Premium Content: Healthcare Nontraded REITs

Nontraded REIT Industry Review: Second Quarter 2015

BLUE VAULT™

Sentio Healthcare Properties, Inc.

Originally formed in 2006 as Cornerstone Institutional Growth REIT, the Company began its initial public offering in June, 2008, with the intention to invest in a diversified portfolio of real estate including health care, multi-tenant industrial, net-leased retail and other real estate in major metropolitan U.S. markets.

The initial public offering ended in 2011, having raised $123.9 million, including DRP, and a follow-on offering ended on April 29, 2011, having raised $8.4 million. On June 19, 2013, the Company filed to offer existing shareholders a DRIP program at an initial purchase price of $10.02 per share.

On February 10, 2013, the Company entered into a private placement agreement with an affiliate of Kohlberg Kravis Roberts & Co. (KKR) and as of March 31, 2015, has issued Series C Preferred Stock and Series B Preferred Units for gross proceeds of $110.2 million and $94.8 million respectively. Both Preferred issues rank senior to the Company's common stock with respect to dividend rights and rights on liquidation. The Series C Preferred Stock receives dividends at an annual rate of 3% of the liquidation preference of each share, and the Series B Preferred Units are entitled to receive cash distributions at an annual rate of 7.5% of the liquidation preference. As a result of the KKR investments, KKR owns an aggregate of common stock equal to approximately 57.9% of the outstanding common shares as of May 1, 2015.

As of June 30, 2015, the Company owned interests in three entities that are accounted for under the equity method of accounting totaling $4.984 million in investments.

As of June 30, 2015, the REIT operated in three reportable business segments: senior living operations, triple-net leased properties, and medical office building properties. The senior living operations segment primarily consists of investments in senior housing communities located in the United States for which it engages independent third-party managers.

The Company has an Advisory Agreement with the Advisor which was amended in 2013 and again as recently as February, 2015 to a Transition Agreement to internal management.

The REIT is in the Maturing LifeStage of closed REITs that is marked by refinement of the portfolio through dispositions, targeted acquisitions and debt policy. Metrics should begin to move in line with publicly traded REITs.

Key Highlights

- Issued additional Series B Preferred Units to KKR to obtain an additional $63.9 million in gross proceeds to be used to finance investment opportunities.
- Began to consolidate its 65% interest in the Blue Springs Community, currently under construction.

Capital Stack Review

- Debt Ratio – The Company's debt to total assets ratio increased slightly to 63.9% as of 2Q 2015 compared to 63.7% in 4Q 2014.
- Debt Maturity – 8.7% of the Company's debt is due to mature in 2015 or 2016. 51% of principal is due in 2019 or later.
- Debt Breakdown – 48% of the Company's debt is at variable rates with an average weighted interest rate for all debt of 3.98%.
- Loan Activity-- During the six months ended June 30, 2015, the Company received proceeds from notes payable of $40.2 million and issued Series B Preferred Units of $26.6 million.
- Cash on Hand – 4.7% cash to total assets ratio is down from the 8.2% ratio reported in 4Q 2014.

Metrics

- Distribution – The Company declared and paid a cash distribution of $0.50 annualized, or 5.00% based upon share price of $10.00.
- Distribution Source – All distributions were funded by cash flows from operations.
- MFFO Payout Ratio – The YTD payout ratio was 51% and 44% for the 2nd quarter, 2015.
- Fee Waivers and Deferrals – None reported.
- Interest Coverage Ratio – The Company's interest coverage ratio of 2.1x for the six months ended June 30, 2015 has decreased from 2.5x for 2014.
- Impairments – None.

Real Estate Portfolio

- Owned 31 properties, including 23 assisted-living and two independent living facilities, one medical office building, four operating healthcare facilities and three other facilities.
- Acquisitions – During 2014 and through the second quarter of 2015, acquired 10 existing senior living communities for a total of 1,042 units. In addition, acquired interests in four properties in development and one participating loan structure.
- Dispositions – None in the last 12 months.
- Occupancy – Not reported.
- Geographic Diversification – Three properties in Illinois, Florida and Massachusetts. Two in Pennsylvania, South Carolina, Texas and Louisiana. Six states with one each.

Cash Flow Analysis

- Operating Cash Flow – Increased 18.7% to $7.7 million for six months ended June 30, 2015, up compared to 2014 period.
- Net Cash Flow – Totaled negative $11.1 million over last six quarters due mainly to $69.3 million in acquisitions and net of $56.7 million in financing cash flows.
- Outlook – Large 46% increase in revenues year-over-year could have trimmed net loss, but operating, maintenance and other expense increases have actually resulted in lower income from operations. These trends must reverse to sustain distributions.

Additional nontraded REITs currently managed by Sentio: None

Nontraded REITs managed by Sentio that have completed full-cycle events: None