NATIONAL MEDICAL OFFICE NEWSLETTER

SPRING 2015

JOHN R. SMELTER, SENIOR DIRECTOR

Marcus & Millichap HEALTHCARE REAL ESTATE GROUP

Written by John R. Smelter, Senior Director

Marcus & Millichap Healthcare Real Estate Group

INTRODUCTION

As today's medical real estate owners are forced to acknowledge the changes within the healthcare industry, it is essential for owners to maintain an awareness of the shifts in the industry and adapt a strategy of ownership, acquisition or disposition that best suits their diverse individual needs. The information within this semi-annual newsletter provides just a glimpse of the current healthcare real estate marketplace. The newsletter is released in April (Spring Issue) and in October (Fall Issue). The Spring Issue covers lease and sales reporting for the previous calendar year. The Fall Issue covers lease and sales reporting for the first two quarters of the existing calendar year. The newsletter is intended to keep healthcare real estate owners abreast of industry trends so that they may make informative decisions regarding their real estate investments. This report is written by John R. Smelter, Senior Director of the Marcus & Millichap Healthcare Real Estate Group. John Smelter has been one of the top medical office brokers nationally for medical projects 20,000-plus square feet over the last 27 years and he is a member of the editorial advisory board of Healthcare Real Estate Insights. November 2014 marked the start of John's 32nd year in investment real estate sales and 27th year with a healthcare real estate focus.

SMELTER GROUP RECENT ACTIVITY

PHYSICIANS ORTHOPEDIC MOB
FORT MYERS, FL — 39,300 SF
(CLOSED)

MURRIETA PORTFOLIO
MURRIETA, CA — 63,800 SF
(UNDER CONTRACT)

GROSSMONT MEDICAL ARTS BUILDING
LA MESA, CA — 70,200 SF
(CURRENT LISTING)

DAVITA
POMONA, CA — SINGLE TENANT
(CURRENT LISTING)

MERRIONETTE PARK MEDICAL CENTER
MERRIONETTE PARK, IL — 57,300 SF
(CURRENT LISTING)

EAU CLAIRE MOB
EAU CLAIRE, WI — 30,000 SF
(CURRENT LISTING)

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2014 SALES SUMMARY—20,000 SF PLUS

MOB Sales Summary	2014	2013	2012
Average Price Per MOB	$12,514,790	$11,158,492	$11,074,935
Average SF Per MOB	53,421	52,426	48,831
Average Price Per SF	$234	$213	$227
Average Stabilized CAP Rate*	7.33%	7.63%	7.79%
Total Transactions*	315	270	256
Total 20,000+ SF MOBs Sold*	392	385	336
Total Dollar Volume	$4,905,797,590	$4,296,019,575	$3,721,178,043

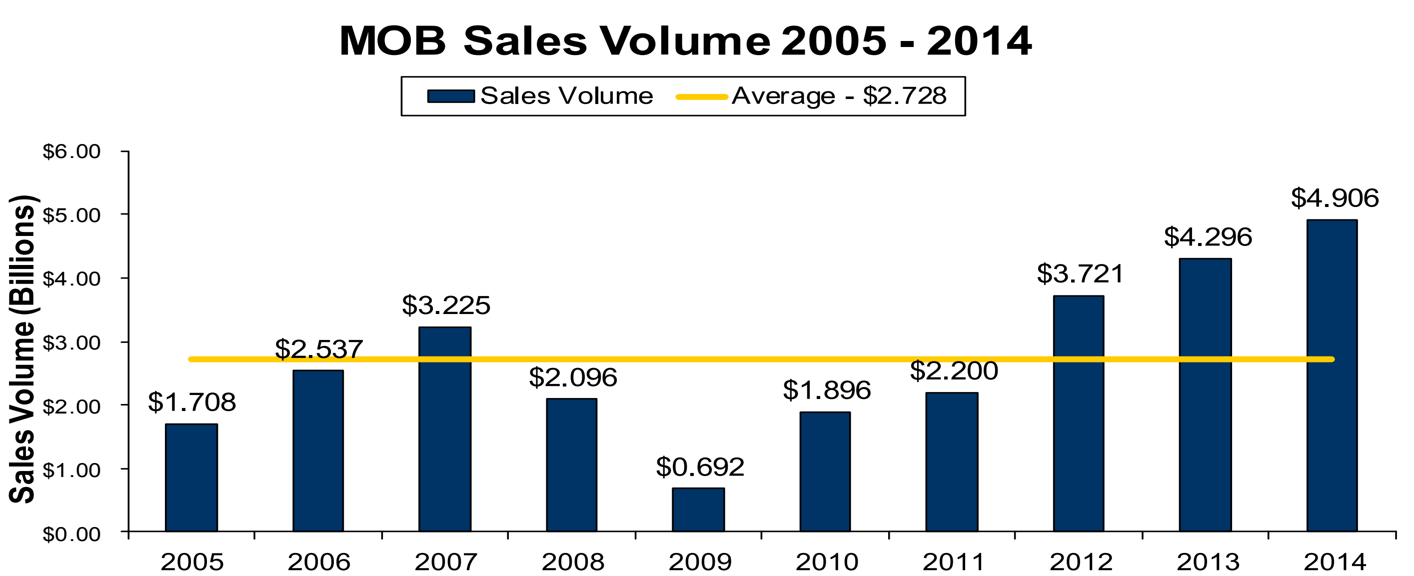
*Stabilized cap rates reflect buildings with 80% or better occupancy at the time of the sale. The total transactions data does not break up portfolio sales, whereas the total 20,000+ SF MOBs sold data is based on individual buildings. Additionally, sales where the price was not reported are not included in the data.

Sources: The Smelter Group, CoStar Group, Inc. and RCA.

2014 was another banner year for the healthcare real estate industry, as records were broken in both the number of transactions (315), number of 20,000+ SF MOBs sold (392) and the total dollar sales volume ($4.9B). The $4.9B total MOB dollar sales volume in 2014 represented an 80% increase over the 10 year average of $2.7B and a 14% increase over the previous record of $4.3B in 2013. Additionally, the 315 transactions in 2014 represented a 17% increase over the previous record of 270 in 2013 and the 392 total 20,000+ SF MOBs sold in 2014 beat the previous record of 385 in 2013.

The healthcare real estate marketplace experienced continued cap rate compression in 2014, as the average stabilized MOB cap rate dropped from 7.63% in 2013 to 7.33% in 2014. It is important to note that there can be up to an approximately 50-300 basis point spread for any MOB based on whether it is located in a primary, secondary, or tertiary market, a multi-tenant or single tenant asset, credit tenants and lease term. The fact that cap rates have continued to drop in the face of the imminent interest rate rise, demonstrates the continued equilibrium in the MOB marketplace between buyers and sellers.

Private capital (inclusive of developers, quasi-institutional owners, private companies and individuals) continued to dominate MOB acquisition activity with a 46% market share in 2014. REITs held firm in second place in the acquisition category, as their market share percentage increased from 24% in 2013 to 27% in 2014. Private capital also led the way once again in disposition activity, with a 57% market share. Additionally, institutional/fund investors once again increased their disposition market share to 21% in 2014. In 2015, we anticipate that interest rates will experience a nominal rise (if any) and that for the foreseeable future, transaction velocity will continue at the 2013-2014 levels in the 270-315 range.



Sources: The Smelter Group, CoStar Group, Inc. and RCA.

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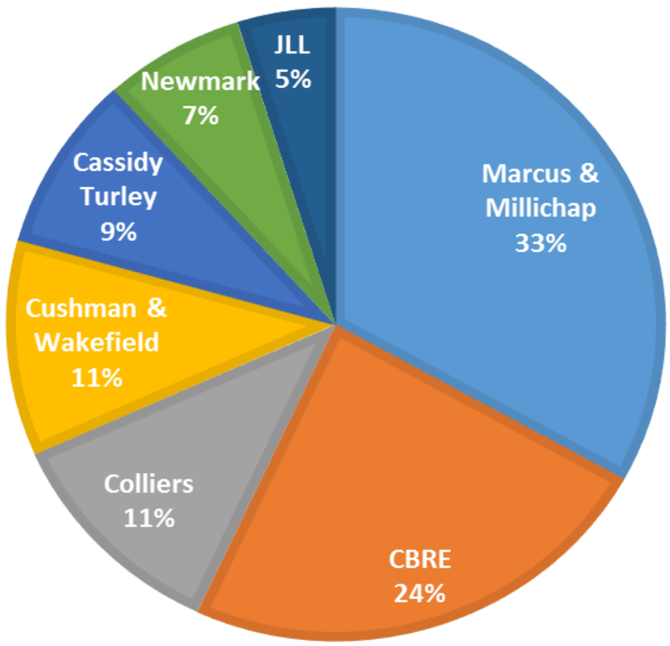
2014 MOB Investment Sales
Marcus & Millichap Retains No. 1 Ranking

In 2014, Marcus & Millichap's Healthcare Real Estate Group once again held the No. 1 ranking in the marketplace by closing 33 percent of the MOB transactions handled by the most active firms in the $1M+ price range.



Sales of medical office properties $1M and greater in 2014
Sources: CoStar Group, Inc. and Marcus & Millichap Research Services

HEALTH SYSTEM MOB MONETIZATIONS

Under the ACA, health systems have been forced to drastically reduce costs and explore different opportunities to free up capital. One intriguing option for these health systems is to monetize the numerous high-quality, credit – leased medical office buildings that they own. In the face of shrinking reimbursements, revenue and margins health systems have begun to explore the monetization of non-core MOB assets in order to release valuable resources.

The monetization of MOBs can aid health systems in multiple financial, legal and operational ways. The capital infusion resulting from a sale will not only strengthen health systems' balance sheets (and likely their credit ratings); but it will also provide the health system with the capital needed to recruit physicians, purchase practices, upgrade IT, buy new medical equipment, implement electronic health records, and/or upgrade and expand their core hospital real estate holdings. The sale of these non-core MOB assets will also remove the liability risk that the health systems currently face as landlords. Additionally, the sale will allow health systems' upper management to concentrate on key healthcare-related tasks rather than real estate issues.

In late 2014, American Realty Capital Healthcare Trust II, Inc. (ARC) purchased six non-core MOBs from the Pennsylvania-based PinnacleHealth System for over $174M. This was by far the largest health system monetization in 2014, as PinnacleHealth took advantage of the continued cap rate compression in the MOB market. The low cost of capital, PinnacleHealth's strong A- credit rating and their willingness to sign long-term leases, also made this an extremely attractive trophy deal for ARC to add to their portfolio. We believe that many more health systems will explore MOB monetizations in 2015 and beyond in order to combat the changing healthcare landscape.

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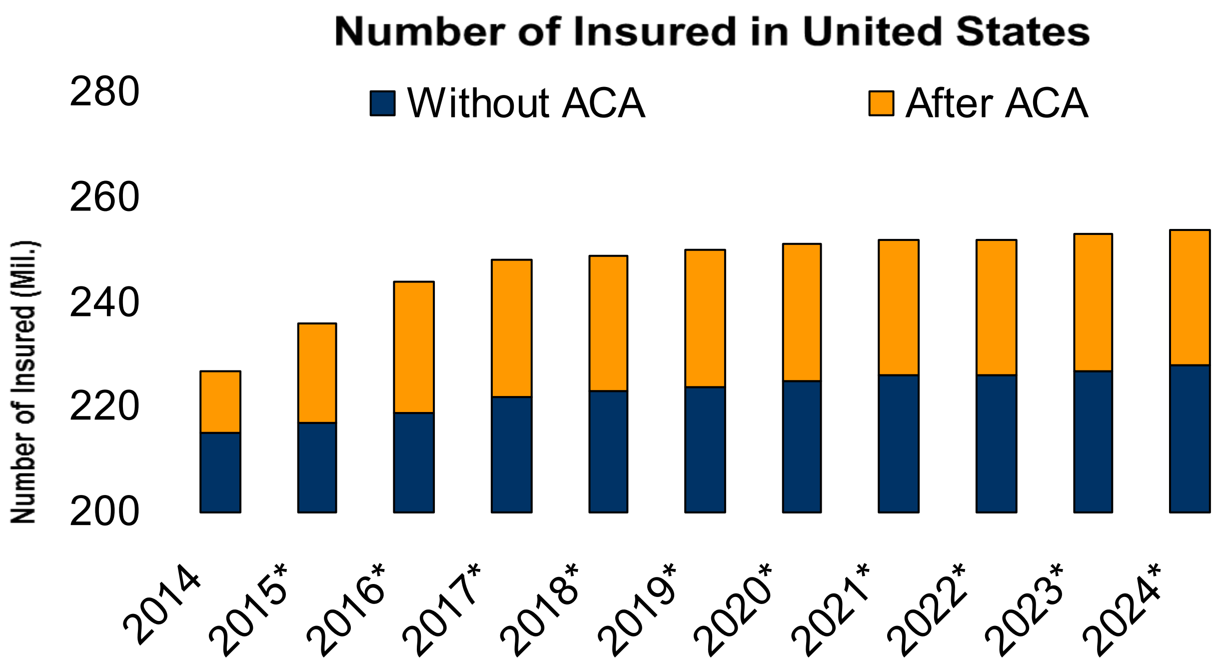
REAL ESTATE CROWDFUNDING

You may be familiar with several of the well-known crowdfunding platforms such as Kickstarter and Indiegogo, which rely upon a network of donors to pool money via the Internet and support a common cause. These traditional crowdfunding sites do not offer equity positions, however, real estate crowdfunding companies are quickly shifting that model.

There are currently over 50 websites offering real estate debt and equity positions and some of the high-profile ones are: Realty Mogul, Realty Shares, CrowdStreet, Wealth Migrate, RealCrowd, and Exceedant. These companies have harnessed the new crowdfunding phenomenon and are seeking to grow their market share, deal flow, and investor base. Each company offers a similar platform, where investment sponsors or developers post their opportunity online and the investor base then views the opportunity/ supporting documents and can choose to pledge as little as $10,000 toward the project. Once the offering's debt or equity requirement is achieved, the investment is closed, the funds are collected and the money is pooled into a single LLC entity. All legal, financial and investor management aspects of the deal are handled by the crowdfunding company in exchange for their fee, which varies on a deal by deal basis.

Crowdfunding opportunities increase the ability of small investors to access institutional-quality deals and allow investors to passively expand their horizons into different product types and locations without the traditionally required large capital outlay and risk. This process is also beneficial for developers and investment sponsors because this funding method can streamline and lower the costs of raising debt and equity. Additionally, this deal structure allows the investment sponsors or developers to concentrate on their projects rather than the individual investors and keeping them happy.

Unfortunately, the current crowdfunding offerings are only available to accredited investors- individuals who earn over $200k per year and have a net worth of over $1M (not inclusive of their primary residence). Even though the current accredited investor restrictions still yielded a $1B+ industry in 2014, it's apparent that crowdfunding's potential is still in its infancy. Luckily for the real estate industry and investors alike, Title III of the 2012 JOBS Act (often referred to as the "Crowdfunding Exemption") is currently under SEC review. Once Title III is approved and implemented, it will allow non-accredited investors to participate in real estate crowdfunding. The allowance of non-accredited investors would be a boon for the commercial real estate industry and it will undoubtedly poise the crowdfunding real estate sector for rapid expansion in the near future. Additionally, with the implementation of the ACA and the growing number of insured individuals in the U.S., healthcare is certainly one of the major topics in American news and the MOB sector in particular will offer an intriguing option for these new individual investors.



Sources: Marcus & Millichap Research Services, BLS & the Congressional Budget Office

REGIONAL MAJOR MARKET VACANCY RANKINGS

Top 5 National	2014 Q4 Vacancy	2013 Q4 Vacancy
San Francisco	2.4%	2.2%
Pittsburgh	4.1%	4.4%
Boston	4.7%	5.4%
San Jose	5.0%	4.1%
Oklahoma City	5.5%	6.7%

Bottom 5 National	2014 Q4 Vacancy	2013 Q4 Vacancy
Tucson	19.9%	18.7%
Phoenix	19.5%	20.4%
Las Vegas	18.6%	22.5%
Northern NJ	17.0%	15.8%
Detroit	15.3%	16.4%

Top 5 California	2014 Q4 Vacancy	2013 Q4 Vacancy
San Francisco	2.4%	2.2%
San Jose	5.0%	4.1%
Oakland	8.4%	7.9%
Inland Empire	8.8%	9.4%
Los Angeles	9.5%	9.6%

Top 5 Midwest	2014 Q4 Vacancy	2013 Q4 Vacancy
Oklahoma City	5.5%	6.7%
Minneapolis	6.3%	7.5%
Columbus	7.1%	7.7%
Milwaukee	7.2%	7.4%
Indianapolis	8.2%	9.3%

Top 5 Northeast	2014 Q4 Vacancy	2013 Q4 Vacancy
Pittsburgh	4.1%	4.4%
Boston	4.7%	5.4%
Philadelphia	7.8%	8.8%
New York City	9.3%	4.1%
Washington, D.C.	13.8%	10.7%

Top 5 Southeast	2014 Q4 Vacancy	2013 Q4 Vacancy
Miami	7.2%	8.7%
Louisville	7.6%	6.7%
Charlotte	10.0%	11.9%
Fort Lauderdale	10.7%	9.8%
Tampa	11.2%	11.5%

Top 5 West	2014 Q4 Vacancy	2013 Q4 Vacancy
Portland	6.4%	6.7%
Seattle-Tacoma	6.7%	7.6%
Denver	7.7%	8.1%
Salt Lake City	8.1%	8.2%
Las Vegas	18.6%	22.5%

Sources: Marcus & Millichap Research Services and CoStar Group, Inc.

Regions	2014 Q4 Vacancy	2013 Q4 Vacancy
Southeast	8.7%	8.8%
California	8.8%	8.8%
Northeast	9.3%	8.8%
Midwest	10.3%	10.8%
West	11.4%	12.2%
National Average	9.7%	9.8%

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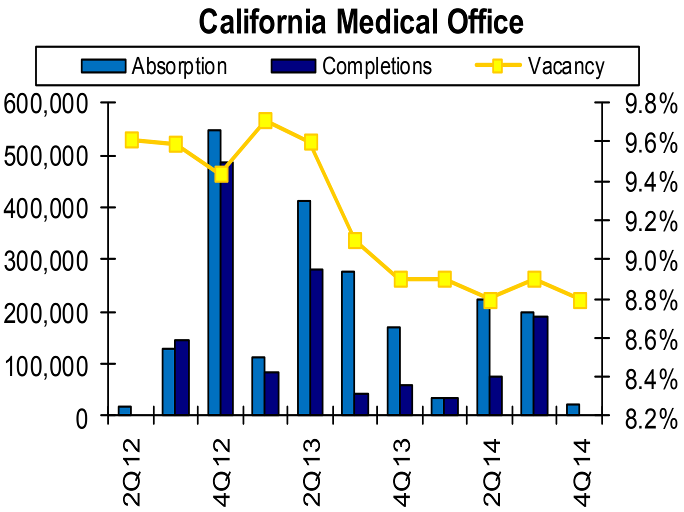
CALIFORNIA MEDICAL OFFICE REPORT

Medical office vacancy in California was stable in 2014 at 8.8 percent, as improvements in most metros offset modest upticks in Sacramento and San Diego. Construction in the state remained relatively light during the year and was driven almost entirely by expanding hospitals and health systems. Over the course of 2014, San Jose recorded the most sizable increase in vacancy, with its rate slipping 90 basis points to 5 percent. The Inland Empire, had the largest decrease in vacancy and recorded a 60 basis point decline to 8.8 percent. The tightest conditions in the state and also the nation, however, can be found in San Francisco, which posted a 20 basis point improvement to 2.4 percent in 2014. Medical office construction in land-constrained San Francisco has been virtually nonexistent for years, which, combined with limited space availability, supports asking rents of more than $40.00 per square foot – second only to New York City. Vacancy rates and asking rents span a wide range elsewhere in the Bay Area. The San Jose metro, for example, outperformed in 2014, increasing asking rents to an average of $29.42 per square foot. In the East Bay, on the other hand, vacancy increased 50 basis points to 8.4 percent in 2014, while asking rents closed the year at an average of $21.87 per square foot. Vacancy rates in Southern California fall within a narrower band, starting at 9.5 percent in Los Angeles and topping out at 10.8 percent in San Diego. Asking rents in most major Southern California markets fall between $30.00 and $31.50 per square foot, with the exception of the Inland Empire, where the average at year-end was $23.80 per square foot.

Fifty medical office transactions were recorded in California during 2014, up from 48 sales in 2013. Statewide, dollar volume increased nearly 5 percent to $805.5 million. Private investors led the charge during the year, completing 30 deals valued at $323 million. REITs closed six transactions in 2014 but still accounted for approximately $316 million in dollar volume. A sizable share of REITs' dollar volume was attributable to Healthcare REIT's acquisition of an eight-property portfolio for an estimated $200 million. Although private investors closed multiple deals valued between $15 million and $75 million in 2014, the bulk of their acquisitions were below the $10 million mark. Overall, sales prices in the state ticked up approximately 2 percent last year to $287 per square foot, though the average was skewed by the sale of several older, high-vacancy properties.



Comparisons to previous reports may not align due to data revisions and periodic re-benchmarking.

Sources: Marcus & Millichap Research Services and CoStar Group, Inc.

2014 NOTEWORTHY TRANSACTIONS

Name	City/State	Price	Price/SF
HCN/G&L Portfolio	Various, CA	$200,000,000	$699
Genesee Plaza	San Diego, CA	$72,000,000	$447
Marin Executive Center	San Rafael, CA	$31,000,000	$188
Lee Hughes Medical Building	Glendale, CA	$29,900,000	$389

Historical data is compiled from CA for MOB sales 20,000 SF and above.

Sources: Marcus & Millichap Research Services, The Smelter Group, CoStar Group, Inc., RCA.

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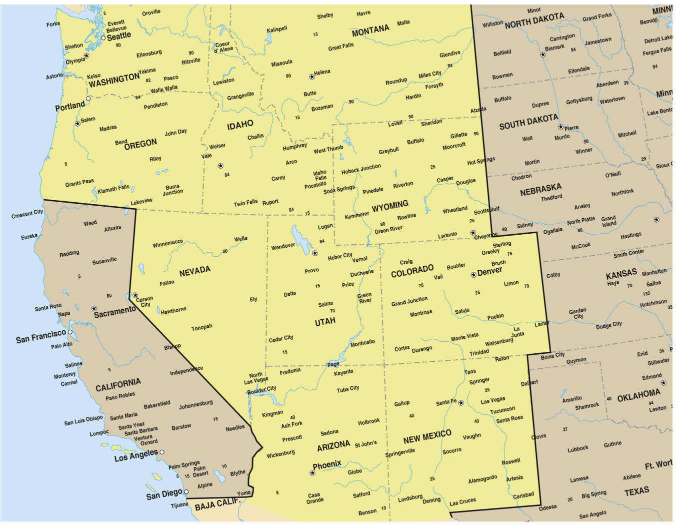
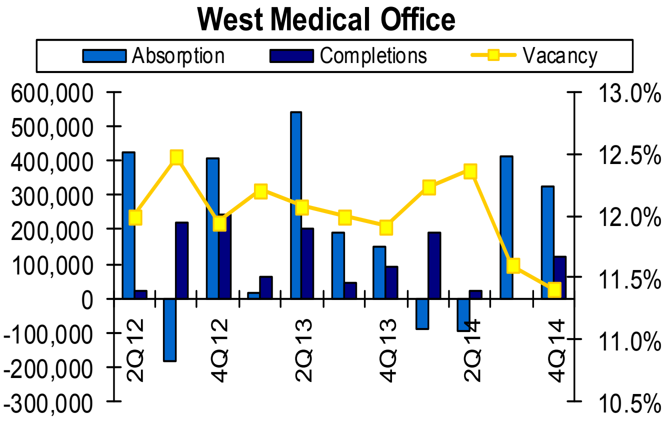
WEST MEDICAL OFFICE REPORT

Developers added nearly 357,400 square feet of medical office space to the West region in 2014, in addition to completing build-to-suit facilities for the U.S. Veterans Association and other hospital/health systems. In 2013, overall deliveries to the region totaled slightly more than 1 million square feet. Throughout the West, the combination of more measured construction and healthy demand led to tightening conditions in 2014. During the year, vacancy in the region improved 80 basis points to 11.4 percent. The most notable tightening occurred in Las Vegas, where medical office construction has been at a near standstill since the housing bust several years back. The metro, which posted the softest conditions in the nation in 2013, recorded a 390 basis point decline in vacancy to 18.6 percent. In Phoenix, which also was hit exceptionally hard by the recession, vacancy tightened 90 basis in 2014 to 19.5 percent. A lack of speculative development in Phoenix over the past several years has helped to funnel new tenant demand into the numerous higher-quality buildings that were delivered just as the local housing and job markets collapsed. The West is also home to some of the nation's tighter metros, including Portland and Seattle, which boast vacancy rates of 6.4 percent and 6.7 percent, respectively, and Denver, which closed the year at 7.7 percent. Asking rents in the West region, which averaged $23.09 per square foot in late 2014, also span a broad spectrum by metro, starting slightly below $17.00 per square foot in Salt Lake City and approaching $33.80 per square foot in Seattle.

Throughout the West region, a total of 48 medical office transactions closed in 2014, which reflects a modest uptick from 2013, when 46 deals were recorded. Dollar volume in the region inched up approximately 3 percent during the year to $467.3 million. Similar to 2013, Arizona and Colorado accounted for the most transactions, though they swapped positions, with the former taking the lead in 2014. Regionwide, private investors dominated with regard to transaction count, while REITs and hospitals placed a distant second. In terms of dollar volume, however, REITs were only slightly behind private investors, as all of their acquisitions were above the $10 million mark. Overall, roughly two-thirds of all the transactions recorded in the West last year involved off-campus properties, up from 59 percent in 2013. Stabilized cap rates in the region averaged 7.5 percent in 2014, down 21 basis points from the previous year, though cap rates varied significantly by property quality, location, tenants' credit and lease terms. A newer off-campus building in Colorado anchored by a credit tenant, for example, traded at a 5.7 percent cap rate, while a sizable on-campus asset near a retirement community in Arizona, which is leased entirely to health system, changed hands at 6.2 percent. Overall, the majority of properties sold last year were concentrated in the mid-6 to low-8 percent range, though a handful of deals closed at cap rates near 9 percent.





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Sources: Marcus & Millichap Research Services and CoStar Group, Inc.

2014 NOTEWORTHY TRANSACTIONS

Name	City/State	Price	Price/SF
Red Rocks Medical Center	Golden, CO	$52,000,000	$442
Del E Webb Medical Plaza	Sun City, AZ	$40,685,000	$311
Lone Tree Medical Plaza	Lone Tree, CO	$36,600,050	$328
Paradise Valley Medical Plaza	Phoenix, AZ	$28,300,000	$272

Historical data is compiled from AZ, CO, ID, MT, NV, NM, OR, UT, WA and WY for MOB sales 20,000 SF and above.

Sources: Marcus & Millichap Research Services, The Smelter Group, CoStar Group, Inc., RCA.

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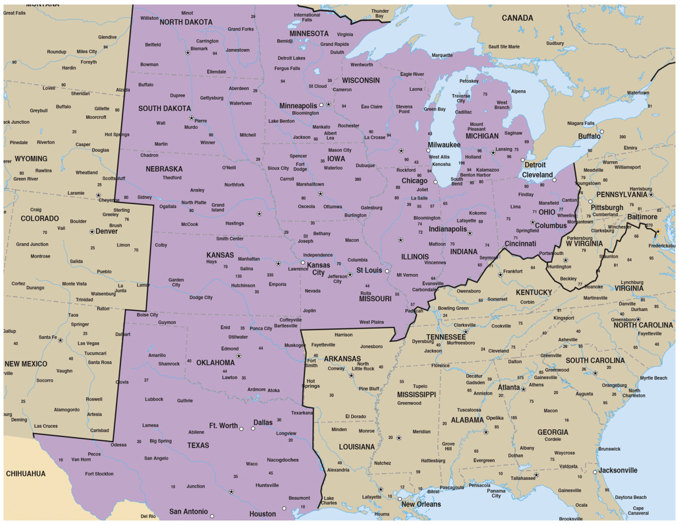
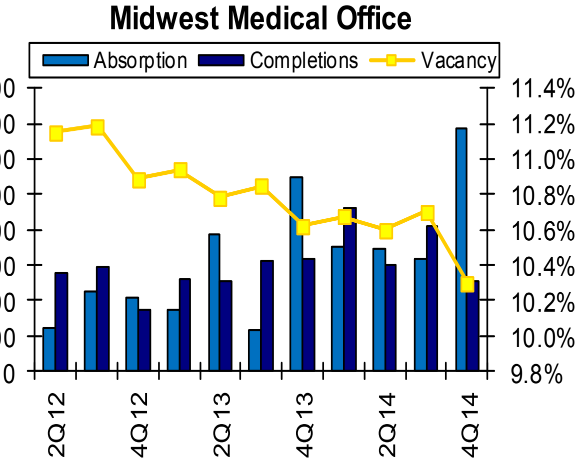
MIDWEST MEDICAL OFFICE REPORT

Developers delivered 2.7 million square feet of medical office space to the Midwest region in 2014, up from 2.5 million square feet in 2013. During the year, hospitals and health systems also added some sizable ambulatory facilities, including Northwestern Memorial HealthCare's on-campus, 25-story outpatient pavilion in downtown Chicago. Despite the uptick in deliveries in 2014, vacancy in the Midwest declined 50 basis points to 10.3 percent. Minneapolis recorded the most significant improvement, with vacancy in the metro declining 120 basis points to 6.3 percent, followed by Chicago, which recorded a 180 basis point reduction to 13 percent. While speculative medical office construction remains almost nonexistent in most parts of the country, it has re-emerged in high-growth Texas markets. With regard to Austin, the recent uptick in vacancy should be short-lived as another year of strong job creation continues to support above-average net-migration and household growth in the metro. Regionwide, medical office asking rents for Midwest properties averaged $19.88 per square foot in the fourth quarter of 2014 but varied dramatically by metro. Milwaukee and Oklahoma City, which both boast below-average vacancy, form the lower end of the region's rent spectrum with asking rates of $14.56 and $16.73 per square foot, respectively. Austin, on the other hand, claims the upper limit at an average of $31.87 per square foot. Asking rents in other large Texas markets were concentrated in the low- to mid-$20s, while averages for more traditional Midwestern metros, including Detroit, Indianapolis, St. Louis, Cleveland and Columbus, hovered in the high-teens.

Sales velocity in the Midwest accelerated 16 percent in 2014 to a total of 73 transactions. Over the same period, property prices increased 12 percent to an average of $207 per square foot, while cap rates compressed 14 basis points to 7.65 percent. Dollar volume declined, however, as smaller transactions accounted for a greater share of overall investment activity in the region. During 2014, 40 percent of the transactions in the Midwest were priced below $5 million, compared to slightly more than one-quarter of the sales in both 2012 and 2013. REITs claimed the most sizable marketshare last year, closing 24 transactions valued at $594.1 million, followed by private investors with 21 deals totaling $138 million. Among private investors, more than 70 percent of their acquisitions were below $5 million and, of those deals, a sizable share involved earlier-vintage high-vacancy properties. REITs, on the other hand, targeted mostly properties with hospital/health system tenants that were priced at or above $10 million. Overall, credit-tenant deals in the Midwest commanded notable premiums in 2014, with prices in this segment roughly 28 percent above the overall average for the region.





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Sources: Marcus & Millichap Research Services and CoStar Group, Inc.

2014 NOTEWORTHY TRANSACTIONS

Name	City/State	Price	Price/SF
Troy Medical Building	Troy, MI	$46,500,000	$264
EPOSG Medical Facilities	El Paso, TX	$46,200,000	$301
Family Care Centers Portolio	Various, IN	$46,000,000	$305
Mark H Zangmeister Cancer Ctr.	Columbus, OH	$43,400,000	$307

Historical data is compiled from IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, OK, SD, TX and WI for MOB sales 20,000 SF and above.

Sources: Marcus & Millichap Research Services, The Smelter Group, CoStar Group, Inc., RCA.

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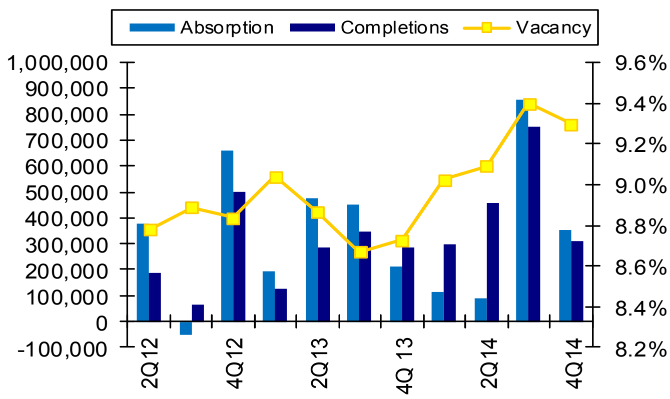
NORTHEAST MEDICAL OFFICE REPORT

Across the Northeast region, approximately 1.8 million square feet of medical office space was delivered last year, which reflects a notable increase from 2013, when 1.1 million square feet came online. Medical office vacancy in the region ticked up 50 basis points to 9.3 percent, though the uptick was attributable largely to softening in the Washington, D.C., metro. Vacancy in Washington, D.C., climbed 310 basis points to 13.8 percent during 2014, due largely to the delivery of multiple buildings that had relatively light pre-leasing. New supply also contributed to an increase in vacancy in Northern New Jersey, where the rate ticked up 120 basis points to 17 percent. The majority of other sizable metros in the Northeast reported at least modest tightening in 2014. Vacancy in Pittsburgh, for example, declined 30 basis points to 4.1 percent, while Boston posted a 70 basis point improvement to 4.7 percent. Regionwide, asking rents averaged $23.35 per square foot in the final quarter of 2014, though market rates spanned a broad spectrum. The most affordable rents could be found in Pittsburgh, where the average was slightly below $16.50 per square foot, while New York City boasted the highest average rent of $42.36 per square foot.

Transaction velocity in Northeast accelerated dramatically in 2014. During the year, 53 sales were recorded, up from 31 deals in 2013, while dollar volume soared 161 percent to nearly $1.1 billion. By transaction count, private investors led acquisitions, but REITs claimed the most sizable share of dollar volume during the year. Over the course of 2014, REITs acquired more than $525 million of medical office buildings in the Northeast and accounted for two of the largest transactions in the region. Owner/users ranked second for dollar volume, with acquisitions totaling $183.5 million for the year. The most sizable owner-user deal, and the second-largest transaction in the region, involved NYU Langone Medical Center's $145-million purchase of the leasehold interest in a 476,225-square foot building in Manhattan. Overall, stabilized cap rates in the Northeast compressed 40 basis points in 2014 to 7.19 percent in 2014, though they spanned a wide range based on asset quality, tenants' credit and location. A portfolio of six properties (three on-campus/three off-campus) that all are leased to a hospital system, for example, traded at a 4.1 percent cap rate. Most credit-tenant deals in the region, though, traded at cap rates in the 6.0 to 7.5-percent range. During 2014, medical office prices in the Northeast averaged $245 per square foot, down modestly from 2013. Over the course of the year, however, several aging high-vacancy assets changed hands at prices ranging from $20 to $100-per square foot. Over the same period, several performing properties with large hospital tenants traded at prices between $250 to $400-per square foot.

Northeast Medical Office



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Sources: Marcus & Millichap Research Services and CoStar Group, Inc.

2014 NOTEWORTHY TRANSACTIONS			
Name	**City/State**	**Price**	**Price/SF**
ARC/Pinnacle MOB Portfolio	Various, PA	$174,100,000	$273
671-683 First Ave	New York City, NY	$145,000,000	$304
Science Center	Philadelphia, PA	$140,600,000	$322
Boston Medical Center Portfolio	Boston, MA	$80,000,000	$320

Historical data is compiled from CT, DE, DC, ME, MD, MA, NH, NJ, NY, PA, RI, VT and WV for MOB sales 20,000 SF and above.

Sources: Marcus & Millichap Research Services, The Smelter Group, CoStar Group, Inc., RCA.

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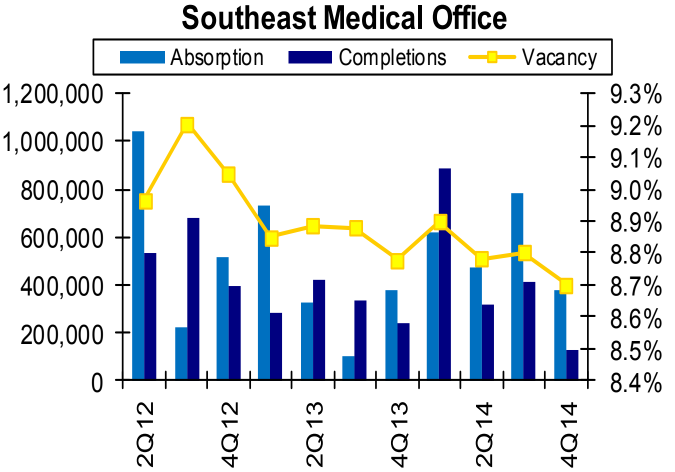
SOUTHEAST MEDICAL OFFICE REPORT

Approximately 1.8 million square feet of medical office space was brought online in the Southeast during 2014, which reflects a modest increase from 2013. During the year, vacancy in the region improved 10 basis points to 8.7 percent, though performance was mixed at the metro level. In Louisville, for example, vacancy increased 90 basis points to a still-healthy 7.6 percent, while the rate in Miami declined 150 basis points to 7.2 percent. Most of the other large markets in the Southeast region recorded improvement last year but maintained double-digit vacancy rates. That said, some of the higher-vacancy markets actually have bested or are approaching their pre-recession performances. Atlanta, for example, posts one of the highest vacancy rates in the region at 12.9 percent but is outperforming relative to its past performance. Charlotte closed the year with vacancy of 10 percent, which also exceeds the regional average but falls only moderately above the metro's late-2007 rate. Across the Southeast, asking rents for available medical office space ticked up 1.1 percent in 2014 to an average of $21.61 per square foot. By metro, asking rents start at $19.35 in Louisville and top out at $28.57 in Miami. Aside from Palm Beach, where the average closed last year slightly above $25.60 per square foot, asking rents in the other large Southeast markets are clustered between $21.50 and $23.00 per square foot.

Eighty-seven medical office transactions were recorded in the Southeast last year, which reflects an increase over the 2013 total of 80 deals. The composition of sales changed significantly in 2014, with larger transactions comprising a far greater share of investment activity. Overall, deal flow increased dramatically in the $10 million to $40 million range, while closings below the $10 million mark slowed from the previous year. The acceleration in velocity over $10 million was due, in large part, to elevated acquisitions by REITs in 2014. With the exception of a few closings associated with Washington Real Estate Investment Trust's sale of its medical office portfolio, REIT dispositions in the region were limited mostly to smaller non-core assets. For perspective, net investment by REITs more than doubled last year to approximately $510.3 million. Private investors, on the other hand, were the top sellers in 2014, with dispositions outpacing their acquisitions by $368.3 million. Throughout the region, cap rates for stabilized assets compressed 51 basis points in 2014 to 7.37 percent, while the average sales price increased 7 percent to $216 per square foot. Compared to 2013, the number of transactions involving properties with large hospital tenants increased considerably last year. Within this segment, sales prices averaged $294 per square foot last year. The average cap rate for hospital-leased assets hovered around 7.5, but a handful of smaller single-tenant properties traded in in the low to mid-6 percent range.



Comparisons to previous reports may not align due to data revisions and periodic re-benchmarking.

Sources: Marcus & Millichap Research Services and CoStar Group, Inc.

2014 NOTEWORTHY TRANSACTIONS

Name	City/State	Price	Price/SF
CNL MOB Portfolio	Various	$238,000,000	$262
WRIT Medical Portfolio No. 4	Merrifield, VA	$114,562,350	$452
WRIT Medical Porfolio No. 3	Annandale, VA	$78,998,212	$455
Crane Creek Medical Center	Melbourne, FL	$53,130,000	$94

Historical data is compiled from AL, AR, FL, GA, KY, LA, MS, NC, SC, TN and VA for MOB sales 20,000 SF and above.

Sources: Marcus & Millichap Research Services, The Smelter Group, CoStar Group, Inc., RCA.

NATIONAL MEDICAL OFFICE NEWSLETTER

SPRING 2015

JOHN R. SMELTER, SENIOR DIRECTOR

Marcus & Millichap
HEALTHCARE REAL ESTATE GROUP

2014 TRANSACTION STATISTICS - BY REGION

California - Averages	2014	2013
Price per Transaction	$16,109,468	$16,058,050
Square Feet	56,131	57,006
Price per Square Foot	$287	$282
Cap Rate	6.70%	6.90%
Total Transactions	50	48

There were 18 stabilized transactions with reported cap rates in 2014 and 15 in 2013.
Sources: The Smelter Group, Costar Group, Inc. and RCA.

West - Averages	2014	2013
Price per Transaction	$9,734,938	$9,889,666
Square Feet	49,548	50,677
Price per Square Foot	$196	$195
Cap Rate	7.50%	7.71%
Total Transactions	48	46

There were 15 stabilized transactions with reported cap rates in 2014 and 16 in 2013.
Sources: The Smelter Group, Costar Group, Inc. and RCA.

Midwest - Averages	2014	2013
Price per Transaction	$13,234,983	$18,473,899
Square Feet	64,089	99,844
Price per Square Foot	$207	$185
Cap Rate	7.65%	7.79%
Total Transactions	73	63

There were 27 stabilized transactions with reported cap rates in 2014 and 29 in 2013.
Sources: The Smelter Group, Costar Group, Inc. and RCA.

Northeast - Averages	2014	2013
Price per Transaction	$20,132,909	$13,184,060
Square Feet	82,095	53,319
Price per Square Foot	$245	$247
Cap Rate	7.19%	7.59%
Total Transactions	53	31

There were 14 stabilized transactions with reported cap rates in 2014 and 9 in 2013.
Sources: The Smelter Group, Costar Group, Inc. and RCA.

Southeast - Averages	2014	2013
Price per Transaction	$15,130,209	$16,550,798
Square Feet	70,106	82,267
Price per Square Foot	$216	$201
Cap Rate	7.37%	7.88%
Total Transactions	87	80

There were 35 stabilized transactions with reported cap rates in 2014 and 25 in 2013.
Sources: The Smelter Group, Costar Group, Inc. and RCA.

National - Averages	2014	2013
Price per Transaction	$15,573,961	$15,911,184
Square Feet	66,480	74,756
Price per Square Foot	$234	$213
Cap Rate	7.33%	7.63%
Total Transactions	315	270

There were 110 stabilized transactions with reported cap rates in 2014 and 95 in 2013. There were additionally 4 nationwide portfolio transactions in 2014 (1 stabilized with a reported cap rate) and 2 nationwide portfolio transactions in 2013 (1 stabilized with a reported cap rate) that were not included in the regional averages because they were located in multiple regions.

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HEALTHCARE REAL ESTATE GROUP

MARCUS & MILLICHAP

Marcus & Millichap is committed to helping clients create and preserve wealth by providing the best real estate investment research, advisory and transaction services available. Since 1971, Marcus & Millichap has been the premier provider of quality investment real estate brokerage services geared toward individual investors and partnerships. The investment specialists deliver value-added services through extensive local knowledge and contacts supported by a proven proprietary system of facilitating investment transactions. In 2014, Marcus & Millichap completed in excess of 7,600 investment transactions valued at over $33 billion. The company was founded in California and has 15 offices throughout the state and an additional 63 offices located in major markets throughout the United States and Canada.

HEALTHCARE REAL ESTATE GROUP

Healthcare providers nationwide face new challenges to compete along with pressures to maintain costs under constantly changing standards, mandates and regulations. Marcus & Millichap, in addressing both the changes in the healthcare market and the capital markets, has taken advantage of its singular marketing and investment sales strength and extended it to the healthcare industry. Combining its brokerage strengths and healthcare experience along with industry-specific operational alliances, Marcus & Millichap offers a full range of investment and financial services geared to demands of healthcare providers and owners of healthcare real estate. These services provided through the Healthcare Real Estate Group offer clients a single source of services directed to the unique operational and transactional requirements of the healthcare industry.

ADVANTAGE

- Single source of contact for all real estate services utilizing a consultative approach to craft effective solutions specific to each client's needs.
- A track record of successful medical office transactions provided to the institutional and private investor market with the No. 1 market share nationally for the past 17 years.
- Proven track record of maximizing value through effective evaluation, research and underwriting to maximize facility promotion rather than merely presenting properties for sale.
- Our ability to understand and respond to investor needs is unsurpassed as 100 percent of our business is investment real estate sales, providing debt and equity solutions and market research.
- Our proprietary national computer network system allows our over 1,400 agents to communicate real time property information locally, regionally and nationally.
- In 2014, Marcus & Millichap's Healthcare Real Estate Group once again held the No. 1 ranking in the marketplace by closing 33 percent of the MOB transactions handled by the most active firms in the $1M+ price range.

ABOUT JOHN SMELTER AND THE SMELTER GROUP

John Smelter has specialized in investment real estate brokerage for 32 years, with a focus on healthcare real estate for the past 27 years. John is a First Vice President Investments and Senior Director of the Marcus & Millichap Healthcare Real Estate Group and National Office and Industrial Properties Group. John has consistently ranked in the top 1% to 10% of 1,000-plus Marcus & Millichap agents nationally. He has also recently ranked in the distinguished "Top 30" four times. In 2014, John was again ranked No. 1 nationally in the Healthcare Real Estate Group, an award he has received for 17 consecutive years. John has the longest tenure of any agent, regardless of firm affiliation, in investment sales in the healthcare real estate industry. John has been the No. 1 agent in the Western 11 states since 1990 and has a market share exceeding 25% in California.

John is considered to be one of the top medical office agents nationally with listings and closings in 21 states including: Arizona, California, Colorado, Florida, Georgia, Hawaii, Illinois, Indiana, Louisiana, Missouri, Nevada, New Jersey, New Mexico, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Texas, Washington, and Wisconsin. Over the course of his career, John has closed in excess of $2 billion in sales volume. John Smelter's clients include major hospital systems, healthcare REITs, medical office developers, regional syndicators and private investors. In addition to investment real estate brokerage, John's expertise includes property evaluations, healthcare real estate debt/equity solutions and market research. John serves on the Editorial Board of Healthcare Real Estate Insights and the BOMA Medical Office & Healthcare Conference. John is also a featured speaker at many conferences including Real Share and Interface.

If you are interested in our current listings or additional market information, buying or selling medical office properties, obtaining debt and equity solutions for existing or planned facilities, or would like a complimentary market analysis of your medical office property, please contact us. For more information about how we can assist you with your real estate investments, please contact:

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