

NIC Conference Fall 2016 - Key Takeaways

- We attended the 2016 Fall NIC Conference (September 14 & 15) in Washington D.C. where we met with seniors housing operators, healthcare REITs and property owners as well as capital providers and industry figures. Here we summarize some of the themes discussed and give some key meeting takeaways from seniors housing and REIT management teams.
- Seniors housing supply remains the topic du jour. Many operators we spoke to are understandably concerned about rising supply in the industry. A key difference we see between this year's conversations and the prior year is that many of the private operators we've spoken to are seeing supply impact their business personally, not just in the national headlines or competitors. Despite the supply issues, operators largely remain cautiously optimistic on seniors housing outlook.
- As a response to the wave of new development, it appears that lenders are tightening standards of lending to developers, which could slow future development and help to bring supply back in line with demand. We noticed fewer developers at this conference than in the past.
- Discounting rate seems to be a tool that operators are widely using to attract new residents and prop up occupancy. On average, the discount equates to one month's rent, but may take the form of a waiver in community fee, first month free or other discounts.
- Labor cost inflation complicates matters. Rising minimum wages, increased threshold for full-time vs. hourly employees and competition in a tight labor market mean that labor expense growth may outpace revenue growth, especially on the coasts.

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NIC Conference Meeting Takeaways - Fall 2016

CareTrust (CTRE, \$14.22, Hold)

- Continues to find small portfolios in secondary markets to execute sale leaseback transactions with quality operators.
- Has the capacity to do and has looked at larger deals, but small deals still move the needle.
- Open to SNF acquisitions but with operators other than Ensign as diversification of operator base is still a priority.
- Believes secondary and tertiary markets like Iowa, Nebraska and other Middle America states, are less impacted by change to value-based systems due to lower competition.

New Senior (SNR, \$11.30, Hold)

- Believes there is an abundance of capital in the space looking for yield, especially private equity formed capital.
- Believes the gap between buyer and seller expectations is narrowing, but transactions are taking longer to close than historically.
- Believes HCREITs are largely being more selective in the deals they pursue.
- Seeing operators using incentives such as reduction of one-month non-refundable deposit to drive occupancy.
- Expects to close on some dispositions in the fourth quarter.

Sabra (SBRA, \$23.42, Hold)

- Bulk of the SBRA owned GEN operated assets being marketed (19 of 29) are located in Kentucky. The balance is located amongst six other states, primarily Midwest.
- Seniors housing pipeline is active, primarily secondary markets with yields in the 7% range.
- Expects rent coverage ratio to stabilize and largely be flat over the next 12 months.
- Seeing foreign investors interested in SNF JVs as they are attracted to the yield.

Brookdale (BKD, \$17.31, Hold)

- Announced dispositions should close by year end 2016 barring any licensing issue delays. The remaining dispositions are primarily legacy Emeritus assets.
- Management believes the market is active with buyers as smaller players are looking to build out portfolios.
- Using a discounting strategy to improve occupancy for facilities with lower occupancy; the incentives are not typically offered at high occupancy facilities.
- Houston and San Antonio have been identified as challenging markets.

HCP Inc. (HCP, \$37.03, Sell)

- Looking to reduce senior housing portfolio as a % of total (currently 50%) as well as BKD exposure (post-spin 34%). Target exposure to BKD is around 20%. Will be selective in senior housing acquisitions.
- Concurrently, would like to grow its RIDEA portfolio and add new operating partners. Cap rates on new HCP RIDEA transactions are 6% to 7% range.
- Interested in growing MOB portfolio. This is likely to involve higher volume of smaller transaction rather than larger portfolio transactions.
- Spin-co has begun marketing its capital structure to investors.

Welltower (HCN, \$73.61, Buy)

- Actively marketing \$500M to \$1.0B of GEN assets. Expects to meaningfully reduce GEN exposure over the next 12 months.
- Pursuing acquisitions in the senior housing and MOB spaces. Given high valuations of MOB space, HCN will grow through one-off transactions and with existing partners via development opportunities.
- The company has limited interest in life science or hospital assets.

LTC Corp (LTC, \$50.59, Hold)

- With \$82M in transactions closed YTD, LTC believes it can hit \$100M by year-end.
- Observes increased interest in smaller deals in the market, which is consistent with what we've heard at the conference. LTC is currently underwriting new SNFs at 8.0% to 8.5% and private pay senior housing at ~7%
- Management is confident in the stability of its operators.
- Management anticipates renewing its Sunrise master lease in line with the current lease.

Capital Senior Living (CSU, \$17.06, Hold)

- Optimistic that three transactions that were delayed for either licensing or labor issues will close before year-end.
- Experienced lower wage inflation relative to peers due to the lower level of care provided and the geography of CSU facilities.
- Expects operations to bounce back after a weak 2Q. Management not seeing supply in its markets as a concern.

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