

Medical Office Building Quarterly Update

Large Portfolio Activity Drives 2016 Transaction Volume

Introduction

Investor appetite remained strong for medical office buildings in 2016 with a total of \$8.5 billion in reported transaction volume. It was a year marked by large portfolio sales, fueled by institutional capital. NorthStar Realty Finance Corp. (NYSE: NRF) sold a portfolio of 38 properties with a total value of \$838 million to Starwood Property Trust (NYSE: STWD). Catholic Health Initiatives ("CHI") monetized a portfolio of 52 properties through a sale to Physicians Realty Trust (NYSE: DOC) for \$703.5 million. Blackstone (NYSE: BX) sold a 4.5 million square foot medical office and life sciences portfolio to Ventas (NYSE: VTR) for \$1.5 billion. In the aggregate STWD, DOC and VTR acquired roughly \$3 billion in medical office and related healthcare real estate, approximately 36 percent of the total \$8.5 billion in sales transacted for the year.

NorthStar Realty Finance Corp. Portfolio Acquisition

Starwood Property Trust acquired the portfolio of 38 properties from NorthStar Realty Finance Corp., a real estate investment trust based in New York. NRF originally acquired the properties through its larger acquisition of Griffin-American Healthcare REIT II ("G-A REIT II"), a public non-traded real estate investment trust, in 2014 in a transaction valued at \$4 billion. The assets not included in the 38 properties sold from the G-A REIT II acquisition were retained by NRF. This transaction follows the merger agreement announced mid-year 2016 between Los Angeles-based Colony Capital Inc., NRF and its parent company, NorthStar Asset Management to create Colony NorthStar Inc. (NYSE: CLNS).

Wexford Science & Technology Portfolio Acquisition

Ventas acquired the Wexford Science & Technology Portfolio of

life science and medical properties from Blackstone in a \$1.5 billion transaction. The portfolio represented 23 buildings, two development properties and nine development sites. Excluding the nine development sites, the blended cap rate for the 23 buildings and two development properties was an estimated 6.84 percent. Blackstone acquired the Wexford Science & Technology Portfolio through its larger acquisition of BioMed Realty Trust in 2015.

CHI Portfolio Monetization

CHI executed the largest health system real estate monetization ever in 2016 at a value of \$703.5 million. The portfolio was comprised of 52 properties totaling 3.16 million square feet. The \$225 per square foot value represents a 6.3 percent cap rate on in-place NOI. The transaction was strategic for the health system as it allowed CHI to rebalance its portfolio of owned and leased real estate. H2C served as the financial advisor to CHI on the portfolio monetization.

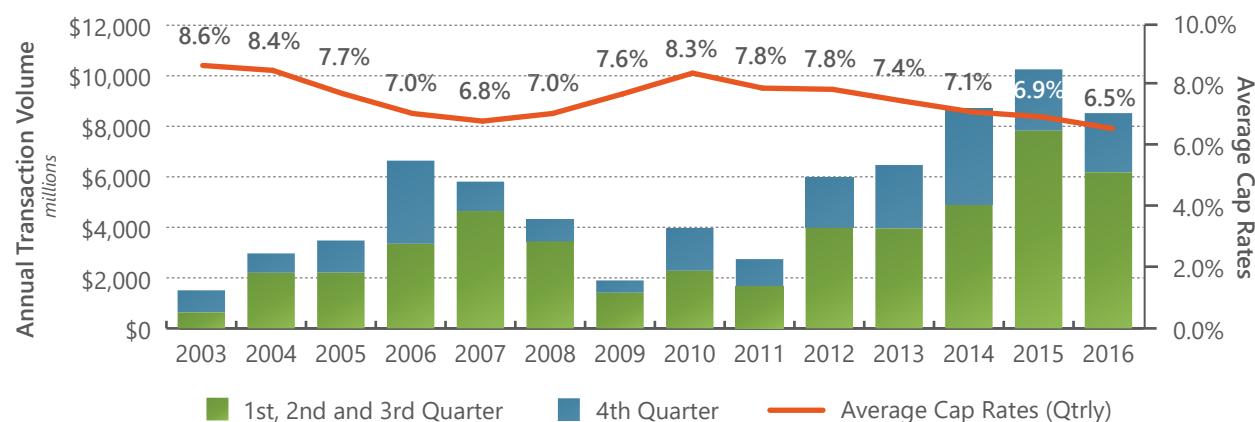
Investment Sale Volumes and Pricing Trends

The average fourth quarter cap rate was 6.47 percent, 12 basis points higher than the all-time low of 6.35 percent in the third quarter of 2016. Although the average cap rate

modestly increased, 2016 still ended the year with an all-time low average yearly cap rate of 6.5 percent. Sales volume for the fourth quarter ended strong as well. Total transaction volume in 2016 of \$8.5 billion, though markedly short of 2015's marquee year of \$10.2 billion in sales,

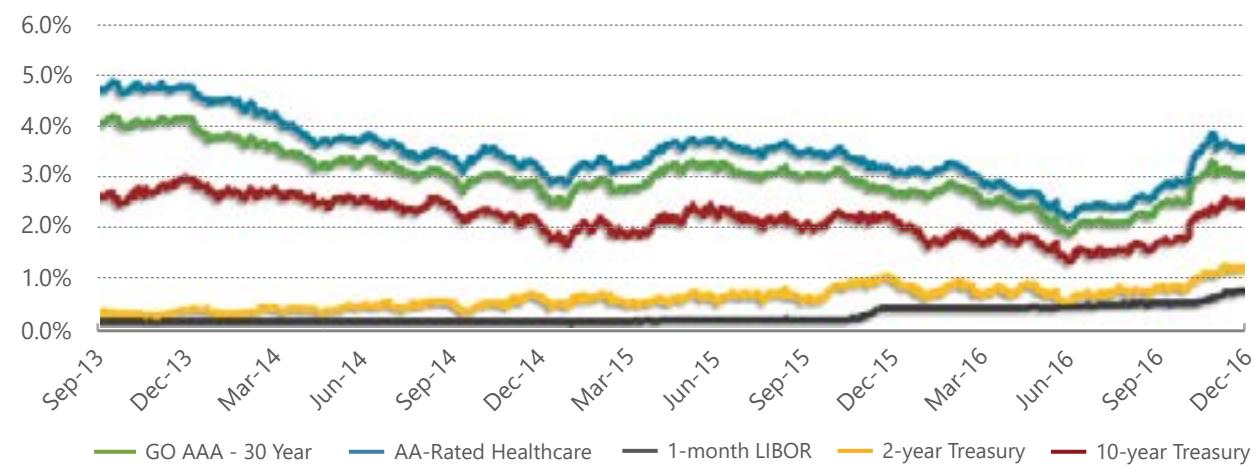
was still within \$176 million of the second highest year in sales volume of \$8.7 billion in 2014. Despite the year-over-year decline in dollar sales volume of 17 percent, cap rates for the same period ended on a positive note, 5.6 percent lower.

MOB Sales Volume in Thousands and Cap Rate Trends



Source: RC Analytics

Industry Rate Benchmark Trends



Source: Bloomberg

Regional Review

West Region

In December, New York-based Thor Equities acquired the Kaiser Permanente medical office building in Cupertino, California, from VEREIT (NYSE: VER), a publicly traded real estate investment trust ("REIT") headquartered in Phoenix, Arizona. Located across the street from the under-construction Apple 2 Campus, the building is occupied by Kaiser Permanente through 2023. The property was built in 1971 and remodeled in 1992. The 100,352 square-foot building located on 6.6 acres, traded for a total value of \$66.8 million, or approximately \$666 per square foot. The building offers a wide range of services including, child and adolescent psychiatry, chemical dependency recovery and worksite wellness. This transaction marks the third time the property has changed hands in the past seven years.

Mountain Medical, a provider of imaging and vascular services to the Utah and Southern Idaho regions, sold their Murray and Ogden imaging center locations to a joint venture partnership between Los Angeles-based Kanye Anderson and Chicago-based MB Real Estate. The Murray and Ogden locations sold for a total of \$12.6 million or, \$9.9 million and \$2.7 million, respectively. The Murray location, with approximately 35,203 square feet, sold for \$281 per square foot and the Ogden location, with 12,265 square feet, sold for \$220 per square foot. Mountain Medical remains committed to the space through the sale-leaseback transaction.

Cap Rate Trends¹



Price per Square Foot Trends¹



Southwest Region

The California State Teachers Retirement System (CalSTRS) sold the Anthem Building, located in Denver, Colorado, to Chicago-based Bradford Allen for \$80.6 million or approximately, \$190 per square foot. The building totals approximately 423,562 square feet, making it the 24th largest building in Denver. Total occupancy is 98 percent with Anthem Blue Cross-Blue Shield

occupying 86 percent of the building.

MB Real Estate purchased a new development tenanted by Cigna Medical Group ("Cigna"). The property is a two-story class A, built-to-suit healthcare facility for Cigna. The state-of-the-art health center includes an urgent care, pharmacy, imaging, laboratory and specialty services to residents of the Northwest Phoenix region.

¹ Source: RC Analytics

The 60,250 square foot facility sold for \$20 million, approximately \$333 per square foot. The seller, Irgens Development, a Milwaukee-based real estate development and investment firm, developed and financed the property.

Southeast Region

Nashville-based Healthcare Corporation of America (NYSE: HCA) acquired the Eastside Physicians Plaza in Snellville, Georgia from Ventas, Inc. (NYSE: VTR), a real estate investment trust located in Chicago, Illinois. The 149,225 square foot property traded hands for a total value of \$32.1 million, or approximately \$149 per square foot. The Eastside Medical Center, formerly the Emory Eastside Medical Center before HCA acquired it in 2011, is a 310-bed, full service, acute-care medical center.

Healthcare Trust of America Inc. (NYSE: HTA) purchased two medical office buildings housing the Duke University Health System in Durham, North Carolina. The first building, known as Hock Plaza II is an 86,400 square foot building that sold for \$29.8 million, or approximately \$344 per square foot. The second building, known as the Duke Fertility Clinic, sold for \$5 million, or approximately \$419 per square foot. Hock Plaza II is located directly across the street from the 938-bed teaching hospital, Duke University Medical Center, while the Duke Fertility Clinic building is located approximately 10 miles from the main hospital. Brickman Associates, a real estate investment firm located in New York, was the seller of the buildings.

Midwest Region

In October, Hammes Partners purchased the Twin Lakes Health Building from Minneapolis-based Ryan Companies. Located in Saint Paul, Minnesota, the building houses a broad range of medical and health providers including Tareen Dermatology, Park Dental, the Children's Minnesota Roseville Physical Rehabilitation Clinic and an eye care center. The property sold for \$15.3 million, or approximately \$216 per square foot.

New York-based TopMed Realty, in a joint venture with Chicago-based Golub & Company, acquired a 493,064 square foot building and its public parking components located at 680 North Lake Shore Drive in Chicago, Illinois. Through the joint venture partnership, TopMed is replacing an existing investor partner. Marked by its iconic blue tipped tower, the medical office and retail building is subdivided into 426,713 of medical office space, which is 90 percent occupied, and 66,351 square feet of retail space. Excluded from the acquisition are the private residences and associated parking in the building. The property is located adjacent to the Northwestern Medicine Medical Campus, which has over 1,400 beds in the vicinity.

Milwaukee-based Physicians Realty Trust (NYSE: DOC), a real estate investment trust, acquired two condominium units within the Northwest Michigan Surgery Center in Traverse City, Michigan. The purchase price of \$29.4 million was funded through 947,936 common shares of beneficial

interest and nominal cash. Built in 2004, the two condominium units total 55,215 square feet. The \$533 per square foot purchase price was the highest in the region for the fourth quarter for sales over \$5 million. The building houses tenants providing a range of services including orthopedic, plastic surgery, ophthalmology, general surgery, gastrointestinal, ear nose and throat, podiatry, urology, gynecology and other specialty services. The surgery center was developed in a joint venture between Munson Medical Center and a consortium of physician investors.

Mid-Atlantic

In October, San Antonio-based USAA Real Estate Company acquired the National Cancer Institute Headquarters in Rockville, Maryland. The JBG Companies, based in Chevy Chase, Maryland were the sellers of the 588,891 square foot building. This sale is one of many ahead of JBG Companies' merger with Vornado Realty Trust (NYSE: VNO), a New York-based real estate investment trust. The merger is anticipated to close in the second quarter of 2017. USAA acquired the building for \$260.2 million, or approximately, \$442 per square foot. The property was developed on the John's Hopkins University Shady Grove Campus and has been leased to the National Cancer Institute since 2010.

In December, the future Penn Medicine Building in Cherry Hill, New Jersey was sold to LaSalle Investment Management, a real estate investment subsidiary of Jones Lang LaSalle (NYSE: JLL),

based in Chicago, Illinois. The total transaction value was \$81.7 million or approximately \$528 per square foot. Bethesda-based investment and development firm Finmarc Management was the owner and developer of the 155,000 square foot building. Penn Medicine, in partnership with Finmarc, invested \$50 million into the project and signed a 20-year lease for the building. The site is the former Syms department store which closed in 2012. Finmarc extensively renovated the property to provide a wide range of services including dermatology, neuroscience specialties, musculoskeletal specialties and physical therapy, sleep medicine, imaging, lab services, urology, cardiovascular medicine and other specialties. In addition to the renovations, a new parking garage with more than 400 spaces will accompany the property.

Northeast Region

A joint venture between New York-based real estate investment firms Benson Capital Partners and ABS Real Estate Partners has acquired the medical office building at 407 E. 70th Street, in Manhattan. The sellers were a variety of physicians who owned and occupied the 16,577 square foot property. The physicians will continue to occupy the space through a long-term sale-leaseback. The property is in close proximity to the Weill Cornell Medical College and New York Presbyterian Hospital. The New York investment firms purchased the property for \$17 million, or approximately \$1,014 per square foot. The five-story building was originally built in 1920 and renovated in 1985.

The Concord Meadows Corporate Center in Concord, Massachusetts

was acquired by Novaya Real Estate Ventures, a Boston-based real estate investment firm. Normandy Real Estate Partners, a real estate investment and management firm based in Morristown, New Jersey, sold the property for \$64.2 million, or approximately \$157 per square foot. The 408,042 square foot building features office and medical office space, a cafeteria, fitness center, conference center and basketball and volleyball courts. Emerson Hospital Home Care occupies approximately 25 percent of the 90 percent leased building, and provides a range of services including nursing, rehabilitation, medical social work and home health aide.

NEW YORK

623 Fifth Avenue, 29th Floor
New York, NY 10022
212 257 4500

CHICAGO

311 S. Wacker Drive, Suite 5425
Chicago, IL 60606
312 508 4200

ATLANTA

3333 Piedmont Road, Suite 700
Atlanta, GA 30305
402 937 1350

SAN DIEGO

4655 Executive Drive, Suite 280
San Diego, CA 92121
858 242 4800

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Philip J. Camp

Principal

212 257 4505

pcamp@h2c.com

Jay J. Miele

Managing Director

212 257 4515

jmiele@h2c.com

John P. Nero

Vice President

212 257 4502

jnero@h2c.com

Maxwell J. Wu

Associate

212 257 4511

mwu@h2c.com

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