NIC INSIDER
Newsletter
Strategic Information for Seniors Housing & Care Executives

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A Discussion with Alan Plush, Senior Partner, Health Trust, LLC

In the latest in a series of dialogues with key players regarding the current capital environment in the seniors housing and care industry, Michael Hargrave, vice president of NIC MAP®, recently interviewed Alan Plush, senior partner at Health Trust, LLC.

NIC: Initial data from NIC MAP is showing that over $8 billion traded in US seniors housing and care real estate in 2012 [this does not include the recent operating company trades, the Sunrise acquisition by HCN or the HCN/Chartwell deal]. This figure is down roughly 70% from 2011 when we saw over $27 Billion trade. Do you sense volume is going to pick up from current levels in 2013 or do you think 2012 volume is more indicative of a "normal" year?

PLUSH: I am not sure I know what "normal" really is for our industry sometimes. The paradigm shift of assets to REITs in some ways is similar to the "go public" wave that washed over the industry in the early years. The industry has always sought cheaper costs of capital (as do all industries) and a perfect storm in 2011 of low capital costs via the REITs, coupled with reasonable performance in the sector compared to other asset classes, and a pent up demand for asset pools that needed to exit their existing structure, resulted in the $27b wave. The following year, 2012, while strong, in my opinion reflects the smaller asset pool that remains that would be "REIT worthy". Not that there aren't still some big portfolios out there. My opinion is that there are fewer and we will not likely see a return to 2011 levels unless public entities were to be taken private. What I do see is a likely return to more new development, noting that much of this will be in conjunction with operators that are aligned with REITs via RIDEA or traditional structures.

NIC: We have seen recent analysis of sales pairs where cap rates have compressed significantly. What have you seen with regard to cap rate compression in 2012 and is it consistent among property type, investors and portfolio/non portfolio?

PLUSH: As we all know, the industry from the outside is relatively homogenous but from the inside we see numerous sub specialties. In general, we have seen cap rates rather flat throughout 2012, the exceptions being large cap transactions that include an operating platform in addition to assets (i.e., Sunrise). There remains a substantial bifurcation between "REIT quality" and non REIT quality assets, with a cap rate range of 6.5-8.5% for IL and AL/ALZ REIT vs. 8-10% for non REIT. SNF has remained rather flat hovering around the traditional 13%. We have seen a rather predictable "portfolio premium," a phrase appraisers hate as they tend to be very difficult to prove with precision but nonetheless are clearly evidenced in transactions. The presence or absence of a portfolio premium (50-150 bps decline in cap rate that translates to an increase in value) has always been an indicator to us of a healthy and active market.

NIC: In 2012 there were two large profile operating company trades with Sun to Genesis and Plum (from GI Partners to Baybridge). Do you see this as a trend in skilled nursing (and possibly AL)?

PLUSH: Hard to say. Op co trades are similar to portfolio premiums, and I used to say that we only saw these trades when the market was very active. However the capital structure de jour allows more effective segregation of prop co from op co given the economic incentives to do this, so as a result I think we could see more of this going forward.

NIC: In 2012, we saw a continuation of ready access to capital on the part of health care REITs. In addition, we have seen several regional banks become more active and take on slightly more risk. We also heard a great deal of chatter with regard to memory care construction. All the while, HUD was turning in a record year. What sorts of activity do you see for the seniors housing and care capital landscape in 2013?

PLUSH: Crystal ball time. I love watching the business channels when they ask the guest "so what was your prediction for 2012 and how close were you?" My hit rate is around 50% I fear. However I am a firm believer in the physics of economic inevitability, and the key drivers I see for 2013 that will shape the industry include continue lower costs of capital (via the groups you mentioned), availability of an ever increasing and ever more skilled operator pool, tempered by the back drop of an economy that just isn't improving very fast. And that will continue to impact the savings of our consumer base and the affordability of our product. The stock of seniors housing and nursing assets is not being replaced as fast as it ages, our demand pool is increasing, land and construction costs in most market areas remains depressed, and the product is accepted by the consumer. I thus see continued and modest new development, continued albeit toned down consolidation, likely consolidation of some smaller REITs by larger ones, and industry fundamentals remaining strong

About NIC

The National Investment Center for the Seniors Housing & Care Industry (NIC) is a 501(c)(3) organization whose mission is to facilitate informed investment in the seniors housing and care Industry. NIC's NIC MAP® Data and Analysis Service tracks more than 12,600 properties on a quarterly basis in the 100 largest metropolitan markets. Proceeds from its national conference and other events are used to fund data and research on issues of importance to lenders, investors, providers, developers, and others interested in meeting the housing and care needs of America's seniors.

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