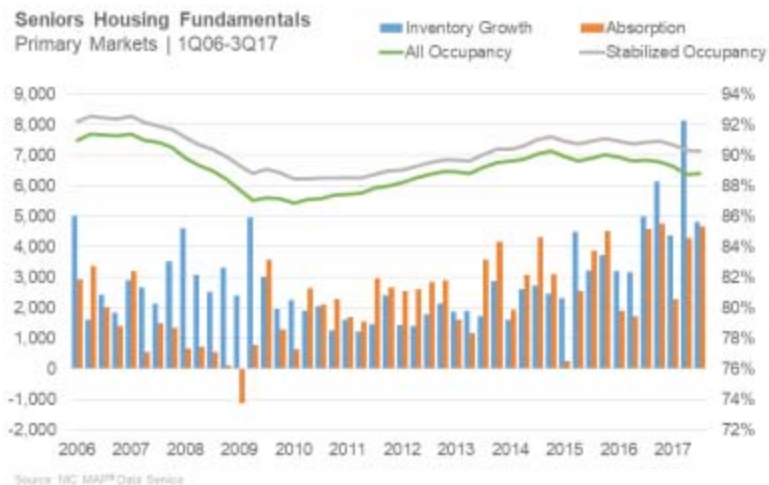


**Mick Law P.C. LLO**  
**Senior Housing Market Trends**

Pursuant to data obtained from the National Investment Center for the Seniors Housing and Care Industry<sup>1</sup> (“NIC”), the total occupancy rate (includes stabilized and new properties) for senior housing in the third quarter 2017 was unchanged quarter over quarter, at 88.8%. This placed occupancy 190 basis points above its cyclical low of 86.9%, reached during the first quarter of 2010, and 140 basis points below its most recent high of 90.2% in the fourth quarter of 2014. For the four quarters ending September 30, 2017, more than 23,000 units were added to inventory versus 16,000 units absorbed. As a result, occupancy has fallen 60 basis points from the third quarter of 2016.

Stabilized occupancy for all senior housing properties (defined by NIC as properties that have been open for at least two years, or if open less than two years, have an occupancy level of 95% or higher) was higher than total occupancy and stood at 90.3% in the third quarter, also unchanged from last quarter and down 60 basis points from the third quarter 2016. It is notable that the difference between total occupancy and stabilized occupancy was 140 basis points, down from 160 basis points the prior quarter, but still quite significant. The size of this gap reflects the large number of properties recently opened and still in the lease up phase.<sup>2</sup>

Seniors Housing Occupancy Unchanged



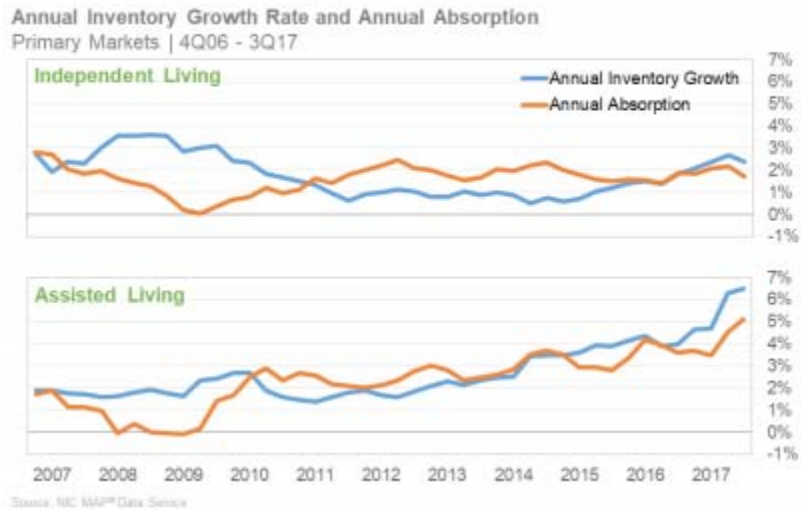
Assisted living inventory growth has been ramping up for a longer period than independent living and as of the third quarter, annual inventory growth for majority assisted living properties reached its highest level since NIC began reporting the data in 2006, at 6.5%. This has put significant downward pressure on occupancy which stood at 86.6% in the third quarter. Annual absorption also accelerated in the third quarter and came in at a pace of 5.1%. That made annual absorption also the highest rate since NIC began reporting the data.

<sup>1</sup> NIC tracks occupancy rates, inventory levels, absorption volumes, supply growth, construction starts, asking rents and annual rent growth for the senior housing and care property markets within the nation’s 99 largest metropolitan markets.

<sup>2</sup> NIC Map Data Service.

For majority independent living properties, the primary markets inventory growth exceeded absorption by 70 basis points in the third quarter, 2.4% verse 1.7%. The third quarter pace of year-over-year inventory growth was a bit weaker than in the second quarter when it posted a 2.7% gain, the strongest pace since mid-2009. The occupancy rate for majority independent living properties was 90.5% in the third quarter.<sup>3</sup>

*[Remainder of page intentionally left blank]*  
**Annual Inventory Growth Still Outpaces Annual Absorption**



During the past year there have been approximately 38,000 units added to the stock of senior housing inventory among the primary and secondary markets. Roughly one quarter of this growth occurred in seven metro areas: Dallas, Chicago, Minneapolis, Atlanta, Phoenix, Austin and Miami. Dallas alone accounted for 7% of all new senior housing inventory in the past 12 months.

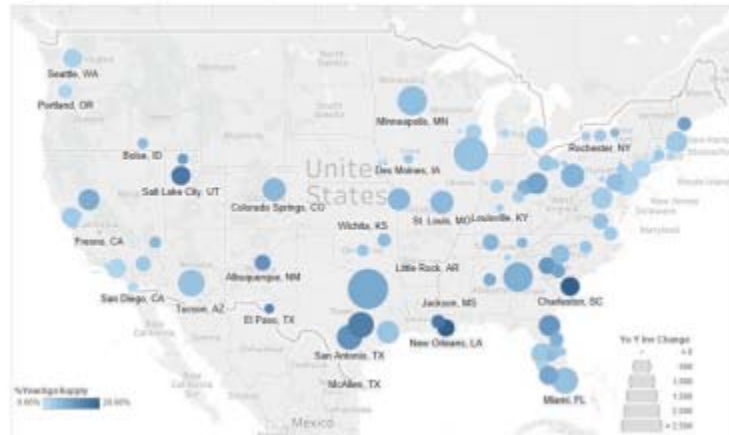
Relative to each metropolitan area’s own inventory, there were eleven geographies that experienced gains in inventory of more than 10% over the course of the year. They include: New Orleans, Charleston, Baton Rouge, Salt Lake City, Austin, El Paso, Albuquerque, San Antonio, Jacksonville, Greenville and Ogden and are depicted by the darker shades of blue circles on the following map.<sup>4</sup>

*[Remainder of page intentionally left blank]*

<sup>3</sup> NIC Map Data Service.

<sup>4</sup> NIC Map Data Service.

**Seniors Housing Annual Inventory Growth**  
 Primary & Secondary Markets | As of 3Q17



Source: NIC MAP® Data Service

**Investment Market**

According to the most recent data reported by NIC, the third quarter 2017 saw a significant uptick in closed transaction volume. Seniors housing and nursing care transactions volume totaled \$4.6 billion in the third quarter which is the sum of \$1.3 billion in senior housing sales and \$3.3 billion in nursing care. The total volume was up 113% from the previous quarter’s \$2.2 billion. However, it was down slightly from the third quarter of 2016 when volume came in at \$4.7 billion.

At \$15 billion, the rolling four-quarter total senior housing and care sales volume was flat when compared with the second quarter. Quarterly transaction volume for the senior housing sectors since 2008 is presented in the chart below:<sup>5</sup>



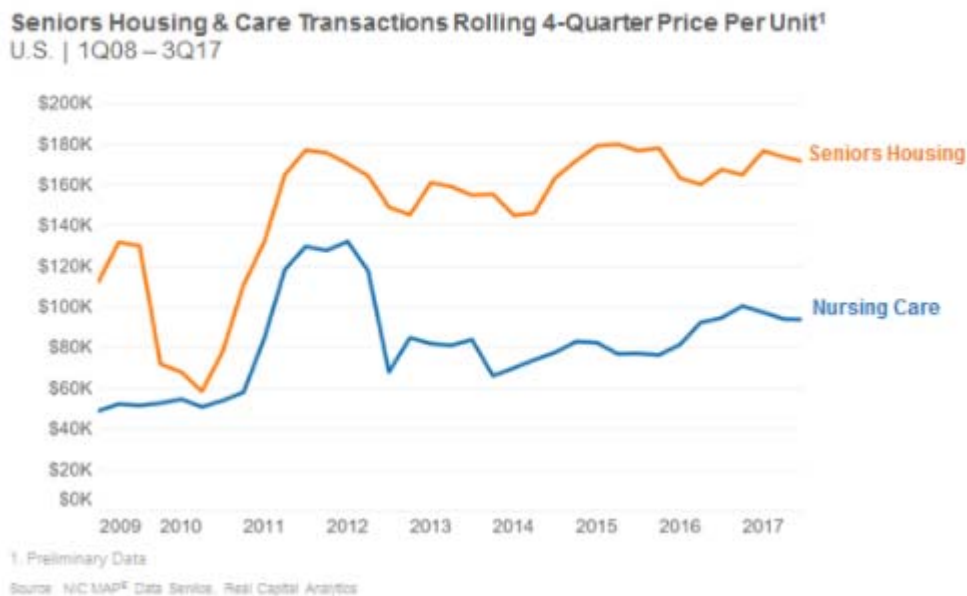
1. Preliminary Data  
 Source: NIC MAP® Data Service, Real Capital Analytics

(1) Preliminary data

<sup>5</sup> Id.

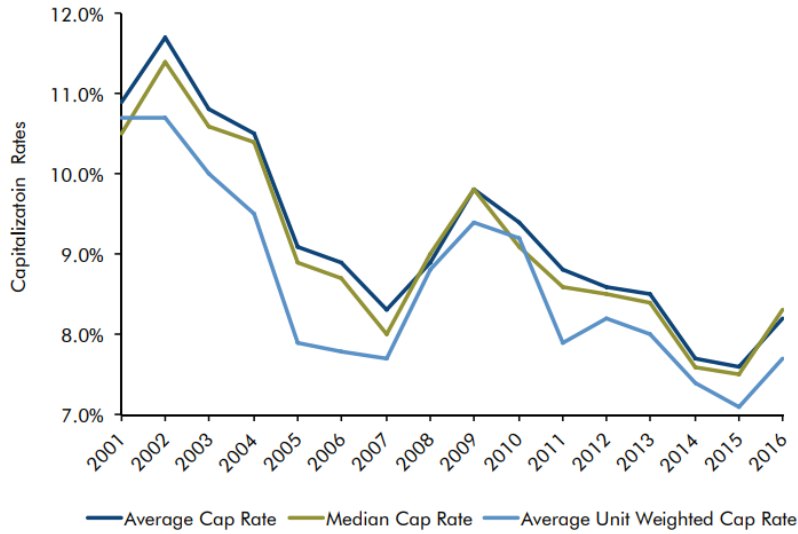
NIC also reports that property pricing (on a per-unit basis) continue to be stable. Seniors housing price per unit decreased on a quarter over quarter basis slightly by 1.4% during the third quarter 2017 from \$173,700 to \$171,300. Compared to a year ago, senior housing price per unit is up 2.3% from \$167,500, and up 193% from the price per unit cyclical low in the second quarter of 2010. The price per bed for nursing care is basically flat quarter over quarter and year over year as it has hovered around \$94,000 over the past 12 months. The rolling four quarter price per unit since 2008 for all senior housing and nursing care is illustrated in the graph below:<sup>6</sup>

### Nursing Care and Seniors Housing PPU's Oscillate



Recent senior housing pricing and capitalization rate (a.k.a. “cap rate”) information was obtained through CBRE’s second quarter 2017 Seniors Housing & Care Market Insight (the “**CBRE Survey**”), CBRE’s most recent survey as of the writing of this opinion. The CBRE Survey reports senior housing aggregate capitalization rates ticked up slightly in 2016, in part due to the REITs pulling back in terms of acquisition activity as compared to prior years. Additionally, due to fierce competition for high quality Class A assets, many investors focused more on value-add opportunities, which sometimes result in higher capitalization rates. Consequently, 20% of the 2016 transactions reported a capitalization rate of 6.0% or below as opposed to 27% in 2015. Q1 2017 statistics may show a reversal of this trend. Generally speaking, the capitalization rates reflected in the chart below are after a management fee and before a capital replacement reserve and NOI is based on the trailing 12-month period before the sale or year-to-date actuals annualized. The average and median capitalization rates below are unweighted and the average unit weighted capitalization rate weights each transaction’s capitalization rate based on its number of units. Consistent with prior years, the average unit weighted capitalization rate in 2016 (7.7%) was lower than the unweighted average capitalization rate (8.2%).

<sup>6</sup> Id.



Source: CBRE Survey

The table below shows an overview of current capitalization rates across several senior housing sectors tracked by CBRE Research, Capital Markets, and Valuation & Advisory teams based on recent interactions with active investors in each major sub-sector of senior housing as of June 30, 2017.

Capitalization Rates - Stabilized Property Sales		
		H1 2017 (%)
Core Markets (Class A Avg.)	Independent Living	5.6
	Assisted Living	6.5
	Memory Care	6.9
	Nursing Care	11.4
	CCRC	7.4
Non-Core Markets (Class A Avg.)	Independent Living	6.6
	Assisted Living	7.0
	Memory Care	7.3
	Nursing Care	12.0
	CCRC	7.8

According to the CBRE Survey, transaction volume remained strong in 2016. There were 337 publicly announced transactions totaling approximately \$14.4 billion, only 20 transactions shy of 2015's record setting 357 transactions. As a point of comparison, the total number of transactions in 2016 represented an 11.6% increase over 2014. Total transaction volume by dollar value, however, declined from the record-setting peak in 2014 of \$25.6 billion, indicating a continued move toward a smaller average individual transaction size. Combined senior housing and care transaction volume through June 30, 2017 totals \$6.4 billion with transaction volume totaling \$14.4 billion for the prior four quarters (July 1, 2016 through June 30, 2017), which is on par with 2016.