



## Featured Article

### Portfolio Premium or Bulk Discount?

Capitalization rates measure risk. One of the challenges of the valuation process is to insulate the process against short term fluctuations and ensure that longer term trends are adequately reported. To the extent that a temporary decrease or imbalance exists, valuation theory should dilute this in favor of the longer term value trends, much like the stock market and the valuation of individual stocks. Thus the temporary low level of long term interest rates is not perceived to be long lasting by the market participants, hence has not affected cap rates as significantly as one would expect. Other factors (operational and market risk) mitigate the impact below a certain threshold.

Nonetheless in aggregate, we note that the lack of capital and increased pricing is causing the capitalization rates to trend upward. Traditional sources in the industry - Colonial Bank, Credit Suisse, Merrill Lynch, and Capmark have been absorbed. A few commercial banks are doing some lending, but more are attempting to reduce their balance sheet and exit via Freddie Mac and HUD, who are active, but inundated and particular about the deals they do. Outside of the tightening of credit, we have seen little impact on property values as the fundamentals are still very strong in the seniors housing/skilled nursing industry.

Based on 65 transactions since the end of 2007, we found the following differences between multiple asset transactions (MATs), or portfolio sales, and single-asset transactions (SATs) of skilled nursing facilities:

Portfolio Premium/Bulk Discount - SN			
	SAT	MAT	Variance (bps)
Median	13.00%	13.34%	-34.50
Average	13.87%	14.09%	-21.97
Min	10.53%	10.00%	53.00
Max	23.28%	19.88%	340.00

Source: HealthTrust, LLC

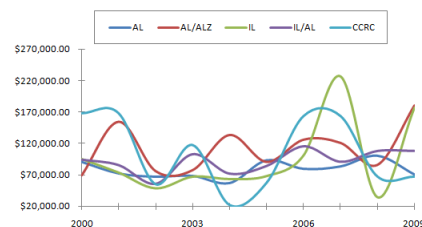
As seen in the foregoing, there are mixed indications as to whether portfolios presently command premiums or discounts, but by and large, the impact is no more than 50 basis points either way. Therefore, in addition, we have examined the specific capitalization rates of 60 seniors housing portfolio sales that have closed since the end of 2007:

Portfolio Premium/Bulk Discount - SH			
	SAT	MAT	Variance (bps)
Median	9.14%	9.19%	-5.00
Average	9.48%	9.20%	28.13
Min	7.07%	8.00%	-93.00
Max	15.13%	10.61%	452.00

Source: HealthTrust, LLC

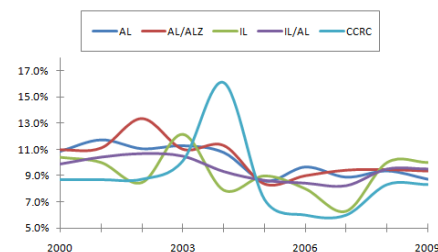
## Volume 2, Quarter 2, 2010

### Price Trends



Source: ASHA & HealthTrust

### Cap Rate Trends



Source: ASHA & HealthTrust

## ASHA's 2010 Annual Meeting

The temperatures were frigid at this year's Annual Meeting, and the outlook for seniors housing was slightly warmer. Marci Rossell, PhD, an economist formerly on CNBC presented an impelling argument that the recession is over but that recovery will be sluggish, in part due to a higher national savings rate (5-6%) and in part due to federal gimmicks that borrowed 2010 activity (home tax credits, cash for clunkers) and used it in 2009. Dr. Rossell then moderated a panel on Capital Markets who suggested that cost of capital may decrease and that REITs are ready to invest.

Alan Plush, MAI, with Steve Monroe led a lively valuation panel covering topics such as lack of data points, expected equity returns, and the future of the entry fee model.



As seen in the foregoing, while individual deals may still reflect differences, in aggregate, there seems to be little distinction between a single-asset deal and a portfolio transaction.

Overall, we find little evidence to support either a premium or a discount for portfolio transactions. Admittedly, there has been a dearth of arm's length transactions for 2008-2010 relative to the 2005-2007 period. This phenomenon is primarily a result of the economic downturn spurred by the lack of liquidity within the capital markets. While capital is available, much of it is only available on a smaller scale, as banks are resisting participating with one another, making transactions in excess of \$50 million difficult to execute. Large portfolios have come to market recently, but much of it has been in the form of distressed properties in bankruptcy proceedings, such as Sunwest and Erickson. At present, due to the limited number of distressed sales, evidence of discounts common during the economic downturn in the late 1980s/early 1990s does not exist.

## NIC Update with Alan Plush

### A Look Back on a Successful Event

The event was a stellar success with record attendances for both the Nursing Forum (which until this year was hosted by HealthTrust) and the Western Regional. I mention this first to highlight what a good job NIC does with these events and second to note the optimism in the industry. Overall the mantra still is "stable operations, better than expected". While occupancies have dropped overall, there remains a sense of optimism as it relates to the near future. Limited new construction remains as a barrier to oversupply, which in the past has compounded downturns. This seems set to remain the case for a while, however well capitalized operators with a good track record seem to be able to get projects done. All in all, good tidings, as long as the larger economy starts to turn soon...

On the nursing home side all eyes remain focused on what may or may not happen with healthcare reform, budget woes, and similar. Until then my sense is that the nursing home industry is not anticipating increases so I can best describe the mood as "batten down the hatches".

CCRC's likely will continue to bear the brunt of the recession but the impact seems to be focused more so on the assets that are/were in the initial sales phase when the recession started. Stabilized assets are working with lower unit turnover revenues, due to slower sales velocity in general. That was to be expected and the CCRC industry has always scared senior debt for this reason. But, that is how the model works. I personally believe that the entry fee model remains valid and, subject to some operational changes will continue to play a major role in the senior housing industry. Quite simply, some people like to rent, some like to own. As long as those perspectives remain, both rental and entry fee product will remain as well.

## ASHA 2010 Continued

Colleen Blumenthal, Task Force Lead of the State of Senior Housing, presented the progress made with the 2009 edition and goals for the upcoming 2010 edition, including: Increased Concession Analysis, Expanded CCRC Operations, Entrance Fee Refund Analysis, Greater Focus on Return on Investment Analysis, and a July release date.

To find out more about the American Seniors Housing Association, please visit [seniorshousing.org](http://seniorshousing.org)

## HealthTrust

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### LOS ANGELES

Coming soon...news on our Los Angeles office opening.

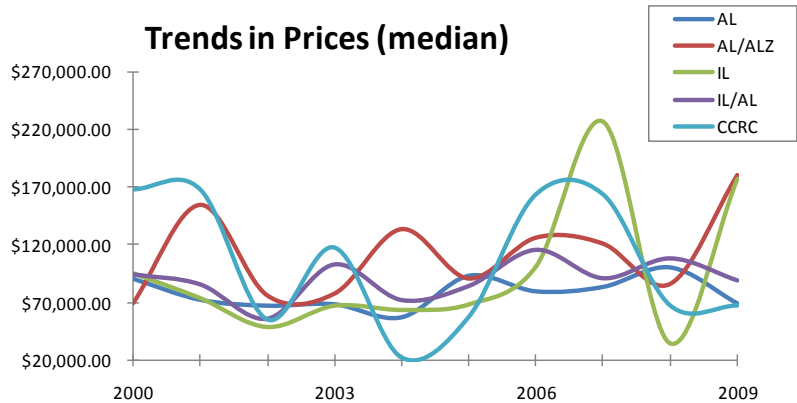
[www.healthtrust.com](http://www.healthtrust.com)

# Trends in Seniors Housing

Quarter 2 | 2010

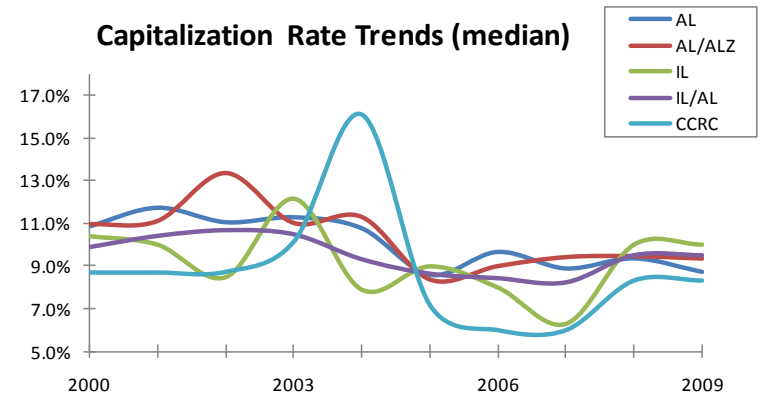
March 31, 2010

## Trends in Prices (median)



Source: ASHA and HealthTrust

## Capitalization Rate Trends (median)



Source: ASHA and HealthTrust

### Median

AL	\$ 70,121.95
AL/ALZ	\$ 177,388.40
AL/SNF	\$ 39,583.33
IL	\$ 176,669.41
IL/AL	\$ 108,552.11
CCRC	\$ 67,028.99

### Median

AL	8.7%
AL/ALZ	9.9%
AL/SNF	12.8%
IL	10.0%
IL/AL	9.5%
CCRC	8.3%



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Senior Housing & Healthcare Real Estate Advisory Services

With over 20 years of experience in the industry, HealthTrust has become an international leader in senior housing and healthcare real estate valuation services by providing our clients with two essential assets: information and experience.