

May 22, 2014

Scott Jackson  
Houlihan Lokey  
123 N. Wacker Drive, 4<sup>th</sup> Floor  
Chicago, IL 60606

**Re: Daughters of Charity Health System – Acquisition of three medical office buildings located in Daly City, CA**

Dear Mr. Jackson:

Pursuant to information provided by Houlihan Lokey (“Houlihan”), including the Confidential Offering Memorandum dated February 2014 as well as the Medical Office Building Supplemental Materials dated March 2014, for the offering of the assets of the Daughters of Charity Health System and related medical office buildings (the “Offering”), the following letter of intent (“Letter” or “LOI”) sets forth the basic terms upon which Seavest Healthcare Properties, LLC or an affiliate thereof (“Seavest” or “Purchaser”) is willing to purchase the three medical office buildings located in Daly City, CA which are included as part of the Offering.

**Seavest Biography:** Established in 1981, Seavest is a private real estate investment management firm located in White Plains, New York dedicated to healthcare real estate. For more than 25 years, Seavest has acquired properties, joint ventured with developers to build new projects, and asset managed a significant portfolio of medical office buildings and outpatient facilities. Seavest’s strategy focuses on investing in medical office buildings that are strategic to the hospitals they serve whether on or off campus. Seavest’s health system relationships include *Adventist Health Florida, Centura Health, Ascension Health, Community Health, Inova Health, and the Henry Ford Health System*. The Company operates through long-term, discretionary private equity funds dedicated to medical office buildings and outpatient facilities.

Seavest highlights and experience include:

- Twenty five year track record of medical real estate investment
- A portfolio of medical properties that has totaled over 3,000,000 square feet in 16 states
- A team of real estate investment, asset management, and finance professionals
- Established, quality reputation in the healthcare and banking communities

For more information on Seavest, please visit our website at [www.seavesthcp.com](http://www.seavesthcp.com).

Furthermore, we have been assisted by **Pacific Medical Buildings** in our efforts to evaluate the acquisition of the three medical office buildings in Daly City. Pacific Medical, founded in 1988, is a national healthcare real estate developer and operator located in San Diego, CA. We anticipate that Pacific Medical Buildings will joint venture with Seavest in any offer to acquire the Daly City buildings. As such, we believe the combination of Seavest's long track record of successfully delivering healthcare real estate solutions to healthcare organizations nationwide, combined with Pacific Medical Building's expertise and local knowledge, results in a strong buyer for the Properties.

**Properties:** The offer contemplates the acquisition of a fee interest in the following medical office buildings located on or near the Seton Medical Center in Daly City, CA:

- Serramonte Medical Dental Building ("SMC"), located at 1500 Southgate Avenue, Daly City, CA (35,697 rentable square feet)
- SMOC #1 Medical Office Building, located at 1800 Sullivan Avenue, Daly City, CA (58,723 rentable square feet)
- SMOC #2 Medical Office Building, located at 1850 Sullivan Avenue, Daly City, CA (88,634 rentable square feet)

The above three buildings are collectively referred to as the "Buildings" or the "Properties".

**Purchase Price:** A purchase price equal to **Twenty Million Nine Hundred Ten Thousand Dollars (\$20,910,000)** for the Properties. The purchase price for each individual Property is as follows:

- Serramonte Medical Dental Building: \$2,721,000
- SMOC #1 Medical Office Building: \$5,349,000
- SMOC #2 Medical Office Building: \$12,840,000

**Assumptions:** As we have discussed, detailed information on the Properties is not available at this time. As such, we made assumptions, based on guidance from Houlihan Lokey, as to the buildings' in-place NOI and have based our offer on those calculations, in addition to considering the appropriate per square foot purchase price for the asset as well as our general knowledge of medical office buildings and the market conditions in the Daly City area. In addition, the local knowledge and presence that Pacific Medical Buildings has in Northern California have helped us to formulate our assumptions and our offer.

Specifically, we estimated in-place NOI in the following manner:

1. We utilized the weighted average rent (as reported in the Offering materials) for each building and multiplied that by the number of square feet leased by non-hospital tenants.
2. We added to item #1 above, the amount of rent that could be generated by the hospital, based on the number of square feet currently leased by the hospital and assuming the hospital pays a gross rental rate equal to \$2.25/square foot/month.

3. We subtracted the actual operating expenses for 2013 based on the historical P&Ls provided by Houlihan, arriving at the estimated in-place NOI numbers that we utilized in formulating our purchase price.

The following chart summarizes this calculation:

Daly City MOBs - Valuation Summary			
Calculation of Pro-Forma NOI	Serramonte Medical Center	SMOC #1	SMOC #2
Weighted Avg Rent (3rd Party Tenants only)	\$2.28	\$2.28	\$2.27
SF Leased	19,406	45,979	45,397
Monthly Rent for 3rd Party Tenants	\$44,246	\$104,832	\$103,051
Annual Rent for 3rd Party Tenants	\$530,948	\$1,257,985	\$1,236,614
Reimb Rev & Misc Income (based on Actual 2013)	\$33,000	\$54,200	\$12,300
Operating Expenses (2013 per OM)	(\$498,500)	(\$911,000)	(\$1,075,200)
NOI (excluding Hospital)	\$65,448	\$401,185	\$173,714
Hospital Space	5,639	0	28,044
Hospital Rent/ month	\$2.25	\$2.25	\$2.25
Annual Revenue from Hospital	\$152,253.00	\$0.00	\$757,188.00
Total Pro-Forma in place NOI	\$217,701.16	\$401,185.44	\$930,902.28

Upon receipt of more detailed information regarding the buildings, including a complete rent roll, we will review our offer and make any necessary adjustments.

**Conditions to Closing:** Due to the lack of detailed information currently available and the pending sale of the Seton Medical Center in Daly City, CA, the following closing conditions will need to be met for Seavest to move forward with the transaction:

- Closing of the sale of the Seton Medical Center to a hospital buyer that is satisfactory to Seavest.
- Receipt of standard due diligence materials from seller.
- Determination of hospital space needs and lease terms.
- Review of any ground lease, if applicable.

**Exclusivity Period:** In consideration of Purchaser's commitment to expend significant time, effort and expense to evaluate the acquisition of the Property, Seller agrees that upon execution of this LOI, through the to be determined Due Diligence Period (unless sooner notified by Purchaser of its intent not to purchase the Property) and to the closing of the sale, Seller shall not offer the Property (or any interest therein) for sale, finance or lease to any other party or negotiate, solicit or entertain any offers to purchase or lease the Property (or any interest therein) except as may be specified in a fully executed purchase and sale agreement.

**Confidentiality:** The parties to this letter agree to keep the existence of this letter and the terms herein confidential, except that such letter and terms may be disclosed to the respective parties' advisors necessary to affect the sale and purchase of the Property.

**Prior Agreements:** This Letter supersedes all previous offers, discussions and communications by the Purchaser with respect to the Property.

Additional details regarding the terms of Seavest's offer to buy the Properties will be provided upon receiving further information on the Buildings. Such terms, including the length of the due diligence and closing periods, deposit amount and other sale terms typically presented in an LOI, will be presented by Seavest upon review of the detailed building information, which Houlihan Lokey has indicated will be shared later in the sale process.

This letter does not define all of the terms and conditions of the proposed purchase and is meant as a framework for the negotiation and documentation of a purchase and sale agreement. By executing this letter, the parties acknowledge and agree that this letter is non-binding except for the provisions entitled Exclusivity Period and Confidentiality which shall be fully binding upon the parties hereto. A binding commitment to purchase the Property can only be made through the execution and delivery of a mutually agreeable purchase and sale agreement and other relevant documentation.

We are available to answer any questions that you may have about our offer and are ready to begin due diligence immediately. We look forward to working with you toward the successful completion of the transaction.

Sincerely,



Jonathan L. Winer  
Senior Managing Direct & CIO

**Agreed to and Accepted:**

**Signature:** \_\_\_\_\_

**Printed Name:** \_\_\_\_\_

**Company:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Date:** \_\_\_\_\_