Medical Office Buildings

Oklahoma City MARKET REPORT

WIGGIN PROPERTIES, LLC

Introducing the Inaugural Edition of our Medical Office Building Market Report

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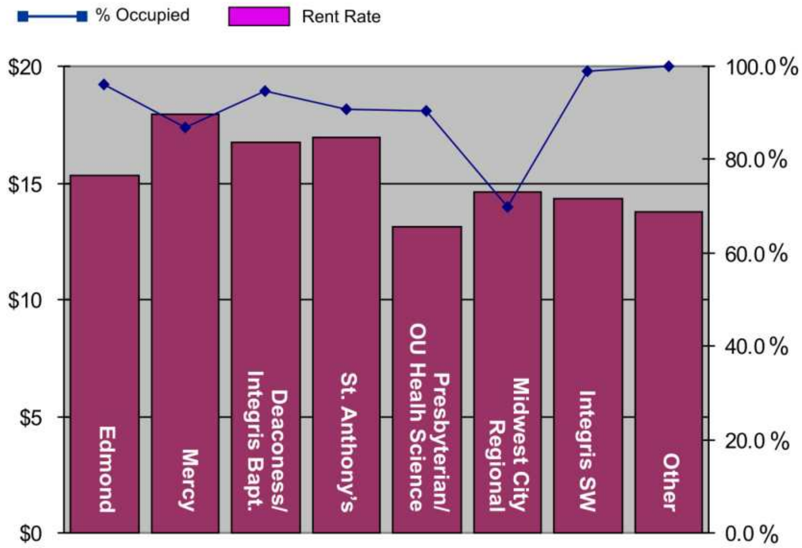
The increasing investment demand and acceptance of the medical office building category as a core investment by both individuals and institutional investors has led Wiggin Properties to develop both this market report and our medical specialty group to focus on this asset class. This first issue analyzes 46 separate multi-tenant medical office buildings (MOBs) each 15,000 square feet or larger for a total of 3,542,040 square feet in Oklahoma County. The buildings are a minimum of 50% medical, but the majority are 100% occupied by medical tenants. This survey separates the properties into seven subcategories based on proximity to major hospitals. These seven subcategories are Edmond, Mercy, Integris Baptist/Deaconess, St. Anthony, OU Health Science/Presbyterian, Midwest City and Integris Southwest.

With no past data to analyze, the trends of this industry are not discussed in this issue; however, the future editions will begin to investigate and analyze the local trends in this industry.

The overall vacancy rate for the MOBs in this survey is 9.43%. This compares with a vacancy rate in the local office market of 16.8%. The average asking rent rate for the MOBs is $15.34 per square foot, again compared to an overall average of $14.76 per square foot in the local office market. The highest vacancy rate among the MOB submarkets is 30.01% in the Midwest City submarket where the average rental rate is $14.61 per square foot. The lowest vacancy rate is reported at 1.1% in the Integris Southwest submarket; however, the $14.33 average rental rate there was not higher as supply and demand would be expected to dictate; the age of the MOBs in that market likely account for this anomaly.

The newer MOBs which we define as those built or having major remodels after January 1, 2000, demand higher rent rates at an average of $19.76 per square foot versus $15.13 per square foot from those built prior to that date. This study analyzed ten major renovations or new buildings of 15,000 square feet or larger put on the market in the last eight years, with a total of 651,109 square feet averaging 81,389 square feet per year.

Occupancy & Rent Rates by Submarket



EDMOND

The rental rates for the Edmond submarket average $15.33 per square foot with a 3.93% vacanty rate. There is strong anticipation of growth in this submarket with the new Integris 40 bed hospital already in the design and approval process, as well as the land purchased by Mercy Hospital, both of which are located along the Edmond I-35 corridor.

MERCY

The Mercy submarket continues to be the hot spot of growth. With multiple new MOBs under construction or in the planning stages and the new facilities and partnership between ProCure and Integris for a cancer treatment center at the corner of Memorial and MacArthur. This submarket is expected to continue to grow. The average vacancy rate is currently 13.17% but the average rent rate is the highest among all the submarkets at $17.95 per square foot. This is mainly due to the high costs of new construction and additional spaces continually being added to the market. Strong absorption is expected to continue in this market.

INTEGRIS BAPTIST/ DEACONESS

The vacancy rate in the Integris Baptist/ Deaconess area shows to be 5.28% with an average rent rate of $16.73 per square foot. The growth over the past few years in this area has come mainly from major renovations including both the north and south tower of Deaconess with the three additional floors added to the south tower and the MOB at 3300 NW 56th which has recently been added back to the market. The future growth of this area will likely come from the surrounding office buildings repackaging themselves for the medical market, with the possibility of some MOBs added in infill locations.

ST. ANTHONY

The St. Anthony submarket has added the Saints Medical Plaza immediately east of the hospital's new east entrance, increasing the market by 80,000 square feet. Much of this has already been absorbed with the current vacancy rate for the submarket at only 9.27%. The average rent rate of $16.92 is the second highest in the market place.

OU HEALTH SCIENCE/ PRESBYTERIAN

The average vacancy rate for this submarket is 9.54% with the average rent per square foot at $13.13. This rent rate is the lowest in our study; however, it can likely be attributed to the academic non-profit aspect of this submarket. The development of the new medical building at Children's Hospital is going to be an exciting addition to this market, and it will be interesting to see how it will affect the market. The visionaries behind the continued development of this area have been on target in the past and with the renewed interest in the downtown area, they will likely be again.

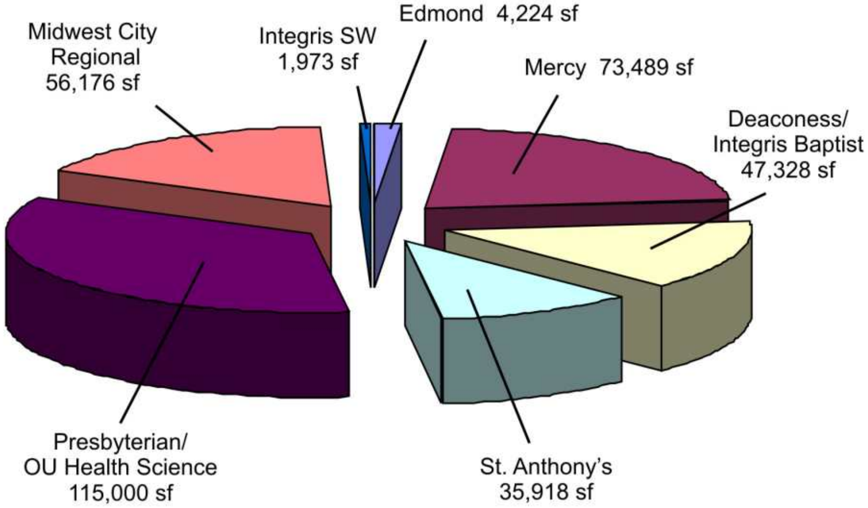
MIDWEST CITY

The Midwest City submarket is possibly the least tested with the newest MOB of those analyzed in this report built in 1985. There is speculation about a new MOB in this submarket but none yet under construction. As mentioned earlier in this report, the submarket currently has the highest vacancy rate at 30.01% and an average rental rate of $14.61 per square foot.

INTEGRIS SOUTHWEST

As stated earlier, the Integris Southwest submarket has the lowest vacancy rate at 1.1% and an average rent rate of $14.33 per square foot. The average age of the surveyed buildings is almost 30 years old for this submarket. There has been growth in this submarket but it seems to have been in clusters of smaller MOBs than are covered by this survey.

Available Space **by Submarket**

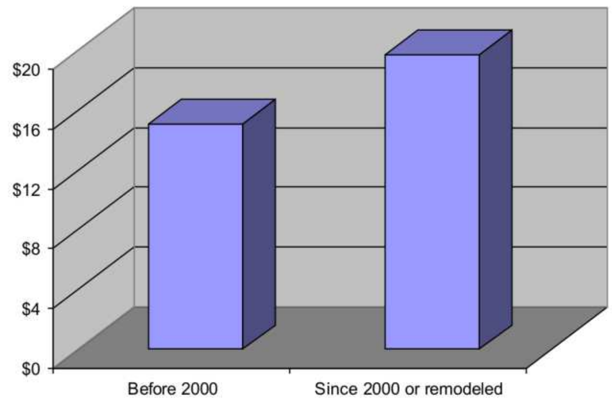


Occupancy & Rent Rates

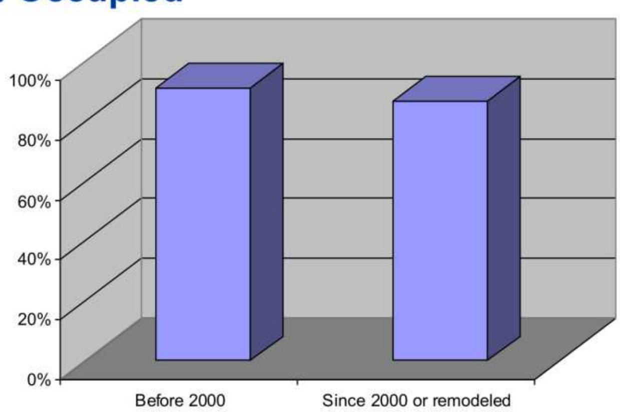
by Age of Building

Buildings Built Prior to 2000 versus Later or Remodeled Buildings

Rent Rates



% Occupied



WHY THE INCREASED INTEREST IN MEDICAL OFFICE BUILDINGS?

On the national scene, medical office buildings have become an increasingly popular investment vehicle, attracting institutional investors and specialty REITs. Once thought of as a niche market for real estate investment, MOBs have benefitted from the growth of the health care industry, the aging baby boomer population, and the proliferation of new methods for diagnosis and treatment. Compared with conventional office buildings, they offer higher rent rates, long leases, and better prospects for tenant retention. Several economic factors have helped to drive the increase. First, the costs of hospital expansions can be exorbitant often reaching $500 to $700 per square foot, compared to the costs of building a free-standing MOB, which may run $250 to $350 per square foot. Second, many medical procedures are being pushed from hospitals to physicians' offices, outpatient clinics, and surgery centers, which can offer lower costs and better convenience for patients. Third, the growth in medical technology is forcing physicians to remain competitive by upgrading and enhancing spaces when existing facilities become obsolete. At a time of economic uncertainty, the health care industry is seen by many as the closest thing to a recession-proof sector.

MARKET FORECAST

Leasing activity will likely increase through the year and into next year, but vacancy rates may also increase as new MOBs are added to the market. Construction will remain active but measured as financing for new development remains tight. Rental rate growth is expected due to the high cost of new construction and current low vacancy rates. The economic uncertainty will likely not have much impact on the MOB market; however, a new Presidential administration and the prospect of increasing regulations on the industry could have major impacts on the type of future growth and property ownership.

Sam Vinall

Wiggin Properties has created a medical division to assist our investors and physicians with their real estate decisions and will supply them with information relevant to this market and industry.

In addition to the Medical Office Building Market Report, we will be creating an email newsletter which will address topics such as the following:

- ✓ Leasing versus owning.
- ✓ What the new regulations mean for the healthcare industry.
- ✓ What is going on in the mortgage markets?
- ✓ Building ownership and operating costs.
- ✓ What to expect in building your own building.
- ✓ Is the medical office sector truly recession resistant?
- ✓ What is my building worth?
- ✓ What to expect with tenant improvements.
- ✓ What is a sale-leaseback and what are the pros and cons?
- ✓ Increasing physician income with real estate investments.

If you would like to continue to receive this Medical Office Building Market Report and the newsletters, you must send an email to svinall@wigginprop.com and include "medical newsletter list" in your email.

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