

Senior Housing Market Quarterly Newsletter

Table of Contents

1. Market Summary
2. Money & Commodity Markets
3. Equity Markets
4. REITs
6. Operators
8. Comparative Graphics
10. M&A Valuation & Transactions
12. Closing Thoughts

About Trefethen Advisors, LLC

Trefethen Advisors is a privately held investment bank. Trefethen is unique in its ability to maximize value for its clients by providing strategy-led, consultative investment banking services in situations requiring specialized industry, analytical, and/or structuring expertise. We offer skilled transaction execution capabilities and a full range of financial and strategic advisory services:

- Mergers & Acquisitions (Buy-Side & Sell-Side)
- Corporate Finance
- Financial Restructuring and Distressed M&A
- ESOP Buyouts

Corporate Finance Resources Include:

- Family Offices
- Venture Capital
- Debt/Sub-Debt
- Private Equity
- Financial Companies
- Sale-Leaseback Financing

For more information, please visit our website at www.trefethenib.com

Trefethen Advisors, LLC is pleased to bring you this quarterly edition of its market update. This periodical is designed to provide current information on the public equity markets, senior housing markets, supply & demand trends, M&A activity as well as market and sector commentary. If you would like to add any colleagues to this newsletter, please contact us at mokeefe@trefethenib.com

Market Summary

Volatility returned to the equity markets in September, sparked by the Bank of Japan (BOJ), European Central Bank (ECB) and Federal Reserve (Fed) meetings, namely BOJ's decision on keeping policy at its current state, rather than easing further. Overall, S&P 500 fell (0.12%), NYSE fell (0.47%) and NASDAQ rose 1.89%. After the two-day meeting, Fed decided not to increase interest rate as expected by many economists and investors. Globally, OPEC's oil production reached a new high in September 2016, producing 33.75 million barrels a day. However, this seems to be the end of it, at least for the near future. OPEC, at the unofficial summit in Algiers, announced a surprising preliminary agreement to limit oil production by 1-2%. The announcement caused oil prices to surge, with WTI Crude Oil ending the month up 8.0%. Many oil industry experts question the commitment to OPEC's planned reduction since both Iraq and Iran appear resistant to reduce volumes and Saudi Arabia must bear the largest impact of the decision.

U.S. Treasuries traded up during the quarter in a flight to safety, pushing down interest rates. As of September 30, 2016, 10-year treasury rates fell to 1.60%, helping to keep mortgage rates low and housing demand high. This was down from 1.83% from six months prior. Increasingly, Janet Yellen sent signals of an interest rate hike by the Fed in December following the Presidential election. Many economists expect an increase in mortgage rates in 2017.

Equity performance of the Trefethen Senior Housing REITs index (see Page 4) rose 10.46% for the Q3 and 21.53% for the year, while the Trefethen Senior Housing Operators Index (see Page 6) rose 19.39% for the Q3 and declined 17.04% for the year. The persistently low treasury yields throughout 2016 has helped shares of Senior Housing REITs. Our Senior Housing Index Forward market cap price-to-FFO multiple ended September at 14.6x, up from 12.4x at the start of the year.



Treasury Rates

	9/30/2016	- 1 Wk.	- 1 Mo	- 6 Mo	- 12 Mo
1-Year	0.59%	0.60%	0.61%	0.61%	0.33%
10-Year	1.60%	1.62%	1.57%	1.83%	2.06%
30-Year	2.32%	2.34%	2.23%	2.65%	2.87%

Treasury Yields rose modestly to their highest levels since BREXIT vote. The yield on 10-year Treasury note stayed flat during the month of September as a result of Fed deciding not to raise rates and not giving the market any reason to expect a rate hike before the U.S. presidential election.

Exchange Rates

	9/30/2016	- 1 Wk.	- 1 Mo	- 6 Mo	- 12 Mo
GBP/USD	1.30	1.30	1.31	1.44	1.51
EUR/USD	1.12	1.12	1.11	1.13	1.12
USD/JPY	101.28	100.99	102.93	112.55	119.74
USD/CNY	6.67	6.67	6.68	6.48	6.36

The Euro traded relatively flat against the Dollar over the past month as a drop in German economic activity weighed on the Euro and speculation over the chances of the Fed raising interest rates in the near term faded.

Commodity Markets

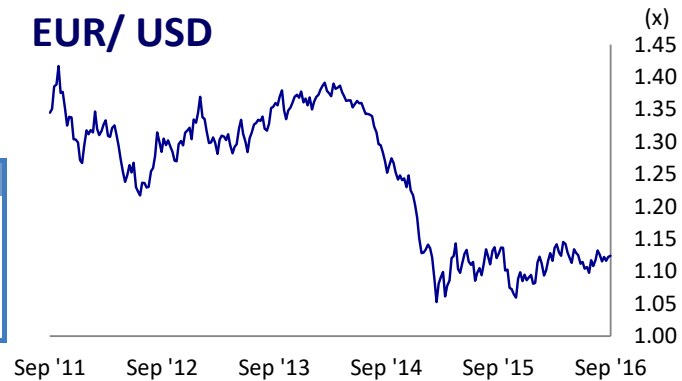
	9/30/2016	- 1 Wk.	- 1 Mo	- 6 Mo	- 12 Mo
Crude Oil	48.82	45.07	47.62	39.66	45.56
Gold	1,317.10	1,337.50	1,313.00	1,228.60	1,115.20
Silver	19.21	19.73	18.58	15.21	14.52
Wheat	4.02	4.04	3.92	4.64	5.12
Corn	48.24	44.48	46.35	38.32	45.09

Despite OPEC reportedly reaching ever higher production levels during September, at the Algiers Summit, OPEC reached an agreement to reduce daily production by 1 or 2% or approximately 700,000 barrels per day.

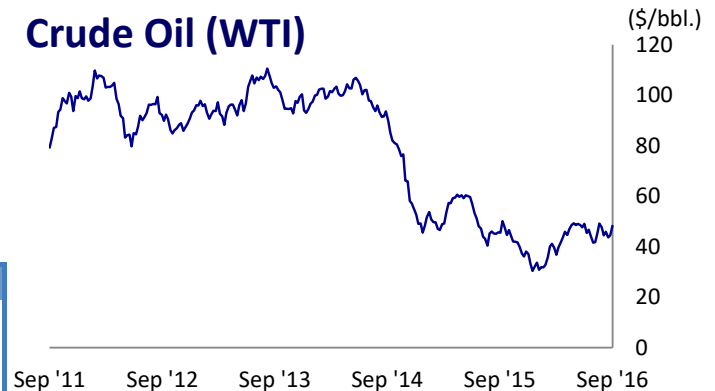
10-Year Treasury Yield



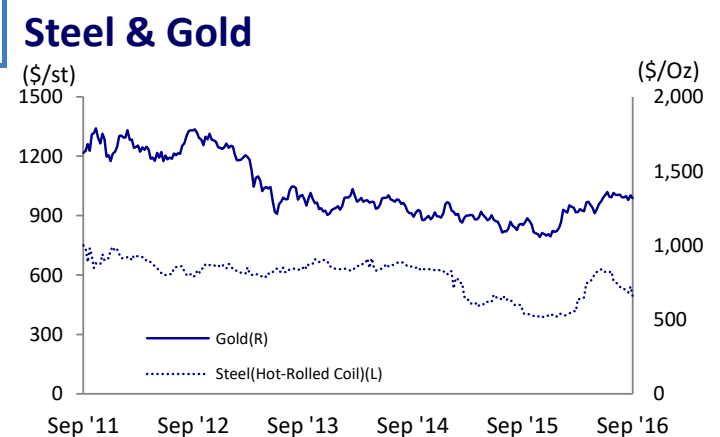
EUR/ USD



Crude Oil (WTI)



Steel & Gold



Source: Capital IQ

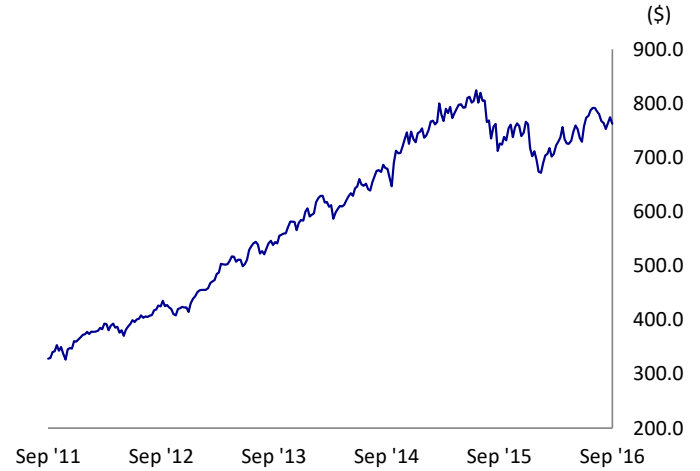
S&P 500 Healthcare Index

One-Month High	848.9	5-Year High	892.3
One-Month Low	824.3	5-Year Low	356.1
Monthly Change	(0.9%)	5-Year Change	126.7%



Dow Jones U.S. Healthcare Index

One-Month High	777.2	5-Year High	826.1
One-Month Low	752.8	5-Year Low	317.6
Monthly Change	(0.5%)	5-Year Change	132.2%



S&P 500 Real Estate Index

One-Month High	208.4	5-Year High	213.7
One-Month Low	195.1	5-Year Low	108.5
Monthly Change	(1.8%)	5-Year Change	77.3%



Dow Jones U.S. Real Estate Index

One-Month High	331.1	5-Year High	338.0
One-Month Low	309.8	5-Year Low	186.9
Monthly Change	(2.0%)	5-Year Change	62.2%



Source: Capital IQ

(SMM, Except per Share Data)			(USD \$)			Selected Financial Data (USD \$)				
Security	Ticker	Most Recent Qtr. End	Last 09/30/16	52 W High	52 W Low	Market Cap.	Net Debt	TEV	LTM EPS	LTM FFO
SENIOR HOUSING - REITs										
WELLTOWER, INC.	HCN	09/16	74.77	80.19	52.80	26,761	13,002	41,144	2.27	1,631
VENTAS, INC.	VTR	09/16	70.63	76.80	46.87	24,816	11,163	35,937	1.66	1,411
HCP, INC.	HCP	09/16	37.95	40.43	25.11	17,745	10,794	28,787	(0.07)	1,378
OMEGA HEALTHCARE INVESTORS, INC.	OHI	09/16	35.45	38.09	26.96	6,858	4,401	11,344	1.57	667
SENIOR HOUSING PROPERTIES TRUST	SNH	09/16	22.71	23.85	13.53	5,393	3,612	9,032	0.45	447
NATL HEALTH INVESTORS, INC.	NHI	09/16	78.48	82.53	54.51	3,073	1,082	4,164	4.26	184
LTC PROPERTIES, INC.	LTC	09/16	51.99	54.20	40.02	2,039	586	2,628	2.16	115
SABRA HEALTH CARE REIT, INC.	SBRA	09/16	25.18	26.40	14.92	1,644	1,166	2,739	0.95	156
NEW SENIOR INVESTMENT GROUP, INC.	SNR	09/16	11.54	12.68	7.78	948	2,073	3,012	(1.10)	112

(SMM, Except per Share Data)		LTM Margins		Selected Ratio			
Security	Ticker	FFO	Earnings from Cont. Ops.	Revenue Growth	FFO Growth	Total Debt / TEV	Dividend Yield
SENIOR HOUSING - REITs							
WELLTOWER, INC.	HCN	38.8%	21.3%	15.0%	20.7%	32.6%	4.6%
VENTAS, INC.	VTR	41.6%	16.7%	10.5%	12.3%	31.3%	4.1%
HCP, INC.	HCP	54.6%	(0.6%)	9.7%	5.1%	38.0%	6.1%
OMEGA HEALTHCARE INVESTORS, INC.	OHI	92.0%	36.2%	44.0%	55.4%	39.1%	6.8%
SENIOR HOUSING PROPERTIES TRUST	SNH	42.6%	10.3%	13.0%	23.6%	40.4%	6.9%
NATL HEALTH INVESTORS, INC.	NHI	76.3%	69.2%	16.8%	25.3%	26.1%	4.6%
LTC PROPERTIES, INC.	LTC	73.3%	52.4%	22.0%	13.3%	22.4%	4.2%
SABRA HEALTH CARE REIT, INC.	SBRA	58.4%	27.2%	24.4%	40.7%	43.4%	6.7%
NEW SENIOR INVESTMENT GROUP, INC.	SNR	23.6%	(19.3%)	52.0%	72.4%	71.3%	9.0%

REITs Index



Note: Market Cap. Weighted Index

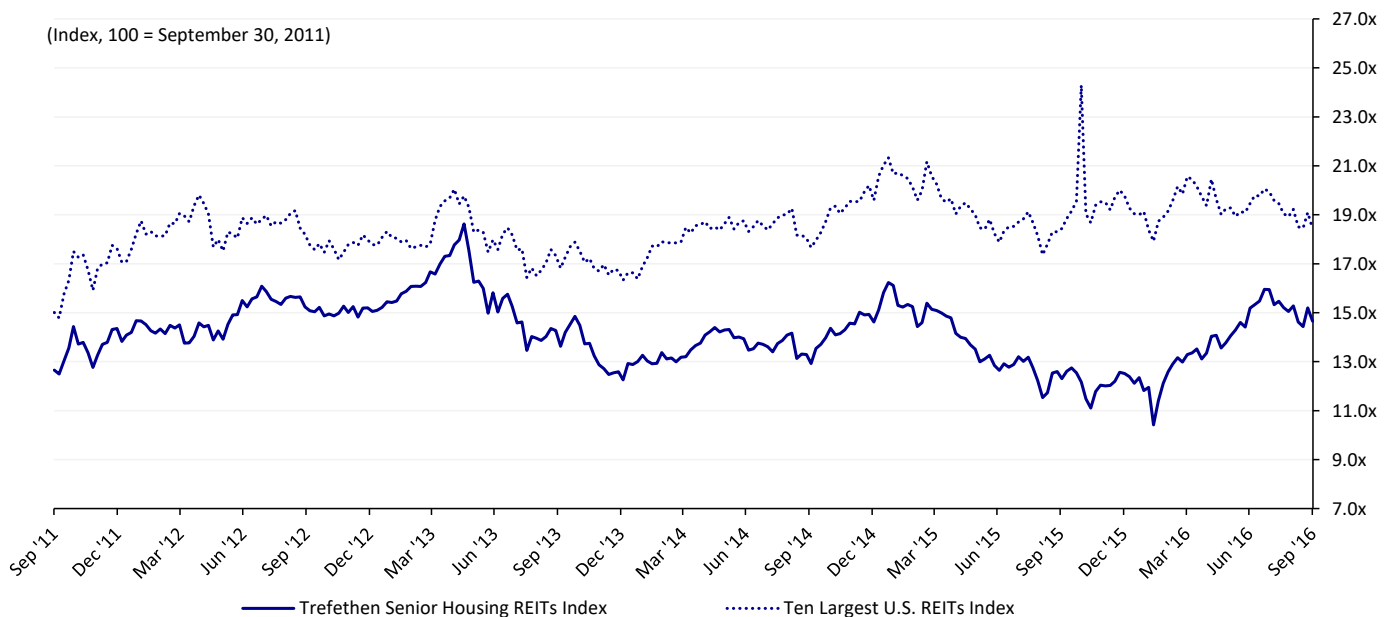
*constitutes Public Storage; Digital Residential Trust; Equity Residential; Extra Space Storage; Avalonbay Communities; Simon Property Group; General Growth Properties; Prologis; Boston Properties; Vornado Realty Trust

Source: Capital IQ

(\$MM, Except per Share Data)			Price/Earnings			TEV/EBITDA			Leverage	
Security	Ticker	Most Recent Qtr. End	LTM	CY (Est)	+1Y (Est)	LTM	CY (Est)	+1Y (Est)	Total Debt	Total Debt / LTM EBITDA
SENIOR HOUSING - REITs										
WELLTOWER, INC.	HCN	09/16	40.5	37.3	33.7	18.34	18.42	17.67	13,431	6.0x
VENTAS, INC.	VTR	09/16	51.4	43.2	40.5	19.50	19.71	17.89	11,252	6.1x
HCP, INC.	HCP	09/16	NM	25.2	22.8	16.08	16.57	17.08	10,927	6.1x
OMEGA HEALTHCARE INVESTORS, INC.	OHI	09/16	22.3	19.3	17.5	14.89	14.01	12.90	4,434	5.8x
SENIOR HOUSING PROPERTIES TRUST	SNH	09/16	45.6	34.4	28.0	14.82	14.91	14.48	3,653	6.0x
NATL HEALTH INVESTORS, INC.	NHI	09/16	18.1	20.9	21.7	18.05	18.20	16.30	1,086	4.7x
LTC PROPERTIES, INC.	LTC	09/16	24.6	23.8	23.4	20.65	18.05	16.50	589	4.6x
SABRA HEALTH CARE REIT, INC.	SBRA	09/16	30.1	26.4	19.6	11.25	12.18	11.74	1,189	4.9x
NEW SENIOR INVESTMENT GROUP, INC.	SNR	09/16	NM	NM	NM	15.46	15.06	14.69	2,146	11.0x

(\$MM, Except per Share Data)			Last Twelve Months(LTM)			Est. 1 Yr. Forward			Implied Cap. Rate NTM EBITDA / (Market Cap. + Net Debt)
Security	Ticker		Price / FFO	FFO Yield	Price / Adj. FFO	Price / FFO	FFO Yield	Price / Adj. FFO	
SENIOR HOUSING - REITs									
WELLTOWER, INC.	HCN		16.5x	6.1%	18.6x	15.7x	6.4%	17.6x	5.8%
VENTAS, INC.	VTR		17.8x	5.6%	19.7x	16.2x	6.2%	17.8x	5.6%
HCP, INC.	HCP		13.1x	7.6%	14.2x	14.0x	7.1%	15.1x	5.8%
OMEGA HEALTHCARE INVESTORS, INC.	OHI		10.6x	9.5%	11.6x	9.6x	10.4%	10.8x	7.6%
SENIOR HOUSING PROPERTIES TRUST	SNH		12.1x	8.3%	13.1x	12.4x	8.1%	14.0x	6.8%
NATL HEALTH INVESTORS, INC.	NHI		16.6x	6.0%	18.5x	15.1x	6.6%	16.8x	6.1%
LTC PROPERTIES, INC.	LTC		17.7x	5.6%	19.4x	16.2x	6.2%	17.4x	6.0%
SABRA HEALTH CARE REIT, INC.	SBRA		11.1x	9.0%	11.9x	10.5x	9.5%	11.2x	8.2%
NEW SENIOR INVESTMENT GROUP, INC.	SNR		8.3x	12.0%	10.0x	8.3x	12.0%	9.6x	6.8%

Market Cap. / Forward FFO Multiples

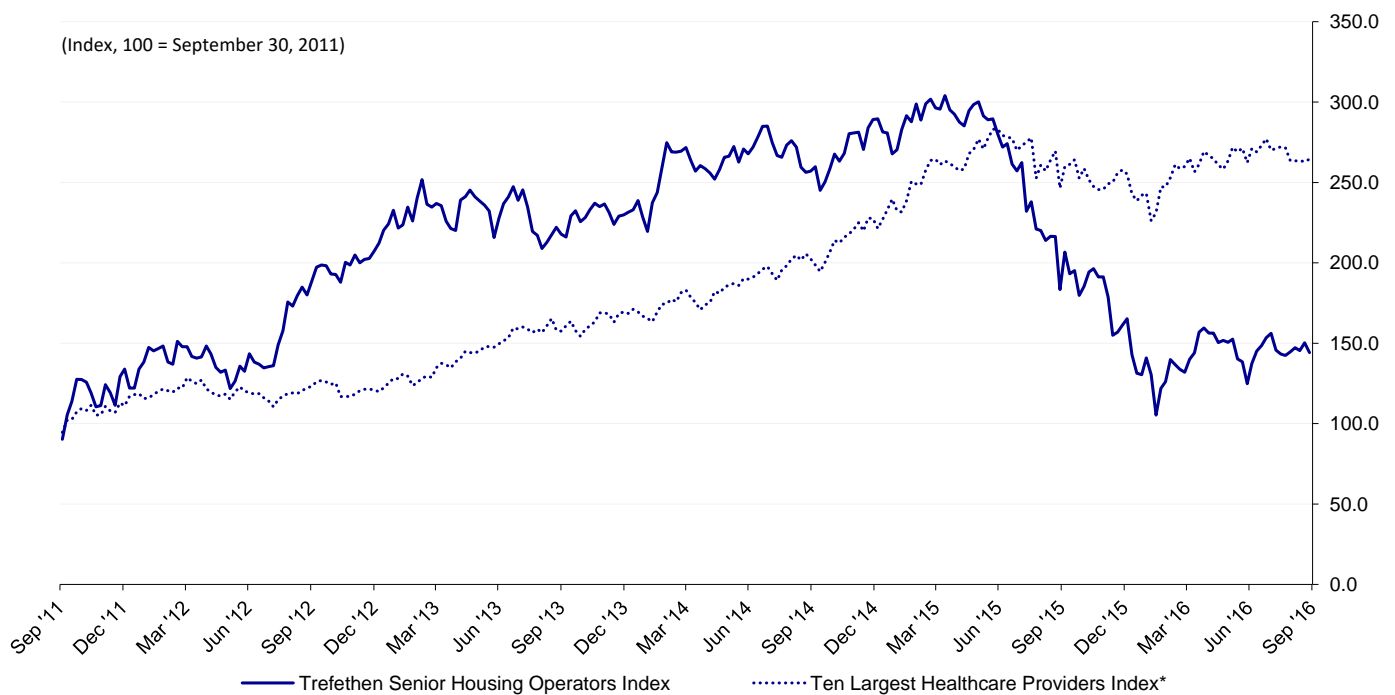


Source: Capital IQ

(\$MM, Except per Share Data)			(USD \$)			Selected Financial Data (USD \$)				
Security	Ticker	Most Recent Qtr. End	Last 09/30/16	52 W High	52 W Low	Market Cap.	Net Debt	TEV	LTM EPS	LTM EBITDA
SENIOR HOUSING - OPERATORS										
BROOKDALE SENIOR LIVING, INC.	BKD	09/16	17.45	25.48	11.28	3,244	6,157	9,593	(1.67)	960
CAPITAL SENIOR LIVING CORP.	CSU	09/16	16.80	24.55	14.58	504	877	1,329	(0.83)	106
FIVE STAR QUALITY CARE, INC.	FVE	09/16	1.91	3.98	1.65	95	(10)	86	(0.46)	31

(\$MM, Except per Share Data)		Margins			Selected Ratio		
Security	Ticker	Gross Profit	EBITDA	Earnings from Cont. Ops.	Revenue Growth	EBITDA Growth	Total Debt / TEV
SENIOR HOUSING - OPERATORS							
BROOKDALE SENIOR LIVING, INC.	BKD	34.1%	19.1%	(7.3%)	0.6%	(0.8%)	65.0%
CAPITAL SENIOR LIVING CORP.	CSU	42.1%	24.1%	(5.4%)	8.4%	7.1%	68.2%
FIVE STAR QUALITY CARE, INC.	FVE	52.2%	#VALUE!	(2.0%)	1.6%	42.4%	68.6%

Operators Index



Note: Market Cap. Weighted Index

* constitutes UnitedHealth Group; Express Scripts; Aetna; Anthem; Cigna; HCA Holdings; Humana; Centene; Lab Corp. of America; DaVita HealthCare Partners

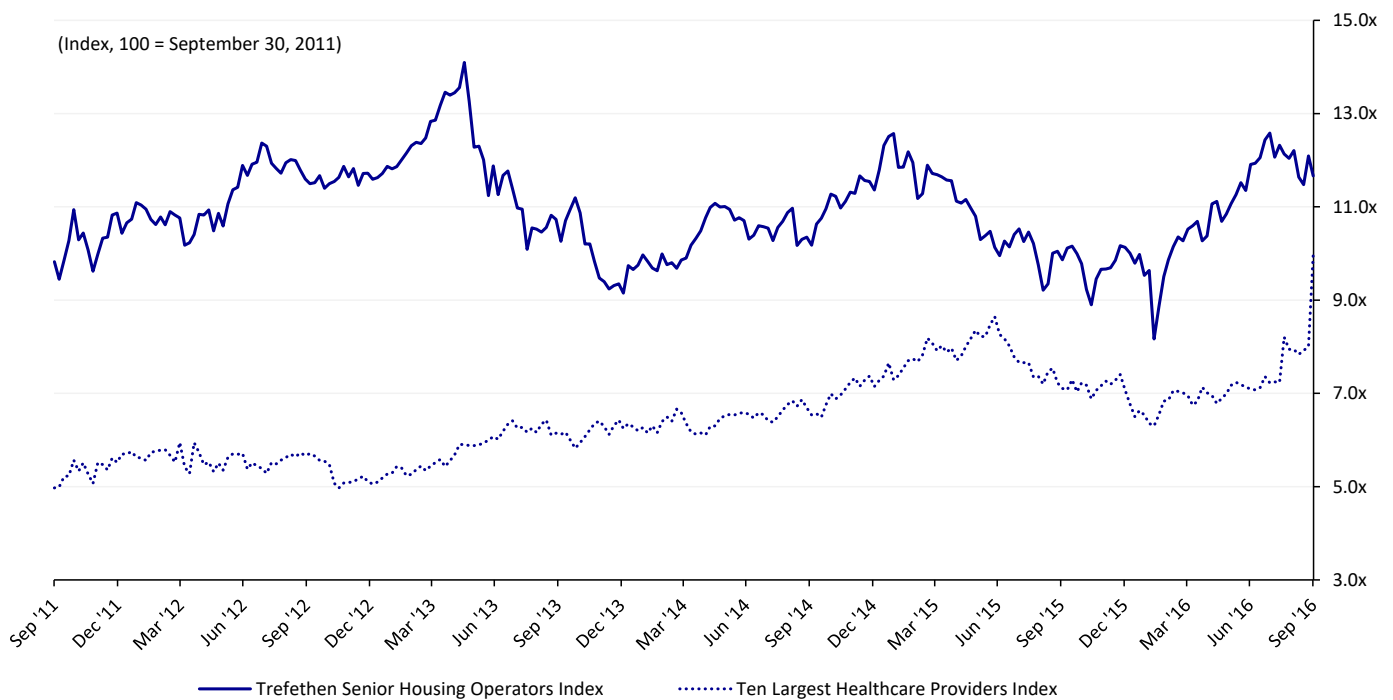
Source: Capital IQ

(\$MM, Except per Share Data)				Price/Earnings			TEV/EBITDA			Leverage	
Security	Ticker	Most Recent Qtr. End	LTM	NTM (Est)	+2Y (Est)	LTM	NTM (Est)	+2Y (Est)	Total Debt	Total Debt / LTM EBITDA	
SENIOR HOUSING - OPERATORS											
BROOKDALE SENIOR LIVING, INC.	BKD	09/16	NM	NM	NM	9.99	11.11	10.84	6,231	6.5x	
NYSE: CAPITAL SENIOR LIVING CORP.	CSU	09/16	NM	NM	148.2	12.51	13.53	12.76	906	8.5x	
FIVE STAR QUALITY CARE, INC.	FVE	09/16	NM	NM	NM	2.81	3.47	2.85	59	1.9x	

(\$MM, Except per Share Data)				Revenue*		Occupancy		Units	
Security	Ticker	Private Pay	Medicare / Medicaid	IL	AL	IL	AL		
SENIOR HOUSING - OPERATORS									
BROOKDALE SENIOR LIVING, INC.	BKD	81.9%	18.1%	89.3%	85.6%	17,152	51,498		
CAPITAL SENIOR LIVING CORP.	CSU	95.0%	5.0%	88.4% (Overall)		5,227	6,928		
FIVE STAR QUALITY CARE, INC.	FVE	77.7%	22.3%	83.8% (Overall)		13,142			

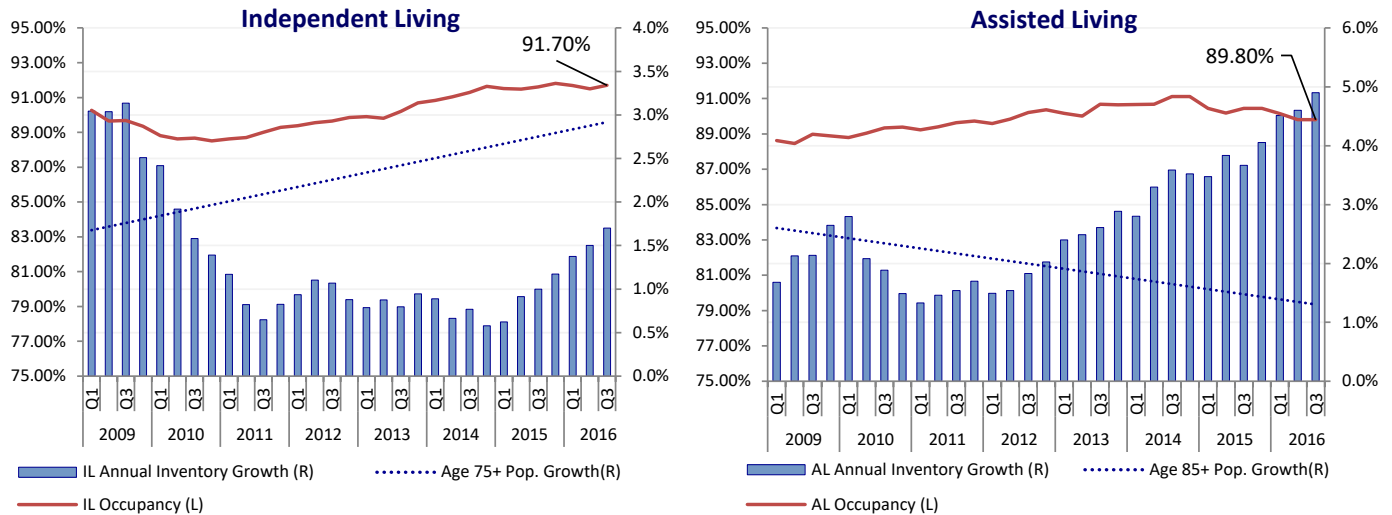
*as of 12/31/2015

Market Cap. / NTM EBITDA Multiples



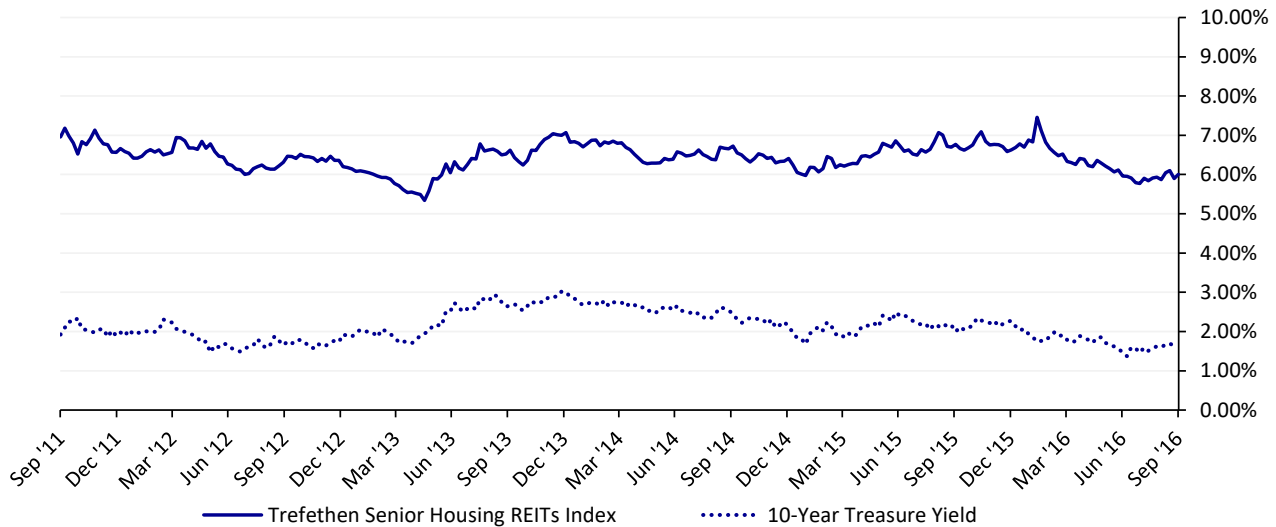
Source: Capital IQ

Senior Housing Trends



Source: NIC MAP; U.S. Census
Note: Population Growth is based on estimates

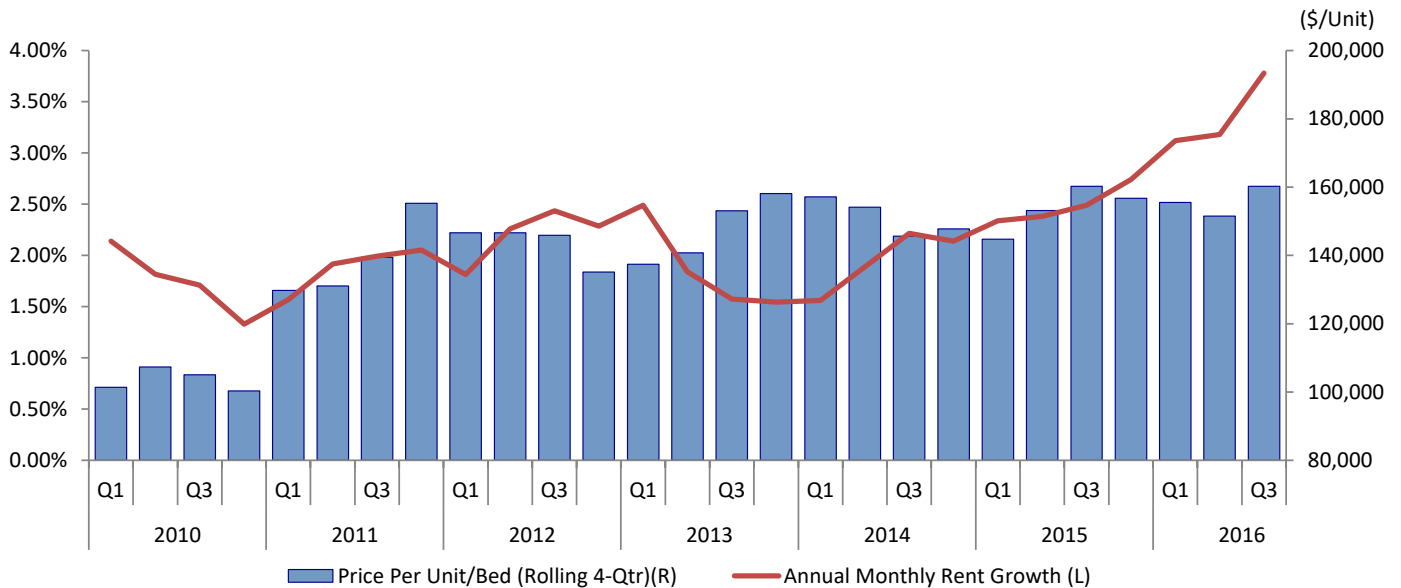
Weighted Implied Cap. Rate vs. 10-Yr U.S. Treasury Yield



Note: Implied Cap. Rate is derived from NOI divided market cap + total debt - cash

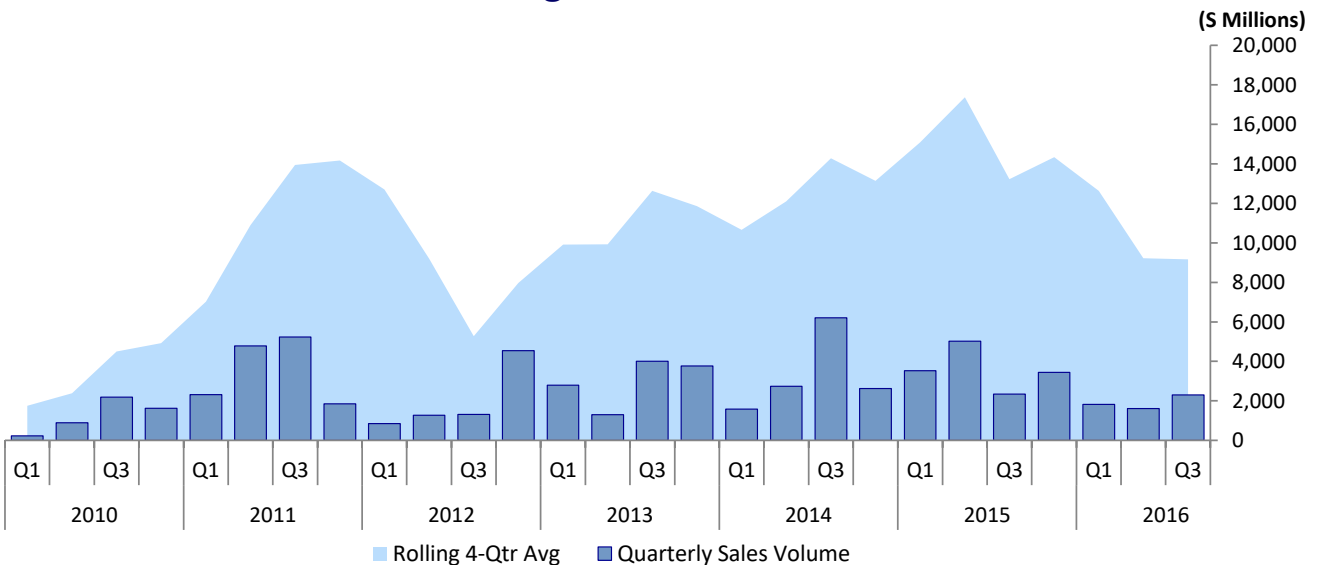
Coming out of the recession, development primarily focused on Assisted Living, inventory growth is well above the growth rate of the 85-plus population. This has resulted in downward pressure on overall occupancy. Likewise, the lack of development of independent living properties, rising home values and low inventory growth rate has pushed occupancy levels for this segment to pre-recession levels. The spread between the implied cap. rates of Trefethen's Senior Housing REITs index reached to 440 bps against the 10-year U.S. Treasury Yield as investors continue to purchase Treasuries as a safe investment option. Cap. rates during September grew to 6.00% and continue to hover around their 5-year average of 6.44%. Analysts believe that the AL market is being overbuilt and occupancy is expected to experience downward pressure in 2017 due to this supply/demand imbalance. Many developers are focused on creating more appealing communities in an attempt to expand the demand by seniors through the addition of on-premise movie theaters, shopping centers, etc. which is a trend that continues to develop in the market with new properties.

Senior Housing Transaction Value



Source: NIC MAP, RCA

Senior Housing Transaction Volume



Source: NIC MAP, RCA

For the third quarter of 2016, we saw the average price per unit for senior housing properties traded near their cyclical highs of \$160,000 per unit and rent growth climbed to 3.78%. Transaction levels in the U.S. seniors housing market recovered after a sluggish second quarter, with dollar volume of approximately \$2.3 billion in Q3. Total volume is comparable with the same quarter in 2015. Much of volume was contributed to one transaction. On August 2, Healthcare REIT Welltower Inc. announced it would pay \$1.15 billion for 19 seniors housing properties, concentrated in Southern and Northern California. Activity has started slowing down significantly since the second quarter of 2015. We continue to see instability in the senior housing M&A markets due to investor perceptions that occupancy rates are likely to fall in 2017 due to new construction and likely reimbursement cuts in healthcare.

Announced Senior Housing Transactions

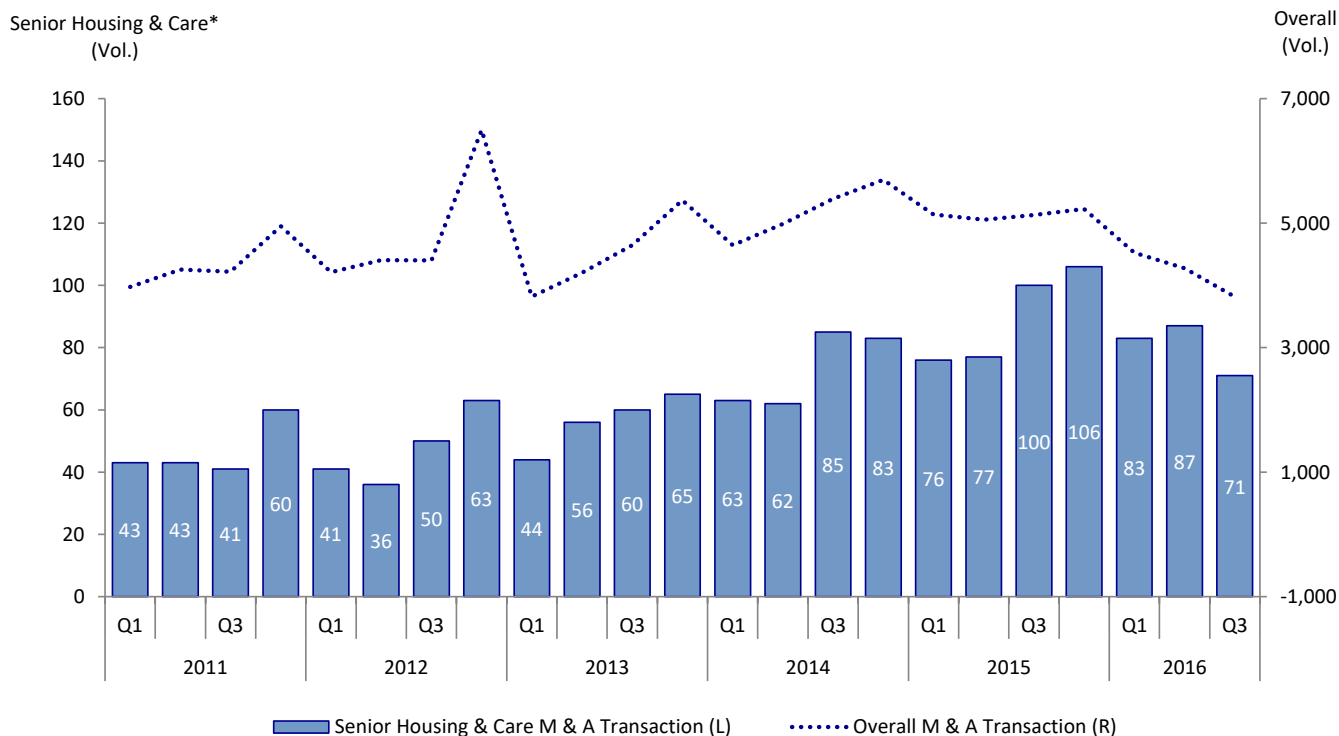
Date	Target	Type	Units	Unit Note	Location	Acquirer	Price	PPU
Sep-16	2 Arbor Terrace communities	Majority IL	236	-	Georgia	Arcapita	\$ -	\$ -
Sep-16	Ashwood Retirement & Assisted Living	Majority AL	105	-	Texas	McFarlin Group	\$ 6,500,000	\$ 61,905
Sep-16	Discovery Village at Palm Beach Gardens	Majority IL	120	-	Florida	Kayne Anderson Real Estate Advisors	\$ 38,000,000	\$ 316,667
Sep-16	The Commons at Dallas Ranch	Majority AL	109	-	California	MBK Senior Living	\$ -	\$ -
Sep-16	2 assisted living communities	Majority AL	216 (beds)		North Carolina	Affinity Living Group	\$ -	\$ -
Sep-16	Assisted living community	Majority AL	48	-	Virginia	WMD Jamestown, LLC	\$ 7,500,000	\$ 156,250
Sep-16	Merrill Gardens portfolio	Majority AL	456	-	California	Joint venture	\$ -	\$ -
Sep-16	Assisted living community	Majority AL	48	-	Virginia	HHHunt	\$ 11,500,000	\$ 239,583
Sep-16	Cordelia Manor	Majority AL	46	-	Georgia	Omega Healthcare Investors, Inc.	\$ 2,500,000	\$ 54,348
Aug-16	6 senior care communities	Majority AL	0	-	Washington	Prestige Care, Inc.	\$ -	\$ -
Aug-16	Seniors housing portfolio	Majority AL	134	-	Oregon	National Health Investors, Inc.	\$ 36,500,000	\$ 272,388
Aug-16	Discovery Village at Sarasota Bay	Majority AL	126	-	Florida	Kayne Anderson Real Estate Advisors	\$ 35,000,000	\$ 277,778
Aug-16	4 senior care facilities	Majority AL	372 (beds/units)		California	CareTrust REIT, Inc.	\$ 34,400,000	\$ 92,473
Aug-16	Lamplight Inn of Sarasota	Majority AL	95	-	Florida	Public REIT	\$ 4,300,000	\$ 45,263
Aug-16	4 independent living communities	Majority IL	368	-	Washington	Capitol Seniors Housing	\$ 78,000,000	\$ 211,957
Aug-16	Rosebush Gardens	Majority AL	36	-	Iowa	Regional owner/operator	\$ 3,700,000	\$ 102,778
Aug-16	Birches at Arbour Square	Majority AL	69	-	Pennsylvania	Institutional investor	\$ -	\$ -
Aug-16	19 seniors housing properties	Majority IL	2,590	-	California	Welltower Inc.	\$1,150,000,000	\$ 444,015
Aug-16	Sunrise of Severna Park	Majority IL	137	-	Maryland	Welltower Inc.	\$ 72,000,000	\$ 525,547
Jul-16	Heatherwood Alzheimer's Assisted Living	Majority AL	32 (beds)		California	Next Level Skilled Nursing	\$ 950,000	\$ 29,688
Jul-16	Brookdale Newport	Majority IL	42	-	Tennessee	Mainstay Financial Group	\$ 3,900,000	\$ 92,857
Jul-16	Assisted living community	Majority AL	88	-	Florida	Center Management Group, LLC	\$ 4,250,000	\$ 48,295
Jul-16	Village at Athens	Majority AL	70	-	Georgia	LTC Properties, Inc.	\$ 14,300,000	\$ 204,286

Source: CapIQ, Irving Levin & Associates

Announced Senior Housing Transactions

Date	Target	Type	Units	Unit Note	Location	Acquirer	Price	PPU
Jul-16	Oceanside Senior Living Community	Majority IL	152	-	Hawaii	Local owner/operator	\$ 6,640,000	\$ 43,684
Jul-16	Chateau Vestavia Hills	Majority IL	163	-	Alabama	Five Star Quality Care	\$ -	\$ -
Jul-16	Solana Willistown & Solana Roseland	Majority AL	171	-	New York	PGIM Real Estate	\$ 98,250,000	\$ 574,561
Jul-16	Elmcroft at Oaklawn & Elmcroft of Valley Farms	Majority AL	145	-	Kentucky	Joint venture	\$ -	\$ -
Jul-16	7 senior care facilities	Majority AL	836 (beds)		Kentucky	Griffin-American Healthcare REIT III	\$ -	\$ -
Jul-16	Prospect Place	Majority AL	16	-	New Hampshire	The Woodward Assisted Living Home	\$ -	\$ -

M&A Transaction Trends



Source: CapIQ, Irving Levin & Associates
*includes Senior Housing & Nursing Care

M&A Valuation Metrics

The Presidential Election was the biggest weight on the global financial markets, but following the election many expect that the Federal Reserve will start a program to increase interest rates beginning in December 2016. For the senior housing market, this is likely to increase the cost of capital in 2017. Generally, increases in interest rates reduce the prices of senior housing stocks, which may be in for a more challenging market environment in 2017.

Largely as a result of the decline in senior housing stock prices, M&A activity continued to decline in the third quarter to a slowest pace since 2013 with mostly single-property transactions changing hands through private transactions. A combination of anticipated increases in interest rates helped to drive down the stock prices of REITs. Historically, REITs have accounted for the majority of M&A activity in senior housing, although declining stock prices hampered their activity. Meanwhile, this left the door open for private buyers that increased their activity in the quarter and look to play a larger role in M&A activity in 2017.

About Trefethen Advisors, LLC

Trefethen Advisors, LLC is an independent financial and strategic advisory firm, serving leading middle-market public and private corporations, family offices, institutional investors, operating executives and individual business owners. Our hands-on senior partners have negotiated, structured, and completed more than \$8 billion in transactions. Trefethen's sector-focused model enables us to provide our clients with a complete perspective of the micro and macro economic trends affecting their industry and business, and influencing their complex strategic decisions.

Trefethen's collaborative approach consists of developing and executing value-maximizing strategies that are aligned with our clients' objectives. We offer a full range of financial and strategic advisory services (e.g., M&A; Corporate Finance; Financial Restructuring, ESOP Buyouts), and skilled transaction execution capabilities. Our principals have significant experience in senior housing and have extensive relationships with industry and capital markets participants. Our focus on value-added research provides our clients with insight on industry specific and macro issues affecting their business.

This report is for information purposes only and is not intended as an offer or solicitation with respect to any purchase or sale of any security. This report may contain information provided by third parties. Trefethen Advisors, LLC and such third parties do not guarantee the accuracy, adequacy, or completeness of such information and are not responsible for any errors or omissions regardless of the cause or for the results obtained from the use thereof. In no event shall Trefethen Advisors, LLC or the third-party information providers be liable for any damages, costs or losses in connection with any use of such information. Reproduction or distribution of such information is prohibited without prior written consent of the related third party. The opinions presented herein reflect the current judgment of the authors and are subject to change. Trefethen Advisors, LLC makes no warranties, expressed or implied, regarding the accuracy of this information or the subjective opinions expressed by the authors. Trefethen Advisors, LLC, its officers, directors and partners may at any time have positions in the securities of the companies discussed herein.