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OHIO REAL ESTATE CONSULTANTS, INC.

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This letter will update you on our current assignments, the trends we see in the industry, staff accomplishments, community service and other current information.

Current Assignments

- Three Medical Offices, Rural Ohio Locations
- 12-Property Portfolio, including Multifamily and other Investment Properties, Central Ohio
- Multifamily Property, Columbus CBD
- Multifamily Property, Hilliard
- Medical Office, Delaware, Ohio
- Medical Office, Worthington
- Single-Family Subdivision, New Albany
- Medical Office, Delaware County
- Single-Family Subdivision, Worthington
- Single-Family Condominiums, Worthington
- Single-Family Subdivision, Dublin
- Single-Family Subdivision, Westerville Market
- 6-Properties ó Utility Easements, Southeast Ohio
- Conservation Easement, Southwest Ohio
- Industrial Property, Gahanna
- Industrial Property, Columbus
- Retail Property, Hilliard
- Industrial Property, Dublin
- Industrial Property, Southeast Franklin County
- Apartment Development, Grandview
- Affordable Apartments, Toledo
- Rural Housing, Southwest Ohio

You and/or your clients may benefit from information we have used in our recent assignments, as well as the nearly 2,000 assignments we have completed throughout the state of Ohio within the past 5 years.

COLUMBUS MEDICAL OFFICE MARKET OVERVIEW

The regional medical office market is driven by four primary healthcare organizations. These networks operate the region's hospitals and medical practices, as well as provide established primary care networks for nearly all medical specialties. Over the past 15 years, the medical office market has experienced strong growth, as providers have sought to provide more convenient locations for the regional population, as well as accommodate rapidly-changing technologies associated with patient care. Although this category has historically out-performed the general office sector, the medical office market has not been immune to over-building, weak demand and other influences associated with the market downturn which began in approximately 2008.

Healthcare Networks

The regional medical office market is driven by three primary adult medical hospital systems/health care networks and one pediatric network. OhioHealth and Mount Carmel Health Systems are both not-for-profit, faith-based organizations. A third, the Ohio State University Wexner Medical Center, is part of one of the country's largest public universities and a highly-ranked medical school. Nationwide Children's Hospital is the region's sole pediatric hospital. Due to changes in the overall healthcare structure, rising costs and cumbersome record-keeping requirements, fewer physicians are choosing to operate within private practices. Rather, many physicians become employees of these hospital networks to benefit from the economies and additional resources created from these large networks.

OhioHealth is a family of 21,000 associates, physicians and volunteers, 18 hospitals, 23 health and surgery centers, home-health providers, medical equipment and health service suppliers throughout a 40-county area. OhioHealth operates eight member hospitals within the central Ohio region, as summarized below. Three hospitals are ranked among the highest in Columbus/Ohio, as ranked by U.S. News and World Report (Grant Medical, 2/4; Riverside Methodist 3/6 and Doctors Hospital 5/32). Grant Medical Center is nationally ranked in gastroenterology/GI surgery and pulmonology, while Riverside Methodist Hospital is nationally ranked in gynecology.

OHIOHEALTH HOSPITALS							
	Location	No. Beds	Admissions	Outpatient Visits	Inpatient Surgeries	Births	ER Visits
Riverside Methodist Hospital	North/Central Franklin County	826	45,021	789,420	12,683	6,237	79,391
Grant Medical Center (L1 Trauma)	CBD, Franklin County	392	20,756	577,146	8,758	2,442	69,845
Doctors Hospital	Central Franklin County	213	9,338	258,206	1,841	966	67,840
Marion General Hospital	Marion County	170	8,489	87,338	2,671	1,004	49,606
Dublin Methodist Hospital	NW Franklin County	92	4,435	55,518	1,465	1,218	31,271
Grady Memorial Hospital	Delaware County	61	2,406	154,544	542	401	27,151
Doctors Hospital, Nelsonville	Athens County	25	563	37,811	35	0	10,732
Hardin Memorial	Hardin County	25	1,094	64,841	49	0	12,461

Source: USNews.com/American Hospital Association; results as of April 2012

Mount Carmel Health Systems is a network of more than 8,000 employees, 1,500 physicians and 1,000 volunteers. In addition to three outpatient surgical centers, two medical campuses, and a college of nursing, the organization operates four regional hospitals (Mount Carmel East and Mount Carmel West are combined in the following chart). Mount Carmel East/West and Mount Carmel Saint Ann's are collectively ranked #5 in the Columbus region and #32 in Ohio.

MOUNT CARMEL HEALTH SYSTEMS HOSPITALS							
Location	No. Beds	Admissions	Outpatient	Inpatient	Births	ER	
			Visits	Surgeries		Visits	
Mount Carmel East and West	Eastern/Western Franklin County	729	38,163	447,251	10,091	3,518	149,157
Mount Carmel Saint Ann's	Northeastern Franklin County	276	19,195	193,319	3,381	5,599	78,253
Mount Carmel New Albany Surgical Hospital	Northeastern Franklin County	42	4,373	12,571	4,219	0	0

Source: USNews.com/American Hospital Association; results as of April 2012

The **Ohio State University Wexner Medical Center** is the region's only academic-based network, affiliated with one of the country's largest universities and a highly-ranked medical school. The network employs approximately 17,000 employees, and operates three suburban medical campuses and four hospitals. Recently, OSUWMC has increased its satellite ambulatory care presence in an effort to capture a greater market share of the region's health-care demand.

Four hospitals (University Hospital, University Hospital East, Richard M. Ross Heart Hospital and Harding Hospital) are collectively summarized in the following chart as the Ohio State University Wexner Medical Center (OSUWMC). OSUWMC ranks #1 for the Columbus region and #3 for the state of Ohio. Additionally, the hospital (including the James) has ten nationally ranked specialties, including cancer, diabetes/endocrinology, geriatrics, nephrology, rehabilitation, cardiology/heart surgery, ear/nose/throat, gynecology, pulmonology and urology.

OHIO STATE UNIVERSITY WEXNER MEDICAL CENTER HOSPITALS							
Location	No. Beds	Admissions	Outpatient	Inpatient	Births	ER	
			Visits	Surgeries		Visits	
OSUWMC (L1 Trauma)	Ohio State Campus	976	48,193	816,019	12,927	4,566	117,937
James Cancer Hospital	Ohio State Campus	202	9,847	222,408	4,263	0	2,200

Source: USNews.com/American Hospital Association; results as of April 2012

Mount Carmel Health System and Ohio State University's Wexner Medical Center recently formed an affiliation to broaden the hospital systems and improve economies. It remains to be seen how this affiliation will affect the Columbus medical market. As affiliated, these two systems increase their network size to the largest in the area, exceeding Ohio Health. This affiliation is anticipated to improve physician recruiting and satellite territory affiliations.

Nationwide Children’s Hospital is the region’s sole pediatrics hospital. In addition to the primary campus just southeast of the Columbus CBD, Nationwide Children’s also operates four suburban urgent care centers and multiple ambulatory care centers throughout the central Ohio region, and leases neonatal intensive and special care nursery beds within five local hospitals. The hospital is nationally ranked by U.S. News and World Report in ten specialties, including cancer, cardiology, diabetes/endocrinology, gastroenterology/GI surgery, neonatology, neurology, orthopedics, pulmonology and urology.

NATIONWIDE CHILDREN'S HOSPITAL							
	Location	No. Beds	Admissions	Outpatient Visits	Inpatient Surgeries	Births	ER Visits
Nationwide Children's Hospital	SE of CBD	451	19,015	940,538	7,325	0	194,356

Source: USNews.com/American Hospital Association; results as of April 2012

Development Trends

With the exception of the Ohio State University Wexner Medical Center and Nationwide Children’s Hospitals, the majority of the region’s hospitals serve as anchors to ancillary medical office development. Invariably, demand for additional medical office space is not required for OSUWMC or NCH, as supply/demand characteristics are self-contained within each hospital’s main campus area. The primary market areas experiencing the greatest development activity are expansions of existing hospital campuses and new construction within outlying suburban areas.

Much of the region’s development activity is occurring within existing hospital campuses.

- The largest project is the expansion of the Ohio State University Wexner Medical Center’s campus. Once complete, the \$1.1 billion project will include a new James Cancer Center, Solove Research Institute and Critical Care Center. To date, 100,000 square feet of research space, two new floors for the Ross Heart Hospital and an enlarged emergency department has been completed.
- Mount Carmel Saint Ann’s Hospital is currently in the final stages of an expansion to become a competitive regional medical center. Construction is underway on the \$110 million expansion, which includes a four-story addition (60 beds) and expanded cardiac, orthopedics and neurology treatment areas.
- Riverside Methodist Hospital recently began construction on a new, nine-story tower anticipated to be completed in 2015. The estimated construction cost is \$321 million. The tower will be dedicated to neuroscience, with eight operating rooms, imaging suites, clinical space as well as 224 additional rooms. A new, \$47 million heart hospital was completed in the early 2000’s, and in late 2012, the new, \$9.5 million Bing Cancer Center opened.

- Nationwide Children's Hospital completed a \$783 million, seven-year expansion in 2012, which included a new, 12-story main hospital, parking garages, a new research building and renovations to the existing hospital. The hospital has continued to add land for eventual expansion, with the March 2013 purchase of 11 acres north of Livingston Avenue.

Ancillary medical development has been limited over the past five years. While this is partially attributable to the recessionary influences, it also reflects the uncertainty associated with future changes in healthcare reform and the diminishing number of private practices. General development activity, by the region's quadrants, is summarized below.

Northwest: Much of the development activity in this quadrant has occurred near Dublin Methodist Hospital, in the mid-2000's. This includes a combination of owner-occupied office condominiums and multi-tenant buildings. With substantial space remaining adjacent to the hospital, as well as several suites available elsewhere, the submarket remains overbuilt. OhioHealth is currently constructing a 35,000 square foot urgent care/outpatient center within a developing mixed use area of Hilliard. The neighborhood surrounding Riverside Methodist Hospital is mature and nearly built out, although several private practices have recently bought space for renovations/expansions.

Southwest: With rapidly increasing population, Grove City has been a target for both OhioHealth and Mount Carmel. Mount Carmel is currently constructing a new medical center, with an emergency center and attached medical office building. OhioHealth recently acquired assembled 22 acres for a new medical campus, although specific details have not yet been released.

Southeast: Mount Carmel recently opened the 50,000 square foot, Diley Ridge Medical center, which features a combination of primary care and specialty physicians and an emergency center. A three-building, 35,000+/- square foot medical office complex, used for private practices, also commenced. Ohio Health plans to build an outpatient center with emergency room in Pickerington. This includes a 150,000 square foot out-patient center and stand-alone emergency department with an estimated cost of \$42,000,000. Future development may include an out-patient surgery center. The Daimler Group, Inc., is developing this campus.

Northeast: With the completion of the New Albany Surgical Hospital, several large medical office buildings have been completed in the mixed-use development at U.S. Route 62 and State Route 161. The Ohio State University Wexner Medical Center is also anchoring a new 48,000 square foot medical office building in the Market Square downtown district of New Albany. In 2009, Cardinal Orthopedics opened a new 85,000 square foot orthopedic building, just north of the Mount Carmel East hospital campus.

Delaware County: The southeast portion of the county, near Westerville, has become a strong medical office submarket, largely due to the tremendous population growth the county has experienced over the past twenty years. OhioHealth recently opened a 165,000 square foot medical campus in Westerville, and multiple medical offices are located along the Cleveland Avenue corridor, between Polaris Parkway and County Line Road. This area is located approximately 1-2 miles north of Mount Carmel St. Ann’s hospital.

Current Market Indications

A summary of 1st Quarter 2013 asking rate and vacancy rate trends, as provided by Equity Health Care services, is located in the following chart.



As shown above, the region’s current vacancy rate is 12.2%, slightly higher than year-end 2012 results of 11.9%, and down 260 basis points from the 3rd Quarter 2011 peak. Due to the uncertainties associated with health-care reform, as well as rising costs, some private practices have been forced to reduce space or move to less-expensive alternatives. Additionally, many practices have either merged with former competitors or been acquired by one of the region’s primary healthcare networks, which also attributes to redundant space. The greatest leasing/absorption activity is reported to be within on-campus buildings.

Currently, the average asking rate for medical space is \$14.42 per square foot, up \$0.29 per square foot from year-end 2012 results. After a level 2012, medical office asking rental rates rose slightly to a current rate of \$14.42 per square foot. Although rates remain below pre-recession levels, several office buildings have recently raised asking rates. Rental rates for new Class A space varies, largely by location. Rental rates in the strongest markets command space of nearly \$19.00 per square foot, while rates in areas of over-building are approximately \$3.00 per square foot lower. However, tenant improvements also impact this rate, as some developers offer more generous base packages, while other offer reduced base TI packages in order to present a more competitive market rental rate.

Conclusions/Projections

Historically, the medical office sector has out-performed the region's general office submarket. However, over the past several years, the sector has been negatively impacted by recessionary influences, rising health-care costs and the uncertainties associated with future health-care reform. In order to maintain profitability, many of the region's private practices have been forced to merge with previous competition, or be acquired by one of the region's primary health-care networks. Based on these changing trends, new demand from private practices is anticipated to compress. However, speculative development has been limited over the past several years, and new demand will help reduce the over-supply of inventory and improve occupancies. With the exception of on-campus hospital campus expansions, the greatest opportunities for growth will be in the development of large medical centers within suburban growth areas. Still, the security of medical office developments, especially with the credit-influences of these health-care providers, will continue to make real estate within this category an attractive product for a variety of investors.

Company News

Ohio Real Estate Consultants, Inc., has a current opening for an appraiser trainee. Please ask all qualified individuals to send a resume to tom@ohiorealestate.org.

We hope that you found this newsletter informative. If you would like additional information, please visit our website at www.ohiorealestate.org, or call us at 800-536-0038.