Seniors Housing Newsletter

HEALTHTRUST

Market Update with Alan Plush

Industry Overview

In searching for quotable lines for the state of the industry for this newsletter, I have settled on an oldie but goody. I may be at risk of age profiling, but I am sure the younger set can find Hogan's Heroes on YouTube and hear Colonel Klink's famous line "very interesting". Indeed, the events of the last several months have been very interesting.

While we would like, in a perfect world, to separate capital market's impact on transaction volume and valuations, we all know that they play a crucial role in both. Just as the senior housing and healthcare markets seemed to be primed for another bout of irrational exuberance, Medicare and Medicaid reforms in the form of rate reductions of close attention paid to RUGS utilizations has put a bit of a damper on things. Historically low cost of capital has enabled REITs to be a net buyer of a large amount of product, primarily platform plays where large companies use REITs to exit other capital structures. Manor Care, Genesis, and Atria were the largest over the last 12 months, however half a dozen other groups have also transacted and more are on the way.

Of note, however, are the specific asset pools that REITs are buying. In truth, not all assets are created the same. In almost all cases, the transactions involve substantially all of the assets of a company and using the new RIDEA structures (allowing the REIT to participate in operational profits OR losses) has resulted in joint ventures between the REIT and the operator/seller. This is indeed a new twist and it is having ramifications across the industry. The REITs have access to seemingly huge pools of debt, primarily in the form of long term bonds, at rates that approximate 5.5-6% on a blended basis. This pricing advantage is being put to work and the result is a large volume of quality transactions at high prices.

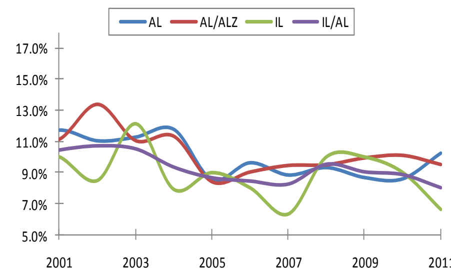
The single exception to this paradigm is the purchase of National Healthcare Properties (NHP) by Ventas, in a "REITs eating their own" transaction. This makes sense for Ventas and is essentially a bulk purchase of a large number of typically smaller more regional deals than Ventas usually gets involved in these days, but it takes advantage of their access to equity and allows them admittance to this more "Main Street" corner of the market. Regardless, the impact is similar in that it highlights the capacity REITs currently have and are putting to work.

What does this mean to the average asset? Well, good news does indeed trickle down and to that point we are seeing cap rates hold steady at levels that are aggressive from historical standards. However, these rates do not apply to all assets.

Continued on page 2

Issue 4

Cap Rate Trends



Source: HealthTrust

Conference Schedule

National LCS-Westminster Funds
Finance Conference
September 13-14, 2011
Racquet Club of Chicago, Chicago, IL
lcsnet.com
westminsterfunds.com

ASHA Executive Board &
Fall Meetings
September 20-21, 2011
Marriott Wardman Park Hotel
Washington, DC
seniorshousing.org

21st Annual NIC Conference
September 21-23, 2011
Marriott Wardman Park Hotel
Washington, DC
nic.org

Ziegler Senior Living
Finance and Strategy Conference
September 21-23, 2011
The Broadmoor, Colorado Springs, CO
ziegler.com

Contact us to arrange a time to visit during any of these upcoming conferences. We look forward to meeting with you.

Industry Overview Continued

Essentially the way we look at it is if an asset qualifies for agency (Fannie or Freddie) financing, then the better cap rate range applies. If not, cap rates are 150-300 bps higher, and in many cases steep discounts result. Quite simply, the market is focused on quality more so than in recent memory.

All of this is interesting as it is seemingly disconnected from the overall health of the industry. In fact, we estimate that occupancy at senior housing assets approximate 90%, with the stiffest headwinds still in the Independent Living sector. This is a direct result of the lower need driven nature of those assets, coupled with the difficulties still facing the housing industry. It would seem that the industry is performing rather well relative to prior downturns, and the fact that many operators are using LIBOR based floating rate debt, even those at 350 over, is lessening the capital costs such that many facilities are avoiding trouble.

I personally have never seen the bid/ask spread greater than it is currently for distressed assets, indicating much more demand than supply of these assets. So, the good news is that if you are having trouble with a facility, for the most part there is a larger than normal buyer pool ready to step into your shoes and give it a try, and at pricing that reflects a lower haircut than in prior recessions. Again, however, remember that this is for institutional grade assets. For non institutional assets, there are virtually no buyers.

On the nursing home side, it is possible that the industry may face significant headwinds over the next few years. Medicaid is under siege in most states due to budgetary issues, and the Federal Government is moving faster than ever to address over-utilization of some RUGS codes that may result in a decline in Medicare reimbursement once they have crafted a solution. So, it would seem that greater caution in forecasting Medicare revenues for the near term may be advisable.

In balance, the industry has held up much better than expected. We will see what happens to the capital side once the Fed stops its purchase of Treasuries. In fact I suppose that we will see what happens across the entire economy as that will be, as Colonel Klink would say, "very interesting"…

Until next time, thanks for reading.

Alan C. Plush, MAI
Senior Partner

Recent Events

SeniorCare Investor Presents:
Assisted Living Facilities: Buying, Selling, and Valuing as the Market Recovers
June 23, 2011
Order a Recording

Stifel, Nicolaus & Company Call:
A Focused Look at the Senior Housing and Skilled Nursing Real Estate Markets
April 20, 2011
Download Transcript

Archived Newsletters

Past issues of our newsletter are available on our website.
Newsletter Archive

HealthTrust

SARASOTA
6801 Energy Court, Suite 200
Sarasota, FL 34240
P 941-363-7500 F 941-363-7525

BIRMINGHAM
3008 7th Avenue South
Birmingham, AL 35233
P 205-320-7523 F 205-320-7595

BOSTON
10 Liberty Square
Boston, MA 02109
P 617-542-2125 F 617-542-2150

LOS ANGELES
315 S. Beverly Drive | Suite 202
Beverly Hills, CA 90212
P 310-557-1100 F 310-557-1101

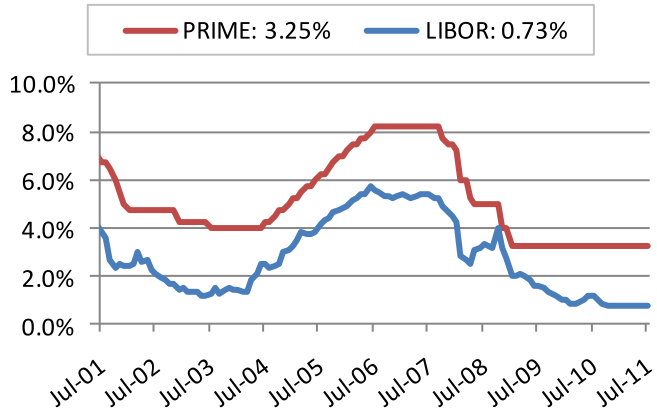
Visit Us Online:
healthtrust.com

Market Indicators

July - 2011

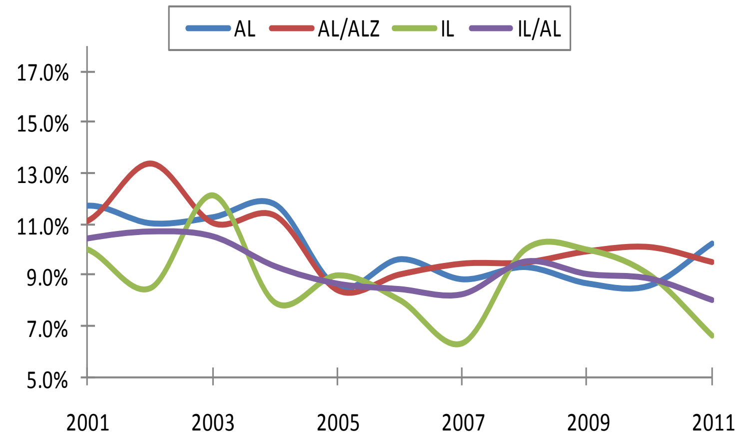
HEALTHTRUST

U.S. PRIME AND LIBOR



Source: WSJ

CAP RATE TRENDS



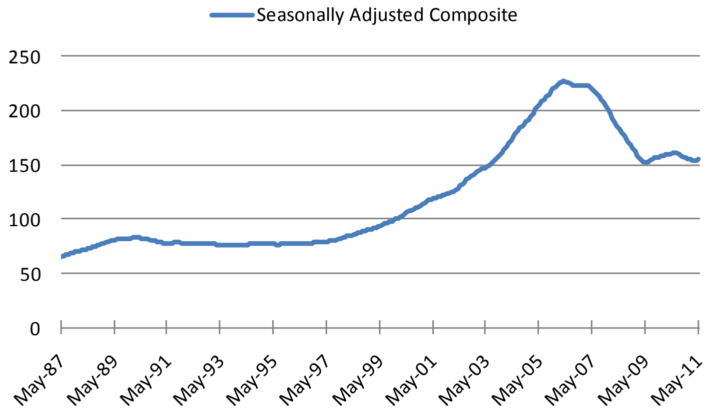
Source: HealthTrust

RECENT TRANSACTIONS

Type	State	Date	Sale Price	% Occ	$ / Unit	Cap Rate
AL	WI	Jan - 2011	$9,184,000	95 %	$86,184	8.25 %
AL/ALZ/IL	AZ	May - 2011	$25,600,000	95 %	$220,690	8.43 %
AL/ALZ	GA	Jun - 2011	$15,500,000	100 %	$206,667	9.75 %
AL/ALZ	TX	Jun - 2011	$15,400,000	86 %	$125,203	9.32 %
AL/ALZ	CA	Jun - 2011	$31,925,000	85 %	$224,824	7.50 %

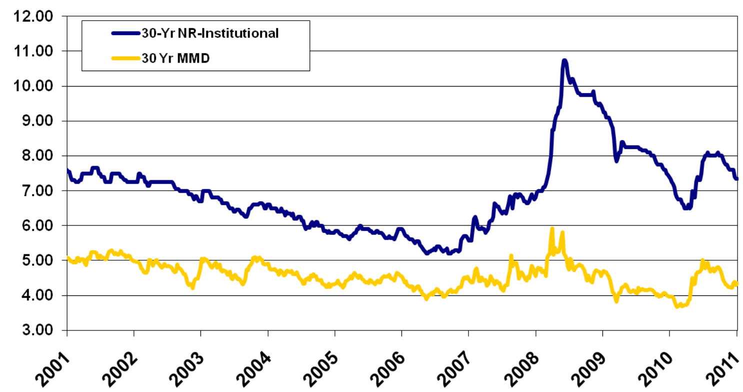
Source: HealthTrust / HealthComps

S&P CASE SHILLER



Source: standardandpoors.com

SENIOR LIVING BOND RATES



Source: Ziegler

HEALTHTRUST

SARASOTA
6801 Energy Court, Suite 200
Sarasota, FL 34240
P 941-363-7500 | F 941-363-7525

BIRMINGHAM
3008 7th Avenue South
Birmingham, AL 35233
P 205-320-7523 | F 205-320-7595

BOSTON
10 Liberty Square
Boston, MA 02109
P 617-542-2125 | F 617-542-2150

LOS ANGELES
315 S Beverly Drive, Suite 202
Beverly Hills, CA 90212
P 310-557-1100 | F 310-557-1101