



Third Annual

Southwest Healthcare Transactions Conference

Medical Real Estate: Medical Office Building Monetization

May 6, 2010

T. Andrew Dow, Shareholder/Chair, Healthcare Industry Group
WINSTEAD PC

*Lydia W. Jumonville, CPA, Senior Healthcare Executive,
Former CFO, BAYLOR HEALTH CARE SYSTEM*

Timothy P. Schier, Senior Vice President
CAIN BROTHERS

C. Gregory Schonert, Vice President
HEALTHCARE REIT

Elements of A Successful Monetization Process: *The Health System's Perspective*

Lydia W. Jumonville CPA, *Senior Healthcare Executive,*
Former CFO, BAYLOR HEALTH CARE SYSTEM

Why Monetize?

- Redeploy invested capital into clinical programs
- Improve credit profile and capital access
- Focus on acute care operations
- New owner's capital is dedicated to MOBs
- Retain land ownership and important property usage controls through ground lease
- No negative economic impact to tenants
- Market timing is currently favorable

Who are the Constituents?

- Physicians / tenants
- Health system (as tenant)
- Management
- Board members and philanthropists

Do It Right!

- Step 1 – Strategic capital plan
- Step 2 – Monetization Committee (management, board, physicians)
- Step 3 – Hire experienced team
 - Advisory/brokerage, legal
 - Ability to communicate with physician-tenants and board members
 - Ensure a credible and competitive process
- Step 4 – Property assessment
- Step 5 – Communicate with constituents
 - FAQs
 - Town hall meeting with physicians
 - Manage the media

Do It Right!

- Step 6 - Approach the market
 - RFP
 - First/second round bidding
 - Short list
 - Prospective partner acceptance of critical provisions
 - ROFRs (occupancy, purchase)
 - Hold period
 - Noncompetitive services
 - Physician tenants on medical staff
 - Moral/ethical compliance
 - Shared services (chilled water, steam, parking, security, etc.)
 - Reverse due diligence on partner
 - Partner selection

The Buyer's Perspective

C. Gregory Schonert, *Vice President*
HEALTHCARE REIT

What Drives Price/Cap Rates?

- Quality of the Real Estate
- Strength of Health System

Quality of the Real Estate

- Age
- Size
- Location (on/off campus)
- Range of services – core ambulatory services
- Amount of space leased by sponsor system

Strength of the Health System

- Financial
- Market
- Physician employment or other alignment of interest structures
- Management
- Receptiveness to for-profit affiliations/partnerships

Objectives of the Seller

- Picking the “right” partner
- Monetization only – or development/future acquisition opportunities?
- Property management
- Amount of control
- Other

Objectives of the Buyer

- Will vary by the type of buyer and asset(s) being sold
- Picking the “right” seller of asset – have seen “teaser” transactions
- Value buyer; local investors; private equity will likely require greater flexibility and independence from the system
- Institutional buyers (pension funds and REITs) generally seek stabilized returns within the early months of acquisition

Competition varies by asset(s) being sold

- Top 20 MSAs: Pension funds (generally only “financial” buyers) and REITs (financial buyers, but looking to leverage broader platform)
- Top 50 MSA portfolios: REITs; private equity
- Smaller/one-off: <\$15 million often attract local investors
- Value-add buyers: below replacement cost; local buyer with high degree of local market knowledge/relationships; seek high degree of flexibility with respect to leasing and management

Market Update

Timothy P. Schier, *Senior Vice President*

CAIN BROTHERS

Investor Market Update

Highly capitalized public health care REITs are back in the game

- Top five public health care REITs' Lines of Credit

- Credit Facilities \$4.90
billion

- Drawn 0.72 billion

- Available Capacity \$4.18
billion

- Lines Expire

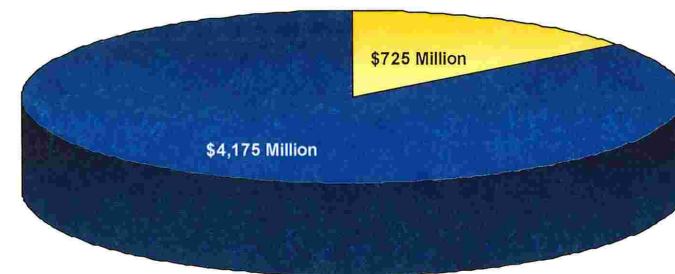
- 2010 \$0.70
billion

- 2011 \$2.65
billion

- Raised \$2.6 billion in new capital during 2009 and are eager to invest
- Mortgage liquidity for MOB's has not been reduced as dramatically as other asset classes
- Real estate investors have become increasingly dependent on regional and local banks

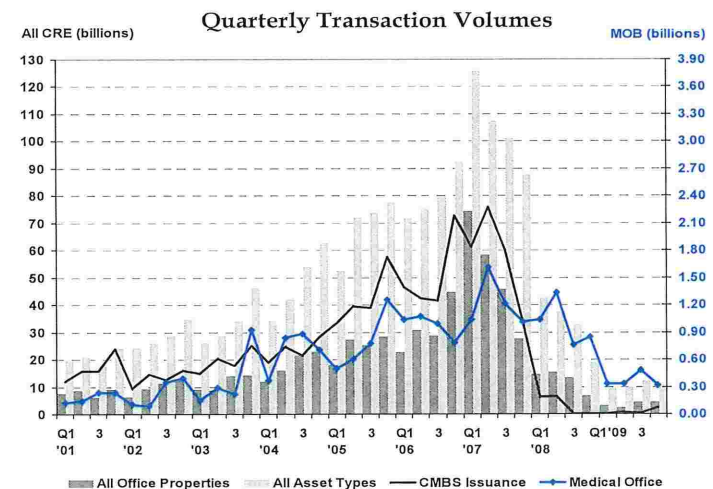
Source: Real Capital Analytics, Commercial Mortgage Alert, company filings.

Line of Credit



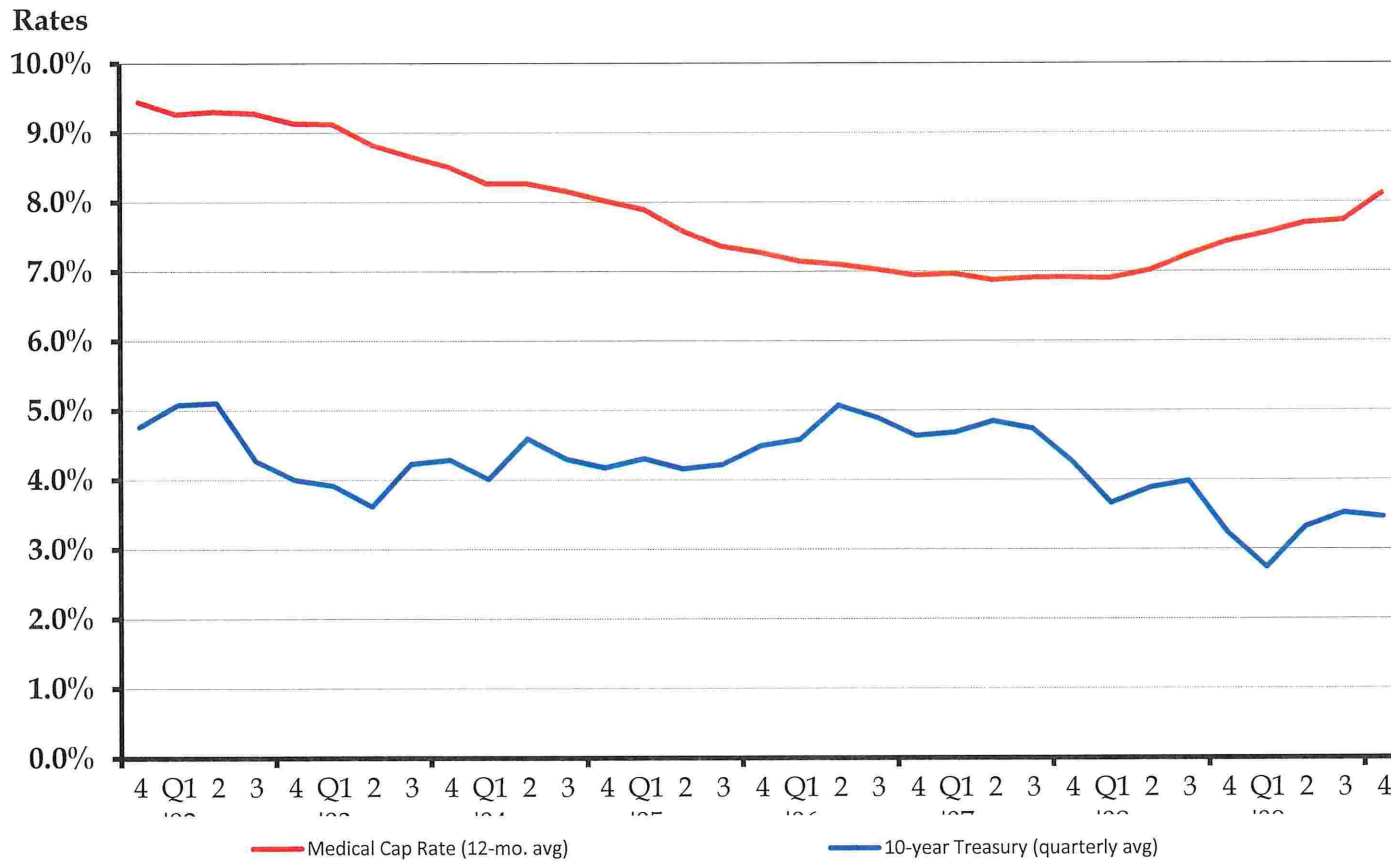
Facility Used Facility Available

Commercial Property Transaction Volumes



Pricing Trend

Capitalization Rates



Potential Impact of Reform

- Physicians: At least three responses already occurring
 - Fear
 - Integration
 - Withdrawal

Potential Impact of Reform

- Hospitals: Gobble, Gobble, Gobble
 - Integration
 - Consolidation

Potential Impact of Reform

- MOBs
 - Short-term to medium-term impact
 - Increase on-campus demand and credit profile
 - Decrease off-campus demand
 - Orphaned properties due to consolidations
 - Medium-term to long-term impact
 - Possible loss of property tax exemptions?
 - Possible loss of hospitals' not-for-profit status?
 - Hospital system credit and MOB valuation repercussions



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