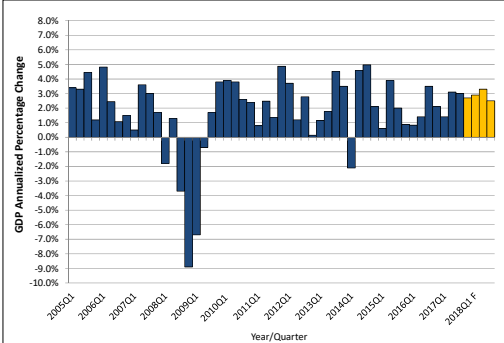




## METRO CHICAGO CORE MARKET MEDICAL OFFICE BUILDING SNAPSHOT

Quarterly Change in U.S. Gross Domestic Product, 2005 Q1 to 2018 Q4

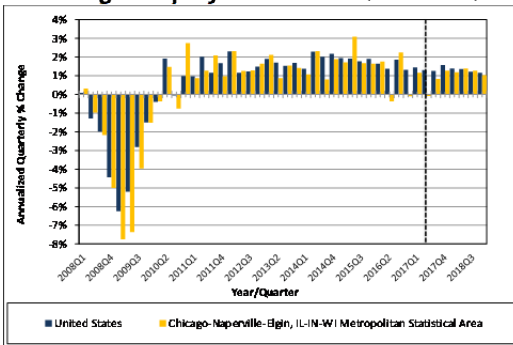


Sources: U.S. Bureau of Economic Analysis and Real Estate Counselors International, Inc.

### Executive Summary

**United States job growth in 2017 has been only somewhat below the rate of job growth in 2016.** However, GDP growth in 2017 has been stronger than growth exhibited last year and is forecast to remain strong in 2018, according to Moody's Analytics. GDP growth is forecast to average 2.2% in 2017, 2.8% in 2018 and 2.1% in 2019. Passing some form of tax reform remains a "wild card" in establishing the outlook over the next two years. The present tax proposals incorporate a broad set of changes to the corporate and personal income tax codes, including tax cuts. With only a general framework clear today, Moody's Analytics modeling suggests that the proposed changes would add significantly to future budget deficits and the nation's debt load, even after accounting for any economic benefits.

Quarterly Change in United States and Metro Chicago Employment: 2008 Q1- 2018 Q4



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

**Moody's forecast models suggest that job growth in metro Chicago is forecast to remain below the nation's growth rate (1.31%) in 2017 and 2018, at 1.01% per year.** The healthiest employment sectors over the next several quarters include Construction, Professional and Business Services, Financial Activities and Education and Health Services. **Nationally and for the Chicago MSA, growth in medical office building employment and hospital employment is forecast to slow relative to the rate of the past several years.**

### Metro Chicago Core MOB Market Highlights as of the 3<sup>rd</sup> quarter 2017

- **Vacancy Rate: 12.3%**, down 20 basis points since year-end 2016 and 150 basis points since year-end 2015.
- **Net Absorption was slightly positive** in the 3<sup>rd</sup> quarter of 2017, after exhibiting negative absorption in the 2<sup>nd</sup> quarter 2017.
- **CoStar's rent data series shows that the average rent declined slightly in the 3<sup>rd</sup> quarter.** The average gross asking rent at the end of the 3<sup>rd</sup> quarter was **\$22.43** per square foot and was 1.2% above the average quarterly asking rent in 2016. (Note: CoStar increased their inventory total by nearly 5% in the 3<sup>rd</sup> quarter which may be contributing to the apparent rent volatility. Refer to note on page 5.)
- Projects under construction and proposed remain low, at less than 0.5% of existing inventory square footage. (Note: CoStar's estimate excludes some hospital-sponsored construction projects.)

**According to the American College of Healthcare Executives, for the 13th year in a row, hospital CEOs ranked financial challenges as the No. 1 issue (i.e., challenge) facing their organizations in 2016. This highest ranked challenge/issue topped, governmental mandates (Rank #2) and patient safety and quality (Rank #3) and personnel shortages (Rank #4).**

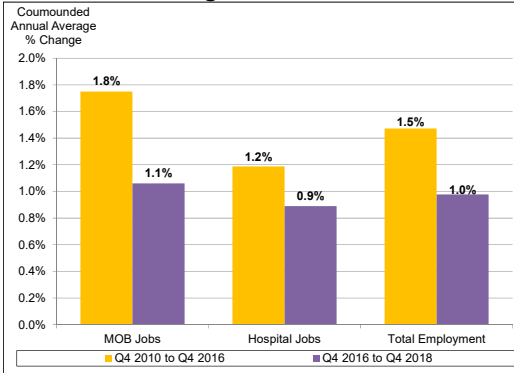
**Within the areas of financial challenges, the 383 CEOs polled by the American College of Healthcare Executives indicated concern among the following subcategories: (1) declining/stagnant Medicaid reimbursements (63%); (2) increasing costs for staff, supplies, etc. (60%); reducing operating costs (55%); and (4) bad debt (54%).**

### Metro Core MOB Market Outlook

**The Metro Chicago Core MOB Market is showing signs of moderating demand growth (i.e., net absorption), but the vacancy rate continues its decline.** Both MOB and Hospital job growth has moderated. The average rent declined slightly/remained flat, despite an increase earlier in the year. New supply remains very low. Outlook remains positive.

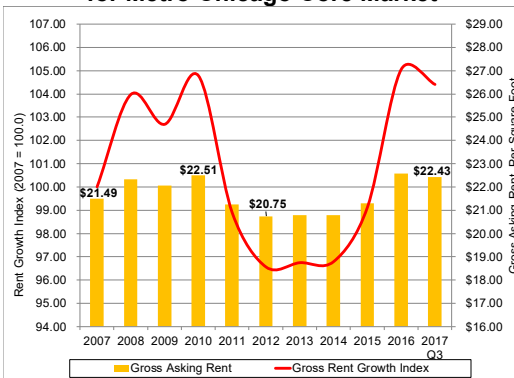


**Medical Office Building\* and Hospital Jobs: Metro Chicago: 2010 Q4 – 2018 Q4**



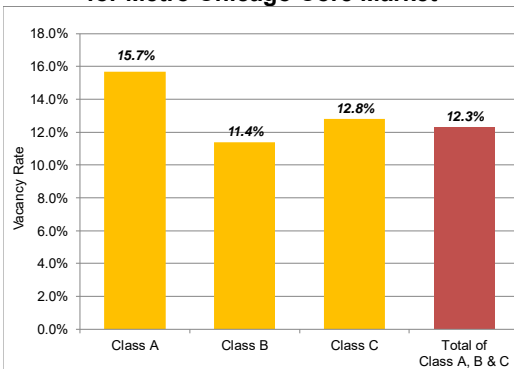
Sources: U.S Bureau of Labor Statistics, Moody's Analytics and Real Estate Counselors International, Inc.  
 \*Note: MOB jobs are defined to include selected ambulatory healthcare establishments, including: (1) Offices of Physicians; (2) Outpatient Care Centers, (3) Offices of Other Health Practitioners; 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 calendar figures represent annual averages, not year-end figures.

**Q3 2017 Core Market Vacancy Rate by Class for Metro Chicago Core Market**

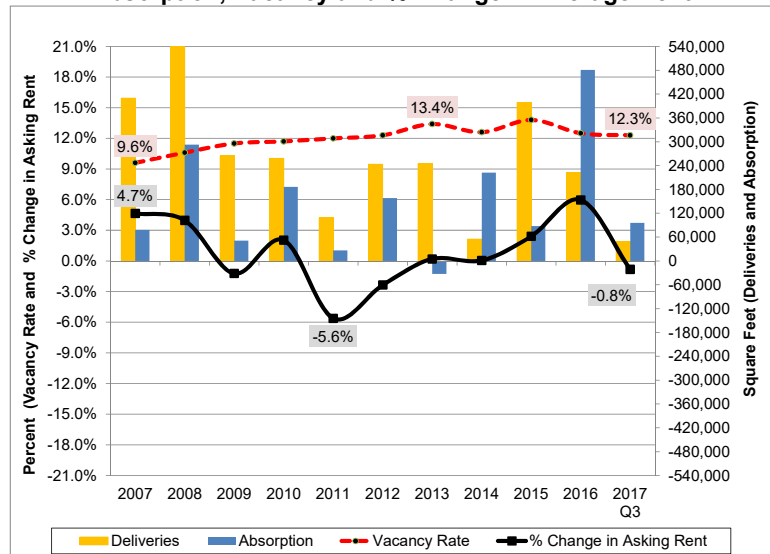


Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.

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

**Net Absorption returned to positive territory after exhibiting negative absorption in the 2<sup>nd</sup> quarter of 2017** after the prior eight quarters of positive absorption. With limited new construction during 2017, the vacancy rate was 12.3% at the end of the 3<sup>rd</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 Q2 2017 represents the annualized quarterly change since year-end 2016. (2) All other statistics represent annual quarterly averages, not quarter-end figures.

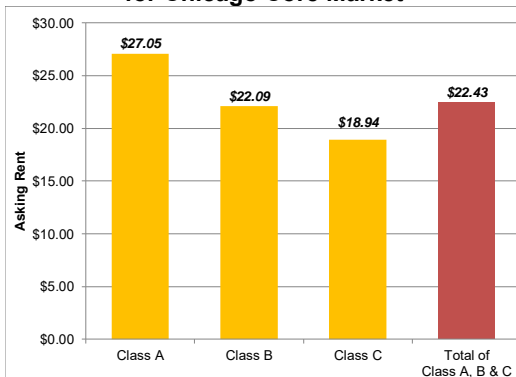
**Metro Chicago Core Market & Outlying Market Demand/Supply Indicators: Q4 2016 and Q3 2017**

Indicator	Chicago Metro - Core Market (1)	Chicago Metro - Outlying Market (2)
Number of Properties	1,237	758
Total Net Rentable Square Feet	22,894,778	11,682,702
Vacancy Rate, 2017 Q3	12.3%	9.3%
Vacancy Rate, 2016 Q4	12.5%	9.3%
Basis Point Change in Vacancy 2016 Q4 to 2017 Q3	-20.00	0.00
Gross Asking Rent, 2017 Q3	\$22.43	\$20.42
Gross Asking Rent, 2016 Q4	\$22.57	\$19.99
% Change in Asking Rent 2016 Q4 to 2017 Q3	-0.6%	2.2%
ANNUALIZED QUARTERLY AVERAGE % Change in Asking Rent 2016 Q4 to 2017 Q3	-0.8%	2.9%
Space Absorbed last 4-Qtrs 2016 Q4 to 2017 Q3	352,206	198,296
Absorption Rate	1.8%	1.9%
Space Leased last 4-Qtrs 2016 Q4 to 2017 Q3	488,932	297,362
Leasing Rate	2.4%	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.



**Q3 2017 Asking Rents by Class for Chicago Core Market**



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

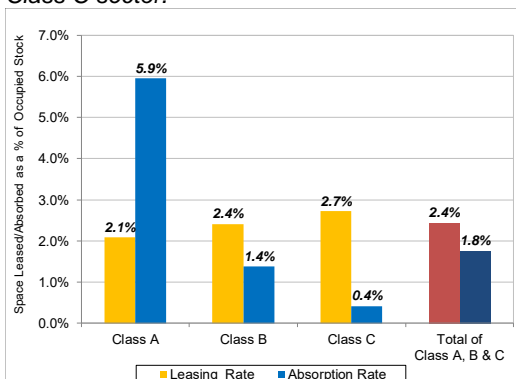
**Of the three classes of properties**, Class A MOB properties exhibited the highest vacancy rate at 15.7%, at the end of the 3<sup>rd</sup> quarter 2017, but exhibited the largest decline (80 basis points) since year-end 2016. Vacancy rates have remained relatively flat for Class B and Class C properties and are about 300 to 400 basis points lower than the vacancy rate associated with Class A properties.

The core market's largest MOB properties built since 1979 (about 7.7 million square feet or 34% of the core market), exhibited a vacancy rate of 14.2% at the end of the 3<sup>rd</sup> quarter 2017, as shown in the table below. These buildings exhibited a vacancy rate increase since year-end 2016.

**The average gross asking rent for all MOB space was \$22.43 per square foot at the end of the 3<sup>rd</sup> quarter 2017**, representing a -0.8% annualized quarterly average change since year-end 2016 but is 1.2% above the average quarterly asking rent in 2016. Rent growth was strong throughout 2016.

**Leasing and Absorption Rates by Class Last 12 Months for Chicago Core Market**

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 C sector.



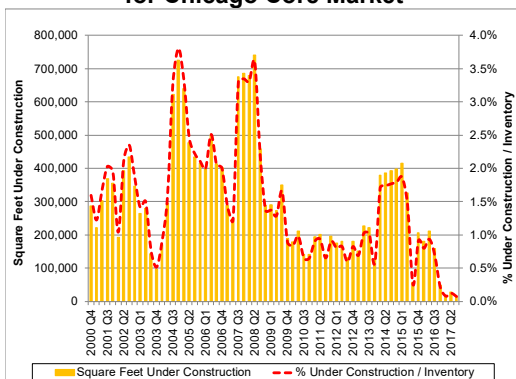
Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.

**Metro Chicago Core Market by Class Demand/Supply Indicators: Q4 2016 and Q3 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	40	662	535	143
Total Net Rentable Square Feet	3,017,605	14,912,565	4,964,608	7,764,321
Vacancy Rate, 2017 Q3	15.7%	11.4%	12.8%	14.20%
Vacancy Rate, 2016 Q4	16.5%	11.7%	12.5%	14.10%
Basis Point Change in Vacancy 2016 Q4 to 2017 Q3	-80.00	-30.00	30.00	10.00
Gross Asking Rent, 2017 Q3	\$27.05	\$22.09	\$18.94	\$25.23
Space Absorbed last 4-Qtrs 2016 Q4 to 2017 Q3	151,241	182,971	17,994	145,287
Absorption Rate	5.9%	1.4%	0.4%	2.2%
Space Leased last 4-Qtrs 2016 Q4 to 2017 Q3	53,101	318,177	117,654	130,125
Leasing Rate	2.1%	2.4%	2.7%	2.0%

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

**MOB Construction for Chicago Core Market**



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

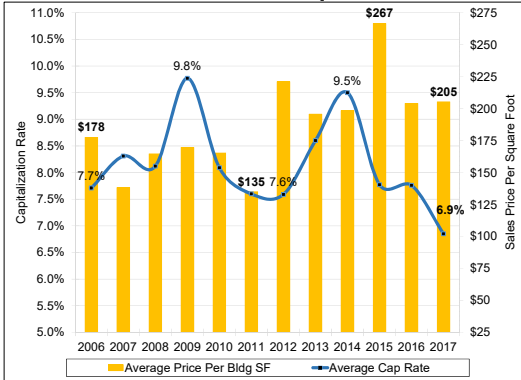
**At the end of the 3<sup>rd</sup> quarter 2017**, the Metro Chicago Core MOB market inventory encompassed nearly 22.9 million square feet in 1,237 buildings, according to the CoStar property database.

**In the Core MOB market, MOB construction remains at relatively low levels.** There are two buildings (located in Gurnee, and Zion) reportedly under construction with space totaling about 16,938 square feet, according to CoStar. **Note:** We have excluded some hospital-sponsored construction projects, specifically the 700,000 square foot Northwestern Biomedical Research Tower in downtown Chicago.

There are eight proposed MOB properties totaling 434,055 square feet (1.9% of total core market inventory) located in Chicago, Glenwood, Gurnee, Lincolnshire, Lincolnwood and Warrenville.



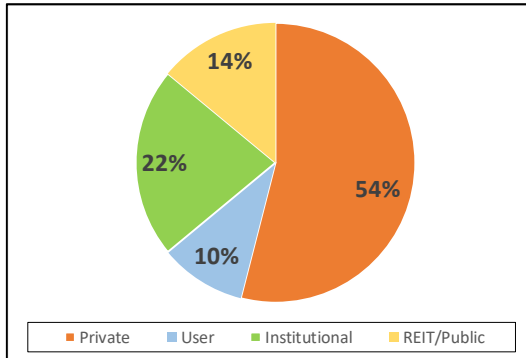
**MOB Sales Capitalization Rates and Average Annual Price Per Square Foot**



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
 Note: Only includes transactions with disclosed prices and excludes the CBRE/MBRE portfolio transaction from August 2017.

**The average MOB capitalization dropped to 6.9% in the 3<sup>rd</sup> quarter 2017 from 7.8% in 2016 at year-end 2016.** The average price per square foot price was estimated at \$205 per square foot in the 3<sup>rd</sup> quarter 2017.

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



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.  
 Note: Excludes HTA acquisition.

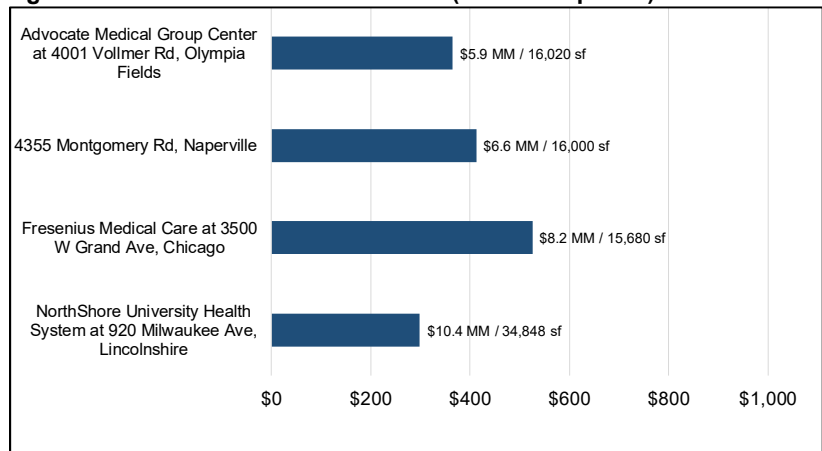
**Since October 2016**, approximately 54% of Core Market MOB sales volume represented acquisitions by private investors, including Private (Non-traded) REITs. The next largest share, estimated at 22%, was associated with institutional investors. This excludes the purchase by CBRE Global Investors from MB Real Estate in August 2017 (see details to right).

**MOB INVESTMENT SALES TRENDS OVER THE LAST 12 MONTHS  
 METRO CHICAGO CORE MARKET**

Note: RECI includes only 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.

**Investment sale prices and volume in terms of total square footage has been relatively unchanged in 2017 versus 2016.** Over the last 12 months as of September 2017 transactions have totaled near 1.0 million square feet while the average price has been slightly over \$200 per square foot. However, **the largest transactions and top buyers report the average prices closer to \$400 per square foot as highlighted below.**

**Largest MOB/Medical\* Investment Sales (disclosed prices): Last 12 Months**



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

**Since October 2016, about 73% of all MOB investment sales activity in terms of square footage has been concentrated in four submarkets –** Near North, Eastern East/West Corridor, O'Hare and Northwest City (Chicago).

**Significant price data exclusions:** RECI excludes a 500,000 square foot portfolio purchase by CBRE Global Investors from MB Real Estate (August 2017) which was reportedly somewhat less than a 100% interest purchase. This sale was still being researched by CoStar. Also excluded is the 104,912 square foot Burr Ridge Medical Center (undisclosed price) located in Burr Ridge.

**The top five buyers (disclosed prices)** over the past 12 months at an average price of \$376 per square foot which is well above the market average.

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

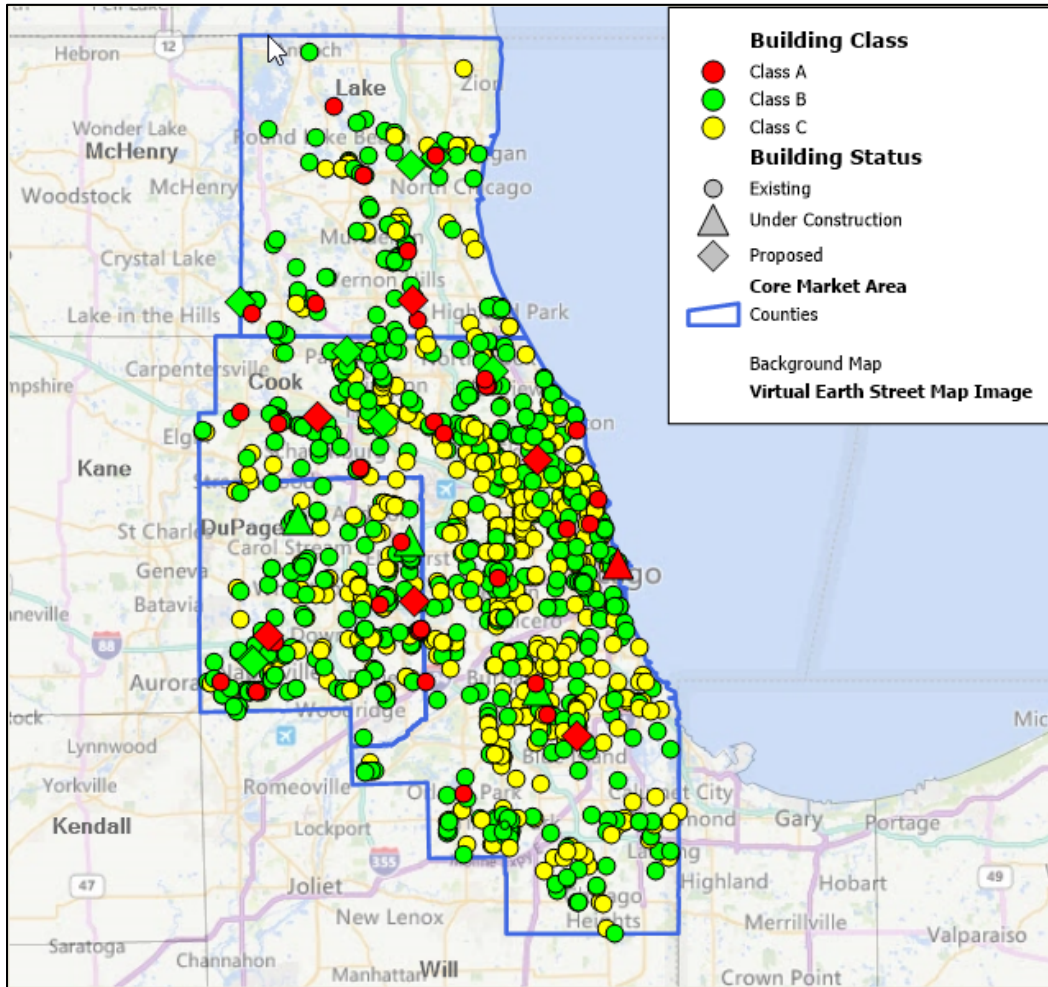
#	Buyer	Acquisition Total	Square Feet	Price PSF
1	Elliott Bay Capital Trust, LLC	\$12,450,000	32,020	\$389
2	Next Realty, LLC	\$10,414,699	34,848	\$299
3	Inland Real Estate Group of Companies, Inc.	\$8,237,000	15,680	\$525
4	Don Levin Trust	\$4,200,000	8,443	\$497
5	Midwest Property Group	\$4,100,000	13,925	\$294
	<b>Total/Average</b>	<b>\$39,401,699</b>	<b>104,916</b>	<b>\$376</b>

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





**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
- Fair Market Value Rent Studies
- Property Appraisals
- Acquisition Due Diligence
- Disposition Pricing
- Forensic Due Diligence/Evaluations
- Portfolio Valuations
- Litigation Support/Dispute Resolution
- 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.