SUMMER 2018

National Healthcare Real Estate Investor Update

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The Wall of Equity 'WACCs' Cap Rates

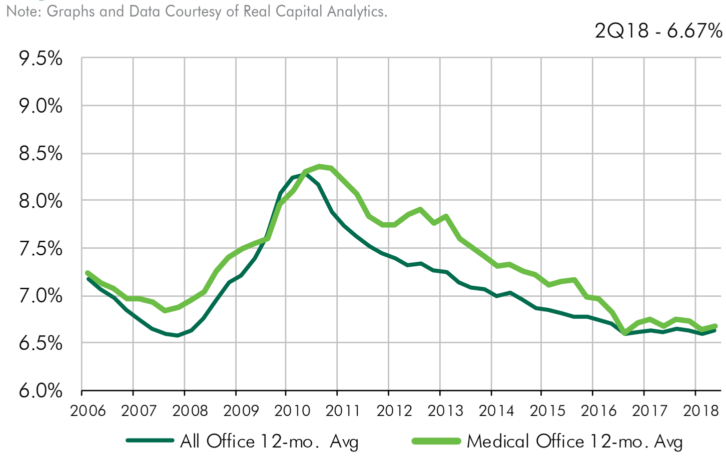
This summer CBRE released its first half 2018 U.S. Cap Rate Survey for the five major property types – office, industrial, multi-family, retail and hotels. Within the report, Spencer Levy, CBRE's Head of Research - Americas, explains why higher interest rates combined with current positioning in the market cycle has led to lower cap rates for certain product types. "For the 22+ years I've been in this business, investors have relied on the relationship between cap rates and interest rates. But perhaps it's time for us to stop relying on conventional wisdom," mentioned Spencer. Below is an excerpt from the report:

The general rule of thumb has been to look at cap rates as a spread over the cost of debt (typically the 10-year Treasury bill). But cap rates really are a function of the weighted average cost of capital (WACC) and not just the cost of debt. While the cost of debt has gone up slightly, the cost of equity has dropped. Unlike the dire predictions about the ability to roll over the so-called CMBS "wall of maturities," which turned out to be largely unfounded, our industry has not nearly been as concerned about the "wall of equity" that has been building since the tech-bubble in the early 2000s. This cheaper-equity trend is durable. While there may be some short-term pullback in liquidity during the next recession that will impact spot-market pricing, the longer-term trend will be lower cap rates indefinitely. So, the cost of debt may have gone up, but the overall cost of capital got "WACCed" down by the decreasing cost of equity.

The report mentions the expectation that overall cap rates eventually will go up slightly, as the cost of the debt base rate continues to rise but not nearly as much as people expect and possibly even more compression in high-growth secondary markets. The medical office market, possibly more than any other sector, has experienced a significant decline in thee cost of capital over the years. New demand by institutional "core" capital continues to outpace supply, keeping pricing in balance. In addition, medical office real estate operators continue to hold all the cards as institutional capital seeks healthcare relationships and intellectual capital. As such, we expect more joint ventures to be announced later this year.

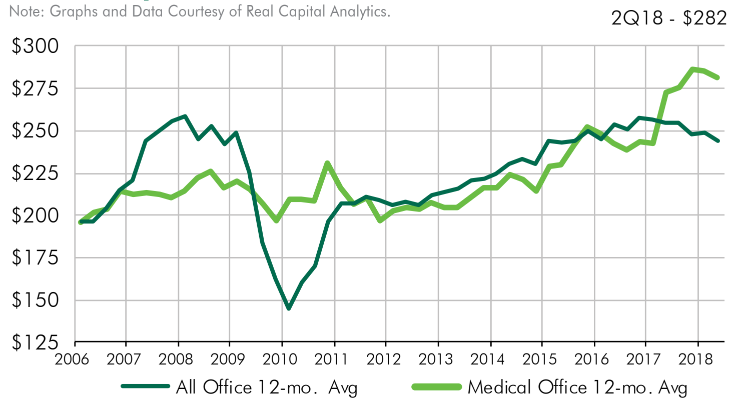
Cap Rates [non-weighted]

Note: Graphs and Data Courtesy of Real Capital Analytics.



Price Per Square Foot [$/SF]

Note: Graphs and Data Courtesy of Real Capital Analytics.



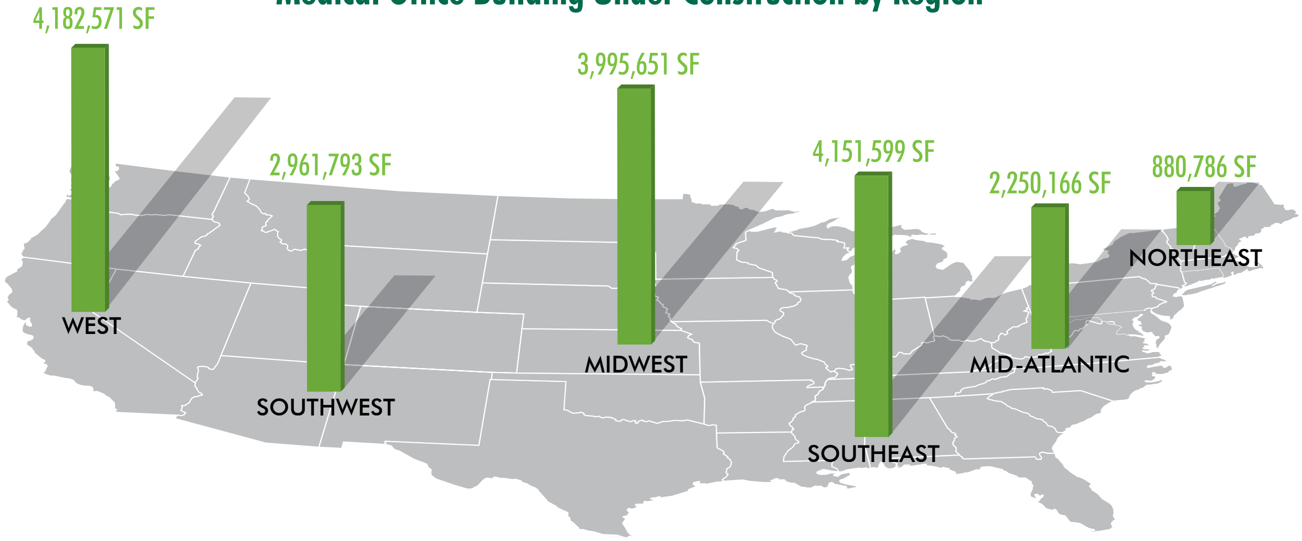
2Q18 Medical Office Sales Volume

Note: Data Courtesy of Real Capital Analytics.

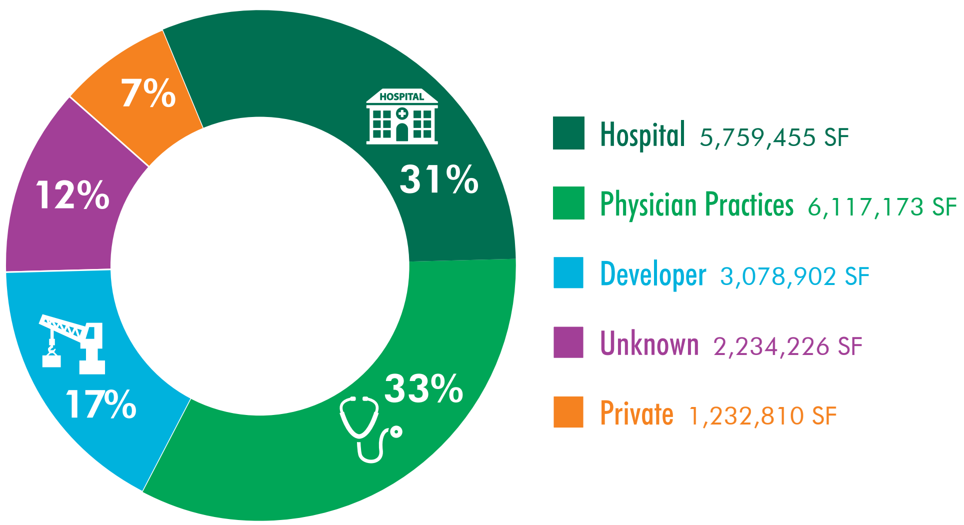
REGION	#	VOLUME	AVG. $/PSF
West	44	$356,071,252	$291
Southwest	36	$257,930,500	$259
Southeast	52	$507,403,648	$245
Midwest	44	$740,346,959	$306
Northeast	23	$539,592,487	$422
Mid-Atlantic	19	$134,622,902	$233
TOTAL	**218**	**$2,535,967,748**	**$296**

Medical Office Building Construction Data :: 2Q 2018

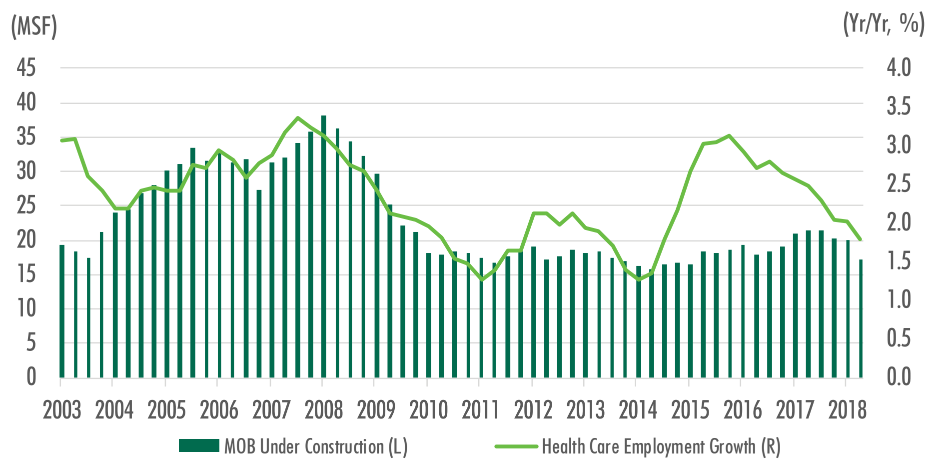
Medical Office Building Under Construction by Region



Medical Office Building Under Construction by Owner



Medical Office Space Under Construction vs. Growth in Healthcare Employment



Source: CBRE EA/Dodge Pipeline, BLS, Moody's Analytics

Select 2Q18 Healthcare Real Estate Transactions by Region

DATE	PROPERTY NAME	CITY, STATE	YEAR BUILT	PRICE	SQ.FT.	$/SQ.FT.	
Jun-18	Campus Surgery Center	Daly City, CA	1990	$30,000,000	75,901	$395	WEST
Apr-18	Allenmore B	Tacoma, WA	1977	$25,700,000	86,942	$296	WEST
Jun-18	3005 1st Avenue	Seattle, WA	1980	$21,490,000	104,200	$206	WEST
Apr-18	Coast Medical Center	San Diego, CA	1985	$20,000,000	38,665	$517	WEST
Jun-18	Warm Springs Rehabilitation Hospital of Kyle	Kyle, TX	2014	$26,900,000	54,500	$494	SOUTHWEST
May-18	990 North Bannock Street	Denver, CO	1982	$18,500,000	110,701	$167	SOUTHWEST
Jun-18	SimonMed Imaging	Phoenix, AZ	2005	$13,450,000	42,067	$320	SOUTHWEST
Jun-18	Banner Health Medical Office	Phoenix, AZ	2017	$13,300,000	29,350	$453	SOUTHWEST
Apr-18	HMG Medical Plaza	Kingsport, TN	2008	$71,295,000	395,182	$180	SOUTHEAST
Jun-18	Ventas Tri-State Portfolio 2018 (3)	Tamarac & Aventura, FL	1996 - 2006	$55,250,000	179,023	$309	SOUTHEAST
Apr-18	Florida Medical Clinic	Wesley Chapel, FL	2016	$26,205,500	83,293	$315	SOUTHEAST
May-18	Oviedo Medical Center	Oviedo, FL	1997	$22,200,000	72,120	$308	SOUTHEAST
May-18	DuPage Medical Group Portfolio (8)	Illinois	1968 - 2018	$240,000,000	489,240	$491	MIDWEST
Apr-18	Al Neyer Ohio Office Portfolio 2018 (2)	Cincinnati, OH	1924 / 2017	$74,813,395	317,000	$236	MIDWEST
Apr-18	The Belpre Portfolio (4)	Belpre, OH	2011	$64,200,000	155,600	$413	MIDWEST
Apr-18	Orthopaedic Associates Outpatient Surgery Center	Delafield, WI	2016	$38,000,300	70,000	$543	MIDWEST
May-18	NYU Langone Medical Center	New York, NY	2002	$332,500,000	386,500	$860	NORTHEAST
May-18	One Burlington Business Center	Boston, MA	1984	$55,500,000	176,465	$315	NORTHEAST
May-18	1 & 2 Washington Place (2)	Easton, MA	2006 - 2009	$33,900,000	92,426	$367	NORTHEAST
May-18	Camillus Medical Center West - Mohawk Invesque Portfolio	Camillus, NY	1986	$18,038,296	90,000	$200	NORTHEAST
May-18	Harrison Street MD Office Portfolio 2018 (2)	Rockville, MD	1999 - 2003	$32,000,000	101,779	$314	MID-ATLANTIC
May-18	Smyth Professional Building	Baltimore, MD	1983	$17,700,000	62,092	$285	MID-ATLANTIC
Jun-18	Patient First	Clinton, MD	2015	$8,500,000	8,400	$1,012	MID-ATLANTIC
Apr-18	Falls Church Medical Center	Fairfax, MD	1962	$8,100,000	32,126	$252	MID-ATLANTIC

Note: Sales data provided by Real Capital Analytics, CoStar, RealQuest, SEC Filings, Press Articles, and CBRE Research.

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HEALTHCARE CAPITAL MARKETS

CBRE U.S. Healthcare Capital Markets specializes in providing healthcare real estate investors with acquisition, disposition and debt & equity recapitalization strategies; assisting healthcare providers with strategic capital planning (including monetization of real estate); and advising health systems and physician groups in the developer selection process.

As the largest real estate services firm in the world and the leading provider of real estate services for the healthcare industry, CBRE combines global reach with local market expertise. With offices in 300 markets and $144 billion in assets capitalized globally, CBRE is the only Fortune 500 firm in global commercial real estate.

CBRE U.S. HEALTHCARE CAPITAL MARKETS

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Debt Market Update for Medical Properties

We've seen the Federal Reserve raise interest rates twice this year and the thinking is we'll see two additional increases still in 2018. Nearly half the rise in Treasuries and LIBOR has been offset by tightening loan spreads. All in, this is still a great time to be a borrower and lock in on these historically low rates available in the market. We continue to place excellent debt capital for our clients' healthcare properties from multiple sources and at very low rates with compelling structures.

The debt markets for medical properties are healthy, robust and continuing to grow as new lenders enter and look to enter the space. Some lenders are underwriting more conservatively than a year ago, but the lender pool for medical office remains strong and deep. In addition, we continue to see debt funds further advance in the lending market, providing great opportunities for borrowers with higher leverage needs or greater repositioning requirements.

- Historically low fixed interest rates remain, and the very flat yield curve makes long term fixed rate financing very attractive. On the short end of the curve, we've seen rate increases in March and June of 2018 and at least two additional Fed rate increases are expected in 2018. This will likely further flatten the curve as long term rates have little pressure to rise at this time.
- Banks tend to be the most active lender in the healthcare space, with some notable groups providing a significant portion of funding. Opportunities exist to look outside these more common healthcare lenders as we continue to see interest for funding from other banks, life companies and debt funds. Running a debt process with 20 to 25 lenders forces all lenders in the healthcare space to meet the market, and this significantly improves the outcome for our clients.
- CMBS continues to offer liquidity for deals that might otherwise have to be financed under more conservative terms by other lender types. CMBS is very aggressive for certain deals, and we continue to see strong interest in the medical office space. At 60% LTV and below, ten years of interest only financing is readily available, and at 65% LTV we expect at least half the term to be interest only.
- Life companies are active in the healthcare space and borrowers enjoy the terms offered, which include long term fixed rate deals that open to prepayment at par for the last three years of the loan term. This is valuable for the owner that seeks long term fixed rate debt but might become a seller upon the renewal of a major lease late in the loan term.

Money Rates (as of 8/30/2018)

Sources: Bloomberg, Wall Street Journal, BankRate.com

	8/30/2018	MONTH AGO	YEAR AGO
Tax Exempt AAA Rate (10-year GBA Rate)	$2.48	$2.49	$1.84
Prime	5.00%	5.00%	4.25%
5-Yr US Treasury	2.73%	2.85%	1.71%
10-Yr US Treasury	2.84%	2.96%	2.12%
1-M LIBOR	2.08%	2.08%	1.24%
Dow Jones Average	25,987	25,415	21,948
10-Yr. Swap Spread	2.93%	3.02%	2.12%