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THE
# SeniorCare INVESTOR

INSIDE THE WORLD OF SENIOR CARE MERGERS, ACQUISITIONS AND FINANCE SINCE 1948


## IN THIS ISSUE

After record quarterly seniors housing and care M&A volume, the M&A express continued into July with a record number of announced transactions for any single month. The activity was spread relatively evenly between skilled nursing and seniors housing, with high values across both sectors. From a market depth perspective, most of the transactions were relatively small, with only two above $100 million.

See page 1

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**REITs Consolidating, But More Coming**

There is a record number of health care REITs, both private and publicly traded, looking for growth in a very competitive acquisition environment. We break down the market to show there is still plenty of opportunity, but perhaps at ever escalating prices. Health care REITs' share of the seniors housing market has grown the most, but the current spate of new development will help feed the pipeline.

See page 1

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**Skilled Nursing Acquisitions**
See page 2

▪▪▪

**Seniors Housing Acquisitions**
See page 7

▪▪▪

**Financing News**
See page 22

▪▪▪

**People on the Move**
See page 23


## SENIORS HOUSING M&A TRAIN ROLLS ON

### More Records Shattered In July With Unprecedented Sales

We have long assumed that the concept of a true summer vacation had long gone out the window. With cell phones and iPads, there is no escape. Just like there is no escape from this record-setting acquisition market. We had half expected the activity to show some signs of slowing down after the torrid first and second quarters. After all, where are all these properties coming from? Not only did the slowdown not occur, but we do not remember ever having a month with more than 30 announced transactions in our sector. Until now.

Admittedly, talking about monthly records is a little bit of a stretch, but when a record second quarter of 60 acquisitions (up from the preliminary 57 in last month's story) is followed by 33 transactions in July alone, that certainly makes a statement about how strong and deep this market is. Another indicator as to the breadth of the market is that in July there were only two transactions above $100 million in value (both in the skilled nursing sector), and only four others above $50 million (all four in seniors housing). This does not include any possible large transactions that the Big Three REITs may have completed but have not reported, but we have not heard of any jumbos that closed recently.

*...continued on page 2*

## REITS CONSOLIDATING, BUT MORE COMING

### Health Care REITs Continue To Increase Their Market Share

Investors have been worried about where the growth is going to come from with the growing number of health care REITs in the market, and we are just talking about those with a primary focus on seniors housing and care. Trying to maintain or increase their growth rates has been just one of the reasons why several REITs have expanded their RIDEA portfolios in order to capture a greater share of what is expected to be an increasing level of cash flow as occupancy rates increase and monthly rental fees can grow. At least until the new development wave impacts the market in 2016 and beyond. Most have also expanded into the medical office building market, although initial returns can be lower.

The number of publicly traded health care REITs is now at an all-time high, and several of the non-traded REITs have been some of the most prolific buyers in the market. This begs the question, is there enough inventory

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The month of July also had some interesting characteristics which may come as a surprise to some. The dollar value between skilled nursing and seniors housing was almost identical, with $522 million and $508 million, respectively, where disclosed prices were available, excluding two acquisitions in Canada. In addition, the quality appears to keep on rising, or else the bidding is getting even more competitive (and it is most likely both), as the average price paid in the skilled nursing sector was $87,000 per bed in July compared to the record $73,300 per bed in 2013. This included nearly 6,000 beds with prices in the month. On the seniors housing side, the average price paid for assisted and independent living combined was just over $178,000 per unit, higher than the $164,000 per unit in 2013. This included nearly 2,850 units with prices in July but excluded the Canadian deals.

As readers may know, we don't believe in quarterly cap rates because the market does not change that quickly and the data set when broken out by property type is not a large universe by quarter. In addition, the other reason why we don't believe in the meaningfulness of quarterly cap rates is because, unlike other real estate sectors, from the time a deal is put under contract to the time it closes can easily take three to six months for seniors housing, and three to 12 months or more for skilled nursing. Consequently, you would be combining deals that were agreed to in what could be very different economic or cost of capital climates. We are now going to break our own rule and inform you that for seniors housing, the average cap rate appears to be close to 8.0% in July (a range of 6.1% to 10.6%) and for skilled nursing it was close to 11.0% (a range of 8.1% to 14.0%). The takeaway, if relevant, is that while investors are clamoring for private pay seniors housing, it is the often-maligned skilled nursing side of the business that is seeing unparalleled strength. The just announced 2.0% net increase in Medicare rates for the 2015 fiscal year should add a little juice to the market as well.

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Speaking of cap rates, on one of our webinars this year on the seniors housing and care M&A market when we disclosed the results for 2013, an attendee suggested that when we do our cap rate analysis, we do it on a per-unit and per-bed weighted average basis. For 20 years the average prices we calculate have been on a unit and bed weighted basis, so why not the cap rate? We are in the process of going back to 2000 to see what difference there was when weighting the cap rates by beds or units.

On a preliminary basis, in 2013 it appears that on a weighted average basis assisted living sales had an average cap rate that was about 50 basis points lower than a non-weighted basis (8.2% vs. 8.7%), while independent living was 70 basis points lower (7.5% vs. 8.2%). The results for skilled nursing were very similar, with the bed-weighted average coming to 12.4% compared with 13.0% when not weighted. The most significant finding is that when the markets strengthen, the spread between the two widens (such as in 2013), but in difficult markets with either higher capital costs or lack of liquidity, the gap narrows and in some years reverses itself. We can't remember who made the suggestion (please call us), but thank you, and it will now be included in our annual statistics in future editions of *The Senior Care Acquisition Report*.

## Skilled Nursing Acquisitions

The skilled nursing market continues to astound us, not just with the volume of transactions, but also the valuations. There were at least six transactions in July with prices above $100,000 per bed (a level that used to be the exception), one deal that was just under $100,000 per bed and a few others that might have been at these levels but

## The Providers

| Company | Ticker | Current Price 7/31/14 | Stock Market Cap (In Millions) | % Change from Prior Month | % Change from 1/1/14 | 52-Week Range High | 52-Week Range Low |
|---|---|---|---|---|---|---|---|
| **Skilled Nursing** | | | | | | | |
| AdCare Health Systems | ADK | $4.71 | $80.8 | 10% | 10% | $4.90 | $3.62 |
| Diversicare Healthcare | DVCR | 6.98 | 40.3 | -8 | 50 | 8.25 | 4.56 |
| Ensign Group(1) | ENSG | 32.93 | 722.5 | 6 | 37 | 33.63 | 20.22 |
| Kindred Healthcare | KND | 23.90 | 1,310.0 | 3 | 21 | 26.81 | 12.95 |
| National HealthCare | NHC | 54.96 | 789.2 | -2 | 2 | 58.92 | 45.30 |
| Skilled Healthcare Group | SKH | 5.95 | 230.5 | -5 | 24 | 7.15 | 4.08 |
| **Assisted/Independent Living** | | | | | | | |
| Brookdale Senior Living | BKD | 34.65 | 4,280.0 | 4 | 27 | 36.18 | 24.42 |
| Capital Senior Living | CSU | 24.64 | 689.9 | 3 | 3 | 26.89 | 19.87 |
| Five Star Quality Care | FVE | $4.57 | 224.1 | -9 | -1 | 6.09 | 4.41 |

(1) Ensign Group split off its real estate into a REIT effective June 1, so the 52-week high and low have been adjusted.

we have not discovered the price (yet). At the other end of the spectrum, we are not seeing many of those $25,000 per bed to $45,000 per bed deals that were so commonplace in the past. It is not yet clear whether they are not on the market, or that buyers and lenders are less interested in that 40-year old building with an 85% Medicaid census and little prospect to increase the Medicare patient days.

There was also an unusual number of not-for-profit sellers this month. In the first transaction, the **Archdiocese of Philadelphia** entered into an agreement to sell its portfolio of five skilled nursing facilities, one CCRC and one assisted and independent living community for $145.0 million, or $101,750 per bed/unit. The properties include approximately 1,215 nursing beds, 150 independent living units and 60 assisted living units. Approximate revenues and adjusted EBITDA in 2013 were $138.0 million and $3.9 million, respectively, but we assume the buyer has big plans to increase that cash flow number. This is a huge deal for New York-based **Center Management Group**, as it will increase its portfolio by 50%. **KPMG** represented the seller in the transaction, which is expected to close by the end of the year.

In the highest-value acquisition of the month, a local New York investor purchased the 240-bed **Hucles Episcopal Nursing Home** in Brooklyn, New York for approximately $30.0 million, or $125,000 per bed. This facility was built in 1995 with 280,000 square feet. Occupancy was 89% with a Quality Mix of just 11%, and the rest was Medicaid. The buyer, which owns four other skilled nursing facilities in New York, formed a not-for-profit to complete the purchase in order to assume about $21 million in tax-exempt bond debt. The facility had been losing nearly $500,000 per year on revenues just over $21.0 million, but the buyer started managing the seven-story facility in 2012 and was able to turn operations around by the closing of the deal. Pro forma revenues and EBITDA may be closer to $23.4 million and $3.5 million, which would support the purchase price. Joshua Jandris and Mark Myers of **Marcus & Millichap** guided the buyer and seller through what became a challenging process which included taking in close to 200 displaced nursing facility residents from another facility owned by the seller that was hit hard by Hurricane Sandy. Kevin Pendergest of **Strategic Alliance Network** advised the seller in the transaction.

Another county-owned skilled nursing facility in New York has gone the way of private ownership. **Steuben County Health Care Facility** in Bath has been sold to a private operator for approximately $11.0 million, or just over $104,000 per bed. The facility was quite new, having been built in 2008 for a total cost of $19.5 million, but it was marginally profitable with revenues over $13 million, which included transfer payments from the state which the buyer will no longer receive. The 105-bed facility had an occupancy rate of 93%, of which 80% was Medicaid.

Under new management, we expect pro forma revenues and EBITDA to be close to $9.5 million and $1.5 million, respectively, which would result in a forward cap rate close to 13.5%. Joshua Jandris and Mark Myers of Marcus & Millichap represented the seller in the transaction.

Jandris and Myers, together with Charlie Hilding of Marcus & Millichap, sold an additional not-for-profit skilled nursing facility. The 199-bed facility is located in Cincinnati, Ohio, was built in 1965 with renovations in 1978 and $500,000 in capex in 2011, and has an occupancy rate of 93% with a 22% Quality Mix. Annualized 2013 revenues and EBITDA were approximately $14.55 million and $2.6 million, respectively. The buyer was a Chicago investor, who paid $20.0 million, or $100,500 per bed. That resulted in a 13.0% cap rate. **CapitalSource Bank** was the lead lender for the mortgage financing, together with **Oxford Finance**.

Ever since its split into an operating company and a separate REIT, **The Ensign Group** (NASDAQ: ENSG) has been busier than ever. In July, however, it announced one of its most unusual transactions. This acquisition involves the **Keiro Senior HealthCare** portfolio of four properties in the Los Angeles, California market. It was unusual because these properties cater to the aging Japanese American community, and they provide culturally sensitive programs to the residents. The staff, food, décor and management are all Japanese-based, and the properties have been well maintained. Staff from Keiro will remain involved to help maintain the Japanese culture, but we understand that certain people at Ensign are no strangers to the culture and the language. Included in the portfolio are a 300-bed skilled nursing facility, a 98-bed skilled nursing facility, a 90-bed intermediate care facility and a 127-unit assisted living community. Overall occupancy is 94.5%. Although pricing details have not been disclosed yet, we assume the value is greater than $65,000 per bed. Chris Hyldahl of **Blueprint Healthcare Real Estate Advisors** represented the seller in the transaction, which is expected to close in the fourth quarter. Ensign also closed on the acquisition of a 67-bed nursing and rehab facility in Longview, Washington, that it will be operating under a long-term lease. This deal is expected to be mildly accretive to 2014 earnings.

New Jersey-based **Tryko Partners** is having a busy summer. In addition to two skilled nursing facilities in Massachusetts it recently closed on, the company just acquired a 120-bed skilled nursing facility in West Baltimore, Maryland for approximately $9.0 million, or $75,000 per bed. The facility was built in 1996 and occupancy was 83%, with a small 10.5% Quality Mix. Last year, revenues and EBITDA were approximately $10.7

million and $600,000, respectively, but Tryko didn't buy it for that small of a return. The not-for-profit seller, Louisiana-based **Foundation Health Services**, had financial troubles with the facility, which filed for bankruptcy protection in 2012. Our estimate is that Tryko will be able to at least double the EBITDA by year two, which is what we assume **The PrivateBank**, which financed the acquisition, is expecting as well.

In the for-profit sales, the largest transaction of the month involved a portfolio of 13 owned skilled nursing facilities and one leased facility in Virginia (11), Maryland (2) and Pennsylvania (1). The real estate of these facilities had been owned by executives of **Consulate Health Care**, an affiliate of **Formation Capital**, and Consulate had been managing them. Formation has purchased the properties with 1,658 beds for approximately $150.0 million, or about $90,000 per bed, and leased them to Consulate, which operates about 200 facilities nationwide, putting it in the top six in the country. We have estimated EBITDA for the portfolio to be in the range of $18.5 million to $19.0 million, which yields a market cap rate of 12.5%. Formation completed this acquisition with its joint venture partner **Safanad Limited**.

In another portfolio sale, Illinois-based **Platinum Health Care** sold nine of its Missouri skilled nursing facilities with 732 beds to **American Realty Capital Healthcare Trust** (NYSE: HCT) for just over $42.35 million, or $57,800 per bed. Platinum purchased these facilities from **Deaconess Long-Term Care** in 2011 for about $23.2 million and had just refinanced them a few months ago. In the Deaconess deal three years ago, there were two additional properties which were not included in this sale. Annualized revenues and EBITDA are $34.75 million and $3.63 million, but it was underwritten based on a projected cash flow that may be $4.5 million based on improved occupancy and a new Missouri rate increase. So, Platinum paid off all its $29 million of new debt, for net proceeds of more than $13 million from the sale, and still keeps two facilities, one of which is quite profitable, free and clear. All in a day's work for Platinum's CFO, Paresh Vipani. Nice job.

**Omega Healthcare Investors** (NYSE: OHI) purchased three skilled nursing facilities in South Carolina (2) and Georgia (1) with a total of 345 beds. Known as the **Laurel Baye Healthcare** portfolio, these facilities were built between 1971 and 1974. The purchase price was $34.6 million, or $100,300 per bed. Revenues and EBITDA were approximately $27.2 million and $4.6 million, respectively, which resulted in a 13.3% cap rate. The census was a strong 93% with 22% Medicare and insurance. The REIT purchased the properties from a small regional company and then leased them to an existing tenant and folded them into their master lease. **Evans Senior Investments** represented the seller and procured five offers in two weeks. Last month we reported on a purchase of three facilities by **Aviv REIT** (NYSE: AVIV) in Missouri, and Evans Senior Investments represented the seller on that transaction as well.

Omega also purchased a 125-bed skilled nursing facility in Texas from a local group of investors. This facility was built in 2009 and has occupancy of about 80%. Revenues and EBITDA were approximately $6.8 million and $1.06 million, respectively. With a purchase price of $8.2 million, the resulting cap rate was close to 13%. Omega found this acquisition and brought it to an existing tenant relationship, adding it to the operator's master lease with an initial yield of 9.75%.

In yet another high-value transaction, Maryland-based **Transitions Healthcare** purchased a 120-bed skilled nursing facility in Pennsylvania that also, oddly, has just two independent living units. The facility was built in 1983, and while occupancy has been somewhat low at 79%, the Quality Mix is a solid 44%. In 2013, annualized revenues and EBITDA were approximately $9.14 million and $930,000, respectively, but that was expected to grow under new management to approximately $10.05 million and $1.425 million, based on higher occupancy of 86%. The purchase price was approximately $14.0 million, or $114,750 per bed, and Joshua Jandris, Mark Myers and Charlie Hilding of Marcus & Millichap represented the seller.

A regional owner/operator based in Chicago purchased a 97-bed skilled nursing facility in Middleton, Wisconsin for $6.45 million, or $66,500 per bed. The facility was built in 1975 with additions in 1989 and 1993, and occupancy was just 77%. This was **Kindred Healthcare**'s (NYSE: KND) last facility in the state, and the company has been shedding either underperforming nursing facilities or those not in one of its targeted markets for growth. In 2013, revenues and EBITDA were approximately $7.5 million and $525,000, respectively, which is just a 7% operating margin (closer to 12% before a management fee). There is a lot of extra space in the building (431 square feet per bed), and it is in a good location in the Madison MSA. Mark Davis of **Healthcare Transactions Group** represented the seller.

Mr. Davis also represented the seller in the sale of a 112-bed skilled nursing facility in Houston, Texas. This property was built in 1966 and rehabbed in 1996. While the license is for 112 beds, only 104 beds are in service, and occupancy is 74%. A regional operator based in New

York, but with about 10 facilities in Texas, paid $4.41 million, or $42,400 per operational bed. In 2013, revenues and EBITDA were about $6.1 million and nearly $400,000, respectively, resulting in a 9.0% cap rate, but with the economies of scale and presumed management expertise in Texas, the buyer should be able to improve on census and the low operating margin.

In a deal with no price, **HealthCare REIT** (NYSE: HCN) purchased a 120-bed skilled nursing facility in New Jersey and leased it to **Genesis Healthcare Corporation**. Genesis already operated another nursing facility in the same market and closed a third facility it recently purchased. As a result, this newly leased facility is full, and Genesis plans on investing up to $1.6 million in capital improvements.

### Seniors Housing Acquisitions

Without sounding like a broken record about the record M&A activity, the seniors housing side of the business produced a record 18 separate transactions in July, a record for any month in any year. Half of these came with prices between $160,000 per unit and $350,000 per unit, which has been driving average prices up. And let's not forget that **Brookdale Senior Living** (NYSE: BKD) just closed on the grandaddy of them all with its purchase of **Emeritus Senior Living**, creating the largest seniors housing company in the world by a factor of three.

Leading the pack with three separate acquisitions was **Capitol Seniors Housing** (CSH), two of which were within spitting distance of their corporate office. In the first acquisition, and lowest cost per unit, CSH purchased a 106-unit age-restricted retirement community in Annapolis, Maryland that was built in 2002 and is 100% occupied. Some people argue that the only reason why a property is 100% occupied is because the rental rates are too low. That may be so, but the positive side for a buyer is that it does provide for some nice flexibility. The purchase price was $18.375 million, or $173,350 per unit, for a cap rate of 6.8% on trailing 12 months cash flow. Comparable full-service independent living community monthly rental rates are almost double what this property is currently getting in the market. Although there are no plans that we know of, there is existing interior space available for a dining room, as well as space to build a commercial kitchen, so at any time the new owner can make that decision and would seem to be in a good position to lift rates higher but still keep them below the IL market rates of about $4,000 per month. If not, they can keep humming along at 100% occupancy with annual rate increases a little higher than cost increases and just clip their coupons. Not a bad position to be in.

At a slightly higher per-unit price point, CSH purchased a 72-unit assisted living and memory care community in Manassas, Virginia for $14.1 million, or $195,800 per unit. This community was built in 2000 and has 48 assisted living units and 24 memory care units. Occupancy was a high 95% to 98%, but monthly rates are considered to be a little low for the market, which may be helping that census number. Recent revenues and EBITDA were $3.95 million and $750,000, respectively, which resulted in a very low operating margin of 19% considering the high occupancy. That's not going to last long, and pro forma revenues and EBITDA are closer to $4.35 million and $1.3 million, respectively, giving effect to slightly higher rates and reduced costs. CSH has brought in **The Arbor Company** to manage the community and get costs under control. Aron Will of **CBRE Senior Housing Debt & Structured Finance** secured a $10.2 million non-recourse loan from a regional bank which includes five years of interest only and a $2 million earn-out feature. The interest rate is less than 300 basis points over LIBOR.

In the third acquisition, but in high-priced California, CSH purchased a 97-unit assisted living community with 76 assisted living units and 21 memory care units. The community was built in 2004 with 63,000 square feet, but occupancy has lagged a bit at just 81%. Trailing 12 months revenue and EBITDA were about $4.4 million and $850,000, respectively, with the low occupancy. With 95% occupancy, we expect an additional $800,000 of annualized revenue, all of which should go to the bottom line because operating costs were high even with that low occupancy. The purchase price was $23.75 million, or $244,850 per unit, and **Cushman & Wakefield** represented the seller. Financing was provided by **Citi National Bank**, and CSH is bringing in California-based **MBK Senior Living** to manage it, and we know what they can do to increase census.

The great Southwest was home to the highest priced transactions this month, but they were pretty nice communities. In Scottsdale, Arizona, one of the large REITs purchased a 216-unit community for what we estimate to be just over $350,000 per unit from a private equity fund that purchased the property in 2006 for about $319,000 per unit. It will be folded into an existing RIDEA structure. At the time of the last sale, this community was considered to be the premier rental community in Scottsdale, but the timing of that purchase was not so great with the recession starting two years later. In the eight years since the last sale, the unit mix has changed slightly, with 178 independent living and 38 assisted living units, converting 14 of the IL units to assisted living. We have estimated first year revenues and EBITDA to be approximately $11.0 million and $4.9 million, respectively, which would be a roughly

6.4% cap rate. Occupancy has hovered around 90%, so if that can be nudged up, we would be looking at another $300,000 or more of revenue with minimal expense. Lisa Widmier of **VantAge Pointe Capital Management** represented the seller.

In another Southwest transaction, **American Realty Capital Healthcare Trust II** just purchased two retirement communities with approximately 269 units in Arizona and New Mexico. The seller, a private equity firm, purchased these two properties in 2011 for $52.5 million, or about $190,000 per unit at the time, and sold the campuses for a tidy three-year profit at just above $275,000 per unit. One is in Sun City and the other in Albuquerque, and the combined occupancy is 88%. We believe the cap rate is about 6.3% based on historical cash flow. **Senior Lifestyle Corporation** will stay in as manager under a RIDEA structure, and Lisa Widmier of Vantage Pointe Capital Management represented the seller in what was a very quiet, no bidding sales process.

Colorado saw a lot of acquisition activity in the past month with three separate transactions. **Silverstone Health Care Real Estate**, based in Alexandria, Virginia, closed on its first acquisition. It partnered with **Artemis Real Estate Partners** for the acquisition, which may have been sold for upwards of $240,000 per unit. The community, located in Arvada, has 118 IL units and was built in 2008; two additional units are used by live-in managers. At the time it went under contract, occupancy was 90%, but it increased to 98% within a month after closing. The seller was **Holiday Retirement Corporation** and the buyer plans to bring in Senior Lifestyle Corporation to manage the community. **Grandbridge Real Estate Capital** arranged $17.15 million in mortgage financing with **BB&T Real Estate Capital**. The seven-year loan has a 30-year amortization and an 18-month interest-only feature. The two founders of Silverstone are familiar industry names: Stephanie Anderson and Frank Small. They are looking to grow and have two properties in Texas under agreement with seven more in their acquisition pipeline. They are looking mostly for IL, AL and memory care properties, but will also consider high-end transitional care/rehab facilities.

Kansas-based **Legend Senior Living** made its first foray into Colorado with the purchase of a 71-unit assisted living community in Greeley for approximately $15.25 million, or $214,800 per unit. The community was built in 2009 and has 51 assisted living units and 20 memory care units. When the acquisition closed, occupancy was above 95%. **Key Bank** provided the mortgage financing for the

deal. Legend also secured some land in a different town from the seller for possible future development.

In the third Colorado deal, and one that was the second part of an earlier transaction this year, not-for-profit **Bethesda Senior Living Communities** purchased a 104-unit assisted living community in Loveland for $17.25 million, or $165,800 per unit. In February, Bethesda closed on another community in Thornton from the same seller. Financial details have not been disclosed, but we believe EBITDA was just over $1.0 million, which would result in a cap rate of 6.1%. Colorado-based **Pyms Capital Management** represented the seller and **Bonaventure Real Estate** advised the buyer in the transaction.

There were a few interesting transactions in the Northeast. In the first one, **Aviv REIT** (NYSE: AVIV) purchased a 126-unit assisted living community and a 72-unit skilled nursing facility, both of which are located in West Yarmouth, Massachusetts (Cape Cod). In addition, Aviv bought a 93-unit assisted living community in Weston, Massachusetts, an affluent suburb of Boston. The total price was $82.0 million, or $281,800 per unit, and they have been leased to Connecticut-based **Maplewood Senior Living** for an initial 10-year term with an initial cash yield of 8.0% in year one, 8.5% in year two and then CPI-based escalators for the remaining years. But that's not all. Aviv also purchased two land parcels and entitlements for the construction of a 75-unit assisted living community in West Yarmouth (with an estimated cost of $19.8 million) and a 131-unit assisted living community in Brewster, Massachusetts (with an estimated cost of $37.3 million), as well as land to build a 50-unit addition to the West Yarmouth ALF it purchased, which is expected to cost $12.6 million. These land purchases totaled $12.2 million. The initial cash yield on the new construction is expected to be 9.0%.

The second transaction in the Northeast involved a large campus, and it is not often that a successful retirement community has been in the hands of the same family for more than 30 years, with the second generation deciding it was time to retire. Such was the case last month with New Jersey-based **Juniper Communities** finding a 272-unit retirement community in State College, Pennsylvania. The first part of the community was built in 1983 with personal care units, which were subsequently remodeled and, in 2002, expanded to bring the total to 87 very attractive units. During that 19-year period, 33 independent living units, 116 skilled nursing beds and a separate 36-unit memory care building were added. Overall occupancy is about 91%, something we assume Juniper will try to improve on, but they don't want to change too much since the community appears to be humming

along. The independent living units, although the smallest part of the community, are 100% occupied, which is a plus if any expansion is in the cards. Annual revenues and EBITDA are approximately $16.0 million and $3.25 million, respectively, for a 20% operating margin. The skilled nursing component is nearly 100% private pay with a small Medicare census and no Medicaid, unusual for that many beds. The purchase price was a very reasonable $35.5 million, or $129,500 per unit/bed and a cap rate of just over 9.1%, which is a market blend of the various components. **Metro Bank** provided the financing and the law firm **Akerman LLP** provided legal advice to Juniper.

For any Hollywood buffs, there was an interesting sale last month in Los Angeles just one block from Hollywood Boulevard. The property is an 85-unit residential care facility that was operated by not-for-profit **Front Porch Communities** in a joint venture with the owner of the real estate. The art deco building was built in 1933 and occupancy was just 66%, with 73% of that private pay and the rest SSI. The majority of the units are one-bedrooms. The facility had been losing money on about $1.3 million in revenue, mostly because of the low private pay rates, which had more to do with Front Porch's mission than the market, as well as the low occupancy. Although we don't know the timing of any changes, and the buyer, **Pacifica Companies**, may want to wait a year or two, but if they complete some renovations that could be between $5 and $10 million, they could most likely get rates up to $5,000 per month. That could result in a value near $20 million upon stabilized occupancy, providing a nice $5 million to $10 million capital return depending on how much they invest in renovations. That is because the purchase at $5.0 million, or $58,800 per unit, will provide some timing flexibility. Plus, it would be a nice location to visit. Chris Hyldahl of **Blueprint Healthcare Real Estate Advisors** represented the seller.

The Southwest region had an uptick in acquisition activity. A regional owner/operator purchased two retirement communities in Tulsa and Bristow, Oklahoma. The campus in Tulsa has 116 independent living units, 90 assisted living units and 117 skilled nursing beds. The campus in Bristow is much smaller with 106 skilled nursing beds and just 16 assisted living units. The various components of the campuses were built in stages between 1964 and 1995, and overall occupancy was just 72%. The children of the deceased owner took over operations in 2012, and it is not clear how attuned they were to operating such a large asset with more than 216,000 square feet. Revenues and EBITDA were $13.1 million and $1.95 million, representing an operating margin of about 15%. Not bad

for 72% occupancy, but one that can be significantly improved upon with better management. The buyer intends to increase the occupancy and expand the Medicare census in the skilled nursing beds. That should provide a good return on the $15.6 million purchase price, or $35,000 per bed/unit. Nick Cacciabando and Patrick Byrne of **Senior Living Investment Brokerage** handled the transaction.

Senior Lifestyle Corporation sold a portfolio of six retirement communities in Texas (four) and one each in Oklahoma and Florida to a national REIT. The properties include 526 independent living units and 323 assisted living units. These communities are less than 20 years old and average occupancy was 91%. Financial details have not been disclosed (but we would appreciate a confidential call if you know). Ryan Maconachy and Chad Lavender of **HFF** represented the seller in the transaction.

A relative newcomer to the seniors housing business purchased two small independent living communities in secondary markets in Texas about three hours apart from each other. They were built in 1996 and have a combined 116 units and occupancy of 89%, although one is performing better than the other. Estimated revenues and EBITDA were $2.74 million and $630,000, respectively, but there hasn't been a rate increase in a few years. The buyer, California-based **Titan SenQuest**, expects to be able to increase the margin from 23% to 31%. Although the price has not been disclosed, our estimate is that it was below $70,000 per unit.

Titan SenQuest also purchased an independent living community in Grand Rapids, Michigan last month. The community was built in 1984 and has 152 units with 163,000 square feet. The three-story building had been owned and managed by the same developer who built it. The building was well maintained, but occupancy was just 72%. On a trailing 12-month basis, revenues and EBITDA were approximately $2.75 million and $1.1 million, respectively. The purchase price was $10.3 million, or $67,700 per unit. The buyer believes the community was overstaffed and the marketing was not what it could be. A new marketing director was hired and in two weeks there were two net move-ins. It looks as if this will be a classic value-add acquisition. **Lancaster Pollard** arranged $8.165 million in mortgage financing with **Mid-Cap Financial**. We expect to be hearing more from Titan SenQuest in the coming months.

If it is summertime, it must be time to convert a lemon into lemonade again. **Kandu Capital** and its operating affiliate, **Bloom Senior Living**, have found an off-the-beaten track, underperforming independent living community outside of Shreveport, Louisiana with about 119 units.

Occupancy was just 59%, despite the rest of the market being above 85%. But that doesn't matter, because the buyer plans to invest about $1.0 million converting most of the units so that when they are finished, there will be just 30 IL units, but with 66 AL and 30 Alzheimer's units. Apparently, the building is beautiful but under managed, in a local market with 97% occupancy for assisted living and mostly 100% for Alzheimer's. The existing financials are not relevant, so we will do a forecast based on conservative rates of $2,000 for IL, $3,000 for AL and $4,000 for Alzheimer's (these are the low end of ranges). The buyer believes they will reach 95% occupancy in 24 months (again, conservative), but we used 90% to estimate future revenues of about $4.0 million and an operating margin of 28% (given the size, that could get to over 30%). That results in EBITDA of just over $1.1 million, and with a cap rate of 8.0%, the value would come to $13.8 million, or $116,000 per unit (or higher with higher occupancy, rates and margin). With a purchase price of $5.5 million, plus the $1.0 million in renovations, that is a conservative doubling of value. Yes, always easier said than done, but they have done it before. Lemonade anyone?

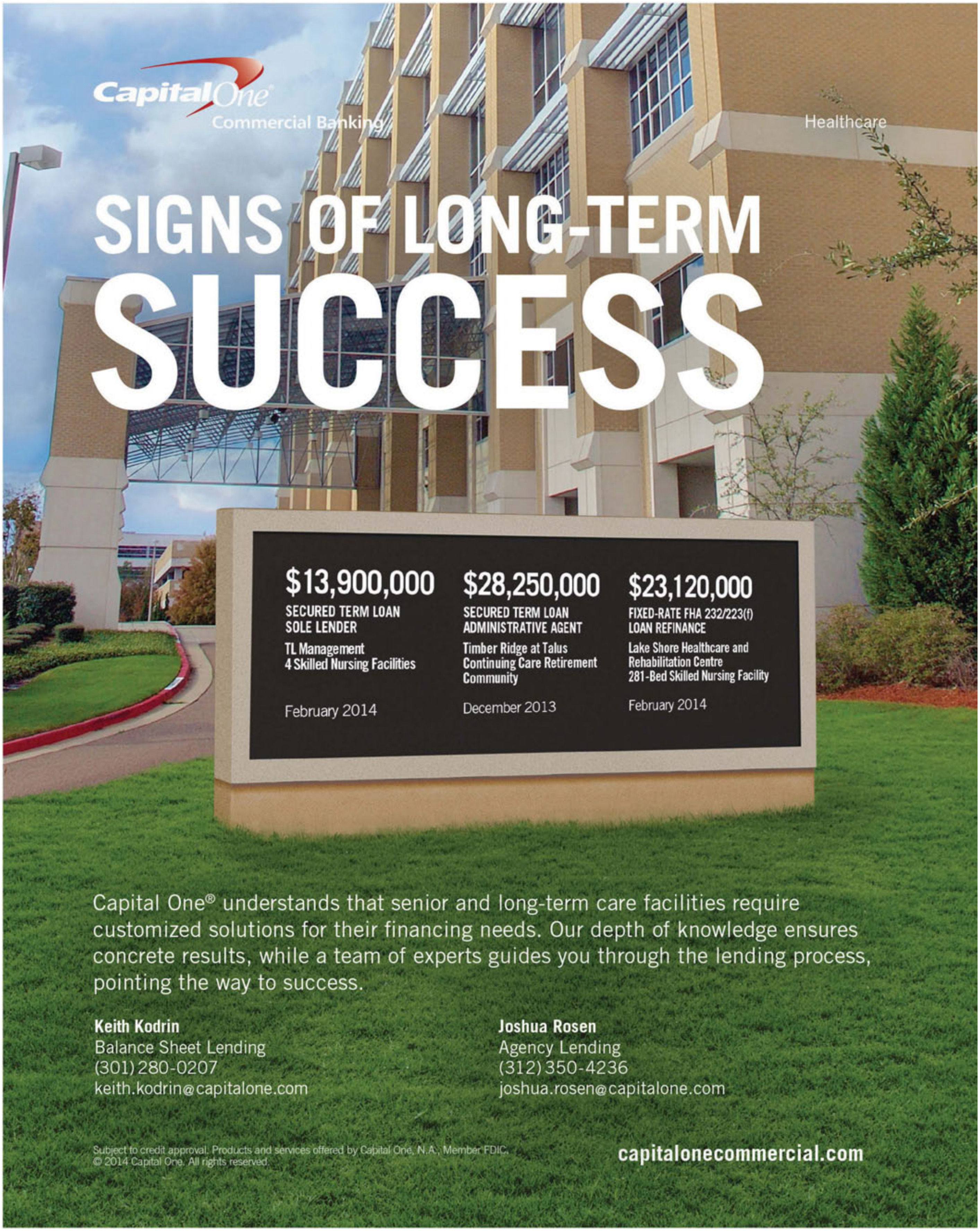
**Chartwell Retirement Residences** (TSX: CSH.UN) closed on the acquisition of an 85% interest in two retirement communities with 267 units in Quebec for $41.2 million, plus a 222-unit community for $134,300 per unit.

## Seniors Housing M&A Train Rolls On

*continued from page 1...*

for all of them to continue to grow? One obvious and somewhat easier way to grow is to buy smaller competitors, and over the years **Ventas** (NYSE: VTR) has bested its competitors with at least three REIT acquisitions we can remember (including a current acquisition in process). These REIT-on-REIT deals have accounted for more than $10 billion in acquisitions for Ventas over the years (including the ACR deal not closed), with the obvious risk of picking up some unwanted assets that need to be divested. We expect these sorts of transactions will continue, especially since the size differential among the REITs is huge.

But what about the individual property and portfolio market, is there enough inventory to feed the insatiable pipeline demands? Let's start with the skilled nursing market, which we realize is not the primary targeted sector for REITs right now, but the data is a little more clear. In 2007, the REITs owned approximately 1,050 skilled nursing facilities, or between 9% and 10% of the for-profit market (we are excluding not-for-profit and government-owned facilities since they are rarely on the REITs' radar screens, but number just under 5,000 facilities). Since the last market peak in 2007, REITs have more than doubled their holdings of skilled nursing facilities to about 2,170



facilities with 246,000 beds, or almost 20% of the market, which today totals approximately 11,000 facilities and 1.5 million beds (excluding government and not-for-profit). Recognizing this is a constantly changing number with facility closings as well as new construction, it is a fair representation of the size of the market. The leading REIT owners of skilled nursing facilities include **Omega Healthcare Investors** (NYSE: OHI) with more than 530, Ventas with about 360 and **HCP, Inc.** (NYSE: HCP) with just over 300.

The difficult part of the analysis is trying to figure out what percentage of the remaining 80% not currently in REIT hands could be potential acquisition targets from a quality perspective. We will guestimate less than 50%, which would mean perhaps 4,000 properties. The problem is that many of them are still in small holdings of one or two properties, so they will have to be bought by regional companies first (or by the smaller REITs) and then sold to one of the REITs (that is, if they still want SNFs). The point is that there is plenty of inventory, but in the next few years the wheat will certainly be separated from the chaff in many markets, and that will determine the extent of the available (potential) supply.

The private pay seniors housing market is a little more difficult to analyze because the supply numbers are not as available, unlike the strictly licensed skilled nursing sector. The best estimates are probably from the **NIC**, which excludes non-market rate properties as well as those with fewer than 25 units. They cover the top 99 metro markets for their quarterly occupancy, construction and rate growth statistics, and they believe these 99 markets represent about two-thirds of the total market. We have taken some liberties by starting with NIC's 2010 numbers and estimating the growth (which was limited in the post-recession environment), and then reduced the numbers by the CCRCs, which are about 80% not-for-profit and not considered to be acquisition candidates for the REITs. With these caveats, we have derived a market with about 9,500 independent living, assisted living and memory care properties with perhaps 825,000 units. These invariably include some not-for-profit properties, but more on the independent living side.

At the end of 2007, REITs owned approximately 1,260 private pay senior living properties with 112,000 units, according to our rough calculations. Today, that has more than doubled to about 2,670 properties with 266,000 units. If our market size numbers are close, they own about 30% of the market, or a much higher percentage than in the SNF market (20%), even though both have shown significant growth in REITs' portfolios. And since most of the new development is in the private pay market, and

almost all of it could be REIT acquisition candidates, there will be an increasing supply for the REITs. The bottom line conclusion is that, with the expected REIT-on-REIT deals, plus the still large number of properties in both sectors in private hands, we are not worried about the health and growth prospects of the health care REITs. Now, what price they pay is another matter, but if they and their tenants survived the Great Recession in reasonable health, it is going to take a more cataclysmic event to put a major dent in their values. One obvious candidate would be soaring interest rates, and while they might rise, few are predicting they will soar.

## Financing News

**Capital One Specialty Healthcare Real Estate** closed on $65 million of HUD loans last month. Carolyn Whatley's Capital One Multifamily team simultaneously underwrote three loans for **Terrace Communities** worth a combined $31 million, one of which we mentioned last month. This month, we can report the refinancing of the two New Hampshire properties, $8.8 million for 70-bed Wheelock Terrace in Hanover, and $7.5 million for 71-bed Windham Terrace in Windham. Capital One's Joshua Rosen closed on a total of $31.8 million in HUD loans for three SNFs.

**Lancaster Pollard**'s Kass Matt closed on a $5.6 million HUD loan for a 145-unit assisted living community in Ohio that is adding 40 memory care units, as well as a $3.5 million loan to finance an expansion project for a CCRC, Mason Christian Village. LP's Matt Lindsay handled the HUD refinance of $3.6 million for a 47-bed SNF in Seattle, Washington. Meanwhile, Quintin Harris led the refinance of two properties, a $4.7 HUD loan for a 65-unit ALF in Minnesota and a $3.3 million HUD loan for a 38-unit ALF in Iowa. Separately, Lancaster Pollard also arranged $7 million in bank financing to fund a Medicare suite addition for a **Greencroft Communities** property, the largest not-for-profit senior living provider in Indiana.

**Capital Funding** closed on three bridge loans in July, totaling over $26 million. They first provided a $5.2 million bridge loan refinance of a 120-bed SNF in Texas. The second was a $10 million loan to provide equity to a 95-bed SNF in Florida that was originally purchased with cash. Third, Capital Funding financed the acquisition of a 120-bed SNF in Pennsylvania with an $11.4 million bridge loan. All three loans will be refinanced with permanent HUD financing.

# REITs

| Company | Ticker | Current Price 7/31/14 | Current Yield | Stock Market Cap (In Millions) | 2014 % Change | 52-Week Range High | Low |
|---|---|---|---|---|---|---|---|
| American Realty Capital[1] | HCT | $10.67 | 6.4% | $1,950 | 7% | $11.00 | $9.44 |
| Aviv REIT | AVIV | 28.45 | 5.1 | 1,320 | 20 | 29.36 | 21.31 |
| CareTrust REIT[2] | CTRE | 17.06 | - | 358 | -2 | 22.35 | 16.15 |
| HCP, Inc. | HCP | 41.53 | 5.2 | 18,980 | 14 | 45.10 | 35.50 |
| Health Care REIT | HCN | 63.63 | 5.0 | 19,020 | 19 | 66.76 | 52.43 |
| Healthcare Realty Trust | HR | 24.70 | 4.9 | 2,370 | 16 | 26.36 | 20.85 |
| LTC Properties | LTC | 38.33 | 5.3 | 1,340 | 8 | 41.84 | 34.30 |
| National Health Investors | NHI | 59.79 | 5.2 | 1,950 | 7 | 64.84 | 53.01 |
| Newcastle Investment Corp. | NCT | 4.47 | 8.9 | 1,580 | -22 | 5.14 | 4.29 |
| Omega Healthcare Investors | OHI | 36.54 | 5.5 | 4,600 | 23 | 39.31 | 27.37 |
| Sabra Health Care REIT | SBRA | 27.70 | 5.5 | 1,300 | 6 | 31.17 | 21.55 |
| Senior Housing Properties Tr. | SNH | 22.86 | 6.8 | 4,610 | 3 | 25.47 | 20.70 |
| Universal Health Realty | UHT | 42.06 | 6.0 | 544 | 5 | 45.80 | 38.36 |
| Ventas | VTR | 63.50 | 4.6 | 18,690 | 11 | 69.09 | 54.89 |

(1) ARC-Healthcare Trust started trading effective April 7, 2014. (3) CareTrust REIT was spun out from The Ensign Group effective June 1 and the percentage change is from the initial trading.

In the month of July, **Housing & Healthcare Finance, LLC** (HHC) closed three HUD loans for three SNFs totaling $47.3 million. The first was a $19 million refinance of a 189-bed facility in Lincoln Park, New Jersey, followed by $24.7 million for a 204-bed SNF in eastern New Jersey. The third loan was a $16.4 million refinancing of six properties in four states closed by HHC's affiliate companies, **HHC Funding** and **Congressional Bank**.

Matthew Whitlock of the **CBRE Senior Housing Services** group worked with Fannie Mae to close a $38 million first mortgage, secured by a 265-unit community in Rhode Island with IL, AL, MC and private pay skilled nursing units. The seven-year loan has a 30-year amortization, and the fixed interest rate is 4.36%, or about 220 basis points over the seven-year Treasury. Finally, **Oak Grove Capital** closed on a $2.8 million HUD loan secured by a 54-unit senior living community that was built in 1994 and has current occupancy of 100%. Separately, **Cambridge Realty Capital** closed on a $6.3 million HUD loan to refinance a skilled nursing facility located in Waterville, Maine.

In the tax-exempt bond market, **Ziegler** closed on $105.61 million in bond financings for two CCRCs and $140.3 million, or $681,000 per unit, for one independent living community. Separately, **Herbert J. Sims** closed on a $61.7 million bond issue for a Type B 344-unit CCRC in the Philadelphia metro area, and a $49 million fixed-rate bond issue for a 551-unit CCRC located in Westminster, Maryland, which is looking to build another Baltimore-adjacent CCRC.

## People On The Move

Kevin Carden has left **Ziegler** and joined **REDICO** as senior vice president of acquisitions. REDICO is a full service real estate development and investment company located in Michigan, which has a major interest in **American House Senior Living** with plans for more growth.... **Aegis Living** has promoted Judy Meleliat from chief marketing officer to president of the company, joining a handful of women in the C-suite of the larger senior living companies....**CBRE Senior Housing Group** has hired Jeff Bothwell as a senior vice president who specializes in debt placements for skilled nursing facilities....Isaac Losh has joined **Senior Star** as vice president of acquisitions, having previously worked at **Health Care REIT** (NYSE: HCN)....Daryl McCombs has joined **Woodbine Senior Living** as a partner and chief investment officer. Woodbine owns, operates and consults with senior living owners and developers on the East Coast....**Greystone** has acquired the seniors housing group of **ARA**, and the new unit will be known as **Greystone Real Estate Advisors**. Joining from ARA are Mike Garbers and Cody Tremper; Cody will be joining brother Cary at Greystone.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