

**MEDICAL PROPERTIES MEDIAN ASKING CAP RATE COMPARISON**

Q3 2017 (Previous)	Q3 2018 (Current)	Basis Point Change
6.25%	6.47%	+22

**NET LEASE MEDICAL VS. NET LEASE MARKET CAP RATE**

	Q3 2017 (Previous)	Q3 2018 (Current)
Net Lease Medical	6.25%	6.47%
Net Lease Market	6.20%	6.38%
Differential (bps)	+5	+9

**NET LEASE MEDICAL PROPERTIES MEDIAN ASKING PRICE**

	Average Price	Average Price Per SF
Investment Grade	\$3,275,000	\$369 PSF
Non-Investment Grade	\$2,107,135	\$325 PSF

**MEDIAN ASKING CAP RATES BY PROPERTY TYPE**

	Q3 2017 (Previous)	Q3 2018 (Current)	Basis Point Change
Dialysis	6.10%	6.00%	-10
Urgent Care	6.90%	7.30%	+40
General Doctor	6.52%	6.81%	+29
Other	7.25%	7.09%	-16

**NET LEASE MEDICAL MARKET BY CREDIT RATING**

	Q3 2017 (Previous)	Q3 2018 (Current)
Investment Grade	32%	25%
Non-Investment Grade	68%	75%

**MARKET OVERVIEW**

Cap rates in the third quarter of 2018 in the single tenant net lease medical sector\* increased by 22 basis points to 6.47% when compared to the previous year. The increase in cap rates can be attributed to a higher concentration of properties located in secondary markets and the high percentage of non-investment grade tenants within the net lease medical sector. Within the net lease medical sector, new construction dialysis properties continue to represent the lowest cap rates. This sub-sector, primarily comprised of Fresenius and DaVita properties, had asking cap rates of 5.85% for properties with more than 11 years of lease term remaining. The dialysis sub-sector is in demand among individual investors as these assets typically exhibit long term leases with rental escalations to credit tenants. In the third quarter of 2018, net lease dialysis properties made up more than 55% of the overall net lease medical sector supply.

Cap rates for the net lease medical sector remained at discount pricing compared to the overall net lease market. In the third quarter of 2018, net lease medical properties were priced 9 basis points less than the overall market. This can be attributed to the significant supply of non-investment grade tenanted properties within the sector. The medical sector consisted of 75% non-investment grade rated tenants in the third quarter of 2018.

The location of medical related properties has been shifting from on-campus to sites historically reserved for retail locations; a transition the industry has named "medtail". As a result these medical assets have become more appealing as investors have become more comfortable with the long term viability of the real estate for alternative uses. Net lease medical properties exhibit many critical attributes that investors, both private and institutional desire. The medical sector is widely seen as e-commerce resistant and "Amazon-proof". Furthermore, it is common for net lease medical properties to provide rental escalations throughout the term of their lease providing investors with an inflationary hedge.

The single tenant net lease medical sector will remain active as investors remain attracted to the long term outlook for healthcare related properties. The sector's resistance to e-commerce and the country's aging demographic will keep investor demand strong. Investors across all profile types will continue to acquire net lease medical properties as cap rates remain attractive when compared to the overall net lease sector.

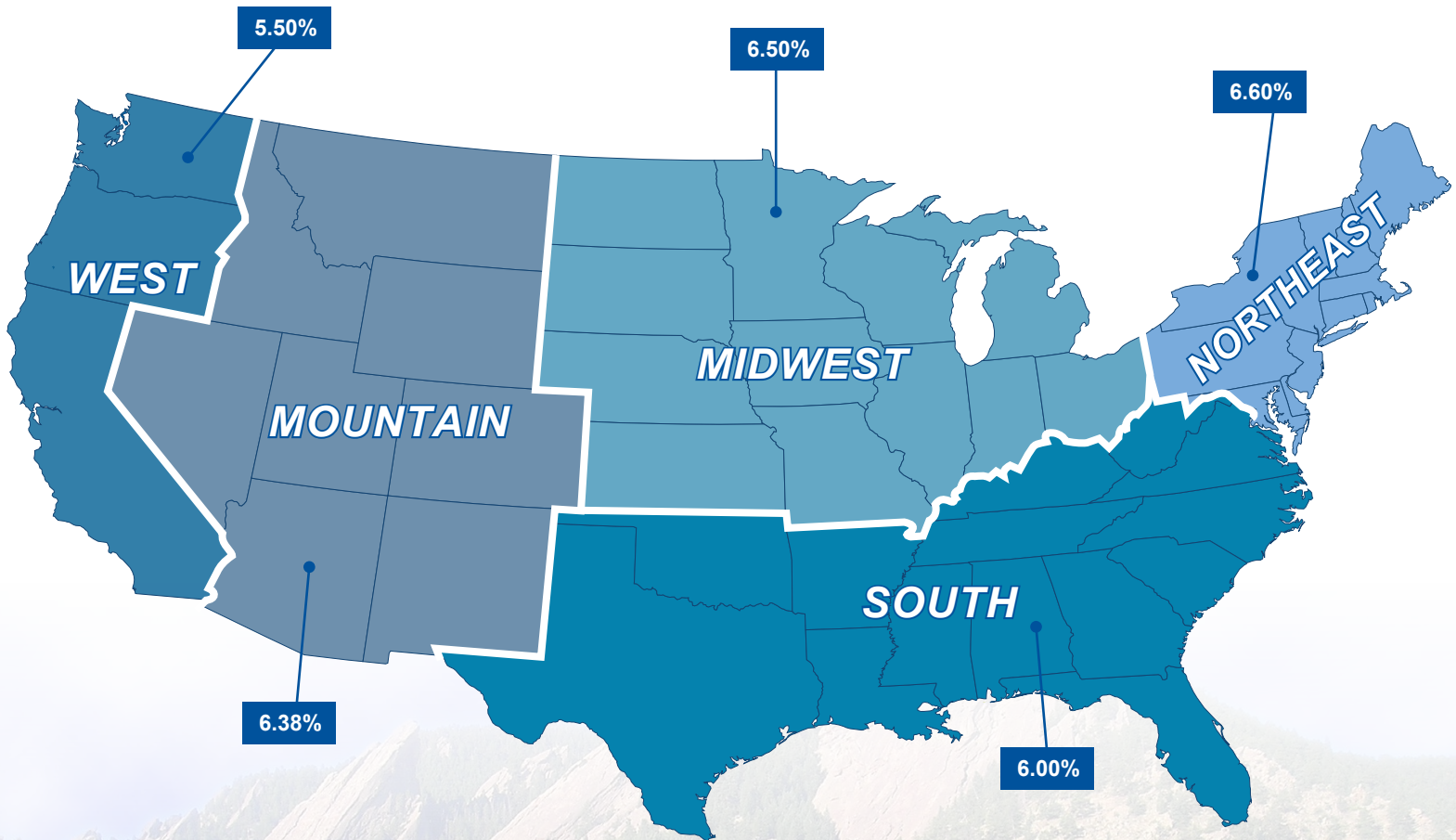
*\*For the purpose of this report, the single tenant net lease medical sector is defined as net lease medical properties priced below \$10 million.*

MEDIAN ASKING CAP RATE BY LEASE TERM REMAINING

Years Remaining	Dialysis	Urgent Care	General Medical <sup>1</sup>	Other <sup>2</sup>
16-20 Years	--	7.13%	6.75%	N/A
11-15 Years	5.85%	7.25%	6.85%	6.00%
6-10 Years	6.45%	7.75%	7.15%	7.00%
5 Years & Under	7.25%	8.15%	N/A	7.75%

- 1) The General Medical category consists of physicians and specialty offices.
- 2) The Other category consists of dental and physical therapy offices and homecare facilities.

NET LEASE MEDICAL PROPERTIES MEDIAN ASKING CAP RATE BY REGION



**SELECTED NET LEASE MEDICAL SALES COMPARABLES**

Sale Date	Tenant	City	State	Price	Price/SF	Cap Rate	Lease Term Remaining
Jul-18	VA Central Iowa Healthcare	Knoxville	IA	\$7,309,946	\$437 PSF	6.66%	15
Jun-18	HealthEast Medical	St. Paul	MN	\$5,590,000	\$358 PSF	7.25%	7
Jul-18	DaVita	Glendale	CA	\$5,145,455	\$674 PSF	5.21%	15
Aug-18	DaVita	Corpus Christi	TX	\$4,900,000	\$618 PSF	5.73%	10
Aug-18	Fresenius	Corpus Christi	TX	\$4,200,000	\$428 PSF	5.85%	14
Aug-18	Satelite Healthcare	Stockton	CA	\$4,166,500	\$403 PSF	6.25%	12
Aug-18	Carolina's Hospital System	Florence	SC	\$4,100,000	\$186 PSF	6.93%	9
Oct-18	DaVita	Decatur	GA	\$4,004,787	\$375 PSF	6.12%	15
Oct-18	DaVita	South Holland	IL	\$3,707,000	\$382 PSF	6.03%	15
Oct-18	Fresenius	Brownsville	TX	\$2,900,000	\$282 PSF	6.19%	9
Aug-18	Fresenius	Akron	OH	\$2,123,642	\$245 PSF	5.50%	20
Aug-18	Fresenius	Houston	TX	\$2,102,523	\$256 PSF	5.35%	20
Sep-18	Ivy Rehab Physical Therapy Center	Norton Shores	MI	\$1,540,000	\$111 PSF	9.02%	7

**FOR MORE INFORMATION**

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