VMG HEALTH
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BUSINESS VALUATION • PROFESSIONAL SERVICES VALUATIONS • ASSET APPRAISALS • REAL ESTATE • TRANSACTION ADVISORY • CONSULTING

DALLAS • NASHVILLE • DENVER

A Fair Market Value Analysis of:

Desert Regional Medical Center
1150 N. Indian Canyon Drive
Palm Springs, Riverside County, California

El Mirador Medical Plaza
1180 N. Indian Canyon Drive
Palm Springs, Riverside County, California

Las Palmas Medical Plaza
555 E. Tachevah Drive
Palm Springs, Riverside County, California

Wellness Park
SEC of E. Tachevah Drive and N. Via Miraieste
Palm Springs, Riverside County, California

APPRAISAL REPORT

Appraisal Date: July 31, 2018
Distribution Date: October 18, 2018

Prepared for

Mr. D. Chris Christensen, CPA
Interim CEO & CFO
Desert Healthcare District & Desert Healthcare Foundation
1140 N. Indian Canyon Drive
Palm Springs, California 92262

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October 18, 2018

Mr. D. Chris Christensen, CPA
Interim CEO & CFO
Desert Healthcare District & Desert Healthcare Foundation
1140 N. Indian Canyon Drive
Palm Springs, California 92262

Re: Fair Market Value Analysis of Desert Regional Medical Center, El Mirador Medical Plaza, Las Palmas Medical Plaza and the Wellness Park

Dear Mr. Christensen,

At your request, we have estimated the Fair Market Value of the identified real property assets associated with Desert Regional Medical Center, El Mirador Medical Plaza, Las Palmas Medical Plaza and the Wellness Park. The Desert Regional Medical Center improvements comprise a total building area of 529,886 square feet located on 25.293 acres. The Desert Regional Medical Center is an Acute Care Hospital that features 393 licensed beds. The El Mirador Medical Plaza is an on-campus medical office building containing 163,324 square feet of building area. It is located on a 3.62-acre parcel. The El Mirador Medical Plaza also has a 218,376- square foot parking garage. The Las Palmas Medical Plaza is located adjacent to the Desert Regional Medical Center campus. It is a two-story, 49,356-square-foot multitenant medical office building located on a 4.13-acre tract of land. Finally, the Wellness Park contains 4.84 acres. Additional discussion of the subject properties will be presented in the *Identification of Property*, *Site Description*, and *Improvements Description* sections of this report.

The Fair Market Value of the Desert Regional Medical Center, as of July 31, 2018, of its Fee Simple Estate, is:

Fair Market Value indications, 'As Is' - Desert Regional Medical Center			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$133,000,000	$144,500,000	$156,000,000
Sales Comparison Approach	$135,100,000	$145,700,000	$156,300,000
Income Approach	$145,900,000	$155,000,000	$164,100,000
Average	**$138,000,000**	**$148,400,000**	**$158,800,000**
Concluded Value	**$140,000,000**	**$150,000,000**	**$160,000,000**

Our value estimate of the Desert Regional Medical Center is performed under the Hypothetical Condition that the hospital buildings are seismically compliant under California SB 1953 requirements.

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The Fair Market Value of the El Mirador Medical Plaza, as of July 31, 2018, of its Fee Simple Estate, is:

Fair Market Value indications, 'As Is' - El Mirador Medical Plaza			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$49,900,000	$54,200,000	$58,500,000
Sales Comparison Approach	$49,000,000	$53,100,000	$57,200,000
Income Approach	$50,000,000	$54,000,000	$58,000,000
Average	**$49,633,333**	**$53,766,667**	**$57,900,000**
Concluded Value	**$50,000,000**	**$54,000,000**	**$58,000,000**

The Fair Market Value of the Las Palmas Medical Plaza, as of July 31, 2018, of its Leased Fee Estate, is:

Fair Market Value indications, 'As Is' - Las Palmas Medical Plaza			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$8,000,000	$8,900,000	$9,800,000
Sales Comparison Approach	$9,400,000	$10,400,000	$11,400,000
Income Approach	$9,800,000	$10,400,000	$11,200,000
Average	**$9,066,667**	**$9,900,000**	**$10,800,000**
Concluded Value	**$9,800,000**	**$10,500,000**	**$11,200,000**

The Fair Market Value of the Wellness Park, as of July 31, 2018, of its Fee Simple Estate, is:

Fair Market Value, 'As Is' - Wellness Park Land Parcel			
31-Jul-18	**Low**	**Mid**	**High**
Fair Market Value	$2,600,000	$3,000,000	$3,400,000

The concluded Fair Market Value opinions presented herein should not be construed as a business valuation in connection with the subject hospital property. However, we have considered the subject's current operations and our valuation is predicated upon the assumption that current operations are sustainable and will retain the ability to fulfill all financial obligations while supporting the underlying real estate.

We have not included any consideration of customer relationship intangible assets, business value, favorable/unfavorable (i.e. above/below market) lease intangible, and other intangible assets such as non-competes in the value conclusion above.

Additional detail regarding our methodology is presented throughout this report. The analysis presented herein is not to be used for any other purpose or distributed, in whole or in part, to third parties, other than the Client (or its representatives and advisors), the Internal Revenue Service, Office of Inspector General or other regulatory authorities, without the express written consent of VMG Health.

Please refer to the attached analysis for further detail.

Respectfully submitted,

Frank Fehribach, MAI, MRICS
Director of Real Estate Services

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OVERVIEW

REPORT FORMAT

This is an Appraisal Report which complies with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report. The report presents discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of Fair Market Value for the subject properties. Supporting documentation concerning the data, reasoning and analyses is retained in our files. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated within this report.

IDENTIFICATION OF PROPERTY

The subject properties are identified as the Desert Regional Medical Center, the El Mirador Medical Plaza, the Las Palmas Medical Plaza and the Wellness Park. The hospital is located at 1150 N. Indian Canyon, Palm Springs, California. The subject properties were inspected, on July 31, 2018, the effective date of value. Based upon our inspection, the properties are in good condition. Additional detail regarding the subject properties are provided in the *Improvements Description* section of this report.

PURPOSE OF THE APPRAISAL

The purpose of the appraisal is to provide our opinion of the Fair Market Value of the Fee Simple Estate or Leased Fee Estate for the properties fully identified in this Appraisal Report.

PROPERTY RIGHTS

The property rights appraised are those of the Fee Simple Estate or the Leased Fee Estate in the subject properties. Fee Simple Estate is defined in *The Dictionary of Real Estate Appraisal, Sixth Edition* as follows:

"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat".

The Leased Fee Estate is defined in *The Dictionary of Real Estate Appraisal, Sixth Edition* as follows:

"The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires".

As will be discussed later in the report, the El Mirador Medical Plaza is mostly occupied by the hospital operator or its subsidiary. The operator's spaces do not have individual leases. There are approximately 20 third party tenants (of which two are for storage) with short term leases that occupy 47,520 square feet of the plaza. Since these leases only account for 29.1% of the building and are at or near market rents in the aggregate, we do not believe there is a material difference between El Mirador Medical Plaza's Fee Simple Estate and its Leased Fee Estate. Therefore, we have estimated the Fee Simple Estate of the El Mirador Medical Plaza. The Las Palmas Medical Plaza is a multitenant medical office building. All of its occupied space is leased and the property is not under direct operational control by the hospital operator. Therefore, we have appraised the Las Palmas Medical Plaza's Leased Fee Estate.

CLIENT AND INTENDED USE OF THE APPRAISAL

The intended user (client) of this Appraisal Report is Desert Healthcare District and the Desert Healthcare Foundation and its duly authorized representatives. It is our understanding that the client(s) will be sharing this appraisal with the public and Tenet, to have a better understanding of the value of the District's assets, and to assist in planning with Tenet on how to meet community health needs and address the seismic upgrade requirements at the hospital. The purpose of our analysis is to provide an opinion of the Fair Market Value of the subject properties. VMG Health is not responsible for the unauthorized use of this Appraisal Report.

EFFECTIVE DATE OF VALUATION

The effective date of value(s) for the purposes of this assignment is July 31, 2018, the date of the inspection.

DEFINITIONS

The following is a list of definitions applicable to this assignment.

Fair Market Value – The Federal Physician Self-Referral Law (commonly known as the "Stark Law"), 42 C.F.R. §411.351, defines Fair Market Value as follows: Fair market value means the value in arm's-length transactions, consistent with the general market value. "General market value" means the price that an asset would bring as the result of bona fide bargaining between well-informed buyers and sellers who are not otherwise in a position to generate business for the other party, or the compensation that would be included in a service agreement as the result of bona fide bargaining between well-informed parties to the agreement who are not otherwise in a position to generate business for the other party, on the date of acquisition of the asset or at the time of the service agreement. Usually, the fair market price is the price at which bona fide sales have been consummated for assets of like type, quality, and quantity in a particular market at the time of acquisition, or the compensation that has been included in bona fide service agreements with comparable terms at the time of the agreement, where the price or compensation has not been determined in any manner that takes into account the volume or value of anticipated or actual referrals. With respect to rentals and leases described in §411.357(a), (b), and (l) (as to equipment leases only), "fair market value" means the value of rental property for general commercial purposes (not taking into account its intended use). In the case of a lease of space, this value may not be adjusted to reflect the additional value the prospective lessee or lessor would attribute to the proximity or convenience to the lessor when the lessor is a potential source of patient referrals to the lessee. For purposes of this definition, a rental payment does not take into account intended use if it takes into account costs incurred by the lessor in developing or upgrading the property or maintaining the property or its improvements. For lease agreements, Fair Market Value is considered to be Fair Market Rent. Fair Market Rent is synonymous with Market Rent.

Market Rent – The most probable rent that a property should bring in a competitive and open market reflecting the conditions and restrictions of a specified lease agreement, including the rental adjustment and revaluation, permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs).[1] Implicit in this definition are the following conditions:

- Lessee and lessor are typically motivated.
- Both parties are well informed or well advised, and acting in what they consider their best interests.
- A reasonable time is allowed for exposure in the open market.
- The rent payment is made in terms of cash in United States dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract.

[1] *The Dictionary of Real Estate Appraisal, 6th Edition (Chicago: Appraisal Institute, 2015).*

- The rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction.

Other pertinent definitions include:

- ***Real Property –*** The interests, benefits, and rights inherent in the ownership of real estate.[2]
- ***Improvements –*** Buildings or other relatively permanent structures or infrastructure (e.g., sewer lines, water lines, and roads) located on, or attached to, land.[3]
- ***Extraordinary Assumption(s)*** – *An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions*.[4] Within this specific assignment, provided building area(s) and ages have been utilized for the subject properties. These building areas and ages have been cross checked with available public records for reasonableness. However, should the size or age of the subject building(s) vary significantly from that which is utilized herein, the appraiser(s) reserve the right to modify the contents of this report, including the value conclusion(s) (upon just compensation).
- *Hypothetical Condition(s) – A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis*.[5] In this report, our value estimate of the Desert Regional Medical Center is performed under the Hypothetical Condition that the hospital buildings are seismically compliant under California SB 1953 requirements.

SCOPE OF ENGAGEMENT

The results of this investigation are presented in an Appraisal Report. The following scope was completed by VMG Holdings LLC d/b/a VMG Health ("VMG") for this assignment:

1. Analyzed regional, city, neighborhood and market area.
    - Gathered current and relevant data related to demographic, economic, governmental and environmental forces that have a direct or indirect influence on the subject properties.
    - Provided supporting comments and appropriate conclusions to describe the influence of these factors on the subject properties.
    - Market data was gathered from a variety of sources including local, regional and national healthcare real estate professionals, brokers and online sources.
2. No site inspection was performed. All information concerning the local neighborhood and area was researched or provided by the client.
    - Reviewed relevant supporting data. The appraiser reviewed available building and site plans.
    - Reviewed data regarding taxes, utilities and city services.
    - The availability or existence of all utilities, easements and city services was determined by data provided by management.
3. Considered the subject's cost and required return on that cost.

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[2] *The Dictionary of Real Estate Appraisal, 6th Edition (Chicago: Appraisal Institute, 2015).*
[3] *The Dictionary of Real Estate Appraisal, 6th Edition (Chicago: Appraisal Institute, 2015).*
[4] *The Dictionary of Real Estate Appraisal, 6th Edition (Chicago: Appraisal Institute, 2015).*
[5] *The Dictionary of Real Estate Appraisal, 6th Edition (Chicago: Appraisal Institute, 2015).*

- Land comparables were gathered and analyzed to estimate the subject's land value. Factors considered included location, size, topography, shape, utilities and zoning. Information was gathered from various local market sources and from appraiser's internal proprietary files. Replacement cost was estimated utilizing Marshall Valuation Services' cost index.

4. Analyzed the data and applied the applicable approaches to value.
   - The value opinions presented in this Appraisal Report are based on review and analysis of the market conditions affecting real property value, including the attributes of competitive properties and rental data for similar properties.
   - The appraiser(s) performed a market analysis for the subject's market area. VMG Health's conclusion of Highest and Best Use is based primarily on logic and observed evidence.
   - Three traditional approaches are typically used to arrive at an opinion of value of real property: the Sales Comparison Approach; the Cost Approach; and the Income Capitalization Approach. With regard to Market Rent, the derivative of these three approaches is the Rent Comparables Approach, the Return-on-Depreciated Cost Approach, and the Rent Coverage Ratio approach. We have considered all three approaches within our analysis and applied those deemed most appropriate.
5. The following is <u>not</u> included within the scope of our analysis as presented herein: a) a fixed asset valuation; b) due diligence or quality of earnings analyses; c) fairness opinion; and d) commercial reasonableness opinion.

Specific attention is drawn to the Proposal, Definitions, General Assumptions and Limiting Conditions, and Significant Issues for further understanding of the scope of the appraisal. The subject site and improvement descriptions are based on a review of provided data.

COMPETENCY STATEMENT

Frank Fehribach, MAI, MRICS has extensive experience with the valuation of various medical projects throughout the United States, including acute care hospitals, critical access hospitals, surgical hospitals, rehabilitation hospitals, medical office buildings and a variety of free-standing outpatient care facilities. Mr. Fehribach has valued over 60 hospitals in the last three years. Frank Fehribach holds the MAI designation and is a member of the Royal Institution of Chartered Surveyors. Mr. Fehribach also is a Certified General Real Estate Appraiser in the State of California (AG044542). Accordingly, the appraiser has met the licensing requirements of the State of California and possesses the professional competency required to appraise the subject properties.

PROPERTY HISTORY

The Appraisal Foundation's Uniform Standards of Professional Appraisal Practice ("USPAP") Standard Rule 1-5 states:

> **When the value opinion to be developed is Market Value, an appraiser must, if such information is available to the appraiser in the normal course of business:**
>
> **(a) analyze all agreements of sale, options, and listings of the subject property current as of the effective date of the appraisal; and**

(b) analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal.[6]

According to public records, the subject sites are currently owned by Desert Healthcare District, which has owned the subject properties for over the last sixty years. The Desert Regional Medical Center and El Mirador Medical Plaza are currently leased to Tenet HealthSystem Desert, Inc. Las Palmas Medical Plaza and the Wellness Park are owned by the District and are not part of the lease. The lease commenced in 1997. The lease term was 30 years. Tenet prepaid the rent for the 30-year period ($105,000,000) and has the right to receive a refund of unamortized prepaid rent, if they elect to exercise an early termination clause. Tenet has also funded over $150 million in capital improvements since 1997.

To the best of our knowledge, there have been no other modifications to the lease and the subject is not currently being marketed for sale.

Information pertaining to the subject properties' construction is presented within the *Description of Improvements* section of this report.

[6] *Uniform Standards of Professional Appraisal Practice (The Appraisal Foundation, 2018-2019 edition)*

SUMMARY OF SALIENT FACTS

Effective Date of Value:	July 31, 2018
Property Name/Location:	Desert Regional Medical Center 1150 N. Indian Canyon Drive Palm Springs, Riverside County, California El Mirador Medical Plaza 1180 N. Indian Canyon Drive Palm Springs, Riverside County, California Las Palmas Medical Plaza 555 E. Tachevah Drive Palm Springs, Riverside County, California Wellness Park SEC of E. Tachevah Drive and N. Via Miraieste Palm Springs, Riverside County, California
Client:	Desert Healthcare District and Desert Healthcare Foundation
Subject properties Description:	The Desert Regional Medical Center is a 393-bed acute care hospital. El Mirador Medical Plaza is a 163,324-square-foot medical office building and parking garage. Las Palmas Medical Plaza is a 49,356-square-foot medical office building. Finally, the wellness park is a 4.84-acre land parcel landscaped as a park. Additional detail regarding the subject properties is presented within the *Improvements Description* section of this report.

Fair Market Value Conclusion: Our conclusion of the Fair Market Value for the subject properties is shown below. Implicit in the conclusion are the Hypothetical Condition and assumptions outlined in this report.

The Fair Market Value of the Desert Regional Medical Center, as of July 31, 2018, of its Fee Simple Estate, is:

Fair Market Value indications, 'As Is' - Desert Regional Medical Center			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$133,000,000	$144,500,000	$156,000,000
Sales Comparison Approach	$135,100,000	$145,700,000	$156,300,000
Income Approach	$145,900,000	$155,000,000	$164,100,000
Average	**$138,000,000**	**$148,400,000**	**$158,800,000**
Concluded Value	**$140,000,000**	**$150,000,000**	**$160,000,000**

Our value estimate of the Desert Regional Medical Center is performed under the Hypothetical Condition that the hospital buildings are seismically compliant under California SB 1953 requirements.

The Fair Market Value of the El Mirador Medical Plaza, as of July 31, 2018, of its Fee Simple Estate, is:

Fair Market Value indications, 'As Is' - El Mirador Medical Plaza			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$49,900,000	$54,200,000	$58,500,000
Sales Comparison Approach	$49,000,000	$53,100,000	$57,200,000
Income Approach	$50,000,000	$54,000,000	$58,000,000
Average	**$49,633,333**	**$53,766,667**	**$57,900,000**
Concluded Value	**$50,000,000**	**$54,000,000**	**$58,000,000**

The Fair Market Value of the Las Palmas Medical Plaza, as of July 31, 2018, of its Leased Fee Estate, is:

Fair Market Value indications, 'As Is' - Las Palmas Medical Plaza			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$8,000,000	$8,900,000	$9,800,000
Sales Comparison Approach	$9,400,000	$10,400,000	$11,400,000
Income Approach	$9,800,000	$10,400,000	$11,200,000
Average	**$9,066,667**	**$9,900,000**	**$10,800,000**
Concluded Value	**$9,800,000**	**$10,500,000**	**$11,200,000**

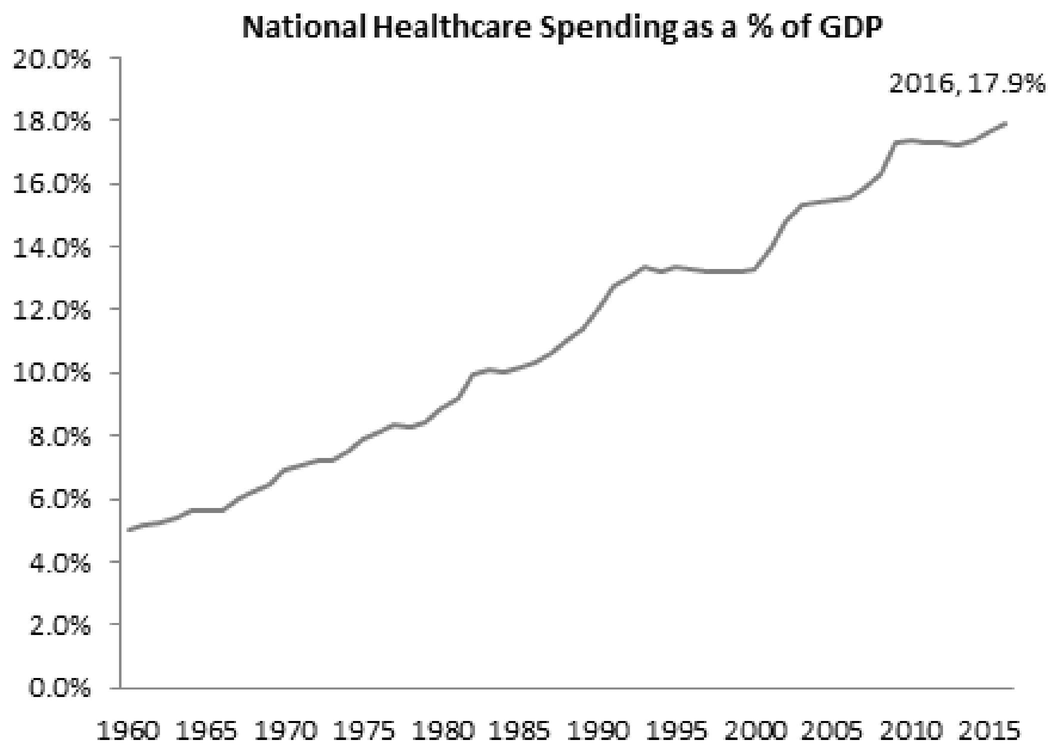
The Fair Market Value of the Wellness Park, as of July 31, 2018, of its Fee Simple Estate, is:

Fair Market Value, 'As Is' - Wellness Park Land Parcel			
31-Jul-18	**Low**	**Mid**	**High**
Fair Market Value	$2,600,000	$3,000,000	$3,400,000

HEALTHCARE MARKET OVERVIEW

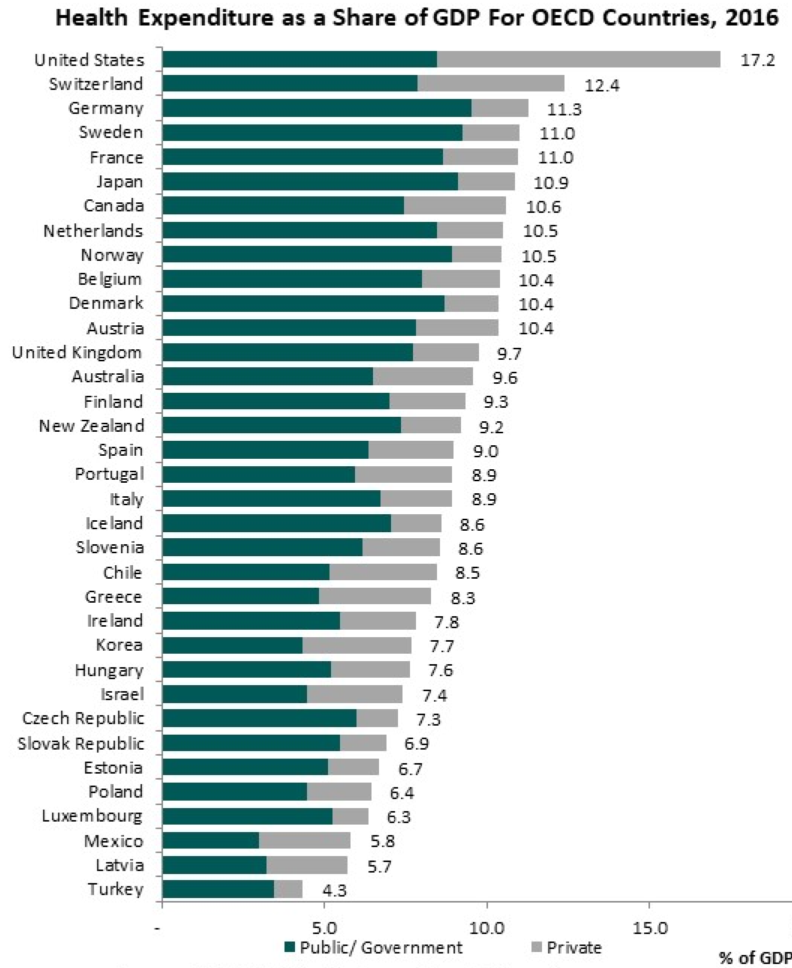
Healthcare Spending

According to the Center for Medicare and Medicaid Services ("CMS") healthcare spending as a percentage of GDP has increased from 5.0% in 1960 to 17.9% in 2016. The chart below presents the historical growth in healthcare spending as a percentage of GDP. More recently, healthcare expenditures as a percentage of GDP increased from 17.2% in 2013 to 17.9% in 2016 after remaining relatively flat for the previous five years. According to the OECD, the United States spends more on healthcare, both per capita, and as a share of GDP, than any other country in the world as illustrated in the chart below.



Source: CMS and Bureau of Economic Analysis

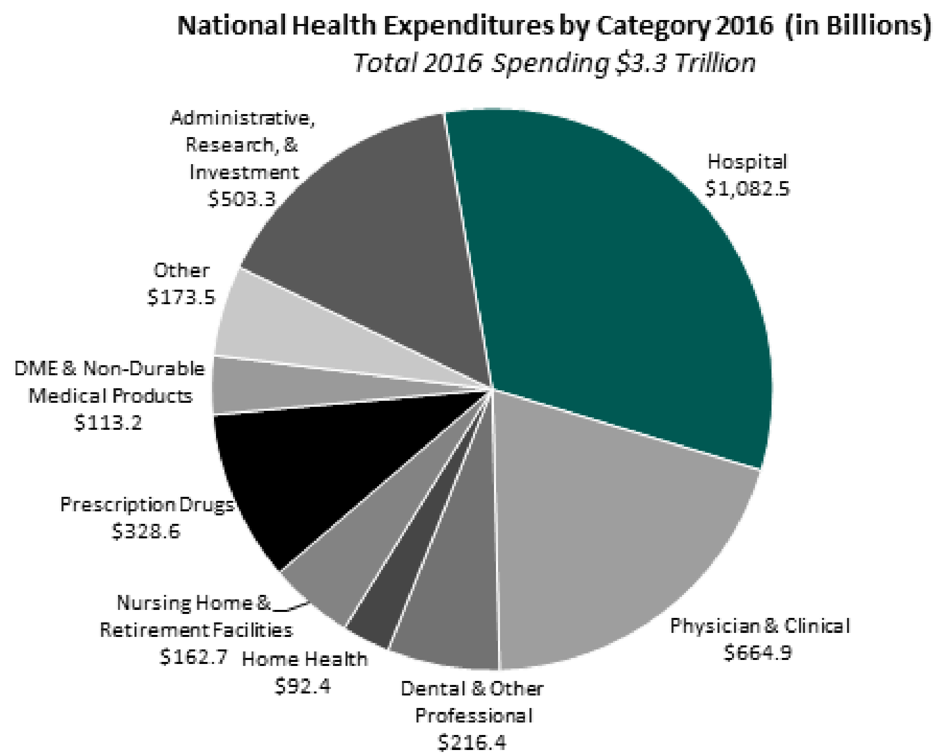
Note: U.S. health expenditures as a percentage of GDP reported by OCED is different than CMS due to a difference in measurement methodology.

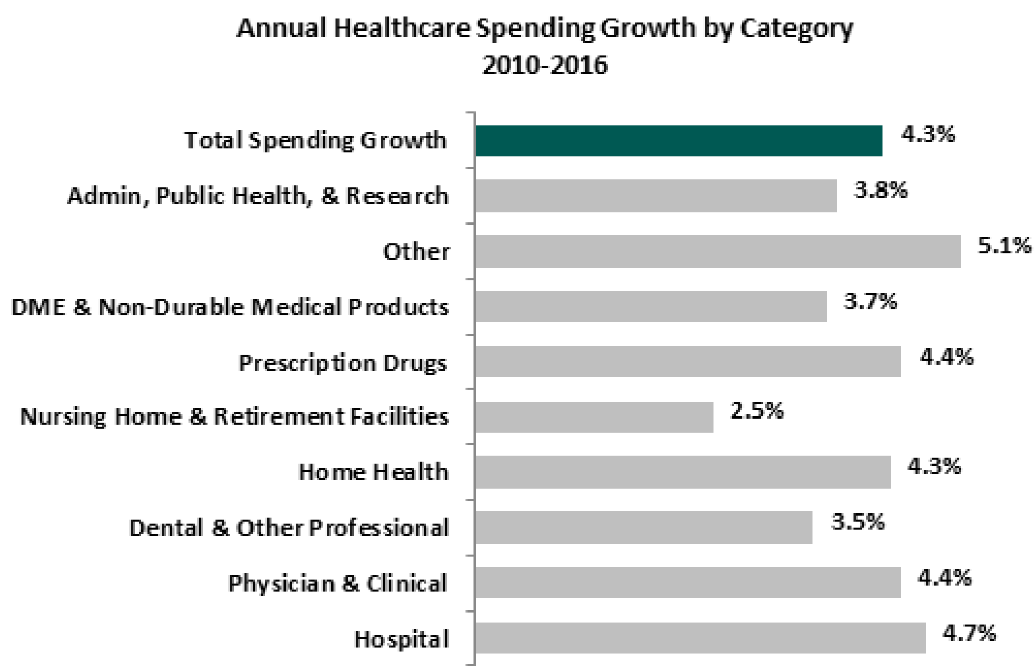


Source: OECD.Stat Health Expenditure & Financing

Healthcare Spending by Category

Healthcare spending growth in the United States moderated in 2016 as compared to 2014 and 2015 when ACA coverage expansions and double digit growth in prescription drug spending caused overall healthcare spending to increase more than 5.0% annually. Overall, from 2015 to 2016 total national health expenditures increased 4.3% from approximately $3.2 trillion in 2015 to approximately $3.3 trillion in 2016. In 2016 hospital care and physician & clinical services were the largest spending categories accounting for $1,082.5 billion (33.8% of total) and $664.9 billion (20.7% of total) of the total health expenditures, respectively. From 2010 to 2016 hospital services and prescription drugs have experienced the largest growth in spending with an average annual growth rate of 4.7% and 4.4%, respectively. According to CMS, the increase in hospital spending is primarily attributable to an increase in overall utilization and acuity of services. While the large increase in prescription drug spending is the result of a shift from small molecule drugs to specialty pharmaceuticals which are more expensive. It should be noted that spending on prescription drugs increased just 1.3% in 2016 due to fewer new drug approvals, slower growth in brand-name drug spending, and pricing decreases for generic drugs.

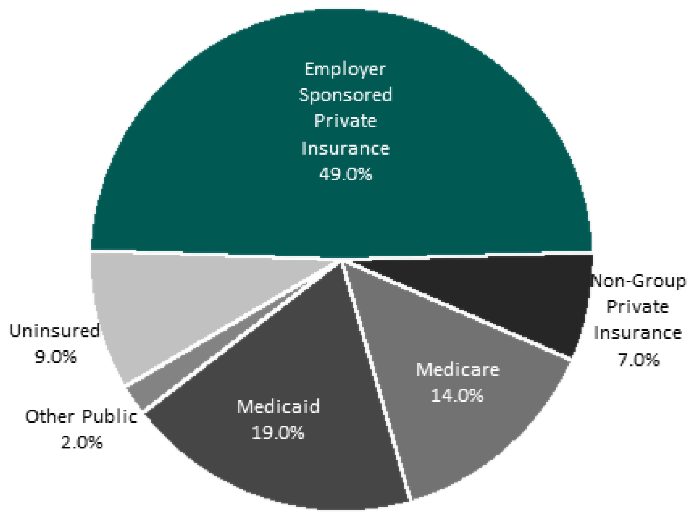

National Health Expenditures by Category 2016 (in Billions)
Total 2016 Spending $3.3 Trillion
Administrative, Research, & Investment $503.3
Hospital $1,082.5
Other $173.5
DME & Non-Durable Medical Products $113.2
Prescription Drugs $328.6
Nursing Home & Retirement Facilities $162.7
Home Health $92.4
Dental & Other Professional $216.4
Physician & Clinical $664.9


Annual Healthcare Spending Growth by Category 2010-2016
Total Spending Growth 4.3%
Admin, Public Health, & Research 3.8%
Other 5.1%
DME & Non-Durable Medical Products 3.7%
Prescription Drugs 4.4%
Nursing Home & Retirement Facilities 2.5%
Home Health 4.3%
Dental & Other Professional 3.5%
Physician & Clinical 4.4%
Hospital 4.7%

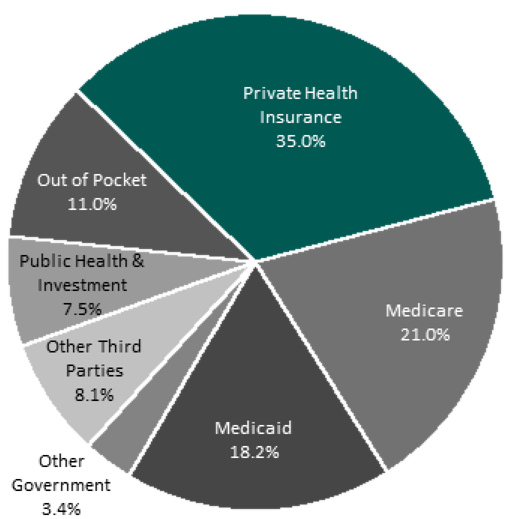
Funding Overview

A number of private and public sources combine to finance healthcare expenditures in the United States. The majority of Americans under the age of 65 have health coverage through a private insurance provider. According to the Kaiser Family Foundation, during 2016 approximately 49% of Americans had employer based private insurance while approximately 7.0% obtained private insurance through the individual plan market. The largest government payors, Medicaid and Medicare covered approximately 19.0% and 14.0% of Americans, respectively. According to CMS, private health insurance accounted for approximately 35.0% of total national health expenditures in 2016. Over the same time period, Medicare and Medicaid accounted for 21.0% and 18.2% of total spending, respectively.

Health Coverage by Payor 2016
Percentage of Total Population



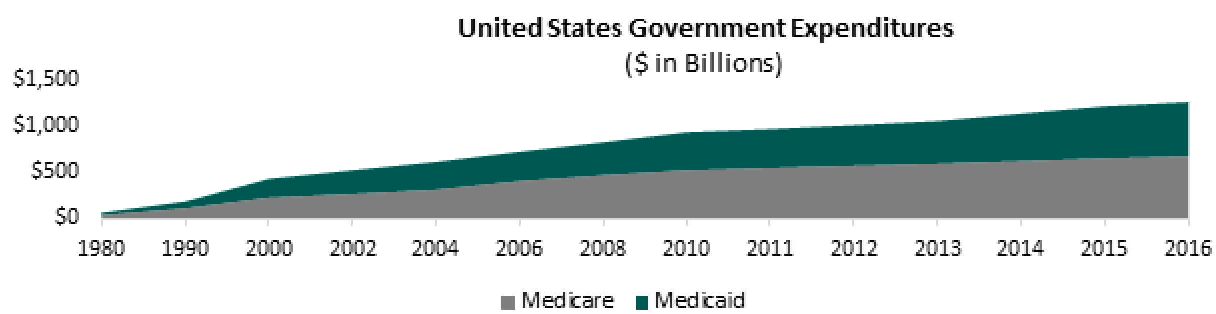
National Healthcare Expenditures by Payor 2016
Total 2016 Spending $3.3 Trillion



Government Funding

During 2016 Medicare provided federal health insurance for approximately 57.1 million[1] people who are elderly, disabled, have end-stage renal disease, or amyotrophic lateral sclerosis (also known as Lou Gehrig's disease). Individuals become eligible for Medicare on the basis of age when they reach 65 while disabled individuals become eligible for Medicare 24 months after they become eligible for benefits under the Social Security Disability Insurance program. Since 1980, Medicare spending has grown 8.4% compounded annually from approximately $37.4 billion in 1980 to approximately $672.1 billion in 2016. More recently total Medicare spending growth has slowed, increasing 4.4% compounded annually from $519.8 billion in 2010 to $672.1 billion in 2016.

Medicaid is a joint federal–state program that pays for healthcare services for a variety of low-income individuals. The Medicaid program, created in 1965 by the same legislation that created Medicare, replaced an earlier program of federal grants given to states to provide medical care to low income residents. As of 2016, approximately 75.0 million[2] people were enrolled in the Medicaid program. It should be noted that certain individuals, often referred to as "dual-eligible," are covered by both Medicaid and Medicare. Since 1980, Medicaid spending has grown 9.0% compounded annually from approximately $26.0 billion in 1980 to approximately $582.4 billion in 2016[3]. More recently Medicaid expenditures increased 8.3% compounded annually from $458.9 billion in 2013 to $582.4 billion in 2016 due to the expansion of coverage resulting from The Patient Protection and Affordable Care Act.



Healthcare Real Estate

According to the 2017 Medical Office Real Estate analysis/presentation by Costar, the medical office market has been resilient in the past year and healthcare job growth/tenant demand is still strong. The rise of interest rates in 2017 did not result in the increase in cap rates that many projected early in 2017. Some investor surveys illustrated an overall decrease of five to ten basis points within the medical office sector during 2017, with the market for core assets being particularly competitive. The national average vacancy rate for investor owned medical office space was approximately 7.6% in the 4th quarter of 2017, which is significantly lower when compared to its peak in 2009 at approximately 9.6%. Medical office rents have been rising steadily over the past year. This is particularly true for well located, good 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. Additionally, according to CBRE, "2017 was a record-breaking year for medical office sales with volumes totaling $10.2 billion".

As more care has moved to outpatient settings, a greater percentage of real estate assets have become targets of investors, as outpatient buildings tend to attract a larger buyer pool. Foreign capital has also increasingly invested in U.S. healthcare real estate assets; JLL reported that $2.6 billion of Chinese capital was invested in North American healthcare real estate in 2016. With healthcare delivery changing rapidly and downward pressure on margins, some systems have elected to monetize their real estate assets in an effort to unlock capital.[7] Conversely, other systems have pursued "reverse monetizations", where the hospital acquires real estate previously sold to a third-party investor in a sale/leaseback transaction. A recent example of a reverse monetization occurred in late-2017 when Aurora Healthcare acquired $433 million of real estate that Aurora had previously sold to Welltower.[8]

Real estate investors continue to search for yield, and overall demographic trends which should drive continued increases in healthcare consumption remain unchanged. After 2016 brought the industry's largest single sale/leaseback transaction (CHI's sale of 52 MOBs to Physicians Realty Trust for $724.9 million)[9], 2017 saw Duke Realty (NYSE: DRE) sell its entire MOB portfolio and platform to Healthcare Trust of America, Inc. (NYSE: HTA) for up to $2.75 billion[10], which industry sources reported as representing a cap rate between 4.75% and 5.25%.[11] Additionally, for the first time in a single year, two individual real estate assets sold at over $200 million in 2017: Physicians Realty Trust (NYSE: DOC) acquired the 458,396-square-foot Baylor Sammons Cancer Center for $290 million (with a year one unlevered cash yield of 4.7%) and Easterly Government Properties (NYSE: DEA) acquired the 327,614-square-foot VA Ambulatory Care Center in Loma Linda, CA (which is 100% leased to the VA through 2036) for $212.5 million. In October 2017, Bentall Kennedy announced that it would sell its 1.4-million-square-foot MOB portfolio, and some experts have projected the sale price at $600 million.

Cap rates have remained compressed, with a 4th Quarter 2017 average of 6.67%[12]; by some industry metrics, MOB cap rates have dropped below general office cap rates for the first time since 2010. The following two charts compare the historical cap rates and price per square foot of medical office buildings in the United States.

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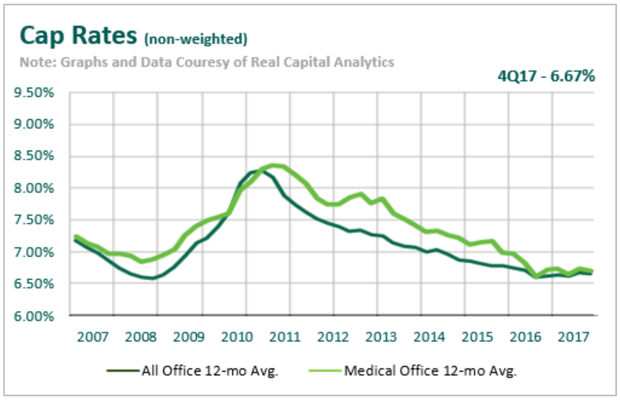
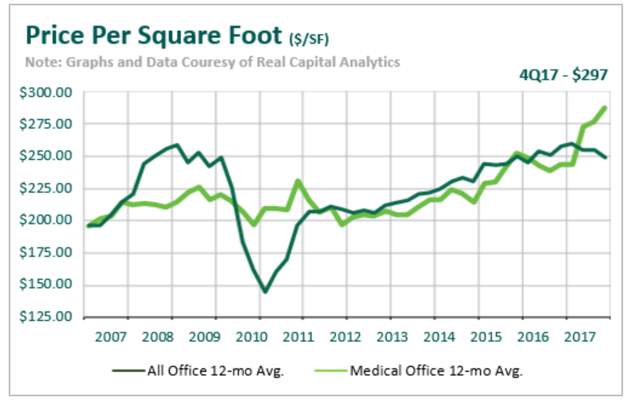
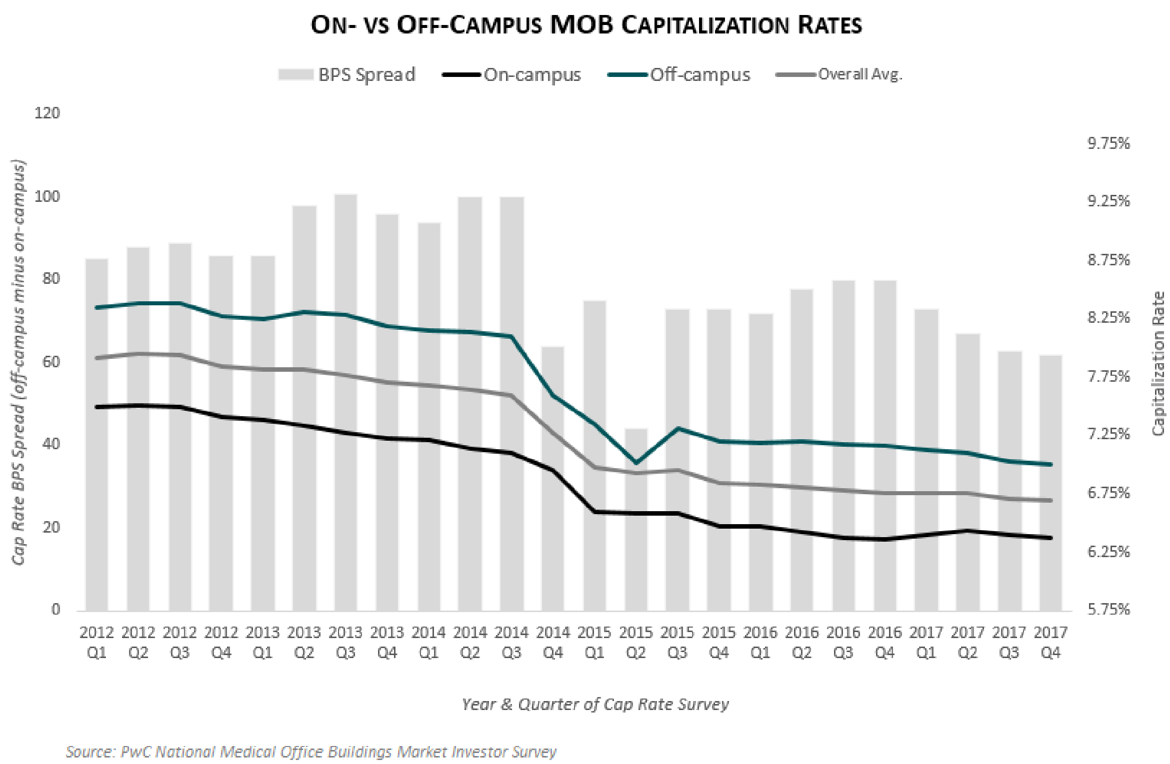
[7] https://www.beckershospitalreview.com/hospital-transactions-and-valuation/6-key-trends-affecting-healthcare-real-estate-in-2018.html
[8] http://wolfmediausa.com/2018/02/14/transactions-wisconsin-system-buys-18-properties-it-was-leasing/
[9] https://www.beckershospitalreview.com/hospital-transactions-and-valuation/physicians-realty-trust-discloses-725m-deal-with-chi-6-things-to-know.html
[10] http://mobscene.revistamed.com/hta-duke-realty-deal-ripple-effects/
[11] http://wolfmediausa.com/2017/06/25/cover-story-four-ways-this-deal-changes-things/
[12] CBRE Winter 2018 MOB Newsletter





Source: CBRE Winter 2018 Newsletter

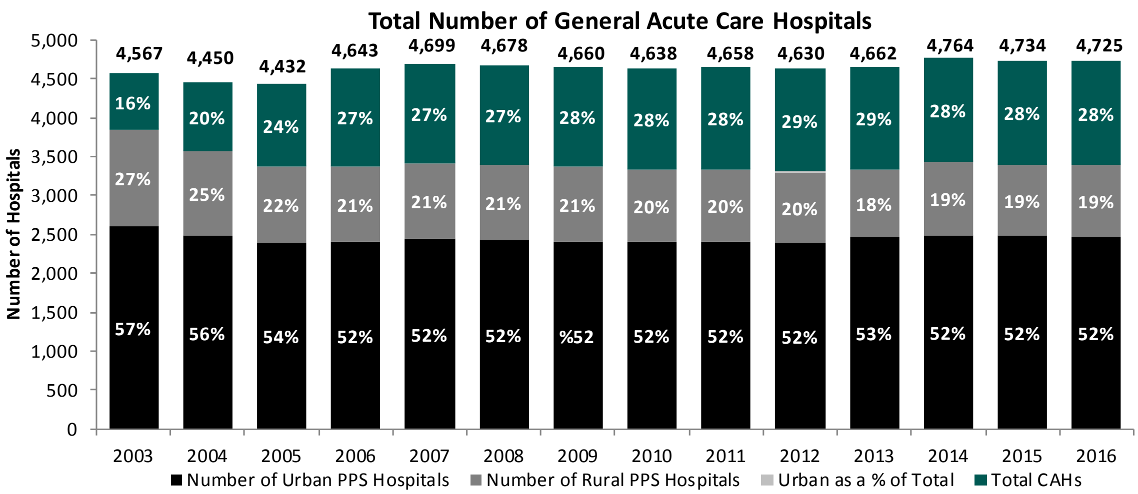
Overall capitalization rates (since 1st Quarter 2012) in the medical office market are profiled in the following chart (with delineation between on- vs. off-campus cap rates). Additional industry specific cap rate information will be presented (as applicable) within the *Valuation* sections of this report.



INDUSTRY OVERVIEW: ACUTE CARE HOSPITAL

General Acute Care Hospitals

General acute care hospitals diagnose, treat, and care for patients with a wide range of conditions including severe episodes of illness resulting from disease or trauma. As of 2016 there were approximately 4,725 general acute care hospitals in the United States excluding specialty hospitals. The total number of hospitals has remained relatively flat over the past 10 years, increasing slightly from 4,567 in 2003 to 4,725 in 2016. Of the total hospitals, approximately 53% are located in urban areas, while the remaining 47% of hospitals serve rural communities. The rural hospitals are divided into two categories, rural hospitals that are paid under a Prospective Payment System ("PPS") and rural hospitals that are designated as a critical access hospital ("CAH") which are reimbursed under a different methodology. As of 2016 rural PPS hospitals and CAHs accounted for approximately 28.0% and 19.0%, respectively, of the total acute care hospitals.

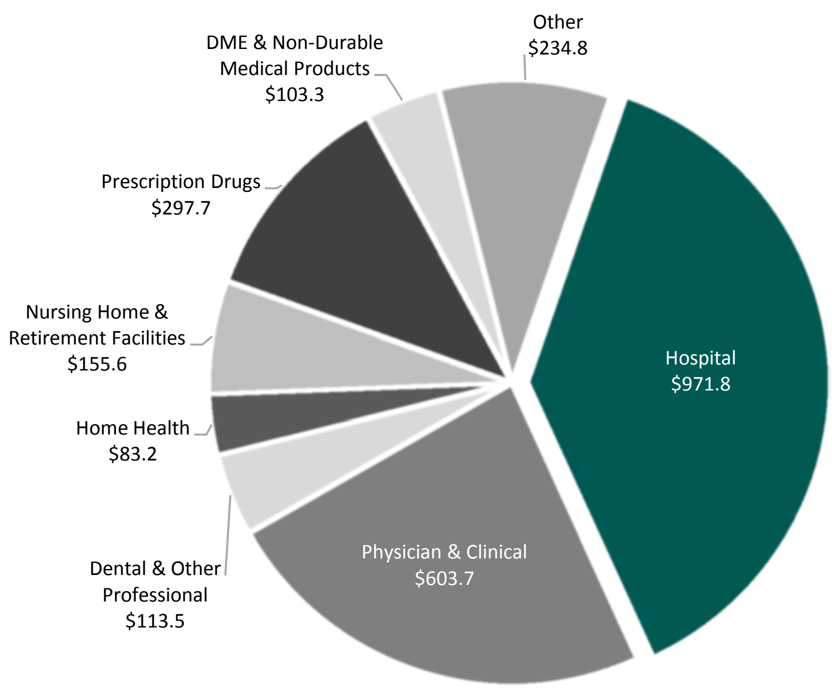


Source: 2003 through 2013 hospital count from MedPAC Data Book, 2014 through 2016 from Medicare Provider of Services File. Chart

Hospital Spending

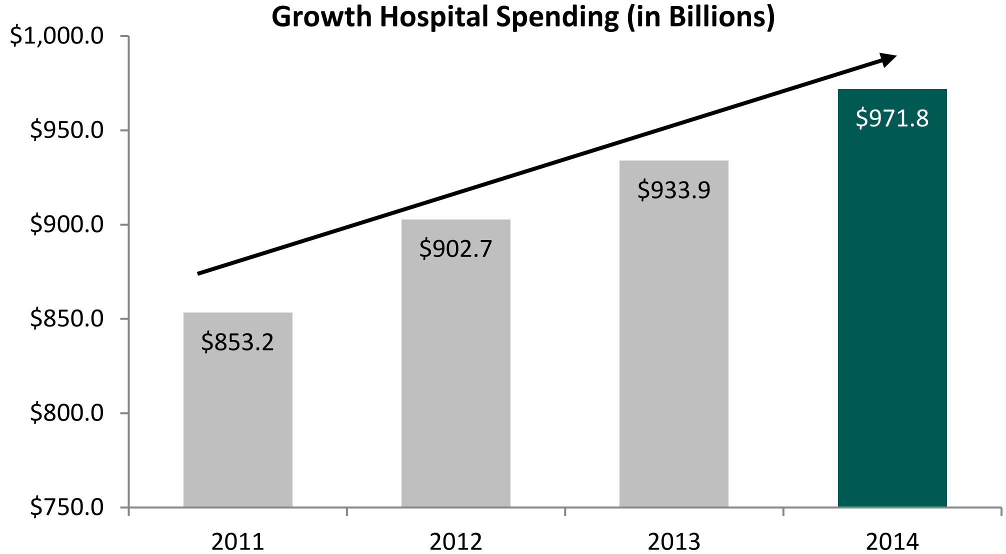
According to the national health expenditure data published by CMS, spending on hospital services accounted for the largest percentage of total personal health expenditures. During 2014 total expenditures on hospital services were approximately $971.8 billion or approximately 37.9% of total national personal health care expenditures. Total hospital spending has increased 4.4% compounded annually from $853.2 billion in 2011 to $971.8 billion in 2014. The growth in hospital spending has accounted for a significant portion of growth in total national healthcare expenditures in recent years.

Personal Healthcare Expenditures by Category 2014 (in Billions)
Total 2014 Spending $2.6 Trillion



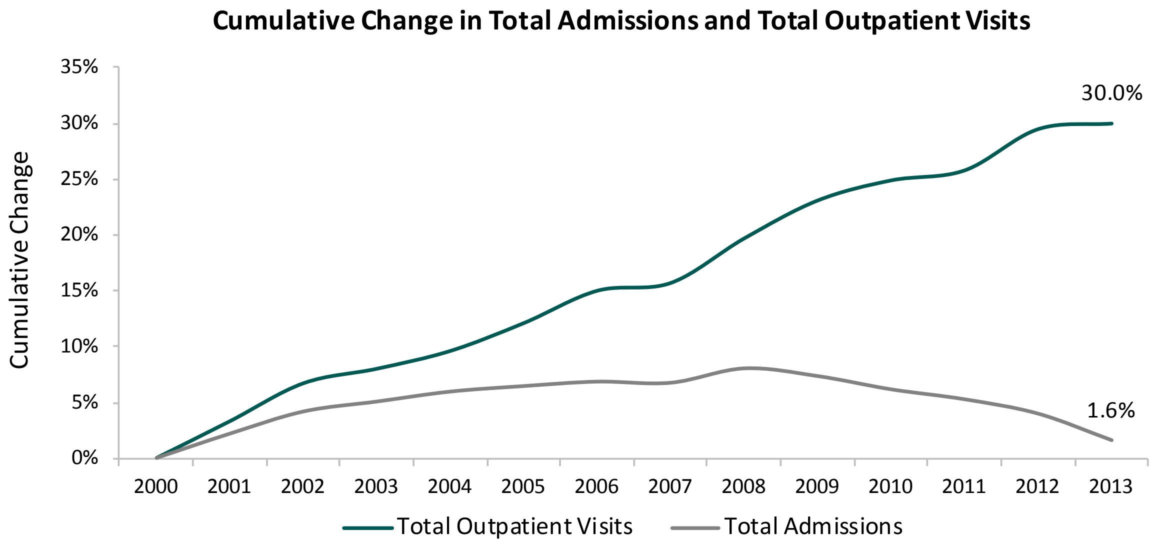
Source: CMS

Growth Hospital Spending (in Billions)



Utilization Trends

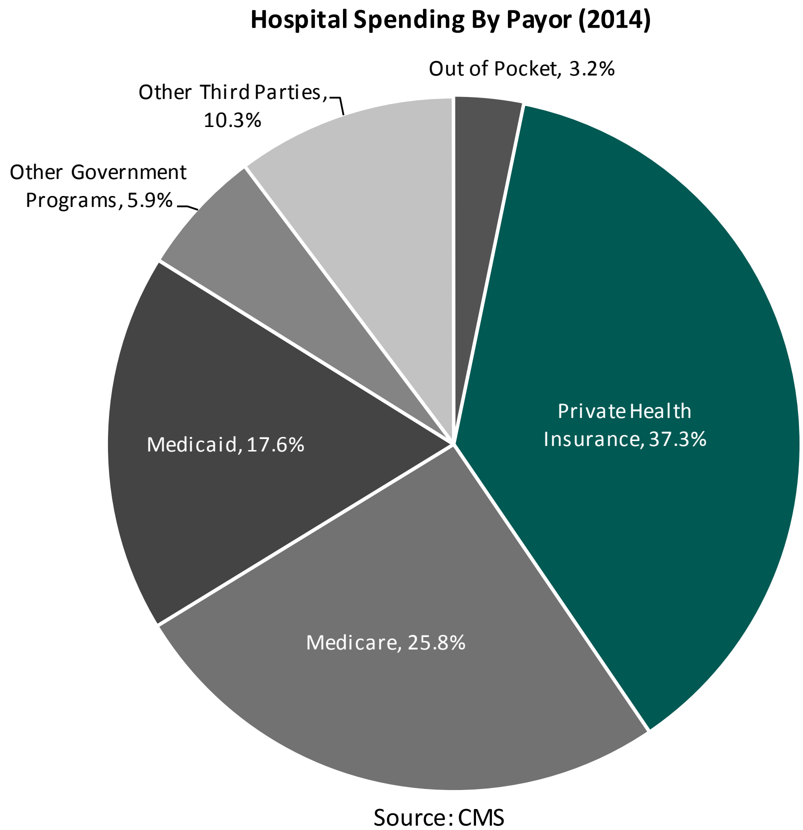
As mentioned previously, acute care hospitals provide a variety of inpatient and outpatient services. According to the American Hospital Association, the total number of outpatient visits has increased 30.0% cumulatively from 2000 to 2013. Over the same time period, cumulative total inpatient admissions have increased just 1.6%. Total inpatient admissions have declined every year since 2008. These volume trends are the result of an increased migration of services from the inpatient setting to the outpatient setting due to technological advances and pressure from payors to reduce costs.



Source: American Hospital Association as reported in the MedPAC Data Book, June 2015

Payor Mix

Presented in the chart below is the 2014 hospital spending by payor. As illustrated in the chart the below, hospitals spending was comprised primarily of private health insurance, Medicare, and Medicaid which accounted for approximately 37.3%, 25.8%, and 17.6%, respectively of the total 2014 hospital spending. Payment rates from private health insurers are negotiated with the individual payors and typically are paid a predetermined rate per diagnosis, per-diem, discount of charges, and other similar contractual arrangements. The following pages give additional detail on the Medicare reimbursement methodology.



Healthcare Reform

The Patient Protection and Accountable Care Act ("PPACA") and the Health Care and Education Reconciliation Act, signed into law on March 23, 2010, has significantly changed the way that healthcare services in the United States are covered, delivered, and reimbursed. The overall goal of this comprehensive legislation is to extend health coverage to millions of uninsured legal U.S. residents through a combination of private sector health insurance reforms and public program expansion. In order to fund the expansion of insurance coverage, PPACA contains measures designed to promote quality and cost efficiency in health care delivery in order to generate budgetary savings for the Medicare & Medicaid programs. The statutes and regulations of the PPACA have been the subject of various administrative appeals and lawsuits, however some of the key provisions of the legislation include:

Individual Mandate: The legislation contains an "Individual Mandate" which requires most Americans to maintain "minimum essential" health insurance coverage. Those that do not comply with the mandate will be required to make a "shared responsibility payment" to the federal government in the form of a tax penalty. The tax penalty for non-exempt individuals without health coverage in 2014 was the greater of 1.0% of income or $95 per individual which will increase to 2.5% of income or $695 per individual by 2016. For individuals under the age of 18 the tax penalty is reduced 50%.

Health Exchanges: To assist individuals who are not exempt from the individual mandate and who do not receive health insurance through an employer or government program in obtaining insurance coverage, PPACA established health exchanges. Health exchanges are government regulated organizations which provide competitive markets for buying health insurance for individuals and small employers. Certain states have established their own health exchanges while other states have chosen to utilize the federal government's health insurance exchange. Individuals who purchase a plan through the exchange may be eligible for a premium credit or cost sharing subsidy.

Employer Mandate: The employer mandate provision of PPACA requires the imposition of penalties on employers with over 50 employees that do not offer affordable health insurance to employees working 30 or more hours per week. In February of 2014, the implementation of the employer mandate was delayed until January 1, 2016 for companies with 50 to 100 employees. For companies with more than 100 employees, the percentage of full-time workers required to be covered was reduced to 70% in 2014 (the original requirement was 95%). Affordable health insurance is defined as premiums of no more than 9.5% of an employee's income and the employer must pay 60% of the actuarial value of a worker's coverage. Companies that fail to comply with the employer mandate can face fines of up to $2,000 for each employee not covered.

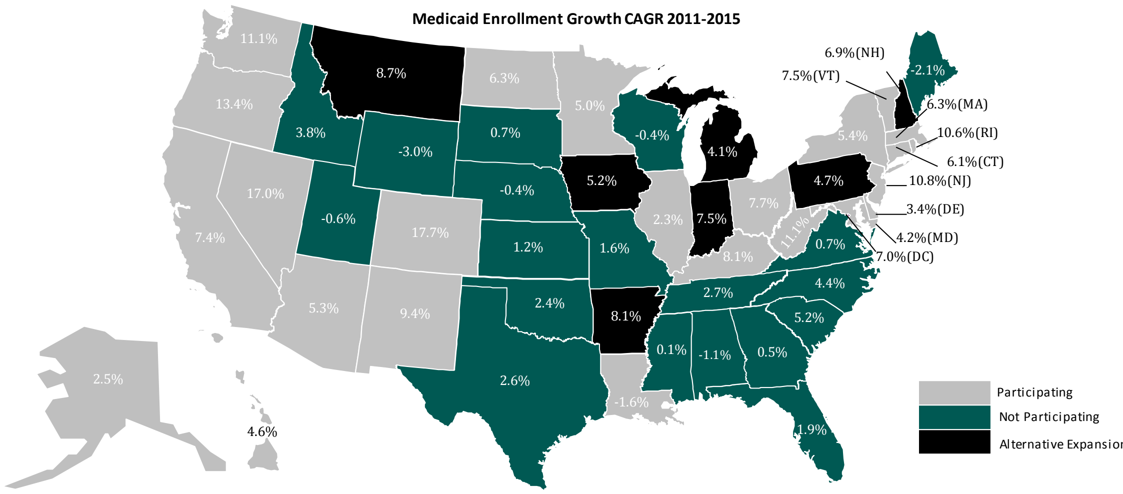
Medicaid Expansion: PPACA extended eligibility under Medicaid to almost all individuals under the age of 65 with incomes up to 138% of the Federal Poverty Limit ("FPL") beginning in 2014. Under PPACA the federal government will pay 100% of the cost of Medicaid expansion in 2014 through 2016. Federal funding will be reduced to 90% over the course of a four year period from 2017 through 2020 and will remain at 90.0% after 2021. Historically, the income levels for Medicaid eligibility were determined by the state and were typically around 106% of the FPL. Initially, PPACA required all states to expand Medicaid coverage or face possible reductions in existing funding for the Medicaid programs. However, the constitutionality of this mandate was challenged in September of 2011 in the court case of the National Federation of Independent Businesses vs. Sebelius (Secretary of the Department of HHS). The Supreme Court ruled that Congress had no authority to require the states to expand their respective Medicaid programs. Congress may offer grants to the individual states for expanding Medicaid coverage but existing Medicaid funding cannot be threatened. As a result of the ruling, the individual states were given the choice to expand Medicaid coverage. Please see the following page for additional detail on the states that elected to expand Medicaid and the resulting increase in enrollment.

PPACA also contains a number of provisions designed to improve the quality and efficiency of medical care provided to Medicare and Medicaid beneficiaries. These provisions include: the prohibition of Medicare or Medicaid funds from paying for the treatment of Hospital-Acquired Conditions ("HACs"); reductions in reimbursement for hospitals with excessive readmissions; creation of the Medicare value-based purchasing program; and the creation of the Center for Medicare & Medicaid Innovation to further explore potential hospital payment bundles.

PPACA also establishes a number of additional health insurance reforms including:

- Establishes a minimum medical loss ratio of 85% for large group plans and 80% for small group plans.
- Health insurers may not establish lifetime or annual limits on the dollar value of benefits.
- May not rescind coverage of any enrollee except in instances of fraud.
- Health insurers must reimburse hospitals for emergency services provided to enrollees without the need for prior authorization and without regard to whether or not there is an existing contract with the provider.
- Extends dependent coverage until the age of 26

Presented in the chart below is the compound annual growth rate ("CAGR") in Medicaid enrollment by state from 2011 through 2015. Medicaid enrollment in states that have chosen to expand Medicaid coverage has increased 6.7% annually from 2011 to 2015. Over the same time period, Medicaid enrollment in states that have not elected to expand Medicaid coverage has increased 1.8% annually from 2011 to 2015.



Annual Growth: 5.1% Expansion States: 6.7% Non-Expansion States: 1.8%

Sources: CMS Enrollment Report 2014-2015, Kaiser Family Foundation

PPACA also contains a number of provisions designed to reduce Medicare and Medicaid program spending. These provisions include negative adjustments to the annual inflation updates for the Medicare fee schedules and reductions to the Medicare and Medicaid Disproportionate Share Hospital Payments ("DSH"). Beginning in 2010, CMS has made negative adjustments to the annual market basket updates for Medicare's IPPS, OPPS, LTACH PPS, and IRF PPS fee schedules. Below is a summary of the proposed changes to the Medicare and Medicaid DSH programs:

Medicare DSH Payments: In addition to payments made under the inpatient prospective payment system for services provided directly to beneficiaries, Medicare makes payments to hospitals which treat a disproportionately high share of low-income patients. Prior to October 31, 2013, Medicare DSH payments were made based on statistical information defined by CMS and calculated as a percentage add-on to the MS-DRG payments. PPACA revised the DSH adjustment effective for discharges occurring on or after October 31, 2013. Under the revised methodology, hospitals will receive 25% of the amount they previously would have received under the pre-PPACA formula. This portion is referred to as the "Empirically Justified Payment".
Hospitals that qualify for the Empirically Justified Payment are also eligible to receive additional payments for uncompensated care, referred to as the "UC DSH Payment". The UC DSH payment comprises the remaining 75% of the total DSH payments that would have been paid under the historical formula. Each eligible hospital will receive a UC DSH payment based on its share of uninsured low income days (which is the sum of the Medicaid days and Medicare SSI days). The total UC DSH payments are calculated at 75% of DSH payments that would have been made under previous methodology and will be reduced annually by the percentage change in uninsured individuals under the age of 65.

Medicaid DSH Payments: In addition, CMS makes Medicaid DSH payments to states who then determine the methodology for distributing the payments to the individual hospitals. Federal law requires that state Medicaid programs make DSH payments to qualifying hospitals that serve a large number of Medicaid and uninsured individuals. On September 13, 2013 CMS issued a final rule related to the Medicaid DSH allotments which called for a $1.1 billion reduction in program spending in FY 2014 and FY 2015. However, the decision not to expand Medicaid coverage by certain states combined with residual coverage gaps, which could leave as many as 30 million people uninsured, have resulted in several delays in the Medicaid DSH cuts. In 2015, Medicaid DSH payments totaled approximately $11.9 billion. Currently, the Medicaid

DSH cuts are set to begin in 2018 with CMS aiming to cut payments by $2.0 billion and increasing to $8.0 billion by 2025. Overall, CMS is targeting a total reduction in Medicaid DSH spending of $43.0 billion from 2018 to 2025, which equates to an average annual reduction in spending of approximately 50%. The cuts will most impact states with low rates of uninsured care.

Hospital Reimbursement - Medicare Overview

Payments for inpatient services are made per the Inpatient Prospective Payment System, known as ("IPPS"). Under the IPPS, hospitals are paid a pre-determined amount for each hospital discharge based on the patient's diagnosis, called a Diagnosis Related Group ("DRG"). DRG payments are based on national averages and not on specific hospitals costs, but DRG payments are adjusted by a predetermined geographic adjustment factor assigned to the hospital's locale. DRG rates are adjusted by an update factor each federal fiscal year, which begins October 1st. The index used to adjust the DRG rates is referred to as the market basket index. This index gives consideration to the inflation experienced by hospitals in purchasing its required goods and services.

The majority of hospital outpatient services furnished to patients are paid by Medicare through the Outpatient Prospective Payment System ("OPPS"). These outpatient services are classified into Ambulatory Payment Classifications ("APCs"). A patient may be assigned into a single or multiple APCs depending on the service ordered during the patient encounter. Medicare pays a set price for each group, regardless of the actual costs incurred in providing care. Medicare sets the payment rate for each APC based on historical median cost data and adjusts the payment for geographic location. Similar to the payments based on DRGs, APC payments are updated each federal fiscal year based on the market basket index. The following services are paid based on other fee schedules established by Medicare: physical, occupational and speech therapy; durable medical equipment; diagnostic laboratory services; and services at freestanding surgical centers and diagnostic facilities.

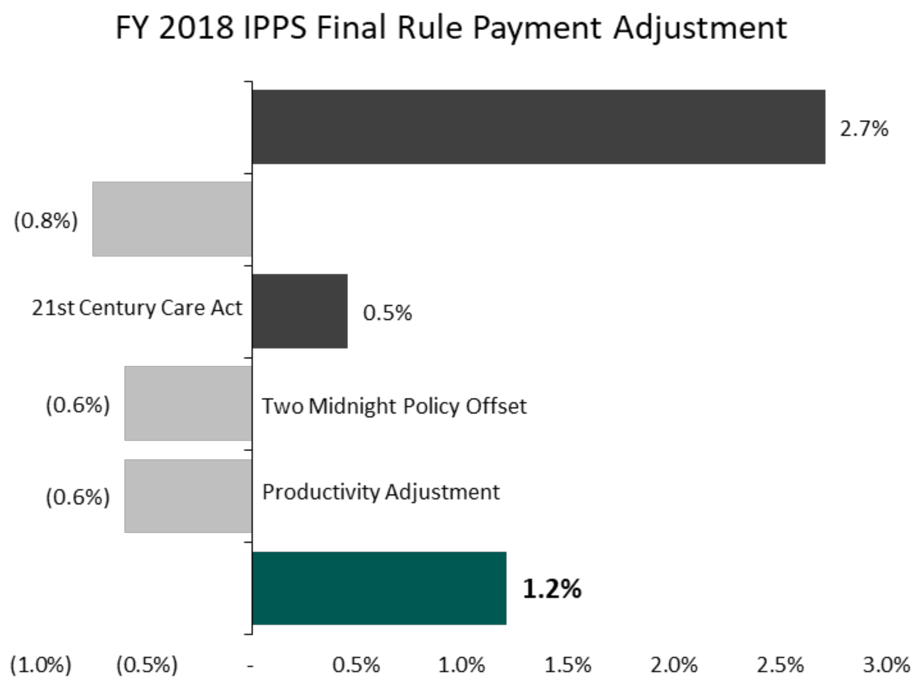
CMS adopted a final rule on August 22, 2007 that established Medicare Severity DRGs ("MS-DRGs"). The rule's goal was to refine the DRG weighting system to fully capture differences in severity of illness among patients, replacing 538 DRGs with 745 MS-DRGs. The switch to the MS-DRG system was intended to be budget neutral in that total Medicare payments to hospitals should not increase or decrease solely due to changes in documentation and coding practices. In order to ensure that improvements in coding and documentation do not lead to an increase in aggregate payments without a corresponding growth in patient severity, CMS will initiate a negative coding adjustment every fiscal year.

IPPS FY 2017 Final Rule

On August 2, 2017 the Centers for Medicare and Medicaid Services released the Inpatient Prospective Payment System fiscal year (FY) 2018 final rule which called for a 1.2% increase in hospital operating payments for hospitals reporting all quality metrics. The increase is slightly below the proposed increase of 1.6%. The increase is the result of the following adjustments:

- Market Basket Update (Inflation) – The hospital market basket update for FY 2018 of positive 2.70%.
- PPACA Reduction – The ACA mandated reduction for FY 2018 of negative 0.75%.
- 21st Century Care Act – One time increase mandated by 21st Century Care Act of positive 0.45%
- Two-Midnight Policy Offset – One time adjustment to offset the previous increase related to Two-Midnight Rule of negative 0.60%.
- Productivity Adjustment – The productivity adjustment for FY 2018 of negative 0.60%.

Sources: HFMA, CMS



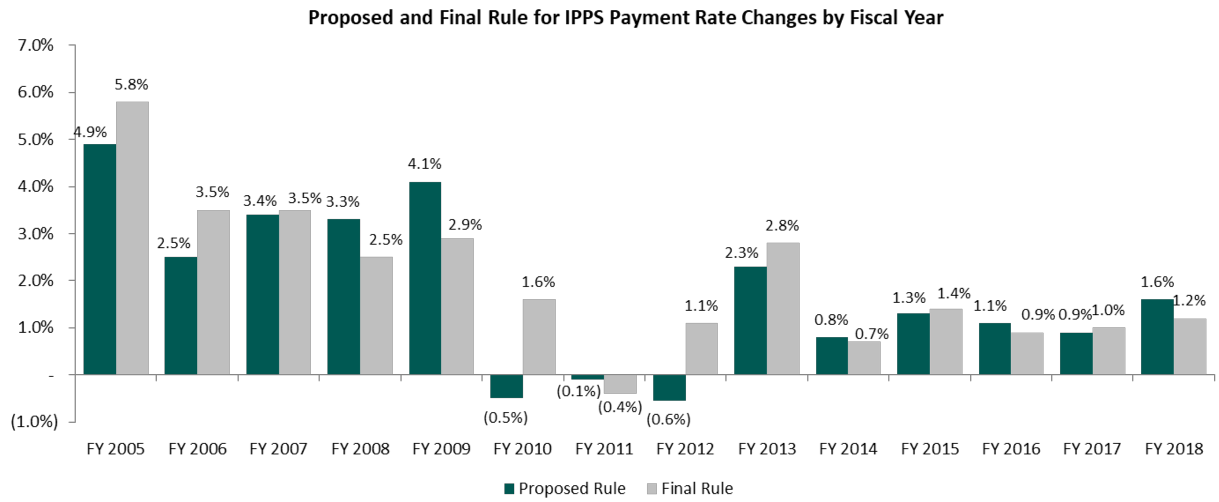
<u>Changes to DSH Payments</u>

Medicare is making two changes to the calculation for uncompensated care payments to DSH hospitals. First, CMS finalized the proposal to incorporate data from the National Health Expenditure Accounts into its estimate of the percentage change in the rate of uninsurance. The percentage change in the rate of uninsurance is utilized in calculating the total amount of uncompensated care payments available to be distributed. In addition, CMS will incorporate uncompensated care cost data from worksheet S-10 of the FY 2014 cost reports, in combination with the Medicare and Medicaid low income days, to determine the distribution of uncompensated care payments to individual hospitals. Based on these changes, CMS estimates that it will distribute roughly $6.8 billion in uncompensated care payments in FY 2018, an increase of approximately $800 million from FY 2017. As required by the ACA and subsequent legislation, this amount is equal to 75% of what otherwise would have been paid as Medicare DSH payments under the original formula, adjusted for the change in uninsured individuals and other factors.

Sources: CMS FY 2018 IPPS Final Rule Fact Sheet

Historical IPPS Reimbursement

Presented in the chart below are the net proposed and final IPPS payment increases for the past thirteen years. Since FY 2010 the average annual payment increase has been approximately 1.1% which is below the average annual increase for the five prior years of 3.6%. The decrease in the annual updates is primarily due to the productivity adjustment mandated by the PPACA and the documentation and coding adjustment mandated by the American Taxpayer Relief Act. It should be noted that payment increases presented below do not reflect any DSH or outlier payment adjustments.



Source: CMS Proposed and Final Rule Factsheets

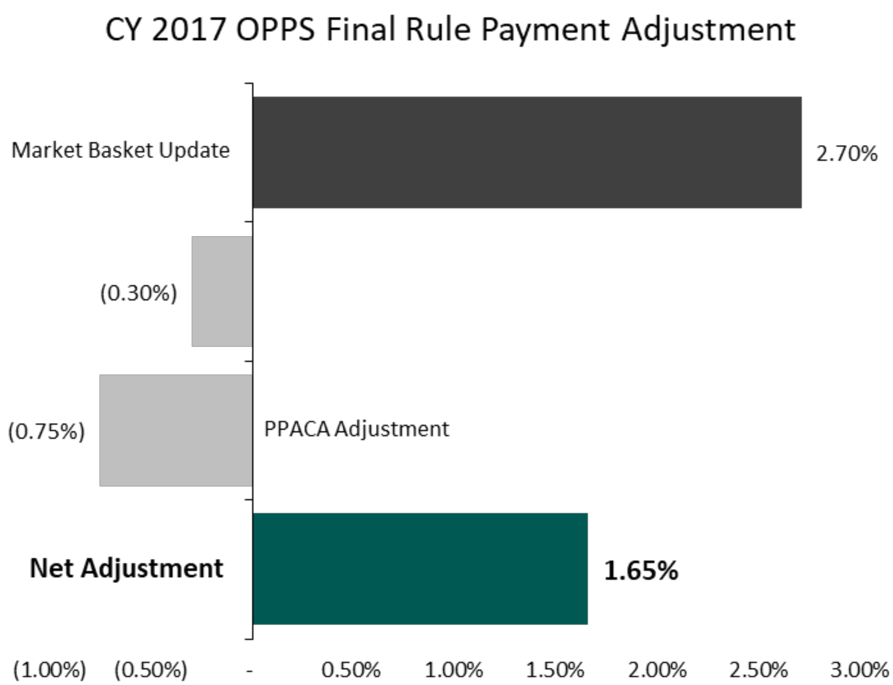
OPPS CY 2017 Final Rule

On November 1, 2016, CMS released the CY 2017 OPPS final payment update which resulted in an increase of 1.65% for hospital outpatient departments ("HOPDs") The increase is the result of the following adjustments:

- <u>Inflation Update</u> – The OPPS market basket update for CY 2017 is positive 2.70%.
- <u>Productivity Adjustment</u> – The multi-factor productivity adjustment for CY 2017 is negative 0.30%.
- <u>PPACA Reduction</u> – The PPACA mandated reduction for CY 2017 is negative 0.75%.

Other miscellaneous payment provisions from the CY 2017 ruling include:

- Certain provider-based departments that started billing under the OPPS on and/or after November 2, 2015 will no longer be paid for most services under the OPPS. On January 1, 2017 these facilities will be reimbursed at a site neutral rate. Services provided in a dedicated emergency department will continue to be paid under the OPPS.



Sources: CMS CY 2017 OPPS Final Rule Fact Sheet

REGIONAL ANALYSIS

The value of real property reflects and is influenced by the interaction of four basic forces that motivate human activity. These forces are divided into four major categories: environmental considerations, governmental controls and regulations, social forces, and economic conditions. The following analysis includes pertinent aspects of the surrounding region as it pertains to the subject properties.

GEOGRAPHIC LOCATION

The City of Palm Springs, California is a resort city that is located in Riverside County in Southern California. Palm Springs is located approximately 130 miles northeast of San Diego and approximately 107 miles east of Los Angeles. Located northwest of Cathedral City and Palm Desert, it is one of nine cities of the Coachella Valley (Palm Springs area). The Coachella Valley extends for approximately 45 miles in Riverside County, southeast from the San Bernardino Mountains to the northern shore of the Salton Sea. It is approximately 15 miles wide along most of its length, bounded on the west by the San Jacinto Mountains and the Santa Rosa Mountains and on the north and east by the Little San Bernardino Mountains. Because the Coachella Valley area is considered a seasonal area, the local population declines to around 200,000 residents in July and then rises to near 800,000 by January. Riverside County's position within the State of California is depicted in the accompanying map.

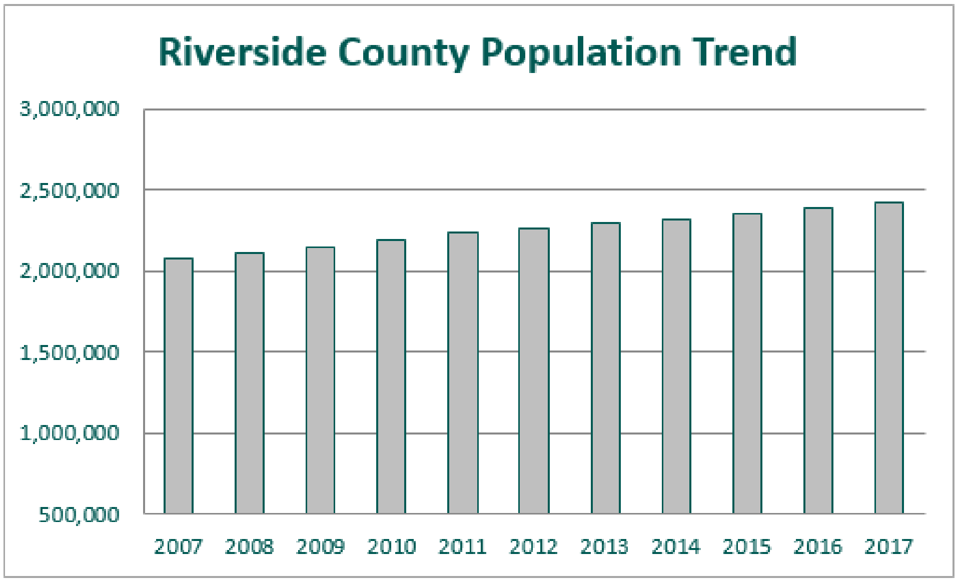
TRANSPORTATION

The Coachella Valley and Riverside County are considered to have reasonable access to the surrounding areas. Interstate Highway 10 ("I-10") runs east-west and extends directly through Riverside County. In total, I-10 runs 2,460 miles from Santa Monica, California to Jacksonville, Florida. I-10 connects the west coast to the east coast as well as the entire southern portion of the United States. Local residents of Rancho Mirage can take I-10 west directly to Los Angeles, California or east to Phoenix, Arizona. Interstate Highway 15 ("I-15") is a major north-south highway connecting the San Bernardino, Riverside, and San Diego Counties. The highway is a major thoroughfare for traffic between San Diego and San Bernardino, as well as between Southern California and Las Vegas, Nevada. Interstate Highway 215 ("I-215") is a 54.5 mile long north-south highway that runs through Riverside County. I-215 is an auxiliary route of I-15, running from Murrieta to San Bernardino. While Interstate Highway 215 connects the city centers of both Riverside and San Bernardino, as I-15 extends to the west through Ontario. State Highway 111 is a north-south highway that extends approximately 130 miles for the U.S./Mexico border to I-10, crossing at White Water. State Highway 111 extends relatively parallel to I-10 in the Coachella Valley and passes through the City of Palm Springs.

Palm Springs International Airport (PSP) is a major public airport in the region, and is located approximately two miles east of downtown Palm Springs. The airport is relatively seasonal with most airport operations occurring in the winter months. The airport covers 940 acres and two runways. In 2017, airport operations totaled approximately 51,810 with a total of approximately 2,100,072 passengers. Overall, the transportation network within Riverside County provides adequate access to the surrounding region.

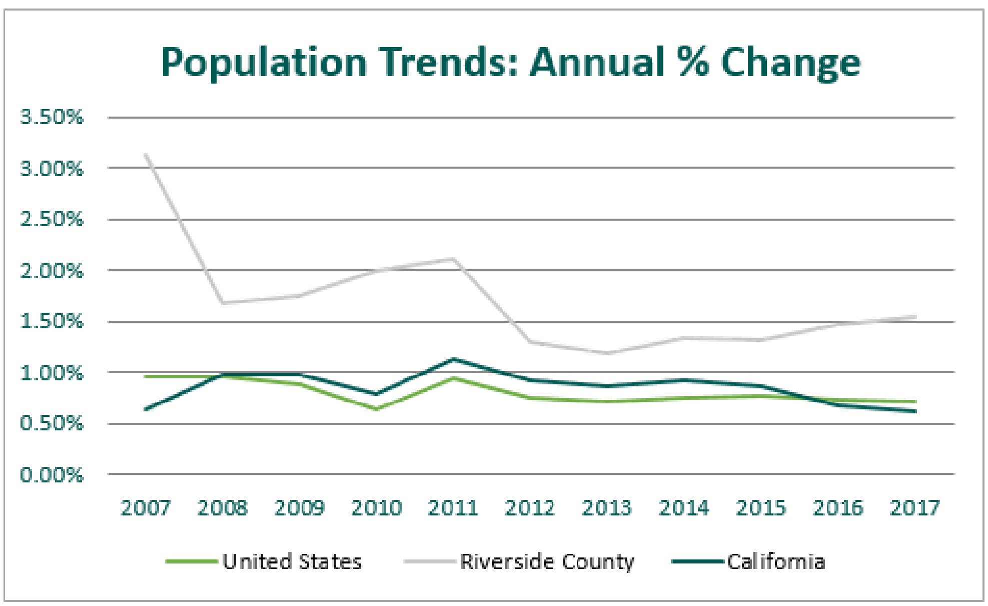
SOCIAL

The primary social trends that directly influence real estate values are related to population. The population in Riverside County has seen steady growth since 2007, with the compounded annual growth rate being 1.42%. As of 2017 (most recent available), Riverside County featured a total population of approximately 2,423,266. The following chart illustrates annual historical population totals for Riverside County.



Source: United States Census Bureau

As illustrated in the preceding chart, Riverside County has seen steady growth in recent years. The following chart compares annual population growth rates for the United States, California, and Riverside County.



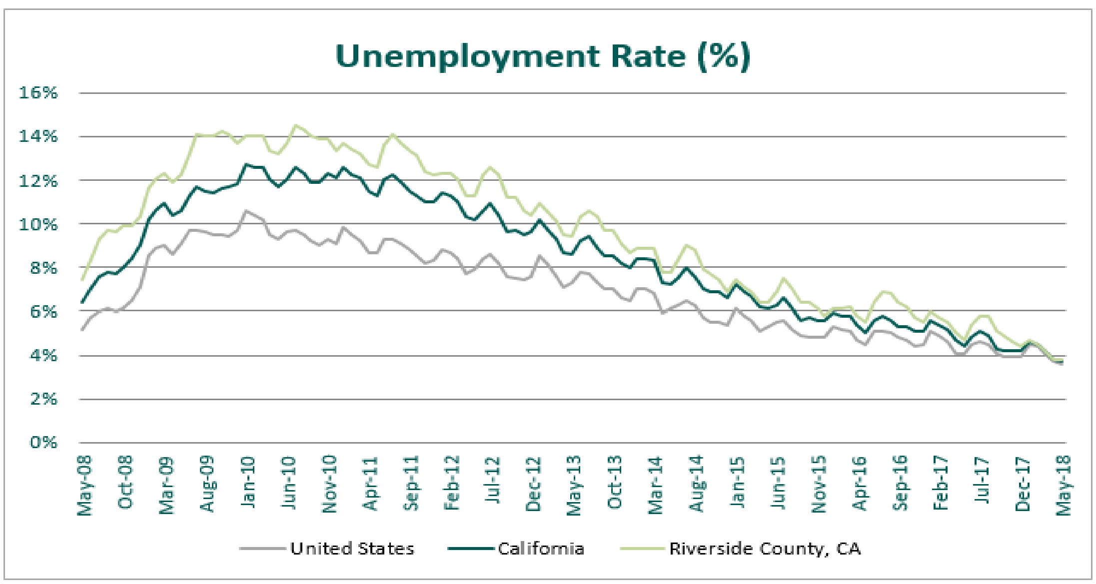
Source: United States Census Bureau

ECONOMIC

Economic conditions influencing the value of the subject properties include labor and employment, the economic base and trends of the region and current economic real estate market conditions. The Riverside County area has a relatively well-diversified economy. As illustrated by the following chart, Riverside County is primarily reliant upon education and healthcare. A current list of the area's top-10 employers, as provided by the Riverside County Economic Development Agency for 2016 (most recent available), is presented in the following table.

Ranking	Employer	Number of Employees
1	County of Riverside	22,538
2	University of California, Riverside	8,686
3	March Air Reserve Base	8,500
4	Amazon	7,500
5	Kaiser Permanente Riverside Medical Center	5,739
6	Corona-Norco Unified School District	5,399
7	Riverside Unified School District	4,236
8	Pechanga Resort & Casino	4,000
9	RUHS - Medical Center	3,876
10	Eisenhower Medical Center	3,665

The unemployment rate in Riverside County has generally been higher than both state and national rates over the last several years; however, they are currently at a very similar level. The following chart illustrates historical unemployment rate trends for Riverside County, California, and the United States (civilian unemployment rate).



Source: U.S. Bureau of Labor Statistics

As noted in the preceding chart, both the State of California and Riverside County have featured unemployment rates above the national rate recently coming close together. As of May 2018 (most recent), Riverside County, California, and the United State unemployment rates (civilian unemployment) were 3.8%, 3.7%, and 3.6%, respectively.

HEALTHCARE

The region features a relatively well-developed healthcare network. The healthcare sector is a major area employment source and has contributed significantly to the area's overall economic growth in recent years. The area's acute care hospitals are well-distributed throughout Riverside County. The table below summarizes the acute care hospitals located within 30 miles of the subject zip code. Revenue data and patient days are sourced from the American Hospital Directory and have not been adjusted.

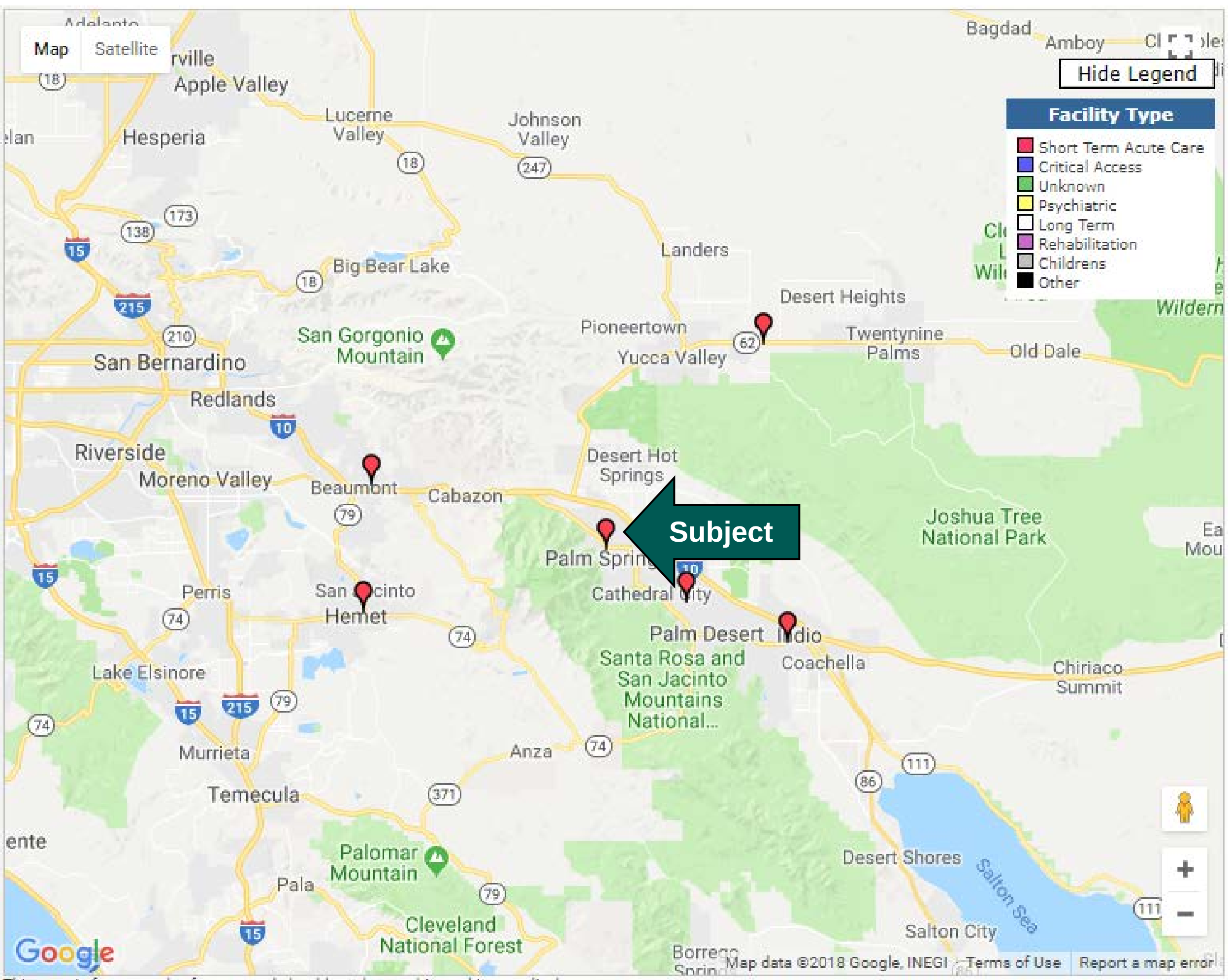
Area Hospital Statistics (Most Recent Annual Reporting Period): 30-Mile Radius from Subject Zip Code

Hospital Name	Beds	City	State	Zip	Gross Revenue	Discharges	Patient Days	Occupancy
Desert Regional Medical Center	373	Palm Springs	CA	92262	$3,588,703,536	18,801	88,344	64.9%
Eisenhower Medical Center	393	Rancho Mirage	CA	92270	$3,557,341,534	19,490	74,799	52.1%
Hemet Valley Medical Center	417	Hemet	CA	92543	$835,723,623	9,953	45,618	30.0%
Hi-Desert Medical Center	179	Joshua Tree	CA	92252	$188,722,025	2,345	7,614	11.7%
John F. Kennedy Memorial Hospital	130	Indio	CA	92201	$900,934,762	6,757	22,060	46.5%
San Gorgonio Memorial Hospital	77	Banning	CA	92220	$320,278,813	3,403	14,319	50.9%
Total	**1,569**				**$9,391,704,293**	**60,749**	**252,754**	**44.1%**

Source: American Hospital Directory (June 2018)

It is noted that the national average occupancy for hospitals, based on MedPac's March 2018 report, was 62% as of 2016. Occupancy remained unchanged from 2015 (62%), but still up from 61% in 2014. The national trend in occupancy rates exemplifies the shift toward outpatient care which has occurred in recent decades. For example, occupancy rates are down from 64% in 2008 and from 77% in 1980. The hospitals depicted in the preceding chart are also displayed on the map shown below.

Map of Acute Care Hospitals within 30-mile Radius of Subject Zip Code



Acute care hospitals have a significant impact on the neighborhoods in which they are located, frequently prompting a variety of both residential and commercial development in the immediate area. As a result, the presence of acute care hospitals often positively impacts commercial real estate values. The subject is the only acute care hospital in Palm Springs.

Within the last several years there have been significant expansions, renovations, and proposed additions to Riverside County's healthcare sector. There are also on and off-campus medical office projects which have recently transacted within close proximity to the subject. Some of these are included in the valuation section of this report. Recent other notable transactions are detailed in the following paragraphs.

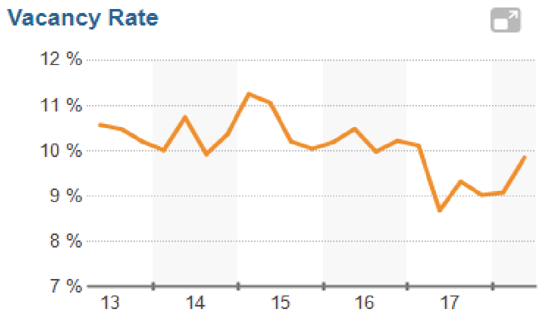
- Kaiser Health has announce plans to build a new medical campus in southwestern Riverside County. Kaiser purchased a 37-acre tract of land in Murrieta, California that will be the site for the new medical campus. The project is currently planned to take place over five phases and 25 years. Phase I included the construction of an 80,000-square-foot medical office building ("MOB") at the cost of approximately $60 million. It was completed in 2017. The plans also call for a 254-bed inpatient hospital with diagnostic treatment facilities that will provide care to the growing population in the area.

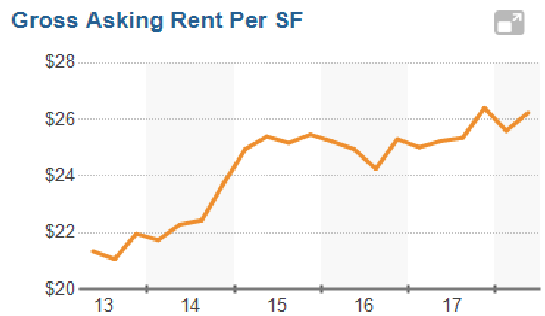
- Riverside Community Hospital recently invested $363 million into a new construction project that was recently completed. The current expansion project features a 250,000-square-foot, seven-story tower, which will add 105 private patient room beds, four additional operating rooms, a new three-story MOB and a new five-level (1,061 parking space) parking garage. At the conclusion of the project, Riverside Community Hospital's total licensed bed count will increase to 478 beds.

As evidenced by the preceding, the healthcare real estate market in Riverside County and the surrounding area continues to grow favorably, with multiple significant transactions, expansions, and proposed additions. The market activity serves as evidence of the Riverside County area healthcare real estate market's attractiveness to outside investors, as well as to the strength of healthcare services being a major driver to the local economy. Continued growth of the area population (including the over 65 age group) have contributed to rising healthcare needs should create continued demand within the healthcare real estate sector. Additionally, declining vacancy rates and generally increasing rental rates within the medical office sector (as illustrated in the Area Medical Office Overview presented on the following page) further exemplify the overall demand present within the area's healthcare real estate sector.

Area Medical Office Market Overview

An analysis of CoStar's database revealed a total medical office inventory of 616 buildings and approximately 8,739,758 square feet in the Coachella Valley area. This analysis also revealed a current vacancy rate of 9.9% and an average gross asking rent of $26.24 per square foot. The accompanying charts (provided by CoStar) illustrate trends in vacancy rates and asking rents for the area medical office market.





We also analyzed available rental data specific to the subject region via Revista's medical database. We analyzed the MOB supply in the vicinity of the subject, examining the square footage of medical office space within a 1-mile, 3-mile, and 5-mile radius of the subject as compared to Riverside, California as a whole. We also analyzed the supply of physicians within these radii. This analysis is presented in the following table. The subject properties' overall locational characteristics will be analyzed within the *Valuation* section of this report.

Medical Office Building Density Analysis

	1-Mile Radius			3-Mile Radius			5-Mile Radius		
	Subject	Riverside, CA	Index	Subject	Riverside, CA	Index	Subject	Riverside, CA	Index
Total MOB Square Feet (SF)	182,954	153,743	1.19	483,448	420,390	1.15	506,148	733,548	0.69
Median Household Income	$49,825	$53,005	0.94	$47,222	$54,909	0.86	$47,019	$56,649	0.83
MOB SF / 1000 ppl	27.9	12.98	2.15	12.0	4.92	2.44	6.5	3.53	1.84
MOB SF / 1000 ppl over 65	102.4	119.1	0.86	46.3	39.2	1.18	29.4	30.3	0.97
MOB SF / 1000 insured ppl	34.5	15.3	2.26	14.2	5.8	2.45	8.1	4.2	1.92
MOB SF / Doc	938	3,026	0.31	1,745	1,837	0.95	1,739	1,672	1.04
MOB SF / Provider	715	1,276	0.56	1,026	778	1.32	992	735	1.35
Docs / 1000 ppl	29.8	8.4	3.54	6.9	3.8	1.83	3.8	2.6	1.45
Docs / 1000 ppl over 65	109.2	69.6	1.57	26.5	29.4	0.90	16.9	21.9	0.77
Providers / 1000 ppl	39.1	14.9	2.62	11.7	7.4	1.59	6.6	5.4	1.22
Providers / 1000 ppl over 65	143.3	129.1	1.11	45.1	58.6	0.77	29.7	46.4	0.64

Notes:

1) Data sourced from Revista. The index is the "subject" value divided by the average for the comparison group.

2) Comparison group is all MOBs in Riverside, CA.

Conclusion

In summary, the City of Palm Springs, California is situated in Southern California and is a part of Riverside County. Palm Springs is located approximately 130 miles northeast of San Diego and approximately 107 miles east of Los Angeles. The area has seen steady population growth over the last decade, and the unemployment rate has generally trended down over the last several years. Coachella Valley offers a resort style community and residents can easily access the Los Angeles metropolitan area to the northwest via I-10. The area healthcare market is well-developed, with significant healthcare facilities located within the region. However, the subject properties represent the only acute care hospital in Palm Springs. As noted earlier, the healthcare industry is a major employer in the area. Short-term forecast for the area is for moderate growth.

NEIGHBORHOOD ANALYSIS

The subject properties are positioned in Palm Springs, California. For the purposes of this analysis, the neighborhood for the subject properties is generally delineated by East Mel Avenue to the north, East Tachevah Drive to the south, North Via Miraleste to the east, and North Indian Canyon Drive to the west. A map illustrating the subject properties' position in the area is presented below.

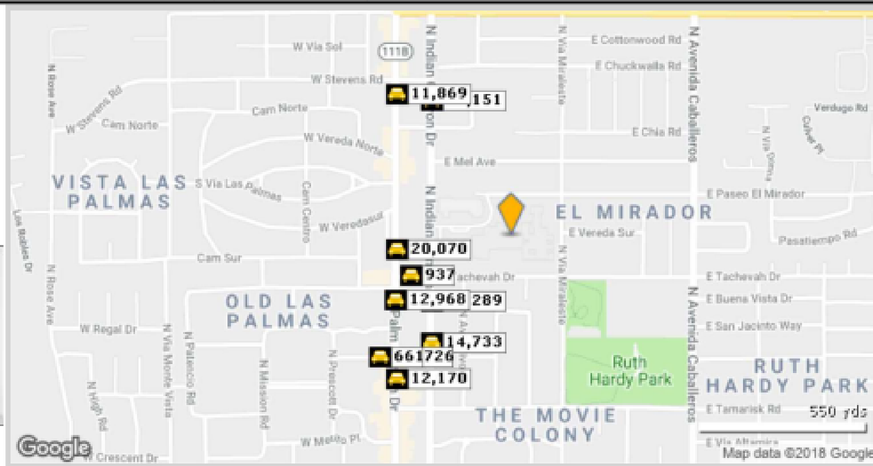
TRANSPORTATION & ACCESSIBILITY

The subject properties are located north of East Tachevah Drive between North Via Miraleste and North Indian Canyon Drive (except the Wellness Park). Palm Springs is accessed from surrounding regions primarily Interstate Highway 10 (“I-10”), and State Route 111. I-10 extends northwest-southeast, connecting Palm Springs to Whitewater, California to the northeast and Coachella, California to the southwest. State Route 111 runs northeast-southwest, connecting Palm Springs to Snow Creek, California to the northwest and Indio, California to the southeast. Traffic counts within the immediate vicinity of the subject properties, provided by CoStar, are presented on the following table.

Traffic Count Report

Desert Regional Medical Center
1150 N Indian Canyon Dr, Palm Springs, CA 92262

Building Type:	**Health Care**
Class:	**-**
RBA:	**394,564 SF**
Typical Floor:	**17,104 SF**
Total Available:	**0 SF**
% Leased:	**0%**
Rent/SF/Yr:	**-**



	Street	Cross Street	Cross Str Dist	Count Year	Avg Daily Volume	Volume Type	Miles from Subject Prop
1	N Indian Cyn Dr	E Tachevah Dr	0.05 N	2017	14,289	MPSI	.19
2	E Tachevah Dr	N Palm Canyon Dr	0.03 W	2014	937	MPSI	.20
3	N Palm Canyon Dr	E Tachevah Dr	0.05 S	2014	20,070	MPSI	.22
4	N Palm Canyon Dr	W Via Lola	0.02 N	2017	12,968	MPSI	.25
5	N Indian Cyn Dr	W el Alameda	0.03 S	2017	14,733	MPSI	.25
6	W el Alameda	N Palm Canyon Dr	0.03 W	2014	726	MPSI	.30
7	N Indian Cyn Dr	E Stevens Rd	0.01 N	2017	17,151	MPSI	.30
8	W el Alameda	N Palm Canyon Dr	0.03 E	2014	661	MPSI	.33
9	N Palm Canyon Dr	W el Alameda	0.04 N	2014	12,170	MPSI	.34
10	N Palm Canyon Dr	W Stevens Rd	0.03 N	2017	11,869	MPSI	.35

Immediate Surroundings

The subject properties' immediately adjoining uses are as follows:

North: Directly north of the subject is E. Paseo El Mirador (splits the subject's main parcel from some of its outer parking lot parcels) and E. Mel Avenue. It appears E. Paseo El Mirador is now an internal hospital street. Along those streets are Rancho El Mirador and Palm Springs Manor, multi-family complexes.

South: Directly south of the hospital is the medical office development, Las Palmas Medical Plaza (developed by the hospital district) and small commercial development.

East: To east of the subject campus is N. Via Miraleste. Across this street is single family residences.

West: To the west of the subject properties is N. Indian Canyon Drive and N. Palm Canyon Drive. These two streets are mostly surrounded by small, freestanding commercial development.

NEIGHBORHOOD TRENDS

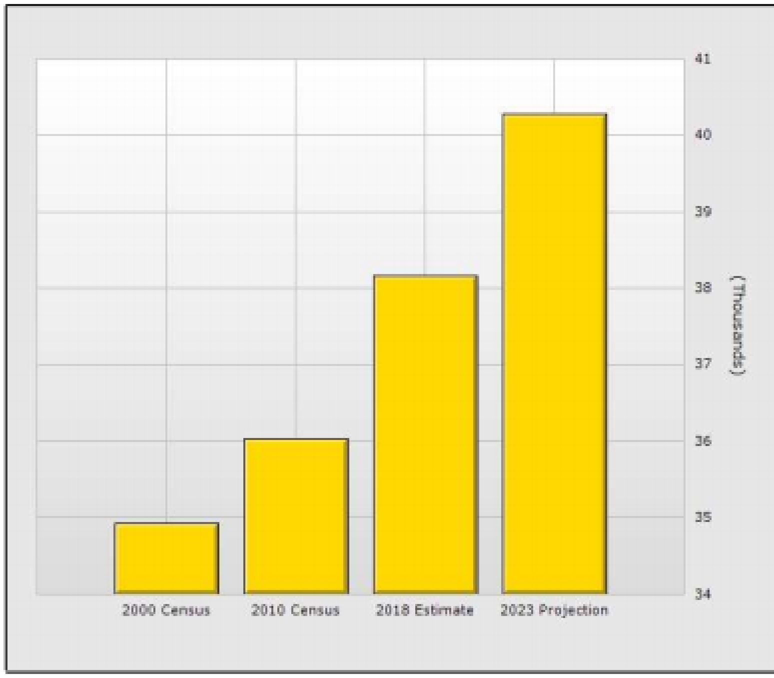
The subject properties are situated in southeast Palm Springs, California. Within a three-mile radius of the subject properties, population is projected to increase by 5.53% over the next five years. The median year built for single-family residential homes within a three-mile radius is 1975, while the median home value is $432,162. The median household income is $48,641. Comparatively, the national median household income was $59,039 as of September 2017 (according to the U.S. Census Bureau, most recent available), while the national median home value was $215,600 and the median home value in California (according to Zillow) was $539,000 as of May 2018.

NEIGHBORHOOD DEMOGRAPHICS

Pertinent demographics for the subject neighborhood, including population trends, median household income, and median home values, are depicted on the chart below.

Population for 3 Mile Radius

1150 N Indian Canyon Dr, Palm Springs, CA 92262



Population	1 Mile	3 Mile	5 Mile
2018 Total Population:	7,764	38,162	81,847
2023 Population:	8,233	40,271	86,698
Pop Growth 2018-2023:	6.04%	5.53%	5.93%
Average Age:	50.70	47.50	44.20
Households			
2018 Total Households:	4,069	18,271	33,764
HH Growth 2018-2023:	5.53%	4.83%	5.57%
Median Household Inc:	$53,021	$48,641	$49,198
Avg Household Size:	1.80	2.00	2.30
2018 Avg HH Vehicles:	1.00	1.00	2.00
Housing			
Median Home Value:	$481,359	$432,162	$374,632
Median Year Built:	1974	1975	1979

Within the healthcare real estate sector, a location with a high over-65 population is generally considered desirable, as older residents tend to consume more healthcare per capita. As such, pertinent age-related demographics, presented in one-mile, three-mile and five-mile demographic rings, as obtained from CoStar, are located on the following chart. According to the United States Census Bureau, 14.90% of the U.S. population is over-65; comparatively, 27.72% of the population within a three-mile radius of the subject is over-65.

Demographic Detail Report

Desert Regional Medical Center

1150 N Indian Canyon Dr, Palm Springs, CA 92262

Building Type:	**Health Care**	Total Available:	**0 SF**
Class:	**-**	% Leased:	**0%**
RBA:	**394,564 SF**	Rent/SF/Yr:	**-**
Typical Floor:	**17,104 SF**		

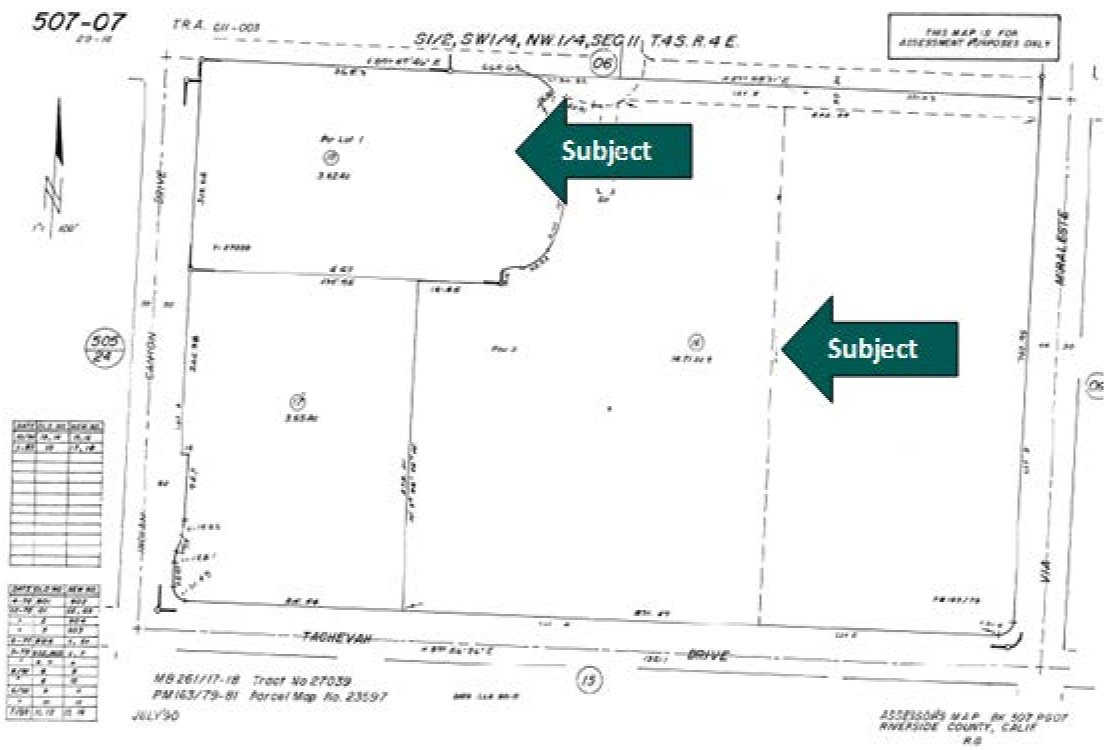
Radius	1 Mile		3 Mile		5 Mile	
Population						
2023 Projection	8,233		40,271		86,698	
2018 Estimate	7,764		38,162		81,847	
2010 Census	7,106		36,031		75,425	
Growth 2018 - 2023	6.04%		5.53%		5.93%	
Growth 2010 - 2018	9.26%		5.91%		8.51%	
2018 Population by Age	**7,764**		**38,162**		**81,847**	
Age 0 - 4	275	3.54%	1,657	4.34%	4,123	5.04%
Age 5 - 9	267	3.44%	1,667	4.37%	4,205	5.14%
Age 10 - 14	260	3.35%	1,615	4.23%	4,250	5.19%
Age 15 - 19	260	3.35%	1,582	4.15%	4,316	5.27%
Age 20 - 24	270	3.48%	1,612	4.22%	4,356	5.32%
Age 25 - 29	286	3.68%	1,718	4.50%	4,410	5.39%
Age 30 - 34	313	4.03%	1,840	4.82%	4,436	5.42%
Age 35 - 39	330	4.25%	1,874	4.91%	4,359	5.33%
Age 40 - 44	373	4.80%	1,997	5.23%	4,499	5.50%
Age 45 - 49	487	6.27%	2,420	6.34%	5,127	6.26%
Age 50 - 54	652	8.40%	2,977	7.80%	5,911	7.22%
Age 55 - 59	760	9.79%	3,330	8.73%	6,294	7.69%
Age 60 - 64	769	9.90%	3,296	8.64%	6,077	7.42%
Age 65 - 69	736	9.48%	3,113	8.16%	5,717	6.98%
Age 70 - 74	627	8.08%	2,630	6.89%	4,845	5.92%
Age 75 - 79	464	5.98%	1,971	5.16%	3,665	4.48%
Age 80 - 84	315	4.06%	1,372	3.60%	2,546	3.11%
Age 85+	318	4.10%	1,491	3.91%	2,713	3.31%
Age 65+	2,460	31.68%	10,577	27.72%	19,486	23.81%
Median Age	**55.70**		**51.80**		**46.90**	
Average Age	**50.70**		**47.50**		**44.20**	

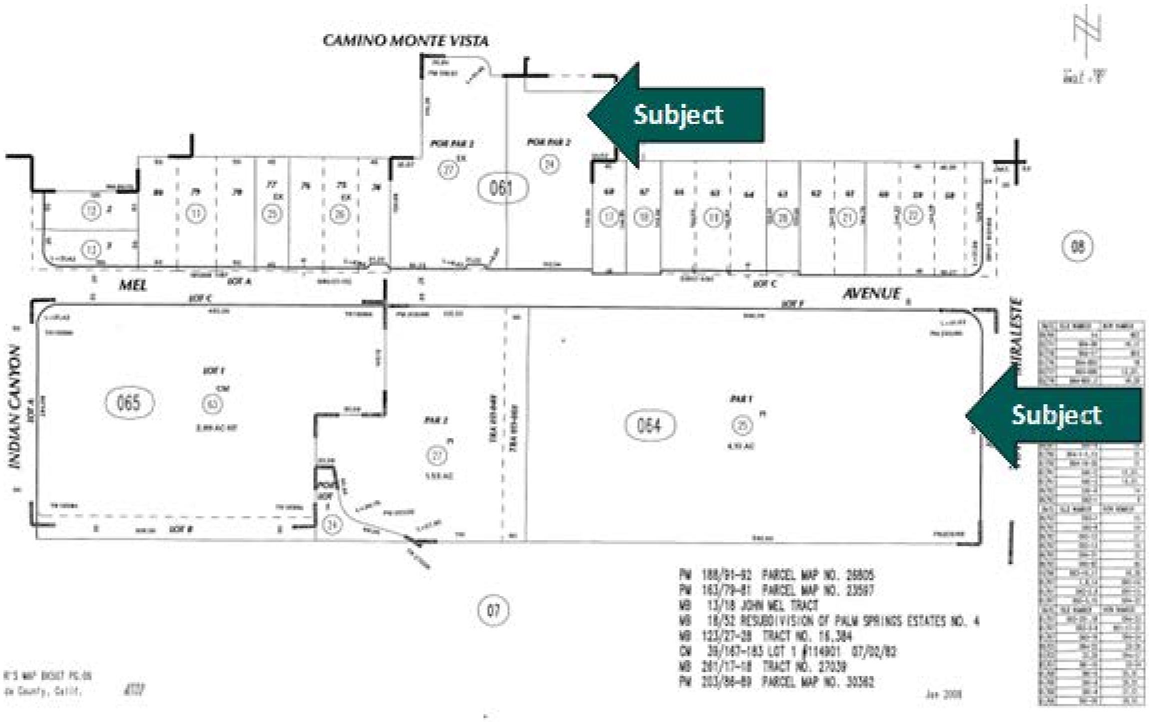
SITE DESCRIPTION

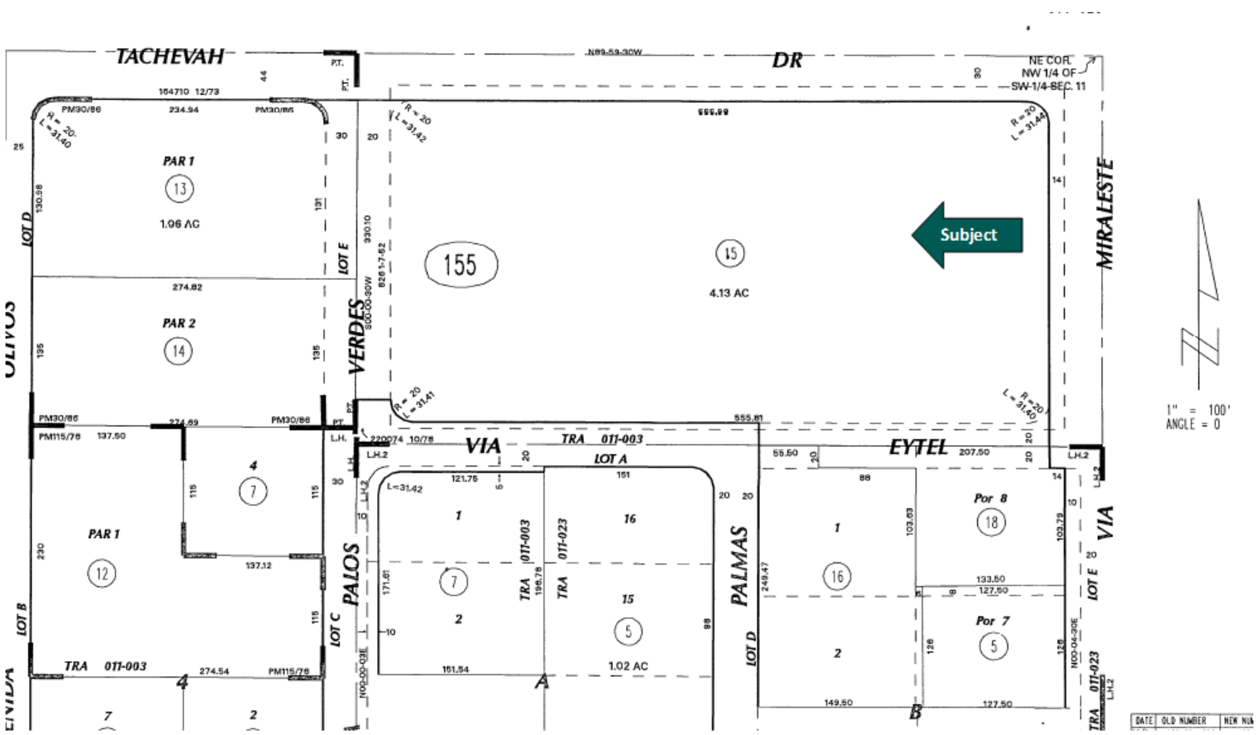
LOCATION

The subject properties are identified as Desert Regional Medical Center, El Mirador Medical Plaza (including the parking garage), Las Palmas Medical Plaza and the Wellness Park. The subject hospital is located at 1150 N. Indian Canyon Drive, Palm Springs, California. The El Mirador Medical Plaza is located at 1180 N. Indian Canyon Drive, Palm Springs, California. The Las Palmas Medical Plaza is located at 555 E. Tachevah Drive. The Wellness Park is located at the southeast corner of E. Tachevah Drive and N. Via Miraieste. The subject properties are made up of multiple parcels.

Parcel maps for the subject tracts follows.




CAMINO MONTE VISTA
Subject
MEL
AVENUE
INDIAN CANYON
MIRALESTE
Subject
065
061
064
07
08
PM 188/91-92 PARCEL MAP NO. 26805
PM 163/79-81 PARCEL MAP NO. 23597
MB 13/18 JOHN MEL TRACT
MB 18/52 RESUBDIVISION OF PALM SPRINGS ESTATES NO. 4
MB 123/27-28 TRACT NO. 16,384
PM 203/86-89 PARCEL MAP NO. 30362


TACHEVAH
DR
MIRALESTE
VERDES
PALOS
PALMAS
VIA
EYTEL
155
Subject
4.13 AC
1.06 AC
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PAR 1
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LOT B
LOT C
LOT D
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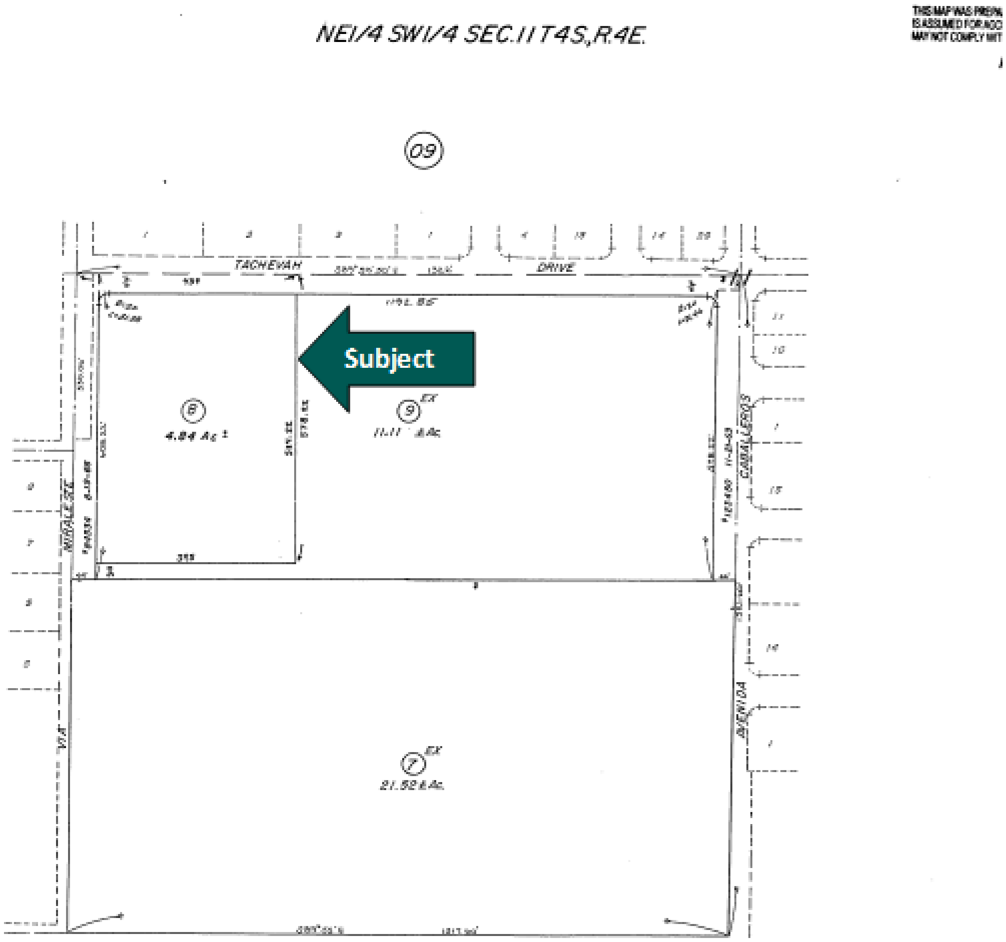
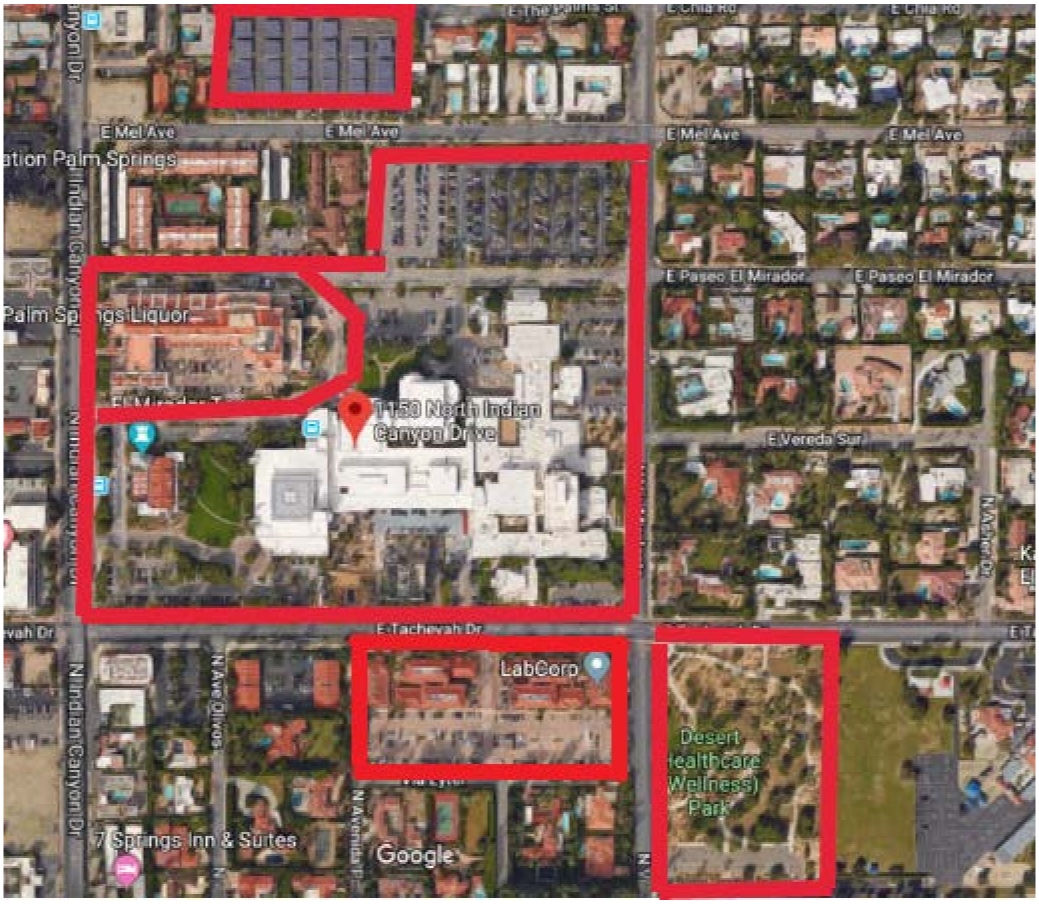
TRA 011-003
TRA 011-023
1" = 100'
ANGLE = 0



The following aerial displays the Desert Regional Medical Center, El Mirador Medical Plaza, Las Palmas Medical Plaza and the Wellness Park.



SIZE

According to the tax assessor, the Desert Regional Medical Center comprises 25.2928 acres, or 1,101,754 square feet. The El Mirador Medical Plaza rests on a site that is 3.62 acres in size or 157,687 square feet. The Las Palmas Medical Plaza is 4.13 acres or 179,902 square feet in size. The wellness park parcel is 4.84 acres or 210,830 square feet in size. The Desert Regional Medical Center and El Mirador Medical Plaza sites are irregular in shape while the Las Palmas Medical Plaza and the Wellness Park parcels are mostly rectangular. A summary of the individual tax parcels that make up the subject properties follows.

Entity	Parcel Number	Size (acres)	Size (Sq. Ft.)
Desert Regional Medical Center	507-061-024	0.6600	
	507-061-027	0.8700	
	507-061-025	0.1400	
	507-030-011	0.3986	
	507-030-010	0.3242	
	507-061-026	0.4300	
	507-064-025	4.1100	
	507-070-016	14.7100	
	507-070-017	3.6500	
Total Desert Regional Medical Center		25.2928	1,101,754
El Mirador Medical Plaza	507-070-018	3.6200	157,687
Las Palmas Medical Plaza	009-618-759	4.1300	179,903
Wellness Park	507-170-008	4.8400	210,830
	Total Size	**37.883**	1,650,175

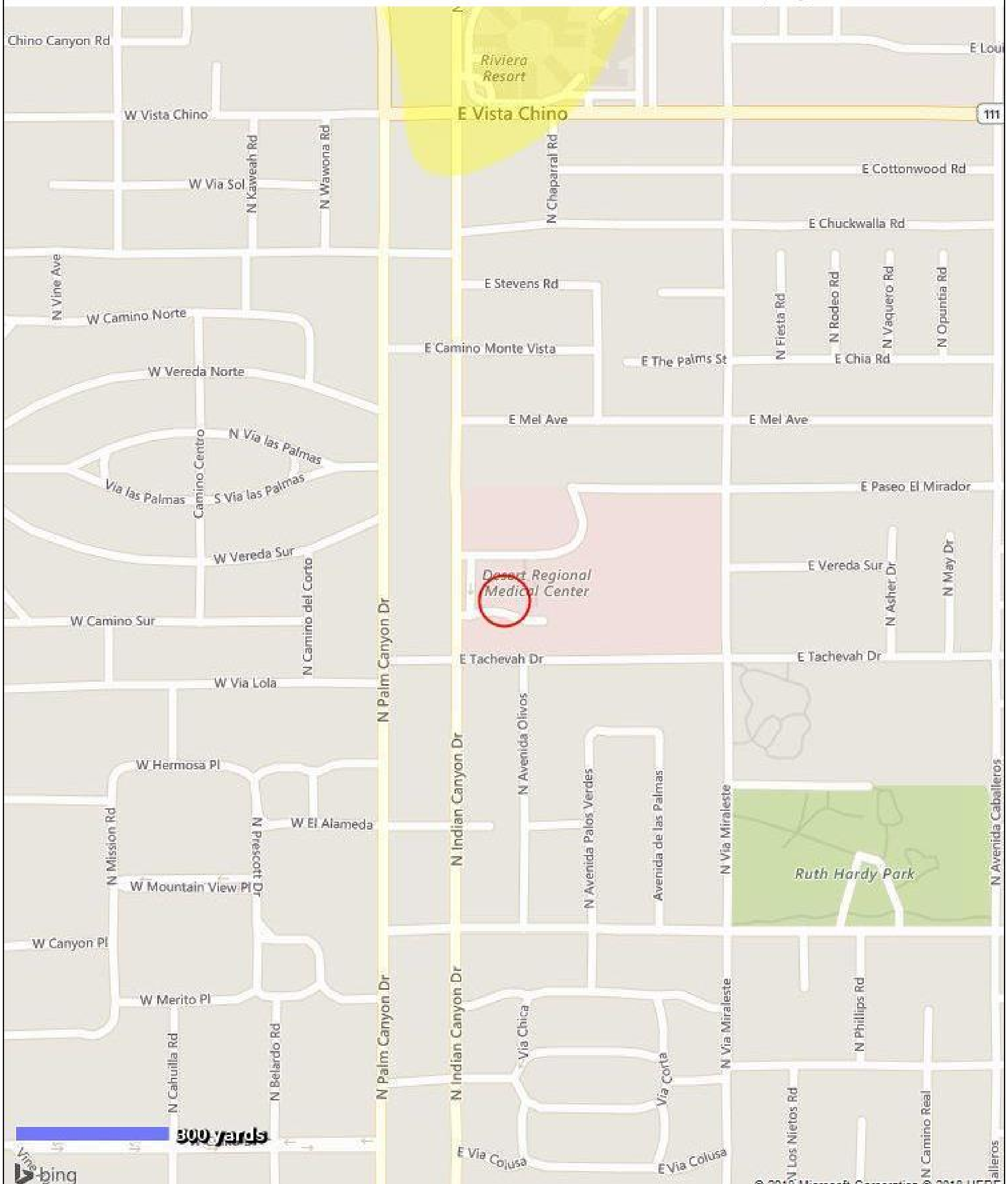
TOPOGRAPHY

The subject sites are mostly level. Surface drainage appears adequate. According to the Flood Insurance Rate Map number 06065C1558G dated August 28, 2008, the subject is located within Zone X, which is defined as "Areas of minimal flood hazard from the principal source of flood in the area and determined to be outside of the 0.2 percent annual chance floodplain."

This zone should not affect potential site development, as evidenced by the other improvements located in the immediate area. The determination of the floodplain zone is beyond the expertise of the appraiser. Prior to making a business decision on the subject properties, it is recommended that a professional engineer's opinion be obtained. This valuation assumes that a potential floodplain zone does not negatively impact the improvements. The subject depicted on its floodplain map is located on the following page.

InterFlood by a la mode

Prepared for: VMG Health
1150 N Indian Canyon Dr
Palm Springs, CA 92262-4872



Powered by CoreLogic©

MAP DATA

FEMA Special Flood Hazard Area: **No**
Map Number: **06065C1558G**
Zone: **X**
Map Date: **August 28, 2008**
FIPS: **06065**

MAP LEGEND

- Areas inundated by 500-year flooding
- Areas inundated by 100-year flooding
- Velocity Hazard
- Protected Areas
- Floodway
- Subject Area

GROUND STABILITY

The soils and subsoils of the subject land parcel appears to be adequate for commercial construction, as evidenced by the other existing structures located in the immediate area. It is assumed that the soil's load bearing capacity is sufficient to support the existing structure.

SEISMIC ACTIVITY

We were provided with a Seismic and PML Assessment Report prepared by CBRE pertaining to the subject hospital buildings. The following chart displays the hospital's current rating for each building area. California requires hospitals to be fully in compliance by January 1, 2030 (above an SPC rating of 2). As can be seen, the Main Hospital, Main Hospital 2nd Story Addition, East Tower and North Wing are not compliant. To the best of our knowledge, no decision has been made by the operator or landlord whether to fund the upgrade, replace the hospital or portion of the hospital or reduce the operational capacity of the hospital by eliminating beds and services in the affected areas. While speculative, the CBRE report estimated a cost to cure of $60,000,000. We are not certified or qualified to assess seismic-related risk, and the subject's structural integrity. As previously stated, our valuation is being done under the Hypothetical Condition that the Desert Regional Medical Center is completely compliant.

Designation	SPC Rating	NPC Rating
Main Hospital	2	2
Main Hospital 2nd Story Addition	2	2
East Tower	2	2
North Wing	2	2
West Tower	3	2
Surgery Wing	4	2
Elevator Tower (Six-Story)	4	2
Admitting and Medical Records	4	2
Elevator & West Tower Corridors (Single-Story)	3	2
Shipping & Receiving	4	2
Woman & Infants Hospital	3	2
Dinah Shore Waiting Area and Lobby	3	2
MOB and Parking Garage	3	2
Central Plant	4	2
Sinatra Auditorium	Not Rated	Not Rated
Annex	Not Rated	Not Rated
Operations (Modular Building)	Not Rated	Not Rated

HAZARDOUS MATERIALS/TOXIC WASTE

There were no known hazardous materials reported to us. It is assumed that no toxic wastes are present within the soils. However, VMG Health is not qualified to detect the presence or absence of such materials. If further evidence is needed regarding the lack of danger from hazardous materials or toxic wastes, authorities with expertise in detecting these conditions should be consulted.

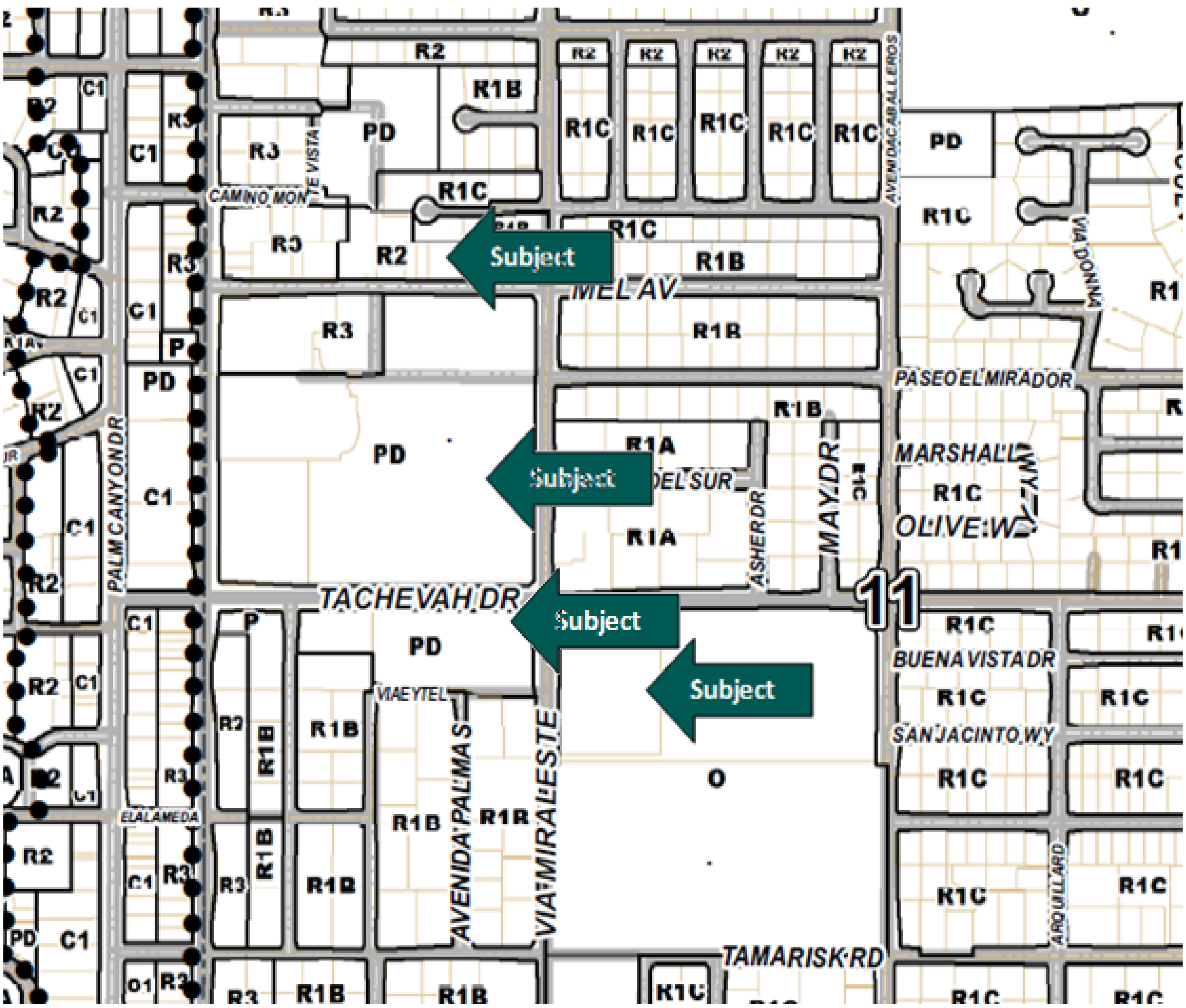
EASEMENTS/ENCROACHMENTS

There are no known easements or subsurface restrictions that would adversely affect the utility of the property.

Public and Private Land Use Controls

Usage of properties may be limited by public or private land use controls. Public land use controls include: zoning regulations; subdivision rules and regulations; board of health covenants (typically related to water and sewer services); wetland regulations; floodplain water resource and aquifer protection districts; endangered species act legislation; and/or county planning commissions and other overlay or floating districts. The subject sites are mostly zoned PD, "Planned Development", by Palm Springs. The northern most parking lot is zoned R2, "Multiple Family Dwellings". The intended use of this planned development zoning (which went into effect in 1987) is for the subject hospital and medical office buildings as they currently exist. The Wellness Park is zoned "O", Open Land Zone.

We assume that the subject improvements represent a legal use of the site, as no evidence to the contrary was found. Prior to making any business decision regarding the subject properties, it is urged that a competent professional be retained to fully understand and translate the existing zoning requirements. A zoning map is depicted on the following page.



UTILITIES

Water, sewer, natural gas and electricity are provided to the site. We assume that all utilities are provided in quantities sufficient for the subject's operations.

CONCLUSION

Sufficient utilities are available and installed. There are no known easements or surface restrictions that would adversely affect the utility of the subject. The subject sites are conducive to a variety of uses, including the current use. The Wellness Park's current zoning will limit its development potential.

IMPROVEMENTS DESCRIPTION

Desert Regional Medical Center was originally built in 1951 with various renovations and expansions up until 2003. The Stergios Building (part of the hospital campus) was completed in 1989. The El Mirador Medical Plaza was completed in 1994. The Las Palmas Medical Plaza was reportedly built in 1978. The improvements have been well-maintained in the intervening years. The following chart displays the various construction periods and the chronological ages of the improvements.

Desert Regional Medical Center

Entity	Size	YOC
Single Story East Buildings		1951 - 1953
4-Story East Patient Tower		1967
Former Radiology - East Building		1971
Sinatra Education Center		1973
Sinatra Patient Tower & Support Area		1980
West Patient Tower		1993
Last Renovations - 2002 - Psychiatric Nurses Station & 2003 - Acute Rehab		2002 & 2003
Hospital Building Total	515,386	
Stergios Building	14,500	1989
Hospital Campus Total	529,886	
El Mirador Medical Plaza	163,324	1994
Parking Garage	218,376	1994
Total El Mirador Medical Plaza and Garage	381,700	
Las Palmas Medical Plaza	49,356	1978

The subject hospital is a 393-bed acute care hospital which includes nine operating rooms, (six pre-op bays and 12 PACU bays), two cysto suites, two C-section suites, three Cath Labs, a 28-bed emergency department and a 32-bed ICU. The building area of the hospital improvements is 515,386 square feet. This is contained in a five-story hospital structure plus basement. The following construction details were provided from our inspection, and a review of the building floor plans and other information provided by the hospital operator. The hospital also has approximately 735 surface parking spaces. The El Mirador Medical Plaza utilizes a parking garage with 602 spaces. The subject hospital's patients also utilizes the parking garage.

Hospital construction features include: a structural reinforced concrete slab; a variety of framing ranging from wood (oldest section) to concrete framing; the exterior walls are stucco covered concrete; and the roof is a sprayed on Urethane roof coating. Mechanical equipment for the hospital include three chillers, three gas-fired steam boilers, three cooling towers, air handlers, vacuum system and three generators.

The Emergency Department contains 28 bays. The hospital has a Level II Trauma Center rating. The operating rooms have air filtration systems and high-intensity lighting. One operating room is designed and set up for Cardio procedures. One operating room is set up for trauma, and one utilizes a Da Vinci robot. All of the operating rooms are believed to be Class C and all are reasonably sized for their use.

The hospital also includes locker areas, administrative areas, soiled and non-soiled utility, lab, pharmacy, imaging and nurses' station areas. The imaging area contains two CT-Scans, six x-ray machines, three nuclear medicine rooms and an ultrasound. The hospital has only a partial sprinkler system (90% estimated). The newer section is fully sprinklered but the older section is only partially sprinklered.

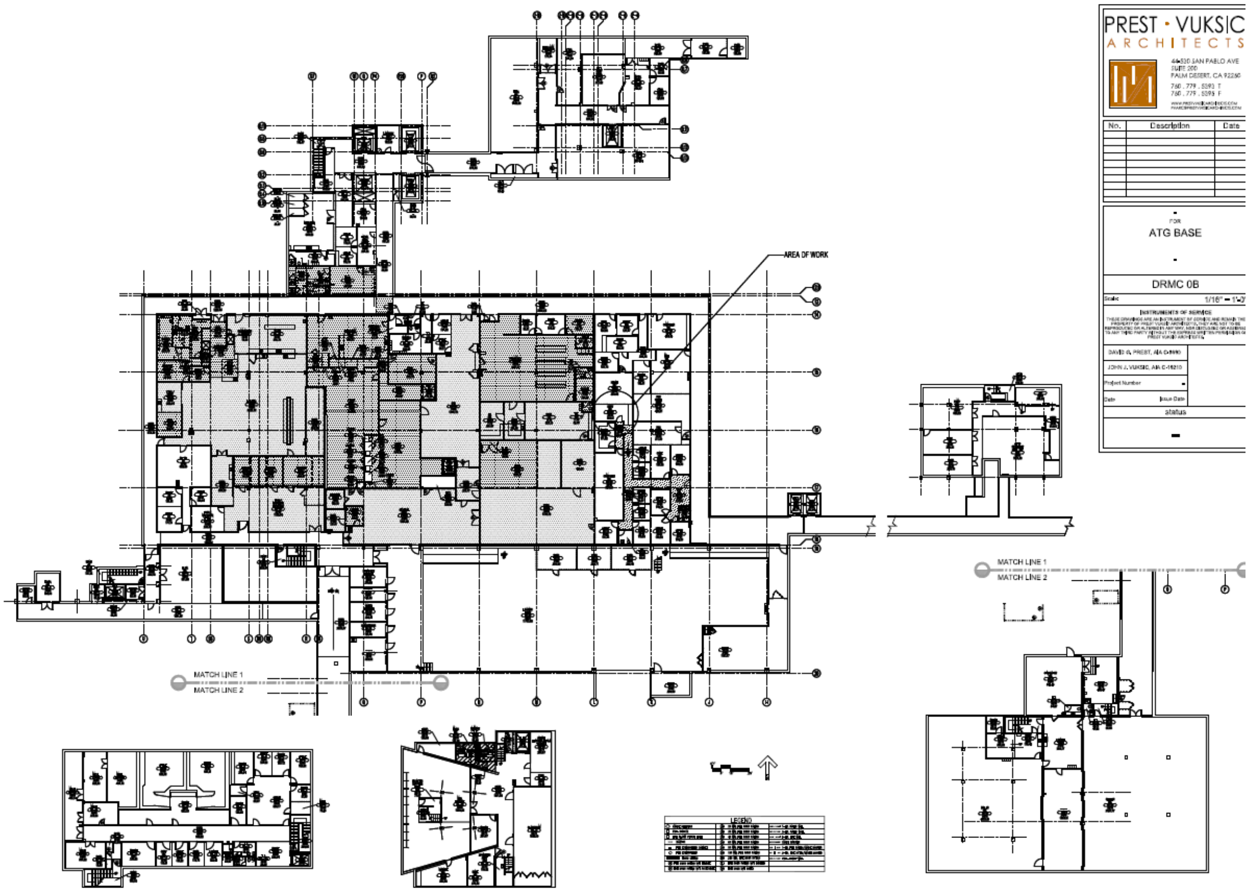
The Stergios Building is a two story, 14,500-square-foot medical office building. It was converted from an old hotel in 1989. The building's construction features include stucco exterior walls, ceramic tile roof, ceramic floor pavers and vinyl flooring, painted gypsum board walls and a bell tower. The occupants of the Stergios Building include the Diabetes Center Gastroenterology Clinic, Community Fitness Center, Center for Weight Management, Desert Healthcare District and Desert Healthcare Foundation. According to management, the building's mechanicals include rooftop units. Overall, the building is considered to be in good condition.

The El Mirador Medical Plaza is 163,324 square feet and reflects a medical office building with ambulatory surgery center, imaging area and cancer center as part of its space usage. The property has approximately 47,520 square feet of third party medical office leased space with the remainder occupied by the operator or its subsidiary. The ambulatory surgery center is leased by USPI (which is now a subsidiary of Tenet). The property is stucco covered concrete and glass walls with a ceramic tile roof and steel framing. The building also has a 602-space, two level parking garage. According to management, the property's mechanicals include a cooling tower, rooftop heat pumps and a chiller designated for the surgery center.

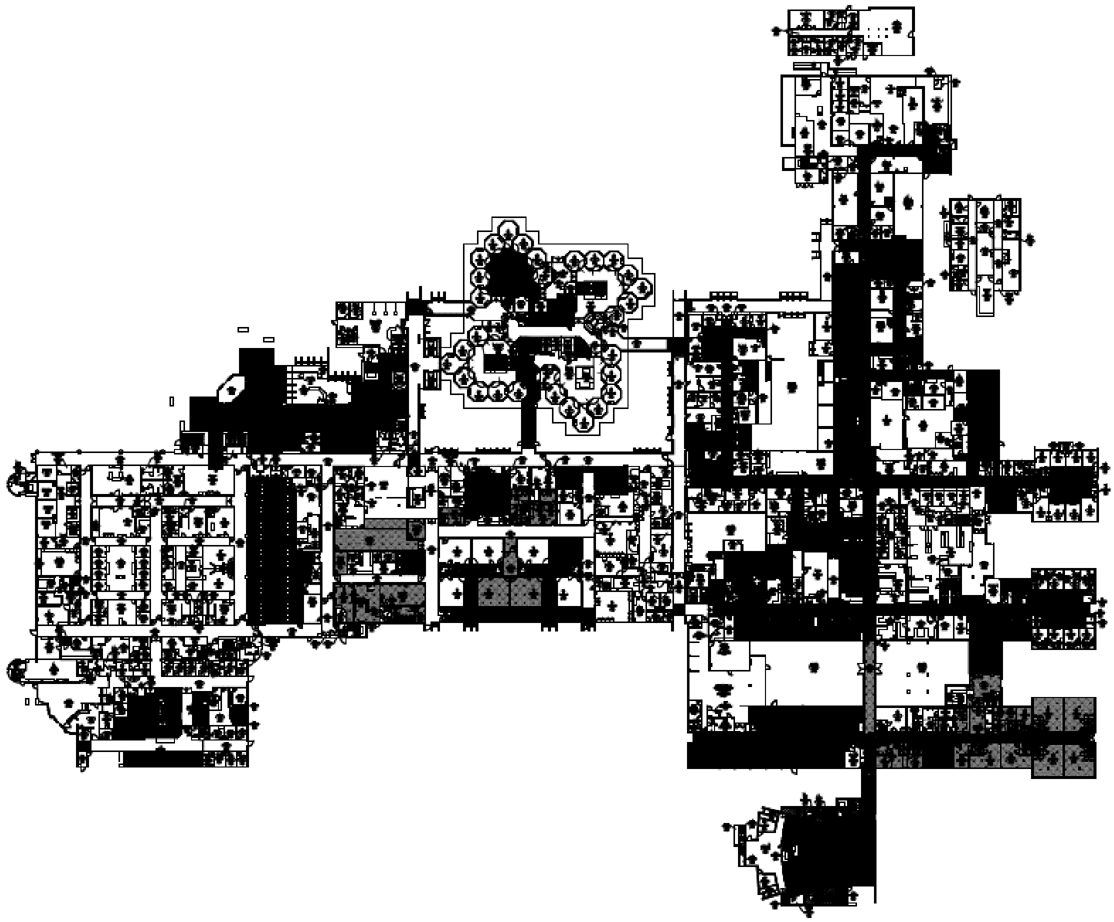
In the El Mirador Medical Plaza is a 15,577-square-foot ambulatory surgery center with six operating rooms, three pre-op bays, four pre-op rooms and a 14-bay PACU. There is an approximate 3,500-square-foot GI procedure suite that contains three procedure rooms, three pre-op bays and six PACU bays. This GI suite has been closed for six months and is planned to be taken over by the surgery center. The imaging area contains a 3T MRI, two CT Scans, one PET Scan, four Mammography machines and an x-ray. The cancer center is approximately 55,063 square feet in building area and has two Linear Accelerators that have non-maze vault designs. The vaults have four to six-foot concrete walls enclosing the machines with approximately two-foot thick lead and metal sliding doors. The cancer center also contains an infusion area (lounge chair design), eight treatment rooms, and a pharmacy area. There is approximately 20,000 square feet of space taken up by the Institute of Clinical Orthopedics & Neurosciences. This area is for training interns and housing them when they are on call but off duty. The building houses the Advanced Wound Healing Center. This suite has two Hyperbaric Chambers. Finally, the medical office building has a women's breast center that contains three mammograms, two ultrasounds, one 3D ultrasound, and a stereotactic/mammograms.

The Las Palmas Medical Plaza is 49,356 square feet of rentable area. Because each suite opens to the exterior of the building we do not believe the gross building area is significantly different than the net rentable area. This multitenant medical office building was reportedly built in 1978. Limited construction information was available for this property. The exterior walls are concrete stucco and the building framing is assumed to be wood. The roof material is ceramic tile providing the subject with a Spanish style design. The interior finish is typical medical office space with painted or vinyl covered gypsum board, fluorescent lighting, acoustic or gypsum board ceilings and carpet or tile flooring. No deferred maintenance was reported.

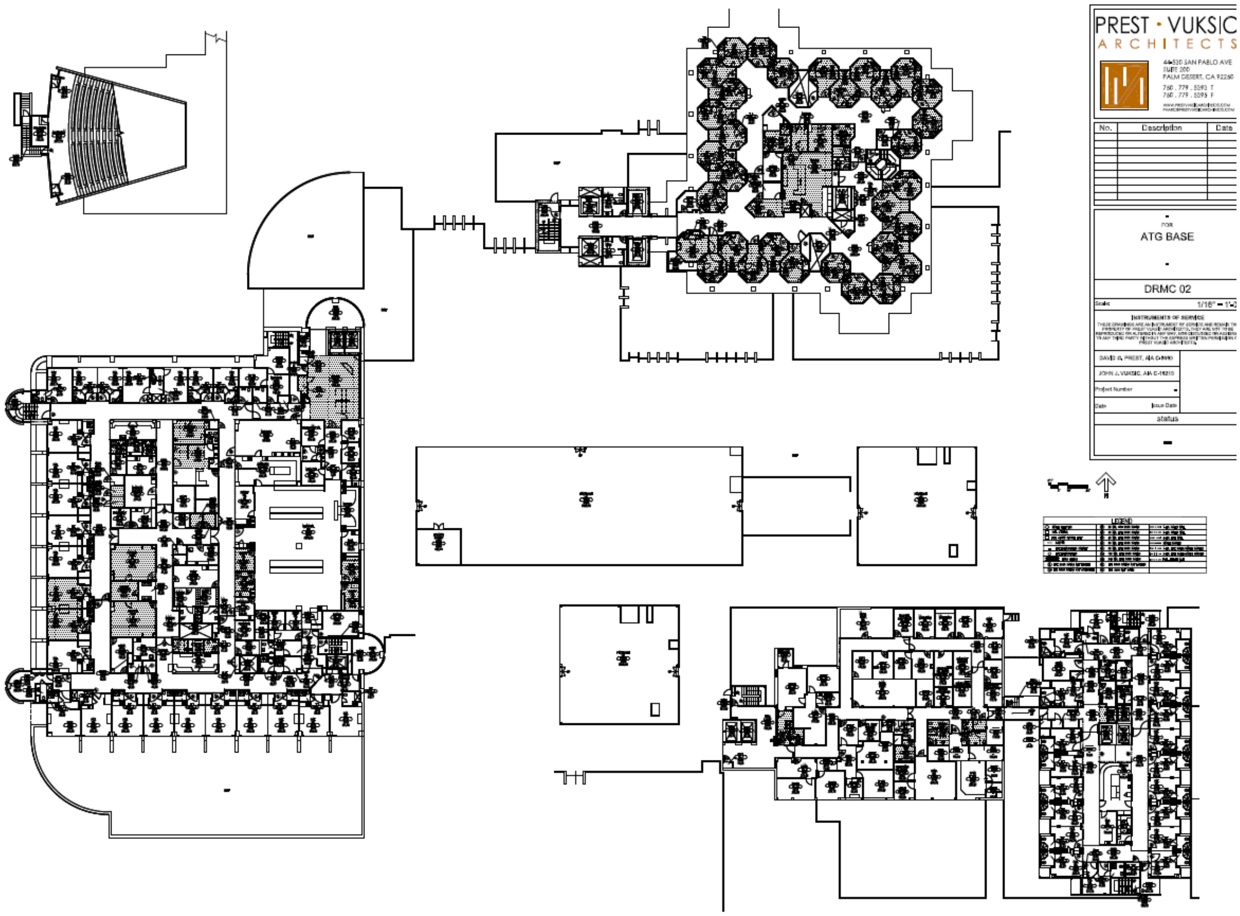
Floor plans of Desert Regional Medical Center (including the Stergios Building), El Mirador Medical Plaza and Las Palmas Medical Plaza are located on the following pages.



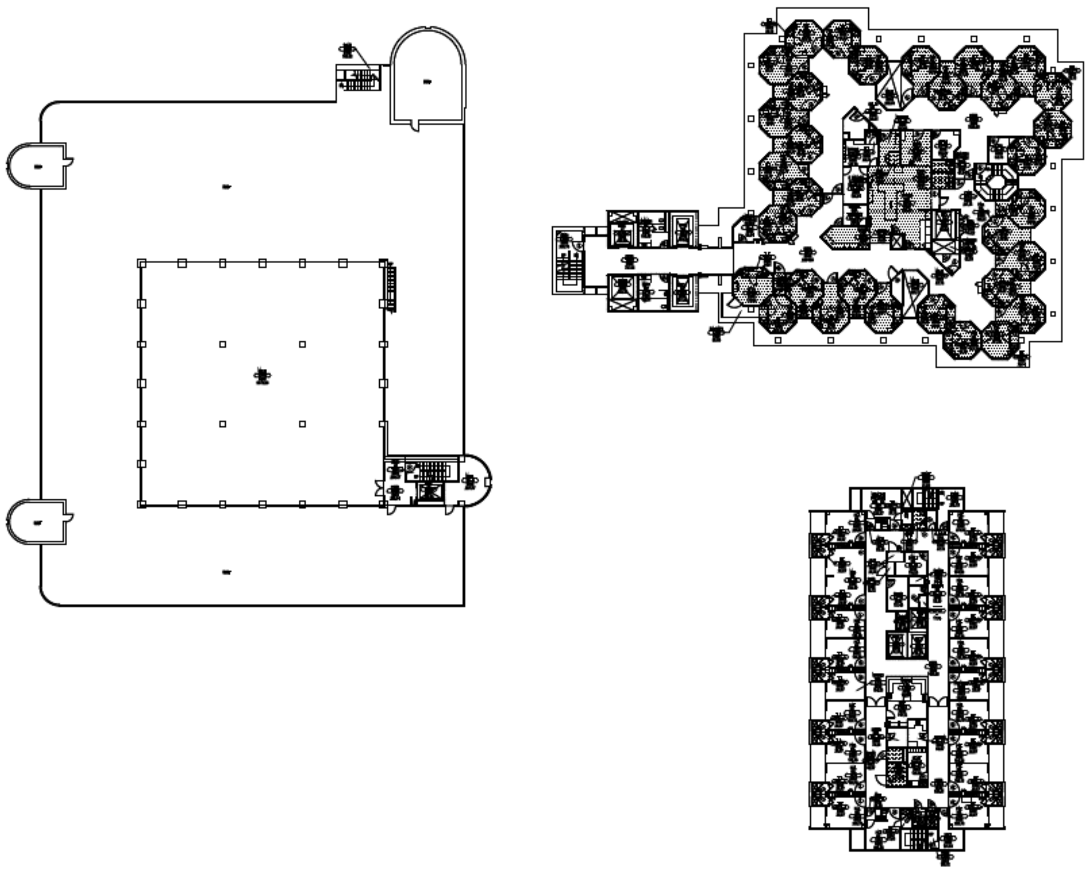
Hospital Basement



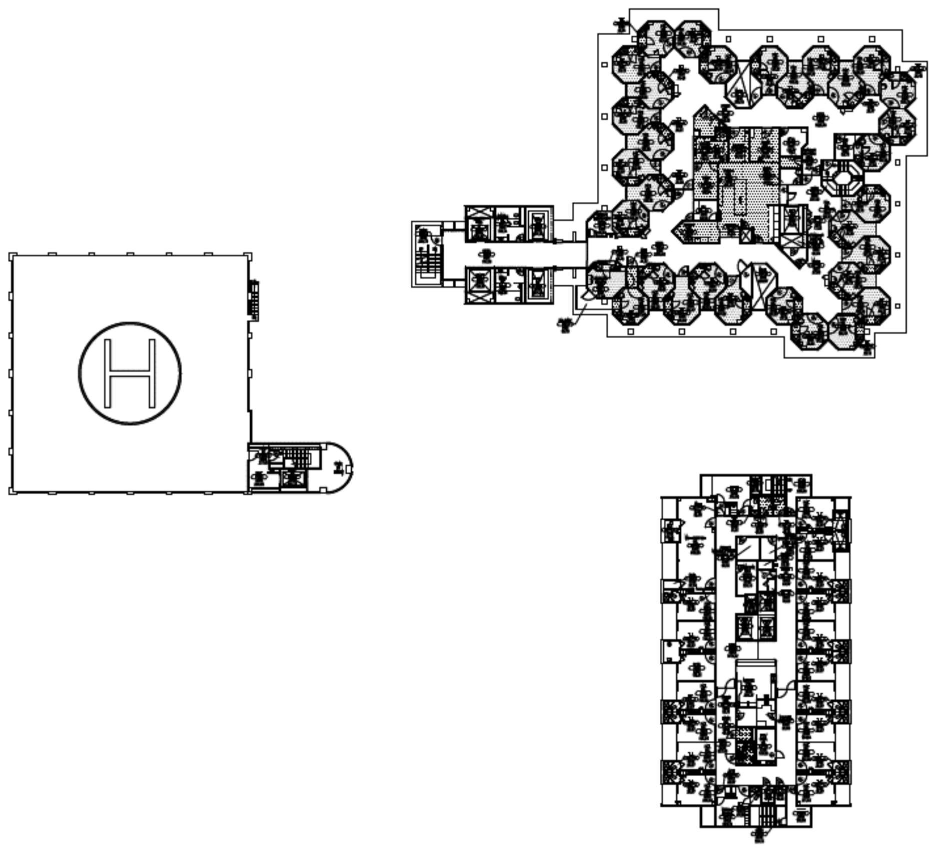
Hospital - 1st Floor



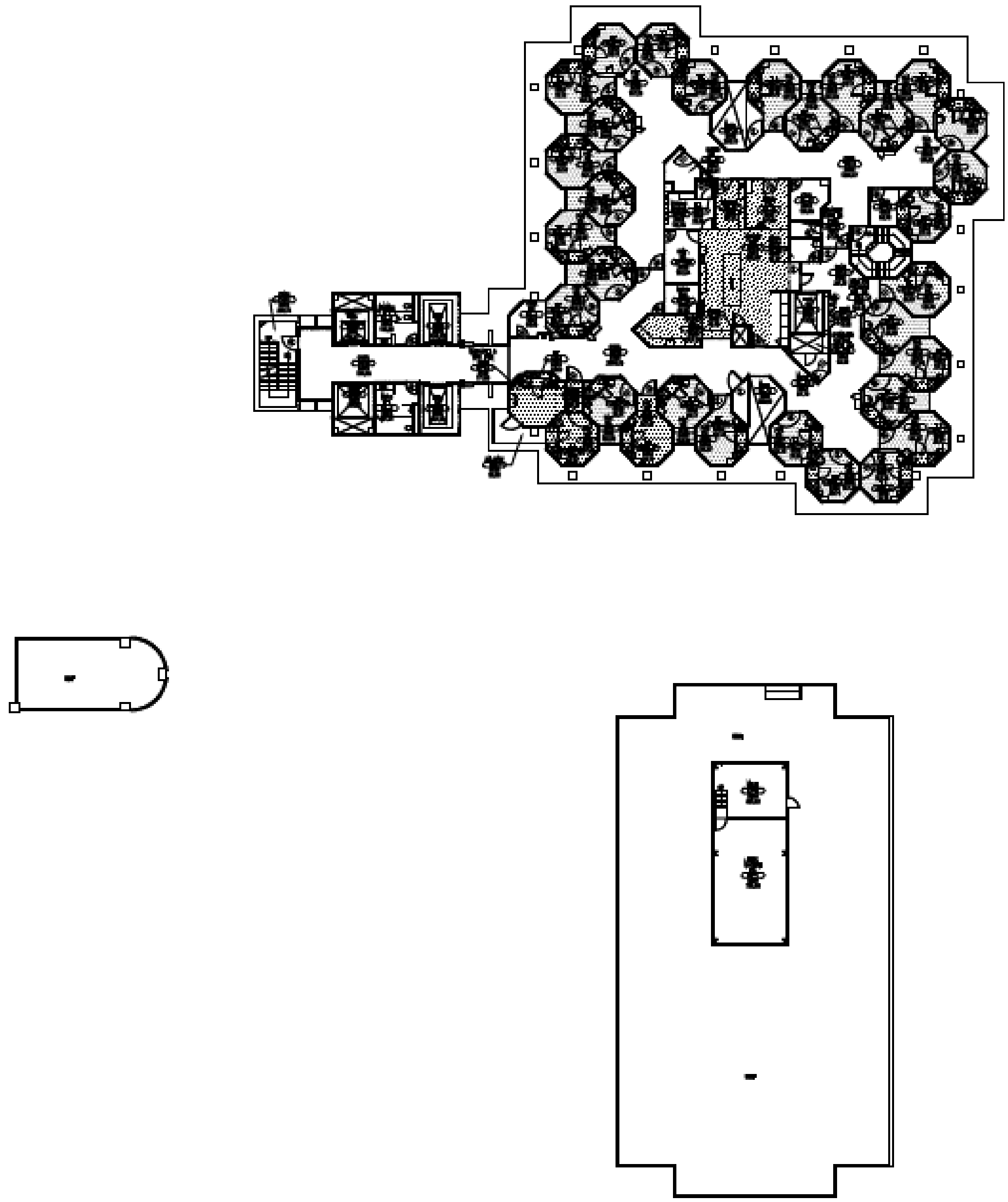
Hospital - 2nd Floor



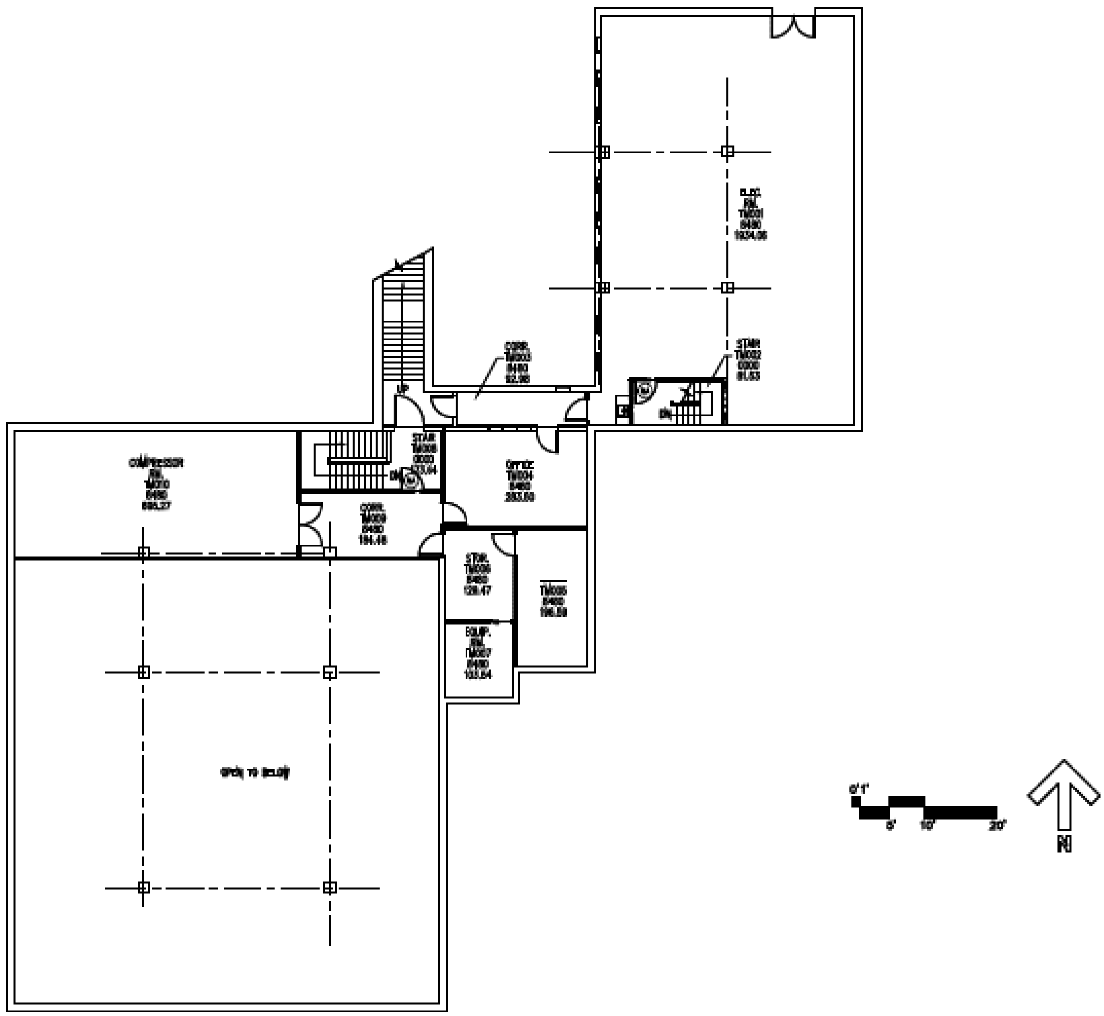
Hospital - 3rd Floor



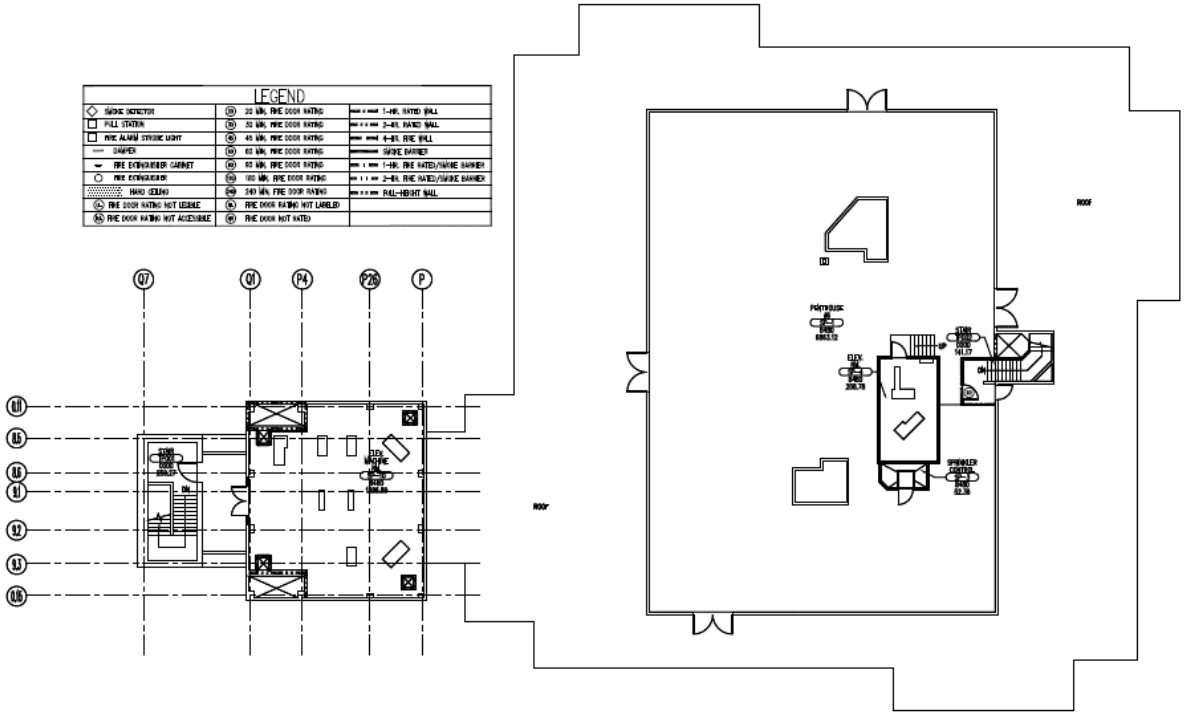
Hospital - 4th Floor



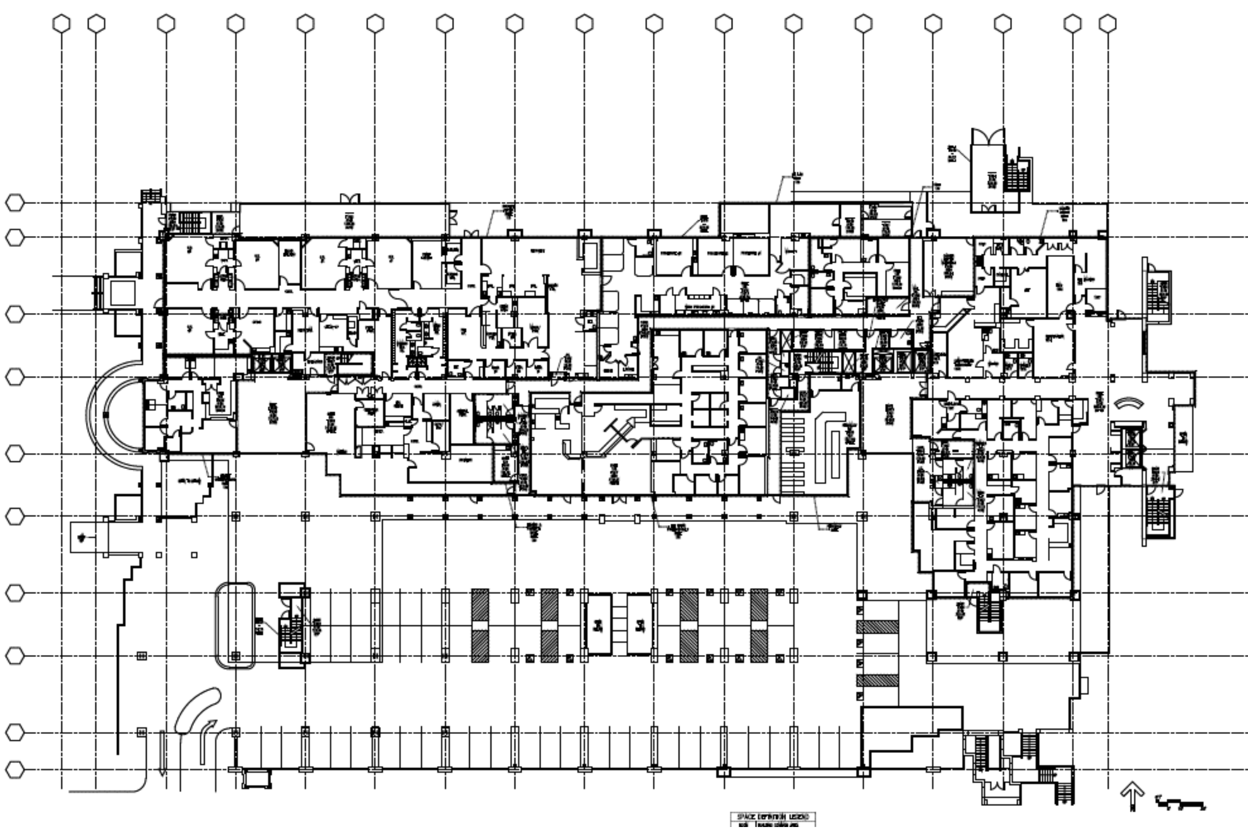
Hospital - 5th Floor



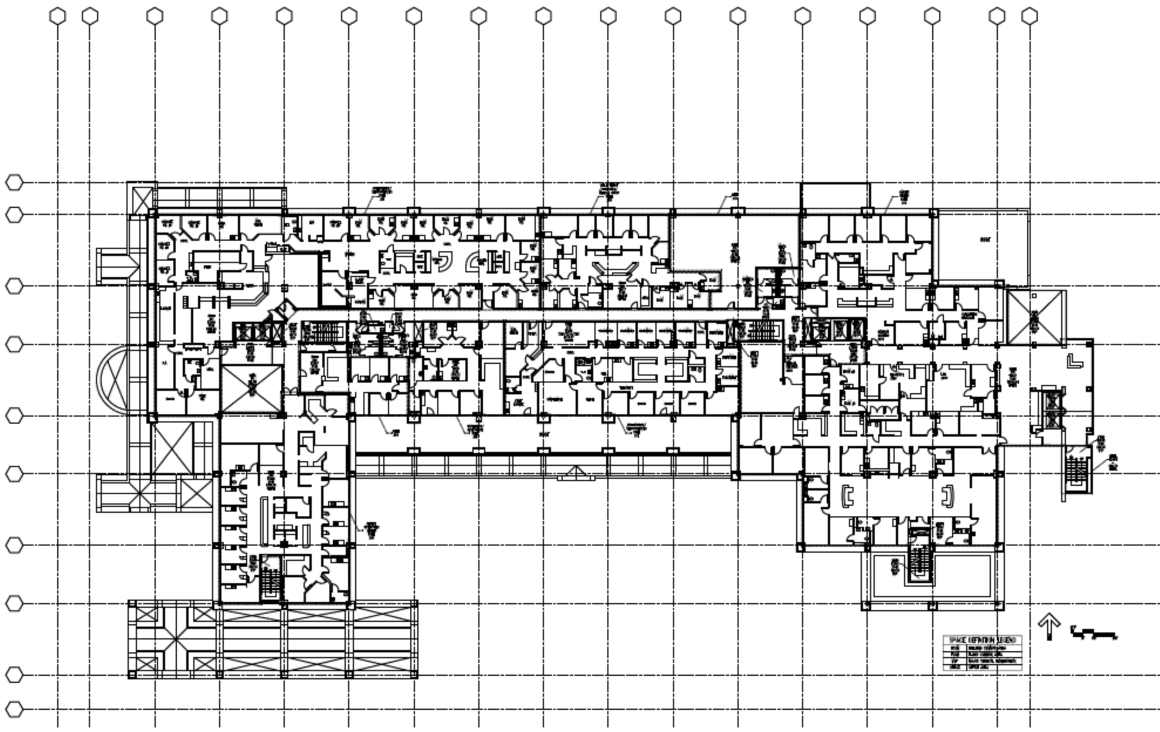
Hospital Mezzanine



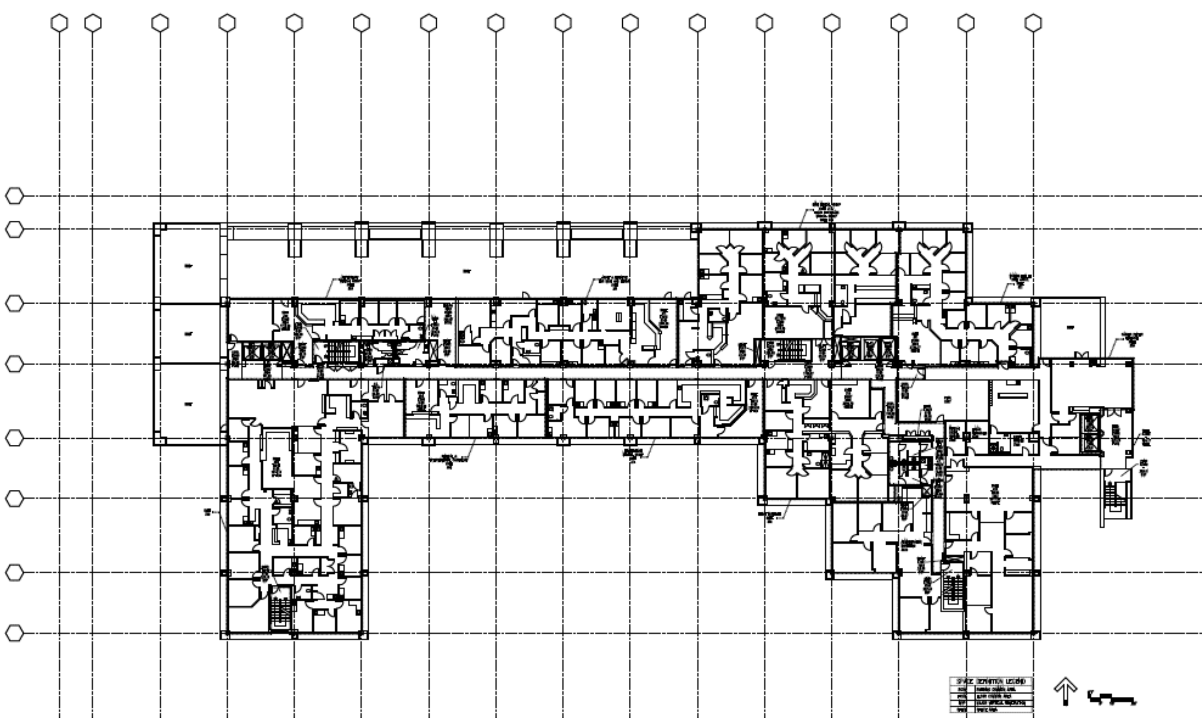
Hospital Penthouse



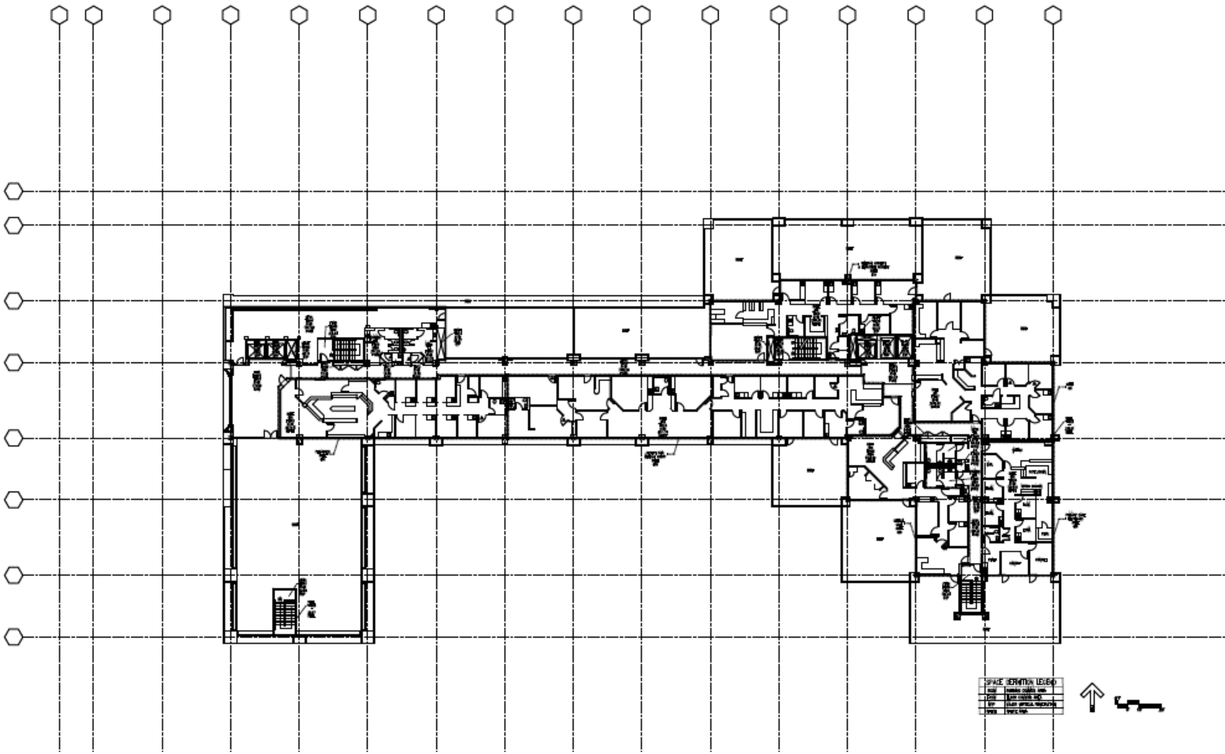
El Mirador Medical Plaza-1st Floor



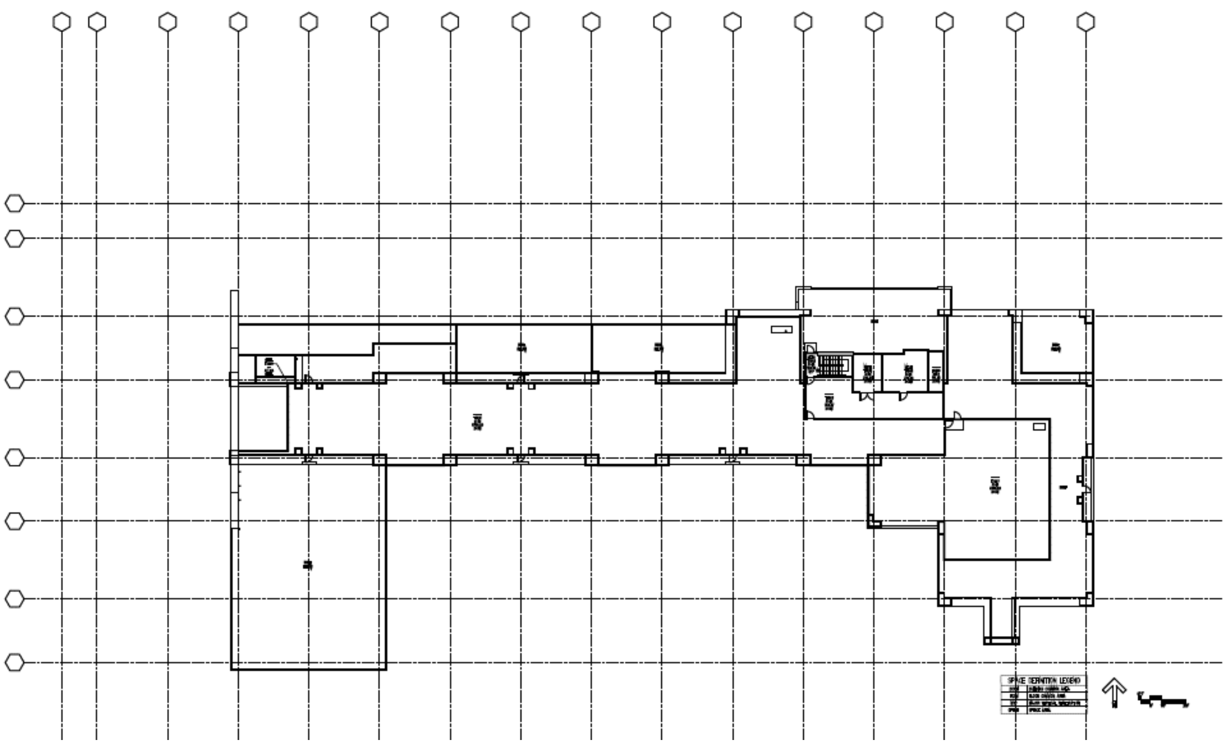
El Mirador Medical Plaza – 2nd Floor



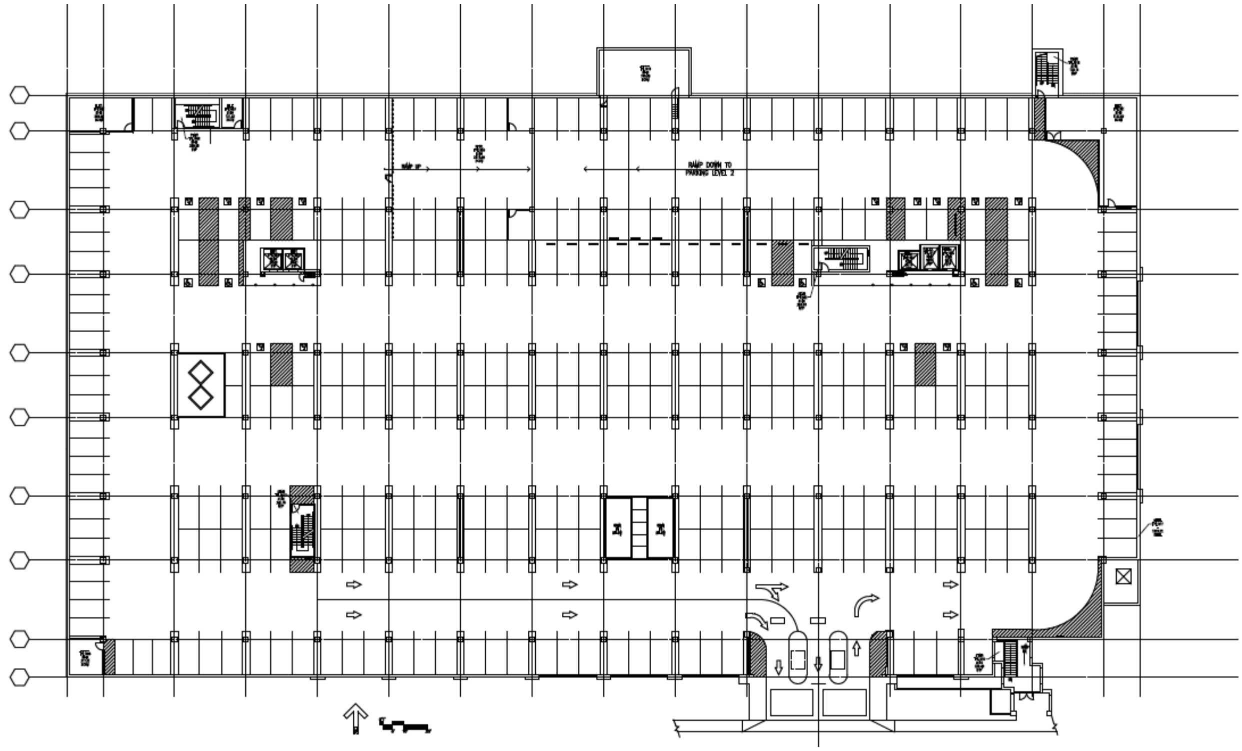
El Mirador Medical Plaza – 3rd Floor



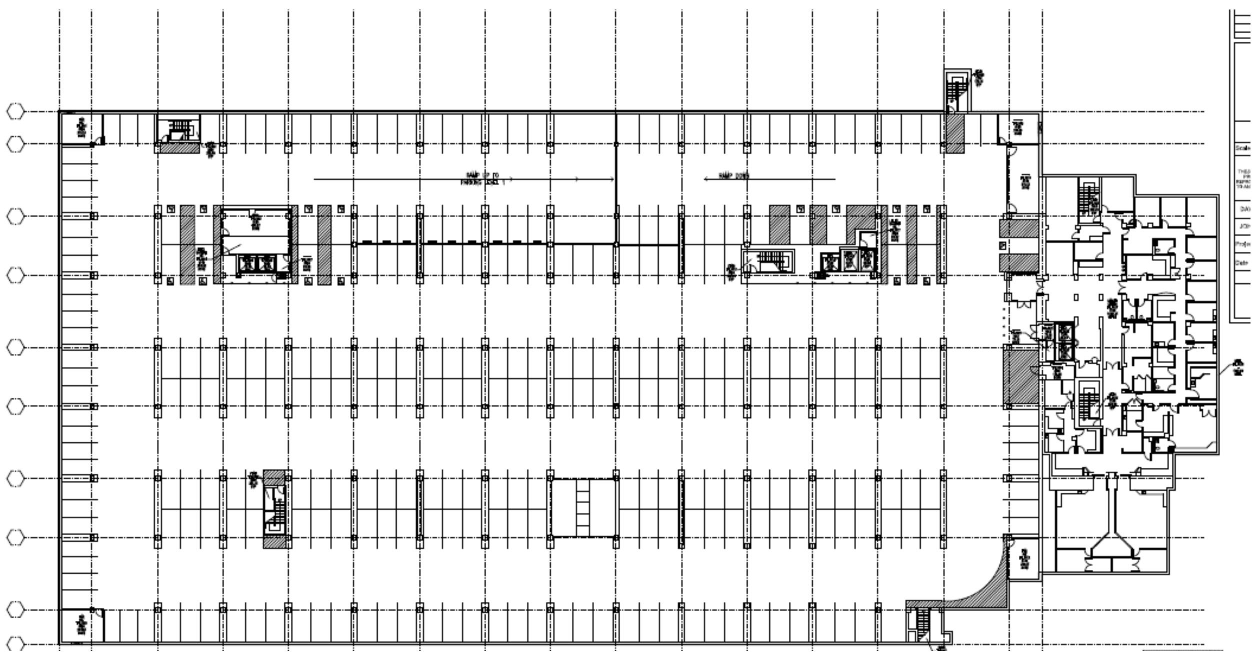
El Mirador Medical Plaza – 4th Floor



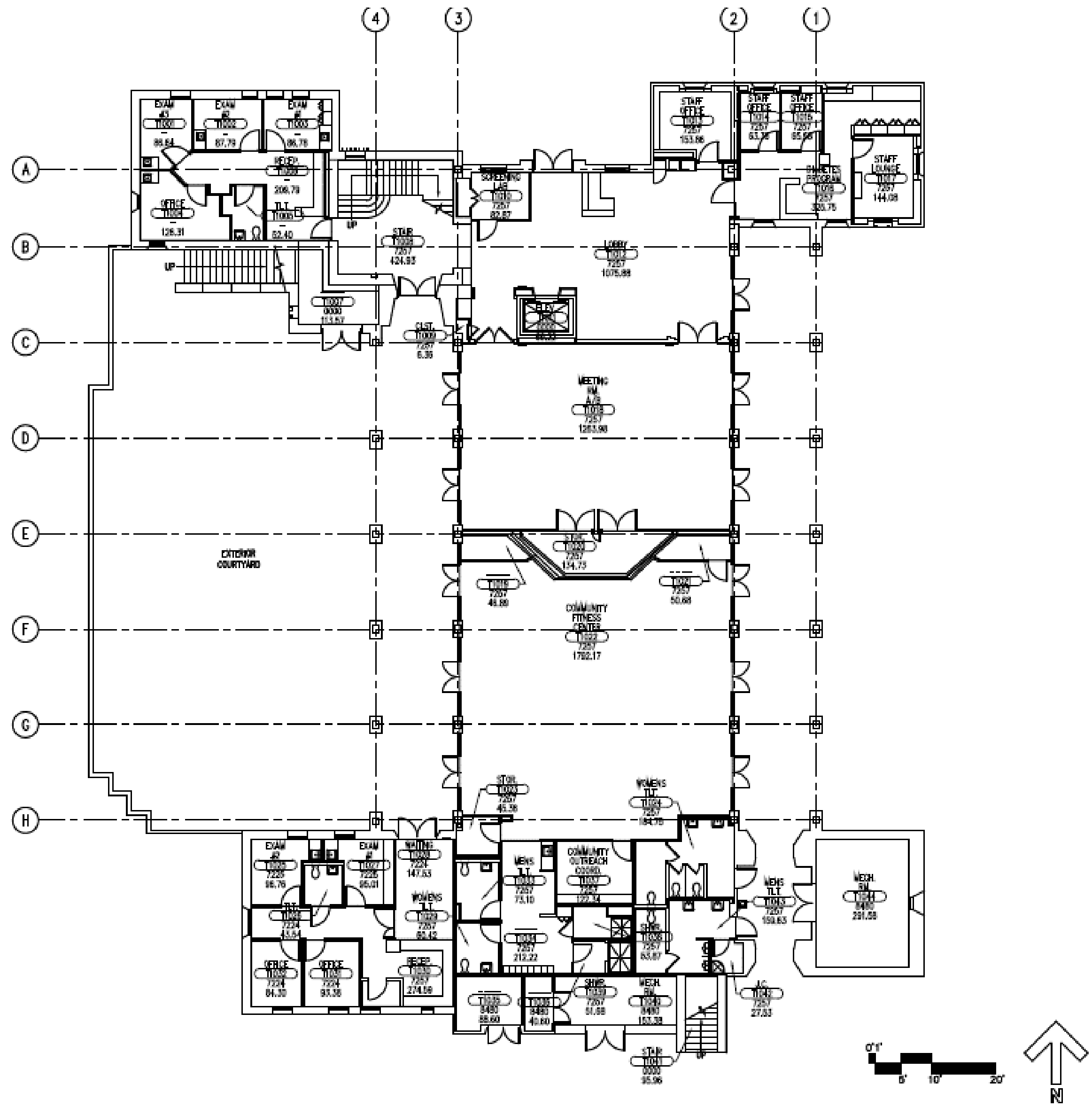
El Mirador Medical Plaza – 5th Floor



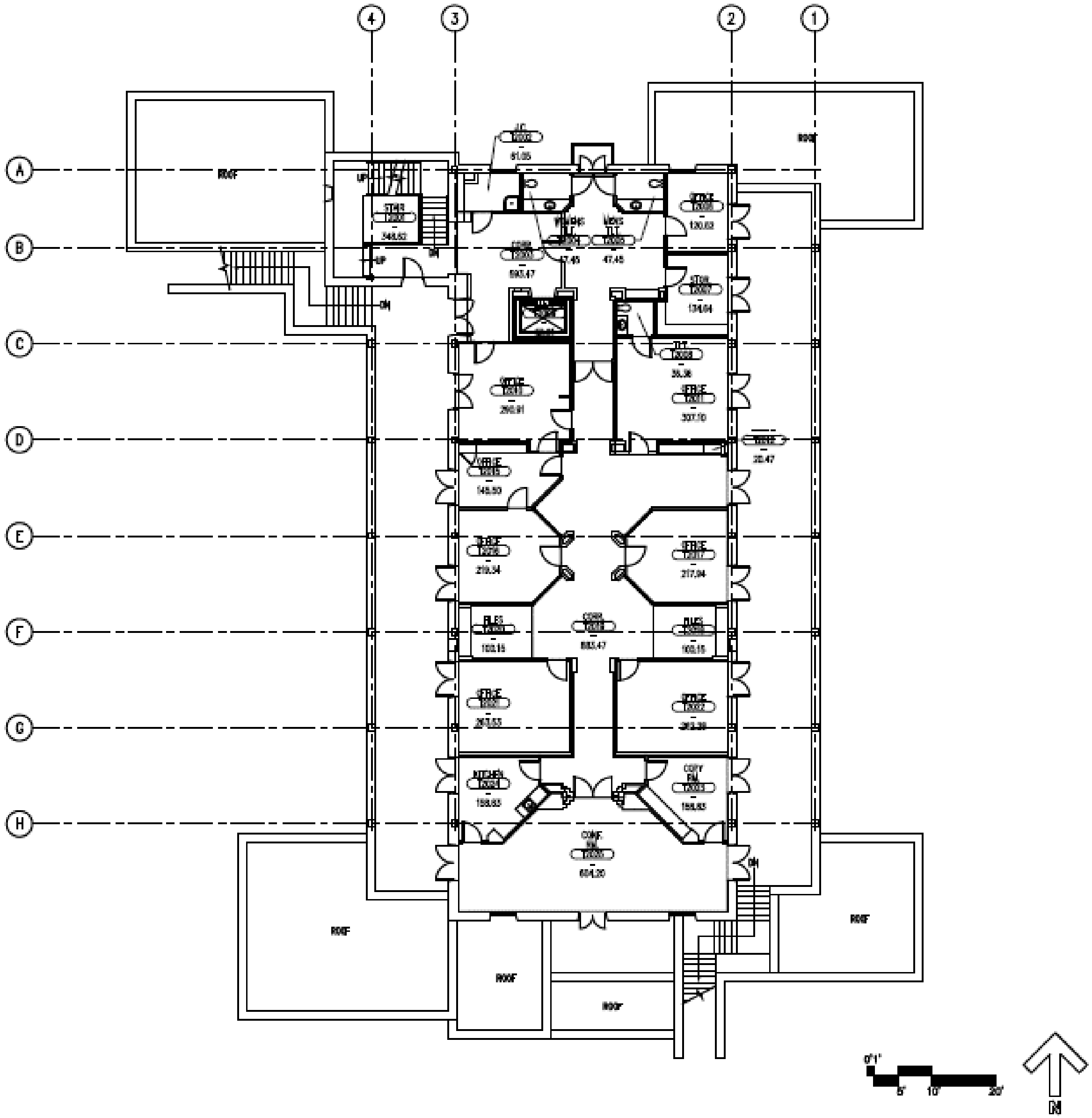
El Mirador Medical Plaza – Parking Garage Level 1



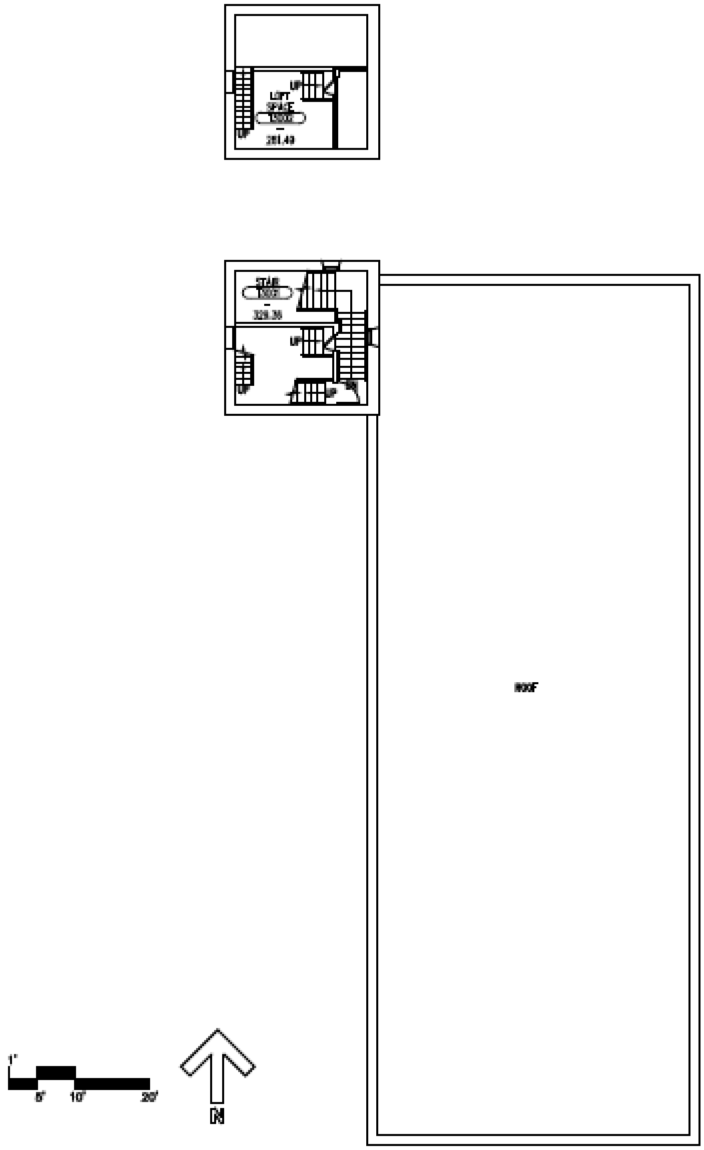
El Mirador Medical Plaza – Parking Garage Level 2



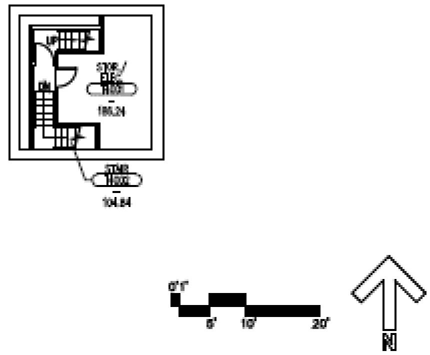
The Stergios Building – 1st Floor



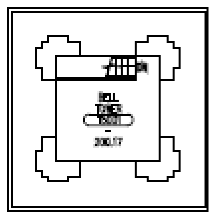
The Stergios Building – 2nd Floor



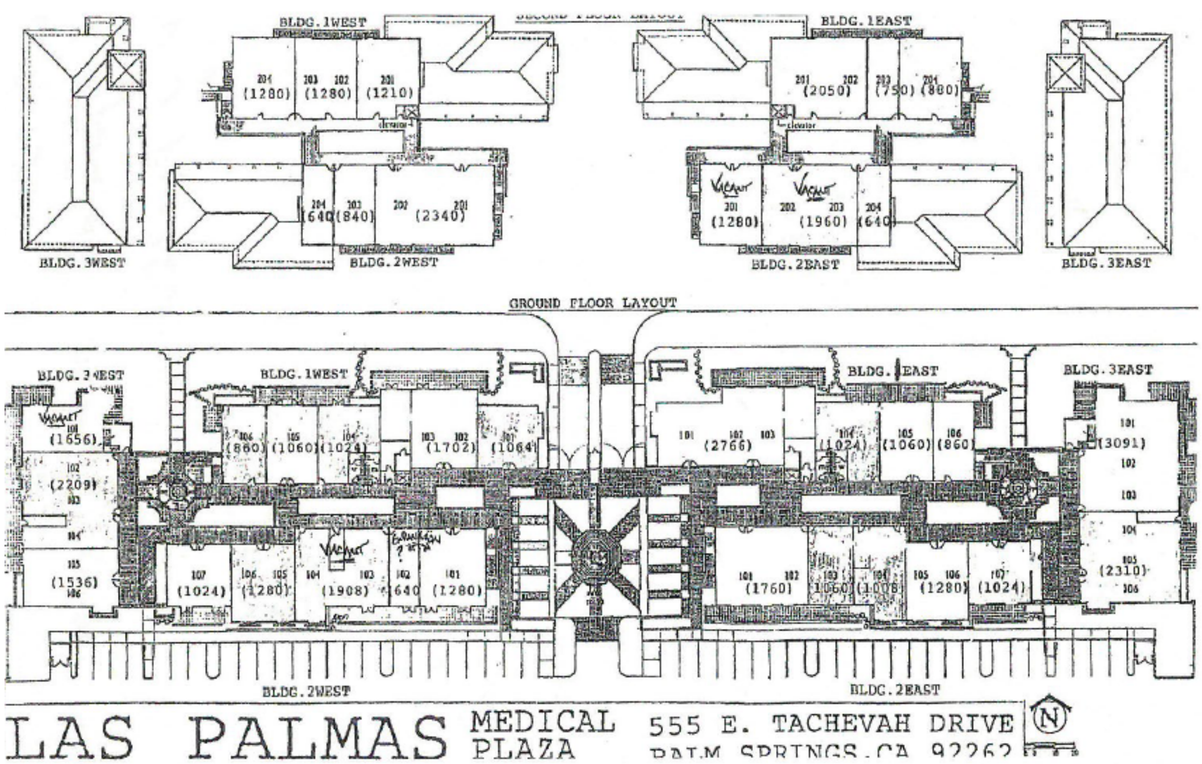
The Stergios Building – 3rd Floor



The Stergios Building – 4th Floor



The Stergios Building – 5th Floor



AD VALOREM TAXES

The subject properties are assessed by Riverside County. Based upon information from the Riverside County Assessor's website, it appears the subject is tax exempt and not assessed.

It is noted that detailed estimations of the subject's projected future tax liability are a highly speculative matter and beyond the scope of this assignment. The subject's future assessments and tax liabilities are assumed to be commensurate with similar properties as prudent management/ownership is assumed for the purposes of this report.

MARKETING AND REASONABLE EXPOSURE TIME ANALYSIS

MARKETING TIME

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") requires the derivation of marketing time. Similarly, the Uniform Standards of Professional Appraisal Practice ("USPAP") address reasonable marketing time, which is defined as follows:

The reasonable marketing time is an opinion of the amount of time it might take to sell a real or personal property interest at the concluded Market Value or at a benchmark price during the period immediately after the effective date of an appraisal. (Advisory Opinion 7, Page 78 of 2018-2019 USPAP)

The key factor in marketing time is that it is presumed to occur *after* the effective valuation date.

REASONABLE EXPOSURE TIME

USPAP requires the derivation of reasonable exposure time, defined as follows:

The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at Market Value on the effective date of the appraisal. (Advisory Opinion 35, Page 166 of 2018-2019 USPAP)

The key factor in exposure time is that it is presumed to occur *before* the effective valuation date.

MARKETING & REASONABLE EXPOSURE TIME ANALYSIS

Analysis of typical marketing or exposure cycles for similar commercial properties indicates final consummation of sales generally within a one-year period. It is noted that *PwC's Emerging Trends in Real Estate 2017*, respondents ranked MOB assets 5th highest amongst 24 asset types for overall investment prospects in the coming year. According to PwC's National Medical Office Building Investor Survey (2nd Quarter 2018), the average marketing period for investment grade medical office buildings ranges from 1 month to 12 months, with an average of 4.8 months. It is noted that PwC's provided range has consistently been 1 month to 12 months over the last three years, though the average has generally ranged between 4.0 months and 6.0 months.

These statistics reflect investment marketing time for investment grade medical office properties. We have also interviewed members of the healthcare real estate brokerage community regarding marketing and exposure time for a variety of healthcare assets. Additionally, we have considered the exposure times of numerous hospitals around the country. Considering the size, location, quality, and construction characteristics of the subject properties, we have determined that a reasonable marketing period and an exposure period for a property similar to the Desert Regional Medical Center would be approximately 12 to 24 months. A reasonable marketing period and an exposure period for El Mirador Medical Plaza and Las Palmas Medical Plaza would be approximately six months and a reasonable marketing period and an exposure period for the Wellness Park would be six to 12 months.

HIGHEST AND BEST USE ANALYSIS

DEFINITION
Highest and Best Use may be defined as, "the reasonably probable use of property that results in the highest value."[13] Because the use of land can be limited by the presence of improvements, Highest and Best Use is determined separately for the site as though vacant and available to be put to its Highest and Best Use, and for the property as improved. Highest and Best Use must meet the following four criteria: 1) *Physically possible*; 2) *Legally permissible*; 3) *Financially feasible*; and 4) *Maximally productive*.

HIGHEST AND BEST USE AS IMPROVED

The Highest and Best Use as Improved may determine that:

- No changes are necessary to the existing improvements; or that
- Some changes or conversion are required; or that
- The property should be demolished and replaced.

In the case of the subject properties, the cost of demolishing the improvements would exceed any increase in revenue that could be generated when considering the cost of construction and likely revenue generating capabilities of an alternative use, at this time. The improvements appear to conform to current public restrictions. A discussion of any functional and/or economic obsolescence associated with the improvements is presented within the *Cost Approach* section of this report.

Please note that our analysis of the subject properties revealed that the existing improvements represent a reasonable conclusion of the subject's Highest and Best Use. Thus, an in-depth analysis of the Highest and Best Use as vacant is not necessary for credible assignment results.

The Wellness Park is adjacent to the hospital campus but surrounded by residential properties. Its zoning restricts its development potential and therefore, its value. It is outside the scope of this appraisal to determine how readily the zoning designation can be changed. However, as it is currently zoned, its highest and best use is to remain a park.

CONCLUSION

The subject improvements contribute significantly to the value of the land and provide for a return to the building and land improvement. The design and layout of the subject improvements (Desert Regional Medical Center, El Mirador Medical Plaza and Las Palmas Medical Plaza are conducive to their existing uses. Therefore, it is our opinion that the Highest and Best Use as Improved would be for a continuation of their existing uses.

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[13] *Appraisal of Real Estate, 14th Edition*

VALUATION

In earlier sections of this Appraisal Report, the valuation problem and property characteristics were defined. Information regarding the interaction of four basic forces that motivate human activity (environmental conditions, governmental controls and regulations, social forces and economic conditions) and how they affect the overall commercial market as well as the subject properties were analyzed. Additionally, the Highest and Best Use of the subject properties was established. In the following section of this Appraisal Report, general and specific data gathered will be analyzed to determine an opinion of the Fair Market Value of the subject properties.

The estimate of Fair Value of a property usually calls for employment of the three basic approaches to value. These approaches to value are identified as follows:

THE COST APPROACH

THE SALES COMPARISON APPROACH

THE INCOME APPROACH

The Cost Approach is based upon the proposition that the informed purchaser would pay no more than the cost of producing a substitute property with the same utility as the subject properties. The Cost Approach is particularly applicable when the property being appraised involves relatively new improvements which represent the Highest and Best Use of the land or when relatively unique or specialized improvements are located on the site and for which there exists no comparable properties in the marketplace.

The Sales Comparison Approach is based upon the proposition that an informed purchaser would pay no more for a property than the cost of acquiring an existing property with the same utility. This approach is applicable when an active market provides sufficient quantities of reliable data which can be verified from authoritative sources. The Sales Comparison Approach is relatively unreliable in an inactive market or in estimating the value of properties for which no real comparable sales data is available.

The Income Approach is a procedure in appraisal analysis which converts the anticipated benefits (dollar income or amenities) to be derived from the ownership of property into a value estimate. The Income Approach is widely applied in appraising income producing properties. In this approach, an estimate of potential income for the subject properties is first projected. From this amount, deductions are made for typically-incurred costs involved with ownership of the property, resulting in a net operating income estimate. An appropriate capitalization rate is then applied to the net operating income to derive at an indication of value.

Income producing real estate is a capital good which is typically bought and sold primarily on the basis of the net income produced from the property. In all economic and investment analyses, of which real estate appraisal is an integral part, the value of a capital good is established and measured by calculating, as of a particular date, the present value of the anticipated future benefits (all sources of net revenue) to the owner over a specified period.

Similar to the previous discussion, there are generally three approaches for estimating a market rent. One of these approaches, a Return-On-Depreciated-Cost analysis, consists of performing a cost approach analysis and then estimating a market derived return of and on the subject's depreciated improvement cost and land value using a capital return methodology.

Another method, called a market rent comparables approach, consists of analyzing the rental rates of actual leases of comparable healthcare facilities.

A rental rate can also be developed through an analysis of the subject's financial operations. This method is a variation of the income capitalization approach in that historical financial statements are reviewed and analyzed and a projection for the upcoming year is completed. From this amount, earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR") are estimated, and a rent coverage ratio that indicates how much rent can be supported within the EBITDAR amount is selected.

We considered each of the methodologies outlined above and applied those we deemed most appropriate; our analysis is summarized in the following pages.

DESERT REGIONAL MEDICAL CENTER VALUATION

COST APPROACH

The Cost Approach is based on the principle of substitution, which states that a prudent purchaser would not pay more for a property than the amount required to purchase a similar site and construct similar improvements, without undue delay, to produce a property of equal desirability and utility. For this appraisal, the return on and of the depreciated capital expenditures required to develop the property was then estimated.

The Cost Approach procedure begins by estimating the value of the subject site at its Highest and Best Use. The next step involves estimating the current replacement cost of the improvements and their accrued depreciation from all causes. The final step in the Cost Approach involves adding the depreciated value of the improvements to the estimated land value.

LAND VALUATION

In estimating the value of the site as though vacant, we used a direct market comparison of the subject site to recent sales of vacant land with similar utility and physical characteristics. Adjustments were made for the sales as necessary to offset differences in various factors affecting value, such as date of sale, location, size, zoning density, and any other significant differences. All sales were adjusted for and analyzed on the basis of cash-equivalent sale prices. During the course of our research, we found land comparables that we believe provide insight into the value of the site. A summary of the relevant characteristics of each land comparable are presented on the following page.

Desert Regional Medical Center
Land Sales Summary

1150 N. Indian Canyon Drive
Palm Springs, Riverside County, California
As of July 31, 2018

Comp.	Location	Land Area	Sale Price	Sale Date / Deed Ref.	Grantor / Grantee	Shape / Topography	Zoning / Utilities	Unit Price	Comments
L-1	**NEC S. Palm Canyon Dr.; Mesqutie Ave.** **Palm Springs, CA**	510,088 Sq. Ft. 11.710 Acres	$7,600,000	Jun-14 208722	Palm Canyon 102 LP RREF II-DC Cameron LLC	Slightly Irregular Level	C-1 All	$14.90 per Sq Ft. $649,018 per Acre	This site is located along S. Palm Canyon Drive and borders residential land. The site has good access and visibility to S. Palm Canyon Drive to the west and Mesquite Road to the South. Tahquitz Creek limits access to the north.
L-2	**NEC Baristo Rd; S. Farrell Dr.** **Palm Springs, CA**	1,071,667 Sq Ft 24.602 Acres	$10,200,000	Nov-15 500509	Brandenburg Family Associates Jen California 3 LLC	Irregular Level	PD All	$9.52 per Sq Ft. $414,600 per Acre	This site is currently zoned PD, however a city official mentioned the site falls under R-3 regulations, and would revert to a R-3 zone if the PD were to not follow through. Currently there is a plan for 114 multifamily units and 72 detached residential units, but the site is currently vacant.
L-3	**2790 N. Palm Canyon Dr.** **Palm Springs, CA**	200,376 Sq Ft 4.600 Acres	$2,000,000	May-16 0216220	North First Street Properties GMG Palm Canyon, Inc.	Irregular Level	C-1 All	$9.98 per Sq Ft $434,783 per Acre	This comparable represents a multi-parcel tract that is located along N Palm Canyon Drive. The site is roughly rectangular in shape, and exhibits good visibility along N. Palm Canyon Drive. The sales price and sale date were confirmed via public records.
L-4	**N. Palm Canyon; Camino Monte Vista** **Palm Springs, CA**	41,443 Sq Ft 0.951 Acres	$1,350,000	Current Contract N/A	Not Disclosed Broker: Realty Trust Group	Irregular level	C1; R2 All	$32.57 per Sq Ft $1,419,558 per Acre	This site is the combination of two smaller parcels and is located along N. Palm Canyon Drive at its intersection with E. Camino Monte Vista. The site is currently under contract with an asking price of $1.35 million. The listing broker indicated the price under contract is "close" to the asking price.
Subject	1150 N. Indian Canyon Drive Palm Springs, California	1,101,754 Sq. Ft. 25.2928 Acres		- -		Irregular Level	PD, R-2 All Available	- -	

It is noted that, in addition to the land comparables utilized herein, the appraiser also interviewed market participants familiar with land values in the local market. Thus, market information derived via interviews with local market participants was also considered in the adjustment process applied to the comparables, which is summarized on the following chart.

Desert Regional Medical Center
Land Sales Adjustment Grid

July 31, 2018

Comparable Number	Subject	L-1		L-2		L-3		L-4	
LOCATION	1150 N. Indian Canyon Drive Palm Springs, California	NEC S. Palm Canyon Dr.; Mesqutie Ave. Palm Springs, CA		NEC Baristo Rd; S. Farrell Dr. Palm Springs, CA		2790 N. Palm Canyon Dr. Palm Springs, CA		N. Palm Canyon; Camino Monte Vista Palm Springs, CA	
SALE PRICE		$7,600,000		$10,200,000		$2,000,000		$1,350,000	
Land Area in Sq. Ft.	1,101,754	510,088		1,071,667		200,376		41,443	
Sale Price per Sq. Ft.		$14.90		$9.52		$9.98		$32.57	
VALUE ADJUSTMENTS									
PROPERTY RIGHTS CONVEYED									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
FINANCING TERMS									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
CONDITIONS OF SALE									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
EXPENDITURES AFTER SALE (Per SF)		$0.00		$0.00		$0.00		$0.00	
Adjusted Price per Sq. Ft.		*$14.90*		*$9.52*		*$9.98*		*$32.57*	
MARKET CONDITIONS	Jul-18	Jun-14		Nov-15		May-16		Current Contract	
Adjustment		8%		5%		4%		0%	
Adjusted Price per Sq. Ft.		*$16.09*		*$10.00*		*$10.38*		*$32.57*	
PHYSICAL CHARACTERISTICS									
Location	Good	Inferior	25%	Inferior	25%	Inferior	15%	Comparable	0%
Visibility / Frontage / Access	Good	Superior	-5%	Superior	-5%	Comparable	0%	Inferior	5%
Topography	Level	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Shape	Irregular	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Size (SF)	1,101,754	Superior	-5%	Comparable	0%	Superior	-10%	Superior	-25%
Zoning	PD, R-2	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Improvements	As If Vacant	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Utilities	All Available	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
ADJUSTED SALES PRICE PER SF		$18.50	15%	$12.00	20%	$10.90	5%	$26.06	-20%

COMPARABLE STATISTICS	
Maximum	$26.06
Minimum	$10.90
Mean	$16.87
Median	$15.25

LAND VALUATION					
	Land Area (Square Feet)		**Concluded Value (Square Feet)**		**Concluded Value**
Hospital Site	1,101,754	x	$16.00	=	$17,628,064
			ROUNDED	=	**$17,600,000**

LAND VALUATION CONCLUSION

The adjusted unit sale prices of the comparable market indicators range from $10.90 to $26.06, with a median of $15.25 and a mean of $16.87 per square foot. For the Desert Regional Medical Center site, our concluded unit value of $16.00 per square foot results in a land value of $17,600,000 for the subject hospital's land.

COST OF REPLACEMENT

Cost of Replacement New is defined on page 197 of *The Dictionary of Real Estate Appraisal, Sixth Edition* as "The estimated cost to construct, at current prices as of a specific date, a substitute for a building or other improvements, using modern materials and current standards, design, and layout."

The cost of replacement new is estimated utilizing the Calculator method. The Calculator method is based on the Marshall Valuation Service. The Marshall Valuation Service is a nationally recognized cost estimating service which publishes current costs for various building types and components. The hospital building was viewed as a Good/Excellent Class B quality hospital while the Stergios Building was viewed as an average quality medical office building.

The Marshall Valuation Service also considers typical contractors' overhead and profit. Overhead is divided into two categories: general overhead costs and job overhead costs. General overhead includes all costs that cannot be charged to any particular job, including office rent, office supplies and equipment, utilities, advertising and salaries for office personnel. Job overhead includes costs which can be charged directly to the jobs at hand but which cannot be charged directly to materials, labor or equipment. Such items include temporary buildings, barricades, permits, surveys and on-site utilities. Every contractor is entitled to a profit from construction projects. Contractors' overhead and profit, expressed as a percentage of the sum of materials and labor, are based upon extensive surveys of numerous major markets.

After applying the refinements to the base cost, we calculated the total adjusted cost per square foot and applied those indicators to the respective building areas. Further, we have considered the replacement cost for any miscellaneous building components.

Costs not included in the Marshall Valuation Service direct cost estimate include the indirect costs of property taxes during construction, contingency reserves and legal fees. We have analyzed indirect costs associated with a variety of healthcare real estate projects. These costs have historically ranged from 5% to 15%. Development of hospitals in California typically takes significantly longer than most other parts of the United States. Because of this, holding and indirect costs are much higher. Therefore, we have estimated herein 15% of direct costs.

ENTREPRENEURIAL INCENTIVE/PROFIT

Entrepreneurial profit is defined as "*A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the total cost of a property (cost of development) and its Market Value (property value after completion), which represents the entrepreneur's compensation for the risk and expertise associated with development*."[14] Entrepreneurial incentive is defined as *"The amount an entrepreneur expects to receive for his or her contribution to a project. Entrepreneurial incentive may be distinguished from entrepreneurial profit (often called developer's*

[14] Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

profit) in that it is the expectation of future profit as opposed to the profit actually earned on a development or improvement." [15]

It should be noted that, over a large enough sample, entrepreneurial profit and entrepreneurial incentive should be roughly equivalent. Analysis indicates that real estate developers have historically required an anticipated profit yield of 5% to 20% of total project costs. Based upon market surveys and research, with consideration given to the subject property's design and location, an entrepreneurial incentive/profit would be expected and it is estimated at 15%. This estimate is supported by the IRR Health Care Property Investment Survey 1st Quarter 2013, which reported entrepreneurial incentive/profit as follows:

Entrepreneurial Profit						
Property Type	0%	5%	10%	15%	20%	>20%
Assisted/Independent Living	0.0%	0.0%	25.0%	50.0%	12.5%	12.5%
Nursing Homes	0.0%	14.3%	28.6%	42.9%	14.2%	0.0%
Medical Office Buildings	0.0%	28.6%	28.6%	28.6%	14.3%	0.0%
LTAHCs	0.0%	0.0%	37.5%	37.5%	12.5%	12.5%
Rehab Hospitals	0.0%	0.0%	37.5%	37.5%	12.5%	0.0%
General Acute Care Hospitals	0.0%	14.3%	14.3%	57.1%	14.3%	0.0%
Other Specialty Medical Re	0.0%	0.0%	50.0%	33.3%	16.7%	0.0%

Source: Integra Realty Resources 2013 Survey

DEPRECIATION

The subject hospital was originally constructed in 1951 and has been expanded and renovated until 2003. The subject hospital's effective age was estimated at 32 years. Based on this effective age and a 50-year life (Section 97), the physical depreciation is projected at 64.0%. The depreciation is calculated on a straight-line basis (effective age divided by total economic life). The Stergios Building was built in 1989 and had an effective age of 25 years with an economic life of 45 years. Therefore, its physical depreciation is estimated at 55.6%.

The site improvements were estimated to have an effective age of 10 years. The site improvements generally have a blended economic life of 20 years. Overall incurable physical deterioration for the site improvements was therefore estimated at 50% (10 years divided by 20 years). It should be noted that we have estimated the costs of site improvements as a percentage of the building improvements.

FUNCTIONAL OBSOLESCENCE

Functional obsolescence is categorized into two major classifications - curable functional obsolescence and incurable functional obsolescence. Curable functional obsolescence is defined on page 57 of *The Dictionary of Real Estate Appraisal, Sixth Edition* as "*An element of depreciation; a curable defect caused by a flaw in the structure, materials, or design, which can be practically and economically corrected*." Incurable functional obsolescence is defined on page 116 of *The Dictionary of Real Estate Appraisal, Sixth Edition* as "*An element of depreciation; a defect caused by a deficiency or superadequacy in the structure, materials, or design that cannot be practically or economically corrected*." For the subject, both buildings appear to be functional for their respective uses.

[15] Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

EXTERNAL OBSOLESCENCE

A business enterprise analysis was performed separately by VMG Health's Business Valuation Group. Additionally we have analyzed the subject's revenue, expenses and EBITDA and have determine that the subject's earnings will support the underlying real estate. Therefore, the subject does not appear to suffer from any external (economic) obsolescence.

INDICATED VALUE OF IMPROVEMENTS

The following tables show the calculation of the depreciated cost of the subject property and pricing support for miscellaneous items and land improvements, as well as a summary of the Cost Approach as applied herein.

Desert Regional Medical Center
Building Cost Development

As of July 31, 2018 *MVS: July 2018*

BUILDINGS

Building Name		Desert Regional Medical Center		Hospital Basement		Stergios Building
Occupancy Number & Name	331	Main Hospital		Basement	341	Medical Office
Section Number & Page	15	24	15	24	15	22
Construction Class & Quality	B	Good/Excellent	B	Good	A	Average
Gross Building Area (SF)		410,230		105,156		14,500
Average Perimeter (Linear Feet) (estimate)		1,744		3,994		450
Number of Floors & Height per Story (Feet)	5	N/A	1	N/A	2	N/A
Base Cost - Square Foot	FN 1	$425.50		$162.00		$180.00
Refinements - Square Foot						
HVAC	FN 2	$12.25		$10.50		$8.05
Elevator		$0.00		$0.00		$0.00
Sprinkler System	FN 6	$2.21		$2.21		$3.55
Seismic	FN 4	$60.00		$0.00		$0.00
		$499.96		**$174.71**		**$191.60**
Refinements - Multipliers						
Number of Stories		1.010		1.000		1.000
Height per Story		1.000		1.000		1.000
Floor Area & Perimeter	FN 3	0.908		0.948		0.991
Current Cost Multiplier		1.030		1.030		1.040
Local Cost Multiplier		1.200		1.200		1.210
Net Multiplier		**1.134**		**1.172**		**1.247**
Replacement Cost New (CRN)						
Adjusted Cost - Square Foot		**$566.95**		**$204.76**		**$238.93**
Extended Base Cost		$232,579,899		$21,531,743		$3,464,485
Miscellaneous Features - Lump Sum		$2,150,268		$0		$0
Subtotal		$234,730,167		$21,531,743		$3,464,485
Soft Costs & Entrepreneurial Profit	**30.0%**	$70,419,050	**30.0%**	$6,459,523	**30.0%**	$1,039,346
CRN		$305,149,217		$27,991,266		$4,503,831
CRN Rounded		**$305,150,000**		**$27,990,000**		**$4,500,000**
CRN per Square Foot		**$743.85**		**$266.18**		**$310.34**
Depreciation						
Year Built		1951 -2003		1951 -2003		1989
Chronological (Physical) Age		N/A		N/A		29
Effective Age		32		32		25
Economic Life		50		50		45
Remaining Useful Life		18		18		20
Curable Physical Depreciation (Deferred Maintenance, Sprinkler and Seismic)	FN 5	$0		$0		$0
Physical Depreciation (Age/Life)	64.0%	$195,296,000	64.0%	$17,913,600	55.6%	$2,502,000
CRN less Physical Depreciation		$109,854,000		$10,076,400		$1,998,000
Functional Obsolescence	0.0%	$0	0.0%	$0	0.0%	$0
less Functional Obsolescence		$109,854,000		$10,076,400		$1,998,000
Economic Obsolescence	0.0%	$0	0.0%	$0	0.0%	$0
less Economic Obsolescence		$109,854,000		$10,076,400		$1,998,000
Depreciated Cost		**$109,900,000**		**$10,100,000**		**$2,000,000**
per Square Foot		**$267.90**		**$96.05**		**$137.93**

Desert Regional Medical Center
Footnotes - Cost Approach

1	Average between Excellent and Good Class B Hospital base costs.
2	Average between Excellent and Good difference between Extreme Climate and Moderate Climate.
3	Average perimeter 1,800 and average floor size of 75,000 square feet were the closest to the subject.
4	Seismic Cost on new construction
5	No deduction for Seismic was made under the Hypothetical Condition that the Seismic is cured.
6	Sprinkler costs include both Hospital and basement size. Per discussion with facilities director there is approximately 10% of hospital without fire sprinklers

MISCELLANEOUS BUILDING COMPONENTS & LAND IMPROVEMENTS

Desert Regional Medical Center: 1150 N. Indian Canyon Drive, Palm Springs, California

MISC. BUILDING COMPONENTS COST PRICING SUPPORT

Description	Quantity	Unit	Unit Cost	Current Cost Multiplier	Local Multiplier	Total Cost	Source
Hospital Canopies	4,014	SF	$135.00	1.00	1.20	$650,268	Contractor Research
Rooftop Helipad	1	Each	$1,250,000	1.00	1.20	$1,500,000	Comparables
	Replacement Cost New:					$2,150,268	

LAND IMPROVEMENTS COST DEVELOPMENT

Type	Description	MVS Section	Page	Quantity	Unit	Unit Base Cost	Current	Local	Soft Costs	Unit Replacement Cost, New	Replacement Cost New
					3%		(of Total Replacement Cost)				$10,129,200
	Cost of Replacement New (CRN)										**$10,100,000**
	CRN Rounded										**$10,100,000**

Effective Age	10	
Economic Life	20	
Remaining Useful Life	10	
Physical Depreciation (Age/Life)	50.0%	$5,050,000
CRN less Physical Depreciation		$5,050,000
Functional Obsolescence	0.0%	$0
less Functional Obsolescence		$5,050,000
Economic Obsolescence	0.0%	$0
less Economic Obsolescence		$5,050,000
Depreciated Cost (Rounded)		**$5,100,000**

Desert Regional Medical Center
Palm Springs, California
Cost Approach Summary

As of July 31, 2018

#	Building Name	Gross Floor Area	Effective Age	Economic Life	Physical Depreciation (Age/Life)	Cost of Replacement New (CRN)	Accrued Depreciation	CRN less Physical Depreciation (Rounded)	Fair Market Value (Rounded)
1	**Desert Regional Medical Center**	410,230	32	50	64.00%	$305,150,000	$195,296,000	$109,900,000	$109,900,000
2	**Hospital Basement**	105,156	32	50	64.00%	$27,990,000	$17,913,600	$10,100,000	$10,100,000
3	**Stergios Building**	14,500	25	45	55.56%	$4,500,000	$2,502,000	$2,000,000	$2,000,000
	Total Healthcare Structures	*529,886*				*$337,640,000*	*$215,711,600*	*$122,000,000*	*$122,000,000*
	Land Improvements		10	20	50.00%	$10,100,000	$5,050,000	$5,100,000	

	Cost of Replacement New (CRN)	Accrued Depreciation	CRN less Physical Depreciation (Rounded)	Fair Market Value (Rounded)
Total Buildings	$337,640,000	$215,711,600	$122,000,000	$122,000,000
Plus: Land Improvements	$10,100,000	$5,050,000	$5,100,000	$5,100,000
Total Improvements	$347,740,000	$220,761,600	$127,100,000	$127,100,000
Plus: Land Value	$17,600,000			$17,600,000
TOTAL	$365,340,000			$144,700,000
		Indicated Value		**$133,000,000** **to** **$156,000,000**

SUMMARY (DEPRECIATED COST ESTIMATE)

The value indicated via this approach is **$133,000,000 to $156,000,000 (Rounded).**

SALES COMPARISON APPROACH

In order to estimate the Fair Market Value in the subject property via the Sales Comparison Approach, a search was conducted for arm's-length sales of comparable properties. The selected comparable improved properties are considered to provide a range of unit prices within which the current real estate market is operating. Adjustments are then made to account for the differences between the subject property and the market comparables. Each of the market indicators is adjusted for: 1) property rights conveyed; 2) financing terms; 3) conditions of sale; 4) expenditures after sale; 5) non-realty items; 6) market conditions (time); 7) location; and 8) physical characteristics.

The subject property represents an acute care hospital. Due to the scarcity of comparable hospital sales, we searched regionally for comparable properties. These transactions (along with our adjustment grid) are presented on the following pages. Detailed write-ups of each comparable are presented in the *Addenda* to this report.

Desert Regional Medical Center
Improved Sales Summary

	Subject Property	Improved Sale No. 1	Improved Sale No. 2	Improved Sale No. 3	Improved Sale No. 4	Improved Sale No. 5	Improved Sale No. 6
Name	Desert Regional Medical Center	Saint Joseph Regional Medical Center	Memorial Hermann NE Hospital	Palm Beach Gardens	Loma Linda University Medical Center - Murrieta	Bellevue Medical Center	Auburn Regional Medical Center
Address	1150 N. Indian Canyon Drive	415 6th Street	18951 North Memorial Drive	3370 Burns Road	28062 Baxter Road	2510 Bellevue Medical Center Dr	202 N. Division Street
City	Palm Springs	Lewiston	Humble	Palm Beach Gardens	Murrieta	Bellevue	Auburn
State	California	Idaho	Texas	Florida	California	Nebraska	Washington
Transaction Date		4/23/2017	5/18/2016	2/13/2017	8/15/2014	12/31/2015	10/1/2012
Net Rentable Area:	529,886	453,148	421,887	274,788	248,706	266,527	399,176
Land Acres	25.293	2.270	38.896	22.019	17.180	21.509	12.762
Land-to-Building Ratio	2.08	0.22	4.02	3.49	3.01	3.52	1.39
Parking	Surface	Surface	Surface	Surface	Surface	Surface	Surface
Year Built		Unk	1975 - 2006	1964 -2010	2011	2010	1994
Year Renovated	1951 - 2003	N/A	N/A	N/A	N/A	N/A	N/A
Quality	Good	Good	Average	Good	Excellent	Excellent	Good
Sale Price		$87,500,000	$55,000,000	$61,300,000	$200,296,000	$130,145,000	$70,070,000
Price per SF		$193.09	$130.37	$223.08	$805.35	$488.30	$175.54

PROPERTY RIGHTS CONVEYED

Property rights consist of both the physical real estate and the rights involved in ownership of the real estate. No adjustment for this element of comparison was considered warranted as most of the comparables were sold on a Fee Simple Basis and as the Leased Fee sale was considered to be at market rent.

FINANCING TERMS

Financing arrangements may modify the sale prices of two identical properties. Thus, financing terms of the comparable sales must be investigated to determine which sales, if any, require adjustments to reflect normal market financing terms. The sales involved either cash to the seller, or involved financing at prevailing market rates and terms. Accordingly, the sales did not require adjustments for financing.

CONDITIONS OF SALE

Adjustments for conditions of sale usually reflect motivations of the buyer and the seller. In many situations the conditions of sale significantly affect transaction prices. Investigation of the market indicators revealed that no adjustments were considered necessary to these market indicators for Conditions of Sale except for Improved Sale 2. This comparable is an acute care hospital that was purchased by the tenant (operator) from the Northeast Hospital Authority. The purchase price included two medical office buildings and excess land which must be deducted from the purchase price. However, the Northeast Hospital Authority also discounted the price by the amount of depreciated capital the tenant has put in the hospital during their occupancy and this needs to be added to the purchase price. We have estimated the net effect of this is approximately $3,000,000 or a positive 6.0% adjustment.

EXPENDITURES AFTER SALE & NON-REALTY ITEMS

Consideration must be given to expenditures incurred immediately after sale which impacted the sale price. Similarly, the inclusion of significant non-realty items in the sale price can impact sale prices. Any of the comparable sales that were acquired with operations and FF&E were appropriately adjusted, and the prices shown in our analysis reflect only the real property. In the case of the compararables utilized herein, no adjustments for these elements of comparison were considered necessary.

MARKET CONDITIONS

An adjustment for market conditions may be required to the comparables if property values have appreciated or depreciated between the time of occurrence and the appraisal date. Both the national healthcare market and national real estate market as a whole have demonstrated moderate improvement over the past several years. Accordingly, an upward adjustment was applied to each comparable which occurred significantly before the effective date.

LOCATION AND PHYSICAL ADJUSTMENTS

Significant differences in the respective locations of the comparables were accounted for within the adjustment process. Dissimilar age/conditions warranted adjustments. With regard to quality and finish out, the comparables were analyzed in terms of the overall quality of construction and finish. We also considered the use of the property as well as the presence of ancillary square footage. A detailed description of the physical characteristics of each comparable is presented in the *Addenda* to this report. This analysis is summarized in the following adjustment grid.

Desert Regional Medical Center
Improved Sales Adjustment Grid

	Subject Property	Improved Sale No. 1	Improved Sale No. 2	Improved Sale No. 3	Improved Sale No. 4	Improved Sale No. 5	Improved Sale No. 6
Name		Saint Joseph Regional Medical Center	Memorial Hermann NE Hospital	Palm Beach Gardens	Loma Linda University Medical Center - Murrieta	Bellevue Medical Center	Auburn Regional Medical Center
Address	1150 N. Indian Canyon Drive	415 6th Street	18951 North Memorial Drive	3370 Burns Road	28062 Baxter Road	2510 Bellevue Medical Center Dr	202 N. Division Street
City	Palm Springs	Lewiston	Humble	Palm Beach Gardens	Murrieta	Bellevue	Auburn
State	California	Idaho	Texas	Florida	California	Nebraska	Washington
Sale Price per SF		*$193.09*	*$130.37*	*$223.08*	*$805.35*	*$488.30*	*$175.54*
Property Rights Conveyed		0%	0%	0%	0%	0%	0%
Adjusted Sale Price per SF		*$193.09*	*$130.37*	*$223.08*	*$805.35*	*$488.30*	*$175.54*
Financing Terms	Typical	0%	0%	0%	0%	0%	0%
Adjusted Sale Price per SF		*$193.09*	*$130.37*	*$223.08*	*$805.35*	*$488.30*	*$175.54*
Conditions of Sale		0%	6%	0%	0%	0%	0%
Adjusted Sale Price per SF		*$193.09*	*$138.19*	*$223.08*	*$805.35*	*$488.30*	*$175.54*
Expenditures After Sale		$0	$0	$0	$0	$0	$0
Non-Realty Items		$0	$0	$0	$0	$0	$0
Adjusted Sale Price per SF		*$193.09*	*$138.19*	*$223.08*	*$805.35*	*$488.30*	*$175.54*
Market Conditions	7/31/2018	1%	2%	1%	4%	3%	6%
Adjusted Sale Price per SF		*$195.02*	*$140.95*	*$225.31*	*$837.56*	*$502.95*	*$186.07*
Location/Physical Adjustments							
Location		20%	25%	20%	-5%	30%	0%
Age/Condition		-15%	-5%	-5%	-35%	-35%	-20%
Construction Quality		0%	5%	0%	-5%	-5%	0%
Finish Out		0%	0%	0%	0%	0%	0%
Land-to-Building Ratio		5%	0%	0%	0%	0%	0%
Building Size (SF)	529,886	0%	0%	-5%	-5%	-5%	0%
Parking		0%	0%	0%	0%	0%	0%
Misc.		0%	0%	0%	0%	0%	0%
Net Adjustments		10%	25%	10%	-50%	-15%	-20%
Adjusted Sale Price		***$214.52***	***$176.19***	***$247.84***	***$418.78***	***$427.51***	***$148.86***

Adjusted Unit Indicators (Per SF of NRA)		Concluded Value			
Population Size	6	***PSF:***	**$255.00**	to	**$295.00**
Minimum Adjusted Unit Price:	$148.86				
Maximum Adjusted Unit Price:	$427.51	***Total:***	**$135,100,000**	to	**$156,300,000**
Median Adjusted Unit Price:	$231.18				
Mean Adjusted Unit Price:	$272.28				

The preceding adjustment process resulted in a concluded range of $148.86 to $427.51 per square foot, with a mean of $272.28 per square foot and a median of $231.18 per square foot. Considering the overall quality of the subject property, as well as its location, a value range of $255.00 to $295.00 per square foot was considered reasonable. This equates to an overall value range (rounded) of $135,100,000 to $156,300,000 via the Sales Comparison Approach. This analysis is summarized in the preceding adjustment grid.

INCOME CAPITALIZATION APPROACH

Income-producing real estate is a capital good which is typically bought and sold primarily on the basis of the net income produced from the property. In all economic and investment analyses, of which real estate appraisal is an integral part, the value of a capital good is established and measured by calculating, as of a particular date, the present value of the anticipated future benefits (all sources of net revenue) to the owner over a specified period.

The Income Capitalization Approach is applied to analyze a property's capacity to generate benefits and converts these benefits into an indication of value. Application of this approach begins with the estimation of the potential gross income a property is capable of generating. Income levels may then be adjusted for vacancy and collection losses, resulting in the effective gross income. The applicable expenses of operating the property are then deducted from the effective gross income resulting in the net operating income estimate (NOI).

Direct capitalization uses a single year's stabilized NOI as a basis for a value indication by dividing the income by a capitalization rate. The rate chosen accounts for a recapture of the investment by the investor and should reflect all factors that influence the value of the property, such as tenant quality, property condition, neighborhood change, market trends, interest rates, and inflation. The rate may be extracted from local market transactions or, when transaction evidence is lacking, obtained from trade sources.

A discounted cash flow analysis focuses on the operating cash flows expected from the property and the proceeds of a hypothetical sale at the end of a holding period (the reversion). The cash flows and reversion are discounted to their present values using a market-derived discount rate and are added together to obtain a value indication. Because benefits to be received in the future are worth less than the same benefits received in the present, this method weights income in the early years more heavily than the income and the sale proceeds to be received later. The strength of the discounted cash flow method is its ability to recognize variations in projected net income, such as those caused by inflation, stepped leases, neighborhood change, or tenant turnover. Its weakness is that it requires many judgments regarding the actions of likely buyers and sellers of the property in the future.

In some situations, both methods yield a similar result. The discounted cash flow method is typically more appropriate for the analysis of investment properties with multiple or long-term leases, particularly leases with cancellation clauses or renewal options. It is especially useful for multi-tenant properties in volatile markets. The direct capitalization method is normally more appropriate for single-tenant properties and/or properties with relatively stable operating histories and expectations.

RENTAL INCOME

The market rental rate is defined as the most probable rental rate that the property would command if exposed on the open market for a time sufficient to attract a tenant with full knowledge of the options available in the marketplace.

Similar to the discussion presented in the introduction to the *Valuation* section of this report, there are generally three approaches for estimating a market rent. One of these approaches, a Return-On-Depreciated-Cost analysis, consists of performing a cost approach analysis and then estimating a market derived return of and on the subject's depreciated improvement cost and land value using a capital return methodology. This approach is considered reliable in this instance and is utilized herein.

Another method, called a market rent comparables approach, consists of analyzing the rental rates of actual leases of comparable health-care facilities. For the subject, this methodology was used.

A rental rate also can be developed through an analysis of the subject's financial operations. This method is a variation of the income capitalization approach in that historical financial statements are reviewed and analyzed. From this amount, earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR") are estimated, and a rent coverage ratio that indicates how much rent can be supported within the EBITDAR amount is selected. This approach is not considered reliable in this instance because the financials are not separated between the hospital and the El Mirador Medical Plaza and is not used.

We employed the methodology outlined above in order to estimate market rent for the subject property; our analysis is summarized in the following pages.

CAPITAL RETURN ANALYSIS

The capital return analysis develops an estimate of the fair market rental rate for the subject asset based on an application of rates that would provide for the adequate return on and recapture of capital invested in the specified asset. The basis for the capital investment is the previous cost analysis of the asset. The estimated return requirements on component values were estimated and then applied to the concluded depreciated value of the asset.

We reviewed several ground leases, which revealed returns ranging from 4.00% to 8.00% rounded. This range is confirmed by VMG Health's experience concerning other ground leases of commercial land. It is noted that the 2nd quarter 2018 Realty Rates Investor Survey published by RealtyRates.com indicates land lease capitalization rates for health-care and senior housing properties ranging from 3.15% to 11.87%, with an average of 7.63%. Furthermore, the largest group of survey respondents (over 50%) in CBRE's 2018 Healthcare Real Estate Investor/Developer Survey responded that typical ground rent return rates range from 5.00% to 6.00% for on-campus MOBs. Considering the subject's location and physical characteristics, a ground rent return of 5.50% is considered appropriate and is utilized for analysis purposes herein.

For the land improvements and building components, we reviewed additional yield rate and overall return rate information. According to the 2nd Quarter 2018 Realty Rates Investor Survey, overall rates for acute-care facilities range from 5.91% to 16.40% and average 10.57%. CBRE's **2018 Healthcare Real Estate Investor & Developer Survey Results** indicates a range of capitalization rates for various medical specialty properties. It is noted that the cap rates presented in the following table represent responses to the question: "What will be a 'market' capitalization rate for the following single-tenant healthcare investments in 2018? Assume 10 years of lease term remaining and average credit."

CAP RATE	Above 9.00%	8.50% - 8.99%	8.00% - 8.49%	7.50% - 7.99%	7.00% - 7.49%	6.50% - 6.99%	6.00% - 6.49%	5.50% - 5.99%	5.00% - 5.49%	4.50% - 5.00%	4.00% - 4.49%	Below 4.00%
Medical Office Building	1%	0%	0%	0%	4%	11%	18%	24%	29%	11%	1%	0%
Freestanding Emergency Department	0%	0%	4%	10%	25%	15%	27%	15%	1%	1%	0%	0%
Ambulatory Surgery Center	0%	0%	0%	5%	9%	29%	25%	18%	13%	0%	1%	0%
Wellness Center	1%	0%	6%	14%	17%	27%	20%	10%	4%	0%	0%	0%
Acute Care Hospital	0%	0%	8%	11%	34%	20%	17%	6%	2%	0%	2%	0%
Long Term Acute Care Hospital	5%	3%	15%	25%	26%	15%	7%	3%	2%	0%	0%	0%
Rehabilitation Hospital	0%	2%	11%	21%	33%	18%	12%	2%	2%	0%	0%	0%
Psychiatric Hospital	2%	10%	20%	28%	15%	18%	5%	3%	0%	0%	0%	0%
Skilled Nursing Facility	12%	17%	18%	13%	20%	13%	3%	3%	0%	0%	0%	0%

Within the acute care sector, approximately 82% of respondents to the above CBRE survey indicated cap rates between 6.00% and 7.99%. It is noted that these survey results typically reflect recently constructed properties.

It is noted that return rates have generally declined over the last 24 to 36 months. Several developers surveyed by VMG have recently noted that the expected return-on-cost rate for a build-to-suit project for a health system would be expected to be 50 to 150 basis points above the projected cap rate at sale.

The overall rate of return is a function of the combined rates applied to the land and to the improvements. The depreciated value of the improvements was estimated previously, as was the value (and return rate) for the underlying land. An investor would expect to achieve their desired return within the estimated amount of remaining economic life (essentially amortizing the depreciated value of the improvements over their remaining economic life). Thus, a return rate applied to the depreciated value of the improvements combined with a return rate applied to the land will result in an overall rate of return.

Given the age, condition, configuration, and location of the subject facility, we have utilized a yield rate of 8.50% for the improvements and a return rate of 5.50% for the land, which results in an implied overall rate of return of 10.37%.

Application of the selected rates to the land and to the improvements results in an annual rental rate of $28.31 per square foot. Considering the range of return rates indicated in the previously mentioned surveys, we believe a reasonable range around the concluded midpoint to be appropriate. Based on the preceding analysis, the concluded range of Fair Market Rent derived via the Return-On-Depreciated-Cost method is $26.00 to $30.00 per square foot on a triple-net basis. The calculations described above are summarized in the table presented on the following page.

Desert Regional Medical Center
Annual Fair Market Rental Calculation - Depreciated Cost

ASSUMPTIONS				
Item	**Identifier**	**Assumption**		**Comments**
Return on Building & Improvements	(a)	8.50%		
Return On Land	(b)	5.50%		
Implied Overall Rate of Return (Fee Simple)	(c)	10.37%		
Market Land Value	(d)	$17,600,000		
Depreciated Building Replacement Costs	(e)	$122,000,000		
Depreciated Site Improvements	(f)	$5,100,000		
Subtotal Real Property Value	(g)	**$144,700,000**		
Average Remaining Life of Building Improvements	(h)	18.0	Years	
Avg. Remaining Life of Site & Other Improvements	(i)	10.0	Years	
Subject Premises Size (Rentable SF)		529,886	Square Feet	

Calculation of Required Annual Cash Flow					**TOTAL**
	(b)		(d)		
Contract Ground Rent Requirement	5.5%	X	$17,600,000	=	**$968,000**

Return On Site Improvement/Other Costs					
	(a)				
Factor:	8.5%	for	10.0	=	0.1488

Annual Return On Site and Other Costs					**TOTAL**
			(f)		
Factor:	0.14880	X	$5,100,000	=	**$758,880**

Return On Existing Building					
	(a)		(h)		
Factor:	8.5%	for	18.0	=	0.1087

Annual Return On and Recapture of Building					
			(e)		
	0.1087	X	$122,000,000	=	**$13,261,400**

Total Annual Requirement - Fee Simple Interest	$14,988,280
Annual Fair Rental Value (Rounded)	*$15,000,000*
Annual Requirement Per Square Foot	$28.31
Rounded (Triple-Net Basis)	$28.00
Range:	**$26.00 to $30.00**

RENT COMPARABLES ANALYSIS

The market rental rate is defined as the most probable rental rate that the property would command if exposed on the open market for a time sufficient to attract a tenant with full knowledge of the options available in the marketplace. *The Appraisal of Real Estate, Fourteenth Edition*, states that "The rents of comparable properties can provide a basis for estimating market rent for a subject property once they have been reduced to the same unit basis applied to the subject property. Comparable rents may be adjusted just as the transaction prices of comparable properties are adjusted in the Sales Comparison Approach."

The subject property is a mature acute care hospital located in Palm Springs, California. Leases of the real estate interest in acute care facilities are relatively rare. Therefore, we have expanded our research throughout the United States. A Summary of the selected lease comparables is shown on the following page.

Desert Regional Medical Center
Competitive Rental Summary

	Subject Property	Competitive Rental No. 1	Competitive Rental No. 2	Competitive Rental No. 3	Competitive Rental No. 4	Competitive Rental No. 5	Competitive Rental No. 6	Competitive Rental No. 7
Name:	Desert Regional Medical Center	Great Falls Clinic Hospital	Bay Area Rehabilitation Hospital	Patients Medical Center	North Fulton Hospital	Frye Regional Medical Center	Palm Beach Gardens Medical Center	Arkansas Surgical Hospital
Address:	1150 N. Indian Canyon Drive	3010 15th Ave S	110 E Medical Center Blvd	4600 E. Sam Houston Pky	3000 Hospital Boulevard	420 N. Center Street	3360 and 3370 Burns Road	5201 Northshore Drive
City:	Palm Springs	Great Falls	Webster	Pasadena	Roswell	Hickory	Palm Beach Gardents	North Little Rock
State:	California	Montana	Texas	Texas	Georgia	North Carolina	Florida	Arkansas
Effective Lease Date:		Feb-16	Jun-15	Oct-10	Feb-14	Feb-14	Feb-14	Jun-14
Property Type:		Surgical Hospital	Rehabilitation Hospital	Acute Care Hospital	Acute Care Hospital	Acute Care Hospital	Acute Care Hospital	Surgical Hospital
Size of Host (SF):	529,886	63,254	53,513	117,000	316,840	396,552	280,858	125,909
Size of Leased Space (SF):	529,886	63,254	53,513	117,000	316,840	396,552	280,858	125,909
Land Acres:	25.293	6.890	11.020	13.000	19.770	6.901	22.019	19.470
Parking:	Surface	Surface	Surface	Surface	Surface	Surface and Garage	Surface	Surface
Year Built:	1951 - 2003	2015	2015	2006	1983	1911 - 2009	1964 - 2010	2005
Quality:	Good	Good	Good	Good	Good	Good	Good	Good
Lease Rate:	N/A	$2,552,000	$1,928,995	$3,440,000	$7,700,000	$7,800,000	$7,700,000	$3,765,279
Lease Rate PSF:	N/A	$40.35	$14.12	$29.40	$24.30	$19.67	$27.42	$29.90
Lease Type	N/A	Triple-net	Triple-Net	Triple-net	Triple-net	Triple-net	Triple-net	Triple-net

We analyzed the preceding comparables on a comparative basis. A summary of our adjustment process are presented below.

Desert Regional Medical Center
1150 N. Indian Canyon Drive

	Competitive Rental No. 1	Competitive Rental No. 2	Competitive Rental No. 3	Competitive Rental No. 4	Competitive Rental No. 5	Competitive Rental No. 6	Competitive Rental No. 7
Name	Great Falls Clinic Hospital	Bay Area Rehabilitation Hospital	Patients Medical Center	North Fulton Hospital	Frye Regional Medical Center	Palm Beach Gardens Medical Center	Arkansas Surgical Hospital
Address	3010 15th Ave S	110 E Medical Center Blvd	4600 E. Sam Houston Pky	3000 Hospital Boulevard	420 N. Center Street	3360 and 3370 Burns Road	5201 Northshore Drive
City	Great Falls	Webster	Pasadena	Roswell	Hickory	Palm Beach Gardents	North Little Rock
State	Montana	Texas	Texas	Georgia	North Carolina	Florida	Arkansas
Lease Rate Per SF	*$40.35*	*$14.12*	*$29.40*	*$24.30*	*$19.67*	*$27.42*	*$29.90*
Conditions of Lease	0%	0%	0%	0%	0%	0%	0%
Adjusted Lease Rate Per SF	*$40.35*	*$14.12*	*$29.40*	*$24.30*	*$19.67*	*$27.42*	*$29.90*
Tenant Improvements (TIs)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Adjusted Lease Rate Per SF	*$40.35*	*$14.12*	*$29.40*	*$24.30*	*$19.67*	*$27.42*	*$29.90*
Lease Basis (Operating Expenses)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Adjusted Lease Rate Per SF	*$40.35*	*$14.12*	*$29.40*	*$24.30*	*$19.67*	*$27.42*	*$29.90*
Market Conditions	2%	3%	8%	4%	4%	4%	4%
Adjusted Lease Rate Per SF	*$41.16*	*$14.54*	*$31.75*	*$25.27*	*$20.46*	*$28.52*	*$31.10*
Location and Physical Adjustments							
Location	20%	20%	15%	5%	25%	10%	15%
Land-to-Building Ratio	0%	0%	0%	0%	0%	0%	0%
Age/Condition	-30%	-30%	-30%	-15%	-5%	-5%	-25%
Construction Quality	5%	25%	0%	0%	0%	0%	5%
Size	-10%	-10%	-10%	-5%	-5%	-5%	-10%
Parking	0%	0%	0%	0%	-5%	0%	0%
Misc.	0%	0%	0%	0%	0%	0%	0%
Net Adjustments	-15%	5%	-25%	-15%	10%	0%	-15%
Adjusted Lease Rate Per SF	*$34.99*	*$15.27*	*$23.81*	*$21.48*	*$22.51*	*$28.52*	*$26.44*

Adjusted Unit Indicators (Per SF)		Concluded Unit Rent Range (Triple-net basis)			
Population Size:	7	Concluded Rent:	***$23.00***	***to***	***$27.00***
Minimum Adjusted Unit Price:	$15.27				
Maximum Adjusted Unit Price:	$34.99				
Median Adjusted Unit Price:	$23.81				
Mean Adjusted Unit Price:	$24.72				

The comparables analyzed herein indicate an adjusted annual rental rate ranging from $15.27 to $34.99 per square foot, with a mean of $24.72 and a median of $23.81 per square foot. Giving consideration to all of the comparables, we conclude a range of $23.00 to $27.00 per square foot with a mid-point of $25.00 per square foot.

Rent Coverage Ratio

A rental rate also can be developed through an analysis of the subject's financial operations. This method is a variation of the income capitalization approach in that historical financial statements are reviewed and the facility's earnings potential is established. From this, earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR") are estimated, and a rent coverage ratio that indicates how much rent can be supported within the EBITDAR amount is selected. Although EBITDAR is attributable to all assets of the healthcare facility's going-concern enterprise (real property, fixed assets, working capital, and intangible), it is the funding source that provides for returns on the facility's land as well as on and of the facility's improvements.

We have reviewed the subject's operations and historical EBITDAR. However, since the subject's financials do not delineate between Desert Regional Medical Center and the El Mirador Medical Plaza, we have not performed a Rent Coverage Ratio.

Rental Income: Reconciliation

As previously summarized, we have estimated rental income for the subject facility via a capital return methodology which resulted in an estimated range of $26.00 to $30.00 per square foot and a rent comparison approach that indicated a range of $23.00 to $27.00 per square foot. Placing our confidence on both approaches, we believe a market rent of $26.00 per square foot is reasonable.

Vacancy and Collection Loss

Vacancy and collection loss is a reduction of a property's potential gross income attributed to unrented space and late payment or nonpayment from existing tenants.

In the sale/leaseback sector, leases tend to be at least ten years; within sale/leasebacks executed in the healthcare real estate sector, lease terms are often even longer, with 15- and 20-year terms occurring frequently. Due to the length of lease terms, vacancy and collection loss deductions in the marketplace tend to be minimal. For instance, the cap rates we have reviewed tend to be calculated on either an absolute net basis, with no deduction, or a minimal deduction of 1% to 2%. Considering that the property appraised is an operating hospital, where there is a strong disincentive for periods of vacancy due to the difficulty and expense of an operator moving their operations, we deemed a 1% deduction appropriate. Furthermore, as noted, the cap rates observed in the marketplace do not have significant amounts deducted for vacancy; this methodology is thus consistent with the healthcare real estate market.

It is important to note that our allowance is not only intended to mirror solely the vacancy rate for a given submarket, but should also include an allowance or hedge for future rollover of leases and lost rent (collection loss).

Operating Expenses

In estimating the operating expenses for the subject, we considered that expenses such as: property taxes, property insurance, utilities, repairs and maintenance, janitorial, management, and security are passed through to the tenant in an absolute net lease agreement, which is typical within the single-tenant specialty hospital sector. We have reviewed operating expenses within the acute hospital sector (shown in the chart that follows). This research resulted in a total estimated reimbursable expense of $20.00 per square foot and non-reimbursable expenses of 1.0% for management and $0.50 per square foot for replacement reserves. It is noted that, due to the fact that the subject facility would be expected to be sold as a single-tenant net-lease investment, slight differences in reimbursable operating expenses would generally not significantly impact the value conclusion.

HOSPITAL REAL ESTATE OPERATING EXPENSE COMPARABLES	Expense Comparable 1	Expense Comparable 2	Expense Comparable 3*	Expense Comparable 4	Expense Comparable 5	Expense Comparable 6
LOCATION:	New Jersey	California	California	Tennessee	Arizona**	Arizona**
	$/Sq. Ft	$/Sq. Ft	$/Sq. Ft	$/Sq. Ft	$/Sq. Ft	$/Sq. Ft
Property Taxes	Exempt	Exempt	N/A	N/A	$1.69	$2.69
Utilities	$6.81	$16.72	$8.97	$12.08	$5.50	$3.68
Maintenance & Repairs	$4.87	Included in Utilities	Included in Utilities	Included in utilities	$4.00	$3.08
Insurance	$1.48	Included in Utilities	$1.58	Included in utilities	$1.00	$0.15
Medical gases	N/A	N/A	N/A	N/A	$0.78	$1.00
Janitorial (Housekeeping)	$6.80	$5.56	$7.68	$6.68	$3.18	$1.95
Security	$3.43	$1.27	$0.97	$0.97	$1.00	$0.96
Total	$23.39	$23.55	$19.20	$19.73	$17.15	$13.51

* This comparable includes on campus medical office space. Therefore, the utility and maintenance expenses are lower due to this factor.

**Maintenance & Insurance were unavailable and were estimated by VMG Health

DIRECT CAPITALIZATION

Under direct capitalization, the rate used to convert income into value is known as an overall rate. Derivation of an overall rate from comparable sales is preferred when sufficient market data is available. Factors affecting capitalization rates include, but are not limited to, the credit worthiness of the tenants, the age/condition of the property, and the date of sale. Select cap rate information was previously presented within the Capital Return analysis. Of our sales comparables, only Sale Comparable No. 5 had an indicated cap rate of 8.6%.

We also calculated an indication of overall capitalization rate via a Debt Coverage Ratio calculation as well as the Band of Investment methodology. These are summarized in the following chart.

Debt Coverage Ratio: OAR = DCR x MC x M	
Amortization Period (years)	23
Interest Rate	6.91%
LTV (M)	0.63
MC (Mortgage Constant)	0.0877
DCR (Debt Coverage Ratio)	1.80
OAR =	9.95%

Rates derived from RealtyRates.com 2Q17 Acute Care Facilities

Band of Investment			
Mortgage	63%	0.0877	5.53%
Equity	37%	0.1126	4.17%
		OAR =	9.70%

Rates derived from RealtyRates.com 2Q17 Acute Care Facilities

As evidenced in various cap rate studies presented in this report, cap rates have been declining over the past 24-36 months. However, participants in the current healthcare environment are beginning to note that cap rates have begun to show signs of increasing. In a March 2017 article written by Mike Hargrave from

Revista titled *"Are Hospital Cap Rates Beginning to Rise?"*, the author states that the end of 2015 saw record low rates at 7.4% and rates have now begun to rise to levels noted in 2014, as seen in the following chart:

Given the subject's location, age, overall quality, and perceived risk, an appropriate overall capitalization rate for the subject property toward the upper end of the range is considered reasonable.

Based upon the preceding discussion, we believe an overall capitalization rate of between 8.00% and 9.00% is appropriate. Our Direct Capitalization analysis is summarized in the following table.

Direct Capitalization Approach Desert Regional Medical Center 1150 N. Indian Canyon Drive Palm Springs, California					
NRA:	529,886 Square Feet				
Potential Gross Income:	529,886 S.F.	@	$26.00 P.S.F. =	$13,777,036	
Less Vacancy and Credit Loss:			1.0%	-137,770	
Effective Gross Income:					$13,639,266
Expenses:					
(Non-reimbursable)					
Management	as % of EGI	@	1% =	-136,393	
Misc./Replacement Reserve		@	$0.50 P.S.F. =	-264,943	
					-401,336
(Reimbursable)					
Taxes, Insurance, CAM	529,886 S.F.	@	$20.00 P.S.F. =	10,597,720	
			Vacancy Factor @	1%	
					-105,977
				Net Operating Income	$13,131,953
				Overall Capitalization Rate	8.00%
				Indicated Value	$164,149,413
				Less Deferred Maintenance and Seismic	$0
				Rounded	**$164,100,000**
				Rounded Value/SF	**$309.69**
				Overall Capitalization Rate	9.00%
				Indicated Value	$145,910,589
				Less Deferred Maintenance and Seismic	$0
				Rounded	**$145,900,000**
				Rounded Value/SF	**$275.34**

The Direct Capitalization indicated a range of $145,900,000 to $164,100,000.

VALUE RECONCILIATION – DESERT REGIONAL MEDICAL CENTER

Application of the appraisal methods resulted in the following indications of the Fair Market Value of the subject property and our conclusions, as of July 31, 2018 are shown below. The valuation approaches utilized herein were considered reliable and were each given consideration in the reconciliation process. Consideration was provided to each approach.

Fair Market Value indications, 'As Is' - Desert Regional Medical Center			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$133,000,000	$144,500,000	$156,000,000
Sales Comparison Approach	$135,100,000	$145,700,000	$156,300,000
Income Approach	$145,900,000	$155,000,000	$164,100,000
Average	**$138,000,000**	**$148,400,000**	**$158,800,000**
Concluded Value	**$140,000,000**	**$150,000,000**	**$160,000,000**

Our value estimate of the Desert Regional Medical Center is performed under the Hypothetical Condition that the hospital buildings are seismically compliant under California SB 1953 requirements.

EL MIRADOR MEDICAL PLAZA VALUATION

COST APPROACH

The Cost Approach is based on the principle of substitution, which states that a prudent purchaser would not pay more for a property than the amount required to purchase a similar site and construct similar improvements, without undue delay, to produce a property of equal desirability and utility.

The Cost Approach procedure begins by estimating the value of the subject site at its Highest and Best Use. The next step involves estimating the current replacement cost of the improvements and their accrued depreciation from all causes. The final step in the Cost Approach involves adding the depreciated value of the improvements to the estimated land value.

LAND VALUATION

In estimating the value of the site as though vacant, we used a direct market comparison of the subject site to recent sales of vacant land with similar utility and physical characteristics. Adjustments were made for the sales as necessary to offset differences in various factors affecting value, such as date of sale, location, size, zoning density, and any other significant differences. All sales were adjusted for and analyzed on the basis of cash-equivalent sale prices. During the course of our research, we found land comparables that we believe provide insight into the value of the site. A summary of the relevant characteristics of each land comparable are presented on the following page.

El Mirador Medical Plaza
Land Sales Summary

1180 N. Indian Canyon Drive
Palm Springs, Riverside County, California
As of July 31, 2018

Comp.	Location	Land Area	Sale Price	Sale Date / Deed Ref.	Grantor / Grantee	Shape / Topography	Zoning / Utilities	Unit Price	Comments
L-1	**NEC S. Palm Canyon Dr.; Mesquite Ave.** **Palm Springs** **California**	510,088 Sq Ft 11.710 Acres	$7,600,000	Jun-14 208722	Palm Canyon 102 LP RREF II-DC Cameron LLC	Slightly Irregular Level	C-1 All	$14.90 per Sq Ft. $649,018 per Acre	This site is located along S. Palm Canyon Drive and borders residential land. The site has good access and visibility to S. Palm Canyon Drive to the west and Mesquite Road to the South. Tahquitz Creek limits access to the north.
L-2	**NEC Baristo Rd; S. Farrell Dr.** **Palm Springs** **California**	1,071,667 Sq Ft 24.602 Acres	$10,200,000	Nov-15 500509	Brandenburg Family Associates Jen California 3 LLC	Irregular Level	PD All	$9.52 per Sq Ft. $414,600 per Acre	This site is currently zoned PD, however a city official mentioned the site falls under R-3 regulations, and would revert to a R-3 zone if the PD were to not follow through. Currently there is a plan for 114 multi family units and 72 detached residential units, but the site is currently vacant.
L-3	**2790 N. Palm Canyon Dr.** **Palm Springs** **California**	200,376 Sq Ft 4.600 Acres	$2,000,000	May-16 0216220	North First Street Properties GMG Palm Canyon, Inc.	Irregular Level	C-1 All	$9.98 per Sq Ft $434,783 per Acre	This comparable represents a multi-parcel tract that is located along N Palm Canyon Drive. The site is roughly rectangular in shape, and exhibits good visibility along N. Palm Canyon Drive. The sales price and sale date was confirmed via public records.
L-4	**N. Palm Canyon; Camino Monte Vista** **Palm Springs** **California**	41,443 Sq Ft 0.951 Acres	$1,350,000	Under Contract N/A	Not Disclosed Broker: Realty Trust Group	Irregular level	C1; R2 All	$32.57 per Sq Ft $1,419,558 per Acre	This site is the combination of two smaller parcels and is located along N. Palm Canyon Drive at its intersection with E. Camino Monte Vista. The site is currently under contract with an asking price of $1.35 million. The listing broker indicated the price under contract is "close" to the asking price.
Subject	1180 N. Indian Canyon Drive Palm Springs, California	157,687 Sq. Ft. 3.620 Acres		- -		Irregular Level	PD All Available	- -	

It is noted that, in addition to the land comparables utilized herein, the appraiser also interviewed market participants familiar with land values in the local market. Thus, market information derived via interviews with local market participants was also considered in the adjustment process applied to the comparables, which is summarized on the following chart.

El Mirador Medical Plaza
Land Sales Adjustment Grid

As of July 31, 2018

Comparable Number	Subject	L-1		L-2		L-3		L-4	
LOCATION	1180 N. Indian Canyon Drive Palm Springs, California	NEC S. Palm Canyon Dr.; Mesquite Ave. Palm Springs		NEC Baristo Rd; S. Farrell Dr. Palm Springs		2790 N. Palm Canyon Dr. Palm Springs		N. Palm Canyon; Camino Monte Vista Palm Springs	
SALE PRICE		$7,600,000		$10,200,000		$2,000,000		$1,350,000	
Land Area in Sq. Ft.	157,687	510,088		1,071,667		200,376		41,443	
Sale Price per Sq. Ft.		$14.90		$9.52		$9.98		$32.57	
VALUE ADJUSTMENTS									
PROPERTY RIGHTS CONVEYED									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
FINANCING TERMS									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
CONDITIONS OF SALE									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
EXPENDITURES AFTER SALE (Per SF)		$0.00		$0.00		$0.00		$0.00	
Adjusted Price per Sq. Ft.		*$14.90*		*$9.52*		*$9.98*		*$32.57*	
MARKET CONDITIONS	Jul-18	Jun-14		Nov-15		May-16		Under Contract	
Adjustment		8%		5%		4%		0%	
Adjusted Price per Sq. Ft.		*$16.09*		*$10.00*		*$10.38*		*$32.57*	
PHYSICAL CHARACTERISTICS									
Location	Good	Inferior	25%	Inferior	25%	Inferior	15%	Comparable	0%
Visibility / Frontage / Access	Good	Comparable	0%	Comparable	0%	Inferior	5%	Inferior	5%
Topography	Level	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Shape	Irregular	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Size (SF)	157,687	Inferior	10%	Inferior	15%	Comparable	0%	Superior	-20%
Zoning	PD	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Improvements	As If Vacant	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Utilities	All Available	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
ADJUSTED SALES PRICE PER SF		$21.72	35%	$14.00	40%	$12.46	20%	$27.68	-15%

COMPARABLE STATISTICS	
Maximum	$27.68
Minimum	$12.46
Mean	$18.97
Median	$17.86

LAND VALUATION							
MOB	**Land Area (Square Feet)**			**Concluded Value (Square Feet)**		**Concluded Value**
Attributable to MOB	157,687	sf	x	$18.50	=	$2,917,210
				Rounded	=	**$2,920,000**

LAND VALUATION CONCLUSION

The adjusted unit sale prices of the comparable market indicators range from $12.46 to $27.68, with a median of $17.86 and a mean of $18.97 per square foot. For the El Mirador Medical Plaza, our concluded unit value of $18.50 per square foot results in a land value of $2,920,000 for the El Mirador Medical Plaza's land.

COST OF REPLACEMENT

Cost of Replacement New is defined on page 197 of *The Dictionary of Real Estate Appraisal, Sixth Edition* as "The estimated cost to construct, at current prices as of a specific date, a substitute for a building or other improvements, using modern materials and current standards, design, and layout."

The cost of replacement new is estimated utilizing the Calculator method. The Calculator method is based on the Marshall Valuation Service. The Marshall Valuation Service is a nationally recognized cost estimating service which publishes current costs for various building types and components. The El Mirador Medical Plaza was viewed as a Good Class A quality medical office building.

The Marshall Valuation Service also considers typical contractors' overhead and profit. Overhead is divided into two categories: general overhead costs and job overhead costs. General overhead includes all costs that cannot be charged to any particular job, including office rent, office supplies and equipment, utilities, advertising and salaries for office personnel. Job overhead includes costs which can be charged directly to the jobs at hand but which cannot be charged directly to materials, labor or equipment. Such items include temporary buildings, barricades, permits, surveys and on-site utilities. Every contractor is entitled to a profit from construction projects. Contractors' overhead and profit, expressed as a percentage of the sum of materials and labor, are based upon extensive surveys of numerous major markets.

After applying the refinements to the base cost, we calculated the total adjusted cost per square foot and applied those indicators to the respective building areas. Further, we have considered the replacement cost for any miscellaneous building components.

Costs not included in the Marshall Valuation Service direct cost estimate include the indirect costs of property taxes during construction, contingency reserves and legal fees. We have analyzed indirect costs associated with a variety of healthcare real estate projects. These costs have historically ranged from 5% to 15%. As much of the indirect costs of medical office buildings are captured in the base cost, we will go to the low end of the range. Therefore, we have estimated herein 5% of direct costs.

ENTREPRENEURIAL INCENTIVE/PROFIT

Entrepreneurial profit is defined as "*A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the total cost of a property (cost of development) and its Market Value (property value after completion), which represents the entrepreneur's compensation for the risk and expertise associated with development*."[16] Entrepreneurial incentive is defined as *"The amount an entrepreneur expects to receive for his or her contribution to a project. Entrepreneurial incentive may be distinguished from entrepreneurial profit (often called developer's profit) in*

[16] Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

that it is the expectation of future profit as opposed to the profit actually earned on a development or improvement." [17]

It should be noted that, over a large enough sample, entrepreneurial profit and entrepreneurial incentive should be roughly equivalent. Analysis indicates that real estate developers have historically required an anticipated profit yield of 5% to 20% of total project costs. Based upon market surveys and research, with consideration given to the subject property's design and location, an entrepreneurial incentive/profit would be expected and it is estimated at 15%. This estimate is supported by the IRR Health Care Property Investment Survey 1st Quarter 2013, which reported entrepreneurial incentive/profit as follows:

Entrepreneurial Profit						
Property Type	0%	5%	10%	15%	20%	>20%
Assisted/Independent Living	0.0%	0.0%	25.0%	50.0%	12.5%	12.5%
Nursing Homes	0.0%	14.3%	28.6%	42.9%	14.2%	0.0%
Medical Office Buildings	0.0%	28.6%	28.6%	28.6%	14.3%	0.0%
LTAHCs	0.0%	0.0%	37.5%	37.5%	12.5%	12.5%
Rehab Hospitals	0.0%	0.0%	37.5%	37.5%	12.5%	0.0%
General Acute Care Hospitals	0.0%	14.3%	14.3%	57.1%	14.3%	0.0%
Other Specialty Medical Re	0.0%	0.0%	50.0%	33.3%	16.7%	0.0%

Source: Integra Realty Resources 2013 Survey

DEPRECIATION

The El Mirador Medical Plaza was originally constructed in 1994. The subject's effective age was estimated at 20 years. Based on this effective age and a 50-year life (Section 97), the physical depreciation is projected at 40.0%. The depreciation is calculated on a straight-line basis (effective age divided by total economic life). The parking garage was also built in 1994 and had an effective age of 24 years with an economic life of 45 years. Therefore, its physical depreciation is estimated at 53.3%.

The site improvements were estimated to have an effective age of 10 years. The site improvements generally have a blended economic life of 20 years. Overall incurable physical deterioration for the site improvements was therefore estimated at 50% (10 years divided by 20 years). It should be noted that we have estimated the costs of site improvements as a percentage of the building improvements.

FUNCTIONAL OBSOLESCENCE

Functional obsolescence is categorized into two major classifications - curable functional obsolescence and incurable functional obsolescence. Curable functional obsolescence is defined on page 57 of The Dictionary of Real Estate Appraisal, Sixth Edition as "*An element of depreciation; a curable defect caused by a flaw in the structure, materials, or design, which can be practically and economically corrected*." Incurable functional obsolescence is defined on page 116 of The Dictionary of Real Estate Appraisal, Sixth Edition as "*An element of depreciation; a defect caused by a deficiency or superadequacy in the structure, materials, or design that cannot be practically or economically corrected*." The subject appears to be functional for its use.

[17] Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

External Obsolescence

A business enterprise analysis was performed separately by VMG Health's Business Valuation Group. Additionally we have analyzed the subject's revenue, expenses and EBITDA and have determine that the subject's earnings will support the underlying real estate. Additionally, the subject is fully occupied/leased. Therefore, the subject does not appear to suffer from any external (economic) obsolescence.

Indicated Value of Improvements

The following tables show the calculation of the depreciated cost of the subject property and pricing support for miscellaneous items and land improvements, as well as a summary of the Cost Approach as applied herein.

El Mirador Medical Plaza

Building Cost Development

As of July 31, 2018 *MVS DATE: July-18*

BUILDINGS

Building Name		**El Mirador Medical Plaza**		**Parking Garage**
Address				
Occupancy Number & Name	341	Medical Office Buildings	345	Parking Garage
Section Number & Page	15	22	14	34
Construction Class & Quality	A	Good	B	Good
Gross Building Area (SF)	*FN#1*	163,324		218,376
Gross Perimeter (Linear Ft) (estimate)		1,500		N/A
Number of Floors & Height per Story (Ft)	4	N/A	2	N/A
Base Cost - Square Foot	*FN#2*	$235.00		$69.00
Refinements - Square Foot				
HVAC		$10.50		$0.00
Elevator		$0.00		$0.00
Sprinkler System	*FN#3*	$2.82		$2.26
Misc.	*FN#4*	$29.41		$0.00
		$277.73		$71.26
Refinements - Multipliers				
Number of Stories		1.005		1.000
Height per Story		1.000		1.000
Floor Area & Perimeter	*FN#5*	0.943		1.000
Current Cost Multiplier		1.040		1.020
Local Cost Multiplier		1.210		1.200
Net Multiplier		1.193		1.224
Replacement Cost New (CRN)				
Adjusted Cost - Square Foot		$331.33		$87.22
Extended Base Cost		$54,114,141		$19,046,755
Misc. Bldg. Components Pricing Support (see table)		$549,404		$0
Subtotal		$54,663,545		$19,046,755
Soft Costs (Indirect)	5.0%	$2,733,177	5.0%	$952,338
Subtotal		$57,396,722		$19,999,093
Entrepreneurial Profit	15.0%	$8,609,508	15.0%	$2,999,864
CRN		$66,006,230		$22,998,957
CRN Rounded		**$66,010,000**		**$23,000,000**
CRN per Square Foot		**$404.17**		**$105.32**
Depreciation				
Year Built		1994		1994
Chronological (Physical) Age		24		24
Effective Age		20		24
Economic Life		50		45
Remaining Useful Life		30		21
Physical Depreciation (Age/Life)	40.0%	$26,404,000	53.3%	$12,259,000
CRN less Physical Depreciation		$39,606,000		$10,741,000
Functional Obsolescence	0.0%	$0	0.0%	$0
less Functional Obsolescence		$39,606,000		$10,741,000
Economic Obsolescence	0.0%	$0	0.0%	$0
less Economic Obsolescence		$39,606,000		$10,741,000
Depreciated Cost		**$39,610,000**		**$10,740,000**
per Square Foot		**$242.52**		**$49.18**

El Mirador Medical Plaza
Footnotes - Cost Approach

1180 N. Indian Canyon Drive
Palm Springs, Riverside County, California
As of July 31, 2018

Footnotes to Cost Approach

Footnote	Description
1	Building square footage is based on square footage of the building provided by the hospital operator.
2	Based on Class A Good medical office space (MVS: Sec 15; Pg. 22).
3	Based on 150,000 square feet.
4	Adjustment is based upon two linac vaults (3,150 square feet), higher finish out costs in radiology area (2,866 square feet), and ASC/GI space adjustment (19,500 square feet).
5	Average of 0.936 and 0.949 because perimeter is between 1,400 and 1,600 square feet.

MISCELLANEOUS BUILDING COMPONENTS & LAND IMPROVEMENTS

El Mirador Medical Plaza: 1180 N. Indian Canyon Drive, Palm Springs, California

MISC. BUILDING COMPONENTS COST PRICING SUPPORT

Description	Quantity	Unit	Unit Cost	Current Cost Multiplier	Local Multiplier	Total Cost	Source
EMMP Canopies	5,276	SF	$82.75	1.04	1.21	$549,404	MVS S15, P37
Replacement Cost New:						**$549,404**	

LAND IMPROVEMENTS COST DEVELOPMENT

Type	Description	MVS Section	Page	Quantity	Unit	Unit Base Cost	Current	Local	Soft Costs	Profit	Unit Replacement Cost, New	Replacement Cost New

Cost of Replacement New (CRN)	**2.0% (of Total Replacement Cost)**	**$1,780,200**
CRN Rounded		**$1,780,000**

Effective Age	10	
Economic Life	20	
Remaining Useful Life	10	
Physical Depreciation (Age/Life)	50.0%	$890,000
CRN less Physical Depreciation		$890,000
Functional Obsolescence	0.0%	$0
less Functional Obsolescence		$890,000
Economic Obsolescence	0.0%	$0
less Economic Obsolescence		$890,000
Depreciated Cost (Rounded)		**$890,000**

Notes

(1) It is noted that our analysis of previous projects suggests that site improvements typically cost 2% to 7% of building replacement cost. However, since the subject parking garage has been included in the building cost analysis, we have gone to the low end of the range. While components within this site improvement analysis were estimated, the resulting value is within this range; accordingly, this site improvement analysis is considered reasonable.

(2) As noted within our Appraisal Report, a 20-year life is typical for site improvements on a blended basis. Separate lives for each item were not utilized as the implied precision of affixing separate lives to each site improvement would not result in a materially different total value for the site improvements. Additionally, our treatment of the land improvements is similar to the buildings where an HVAC system has a different economic life than a foundation but both items are blended into a single building economic life.

El Mirador Medical Plaza
Palm Springs, California
Cost Approach Summary

As of July 31, 2018

#	Building Name	GBA (Sq. Ft.)	Effective Age	Economic Life	Physical Depreciation (Age/Life)	Cost of Replacement New (CRN)	Accrued Depreciation	CRN less Physical Depreciation (Rounded)	Less Functional Obsolescence	less Economic Obsolescence	Total (Rounded)
1	**El Mirador Medical Plaza**	163,324	20	50	40.00%	$66,010,000	$26,404,000	$39,610,000	$0	$0	$39,610,000
2	**Parking Garage**	218,376	24	45	53.33%	$23,000,000	$12,259,000	$10,740,000	$0	$0	$10,740,000
	TOTALS	*381,700*				*$89,010,000*	*$38,663,000*	*$50,350,000*	*$0*	*$0*	*$50,350,000*
	Land Improvements		10	20	50.00%	$1,780,000	$890,000	$890,000	$0	$0	$890,000

	Cost of Replacement New (CRN)	Accrued Depreciation	CRN less Physical Depreciation (Rounded)	Less Functional Obsolescence	less Economic Obsolescence	Total (Rounded)
Total Buildings	$89,010,000	$38,663,000	$50,350,000	$0	$0	$50,350,000
Plus: Land Improvements	$1,780,000	$890,000	$890,000	$0	$0	$890,000
Total Improvements	$90,790,000	$39,553,000	$51,240,000	$0	$0	$51,240,000
Plus: Land Values	$2,920,000					$2,920,000
TOTAL	$93,710,000					$54,160,000
			Rounded			***$54,200,000***
			Indicated Value			**$49,900,000 to $58,500,000**

SUMMARY (DEPRECIATED COST ESTIMATE)

The value indicated via this approach is **$49,900,000 to $58,500,000 (Rounded).**

Sales Comparison Approach

In order to estimate the Fair Market Value in the subject property via the Sales Comparison Approach, a search was conducted for arm's-length sales of comparable properties. The selected comparable improved properties are considered to provide a range of unit prices within which the current real estate market is operating. Adjustments are then made to account for the differences between the subject property and the market comparables. Each of the market indicators is adjusted for: 1) property rights conveyed; 2) financing terms; 3) conditions of sale; 4) expenditures after sale; 5) non-realty items; 6) market conditions (time); 7) location; and 8) physical characteristics.

The subject property represents medical office building. We have researched local comparable properties. These transactions (along with our adjustment grid) are presented on the following pages. Detailed write-ups of each comparable are presented in the ***Addenda*** to this report.

El Mirador Medical Plaza
Improved Sales Summary

	Subject Property	Improved Sale No. 1	Improved Sale No. 2	Improved Sale No. 3	Improved Sale No. 4
Name	El Mirador Medical Plaza	Diagnostic Medical Building	353 S. Palm Canyon Drive	Desert Springs Professional Plaza	Tahquitz Professional Bldg.
Address	1180 N. Indian Canyon Drive	1330 N Indian Canyon Drive	353 S. Palm Canyon Drive	1100 N. Palm Canyon Drive	3001 E. Tahquitz Canyon Way
City	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs
State	California	California	California	California	California
Property Type		MOB	POB	MOB	POB
Transaction Date		10/21/2014	1/6/2017	8/11/2017	4/29/2011
Net Rentable Area:	163,324	9,932	5,927	44,304	11,530
Land Acres	3.620	0.740	0.370	1.970	0.670
Land-to-Building Ratio	0.97	3.25	2.72	1.94	2.53
Parking	Surface	Surface	Surface	Surface	Surface
Year Built	1994	1979	Unknown	1978	1980
Year Renovated		N/A	N/A	N/A	N/A
Quality	Good	Average	Good	Good	Average
Sale Price		$1,475,000	$1,600,000	$12,500,000	$1,050,000
Price per SF		$148.51	$269.95	$282.14	$91.07
Capitalization Rate		9.54%	4.86%	N/A	N/A

PROPERTY RIGHTS CONVEYED

Property rights consist of both the physical real estate and the rights involved in ownership of the real estate. Comparable No. 3 was adjusted down due to it being a partial interest transaction. No other adjustment for this element of comparison was considered warranted as most of the comparables were sold on a Fee Simple Basis.

FINANCING TERMS

Financing arrangements may modify the sale prices of two identical properties. Thus, financing terms of the comparable sales must be investigated to determine which sales, if any, require adjustments to reflect normal market financing terms. The sales involved either cash to the seller, or involved financing at prevailing market rates and terms. Accordingly, the sales did not require adjustments for financing.

CONDITIONS OF SALE

Adjustments for conditions of sale usually reflect motivations of the buyer and the seller. In many situations the conditions of sale significantly affect transaction prices. Comparable No. 4 was adjusted up for it being sold under high vacancy (distressed) conditions. No other adjustments for Conditions of Sale were warranted.

EXPENDITURES AFTER SALE & NON-REALTY ITEMS

Consideration must be given to expenditures incurred immediately after sale which impacted the sale price. Similarly, the inclusion of significant non-realty items in the sale price can impact sale prices. Any of the comparable sales that were acquired with operations and FF&E were appropriately adjusted, and the prices shown in our analysis reflect only the real property. In the case of the compararables utilized herein, no adjustments for these elements of comparison were considered necessary.

MARKET CONDITIONS

An adjustment for market conditions may be required to the comparables if property values have appreciated or depreciated between the time of occurrence and the appraisal date. Both the national healthcare market and national real estate market as a whole have demonstrated moderate improvement over the past several years. Accordingly, an upward adjustment was applied to each comparable which occurred significantly before the effective date.

LOCATION AND PHYSICAL ADJUSTMENTS

Significant differences in the respective locations of the comparables were accounted for within the adjustment process. Dissimilar age/conditions warranted adjustments. With regard to quality and finish out, the comparables were analyzed in terms of the overall quality of construction and finish. Please note that under the finish out category, we adusted the comparables for the subject's cancer center, imaging and surgery center space. A detailed description of the physical characteristics of each comparable is presented in the *Addenda* to this report. This analysis is summarized in the following adjustment grid.

El Mirador Medical Plaza Improved Sales Adjustment Grid					
	Subject Property	**Improved Sale No. 1**	**Improved Sale No. 2**	**Improved Sale No. 3**	**Improved Sale No. 4**
Name		Diagnostic Medical Building	353 S. Palm Canyon Drive	Desert Springs Professional Plaza	Tahquitz Professional Bldg.
Address	1180 N. Indian Canyon Drive	1330 N Indian Canyon Drive	353 S. Palm Canyon Drive	1100 N. Palm Canyon Drive	3001 E. Tahquitz Canyon Way
City	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs
State	California	California	California	California	California
Sale Price per SF		*$148.51*	*$269.95*	*$282.14*	*$91.07*
Property Rights Conveyed		0%	0%	-5%	0%
Adjusted Sale Price per SF		*$148.51*	*$269.95*	*$268.03*	*$91.07*
Financing Terms	Typical	0%	0%	0%	0%
Adjusted Sale Price per SF		*$148.51*	*$269.95*	*$268.03*	*$91.07*
Conditions of Sale		0%	0%	0%	60%
Adjusted Sale Price per SF		*$148.51*	*$269.95*	*$268.03*	*$145.71*
Expenditures After Sale		$0.00	$0.00	$0.00	$0.00
Non-Realty Items		$0.00	$0.00	$0.00	$0.00
Adjusted Sale Price per SF		*$148.51*	*$269.95*	*$268.03*	*$145.71*
Market Conditions	7/31/2018	8%	3%	2%	15%
Adjusted Sale Price per SF		*$160.39*	*$278.05*	*$273.39*	*$167.57*
Location/Physical Adjustments					
Location		0%	0%	0%	0%
Age/Condition		15%	0%	15%	5%
Construction Quality		10%	10%	0%	10%
Finish Out		15%	10%	10%	25%
Land-to-Building Ratio		0%	0%	0%	0%
Building Size (SF)	163,324	-20%	-25%	-10%	-20%
Parking		10%	20%	10%	10%
Misc. (on campus)		10%	10%	5%	10%
Net Adjustments		40%	25%	30%	40%
Adjusted Sale Price		***$224.55***	***$347.56***	***$355.41***	***$234.60***

Adjusted Unit Indicators (Per SF of NRA)			**Concluded Range of Value**		
Population Size	4		**Low**	**Mid**	**High**
Minimum Adjusted Unit Price:	$224.55	***PSF:***	**$300.00**	**$325.00**	**$350.00**
Maximum Adjusted Unit Price:	$355.41				
Median Adjusted Unit Price:	$291.08	***Total (Rounded):***	**$49,000,000**	**$53,100,000**	**$57,200,000**
Mean Adjusted Unit Price:	$290.53				

The preceding adjustment process resulted in a concluded range of $224.55 to $355.41 per square foot, with a mean of $290.53 per square foot and a median of $291.08 per square foot. Considering the overall quality of the subject property, as well as its location, a value range of $300.00 to $350.00 per square foot was considered reasonable. This equates to an overall value range (rounded) of $49,000,000 to $57,200,000 via the Sales Comparison Approach. This analysis is summarized in the preceding adjustment grid.

INCOME CAPITALIZATION APPROACH

Income-producing real estate is a capital good which is typically bought and sold primarily on the basis of the net income produced from the property. In all economic and investment analyses, of which real estate appraisal is an integral part, the value of a capital good is established and measured by calculating, as of a particular date, the present value of the anticipated future benefits (all sources of net revenue) to the owner over a specified period.

The Income Capitalization Approach is applied to analyze a property's capacity to generate benefits and converts these benefits into an indication of value. Application of this approach begins with the estimation of the potential gross income a property is capable of generating. Income levels may then be adjusted for vacancy and collection losses, resulting in the effective gross income. The applicable expenses of operating the property are then deducted from the effective gross income resulting in the net operating income estimate (NOI).

Direct capitalization uses a single year's stabilized NOI as a basis for a value indication by dividing the income by a capitalization rate. The rate chosen accounts for a recapture of the investment by the investor and should reflect all factors that influence the value of the property, such as tenant quality, property condition, neighborhood change, market trends, interest rates, and inflation. The rate may be extracted from local market transactions or, when transaction evidence is lacking, obtained from trade sources.

A discounted cash flow analysis focuses on the operating cash flows expected from the property and the proceeds of a hypothetical sale at the end of a holding period (the reversion). The cash flows and reversion are discounted to their present values using a market-derived discount rate and are added together to obtain a value indication. Because benefits to be received in the future are worth less than the same benefits received in the present, this method weights income in the early years more heavily than the income and the sale proceeds to be received later. The strength of the discounted cash flow method is its ability to recognize variations in projected net income, such as those caused by inflation, stepped leases, neighborhood change, or tenant turnover. Its weakness is that it requires many judgments regarding the actions of likely buyers and sellers of the property in the future.

In some situations, both methods yield a similar result. The discounted cash flow method is typically more appropriate for the analysis of investment properties with multiple or long-term leases, particularly leases with cancellation clauses or renewal options. It is especially useful for multi-tenant properties in volatile markets. The direct capitalization method is normally more appropriate for single-tenant properties and/or properties with relatively stable operating histories and expectations.

RENTAL INCOME

The market rental rate is defined as the most probable rental rate that the property would command if exposed on the open market for a time sufficient to attract a tenant with full knowledge of the options available in the marketplace.

Similar to the discussion presented in the introduction to the *Valuation* section of this report, there are generally three approaches for estimating a market rent. One of these approaches, a Return-On-Depreciated-Cost analysis, consists of performing a cost approach analysis and then estimating a market derived return of and on the subject's depreciated improvement cost and land value using a capital return methodology. This approach is considered reliable in this instance and is utilized herein.

Another method, called a market rent comparables approach, consists of analyzing the rental rates of actual leases of comparable health-care facilities. For the subject, this methodology was used.

A rental rate also can be developed through an analysis of the subject's financial operations. This method is a variation of the income capitalization approach in that historical financial statements are reviewed and analyzed. From this amount, earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR") are estimated, and a rent coverage ratio that indicates how much rent can be supported within the EBITDAR amount is selected. This approach is not typical utilized with medical office properties.

We employed the methodology outlined above in order to estimate market rent for the subject property; our analysis is summarized in the following pages.

CAPITAL RETURN ANALYSIS

The capital return analysis develops an estimate of the fair market rental rate for the subject asset based on an application of rates that would provide for the adequate return on and recapture of capital invested in the specified asset. The basis for the capital investment is the previous cost analysis of the asset. The estimated return requirements on component values were estimated and then applied to the concluded depreciated value of the asset.

We reviewed several ground leases, which revealed returns ranging from 4.00% to 8.00% rounded. This range is confirmed by VMG Health's experience concerning other ground leases of commercial land. It is noted that the 2nd quarter 2018 Realty Rates Investor Survey published by RealtyRates.com indicates land lease capitalization rates for health-care and senior housing properties ranging from 3.15% to 11.87%, with an average of 7.63%. Furthermore, the largest group of survey respondents (over 50%) in CBRE's 2018 Healthcare Real Estate Investor/Developer Survey responded that typical ground rent return rates range from 5.00% to 6.00% for on-campus MOBs. Considering the subject's location and physical characteristics, a ground rent return of 5.50% is considered appropriate and is utilized for analysis purposes herein.

For the land improvements and building components, we reviewed additional yield rate and overall return rate information. According to the 2nd Quarter 2018 Realty Rates Investor Survey, overall rates for acute-care facilities range from 6.16% to 12.76% and average 8.87%. CBRE's **2018 Healthcare Real Estate Investor & Developer Survey Results** indicates a range of capitalization rates for various medical specialty properties. It is noted that the cap rates presented in the following table represent responses to the question: "What will be a 'market' capitalization rate for the following single-tenant healthcare investments in 2018? Assume 10 years of lease term remaining and average credit."

CAP RATE	Above 9.00%	8.50% - 8.99%	8.00% - 8.49%	7.50% - 7.99%	7.00% - 7.49%	6.50% - 6.99%	6.00% - 6.49%	5.50% - 5.99%	5.00% - 5.49%	4.50% - 5.00%	4.00% - 4.49%	Below 4.00%
Medical Office Building	1%	0%	0%	0%	4%	11%	18%	24%	29%	11%	1%	0%
Freestanding Emergency Department	0%	0%	4%	10%	25%	15%	27%	15%	1%	1%	0%	0%
Ambulatory Surgery Center	0%	0%	0%	5%	9%	29%	25%	18%	13%	0%	1%	0%
Wellness Center	1%	0%	6%	14%	17%	27%	20%	10%	4%	0%	0%	0%
Acute Care Hospital	0%	0%	8%	11%	34%	20%	17%	6%	2%	0%	2%	0%
Long Term Acute Care Hospital	5%	3%	15%	25%	26%	15%	7%	3%	2%	0%	0%	0%
Rehabilitation Hospital	0%	2%	11%	21%	33%	18%	12%	2%	2%	0%	0%	0%
Psychiatric Hospital	2%	10%	20%	28%	15%	18%	5%	3%	0%	0%	0%	0%
Skilled Nursing Facility	12%	17%	18%	13%	20%	13%	3%	3%	0%	0%	0%	0%

Within the medical office sector, approximately 82% of respondents to the above CBRE survey indicated cap rates between 5.00% and 6.99%. It is noted that these survey results typically reflect recently constructed properties.

It is noted that return rates have generally declined over the last 24 to 36 months. Several developers surveyed by VMG have recently noted that the expected return-on-cost rate for a build-to-suit project for a health system would be expected to be 50 to 150 basis points above the projected cap rate at sale.

The overall rate of return is a function of the combined rates applied to the land and to the improvements. The depreciated value of the improvements was estimated previously, as was the value (and return rate) for the underlying land. An investor would expect to achieve their desired return within the estimated amount of remaining economic life (essentially amortizing the depreciated value of the improvements over their remaining economic life). Thus, a return rate applied to the depreciated value of the improvements combined with a return rate applied to the land will result in an overall rate of return.

Given the age, condition, configuration, and location of the subject facility, we have utilized a yield rate of 7.50% for the improvements and a return rate of 5.50% for the land, which results in an implied overall rate of return of 8.48%.

Application of the selected rates to the land and to the improvements results in an annual rental rate of $28.12 per square foot. Considering the range of return rates indicated in the previously mentioned surveys, we believe a reasonable range around the concluded midpoint to be appropriate. Based on the preceding analysis, the concluded range of Fair Market Rent derived via the Return-On-Depreciated-Cost method is $26.00 to $30.00 per square foot on a triple-net basis. The calculations described above are summarized in the table presented on the following page.

El Mirador Medical Plaza

Annual Fair Market Rental Calculation - Depreciated Cost

ASSUMPTIONS

Item	Identifier	Assumption		Comments
Return on Building & Improvements	(a)	7.50%		
Return On Land	(b)	5.50%		
Implied Overall Rate of Return (Fee Simple)	(c)	8.48%		
Market Land Value	(d)	$2,920,000		
Depreciated Building Replacement Costs	(e)	$50,350,000		
Depreciated Site Improvements	(f)	$890,000		
Subtotal Real Property Value	(g)	**$54,160,000**		
Average Remaining Life of Building Improvements	(h)	28.0	Years	
Avg. Remaining Life of Site & Other Improvements	(i)	10.0	Years	
Subject Premises Size (Rentable SF)		163,324	Square Feet	(MOB only)

Calculation of Required Annual Cash Flow					TOTAL
	(b)		(d)		
Contract Ground Rent Requirement	5.50%	X	$2,920,000	=	**$160,600**

Return On Site Improvement/Other Costs					
	(a)		(i)		
Factor:	7.50%	for	10.0	=	0.1424

Annual Return On Site and Other Costs					TOTAL
			(f)		
Factor:	0.14240	X	$890,000	=	**$126,736**

Return On Existing Building					
	(a)		(h)		
Factor:	7.50%	for	28.0	=	0.0855

Annual Return On and Recapture of Building					
			(e)		
	0.0855	X	$50,350,000	=	**$4,304,925**

Total Annual Requirement - Fee Simple Interest			$4,592,261
Annual Fair Rental Value (Rounded)			*$4,592,000*
Annual Requirement Per Square Foot			$28.12
Rounded (Triple-Net Basis)			$28.00
Indicated Range PSF (Triple-Net Basis)	**$26.00**	**to**	**$30.00**

RENT COMPARABLES ANALYSIS

The market rental rate is defined as the most probable rental rate that the property would command if exposed on the open market for a time sufficient to attract a tenant with full knowledge of the options available in the marketplace. *The Appraisal of Real Estate, Fourteenth Edition*, states that "The rents of comparable properties can provide a basis for estimating market rent for a subject property once they have been reduced to the same unit basis applied to the subject property. Comparable rents may be adjusted just as the transaction prices of comparable properties are adjusted in the Sales Comparison Approach."

The subject property is a medical office building located in Palm Springs, California. Leases of medical office building were gathered from the local market. A Summary of the selected lease comparables is shown on the following page.

El Mirador Medical Plaza: Competitive Rental Summary

	Subject Property	Competitive Rental No. 1	Competitive Rental No. 2	Competitive Rental No. 3	Competitive Rental No. 4	Competitive Rental No. 5
Name:	El Mirador Medical Plaza	Desert Springs Professional Plaza	400 S. Farrell Drive	Sundial Building	NOIA Building	1401 N. Palm Canyon Drive
Address:	1180 N. Indian Canyon Drive	1100 N. Palm Canyon Drive	400 S. Farrell Drive	2825 E. Tahquitz Canyon Way	401-493 E. Tahquitz Canyon Way	1401 N. Palm Canyon Drive
City:	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs
State:	California	California	California	California	California	California
Effective Lease Date:	N/A	Current	Current	Current	Current	Current
Property Type:	MOB	Medical Office Building	MOB/POB	POB	POB	MOB
Size of Host (SF):	163,324	44,304	67,335	45,886	27,766	17,644
Size of Leased Space (SF):	163,324	1,946	1,373	1,800	252	1,505
Parking:	Garage and Surface	Surface	Surface	Surface	Surface	Surface
Year Built:	1994	1978	1982	1979	1965	1983
Quality:	Good	Good	Average	Average	Average	Average
Condition:	Good	Good	Average	Average	Good	Average
Lease Rate (Annual):	N/A	$36,001	$29,657	$29,160	$6,048	$29,393
Lease Type	N/A	Triple-Net	Full Service Gross	Modified Gross	Full Service Gross	Modified Gross
Lease Rate PSF/YR:	N/A	$18.50	$21.60	$16.20	$24.00	$19.53
On or Off Campus:	On	Adjacent	Off	Off	Off	Off

We analyzed the preceding comparables on a comparative basis. A summary of our adjustment process are presented below.

El Mirador Medical Plaza
1150 N. Indian Canyon Drive
Lease Rate Adjustment Grid

	Competitive Rental No. 1	Competitive Rental No. 2	Competitive Rental No. 3	Competitive Rental No. 4	Competitive Rental No. 5
Name	1100 Palm Canyon Drive	400 S. Farrell Drive	Sundial Building	NOIA Building	1401 N. Palm Canyon Drive
Address	1100 Palm Canyon Drive	400 S. Farrell Drive	2825 E. Tahquitz Canyon Way	401-493 E. Tahquitz Canyon Way	1401 N. Palm Canyon Drive
City	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs
State	California	California	California	California	California
Lease Rate Per SF	*$18.50*	*$21.60*	*$16.20*	*$24.00*	*$19.53*
Conditions of Lease	-5%	-5%	-5%	-5%	-5%
Adjusted Lease Rate Per SF	*$17.58*	*$20.52*	*$15.39*	*$22.80*	*$18.55*
Tenant Improvements (TIs)	$0.00	$0.00	$0.00	$0.00	$0.00
Adjusted Lease Rate Per SF	*$17.58*	*$20.52*	*$15.39*	*$22.80*	*$18.55*
Lease Basis (Operating Expenses)	$0.00	-$7.80	-$4.00	-$7.80	-$4.00
Adjusted Lease Rate Per SF	*$17.58*	*$12.72*	*$11.39*	*$15.00*	*$14.55*
Market Conditions	0%	0%	0%	0%	0%
Adjusted Lease Rate Per SF	*$17.58*	*$12.72*	*$11.39*	*$15.00*	*$14.55*
Location and Physical Adjustments					
Location	0%	0%	0%	0%	0%
Age/Condition	15%	15%	15%	15%	15%
Construction Quality	0%	10%	10%	10%	10%
Size	0%	0%	0%	0%	0%
Parking	10%	10%	10%	10%	10%
On v. Off-Campus	5%	10%	10%	10%	10%
Misc. (Finish Out for ASC and Cancer Center Vaults)	15%	20%	20%	20%	15%
Net Adjustments	45%	65%	65%	65%	60%
Adjusted Lease Rate Per SF	*$25.49*	*$20.99*	*$18.79*	*$24.75*	*$23.28*

Adjusted Unit Indicators (Per SF)		Concluded Unit Rent Range	
Population Size:	5	Concluded Range:	***$21.00***
Minimum Adjusted Unit Price:	$18.79	*PSF*	***to***
Maximum Adjusted Unit Price:	$25.49		***$25.00***
Median Adjusted Unit Price:	$23.28		
Mean Adjusted Unit Price:	$22.66		

The comparables analyzed herein indicate an adjusted annual rental rate ranging from $18.79 to $25.49 per square foot, with a mean of $22.66 and a median of $23.28 per square foot. Giving consideration to all of the comparables, we conclude a range of $21.00 to $25.00 per square foot with a mid-point of $23.00 per square foot.

Rent Coverage Ratio

A rental rate also can be developed through an analysis of the subject's financial operations. This method is a variation of the income capitalization approach in that historical financial statements are reviewed and the facility's earnings potential is established. From this, earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR") are estimated, and a rent coverage ratio that indicates how much rent can be supported within the EBITDAR amount is selected. Although EBITDAR is attributable to all assets of the healthcare facility's going-concern enterprise (real property, fixed assets, working capital, and intangible), it is the funding source that provides for returns on the facility's land as well as on and of the facility's improvements.

We have reviewed the subject's operations and historical EBITDAR. However, since the subject's financials do not delineate between Desert Regional Medical Center and the El Mirador Medical Plaza, we have not performed a Rent Coverage Ratio.

RENTAL INCOME: RECONCILIATION

As previously summarized, we have estimated per square foot per year rental income for the subject facility via a capital return methodology which resulted in an estimated range of $26.00 to $30.00 per square foot and a rent comparison approach that indicated a range of $21.00 to $25.00 per square foot.

We previously mentioned that there are 20 third party leases associated with the subject (two of these are storage spaces). Of the 18 remaining leases, adjusting gross leases by the reported CAM charge, we have a range of $10.02 to $30.91 per square foot with a mean of $18.99 per square foot and a median of $18.36 per square foot. The average and median of these third party leases are within our market rent range after deducting out the adjustment for specialized finish. Therefore, we believe that overall these third party leases in aggregate are at a market level. The chart below displays these leases.

Tenet Healthcare - Desert Regional Medical Center
Portfolio Report
June 2018

Tenant	Suite	Commence	Expiration	Size / RSF	Annual Rent	Rent/SF	Expense Provision	Less CAM
Desert Heart Physicians Medical Group, Inc.	Suite E319	03/28/2017	03/31/2020	4029	$86,301.24	$21.42	NNN	$21.42
Desert Nephrology	Suite W303	09/16/2011	01/31/2020	1322	$22,727.28	$17.19	NNN	$17.19
Vision Professionals, Inc.	Suite E130	10/21/2013	10/31/2018	6002	$109,145.52	$18.18	NNN	$18.18
Desert Ophthalmology Medical Corporation	Suite W100	10/25/2013	08/31/2019	1684	$33,239.52	$19.74	NNN	$19.74
El Mirador Medical Plaza Pharmacy	Suite E140	08/11/2013	08/31/2018	1596	$49,339.20	$30.91	NNN	$30.91
Desert Heart Institute, Inc.	Suite E318	04/01/2011	07/31/2022	1540	$43,612.80	$28.32	Gross	$18.11
Ghassan Kazmouz, M.D.	Suite W304 (S	12/01/2015	11/30/2020	391	$3,076.32	$7.87	Gross	
Contour Dermatology and Cosmetic Surgery	Suite E419	04/04/2015	04/30/2020	2090	$43,648.68	$20.88	NNN	$20.88
First Choice Physician Partners	Suite E421	08/29/2017	08/31/2022	2664	$79,920.00	$30.00	Gross	$19.79
Ziad A. Tannous, M.D.	Suite W208	10/28/2016	10/31/2019	1151	$21,132.36	$18.36	NNN	$18.36
Michael R. Gatto, M.D., Inc.	Suite E324	02/28/2018	02/28/2019	1049	$29,833.56	$28.44	Gross	$18.23
Dimple Agarwal, M.D., Inc.	Suite E420	02/28/2018	02/28/2019	1716	$51,899.64	$30.24	Gross	$20.03
Desert Oasis Women's Health Center	Suite W300	01/01/2016	12/31/2020	6870	$115,790.28	$16.85	NNN	$16.85
Advanced Dermatology & Skin Cancer Specialists,Inc	Suite E315	12/14/2017	12/31/2019	1971	$57,947.40	$29.40	Gross	$19.19
Michael R. Gatto, M.D., Inc.	Suite E311	02/28/2018	02/28/2019	2927	$83,595.12	$28.56	Gross	$18.35
Urologic Institute of the High Desert, Inc.	Suite E425	06/01/2018	05/31/2020	1817	$36,749.52	$20.23	Gross	$10.02
Arrowhead Neuroscience Foundation, Inc.	Suite W210A	02/21/2018	02/28/2019	136	$648.00	$4.76	Gross	
Shahin Etebar, M.D., Inc.	Suite E317	03/17/2016	03/31/2019	1537	$28,783.68	$18.73	NNN	$18.73
Ghassan Kazmouz, M.D.	Suite E314	05/14/2018	05/31/2021	4077	N/A	N/A	N/A	N/A
First Choice Physician Partners	Suite E205	05/23/2018	05/31/2021	2951	$49,602.72	$16.81	NNN	$16.81

Placing our confidence on both approaches, we believe a market rent of $26.00 per square foot (adjusted for the specialized finish of the Cancer Center, Surgery Center and imaging space) is reasonable.

VACANCY AND COLLECTION LOSS

Vacancy and collection loss is a reduction of a property's potential gross income attributed to unrented space and late payment or nonpayment from existing tenants.

The subject is a multitenant property. While the majority of space is hospital operator (or its subsidiary) occupied, there is a higher probability for some vacancy to occur. However, the subject is currently fully occupied/leased. It is important to note that our allowance is not only intended to mirror solely the vacancy rate for a given submarket, but should also include an allowance or hedge for future rollover of leases and lost rent (collection loss).

OPERATING EXPENSES

In estimating the operating expenses for the subject, we considered that expenses such as: property taxes, property insurance, utilities, repairs and maintenance, janitorial, management, and security are passed through to the tenant in an absolute net lease agreement. The subject's current common area reimbursement is $10.21 per square foot. Therefore, we have estimated reimbursable expense of $10.00 per square foot and non-reimbursable expenses of 3.0% for management and $0.30 per square foot for replacement reserves.

DIRECT CAPITALIZATION

Under direct capitalization, the rate used to convert income into value is known as an overall rate. Derivation of an overall rate from comparable sales is preferred when sufficient market data is available. Factors affecting capitalization rates include, but are not limited to, the credit worthiness of the tenants, the age/condition of the property, and the date of sale. Select cap rate information was previously presented within the Capital Return analysis. Limited capitalization rate information was available from our sales comparables. They ranged from 4.86% to 9.54% with an average of 7.20%.

Based upon the preceding discussion, we believe an overall capitalization rate of between 6.50% and 7.50% is appropriate. Our Direct Capitalization analysis is summarized in the following table.

Direct Capitalization Approach						
El Mirador Medical Plaza						
1180 N. Indian Canyon Drive						
Palm Springs, California						
NRA:	163,324 Square Feet					
Potential Gross Income:	163,324 S.F.	@	$26.00	P.S.F. =	$4,246,424	
Less Vacancy and Credit Loss:			5.0%	=	-212,321	
Effective Gross Income:						$4,034,103
Expenses:						
(Non-reimbursable)						
Misc./Replacement reserves		@	$0.30	P.S.F. =	-48,997	
Management Fee		@	3.0%	=	-121,023	
						-170,020
(Reimbursable)						
Opex:	163,324 S.F.	@	$10.00	P.S.F. =	1,633,240	
(Taxes, Ins., Util, R&M, R&G, Jan., Sec.):						
					1,633,240	
			Vacancy Factor @		5%	
						-81,662
					Net Operating Income	$3,782,421
					Overall Capitalization Rate	6.50%
					Indicated Value	$58,191,092
					Rounded	**$58,000,000**
					Rounded Value/SF	**$355.12**
					Midpoint:	7.00%
					Indicated Midpoint Value (Rounded):	***$54,000,000***
					Overall Capitalization Rate	7.50%
					Indicated Value	$50,432,280
					Rounded	**$50,000,000**
					Rounded Value/SF	**$306.14**

The Direct Capitalization indicated a range of $50,000,000 to $58,000,000.

VALUE RECONCILIATION – EL MIRADOR MEDICAL PLAZA

Application of the appraisal methods resulted in the following indications of the Fair Market Value of the subject property and our conclusions, as of July 31, 2018 are shown below. The valuation approaches utilized herein were considered reliable and were each given consideration in the reconciliation process. Consideration was provided to each approach.

Fair Market Value indications, 'As Is' - El Mirador Medical Plaza			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$49,900,000	$54,200,000	$58,500,000
Sales Comparison Approach	$49,000,000	$53,100,000	$57,200,000
Income Approach	$50,000,000	$54,000,000	$58,000,000
Average	**$49,633,333**	**$53,766,667**	**$57,900,000**
Concluded Value	**$50,000,000**	**$54,000,000**	**$58,000,000**

LAS PALMAS MEDICAL PLAZA VALUATION

COST APPROACH

The Cost Approach is based on the principle of substitution, which states that a prudent purchaser would not pay more for a property than the amount required to purchase a similar site and construct similar improvements, without undue delay, to produce a property of equal desirability and utility.

The Cost Approach procedure begins by estimating the value of the subject site at its Highest and Best Use. The next step involves estimating the current replacement cost of the improvements and their accrued depreciation from all causes. The final step in the Cost Approach involves adding the depreciated value of the improvements to the estimated land value.

LAND VALUATION

In estimating the value of the site as though vacant, we used a direct market comparison of the subject site to recent sales of vacant land with similar utility and physical characteristics. Adjustments were made for the sales as necessary to offset differences in various factors affecting value, such as date of sale, location, size, zoning density, and any other significant differences. All sales were adjusted for and analyzed on the basis of cash-equivalent sale prices. During the course of our research, we found land comparables that we believe provide insight into the value of the site. A summary of the relevant characteristics of each land comparable are presented on the following page.

Las Palmas Medical Plaza
Land Sales Summary

555 E. Tachevah Drive
Palm Springs, Riverside County, California
As of July 31, 2018

Comp.	Location	Land Area	Sale Price	Sale Date / Deed Ref.	Grantor / Grantee	Shape / Topography	Zoning / Utilities	Unit Price	Comments
L-1	**NEC S. Palm Canyon Dr.; Mesquite Ave.** **Palm Springs** **California**	510,088 Sq Ft 11.710 Acres	$7,600,000	Jun-14 208722	Palm Canyon 102 LP RREF II-DC Cameron LLC	Slightly Irregular Level	C-1 All	$14.90 per Sq Ft. $649,018 per Acre	This site is located along S. Palm Canyon Drive and borders residential land. The site has good access and visibility to S. Palm Canyon Drive to the west and Mesquite Road to the South. Tahquitz Creek limits access to the north.
L-2	**NEC Baristo Rd; S. Farrell Dr.** **Palm Springs** **California**	1,071,667 Sq Ft 24.602 Acres	$10,200,000	Nov-15 500509	Brandenburg Family Associates Jen California 3 LLC	Irregular Level	PD All	$9.52 per Sq Ft. $414,600 per Acre	This site is currently zoned PD, however a city official mentioned the site falls under R-3 regulations, and would revert to a R-3 zone if the PD were to not follow through. Currently there is a plan for 114 multi family units and 72 detached residential units, but the site is currently vacant.
L-3	**2790 N. Palm Canyon Dr.** **Palm Springs** **California**	200,376 Sq Ft 4.600 Acres	$2,000,000	May-16 0216220	North First Street Properties GMG Palm Canyon, Inc.	Irregular Level	C-1 All	$9.98 per Sq Ft $434,783 per Acre	This comparable represents a multi-parcel tract that is located along N Palm Canyon Drive. The site is roughly rectangular in shape, and exhibits good visibility along N. Palm Canyon Drive. The sales price and sale date was confirmed via public records.
L-4	**N. Palm Canyon; Camino Monte Vista** **Palm Springs** **California**	41,443 Sq Ft 0.951 Acres	$1,350,000	Under Contract N/A	Not Disclosed Broker: Realty Trust Group	Irregular Level	C1; R2 All	$32.57 per Sq Ft $1,419,558 per Acre	This site is the combination of two smaller parcels and is located along N. Palm Canyon Drive at its intersection with E. Camino Monte Vista. The site is currently under contract with an asking price of $1.35 million. The listing broker indicated the price under contract is "close" to the asking price.
Subject	555 E. Tachevah Drive Palm Springs, California	179,902 Sq. Ft. 4.130 Acres		- -		Mostly Rectangular Level	PD All Available	- -	

It is noted that, in addition to the land comparables utilized herein, the appraiser also interviewed market participants familiar with land values in the local market. Thus, market information derived via interviews with local market participants was also considered in the adjustment process applied to the comparables, which is summarized on the following chart.

Las Palmas Medical Plaza
Land Sales Adjustment Grid

As of July 31, 2018

Comparable Number	Subject	L-1		L-2		L-3		L-4	
LOCATION	555 E. Tachevah Drive Palm Springs, California	NEC S. Palm Canyon Dr.; Mesquite Ave. Palm Springs		NEC Baristo Rd; S. Farrell Dr. Palm Springs		2790 N. Palm Canyon Dr. Palm Springs		N. Palm Canyon; Camino Monte Vista Palm Springs	
SALE PRICE		$7,600,000		$10,200,000		$2,000,000		$1,350,000	
Land Area in Sq. Ft.	179,902	510,088		1,071,667		200,376		41,443	
Sale Price per Sq. Ft.		$14.90		$9.52		$9.98		$32.57	
VALUE ADJUSTMENTS									
PROPERTY RIGHTS CONVEYED									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
FINANCING TERMS									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
CONDITIONS OF SALE									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
EXPENDITURES AFTER SALE (Per SF)		$0.00		$0.00		$0.00		$0.00	
Adjusted Price per Sq. Ft.		*$14.90*		*$9.52*		*$9.98*		*$32.57*	
MARKET CONDITIONS	Jul-18	Jun-14		Nov-15		May-16		Under Contract	
Adjustment		8%		5%		4%		0%	
Adjusted Price per Sq. Ft.		*$16.09*		*$10.00*		*$10.38*		*$32.57*	
PHYSICAL CHARACTERISTICS									
Location	Good	Inferior	25%	Inferior	25%	Inferior	15%	Comparable	0%
Visibility / Frontage / Access	Good	Comparable	0%	Comparable	0%	Inferior	5%	Inferior	5%
Topography	Level	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Shape	Mostly Rectangular	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Size (SF)	179,902	Inferior	10%	Inferior	15%	Comparable	0%	Superior	-20%
Zoning	PD	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Improvements	As If Vacant	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Utilities	All Available	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
ADJUSTED SALES PRICE PER SF		$21.72	35%	$14.00	40%	$12.46	20%	$27.68	-15%

COMPARABLE STATISTICS	
Maximum	$27.68
Minimum	$12.46
Mean	$18.97
Median	$17.86

LAND VALUATION						
MOB	**Land Area (Square Feet)**			**Concluded Value (Square Feet)**		**Concluded Value**
Attributable to Las Palmas	179,902	sf	x	$18.50	=	$3,328,187
				Rounded	**=**	**$3,330,000**

LAND VALUATION CONCLUSION

The adjusted unit sale prices of the comparable market indicators range from $12.46 to $27.68, with a median of $17.86 and a mean of $18.97 per square foot. For the Las Palmas Medical Plaza, our concluded unit value of $18.50 per square foot results in a land value of $3,330,000 for the Las Palmas Medical Plaza's land.

COST OF REPLACEMENT

Cost of Replacement New is defined on page 197 of *The Dictionary of Real Estate Appraisal, Sixth Edition* as "The estimated cost to construct, at current prices as of a specific date, a substitute for a building or other improvements, using modern materials and current standards, design, and layout."

The cost of replacement new is estimated utilizing the Calculator method. The Calculator method is based on the Marshall Valuation Service. The Marshall Valuation Service is a nationally recognized cost estimating service which publishes current costs for various building types and components. The Las Palmas Medical Plaza was viewed as a Good Class D quality medical office building.

The Marshall Valuation Service also considers typical contractors' overhead and profit. Overhead is divided into two categories: general overhead costs and job overhead costs. General overhead includes all costs that cannot be charged to any particular job, including office rent, office supplies and equipment, utilities, advertising and salaries for office personnel. Job overhead includes costs which can be charged directly to the jobs at hand but which cannot be charged directly to materials, labor or equipment. Such items include temporary buildings, barricades, permits, surveys and on-site utilities. Every contractor is entitled to a profit from construction projects. Contractors' overhead and profit, expressed as a percentage of the sum of materials and labor, are based upon extensive surveys of numerous major markets.

After applying the refinements to the base cost, we calculated the total adjusted cost per square foot and applied those indicators to the respective building areas. Further, we have considered the replacement cost for any miscellaneous building components.

Costs not included in the Marshall Valuation Service direct cost estimate include the indirect costs of property taxes during construction, contingency reserves and legal fees. We have analyzed indirect costs associated with a variety of healthcare real estate projects. These costs have historically ranged from 5% to 15%. As much of the indirect costs of medical office buildings are captured in the base cost, we will go to the low end of the range. Therefore, we have estimated herein 5% of direct costs.

ENTREPRENEURIAL INCENTIVE/PROFIT

Entrepreneurial profit is defined as "*A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the total cost of a property (cost of development) and its Market Value (property value after completion), which represents the entrepreneur's compensation for the risk and expertise associated with development*."[18] Entrepreneurial incentive is defined as *"The amount an entrepreneur expects to receive for his or her contribution to a project. Entrepreneurial incentive may be distinguished from entrepreneurial profit (often called developer's profit) in*

[18] Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

that it is the expectation of future profit as opposed to the profit actually earned on a development or improvement." [19]

It should be noted that, over a large enough sample, entrepreneurial profit and entrepreneurial incentive should be roughly equivalent. Analysis indicates that real estate developers have historically required an anticipated profit yield of 5% to 20% of total project costs. Based upon market surveys and research, with consideration given to the subject property's design and location, an entrepreneurial incentive/profit would be expected and it is estimated at 15%.

DEPRECIATION

The Las Palmas Medical Plaza was originally constructed in 1978. The subject's effective age was estimated at 25 years. Based on this effective age and a 40-year life (Section 97), the physical depreciation is projected at 62.5%. The depreciation is calculated on a straight-line basis (effective age divided by total economic life).

The site improvements were estimated to have an effective age of 10 years. The site improvements generally have a blended economic life of 20 years. Overall incurable physical deterioration for the site improvements was therefore estimated at 50% (10 years divided by 20 years). It should be noted that we have estimated the costs of site improvements as a percentage of the building improvements.

FUNCTIONAL OBSOLESCENCE

Functional obsolescence is categorized into two major classifications - curable functional obsolescence and incurable functional obsolescence. Curable functional obsolescence is defined on page 57 of *The Dictionary of Real Estate Appraisal, Sixth Edition* as "*An element of depreciation; a curable defect caused by a flaw in the structure, materials, or design, which can be practically and economically corrected*." Incurable functional obsolescence is defined on page 116 of *The Dictionary of Real Estate Appraisal, Sixth Edition* as "*An element of depreciation; a defect caused by a deficiency or superadequacy in the structure, materials, or design that cannot be practically or economically corrected*." The subject appears to be functional for its use.

EXTERNAL OBSOLESCENCE

The subject does not appear to suffer from any external (economic) obsolescence.

INDICATED VALUE OF IMPROVEMENTS

The following tables show the calculation of the depreciated cost of the subject property and pricing support for miscellaneous items and land improvements, as well as a summary of the Cost Approach as applied herein.

[19] Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

Las Palmas Medical Plaza
Building Cost Development

As of July 31, 2018 *MVS DATE: July-18*

BUILDINGS

Building Name		**Las Palmas Medical Plaza**
Address		
Occupancy Number & Name	341	Medical Office Buildings
Section Number & Page	15	22
Construction Class & Quality	D	Good
Gross Building Area (SF)	*FN#1*	49,356
Gross Perimeter (Linear Ft) (estimate)		1,500
Number of Floors & Height per Story (Ft)	2	N/A
Base Cost - Square Foot	*FN#2*	$179.00
Refinements - Square Foot		
HVAC		$8.05
Elevator		$0.00
Sprinkler System	*FN#3*	$1.18
Misc.		$0.00
		$188.23
Refinements - Multipliers		
Number of Stories		1.000
Height per Story		1.000
Floor Area & Perimeter	*FN#5*	1.001
Current Cost Multiplier		1.030
Local Cost Multiplier		1.210
Net Multiplier		**1.248**
Replacement Cost New (CRN)		
Adjusted Cost - Square Foot		**$234.91**
Extended Base Cost		$11,594,218
Misc. Bldg. Components Pricing Support (see table)		$0
Subtotal		$11,594,218
Soft Costs (Indirect)	5.0%	$579,711
Subtotal		$12,173,929
Entrepreneurial Profit	15.0%	$1,826,089
CRN		$14,000,018
CRN Rounded		**$14,000,000**
CRN per Square Foot		**$283.65**
Depreciation		
Year Built		1978
Chronological (Physical) Age		40
Effective Age		25
Economic Life		40
Remaining Useful Life		15
Physical Depreciation (Age/Life)	62.5%	$8,750,000
CRN less Physical Depreciation		$5,250,000
Functional Obsolescence	0.0%	$0
less Functional Obsolescence		$5,250,000
Economic Obsolescence	0.0%	$0
less Economic Obsolescence		$5,250,000
Depreciated Cost		**$5,250,000**
per Square Foot		**$106.37**

Las Palmas Medical Plaza
Footnotes - Cost Approach

555 E. Tachevah Drive
Palm Springs, Riverside County, California
As of July 31, 2018

Footnotes to Cost Approach

Footnote	Description
1	Building square footage is based on square footage per the rent roll.
2	Based on Class A Good medical office space (MVS: Sec 15; Pg. 22).
3	Based on 35% of the building being fire sprinklered.
4	Average of 0.99 and 1.011 because perimeter is between 1,400 and 1,600 square feet.

MISCELLANEOUS BUILDING COMPONENTS & LAND IMPROVEMENTS

Las Palmas Medical Plaza 555 E Tachevah Drive, Palm Springs, California

Cost of Replacement New (CRN)	**5.0% (of Total Replacement Cost)**	**$700,000**
CRN Rounded		**$700,000**

Effective Age	10	
Economic Life	20	
Remaining Useful Life	10	
Physical Depreciation (Age/Life)	50.0%	$350,000
CRN less Physical Depreciation		$350,000
Functional Obsolescence	0.0%	$0
less Functional Obsolescence		$350,000
Economic Obsolescence	0.0%	$0
less Economic Obsolescence		$350,000
Depreciated Cost (Rounded)		**$350,000**

Notes

(1) It is noted that our analysis of previous projects suggests that site improvements typically cost 2% to 7% of building replacement cost. However, since the subject has surface parking, we have gone to the middle of the range.

(2) As noted within our Appraisal Report, a 20-year life is typical for site improvements on a blended basis. Separate lives for each item were not utilized as the implied precision of affixing separate lives to each site improvement would not result in a materially different total value for the site improvements. Additionally, our treatment of the land improvements is similar to the buildings where an HVAC system has a different economic life than a foundation but both items are blended into a single building economic life.

Las Palmas Medical Plaza
Palm Springs, California
Cost Approach Summary

As of July 31, 2018

#	Building Name	GBA (Sq. Ft.)	Effective Age	Economic Life	Physical Depreciation (Age/Life)	Cost of Replacement New (CRN)	Accrued Depreciation	CRN less Physical Depreciation (Rounded)	Less Functional Obsolescence	less Economic Obsolescence	Total (Rounded)
1	**Las Palmas Medical Plaza**	49,356	25	40	62.50%	$14,000,000	$8,750,000	$5,250,000	$0	$0	$5,250,000
	TOTALS	*49,356*				*$14,000,000*	*$8,750,000*	*$5,250,000*	*$0*	*$0*	*$5,250,000*
	Land Improvements		10	20	50.00%	$700,000	$350,000	$350,000	$0	$0	$350,000

Total Buildings	$14,000,000	$8,750,000	$5,250,000	$0	$0	$5,250,000
Plus: Land Improvements	$700,000	$350,000	$350,000	$0	$0	$350,000
Total Improvements	$14,700,000	$9,100,000	$5,600,000	$0	$0	$5,600,000
Plus: Land Values	$3,330,000					$3,330,000
Adjustment For Leasehold Estate						*-$30,000*
TOTAL	$18,030,000					$8,900,000
			Rounded			***$8,900,000***
			Indicated Value			**$8,000,000 to $9,800,000**

SUMMARY (DEPRECIATED COST ESTIMATE)

The value indicated via this approach is **$8,000,000 to $9,800,000 (Rounded).**

SALES COMPARISON APPROACH

In order to estimate the Fair Market Value in the subject property via the Sales Comparison Approach, a search was conducted for arm's-length sales of comparable properties. The selected comparable improved properties are considered to provide a range of unit prices within which the current real estate market is operating. Adjustments are then made to account for the differences between the subject property and the market comparables. Each of the market indicators is adjusted for: 1) property rights conveyed; 2) financing terms; 3) conditions of sale; 4) expenditures after sale; 5) non-realty items; 6) market conditions (time); 7) location; and 8) physical characteristics.

The subject property represents a medical office building. We have researched local comparable properties. These transactions (along with our adjustment grid) are presented on the following pages. Detailed write-ups of each comparable are presented in the *Addenda* to this report.

Las Palmas Medical Plaza Improved Sales Summary					
	Subject Property	**Improved Sale No. 1**	**Improved Sale No. 2**	**Improved Sale No. 3**	**Improved Sale No. 4**
Name	Las Palmas Medical Plaza	Diagnostic Medical Building	353 S. Palm Canyon Drive	Desert Springs Professional Plaza	Tahquitz Professional Bldg.
Address	555 E. Tachevah Drive	1330 N Indian Canyon Drive	353 S. Palm Canyon Drive	1100 N. Palm Canyon Drive	3001 E. Tahquitz Canyon Way
City	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs
State	California	California	California	California	California
Property Type		MOB	POB	MOB	POB
Transaction Date		10/21/2014	1/6/2017	8/11/2017	4/29/2011
Net Rentable Area:	49,356	9,932	5,927	44,304	11,530
Land Acres	4.130	0.740	0.370	1.970	0.670
Land-to-Building Ratio	3.65	3.25	2.72	1.94	2.53
Parking	Surface	Surface	Surface	Surface	Surface
Year Built	1978	1979	Unknown	1978	1980
Year Renovated		N/A	N/A	N/A	N/A
Quality	Good	Average	Good	Good	Average
Sale Price		$1,475,000	$1,600,000	$12,500,000	$1,050,000
Price per SF		$148.51	$269.95	$282.14	$91.07
Capitalization Rate		9.54%	4.86%	N/A	N/A

Property Rights Conveyed

Property rights consist of both the physical real estate and the rights involved in ownership of the real estate. Comparable No. 3 was adjusted down due to it being a partial interest transaction. No other adjustment for this element of comparison was considered warranted as most of the comparables were sold on a Fee Simple Basis.

Financing Terms

Financing arrangements may modify the sale prices of two identical properties. Thus, financing terms of the comparable sales must be investigated to determine which sales, if any, require adjustments to reflect normal market financing terms. The sales involved either cash to the seller, or involved financing at prevailing market rates and terms. Accordingly, the sales did not require adjustments for financing.

Conditions of Sale

Adjustments for conditions of sale usually reflect motivations of the buyer and the seller. In many situations the conditions of sale significantly affect transaction prices. Comparable No. 4 was adjusted up for it being sold under high vacancy (distressed) conditions. No other adjustments for Conditions of Sale were warranted.

Expenditures After Sale & Non-Realty Items

Consideration must be given to expenditures incurred immediately after sale which impacted the sale price. Similarly, the inclusion of significant non-realty items in the sale price can impact sale prices. Any of the comparable sales that were acquired with operations and FF&E were appropriately adjusted, and the prices shown in our analysis reflect only the real property. In the case of the compararables utilized herein, no adjustments for these elements of comparison were considered necessary.

Market Conditions

An adjustment for market conditions may be required to the comparables if property values have appreciated or depreciated between the time of occurrence and the appraisal date. Both the national healthcare market and national real estate market as a whole have demonstrated moderate improvement over the past several years. Accordingly, an upward adjustment was applied to each comparable which occurred significantly before the effective date.

Location and Physical Adjustments

Significant differences in the respective locations of the comparables were accounted for within the adjustment process. Dissimilar age/conditions warranted adjustments. With regard to quality and finish out, the comparables were analyzed in terms of the overall quality of construction and finish. A detailed description of the physical characteristics of each comparable is presented in the *Addenda* to this report. This analysis is summarized in the following adjustment grid.

Las Palmas Medical Plaza Improved Sales Adjustment Grid					
	Subject Property	**Improved Sale No. 1**	**Improved Sale No. 2**	**Improved Sale No. 3**	**Improved Sale No. 4**
Name		Diagnostic Medical Building	353 S. Palm Canyon Drive	Desert Springs Professional Plaza	Tahquitz Professional Bldg.
Address	555 E. Tachevah Drive	1330 N Indian Canyon Drive	353 S. Palm Canyon Drive	1100 N. Palm Canyon Drive	3001 E. Tahquitz Canyon Way
City	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs
State	California	California	California	California	California
Sale Price per SF		*$148.51*	*$269.95*	*$282.14*	*$91.07*
Property Rights Conveyed		0%	0%	-5%	0%
Adjusted Sale Price per SF		*$148.51*	*$269.95*	*$268.03*	*$91.07*
Financing Terms	Typical	0%	0%	0%	0%
Adjusted Sale Price per SF		*$148.51*	*$269.95*	*$268.03*	*$91.07*
Conditions of Sale		0%	0%	0%	60%
Adjusted Sale Price per SF		*$148.51*	*$269.95*	*$268.03*	*$145.71*
Expenditures After Sale		$0.00	$0.00	$0.00	$0.00
Non-Realty Items		$0.00	$0.00	$0.00	$0.00
Adjusted Sale Price per SF		*$148.51*	*$269.95*	*$268.03*	*$145.71*
Market Conditions	7/31/2018	8%	3%	2%	15%
Adjusted Sale Price per SF		*$160.39*	*$278.05*	*$273.39*	*$167.57*
Location/Physical Adjustments					
Location		0%	0%	0%	0%
Age/Condition		0%	0%	0%	0%
Construction Quality		5%	0%	0%	5%
Finish Out		0%	0%	0%	0%
Land-to-Building Ratio		0%	0%	0%	0%
Building Size (SF)	49,356	-10%	-15%	0%	-10%
Parking		0%	0%	0%	0%
Misc. (on campus)		5%	5%	0%	5%
Net Adjustments		0%	-10%	0%	0%
Adjusted Sale Price		***$160.39***	***$250.25***	***$273.39***	***$167.57***

Adjusted Unit Indicators (Per SF of NRA)			**Concluded Range of Value**		
Population Size	4		**Low**	**Mid**	**High**
Minimum Adjusted Unit Price:	$160.39	***PSF:***	**$190.00**	**$210.00**	**$230.00**
Maximum Adjusted Unit Price:	$273.39				
Median Adjusted Unit Price:	$208.91	***Total (Rounded):***	**$9,400,000**	**$10,400,000**	**$11,400,000**
Mean Adjusted Unit Price:	$212.90				

The preceding adjustment process resulted in a concluded range of $160.39 to $273.39 per square foot, with a mean of $212.90 per square foot and a median of $208.91 per square foot. Considering the overall quality of the subject property, as well as its location, a value range of $190.00 to $230.00 per square foot was considered reasonable. This equates to an overall value range (rounded) of $9,400,000 to $11,400,000 via the Sales Comparison Approach. This analysis is summarized in the preceding adjustment grid.

INCOME CAPITALIZATION APPROACH

Income-producing real estate is a capital good which is typically bought and sold primarily on the basis of the net income produced from the property. In all economic and investment analyses, of which real estate appraisal is an integral part, the value of a capital good is established and measured by calculating, as of a particular date, the present value of the anticipated future benefits (all sources of net revenue) to the owner over a specified period.

The Income Capitalization Approach is applied to analyze a property's capacity to generate benefits and converts these benefits into an indication of value. Application of this approach begins with the estimation of the potential gross income a property is capable of generating. Income levels may then be adjusted for vacancy and collection losses, resulting in the effective gross income. The applicable expenses of operating the property are then deducted from the effective gross income resulting in the net operating income estimate (NOI).

Direct capitalization uses a single year's stabilized NOI as a basis for a value indication by dividing the income by a capitalization rate. The rate chosen accounts for a recapture of the investment by the investor and should reflect all factors that influence the value of the property, such as tenant quality, property condition, neighborhood change, market trends, interest rates, and inflation. The rate may be extracted from local market transactions or, when transaction evidence is lacking, obtained from trade sources.

A discounted cash flow analysis focuses on the operating cash flows expected from the property and the proceeds of a hypothetical sale at the end of a holding period (the reversion). The cash flows and reversion are discounted to their present values using a market-derived discount rate and are added together to obtain a value indication. Because benefits to be received in the future are worth less than the same benefits received in the present, this method weights income in the early years more heavily than the income and the sale proceeds to be received later. The strength of the discounted cash flow method is its ability to recognize variations in projected net income, such as those caused by inflation, stepped leases, neighborhood change, or tenant turnover. Its weakness is that it requires many judgments regarding the actions of likely buyers and sellers of the property in the future.

In some situations, both methods yield a similar result. The discounted cash flow method is typically more appropriate for the analysis of investment properties with multiple or long-term leases, particularly leases with cancellation clauses or renewal options. It is especially useful for multi-tenant properties in volatile markets. The direct capitalization method is normally more appropriate for single-tenant properties and/or properties with relatively stable operating histories and expectations.

RENTAL INCOME

The market rental rate is defined as the most probable rental rate that the property would command if exposed on the open market for a time sufficient to attract a tenant with full knowledge of the options available in the marketplace.

Similar to the discussion presented in the introduction to the *Valuation* section of this report, there are generally three approaches for estimating a market rent. One of these approaches, a Return-On-Depreciated-Cost analysis, consists of performing a cost approach analysis and then estimating a market derived return of and on the subject's depreciated improvement cost and land value using a capital return methodology. This approach is considered reliable in this instance and is utilized herein.

Another method, called a market rent comparables approach, consists of analyzing the rental rates of actual leases of comparable health-care facilities. For the subject, this methodology was used.

A rental rate also can be developed through an analysis of the subject's financial operations. This method is a variation of the income capitalization approach in that historical financial statements are reviewed and analyzed. From this amount, earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR") are estimated, and a rent coverage ratio that indicates how much rent can be supported within the EBITDAR amount is selected. This approach is not typical utilized with medical office properties.

We employed the methodology outlined above in order to estimate market rent for the subject property; our analysis is summarized in the following pages.

CAPITAL RETURN ANALYSIS

The capital return analysis develops an estimate of the fair market rental rate for the subject asset based on an application of rates that would provide for the adequate return on and recapture of capital invested in the specified asset. The basis for the capital investment is the previous cost analysis of the asset. The estimated return requirements on component values were estimated and then applied to the concluded depreciated value of the asset.

We reviewed several ground leases, which revealed returns ranging from 4.00% to 8.00% rounded. This range is confirmed by VMG Health's experience concerning other ground leases of commercial land. It is noted that the 2nd quarter 2018 Realty Rates Investor Survey published by RealtyRates.com indicates land lease capitalization rates for health-care and senior housing properties ranging from 3.15% to 11.87%, with an average of 7.63%. Furthermore, the largest group of survey respondents (over 50%) in CBRE's 2018 Healthcare Real Estate Investor/Developer Survey responded that typical ground rent return rates range from 5.00% to 6.00% for on-campus MOBs. Considering the subject's location and physical characteristics, a ground rent return of 5.50% is considered appropriate and is utilized for analysis purposes herein.

For the land improvements and building components, we reviewed additional yield rate and overall return rate information. According to the 2nd Quarter 2018 Realty Rates Investor Survey, overall rates for acute-care facilities range from 6.16% to 12.76% and average 8.87%. CBRE's **2018 Healthcare Real Estate Investor & Developer Survey Results** indicates a range of capitalization rates for various medical specialty properties. It is noted that the cap rates presented in the following table represent responses to the question: "What will be a 'market' capitalization rate for the following single-tenant healthcare investments in 2018? Assume 10 years of lease term remaining and average credit."

CAP RATE	Above 9.00%	8.50% - 8.99%	8.00% - 8.49%	7.50% - 7.99%	7.00% - 7.49%	6.50% - 6.99%	6.00% - 6.49%	5.50% - 5.99%	5.00% - 5.49%	4.50% - 5.00%	4.00% - 4.49%	Below 4.00%
Medical Office Building	1%	0%	0%	0%	4%	11%	18%	24%	29%	11%	1%	0%
Freestanding Emergency Department	0%	0%	4%	10%	25%	15%	27%	15%	1%	1%	0%	0%
Ambulatory Surgery Center	0%	0%	0%	5%	9%	29%	25%	18%	13%	0%	1%	0%
Wellness Center	1%	0%	6%	14%	17%	27%	20%	10%	4%	0%	0%	0%
Acute Care Hospital	0%	0%	8%	11%	34%	20%	17%	6%	2%	0%	2%	0%
Long Term Acute Care Hospital	5%	3%	15%	25%	26%	15%	7%	3%	2%	0%	0%	0%
Rehabilitation Hospital	0%	2%	11%	21%	33%	18%	12%	2%	2%	0%	0%	0%
Psychiatric Hospital	2%	10%	20%	28%	15%	18%	5%	3%	0%	0%	0%	0%
Skilled Nursing Facility	12%	17%	18%	13%	20%	13%	3%	3%	0%	0%	0%	0%

Within the medical office sector, approximately 82% of respondents to the above CBRE survey indicated cap rates between 5.00% and 6.99%. It is noted that these survey results typically reflect recently constructed properties.

It is noted that return rates have generally declined over the last 24 to 36 months. Several developers surveyed by VMG have recently noted that the expected return-on-cost rate for a build-to-suit project for a health system would be expected to be 50 to 150 basis points above the projected cap rate at sale.

The overall rate of return is a function of the combined rates applied to the land and to the improvements. The depreciated value of the improvements was estimated previously, as was the value (and return rate) for the underlying land. An investor would expect to achieve their desired return within the estimated amount of remaining economic life (essentially amortizing the depreciated value of the improvements over their remaining economic life). Thus, a return rate applied to the depreciated value of the improvements combined with a return rate applied to the land will result in an overall rate of return.

Given the age, condition, configuration, and location of the subject facility, we have utilized a yield rate of 8.00% for the improvements and a return rate of 5.50% for the land, which results in an implied overall rate of return of 9.36%.

Application of the selected rates to the land and to the improvements results in an annual rental rate of $16.94 per square foot. Considering the range of return rates indicated in the previously mentioned surveys, we believe a reasonable range around the concluded midpoint to be appropriate. Based on the preceding analysis, the concluded range of Fair Market Rent derived via the Return-On-Depreciated-Cost method is $15.00 to $19.00 per square foot on a triple-net basis. The calculations described above are summarized in the table presented on the following page.

Las Palmas Medical Plaza

Annual Fair Market Rental Calculation - Depreciated Cost

ASSUMPTIONS

Item	Identifier	Assumption		Comments
Return on Building & Improvements	(a)	8.00%		
Return On Land	(b)	5.50%		
Implied Overall Rate of Return (Fee Simple)	(c)	9.36%		
Market Land Value	(d)	$3,330,000		
Depreciated Building Replacement Costs	(e)	$5,250,000		
Depreciated Site Improvements	(f)	$350,000		
Subtotal Real Property Value	(g)	**$8,930,000**		
Average Remaining Life of Building Improvements	(h)	15.0	Years	
Avg. Remaining Life of Site & Other Improvements	(i)	10.0	Years	
Subject Premises Size (Rentable SF)		49,356	Square Feet	

Calculation of Required Annual Cash Flow					TOTAL
	(b)		(d)		
Contract Ground Rent Requirement	5.50%	X	$3,330,000	=	**$183,150**

Return On Site Improvement/Other Costs					
	(a)		(i)		
Factor:	8.00%	for	10.0	=	0.1456

Annual Return On Site and Other Costs					TOTAL
			(f)		
Factor:	0.14560	X	$350,000	=	**$50,960**

Return On Existing Building					
	(a)		(h)		
Factor:	8.00%	for	15.0	=	0.1147

Annual Return On and Recapture of Building					
			(e)		
	0.1147	X	$5,250,000	=	**$602,175**

Total Annual Requirement - Fee Simple Interest			$836,285
Annual Fair Rental Value (Rounded)			*$836,000*
Annual Requirement Per Square Foot			$16.94
Rounded (Triple-Net Basis)			$17.00
Indicated Range PSF (Triple-Net Basis)	**$15.00**	**to**	**$19.00**

RENT COMPARABLES ANALYSIS

The market rental rate is defined as the most probable rental rate that the property would command if exposed on the open market for a time sufficient to attract a tenant with full knowledge of the options available in the marketplace. *The Appraisal of Real Estate, Fourteenth Edition*, states that "The rents of comparable properties can provide a basis for estimating market rent for a subject property once they have been reduced to the same unit basis applied to the subject property. Comparable rents may be adjusted just as the transaction prices of comparable properties are adjusted in the Sales Comparison Approach."

The subject property is a medical office building located in Palm Springs, California. Leases of medical office buildings were gathered from the local market. A Summary of the selected lease comparables is shown on the following page.

Las Palmas Medical Plaza: Competitive Rental Summary

	Subject Property	Competitive Rental No. 1	Competitive Rental No. 2	Competitive Rental No. 3	Competitive Rental No. 4	Competitive Rental No. 5
Name:	Las Palmas Medical Plaza	Desert Springs Professional Plaza	400 S. Farrell Drive	Sundial Building	NOIA Building	1401 N. Palm Canyon Drive
Address:	555 E. Tachevah Drive	1100 N. Palm Canyon Drive	400 S. Farrell Drive	2825 E. Tahquitz Canyon Way	401-493 E. Tahquitz Canyon Way	1401 N. Palm Canyon Drive
City:	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs
State:	California	California	California	California	California	California
Effective Lease Date:	N/A	Current	Current	Current	Current	Current
Property Type:	MOB	MOB	MOB/POB	POB	POB	MOB
Size of Host (SF):	49,356	44,304	67,335	45,886	27,766	17,644
Size of Leased Space (SF):	49,356	1,946	1,373	1,800	252	1,505
Parking:	Surface	Surface	Surface	Surface	Surface	Surface
Year Built:	1978	1978	1982	1979	1965	1983
Quality:	Good	Good	Average	Average	Average	Average
Condition:	Good	Good	Average	Average	Good	Average
Lease Rate (Annual):	N/A	$36,001	$29,657	$29,160	$6,048	$29,393
Lease Type	N/A	Triple-Net	Full Service Gross	Modified Gross	Full Service Gross	Modified Gross
Lease Rate PSF/YR:	N/A	$18.50	$21.60	$16.20	$24.00	$19.53
On or Off Campus:	On	Adjacent	Off	Off	Off	Off

We analyzed the preceding comparables on a comparative basis. A summary of our adjustment process are presented below.

Las Palmas Medical Plaza
555 E. Tachevah Drive
Lease Rate Adjustment Grid

	Competitive Rental No. 1	Competitive Rental No. 2	Competitive Rental No. 3	Competitive Rental No. 4	Competitive Rental No. 5
Name	Desert Springs Professional Plaza	400 S. Farrell Drive	Sundial Building	NOIA Building	1401 N. Palm Canyon Drive
Address	1100 N. Palm Canyon Drive	400 S. Farrell Drive	2825 E. Tahquitz Canyon Way	401-493 E. Tahquitz Canyon Way	1401 N. Palm Canyon Drive
City	Palm Springs	Palm Springs	Palm Springs	Palm Springs	Palm Springs
State	California	California	California	California	California
Lease Rate Per SF	*$18.50*	*$21.60*	*$16.20*	*$24.00*	*$19.53*
Conditions of Lease	-5%	-5%	-5%	-5%	-5%
Adjusted Lease Rate Per SF	*$17.58*	*$20.52*	*$15.39*	*$22.80*	*$18.55*
Tenant Improvements (TIs)	$0.00	$0.00	$0.00	$0.00	$0.00
Adjusted Lease Rate Per SF	*$17.58*	*$20.52*	*$15.39*	*$22.80*	*$18.55*
Lease Basis (Operating Expenses)	$0.00	-$7.80	-$4.00	-$7.80	-$4.00
Adjusted Lease Rate Per SF	*$17.58*	*$12.72*	*$11.39*	*$15.00*	*$14.55*
Market Conditions	0%	0%	0%	0%	0%
Adjusted Lease Rate Per SF	*$17.58*	*$12.72*	*$11.39*	*$15.00*	*$14.55*
Location and Physical Adjustments					
Location	0%	0%	0%	0%	0%
Age/Condition	0%	0%	0%	5%	0%
Construction Quality	0%	10%	15%	15%	10%
Size	0%	0%	0%	0%	0%
Parking	0%	0%	0%	0%	0%
On v. Off-Campus	0%	5%	5%	5%	5%
Misc.	0%	0%	0%	0%	0%
Net Adjustments	0%	15%	20%	25%	15%
Adjusted Lease Rate Per SF	*$17.58*	*$14.63*	*$13.67*	*$18.75*	*$16.73*

Adjusted Unit Indicators (Per SF)		Concluded Unit Rent Range	
Population Size:	5	Concluded Range:	***$16.00***
Minimum Adjusted Unit Price:	$13.67	*PSF*	***to***
Maximum Adjusted Unit Price:	$18.75		***$20.00***
Median Adjusted Unit Price:	$16.73		
Mean Adjusted Unit Price:	$16.27		

The comparables analyzed herein indicate an adjusted annual rental rate ranging from $13.67 to $18.75 per square foot, with a mean of $16.27 and a median of $16.73 per square foot. Giving most emphasis to Rent Comparable No. 1 (as it is the most similar comparable to the subject), we conclude a range of $16.00 to $20.00 per square foot with a mid-point of $18.50 per square foot.

RENT COVERAGE RATIO

A rental rate also can be developed through an analysis of the subject's financial operations. This method is a variation of the income capitalization approach in that historical financial statements are reviewed and the facility's earnings potential is established. From this, earnings before interest, taxes, depreciation, amortization, and rent ("EBITDAR") are estimated, and a rent coverage ratio that indicates how much rent can be supported within the EBITDAR amount is selected. Although EBITDAR is attributable to all assets of the healthcare facility's going-concern enterprise (real property, fixed assets, working capital, and intangible), it is the funding source that provides for returns on the facility's land as well as on and of the facility's improvements.

However, as previously mentioned, rent coverage ratio analysis is not typically used for medical office properties.

RENTAL INCOME: RECONCILIATION

As previously summarized, we have estimated per square foot per year rental income for the subject facility via a capital return methodology which resulted in an estimated range of $15.00 to $19.00 per square foot and a rent comparison approach that indicated a range of $16.00 to $20.00 per square foot. Additionally, the subject has approximately 7% of its space vacant and is quoting rent rates of between $17.40 and $19.80 per square foot, depending on length of lease and tenant improvements. The subject's current average contract rent is $18.68 per square foot. It has had five leases, either sign or renew in 2018, between $17.40 and $19.80 per square foot with an average of $18.46 per square foot. Considering all of this, we believe a reasonable Fair Market Rent range to be $16.00 to $20.00 per square foot with $18.50 per square foot being used in our Direct Capitalization.

As shown by the fact that the subject's average contract rent is within our Fair Market Rent range and very near our point estimate, we believe that there is limited above or below market leases associated with the subject. However, we did perform an analysis (held in our work file) on each lease comparing its expected rent through its contract period to the $18.50 per square foot fair market rent rate. Any difference was discounted back to a present value. The net result was a rounded negative $30,000 leasehold value for the subject. This has been included in both the Cost Approach and Income Approach below. The Sales Comparison Approach implicitly includes any above or below market premium, so no adjustment is necessary.

VACANCY AND COLLECTION LOSS

Vacancy and collection loss is a reduction of a property's potential gross income attributed to unrented space and late payment or nonpayment from existing tenants.

The subject is a multi-tenant property. Currently it is 93% occupied with significant space being leased by Desert Regional Medical Center. CBRE, in there Inland Empire Office, 2nd Qtr 2018 indicated office vacancy rate of 9.9%. Given the subject's location to Desert Regional Medical Center, we believe a vacancy and collection loss of 7% is reasonable. It is important to note that our allowance is not only intended to mirror solely the vacancy rate for a given submarket, but should also include an allowance or hedge for future rollover of leases and lost rent (collection loss).

OPERATING EXPENSES

In estimating the operating expenses for the subject, we considered that expenses such as: property taxes, property insurance, utilities, repairs and maintenance, janitorial, management, and security are passed through to the tenant in an absolute net lease agreement. The subject's current common area reimbursement is $7.44 per square foot. This is similar to the CAM reimbursements indicated by our comparable sales previously. Therefore, we have estimated reimbursable expense of $7.50 per square foot and non-reimbursable expenses of 3.0% for management and $0.30 per square foot for replacement reserves.

DIRECT CAPITALIZATION

Under direct capitalization, the rate used to convert income into value is known as an overall rate. Derivation of an overall rate from comparable sales is preferred when sufficient market data is available. Factors affecting capitalization rates include, but are not limited to, the credit worthiness of the tenants, the age/condition of the property, and the date of sale. Select cap rate information was previously presented within the Capital Return analysis. Limited capitalization rate information was available from our sales comparables. They ranged from 4.86% to 9.54% with an average of 7.20%.

Based upon the preceding discussion, we believe an overall capitalization rate of between 7.00% and 8.00% is appropriate. Our Direct Capitalization analysis is summarized in the following table.

Direct Capitalization Approach Las Palmas Medical Plaza 555 E. Tachevah Drive Palm Springs, California							
NRA:	49,356 Square Feet						
Potential Gross Income:	49,356 S.F.	@	$18.50	P.S.F. =	$913,086	
Less Vacancy and Credit Loss:			7.0%	=	-63,916	
Effective Gross Income:						$849,170
Expenses:						
(Non-reimbursable)						
Misc./Replacement reserves		@	$0.30 P.S.F.	=	-14,807	
Management Fee		@	3.0%	=	-25,475	
						-40,282
(Reimbursable)						
Opex:	49,356 S.F.	@	$7.50 P.S.F. =		370,170	
(Taxes, Ins., Util, R&M, R&G, Jan., Sec.):						
					370,170	
			Vacancy Factor @		7%	
						-25,912
					Net Operating Income	$782,976
					Overall Capitalization Rate	7.00%
					Indicated Value	$11,185,371
					Adjustment For Leasehold Value	-$30,000
					Rounded	**$11,200,000**
					Rounded Value/SF	**$226.92**
					Midpoint:	7.50%
					Indicated Midpoint Value (Rounded):	***$10,400,000***
					Overall Capitalization Rate	8.00%
					Indicated Value	$9,787,200
					Adjustment For Leasehold Value	-$30,000
					Rounded	**$9,800,000**
					Rounded Value/SF	**$198.56**

The Direct Capitalization indicated a range of $9,800,000 to $11,200,000.

VALUE RECONCILIATION – LAS PALMAS MEDICAL PLAZA

Application of the appraisal methods resulted in the following indications of the Fair Market Value of the subject property and our conclusions, as of July 31, 2018 are shown below. The valuation approaches utilized herein were considered reliable and were each given consideration in the reconciliation process. Because the subject is an older multi-tenant medical office building, most emphasis is given to the Income Approach.

Fair Market Value indications, 'As Is' - Las Palmas Medical Plaza			
31-Jul-18	**Low**	**Mid**	**High**
Cost Approach	$8,000,000	$8,900,000	$9,800,000
Sales Comparison Approach	$9,400,000	$10,400,000	$11,400,000
Income Approach	$9,800,000	$10,400,000	$11,200,000
Average	**$9,066,667**	**$9,900,000**	**$10,800,000**
Concluded Value	**$9,800,000**	**$10,500,000**	**$11,200,000**

WELLNESS PARK VALUATION

LAND VALUATION

In estimating the value of the site as though vacant, we used a direct market comparison of the subject Wellness Park to recent sales of vacant land with similar utility and physical characteristics. Adjustments were made for the sales as necessary to offset differences in various factors affecting value, such as date of sale, location, size, zoning density, and any other significant differences. All sales were adjusted for and analyzed on the basis of cash-equivalent sale prices. During the course of our research, we found land comparables that we believe provide insight into the value of the site. A summary of the relevant characteristics of each land comparable was presented previously.

It is noted that, in addition to the land comparables utilized herein, the appraiser also interviewed market participants familiar with land values in the local market. Thus, market information derived via interviews with local market participants was also considered in the adjustment process applied to the comparables, which is summarized on the following chart.

Wellness Park
Land Sales Adjustment Grid

As of July 31, 2018

Comparable Number	Subject	L-1		L-2		L-3		L-4	
LOCATION	SEC of E. Tachevah Drive and N. Via Miraieste	NEC S. Palm Canyon Dr.; Mesquite Ave.		NEC Baristo Rd; S. Farrell Dr.		2790 N. Palm Canyon Dr.		N. Palm Canyon; Camino Monte Vista	
	Palm Springs, California	Palm Springs		Palm Springs		Palm Springs		Palm Springs	
SALE PRICE		$7,600,000		$10,200,000		$2,000,000		$1,350,000	
Land Area in Sq. Ft.	210,830	510,088		1,071,667		200,376		41,443	
Sale Price per Sq. Ft.		$14.90		$9.52		$9.98		$32.57	
VALUE ADJUSTMENTS									
PROPERTY RIGHTS CONVEYED									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
FINANCING TERMS									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
CONDITIONS OF SALE									
Adjusted Price per Sq. Ft.		*$14.90*	0%	*$9.52*	0%	*$9.98*	0%	*$32.57*	0%
EXPENDITURES AFTER SALE (Per SF)		$0.00		$0.00		$0.00		$0.00	
Adjusted Price per Sq. Ft.		*$14.90*		*$9.52*		*$9.98*		*$32.57*	
MARKET CONDITIONS	Jul-18	Jun-14		Nov-15		May-16		Under Contract	
Adjustment		8%		5%		4%		0%	
Adjusted Price per Sq. Ft.		*$16.09*		*$10.00*		*$10.38*		*$32.57*	
PHYSICAL CHARACTERISTICS									
Location	Good	Inferior	25%	Inferior	25%	Inferior	15%	Comparable	0%
Visibility / Frontage / Access	Good	Superior	-5%	Superior	-5%	Comparable	0%	Comparable	0%
Topography	Level	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Shape	Rectangular	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Size (SF)	210,830	Inferior	10%	Inferior	15%	Comparable	0%	Superior	-20%
Zoning	Open Land Zone	Superior	-25%	Superior	-25%	Superior	-25%	Superior	-25%
Improvements	As If Vacant	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
Utilities	All Available	Comparable	0%	Comparable	0%	Comparable	0%	Comparable	0%
ADJUSTED SALES PRICE PER SF		$16.89	5%	$11.00	10%	$9.34	-10%	$17.91	-45%

COMPARABLE STATISTICS	
Maximum	$17.91
Minimum	$9.34
Mean	$13.79
Median	$13.95

LAND VALUATION							
Land	Land Area (Square Feet)			Concluded Value (Square Feet)		Concluded Value
Wellness Park	210,830	sf	x	$14.00	=	$2,951,620
				Rounded	=	$3,000,000

LAND VALUATION CONCLUSION

The adjusted unit sale prices of the comparable market indicators range from $9.34 to $17.91, with a median of $13.95 and a mean of $13.79 per square foot. For the Wellness Park, our concluded unit value of $14.00 per square foot results in a land value of $3,000,000 for the Wellness Park. The following chart displays the value range of the Wellness Park.

Fair Market Value, 'As Is' - Wellness Park Land Parcel			
31-Jul-18	**Low**	**Mid**	**High**
Fair Market Value	$2,600,000	$3,000,000	$3,400,000

ASSUMPTIONS & LIMITING CONDITIONS

This valuation by VMG Health (“VMG”) is subject to and governed by the following Assumptions and Limiting Conditions:

1. Any legal description reported herein is assumed to be accurate. Any sketches, surveys, plats, photographs, drawings or other exhibits are included only to assist the intended user to better understand and visualize the subject property and assume no responsibility in connection with such matters.
2. The appraiser(s) has not conducted any engineering or architectural surveys in connection with this appraisal assignment. Information reported pertaining to dimensions, sizes, and areas is either based on measurements taken by the appraiser(s) or the staff or was obtained or taken from referenced sources and is considered reliable. No responsibility is assumed for the costs or preparation or for arranging geotechnical engineering, architectural, or other types of studies, surveys, or inspections that require the expertise of a qualified professional.
3. No responsibility is assumed for matters legal in nature. Title is assumed to be good and marketable and in fee simple unless discussed otherwise in the report. The property is considered to be free and clear of existing liens, easements, restrictions, and encumbrances, except as noted.
4. Unless otherwise noted herein, it is assumed there are no encroachments or violations of any zoning or other regulations affecting the subject property and the utilization of the land and improvements is within the boundaries or property lines of the property described.
5. VMG assumes there are no private deed restrictions affecting the property which would limit the use of the subject property in any way.
6. It is assumed the subject property is not adversely affected by the potential of floods.
7. It is assumed all water and sewer facilities (existing and proposed) are or will be in good working order and are or will be of sufficient size to adequately serve any proposed buildings.
8. Unless otherwise noted within the report, the depiction of the physical condition of the improvements described herein is based on an on-site visual observation. No liability is assumed for the soundness of structural members since no engineering tests were conducted. No liability is assumed for the condition of mechanical equipment, plumbing or electrical components, as complete tests were not made. No responsibility is assumed for hidden, unapparent or masked property conditions or characteristics that were not clearly apparent during our on-site observation.
9. If building improvements are present on the site, no significant evidence of termite damage or infestation was observed during our on-site visual observation, unless so noted on the report. No termite inspection report was available, unless so noted in the report. No responsibility is assumed for hidden damages or infestation.
10. Any proposed or incomplete improvements included in this report are assumed to be satisfactory and completed in a workmanlike manner or will be thus completed within a reasonable length of time according to plans and specifications.
11. No responsibility is assumed for hidden defects of for conformity to specific governmental requirements, such as fire, building safety, earthquake, or occupancy codes, except where specific professional or governmental inspections have been completed and reported in the Appraisal Report.
12. The property is assumed to be under financially sound, competent and aggressive ownership.
13. The appraiser(s) assume no responsibility for any changes in economic or physical conditions which occur following the effective date of this report that would influence or potentially affect the

analyses, opinions, or conclusions in the report. Any subsequent changes are beyond the scope of the report.

14. The value estimates reported herein apply to the entire property. Any proration or division of the total into fractional interests will invalidate the value estimates, unless such a proration or division of interests is set forth in the report.
15. Any division of the land and improvement values estimated herein is applicable only under the program of utilization shown. These separate valuations are invalidated by any other application.
16. Unless otherwise noted in the report, only the real property is considered, so no consideration is given to the value of personal property or equipment located on the premises or the costs or moving or relocating such personal property or equipment.
17. Unless otherwise stated, it is assumed ownership includes subsurface oil, gas, and other mineral rights. No opinion is expressed as to whether the property is subject to surface entry for their exploration or removal. The contributing value, if any, of these rights has not been separately identified.
18. Any projections of income and expenses, including the reversion at time of resale, are not predictions of the future. Rather, they are our best estimate of current market thinking of what future trends will be. No warranty or representation is made that these projections will materialize. The real estate market is constantly fluctuating and changing. It is not the task of an appraiser(s) to estimate the conditions of a future real estate market, but rather to reflect what the investment community envisions for the future in terms of expectations of growth in rental rates, expenses, and supply and demand.
19. Unless subsoil opinions based upon engineering core borings were furnished, it is assumed there are no subsoil defects present, which would impair development of the land to its maximum permitted use or would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them.
20. VMG representatives are not experts in determining the presence or absence of hazardous substances, defined as all hazardous or toxic materials, wastes, pollutants or contaminants (including, but not limited to, asbestos, PCB, UFFI, or other raw materials or chemicals) used in construction or otherwise present on the property. We assume no responsibility for the studies or analyses which would be required to determine the presence or absence of such substances or for loss as a result of the presence of such substances. Appraiser(s) are not qualified to detect such substances. The client is urged to retain an expert in this field.
21. VMG is not an expert in determining the habitat for protected or endangered species that may be present on the property. We assume no responsibility for the studies or analyses which would be required to determine the presence or absence of such species or for loss as a result of the presence of such species.
22. No environmental impact studies were either requested or made in conjunction with this analysis. The appraiser(s) hereby reserves the right to alter, amend, revise, or rescind any of the value opinions based upon any subsequent environmental impact studies, research and investigation.
23. The appraisal is based on the premise that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in the report; further that all applicable zoning, building, and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/ or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.

24. Neither all nor any part of the contents of this report or copy thereof shall be conveyed to the public through advertising, public relations, news, sales, or any other media, without the prior written consent and approval of the appraiser(s). This limitation pertains to any valuation conclusions, the identity of the analyst or the firm and any reference to the professional organization of which the appraiser(s) is affiliated or to the designations thereof.
25. Although the appraiser(s) has made, insofar as is practical, every effort to verify as factual and true information and data set forth in this report, no responsibility is assumed for the accuracy of any information furnished the appraiser(s) either by the client or others. If for any reason, future investigations should prove any data to be in substantial variance with that presented in this report, the appraiser(s) reserves the right to alter or change any or all analyses, opinions, or conclusions and/or estimates of value.
26. If this report has been prepared in a so-called "public non-disclosure" state, real estate sales prices and other data, such as rents, prices, and financing, are not a matter of public record. If this is such a "non-disclosure" state, although extensive effort has been expended to verify pertinent data with buyers, sellers, brokers, lenders, lessors, lessees and other sources considered reliable, it has not always been possible to independently verify all significant facts. In these instances, the appraiser(s) may have relied on verification obtained and reported and on interviews with market participants. It is suggested the client consider independent verification as a prerequisite to any transaction involving sale, lease, or other significant commitment of funds to the subject property.
27. This report is null and void if used in any connection with a real estate syndicate or syndication, defined as a general or limited partnership, joint venture, unincorporated association, or similar organization formed for or engaged in investment or gain from an interest in real property, including but not limited to a sale, exchange, trade, development, or lease or property on behalf of others or which is required to be registered with the U.S. Securities and Exchange Commission or any Federal or State Agency which regulates investments made as a public offering.
28. The American Disabilities Act of 1990 (ADA) sets strict and specific standards for handicapped access to and within most commercial and industrial buildings. Determination of compliance with these standards is beyond appraisal expertise, and therefore has not been attempted by the appraiser(s). For purposes of this appraisal, we are assuming the building is in compliance; however, we recommend an architectural inspection of the building to determine compliance or requirements for compliance. We assume no responsibility for the cost of such determination and our appraisal is subject to revision if the building is not in compliance.
29. This Appraisal Report has been prepared for the exclusive benefit of the client. It may not be used or relied upon by any other party. Any party who uses or relies upon any information in this report, without the preparer's written consent, does so at their own risk.
30. The client agrees to indemnify and hold harmless VMG and its affiliates, partners, agents, and employees from and against any losses, claims, damages, or liabilities, which may be asserted by any person or entity who may receive our report, except to the extent of any losses, claims, damages or liabilities (or actions in respect thereof) arising be reason of the gross negligence or willful misconduct of VMG in preparing the report and will reimburse VMG for all expenses (including counsel fees) as they are incurred by VMG in connection with investigating, preparing, or defending any such action or claim.
31. In any circumstance in which the foregoing indemnification is held by a court to be unavailable to VMG, the client and VMG shall contribute to any aggregate losses, claims, damages or liabilities (including the related fees and expenses) to which the client and VMG may be subject in such proportion that VMG shall be responsible only for that proportion represented by the percentage

that the fees paid to VMG for the portion of its services or work product giving rise to the liability bears to the value of the transaction giving rise to such liability.

32. VMG has completed an on-site visual observation of the subject property which consisted of less than inspecting 100% of the interior and exterior of the improvements. Accordingly, VMG reserves the right to amend the appraised value and appraisal conclusions if engineering reports or other evidence is found, which would materially impact the report conclusions.
33. The right is reserved by the appraiser to make adjustments to the analysis, opinions, and conclusions set forth in this report as may be required by consideration of additional or more reliable data that may become available. No change of this report shall be made by anyone other than the appraiser or appraisers. The appraiser(s) shall have no responsibility for any unauthorized change(s) to the report.
34. If the client instructions to the appraiser(s) were to inspect only the exterior of the improvements in the appraisal process, the physical attributes of the property were from the street(s) as of the observation date of the appraisal. Physical characteristics of the property were obtained from tax assessment records, available plans, if any, descriptive information, and interviewing the client and other knowledgeable persons. It is assumed the interior of the subject property is consistent with the exterior conditions as observed and that other information relied upon is accurate.
35. The submission of this report constitutes completion of the services authorized. It is submitted on the condition the client will provide reasonable notice and customary compensation, including expert witness fees, relating to any subsequent required attendance at conferences, depositions, and judicial or administrative proceedings. In the event the appraiser(s) is subpoenaed for either an appearance or a request to produce documents, a best effort will be made to notify the client immediately. The client has the sole responsibility for obtaining protective order, providing legal instruction not to appear with the Appraisal Report and related work files and will answer all questions pertaining to the assignment, the preparation for the report, and the reasoning used to formulate the estimate of value. Unless paid in whole or in part by the party issuing the subpoena or by another party of interest in the matter, the client is responsible for all unpaid fees resulting from the appearance of production of documents regardless of who orders the work.
36. Acceptance or use of this report constitutes agreement by the client and any other users that any liability for errors, omissions or judgment of the appraiser(s) is limited to the amount of the fee charged for the appraisal.
37. Use of this appraisal constitutes acknowledgement and acceptance of the general assumptions and limited conditions, special assumptions (if any), extraordinary assumptions (if any), and hypothetical conditions (if any) on which this estimate of market value is based.
38. If provided, the estimated insurable value is included at the request of the client and has not been performed by a qualified insurance agent or risk management underwriter. This cost estimate should not be solely relied upon for insurable value purposes. The appraiser(s) are not familiar with the definition of insurable value from the insurance provider, the local government underwriting regulations, or the types of insurance coverage available. These factors can impact cost estimates and are beyond the scope of the intended use of this appraisal. The appraiser(s) are not cost experts in cost estimating for insurance purposes.
39. ***Extraordinary Assumption(s)* –** Within this specific assignment, we have relied upon provided building areas and ages. These building areas and ages have been cross checked with available public records for reasonableness. However, should the size or ages of the subject building(s) vary significantly from that which is utilized herein, the appraiser(s) reserve the right to modify the contents of this report, including the value conclusion(s) (upon just compensation).

40. ***Hypothetical Condition(s) -*** In this report, our value estimate of the Desert Regional Medical Center is performed under the Hypothetical Condition that the hospital buildings are seismically compliant under California SB 1953 requirements.

ADDENDA

EXHIBIT A: SUBJECT PHOTOGRAPHS

Subject properties Photographs

LOOKING EAST AT HOSPITAL BUILDING

STERILE PROCESSING

CT SCAN

TYPICAL PATIENT ROOM

VIEW OF ICU

VIEW OF ROOF WITH MOUNTAINS IN THE DISTANCE

Subject properties Photographs

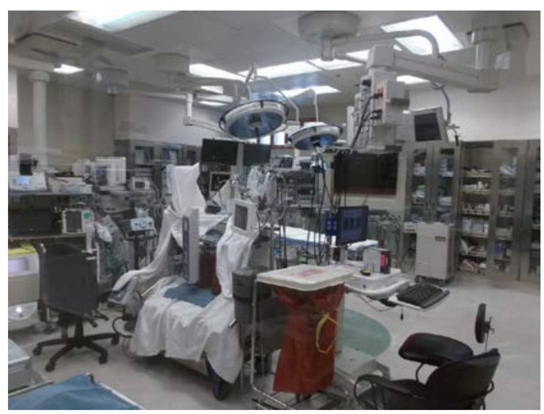

CORRIDOR


NEW EMERGENCY DEPARTMENT BAYS


ROOFTOP HELIPAD


KITCHEN


STERILE SUPPLY


OPERATING ROOM

Subject properties Photographs


COOLING TOWER


ELECTRICAL PANEL


CHILLER


BOILER

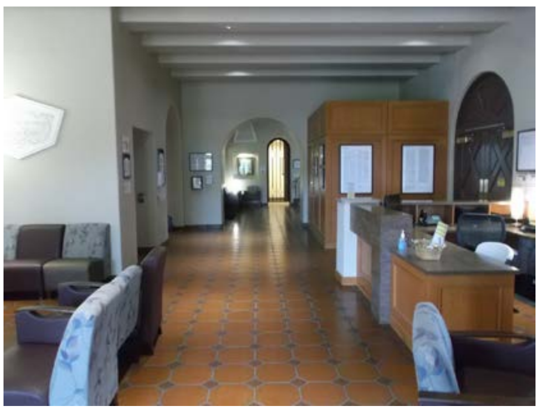

GENERATOR


CATH LAB

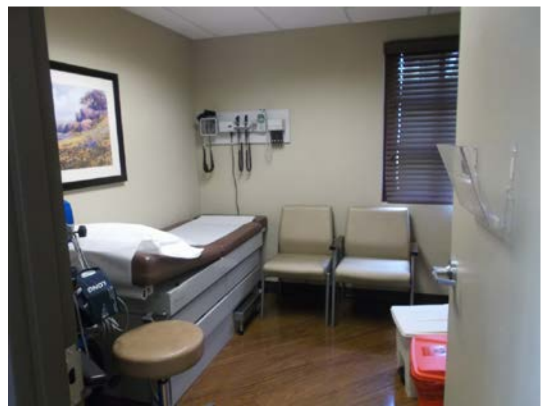
Subject properties Photographs

Rehabilitation Gym

Exterior View of Stergios Building



Lobby for Stergios Building



Stergios Building Exam Room

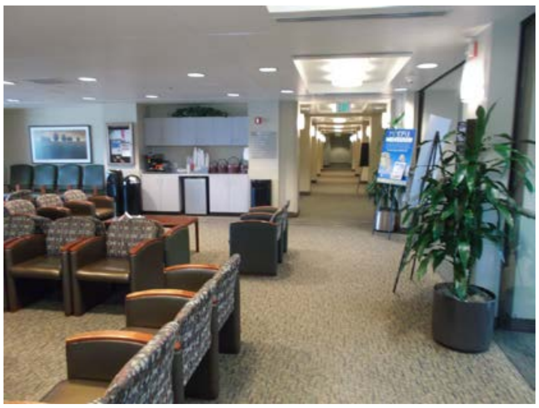
Stergios Building Gym

Conference Room

Subject properties Photographs


EXTERIOR VIEW OF EL MIRADOR MEDICAL PLAZA


OPERATING SUITE IN THE SURGERY CENTER


WAITING AREA OF A MEDICAL SUITE


LINEAR ACCELERATOR IN VAULT


CT SCAN IN CANCER CENTER


CANCER CENTER INFUSION AREA


HYPERBARIC CHAMBER


PROCEDURE ROOM IN GI SUITE


WELLNESS PARK

WELLNESS PARK


EXTERIOR VIEW OF LAS PALMAS MEDICAL PLAZA


INTERIOR OF ONE OF THE SUITES

EXHIBIT B: SALE COMPARABLES - HOSPITAL

IMPROVED SALE NO. 1

Location & Physical Data

Name:	Saint Joseph Regional Medical Center
Address:	415 6th Street
City:	Lewiston
State:	Idaho
Property Type:	Acute Care Hospitals
Land Acres:	2.270
NRA (SF) of Building:	453,148
Year Built:	Unk
Year Renovated:	N/A
Stories:	4
Construction:	Masonry
Quality:	Good
Parking:	Surface
Parking Spaces Per 1,000 SF	N/A
No. of Beds:	145

Transaction Data

Transaction Type:	Sale	Sale Price:	$87,500,000
Date:	4/23/2017	NOI:	N/A
Financing:	Cash to seller	Cap Rate:	N/A
Propert Interest:	Leased Fee	NOI/SF:	N/A
Recording:	Warranty Deed	Sale Price Per SF:	$193.09
Grantor:	Saint Joseph Regional Medical Center Inc	Sale Price Per Bed:	$603,448
Grantee:	MPT Lewiston-RCCH LLC		

Comments

St. Joseph Regional Medical Center's real estate was sold to MPT. The sale was a sale/leaseback arrangement with the subject's lease to RCCH based on the existing long-term lease agreement entered into by RCCH on April 2016.

IMPROVED SALE NO. 2

Location & Physical Data			
Name:	Memorial Hermann NE Hospital		
Address:	18951 North Memorial Drive		
City:	Humble		
State:	Texas		
Property Type:	Acute Care Hospital		
Land Acres:	38.896		
NRA (SF) of Building:	421,887		
Year Built:	1975 - 2006		
Year Renovated:	N/A		
Stories:	Unk		
Construction:	Brick		
Quality:	Average		
Parking:	Surface		
Parking Spaces Per 1,000 SF	3.00		
No. of Beds:	255		

Transaction Data			
Transaction Type:	Sale	Sale Price:	$55,000,000
Date:	5/18/2016	NOI:	N/A
Financing:	Cash to seller	Cap Rate:	N/A
Propert Interest:	Fee Simple	NOI/SF:	N/A
Recording:	N/A	Sale Price Per SF:	$130.37
Grantor:	Northeast Hospital Authority	Sale Price Per Bed:	$215,686
Grantee:	Memorial Hermann Health System		

Comments

Memorial Hermann exercised their option to purchase the hospital from the hospital authority that owned it since it was constructed. As part of the purchase, real estate related capital expenditures net of depreciation was deducted from the sales price. This purchase included additional on campus medical office buildings and excess land. As part of the sale, Memorial Hermann had promised to replace the existing patient tower with a new 123,000 square foot patient tower. The hospital offers interventional cardiology, oncology, spine surgery, orthopedics, sports medicine and endovascular surgery.

IMPROVED SALE NO. 3

Location & Physical Data			
Name:	Palm Beach Gardens		
Address:	3370 Burns Road		
City:	Palm Beach Gardens		
State:	Florida		
Property Type:	Acute Care		
Land Acres:	22.019		
NRA (SF) of Building:	274,788		
Year Built:	1964 -2010		
Year Renovated:	N/A		
Stories:	3		
Construction:	Masonry		
Quality:	Good		
Parking:	Surface		
Parking Spaces Per 1,000 SF	N/A		
No. of Beds:	199.00		
Transaction Data			
Transaction Type:	Sale	Sale Price:	$61,300,000
Date:	2/13/2017	NOI:	N/A
Financing:	Cash to Seller	Cap Rate:	N/A
Propert Interest:	Fee Simple	NOI/SF:	N/A
Recording:	BK 28904 PG 1343	Sale Price Per SF:	$223.08
Grantor:	Health Care Property Investors Inc	Sale Price Per Bed:	$308,040
Grantee:	Palm Beach Gardens Community Hospital Inc.		

Comments

This comparable was purchased by Tenet Healthcare. Tenet was on a long-term lease at $7,700,000 or $27.42 per square foot as of February 2014 with escalations of the lesser of CPI or 2.5% annually with HCP. Tenet Healthcare exercised their purchase option in the lease. This purchase option was at $43,426,203. According to Tenet Healthcare, the agreed upon price of the hospital was $61,300,000 with Tenet Healthcare being credited with $17,800,000 in capital additions.

IMPROVED SALE NO. 4

Location & Physical Data	
Name:	Loma Linda University Medical Center - Murrieta
Address:	28062 Baxter Road
City:	Murrieta
State:	California
Property Type:	Acute Care Hospital
Land Acres:	17.180
NRA (SF) of Building:	248,706
Year Built:	2011
Year Renovated:	N/A
Stories:	5
Construction:	Masonry, Glass
Quality:	Excellent
Parking:	Surface
Parking Spaces Per 1,000 SF	N/A
No. of Beds:	106

Transaction Data			
Transaction Type:	Sale	Sale Price:	$200,296,000
Date:	8/15/2014	NOI:	N/A
Financing:	Cash to seller	Cap Rate:	N/A
Propert Interest:	Leased Fee	NOI/SF:	N/A
Recording:	2014-310896	Sale Price Per SF:	$805.35
Grantor:	Welltower, Inc.	Sale Price Per Bed:	$1,889,585
Grantee:	Loma Linda University Medical Center - Murrieta		

Comments

This was the sale of a 106-bed acute care hospital that was leased to Loma Linda University Medical Center -Murrieta. The hospital was under a lease between Health Care REIT, Inc.(former landlord before Welltower) and Physicians' Hospital of Murrieta, LLC (the former tenant of the hospital before Loma Linda University acquired them). The lease was dated June 19, 2008 and has a term of 15 years. The lease rate is based on a return of the actual construction cost of the hospital. According to the lease, the tenant has a purchase option on the hospital for the invested amount or the Fair Market Value of the hospital's Leased Fee Estate.

IMPROVED SALE NO. 5

Location & Physical Data

Name:	Bellevue Medical Center
Address:	2510 Bellevue Medical Center Dr
City:	Bellevue
State:	Nebraska
Property Type:	Acute Care Hospital
Land Acres:	21.509
NRA (SF) of Building:	266,527
Year Built:	2010
Year Renovated:	N/A
Stories:	4
Construction:	Glass, masonry
Quality:	Excellent
Parking:	Surface
Parking Spaces Per 1,000 SF:	1.70
No. of Beds:	100

Transaction Data

Transaction Type:	Sale	Sale Price:	$130,145,000
Date:	12/31/2015	NOI:	$11,194,134
Financing:	Cash to Seller	Cap Rate:	8.60%
Propert Interest:	Fee Simple	NOI/SF:	$42.00
Recording:	2015-32052	Sale Price Per SF:	$488.30
Grantor:	Bellevue Healthcare Properties	Sale Price Per Bed:	$1,301,450
Grantee:	The Nebraska Medical Center		

Comments

This acute care hospital is located in Bellevue, Nebraska and features an emergency department, obstetrics, inpatient/outpatient surgery, an ICU, cardiology and cancer services, a pharmacy, and radiology and lab testing. The hospital was acquired by the tenant/operator (Nebraska Medicine) from the landlord, Welltower for $130.145 million. The lease terms that were in place prior to sale were not available. A 60,000-square-foot MOB which is connected to the hospital was not included in the acquisition.

IMPROVED SALE NO. 6

Location & Physical Data	
Name:	Auburn Regional Medical Center
Address:	202 N. Division Street
City:	Auburn
State:	Washington
Property Type:	Acute Care Hospital
Land Acres:	12.762
NRA (SF) of Building:	399,176
Year Built:	1994
Year Renovated:	N/A
Stories:	3
Construction:	Masonry
Quality:	Good
Parking:	Surface
Parking Spaces Per 1,000 SF	N/A
No. of Beds:	195

Transaction Data			
Transaction Type:	Sale	Sale Price:	$70,070,000
Date:	10/1/2012	NOI:	N/A
Financing:	Cash to seller	Cap Rate:	N/A
Propert Interest:	Fee Simple	NOI/SF:	N/A
Recording:	20121001001236	Sale Price Per SF:	$175.54
Grantor:	AUBURN REGIONAL MEDICAL CENTER, INC.	Sale Price Per Bed:	$359,333
Grantee:	MULTICARE HEALTH SYSTEM		

Comments

This property is composed of two buildings on three parcels in very close proximity to each other. The first contains the medical center building built in 1994 the second is a small 3,440-square-foot office building. A third building that was built in 2009 was not part of the purchase but the grantee bought the ground that the building is ground leased on. This land component was not considered significant to the overall purchase.

EXHIBIT B: SALE COMPARABLES – MEDICAL OFFICE

IMPROVED SALE NO. 1

Location & Physical Data

Name:	Diagnostic Medical Building
Address:	1330 N Indian Canyon Drive
City:	Palm Springs
State:	California
Property Type:	MOB
Land Acres:	0.740
NRA (SF) of Building:	9,932
Year Built:	1979
Stories:	2
Construction:	Masonry
Quality:	Average
Condition:	Average
Parking:	Surface
Parking Spaces Per 1,000 SF:	4.00
Occupancy:	100%
On- or off-campus:	Off

Transaction Data

Transaction Type:	Sale	Sale Price:	$1,475,000
Date:	10/21/2014	NOI:	$140,715
Financing:	N/A	Cap Rate:	9.54%
Property Interest:	Fee-Simple	NOI/SF:	$14.17
Recording:	398314	Sale Price Per SF:	$148.51
Conditions of Sale:	None		
Grantor:	Robert Bernard Kahn		
Grantee:	Haman Zadeh MD		

Comments

This sale comparable represents a multi-tenant medical office building that is located in Palm Springs, CA. According to public recrods and a representative of the listing broker company (Coldwell), the building was sold in October 2014 for a sales price of $1.475 million. Additionally, a sales brochure dated November 2013 indicated a listing price of $1.695 million (implied 8.3% cap rate). The medical office building reportedly transacted at a 9.54% cap rate.

IMPROVED SALE NO. 2

Location & Physical Data	
Name:	353 S. Palm Canyon Drive
Address:	353 S. Palm Canyon Drive
City:	Palm Springs
State:	California
Property Type:	POB
Land Acres:	0.370
NRA (SF) of Building:	5,927
Year Built:	Unknown
Stories:	1
Construction:	Masonry
Quality:	Good
Condition:	Good
Parking:	Surface
Parking Spaces Per 1,000 SF:	3.40
Occupancy:	100%
On- or off-campus:	Off

Transaction Data			
Transaction Type:	Sale	Sale Price:	$1,600,000
Date:	1/6/2017	NOI:	$77,718
Financing:	N/A	Cap Rate:	4.86%
Property Interest:	Fee Simple	NOI/SF:	$13.11
Recording:	0008210	Sale Price Per SF:	$269.95
Conditions of Sale:	None		
Grantor:	Nelson Family Trust		
Grantee:	Jane Lundin Living Trust		

Comments

This sale comparable represents a multi-tenant office building that is located in Palm Springs, CA. According to public records and a representative of the listing broker company (SVN - Rich Investment Real Estate Partners), the building was sold in January 2017 for a sales price of $1.60 million. Additionally, a sales brochure (preceding the sale) indicated a listing price of $1.80 million (implied 4.3% cap rate). The office building reportedly transacted at a 4.9% cap rate. The listing brochure states that 2015 NOI totaled $77,718. The year of construction is unknown, however its noted a project replacing the roof and renovating the interior occurred in 2016. The tenants at the time of the sale were a day spa tenant (annual rent of $20.64 PSF) and a hearing aid tenant (annual rent of $17.06 PSF). These appear to be triple-net rents, however this is not confirmed.

IMPROVED SALE NO. 3

Location & Physical Data

Name:	Desert Springs Professional Plaza
Address:	1100 N. Palm Canyon Drive
City:	Palm Springs
State:	California
Property Type:	MOB
Land Acres:	1.970
NRA (SF) of Building:	44,304
Year Built:	1978
Stories:	2
Construction:	Masonry
Quality:	Good
Condition:	Good
Parking:	Surface
Parking Spaces Per 1,000 SF:	4.50
Occupancy:	85%
On- or off-campus:	Adjacent

Transaction Data

Transaction Type:	Sale	Sale Price:	$12,500,000
Date:	8/11/2017	NOI:	N/A
Financing:	N/A	Cap Rate:	N/A
Property Interest:	Partial ownership	NOI/SF:	N/A
Recording:	0359200	Sale Price Per SF:	$282.14
Conditions of Sale:	Portfolio Sale		
Grantor:	MBRE Healthcare		
Grantee:	CBRE Global Investment Partners (GIP)		

Comments

This comparable was part of a 25 building portfolio sale between CBRE Global Investment Partners (GIP) (Buyer) and MB Real Estate Healthcare (seller). The buyer purchased a 95% ownership interest in the portfolio and the seller retained the remaining 5% ownership and will continue to operate the properties in the portfolio. The transactional data above is based on information obtained from Costar, and verified using public records. This comparable is located adjacent west to the Desert Regional Medical Center Campus.

IMPROVED SALE NO. 4

Location & Physical Data	
Name:	Tahquitz Professional Bldg.
Address:	3001 E. Tahquitz Canyon Way
City:	Palm Springs
State:	California
Property Type:	POB
Land Acres:	0.670
NRA (SF) of Building:	11,530
Year Built:	1980
Year Renovated:	N/A
Stories:	2
Construction:	Masonry
Parking:	Surface
Parking Spaces Per 1,000 SF:	N/A
Occupancy:	50%
On- or off-campus:	Off

Transaction Data			
Transaction Type:	Sale	Sale Price:	$1,050,000
Date:	4/29/2011	NOI:	N/A
Financing:	None	Cap Rate:	N/A
Property Interest:	Fee Simple	NOI/SF:	N/A
Recording:	0188142	Sale Price Per SF:	$91.07
Conditions of Sale:	High Vacancy		
Grantor:	Kentaro & Yumiko Kishimizu		
Grantee:	David Gilbert		

Comments

This comparable represents a professional office building that is located along E. Tahquitz way. The comparable is located west of the Palm Springs airport. According to the listing broker, the comparable was approximately 50% vacant at the time of the sale which had an impact on the sales price. According to CoStar the property was previously sold in 2005 at a price of $1,700,000 ($147.44 PSF; 6.0% cap rate).

EXHIBIT C: RENT COMPARABLES - HOSPITAL

COMPETITIVE RENTAL NO. 1

Location & Physical Data			
Name:	Great Falls Clinic Hospital		
Address:	3010 15th Ave S		
City:	Great Falls		
State:	Montana		
Type:	Surgical Hospital		
Land Acres:	6.890		
SF of Host Building:	63,254		
SF of Leased Premises:	63,254		
Year Built:	2015		
Year Renovated:	N/A		
Stories:	2		
Construction:	Glass, masonry		
Quality:	Good		
Condition:	Good		
Parking:	Surface	Licensed Beds:	20
Occupancy	100%	Square Feet Per Bed:	3,163

Lease Data			
Transaction Type:	Lease	Rent (annual):	$2,552,000
Effective Lease Date:	Feb-16	Rent Per Bed/YR:	$127,600
Commencement Date:	Feb-16	Rent PSF/YR:	$40.35
Initial Term (Years):	15	Escalations:	N/A
Options:	N/A	Type of Lease:	Triple-net
Tenant Improvements:	N/A	Concessions:	N/A
Lessor:	Physicians Realty Trust		
Lessee:	Great Falls Clinic Hospital		

Comments

Great Falls Clinic Hospital is a surgical hospital which was constructed in 2015. It features 63,254 square feet, three operating rooms, and 20 patient beds (according to AHD). All patient rooms are private with private bathrooms. It also includes a full array of imaging services, laboratory, pharmacy, and other ancillary services. The building was built as a replacement facility and was completed in 2015. The budgeted construction cost was reported at $23.5 million, plus another $7 million for equipment. The real property associated with the hospital sold in January 2016 for $29,000,000, or $458.47 per square foot. The buyer was Physicians Realty Trust, which has previously provided a mezzanine loan of $4.5M to help fund construction. The seller was the property's developer. The operator reportedly signed a long-term, triple-net lease commencing at $2,552,000 annually, or $40.35 per square foot. This represents an 8.8% cap rate. It is noted that the buyer previously (in December 2015) acquired a medical office situated adjacent to this hospital. The buyer also previously acquired (in December 2013) an ASC in Great Falls occupied by the same operator. However, the acquisition of Great Falls Clinic Hospital is considered to be arm's length and representative of market.

COMPETITIVE RENTAL NO. 2

Location & Physical Data			
Name:	Bay Area Rehabilitation Hospital		
Address:	110 E Medical Center Blvd		
City:	Webster		
State:	Texas		
Type:	Rehabilitation Hospital		
Land Acres:	11.020		
SF of Host Building:	53,513		
SF of Leased Premises:	53,513		
Year Built:	2015		
Year Renovated:	N/A		
Stories:	2		
Construction:	Masonry		
Quality:	Good		
Condition:	Excellent		
Parking:	Surface	Licensed Beds:	45
Occupancy	100%	Square Feet Per Bed:	1,189

Lease Data			
Transaction Type:	Lease	Rent (annual):	$1,928,995
Effective Lease Date:	Jun-15	Rent Per Bed/YR:	$146,664
Commencement Date:	Jun-15	Rent PSF/YR:	$14.12
Initial Term (Years):	20 Years	Escalations:	N/A
Options:	N/A	Type of Lease:	Triple-Net
Tenant Improvements:	N/A	Concessions:	N/A
Lessor:	HCII-110 East Medical Center Blvd, LLC		
Lessee:	Webster Rehab L.P., a Texas limited partnership		

Comments

A subsidiary of Carter Validus Mission Critical REIT II acquired Bay Area Rehabilitation Hospital from a subsidiary of Medistar Corporation in June 2015. The sale price was reported to be $25,719,927, which reportedly represented a 7.50% cap rate. Webster Rehabilitation Hospital is a newly built, 45-bed inpatient rehabilitation facility that is 100% leased to Clear Lake Institute for Rehabilitation, LLC, a newly formed operating subsidiary of Post-Acute Medical, LLC ("PAM"). PAM operates 18 in-patient post-acute facilities and is an affiliate of Vibra Healthcare, LLC. Bay Area Rehabilitation Hospital was built in 2015. The facility's 45 beds are all private and include a 13-bed secured unit. The facility provides physical, psychological, social and vocational rehabilitation services for patients who have suffered traumatic brain injury, stroke or neurological disorders. The building reportedly includes an imaging suite, as well as a pharmacy and an emergency treatment unit.

COMPETITIVE RENTAL NO. 3

Location & Physical Data

Name:	Patients Medical Center		
Address:	4600 E. Sam Houston Pky		
City:	Pasadena		
State:	Texas		
Type:	Acute Care Hospital		
Land Acres:	13.000		
SF of Host Building:	117,000		
SF of Leased Premises:	117,000		
Year Built:	2006		
Year Renovated:	N/A		
Stories:	1		
Construction:	Masonry, glass		
Quality:	Good		
Condition:	Good		
Parking:	Surface	Licensed Beds:	61

Lease Data

Transaction Type:	Lease	Rent (annual):	$3,440,000
Effective Lease Date:	Oct-10	Rent Per Bed/YR:	$56,393
Commencement Date:	Oct-10	Rent PSF/YR:	$29.40
Initial Term (Years):	20	Escalations:	N/A
Options:	N/A	Type of Lease:	Triple-net
Tenant Improvements:	As Is	Concessions:	None
Lessor:	Norvin Properties		
Lessee:	St. Luke's Episcopal Health System		

Comments

Houston-based St. Luke's Episcopal Health System acquired 51 percent of a new joint venture operating Patients Medical Center in Pasadena, Texas. As part of this transaction, Norvin Properties acquired the real estate (117,000-square-foot building and approximately 13 acres) for approximately $40 million. The hospital includes 61 beds. The sale/leaseback was reported to be executed at an 8.60% cap rate. According to AHD, this facility had 19,149 patient days in the most recent annual reporting period. Based on the reported patient days, the facility's occupancy appears to have averaged 86%. The facility has 53 private patient rooms, 4 ICU rooms and 4 intermediate care rooms. The facility includes 8 ORs with complete surgical suites and cardiac cath/angio suite with accommodations for open heart and neuro/spine surgery. The facility includes a laboratory with comprehensive imaging, ultrasound, nuclear medicine, and radiology. Diagnostic imaging and physical therapy services are also on site.

COMPETITIVE RENTAL NO. 4

Location & Physical Data

Name:	North Fulton Hospital		
Address:	3000 Hospital Boulevard		
City:	Roswell		
State:	Georgia		
Type:	Acute Care Hospital		
Land Acres:	19.770		
NRA (SF) of Host Building:	316,840		
NRA (SF) of Leased Premise	316,840		
Year Built:	1983		
Year Renovated:	Various		
Stories:	3		
Construction:	Masonry		
Quality:	Good		
Condition:	Good	Building Owner:	HCP
Parking:	Surface	Physician Referral:	No

Lease Data

Transaction Type:	Lease	Rent (annual):	$7,700,000
Effective Lease Date:	Feb-14	Rent Per Bed/YR:	N/A
Commencement Date:	Feb-14	Rent PSF/YR:	$24.30
Initial Term (Years):	6	Escalations:	Annually, the lesser of CPI or 2.5%
Options:	Four, 5-year	Type of Lease:	Triple-net
Tenant Improvements:	As Is	Concessions:	None
Lessor:	HCP		
Lessee:	North Fulton Medical Center, Inc.		

Comments

This lease was a renewal of a lease that began in 1987. The lease rate was negotiated between the lessor and lessee. Based upon LTM mid-2013 financials adjusted for non-hospital related revenue and expenses, the rent coverage ratio was 4.1X. There are ten licensed operating room suites and one Cysto suite containing 41,898 square feet. There is a Cath Lab, two CT Scans, an MRI, two Nuclear Medicine Cameras, one X-Ray, two Fluoro/X-Ray, and three Ultra Sound Machines. The gross building area of the hospital improvements is 316,840 square feet. The first floor includes a lobby area, Radiology/Imaging, Emergency Department, Administration, Support Services, dining room, surgery areas with ten operating rooms, Pre-Op and PACU areas, Cath Lab, and ICU. The lab is 4,901 square feet. The third floor contains the Cardiac Telemetry patient rooms. Each patient room has a private restroom; however, many of the rehabilitation rooms do not have a shower. The tenant has an option to purchase the hospital for $82,039,856 on February 19, 2020.

COMPETITIVE RENTAL NO. 5

Location & Physical Data

Name:	Frye Regional Medical Center		
Address:	420 N. Center Street		
City:	Hickory		
State:	North Carolina		
Type:	Acute Care Hospital		
Land Acres:	6.901		
NRA (SF) of Host Building:	396,552		
NRA (SF) of Leased Premise	396,552		
Year Built:	1911 - 2009		
Year Renovated:	Various		
Stories:	6		
Construction:	Masonry		
Quality:	Good		
Condition:	Good	Building Owner:	HCP
Parking:	Surface and Garage	Physician Referral:	No

Lease Data

Transaction Type:	Lease	Rent (annual):	$7,800,000
Effective Lease Date:	Feb-14	Rent Per Bed/YR:	N/A
Commencement Date:	Feb-14	Rent PSF/YR:	$19.67
Initial Term (Years):	8	Escalations:	The lesser of CPI or 2.5%
Options:	Four, 5-year	Type of Lease:	Triple-net
Tenant Improvements:	As Is	Concessions:	None
Lessor:	HCP		
Lessee:	Tenet Healthcare Corporation		

Comments

This lease was a renewal of a lease that began in 1987. The lease rate was negotiated between the lessor and lessee. Based upon LTM mid-2013 financials adjusted for non-hospital related revenue and expenses, the rent coverage ratio was 1.91X. the subject property at the hospital campus has 255 licensed beds and includes a cafeteria. There are 54 semi-private rooms and the rest are private (although every attempt is made not to cohort patients). The surgery area comprises approximately 25,000 square feet with 17 operating rooms (includes two open heart rooms). The average operating room comprises approximately 500 square feet. Radiology includes 16,340 square feet and includes two CT, one MRI, two nuclear medicine cameras, one mammography area, and two general x-ray rooms. The linear accelerator area comprises 3,200 square feet and one vault. The outpatient therapy area and cardiac rehabilitation area comprise 10,080 square feet. The tenant has an option to purchase the hospital on February 19, 2022 for $67,634,963.

COMPETITIVE RENTAL NO. 6

Location & Physical Data

Name:	Palm Beach Gardens Medical Center		
Address:	3360 and 3370 Burns Road		
City:	Palm Beach Gardents		
State:	Florida		
Type:	Acute Care Hospital		
Land Acres:	22.019		
NRA (SF) of Host Building:	280,858		
NRA (SF) of Leased Premise	280,858		
Year Built:	1964 - 2010		
Year Renovated:	Various		
Stories:	3		
Construction:	Masonry		
Quality:	Good		
Condition:	Good	Building Owner:	HCP
Parking:	Surface	Physician Referral:	No

Lease Data

Transaction Type:	Lease	Rent (annual):	$7,700,000
Effective Lease Date:	Feb-14	Rent Per Bed/YR:	N/A
Commencement Date:	Feb-14	Rent PSF/YR:	$27.42
Initial Term (Years):	3	Escalations:	The lesser of CPI or 2.5%
Options:	Four, 5-year	Type of Lease:	Triple-net
Tenant Improvements:	As Is	Concessions:	None
Lessor:	HCP		
Lessee:	Tenet Healthcare Corporation		

Comments

This comparable represents an acute care hospital and an MOB located in Palm Beach Gardens. There are 11 operating rooms (two used for storage), imaging areas including two CT Scans, six procedure imaging rooms, one MRI room and one Nuclear Medicine room.

COMPETITIVE RENTAL NO. 7

Location & Physical Data

Name:	Arkansas Surgical Hospital		
Address:	5201 Northshore Drive		
City:	North Little Rock		
State:	Arkansas		
Type:	Surgical Hospital		
Land Acres:	19.470		
SF of Host Building:	125,909		
SF of Leased Premises:	125,909		
Year Built:	2005		
Year Renovated:	2,008		
Stories:	1		
Construction:	Good		
Quality:	Good		
Condition:	Good		
Parking:	Surface	Licensed Beds:	51

Lease Data

Transaction Type:	Lease	Rent (annual):	$3,765,279
Effective Lease Date:	Jun-14	Rent Per Bed/YR:	$73,829
Commencement Date:	Jun-14	Rent PSF/YR:	$29.90
Initial Term (Years):	15	Escalations:	2% annually
Options:	N/A	Type of Lease:	Triple-net
Tenant Improvements:	As is	Concessions:	None
Lessor:	N/A		
Lessee:	N/A		

Comments

This surgical hospital is located in North Little Rock and features 51 private patient suites and 11 operating rooms, which are predominantly utilized for orthopedic and spine procedures. The hospital is also equipped with X-Ray, MRI, and CT scanning. The building was built in 2005 and expanded in 2008. It sold in November 2015 for $56,600,000. The Year 1 NOI was reported to be $3,765,279, which represents a 6.65% cap rate. the NOI reportedly represents an EBITDAR rent coverage ratio of 4.8x. The hospital is physician aligned, with physicians owning 49% and Medical Facilities Corporation owning remaining 51%. While the property does not feature an official asking price, the broker reported it was approximately a 6.5% cap, which equates to $57,927,369 ($460.07/SF). It is noted that a 51% interest in the hospital business was acquired in 2012 for a reported consideration of $36.2 million.

EXHIBIT C: RENT COMPARABLES - MEDICAL OFFICE

COMPETITIVE RENTAL NO. 1

Location & Physical Data

Name:	Desert Springs Professional Plaza
Address:	1100 N. Palm Canyon Drive
City:	Palm Springs
State:	California
Type:	Medical Office Building
SF of Host Building:	44,304
SF of Leased Premises:	1,946
Year Built:	1978
Stories:	2
Construction:	Masonry
Quality:	Good
Condition:	Good
Parking:	Surface
Occupancy:	85%
On- or off-campus:	Adjacent

Lease Data

Transaction Type:	Current Offering	Rent (annual):	$36,001
Commencement Date:	Current	Rent PSF/YR:	$18.50
Initial Term (Years):	Negotiable	Escalations:	Negotiable
Options:	Negotiable	Type of Lease:	Triple-Net
Tenant Improvements:	Negotiable		
Lessor:	Broker: MBRE Healthcare		
Lessee:	Not Applicable		

Comments

This comparable represents space within a medical office building that is located adjacent to the Desert Regional Medical Center Campus. Please note, the listing rate was quoted at $17.50 - $20.00 PSF on a triple-net basis. It is further noted, this comparable was part of a 25 building portfolio sale between CBRE Global Investment Partners (GIP) (Buyer) and MB Real Estate Healthcare (seller). The buyer purchased a 95% ownership interest in the portfolio and the seller retained the remaining 5% ownership and will continue to operate the properties in the portfolio. The sale occurred in August 2017.

COMPETITIVE RENTAL NO. 2

Location & Physical Data	
Name:	400 S. Farrell Drive
Address:	400 S. Farrell Drive
City:	Palm Springs
State:	California
Type:	MOB/POB
SF of Host Building:	67,335
SF of Leased Premises:	1,373
Year Built:	1982
Stories:	2
Construction:	Masonry
Quality:	Average
Condition:	Average
Parking:	Surface
Occupancy:	95%
On- or off-campus:	Off

Lease Data			
Transaction Type:	Current Offering	Rent (annual):	$29,657
Commencement Date:	Current	Rent PSF/YR:	$21.60
Initial Term (Years):	3 Years (plus)	Escalations:	3.00%
Options:	Negotiable	Type of Lease:	Full Service Gross
Tenant Improvements:	Negotiable		
Lessor:	Broker: The Abbey Company		
Lessee:	Not Applicable		

Comments

This comparable represents space within a professional/medical office building. The listing broker stated that asking rent is $1.80 PSF per month ($21.60 PSF annually) on a full-service gross (FSG) basis. It is noted, the quoted rent above is tailored to a 1,373 square-foot suite that is suited for a professional office user. The listing broker stated that medical office users are permitted; however, the additional buildout cost would come out of the tenants pockets.

COMPETITIVE RENTAL NO. 3

Location & Physical Data	
Name:	Sundial Building
Address:	2825 E. Tahquitz Canyon Way
City:	Palm Springs
State:	California
Type:	POB
SF of Host Building:	45,886
SF of Leased Premises:	1,800
Year Built:	1979
Stories:	2
Construction:	Masonry
Quality:	Average
Condition:	Average
Parking:	Surface
Occupancy:	96%
On- or off-campus:	Off

Lease Data			
Transaction Type:	Current Offering	Rent (annual):	$29,160
Commencement Date:	Current	Rent PSF/YR:	$16.20
Initial Term (Years):	3-5 Years	Escalations:	3.00%
Options:	Negotiable	Type of Lease:	Modified Gross
Tenant Improvements:	Negotiable		
Lessor:	Broker: Lee & Associates		
Lessee:	Not Applicable		

Comments

This comparable represents a listing for a 1,800 square-foot professional office suite that is located on the second floor within a 45,886 square-foot building. The stated lease terms are $16.20 PSF (annually) on a modified gross basis, with the tenant responsible for base rent, utility cost and janitorial costs, and the landlord responsible for the triple-nets.

COMPETITIVE RENTAL NO. 4

Location & Physical Data

Name:	NOIA Building
Address:	401-493 E. Tahquitz Canyon Way
City:	Palm Springs
State:	California
Type:	POB
SF of Host Building:	27,766
SF of Leased Premises:	252
Year Built:	1965
Stories:	2
Construction:	Masonry
Quality:	Average
Condition:	Good
Parking:	Surface
Occupancy:	98%
On- or off-campus:	Off

Lease Data

Transaction Type:	Current Offering	Rent (annual):	$6,048
Commencement Date:	Current	Rent PSF/YR:	$24.00
Initial Term (Years):	One - Five Years	Escalations:	3.00%
Options:	Negotiable	Type of Lease:	Full Service Gross
Tenant Improvements:	Negotiable		
Lessor:	Broker: NRE Commercial		
Lessee:	Not Applicable		

Comments

This comparable represents space within a newly renovated professional office building, located along Tahquitz Canyon Way. It is noted, Tahquitz Way is a heavily traveled thoroughfare. The building contains retail space on the bottom floor and office space on the second floor. The quoted rent rate represents a 252 square-foot suite of creative office space. The listing broker stated that rent is quoted at $2.00 PSF monthly ($24.00 PSF annually) on a full-service gross basis. The listing broker additionally stated that operating expenses total $0.35 PSF monthly ($4.20 PSF annually); however, it is unknown what is included within the quoted expense amount.

COMPETITIVE RENTAL NO. 5

Location & Physical Data	
Name:	1401 N. Palm Canyon Drive
Address:	1401 N. Palm Canyon Drive
City:	Palm Springs
State:	California
Type:	MOB
SF of Host Building:	17,644
SF of Leased Premises:	1,505
Year Built:	1983
Stories:	2
Construction:	Masonry
Quality:	Average
Condition:	Average
Parking:	Surface
Occupancy:	100%
On- or off-campus:	Off

Lease Data			
Transaction Type:	Current Offering	Rent (annual):	$29,393
Commencement Date:	Current	Rent PSF/YR:	$19.53
Initial Term (Years):	5 Years (plus)	Escalations:	Unknown
Options:	Unknown	Type of Lease:	Modified Gross
Tenant Improvements:	Unknown		
Lessor:	Broker: Baddour & Associates		
Lessee:	Not Applicable		

Comments

This comparable represents medical office space, located in close proximity to the Desert Regional Medical Center. We were unable to connect with the listing broker; therefore, the information stated above is based on an undated marketing brochure. According to the marketing flyer, suite 202 is (was) available for rent for $2,450 per month on a modified gross basis, and totals 1,505 square feet ($19.53 PSF annually). The suite includes four exam rooms, one consultation room, two bathrooms, one business office and a reception area. The marketing brochure indicated that the tenant is not responsible for common area fees; however it not known what all this consists of.

EXHIBIT D: APPRAISER CERTIFICATION

APPRAISER CERTIFICATION

It is hereby stated that, to the best of my knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.

I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

My engagement in this assignment was not contingent upon developing or reporting predetermined results.

My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

My analysis, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice.

My analysis, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

Frank Fehribach has made a personal inspection of the property that is the subject of this report.

Frank Fehribach has not provided any appraisal services regarding the subject properties within the three years prior to this assignment.

Robert Kupchynsky provided significant real property appraisal assistance to the person signing this report by providing research and assisting on the analysis. Ian Grigar, MAI provided significant assistance by overseeing Robert Kupchynsky's work.

The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report Frank Fehribach, MAI, MRICS has completed the continuing education program for Designated Members of the Appraisal Institute.

Frank Fehribach, MAI, MRICS
California Certified General Real Estate Appraiser #AG044542

EXHIBIT E : APPRAISER QUALIFICATIONS

FRANK A. FEHRIBACH, MAI, MRICS

Director of Real Estate Services

VMG HEALTH
WE VALUE HEALTHCARE

BIOGRAPHY

Mr. Fehribach has substantial experience in valuing healthcare-related properties including acute care, surgical, behavioral and rehab hospitals, surgery centers, imaging centers, cancer centers, medical office buildings, and other real-estate related facilities. Mr. Fehribach's experience includes valuations in the context of Stark compliance, fair value analysis (ASC 805, ASC 360) for financial reporting, fair market value analysis for sale/leaseback transactions, fairness opinions, rental rate analyses, collateral valuations for financing transactions, and valuations for insurance purposes. His clients include for-profit and not-for-profit health systems, real estate investment trusts (REIT), other publicly owned and privately held healthcare entities and various law firms.

In addition to healthcare valuations, Mr. Fehribach has performed valuations for various types of businesses including high-tech manufacturing entities during his 25+ year career. Mr. Fehribach has provided opinions of value under various premises including for exchange in the open market, for forced liquidation, in use assuming economic viability of the associated business entity and as a going concern. Mr. Fehribach has served on foreign assignments including activities in Mexico, Canada, Europe, Asia and South America.

COURT EXPERIENCE

He has testified as an expert witness for property tax and condemnation purposes. Mr. Fehribach has been an expert witness in Texas, California, Arizona, Wisconsin and Kansas.

EDUCATION

- University of Texas at Arlington - Master of Science - Real Estate
- University of Dallas - Master of Business Administration - Industrial Management, Bachelor of Arts – Economics

LICENSES/ASSOCIATION MEMBERSHIPS

- MAI Designation, Appraisal Institute
- Member of Royal Institution of Chartered Surveyors
- State Certified General Real Estate Appraiser – Arizona, Arkansas, California, Colorado, Georgia, Illinois, Kentucky, Michigan, Minnesota, New York, Pennsylvania, Washington and Texas.

PUBLICATIONS & PRESENTATIONS

- "Scaling Down the Hospital." *Healthcare Finance News*, July 24, 2014
- "The Details of Hospital Transactions and Real Estate Deals." *Becker's Hospital Review*, May 22, 2014
- "An Analysis of the Determinants of Industrial Property Valuation" Co-authored with Dr. Ronald C. Rutherford and Dr. Mark Eakin, The Journal of Real Estate Research, Vol. 8, No. 3, Summer 1993, p. 365.

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