THE ESSENTIAL GUIDE

Dealmaker's Handbook 2009

- It's a new ball game
- 100 and counting
- Tailoring loans
- Finding value

A SUPPLEMENT TO
McKnight's LONG-TERM CARE NEWS

IN PARTNERSHIP WITH
NIC
National Investment Center
for the Seniors Housing & Care Industry

Dealmaker's Handbook

Capital improvement?

Opinions diverge considerably when it comes to the subject of capital availability. Of course, the same might also be said about the current state of our nation.

When our country's financial markets teetered on the brink a year ago, there were real concerns that the entire economy just might implode. Fortunately, we seem to have backed away from the precipice. Still, there are plenty of scars to remind us of a tough fight that may not yet be over.

As two of the hardest hit sectors of the ongoing recession are finance and real estate, it would be easy to conclude that senior living might be at Ground Zero of the trouble. It would also be wrong. In fact, seniors housing is faring well when compared to other types of real estate, as John Andrews notes in a story that begins on page 4. Moreover, operators have continued to retain access to government and private funding sources.

A steady stream of encouraging economic news has finally begun to trickle in. It might still be way too early to exhibit irrational exuberance. But it does appear that the worst is behind us.

With this, our fourth annual *Dealmaker's Handbook*, we hope to provide a helpful look at the developments and trends that are reshaping senior living.

We again owe special thanks to Bob Kramer and his team at the National Investment Center for the Seniors Housing & Care Industry. There is simply no group of people anywhere more dedicated to serving the needs of dealmakers in this field.

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McKnight's
LONG-TERM CARE NEWS

PHOTO: ALBUQUERQUE CONVENTION & VISITORS BUREAU

In the wake of the greatest economic downturn since the Great Depression, providers take heed: The rules for providing and acquiring funds are changing

It's a new

BY JOHN ANDREWS

When it comes to capital availability for senior living, views tend to align with perspectives toward the nation's larger economy. While there is a growing sense that conditions may be improving, concerns linger that a complete recovery may still be far off.

Optimists tend to point toward so-called "green shoots"—a metaphor for signs of life in the financial landscape—and see bright patches as the first signs of coming growth. Conversely, skeptics still abound and typically wonder whether a struggling economy has truly bottomed out or may yet plumb new depths.

The seniors housing sector has done a comparatively good job of weathering the storm, maintains Robert G. Kramer, president and CEO of the National Investment Center for the Seniors Housing & Care Industry.

"Seniors housing is faring very well compared to other forms of commercial real estate," he said. "First and foremost, seniors housing has ready access to the government service enterprises, which includes Fannie Mae and Freddie Mac, which will lend on stabilized independent living and assisted living assets; and HUD, which will lend on assisted living and skilled nursing, both new construction and existing properties. Other forms of commercial real estate, like offices or hotels, have had to rely on commercial mortgage-backed securities for permanent, take-out financing."

In the wake of the mortgage meltdown, Kramer said the commercial mortgage-backed securities market has "completely shut down and is showing no signs of returning as of now." Seniors housing is also faring much better than commercial real estate on the operations side as well, he said.

"Seniors housing is faring very well compared to other forms of commercial real estate."

Robert G. Kramer
President
NIC

"Occupancy has fallen on a year-over-year basis for all forms of commercial real estate, including seniors housing," he said. "But while rents have declined on a year-over-year basis by between 0.5 percent and 7.7 percent for commercial real estate, they have maintained positive growth of 3 percent for seniors housing. This fact means that net operating income is still growing in our industry, while it is declining in other real estate sectors. This will be very important to monitor throughout this downturn."

Even so, Kramer concedes that "it is probably too early to state that the turnaround has begun," despite some positive economic indicators.

"The housing market seems to have reached its bottom as indicated by the Standard & Poors/Case-Schiller Composite-20 Home Price Index showing month-over-month improvement from April to May," he said. "However, the housing market overall is still at the lowest levels since 2003, so it might be more appropriate to assume we have reached the trough rather than a turnaround."

Steve Gilleland, director of healthcare real estate for Chevy Chase, MD-based CapitalSource, says he is "slightly optimistic" about the future of seniors housing finance, but he added that hasn't seen enough to generate sound confidence.

"I see signs of life, but the lending organizations are still fragile and constrained," he said. "Some banks have become active, but just as many are still in capital preservation mode. We may have reached bottom, but we'll be bouncing along the bottom for a while."

CapitalSource however, "is fortunate to be in a position to lend" despite not accepting any Troubled Asset Relief Program funds, Gilleland said, because

ball game

it acquired the troubled Fremont General Inc. last year. As a lender, CapitalSource focuses on existing cash flow deals rather than new construction. Typical projects include acquisitions financing and refinancing existing debt.

"We were never a construction lender – that funding has really dried up," he said. "We underwrite stabilized and sustainable cash flow. And while we used to do mezzanine loans, we don't anymore."

Saddlebrook, NJ-based M&T Bank is doing "all types of financing—we're just being more selective," said R. Buford Sears, senior vice president and senior health care advisor. "Not selective from a risk standpoint, but from a return standpoint. We are also raising the bar in terms of having a meaningful relationship beyond just a loan.

"As a company, we are a net positive generator of capital—one of only a handful of banks who can say that," he continued. "We still have capital available, but we're more judicious about it—we will continue to finance all property types in various combinations. It needs to have the appropriate capital structure, sponsorship and the right people operating it. We look at experience, a strong track record of providing high-quality service and the right product at the right price at the right location."

"We still have capital available, but we're more judicious about it."

R. Buford Sears
Senior VP
M&T Bank

Implosion aftermath

Given the enormity of the financial market collapse in September 2008, any optimism floating around the seniors housing segment at this point can probably be considered good news. It was just one year ago that chaos and panic reigned on Wall Street. In the wake of a financial meltdown, the nation was facing its worst crisis since the 1929 Crash.

September saw the collapse of Lehman Brothers, Fannie Mae and Freddie Mac. The Lehman Brothers bankruptcy ignited a virtual freeze in the credit markets. The bond market completely shut down, drastically affecting real estate investment trusts and nonprofit continuing care retirement communities. Large commercial credit companies were further weakened and regional banks withdrew and became even more conservative lenders.

Uncle Sam lends a hand, but many unsure if it's new hope or hype

BY JOHN ANDREWS

The busiest lender in the seniors housing sector—or probably any other, for that matter—is the federal government's HUD program. While commercial financial institutions have stayed on the sidelines during the capital crisis, borrower lines at the HUD office are figuratively out the door and around the block.

And though they are beleaguered by other real estate transactions, Fannie Mae and Freddie Mac remain strong in seniors housing, analysts say.

Some see the high rate of activity among government service enterprises as a staunch positive for the industry, while others wonder if there is too much reliance on them.

Under HUD's new "Lean" Section 232 program, loan processing is designed to be streamlined by creating standardized checklists, third party work statements, certifications and templates for the application package. Based on a concept pioneered by Japanese car giant Toyota, HUD Lean's intent is to improve flexibility in financing and reduce borrowers' wait time over the old HUD MAP (Multifamily Accelerated Processing) process.

Though he had initial doubts about HUD Lean, Jeff Binder now believes it is on track to make a difference.

"The transition from HUD MAP to HUD Lean was not as smooth as most were hoping and was a significant factor in the restriction of capital as we entered 2009," said Binder, managing director of St. Louis-based Senior Living Investment Brokerage. "However, it appears that the flow of commitments and completed deals is increasing, which is obviously a positive for the sector."

NIC President Robert G. Kramer says the industry needs the HUD option right now because "they are virtually the only lender that will lend on new construction." But he cautions that its capabilities are finite.

"By no means can they provide financing to a meaningful percentage of the properties that desire or need it," he said. "HUD has limited processing capability and not every loan will fit into their underwriting criteria. In addition, some operators find that the restrictions that come with HUD loans make them unattractive."

Brian Pollard, president of Columbus, OH-based Lancaster Pollard, calls Lean's results "very exceptional" so far, but wonders if the new program will be slowed by "exceptionally strong" demand. Overall though, the industry has benefitted from such activity in the seniors housing field, he said.

"Fannie Mae and Freddie Mac are continuing to close deals—largely independent living and assisted living properties," Pollard said. "The USDA is closing healthcare and senior living transactions under its various programs in rural markets. This is very beneficial, especially as private sector capital continues to be restrained."

Kramer cautions, however, that while Fannie and Freddie are committed to independent and assisted living properties, "the political environment surrounding them is fragile at best" and that both are under mandate to begin drastically shrinking their portfolios by 2010.

"While much on their books can be packaged and sold via mortgage-backed securities, the mandate will invariably result in reduced lending," he said. "This, by nature, will be a threat to their current levels of lending in our industry. It remains to be seen how this plays out, but it will be very important to monitor this situation."

Given such conditions, signs of a thaw in summer 2009 are somewhat encouraging, Kramer said.

"Investment bankers have been reporting an increased appetite among investors in municipal and corporate bonds, which should help both not-for-profit CCRCs as well as healthcare REITs more effectively raise capital," he said. "This is an important first step in the reopening of the capital markets."

Government-sponsored enterprises are another bright spot for seniors housing, Kramer said.

"They remain open for business and, comparatively speaking, their price for capital is more than reasonable by today's standards," he said. "Local banks are also open as they largely were not participants in the types of loans that caused the credit crisis. They have limited balance sheets but can fund projects under $10 million with fairly reasonable terms. Regional banks may be open to existing customers but with terms that are much tougher for borrowers. REITs have capital to deploy but will want to see stability in the credit markets and are likely waiting for pricing on deals to move more in their favor."

'Much different environment'

While seniors housing seems to have weathered the financial collapse better than other segments of the real estate market, the negative implications for its continued growth and prosperity remain in place at this point and are likely to continue for some time to come, Sears said.

"It is a much different environment today—it's difficult to overstate the difference," he said. "The amount of capital available today is much less than a year ago. Our view is that we may have seen the bottom in the economy, but we don't see any meaningful improvement until at least the second quarter of next year."

The capital freeze—which has stifled all areas of the economy—is especially harmful to a market like seniors housing, which is so dependent on capital for its existence, he said.

"Seniors housing is ultimately a capital-intensive industry and capital is scarce and expensive," Sears explained. "So in comparing it to other industries, it is probably below the median, meaning it is in worse shape."

Even so, facility operators that are adhering to strong fundamentals should be able to get necessary capital, despite the widespread drought.

"Keep your eye on the ball with a laser-like focus on good operations," Gilleland said. "That leads to high quality care, which leads to positive surveys, which means good, stabilized cash flow. That is what we as lenders are looking for." ■

SNF private-pay rent growth comparison

Leaders

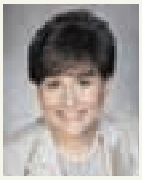
Rank	Metro	Daily revenue
1	New York	$326
2	Boston	$301
3	San Francisco	$282
4	San Jose	$255
5	Philadelphia	$254

Laggards

Rank	Metro	Daily revenue
27	Atlanta	$165
28	Kansas City	$155
29	Houston/St. Louis	$148
30	San Antonio	$146
31	Dallas	$140

Source: NIC MAP © 2009: National Investment Center for the Seniors Housing & Care Industry.

Pritzker, Stein to speak



Penny Pritzker, CEO of Pritzker Realty Group and founder of Classic Residence by Hyatt, will speak at the upcoming NIC Conference. Also delivering a keynote will be Ben Stein, a well-known economist and humorist. This year's conference is Sept. 23-25 at the Sheraton Chicago Hotel Towers.

The theme is: "Succeeding in a Capital-Constrained Environment: Emerging Stronger, Smarter, Better."

"In a market where fewer deals are getting done and capital is difficult to access, opportunities for networking become even more important," said Robert G. Kramer, president of NIC. "In addition, access to reliable data takes on greater significance. Our conference provides dedicated opportunities to connect capital with providers looking to refinance, expand, develop or renovate properties. Attendees will get the latest data results from NIC MAP's expansion into the top 100 metro markets and advice from peers on how to best operate in this constrained environment."

At the opening plenary session on Thursday Sept. 24, Pritzker will speak as a member of the President's Economic Recovery Advisory Board, an outside group of experts who advise the president on economic policies, and as former national finance chair of President Obama's campaign.

100 and counting

In less than a decade, the NIC MAP® service has grown to the point where it now tracks 100 markets

BY JOHN ANDREWS

The NIC Market Area Profiles® (NIC MAP®) service has increased its market tracking capability 100-fold in seven short years—dramatically expanding its ability to provide seniors housing market data for cities around the country.

Starting with one Metropolitan Statistical Area in 2002, NIC MAP® incrementally grew to 31 MSAs through 2008 and added 69 more this year. Now NIC MAP Vice President Mike Hargrave says his system offers market data for approximately 63% of the United States.

To accommodate NIC MAP's beefed-up capability to track an additional 69 markets, Hargrave oversaw the rebuilding of the entire database using "three-dimensional data cube" technology, the same method credit card processing and telecommunications companies use for billing. After a two-year gradual implementation period, the new system debuted in June.

"This allows us for the first time to grab some really strong insights into these markets," Hargrave said.

"We want to bring more sophisticated capital to the sector, which is institutional investors," he explained. "They are attractive because they have longer hold periods and bring larger amounts of money into the market. Otherwise, we're just an opportunity sector."

"We want to bring more sophisticated capital to the sector."

Michael Hargrave
VP-NIC MAP®
NIC

A 'simple' idea

NIC MAP originator Tony Mullen says the subscription service began germinating nearly 20 years ago with NIC's inception.

"It was a rather simple idea in that if you are going to grow as an industry, you have to have a sense of supply and demand, revenue levels and performance of properties," said Mullen, now an NIC senior fellow.

When seniors housing started to take off in the mid-1990s, investors and lenders had to take some extraordinary measures to get even the most basic data about the marketplace, Mullen noted.

"We were lucky to find a good research partner in Margaret Wylde," Mullen said. "That was the catalyst that launched it. It has been a strong team effort by everyone over the years."

Wylde, president and owner of Oxford, MS-based ProMatura Group, has handled the data collection responsibilities for NIC MAP since 2004.

"My initial thoughts about the project were that it would be challenging, but the effort would be more than worth the pain of getting it going," Wylde said. "As a researcher, I am absolutely delighted with the information NIC MAP affords the industry. NIC's insight and forbearance in getting this going, the NIC task force members' dedication to working through many of the minute details and the gradual acceptance of participating as an industry responsibility has been slow, but steady."

But getting buy-in at first took a lot of convincing, Wylde recalled.

"We had to get people to trust the fact that their data would be anonymous," she said. "We still have difficulty obtaining data from some communities and companies because they will not accept the fact that their data will be protected."

Challenging assumptions

Apparently the MSA rankings are somewhat fluid as number 100 has been identified as either Ogden, UT, or Lancaster, PA. Regardless, a cursory study of the "bottom 69" markets has yielded some surprises, Hargrave said.

"The biggest one is that occupancy rates are higher in the secondary markets than in the core metropolitan areas," he said. "It was the opposite of what we expected to see."

That finding is bound to raise questions as researchers learn more about the dynamics of less densely populated areas, Hargrave said.

"This tells us that in growth industries like seniors housing, barriers to entry don't play as big a role as people think they do," he said. "We're learning that there is more stock in secondary markets, but that's not realistically playing out in operating fundamentals, so the question becomes: Is higher penetration good for the sector and if you're developing there, should you look at it as a good thing?"

As NIC MAP greatly expands its market tracking area, Wylde says her challenge will continue to be generating accurate data from such respondents.

"We have to instruct providers not to inflate their numbers and to give us honest data," she said. "We have to teach them that their data are anonymous and that if they inflate their numbers on occupancy, they are raising the standards in their market area."

"It has come a long way in a short amount of time."

Tony Mullen
NIC Senior Fellow

Future analysis

By any measure, NIC MAP has made impressive strides in the expansion of its market coverage and data processing technology over the past seven years. Now that it has the capability to study 100 markets in depth, what goals are on the horizon?

One possibility is to expand the metrics currently being studied, though Hargrave concedes that there is still more data to extract from the current measurements being gathered.

"In the future, we will want to analyze other things like sales transactions and below-the-line metrics, such as average expense line items like labor and food, as well as operating income and profitability. But those measures are pretty involved and we're just preliminarily looking at the feasibility of them."

NIC MAP continues to track all of the original variables, refining them along the way.

Mullen marvels at how NIC MAP has progressed since the early days and believes much more can be accomplished in the future. Even brighter days are ahead, he believes.

"It has come a long way in a short amount of time, producing what some have called the most objective data out there because of the high response rate and diligence toward accuracy," he said. "It will continue to evolve as it rises up the bell curve and it should only get better over time." ■

What the new numbers are revealing

Here are some eye-opening statistics revealed by adding 69 new Metropolitan Statistical Areas to the NIC MAP Service:

• The top 31 MSAs range in size (in descending order) from 18.8 million to 1.8 million people and the total population for these metro markets is approximately 136 million. The 32 to 100 top MSAs range in size from 1.7 million to 0.5 million and the total population is approximately 58 million.

• Occupancy rates in markets 32 to 100 are consistently higher for stabilized properties across the three major property types.

• Seniors housing's average occupancy rates (independent living and assisted living) are 130 to 150 basis points higher than the Top 31 and in nursing properties they are 80 basic points higher.

• Penetration rates are also higher in markets 32 to 100 for assisted living and nursing.

• While approximately one-fifth of households headed by someone over 75 live in one of these property types in the Top 31, close to one-quarter of these households in markets 32 to 100 live in one of the property types.

• The median number of units in an independent living property in the Top 31 is 164; in markets 32 to 100, the median is 151. The median number of units in an assisted living property is 69 in the Top 31 and 60 in markets 32 to 100. The median number of nursing units is 120 for both the Top 31 and markets 32 to 100.

Tailoring loans to a new market

More lenders are considering 'creative' financing, but restraint remains

BY JOHN ANDREWS

Much has been written about how the capital crunch is squeezing seniors housing lenders, but the impact on borrowers has received considerably less attention. While some facilities are well positioned to ride out the funding shortage, others in limbo may face serious financial consequences.

For instance, properties in the skilled nursing segment are aging, and operators need to invest in rehab and new construction. Yet the dollars are hard to come by for these projects, said Robert G. Kramer, president of the National Investment Center for the Seniors Housing & Care Industry.

"We have seen little improvement in the sentiment towards financing new development or improvements to existing facilities," he said. "The average freestanding nursing home in the United States is 35 years old. That model was built for a different era and is functionally obsolete by today's standards. Despite the desperate need for building new and renovating existing properties, there is no focused national effort towards doing so."

Generally, state-based reimbursement does not support new nursing home building and there is little debt or equity capital available to build new facilities, Kramer said. There are a few companies employing a "Certificate of Need" replacement strategy, he said, but "they are far too few to make a difference for the SNF industry."

As a result, NIC is going to devote special attention to this issue by holding a National Skilled Nursing Investment Forum in March 2010, which will offer capital and reimbursement strategies for replacing, renovating or otherwise upgrading aging skilled nursing facilities.

On the seniors housing side, regional banks, real estate investment trusts and tax-exempt bonds were fueling a growing interest in new construction until the credit crisis.

"There was growing recognition that the new seniors developments generate tremendous surges in demand and are very desirable communities," Kramer said. "This phenomenon is likely on hold while we ride out the credit crisis, but I would expect this to gain steam again after 2012 or so."

For now, what do providers do to get capital?

"If you are in a position where you need capital or financing, you'd better have your house in order," Kramer said. "This includes being very transparent about your business. The best advice is to be open and begin conversations very early in the process. Now may be the time to set your strategy. The evidence is mounting that seniors housing will outperform many asset classes during this downturn and that will no doubt catch the eye of many discerning investors, both inside and outside this industry. I recommend getting your hands on some of the data that NIC produces to support your case in beginning to raise capital."

'Adverse' conditions

The shrinking availability of capital has created some "adverse conditions" for borrowers who need a boost from lenders, said Doug Korey, managing partner of Shrewsbury, NJ-based Contemporary Healthcare Capital.

The risk to the overall market today is that if capital does not return to normalcy within a reasonable term, loan maturities or sales that need to occur due to negative financial performance will not get closed, Korey said. If this happens, banks and investors will have to hang onto the loans. If banks or investors need to raise capital, operators will be faced with buyers that are opportunists—not healthcare lenders, he said.

"As seniors housing lenders have decreased the amount of loan to value, the increase in equity needed to close an acquisition or repay an existing loan becomes onerous on many borrowers today," he said. "Therefore, we have developed a product that solves this dilemma and bridges the loan until the capital markets recover."

"We're seeing a lot of short-term creativity and new awareness of existing options but few truly new programs or approaches."

Dan Biron
SVP and Director of Healthcare Programs
Lancaster Pollard

The new loan option allows qualified borrowers to borrow up to 95% of total costs of the financing —including working capital, capital expenditures and closing costs—with a senior mortgage product. The product allows for a fixed rate of interest for up to five years and is pre-payable at any time. It includes an equity kicker upon repayment that allows both the borrower and the lender to share in the upside of the transaction, Korey said.

"This product compares favorably to REIT financing by allowing the borrower to make a small investment while maintaining the ownership and control of the facility," he said. "Also, since the borrower can repay the loan at any time, it allows the borrower to replace the higher-cost loan with lower-cost financing once the facility has attained a certain operating level."

Need for creativity

"We're seeing a lot of short-term creativity and new awareness of existing options but few truly new programs or approaches," said Dan Biron, senior vice president and director of healthcare programs for Columbus, OH-based Lancaster Pollard. "Some lenders have come forth with good options for providing bridge financing and construction loans, but these will solve only a handful of one-off transaction dilemmas, not provide a comprehensive new solution. Borrowers should be sure that a lender has the capacity to take on their debt if the option is put forward."

While most of the attention on government service enterprises' vigorous seniors housing activity has been on HUD, Biron points out that the USDA's Business and Industry Program is proving to be a favorable option for rural providers. ■

Location seen as most important variable for IL residents

Independent living residents say being close to family and friends is the single most important factor in selecting a community, a study by the American Seniors Housing Association has found.

Among the report's highlights:

- Nearly two in three residents learned about the community by word of mouth.
- Resident incomes varied widely, though one-fifth of new residents had annual incomes of less than $25,000.
- Just over 50% of new residents had been hospitalized in the last two years, indicating they sought a supportive living arrangement with services such as meals.
- About 37% of new residents had long-term care insurance, a much higher percentage than the general population.
- Some 70% of respondents said their experience at the new building exceeded their expectations.
- Residents of larger, newer communities were more satisfied than those in smaller, older ones.
- The more help a resident needed with activities of daily living, the lower the satisfaction level.

Source: ASHA 2009

Finding value

Under normal conditions, assigning value to a property can be a daunting challenge. These days the job can be especially difficult

BY JULIE E. WILLIAMSON

As many seniors housing operators are keenly aware, there's a real art and science involved in making accurate property valuations—even when the economy is thriving. But when market changes and a recession are factored into the equation, putting the right number on a property may seem like an exercise in fiscal futility.

"The valuation of a property is the price at which a buyer will [purchase] that property from a seller," explained Michael Hargrave, MAP director for the National Investment Center for the Seniors Housing & Care Industry in Annapolis, MD. "But in order to find that value, actual transactions need to be occurring. That's the problem right now. There's just not a lot of activity happening. There is activity happening in [the realm of] refinancing, but is that the same as value? I'd argue no."

NIC's key financial indicators pinpoint the current state of seniors housing property valuation. Capitalization rates, the ratio of annual net operating income produced by a building divided by its value, are on the rise—as much as 100 basis points or more, depending on the asset class, according to Hargrave. As of first quarter 2009, cap rates for independent living rose to 8.1%, compared to 7.6% last year and 7.7% in 2007. In assisted living, cap rates for first quarter 2009 were 9.9%, up from 8.8% in 2007 and 2008. To put those rates in perspective, the cap rates for the same quarter in 2003—prior to the real estate boom—were 10% for assisted living and 10.9% for assisted living.

The lower the cap rate, the longer it takes to see a return on investment. When the real estate market reached its peak a few years ago, cap rates hit record lows.

"Now that values have retreated, cap rates are up," said Hargrave, adding that he believes cap rates for seniors housing have even more room to rise as the market corrects, much like what's happening in the residential housing sector.

Bridging the gaps

For sales to occur, buyers and sellers naturally need to see eye to eye, and getting there has become increasingly difficult as buyers seek the greatest deals and sellers attempt to recoup the highest amount possible from their investments.

"[Sellers] have a threshold they need to meet in order to complete the transaction," reasoned Meredith Oppenheim, senior vice president of Savills, the world's third largest real estate services group.

Beyond that, a lack of capital and financing opportunities are making it difficult for even interested buyers to secure the transaction. Even with attractive prices, which are beginning to generate buyer interest, Hargrave estimates it might be another year or more before the pieces start to fall in to place—namely, on the capital markets and lending side.

"You might say that the wheels are somewhat in motion, but it's going to take some time for all those pieces to come together," Hargrave noted.

While property owners wait for the tide to turn, it will behoove them to use that time to enhance the soft assets of their community to better position the property and strengthen its value.

The standard attributes that influence determination of value—age and size of property, location, site, market area, demographics, occupancy, and pricing—can be irrelevant in the realm of age-qualified housing, said Bernie Smith, chief operating officer, ProMatura Group LLC, Oxford, MS.

"Just as a physician cannot thoroughly examine patients by looking at them, a community cannot be valued without looking beneath the skin of the property to its lifeblood, which is the true satisfaction of residents," Smith said. The willingness of existing residents to recommend the property ultimately becomes the most effective way to market the property, generate leads and increase or maintain high occupancies. This, he reasoned, explains why some lovely buildings in good locations are facing a steady decline in occupancy and revenue, while some neighboring communities with less impressive physical plants are maintaining healthy occupancy and profitability at essentially the same price as the floundering community.

Focusing on soft assets has become increasingly important the past two to three years as more seniors, many of whom are now unable to sell their homes or tap into equity, are having to delay their move into a seniors housing community.

"If people are coming in later and their stay is shorter," then these properties had better be able to deliver, according to Oppenheim. That means ensuring that properties are being managed effectively and efficiently while keeping the mission and the operating philosophy focused squarely on the needs of the residents being served.

"This is a high-touch business," she stressed. ■

"A community cannot be valued without looking beneath the skin of the property to its lifeblood, which is the true satisfaction of residents."

Bernie Smith
COO
ProMatura Group LLC

Tips for finding value in intangible assets

• Recognize that retirement communities are not just bricks and mortar. They are living organisms that are born of the union of residents, families, staff, management, customer service, communications, marketing, policies, budgets, creativity, spirit, personalities and the integration thereof.

• Go deeper and look beyond the traditional attributes of the real estate and market conditions to the "soft" assets of a community to determine its true value. Study the success-sustaining systems of the community to determine if the strong occupancies are fleeting and have been based on luck and the "fat markets" of the past, or whether there are systems in place to maintain occupancies for the long-term.

• Evaluate the culture of customer service and whether it is ingrained, pore over the budgets and learn where monies are spent, assess policies for providing services to residents, and assess their flexibility. Dissect marketing and sales data, listen to customers, obtain and study improvement surveys, and, above all, look at how new customers are obtained. Studies of individual communities reveal specific results that led to their success or decline. Sometimes, it is a single attribute, but most of the time, a multiplicity of conditions affects the community's health. Measures akin to a whole-body scan can detect on-again, off-again customer service; archaic policies; lack of flexibility; lack of cohesiveness in employees' commitment to customers; stifled creativity; limited two-way communication; and other attributes that yield the true health and value of the business—not just the valuation of the real estate.

Source: Bernie Smith, chief operating officer, ProMatura Group LLC

Budget conscious

As more fiscally strapped seniors enter the market, affordable housing has become an increasingly popular—and necessary—living option

BY JULIE E. WILLIAMSON

Not long ago, affordable senior housing was almost an afterthought. A bullish market led to easy financing, inflated assets and increased liquidity. That meant operators could focus on higher-end communities with little worry about maintaining a strong census. Today, it's a far different story.

As an onslaught of financially strapped seniors — many of whom lost savings in the market crash and their equity in the real estate bust—find themselves in need of more affordable housing options, more developers are responding.

"Many [seniors] in need of affordable housing today never dreamed that they would be devastated by the [economy] and are wondering how and where they are going to live," said Pat DiFiore, executive director at Barton Senior Residences in Zion, IL. "The industry has to prepare itself in a different way for the group of seniors entering [seniors housing]."

DiFiore should know. Together with John Schlofrock, president of Barton Healthcare, she helped design an assisted living program that has become the model for the State of Illinois' Supportive Living Program, an alternative to nursing home care for low-income seniors and those with disabilities covered under Medicaid.

To support the program, the Department of Healthcare and Family Services obtained a waiver to allow payment of services that are not routinely covered by Medicaid. These include things such as personal care, homemaking, laundry, medication supervision, social activities, recreation and 24-hour staff to meet residents' scheduled and unscheduled needs. The low-income resident of the assisted living facility is financially responsible only for his or her room and board.

First of dozens

Rush Barton, the flagship supportive living facility in the state, was a joint venture between Rush-Presbyterian-St. Luke's Medical Center and Northfield-based Barton Senior Care LLC. Its doors opened in January 2001.

"Today, there are [approximately] 80 other [supportive living facilities] across Illinois," said DiFiore, who, prior to joining Barton, had developed nine other facilities that were predominantly private pay.

The increasingly apparent need for another alternative is what ultimately led to the development of Rush Barton, and the dozens of similar facilities across Illinois that followed.

A growing number of affordable seniors housing communities are being developed in today's market with the help of grants and other forms of financing–and a tremendous amount of planning, patience and due diligence.

One senior living campus located in Staten Island, NY, recently opened 104 units of affordable senior housing and two-phase plans are in place to develop 345 additional units to meet the growing needs of the community's high concentration of seniors. The development was born through a public-private partnership and will become the first in the city to offer both independent and assisted living residences for moderate- to middle-income New Yorkers.

The Sea View community will occupy approximately 15 acres of land to the north of the Staten Island's historic Sea View Hospital Rehabilitation and Home and will border a 35-acre park preserve. The first phase of development—costing $65 million, with $45 million funded by a grant from New York City—is slated for a late 2011 completion. It will house 170 residents in 132 assisted living units.

"The industry has to prepare itself in a different way."

Pat DiFiore
Executive Director
Barton Senior Residences

Fully serviced

Met Council, one of New York's largest human services agencies and the project's co-developer, will arrange for services for residents of the assisted living component, including meals, personal care, weekly housekeeping, laundry service, social services, medical and mental health service referrals, recreational activities, and transportation to shopping and community facilities.

On-site assisted living facility staff will provide case management, referrals to offsite healthcare agencies, benefits and entitlements information, and other services. Many of these services also will be available on an a la carte basis to the independent living residents.

"There are 114,000 seniors in need of affordable, service-enriched housing today," stressed Ken Simons, chief operating officer of Leewood Real Estate Group's New York division, the Sea View project's co-developer. "The need is now."

Meeting that need is anything but a simple process, however. Thus far, the Sea View project has been a 10-year process.

The aging-in-place concept has been the core focus of a widespread renovation project at Wesley Village, a 38-year-old seniors housing community in Shelton, CT. The project's costs were offset by three assisted living conversion grants totaling $10.6 million, and falls under Section 221(d)(3), which insures mortgage loans to facilitate the new construction or substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families, elderly and the handicapped. (For assistance with the grant process, UMH relied on a consulting group that specializes in applying for Department of Housing and Urban Development grants.) On the independent living side, there are 90 one- to two-bedroom cottages fully equipped with a living room, kitchen and bathroom. A separate independent living building offers 90 additional apartments (absent of full kitchens) and a central dining room. Half of the apartments, including the cottages, allow Section 8 rent subsidies.

"The median age of our residents [has increased], with the average age in the high 80s," said Bob Congdon, UMH's director of development. He explained that when the building was developed nearly four decades ago, it was designed with standard bathtubs that were no longer meeting the needs of many of the community's residents.

The Wesley Village community also staffs two resident services coordinators who coordinate funding to help residents age in place. If assisted living is required, there are two options: one a market rate facility; the other, subsidized.

Cutting costs, not quality

More than ever, affordable communities are rivaling their market rate counterparts in both aesthetics and services. The Staten Island Sea View renovation project, for example, will allow for the addition of a billiards room, lap pool, business center, computer lab, fitness center, library, meeting room and auditorium.

At Chicago's Rush-Barton, which sits on a 1.5-acre site just southwest of downtown Chicago, residents have access to lush, landscaped grounds and a quarter-acre courtyard with patios and a gazebo. That kind of attention to detail also extends to the complex's interiors. Each of the 139 apartments (133 studio units and six two-bedroom units) features kitchenettes, a handicap-accessible bathroom and an emergency alert system.

"Beautiful, quality affordable housing is possible, but you have to do a day-by-day, week-by-week analysis of where the dollars are being spent," reasoned DiFiore. "Dollars are limited, so you have to look for bargains and be willing to be flexible with the plan." ■

Trimming the fat

Knowing what expenses to cut and where to cut them is key to maintaining efficient and sound operations

BY JULIE E. WILLIAMSON

A penny saved may indeed be a penny earned, but all too often, seniors housing communities fail to take simple steps to reduce or eliminate unnecessary costs.

Some operators mistakenly assume that controlling costs is synonymous with cutting costs—that is, assuming that any cutback is beneficial as long as dollars are saved.

"Not true, though," stresses Jim Moore, president of Moore Diversified Services Inc., Fort Worth, TX. "Operating with greater efficiency requires that there's a good understanding of what to cut and what not to cut."

Another common mistake is failing to understand the dangers of cost creep (providing higher levels of care and service without assigning a corresponding price increase to offset rising expenses) that disrupt the economic balance and deliver a severe—and potentially fatal—blow to an operator's profit mar-

gins. Many owner/operators are experiencing a $1 million-plus wake-up call that, if ignored, could lead to their eventual demise, Moore warns.

Staying ahead of that curve requires focus and due diligence, and a commitment to accurately and continuously analyzing operational expenses.

Small changes, big rewards

Effectively controlling costs isn't easy, Moore acknowledges, but it's nonetheless essential for driving both short- and long-term success. Taking an honest look at where and how dollars are being spent and then using those calculations to run regular reports is a critical first step.

"If you don't know where the money's going, how can you expect to know where to make adjustments?" Moore said, adding that benchmarks also play a key role in keeping operational expenses in check.

Targeting the highest cost centers in senior living is a wise way to approach greater operational efficiency. Typically, the largest contributors to the bottom line are direct resident care/labor and dietary services, according to Moore. If an operator is asked whether they have a way to evaluate residents' needs, the answer is typically yes.

Based on a typical 80-unit assisted living facility that spends about $92 per day per resident, Moore said it becomes clearer how even small reductions can pay big dividends.

"If you're spending $92 per day per resident, then how about trying to find an extra 50 cents per resident day?" he muses. "It may not seem like much, but if you multiply that by 27,000 days, that adds up."

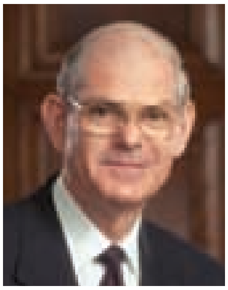
One cost-control strategy on the labor side is eliminating—or significantly reducing—staffing agencies. Although some operators consider staffing agencies a necessary price to pay, Moore believes it's typically an easy way out for facilities that haven't laid the foundation for better staffing solutions.

"Sometimes there will be a valid reason for going through an agency, but I've found that it's often a crutch. And an expensive one," he says.

Proactively addressing overtime hours also can pay big dividends. Moore recommends that managers compile detailed labor reports to determine a baseline and then work toward winnowing down that number.

"Pick an overtime goal [or a limit] and then try not to exceed it. Keeping detailed reports will show how far off the mark it was that month and will allow operators to determine the reason for the [overage]. It takes away the guesswork so you can make better decisions moving forward," he reasons.

Annual pay hikes also are being more carefully scrutinized these days. While there's nothing wrong with rewarding top performers, even a modest across-the-board increase will quickly add to the bottom line, he notes.



"Operating with greater efficiency requires that there's a good understanding of what to cut and what not to cut."

Jim Moore
President
Moore Diversified Services Inc.

Take a bite out of food costs

Food service, which represents about 20% of a typical assisted living facility's total operating expenses, affords operators a golden cost-control opportunity. But it's imperative that operators keep resident satisfaction at the forefront.

The most objective way to evaluate whether service costs are excessive or appropriate is to reduce several cost variables down to their lowest common denominators, Moore says. This involves identifying the total resident-days involved in a meal service operation, along with the total number of meals served. (One must be sure to factor in anyone who participates in the meal program—including residents, guests, employees, as well as food service associated with special events).

Operators should evaluate the combination of raw food, labor and other dietary department costs for residents and then compute their total dietary costs per resident day.

For assisted living communities with some concentration of Alzheimer's/dementia residents, the median labor-related costs (including fringe benefits) in 2009 is projected at approximately $8.85 per resident day, with the median raw food cost projected at roughly $6.64 per resident day, for a benchmark total of $15.49 per resident day.

While an operator's dietary costs should be within range of these benchmarks, Moore stresses that a higher number shouldn't automatically prompt cost reduction initiatives. That's because other variables, such as the quality and style of the food service operation, resident satisfaction, and the value of current resident referrals of future residents, must also be factored into the equation. Still, he warns against rationalizing away out-of-control dietary costs and encourages operators to keep their eye out for dietary cost creep, which can manifest itself in excessive waste of raw food, excessive staff downtime or inefficient work schedules, and unfunded "mystery meals." ■

The great outdoors

By making it easy for your residents to get outside for some fresh air, you may be doing them a big favor

BY JULIE E. WILLIAMSON

Thoughtful, well-designed and easily accessible outdoor spaces may be just what the doctor ordered for seniors housing residents. Not only do the outdoors lend a lovely view and a calming place to relax and socialize, they also allow operators to visually expand square footage—a real marketing coup in today's challenging real estate climate.

Despite such benefits, many communities aren't doing enough to encourage residents to use and enjoy outdoor spaces, according to research conducted by Susan Rodiek, a professor at Texas A&M University and associate director of the college's Center for Health Systems & Design.

"Spending time outdoors has been found to have therapeutic potential and to be highly valued by older adults, yet outdoor areas at residential care facilities are commonly reported as underutilized," noted Rodiek in her study "Residential Perception of Physical Environment Features that Influence Outdoor Usage at Assisted Living Facilities."

"It's safe to say that not all outdoor spaces are created equal," confirmed architect Rick Watson, vice president of Italbec US, Dania Beach, FL. "It's not just enough to provide outdoor spaces. Success comes from purposeful designs that are built in a way that not only makes residents want to use the outdoor space, but also in a way that actually allows them to [use it] in the way it was intended."

Breaking down barriers

Indeed, accessibility and safety should be top priorities for operators looking to create well-utilized

outdoor spaces. Because some residents rely on walkers and wheelchairs—and others might not be sure-footed—it's no surprise that the most utilized outdoor spaces are those that are conveniently located and provide user-friendly access points.

Oftentimes, however, "the interface between indoors and outdoors is uninviting, does not support 'comfortable lingering' at the transition zone, and may even present serious accessibility barriers for older adults, such as doors that are hard to open, or thresholds that are hard to navigate with a walker or wheelchair," noted Rodiek.

Views are also important, and design experts agreed that virtually every community has at least one that can be tapped for an outdoor space. "If you don't have an [obvious] view, create one," suggested Watson, adding that creative elements, such as water features, stone work, comfortable seating areas and lush plantings can instantly transform a space and help draw residents beyond the interior walls of the facility.

"If you don't have an [obvious] view, create one."

Rick Watson
Vice President
Italbec US

Near the action

While soothing gardens and park-like spaces are desirable, operators must understand that there's a big difference between serenity and isolation. In fact, one of Rodiek's main findings is that a high percentage of residents seem to prefer front areas that have views of activity, rather than tranquil remote areas, which she says confirms the importance of staying in contact with "the world beyond the facility walls."

It's a discovery that hasn't been lost on some communities. "Residents may want to be outside, but they also want to still feel connected to their community," confirmed Melanie Marraffa, vice president of long-term care at Sitrin Health Care Center in New Hartford, NY.

"[In many facilities], access to the outdoors is dependent upon the availability of staff to assist residents. If you're in a building with an elevator [and outdoor areas can only be accessed from a ground floor], getting outside can be even more difficult—and even if residents do make it outside, it's often a timed activity," she said.

"Many of our residents are in wheelchairs and it was important that they didn't feel confined to the indoors. Now, staff [in each home] can take several residents out to the patio area," she said. And if they need to tend to other residents inside, there are floor-to-ceiling windows in the home that allow them to watch [the residents who are outside]."

Porches that overlook inner courtyards and central common areas are at the heart of outdoor design at The Cottages at Brushy Creek, a skilled nursing facility in Greer, SC. The cottages are built with interior sun porches and exterior back porches that allow residents to easily roll or walk outside without navigating steps.

"The elders like to sit where they can watch the daily life going on in the [central common area, called the Village], talk to people walking by, wave to their neighbors, feel the sun on their face, and the breeze in their hair," explained The Cottages Administrator Karen Nichols. "They like to smell the burgers cooking a few houses over, discuss the proper watering routine to grow the right tomato, hear the American flag snapping in the breeze, or watch as someone's grandchild rides a tricycle."

More seniors housing communities are also following residential trends of extending outdoor living spaces to include entertainment and dining areas.

"Existing communities have to work within the facility footprint to look for creative opportunities to extend common lounges, food service and units to the outdoors," noted Judith Sisler Johnston, president of Sisler Johnston Interior Design, Jacksonville, FL.

Reaching new heights

Even high-density, urban seniors housing communities can adequately meet residents' outdoor needs. One expert said there's a growing trend toward designing mid- to high-rise seniors housing communities with common covered outdoor spaces on all floors. The goal is to eliminate the need for an elevator or long journeys through common areas.

With a little creativity, even the most high-density, urban communities with little or no access to the outside can create desirable outdoor areas. In a facility located in population- and building-dense Tel Aviv, Israel, Watson converted an adjoining parking garage rooftop into a terraced outdoor space that features trees and other natural elements.

Not only is the space accessible to residents from the dining room level of the facility, the green oasis can be easily viewed from residents' balconies. Transforming the space only required minor reinforcement of the garage.

"It was not very expensive, but it made an enormous difference—and it's a very well-utilized and safe space," he said. ■

NIC's 2009 theme: success in hard times

SOURCE: NIC

Seniors housing and care professionals looking for best practices to help them come out of the recession stronger will find them during the sessions scheduled at the 19th Annual NIC Conference. Acknowledged as the industry's top dealmaking event, this hallmark conference of the National Investment Center for the Seniors Housing & Care Industry (NIC) will be held Sept. 23-25 at the Sheraton Chicago Hotel & Towers.

In addition to keynote addresses by **Penny Pritzker**, CEO of Pritzker Realty Group and founder of Classic Residence by Hyatt, and **Ben Stein**, well-known economist and humorist, a slate of sessions that address the current financing and business environment in the seniors housing and care industry will deliver on the theme, **"Succeeding in a Capital-Constrained Environment: Emerging Stronger, Smarter, Better."**

Thursday at 10:30 a.m.

• A panel of seasoned professionals – **Raymond W. Braun**, managing member, Prospects Advisory Group LLC; **John Moore**, CEO, Atria Senior Living Group; **Mark L. Myers**, senior vice president investments, senior director – national senior housing Group, Marcus & Millichap; and **Brian K. Reynolds**, managing director - Long Term Care, Capital Funding Group, Inc. – will be **"Coming to Terms with Valuations – Today and in the Future,"** by exploring historical property valuations to better understand current financing, transaction and capital investment decisions, as well as to help predict future valuation trends.

• An **"Introduction to the Business of Seniors Housing and Care"** – provided by **Kathryn A. Sweeney**, managing director, US senior housing, The GPT Group; **Kristen Ahrens**, senior vice president, GE Capital, Healthcare Financial Services; **Lisa Burgess**, V.P. portfolio management, Benchmark Assisted Living; and **Ryan Frederick**, principal, CoastWood Senior Housing Partners - will cover the basics from operations and marketing to financing and investing, including what it takes to become a "provider of choice" and how financiers recognize a good lending or investing opportunity. Attendees will also get a preview of key operating metrics developed by NIC to become the industry standard.

• **"Debt Financing: The Real Deal, Part 1, Agency Financing"** will cover the options available to seniors housing and care from all three government sponsored enterprises: Fannie Mae, Freddie Mac and HUD. **David G. Shillington**, managing director – agency lending division, KeyBank Real Estate Capital; **Christopher E. Honn**, director, Fannie Mae; **William J. Lammers**, health systems advisor/ acting director Section 232 Program, HUD; and **Steve Schmidt**, national director, seniors housing finance, Freddie Mac will explain what's new in each agency, how to understand the new HUD LEAN program, and how proposed government changes may impact capital availability.

• The subject of **"Affordable Senior Living"** will be examined by **Richard Schutt**, CEO, Providence Management & Development; **Rod Burkett**, president, BMA Management, Ltd.; **Brian Cloch**, principal, Pathway Senior Living; **John Cobb**, CEO, Senior Lifestyle; and **Wayne Smallwood**, executive director, Affordable Assisted Living Coalition.

Thursday at 2 p.m.

• **Margaret I. Scott**, executive vice president and CIO, Belmont Village Senior Living; **Charles J. Herman**, executive vice president & chief investment officer, Health Care REIT, Inc.; **Eric Kammerer**, managing director, MidCap Financial, LLC; **Chris Kazantis**, director, AEW Capital Management, L.P.; and **Danny Prosky**, executive vice president, healthcare real estate, Grubb & Ellis Realty Investors will talk about **"Capital in the New World Order."**

• In **"The State of the Top 100 Seniors Housing Markets," Michael Hargrave**, vice president – NIC MAP®, NIC; **Daniel J. Hogan**, director, research, RED CAPITAL GROUP; and **Jim Sullivan**, managing director, Green Street Advisors will provide an up-to-date analysis of current market conditions in the top U.S. markets including occupancy, rent growth, supply and construction trends.

• **Larry Lane**, vice president of government relations, Genesis HealthCare; **Allen Dobson**, Ph.D., president, Dobson|DaVanzo & Associates, LLC; **Joe Lubarsky**, president, Eljay, LLC; and **Alan G. Rosenbloom**, president, Alliance for Quality Nursing Home Care will provide an informative **"Skilled Nursing Federal and State Reimbursement Update,"** bringing their unique viewpoints on the subject from political and advocacy, as well as state Medicaid and Medicare policy perspectives.

Later that evening, a special plenary session moderated by **Kevin McMeen**, president – real estate, MidCap Financial LLC will be held on **"A Comparison of Seniors Housing and Care Performance vs. Other Real Estate Asset Classes." Thomas N. Bohjalian**, C.F.A., senior vice president & portfolio manager, Cohen & Steers Capital Management; **Jay Flaherty**, chairman and chief executive officer, HCP, Inc.; **Roger Pratt**, managing director, Prudential R.E. Investors; and **Frank Small**, managing director, JER Partners – top institutional investors and lenders who invest both in seniors housing and other real estate asset classes – will highlight historical trends in their portfolios, as well as present their views on future performance trends.

Friday morning

• Owners, operators and prospective investors concerned about occupancy will want to attend **"Sales and Marketing Best Practices in Today's Economic Environment." Ryan Frederick**, principal, CoastWood Senior Housing Partners; **Meg Ostrom**, senior vice president of sales and marketing, Classic Residence by Hyatt; **Loren Shook,** president/CEO, Silverado Senior Living; and **Stephen P. Wrigh**t, president, Wright Mature Market Services, will be on hand to uncover what's working and what's not.

• In **"Debt Financing: The Real Deal, Part 2, REITs and Conventional Lenders," Patrick M. Hurst**, managing director, Houlihan Lokey; **Brian Beckwith**, senior managing director, GE Capital, Healthcare Financial Services; **Raymond Lewis**, EVP & chief investment officer, Ventas Healthcare Properties; and **Joseph T. Resor**, CEO, Resor Financial Group will provide a realistic perspective on the current debt markets and explain how to navigate within a very challenging lending environment.

• Finally, an expert panel will review **"Restructurings and Investing in the Current Market." Peter E. Pickette**, managing director, CS Capital Advisors, LLC; **Brad Haber**, managing director, GE Capital, Healthcare Financial Services; **Patrick F. Kennedy**, CEO, Harvest Development LLC; **Kurt C. Read**, principal, Javelin Capital Partners, LLC; and **Michael Silverman**, principal, Silverman Consulting will examine operations and financing alternatives during periods of distress, as well as how to best communicate with lenders, lessors and other stakeholders. ■

Contemporary Healthcare Capital, LLC (CHC)

Company Profile

Contemporary Healthcare Capital, LLC (CHC) is a leading provider of senior mortgage, mezzanine debt and equity to healthcare service companies nationwide. For over 20 years, CHC's experienced team of lending and investment professionals has made loans and investments exclusively in the healthcare services industry. CHC specializes in providing structured financial products, offering knowledge and experience that is unmatched in the industry. The company's six funds are managed and underwritten by the same team, creating a seamless program for each borrower. All products can be used either together or individually, depending on the circumstance and need.

Despite the downturn in the capital markets, CHC is having its strongest year of deal closings in its history. Maintaining a strong, well capitalized position, CHC provides more than a menu of standard financing options. Its unmatched experience and industry knowledge provide the strategic insights that will contribute to the financial success of your business.

CHC's clients span a wide variety of sectors within the healthcare industry, including: long-term care, senior housing and related healthcare services including acute care and specialty hospitals, durable medical equipment providers, rehabilitation providers, home healthcare companies, institutional pharmacies, hospices and others.

CHC's latest new products designed to enhance the borrowing experience include:

Senior Mortgage Product – This product addresses the declining leverage and general availability of senior mortgage financing, which in turn has driven up the need for greater equity dollars, by providing a higher loan to cost/value senior mortgage product to long-term care and senior housing customers.

Offering a fixed rate of interest for a maximum term of five years, this product allows for up to 95% loan to cost, including any applicable reserves and expenses for the aforementioned capital needs. The current coupon payment is set at levels that are comparable to those charged by a REIT. Unlike a REIT, the borrower maintains the ownership of the facility. An equity kicker or exit fee is charged which allows both the borrower and CHC to share in the upside of the facility. As an additional incentive to the borrower, the equity kicker, in most cases, can be optionally redeemed at a predetermined yield. This allows the borrower to maximize the value of the facility while knowing the exact exit yield.

Accounts Receivable Financing Product –This product offers traditional accounts receivable financing of $1 million to $10 million to both long-term care operators as well as healthcare service companies. The new product lends against a percentage of a company's outstanding accounts receivable balance, based on the type of payers, including Medicaid, Medicare, VA and commercial insurance carriers.

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Eligible properties: ■ Skilled nursing ■ Assisted living ■ Retirement communities ■ Congregate care ■ Hospital ■ Ambulatory surgery ■ Rehab hospital

Options: ■ Construction ■ Substantial rehab ■ Acquisition ■ Refinance ■ Exit

Product base: ■ Bridge loans ■ Line of credit ■ Leasehold mortgages ■ Leasehold mortgages ■ Term loans

CHC Leads the Industry in Product Selection

CHC's broad spectrum of financial products include:

- Acquisition Financing
- Cash Flow Lending
- Leasehold Financing
- Working Capital
- Construction Financing
- AIR Financing
- Refinancing and Recapitalization
- Other Structured Financial Products

a stable source in a sea of change.

Even through these difficult economic times, Freddie Mac is here for the Seniors Housing market. We offer flexible loan terms for property types including age-restricted apartments, independent living, assisted living, assisted living with dementia care, and Continuing Care Retirement Communities with a limited amount of skilled nursing care. Because while the world may be changing, our commitment remains steadfast.

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We make home possible®

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Today. Tomorrow. Together.℠

Freddie Mac

Company Profile

Freddie Mac was established by Congress in 1970 to provide liquidity, stability and affordability to the nation's residential mortgage markets. Freddie Mac supports communities across the nation by providing mortgage capital to lenders. Over the years, Freddie Mac has made home possible for one in six homebuyers and more than five million renters.

The Freddie Mac Multifamily Division helps to ensure an ample supply of affordable rental housing by purchasing mortgages on apartment buildings with five or more units and by enabling the purchase, refinancing, and rehabilitation of older buildings and the construction of new affordable apartments. Freddie Mac Multifamily also purchases loans on walk-ups; co-op buildings (but not individual units); and mid-rise, high-rise, and garden-style apartment complexes. We buy these loans from a network of Freddie Mac-approved Program Plus® and Targeted Affordable Housing lenders with over 150 branches nationwide.

What We Offer

Freddie Mac's Seniors Housing product serves the growing segment of housing dedicated exclusively to America's aging population. We offer flexible loan terms for property types including age-restricted apartments, independent living, assisted living, assisted living with dementia care, and continuing care retirement communities with a limited amount of skilled nursing.

A Successful Partnership

Borrowers who partner with Freddie Mac through a Freddie Mac Seller/Servicer and choose a Freddie Mac Seniors Housing Mortgage enjoy the following benefits:

Flexibility: We offer permanent loans, supplemental loans for our permanent loans, structured credit facilities and other options to serve your financing needs.

Stability: A stable source of capital, Freddie Mac is in the market every day and is committed to offering competitive, market-driven pricing and delivering what we promise.

Experience: Freddie Mac is one of the largest investors in the business. We have provided financing for a wide variety of seniors properties throughout the country for many borrowers. These borrowers include some of the most prominent seniors housing owner/operators in the industry, many of whom have sought Freddie Mac seniors financing for multiple properties. We understand the seniors housing industry and have regional and national senior housing specialists dedicated to serving this market.

We invite you to talk to one of our Freddie Mac Multifamily Seller/Servicers to find out why you can expect more from Freddie Mac on your next seniors housing deal.

FastFacts

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Eligible properties:
- Age-Restricted Apartments
- Assisted living
- Independent living
- Continuing care retirement communities

Options:
- Unit additions
- Acquisition
- Refinance
- Structured credit facilities

Product base:
- Freddie Mac

GE Capital, Healthcare Financial Services

Company Profile

With over $17 billion invested, GE Capital, Healthcare Financial Services is a premier provider of financing to the healthcare industry, with investments in more than 30 sub-sectors including long-term care, hospitals, pharmaceuticals, and medical devices. With deep industry expertise in real estate finance, corporate finance, life science finance, and equipment finance, our team of professionals can create business and financial solutions tailored to meet the individual needs of our customers.

Our Philosophy

GE Capital, Healthcare Financial Services provides customized real estate financing solutions for senior housing portfolios and medical properties to help customers achieve their goals.

What We Offer

Our dedicated Real Estate Finance team has decades of experience and delivers real estate financing products to a wide range of healthcare providers. Our customized financing solutions include first mortgages, interim financing, forward commitments, operating leases and capital leases.

FastFacts

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Eligible properties: ■ CCRCs ■ Skilled nursing ■ Assisted living ■ Medical office ■ Retirement communities

Options: ■ Acquisition ■ Refinance ■ Exit

Product base: ■ Bridge loans ■ Line of credit ■ Leasehold mortgages ■ Term loans

A Successful Partnership

As a long-term provider of both debt and equity to senior care providers, we focus on building and sustaining valued relationships with our customers. Three out of four of our transactions are with repeat customers. GE Capital, Healthcare Financial Services has debt and equity investments of more than $7 billion in senior housing and skilled nursing financings and has provided financing to seven of the 10 largest assisted living providers and 12 of the top 20 skilled nursing home operators.

Lancaster Pollard

Company Profile

Lancaster Pollard has been a consistent and dependable source of capital funding for senior living since 1988. Our diverse platform of services was created especially for senior living, and it continues to evolve and adapt to new trends and changing markets with this sector's needs in mind. We work with small and large organizations, for-profit and nonprofit organizations, independent living, assisted living, nursing facilities and CCRCs; and, we understand that each of their situations is unique. We offer a full range of investment banking, financial advisory, mortgage banking and investment advisory services. Lancaster Pollard has earned a reputation for sound financial advice, cost-effective options, and outcomes that exceed clients' expectations. Lancaster Pollard is headquartered in Columbus, OH and has offices to serve clients nationwide, including: Atlanta, Austin, Denver, Kansas City, Los Angeles and New York.

Our Philosophy

Lancaster Pollard was specifically created to serve the senior living sector. The founders recognized that the capital markets did not have a complete, uniform understanding of the sector, so access to capital was sometimes more limited, and more expensive. Lancaster Pollard is an independent firm, free from the influences inherent with ownership by or affiliation with large commercial banks. This independence allows us to provide more objective consultation, consider the entire spectrum of appropriate options and actively negotiate the most advantageous terms for our clients.

If you choose a mortgage or guaranteed loan, your relationship with Lancaster Pollard is for the life of your loan, as we service every loan we underwrite. Our goal is to provide a level of service that exceeds your expectations. Anything less is simply unsatisfactory. You can expect the same level of attention and commitment in the servicing of your mortgage loan as when we structured it.

What We Offer

Lancaster Pollard provides debt financing for senior living renovation, expansion, acquisition, new construction and refinance.

Our focus on senior living means better understanding and articulation of your organization's unique credit characteristics, and our platform of options means better access to affordable capital in any market condition and better opportunities to match an appropriate finance strategy to your goals and objectives, such as:

- Taxable and tax-exempt bonds
- FHA mortgage insurance
- Fannie Mae Seniors Housing products
- Our proprietary high-leverage EquityTap™ program
- Bank private placements and traditional credit enhancements

Lancaster Pollard has one of the largest groups of finance professionals in the nation focused on senior living. Our knowledgeable associates:

- Help you evaluate and understand your refinancing options to determine the best methodology for your project
- Offer investment banking and mortgage banking services under one roof, streamlining the process for organizations who combine government credit enhancements with tax-exempt bonds
- Navigate your loan process to ensure a quick and smooth process
- Diligently negotiate the best and most flexible terms possible in the current marketplace

A Successful Partnership

Our dedicated associates are committed to exceeding our clients' expectations. In an inherently transactional business, we develop sustainable capital financing solutions that meet short-term financial needs while safeguarding long-term financial viability.

FastFacts

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Columbus, OH 43215

Eligible properties: ▪ CCRC ▪ Skilled nursing ▪ Assisted living ▪ Retirement communities ▪ Congregate care ▪ Hospital ▪ Ambulatory surgery ▪ Rehab hospital ▪ Medical office

Options: ▪ Construction ▪ Substantial rehabilitation ▪ Acquisition ▪ Refinance

Product base: ▪ Fannie Mae ▪ FHA ▪ HUD

Senior Living Investment Brokerage, Inc.

Company Profile

Senior Living Investment Brokerage Inc. is a full-service brokerage company dedicated to providing our clients unparalleled service while achieving their investment objectives. From its genesis in 1997, the company has followed certain core beliefs to become one of the top providers of long-term care and senior housing brokerage services—arguably the largest firm solely dedicated to the industry. With offices in St. Louis and Chicago, we are strategically positioned to provide our services nationwide. For more information please visit our web site at *www.seniorlivingbrokerage.com*.

Our Philosophy

Confidentiality and discretion are priorities in long-term care/senior housing transactions and are the foundation from which our process is structured.

At Senior Living Investment Brokerage, Inc. we understand that brokerage does not end at the introduction of buyer and seller. Rather, this is just the beginning of our role in completing a transaction—evaluating offers, facilitating due diligence, working with third-party agents, and assisting the title company with closing preparations are just a few examples. Coupled with our thorough underwriting and detailed offering memorandum, Senior Living Investment Brokerage Inc. provides a complete transaction package unmatched in the industry.

What We Offer

We have compiled a highly skilled team to facilitate confidential private sales of long-term care and senior housing properties. Our understanding of the multiple issues surrounding the transfer of these complex properties enhances the likelihood of a successful sale. Our network is multi-pronged and involves working relationships with key individuals within the industry, including: healthcare attorneys; CPAs/accountants; various health care associations; appraisers; and regulatory / reimbursement contacts. Over the past three years, we have on average achieved sale prices at 96% of the value given to our clients.

A Successful Partnership

Confidentiality. Trust. Expertise. Commitment. Credibility. Teamwork. There are many reasons Senior Living Investment Brokerage Inc. has become a market leader in facilitating long-term care and senior housing transactions. We work with our clients to recognize their specific investment objectives up front and tailor the sales process to meet those needs—we are not bound to a one-size-fits-all approach.

FastFacts

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Address: 337 West Lockwood
St. Louis, MO 63119

Eligible properties: ■ CCRC ■ Skilled Nursing ■ Assisted Living ■ Retirement Communities ■ Congregate Care

Options: ■ Divestitures ■ Acquisitions ■ Sale-Leaseback ■ Sale-Manageback ■ Mergers

Yardi Systems

Company Profile

Yardi Systems is a leading provider of high-performance software solutions for the real estate industry. We set the standard for enterprise management systems by combining responsiveness with technical innovation. The company is dedicated every day to fulfilling our mission statement: Provide our customers with superior products and outstanding customer service.

Today's senior housing market has unique business needs, and being able to manage those needs from an integrated system is paramount to success. Accordingly, Yardi Voyager Senior Housing™ integrates a billing, marketing and care solution with a core accounting and financial system. This allows our clients to manage all senior housing functions—marketing, clinical assessment, care management, accounting and billing—from one platform.

Our Philosophy

We develop cost-effective, high-performance products around the needs of our clients. Organizations expect ready access to information, along with the ability to drill down from top to bottom for complete transparency in real time, and we offer technology and services that have transformed how people work within the senior housing industry. As a pioneer in offering a browser-based solution, Yardi continues to provide the assisted living market with products that give our clients the integration and competitive edge they need to succeed.

What We Offer

Voyager Senior Housing is a powerful, dynamic solution for optimal administration of independent living, assisted living, and dementia care communities. It is a fully integrated senior housing solution that combines a full general ledger accounting package with resident billing, marketing, and core functionality in a single system. With an intuitive design, Voyager Senior Housing enables management of residents, marketing leads, assessments, and care plans with speed and efficiency. The system's browser-based technology provides secure, global access to real-time information across an entire portfolio of communities. One centralized database means more efficient and accurate processing and access to up-to-the-minute reports anywhere at any time. Along with comprehensive reporting, Voyager Senior Housing provides true business intelligence with configurable Executive Dashboards and Analytics. Executive Dashboard allows an entire financial and operational picture from a single screen. Furthermore, Voyager Senior Housing streamlines key business processes by integrating many components, thus eliminating redundant data entry, accelerating the workflow cycle and providing centralized management. This is a complete solution that provides innovative, easy-to-use tools designed specifically for the senior housing industry.

FastFacts

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Santa Barbara, CA 93117

Eligible properties: ■ CCRCs ■ Assisted living ■ Retirement communities

Options: ■ Construction ■ Substantial rehab ■ Acquisition

A Successful Partnership

Yardi's business philosophy includes maintaining close partnerships with clients at all stages of the relationship—system set-up and test, data conversion, implementation and ongoing training—to make sure they are fully able to capitalize on the benefits available through Yardi's senior housing products.

Companies at a glance

Capital Funding Group
(410) 342-3155
www.CapFundInc.com

Contemporary Healthcare Capital LLC
(732) 578-0533
www.contemporarycapital.com

Freddie Mac
(703) 714-2650
www.freddiemac.com

GE Capital, Healthcare Financial Services
(866) 447-8927
www.gehealthcarefinance.com

Lancaster Pollard
(866) 611-6555
www.lancasterpollard.com

Red Capital Group
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www.redcapitalgroup.com

Senior Living Investment Brokerage Inc.
(630) 858-2501
www.seniorlivingbrokerage.com

Yardi Systems Inc.
(800) 866-1144
www.yardi.com

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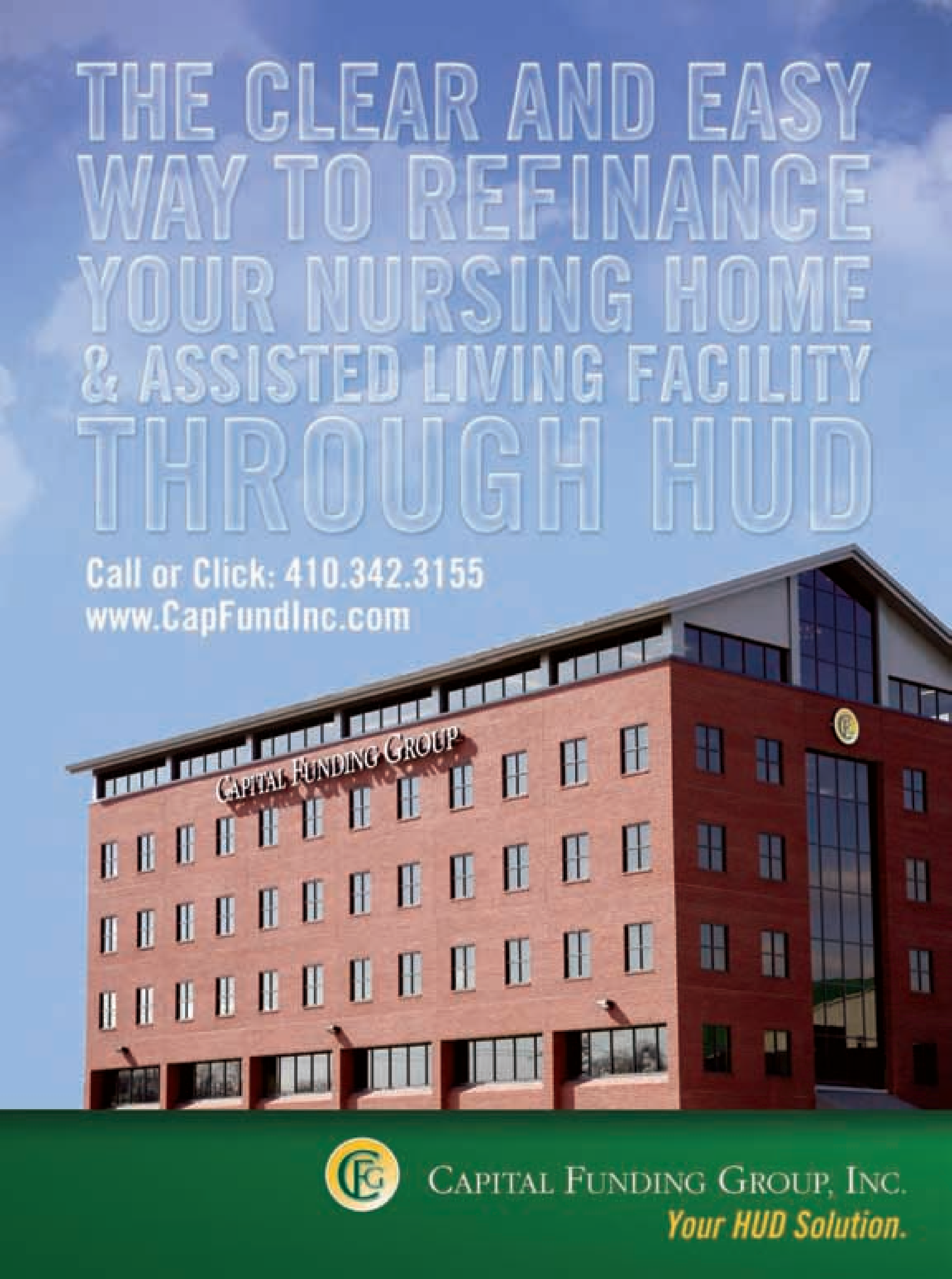
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