2013
Global Healthcare Services

HEALTHCARE REAL ESTATE SURVEY RESULTS

Newmark Grubb Knight Frank
Global Corporate Services
May 1, 2013

Re: 2013 BOMA Healthcare Real Estate Trends Survey

Dear Respondents and Attendees:

The attached results booklet regarding the BOMA Healthcare Real Estate Trends Survey gives a current scope of perspectives, with 166 respondents across 28 states. The Newmark Grubb Knight Frank Global Healthcare Services team appreciates the opportunity to provide these survey results to the respondents and attendees at the 2013 BOMA International’s Medical Office Buildings and Healthcare Facilities Conference.

The Newmark Grubb Knight Frank Global Healthcare Services team, is committed to assisting the healthcare industry in stabilizing and lowering the cost of healthcare through more effective and efficient uses of medical real estate.

Our Global Healthcare Services team provides clients with a single-source solution for every phase of acquiring, financing, developing and disposition of healthcare real estate. Utilizing a consultative approach and leveraging our national resources and global reach, we assist hospitals, health systems, physician groups, investors and developers in effectively managing their healthcare real estate operations and portfolios, creating and executing long- and short-term strategic plans that deliver reduced occupancy costs, increased efficiency and utilization, and access to capital and, ultimately, maximizing value.

The team comprises real estate transaction and consulting professionals with more than 25 years of experience serving hospitals, health systems and medical office building owners throughout the U.S. and across the globe. Our advisors understand the impact of the challenges that arise through hospital affiliation strategies, healthcare reform, demand for healthcare assets in the capital markets and constantly evolving regulatory issues. We have the expertise to advise providers through these complicated changes, compliance and regulatory issues, capital requirements and real estate strategies.

We welcome your questions and comments.

Warm Regards,

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About Newmark Grubb Knight Frank

A Global Leader in Commercial Real Estate
Newmark Grubb Knight Frank is one of the world’s leading commercial real estate advisory firms. We provide a fully integrated platform of services to prominent multinational corporations and institutional investors across the globe, as well as to owners and users of real estate on a local, regional and national level.

Headquartered in New York, Newmark Grubb Knight Frank and London-based partner Knight Frank operate from more than 340 offices in established and emerging property markets on five continents. Our global platform enables us to effectively serve the property requirements of tenants, landlords, investors and developers worldwide.

Strategic Thinking, Effective Execution
Newmark Grubb Knight Frank’s integrated services platform provides clients with a single-source solution for every phase of occupying or owning a property - from strategic planning, site selection, design, construction and initial occupancy to ongoing cost-effective operations and dispositions. Taking a consultative approach and leveraging our global reach, we assist corporations, investors and owners in effectively managing real estate operations and portfolios, creating and executing long-and short-term strategic plans that deliver reduced occupancy costs, increased efficiency and, ultimately, maximized value. Our full range of services includes leasing advisory, global corporate services, investment sales and financial services, property and facilities management, program and project management, consulting, and appraisal and valuation services.

Newmark Grubb Knight Frank’s brokerage professionals have broad experience across all commercial property types, including office, industrial, retail, multifamily, hospitality and healthcare. We work closely with tenants and landlords to assess the impact of real estate trends and how the broader business climate may affect an organization’s critical business needs and overarching goals. Whether a single location or multiple global facilities, we help our clients gain a more thorough understanding of their operating environments and identify where real estate and business optimization opportunities exist. For clients with real estate capital concerns, our Capital Group provides strategic capital solutions for our private, corporate and institutional clientele, maintaining direct relationships with a broad investor and lender base, including local, national and offshore entities, both public and private.

A Strong Foundation
Newmark Grubb Knight Frank is part of BGC Partners, Inc. (NASDAQ: BGCP), a leading global brokerage company primarily servicing the wholesale financial markets with approximately 220 financial products and offices in over 35 major markets worldwide.

BGC entered the commercial real estate services industry with the acquisition of Newmark Knight Frank in October 2011, and further expanded its real estate offering through the acquisition of the assets of Grubb & Ellis Company in April 2012. Today, the combined Newmark Grubb Knight Frank, driven by a shared entrepreneurial spirit and commitment to superior client service is one of the most dynamic and innovative service providers in the industry.
Change is inevitable in healthcare. The Affordable Care Act will have a substantial impact on all providers and Healthcare Real Estate. Declining reimbursements and a heavy regulatory environment are putting pressure on hospitals to adapt. Operating margins are compression, and patient care is rapidly evolving, which is forcing change in the footprint of the hospital. The changing footprint and need for implementation of technology to drive the change will require significant capital. It is imperative that hospitals reduce their cost of capital and their operations in order to drive more cost-effective care and a reduction of inefficiencies and waste, new tools to address fraud and abuse.

Standard & Poor’s Ratings Services expects the ratings of most U.S. not-for-profit health care providers to remain stable in 2013 due to the financial cushion many providers have built in the last few years, successful and ongoing cost containment efforts, and the benefits of consolidation. S&P expects credit quality trends to be less favorable compared with 2010-2012, as providers will confront a number of growing challenges, including federal reimbursement reductions in the fiscal cliff bill passed by Congress. In 2012, there were over $20 billion in downgraded credit in US not-for-profit healthcare debt. That is more than double the previous year, and more than double of the upgraded debt in the same time period. Cited reasons for the downgrades were volume declines and weaker or negative revenue growth which translates into lower operating margins and debt coverage ratios.

Demographic trends within the healthcare industry indicate substantial growth for decades to come. Healthcare is one of the few industries that has experienced continued positive growth and job creation throughout the recession and currently accounts for approximately 17.6% of the overall gross domestic product for the United States. Growth in the healthcare industry is projected to continue at a substantial pace. In large part, this is due to demographic shifts, an aging population, and the emphasis on relocating more outpatient care to a lower cost setting. The 65-plus segment of the population will expand by over 35% during the next decade as baby boomers begin to enter their retirement age. The baby boomer class is generally characterized as a person born during the demographic birth boom between 1946 and 1963 – the first of those born in this period reached 65 years old in 2011. This is particularly important since typically half of a person’s lifetime medical care requirements will occur after the age of 65. Coupled with increasing life expectancy projections and the continued advancement in medical technology, the healthcare industry will continue to grow at an increasing rate. Furthermore, with the upholding of the Patient Protection and Affordable Care Act, more commonly referred to as “healthcare reform” in its current form, it is projected that roughly $32 million uninsured individuals will obtain healthcare coverage.

Medical Office Market Fundamentals
The overall medical office market has proven more resilient compared to most segments of the commercial real estate industry. National medical office vacancy rates have continued to trend downward to around 10% since peaking at over 15% in 2009. The peak rate of 2009 was largely caused by substantial speculative development that was delivered to the market at the onset of the global recession. The excess supply has continued to be absorbed at a steady pace, which has led to a reduction in vacancy, improved tenant retention and compelling market rents. Leasing velocity has been slower during the past few years as a result of uncertainty in the economy and healthcare reform. Now with more certainty in the marketplace combined with an increased demand for outpatient medical office space with efficient, better utilization and cost effective design, there is an upswing in demand for ground up development as well as re-purposing of vacant retail space for healthcare uses. Most experts believe that vacancies will further decline and rental rates will improve. This is particularly true for well located quality medical office buildings that are hospital affiliated and buildings that are on-campus or adjacent to hospital campuses where space is limited and land for future development is scarce. In comparison, traditional multi-tenant off-campus medical office buildings have experienced much higher vacancy rates, rental rate reductions, and tenant concessions.

Investment Demand
Investment demand for stabilized medical office buildings has never been greater. The medical office investment class has emerged from the recession as one of the dominant and risk adverse investments in the commercial real estate industry. The proven and reliable returns have led to substantial interest from all investor profiles including: public and private REITs, pension funds, life companies, foreign funds, institutional investment vehicles, private syndication and high profile and high net-worth private investors. Capital investment seeking opportunities within this space continues to accelerate at an incredible pace. Due primarily to a limited supply of available product and increased demand, coupled with the long-term growth prospects and proven resiliency, investor return requirements for stabilized hospital affiliated medical office buildings continues to decrease. There is little debate that medical office space will be at a premium and development and investment in this product type will be robust for years to come.
Where do you see values for premier On and Off-Campus medical office buildings that are hospital-sponsored heading during the next 12 months?

In the medical office market overall, where do you see investment supply or monetization volume for medical office buildings in 2013 compared to 2012?

In the medical office market overall, where do you see investment demand for medical office buildings in 2013 compared to 2012?

During the next 12 months, select your top 3 asset types that you or your clients are targeting for acquisitions?
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Survey Results

REIT, Developer, Advisor/Broker

During the next 12 months, where do you project your anticipated acquisition volume?

What types of financing sources are you or your clients utilizing?

Which regions are preferred for new acquisitions or development?

For a single medical office building, what is your preferred medical office transaction size?

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Survey Results

If a hospital or healthcare system were to sell any of its real estate assets, what do you perceive to be the top 3 reasons?

- Healthy real estate valuations / low capitalization rates (26%)
- Create liquidity and improve its balance sheet (15%)
- Fund growth strategies / protect market share (11%)
- Modernize facilities / upgrade equipment (11%)
- Reduce facility management and maintenance responsibilities (11%)
- Excess real estate as a result of a merger or acquisition (6%)

What is the average hold time frame for your or your clients’ medical office investments?

- Under 3 years: 2%
- 3-7 years: 18%
- Over 7 years: 58%

Where would you project the annual rental growth rate to be for medical office buildings during the next 12 months?

- Negative growth: 5%
- Less than 1%: 3%
- 1% - 2%: 24%
- 2% - 3%: 8%
- 3% - 4%: 22%
- Above 4%: 22%

For new development, what is the minimum pre-leasing threshold for an On and Off-Campus medical office building that is required by your typical client or their lender or joint-venture partner?

- On-Campus: 70% - 80%
- Off-Campus: More than 80%
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Survey Results

REIT, Developer, Advisor/Broker

What is the overall occupancy level of your or your clients’ On-Campus medical office building portfolio?

- Investor / Advisor
- REIT

In your existing portfolio, which types of users are you experiencing an increase in demand for medical office space?

Where is the occupancy of your or your clients’ medical office portfolio compared to a year ago?

- Higher
- Same
- Lower
Where do you perceive capitalization rates for the following Off-Campus medical office building scenarios?

<table>
<thead>
<tr>
<th>Scenario</th>
<th>5.0 - 5.5%</th>
<th>5.5 - 6.0%</th>
<th>6.0 - 6.5%</th>
<th>6.5 - 7.0%</th>
<th>7.0 - 7.5%</th>
<th>7.5 - 8.0%</th>
<th>8.0 - 8.5%</th>
<th>8.5 - 9.0%</th>
<th>9.0 - 9.5%</th>
<th>9.5 - 10.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIMARY Market, SINGLE Tenant, Health System:</td>
<td>2%</td>
<td>10%</td>
<td>22%</td>
<td>33%</td>
<td>24%</td>
<td>0%</td>
<td>4%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>SECONDARY Market, SINGLE Tenant, Health System:</td>
<td>0%</td>
<td>2%</td>
<td>6%</td>
<td>27%</td>
<td>33%</td>
<td>19%</td>
<td>6%</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>PRIMARY Market, MULTI Tenant Physician:</td>
<td>2%</td>
<td>0%</td>
<td>12%</td>
<td>18%</td>
<td>43%</td>
<td>10%</td>
<td>10%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>SECONDARY Market, MULTI Tenant Physician:</td>
<td>0%</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
<td>19%</td>
<td>35%</td>
<td>25%</td>
<td>4%</td>
<td>2%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Which types of medical office buildings are preferred by your clients?

<table>
<thead>
<tr>
<th>Type of Medical Office Building</th>
<th>(1) HIGHEST IMPACT</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>(6) LOWEST IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Campus Single-Tenant MOBs</td>
<td>37%</td>
<td>26%</td>
<td>5%</td>
<td>12%</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>On-Campus Multi-Tenant MOBs</td>
<td>45%</td>
<td>32%</td>
<td>5%</td>
<td>11%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Off-Campus Multi-Tenant MOBs - Hospital Affiliated</td>
<td>12%</td>
<td>35%</td>
<td>35%</td>
<td>14%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Off-Campus Multi-Tenant MOBs - Non Affiliated</td>
<td>12%</td>
<td>2%</td>
<td>30%</td>
<td>12%</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>Off Campus Single-Tenant MOBs - Hospital Affiliated</td>
<td>5%</td>
<td>23%</td>
<td>32%</td>
<td>18%</td>
<td>23%</td>
<td>0%</td>
</tr>
<tr>
<td>Off Campus Single-Tenant MOBs - Non Affiliated</td>
<td>4%</td>
<td>0%</td>
<td>13%</td>
<td>20%</td>
<td>20%</td>
<td>42%</td>
</tr>
</tbody>
</table>

In the future, when you look back on 2012 to assess the healthcare real estate investment market, how do you think you will rank the factors below from the highest impact (1) to the lowest impact (7)? Please choose each number only once to rank the factors from highest to lowest.

<table>
<thead>
<tr>
<th>Factor</th>
<th>(1) HIGHEST IMPACT</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>(7) LOWEST IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of available product to buy</td>
<td>21%</td>
<td>28%</td>
<td>22%</td>
<td>12%</td>
<td>7%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Increased buyer competition</td>
<td>33%</td>
<td>31%</td>
<td>23%</td>
<td>7%</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Healthcare system mergers and acquisitions</td>
<td>12%</td>
<td>30%</td>
<td>29%</td>
<td>17%</td>
<td>7%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Compressing development yields</td>
<td>11%</td>
<td>28%</td>
<td>25%</td>
<td>15%</td>
<td>14%</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>
## How will the following healthcare issues impact your organization in the next 3 years?

<table>
<thead>
<tr>
<th>Issue</th>
<th>STRONGLY POSITIVE</th>
<th>POSITIVE</th>
<th>NEUTRAL</th>
<th>NEGATIVE</th>
<th>STRONGLY NEGATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMR adoption</td>
<td>38%</td>
<td>63%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Patient experience, patient-center care</td>
<td>38%</td>
<td>50%</td>
<td>13%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Quality improvement initiatives</td>
<td>38%</td>
<td>63%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Increase in insured patients</td>
<td>13%</td>
<td>25%</td>
<td>63%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Accountable care organizations</td>
<td>13%</td>
<td>38%</td>
<td>38%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Episode of care / bundled payments</td>
<td>13%</td>
<td>13%</td>
<td>25%</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>Meaningful use criteria</td>
<td>0%</td>
<td>75%</td>
<td>25%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Physician supply, primary care</td>
<td>13%</td>
<td>25%</td>
<td>38%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Medicare/Medicaid reimbursement rates</td>
<td>0%</td>
<td>13%</td>
<td>0%</td>
<td>63%</td>
<td>25%</td>
</tr>
<tr>
<td>Mergers and Acquisitions</td>
<td>0%</td>
<td>50%</td>
<td>50%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Physician supply, specialty care</td>
<td>0%</td>
<td>25%</td>
<td>50%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Private payer reimbursement rates</td>
<td>0%</td>
<td>13%</td>
<td>13%</td>
<td>63%</td>
<td>13%</td>
</tr>
<tr>
<td>ICD-10</td>
<td>0%</td>
<td>0%</td>
<td>50%</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>RACs</td>
<td>0%</td>
<td>0%</td>
<td>63%</td>
<td>25%</td>
<td>13%</td>
</tr>
<tr>
<td>Uncompensated care</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>50%</td>
<td>13%</td>
</tr>
<tr>
<td>Nurse supply</td>
<td>0%</td>
<td>13%</td>
<td>75%</td>
<td>13%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Health Systems & Hospital Administrator

What measures are you employing to grow market share?

- Physician recruitment: 25%
- Renovating existing facilities and development new medical buildings: 25%
- Acquiring systems or other hospitals: 13%
- Maintain current level of market share: 37%

As part of your growth strategy, what part of real estate development is needed as part of your growth?

- Medical office buildings: 22%
- Urgent care / freestanding emergency: 17%
- Outpatient surgery: 9%
- Skilled nursing / impatient rehab: 9%
- Health and wellness: 8%
- Imaging: 0%
- Acute care: 0%
- Skilled nursing / impatient rehab: 0%
- Medical space in a retail setting: 0%

Generally speaking, is your hospital seeking to own more medical office buildings or less?

- More: 87%
- Less: 13%

If the hospital were to sell any of its medical office buildings, what would be the driving reason?

- Create liquidity and improve its balance sheet: 40%
- Fund growth strategies: 30%
- Upgrade equipment: 20%
- Modernize facilities: 10%
- New real estate development: 0%
- Electronic medical records: 0%
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