We Really Want to Hear From You!

- Please Take a Few Minutes to Complete Today's Session Evaluation
- Accessible in the Conference App

Property Valuations for Seniors Housing and Skilled Nursing

Wednesday, September 27
2:45 p.m. – 3:45 p.m. CDT
Chicago VIII

Moderated By:

Vikas Gupta
SVP Acquisitions and Development
Omega Healthcare Investors, Inc.

Speakers:

Beth Burnham Mace
Chief Economist and Director of Outreach
NIC

Ben Firestone
Senior Managing Director
Blueprint Healthcare Real Estate Advisors

Alan Plush
Chief Executive Officer
HealthTrust, LLC

NIC

Property Valuations for Seniors Housing and Skilled Nursing

Beth Burnham Mace

Chief Economist & Director of Outreach

NIC

Factors Influencing Seniors Housing and Care Valuations

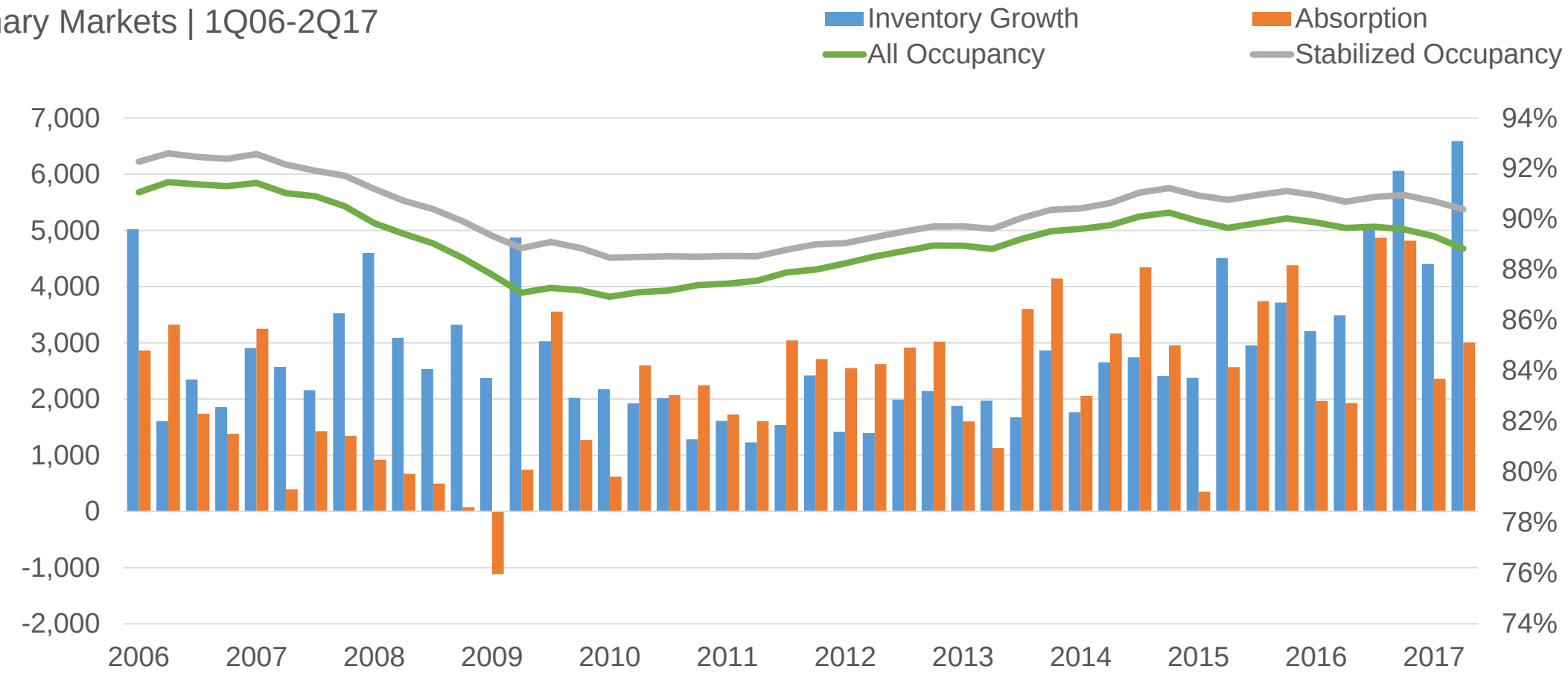
- For Real Estate Component:
  - Location, Location, Location
  - Market Fundamentals: Supply, Demand, Occupancy, Rent Growth
- For Operating Company Component:
  - Operations and Margins
  - Capital Structure
  - Business Model
  - Resident Mix
- Ancillary and Other Revenue

Broad Factors Influencing Property Valuations

- National and Local Economy (Affects Demand Drivers and Cost Variables)
- Capital Market Conditions (Affects Availability of Equity and Debt Capital and Its Pricing)
- Perception of Asset-type Risk and Premium Placed On That Risk Relative to Risk-free 10-Year Treasury Yield
- Market Fundamentals (Affects Supply, Demand, Occupancy, Rent Growth)
- Enterprise and Operator Influence
- Relative Pricing to Other Asset Types and Classes
- Portfolio Premium vs. Single Asset

Market Fundamentals for Seniors Housing

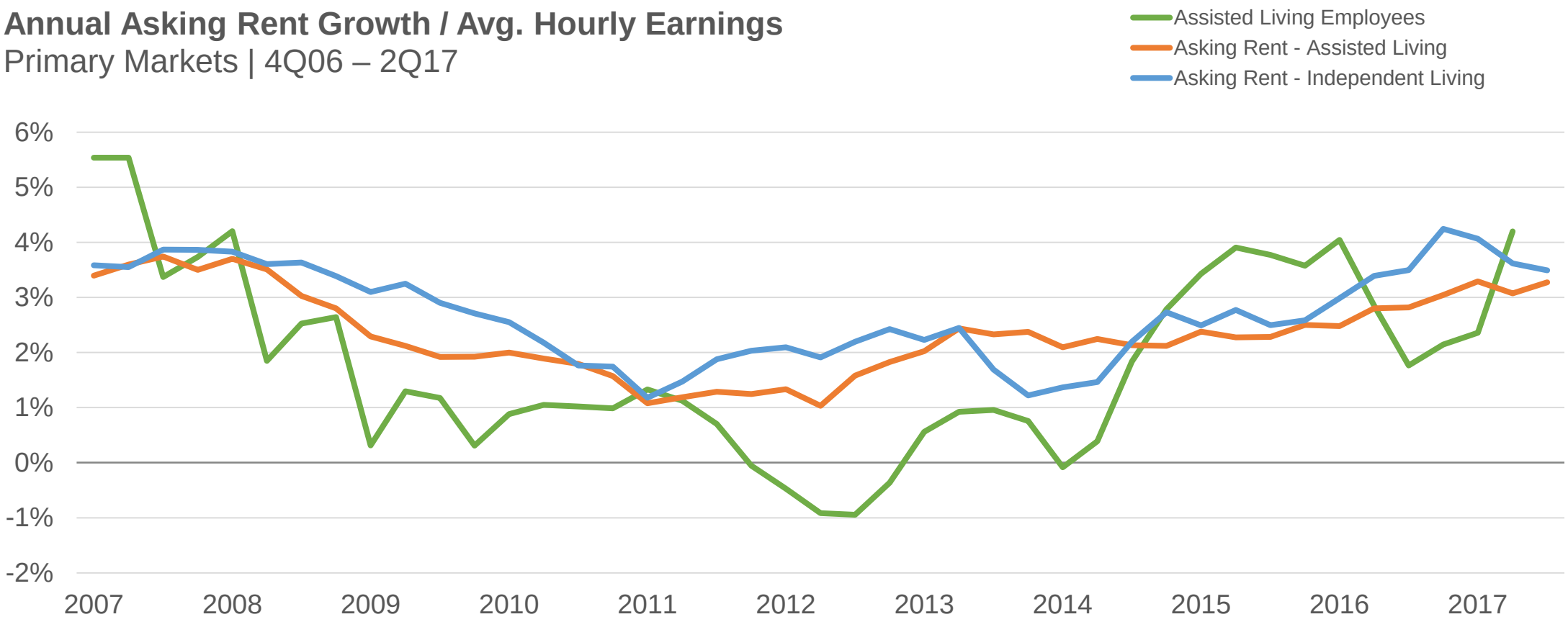
Seniors Housing Fundamentals
Primary Markets | 1Q06-2Q17



Source: NIC MAP® Data Service

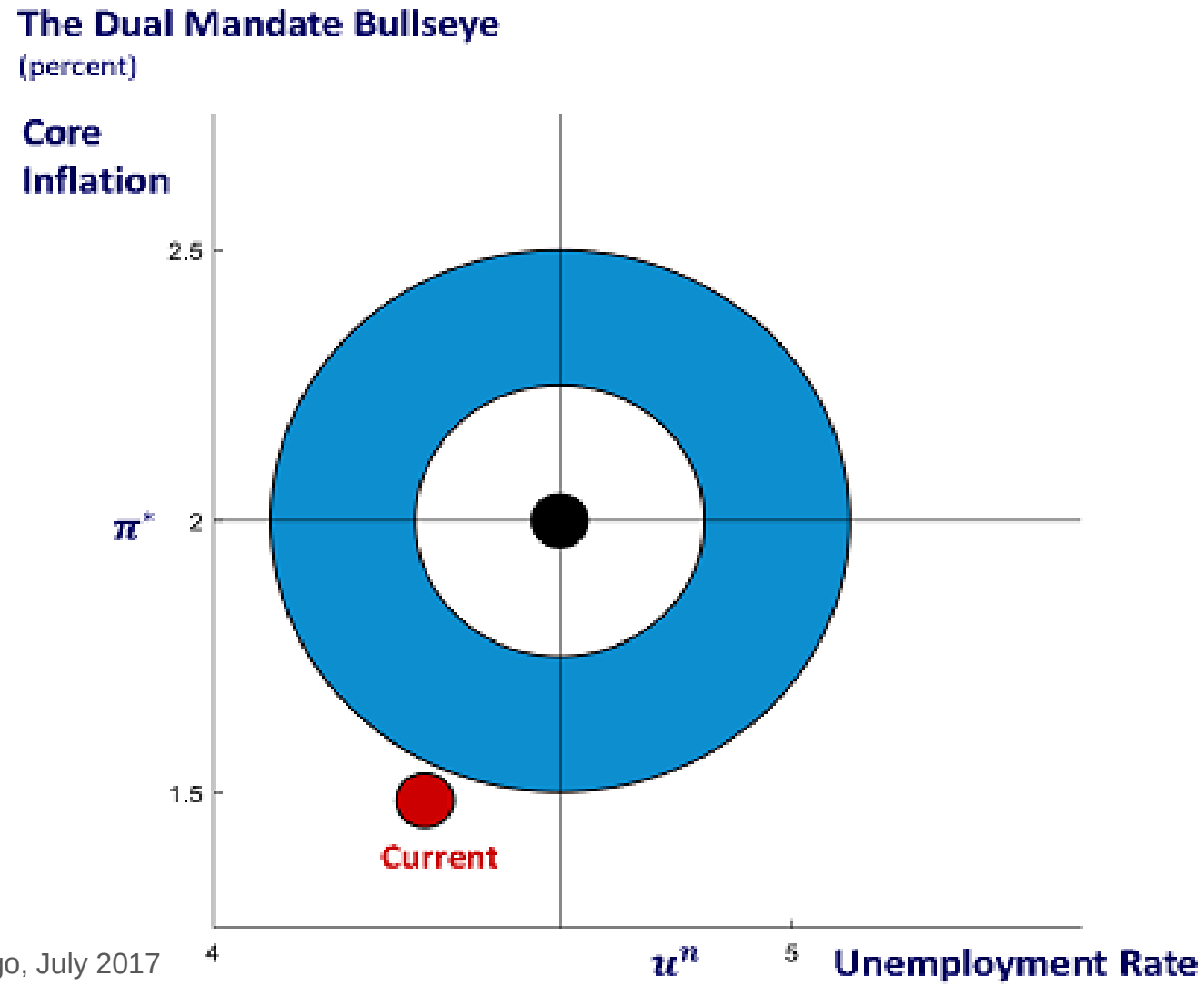
Annual Same-Store Asking Rent Growth Is Generally Strong

Annual Asking Rent Growth / Avg. Hourly Earnings
Primary Markets | 4Q06 – 2Q17



Source: NIC MAP® Data Service

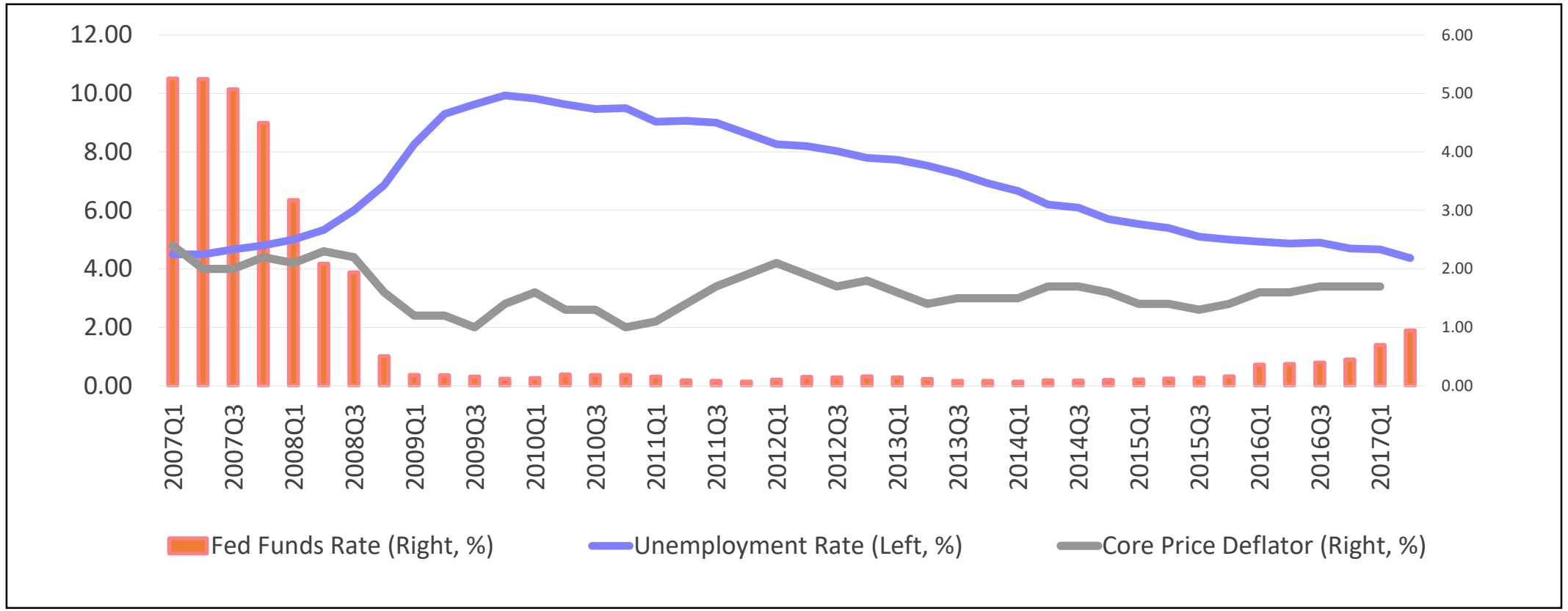
The Economy and The Fed's Dual Mandate



Source: Federal Reserve Bank of Chicago, July 2017

Interest Rates, Prices and Full Employment

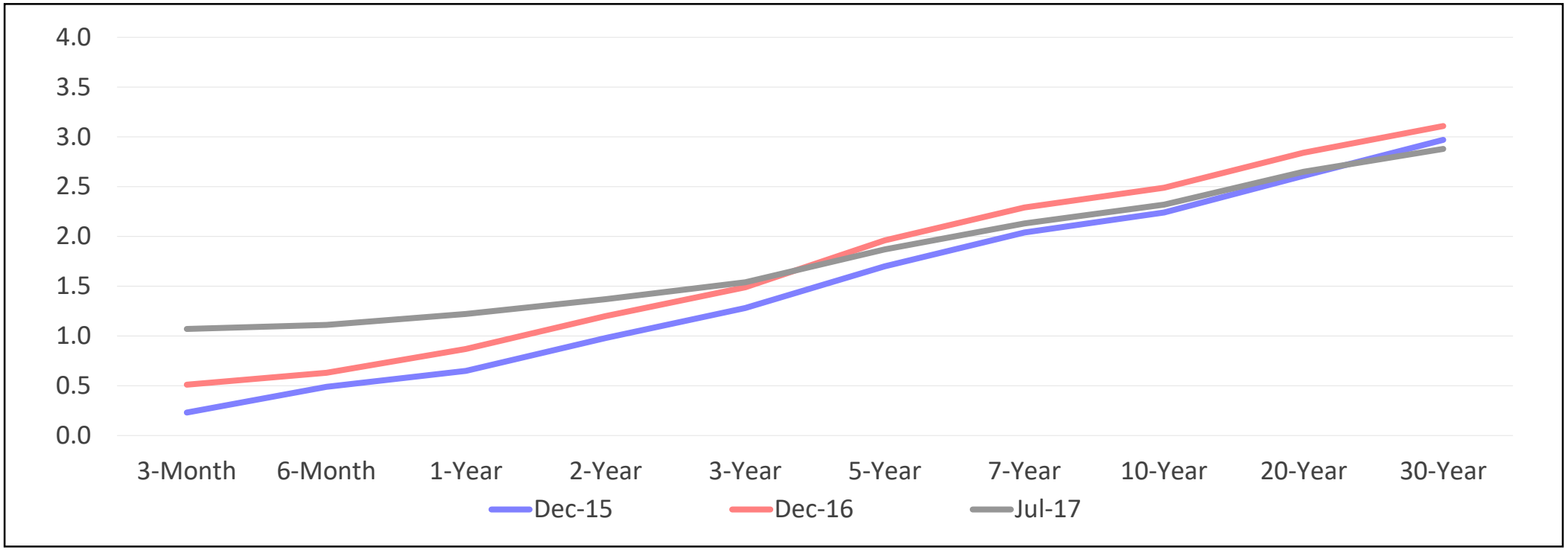
Unemployment Rate, Price Deflator and Fed Funds Rate
2007– 2017 Q2



Source: BLS, Commerce Department, Federal Reserve, Moody's Analytics, St Louis Federal Reserve Bank (FRED)

A Rising Interest Rate Environment?

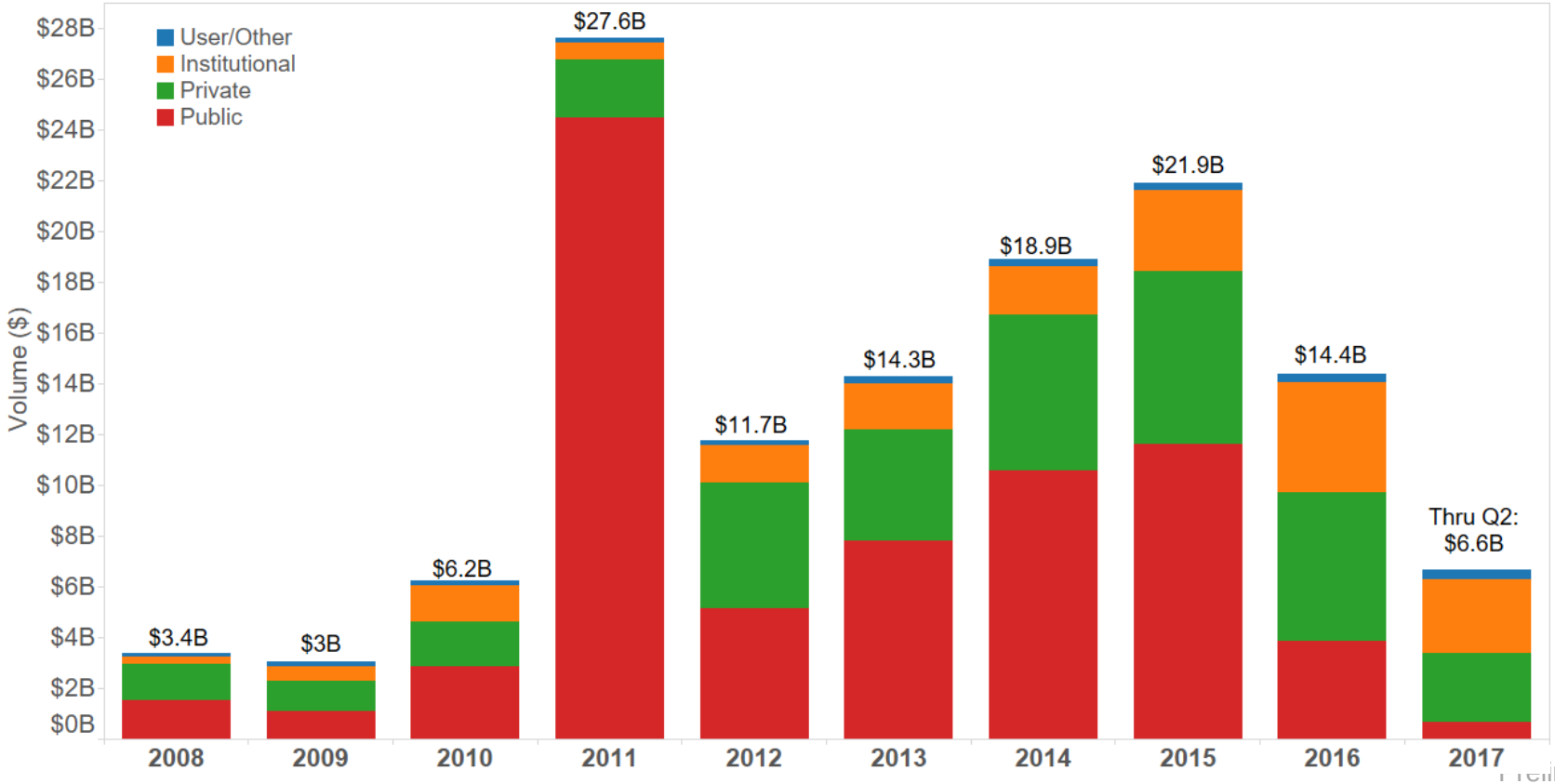
Yield Curve for U.S. Treasuries
December 2015, December 2016 and July 2017



Source: Moody's Analytics

Transaction Volumes for Seniors Housing and Care

Seniors Housing & Care Closed Transactions Volume[1]
U.S. | 1Q08 – 2Q17



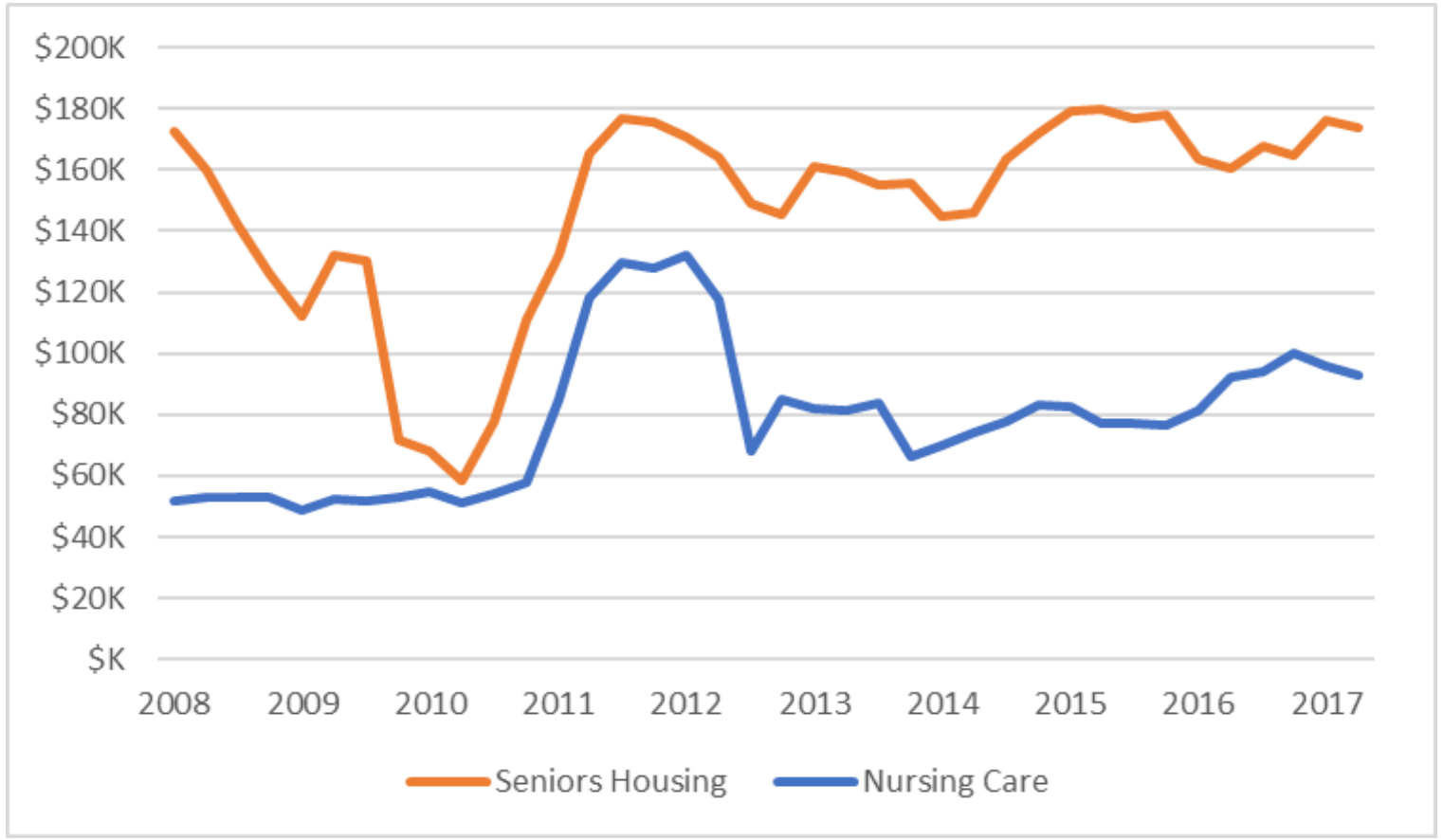
Source: NIC MAP® Data Service

Preliminary Data

Seniors Housing Pricing Hovering At Peak

Seniors Housing & Care Transactions Rolling 4-Quarter Price Per Unit

U.S. | 1Q08 – 2Q17



Seniors Housing

Nursing Care

Source: NIC MAP® Data Service

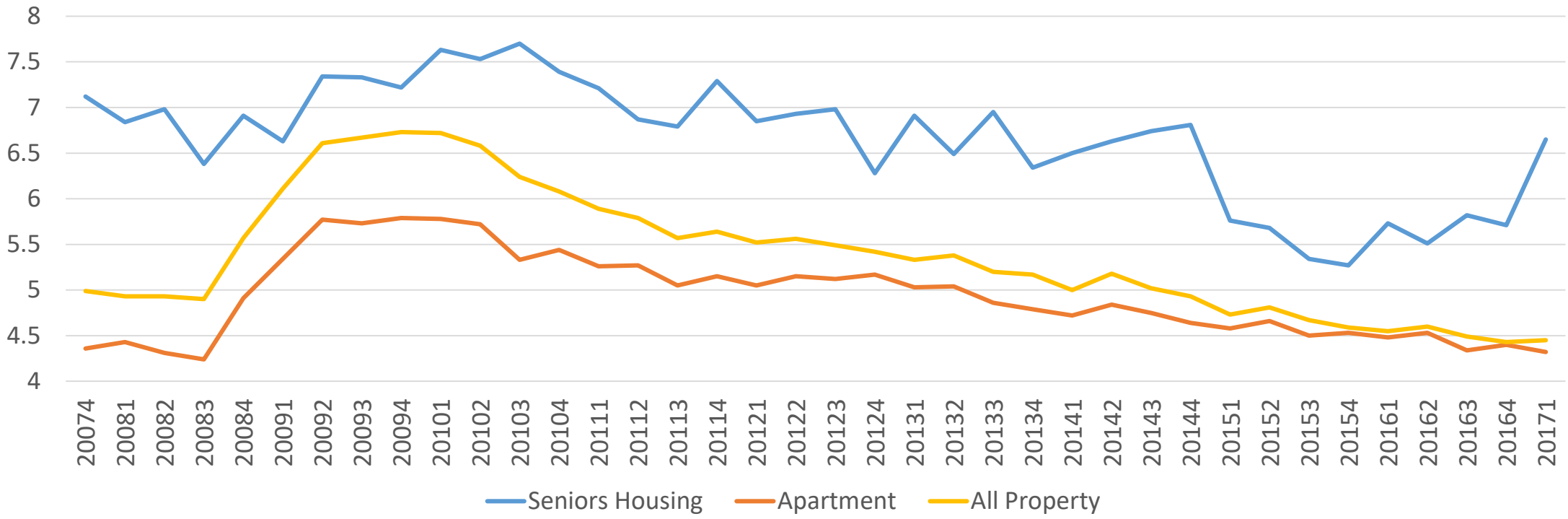
Where Are Other Commercial Real Estate Prices?

Recovery Profile of Select CPPI Indices, As of April 2017				
	Trough to Current	Trough Month	Peak to Current	Peak Month
Office, CBD--Major Markets	211.3	Sep-09	58.5	Apr-08
Office, CBD	182.0	Sep-09	50.8	Mar-08
Apartments--Non Major Markets	151.9	Nov-09	38.6	Aug-07
Apartments	143.3	Nov-09	52.8	Oct-07
Apartments--Major Market	127.2	Dec-09	73.9	Jan-08
National All Property Index	104.2	Jan-10	23.3	Nov-07
Industrial	68.7	Jun-11	13.1	Oct-07
Retail--Non Major Market	56.7	Oct-10	-13.4	Aug-07
Note: Peaks are pre-crisis (2007-08) and troughs are post crisis (2009-2010)				

Source: RCA, Moody's Investor's Service

Cap Rates for Seniors Housing Carry A Risk Premium

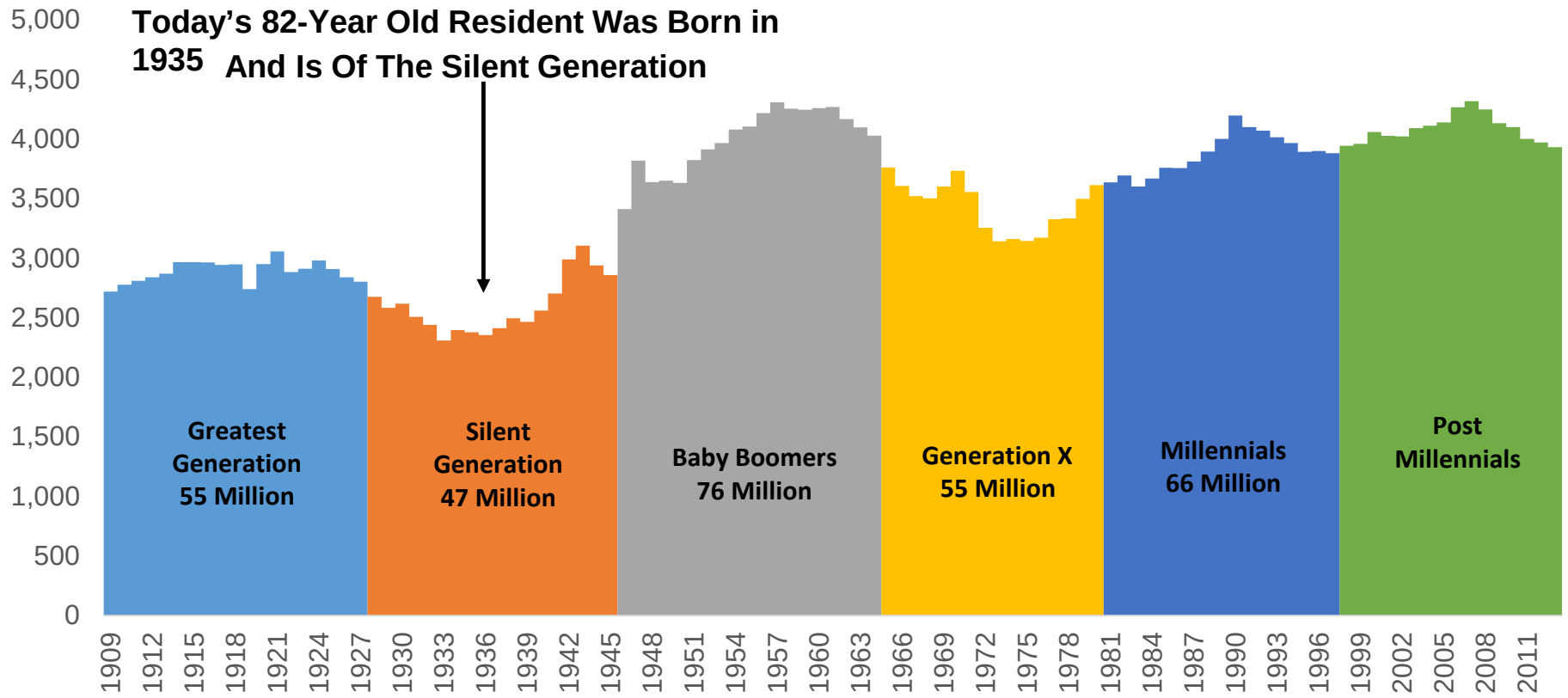
NCREIF Appraisal Cap Rates—Seniors Housing, Apartment and All Property
U.S. | 4Q07 – 1Q17



Source: NCREIF

Near and Long-term Demographics Are Getting Better

Number of Live Births (1909 to 2013, 000s)



Source: U.S. Census, NIC MAP® Data Service

Property Valuations for Seniors Housing and Skilled Nursing

Alan Plush
Chief Executive Officer
HEALTHTRUST

Case Study: Class A/Secondary Market

OVERVIEW

- 139 unit Assisted Living/Memory Care (97/42)
- 2013, Class A New Construction
- Recently achieved market occupancy – 92%

OPERATING PERFORMANCE

	Pro Forma	T-3	YTD (T-8)	Prior Year
Units	139	139	139	139
Occupancy	92%	92%	92%	85%
Revenue	$9,200,000	$8,700,000	$8,700,000	$8,200,000
Expenses	$6,100,000	$6,000,000	$6,200,000	$6,100,000
EBITDAR	$3,100,000	$2,700,000	$2,500,000	$2,100,000
Operating Margin	34%	31%	29%	26%

VALUE DRIVERS

Upside

- 100% Private Pay
- Average Age in the PMA – 25 years
- $300K Housing Value in PMA
- Strong Regional Operator in place

Downside

- 17% increase in supply (under construction)
- Medicaid market (30% +/-)
- Using Contract Nursing
- Pro Forma forecast:
  - 5% increase in rates, static occupancy
  - Low/No Expense growth (Marketing push burn-off)

Case Study: Class A/Secondary Market

Audience Participation Time

1.) What NOI Do You Cap?

A. Pro Forma – $3.1 million

B. T-3 – $2.7 million

C. YTD (T-8) - $2.6 million

2.) What's the Cap Rate?

A. Sub 6.0%

B. 6.0% to 7.0%

C. 7.0%+

3.) The Property Sold for $51 Million

A. True

B. False

Case Study: Class A/Secondary Market

CONSIDERATIONS

- ***What metric is most appropriate to apply?***
  - Cap rate on forward-looking EBITDAR
  - Sale Comps in like-markets (Secondary, non-coastal)
  - Replacement Cost?
- ***What window of time is best to evaluate?***
  - T- 3 vs. Pro Forma
  - Occupancy Stabilized vs. Economic Stabilized
- ***Was the property actively marketed?***
  - How many bids, rounds, etc.
  - Buyer Pool (REITs, PE, Insurance)
- ***Macro Market Considerations***
  - Limited Class A, stabilized assets available
  - Potential future pipeline with developer/operator enhances value

VALUATION	$51,000,000
Units	139
Price per Unit	$366,906
EGIM	5.5
Valuation Metrics	
EBITDAR (Pro Forma)	**$3,100,000**
Cap Rate	**6.08%**
EBITDAR (T-3)	$2,700,000
Cap Rate	5.29%

METHODOLOGY

- Intensive market analysis to validate the market will be able to support the additional new supply
- Application of market cap rate on forward-looking projected EBITDAR
- Valuation supported by other Class A transactions. 50 bps discount on Cap Rate to account for Secondary market location

Case Study: Class A/New Supply

OVERVIEW

- 97-unit Assisted Living/Memory Care (67/30)
- 2011, Class A New Construction
- Sold upon stabilization (96%) for $19.1 million
- Appraised three years later for Owner (internal reporting)

OPERATING PERFORMANCE

	2016 YTD	2015	2014	2013
Units	97	97	97	97
Occupancy	87%	86%	96%	93%
Revenue	$3,900,000	$3,800,000	$4,100,000	$3,700,000
Expenses	$3,200,000	$3,100,000	$3,000,000	$2,800,000
EBITDAR	$700,000	$700,000	$1,100,000	$900,000
Operating Margin	18%	18%	27%	24%

What Changed

At Sale

- 96% occupancy; 6% YOY rate growth
- One new property in the pipeline representing 16% of existing PMA Supply
- 90% market occupancy
- Local operator

Three Years Later

- 87% occupancy; 3.5% YOY rate growth
- Six properties in the pipeline representing 57% of the existing PMA Supply
- 87% market occupancy
- National Operator

Case Study: Class A/New Supply

Audience Participation Time

1.) What NOI Do you Cap?

A. 2015/2016 - $700 thousand

B. 2014 (Previous Sale)

C. Something Else

2.) What's the Cap Rate?

A. Sub 6.0%

B. 6.0% to 7.0%

C. 7.0%+

3.) The Property's Value Dropped:

A. <10%

B. 10-20%

C. >20%

Case Study: Class A/New Supply

CONSIDERATIONS

- ***What metric is most appropriate to apply?***
  - Discounted Cash Flow Analysis
  - Cap rate on forward-looking EBITDAR with appropriate discount (rent loss)
- ***What window of time is best to evaluate?***
  - Current vs. Pro Forma
  - Short-term vs. Long-term view – Supply Velocity
- ***What are the considerations of New Supply?***
  - Validating the Pipeline (what's truly active)
  - Pricing/Occupancy Pressure
  - Poaching Department Heads
  - Labor shortages/costs
- ***Management Considerations***
  - How much of this was operator driven?

VALUATION	$15,900,000
Units	97
Price per Unit	$163,918
EGIM	4.1
Valuation Metrics	
EBITDAR (Pro Forma)	**$1,065,000**
Cap Rate	**6.70%**
EBITDAR (YTD)	$700,000
Cap Rate	4.40%

METHODOLOGY

- Intensive market analysis to forecast market performance with new supply
- Recognizing expense pressures, but carefully comping out market expenses
- The reversion matters
- Application of market cap/discount rate on forward-looking projected EBITDAR
- The sky is not falling

Property Valuations for Seniors Housing and Skilled Nursing

Ben Firestone

Senior Managing Director

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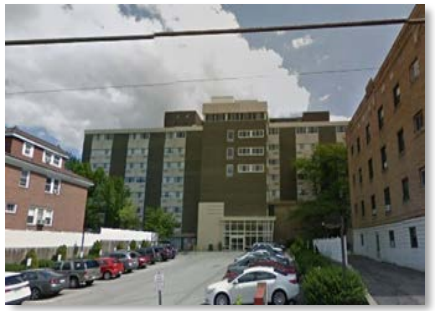
Case Study A: Steeler SNF Portfolio

OVERVIEW

- Three Skilled Nursing Facilities in Pittsburgh MSA (470 total beds)
- Average age of properties is 22 years
- Profile: (2) stabilized and (1) non-stabilized



OPERATING PERFORMANCE (CURRENT)

	Bell	Brown	Roethlisberger	Portfolio
Licensed Beds	190	180	100	470
Occupancy	78.0%	65.0%	90.0%	77.7%
Q-Mix	24.0%	12.3%	32.4%	22.9%
Revenue	$14,700,000	$14,500,000	$9,750,000	$38,950,000
Expenses	$12,600,000	$14,450,000	$8,560,000	$35,610,000
EBITDAR	**$2,100,000**	**$50,000**	**$1,190,000**	**$3,340,000**
Operating Margin	14.0%	0.3%	12.2%	9.0%

VALUE DRIVERS

- Overall operating margin (9.0%) is financeable
- Ideal bridge-to-HUD candidate which affords optimal leverage
- Portfolio Premium?
- Offering well-suited for regional operator with existing footprint
- Upside Opportunities:
  - Strong hospital referral networks provide opportunity to enhance census mix and revenue
  - Unlock value through expense control measures

Case Study A: Steeler SNF Portfolio

CONSIDERATIONS

- ***What metric is most appropriate to apply?***
  - Cap rate on historical EBITDAR
  - Cap rate on forward-looking EBITDAR
  - Precedent Sales (price-per-bed)
  - Combination of metrics for each property
- ***What window of time is best to evaluate?***
  - #trending (TTM vs. T6A vs. spot)
  - Static vs. multiple period model
- ***Prediction for Market Behavior…***
  - Supply/Demand of like-type opportunities
  - Overall attractiveness of investment (i.e. trophy asset)
  - Execution Risk vs. Upside Potential

VALUATION	$40,000,000
Total Beds	470
Price Per Bed	$85,100
EGIM	1.03x
Valuation Metrics	
EBITDAR (Pro Forma)	**$5,200,000**
Cap Rate	**13.00%**
EBITDAR (TTM)	$3,340,000
Cap Rate	8.35%

METHODOLOGY

- Application of market cap rate on forward-looking projected EBITDAR
- Anticipate strong market response due to size and scale of offering
- Valuation supported by applying market cap rate (12.0%) to stabilized facilities and price-per-bed floor ($70k per bed) to non-stabilized facility
- Valuation supported by precedent transactions ($75k to $95k per bed)

Case Study B: Texan Seniors Housing Community

OVERVIEW

- Assisted Living & Memory Care Community located in southeast corridor of Houston MSA (125 total units)
- Class-A, new construction in growing submarket
- 100% private pay
- Still in lease-up stage (delayed) and approaching 60% occupancy

OPERATING PERFORMANCE (PROJECTED)

	2018	2019	2020	2021	2022
Occupancy	64.0%	72.0%	81.8%	87.0%	90.0%
Total Revenue	$4,900,000	$6,156,000	$7,178,000	$7,765,000	$8,066,000
Total Expenses	$4,560,000	$4,802,000	$4,881,000	$4,865,000	$5,001,000
EBITDAR	**$340,000**	**$1,354,000**	**$2,297,000**	**$2,900,000**	**$3,065,000**
Margin	7.0%	22.0%	32.0%	37.5%	38.0%

VALUE DRIVERS

- Strong Demographics:
  - Growing population of age-income qualified seniors
  - Affluent submarket with median household incomes of ($133,000) and median home value of ($263,000)
- Local Supply—seniors housing occupancy (Houston Metro: 82.5% as of Q2 2017) per NIC MAP indicates lease-up potential (stabilized occupancy of 85.4%)
- Attractive curb appeal with state-of-the-art amenities

Case Study B: Texan Seniors Housing Community

CONSIDERATIONS

- ***What metric is most appropriate to apply?***
  - DCF on forward-looking EBITDAR
  - Precedent Sales (price-per-unit)
- ***What window of time is best to evaluate?***
  - No historical operating performance
  - Just how forward are forward-looking assumptions?
  - Cost of Capital varies depending on hold period
- ***Prediction for Market Behavior…***
  - Investor willingness to assume lease-up risk
  - New Supply concerns
  - Operator transition necessary?
  - Overall attractiveness of investment (i.e. trophy asset)

VALUATION	$35,000,000
Total Units	125
Price Per Unit	$280,000
EGIM	4.34x
Valuation Metrics	
Year 5 Operating Margin	38.0%
Year 5 EBITDAR	$3,065,000
Terminal Cap Rate	8.76%
Levered IRR	**15.0%**

METHODOLOGY

- Dynamic model required due to lack of historical EBITDAR; 5-year leveraged-IRR model attractive to opportunistic and value-add investors
- Capital Markets and lender underwriting drive defendable and conservative assumptions
- Valuation supported by precedent transactions ($220k - $295k per unit)

Panel Discussion & Audience Questions

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