

LANDandBUILDINGS

Land and Buildings Issues Letter to Brookdale Senior Living Shareholders Highlighting Path to Real Estate Monetization and Maximizing Shareholder Value

- *Believes Brookdale Senior Living's net asset value is at least \$25 per share, well above the current share price of \$12.72, including more than \$21 per share of owned real estate –*
- *Seeks a sale of Brookdale's owned real estate and for the Company to transition to an asset-light senior housing management company –*
- *Three multi-billion senior housing transactions completed last month highlight both the significant institutional demand for senior housing as well as the high valuations the real estate continues to garner in the private market –*

Stamford, CT (December 20, 2016) – Today Land and Buildings Investment Management LLC (“Land and Buildings”) issued the following letter to Brookdale Senior Living’s Shareholders:

December 20, 2016

Dear Fellow Brookdale Shareholders:

Brookdale Senior Living (NYSE: BKD) (“Brookdale”, “BKD” or the “Company”) shareholders have endured one misstep after another on the part of BKD’s management and Board of Directors (the “Board”) over the past several years, and nearly 70% of shareholder value has been eviscerated in the past 18 months. Land and Buildings believes the current net asset value of Brookdale is at least \$25 per share, more than 100% above the current share price. As we have communicated to the Brookdale management team and Board in numerous discussions and letters over the past several months, the Company must act with urgency to crystalize value.

Management has had more than two years since the Emeritus merger to realize synergies, increase growth and maximize value. Instead, shareholders have dealt with a multi-year string of strategic, operational, and merger-related disappointments. Earnings expectations have been consistently missed, and Wall Street estimates cut, as the Brookdale management team has overpromised and under delivered – despite strong prospects for the industry overall.

Fortunately, Brookdale is more than the largest senior housing operator in the United States, the Company also owns an enviable portfolio of senior housing properties which we believe is worth over \$21 per share, ~70% above the current share price. Institutional investors continue to flock to senior housing, given the desirable long-term secular demographic and demand trends, with three multi-billion-dollar private market transactions completed at strong valuations just last month.

In this favorable climate, we see a clear path to value realization and a leaner, more efficient, asset-light Brookdale:

- 1) Sell the Company’s owned real estate and distribute proceeds to shareholders, and

- 2) Become an asset-light senior housing management company by converting existing leases to management contracts

Sell the Company's owned real estate and distribute proceeds to shareholders

It is time for Brookdale's Board of Directors to take affirmative action to maximize the value of Brookdale for all shareholders, sell the \$7 billion-plus owned senior housing portfolio, and distribute the proceeds to shareholders. Based on three senior housing sales transactions in November 2016, all over \$1 billion, applying a cap rate of 6.25%, Brookdale's owned real estate is worth in excess of \$21 net per share.

- NorthStar Realty Finance (NYSE: NRF) sold a non-controlling stake in over \$2 billion worth of senior housing at an estimated low-to-mid 5's cap rate to Taikang Insurance Group, a large Chinese financial services company
- Welltower (NYSE: HCN) sold \$1.2 billion of non-core, lower quality senior housing assets at a 6.3% NOI cap rate
- HCP (NYSE: HCP) sold \$1.125 billion of below average quality Brookdale senior housing assets at a 6.5% NOI cap rate principally to Blackstone

The significant institutional demand and high valuations for senior housing real estate are due to the attractive long-term demographic demand profile and high historical NOI growth. The three transactions completed last month transferred assets approaching the size of Brookdale's owned real estate and as a result provide a compelling justification for the applicable 6.25% cap rate at which the Company can obtain \$21.50 per share in a divestiture of BKD's owned real estate.

Figure 1: Brookdale's Owned Real Estate is Estimated to be Worth More than \$21 Per Share

Brookdale Owned Real Estate Valuation	
In-Place Net Operating Income	\$447,000
Applied Cap Rate	6.25%
Brookdale Owned Real Estate	\$7,152,000
Total Brookdale Net Liabilities	(\$3,156,000)
Net Real Estate Value	\$3,996,000
<i>Brookdale Shares Outstanding</i>	<i>186,000</i>
Real Estate Value Per Share	\$21.50

Source: Company reports, Land and Buildings; Notes: In-Place Net Operating Income is 3Q16 annualized after deducting a 5% of revenue G&A allocation, Total Brookdale Net Liabilities are inclusive of all tangible 3Q16 balance sheet assets and liabilities including Land and Buildings' estimate of the value of Brookdale's unconsolidated joint ventures, and all numbers are in thousands except per share figures

Management and the Board, in our numerous private discussions, acknowledge that the more than 40% decline in the share price since the fourth quarter 2015 is a substantial change in circumstances since they last undertook a strategic review. The time is right to explore strategic alternatives and therefore we have stressed to Management and the Board the urgency to evaluate all options to maximize shareholder value now.

Having reviewed many of the Companies' master lease agreements with the three publicly traded REITs, we believe Brookdale is not subject to any contractual restrictions if it were to sell the Company's owned real estate. A sale of the real estate portfolio is unlikely to trigger a change of control, a sale of

substantially all of Brookdale's assets, or minimum net worth covenants given the value that will remain in the managed portfolio, leased assets, and ancillary service business of the Company.

Taxable gains from the sale of the owned portfolio would likely be largely offset by the approximately \$1 billion in net operating losses on Brookdale's balance sheet.

Becoming an asset-light senior housing management company

As the largest manager of senior housing with over 100,000 residents and 80,000 employees, Brookdale is extraordinarily well positioned to grow its management business. Emulating Marriott International (NYSE: MAR) in the lodging sector, Brookdale should focus on management and not ownership of senior housing properties. The population of seniors over the age of 85 is expected to grow much faster than the population overall, including doubling over the next 20 years, which should cause senior housing unit growth to be greater than hotel growth in the coming years and decades, providing an attractive runway for growth. Marriott is currently trading at 21x 2017 earnings, while BKD trades at only 5.7x 2017 cash flow (including the value of the owned real estate) based on consensus estimates, an absurdly low valuation for a growing cash flow stream.

Brookdale should work aggressively with its landlords, primarily the three largest public healthcare REITs, to terminate its real estate leases and convert all assets it can run efficiently to management contracts. Brookdale's legacy leases with the healthcare REITs are outdated and a relic of the past given the REITs can now lease the properties to taxable REIT subsidiaries and realize the underlying NOI of the properties.

We believe the net asset value of Brookdale, inclusive of the management company and the owned real estate, is at least \$25 per share.

Strong secular tailwinds should drive senior housing demand

Senior housing remains one of the most attractive real estate asset classes from a secular demographic perspective. The senior population aged 75+ with incomes over \$50k/year is expected to grow 40% in 2015 – 2020e, ~3x faster than the national average and there will be 34 million 75+ seniors by 2030, up from 20 million today. Increased life expectancy and an increased penetration rate among seniors is driving significant demand. 40% of the 85+ population needs help with three or more activities of daily living. The penetration rate among 75+ seniors with incomes over \$50k/year is approximately 20%, suggesting annual demand in excess of 5%.ⁱ

To meet this demand, supply growth has increased, and despite overbuilding in some markets, the major owners of properties enjoyed 3.4% same-store revenue growth year-to-date through the third quarter 2016, and 2.7% same-store NOI growth. Rent growth remains remarkably strong, up 3.8% in third quarter 2016 per The National Investment Center for Seniors Housing & Care (NIC). 2017 expectations are for continued low single-digit revenue and NOI growth industry-wide.

Figure 2: Year-to-date Senior Housing Operating Results Have Shown Solid Growth

YTD Senior Housing Operating Results	Same-Store Revenue Growth	Same-Store NOI Growth
HCP (NYSE: HCP)	3.7%	3.4%
Welltower (NYSE: HCN)	4.8%	3.9%
Ventas (NYSE: VTR)	3.5%	1.8%
<i>Brookdale Senior Living</i>	1.7%	1.7%

Source: Company reports, Land and Buildings

It is time for Brookdale's Board of Directors to take affirmative action to maximize value

We have spoken on multiple occasions with Dan Decker, the newly appointed Executive Chairman, and Andy Smith, the Chief Executive Officer, of Brookdale about strategies to maximize value for all shareholders. We have made it clear that circumstances have significantly changed since the Company last evaluated strategic alternatives and now more than ever the time is right for the Board and management to move quickly to maximize value for all shareholders.

Sincerely,



Jonathan Litt

Founder & Chief Investment Officer

Land and Buildings

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About Land and Buildings:

Land and Buildings is a registered investment manager specializing in publicly traded real estate and real estate related securities. Land and Buildings seeks to deliver attractive risk adjusted returns by opportunistically investing in securities of global real estate and real estate related companies, leveraging its investment professionals' deep experience, research expertise and industry relationships.

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ⁱ Brookdale Senior Living November 2016 Investor Presentation; Welltower November 2016 Investor Presentation; Ventas November 2016 Investor Presentation