VITAL SIGNS:

THE 2018 HEALTHCARE INVESTOR AND DEVELOPER SURVEY

CUSHMAN & WAKEFIELD

INTRODUCTION

According to Cushman & Wakefield's **2018 Healthcare Investor and Developer Survey,** there is a continued optimism for the healthcare sector as demonstrated by favorable yields and sizable medical office building rent growth in key U.S. cities.

Cushman & Wakefield surveyed a cross-section of healthcare developers and investors on their preferences related to geography and healthcare-related property type, in addition to project outcomes including cap rates and development yields.

The respondents included private equity, institutional owners, and REITs, along with developers specializing in the healthcare sector. Some operate locally and regionally, while others have a national footprint.

IN THIS REPORT:

SECTION ONE

2018 Investor and Developer Survey Results
A breakdown of the questions and responses included in the survey, along with Cushman & Wakefield's impressions of the findings.

SECTION TWO

Medical Office Building Update
An overview of the medical office building sector in 25 key metropolitan areas.

2018 INVESTOR AND DEVELOPER SURVEY RESULTS

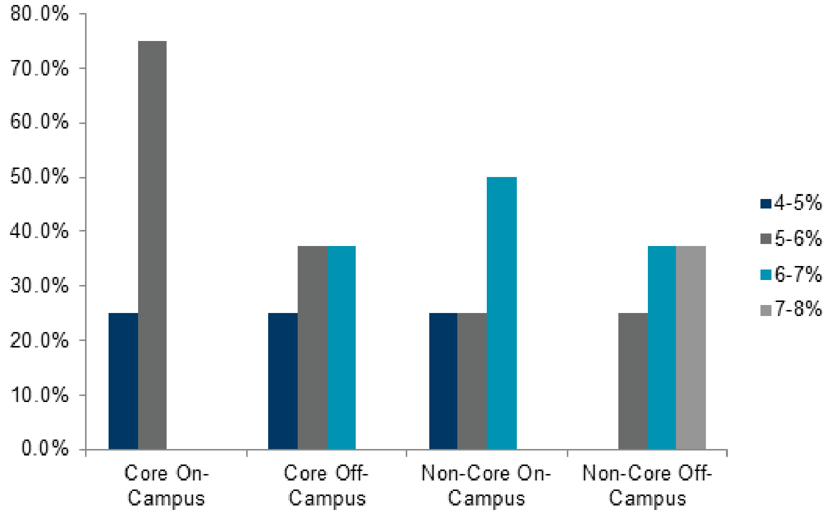
VORACIOUS DEMAND DRIVES RECORD LOW CAP RATES

With record transaction volume in 2017, investor interest and demand for medical office and other healthcare-related properties remains very strong. Cushman & Wakefield's 2018 Investor and Developer Survey reinforces this view: the majority of the respondents indicated that they expect their portfolios to increase in size this year—either through new development or acquisition. Due to record-setting cap rates for most portfolios and strong competition for most acquisitions, the healthcare industry continues to attract new real estate investors. sixty percent of our survey's respondents classified themselves as both developers and investors, a trend reflected in recent trades, such as NexCore's partnership with Heitman to purchase the 17-building, 1.4- million-square-foot Bentall Kennedy portfolio.

Not surprisingly, core, on-campus (healthcare-related properties attached or adjacent to a hospital) assets command the lowest cap rates. Seventy-five percent of our respondents have indicated that cap rates for these product types range between 5% and 6%. Twenty-five percent of our respondents report cap rates for stabilized core, on-campus assets at 4% to 5%. Core off-campus assets can also command significant premiums, with 37.5% of our respondents seeing cap rates between 5% and 6%, with another 37.5% seeing them slightly higher at 6% to 7%. Non-core, stabilized, on-campus assets command 7% to 8% cap rates, according to 62.5% of our respondents. Non-core, stabilized, off-campus assets are the least expensive, commanding cap rates between 6% and 9%, according to our respondents.

Cushman & Wakefield's 2018 Investor and Developer Survey revealed that the majority of the respondents expect their portfolios to increase in size this year—either through new development or acquisition.

Survey Question: *What cap rates are you seeing for stabilized investments?*

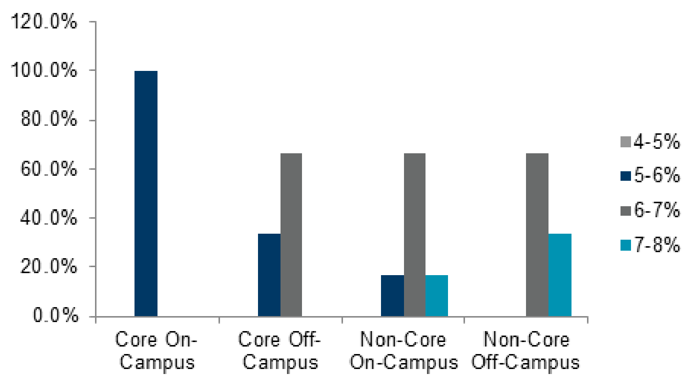


Terminal cap rates for stabilized investments follow similar patterns.

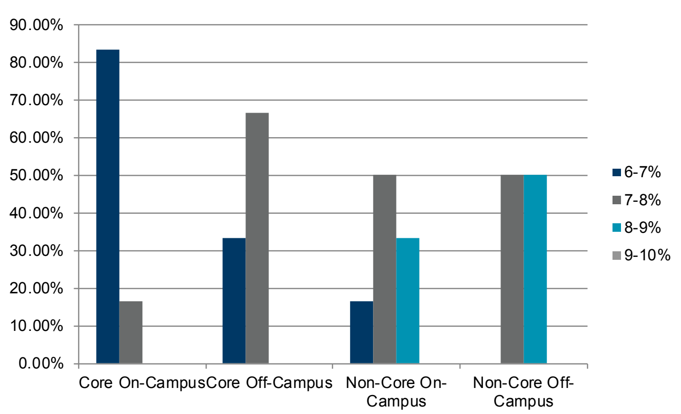
Our respondents unanimously agreed that core, on-campus stabilized assets command terminal cap rates of 5% to 6%. Sixty-seven percent of respondents reported that core, off-campus stabilized assets trade at cap rates of 6% to 7%, with another 33% reporting that they see them trading between 5% and 6%, noting no distinction between on- and off-campus locations. Opinions were mixed regarding cap rates for non-core, on-campus product. At the low end, 16% of respondents expect these properties to trade between 6% and 8% cap rates; 66% see cap rates in the 7% to 8% range; and 16% see them trading at 8% to 9% cap rates. Respondents unanimously agreed that the terminal cap rates for non-core off-campus assets would trade at cap rates between 6% and 8%.

Survey Question: *What terminal cap rates are you seeing for stabilized assets?*

TERMINAL CAP RATES - LOW

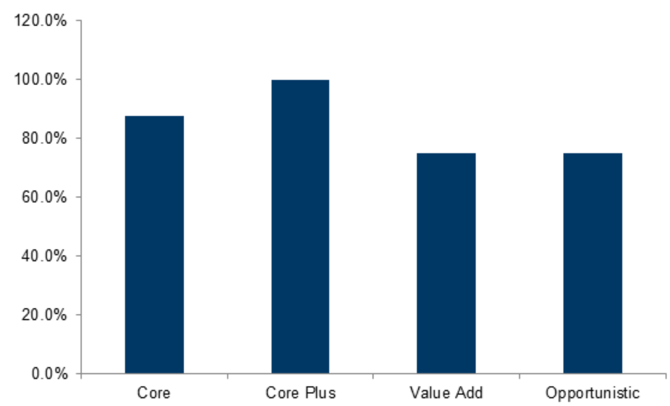


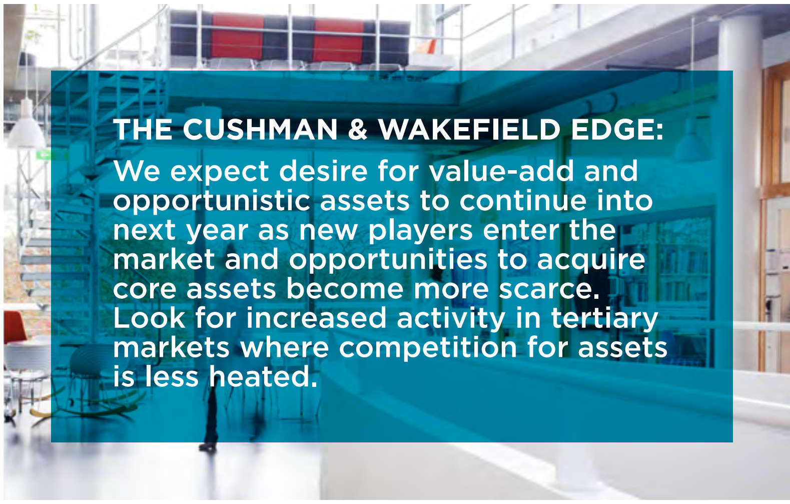
TERMINAL CAP RATES - HIGH



And our respondents see no end in sight, with 60% indicating that they believe cap rates will stay the same in the next 12 months. Fifteen pecent believe they will decline, but 25% believe they will increase. Our respondents' investment criteria ranged across asset classes with 100% indicating a desire for core plus assets and another 87% looking for core assets. Seventy-five percent of our respondents also indicated a willingness to invest in value-add and opportunistic assets as well. In fact, a number of new investors in the space have indicated a strong preference for value-add or opportunistic assets, reflecting their belief in the overall strength of the sector and the strong desire to generate higher yields.

Survey Question: *What cap rates are you seeing for stabilized investments?*



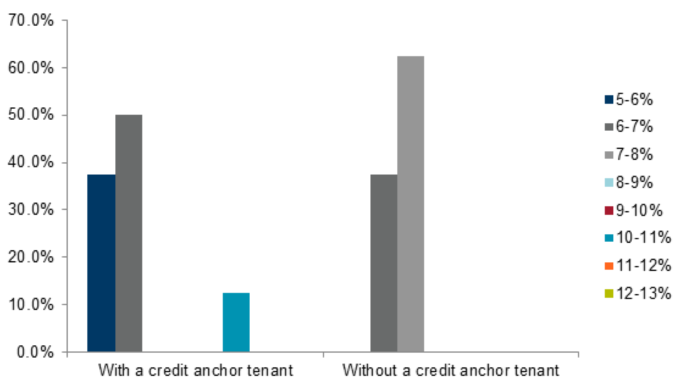


DEVELOPERS CONFIRM DEMAND

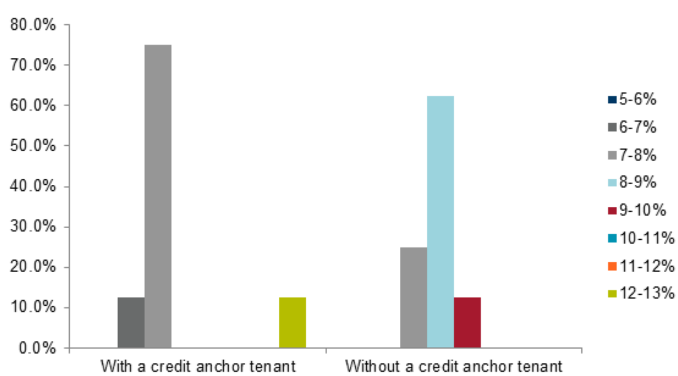
Developers signaled continued optimism for this sector and see strong returns for their efforts. Most reported development yields on stabilized, on-campus assets, with a credit anchor tenant ranged from 5% to 7% on the low end, to 6 to 8% on the high end. For off-campus assets without a credit anchor tenant, yields on stabilized developments ranged from 6% to 8% on the low end, to 7% to 9% on the high end.

Fifty percent of survey respondents indicated that they expect these yields to remain the same in the next 12 months; the other 50% expect them to increase. Sixty-two and one-half percent expect development activity to remain the same over the same period, while 37.5% expect it to increase. Continued strength in the healthcare sector, and the economy in general, may be factoring into optimistic development outlooks.

Survey Question: *What development yields are you seeing for stabilized, on-campus assets?*

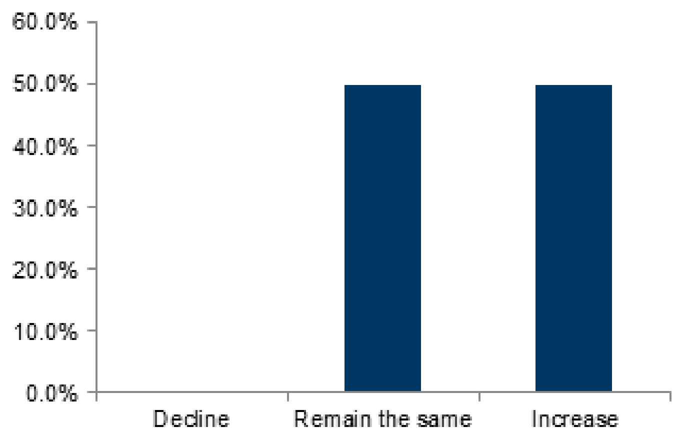


Survey Question: *What development yields are you seeing for stabilized, off-campus assets?*

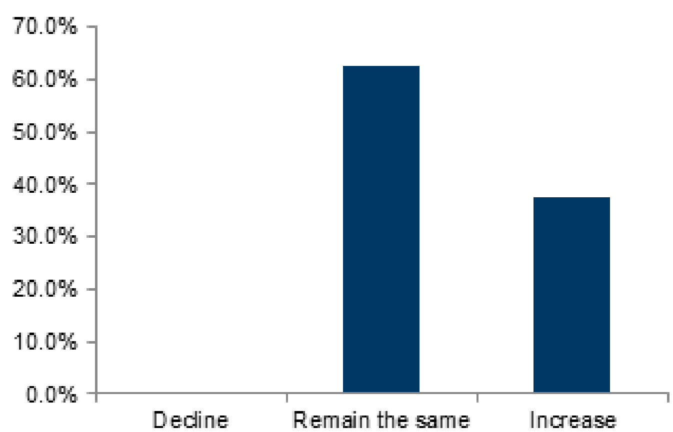


Eighty-seven and one-half percent of survey respondents indicated that the bulk of their development projects are occurring off campus, reflecting a growing trend among health systems to expand their ambulatory footprints and bring care closer to patients. For our respondents, the Southeast region was the most popular geography, with 71.3% of respondents indicating that they have projects occurring there. California and the Mid-Atlantic region were less popular; only 28.7% of respondents reported having current projects in those locales. Development activity was evenly spread among Texas, the Mountain states, the Northwest, Southwest, and Midwest.

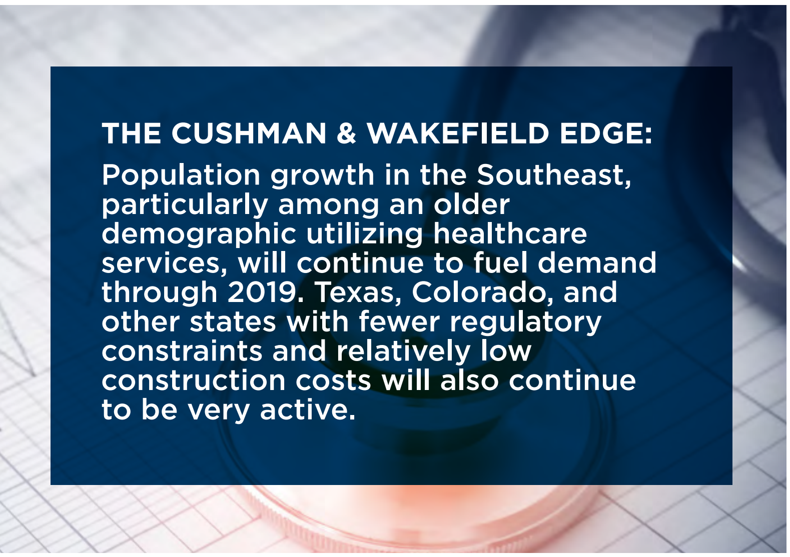
Survey Question: *Do you expect development yields to decline, remain the same or increase in the next 12 months?*



Survey Question: *Do you expect development activity to decline, remain the same or increase in the next 12 months?*

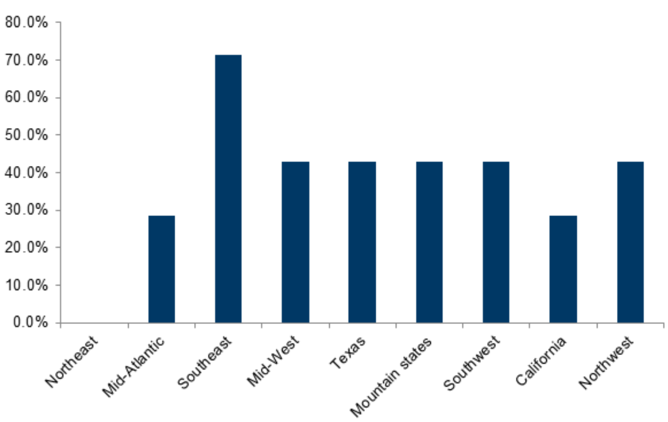


Investors' geographic preferences tracked closely with those of developers. The Southeast ranked highest, followed by the Northwest and Texas. The Mountain States, Texas, the Southwest, and the Midwest were the next most preferred geographies, and the Northeast was the least preferred.



THE CUSHMAN & WAKEFIELD EDGE:
Population growth in the Southeast, particularly among an older demographic utilizing healthcare services, will continue to fuel demand through 2019. Texas, Colorado, and other states with fewer regulatory constraints and relatively low construction costs will also continue to be very active.

Survey Question: *In which geographies is your firm currently developing properties?*

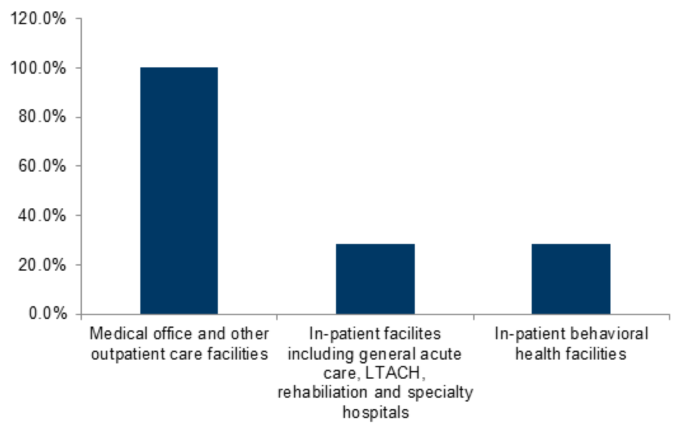


100% of respondents identified medical office development as a core competency of their company.

MEDICAL OFFICE CONTINUES REIGN

Medical office continues to be an attractive investment and development opportunity. One-hundred percent of respondents identified medical office development as a core competency of their company. Nearly 29% indicated that they would develop short- or long-term acute care centers, rehab, or other specialty hospital type. The same rate (28.7%) indicated that they would develop inpatient behavioral health, reflecting the growing interest in behavioral health assets, likely the result of improved reimbursement for those services.

Survey Question: *What product types does your firm develop?*



THE CUSHMAN & WAKEFIELD EDGE:
Look for an increased appetite for micro-hospital development in non-certificate-of-need states, as health systems seek to plant flags in new markets and expand current market presence.

MEDICAL OFFICE BUILDING UPDATE

ECONOMIC AND INDUSTRY TRENDS

Powered by tax cuts, strong employment growth and high confidence, the U.S. economy grew at a solid pace in the first half of 2018. In the second quarter, gross domestic product (GDP) stood 2.9% above its level from one year prior, the best 12-month performance since mid-2015. For the year as a whole, GDP is forecast to increase by approximately 3.0%. In this environment, the healthcare sector continues to expand. In the second quarter, household spending on healthcare services increased 2.8% from a year earlier.

Healthcare Sector and Our Aging Population

Driven by the aging of the American population and improving technology, the healthcare sector continues to grow even more rapidly than the economy as a whole. At the end of 2017, the number of people in the U.S. aged 65 or older topped 50 million for the first time, and this age group now comprises a record 15.6% of the population. Since 2007, the population 65 and older has increased by more than 13 million, or 34.5%, compared with an increase of 4.3% for the population under 65. At the end of 2017, 6.5 million, or 2.0% of the population was aged 85 or older, also record highs.

Healthcare Employment

This population growth has had a direct impact on employment in the healthcare industry. As of June 2018, healthcare employment topped 16 million people for the first time and had grown by more than 300,000 jobs from a year earlier. Since 1997 health care employment has increased by more than 5.5 million jobs. Over those 20 years, the growth in healthcare employment has roughly matched the growth in the population aged 65 and over. With the number of people 65 and over projected to grow by 10 million and top 65 million by 2025, healthcare employment will need to increase by more than four million jobs just to keep pace.

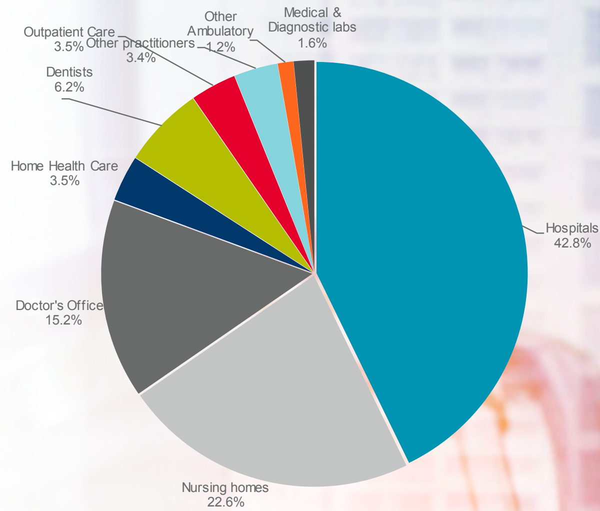
Employment in the healthcare sector continues to evolve. In 1990 hospitals dominated healthcare jobs, accounting for 43% of all healthcare employment. Today they are still the largest share, but hospitals only account for 32% of health care jobs. The biggest growth in health care employment has been in home healthcare, which accounts for 9% of healthcare jobs (up from 3.5% in 1990) and outpatient care which has gone from 3.5% to 5.7%.

With continuing pressure on providers to hold down costs, it is likely that more of the delivery of healthcare services will move out of the hospital and into other locations from outpatient locations to doctors' offices and to the home. This means we should anticipate greater demand for ambulatory and outpatient facilities relative to hospitals.

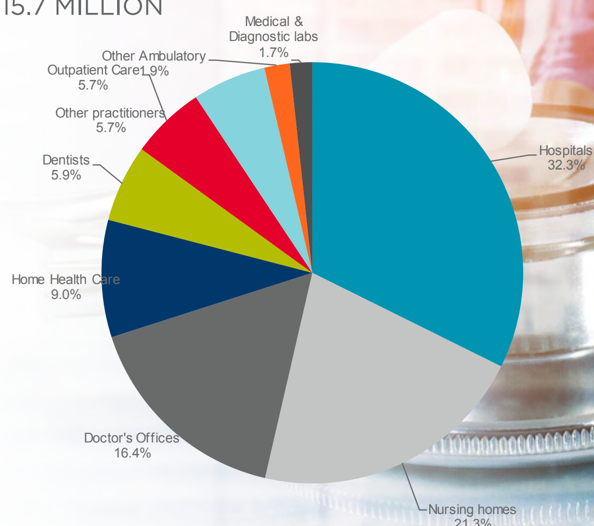
U.S. HEALTH CARE EMPLOYMENT: CHANGING STRUCTURE

Jobs are slowly shifting away from hospitals to outpatient and home care

1990 TOTAL HEALTHCARE EMPLOYMENT: 8.2 MILLION



2017 TOTAL HEALTHCARE EMPLOYMENT: 15.7 MILLION



Source: Bureau of Labor Statistics

MEDICAL OFFICE SNAPSHOT

Vacancy

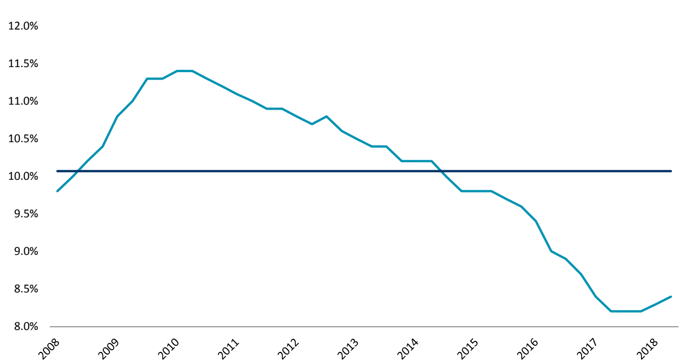
After trending lower for seven years, the U.S. national vacancy rate for medical office space has increased slightly, from 8.2% in the second quarter of 2017 to 8.4% in the second quarter of 2018. Even with this increase, vacancy is still barely above its 10-year low and well below the 10-year average of 10.1%.

Of the 25 markets covered in this report, 15 have reported vacancy rates below the national average.

Of the 25 markets covered in this report, 15 have reported vacancy rates below the national average. In addition, 20 of the 25 markets have a current vacancy rate that is lower than the 10-year average for that market. However, vacancy appears to have bottomed, or at least temporarily paused. Only five of the markets covered saw a decline in vacancy in the second quarter compared to the first, and only nine experienced an increase compared to a year ago.

NATIONAL MEDICAL OFFICE VACANCY RATE

Stable at low levels



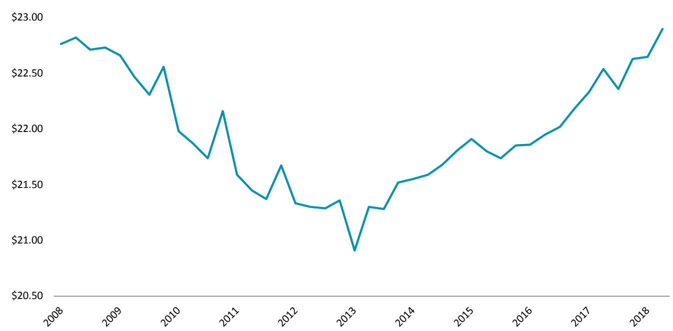
Source: National Federation of Independent Businesses

Rents

Market tightness is placing upward pressure on rents. Over the past 10 years, national average gross asking rent declined from 2008 to 2013. However, in 2013, when the national vacancy rate hit 10%, asking rents hit a bottom and have been moving higher ever since. As of the second quarter of 2018, national average asking rents stood 9.5% above their first quarter 2013 low.

NATIONAL MEDICAL OFFICE AVERAGE ASKING RENT

Rising due to tight markets

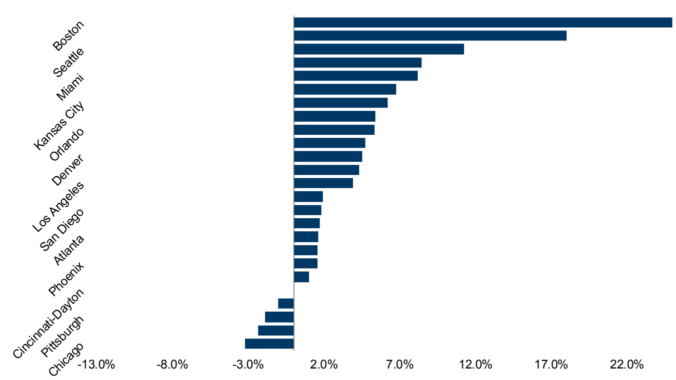


Source: National Federation of Independent Businesses

The low overall levels of vacancy are also putting upward pressure on rents at the local level. Asking rents increased from first quarter to second quarter in 14 of the 25 markets covered in this report, and from a year ago in 20 markets.

ANNUAL MOB RENT GROWTH BY MARKET

Change from One Year Earlier



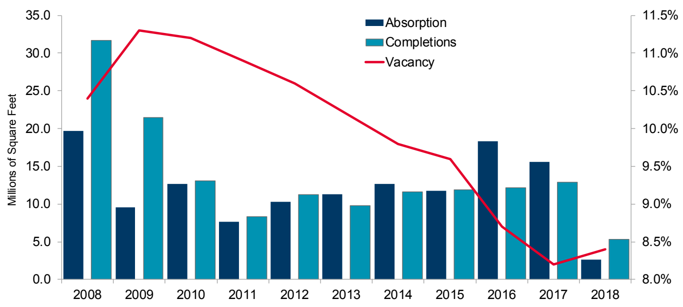
Source: Cushman & Wakefield Research

Absorption and Leasing

Net absorption at the national level was positive, but slow. In the first two quarters, net absorption totaled 2.6 million square feet, the slowest since the last recession. Leasing volume also slowed. In the first half of 2018 a total of 13.1 msf of MOB space was leased in the U.S., the slowest first half since 2011. The slowdown in demand occurred at a time when new construction completions were a healthy 5.3 msf. This combination of slower absorption and strong construction is what pushed the vacancy rate up in the first half of the year.

VACANCY BOTTOMING

U.S. total net absorption, construction deliveries (msf) and vacancy rate



Source: Cushman & Wakefield Research

Investment Sales Rebound

Medical office building sales data from Real Capital Analytics (RCA) for trades greater than $10 million reinforces the results of our investor survey. As has been typical in recent years, sale volume in first quarter 2018 declined marginally from fourth quarter 2017, but was 26% higher than first quarter 2017. Total sale volume was $1.8 billion. Sale volume rebounded in second quarter 2018, finishing at $2.4 billion, although was still well off the record volume encountered in second quarter 2017. Price per square foot remains high at $356 after a small early-year dip. The average cap rate is holding steady at 6.4%.

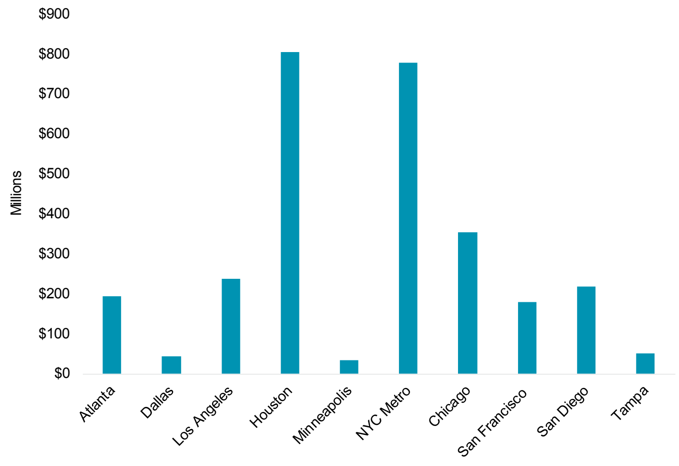
RCA reports that institutional and private buyers comprised the bulk of recent acquisitions. Cross-border capital comprised 9% and originated from Germany, Hong Kong, and the United Kingdom. Last year, international buyers hailed from China, Canada, Luxembourg, and Latvia.

When considering year-do-date 2018, Houston has been the most active market, surpassing New York City with more than $804 million in trades. LaSalle Investment Management's record-breaking $400 million Memorial Hermann Medical Plaza acquisition in July contributed to Houston's leading position.

New York City was next with $779 million in year-to-date sales. *Healthcare Real Estate Insights* reported that on May 29, German real estate investment manager Commerz Real acquired the 289,522-sf medical office building in Midtown Manhattan for $332.5 million, reflecting a 4.45% cap rate and $854 psf. The asset is fully leased by NYU Langone.

MOST ACTIVE MARKETS

MOB Sales Volume >$10M (2018 YTD)



Source: Real Capital Analytics

Given the significant demand for assets and limited supply of good quality product, many developers are now electing to trade portions of their portfolios. Several portfolios are now on the market and are expected to close by year end. As cap rates continue to compress, we can likely expect others to follow suit on sales.

RCA reports that institutional and private buyers comprised the bulk of acquisitions.

MEDICAL OFFICE BUILDING STATS

Select Markets	Existing Inventory Q2 2018 (SF)	Direct Vac Rate 10-Yr Average	Direct Vac RateQ2 2018	Overall Vac Rate 10-Yr Average	Overall Vac Rate Q2 2018	Net Absorption YTD 2018 (SF)	Net Absorption Q2 2018 (SF)	Asking Rent psf/yr (FSG) Q2 2018	New Supply SF YTD 2018	Under Construction SF Q2 2018
Atlanta	26,609,504	13.9%	10.6%	14.2%	10.8%	434,318	134,514	$22.44	381,700	379,092
Baltimore	11,705,521	9.2%	7.0%	9.3%	7.2%	22,172	32,082	$23.44	0	29,700
Boston	26,621,576	6.5%	6.2%	6.7%	6.5%	(14,370)	(58,477)	$27.00	44,000	362,223
Cincinnati-Dayton	13,646,872	10.5%	5.0%	10.6%	5.1%	135,858	32,487	$18.48	39,576	118,040
Chicago	36,075,364	12.7%	11.6%	13.1%	12.0%	(234,463)	(29,591)	$21.72	77,988	941,620
Dallas-Forth Worth	31,258,295	12.5%	12.7%	12.7%	12.9%	257,824	23,441	$26.04	551,507	713,761
Denver	17,332,942	9.7%	8.8%	10.0%	9.2%	(171,230)	(106,454)	$25.08	57,600	465,824
Houston	36,443,268	12.1%	11.9%	12.5%	12.3%	22,443	42,679	$25.32	153,815	407,187
Indianapolis	12,683,596	9.0%	5.9%	9.2%	6.1%	(46,451)	(81,255)	$18.60	0	16,000
Kansas City	11,566,881	8.4%	6.0%	8.5%	6.1%	104,992	(18,040)	$22.68	117,985	375,000
Los Angeles	40,497,356	9.0%	8.6%	9.2%	9.1%	(218,075)	(50,697)	$31.92	78,112	366,851
Miami	11,492,283	8.2%	8.4%	8.3%	8.7%	6,149	15,110	$33.36	200,000	391,661
Minneapolis	18,379,048	6.1%	6.5%	6.4%	6.6%	402,880	73,308	$23.76	434,101	80,959
Nashville	10,965,341	5.6%	3.9%	6.0%	4.4%	92,474	137,802	$24.72	79,658	32,000
New Jersey	35,791,469	16.2%	13.3%	16.4%	13.6%	61,012	25,297	$22.92	85,233	309,556
New York City	6,454,317	4.1%	6.7%	4.2%	7.0%	2,465	18,405	$62.16	0	90,505
Orlando	13,834,572	8.8%	6.2%	9.8%	7.1%	305,954	159,339	$24.16	74,450	0
Pittsburgh	8,283,551	5.5%	6.7%	5.6%	6.7%	35,332	(28,996)	$18.84	55,000	0
Phoenix	12,588,036	19.4%	16.3%	20.0%	16.7%	52,507	55,986	$23.48	0	147,600
San Diego	12,569,885	10.3%	7.0%	10.6%	7.5%	51,991	(44,523)	$36.72	145,000	94,054
San Francisco	4,446,415	4.2%	1.9%	4.3%	2.0%	25,879	24,886	$53.76	0	286,273
Seattle	19,443,286	6.9%	4.1%	7.2%	4.7%	73,195	25,906	$32.04	41,837	150,000
St. Louis	13,313,905	9.0%	4.6%	9.1%	4.7%	66,463	62,532	$22.80	0	156,020
Tampa	11,068,700	10.9%	8.1%	11.0%	8.3%	(27,316)	(79,258)	$20.04	85,000	230,500
Washington, DC	27,157,042	11.3%	10.7%	11.7%	11.1%	(155,537)	(18,844)	$28.20	0	240,294
United States*	**1,047,082,729**	**9.8%**	**8.2%**	**10.0%**	**8.4%**	**2,649,593**	**1,398,510**	**$22.90**	**5,318,949**	**14,109,780**

**U.S. includes all markets tracked by CoStar Group, Inc., not only those markets listed above.*

Source: CoStar Group, Inc.

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About Cushman & Wakefield's Healthcare Advisory Group

Cushman & Wakefield's Healthcare Advisory Practice provides healthcare organizations with strategic and transformational real estate services that directly affect positive business outcomes. Our healthcare real estate specialists help clients make decisions that enhance patient care and accessibility, generate efficiencies across their platforms, and maximize the value of their real estate. In short, we assist in aligning real estate with healthcare missions, whether that focus involves executing on a single specialty, planning for new care delivery models, or combining multiple practices. Our expertise in the healthcare industry, combined with deep local market knowledge, strong relationships with health systems, physician practices, and other healthcare providers, allows for rapid response to our healthcare clients' needs. Follow us on Twitter at @CushWakeHealth.

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