



HEALTHTRUST

Seniors Housing & Healthcare Real Estate Advisory Services



TRENDS IN SENIORS HOUSING

A Message from Alan Plush, MAI

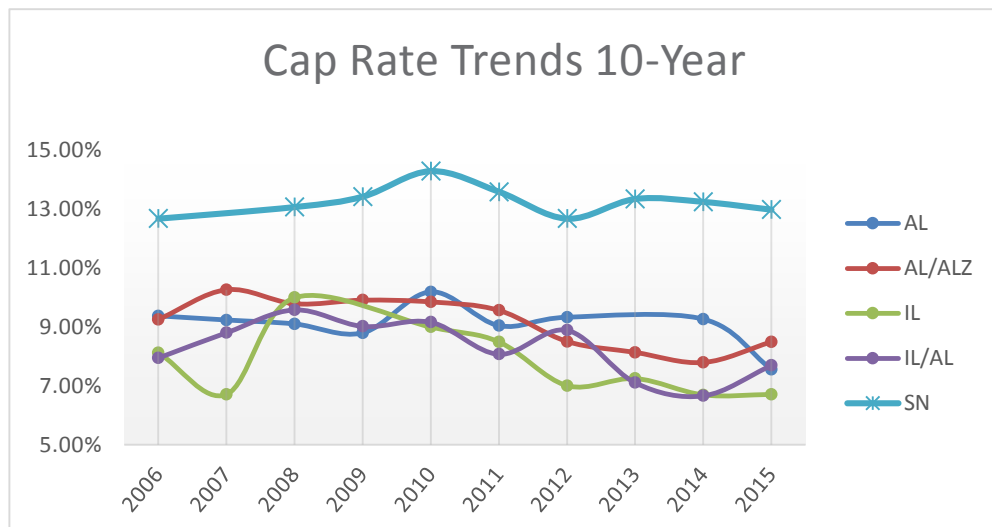
25th Annual NIC Recap

Twenty-five of anything seems like a lot, and having attended every NIC event I wonder where the time has gone. Record attendance this year served to remind me how far the industry has come as well as how far the NIC organization has progressed. In addition to a great event with excellent speakers and content, the NIC has sculpted a vision of capital providers serving the industry by providing transparency and information resources of a factual and statistical nature. Just a few examples are NIC MAP, industry publications, annual, national and regional events, all under the stewardship of Robert Kramer and their board. NIC can really be proud of what they have done for the healthcare and seniors housing industries.

I was asked by the CEO of a large REIT “what is your take on the mood this year”. My response was “sputtering at the top”. An increase in development may cause many market participants to get concerned about fundamentals in Assisted Living and Memory Care specifically, noting however that the benign interest rate climate will continue to give cover to projects that would otherwise be marginal or not feasible. We are at the stage where “dumb money” is trying to get into the game, which is an indicator that we are likely at the top or have already started the slide. I take the view, like many, that this downturn will not be as sharp as past occurrences. I also believe that operational fundamentals as opposed to credit costs or availability will drive the shift. However, the same has been said about past corrections - most notably in 2007 just before the wheels came off and I decided to stock up on food and gold... Market uncertainty is exactly that, and the volume of deals at low cap rates are reflective of limited quantities of product (in this case institutional grade assets) available relative to demand. Equity continues to chase yield and that pressure will not abate in the near term. Thus, “sputtering at the top”.

Valuation Overview

I presented on a panel with David Boitano of Ventas moderating and Charlie Bissell of IRR co-speaking. Below is the 10 year cap rate chart I presented, followed by a few key comments.





- Cap rates generally remain steady at historical lows.
- Our experience is that some erosion in operating performance is already starting to occur. Although cap rates remain low, some properties are suffering lower valuations regardless due to operations.
- Nursing Home cap rates are trending lower than the normal range, suggesting valuations for some could be frothy.
- The reimbursement landscape seems relatively benign as it relates to substantive reimbursement changes. The low cap rates are likely related to this.

ASHA / State of Seniors Housing Update

Immediately preceding the NIC was the American Seniors Housing Association mid-year event, playing host to a smaller but equally impressive crowd. ASHA does a great job on the information front and in the legislative arena. The annual State of Seniors Housing report just wrapped up. Here's a summary of what Colleen Blumenthal had to say about it.

The 2015 edition of the State of Seniors Housing has been released and HealthTrust is proud to have served as the task force leader for over 10 consecutive years. Highlights of this year's report include coverage of physical plant and operating details for communities with independent living, assisted living, and memory care units, or any mix thereof; continuing care retirement communities (CCRCs) are also covered.

For the first time, the report presented five-year, same-store trends that demonstrate that operating margins for all property types but CCRCs are largely stable and that net operating income (NOI) per occupied unit is also up by a compound annual growth rates of 3-4%, with the exception of CCRCs where NOI per occupied unit is effectively unchanged since 2010.

The study can purchased from the American Seniors Housing Association at seniorshousing.org.

We also support ASHA's Seniors Housing Political Action Committee that seeks to influence, through information, the legislative agenda as it relates to our industries. David Schless, similar to Bob Kramer at NIC, has been in his role at ASHA for quite some time and shepherds their efforts very well. The mood at ASHA was very similar to NIC, given that most people attend both.

In closing my comments for ASHA/NIC week, kudos to both Bob and Dave for their service to the industry and jobs well done.

So you want to be a developer...

For those that don't already know, I have invested in the healthcare and senior housing space for years. At one time I was a small part of a partnership that owned nine Assisted Living properties. We purchased them all as distressed assets and turned them around enough to sell and make a little money so I assumed I understood how this worked. Then, about four years ago I decided to develop a small AL and MC facility on a site about seven minutes from my house. A \$12-14m project, simple.

Four years later we are receiving furniture at what we ended up a 90,000 sf 98 unit (60 AL and 38 MC) one and two story \$23.5m project. My lessons learned are:



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- I invested twice as much cash and ended up with half the ownership stake. People say that's normal.
- Quality counts. We have a superb facility and that has helped us attract excellent operational staff.
- Management! I realized after all these years that competent management is the key. I originally thought the risk points were in construction. A good contractor can really offset the construction risk, but the biggest risk remains operational and the only way to mitigate that is a good operator.
- Details, Details, Details. There are enough of those to fill a truck and having a great TEAM as opposed to being a lone wolf is the only way to attend to all of those details. Again, the operator/contractor interaction, coupled with the architect, were key.

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We have a grand opening November 19th. Please feel free to stop by!



Thanks for reading, and as always, if we can help in any way, feel free to ask.

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