the quarter at \$19.30 per square foot base rent in Northern New Jersey compared to \$22.55 per square foot base rent in Bergen County.

Market Update

There was over 147,000 square feet leased in the fourth quarter of 2016 in the Northern New Jersey market. Average asking rates ended the quarter at \$19.30 per square foot. This was an increase of \$0.18 per square foot from the previous quarter. Compared to a year ago in the fourth quarter of 2015, rates are down \$0.19 per square foot. Vacancy ended the quarter at 11.9%, which is down 0.06% from the third quarter of 2016. Net absorption remained positive with over 63,000 square feet absorbed.

Bergen County saw over 33,000 square feet leased in the fourth quarter of 2016. Average asking rates decreased from the previous quarter ending the quarter at \$22.55 per square foot, a decrease of \$0.20 per square foot from the third quarter. Vacancy decreased slightly and ended the quarter at 8.5% while net absorption remained positive with over 15,000 square feet absorbed.

CarePoint Health announced in the fourth quarter that they are going to open nine satellite ER centers in North Jersey in a partnership with Adeptus Health. There will be five locations in Hudson County, three in Bergen County and one in Passaic County. The goal of the centers is to relieve overcrowding in their current ERs. All locations will be within 12 miles of Christ Hospital in Jersey City.



Top Transactions for 4Q'16

SALES

310 Central Avenue, East Orange

68,000 sf sold for \$11,876,000

Buyer: Global Medical REIT, Inc.

Seller: Prospect Medical Holdings, Inc.

48 S Franklin Turnpike, Ramsey

27,000 sf sold for \$7,000,000

Buyer: Joseph Corrao Realty Corp

Seller: Berson & Corrado

LEASES

12,500 sf - 6 Country Club Drive, Clinton

10,000 sf - 600 Pavonia Avenue, Jersey City

7,500 sf - 134 Evergreen Place, East Orange

6,000 sf - 234 Industrial Way, Eatontown

IRS Provides Path for Physicians to Take Advantage of their Rental Property Losses

Medical Office
Market

Article Written By:

Deborah A. Nappi, CPA, MST



A recent IRS ruling issued in the form of a [Technical Advice Memorandum \(TAM\)](#)* ruled in favor of a physician's tax treatment of his medical practice and ownership interest in an outpatient surgery center as separate activities under passive activity loss (PAL) rules. The ruling was based on several factors, including the lack of any direct relationship between the physician's practice and his lack of control over the outpatient surgery center. The advantage to the physician is that now the outpatient surgery center is considered passive income, which can offset against rental property losses that would have otherwise been suspended and carried forward to future tax years.



Under the PAL rules of Code Section 469, losses of passive activities may only be used to offset passive activity income. Passive activity describes any activity which involves the conduct of any trade or business in which the taxpayer does not materially participate. A taxpayer may "group together" the activities arising from the various trade, businesses, or rental activities as a single entity if the activities are deemed an appropriate "economic unit" for measuring gain or loss for PAL purposes.

In certain cases, the IRS has the authority to regroup a taxpayer's activities especially if the principal purpose of the grouping is to circumvent the PAL rules. These rules suspend otherwise deductible losses until passive activity is generated.

In the case at the center of the TAM ruling, the taxpayer was a physician who was an employee and percentage shareholder of two medical practices (both S corporations). Along with many other physicians, he also held a small ownership interest in a limited liability company that owned a percentage of an outpatient surgery center. The physician viewed this LLC as an alternative surgery location for his patients, and the investment had no impact on the income generated from either medical practice.

On the filing of their joint personal income tax returns, the physician and his wife treated the LLC "passive activity" as separate from the activity of the medical practices. The IRS, however, wanted to re-group the activities into one single economic unit, given that they all fell within the medical industry.

Ultimately, since the ownership interests and exercise of control over the medical practices differed from those of the outpatient surgery center, the taxpayer's reported position of separate activities was upheld. As a result, he was able to utilize losses generated by a passive rental activity to offset the passive income generated by his investment in the outpatient surgery center. Had it not been for the passive income generated, the rental activity losses would have been suspended and carried over to another tax year.

Transactions subject to the PAL rules require careful consideration, but as this case demonstrates, can be incorporated into an effective part of an overall tax strategy.

**A technical advice memorandum (TAM) is a written interpretation of tax law as it relates to a specific problem presented by a specific taxpayer.*

Medical Office Waiting Area Design is Critical



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NAI James E. Hanson

Medical office design and layout must be successful for patient comfort and operational functionality. Experienced architectural input can insure that a “deal” goes through for the commercial real estate broker or landlord. Doctors won’t sign a lease, or purchase real estate if it can’t be demonstrated that the space fits their vision of how a medical practice should work. The “go-or-no-go” analysis starts with the waiting area which creates the initial image of a medical facility. Doctors are particularly interested in the number of seats that can be accommodated in their waiting rooms. They also want to see that pedestrian traffic separates patients entering with those who have just paid their bills or discussed something in privacy in accordance with HIPAA regulations. The Ives Architecture Studio often has to relocate walls and use design creativity to make the space planning work for each unique medical practice.

Since patients are often nervous in a healthcare environment, it is important to provide proper lighting, sensitive interior design and soft colors as well as comfortable well-arranged seating to create a sense of calm. The Ives staff has found that custom designed receptionist desks with distinctive company graphics will set the ambiance of the office as one enters the space. The Ives Architecture Studio has completed many projects that increase patient and doctor satisfaction, however; the bottom line is that you must demonstrate in advance of commitment to a new location that the office space will work for a particular medical practice. This starts with the waiting area. If you can’t do this, your potential client will look elsewhere. Therefore, The Ives Architecture Studio develops the space plan and provides sketches of the waiting area initially to assist in consummating the real estate deal. Then we carry the project through to the completion of construction and occupancy.



Featured Medical Office Properties of NAI James E. Hanson



75 Orient Way
Rutherford, NJ
2,059-4,654± sf for lease



23-00 Route 208
Fair Lawn, NJ
150-3,591± sf for lease



6 Arrow Road
Ramsey, NJ
17,576 sf for sale/lease



122 E. Ridgewood Avenue
Paramus, NJ
2,224 sf for lease