

Northern & Central NJ 3Q 2020 Report

FEATURING

“The Evolution of Healthcare Services”
by **Darren Lizzack, MSRE** and **Randy Horning, MSRE**



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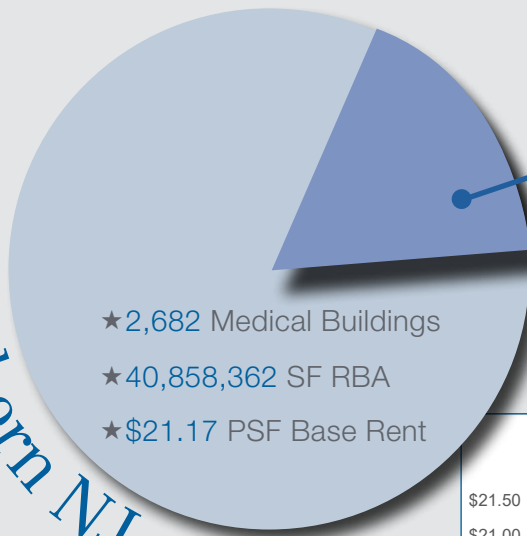
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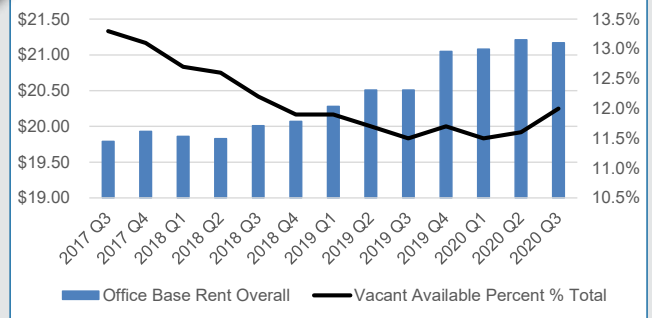
Northern NJ



Bergen County

- ★398 Medical Buildings
- ★5,734,128 SF RBA
- ★\$24.62 PSF Base Rent

Northern New Jersey
Average Asking Rate vs. Vacant Available Rate



TOP SALES & LEASES

SALES

18,000 SF | \$2,420,000

151 Route 10 E., Succasunna

Buyer: Big A 151 Route 10 LLC

Seller: Alphacyn Holdings LLC

9,060 SF | \$1,100,000

70-72 Kinderkamack Rd., Emerson

Buyer: Mara Terraces LLC

Seller: Guttilla Real Estate Holding LLC

LEASES

37,029 SF | 1125 US Highway 22 W, Bridgewater

10,000 SF | 380 Foothill Rd., Bridgewater

2,700 SF | 8305 Bergenline Ave., North Bergen*

2,500 SF | 354 Old Hook Rd., Westwood

2,250 SF | 108 Route 46, Parsippany*

**NAI Hanson Transaction.*

Hackensack Meridian
Health Named Official
Health Care Partner of
American Dream

Hackensack has advised the mall on reopening plans and protocols. There will be an on-site urgent care as well as educational pop-ups.

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Quest Diagnostics Now
Offers Two Consumer-
Initiated and Physician-
Ordered COVID-19
Diagnostic Test Options
for Active COVID-19
Infection Through
QuestDirect

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Johnson & Johnson
Covid-19 Vaccine Enters
Phase 3 Trial in US

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The Evolution of Healthcare Services

By: Darren Lizzack and Randy Horning

Prior to the COVID-19 pandemic, healthcare had already begun to modify its delivery by implementing telemedicine and utilizing retail space for medical buildings. Consumers expect healthcare facilities to remain open on the weekends and in the evenings. People appreciate the convenience of handling vaccinations or checkups — and even getting minor issues addressed — at local supermarkets, pharmacies, or retail outlets.

Many hospitals have shifted their focuses from building more hospitals to adapting retail space for use as clinics, urgent care, and dialysis centers or constructing smaller satellite offices in commercial, well-trafficked areas away from the main complex.

To meet consumer demand, many healthcare systems have opened “outposts” closer and more conveniently located to their patients. A 2018 report found that the number outpatient clinics increased to 26,863 between 2005 and 2016 — a 51% growth. A [Deloitte report](#) indicates that between 2005 and 2015, visits to outpatient facilities grew 14% between 2005 and 2015 but the aggregate share of outpatient services in hospital revenue has grown from 28% in 1994 to 47% in 2016.



Doctors can now safely perform many surgeries and medical/diagnostic procedures in an outpatient setting, and patients have embraced these options which often cost less and offer more convenience than inpatient services.

Healthcare Investments and Growth Pre- and Post-Pandemic

Historically, healthcare has been fairly recession proof. It will comprise nearly [20% of the GDP by 2026](#), currently employs 16 million people, and utilizes approximately 3 billion square feet of real estate.

According to a study conducted by [Realtor Magazine](#), while typical doctors' offices once averaged between 1,000 to 2,000 SF, today's healthcare spaces have grown to 3,000 SF or more. Spaces that include primary care, pharmacy, ambulatory surgery, and other subspecialties in one place have footprints that can top 8,000 SF or more.

While consumer spending on healthcare services dropped significantly in the first quarter of 2020 and employment fell considerably at dentists and doctors' offices between February and April, the numbers are bouncing back. Other service providers have seen a slower recovery, but the medical office transaction activity has fared well. [Experts](#) predict that with rent and occupancy rates holding steady, investors will still have an interest in purchasing office buildings.

While foreign investment has shrunk, private equity buyers have expressed interests in jumping into the healthcare sector. [Healthcare investment group TPG](#) has seen its funds generate 3.2 times

The New Reality of Healthcare Real Estate

COVID-19 hasn't just accelerated the use of telehealth and telemedicine. It's changed the dynamics of patient-provider relationships. Commercial real estate professionals suggest that:

- Even as the demand for preventative and personalized care among seniors and Millennials had already begun to influence healthcare real estate pre-COVID, these two groups will expect the continued trend of preventative care becoming more available in convenient locations throughout population centers
- Investments in medical office buildings (MOBs) — favored for long-term leases, stable occupancy rates and income, and tenant credit quality — will continue to grow

Watchdog Real Estate Project Management and [Bisnow](#) have also predicted a future that includes:

- The growth of more small-scale hospitals, or micro-hospitals in metro settings, with between 35,000 and 45,000 SF
- The expansion of existing sites, which costs less and takes less time
- New leasing arrangements created to align with the accounting rules set up by the [Financial Accounting Standards Board](#) that may prompt developers to offer alternatives to traditional leasing like credit-tenant leasing arrangements

The Growing Healthcare Footprint

According to [a 2019 Statista report](#) on the vacancy rate of U.S. MOBs in 2018, vacancies ranged from a high of 14.8% in Dallas-Fort Worth to a low of 5.7% in Boston, with New York and Philadelphia markets at 7.6% and 9.1% vacancy respectively.



The decision to build, buy, or lease is driven by various operational expenses. Building tends to be the costliest option, whereas leases may offer more flexibility and support future expansion.

Many medical office leases range between 10 and 15 years and have a low base rent. Some landlords lease spaces to tenants in a shell condition that includes a tenant improvement package on a per SF basis. Other landlords make improvements and turn over the turnkey condition spaces to the tenants, amortizing the improvements into the base rent, which drives the rental rate higher.

Commercial real estate professionals should see the expanding healthcare footprint as a long-term industry strategy, as healthcare systems and groups reevaluate their spaces and consolidate, sell off, or repurpose new properties.

CREA United's [Medical and Healthcare Real Estate Group](#) includes members with in-depth knowledge and expertise about the technological and regulatory requirements specific to the healthcare industry. Whether you're a healthcare provider exploring expansion or relocation possibilities, or a commercial real estate investor looking for a property to buy and lease to a healthcare provider, the CREA United members are ready to help.

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COMMERCIAL REAL ESTATE SERVICES WORLDWIDE

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6,000+ professionals

200+ marketing professionals

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Top 5 brand 2018 Lipsey ranking
of Commercial Real Estate Brands

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250+ CoStar Power Brokers

NAI James E. Hanson is committed to providing the highest quality commercial real estate services in Northern New Jersey, Southern New York and Eastern Pennsylvania and has been since it was founded in 1955.

Our services include: Brokerage, Property Management, Corporate Services, Financing, Logistics, Government Services, Healthcare, Tenant Representation, Cold Storage and Investment Services.

We are a part of NAI Global, a managed network of 6,000 professionals with 375 offices in 36+ countries and is one of the largest commercial real estate service providers worldwide with over 1.15 billion SF of property managed and over \$20 billion in annual transaction volume.

FEATURED MEDICAL PROPERTIES OF NAI JAMES E. HANSON



1135 Broad Street
Clifton, NJ
7,796 sf for lease
Medical Office



261 Route 36 East
Middletown, NJ
8,000 sf for sale or lease
Medical/Retail



23-00 Route 208
Fair Lawn, NJ
5,014 sf for lease
Medical Office



125 Washington Avenue
Dumont, NJ
5,869 sf divisible for lease
Professional Offices (6 suites)



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



75 Orient Way
Rutherford, NJ
23,501 sf for sale
Medical Office



535 High Mountain Road
North Haledon, NJ
24,682 sf for lease
Medical Office (6 Suites)



2 Dean Drive, Suite 3N
Tenafly, NJ
2,470 sf for sale
Surgery Center License/Condo

All information comes from sources deemed reliable from NAI James E. Hanson.