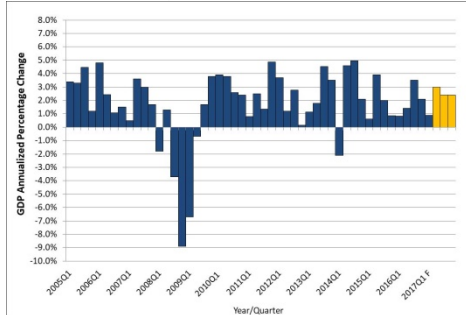




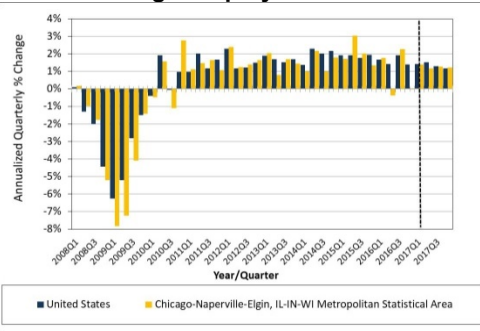
## METRO CHICAGO CORE MARKET MEDICAL OFFICE BUILDING SNAPSHOT

### Quarterly Change in U.S. Gross Domestic Product, 2010 Q4 to 2017 Q4



Sources: U.S. Bureau of Economic Analysis and Real Estate Counselors International, Inc.

### Quarterly Change in United States and Metro Chicago Employment: 2010 - 2020



Sources: United States Bureau of Labor Statistics, Moody's Analytics, and Real Estate Counselors International, Inc.

According to a U.S. Census survey of U.S. companies' capital expenditures, capital expenditures within the healthcare and social assistance sector (about one-half is accounted for by general medical and surgical hospitals) began accelerating in 2011 after falling in 2009 and 2010, after the Great Recession.

The census figures indicate that between 2002 and 2015, annual capital expenditures in structures and equipment by all firms in the healthcare industry have increased by nearly 60%. In 2015, total capital expenditures by healthcare establishments in this sector totaled nearly \$100 billion.

### Executive Summary

In Moody's Analytics April economic outlook, they began with a discourse at the intersection of economics and politics and proclaimed "the reality regarding the economy's performance is not nearly as good as Trump supporters believe nor as bad as claimed by Trump detractors". Moody's does not believe that the federal government will be able implement any watershed changes, at least in the short-term, that will dramatically alter the economy's present trajectory. There are Trump administration policies that, if implemented could dampen growth as there are policies that could stimulate growth. Moody's baseline model suggests GDP growth averaging within the range of 2.0% to 2.5% over the next several years. Although there are downside risks to the economy's performance, 2017 should remain recession-free. Total nonfarm payroll employment increased by 211,000 in April, following gains of, 98,000 in March, 219,000 in February and 216,000 in January.

**Job growth in all sectors of metro Chicago is forecast to remain moderately stable through at least mid-year 2018**, a direct result of growth in Professional & Business Services, Retail Trade, Leisure & Hospitality and Construction jobs.

**Nationally and for the Chicago MSA, growth in medical office building employment is forecast to remain strong while hospital employment is forecast to slow relative to the rate of the past two years.**

### Metro Chicago Core MOB Market Highlights as of the 1<sup>st</sup> quarter 2017

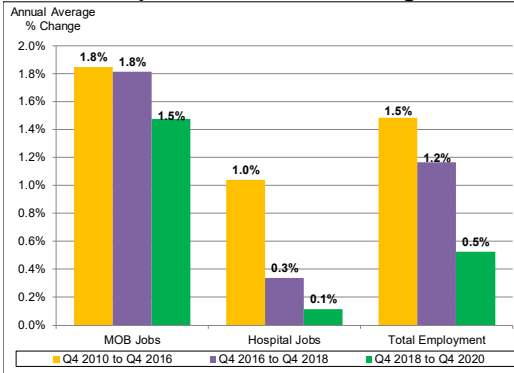
- The average gross asking rent at the end of the 1<sup>st</sup> quarter was \$22.78 per square foot representing 4.5% annualized quarterly average growth since year-end 2016. (1<sup>st</sup> quarter growth was 1.1%.)
- Vacancy Rate: 11.5%, down 20 basis points since year-end 2016 and 70 basis points since year-end 2015.
- Net Absorption remained strong in the 1<sup>st</sup> quarter of 2017, after healthy absorption levels throughout 2016.
- Square feet of MOB's under construction remains historically low at only 0.4% of existing inventory; minimal deliveries in the 1<sup>st</sup> quarter 2017.

### Metro Core MOB Market Outlook

**The Metro Chicago Core MOB Market is showing signs of demand growth, albeit somewhat slower growth. Rent growth continues**, as new supply remains low. The vacancy rate is expected to decline over the long-term, but may remain relatively flat over the short-term. Still, the long-term demand outlook for MOB space in the Metro Chicago Core Market is positive. We expect MOB and hospital job growth to remain moderately strong and in turn fuel growing demand for MOB space.

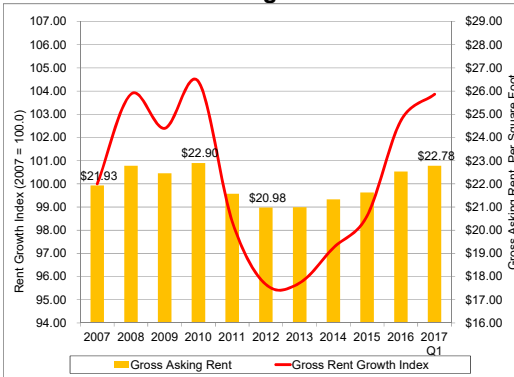


**Medical Office Building\* and Hospital Jobs: Metro Chicago**



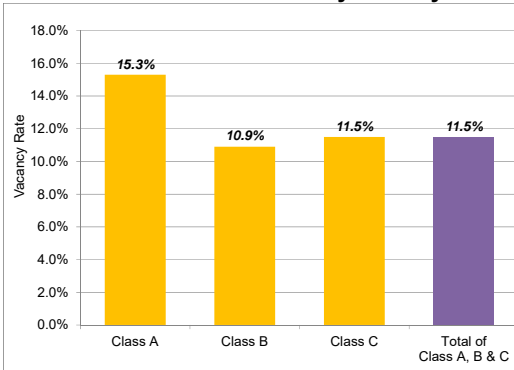
Sources: U.S Bureau of Labor Statistics, Moody's Analytics and Real Estate Counselors International, Inc.  
\*Note: MOB jobs are defined to include selected ambulatory healthcare establishments, including: (1) Offices of Physicians; (2) Outpatient Care Centers; (3) Offices of Other Health Practitioners; and (4) Medical and Diagnostic Laboratories.

**Trend of MOB Average Gross Asking Rent for Metro Chicago Core Market**



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
Note: All figures represent annual averages, not year-end figures.

**Q1 2017 Core Market Vacancy Rate by Class**

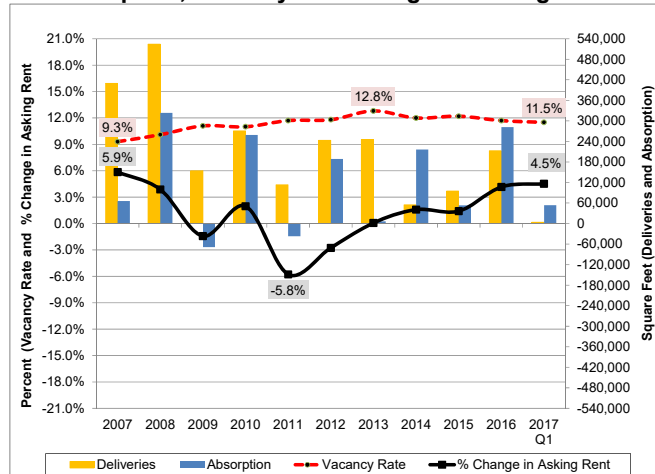


Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
Note: All figures presented in this graph reflect year-end statistics.

**METRO CHICAGO CORE MARKET MOB DEMAND/SUPPLY**

**Net Absorption was strong in the 1<sup>st</sup> quarter of 2017**, following very strong absorption in the 4<sup>th</sup> quarter of 2016. With limited new construction during 2016 as well as the 1<sup>st</sup> quarter 2017, the vacancy rate was 11.5% at the end of the 1<sup>st</sup> quarter 2017 or 20 basis points lower than the vacancy rate at the end of the 4<sup>th</sup> quarter 2016.

**Metro Chicago Core Market Demand/Supply: Deliveries, Absorption, Vacancy and Change in Average Rent**



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
Notes: (1) Percentage change in rent Q1 2017 represents the annualized quarterly change since year-end 2016. (2) All other statistics represent annual quarterly averages, not quarter-end figures.

**Metro Chicago Core Market & Outlying Market Demand/Supply Indicators: Q4 2016 and Q1 2017**

Indicator	Chicago Metro - Core Market (1)	Chicago Metro - Outlying Market (2)
Number of Properties	1,204	737
Total Net Rentable Square Feet	21,709,238	11,481,241
Vacancy Rate, 2017 Q1	11.5%	9.4%
Vacancy Rate, 2016 Q4	11.7%	9.1%
Basis Point Change in Vacancy 2016 Q4 to 2017 Q1	-20.00	30.00
Gross Asking Rent, 2017 Q1	\$22.78	\$19.97
Gross Asking Rent, 2016 Q4	\$22.53	\$20.16
% Change in Asking Rent 2016 Q4 to 2017 Q1	1.11%	-0.94%
ANNUALIZED QUARTERLY AVERAGE % Change in Asking Rent 2016 Q4 to 2017 Q1	4.5%	-3.7%
Space Absorbed last 4-Qtrs 2016 Q2 to 2017 Q1	329,445	468,099
Absorption Rate	1.7%	4.5%
Space Leased last 4-Qtrs 2016 Q2 to 2017 Q1	505,194	292,741
Leasing Rate	2.6%	2.8%

Sources: CoStar Group and Real Estate Counselors International, Inc.  
Notes:  
(1) MOB's containing 2,000 square feet or more located in Cook, DuPage and Lake Counties.  
(2) MOB's containing 2,000 square feet or more located in 17 outlying counties.



**Q1 2017 Core Market Asking Rents by Class**



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
Note: All figures presented in this graph reflect year-end statistics, not annual averages.

**The average gross asking rent was \$22.78 PSF at the end of the 1<sup>st</sup> quarter 2017, about 1.1% above the asking rent in the 1<sup>st</sup> quarter 2016.**

**Of the three classes of properties, Class A MOB**s exhibited the highest vacancy rate at 15.3%, at the end of the 1<sup>st</sup> quarter 2017. The 1<sup>st</sup> quarter Class B and Class C vacancy rates are about 38 - 40 basis points lower than the vacancy rate of Class A properties. Since 2015 and 2016, vacancy rates have declined for Class A and C properties but remained flat for Class B properties.

The market's largest MOB, encompassing about 7.4 million square feet built since 1979, exhibited a vacancy rate of 12.9% at the end of the 1<sup>st</sup> quarter 2017, as shown in the table below.

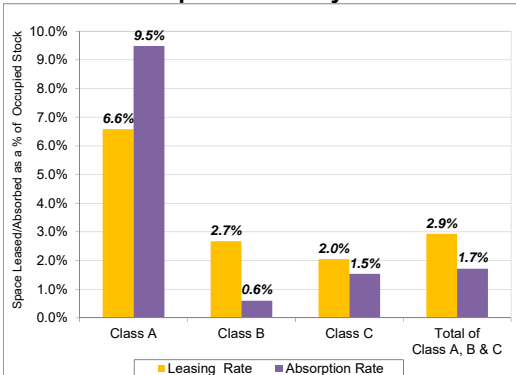
**Metro Chicago Core market by Class  
Demand/Supply Indicators: Q4 2016 and Q1 2017**

Variables	Buildings by Class			Largest MOB (All Classes of Buildings with 25,000 Square Feet or More and Built Since 1979)
	Class A	Class B	Class C	
Number of Properties	33	645	526	139
Total Net Rentable Square Feet	2,311,161	14,512,445	4,885,632	7,393,632
Vacancy Rate, 2017 Q1	15.3%	10.9%	11.5%	12.90%
Vacancy Rate, 2016 Q4	16.2%	10.9%	11.9%	13.10%
Basis Point Change in Vacancy 2016 Q4 to 2017 Q1	-90.00	0.00	-40.00	-20.00
Gross Asking Rent, 2017 Q1	\$30.57	\$22.44	\$18.42	\$26.05
Gross Asking Rent, 2016 Q4	\$29.81	\$22.44	\$18.77	\$25.77
% Change in Rent 2016 Q4 to 2017 Q1	2.5%	0.0%	-1.9%	1.1%
ANNUALIZED QUARTERLY % Chg in Asking Rent 2016 Q4 to 2017 Q1	10.6%	0.0%	-7.3%	4.4%
Space Absorbed last 4-Qtrs 2016 Q2 to 2017 Q1	185,627	77,494	66,324	193,480
Absorption Rate	9.5%	0.6%	1.5%	3.0%
Space Leased last 4-Qtrs 2016 Q1 to 2017 Q1	128,853	345,998	88,563	226,153
Leasing Rate	6.6%	2.7%	2.0%	3.5%

Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
Note: All statistics presented in this table reflect quarter-end statistics.

**Core market leasing (gross absorption) and net absorption (i.e., space demand) has been strongest in the Class A sector since year-end 2016. Net absorption has been weakest in the Class B sector**

**Chicago Core Market Leasing and Absorption Rates by Class**



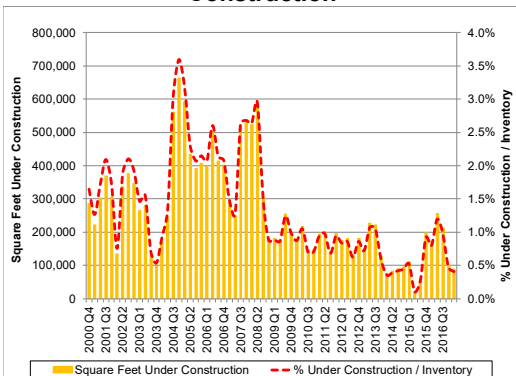
Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
Note: All figures presented in this graph reflect quarter-end statistics, not quarterly averages.

**At the end of the 1<sup>st</sup> quarter of 2017, the Metro Chicago Core MOB market inventory** encompassed nearly 21.4 million square feet in 1,186 buildings, according to the CoStar property database.

**There are four buildings under construction with space totaling about 85,000 square feet.** These buildings are located in Chicago, Burbank, and Bloomingdale. MOB construction **remains at levels far below the levels during the pre-recession period.**

There are other medical buildings proposed for Arlington Heights, Barrington Chicago, Elmhurst, Gurnee, Lincolnshire, Lincolnwood, Naperville, Northbrook, Oak Brook, Palatine and Schaumburg.

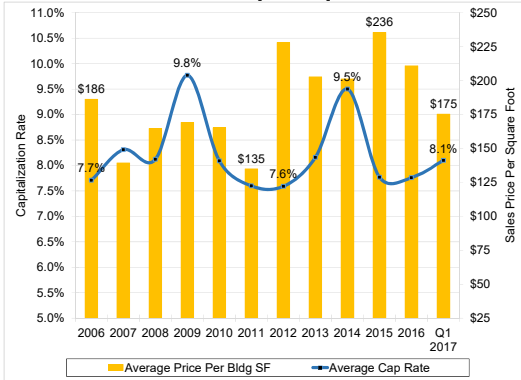
**Metro Chicago Core Market MOB Construction**



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.



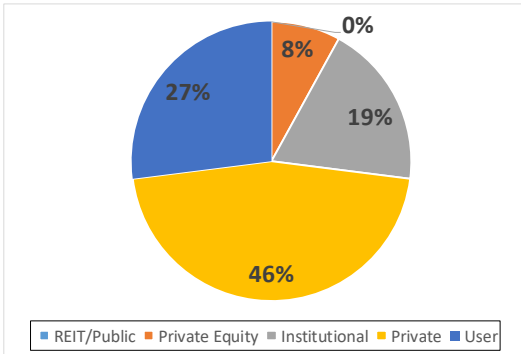
**MOB Sales Capitalization Rates and Average Annual Prices per Square Foot**



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
 Note: for buildings with sale prices over \$50.00 per square foot in order to account for institutional quality properties and exclude high vacancy or redevelopment projects.

Since 2006, Chicago core market MOB investment sales have exhibited capitalization rates that peaked around 9.8% in 2009 and dropped to 7.8% by 2016. The dramatic jump in the average capitalization rate in 2014 resulted from the sale of a number of smaller, older medical office buildings in that year. The average capitalization at the end of the 1<sup>st</sup> quarter was 8.1%.

**Investor Profile of MOB Investment Sales: Purchases Last 12 Months**



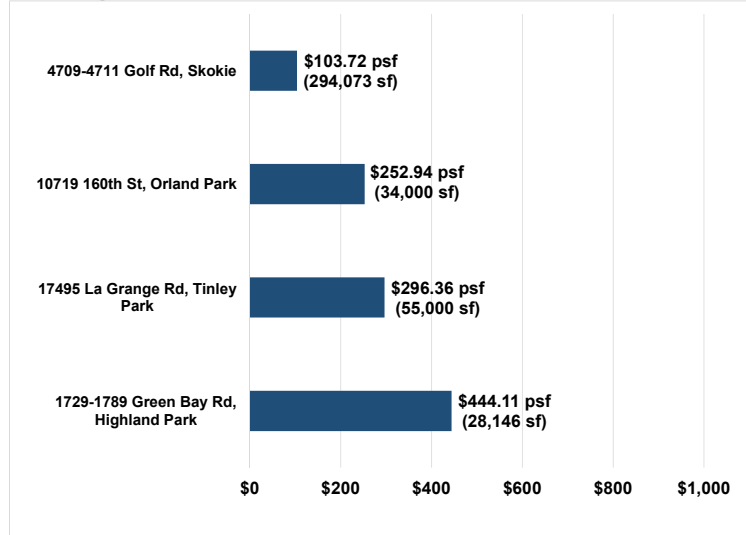
Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.

Since April 2016, approximately 46% of Core Market MOB sales volume was represented acquisitions by private investors, including Private (Non-traded) REITs. The next largest share, estimated at 27%, was associated with users. There were no reported sales activity by public REITs in the 1<sup>st</sup> quarter.

**METRO CHICAGO CORE MARKET MOB INVESTMENT SALES TRENDS**

Over the last 12 months, aggregate MOB sales totaled \$130 million. Of this total, 52% is associated with five buildings. The building addresses, square footages and sales price per square foot are shown in the chart below.

**Largest MOB/Medical\* Investment Sales: Last 12 Months**



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
 \*Note: Includes multipurpose office buildings with medical tenants and retail space marketed to medical tenants.

Since 2011, approximately 50% of all MOB investment sales activity has been concentrated in three Chicago suburban submarkets – Near North Suburban Area, South Route 45 Corridor and Central North Suburban Area.

Following are 10 top buyers who each amassed over \$93 million worth of MOB sales over the past 12 months. On average, these buyers paid \$183 per square foot which is slightly below the market average per square foot sale price associated with all MOB sales over the last three years. These portfolio or aggregate sales ranged in price from \$104.00 per square foot (Imperial Realty) to \$444 per square foot (Harrison Street Capital).

**Largest MOB Investment Buyers – Last 12 Months**

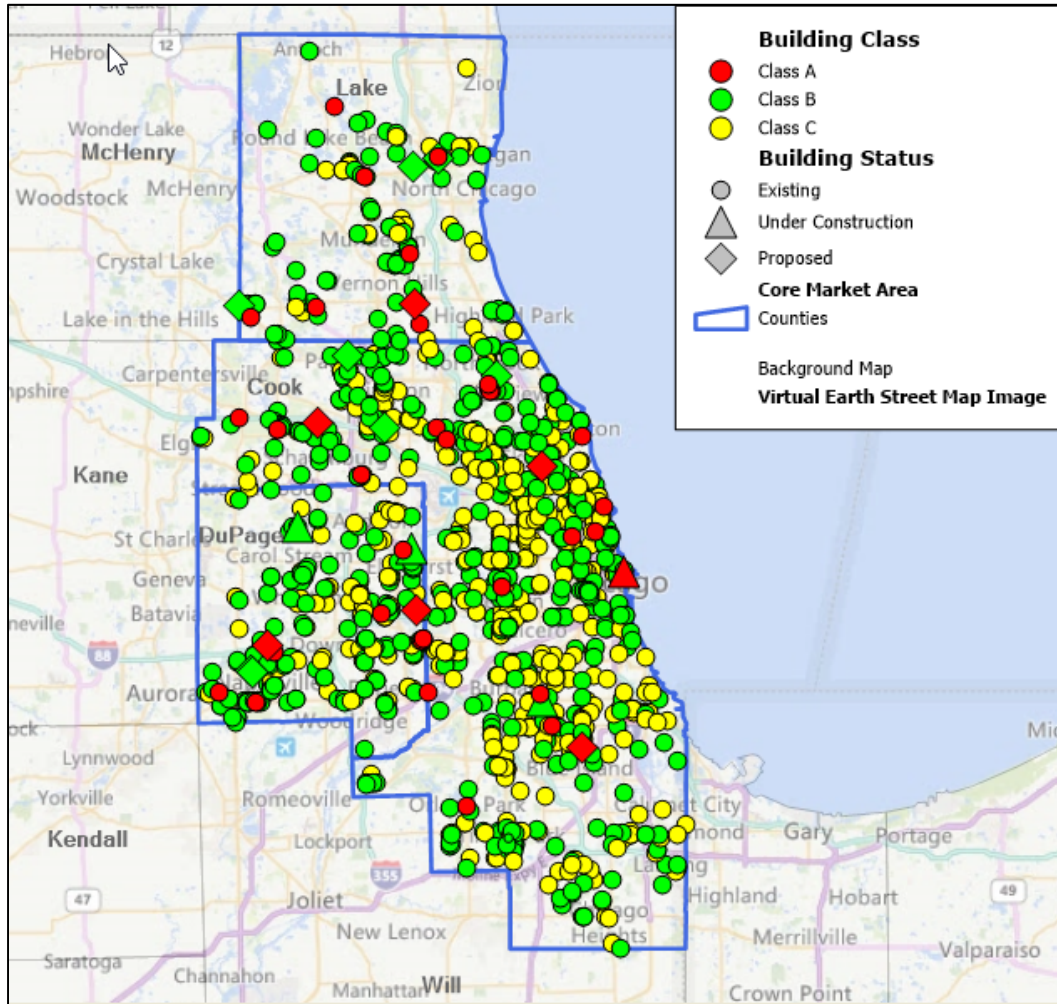
#	Buyer	Acquisition Total	Square Feet	Price PSF
1	Imperial Realty Company	\$30,500,000	294,073	\$104
2	DuPage Medical Group	\$20,600,000	72,600	\$284
3	Harrison Street Capital	\$12,500,000	28,146	\$444
4	Kayne Anderson Real Estate Advisors	\$8,600,000	34,000	\$253
5	Elliott Bay Capital Trust	\$5,850,000	16,020	\$365
6	Midwest Property Group	\$4,100,000	13,925	\$294
7	Location Finders International	\$3,061,500	10,000	\$306
8	MD Practice Solutions	\$3,000,000	8,000	\$375
9	JPMorgan Chase & Co	\$2,500,000	16,200	\$154
10	Associates in Nephrology	\$2,300,000	16,228	\$142
<b>Total/Average</b>		<b>\$93,011,500</b>	<b>509,192</b>	<b>\$183</b>

Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
 Note: These data may include properties that are part of portfolios located in a few other metropolitan areas. There is another \$16 million of sales not yet identified by CoStar Group, Inc. with buyer or seller details.





**CORE MARKET AREA DEFINITION AND MOB INVENTORY**



Sources: CoStar Group and Real Estate Counselors International, Inc.  
Note: Medical office properties containing 2,000 square feet or more located in Cook, DuPage and Lake Counties

**Note:** All information is from sources deemed reliable; however, no representation is made as to the accuracy thereof. CoStar began to track the metro Chicago MOB inventory during the 1990s. As such, the company continues to increase its capture of additional existing inventory as well as new construction, which thereby increases the total inventory over time, which may change historical absorption and vacancy figures presented by RECI.

Real Estate Counselors International has relationships with healthcare providers, private equity firms, financial institutions, developers, investors, government agencies, major corporations, and other public and private concerns. Among our specialties are:

- Stark law Compliance
- Acquisition Due Diligence
- Portfolio Valuations
- Fair Market Value Rent Studies
- Disposition Pricing
- Litigation Support/Dispute Resolution
- Property Appraisals
- Forensic Due Diligence/Evaluations
- Market Feasibility Analysis

Since 2007, Real Estate Counselors International Inc. has performed a spring and fall survey of medical office buildings in the metro Chicago market. Our proprietary database contains hundreds of contract and asking lease terms collected over the last several years.

For More information, please contact: Thomas Amato, CRE at 312.332.4000 X101

Real Estate Counselors International, Inc.