

# 4Q 2018

## Medical Office Report

In this issue...

**Jeremy S. Piccini, Esq. and Richard G. Lyons, Esq.** from **Bertone Piccini Attorneys at Law** discuss New Jersey Corporate Practice of Medicine Healthcare Use and Effect on Retail and Office Markets

and

**Randy Horning** shares his predictions for Medical Office in 2019

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# Medical Office 4Q'18 Market Report



265 Ackerman Avenue, Ridgewood

## At a Glance...

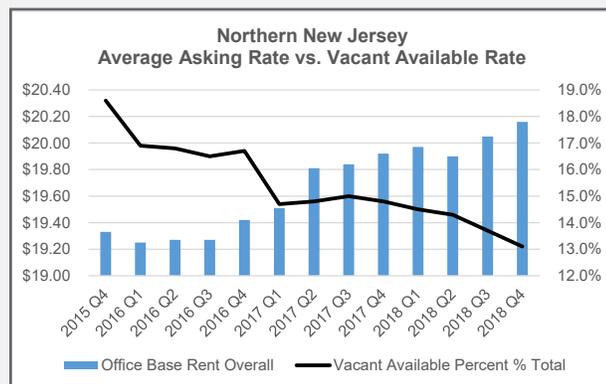
- There are currently 2,319 medical buildings in Northern New Jersey, which consists of 12 counties, representing 35,314,553 square feet.
- The Bergen County market accounts for 339 (15%) of those medical buildings or 4,608,128 square feet.
- Average asking rates ended the quarter at \$20.16 per square foot base rent in Northern New Jersey compared to \$23.54 per square foot base rent in Bergen County.

## Market Update

The Northern New Jersey market saw over 176,000 square feet leased in the fourth quarter of 2018. Average asking rates ended the quarter at \$20.16 per square foot. Compared to the previous quarter, rates are up \$0.11 per square foot and compared to the fourth quarter of 2017, rates are up \$0.24 per square foot. Vacancy ended the quarter at 13.1%, which is down 0.6% from the previous quarter as well as being down 1.7% from the fourth quarter of 2017. Net absorption ended positively with over 269,000 square feet absorbed.

The Bergen County market saw over 13,000 square feet leased in the fourth quarter. Average asking rates ended the quarter at \$23.54 per square foot, which are down \$0.33 per square foot from the previous quarter. Rates are up \$0.29 per square foot from the fourth quarter of 2017. The vacancy rate at the end of the quarter was 8.2%. Compared to the previous quarter, the rate is down 0.2% and compared to the fourth quarter of 2017, the rate is down 2.2%. There was over 25,000 square feet absorbed in the quarter.

The winners of the 6 new alternative treatment centers were announced. In total, there were 146 applications. License holders include NETA NJ LLC in Phillipsburg; GTI New Jersey in Paterson; Verano NJ LLC in Elizabeth and Rahway; Justice Grown in Ewing; MPX New Jersey in Atlantic City and Galloway; and Columbia Care New Jersey in Vineland.



## Top Transactions for 4Q'18

### SALES

75 Union St., Montclair  
6,000 sf sold for \$1,800,000  
**Buyer:** Fullerton-Union Property  
**Seller:** 62 South Fullerton Associates LLC

265 Ackerman Ave., Ridgewood  
9,242 sf sold for \$1,500,000  
**Buyer:** Horizon Ackerman Enterprises LLC  
**Seller:** P H Development LP  
\*NAI Hanson transaction

### LEASES

7,000 sf - 290 Chestnut St., Newark  
  
6,000 sf - 570 South Ave. E., Cranford  
  
4,167 sf - 66 Moore St., Hackensack  
  
3,191 sf - 200 S Orange Ave., Livingston

\*Please see page 4 for NAI Hanson Transactions.

# New Jersey Corporate Practice of Medicine Healthcare Use & Effect on Retail & Office Markets

Medical Office  
Market

**By: Jeremy S. Piccini, Esq.**  
**Richard G. Lyons, Esq.**

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ATTORNEYS AT LAW

Have you noticed more urgent-care and other medical retail, office and stand-alone locations over the last two years? Some major New York and New Jersey court cases in 2017 have paved the way towards better guidance on health care practices being owned by non-licensed medical practitioners. This, in our opinion, may be expanding the business opportunities for such practices due to the expanded range of investment and business structure options now available.

By way of background, the New Jersey Corporate Practice of Medicine (CPOM) doctrine prohibits a licensed healthcare practitioner from providing health care services as an employee of a corporation or other entity in which the shareholders or members are not all licensed practitioners (with certain exceptions). The basis for the CPOM doctrine is to create a line between the healthcare practitioner, who must act in a patient's best interests, and corporate shareholders, who seek to maximize profits, thereby removing any influence in the provision of medical care from a corporate shareholder. The intent behind this policy is that doctors, not corporate employers, should be responsible for the practice of medicine in New Jersey and New York and medical judgment and patient interactions.

With creative legal structures guided by the interpretation of recent court cases, legal practitioners have found ways to implement "franchise" models of practicing medicine, such as "Doctor's Express" and other walk-in medical, elective, enhancement, cosmetic, or other non-invasive or non-life-threatening treatments. For example, in private arrangements, or in private equity and hospital affiliate acquisition scenarios, the non-clinical assets of the practices are typically sold to (or if done at the outset, purchased by) the non-licensed private group, hospital or related entities not owned by non-physicians, with real estate assigned, leased, or licensed by these private groups. The assets are then leased back to the medical practice through a series of agreements, primarily a management services agreement. The basis of the management service agreement is to detail the services provided by the private group, primarily to manage the "business" end, with the healthcare professional group (or PC) managing the clinical/patient end. Fair market value, knowledge, experience, and actual control are some of the factors used to determine whether these end-run arrangements are legally permissible.

Because of the expanded legal guidance on these structures, the New Jersey retail and office and stand-alone markets may see an uptick in tenancies as these business opportunities abound for both licensed physicians and non-licensed entrepreneurs and investors (assuming the structure of their business complies with the Corporate Practice of Medicine (CPOM) doctrine).

It is very important to seek professional guidance when setting up management service agreements, as the CPOM is a literal minefield of pitfalls, that carry stiff civil and criminal fines for any violations.

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# Randy Horning's Medical Office Predictions for 2019

By: Randy Horning, MSRE

Healthcare  
Division

NAI James E. Hanson

Along with elevated pricing, much of the state's current supply is spoken for or functionally obsolete. As systems look to grow their footprint in a low supply situation, there will continue to be significant opportunity in medical office ground-up development or redevelopment. High pricing and economic uncertainty will also provide medical office owners with the opportunity to pursue sale-leasebacks. The sale-leaseback provides owners with the opportunity to recognize the tremendous value of their assets while securing a long-term lease and redeploying capital into their businesses to draw customers in a more competitive marketplace.

Once a darling of medical office development, the explosion of urgent care facilities is in the midst of a slowdown. However, a new trend has supplanted the urgent care model. The "retailization" of healthcare has moved the delivery of care away from hospitals and medical centers into retail centers and malls. This trend presents opportunities for both retail owners and healthcare systems as it helps retail owners stabilize struggling retail centers while allowing healthcare systems to easily reach their patients in the same places that they perform their daily errands.

The optimism surrounding the medical office market does not mean that it is immune from macroeconomic forces. Owners and tenants will also need to keep a close eye on interest rates as the expense of buildouts will be highly dependent on borrowing costs and may price smaller medical office tenants out of the market. In addition to increases in rates, possible modifications to federal and state healthcare policy can also have a deep impact on the market.

Factoring in each of these points, it is easy to see that the medical office market will be a strong, yet complex, market throughout 2019.

## NAI James E. Hanson Recently Completed/Under Contract Deals



23-00 Route 208  
Fair Lawn, NJ  
3,889 sf leased to The Coleman Institute of America (currently under construction)



265 Ackerman Avenue  
Ridgewood, NJ  
9,242 sf sold for \$1,500,000



240 W. Passaic Street  
Maywood, NJ  
1,880 sf lease out for signature to medical tenant

## Featured Medical Office Properties of NAI James E. Hanson



1135 Broad Street  
Clifton, NJ  
6,659 sf for lease  
Medical Office



1132 Spruce Street  
Mountainside, NJ  
1,233 sf for lease  
Medical Office



122 E. Ridgewood Avenue  
Paramus, NJ  
2,224 sf for lease  
Adjacent to Valley Hospital



75 Orient Way  
Rutherford, NJ  
4,654 sf for lease  
(last remaining suite)