PRESENTATION OVERVIEW
Valuation of Seniors Housing Properties

- Industry Overview
- Valuation Overview
- Market Analysis
- Income Approach
- Sales Comparison Approach
- Allocation of the Going Concern
- Final Considerations
INDUSTRY OVERVIEW

Independent Living Community (ILC)
INDUSTRY OVERVIEW

Assisted Living Residence (ALR)
INDUSTRY OVERVIEW

Skilled Nursing Facility (SNF)
INDUSTRY OVERVIEW
Continuing Care Retirement Community (CCRC)
INDUSTRY OVERVIEW

Summary of Property Types

Source: NIC Investment Guide

Resident Choice > Relative Influence > Relative Choice > Doctor Choice
INDUSTRY OVERVIEW

Implied Market Values

Source: NCREIF & NIC
INDUSTRY OVERVIEW

Number of Publicly Announced Acquisitions

INDUSTRY OVERVIEW

Volume of Publicly Announced Acquisitions (Billions)

INDUSTRY OVERVIEW

Capitalization Rate Trends & Outlook

Source: NIC, Senior Care Investor, and CBRE Econometric Advisors
INDUSTRY OVERVIEW

Property Level Returns

Source: NCREIF & NIC
INDUSTRY OVERVIEW

Demographic Trends

Source: CBRE Econometric Advisors, Claritas
INDUSTRY OVERVIEW

Do the Math

Average Age of **NEW** AL resident (84) – Age of Leading-Edge Baby Boomer (67) = **17 Years**
INDUSTRY OVERVIEW

Seniors Housing Demand Vs. Supply

Source: NIC MAP and US Census Bureau
INDUSTRY OVERVIEW
National Operating Trends

Source: NIC MAP
INDUSTRY OVERVIEW

Occupancy Trends vs. Home Values

Source: NIC MAP and CBRE Econometric Advisors
Valuation of Seniors Housing Properties

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VALUATION OVERVIEW

Appraisal Process

Definition of the Problem

Scope of Work

Data Collection and Analysis

Market Analysis

Highest and Best Use

Application of Approaches to Value

Income Approach

Sales Comparison Approach

Cost Approach

Reconciliation of Value Indicators and Final Value Opinion

Report Defined Value Opinions

Allocation of the Going Concern
VALUATION OVERVIEW

Approaches to Value

- **Income Approach**
  - The underlying operations of the business are what drives overall value of the real estate
  - Most appraisals will assume experienced and capable management
  - Utilized as primary determinant of value

- **Sales Comparison Approach**
  - Primarily utilized to extract market pricing and a test or reasonability for the conclusions derived from the income approach
  - Utilized Paired Sales, NOI Analysis, and EGIM Analysis
  - Comparables are selected from a regional if not national geography

- **Cost Approach**
  - Least reliable and often omitted
  - Primarily utilized as a method of allocating the Going Concern or project feasibility
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MARKET ANALYSIS
Quantifying Net Market Demand

A Primary Market Area (PMA) can be identified by a radius, node(s), submarket(s), zip code(s), county(s) or township(s), or any variety of such defining terms.

We define a PMA as representing where approximately 80% of the residents currently occupying the subject resided prior to moving in to the subject property.

In analyzing a market, CBRE employs two quantitative methods, each independent of the other

1. Penetration Analysis
   • Competitive Supply / Age Qualified Households
   • Simple, yet allows for apples-to-apples comparison to other markets
   • Requires comparable local, regional, and national data-points to understanding of the extracted rate
   • The penetration must be considered with occupancy to properly understand full meaning
   • Used to determine market depth and impact of future supply on current market balance

2. Demand Coverage Analysis
   • Delineates PMA by age and income qualified population
   • Recognizes healthcare or ADL (Activities of Daily Living) requirements specific to each care level
   • Identifies Net Demand in terms of actual number of units by property type
   • Identifies impact of state subsidies and +/- net immigrations outside market norm
   • PMA specific

Dummy Factors, Apples-to-Apples, Accurate Inputs, Boots on the Ground
MARKET ANALYSIS
Penetration Analysis

<table>
<thead>
<tr>
<th>SENIORS HOUSING MARKET STATISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
</tr>
<tr>
<td>Assisted Living</td>
</tr>
<tr>
<td>Stabilized/Average Occupancy</td>
</tr>
<tr>
<td>Average Monthly Rent</td>
</tr>
<tr>
<td>Property Count</td>
</tr>
<tr>
<td>Inventory (Units)</td>
</tr>
<tr>
<td>Construction (Units)</td>
</tr>
<tr>
<td>Projected 3-Year Inventory Growth</td>
</tr>
<tr>
<td>Penetration</td>
</tr>
</tbody>
</table>

Source: NIC MAP

<table>
<thead>
<tr>
<th>MARKET PENETRATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
</tr>
<tr>
<td>Assisted Living</td>
</tr>
<tr>
<td>Age Qualified Households (75+)</td>
</tr>
<tr>
<td>Total AL Supply</td>
</tr>
<tr>
<td>Indicated AL/MC Penetration Rate:</td>
</tr>
</tbody>
</table>

Compiled by CBRE
Penetration Analysis

Penetration Rates Alone Have Multiple Meanings:

Low Penetration/ High Occupancy: Local population is accepting the subject's product type, significant room for expansion, higher than typical ratio of residents emanating from outside the defined PMA. Expect strong occupancy levels, stable rent growth, and healthy absorption for proposed properties. Most favorable.

Low Penetration/ Low Occupancy: Local population is either not accepting the subject property type or are traveling outside the defined PMA to obtain their respective needs. Market opportunity does exist, but will likely require additional marketing efforts in order to achieve a stabilized occupancy level.

High Penetration/ High Occupancy: Equally as attractive as low penetration with low occupancy. Competitive market, yet presumes the local population is generally receptive and well educated with the respective property type. Requires less marketing efforts in terms of product education, but may require more resources from an overall competitive standpoint or the offering of something unique to the market, such as superior quality or affordable rents. Prevalence of state subsidies are also common in this market (MA).

High Penetration/ Low Occupancy: This combination is the least favorable and depicts a saturated market. Decreasing rental rates, prevalence of concessions, and less than favorable occupancy can be expected.
### Demand Coverage Analysis

#### 2014

<table>
<thead>
<tr>
<th></th>
<th>AL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Demand</td>
<td>1,181</td>
</tr>
<tr>
<td>Frictional Vacancy</td>
<td>12.61%</td>
</tr>
<tr>
<td><strong>Total Adjusted Demand</strong></td>
<td>1,352</td>
</tr>
</tbody>
</table>

| Total Supply            | 1,746 |
| **Net Surplus Demand (Units)** | -394 |

**Market Balance**

Over Supply

#### 2019

<table>
<thead>
<tr>
<th></th>
<th>AL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Demand</td>
<td>1,437</td>
</tr>
<tr>
<td>Frictional Vacancy</td>
<td>12.61%</td>
</tr>
<tr>
<td><strong>Total Adjusted Demand</strong></td>
<td>1,644</td>
</tr>
</tbody>
</table>

| Total Supply            | 1,836 |
| **Net Surplus Demand (Units)** | -192 |

**Market Balance**

Over Supply

Compiled By: CBRE
PRESENTATION OVERVIEW
Valuation of Seniors Housing Properties

- Industry Overview
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- Market Analysis
- **Income Approach**
  - Sales Comparison Approach
  - Allocation of the Going Concern
  - Flags and Considerations for Assessment Purposes
INCOME APPROACH

General Overview

The income capitalization approach reflects the subject’s income-producing capabilities.

- The 'active management' component is viewed as adding incremental risk and complexity versus the conventional commercial real estate asset classes, which translates into higher return expectations by investors
  - Property Management will “make or brake” market value

- Market value appraisals involving not-for-profit or government, and poor operators should reflect the likely buyers’ perspective, and in most cases, that would be from the perspective of for-profit entities, which may take a different view of future operations

- Proper rental comparables and operating expense comparables are essential in achieving accurate underwriting
  - Per resident day is the most accurate unit of measure for underwriting purposes
  - % of EGI can have multiple meanings depending on property specific operating format and should only be used as a secondary test of reasonableness

- The direct capitalization method is the most commonly used in deriving an estimate of market value per this approach

- The market derived capitalization rate is applied to the subject’s stabilized EBITA, which includes replacement reserves and management fees
  - Management Fee – 3% to 7% of EGI
  - Replacement Reserves - $350 to $650 per unit, annum
Case Study – Passive vs. Active Management

INCOME APPROACH

Skilled Nursing Facility

- 120-bed, purpose built skilled nursing facility, developed in 1973, second generation family owned and operated.
- Good quality property in average condition. Excellent bones and design.
- Buyer was regional owner-operator with properties surrounding states and looking to expand their presence in within subject state.
- Buyer contacted the seller directly. No broker on deal.
- Above market operating expenses. Did not use part time staff - paid overtime to full employees.
- Below market occupancy and quality mix- recognized by seller.
- Below market private pay rates – recognized by buyer.
- Not maximizing Medicare utilization.
- Favorable rated market by NIC MAP in high barrier to entry location in close proximity to a number of hospitals.
- Seller executed with buyer due to comfort level and trust.
- Buyer’s short term goal to increase operating efficiencies. Invest an additional $3mm and offer more sub acute rehab services.
- Seller’s goal - retire.

Property Summary

<table>
<thead>
<tr>
<th>Property Summary</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Built</td>
<td>1973</td>
</tr>
<tr>
<td>Beds</td>
<td>120</td>
</tr>
<tr>
<td>Care Level</td>
<td>SNF</td>
</tr>
<tr>
<td>Purchased</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Date</td>
<td>June 2013</td>
</tr>
<tr>
<td>2012 NOI</td>
<td>$273,006</td>
</tr>
<tr>
<td>Buyer Y2 NOI</td>
<td>$2,623,908</td>
</tr>
</tbody>
</table>
## INCOME APPROACH

### OPERATING SUMMARY

<table>
<thead>
<tr>
<th>Reporting Period</th>
<th>2012 Actual (Seller)</th>
<th>Year 1 (Buyer)</th>
<th>Year 2 Stabilized (Buyer)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beds</td>
<td>Occ.</td>
<td>AMR</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>120</td>
<td>76%</td>
<td>$6,111</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled Nursing Private Pay</td>
<td>$1,245,924</td>
<td>14.1%</td>
<td>10,383</td>
</tr>
<tr>
<td>Skilled Nursing Medicaid</td>
<td>4,094,967</td>
<td>46.4%</td>
<td>34,125</td>
</tr>
<tr>
<td>Skilled Nursing Medicare</td>
<td>2,960,407</td>
<td>33.5%</td>
<td>24,670</td>
</tr>
<tr>
<td>Skilled Nursing Insurance</td>
<td>497,965</td>
<td>5.6%</td>
<td>4,150</td>
</tr>
<tr>
<td>Ancillary Charges</td>
<td>32,436</td>
<td>0.4%</td>
<td>270</td>
</tr>
<tr>
<td><strong>Effective Gross Income</strong></td>
<td>$8,831,699</td>
<td>100.0%</td>
<td>$73,597</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>$131,274</td>
<td>1.5%</td>
<td>1,094</td>
</tr>
<tr>
<td>Property Insurance</td>
<td>13,712</td>
<td>0.2%</td>
<td>114</td>
</tr>
<tr>
<td>Utilities</td>
<td>237,055</td>
<td>2.7%</td>
<td>1,975</td>
</tr>
<tr>
<td>Administrative &amp; General</td>
<td>848,181</td>
<td>9.6%</td>
<td>7,068</td>
</tr>
<tr>
<td>Advertising &amp; Leasing</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Resident Care</td>
<td>4,141,173</td>
<td>46.9%</td>
<td>34,510</td>
</tr>
<tr>
<td>Ancillary Services</td>
<td>518,596</td>
<td>5.9%</td>
<td>4,322</td>
</tr>
<tr>
<td>Culinary Services</td>
<td>719,014</td>
<td>8.1%</td>
<td>5,992</td>
</tr>
<tr>
<td>Laundry &amp; Housekeeping</td>
<td>516,977</td>
<td>5.9%</td>
<td>4,308</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>138,760</td>
<td>1.6%</td>
<td>1,156</td>
</tr>
<tr>
<td>Program &amp; Recreation</td>
<td>123,616</td>
<td>1.4%</td>
<td>1,030</td>
</tr>
<tr>
<td>Payroll Taxes &amp; Benefits</td>
<td>780,541</td>
<td>8.8%</td>
<td>6,500</td>
</tr>
<tr>
<td>Other</td>
<td>347,794</td>
<td>3.9%</td>
<td>2,888</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>$8,516,693</td>
<td>96.4%</td>
<td>70,972</td>
</tr>
<tr>
<td><strong>Net Operating Income</strong></td>
<td>$315,006</td>
<td>3.6%</td>
<td>2,625</td>
</tr>
</tbody>
</table>

1. Management Fee:
2. Reserves for Replacement:

---

Source: Property operating statements & buyer proforma
INCOME APPROACH
Case Study – Revenue Projections

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>Subject</th>
<th>Comps</th>
<th>NIC Metro</th>
<th>NIC 31</th>
<th>Buyer</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>76.00%</td>
<td>91.00%</td>
<td>90.10%</td>
<td>91.40%</td>
<td>92.00%</td>
<td>85.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Census Mix</th>
<th>Subject</th>
<th>Comps</th>
<th>Buyer</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>8%</td>
<td>17%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Mix</td>
<td>14%</td>
<td>21%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>Medicare</td>
<td>61%</td>
<td>60%</td>
<td>59%</td>
<td>57%</td>
</tr>
<tr>
<td>Private</td>
<td>61%</td>
<td>60%</td>
<td>59%</td>
<td>57%</td>
</tr>
<tr>
<td>Medicaid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Daily Private Pay Rates</th>
<th>Subject</th>
<th>Comps</th>
<th>NIC Metro</th>
<th>NIC 31</th>
<th>Buyer</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Rates</td>
<td>$265</td>
<td>$363</td>
<td>$375</td>
<td>$278</td>
<td>$320</td>
<td>$270</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effective Gross Income Per Resident Day</th>
<th>Subject</th>
<th>Comp Min.</th>
<th>Comp Max.</th>
<th>Comp Avg.</th>
<th>Buyer</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Per Day</td>
<td>$265</td>
<td>$262</td>
<td>$296</td>
<td>$273</td>
<td>$293</td>
<td>$293</td>
</tr>
</tbody>
</table>

“Subject” data points represent the seller’s 2012 Actual. “Current” represents the buyer’s October 2013 Actual.
INCOME APPROACH

Case Study – Expense Projections and NOI

Operating Costs Per Resident Day (PRD)

- Subject: $255.51
- Comp Min.: $204.39
- Comp Max.: $240.32
- Comp Avg.: $228.06
- Buyer: $211.92
- Current: $253.12

Expense Ratio (Before Mgt Fee & Reserves)

- Subject: 16.00%
- Comp Min.: 27.70%
- Comp Max.: 8.60%
- Comp Avg.: 22.40%
- Buyer: 17.80%
- Current: 3.60%

Profit Margin (Before Mgt Fee & Reserves)

- Subject: 97%
- Comp Min.: 78%
- Comp Max.: 81%
- Comp Avg.: 83%
- Buyer: 72%
- Current: 84%

NOI PRD (Before Mgt Fee & Reserves)

- Subject: $36
- Comp Min.: $59
- Comp Max.: $36
- Comp Avg.: $60
- Buyer: $40
- Current: $8

*Subject “data points represent the seller’s 2012 Actual. “Current” represents the buyer’s October 2013 Actual
### INCOME APPROACH

**Case Study - Results**

The “current” data points detailed in the following table represents **four months** of property operations by the buyer.

<table>
<thead>
<tr>
<th></th>
<th>At Purchase (June 2013)</th>
<th>Current (Oct 2013 Ann.)</th>
<th>Buyer’s Stabilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOI</td>
<td>$273,006</td>
<td>$1,108,218</td>
<td>$2,623,908</td>
</tr>
<tr>
<td>Purchase Price</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>CapEx &amp; Cary</td>
<td>---</td>
<td>---</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Total Cost</td>
<td>---</td>
<td>$6,000,000</td>
<td>$9,000,000</td>
</tr>
<tr>
<td>Indicated Value @ NIC Average Cap Rate</td>
<td>N/A $50,000/ Bed</td>
<td>$8,500,000 $71,000/ bed</td>
<td>$20,200,000 $168k/ bed</td>
</tr>
<tr>
<td>Return on Cost</td>
<td>4.55%</td>
<td>18.47%</td>
<td>29.15%</td>
</tr>
</tbody>
</table>
## INCOME APPROACH

### Summary of Operating Metrics

Per Resident Day (PRD) is the most accurate unit of measure when underwriting a seniors housing property type. Expense ratio, profit margin, and per unit indicators are all used as secondary measures.

<table>
<thead>
<tr>
<th></th>
<th>IL</th>
<th>AL</th>
<th>SNF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy (1Q15)</td>
<td>91%</td>
<td>88.4%</td>
<td>87.9%</td>
</tr>
<tr>
<td>Average Monthly Rent</td>
<td>$2,892</td>
<td>$4,264 - $5,833</td>
<td>$289/ Day</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>29.2 Months</td>
<td>21.7 Months</td>
<td>3.2 Months</td>
</tr>
<tr>
<td>Total Revenues PRD</td>
<td>$72.07</td>
<td>$151.55</td>
<td>$268.93</td>
</tr>
<tr>
<td>Operating Expenses PRD</td>
<td>$44.39</td>
<td>$104.67</td>
<td>$232.23</td>
</tr>
<tr>
<td>Average FTE PRD</td>
<td>0.22</td>
<td>0.45</td>
<td>0.98</td>
</tr>
<tr>
<td>Average Operating Margin</td>
<td>35% - 45%</td>
<td>25% - 40%</td>
<td>10% - 20%</td>
</tr>
<tr>
<td>Capitalization Rate</td>
<td>7.1%</td>
<td>7.7%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Average Price Per Unit</td>
<td>$173,200</td>
<td>$173,200</td>
<td>$65,100</td>
</tr>
</tbody>
</table>

Source: NIC, American Seniors Housing Assoc., & Irving Levin Assoc.,
## INCOME APPROACH

### CBRE Capitalization Rate Survey

<table>
<thead>
<tr>
<th>Class A</th>
<th>Class B</th>
<th>Class C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low</strong></td>
<td><strong>High</strong></td>
<td><strong>Average</strong></td>
</tr>
<tr>
<td>IL</td>
<td>3.50%</td>
<td>8.00%</td>
</tr>
<tr>
<td>AL</td>
<td>4.50%</td>
<td>9.00%</td>
</tr>
<tr>
<td>MC</td>
<td>5.00%</td>
<td>9.00%</td>
</tr>
<tr>
<td>NC</td>
<td>9.00%</td>
<td>13.00%</td>
</tr>
<tr>
<td>CCRC - Rental</td>
<td>5.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>CCRC - Buy In</td>
<td>6.00%</td>
<td>10.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Low</strong></th>
<th><strong>High</strong></th>
<th><strong>Average</strong></th>
<th><strong>Low</strong></th>
<th><strong>High</strong></th>
<th><strong>Average</strong></th>
<th><strong>Low</strong></th>
<th><strong>High</strong></th>
<th><strong>Average</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>IL</td>
<td>4.00%</td>
<td>9.00%</td>
<td>6.30%</td>
<td>4.00%</td>
<td>9.50%</td>
<td>7.16%</td>
<td>5.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>AL</td>
<td>5.00%</td>
<td>9.00%</td>
<td>6.89%</td>
<td>5.00%</td>
<td>9.00%</td>
<td>7.55%</td>
<td>6.00%</td>
<td>11.00%</td>
</tr>
<tr>
<td>MC</td>
<td>5.00%</td>
<td>9.00%</td>
<td>7.07%</td>
<td>5.00%</td>
<td>9.00%</td>
<td>7.75%</td>
<td>6.00%</td>
<td>11.00%</td>
</tr>
<tr>
<td>NC</td>
<td>10.00%</td>
<td>14.00%</td>
<td>11.80%</td>
<td>10.00%</td>
<td>18.00%</td>
<td>12.57%</td>
<td>11.00%</td>
<td>18.00%</td>
</tr>
<tr>
<td>CCRC - Rental</td>
<td>6.00%</td>
<td>10.00%</td>
<td>7.53%</td>
<td>6.00%</td>
<td>10.00%</td>
<td>8.20%</td>
<td>7.00%</td>
<td>13.00%</td>
</tr>
<tr>
<td>CCRC - Buy In</td>
<td>6.00%</td>
<td>10.00%</td>
<td>8.10%</td>
<td>6.00%</td>
<td>12.00%</td>
<td>8.69%</td>
<td>7.00%</td>
<td>13.00%</td>
</tr>
</tbody>
</table>

*Arrows indicate change from our H1 2014 Survey
Source: CBRE Seniors Housing Cap Rate Survey

Source: CBRE Seniors Housing Investor Survey
### INCOME APPROACH

**CBRE Capitalization Rate Survey**

#### Investment Class Spreads

<table>
<thead>
<tr>
<th>Investment Class</th>
<th>A-B</th>
<th>B-C</th>
<th>A-C</th>
</tr>
</thead>
<tbody>
<tr>
<td>IL</td>
<td>0.87%</td>
<td>1.21%</td>
<td>2.08%</td>
</tr>
<tr>
<td>AL</td>
<td>0.79%</td>
<td>1.43%</td>
<td>2.22%</td>
</tr>
<tr>
<td>MC</td>
<td>0.76%</td>
<td>1.19%</td>
<td>1.95%</td>
</tr>
<tr>
<td>NC</td>
<td>0.99%</td>
<td>1.44%</td>
<td>2.44%</td>
</tr>
<tr>
<td>CCRC - Rental</td>
<td>0.73%</td>
<td>1.51%</td>
<td>2.24%</td>
</tr>
<tr>
<td>CCRC - Buy In</td>
<td>0.75%</td>
<td>1.33%</td>
<td>2.09%</td>
</tr>
</tbody>
</table>

#### Location Spreads (Core Vs. Non)

<table>
<thead>
<tr>
<th>Location</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>IL</td>
<td>0.72%</td>
<td>0.70%</td>
<td>0.48%</td>
</tr>
<tr>
<td>AL</td>
<td>0.56%</td>
<td>0.43%</td>
<td>0.19%</td>
</tr>
<tr>
<td>MC</td>
<td>0.33%</td>
<td>0.26%</td>
<td>0.00%</td>
</tr>
<tr>
<td>NC</td>
<td>0.72%</td>
<td>0.50%</td>
<td>0.24%</td>
</tr>
<tr>
<td>CCRC - Rental</td>
<td>0.51%</td>
<td>0.45%</td>
<td>0.19%</td>
</tr>
<tr>
<td>CCRC - Buy In</td>
<td>0.50%</td>
<td>0.34%</td>
<td>0.20%</td>
</tr>
</tbody>
</table>

#### Core vs. Non-Core

<table>
<thead>
<tr>
<th>Core vs. Non-Core</th>
<th>IL</th>
<th>AL</th>
<th>MC</th>
<th>NC</th>
<th>CCRC</th>
</tr>
</thead>
<tbody>
<tr>
<td>IL</td>
<td>-0.03%</td>
<td>-0.09%</td>
<td>-0.04%</td>
<td>-0.03%</td>
<td>0.08%</td>
</tr>
</tbody>
</table>

*Arrows indicate change from our H1 2014
Source: CBRE Seniors Housing Cap Rate Survey

Source: CBRE Seniors Housing Investor Survey
Valuation of Seniors Housing Properties

- Industry Overview
- Valuation Overview
- Market Analysis
- Income Approach
- Sales Comparison Approach
- Allocation of the Going Concern
- Final Considerations
## SALES APPROACH

### Summary of Methodologies and Analysis

<table>
<thead>
<tr>
<th>Sales Comparison</th>
<th>NOI Analysis</th>
<th>EGIM Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional/ national comp set is acceptable</td>
<td>Provides most realistic pricing utilized by market participants</td>
<td>Easy to extract from market</td>
</tr>
<tr>
<td>Adjustments are mostly qualitative and challenging to support</td>
<td>Infers all physical property and locational differences</td>
<td>Does not include operating expenses in pricing</td>
</tr>
<tr>
<td>Not utilized by market participants</td>
<td>Utilizes regression analysis to estimate a per unit/ bed indication</td>
<td>Select EGIM for subject by analyzing expense ratio of subject respective of comparable set</td>
</tr>
<tr>
<td>Do not overlay NOI adjustments</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Diagram:**

[COMPARABLE IMPROVED SALES MAP](#)

---

**CBRE**

37 | VALUATION OF SENIORS HOUSING PROPERTIES | ZACH BOWYER, MAI
SALES APPROACH
Net Operating Income Analysis

NET OPERATING INCOME ANALYSIS

- Comparable Sales
- Subject Indication
- Trendline

Compiled by CBRE

<table>
<thead>
<tr>
<th>Price per Unit</th>
<th>NOI per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$215,205</td>
<td>$15,327</td>
</tr>
<tr>
<td>$265,205</td>
<td>$20,327</td>
</tr>
<tr>
<td>$315,205</td>
<td>$25,327</td>
</tr>
<tr>
<td>$365,205</td>
<td>$30,327</td>
</tr>
<tr>
<td>$415,205</td>
<td>$35,327</td>
</tr>
<tr>
<td>$465,205</td>
<td>$40,327</td>
</tr>
</tbody>
</table>

$396,517.13

Compiled by CBRE
PRESENTATION OVERVIEW

Valuation of Seniors Housing Properties

- Industry Overview
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ALLOCATION OF THE GOING CONCERN

Methodologies

Cost Residual: The value of the business/intangibles are estimated by taking the market value of the subject and deducting the estimated personal property, land and real estate property value. The remaining value represents the contribution of the business/intangibles.

- Straight forward approach
- Widely accepted and utilized in the appraisal industry
- Utilizes estimates contained in the Cost Approach which is considered the less reliable indication of value and often omitted due to various physical property attributes
- Not utilized by market participants

Management Extraction: Business Enterprise Value is calculated based upon the capitalized value of the management fee. The total value of the going concern is calculated with NO deductions for management fees or reserves. The Concluded business value and FF&E are then deducted to get to the real estate only allocation.

- Additional BEV is inherent in the operations, resulting in a possible omission of this allocation
- Capitalization rates applied to the Management Fee are difficult to accurately extract from the market with the applied rate considered to be highly subjective
- Not utilized by market participants
METHOD OF MARKET ANALYSIS

Valuation of Seniors Housing Properties

Lease Coverage Analysis: A market derived lease coverage ratio is applied to the concluded net operating income for the subject. The result is an indicated annual market lease payment for the subject. A net lease cap rate is applied to the estimated lease payment in order to obtain the value attributed to the real estate.

- Lease Coverage Ratios and Net Lease Cap Rates are easily and accurately extracted from the market
- Only arm’s length leases should be utilized – no RIDEA
- Know where FF&E fits in. Part of Lease or owned separately by tenant
- Market lease coverage ratios will range from 1.10 to 1.30 for IL and AL, and 1.50 to 2.00 for SNFs
- Net lease cap rates typically fall 200 to 300 bps below a going concern cap rate, all else equal
- Higher the coverage, higher the spread (lower risk)
- Utilized by market participants
**LEASE COVERAGE ANALYSIS**

<table>
<thead>
<tr>
<th>Description</th>
<th>As Is on April 18, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concluded Stabilized NOI</td>
<td>$4,325,432</td>
</tr>
<tr>
<td>Divided Lease Coverage Ratio</td>
<td>1.20</td>
</tr>
<tr>
<td>Inferred Market Lease Payment (Absolute Net)</td>
<td>$3,604,527</td>
</tr>
<tr>
<td>Absolute Net Lease Cap Rate</td>
<td>5.75%</td>
</tr>
<tr>
<td>Inferred Leased Fee/ Real Property Value</td>
<td>$62,687,420</td>
</tr>
</tbody>
</table>

- **Concluded Market Value of the Going Concern**: $69,200,000
- **FF&E**: $963,125
- **Inferred Leased Fee/ Real Property Value**: $62,687,420
- **Indicated Business Value**: $5,549,455

**ALLOCATION OF THE GOING CONCERN**

<table>
<thead>
<tr>
<th>Description</th>
<th>As Is on April 18, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Property</td>
<td>$62,687,420</td>
</tr>
<tr>
<td>FF &amp; E</td>
<td>$963,125</td>
</tr>
<tr>
<td>Business Value</td>
<td>$5,549,455</td>
</tr>
<tr>
<td><strong>Market Value of the Going Concern</strong></td>
<td>$69,200,000</td>
</tr>
</tbody>
</table>
PRESENTATION OVERVIEW

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FINAL CONSIDERATIONS

- Understand the property specific operations and understand the market; understand where your property fits in the market; current property trend lines may not be telling the whole story. There is no one size fits all.

- Have boots on the ground and take the time to speak with the competition. The most sophisticated analysis is useless of your inputs are not accurate, well researched, and properly understood.

- The appraisal should identify the assets being valued and distinguish the assets not being valued with the client in the development of the scope of work and in the report. This should reflect actions taken by market participants.

- Multiple entities often control the total assets of the business. Ownership structure must be fully understood in order to fully understand value appropriate cash flows.

- Market value appraisals involving not-for-profit entities or governmental entities should reflect the likely buyers’ perspective, and in most cases, that would be from the perspective of for-profit entities, which may take a different view of future operations.

- Comparable sales should be verified directly with source. Purchase price reported on deeds rarely reflect the total consideration with only the allocated real estate value being reported.
FINAL CONSIDERATIONS

- Only the specific sub-property type should be utilized for comparable purposes. I.e: don’t use independent living sales to compare to memory care. This is even more critical SNF to assisted and independent living sales, and applies to all comparable purposes (sales, operations, rents, etc).

- Standard commercial adjustments do not always apply and may in-fact be counterintuitive to what we are taught as general commercial appraisers. I.e: size adjustments, expense ratios as an indication of market operations.

- Market participants do not contemplate the value by adding the value of the real estate to the separate values of the tangible and intangible personal property; they focus on the overall value which is derived by their expectations of cash flow and applied return requirement. In place cash flow is considered, but often adjusted by the buyer for pricing purposes. The magnitude of the adjustment will be reflected in the applied pricing rate(s).
FINAL CONSIDERATIONS

Seniors Housing Data Providers

- NIC (National Investment Center for the Seniors Housing & Care Industry)
- ASHA (American Seniors Housing Assoc.)
- American Health Care Association
- Irving Levin & Assoc.
  - SeniorCare Investor
  - Senior Housing News
  - Annual SeniorCare Investor Report
- CBRE Seniors Housing | Valuation & Advisory Services
  - Annual Cap Rate Survey & Market Outlook
  - Please take full advantage of our platform
For more information regarding this presentation please contact:

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