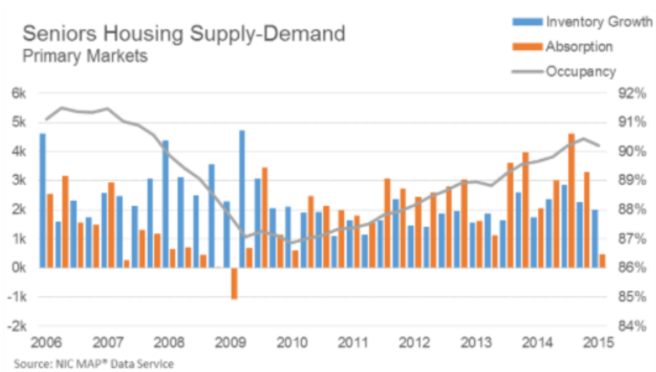
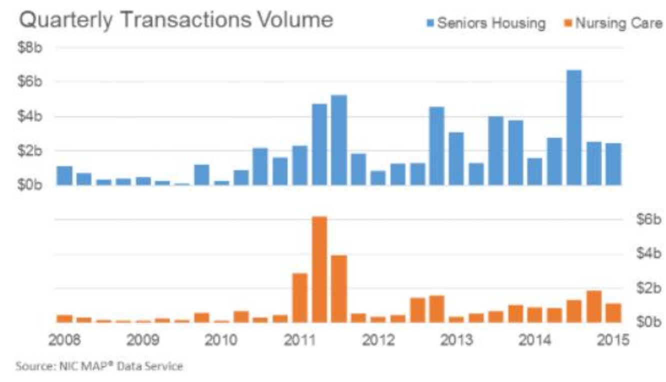
Senior Housing Market Trends

Senior housing occupancy started 2015 with one of its few hiccups since the housing recovery began in 2010. According to the National Investment Center for the Seniors Housing and Care Industry ("**NIC**"), occupancy in senior housing was 90.2% during the first quarter of 2015, down 20 basis points from the fourth quarter of 2014. It was the first decline since the second quarter of 2013 and only the third quarterly decline during the current recovery.

While overbuilding concerns have been the forefront of discussions, weak demand was behind the occupancy decline in the first quarter of 2015. During the first quarter, absorption came in at an annualized rate of just 0.4%, compared to an average annual absorption rate of 2.2% since the first quarter of 2010. In fact, absorption during the first quarter of 2015 was the weakest since the first quarter of 2009. Additionally, occupancy is beginning to bump against previous peak levels before the recession. While occupancy for all assisted living properties fell during the first quarter of 2015, stabilized occupancy in the fourth quarter of 2014 reached 91.1%, tying it for the highest reading in the market cycle. Can occupancy continue to rise in assisted living, especially given the amount of supply expected to be delivered in the next 12 months? The following chart shows the trends in senior housing inventory growth, absorption and occupancy since 2006.



The market for senior housing and care properties was strong during 2014 and that strength carried into the first quarter of 2015. During the first quarter of 2015, transaction volume totaled more than $3.5 billion. The quarter's volume was driven by (i) Ventas' $1.2 billion acquisition of American Realty Capital Healthcare Trust, (ii) New Senior Investment Group's $435 million acquisition from Hawthorn Retirement Group, and (iii) Healthcare Company's $360 million acquisition from Intercontinental Real Estate Corp. Those three (3) deals accounted for 45% of the quarter's overall volume. Quarterly transaction volume for the senior housing sectors since 2008 in presented in the chart below:



Recent senior housing pricing and cap rate information was obtained through CBRE's Seniors Housing Cap Rate Survey for the second half of 2014 (the "**CBRE Survey**"). The CBRE Survey was the result of surveying 280 senior housing market participates, with a focus on transactional professionals. According to the CBRE Survey, assisted living and memory care facilities had the following cap rates for the second half of 2014:

	Capitalization Rates		
	Class A	**Class B**	**Class C**
Assisted Living	6.33%	7.13%	8.56%
Memory Care	6.74%	7.49%	8.69%

Compared to the first half of 2014, cap rates for assisted living and memory care facilities <u>declined</u> by 60 basis points and 57 basis points, respectively.

The CBRE Survey participants were asked how they expect to change their exposure to seniors housing properties over the next twelve months. Sixty-one percent (61%) of the respondents intended to increase their exposure, 24% intend to decrease, and 15% expect little change. This is a significant difference from the overwhelming 100% of the participants aiming to increase their exposure to the space in the first half of 2014.

Survey participants were also asked about their 12-month outlook for senior housing capitalization rates. The participants were asked if they expect senior housing capitalization rates to decrease at a higher rate, decrease at the same rate, increase at a lower rate, or increase at the same rate, respective of other asset classes. A majority of respondents (41%) expect no change in cap rates over the next twelve-month period. A total of 38% of respondents expect senior housing cap rates to decrease, of which 21% believe they will decrease at a faster rate than cap rates for other asset classes. The CBRE Survey participants were next asked to identify their concerns within the sector over the next 12 months. Rising interest rates was identified as the top concern for market participants, at 33%. This was followed by increased construction activity, at 21%, and then increased competition for acquisitions and capital placement, at 17%. The balance was distributed between negative changes to the economic environment such as declining home values or rising unemployment, increased property level operating and development costs, and a changing regulatory environment.

Mick & Associates Conclusion: We believe that the CBRE Survey participants are generally an optimistic mix of developers, brokers and the lenders who feed their adventures. When absorption shows signs of flattening out and deliveries to market are increasing, it is time to analyze the pro forma opportunity very carefully. While we acknowledge the strong and overriding aging demographic, the linear rise in demand may not be able to keep pace with the cyclical future deliveries.