

## TABLE OF CONTENTS

|  | <i>Page</i> |
|--|-------------|
| I. Executive Summary .....                                 | 1           |
| II. Investment Performance .....                           | 4           |
| III. Executive Summary of Key Terms .....                  | 6           |
| IV. Background .....                                       | 7           |
| V. U.S. Market Overview .....                              | 8           |
| VI. Investment Methodology .....                           | 18          |
| VII. Investment Process .....                              | 21          |
| VIII. Management Team .....                                | 23          |
| IX. Transaction Case Studies .....                         | 24          |
| X. Summary of Principal Terms .....                        | 32          |
| XI. Risk Factors and Potential Conflicts of Interest ..... | 42          |
| XII. Certain Tax and Legal Considerations .....            | 47          |
| XIII. Additional Information .....                         | 48          |
| Appendix A: Certain Offering Notices .....                 | 49          |

## I. EXECUTIVE SUMMARY

█████ Fund 1, LLC (“█████” or the “Fund”) is a new investment vehicle that has been formed by █████, LLC (“█████” or the “Team”) and █████ (the “Principal”), Manager of █████ Realty, L.P. (“█████”), to attract institutional equity investors to medical office opportunities in urban infill locations in greater Chicago and northwest Indiana. The Principal has extensive real estate investment experience and will direct the investment activities of █████. Prior to forming █████, the Principal managed █████, a company focused on the management and development of high-impact retail, institutional, and professional office projects in Chicago’s urban communities.

█████ will focus on acquiring and developing Class A medical office projects that increase access to health care in medically underserved communities. █████ will invest between \$50.0 million and \$80.0 million to acquire five to seven medical office properties (the “Acquisitions”), and invest between \$45.0 million and \$75.0 million to complete three to five new medical office developments (the “Developments”). █████ will partner with major hospitals, federal clinics, government agencies, and specialty providers to develop new medical office buildings in Chicago and surrounding suburbs, including northwest Indiana. These partnerships and existing relationships will be used to pursue public financial subsidies, such as tax increment financing, land write-downs, tax credits, and property tax reductions. The use of public subsidies in the financing of the Developments will reduce total project costs and turn otherwise marginal projects into investments with superior returns. █████ will continue █████’s successful strategy of conservative leverage and the deployment of substantial equity toward investments.

The Principal is transitioning from █████ and is now forming an independent investment fund to continue the medical office strategies developed as manager of █████. With the formation of █████, the Principal will seek to take advantage of numerous attractive investment opportunities and the favorable investment environment during the life of the Fund’s investment period. The formation of █████ will also enable the expansion of █████’s investment strategy to include a diversified group of institutional and other sophisticated investors. █████ will target opportunistic equity investments of \$2.0 million to \$25.0 million in real estate developments and acquisitions where it is able to gain control or exert material influence. █████ seeks a minimum of \$50.0 million in capital commitments for the Fund to acquire and develop approximately 500,000 square feet of medical properties, with a potential exit value in excess of \$100.0 million.

█████ represents an attractive investment opportunity for the following reasons.

### SIGNIFICANT INVESTMENT TRACK RECORD

█████’s experience spans multiple market cycles and a variety of property types. Since 2000, the Principal has successfully managed █████’s commercial real estate investments, including two medical office projects, which represent over \$8 million of an \$18 million urban real estate portfolio. During this period, █████ delivered over 100,000 square feet of new national retail tenant developments, medical office projects, and family service space. In the past two years, the Principal has been involved with over \$20 million of medical office and social service projects, which have created over 200 jobs. █████ has invested \$3.3 million of equity capital in nine investments. These investments are currently returning 41% on book equity. █████ also committed \$1.0 million of equity capital to the award-winning █████ that will become part of the Fund’s portfolio.

### EXPERIENCED MANAGEMENT TEAM

The Principal, █████, Esq., has significant Fortune 500 corporate real estate experience, and has spent the past 10 years as both President of a large inner-city private school and as one of Chicago’s most active community developers. Three other key positions (Director of Acquisitions, Director of Operations and Director of Development) will be filled by individuals with a commitment to successful community development and extensive corporate real estate experience. The Principal anticipates hiring █████ as Director of Acquisitions. For the last eight years, █████ was employed as a commercial real estate underwriter for Capmark Finance (formerly GMAC mortgage), where he completed over \$500 million of real estate transactions averaging \$30 million.

The Team will benefit from an experienced Advisory Board. The Advisory Board will have up to nine members, including members from significant investors. Initial Advisory Board members include █████, President of █████

Capital; ■■■, Vice President of ■■■ Portfolio Services; ■■■, Partner, ■■■; and ■■■, National Health Care Business Development Director, ■■■.

## FOCUSED INVESTMENT APPROACH

The Team is focused on acquiring and developing medical office projects, one of the most recession-resistant property sectors. The Fund's portfolio will be built around its existing strategic relationships with hospital tenants and medical service providers.

## STRATEGIC EXECUTION

■■■ seeks attractive investment opportunities to which one or more of the following investment execution strategies can be applied to acquire or develop assets:

- (i) **Medically Underserved Areas (“MUAs”) and Medically Underserved Populations (“MUPs”).** The U.S. Department of Health and Human Services has identified certain areas as MUAs and certain populations as MUPs. The Principal has a proven ability to identify, acquire or develop, and manage health care properties in MUAs that are misunderstood, not widely pursued, or undervalued by other investors. ■■■'s special situations execution strategy may include acquiring and developing medical office projects that support best-in-class partners such as hospitals, specialty care providers and senior housing/hospitality operators who have the experience necessary to profitably serve urban markets in greater Chicago. The Principal will seek to structure any such investment joint venture to ensure that the Fund retains control of the project, additional investments, and exit strategies.

The Principal expects this strategy to be extremely successful when developing new projects. Most developers do not have the Principal's expertise in these challenging urban environments, and this lack of expertise on the part of most developers is partially responsible for why these communities have been medically underserved. Projects can be profitably developed in MUAs and MUPs if the developer has the required expertise.

- (ii) **Medical Office.** The Principal believes that aggregating similar assets around a focused property type –as opposed to buying dissimilar assets in discrete locations– can create incremental portfolio value and increase exit alternatives while enabling economies of scale in both operations and liquidation. The medical office strategy may also include the establishment of management companies owned and controlled by the Fund to oversee the assembled asset portfolios.

The Principal believes that the relationships that the Principal has built will enable the relatively rapid acquisition of a number of assets and the ability to scale up the platform quickly.

- (iii) **Strategic Partners.** ■■■ will strengthen and expand upon the Team's relationships with local hospitals and health care providers to pursue compelling real estate opportunities in the neighborhoods surrounding Chicago's hospitals. The Team will work with its strategic partners to identify and exploit market inefficiencies, implement optimal transaction structures, and maximize return on investment by identifying the proper buyers and the most attractive exit routes. These relationships will be extremely beneficial whether acquiring or developing medical office assets.

## DISCIPLINED INVESTMENT PROCESS

■■■ identifies opportunities, makes capital commitments, and maximizes investment returns pursuant to a rigorous process that insists on investments that: (i) produce at least a 9.0% stabilized capitalization rate; (ii) are located in urban communities with stable to rising incomes; (iii) support significant institutional investment in the surrounding neighborhood; (iv) are anchored by a strategic partner; (v) are located in diverse communities with at least 20% minority population; and (vi) have strong local political and community support. The Principal participates in all strategic and structural aspects of the transaction and, when appropriate, reviews ideas, leads, and other transaction considerations with leading market experts.

## **APPROPRIATE FUND SIZE**

The Principal is forming ██████ to attract institutional capital to community-based medical office projects with an average value between \$8.0 million and \$12.0 million. The Principal believes that an opportunity exists to pool approximately ten projects into a small capitalization investment fund that could later be exited at an attractive return on investment. ██████ is targeting a modest size for the Fund to further ensure strong returns and alignment of interests with limited partners. The Principal intends to target acquisitions and developments where prudent investing requires deeper diligence and expertise to successfully invest capital. Because of the modest targeted fund size, the Principal can remain highly selective in making investments.

## **ALIGNMENT OF INTERESTS**

The Principal is the trustee of the three family trusts that own ██████. The Principal controls 100% of ██████'s equity and has a beneficial interest in approximately 50% of the equity. ██████ will contribute \$1.6 million in the form of equity in ██████ and will cover the Fund's organization and start-up costs for an aggregate amount of committed capital equal to 3.2% of the Fund's aggregate capital commitments. The Principal estimates that cash flow from the ██████ investment will cover 50% of the Management Fee, and will return \$300,000 annually to the Fund. The Principal will also commit its .01% interest in ██████, and its \$1.1 million personal guaranty.

The contribution of an award-winning, successful medical office development is consistent with the Principal's historic practice of taking an active and meaningful participation in each transaction to ensure a significant alignment of interests among all investors. In addition, when the Fund makes an investment in an opportunity that requires the expertise of local or other partners, it generally requires substantial co-investments from these partners in order to ensure the appropriate alignment of interests with investors in the Fund.

## II. INVESTMENT PERFORMANCE

█'s flexible, multi-strategy approach has created investments across a variety of property types, primarily including medical office and retail.

The following summarizes historical investment performance as of March 31, 2009:

- ▶ Current investments return an average of 33.8% on invested capital.
- ▶ Since 2000, █ has committed approximately \$3.3 million to nine investments.
- ▶ One of those nine investments, in which █ invested \$1.0 million, will become part of the █ portfolio.

| █<br>SUMMARY OF HISTORICAL PERFORMANCE (2004 - 2009) <sup>(1)(2)</sup><br>( <i>\$ in thousands</i> ) |                               |                                     |                                    |                     |
|--|-------------------------------|-------------------------------------|------------------------------------|---------------------|
| Investment   | Initial<br>Investment<br>Date | Committed<br>Capital <sup>(3)</sup> | Unrealized<br>Value <sup>(4)</sup> | ROIC <sup>(5)</sup> |
| █  | 2007                          | \$ 1,000                            | \$ 5,900                           | 53.4%               |
|  | 2004                          | 1,000                               | 2,700                              | 25.6%               |
|  | 2007                          | 1,100                               | 2,250                              | 22.4%               |
| <b>TOTAL</b>   | <b>2004 - 2007</b>            | <b>\$ 3,100</b>                     | <b>\$ 10,850</b>                   | <b>33.8%</b>        |

Please refer to the notes on the following page as well as to Section IX. – “Transaction Case Studies” for more information regarding each of these investments, including the Team’s role in such investments. Please also refer to Section X. – “Summary of Principal Terms – Existing Investment” for additional information regarding the transfer of certain of these investments to the Fund.

## NOTES TO INVESTMENT PERFORMANCE

- (1) *Past performance of the investments described herein are provided for illustrative purposes only and are not indicative of [REDACTED] or the Fund's future investment results. There can be no assurance that [REDACTED] or the Fund will achieve comparable results, be able to implement its investment strategy, or be able to avoid losses. In addition, there can be no assurance that investments with an unrealized value will be realized at the valuations shown, as actual realized returns will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of disposition, all of which may differ from the assumptions on which the valuations contained herein are based. Column totals may not add due to rounding.*
- (2) *The transactions described herein were made by [REDACTED] Realty Entities (as defined below in Section XI. – “Risk Factors and Potential Conflicts of Interest – Activities of Key Persons”), in which other individuals or entities associated with [REDACTED] Realty Entities were also involved. [When used herein, “[REDACTED] Realty Entities” refers to the specific investment vehicles formed for real estate investments made by [REDACTED] and associated persons].*
- (3) *“Committed Capital” represents amounts contractually committed by the applicable [REDACTED] Realty Entity for each investment. Such amounts may not actually have been invested as of March 31, 2009.*
- (4) *Unless otherwise noted, unrealized investments that are not publicly traded have been valued as of March 31, 2009 based on original cost or as determined in good faith by the Principal*
- (5) *Return on Invested Capital (“ROIC”) is defined herein as stabilized net rent as of March 31, 2009 divided by committed capital.*

### III. EXECUTIVE SUMMARY OF KEY TERMS

*The following is a summary of certain information about the Fund and an investment in Interests in the Fund. This summary is qualified in its entirety by more detailed information contained in Section X. – “Summary of Principal Terms” and by reference to the.*

|                          |  |
|--------------------------|--|
| <b>The Partnership</b>   | █████ Fund I, LLC, an Illinois limited liability company, and any parallel funds created in connection therewith.  |
| <b>Target Size</b>       | \$50.0 million.  |
| <b>GP Commitment</b>     | The Principal will commit \$100,000, and █████ Realty, L.P. will contribute █████ for an aggregate amount of committed capital equal to \$1.60 million and 3.2% of the Fund’s aggregate capital commitments. |
| <b>Preferred Return</b>  | 8% compounded annual return.   |
| <b>Catch-Up</b>          | 50% to the General Partner and 50% to the Limited Partners.  |
| <b>Carried Interest</b>  | 20% to the General Partner.  |
| <b>Management Fee</b>    | 2.0% of aggregate Capital Commitments of the Limited Partners.   |
| <b>Commitment Period</b> | 4 years from the Initial Closing Date.   |
| <b>Term</b>              | 8 years with two 1-year extensions (at sole discretion of the General Partner).  |
| <b>Key Man Provision</b> | Yes.   |

## IV. BACKGROUND

█████ LLC is being formed by the Team to continue a history of successful real estate development and acquisition. Prior to the formation of █████, the Principal managed █████ Realty L.P., and was previously with LaSalle Partners (now Jones Lang LaSalle), and Citicorp Real Estate Capital Markets (now Citigroup).

█████ Realty is a commercial real estate company that focuses on the management and development of high impact retail, institutional, and professional office projects in Chicago's urban communities. Following its formation in 1999, █████'s real estate transactions were oriented toward medical office projects, family service space, and retail development. These transactions were pursued with the intention of providing communities which have suffered economic decline and stagnation since the 1970s with economic stimulus and new services. Since 2005, the Principal has been involved with over \$20 million of engagements, which have provided over 200 jobs. During this period, █████ delivered over 100,000 square feet of new national retail tenant developments, medical office projects, and family service space. The Principal has successfully managed █████'s commercial real estate investments, including two medical office projects, which represent over \$8 million of an \$18 million urban real estate portfolio █████ has invested \$3.3 million of equity capital in nine investments. These investments are currently returning 41% on book equity.

With the formation of █████, the Team will seek to take advantage of the numerous attractive investment opportunities and the favorable investment environment that is expecting during the course of the Fund's investment period. The formation of the Fund will also enable the Team to expand its capital base to include a diversified group of institutional and other sophisticated investors.

## **V. U.S. MARKET OVERVIEW**

The credit crisis has created unprecedented strains on domestic and international markets, which are currently undergoing a major correction. Low interest rates, ample credit, and an unyielding confidence in housing price growth catalyzed overzealous equity and debt investments throughout the last decade. The unprecedented capital losses both in the private and public sectors have resulted in a rapid decline in the availability of equity and debt, and a virtual stoppage in market transactions.

Within any economic correction there is a window for opportunity. This time in history offers unprecedented opportunities to identify and acquire investments at significant discounts, yielding strong risk-adjusted returns.

### **Recent History**

Historically, real estate investments were perceived as low risk and uncorrelated with traditional equity and bond markets. This was especially true after the “dot.com” fallout when greater emphasis was placed on holding physical assets with “real” and tangible value. From 2001-2004, the Federal Reserve reduced interest rates to curb a looming recession and in the process, enhanced the ability of borrowers to acquire real estate. As the economy expanded, the secondary real estate market evolved, providing more liquidity into the market. As a result, mortgage lenders and bankers were able to replenish their balance sheet and continue to lend mortgages without any limit.

### **Real Estate Securities**

Short-term transaction-based compensation drove the activity of many real estate developers, investors, mortgage lenders, banks, and secondary market securities. The mechanism of the secondary real estate mortgage market expedited the flows of purchasing and packaging residential and commercial real estate mortgages for sale to institutional investors.

While the subprime component of the securities pools was the tipping point of today’s credit crisis, the secondary mortgage securities, particularly the non-asset backed collateralized debt obligations (“CDOs”), are at the eye of the storm. Massive purchase and sales of asset backed and non-asset backed real estate based investments were generated with the expectation of continuously increasing levels in the housing market. When the markets began to deteriorate, the value of these complex derivative products collapsed. Currently, these values continue to deteriorate and the few transactions that have occurred in the last quarter of 2008 and the first quarter of 2009 have been highly distressed often at a small fraction of the original market value.

### **Present Economic Conditions**

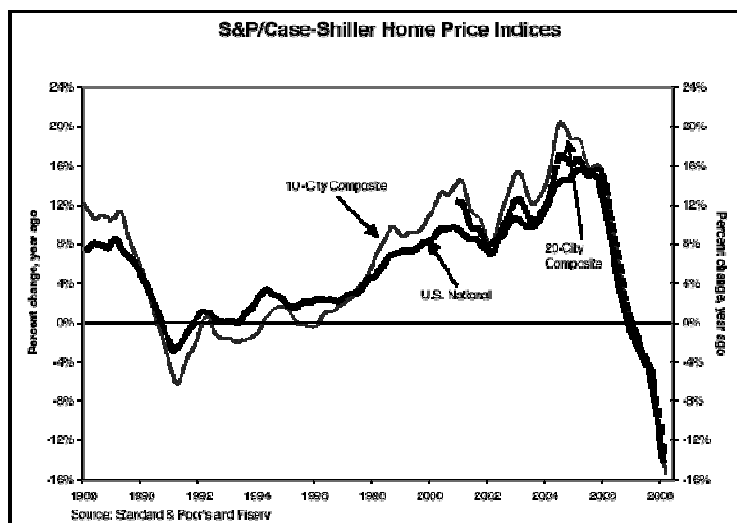
The underpinning of the economic collapse was motivated by fee transactions and quick turnaround profits on every investment level. Inevitably, lax lending standards ensued and mortgage lending created an excess to the point of imploding. The beginning of the high default rates on ‘subprime’ or adjustable rate ‘Alt-A’ and other mortgage loans has reverberated, impacting basic economic foundations to the core. Most banks and investors find themselves overleveraged. Investment assumptions are no longer holding and consumer confidence and employment levels have decreased markedly. Major corporations, banks, and hedge funds are collapsing, similar to what ensured during the 1980s Savings and Loan Collapse, but with a greater scope.



Source: Yahoo Finance

The excess or surplus assets generated from the business cycle should be reabsorbed. As the domestic and global markets continue to work through the bust, other aspects both positive and negative can ensue. Higher unemployment rates and credit lending rates will alter the anticipated real estate economic fundamentals. The challenge in this investment market is to determine the fundamentals with which to underwrite asset acquisitions. What remains unclear however is how long this recession will last, and moreover, how long and at what rate will the market recover.

The Case-Shiller Index, which is a home price index across major U.S. markets, has decreased markedly since its peak in 2004-2005. Although the index measures the residential market and not the commercial market, the commercial market is intricately linked to the residential market. According to the data, the overall market has fallen over 35% from its peak. When home values decrease so significantly in such a short time period, there is a tremendous effect on household income, jobs and overall economic growth.



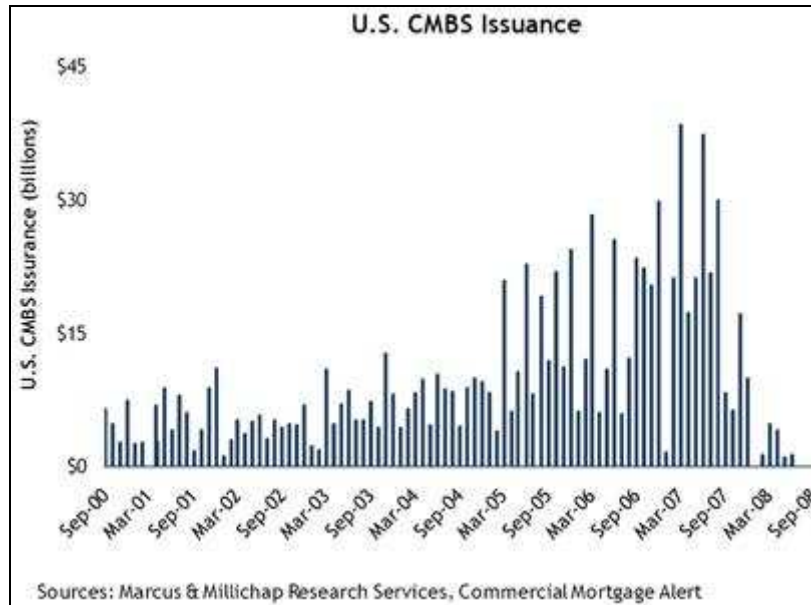
The two concurrent factors that are continuing to contribute to the decrease in real estate asset values are the lack of availability of debt, and the resulting inability to use debt structures to enhance equity returns, and secondly, the

assumptions of net operating income (“NOI”) growth over the next few years. Investors who are deploying equity in the market are underwriting assets far more conservatively now than in prior years. As a result of this, the market is in a current state of disequilibrium. Sellers who are not distressed, but who would have otherwise wanted to sell assets, have pulled them from the market. Buyers, on the other hand are offering prices that are heavily discounted, often at prices that are at a loss to sellers. Ultimately, the market should reach a point of equilibrium. This will be due not as much to a market turnaround, but to the vast amount of commercial paper that will be coming due over the next few years. In other words, sellers will be forced to sell because they will be unable to refinance the assets at required levels. This is largely what will fuel the opportunity in the market.



Looking at the above schedule, one can see that there is a very significant amount of adjustable rate mortgages that are set for readjustment over the next few years. Many of these loans, particularly those that are due in the next few years will not be able to achieve the same loan terms. As a result, many of these homeowners will be forced into default, unless a new government program is implemented to provide relief to homeowners.

On the commercial real estate side, the commercial mortgage backed securities (“CMBS”) market which had been growing exponentially for much of the last decade, virtually collapsed in 2008 and will almost certainly remain non-existent for 2009.



A large percentage of commercial loans that were issued over the past 10 years have been securitized in pools, and sold in the derivative markets. With this market essentially shut down, there are not enough balance sheet lenders to absorb the supply that will be coming to market. This will create downward pressure on loan to value (“LTV”) ratios and in many cases, result in borrower default. Many of the loans were issued at high loan-to-values with the underlying assumption that property NOIs would increase consistently over the following years.

CMBS financing has consistently encompassed a larger and larger share of the commercial real estate (“CRE”) financing marketplace, until 2007 when it peaked at over \$200 billion. The very generous terms of many CMBS loans (high LTV, 30 year amortization, interest only periods, extraordinarily low spreads over the 10 year Treasury), a willingness to underwrite properties with pro-forma incomes, and ultra-low cap rates is in many ways analogous to the residential MBS market.

Assumptions were made in the underwriting process that NOI growth and consumer spending were going to remain in a constant up-cycle, and these are the key factors of asset appreciation for an income property. This mindset is precisely correlated with erroneous beliefs that residential property values would also continue upward into perpetuity. Another key phenomenon which drew CRE investor attention to CMBS, is that these loans did not require borrower recourse. This is also a feature of residential mortgages- that defaulting on a loan resulted in no ability for lenders to use personal assets as collateral. This allows a homeowner or CRE investor to simply walk away with no fear of a legal assault on their other investments or assets. In most cases, non-recourse financing for CRE is not available from banks or life insurance companies.

The big difference between CMBS and RMBS is the draconian pre-payment restrictions and penalties with respect to CMBS loans. Home loans can be pre-paid at any time, while CMBS imposes lock out periods (where the loan cannot be pre-paid at all) and then defeasance (where similarly yielding securities must be purchased by the borrower at great expense to replace the lost income stream).

In response to the advent of this lending regime, developers tailored their developments to take advantage of the “room” created by these products. Because of the interest only periods and 30-year amortization, they could pay more for land and pass that on to the buyer in lower cap rates. Due to the willingness of CMBS trusts to accept pro-forma income, uncommitted space could be master leased at a figure that comported with the other tenants in the center. Tenants competing for a piece of the consumer spending pie agreed to pay rents well above normal levels in order to expand into new markets. CMBS bond investors, reaping strong returns, allowed properties with dubious fundamentals into the trusts, thus perpetuating the cycle.

Much as we have witnessed in the residential market, the CRE market has taken a turn to the downside and the players are all but “locked in” to the decisions they made when all was well. NOI at most centers has been devastated by tenants requiring concessions or going dark due to outright bankruptcy as a result of the decrease in consumer spending and the unsustainably high rental rates.

Debt service coverage ratios (“DSCR”; NOI divided by annual debt payments), which were already tight due to lax underwriting, have fallen precipitously resulting in investors yielding negative cash flows. Additionally, cap rates in effect when these properties were purchased have begun to rise sharply indicating that the value of a given income stream is not as high or as secure as once believed. This increase in cap rates has caused the sale value of these assets to plummet, resulting in significant negative equity especially in properties underwritten with high LTVs. To make matters worse, the pre-payment restrictions prevent these investors of even being able to sell an asset prior to maturity of the loan.

These circumstances place CRE investors into a squeeze between their falling NOI due to dropping occupancy and their lenders who continue to demand full payment. Since CMBS financing rarely includes recourse and the market value of their assets have decreased, CRE investors are increasingly defaulting on their CMBS loans and walking away leaving their assets to the special servicers to contend with.

Special servicers are hired by the “B”-grade (junk bond) holders of each CMBS trust, and it is their duty to protect the trustees against losses of income. The B shares are the lowest priority, highest yielding bonds in the hierarchy of any bond issuance. While AAA bondholders enjoy low yields but great security, the B shares holders accept every loss of income incurred by the trust. There is no functioning market to purchase CMBS B shares at this time because bond yields have increased in many cases to 65-75%. Selling a \$100,000 bond yielding 10% at the time of purchase that is currently yielding 70% would result in a loss of principal of \$85,000.

Special servicers will be tasked and taxed by the gargantuan responsibility of dealing with a flood of defaulting loans. This process has recently begun and it is likely to continue for a good long time. Since the 3rd Quarter of 2007, origination of new CMBS financing has all but ceased. Banks and insurance companies have not and cannot step in to take up market share because their own balance sheets have been decimated by their ownership of MBS and their progeny, the CDO. Despite federal efforts to invest in AAA CMBS originations as a mechanism to jumpstart CRE lending through the TALF, it is the lower rungs on the debt stack that will remain unfilled. A CMBS trust cannot sell AAA bonds without selling the B shares, and the B shares investors are not interested in participating in any new syndication.

Whatever financing that is available for CRE going forward, it will be focused on extremely stable and well-capitalized properties with performing but maturing loans. Even these investors are likely to see wide spreads resulting in high interest rates, full recourse, and very conservative LTVs. The appetite for risk in the current environment is extremely low and likely to stay that way for some time to come.

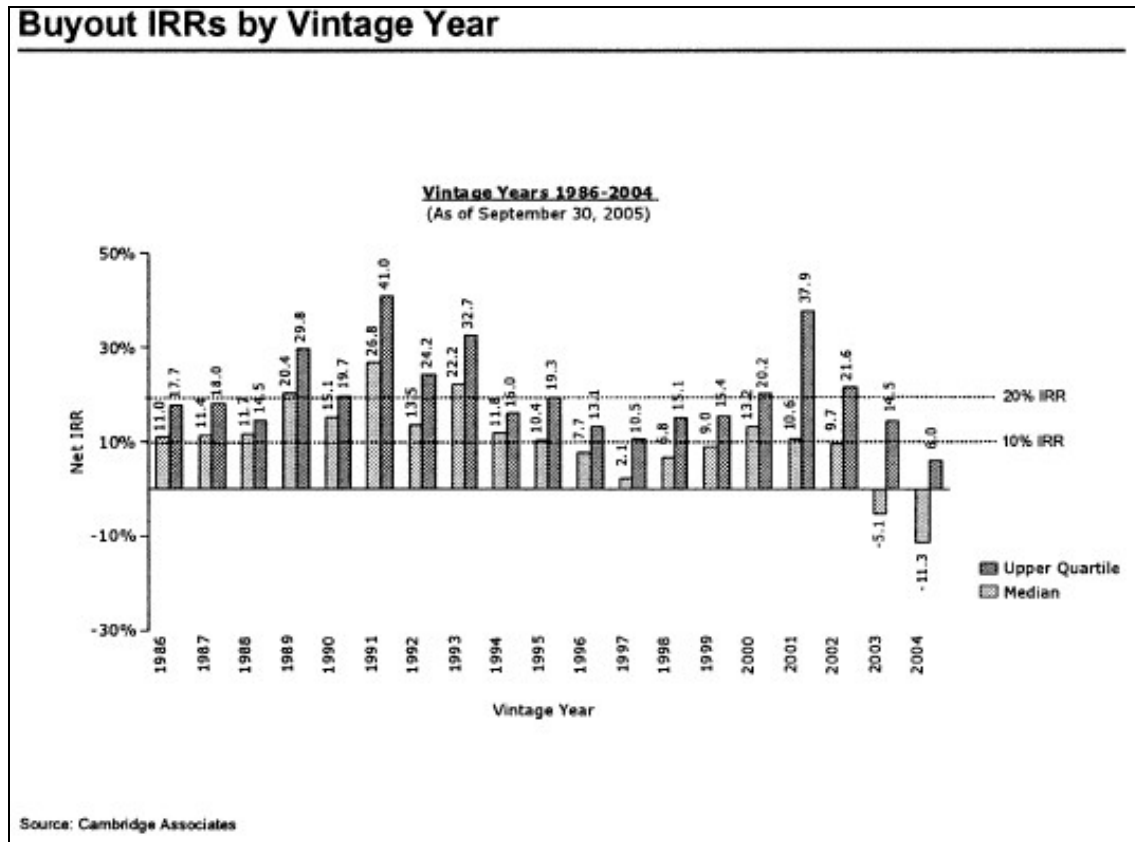
### **Policy and the Private Sector**

At this time, the strength of U.S. policy and international relations are being tested. The new Presidential administration will shape much of the economic and tax policies in 2009 and beyond. Capital markets historically do better in a post-election year after a full Democratic victory. However, past performance is not a guarantee of future results.

The recent approval of a \$787 billion stimulus package is the largest of the first policy actions, with plans to increase spending levels by stimulating rises in disposable income. Yet, due to efficiencies the U.S. government has reoccurring aligned interests with private industry and investors. The Resolution Trust Corporation of the 1980s Savings and Loan crisis is an example a government-led solution with private entities. Additionally, government-sponsored rescues have reoccurred continuously throughout the history of economic cycling. The objective of any further bailout will be to stimulate lending. For the most part, banks are withholding any further lending activity until there is some degree of normalcy and calm in the market.

Within every past economic downturn, regardless of severity, the broader economic market has recovered. Investors who took advantage of the climate of fear were able to achieve very significant returns in the subsequent period after recessions.

Consider the following graph that compares returns in the period after recession:



### Opportunity Funds Today

Today's real estate properties offer a well-capitalized investor an opportunity to acquire and develop real estate assets at significant discounts. Opportunity funds are positioning themselves by developing relationships with lenders and owner/operators with significant holdings to execute quickly when opportunities arise.

Historically, recession years are the best years for an opportunity fund. During the 1989-1991 and 1999-2001 crashes, opportunity funds achieved higher than normal returns and surpassed indexes regardless of market segment.

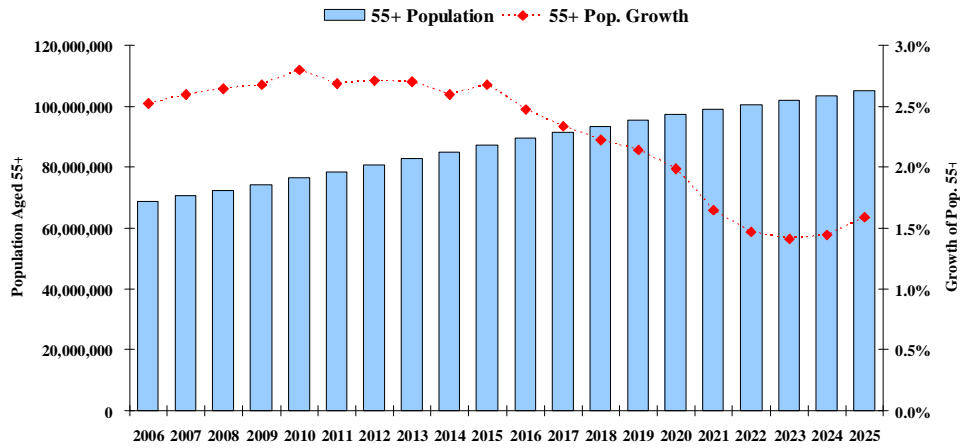
Private equity funds have historically outperformed the S&P 500, and the recession years are the reasons for the outsized opportunities. In the last down turn, opportunity funds that focused on contrarian distressed real estate investments achieved the highest industry returns. In 1991, the peak returns for opportunity funds were 27%. In 2001, the peak returns for opportunity funds totaled 34%. From 2001-2007 these funds received a 21.65% Net IRR over a 16 year average.<sup>1</sup>

### Healthcare Market Overview

Healthcare is America's largest industry, representing over 19% of GDP. Despite recent consolidation, fragmented ownership persists, with private investment representing over 60% of the \$750 billion market. Healthcare-related employment will soon account for over 10% of the American workforce, and will drive increasing demand for

<sup>1</sup> Real Estate Opportunity Funds: Past Performance as an Indicator of Subsequent Fund Performance. Thea C. Hahn, David Geltner, and Nori Gerado Leitz. MIT Center of Real Estate. March 2005.

healthcare real estate. Further fueling this sector expansion are increasing costs in healthcare expenditures, and the growth of the 55-and-older demographic— by 11 million through 2012.



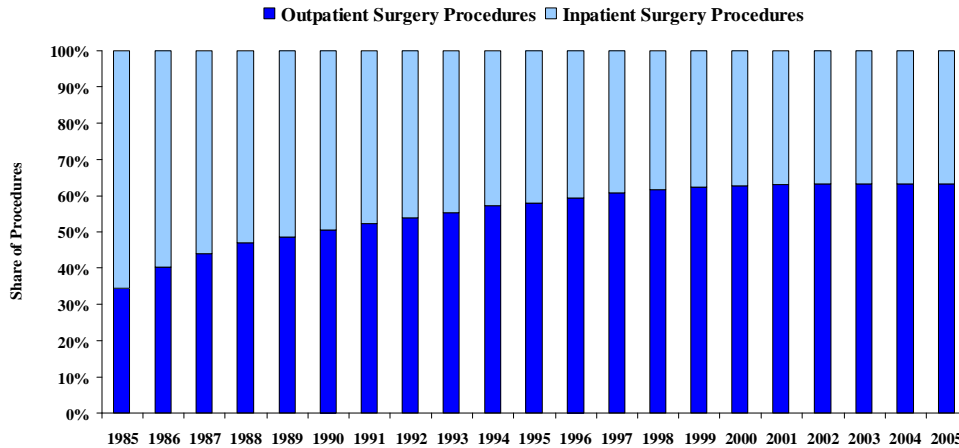
Source: U.S. Census Bureau

Each year, over \$20 billion is spent on healthcare real estate (defined herein as “medical office”). Institutional capital has propelled sales from \$600 million in 2000, to over \$4 billion in 2007.

**Medical Office Sector**

Medical office buildings (“MOBs”) have been described as “hospitals without beds.” Medical office buildings provide hospitals and physicians with a lower cost operating environment that is convenient and consumer-friendly. A partial list of typical services include: primary/urgent care, dental, geriatric, oncology treatment, pain management, dialysis, physical therapy, sports medicine, homology/optometry, imaging and diagnostics, laboratory, wellness, patient education and outpatient surgery. Advances in technology will continue to increase the number and types of medical procedures that can be performed in office buildings. Complementary retail uses such as pharmacies, bank branches, cafes/quick service restaurants, and cleaners are gaining in popularity. Ambulatory surgery centers share many characteristics with MOBs, but offer specialty surgical procedures, often involving orthopedics, gynecology, gastroenterology, and/or ophthalmology.

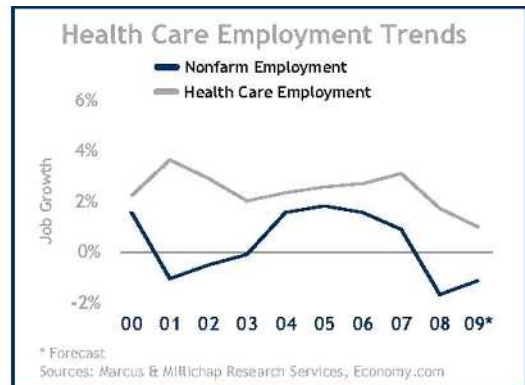
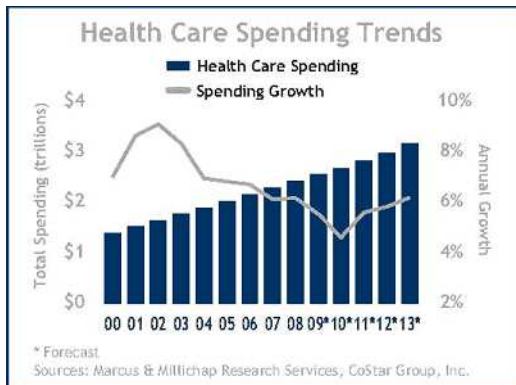
MOBs allow hospitals to redirect lower-acuity and lower-revenue services, and focus on complex, higher-revenue cases. Hospitals are seeking to minimize non-core assets and debt on the balance sheet, and consequently will allow third parties to develop new MOBs and acquire existing MOBs. Patients want convenience, service-oriented environments with readily accessible parking and minimal wait times. Growth in branded medical practices has resulted in fewer physicians dependent upon hospital environments to grow practice volume. More physicians are treating their practices like retail business, and desire locations near several hospitals, thriving residential, and/or retail areas. Nearly 50% of all surgical procedures are performed outside of hospitals, and this trend is expected to continue.



Source: American Hospital Association, "2007 Chartbook"

Hospitals find that MOB's with the right tenant mix can provide a cost-efficient structure to meet obligations for serving the underinsured, allowing hospital space for complex, higher revenue inpatient services. As a component of reform, MOB's lower the cost of healthcare and expand medical coverage, releasing pent-up demand for medical services— outpatient services in particular (which are best provided-for in MOB's). Partnerships between hospitals and MOB developers/operators improve the hospitals' community image as non-profit, mission-driven organization invested in the surrounding neighborhood. Not-for-profit hospitals face pressure to meet charity requirements necessary to maintain their status and avoid costly taxes; affiliated MOB's can offer the required services at a lower cost than the hospital itself. MOB's also represent an opportunity to grow hospitals' ancillary service income (e.g., lab and diagnostic) improving the bottom line while simultaneously expanding geographic market share.

Unlike other asset types, medical office properties continue to garner investor demand by exhibiting considerable resistance to the economic downturn. The nation spends over \$2 trillion on health care annually, more than double U.S. expenditures on food, and health care spending is projected to exceed \$3 trillion by 2013. In fact, medical outlays have increased by an annual average of 7.7 percent over the past 10 years and now comprise 17 percent of GDP. The rise in spending is facilitated by growth in the number of residents over 55 years old, a group that will expand nearly 20 percent through 2013. Furthermore, people will continue to seek medical care for illness and preventative reasons, despite a recent slowdown in costly elective procedures.<sup>2</sup>



Another demand driver for medical office space has been the shift of medical care from an inpatient to outpatient focus. Hospital construction costs have skyrocketed to an estimated \$1 million per bed, prompting facilities to downsize. Hospitals are seeking to minimize amount of non-core assets and debt on balance sheet, and thus will allow third parties to develop new MOB's and acquire existing MOB's. In the past, hospitals often supported 800

<sup>2</sup> Medical Office Sector Remains Healthy in Ailing Economy. Thomas Hershey. Marcus & Millichap Medical Office Research Report. 1H 2009.