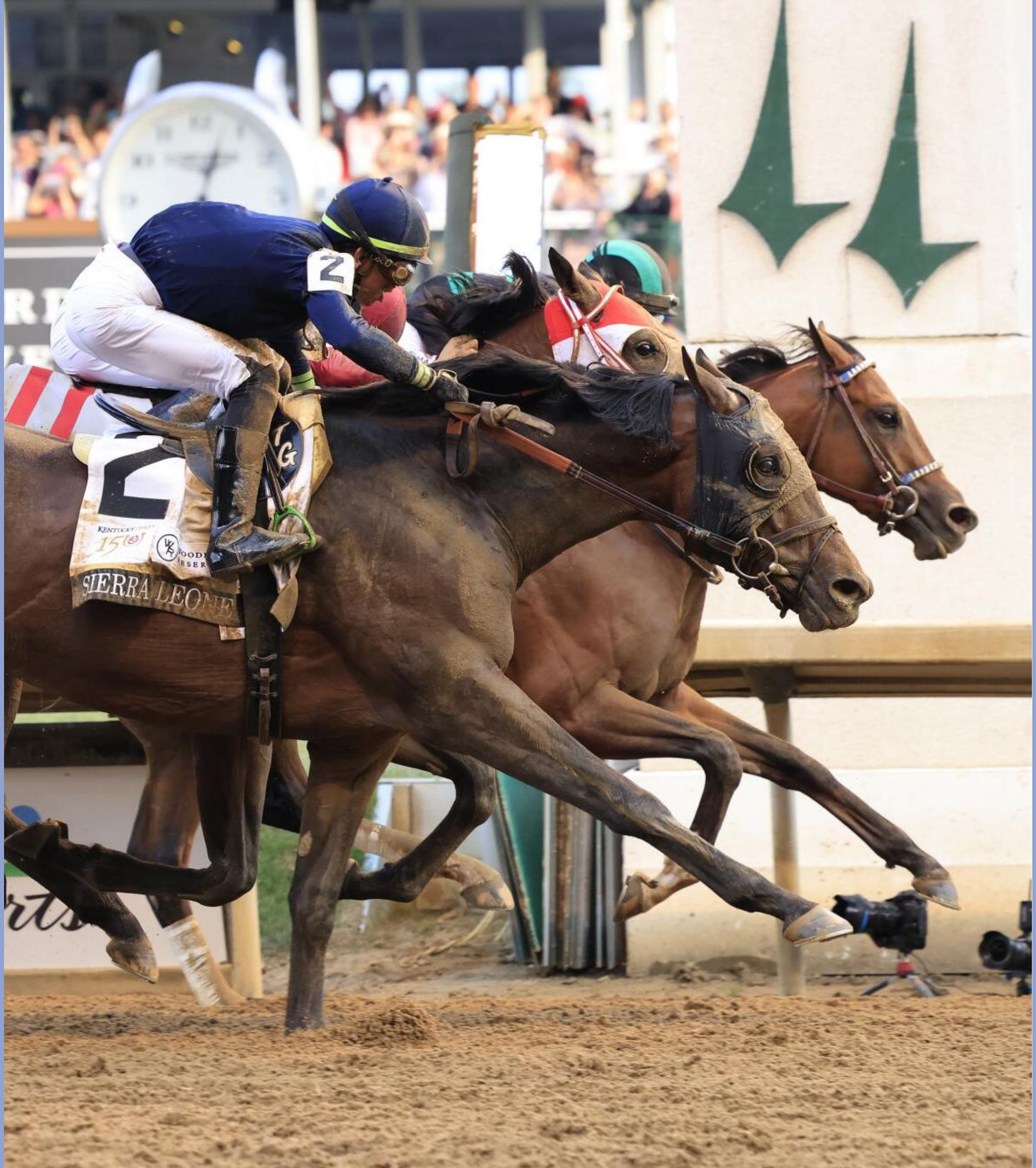


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# Appraisal Panel

# In The Money: Win, Place, or Show

# Jockeys

Tim Gaffney
CBRE Capital Markets


Derek Minchey
Colliers Mortgage

# Panel Speakers

JP LoMonaco, MAI

CBRE Valuation & Advisory Services

Tony Marasco, MAI

OHC Advisors Inc. – Director

Wayne Harris

Supervisory Appraiser

HUD, ORCF

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# Odds & Returns
## Q3 - 2024

| Horse | Odds | Wins% |
|---|---|---|
| 1 - Ensign | | |
| 2 - Welltower | | |
| 3 - Ventas | | |
| 4 - Sabra | | |
| 5 - CareTrust | | |
| 6 - Omega | | |
| 7 - LTC | | |
| 8 - Brookdale | | |
| | | |

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# Triple Crown Earnings Calls

# Fundamentals:

# JP - Win, Place or Show?


# Ensign

- Shift to value-based care, will continue to benefit low cost, high-quality settings (e.g. SNF).
- Focusing on delivering higher acuity care, which is increasingly in demand. Locally, they are adapting to these needs, adding services like sub-acute care and bedside dialysis, which helps drive occupancy and skilled mix higher.
- Expects skilled nursing facilities to benefit from Medicare post-acute spending, which is projected to double over the next ten years per the 2024 Medicare Trustees Report.

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# Welltower

- Staring next year, 80+ population will grow by 5,000 individual every day.
- Construction starts are at the lowest level since 2Q19.
- High construction and financing costs make new senior housing developments economically unfeasible, potentially limiting future supply.
- Rent growth alone will not justify new builds, estimates 25-30% increase in revenue per occupied room to for new construction to make economic sense in most markets.

# Ventas

- 80+ population expected to increase 27% over the next 5 years.
- Construction as a percentage of inventory is at a record low, with only a little over 2,000 units starting this quarter.
- Senior population is growing significantly with annual increases in the resident customer base of over 500,000 per year.
- Constrained supply considerations, including lending and cost.
- Long runway for growth, similar to the post-financial crisis period, with a more favorable growth rate in the senior population over the next five years.
- Penetration rates are at 11%, similar to pre-pandemic levels.
- Penetration tends to follow affordability, prefers markets with strong affordability, leading to higher utilization of senior housing.


# Sabra

- Since 2000, the 85-or-older population has grown by 55%, compared to an 11% decline in skilled nursing beds over the same time frame.

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# Brookdale

- Macroeconomic factors have influenced pace of industry development: higher construction costs, labor market challenges, elevated interest rates, and tight credit conditions.
- Few competitive communities under construction; inventory growth currently at near record lows; and lower starts and opens reflect the continued deceleration in construction activity.
- Age 75+ demographic expected to grow 31.8% through 2030.
- Acuity needs of seniors age 65+ are on the rise.

# Triple Crown Earnings Calls

## Occupancy:

## Tony – Is the Stable … Stable?

# Occupancy:


## LTC

- Prestige Healthcare at 83% occupancy up from 76% in 10/23.


## Welltower

- Seniors Housing Operating Portfolio (SHOP) occupancy - YoY growth of 310 basis points to 86%.


## Ventas

- Prior peak was 2014 at 92%, 3Q YOY grew at 350bps, 140bps in quarter; now at 87% in 488 communities.


## Omega

- Medicaid reimbursement is a key driver of improved performance - caution anyone from thinking the increases will continue at recent levels.
- Occupancy levels will depend on ongoing staffing improvements and other factors.

# Occupancy:


## Ensign

- Up 2.8% over prior year, establishing a new high-water mark of 81.7% (pre-COVID high was 80.1%).
- Sees significant potential for growth, with some operations well into the 90% range.
- Skilled Mix – Up 6.1% and 2.6% over the prior year and quarter, respectively, now at 31.8%.

| | Same Facility | |
|---|---|---|
| | **2024** | **2023** |
| **PERCENTAGE OF SKILLED NURSING DAYS** | | |
| Medicare | 11.1% | 12.2% |
| Managed care | 14.9 | 14.4 |
| Other skilled | 5.8 | 5.5 |
| **Skilled mix** | **31.8%** | **32.1%** |
| Private and other payors | 10.4 | 11.0 |
| Medicaid | 57.8 | 56.9 |
| **TOTAL SKILLED NURSING** | **100.0%** | **100.0%** |

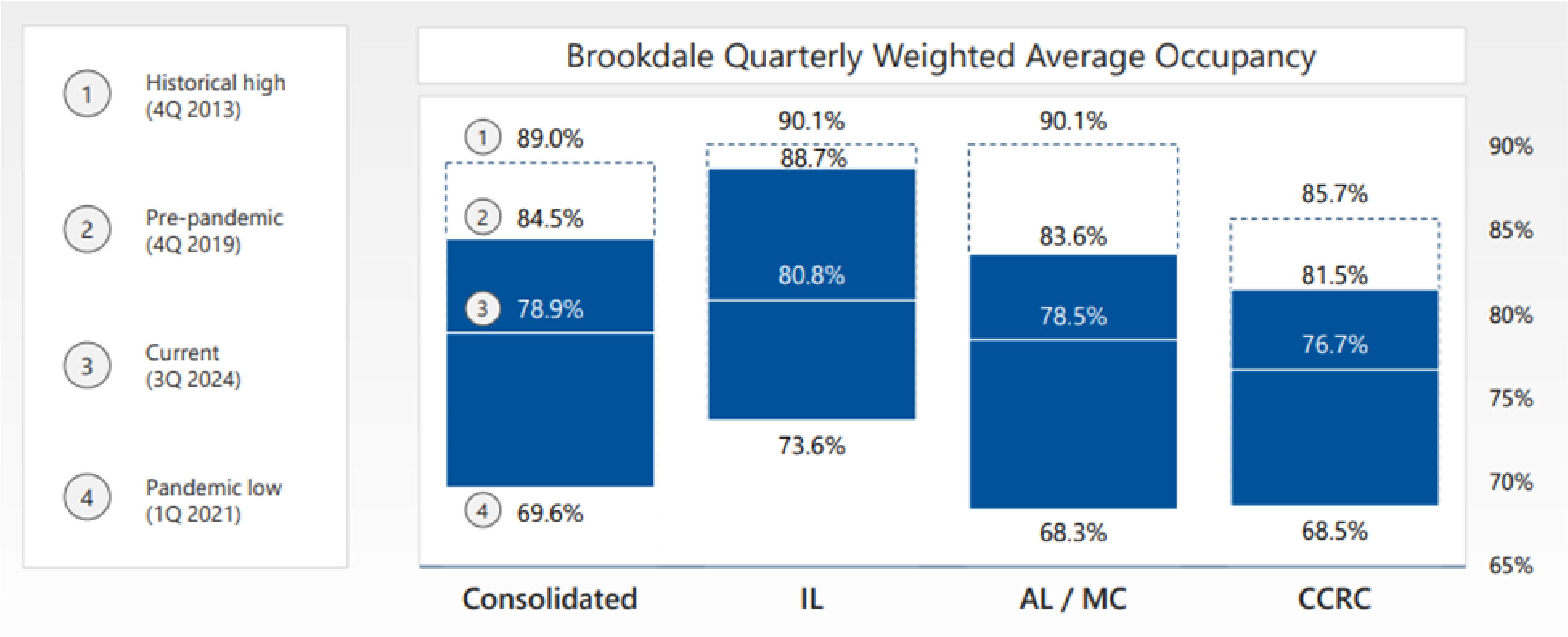

## Sabra

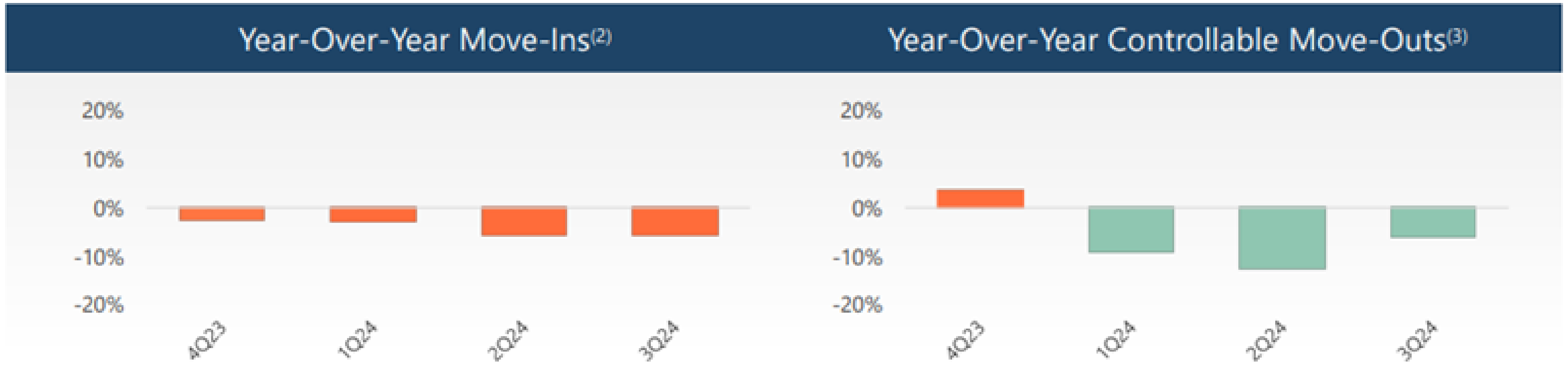
- Occupancy rates for the Skilled Nursing Facility (SNF) portfolio increased by 130 basis points sequentially, with skilled mix also rising by 110 basis points.
- Improved labor availability has allowed for occupancy increases, expect occupancy to continue to increase with the possibility that declining supply could mask some of the seasonality.
- Staffing Mandate "Never going to happen".

# Occupancy:

## Brookdale

- SHOP - YoY weighted average occupancy increase of 130 bps to 78.9% in 3Q.
- IL - YoY weighted average occupancy increase of 120 bps to 80.8% in 3Q.
- AL/MC - YoY weighted average occupancy increase of 90 bps to 78.5% in 3Q.
- Despite 3Q occupancy growth, move-ins were below the prior year.



# Triple Crown Earnings Calls

# Revenue & Expenses:

# JP – Which Horse is In The Money?



# Ensign

- Skilled Nursing revenue – increased 7.3% YoY.
- Over the last 10 years, the CMS reimbursement rates in the SNF industry have increased at a steady rate of ~ 1.0% - 5.0%.
- Managed Care – YoY revenue increased by 11.2%.
- Supplemental Payments – reported with Medicaid, FMAP ended last and replaced with base and supplemental payments, anticipate consistent performance with no major surprises.
- Average Daily Rates:

| | Same Facility | |
|---|---|---|
| | 2024 | 2023 |
| **SKILLED NURSING AVERAGE DAILY REVENUE RATES** | | |
| Medicare | $ 748.98 | $ 713.73 |
| Managed care | 550.36 | 529.39 |
| Other skilled | 623.28 | 592.05 |
| Total skilled revenue | 632.93 | 610.20 |
| Medicaid | 295.40 | 272.75 |
| Private and other payors | 280.71 | 262.31 |
| Total skilled nursing revenue | $ 401.33 | $ 380.01 |

# CareTrust

- Medicaid/Medicare – Following large increases due to rebasing, now in a very stable operating environment and returning to historic expectations of moderate cost of living increases. Also implied that future revenue growth will be more influenced by “the very beginning of a demographic wave that is inevitable”.


# Omega

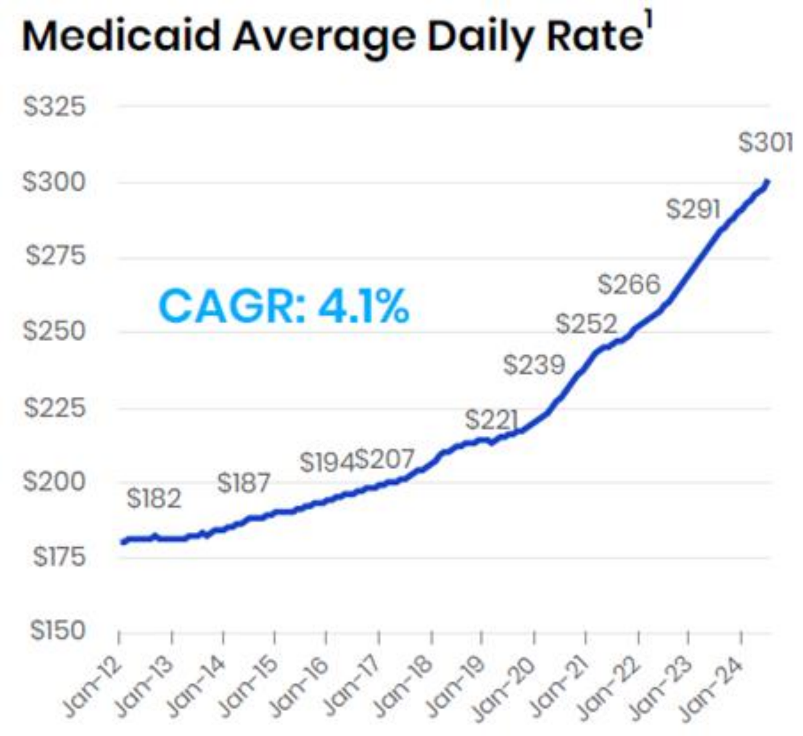
- Medicaid reimbursement is a key driver of improved performance - caution anyone from thinking the increases will continue at recent levels.
- Occupancy levels will depend on ongoing staffing improvements and other factors.

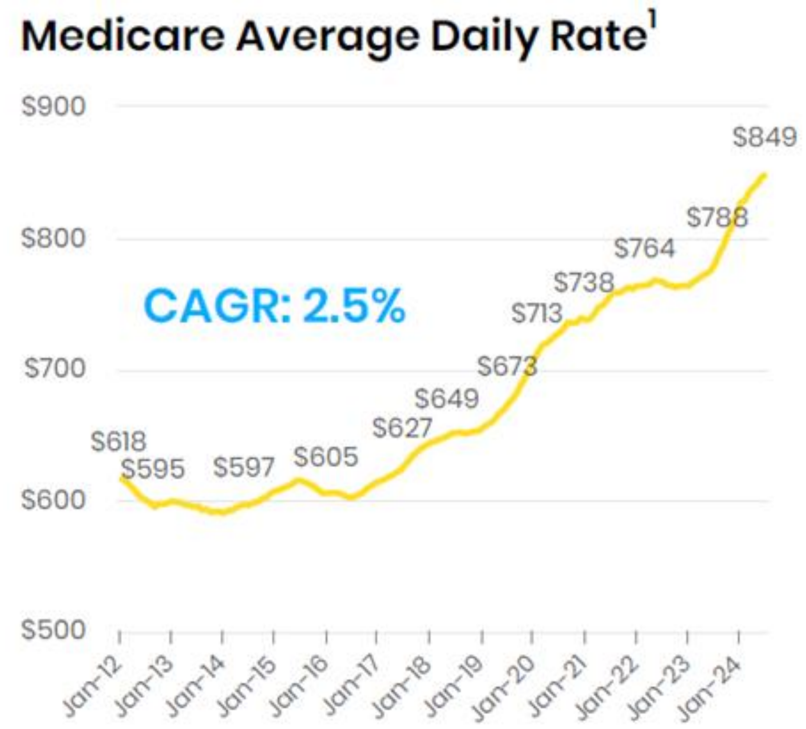

# Welltower

- SHOP revenue – YoY same store revenue grew at 8.9% Housing Operating Portfolio (SHOP) occupancy - YoY growth of 310 basis points to 86%.

# Sabra

- Senior Housing revenue – increased 7.6% YoY.
- Reimbursement trends remain positive, estimates Medicaid rates will increase approximately 7% across their portfolio from 2024 to 2025.
- Average Daily Rate for NNN Portfolio:



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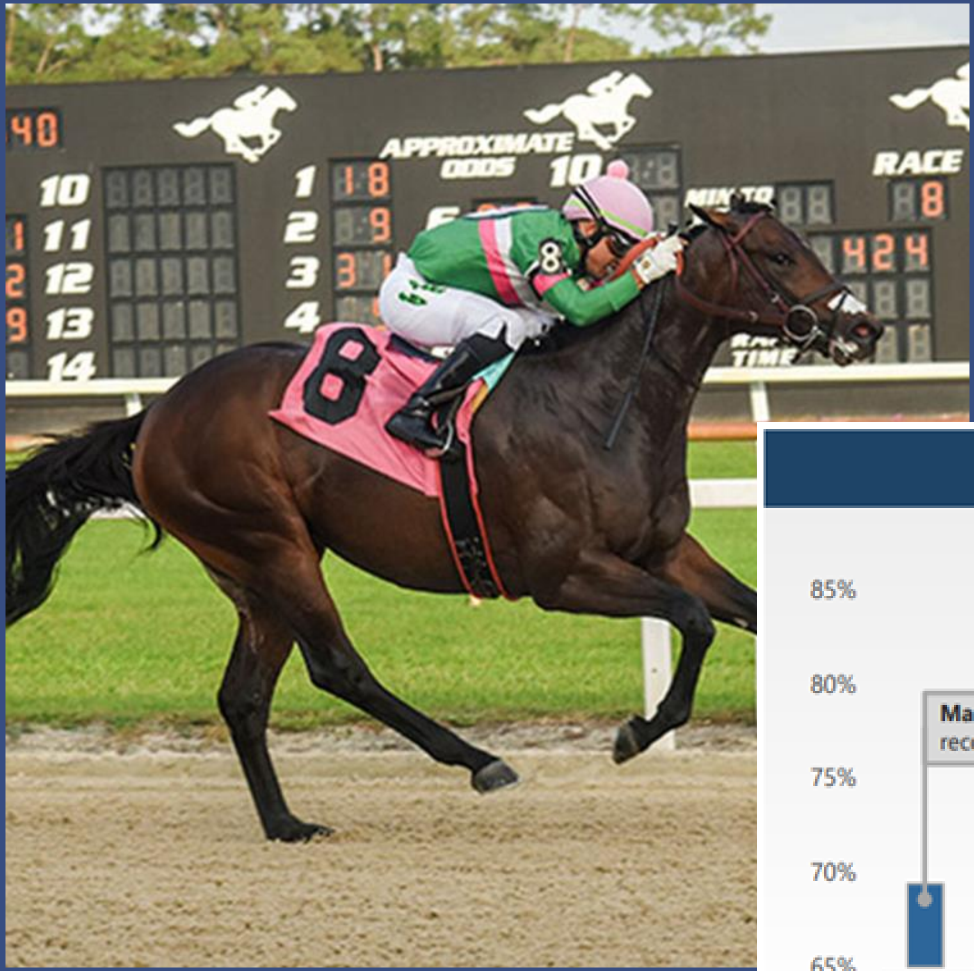
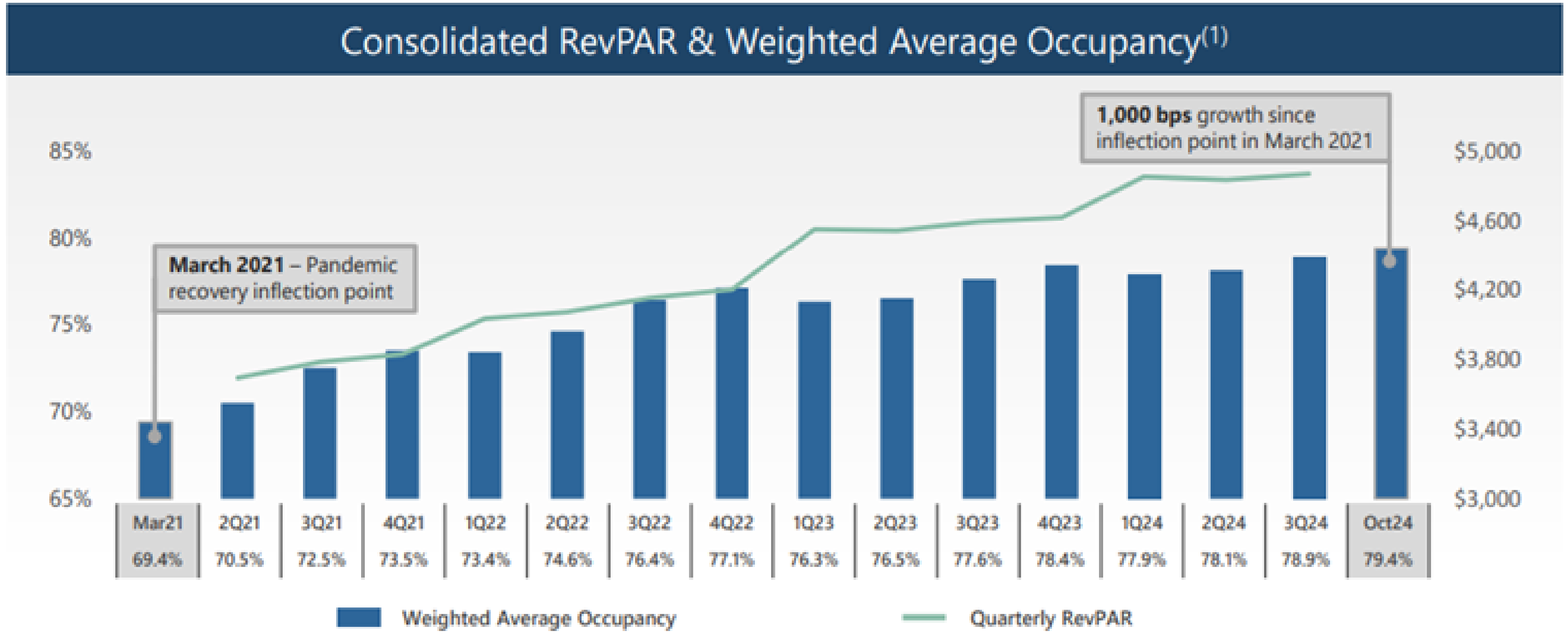
# BROOKDALE

- SHOP - Total revenue growth of 3.7% over the prior year (IL and AL/MC revenue growth of 6.5% and 3.3%, respectively).
- SHOP - YoY RevPAR growth of 5.9% (IL and AL/MC RevPAR growth of 6.4% and 6.1%, respectively).





# Expenses:


## Ensign

- Minimum Staffing – “we feel pretty confident that's not going to happen”.
- 60+ AITs


## Welltower

- YoY SHOP revenue per occupied room continued to meaningfully outpace expense per occupied room growth.


## Omega

- Staffing - continues to be a challenge with staffing mandates and regulatory uncertainties, which could impact operational costs and efficiency. Additionally, some operators are still experiencing staffing difficulties, particularly in rural areas, which could affect occupancy and operational performance.


## Brookdale

- SHOP – YoY same community labor expenses as a percentage of revenue declined 140 bps to 47.3.


# Triple Crown Earnings Calls

# NOI & Performance:

# Tony - Which Horse is Covering The Spread?

# CareTrust

- LCR – 2.23x existing portfolio, improved from pre-COVID levels of 2.08x; LCR – 1.4x to 1.5x for new stabilized SNF deals; however, this does depend on geography, inverse relationship between lease yield and coverage ratio on smaller deals.
- Medicare – Following large increases due to rebasing, now in a very stable operating environment and returning to historic expectations of moderate cost of living increases. Also implied that future revenue growth will be more influenced by "the very beginning of a demographic wave that is inevitable."

# Ensign

- YoY EBITDA and Adjusted EBITDA growth in the Skilled Services Segment of 9.0% and 10.0%, respectively.
- LCR 2.4x (for their internal REIT, Standard Bearer).

# Omega

- Portfolio 75% SNF, 25% SH (and continue to target more balanced mix).
- LCR has consistently improved YoY, 1.85x (EBITDARM).
- Lease Coverage Data by Quarter:

| | | Coverage Data [3] | |
|---|---|---|---|
| Twelve Months Ended... | Occ. % [2] | EBITDARM | EBITDAR |
| June 30, 2024 | 80.9% | 1.85x | 1.49x |
| March 31, 2024 | 80.2% | 1.78x | 1.42x |
| December 31, 2023 | 79.6% | 1.69x | 1.33x |
| September 30, 2023 | 79.1% | 1.63x | 1.28x |
| June 30, 2023 | 78.6% | 1.50x | 1.15x |


# Welltower

- Total portfolio YoY same store NOI growth of 12.6%, driven by same store NOI growth in SHOP of 23.0%.
- SHOP improved by 300 basis points, still below pre-COVID.
- Same store NOI growth in Long-Term/ Post-Acute Care segment was 2.5%.
- LCR - 1.74x

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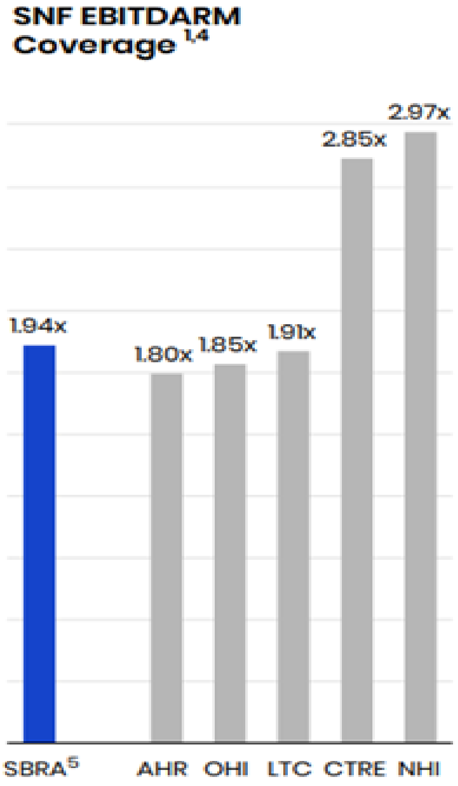
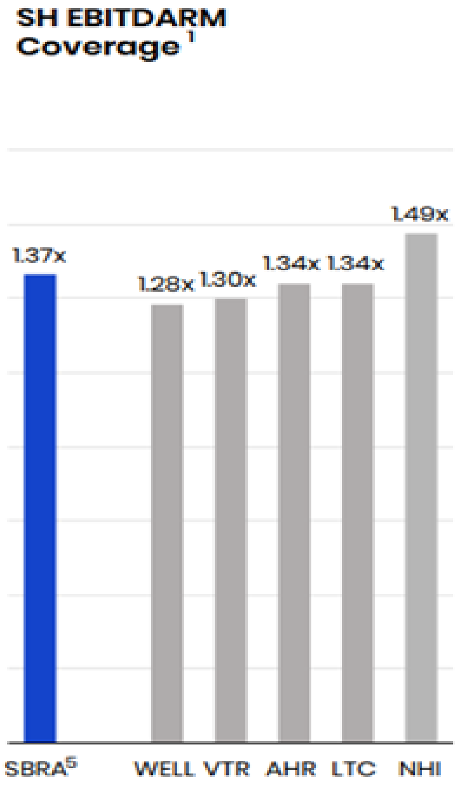
# Sabra

- NOI increased 17.8% YoY.
- LCR - SNF 1.94x, SH 1.37x, Behavioral/Specialty 3.68x.
- LCR has exceeded 2019 levels.
- Lease Coverage Data for most recent quarter:



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# BROOKDALE

- Adjusted EBITDA increased 15.0% YoY.
- Operating margin increased 90 bps to 26.5% YoY.

# Triple Crown Earnings Calls

# Acquisition / Deal Volume:

# JP – Which Horse is Winning on Multiple Bets?


# CareTrust

- Composition of deals YTD 60% acquisitions, 40% loans; almost no loans in deal pipeline.
- "Buyer pool has somewhat narrowed" but still "incredibly competitive".
- 2024 Activity - $917mm in real estate and debt investments at a stabilized yield of 9.4%, YTD investments represent over three times the average annual investment over the last ten years.
- YTD activity includes 31 SNFs in TN at a yield of 9.0% with Ensign, PACS and Linx. Initial LCR almost 1x but 1.5x on stabilized proforma with improvement due to Medicaid increase, occupancy improvement and operational efficiencies.
- Senior Housing assets that have an AL Medicaid waiver component are drawing stronger interest from buyers, including from middle market acquirers.

# Ensign

- 27 acquisitions YTD; 12 QTD. Currently in 30 markets 14 states with more next year.
- Expects a healthy pipeline of new acquisition opportunities in the fourth quarter and into next year.
- Note that factors like regulatory changes and post-COVID stability are influencing seller sentiment.
- See many distressed opportunities due to over-aggressive real estate deals. While acquisition targets remain similar, they are expanding geographically and may enter new states soon.

# Omega

- $900mm YTD, $467mm in 3Q24.
- Post 3Q, $119mm including 17 facilities with initial yield of 10.5%.
- One SNF development deal in FL.
- Market continues to be very active due to lower rates and available capital, expected to continue for at least the next 12 months.

# Welltower

- $6.1b YTD, $1.2b QTD – 40 properties, 5,200 units, average age of 5 years at an average cost of $244,000, a significant discount to replacement cost. 94% were off market transactions.
- Initial yields in the mid to high 7% range.
- Entered into a definitive agreement to acquire a portfolio of 25 age-restricted active adult communities (Affinity Living Communities) for $969 million through a privately negotiated, off-market transaction.

# Ventas

- $1.7 billion in seniors housing investments closed or under contract YTD in 2024.
- 16 different transactions with the median size of $47 million.
- A total of 44 communities (46% IL and 54% AL/MC), high performing communities with upside, in-place average occupancy ~90%.
- Initial yield 7% to 8% of expected Year One NOI, and an "attractive investment basis of $250,000 per unit, which is a significant discount to replacement costs".

# Sabra

- Opportunity remains robust, seeing high-quality new or newer vintage assets, especially in senior housing, that are performing well.
- Pricing is tough despite large opportunity set.
- More portfolio opportunities but remains cautious about engaging in larger deals due to potential complexities and noise.
- Skilled nursing opportunities have not been as robust as expected despite improvements.
- Recent SH deals at 8.1% to 8.6% initial yields.
- SNF initials yields at 9% to 10%.


# Brookdale

- Executed purchase agreements for acquisitions of 41 currently leased communities (2,789 units) for a combined purchase price of $610 million margin increased 90 bps to 26.5% YoY.

**International JV / Welltower Portfolio**

- $300 million purchase price
- 11 communities
- 1,228 units

**Welltower Portfolio**

- $175 million purchase price
- 5 communities
- 686 units

**Diversified Healthcare Trust (DHC) Portfolio**

- $135 million purchase price
- 25 communities
- 875 units

# Triple Crown Earnings Calls

# Tony - Which Horse is "Making Hay"?

# Making Hay:

## LTC

- Deleveraging has been completed, now looking for growth.

## Welltower

- Raised $1.2B in the quarter at a share price of $122.

## CareTrust

- Equity issuance of $1.1B YTD.

# Making Hay:

## Brookdale

- Third-party marketing - softness in move-ins identified, leading to increased internal marketing efforts (not cost related).
- Expect steady and sustainable occupancy growth in 2025.
- Approximately $3 million in hurricane-related expenses in Q4.
- Robust revenue opportunity from continued occupancy recovery.

**Returning to pre-pandemic occupancy and operating margin would deliver significant Operating Income Growth**

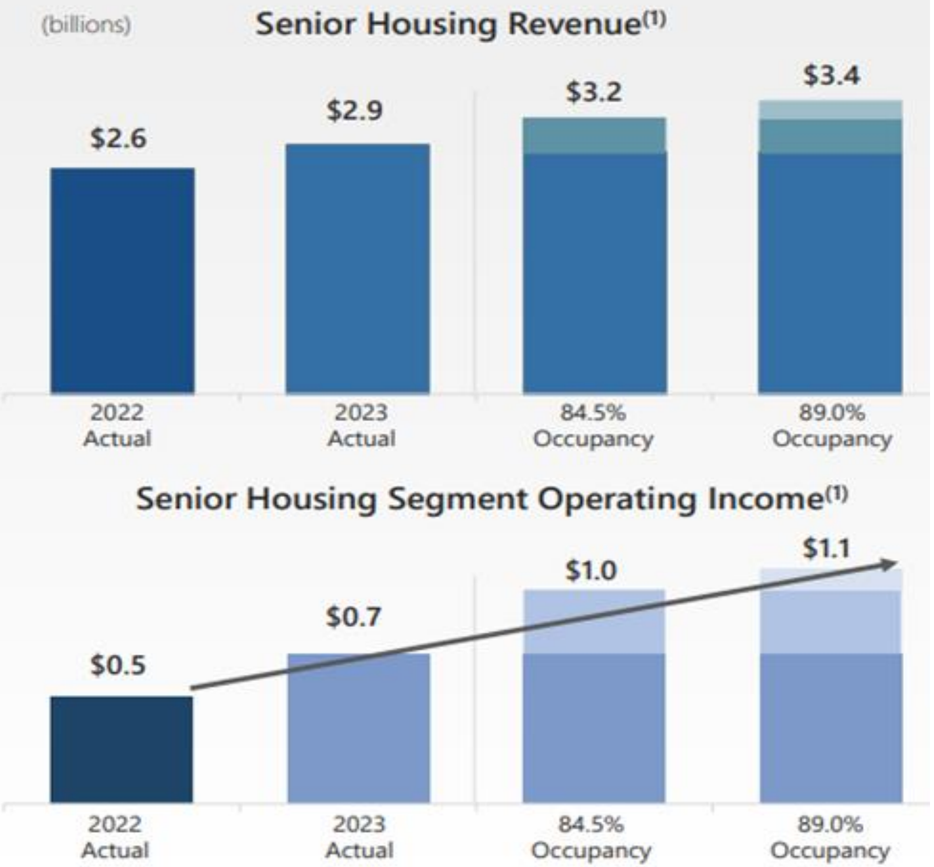
### Key Considerations

Represents **annualized revenue impact of returning to pre-pandemic (84.5%) or historical high (89.0%) occupancy** compared to 3Q 2024 occupancy based on 3Q 2024 RevPOR

Represents a return to **midpoint of each segment's range of pre-pandemic operating margin** at current segment mix (by 89% occupancy)

Operating margin expansion expected primarily through:

1) Continued workforce stabilization, including lower turnover, reduced onboarding expenses and improved productivity
2) Leverage of fixed costs through occupancy growth




Returning to pre-pandemic occupancy of 84.5% would drive at least $210M of incremental revenue[1]

Achieving our historic occupancy high of 89.0% would drive at least $380M of incremental revenue[1]

# Triple Crown Earnings Calls

Sales:

JP - Who's Withdrawing From The Race?

# Withdrawing From The Race:




## Ensign

- Much harder for smaller operator to keep up with changes.
- Operations have stabilized post-COVID.

## CareTrust

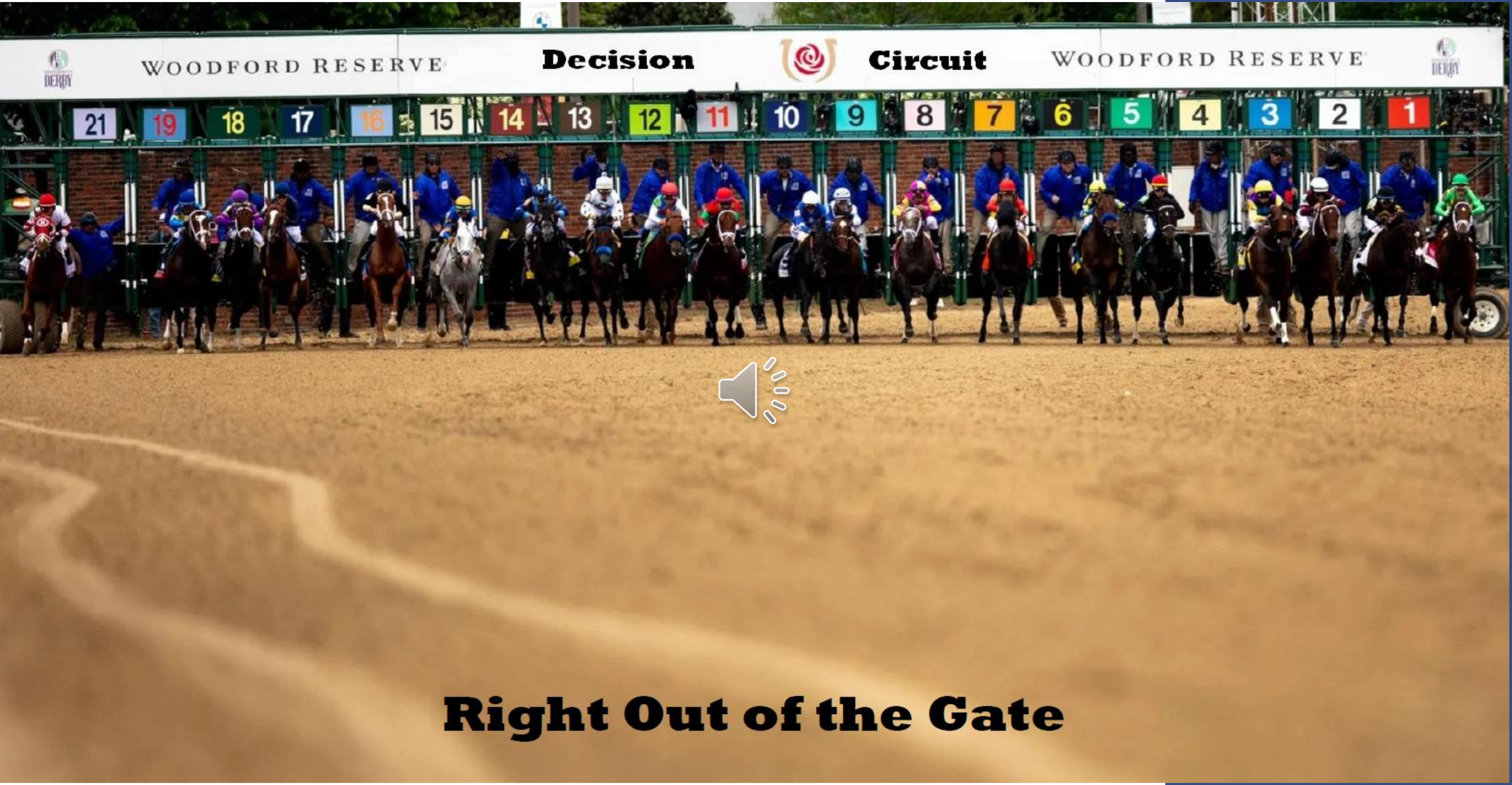
- SNFs - smaller regional and independent owners seeking to capitalize on improved conditions.
- Seniors Housing – seeing distressed assets but improving operating metrics.

## Ventas

- Notes many sellers are developers cashing in, repeat sellers, or private equity firms selling for various reasons.

# Triple Crown Earnings Calls

....Finish Line




# Right Out of the Gate

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# Move into the lead...


Which DCs are “passing” and foregoing an appraisal review?

- This isn't a static test. Our goal is to focus our efforts on the more complicated appraisals. We're looking for applications where it is unlikely that changes to the appraisal would be substantial enough to reduce the size of the requested mortgage.
- This is not an appraisal review, so we do consider what has happened in the updated financials when deciding whether to pass.
- LTV - Loans at the full 80% can still pass, but lower LTVs allow us to do stress testing against areas of concern.
- An NOI projection higher than the history can pass as long as ratios/percentages have precedence in the history for the occupancy, census mix, and expenses (overall, ratio, and PRD).
- Did balancing require unusual or large unexplained adjustments to the financials?
- Did expense normalization reduce expenses significantly?
- Was bad debt accounted for?
- At the moment, we don't have a taste for passing very large loans, recent purchases, unusual properties, or very high prices per bed.
- Are there any troubling trends in operations (occupancy, census mix)?
- Was the DC filled out correctly and completely?
- Cap rate is believable on its face.
- Were there any unusual hypothetical conditions or extraordinary assumptions?
- Is there any obsolescence, reduction in demand, or pipeline construction?

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# Don't Throw a Shoe!

- We haven't been pushing back on values too often. When we do it's not because they departed from the historical income. Most of the appraisals we're approving are projecting income growth. Here are some recent examples of appraisal concerns:

    - Expenses: We're skeptical when the appraiser forecasts a leap in income but keeps expenses equal to or lower than the previous year. Please account for inflation. Most of the updated financials suggest the appraiser has undershot expenses. We're appraising going concerns, so the subject's actual performance is relevant.

    - The Sales Comparison Approach is not a throw-away approach that we can dismiss completely. We're skeptical when a project is appraised for more than the purchase price when there has been no performance improvements.

    - We often see cap rate conclusions that don't seem to match the asset, the location, or investment type, and where support is lacking. We're seeing generic boiler-plate language regardless of asset class.

    - Frequently the reason for pushing back on loan size is not appraisal related, such as a deterioration in performance since the date of the appraisal.

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# Sales History

Fully analyze the subject's sales history: Make sure to fill out that portion of the DC. Profile the sale in the appraisal (write it up as if it were a comp). Explaining why the value is different. HUD needs operators that are open with us, and that starts with disclosing the intricacies of the sale. It’s not acceptable to say the sales price is irrelevant because it’s part of a portfolio; analyze the portfolio.

Showing at least 3 years of history is the standard. Some are showing less than that by including annualized partial years.

- Complete Sales History in DC
- Profile the Sale
- Explain Differences in Value
- Portfolio
- Analyze
- Strengths of Each Property


# Make a Sure Bet!

- We’ve seen improvements with balancing the financials. Thank you! We still want some improvement so that balancing is the simplest task for the review appraiser. It should just be a quick cross reference check. Don’t lump expenses into one line item. Make sure periods match appraisal.

- Discuss bad debt in every appraisal.

- Pay attention to market occupancy. We’re seeing some questionable supply/demand conclusions when compared to actual market occupancy.

- Fill out the DC completely. Don’t alter or delete the outputs tab.

- You are doing a better job of reporting pipeline construction. You’re not just quoting Dodge Report, you're naming the people you contacted. Thank you!

# Trainer Commissions: Management

- We won’t tell you what management fee to use. Our concern is that we not normalize away what the subject is actually paying, if that amount is what got them the results they’re achieving.
- When there is no line item for management fee in the financials, spell out where those amounts are pulled from.
- Don’t enter normalized management fees from the start. Show the actual fee first and let us see how you normalized it. We have already seen improvements here. Thank you!
- Management fees should not be normalized using the balancing of the financials process. We balance to non-normalized numbers.

# Reserves for Replacement

- There's a general belief that appraisers can/must remove capital expenditures from their expense totals. This isn't exactly true. What they're allowed to do is spread out those capital costs, so they don't all appear in one year. We want those capital expenses reflected in whatever yearly R4R amount they forecast. If $350 per bed is correct, then give us some analysis that supports it. In commercial appraisals it's common for the appraiser to list the capital repairs that will be needed over a given period in order to arrive at a yearly R4R estimate.

- In a related item, we've seen appraisers remove items as "capital expenses" that really should have remained in. If for example, the expenses are relatively small and for separate items scattered throughout the year, then those need to remain in the Maintenance budget. They are not capital expenditures.

# Questions and Answers