

# LANDandBUILDINGS

## Land and Buildings Issues Public Letter to Brookdale Senior Living Shareholders

- *Hopeful that Brookdale Management Will Soon Provide Greater Transparency Around Nearly Year-Old Strategic Review Process –*
- *Notes that Value of Brookdale’s Owned Real Estate Alone is Estimated at Approximately \$20 per share, Well Above the Current Share Price of \$9.59 –*

**Stamford, CT** (October 30, 2017) – Today Land & Buildings Investment Management LLC (“Land & Buildings”) issued the following public letter to shareholders of Brookdale Senior Living, Inc. (NYSE: BKD) (“Brookdale” or the “Company”):

October 30, 2017

Dear Fellow Brookdale Shareholders:

Land & Buildings Investment Management LLC (“Land & Buildings”), a 2.7% shareholder of Brookdale Senior Living, Inc. (“Brookdale” or the “Company”), is highly committed to helping unlock the substantial value that it believes is trapped in the Company. Currently, shares of BKD are trading at less than half of the Company’s estimated owned real estate value, despite abundant capital sources investing in the senior housing sector.

In January, Brookdale engaged Goldman Sachs and began a strategic review process, and as recently as earlier this month reiterated in a Form 8-K filed with the SEC that this strategic review process is ongoing. While we are supportive of management’s decision to initiate a strategic review process, we wanted to take this opportunity to offer our perspective on the status of the strategic review process.

We are hopeful that management will provide more transparency on the strategic review process, and while a “no comment” is understandable for a time, given the duration of the process announced earlier this year, we believe investors are now due more transparency from their Board of Directors on the status of the process.

In our view, any company that has undertaken a nearly year-old strategic review process should address shareholders with responses, to the extent applicable, such as:

- We believe there is a reasonable probability of an entity-level transaction based on the current interest we are seeing, but there are no guarantees we will be successful.
- In the event we cannot pursue an entity-level transaction we will consider alternatives to maximizing value such as:
  - Endeavoring to work with our landlords to modify leases in a transaction which is better for both sides.
  - Monetizing as much of the real estate as possible under our leases and distributing as much of net proceeds as is prudent to shareholders.
- We have been advised not to comment on specific transactions or pricing.

- Based on published reports it appears cap rates for comparable properties to Brookdale's have not changed materially this year.

Brookdale is estimated by Wall Street analysts to generate approximately \$400 million in net operating income on its owned senior housing portfolio, which equates to an implied cap rate of 10%+ at the current share price. To put that in perspective, billions of dollars of senior properties have traded in the 5.0% – 6.5% cap rate range in the past 12 months. Even at a 7.0% cap rate on the owned real estate, which would assume a materially inferior portfolio of properties, the value of the real estate alone is estimated at approximately \$16 per share, well above the current share price of \$9.59.

Since 2015, the challenge in monetizing Brookdale's real estate has been the fact that Brookdale must get the consent of its landlords – REITs including HCP, Inc. (NYSE: HCP); Ventas, Inc. (NYSE: VTR); and Welltower Inc. (NYSE: HCN) – for its leased assets in order to engage in certain transactions, including, for example, a sale of the Company. Leases decay as time progresses and with nearly three years having passed, the landlords' leverage on consent approval is waning and the performance of the leased assets has been challenged as Brookdale has struggled operationally. It is likely that a combination of factors will allow for a more manageable solution for all parties.

As we outlined above, the value of Brookdale's real estate is likely well above where its shares are trading. Further, while financing for new construction has largely dried up, the absorption of new supply will likely weigh on operations for another 12 months.

Third quarter earnings are a wild card, particularly given the hurricanes in Texas and Florida and fires in California, as well as the distraction of the strategic review. However, it is highly unlikely that this should result in a material impairment of the value of the Company's owned real estate.

We will continue to monitor the situation at Brookdale as it progresses.

Sincerely,



Jonathan Litt

Founder & Chief Investment Officer

Land & Buildings

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#### **About Land & Buildings:**

Land & Buildings is a registered investment manager specializing in publicly traded real estate and real estate related securities. Land & 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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