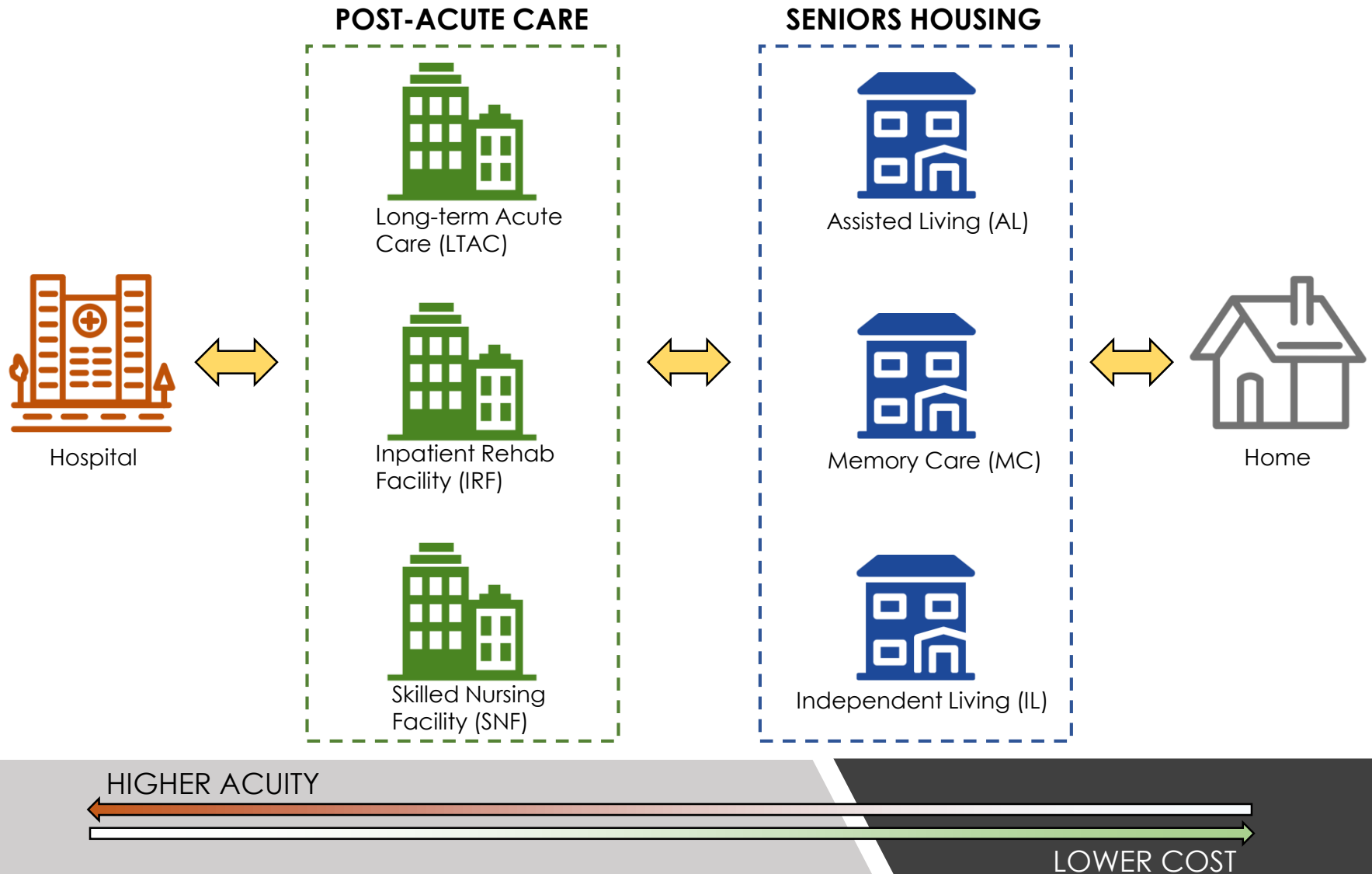


Healthcare Real Estate – Post-acute Care & Seniors Housing

Investment Overview Presentation

Sector positioning within healthcare



Merits of Investment: Growth and risk-adjusted returns

Segment of healthcare market is large and growing

- \$1 Trillion US healthcare real estate market
- 65+ age group fastest growing demographic cohort

Best returns in real estate

- Total returns for seniors housing has outpaced other property types ⁽¹⁾
- Best risk-adjusted returns across healthcare subsectors
- Combination of strong cash flow and asset appreciation
- Lack of consolidation offers attractive acquisition opportunities ⁽²⁾ ⁽³⁾

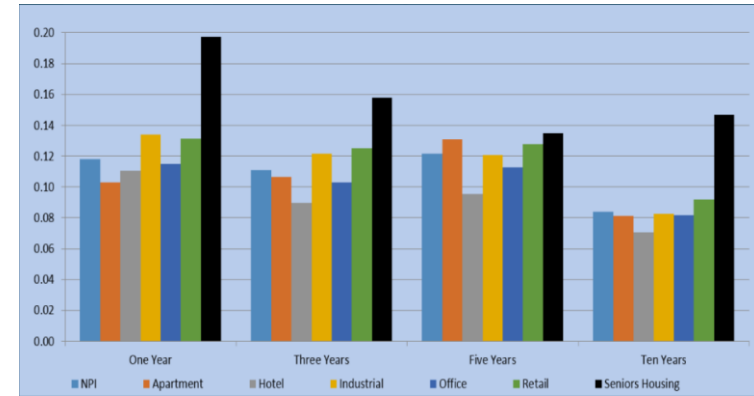
Low risk of investment

- Medical need (National Health Spending +5.6%/year⁽⁴⁾)
- Secure NNN-lease payments with annual escalations
- Provide value to system- lower relative cost of outcomes
- Access to cheap non-recourse HUD (government) lending
- Low revenue volatility, defensive in recessionary environments

(1) NIC, 2015
(2) Ventas, Mar 2017- Market share of top 10 operators is less than 10% in post-acute care, and less than 20% in seniors housing
(3) Kaiser, 2016 - Small operators represent ~80% of SNF assets
(4) CMS, 2016

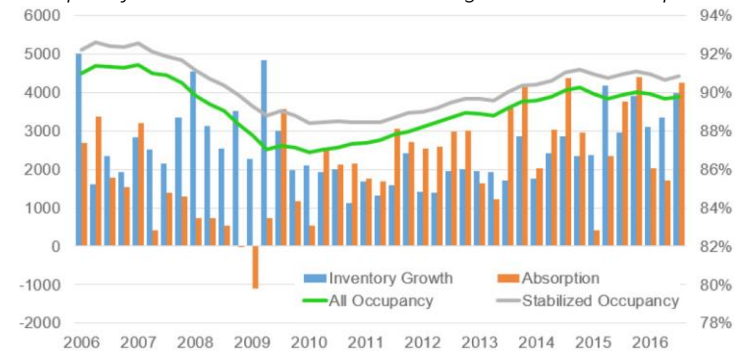
Senior Housing offers best returns in real estate

NCREIF annualized total investment returns



Defensive business model

Depth of Great Recession saw +1% rate growth and -300 bps Occ.



Best Demand Story in Healthcare

Growing aging population:

- One in five Americans will be eligible for Medicare in 2030; by 2050, the 65+ age group is projected to reach 88 million, nearly double the current population⁽¹⁾

Longer life expectancy:

- Life expectancy for the US population reached new high of 78.8 years in 2012
- One in four 65-year-olds will live to be 90 years old⁽²⁾

Increasing demand of care:

- 75% of senior living residents currently are diagnosed with at least two chronic conditions⁽³⁾
- One in 10 people age 65 and older (10%) has Alzheimer's dementia. Alzheimer's is the only cause of death in the top 10 in America that cannot be prevented, cured or slowed⁽⁴⁾

Population Aged 65 and Over for the US: 2012 to 2050
+4% annual growth per year

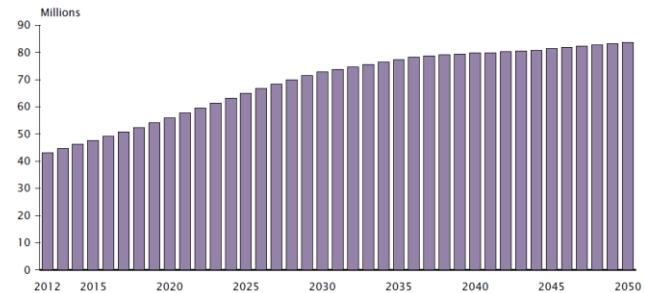
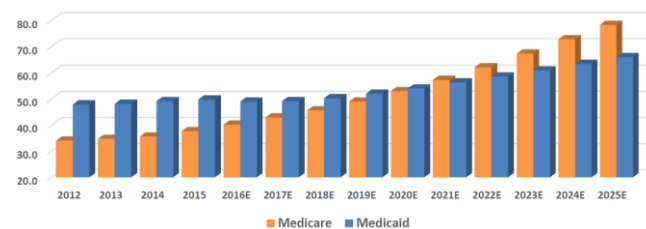


Figure 1. Total in millions⁽⁵⁾

Annual spending on elderly will grow +250% by 2040
Medicare and Medicaid SNF Spending (\$ bns)



(1) CDC, 2013
(2) Social Security Admin, 2015
(3) CDC, 2016
(4) Alzheimer's Association, 2016
(5) U.S. Census Bureau, 2012

How to invest in the space

Investment Vehicles (across IL, AL, MC, SNFs)

- PropCo – Secure NNN lease cap rate payments, mid-teens cash-on-cash returns
- OpCo – Exposure to EBITDA upside, strong operators can drive value via scaling
- Ground up developments – Proper site analysis and operator selection=20%+ IRR
- JV vehicle with experienced Manco (turn around, portfolio arbitrage)

Underwriting Considerations

- Location, age of facilities/communities
- Quality of the operators
- Local demographics
- Barriers to entry
- Historic performance
- Agency financing

Propco Valuation Framework, median range

Property Type	Cap Rate	CoC	\$/Unit
IL	5.5%-7.0%	10%-13.0%	\$135k-\$285k
AL/MC	7.0%-8.0%	12.0%-14.0%	\$110k-\$265k
SNFs	8.0%-9.0%	14.0%-18.0%	\$80k-\$130k

Opco Valuation Framework, median range

Property Type	EV/EBITDA	EBITDAR margins
IL	9x-12x	30%-40%
AL/MC	7x-9x	25%-35%
SNFs	6x-8x	10%-20%

Cheap government financing options – HUD loans

Overview – What is a HUD loan?

- To enable the affordable financing and refinancing of healthcare facility projects nationwide, U.S. Department of Housing and Urban Development (HUD) provides healthcare programs through one of its offices, the Federal Housing Administration (FHA).
- HUD/FHA provides mortgage insurance on loans that cover residential care facilities. Known as a Section 232 loan, these loans help finance nursing homes, assisted living facilities, and board and care facilities⁽¹⁾.

Typical favorable terms

- **Rate:** 3%-4% fixed
- **Amortization:** 30-40 years
- **Guarantee:** Non-recourse
- **LTV:** 80-85%
 - High leverage because government backed, low volatility of cash flows and defensive in recessionary environment

(1) HUD.gov, 2017

Post-acute care, detailed overview



Service provided ⁽¹⁾	Avg. length of stay ⁽²⁾	Avg. bed per facility ⁽³⁾	Acute-care hospital Medicare discharge destination % ⁽⁴⁾	Typical patient ⁽¹⁾	# of Providers in 2015 ⁽⁵⁾
Provide hospital-level care to seniors for extended periods.	26.7 days	N/A	1%	Respiratory care, pulmonary care, patients with chronic critical illness	426
Provide intensive rehab services to seniors after injury or surgery. IRFs can be freestanding facilities or specialized units in hospitals.	13.3 days	N/A	4%	Stroke, major joint replacement, hip fracture, neurological diagnosis	1,182
Provide short-term skilled nursing and rehab services to seniors. A SNF can be part of a nursing home or hospital.	27 days	108.6 beds	21%	Stroke, major joint replacement, hip Fracture, orthopedic injury	15,223

- (1) MedPAC, 2016
- (2) Deloitte Instant Insights, 2013
- (3) AHCA White Paper 2013
- (4) MedPAC, 2016
- (5) MedPAC, 2015

Seniors housing, detailed overview



Assisted Living (AL)



Memory Care (MC)



Independent Living (IL)

Facilities ⁽¹⁾	Building Size	Resident entry age ⁽²⁾	Avg. length of stay ⁽³⁾	Avg. monthly rent ⁽⁴⁾	Tot. Units/beds in inventory ⁽⁵⁾
Most units do not have a full kitchen, only dorm room size refrigerator and microwave. Many units are studios.	80+ units	75-85 (avg. 87)	1.1-4.2 years	\$4,643	220,114
Similar to Assisted living facilities.	25-40 units	Similar to Assisted living facilities.	1.2-3.4 years	\$6,238	65,594
Similar to apartments but has commercial kitchen, dining room and additional common area amenities.	100-150 units	75-84 (avg. 80.6)	1.1-4.6 years	\$3,090	260,228

(1) CBRE Market Insight, 2016

(2) National Center for Health Statistics, Senior Homes, 2010

(3) ASHA American Seniors Housing Association, 2015

(4) NIC Map Data, 2016

(5) NIC Map Data, 2016

SRG Healthcare team

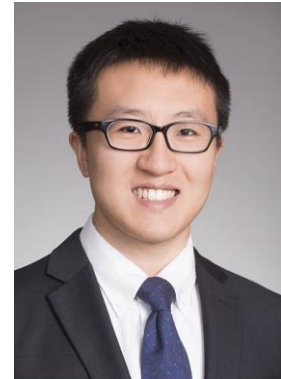
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