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For some reason, the market always seems to slow down a week or two before Thanksgiving, and then ramps up in the last two weeks of December. This year will be no different.

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Most of the “headline” news regarding CCRCs in the past two years has been negative, and the bankruptcy filing of The Clare at Water Tower in November didn’t help. But there have been some bright spots, and The Clare will rise again.

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SENIOR CARE M&A MARKET
Quiet November, But Expect Deal Surge At End Of Year

By any measure, 2011 will go down as a banner year for the seniors housing and care M&A market. The number of “announced” transactions during the year will be significantly higher than in 2010, most likely by at least 40% higher and possibly 50% higher depending on the ability of various parties to get their deals done by year end. And this is despite a small dip in activity in the third quarter. The dollar volume will also be up by more than 40% from the $11.9 billion of announced acquisitions in 2010. Although our cap rate and unit and bed price statistics are based only on arm’s-length transactions “closed” in every calendar year, because we track the entire health care M&A market based on the announcement date of acquisitions, there can be variances with other reported numbers. That said, the 2010 to 2011 period will not reach the peak years of the 2006 to 2007 period when a combined total of $39.2 billion of seniors housing and care deals were announced.

Barring a huge transaction that we are unaware of that could get us close to an all-time, single-year record, with a strong December the recent two-year period should top $30 billion in dollar volume. For this to have occurred with

...continued on page 2

THE BUSINESS OF CCRCs
Entrance Fees, Capital Adequacy, Confidence And The Clare

There are some industry professionals who are worried about the CCRC business. While we understand their concern, this issue is not really about the CCRC sector itself, but about individual communities, both new and old, and what the capital structure should look like moving forward. Obviously, there is significant interest in what is going on in the CCRC market, and one has to look no further than our online conference last month, The Future of CCRCs, which had the largest attendance of our 36 (so far) online conferences. While the attendance was striking, what was more unusual was that the majority of the attendees were in the for-profit sector, while 75% of CCRCs are operated by not-for-profits. Obviously, it’s not just the not-for-profits that have an interest in the future of CCRCs.

What does this tell us? Does this mean we will be seeing a lot more for-profit activity in the CCRC market?

...continued on page 10
the economy still unravelled by the Great Recession speaks volumes about the resiliency of the sector. To put it into perspective, in the five-year period from 2001 to 2005 following the dot.com bust and resulting recession (not to mention the events of 9/11), the total dollar volume was just $15.9 billion, or an average of just $3.2 billion per year. The sector has not just survived, but it thrived, at least as measured by investor interest pretty much across the spectrum, and this is despite reimbursement risk (specifically, recent and pending cuts), census challenges, a debt market that has still not recovered and a failed leadership (perversely, recent and pending cuts), census challenges, a debt market that has still not recovered and a failed leadership in our nation’s capital (and from both sides of the aisle). The low cost of debt, when it is available, hasn’t hurt the situation.

It was not all gravy during 2011, however. In the skilled nursing sector, after the momentum and excitement following the sale of the real estate assets of Genesis HealthCare and HCR ManorCare to REITs for effective prices above $130,000 per bed, combined with the giddiness of anyone with skilled nursing Medicare beds after RUGs-IV went into effect, the euphoric atmosphere began to change. First came the rather weird April 28th announcement of a wide range of potential changes to Medicare rates, which effectively ended one public company’s attempt to sell the entire entity or, at a minimum, complete a recapitalization, and basically brought most, but not everyone, down to reality that the “stroke of the pen” risk does still exist and will continue to do so. What no one was expecting, however, was a change in the pen.

In an unfortunate twist of fate, and timing, RUGs-IV got caught up in the debt ceiling negotiations in July (did we mention a lack of leadership in Washington?), and after thinking they had negotiated a workable reduction in rates over time, the skilled nursing providers were hit not with the worst case scenario, but something far worse, at least for those working in the high-end therapy side of the business. This did slow things a bit in the acquisition market, and the average price per bed in 2011 will decline from the record in 2010 (sale/leasebacks with REITs without a third party involved are excluded from our per-bed analysis), but the resiliency factor came into play and after a six-week daze, the market began to pick up, high-acuity providers sucked it up and tried to figure out how to deal with it, and low-acuity providers had little to worry about, other than the solvency of their respective states. So, with the worst reimbursement cut since the late 1990s, which at that time contributed to one out of five skilled nursing beds in the country being operated by a company in bankruptcy, the industry, while obviously not happy and shareholders even less so, is basically able to “deal” with it? What does that say about resiliency?

As if to add insult to injury, the failure of the so-called “supercommittee” of 12 Congressmen who, once again, failed to show any leadership and get something done, will result in yet another Medicare cut in fiscal year 2013 of at least 2%, unless those “automatic” cuts are somehow rescinded. Despite this, the third largest skilled nursing deal of the year is expected to close by the end of this month (or so we hear, see below), showing once again (we hope) that if you know what you are doing, have people who understand operations and risk, and who actually believe in not just the viability of the business, but its importance and the role it should be playing in the health care arena to help control rising costs, there is still opportunity out there despite what the bozos in Washington throw at you. We sometimes wonder what would happen if one of our politicians worked in a nursing facility for a week; we
## The Providers

<table>
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<tr>
<th>COMPANY</th>
<th>TICKER</th>
<th>CURRENT PRICE 11/30/11</th>
<th>ADJUSTED P/E RATIO(^{(1)})</th>
<th>% CHANGE FROM PRIOR MONTH</th>
<th>% CHANGE FROM 1/1/11</th>
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\(^{(1)}\) Adjusted P/E = (market cap + total debt + capitalized leases - cash)/annualized EBITDAR based on the most recent quarter. The rate used to capitalize the leases was changed from 12.5% to 10.0% effective 1/31/06.  \(^{(2)}\) Effective November 16, 2010, the “new” Sun Healthcare started trading at an opening price of $12.00 per share. The real estate assets of the “old” Sun were spun out into a new company called Sabra Health-care REIT, which now appears in our REIT stock chart.  \(^{(3)}\) Effective June 15, 2011, ALC completed a 2:1 stock split.

### Notes

Business will continue on in 2012, although we expect the acquisition volume for skilled nursing will decline, and it will take a while for the public company share prices to fully recover. At least Standard & Poors removed six companies from its CreditWatch list, discovering, we suppose, that they will survive this reimbursement debacle. The seniors housing side of the business is a different story, other than the fact that the public company share prices remain in the doldrums even after their October surge. The demand for high-quality properties continues unabated, and this demand, just like in the 2006 and 2007 period, is fueling the supply. A-quality properties with occupancy of at least 90% are attracting up to a dozen qualified bidders each time they come on the market, and usually half of them are within striking distance of the target price. Why? One could call it a “scarcity value” premium, but during the past year or so they have not exactly been scarce in the market, and demand is as strong as ever for these properties.

The answer is stability. One only has to ask why a 150-unit community with independent and assisted living units has remained at 95%-plus occupancy through three years of economic turmoil. Whether you buy it at an 8% cap rate, 7% or 6%, as long as responsible and knowledgeable management is in place, it is hard to imagine the circumstances that would cause its value to decline if it thrived these past few years. And, we suspect, what may be driving some of the lower cap rates for the better “A” properties is the belief that when the economy does finally turn the corner, the ability to raise monthly rates will grow significantly, and as price discounting begins to disappear, the competition for residents will focus more on service, amenities and reputation. Gone will be the days of customers coming in with their spread sheets and asking what deal you will give them. And that translates into stable value, and that is what many institutional buyers want, in addition to a nice return.

Last month we disclosed that, according to our statistics, the trailing four quarters average price per unit for assisted living communities had topped the record set in calendar year 2007. Since then, there has been little to dissuade us that by the end of 2011 the number won’t still be close to that previous record of $159,100 per unit. As in past months, this month we have several sales well under $100,000 per unit, but there are other sales, some...
confidential, that are well above that, with more to come if they can get closed by year end. The big difference this year is that the market is no longer burdened by the one-man wrecking crew from out west that so dominated not just the sales market in terms of pricing, but also the market psychology.

Two years ago, you could bid one price as well as a lower price with no financing contingency, and often times win the bid with that lower price. In today’s market, many sellers almost expect no financing contingency if you believe you are worthy enough to buy their trophy property. It is just a different psychology in a market with very different properties selling. And with this advance in quality, the lending community will become more confident in putting out its money. Think how it looked in 2009 when nearly half the acquisition loan requests were for turnaround situations where significant increases in occupancy were required to turn the communities around at a time when fears of the recession becoming a depression still existed. Then compare that to today’s environment where, even though the prices are higher and cap rates lower, the loan request comes in for an eight-year old, 96% occupied community that hasn’t dipped below 95% in the past three years and maintains EBITDA margins above 35%. That is a property you want to take to the loan committee, and one where they won’t be looking for reasons to say no. That is a fundamental shift in the market, and that is a shift that will stay with us well into 2012 despite the 2012 elections which, as we all know, will put a lot of business activity on hold until November 7. And with interest rates destined to remain unnaturally low through at least the end of next year, the seniors housing market should have smooth sailing. That is, at least, until the do-nothing Congress decides to do something after all, and then watch out.

**Assisted Living Sales**

As in past months, there were high quality sales, as well as some average properties that will be improved and some that may continue to struggle even with new ownership, but at least their capital costs will not inhibit making the needed changes. **Brandywine Senior Living**, which enjoyed a major recapitalization with **Health Care REIT** (NYSE: HCN) nearly a year ago, was back in the market in its home state of New Jersey. The company purchased four assisted living facilities with 340 units from local not-for-profit **Springpoint Senior Living**. These were built in the late 1990s to early 2000s and average occupancy has hovered near 91% to 92%. The seller is a large provider in New Jersey with five CCRCs and 18 affordable housing communities, and it decided to get out of the traditional, stand-alone assisted living business with this sale, which

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was a direct deal between the two parties as they had both known each other well over the years. Although pricing information has not been disclosed, given their locations we have to assume that the per-unit price was above the national average. But more importantly, under new leadership with a company that focuses on assisted living, and with a major presence in New Jersey, we expect census to tick up a few hundred basis points by the end of next year.

Brandywine also closed on the purchase of a 115-unit assisted living facility in Princeton, New Jersey. This community was built in 2002 and has maintained occupancy of about 93% to 94%. Included in the purchase was an adult day care center behind the main building which will continue to be operated by the seller and leased back from Brandywine. No financial details have been released, but we know that Princeton is an upscale market. Brandywine now operates 16 communities in New Jersey and is the second largest assisted living provider in the state. All five of these communities have been re-flagged with the Brandywine name, and management is really working on branding the name locally.

In nearby Maryland, The Autumn Group closed on the purchase of a 30-unit assisted living facility which actually consists of two 15-unit buildings on the same campus, each with a residential kitchen. The facility was built in 1999 and occupancy has been just below 85%, so the buyer has room for improvement on that front. The EBITDA margin was a healthy 30% on revenues of just under $1.5 million, which is pretty good given the small size and the occupancy level. With a price of $3.8 million, or $126,700 per unit, the cap rate on in-place cash flow was 11.87%. While above average, it does reflect the size and the inefficiencies of having two small buildings. Kacey Troyer of Troyer Advisors represented the seller.

Last month we disclosed that West Living was back in the market with the acquisition of the first of several properties in California from a group of investors. That first community was struggling a bit, and the $72,600 per-unit price reflected that. The second deal just closed, and the price of $15.8 million, or $161,400 per unit, reflected a different situation. Located in Modesto within 30 miles of the first purchase, this 98-unit assisted living community was built in 2002 and enjoys a 97% occupancy rate. The EBITDA margin is about 33% on revenues of $4.1 million, which results in an 8.6% cap rate. A very clean deal all the way around, and the remaining two properties are expected to close early in 2012.
Also in California, Meridian Senior Living has purchased a 90-unit assisted living facility in Culver City from Western America Properties for $5.5 million, or $61,100 per unit. The facility, licensed for 115 beds, was built in 1970 and suffered from a low occupancy near 50%. Revenues were close to $1.5 million and it was operating at a slight loss. The buyer plans to reposition the property and spend funds to renovate it. It is their fifth property in California, and Meridian operates about 80 communities in 12 states. Lee Blake and Jim Hazzard of JCH Consulting Group handled the sale.

We keep on saying we are at the end of reporting on former Sunwest Management facilities being sold, so forgive us if we have a few more. Our hope is that before 2013 it will be over. A small property located in Woodburn, Oregon with 47 units and 76 licensed beds was sold to a local buyer new to the business. The facility was built in 1985 for seniors housing and has a mix of assisted and independent living; it looks like an oversized colonial house, which may be why it was called Colonial Gardens. There are 30 studios and 17 one-bedroom units and occupancy was about 75%. The purchase price was $2.0 million, or $42,500 per unit, and it was operating close to breakeven on revenues just over $1.0 million. Lee Blake and Shepard Roylance of JCH Consulting Group handled the sale.

And not to be outdone, the wife of he who cannot be named of Oregon fame has been running a not-for profit foundation, known as the Aspen Foundation, which owned and was managing three former Sunwest properties. Well, one of them (in Oregon) had trouble servicing the $3.0 million of debt and the bondholder, an affiliate of Wells Fargo, had enough and forced an auction of the property. The 35-unit facility was built in 1998 and occupancy had improved to 88%. But it was operating just below breakeven on $900,000 in annualized revenues. That’s tough when your annual interest payment is $180,000. Lee Blake of JCH Consulting Group brought in the winning bidder at the auction, Ageia Health Services, which paid $1.15 million, or $32,850 per unit. Founded in 1999 and based in Bend, Oregon, Ageia operates a half dozen facilities in Washington and Oregon.

In a different sort of sale, but also in Oregon, Allen McMurtry and his team at CLW Health Care Services Group represented MMA Realty Capital Advisors, the advisor to the seller, in the sale of an 87-unit community that has 50 independent living and 37 assisted living units. The community was built in 1995, and the purchase price was $11.35 million, or $130,500 per unit. The buyer is an affiliate of Seattle, Washington-based Living Care, which owns and operates properties in Oregon, California and Texas.
Fears about low occupancy? Nonsense, especially if you are in a CON state for assisted living. Patrick Byrne of Senior Living Investment Brokerage was hired by a local not-for-profit in Missouri to sell a 28-unit assisted living facility (licensed for 40 beds) which the seller had closed down despite a decent occupancy rate. It was originally built in 1984 as a short-term rehab facility and then converted to assisted living in the late 1990s. After a month of marketing, three bidders established a price close to the selling price of $1.2 million, or $42,850 per unit, for the empty building. The local operator plans on minor renovations to the interior before re-opening it.

**Skilled Nursing Market**

Despite the reimbursement problems in the skilled nursing sector, those facilities that cater to higher-acuity patients are still in demand and above average prices will still be paid. A case in point is a recent sale in Alabama of a 142-bed facility that includes 117 skilled nursing beds and 25 inpatient rehab beds. The seller was a local not-for-profit that wants to focus on its PACE, home health and hospice businesses and is in the process of selling off its senior care assets. This facility was built in various stages since the late 1960s, with recent additions/renovations in 2001 and 2004. Occupancy has only been about 65%, partly because the facility only became Medicaid certified in 2009. Prior to that, its census breakdown was 50% Medicare, 35% private pay and 15% insurance. Revenues were about $11.5 million, but because of how it was operated by the seller, the EBITDA margin was less than 3%.

With the new owner, which operates across the country, including the Florida Panhandle (but this will be their first property in Alabama), census should increase and operating costs should decline to more reasonable levels. One other change will be in the operations of the inpatient rehab facility, which had been contracted out to a third party but which the buyer will bring back in-house. We would not be surprised to see EBITDA top $1.0 million in 2012 despite the Medicare cuts, and then move higher after that, especially with occupancy increases. The purchase price for the facility was $10.55 million, or $74,300 per bed, which included about $1.0 million in receivables; the net price comes to $67,250 per bed. There was a medical office building included as well, and the seller will be leasing some of the space for a year or two, but little value was given to it since neither party seemed particularly interested in keeping it. Bradley Clousing and Ryan Saul of Senior Living Investment Brokerage handled the transaction.

In Illinois, according to local sources, Skokie, Illinois-based Legacy Healthcare recently purchased the
131-bed Grove of La Grange Park skilled nursing facility for approximately $5.8 million, or $44,300 per bed. Because Legacy had been leasing the facility for the past two-plus years from the seller, YAM Management, it is unclear whether that price is a full market price or a pre-arranged option price.

The Ensign Group (NASDAQ: ENSG) purchased an 88-bed skilled nursing facility in Pocatello, Idaho it had been leasing since 2006 with a purchase option. The company now has 100 properties, of which 74 are owned and operated; the remaining 26 are leased, and Ensign has purchase options on five of them.

In July we reported on the legal troubles between GE Healthcare Finance and one of its borrowers, Schwartzberg Associates, a large skilled nursing facility owner and operator based in New York. You will recall that they purchased a portfolio of skilled nursing facilities in Louisiana in 2006 in the aftermath of Hurricane Katrina. An entity known as Westside Houses actually purchased the real estate and leased the facilities to the Schwartzbergs.

The $44.25 million of financing was provided by Merrill Lynch Healthcare Finance, which was subsequently purchased by GE. We won’t rehash what transpired between GE and the Schwartzbers during the past two years, but the lawsuit has been settled and, effective November 1, a new tenant, Florida-based Traditions Management, was brought in to lease and manage the 10 remaining properties. They have agreed to invest a few million dollars on improvements, and GE has stayed in as the lender with a $33 million LIBOR-based loan with a 600 basis point spread (two of the original facilities had been sold). Matt Marcos and Bill Johnson of Alvarez & Marsal Healthcare represented the landlord.

Finally, we have heard that the operations of LaVie Care Centers may finally be sold by the end of the year. The owner of the company, Warburg Pincus, had tried to sell the company four years ago but nothing materialized. The company operates 122 skilled nursing facilities, mostly in the eastern half of the country, with more than half of them in Florida. The rumored buyer is Formation Capital, but just for the operations (not the real estate). That will be a new twist for the SNF investor, but early this year management informed us that skilled nursing operations may be the name of the game in the future, especially in an accountable care organization environment, if that ever truly comes into play. We may have more details in the next issue.

Last summer, we reported on the purchase of a 170-unit retirement community in Texas by The Ensign Group, but without any financial details. The purchase price was $5.8 million, or $34,100 per unit, which is low but reflected the less-than-desirable location of the property and the relatively low 81% occupancy. There is a three-story independent living building, a one-story assisted living building and five cottages that we believe contain four IL units each, all on the 5.0-acre campus. Part of it was built in 1987 and the rest in 1997, but overall the buildings were apparently in fairly good shape. Based on 2010 census and financial data, we believe revenues may have been close to $3.0 million with a 12% EBITDA margin. We assume the buyer has begun to take steps to improve operations and cash flow. Lee Blake and Nick Stahler of JCH Consulting Group handled the sale.

In another sale that closed a few months ago, CNL Lifestyle Properties purchased six assisted living facilities with 357 units from Foster Hospitality Group for $47.0 million, or $131,650 per unit. Four of the properties are in Missouri and two are in Arkansas; Foster built five of the six. Occupancy has been between 96% and 98%, so either they were built in great locations or have just been well managed, and possibly both. Foster Hospitality will remain as the manager. Jeff Binder and Bradley Clousing of Senior Living Investment Brokerage handled the transaction.

Last month we reported that AdCare Health Systems (AMEX: ADK) had entered into a contract to purchase a 129-bed skilled nursing facility in Arkansas for $32,500 per bed. The facility has 97 skilled beds (built in the mid-1960s) and 32 residential care beds (built in 1995). Despite overall occupancy of 92%, the EBITDA margin was just 6.7% on revenues of $4.8 million, resulting in an in-place cap rate of 7.7%. We think AdCare will at least double that margin and increase revenues at the same time. The deal closed on November 30, and Jeff Binder, Bradley Clousing and Patrick Byrne of Senior Living Investment Brokerage handled the transaction.

Effective November 22, The Ensign Group purchased a small home health agency in Colorado in a deal that will be mildly accretive to earnings in 2012. The acquisition was funded from cash on hand. Separately, Belmont Village recapitalized one of its California communities with Health Care REIT in a RIDERA transaction valued at more than $450,000 per unit.
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The Business of CCRCs
continued from page 1...

Did the Chapter 11 bankruptcy filing of The Clare at Water Tower in downtown Chicago two days before the conference stir the interest of those who might otherwise not have been interested? Or was it because the CCRC business really embodies everything in seniors housing and care: all the customers, the services, the risks, reimbursement, aging in place, capital structure and, yes, the housing market, all wrapped up in one campus across the care spectrum. We think this is what is driving the increased interest, and the impact that successes, and failures, in the CCRC sector will have on the rest of the seniors housing and care industry. In other words, if the CCRC sector is flourishing, our bet would be that the rest of the seniors housing industry would also be doing well. If it is struggling, or in some cases failing, it is unclear the degree of impact it will have, but it will be there, and that is what worries some people.

And just to assure those readers whose livelihood depends on the successful future of CCRCs, the consensus of the panel of our online conference was that entrance-fee CCRCs are here to stay and will remain popular with a certain segment of the seniors population. That said, there was also the belief that CCRCs will experience increasing competition from other upscale communities with amenities and services that will equal or be superior to those of CCRCs, with the exception of on-site skilled nursing. From a financial point of view, however, that skilled nursing center, which used to be a cost center and became a profit center with higher Medicare rates, has taken a financial hit with the new rates and reimbursement protocols that went into effect October 1. That is certainly not something CCRCs had ever really experienced.

The other common thread was that the capital structure of CCRCs will need to change, with less leverage and more upfront equity. No one really had an idea where that equity will come from for thinly capitalized or single-site not-for-profits, but for the sake of financial stability, more is needed and more has to stay in the community for a longer period of time. This is especially true for start-ups where the alignment of interests between the sponsor and the providers of capital, especially the initial equity capital, is not always in sync. A case in point is the disaster called The Clare at Water Tower.

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<th>Healthy TLC &amp; Rehab</th>
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that had the potential to be one of the finest CCRCs in the country. Fortunately, it still does have that potential, but not until severe financial losses, lawsuits, name calling and a little bit of apprehension among the residents who did brave the economic storm, sold their homes and plunked down entrance fees between $500,000 and $1.0 million, are behind us. And let’s not forget, other CCRCs did not fare as badly as The Clare. A big part of the problem was a crisis of confidence, and once that gets out in the market, forget about it. And while none of the debt was paid off with the more than $60 million of entrance fees that were initially collected, we suppose the reason was because they needed the liquidity for working capital losses that were significantly in excess of what was forecast.

While we won’t rehash the past too much, from what we have heard, one of the worst problems to occur at The Clare had to do with the deposits, their size, their refundability and how quickly and easily those potential residents seemed to cancel their obligations, en masse. While we don’t know if anyone keeps these sorts of statistics, our guess is that the number of cancellations, both the absolute number (140) and as a percentage of the total deposits (64%), set an industry record. Something just never smelled right in terms of how that transpired. The first restructuring of the $229 million of debt a little over a year ago was a joke, and those involved should be embarrassed, especially if they really thought it would work. It never stood a chance, given the total debt, the local sullied reputation of the CCRC and an economy that was not going to help it get off the ground. Three strikes and you’re out, and they were out. At the time, we gave it a year before the borrower would come back hat in hand. We were wrong, as it took a few months longer than our prediction, but the result was the same, and the only way to finally right the ship was to file for bankruptcy protection and proceed to auction, which The Clare has done. At least this time someone made the right decision, as this is the only way to get the appropriate capital structure in place and gain the confidence of the Chicago market. We assume that “someone” is The Clare’s new advisor, Houlihan Lokey. That said, there appear to be some unusual aspects to the bankruptcy process and upcoming auction.

For liquidity during bankruptcy protection, the “debtor-in-possession” lender (DIP lender) was picked from a total of seven firms that submitted bids. Normally, you see a bank as the DIP lender, and they are always protected by having a first claim on any sale proceeds. In this case, the winning bid came from Redwood Capital Investments, the same firm that purchased the majority assets out of Erickson Retirement Communities.
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bankruptcy more than a year ago. With just a $12 million line of credit available, we have to assume that Redwood is not doing this to make a decent return on its excess cash, and is acting as the DIP lender to get a better understanding of the asset and the market in order to bid on the property at auction. This is the same Redwood that came up short at the auction for Erickson’s two suburban Chicago CCRCs, losing out to Senior Care Development. Perhaps they have decided to go more upscale with their next investment. In that previous auction, Redwood was the DIP lender, but that didn’t seem to help them.

We also hear that The Clare is being represented by the same law firm that represented Erickson, which by now has most likely developed close ties to the Redwood people as a result of working through the transition. This could be important because if Redwood is picked as the stalking horse bidder, and we have to assume they have a strong interest in that, the perception in the market may be that they have the inside track. It would be a shame if that perception, right or wrong, kept some bidders from spending the time on due diligence and arranging potential financing. In addition to Redwood, we have to assume that Senior Care Development will be interested, as will Brookdale Senior Living (NYSE: BKD), as it would be nice for it to have a trophy property, at substantially below cost, down the street from its headquarters.

So, what does a trophy CCRC in an urban location sell for that has $229 million of debt plus more than $60 million of entrance-fee liabilities? No one knows that answer yet, but one has to assume that entrance fees moving forward will have to be lower, and perhaps a lot lower, than they were originally supposed to be. The other problem is that there are four different types of refundable plans, plus some residents moved in on a rental plan. The entrance fees have ranged from $262,500 to $1.2 million, with monthly fees ranging from $2,723 to $5,512. The entrance fees are refundable when the fee for “another unit” is received, according to the bankruptcy filing. From this language, it is not paid when that resident’s unit is resold, but when “another” unit is sold, which could be more onerous for a buyer. Consequently, if a buyer believes that in order to fill the community it has to cut the entrance-fee amount, maybe by up to 50%, the funds received will obviously be less than the funds that will have to be paid out. The good news (at least in this financial equation) is that there are more empty units to sell than units which have a refund liability (about a 1.75 to 1.0 ratio), so there is some maneuvering room.

The tricky part of this sale for any buyer is forecasting how long it will take the local market to accept the fact that The Clare’s financial troubles will be behind it. In addition to this, another high-end CCRC in Chicago has been planned for a few years and we believe it will be competing directly with The Clare. This means that any buyer will have to be very, very conservative as to forecasting how long it will take to fill the empty units plus any turnover units. We confess that we don’t know that urban market very well, but we assume three years with entrance-fee discounting would be the minimum. With an original construction cost of more than $160 million, and a debt to cost ratio of 1.41x no less, we are going to assume that a cash price will be no lower than $25 million and may top out at $50 million or slightly higher, assuming no assumption of any of the existing debt.

We derive that because if we are correct in our entrance-fee discounting assumption, the buyer will only be collecting between $50 million and $75 million in new entrance fees through to stabilization, which assumes no turnover. Without a $229 million debt load, any buyer will have much more flexibility than the original sponsor, and qualified buyers who know the CCRC business should therefore be able to turn the community around. And we are confident that with an appropriate capital structure that supports a turnaround, The Clare will be the trophy property it was meant to be.

Now, for any people who think the entrance-fee CCRC market is falling apart, Stamford Health System in Connecticut closed on the sale of its only CCRC to an affiliate of Benchmark Senior Living for about $71.5 million, or $249,100 per unit. Herbert J. Sims structured and arranged the financing for the acquisition. The community, known as EdgeHill, has a 95% occupancy rate, strong cash flow, a great local reputation and often has had a waiting list. And for those who think the tax-exempt bond market has gone cold on new CCRC developments, Ziegler just closed on a $143 million bond sale on behalf of SantaFe Senior Living in Florida to build a new CCRC just north of Naples with 144 entrance-fee independent living units, 49 assisted living units, 18 memory care units and 40 private skilled nursing beds. That debt comes to about $570,000 per unit/bed, compared with just over $685,000 per unit/bed for The Clare, but both had close to $1.0 million of debt per IL unit. The Naples market, however, is quite strong, and the sponsor has three other CCRCs in the state. By the time it opens, the housing market and the economy may be stronger. We can only hope.
### REITs

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Current Price 11/30/11</th>
<th>Current Yield</th>
<th>Dividend Status(1)</th>
<th>2011 % Change</th>
<th>52-Week Range High</th>
<th>52-Week Range Low</th>
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(1) As of ex-dividend date. (2) Sabra Healthcare REIT was spun out of Sun Healthcare Group and holds the property assets that are operated by the new Sun. Shares started trading on November 16, 2010 and opened at $17.00 per share.

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**FINANCING NEWS**

All we can say is, thank you HUD for filling the lending gap this past year. The nearly $3.3 billion of HUD LEAN loans completed in the fiscal year ended September 30 was about 30% higher than in the previous year. And with lower interest rates in the past year, borrowers were grateful. A total of 415 loans were processed with an average size of $7.9 million. At the top of the HUD league tables was Capital Funding, leading the way in dollar volume ($564.7 million) as well as loan volume (90).

Moving up from last year to second place was Lancaster Pollard with $401.1 million and 61 loans, followed by Walker & Dunlop with $353.5 million and 48 loans. Rounding out the top five in loan volume were Cambridge Realty Capital (25 loans) and Housing & Healthcare Finance (23 loans), while in dollar volume it was Housing & Healthcare Finance in fourth place with $287.0 million, followed by Love Funding with $240.2 million. There were 15 loans greater than $20.0 million, and the largest loan was $43.2 million for a 320-bed nursing facility in New Jersey underwritten by Love Funding.

And the HUD activity is not showing any sign of slowing down, as HUD expects to be processing close to 80 loans a month for the next few months to clear out the backlog, and then what, business as usual? It has been business as usual for Housing & Healthcare Finance (HHF), which completed nine HUD loans in November for a total of $61.9 million. The loans were for four skilled nursing facilities in four states at an average loan size of $10.5 million, and five assisted living facilities in four states with an average loan size of $4.0 million. The interest rates on all the loans were below 4.0% before the mortgage insurance premium.

Joshua Hausfeld of Love Funding secured an $8.91 million construction-to-permanent loan with HUD to build a 97-bed assisted living and memory care facility in Odessa, Texas. The 69,500 square foot facility, being developed by McFarlin Group and Stroud Development, is scheduled to open in late 2012 and will have 57 assisted living and 40 memory care beds. This is the third loan Love Funding has arranged for McFarlin. Meanwhile, Robert Smallwood of Love Funding closed on a $4.96 million HUD LEAN loan to refinance a 62-bed assisted living and dementia facility in Mayfield Village, Ohio, that is owned by Randall Residence. The borrower owns and operates five properties in Ohio and one in Michigan.

With interest rates so low, the volume of HUD refinancings this year may hit a record. Lancaster Pollard recently refinanced a 90-unit assisted living facility in...
Issaquah, Washington on behalf of Marathon Development. The interest rate dropped from 7.25% on the previous loan to 3.93% on the new one, saving about $400,000 annually on the $12.4 million loan. Cambridge Realty Capital also took advantage of the environment to arrange a $5.7 million refinancing of a 170-bed skilled nursing facility in Kansas.

In other HUD refinancing news, Red Mortgage Capital arranged an $18.615 million loan to refinance a 138-unit community in Louisville, Colorado with assisted living, memory care and skilled nursing beds. The new loan significantly cut the interest rate for the remaining 32-year term for the owner, Balfour Senior Living. Red Mortgage also completed a refinancing in the amount of $6.722 million on an 89-bed skilled nursing facility in Bountiful, Utah owned and operated by Avalon Healthcare. The term was also extended to 40 years. Finally, Red Mortgage refinanced a 36-unit memory care facility in Mentor, Ohio for $4.635 million.

In agency business, Michael Leonard of Oak Grove Capital completed a Fannie Mae refinancing of a construction loan used to build a 78-unit expansion to a senior living campus in Spring Hill, Florida which has independent living, assisted living and memory care for a total of 205 units. The $16.0 million loan has a 10-year maturity and a 30-year amortization. The first phase of the campus was completed in 2000, and The Goodman Group is the sponsor. Separately, Grandbridge Seniors Housing, a unit of BB&T, completed a $16.4 million Freddie Mac loan for the acquisition of a 98-unit assisted living facility.

Although at times it may appear that there is no balance sheet lending being done in this market, it is still alive and kicking. Kevin McMeen of MidCap Financial recently completed a $16.0 million loan to recapitalize four independent living communities owned by an affiliate of Walton Street and operated by Senior Lifestyle Corporation.

The communities, some of which offer assisted living services, have a total of 582 units. They were developed in the 1980s and are located in Texas (2), Oklahoma and Florida. The non-recourse loan is a LIBOR-based floater with a three-year term and a 25-year amortization with full pre-payment ability. The loan-to-value was 46%, not because that was the maximum but because it was what the borrower wanted.

**ON THE MOVE**

Berkadia Commercial Mortgage is continuing to grow its seniors housing lending capacity, this time snaring three executives from Oak Grove Capital. Lisa Lautner has joined as a senior vice president and will be based in Kentucky focusing on Freddie Mac, Fannie Mae and HUD debt placements. Heidi Brunet joined as a vice president and Nicole Perri as an assistant vice president; all three will be reporting to Dan Biron, who recently joined Berkadia. Brunet is based in Texas and Perri in Alabama.

Richard Lerner and Michael Gehl, previously with Credit Suisse First Boston, have joined Housing & Healthcare Finance, one of the leading health care lenders. The two will work to expand HHC’s lending platform to include mezzanine loans, loans for securitizations and bridge loans. They will both be based in New York City.

Harbor Retirement Associates (HRA) has announced that Marc Vorkapich has been promoted to president and CEO effective November 30. He started with the company as vice president of sales and marketing and after redesigning the sales structure, he was promoted to chief operating officer. According to the company’s principals, Tim Smick and Dan Simmons, under his leadership the company has seen a 43% increase in NOI since 2009. HRA manages 17 senior living communities, 11 of which are located in Florida, where the company is based.

Walker & Dunlop has hired Dale Brem as its new vice president and deputy chief underwriter of the company’s FHA finance department. He has 18 years of commercial real estate experience and previously was chief underwriter at KeyBank Real Estate Capital, managing all underwriting activities for FHA financings at the bank. W&D also opened a new office in Nashville, Tennessee and hired David Strange as vice president of FHA finance to run the Nashville office. Previously, he was an FHA originator with Deutsche Bank Berkshire Mortgage in Tennessee.

And speaking of new offices, Healthcare Finance Group has opened one in Charlotte, North Carolina. It will be staffed by Alan Regdos, senior vice president and national underwriting manager, and Christopher Smith, senior vice president and business development officer. Headquartered in New York City, the company now has offices in California, Connecticut and New Jersey and North Carolina.