



NET LEASE REPORT November 2018

MEDICAL SECTOR

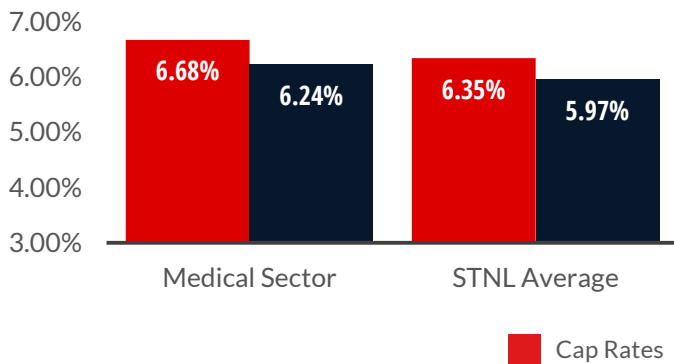
The medical sector has been a thriving sector for net lease investors. The trifecta of growing demand, difficulty relocating clinics and offices, and the necessity of face-to-face interaction are driving factors for net-leased medical properties.

Advances in medicine have led to people living longer and requiring more medical care. This increased need will likely push facilities to their full capacity. As this need grows, so will the number of medical offices, dialysis clinics, and urgent care locations.

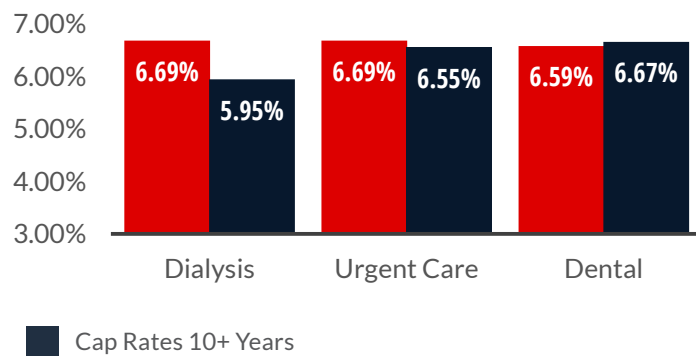
Medical offices face large upfront costs due to the extensive build-outs, and the highly specialized equipment needed. Urgent cares typically have large amounts of specialized medical equipment, such as X-rays machines, that can be difficult to move, while dental offices will typically have water and drain lines to and from most rooms, a unique feature not needed by most tenants. These factors contribute to tenants' tendency to stay for the long term.

Medical care generally requires a face-to-face interaction between patient and physician. This physical interaction is not able to be replicated by any web-based vendors so the properties occupied by physicians are regarded as safer investments.

Average Cap Rates for the Past 12 Months
Sector Overview

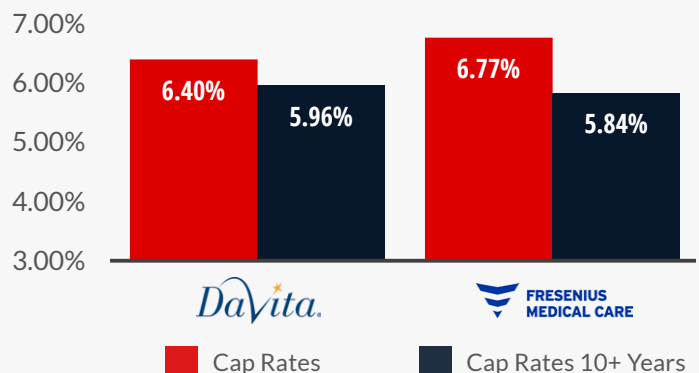


Average Cap Rates for the Past 12 Months
Type of Medical Tenant



The medical sector has a wide variety of tenants with their own unique qualities. DaVita Dialysis and Fresenius Medical Care make up the majority of the dialysis clinics market while urgent cares and dental offices are made up of a wide variety of tenants with small market shares.

Average Cap Rates for the Past 12 Months
Dialysis Clinics



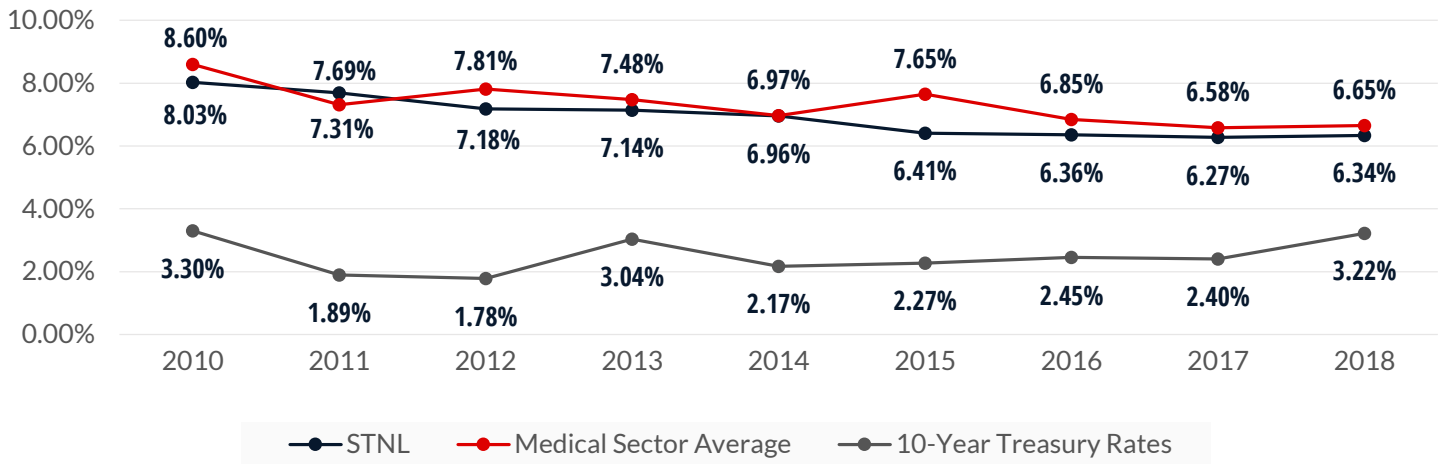


DaVita and Fresenius have similar credit ratings but an important dividing line lies between them. Fresenius, rated at BBB-, is considered “investment grade” while DaVita is not. The difference in cap rates is driven less by credit rating and more by average lease term remaining. DaVita, on average, has slightly more lease years remaining than Fresenius.

Credit Ratings	S&P	Moody's
DaVita	BB	Ba2
FRESENIUS MEDICAL CARE	BBB-	Baa3

DaVita and Fresenius are highly desirable net lease tenants. They offer minimal landlord responsibilities with rental increases during the primary term. Most importantly, their locations are well located for their business. Operating near doctors' offices and hospitals provide a synergy that is beneficial to both patients and clinics. These tenants may also require a permit of use, meaning they can only operate in locations approved by the local or state government. This can add to the costs and difficulty of relocating the clinic, however, this benefits the landlord.

STNL Cap Rates vs. Medical Sector Average vs. 10-Year Treasury Rates



The medical sector has typically traded at slightly higher cap rates than the Single Tenant Net Lease (STNL) average.

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DISCLOSURES: As part of our market research, we collect sales price, cap rate, and lease years remaining for all publicly advertised and sold STNL properties. a) We are not able to capture 100% of the off-market transactions that occur; however the nature of off-market typically limits their value as true market comps. b) Sources include public records, sales announcements, Calkain sales, and appraiser obtained sales amongst others. c) Our collection process, while thorough, is not all encompassing and there may be biases in the data as it relates to geography, tenancy, or brokers involved in the transaction. d) Public records often lag behind when transactions actually close, months in some cases. Consequently the data supplied here for any given quarter is likely to miss a material amount of transactions that actually closed in it.