

4Q 2017

Medical Office Report

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Darren Lizzack and **Randy Horning** discuss finding the right size for your next medical practice tenant in 2018

Mark Manigan of **Brach Eichler** was featured in a NJ Biz article discussing the "One Room Law"



TEAM LIZZACK-HORNING

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Medical Office 4Q'17 Market Report

Medical Office
Market



140 Chestnut Street, Ridgewood

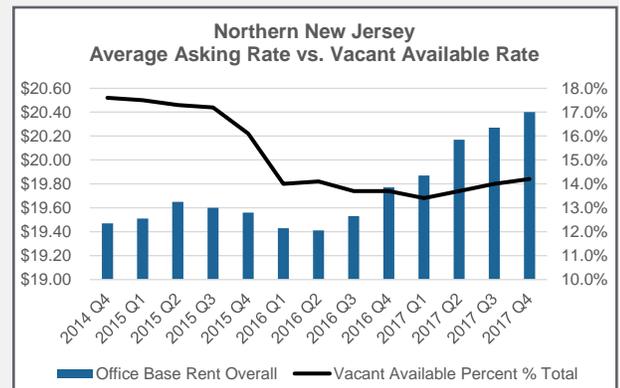
At a Glance...

- There are currently 2,066 medical buildings in Northern New Jersey, which consists of 13 counties, representing 29,608,326 square feet.
- The Bergen County market accounts for 306 (15%) of those medical buildings or 4,142,643 square feet.
- Average asking rates ended the quarter at \$20.40 per square foot base rent in Northern New Jersey compared to \$23.81 per square foot base rent in Bergen County.

Market Update

The Northern New Jersey market saw over 282,000 square feet leased in the fourth quarter of 2017 ending the year with over 812,000 square feet leased. The average asking rate has been on the rise and ended the quarter at \$20.40 per square foot, an increase of \$0.63 per square foot from the fourth quarter of 2016. Vacancy, which ended the fourth quarter at 14.2%, increased 0.5% from the fourth quarter of 2016. Net absorption ended the quarter with over 34,000 square feet absorbed and there was positive net absorption at the end of the year of over 76,000 square feet absorbed in 2017.

The Bergen County market saw over 45,000 square feet leased in the fourth quarter of 2017 and the year ended with over 152,000 square feet leased in total. Average asking rates are up \$1.33 per square foot from the fourth quarter of 2016 ending the quarter at \$23.81 per square foot and vacancy ended the quarter at 10.6%, a decrease of 0.7% from the fourth quarter of 2016. There was over 60,000 square feet absorbed at the end of the quarter and over 36,000 square feet absorbed at the end of the year.



Top Transactions for 4Q'17

SALES

500 N Franklin Turnpike, Ramsey
80,403 sf sold for \$9,700,000
Buyer: Highstone Equity Group
Seller: TA Realty

140 Chestnut Street, Ridgewood
14,044 sf sold for \$4,100,000
Buyer: West Bergen Mental Healthcare
Seller: Chestnut Medical Association

LEASES

18,298 sf - 890 Mountain Ave., New Providence

15,029 sf - 890 Mountain Ave., New Providence

10,101 sf - 350 Sparta Ave., Sparta

8,225 sf - 160 Summit Ave., Montvale

*Please see page 4 for NAI Hanson Transactions.

Finding the Right Size for Your Next Medical Practice Tenant in 2018

Medical Office
Market

By: Darren Lizzack, MSRE and Randy Horning, MSRE

Medical practitioners today who are seeking out new locations to either relocate their office, expand, consolidate, or even “Right Size” their space program are faced with many challenges. Team Lizzack/Horning focuses on healthcare commercial real estate, and during the past year, we have worked with many medical practice tenants who are realizing this is a difficult feat to accomplish. Even something as simple as knowing how much space they really need is an obstacle to overcome.

Doctors and office managers are accustomed to running their practice, not finding space. Often times doctors ask their office managers to take on this challenge, and when they find out they have been summoned to the task, they do what most of us would do: run a search on Google to see what’s out there. If they are fortunate to come across a healthcare broker/advisor/consultant, it usually takes a lot of hand holding and trust building for them to hire you and work with you. If you are in the opposite seat and are a building owner, consider bringing in a healthcare broker/consultant for you and your tenant to make sure both sides are receiving a fair deal, there is a comfortability factor on both sides, and to also make sure the process from finding the location to opening for business is as smooth and efficient as possible, including the project management.



Both landlord and tenant should have a consultant they can count on to educate both sides throughout this process. We cannot stress the importance of this educational experience and even more so, the right communication. The process takes on average six months or longer from the time the tenant identifies your property for consideration and begins the tedious process of negotiating all the business terms to be outlined in what is called a Letter of Intent (LOI), and creating a “test-fit” study to see if the tenants program fits into the space being considered. Simultaneously during negotiations, the landlord or tenant needs to price out the construction to negotiate the terms in

good faith. Our team will help guide you each step of the way during this process and once all the terms and conditions are agreed to, a lease will be prepared for negotiations with two (or more) attorneys. During this time, financing, moving, IT, furniture, and hiring the right contractor to get the construction done in a timely manner is crucial so the space is ready for occupancy and is ready on schedule and within budget.

The process of identifying and securing space is a strenuous and tedious process. If the tenant is also trying to figure out whether to purchase or lease, we as your trusted advisor will illustrate, via financial models, to provide a full understanding of what the financial picture looks like for this transaction. “Time is money” is a phrase you are most likely familiar with; make sure you don’t waste any time finding the right team to assist you from the very beginning. In speaking with other healthcare real estate professionals and experts, they believe there will be an increase in medical construction by at least 10% over the next year. However, medical vacancy rates are still low, and it is our prediction that interest rates, labor, and material will rise meaning the cost of construction and rent will increase. Contact us today for a free consultation. We welcome friendly introductions even if you want to pick our brains on what the temperature is in this every evolving healthcare marketplace in New Jersey.

New “One Room” Law Encourages Expansion of Surgical Centers in NJ

By: Vince Calio -- Seen in NJ BIZ (1/16/2018)

Healthcare
Division

NAI James E. Hanson

Surgical facilities in the state just got a boost from Trenton, as out-going Gov. Chris Christie just signed the “One Room” bill into law. The law allows registered surgical centers (“One Rooms”) to obtain licenses from the New Jersey Department of Health and now be exempt from the current “physical plant standards” overseen by the New Jersey Board of Medical Examiners, which many health care professionals saw as constricting. All One Rooms will be exempt from costly ambulatory care facility assessment and licensing fees under the new law. In essence, the new law eases the regulatory burdens on surgical practices and make it easier for them to sell or expand their businesses.

The One Room bill (A-4995/S-287) was signed into law on January 12 by Governor Christie and was sponsored by state Senator Joseph Vitale and Assemblyman Herb Conaway. According to health care attorney Mark Manigan at Roseland-based Brach Eichler, the new law benefits existing one rooms by allowing them to be exempt from existing licensing fees and the ambulatory facility gross receipts assessment, while still being subject to oversight by the NJDoH. “The key benefits of licensure include the fact that any physician (not just owners) can use your facility,” said Manigan in an email to NJBIZ. “Further, your facility is now salable to health systems and ASC management companies. You can also combine your facility with other One Rooms or licensed facilities to form a larger facility.”

Manigan added that the law also gives existing licensed surgical centers the option to expand, as it allows licensed centers to combine with an existing One Room. “The law permits you to combine with a One Room and expand. For example, you combine with a One Room, the existing One Room facility goes away and your facility expands by one operating room,” said Manigan. The law also allows health care systems to invest directly in One Rooms, he said. Health care systems that are already affiliated with One Rooms through management arrangements may consider restructuring the partnership as a direct investment.

“We see a tremendous amount of deal flow in the ASC market” as a result of the new law, Mannigan added. Jeff Shanton, president of the New Jersey Association of Ambulatory Surgery Centers, also praised the new law. “This new law also brings some much needed financial relief to our industry,” Shanton said in a written statement. “Specifically, the new law now permits combinations among registered surgical practices and licensed facilities, which would create some liquidity in the market, something desperately needed in light of the Codey Law moratorium on the development of new surgery centers. In addition, hospitals can also now affiliate with these registered surgical practices.”

NAI James E. Hanson Recently Completed/Under Contract Deals



82 Grand Avenue
Englewood, NJ
1,300 sf leased to a skin spa



63 Grand Avenue
River Edge, NJ
3,112 sf medical condo (buyer rep)



160 Overlook Avenue
Hackensack, NJ
2,610 sf medical condo

Featured Medical Office Properties of NAI James E. Hanson



177 N. Dean Street
Englewood, NJ
4,756-8,150 sf for lease



4 Hunter Street
Lodi, NJ
3,000± sf for lease



1700 Valley Road
Wayne, NJ
69,163± sf for lease



75 Orient Way
Rutherford, NJ
1,500-4,654± sf for lease

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