

May 18, 2026

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RE: Proposed Conditions for Bethel Transaction

I have reviewed the documents supplied by Jerricho regarding the proposed conditions for the Bethel transaction. I have also discussed these conditions and proposed modifications with the CA DOJ staff. The following summarize my responses to the four main points regarding the transaction's conditions.

1. With respect to the Medi-Cal patient volume floor in Condition VI, I recommend adopting a threshold within 10 percentage points of the community average, measured as the average Medi-Cal share in Bethel's county. As noted in my initial report, using this metric, the current community standard for Bethel is approximately 60 percent, meaning Bethel would be required to maintain a Medi-Cal share of at least 50 percent. Compliance can be measured using annual data on facility payer mix.

For administrative simplicity, I also recommend treating 60 percent as the community standard going forward, unless Bethel presents evidence to the California AG's office that the Medi-Cal share in Bethel's county has meaningfully declined.

These conditions should give Bethel the flexibility to adapt while also continuing to meet its obligations to its community.

2. With respect to the fair market rent determination in Condition XI, given concerns around profit "tunneling" through rental agreements, I continue to recommend that the parties obtain an independent third-party assessment of fair market rent for the property and incorporate that determination into the lease agreement. However, I understand there may be timing constraints that could make it impracticable to complete such an assessment before the planned closing date.

In the absence of an independent third-party assessment, I propose setting the rent for the SNF at \$900 per bed per month. This figure reflects the upper end of the market comp range provided by the parties, which range from \$800 to \$900 per bed per month for SNFs with fewer than 99 beds. This range is also consistent with a 2024 investor survey conducted by CBRE, which found that capitalization rates for SNFs ranged from approximately 11.2% to 13.4%.

As Bethel has 59 SNF beds, rent of \$900 per bed per month would result in total monthly SNF rent of \$53,100. This is \$36,900 less than the \$90,000 currently reflected in the

rental agreement. Even if the parties' comps provide an accurate representation of the market in Southern California, this likely represents an upper bound of fair market rent for Bethel, as Fresno is generally a lower-cost area.

Based on the limited data available, the proposed rent for the ALF and ILF appears consistent with the comparables provided. Therefore, I propose leaving the ALF and ILF rent unchanged in the absence of a third-party assessment. Accordingly, the proposed adjustment to the SNF rent would reduce total monthly rent from \$150,000 to \$113,100.

The mortgage lender for the property may have performed additional assessments of the value of the property, fair market rent, or other considerations that factored into the SNF rent assessment. I would welcome such information to incorporate into my assessment.

3. The parties also object to capping future rent increases at CPI, stating that “[t]he CPI cap is equally inconsistent with how the private market structures healthcare facility leases.” While I believe CPI is a reasonable measure for capping future rent increases, an annual rent cap of 3% would also be a reasonable alternative. A 3% rate increase is supported by the data provided in the parties’ letter, which indicates that some healthcare facility leases include annual rent escalators of 2.5% to 3%. However, the rental agreement proposed by the parties does not appear to include any rent escalator.

The letter also references HUD OCAF data for California as a potential measure for capping future rent increases. However, like CPI, HUD OCAF factors are updated annually. The average HUD OCAF factor for California over the last ten years is approximately 3.9%, which is below the 4.9% OCAF rate as of 2026. OCAF also primarily measures increases in operating costs, whereas 2280 Dockery Holdings LLC appears to have some protection from operating cost increases. Under the proposed agreement, Bethel is responsible for improvements and maintenance to the property. As a result, the primary potential cost increase for 2280 Dockery Holdings LLC would likely be increased borrowing costs. However, if the property’s loan is at a fixed increase, the borrowing costs would stay the same even if inflation were to increase and could even later decrease, if the property is able to later refinance at a lower rate. If the financing agreement is not at a fixed rate or is otherwise tied to a flexible rate, I would welcome such information to incorporate into my assessment.

4. The parties propose decreasing the period over which the conditions would apply from ten years to five years. In my opinion, five years is too short of a period. However, a period of seven years may be reasonable.