



BUSINESS

FINANCIAL NEWS AND GROWTH STRATEGIES FOR PROVIDERS AND SUPPLIERS IN THE NOT-FOR-PROFIT SECTOR

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Benefit Residents, Staff, Results

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With the capital markets still tight, and demand for financing strong, there has been no better time than now for the revamped HUD 232 LEAN program to be getting off the ground.

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VALUING ACQUISITIONS IN TODAY'S ECONOMY

What's Changed? What's The Outlook For Seniors Housing?

Many not-for-profit senior living organizations seem to be managing just fine despite the economy. Others are holding their breath, waiting for the (inevitable) economic recovery. But some are in distress or hanging on by a thread—making them ripe for acquisition or affiliation. The credit markets, which have floundered in the last weeks and months, may be at last approaching some state of normalcy with regard to seniors housing.

In the meantime, the economic turmoil and financial uncertainty of the past several months have caused significant changes in the expectations of buyers and sellers, the behavior of lenders, and the valuation of not-for-profit assets.

Mainly, the buyer's ability to get financing for properties that aren't cash flowing or covering debt service has changed, according to Ryan Saul, Managing Director of **Senior Living Investment Brokerage** in Glen Ellyn, Illinois. "Buyers used to be able to get financing just by showing the track record of their other operations and comparing it to some of the same principles for the non-performing not-for-profit properties," he said. "Today, lenders are being more selective and won't give credit to future value."

For appraiser Charles Bissel, National Practice Leader at **Integra Realty Resources** in Dallas, Texas, the nature of his assignments has changed.

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'SMART HOMES' BENEFIT RESIDENTS, STAFF, RESULTS

Diakon and Goodwin Homes Embrace Breakthrough Technologies

The overwhelming majority of Americans over age 65 want to continue living in their own homes indefinitely—even as their circumstances change and regardless of whether those homes are the ones where they grew up or a cottage, apartment, or villa in a retirement community. Forward-thinking senior living providers, therefore, are embracing universal design elements and breakthrough technologies that encourage—and, in many cases, allow—that kind of independence within their communities. As a result, these providers are

improving the overall quality of life for their residents, enhancing personal safety, significantly reducing staff time, and responding more quickly to emergencies. And because the high-tech monitoring systems are all based on a Wi-Fi platform, they can be implemented on a pick-and-choose basis, in stages, and at a reasonable cost.

Diakon gets on board

In mid-April, **Diakon Lutheran Social Ministries**, headquartered in

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Q & A: Robert L. Kahn, PhD, Professor Emeritus, Univ. of Michigan

Robert L. Kahn, PhD, Professor Emeritus at the University of Michigan, is a social psychologist and co-author of Successful Aging, a book that is based on a decade of research completed in the late 1990s by a group headed by Dr. Kahn and funded by the MacArthur Foundation. Shortly after he earned his PhD at Michigan, Dr. Kahn became program director of the Survey Research Center in the university's Institute for Social Research and held that post for nearly a decade before becoming its director. He retired from the University in 1988 and, a model of successful aging himself, has continued to write and lecture on the subject. We spoke with Dr. Kahn about his research, how the findings are being implemented in retirement communities, and where he would like to see the experimental programs expanded.

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• What did your research determine to be the components of successful aging? Basically, there are three things: minimizing the risk of disease, maintaining physical and mental function, and continuing the engagement with life. And by that we mean both supportive, social relations with other people and involvement in productive activity that people themselves regard as meaningful and useful.

Where has the research been implemented? A group of us were involved in a decade of research on successful aging funded by the MacArthur Foundation beginning in the late 1980s. When we came to the official sunset of the foundation support, several of us felt that the next step should be field experiments in real-life settings to see what it would take to get people to do the things that research indicates would improve the quality of their lives. Meanwhile, Lawrence Landry, the former CFO of the foundation, had started a company in Florida, **Westport Advisors**, that was building or buying and operating retirement communities. He offered to fund experiments in at least two communities to see if we could, in fact, create environments in which people would be more likely to do all the things that researchers said would be in their interest and for their well-being. The program has since been implemented in more than 30 retirement communities.

How does the provider measure successful aging within the community? We have three main measures or assessments: 1) a Lifestyle Review questionnaire that residents complete; 2) a contract with the **Mayo Clinic** to provide electronic data—for the community as a whole and to each participating individual—on how people are doing with respect to two sets of risk factors, medical and behavioral, that Mayo has developed; and 3) a standard mobility assessment that measures gait, speed, balance, and an arm curl.

What have you learned from the experimental program? We're five years out in the two communities where the program was first introduced, and the main thing that we find is that people who are, on average, in their mid-80s are, in fact, able to maintain their physical and mental functions with small or modest gains. We can compare that stability, which is the basic finding, to what happens to people in the larger society using available national data. And what does happen nationally is that physical and some mental functions show precipitous decline when people are in their 80s and beyond.

Who is successfully bridging the gap between research and action? Masterpiece Living® (mymasterpieceliving.com) introduced a successful program to retirement community providers, both not-for-profit and for-profit organizations, that addresses diet, exercise, and activity. More generally, those in the larger society who are doing what increasing sources of research say would be good for them in their older years are people who are high on the socio-economic scale. That's partly because they're better informed and partly because they're better able. They live where exercise facilities, for example, are accessible, and they can afford the relatively modest fees that that involves. And they're often more interested in educational activities.

Is there a cost involved with the program? The program may involve some implementation costs. If dietetic choices and information about calorie and fat content are not provided in the community's dining facility, that needs to be changed. The space and equipment must be available for an exercise facility. And the community must have the staff to coordinate activities and obtain measures on the effects of the program. The big costs for CCRCs actually occur when residents fall or have accidents or when they're ill and require nursing care. To the extent that people can live independently, that both improves the quality of their lives

and avoids additional operating costs for the community. So whether this type of program is a cost or a savings is an open question. We think it represents long-term savings but don't yet have the data to support that conclusion.

Do all residents of a community participate? Our initial approach was for residents to volunteer to be part of the program, and participation varied from one-third to one-half of the residents. In the future, I believe everyone should be included in the measurements. All residents are affected if dietetics change, or the availability and nature of the exercise equipment change, or an increased emphasis is put on programs that residents initiate or request—although the impact would differ from person to person, depending on their involvement. So what we really need are relatively unobtrusive measures of the degree of involvement.

How else would you expand successful aging programs? So far, essentially all the participating communities are prosperous. They're the kind of CCRCs with an entrance fee and/or a substantial monthly fee. The question is: How would this work in low-income retirement communities? We're very committed to finding that out and are in the process now of making arrangements to try the same program in the first set of low-income communities. □

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Recent Not-For-Profit Refinancing Activity...

• **Interfaith Housing Corporation, Richmond, Indiana, \$3.1 million refinancing insured by the FHA Sec. 223(f) program and structured by Lancaster Pollard (4/28/09)**

Interfaith Housing Corporation operates two properties, Interfaith Housing A and B. Interfaith Housing B is a 101-unit, multi-story, FHA 202 property built in 1979. The corporation's management and board intended to pay off the original FHA loan consistent with the original loan term. When Lancaster Pollard brought to leadership's attention that paying off the loan, rather than refinancing and extending the term, might result in reduced cash flows due to rent reductions, leadership elected to refinance.

To complete the refinance, Interfaith Housing Corporation split the two properties into separate entities to comply with FHA regulations and created a new single-asset entity for Interfaith Housing B.

Lancaster Pollard identified a significant residual receipts balance during its review of Interfaith's financial statements and recommended obtaining a \$500,000 release from residual receipts. The successful release request allowed Interfaith Housing B to transfer the funds to its reserve-for-replacement account.

In addition, Interfaith Housing will complete more than \$366,000 in repairs and improvements to the property, secure annual debt service savings totaling \$66,709, and access a nearly \$55,000 developer's fee. In all, Interfaith Housing B will maximize its savings and strengthen its financial profile as a result of the refinance.

• **Jefferson East, Norristown, Pennsylvania, \$2.4 million refinancing insured by the FHA Sec. 223(f) program and structured by Lancaster Pollard (4/15/09)**

Jefferson East is a 36-unit, affordable seniors housing property located adjacent to an older sister, HUD seniors

housing property. Lancaster Pollard was able to overcome real estate issues due to a pre-existing land lease by working collaboratively with the local HUD office and experienced legal counsel to complete the refinance.

The refinance enabled Jefferson East to fund minor repairs to both common areas and individual units, totaling over \$230,000, to maintain and improve the 18-year-old property's good physical condition.

In addition, Jefferson East was able to replenish its replacement reserve account and will use the funds freed up by its annual debt service savings to provide additional resident services.

• **Rogue Valley Manor, Medford, Oregon, \$40 million refunding structured by Cain Brothers (4/14/09)**

Rogue Valley Manor (RVM), an affiliate of **Pacific Retirement Services, Inc. (PRS)**, operates a CCRC in Medford, Oregon. RVM is the flagship community of PRS, which was formed in 1991 to facilitate RVM's vision of expanding its mission.

RVM's Series 2002 Bonds were enhanced by **Radian Insurance**. In 2007, due to Radian's credit rating downgrade, Rogue Valley Manor wrapped its bonds with a letter of credit (LOC) for one year. As a result of the credit environment and the LOC bank's desire to exit from the senior living industry, the LOC was not renewed.

Cain Brothers, acting as senior manager, and **Wells Fargo Brokerage Services**, acting as co-manager, underwrote \$40 million in variable-rate demand revenue refunding bonds through **The Hospital Facilities Authority of the City of Medford, Oregon**. The AA+/A-1+ rating on the Series 2009 bonds is based on a direct-pay LOC provided by Wells Fargo, with an anticipated expiration date of April 2012. Proceeds of the bonds were used to refinance a portion of the Series 2002 bonds. □

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Time For HUD LEAN

With the virtual shut-down of the tax-exempt bond markets late last year, which included the disappearance of many of the letter-of-credit banks, not-for-profit borrowers and their bankers were left to scramble to find financing for their various projects at any cost. Sometimes, "any cost" became too costly and projects were put on hold indefinitely. In addition, many providers have been looking to refinance existing debt that is either expensive or coming due in the next several years, taking advantage of the current low interest rate environment, both for fixed rate financings as well as variable rate debt, especially if it is priced off LIBOR.

One of the reasons why the acquisition market has been so inactive this year is because of the lack of financing. We have no not-for-profit transactions to report on this month, and even in the for-profit sector there were less than a handful. The pricing disconnect between buyer and seller still exists, but when there is assumable financing available, buyers will get more aggressive with their pricing. Not only do they save on the cost of a new financing, but it provides them with more certainty in making their bid by knowing what the cost of their debt capital will be in an acquisition. When it is HUD debt that can be assumed, especially if the amount is relatively

close to the pricing assumptions, buyers can really sharpen their pencils.

On May 14, we held a live audio conference exclusively dealing with the new HUD 232 LEAN program. The panelists included Brian Pollard, Senior Managing Director of **Lancaster Pollard & Co.**, Chuck Bissinger, Partner of the law firm **Vorys, Sater, Seymour and Pease**, Michael Cuba, Vice President of finance of **Wilmac Corporation** and J.P. LoMonaco, President of **Valuation & Information Group**. The audio conference was one of our most popular to date, and we had a record number of questions (25+) from the audience which took the session 20 minutes beyond the slated 90-minute timeframe. Obviously, this topic hit a nerve in the seniors housing industry with both for-profit and not-for-profit providers tuning in. CDs will be available in a week or two, and we may do a re-broadcast next month.

One of the criticisms of the HUD 232 program has been the length of time to get a financing completed. Under the new LEAN program, however, that is changing. In the past, it took from 200 days to more than 400 days to get the financing closed, but in the first few months of the LEAN program, it has taken just 60 days on average to get the loan commitment, and then 22 days to actual funding. The goal is to shorten that by 10 to 20 days.

...continued on page 12

The Latest SeniorCare Investor Audio Conference is Now on CD!

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Order the CD or transcript of this *SeniorCare Investor* audio conference, featuring crucial information for any seniors housing and care provider seeking to assess all the financing options available in today's market, focusing on the HUD LEAN program, as HUD continues to offer some of the best financing terms available in our industry.

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- ✓ Find out what the costs and interest rates are for a HUD LEAN financing
- ✓ Discover why it has taken longer than expected to roll out and what HUD is doing about it
- ✓ What you can expect in the months ahead

Speakers: Brian Pollard, Senior Managing Director, Lancaster Pollard & Co.; JP LoMonaco, President, Valuation & Information Group; Chuck Bissinger, Partner, Vorys, Sater, Seymour and Pease LLP; Michael Cuba, Vice President of finance, Wilmac Corporation; and Stephen M. Monroe (moderator), Editor of *The SeniorCare Investor* and *The Senior Care Acquisition Report*, and Executive Editor of *Senior Living Business*.

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LOCATION: Blue Hill, Maine	CEO: Charles E. Maulbetsch
UNITS: 47	PHONE: 734-997-7015
REVENUE: \$2,800,000 (annualized)	FAX: 734-997-7031
NET INCOME: 600,000 (EBITDA)	WEB SITE: www.chrisplacesenior.com

Eastern Maine Healthcare Systems is selling Parker Ridge, a 47-unit retirement facility that has 34 independent living and 13 assisted living units. Built in 1992, it was 100% occupied at the time of sale.

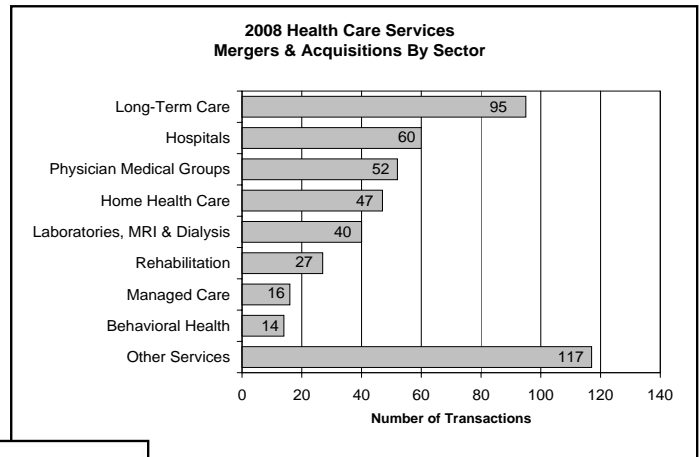
Christopher Place Senior Communities operates senior care facilities.

ANNOUNCEMENT DATE: August 29, 2008
PRICE: \$6,100,000
TERMS: Not disclosed

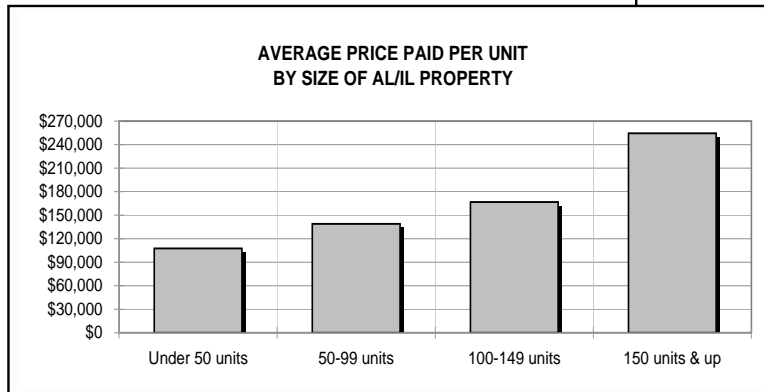
PRICE PER UNIT: \$129,787
PRICE/REVENUE: 2.18
PRICE/INCOME: 10.17

The target community was built in 1992 and expanded in 2000. In addition to the 34 independent living and 13 assisted living units, there are 24 cottages on the property that are individually owned, but pay a ground lease to the owner as well as monthly dues for additional services. The facility underwent a major conversion from condos to rental in 2005 to 2006. The facility is currently 100% occupied with a waiting list of 55 people. Cain Brothers represented the seller in this transaction.

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Valuing Acquisitions, *continued from page 1...*

“Prior to Q1:08, most of our seniors housing and health care valuations were being done for refinancing or new developments,” he says. “Now, almost all the work we’re doing relates to potential loan workout or to investors needing to mark the value to market. We’re also seeing more deals for assets that are in trouble and are headed toward possible litigation or foreclosure.” For example, CCRCs having difficulty are usually those that were grossly overbuilt and that carry too much debt. The construction loan was too large, and lease up was too slow. So now, the owners are trying to do workouts or forbearance agreements with the bondholders, asking them to take a write down or extend the term.

Yet even prior to the last year or so, when the not-for-profit CCRC sector was humming, the markets were hot, and capital was available, few CCRC trades occurred unless the community was in some distress, according to Bill Mulligan, Managing Director, Group Head Senior Living & Post-Acute, at **Ziegler Capital Markets**. “It’s very difficult to generalize about the CCRC sector, though, as they come in all different sizes, offer many different kinds of contracts, and have different percentages of assisted living and nursing care. They’re not commodities in any way, shape, or form. ‘Seen one, seen one’ is what we tell people.”

Another complication of valuing entrance-fee CCRCs is that residents either own their homes in fee simple or their entrance fees are carried on the books as a liability of the facility. That’s a big hurdle. Even if the community is performing well and the cash flow is healthy, a buyer would get title only to the community assets—common areas—as residents may have some stake in their residential units and/or entrance fees that are refundable and are booked as a liability on the balance sheet.

Who’s buying? Who’s selling?

When not-for-profits are involved in an ownership transition, the transaction may take the form of an asset sale (an acquisition) or a membership assumption (a merger or affiliation). The buyers (acquirers or affiliators) tend to be the stronger multi-facility providers, according to Dan Hermann, Managing Director and Head of Senior Living Finance at Ziegler, although occasionally a single site will acquire a smaller single site. The sellers (those being acquired or affiliated) are generally single sites that recognize the benefit of joining a system that has scale,

older communities that have become dated and are unable to implement marketing refinements in this environment, or debt-distressed facilities that are typically in fill-up mode or were unable to reach full stabilization.

Right now, Bissel sees buyers waiting in the wings. “Investors with a significant amount of capital are just waiting for the right time to jump in,” he said. “They don’t want to invest on the way down, but we certainly see people out there kicking the tires.” Interested buyers include for-profit seniors housing providers and pension funds or equity funds that have raised, in some cases, billions of dollars to capitalize on opportunities. And some local or regional operators are looking for deals that fit within their geography or operating plan. But most are for-profit companies. The not-for-profit providers appear to be in standby mode, spending their resources on expanding or developing their existing properties, or divesting.

On the seller side, not-for-profit hospital-based organizations are selling their freestanding skilled nursing or assisted living facilities to for-profit buyers to shore up the balance sheet of their core business. “Even with a slight downward pressure on pricing,” Saul observed, “they see that as a better alternative than continuing to fund losses month after month, year after year. And often their basis is so low that they’re realizing significant proceeds from the sale that can go towards fulfilling their overall mission.”

Not-for-profit skilled nursing properties are particularly ripe for acquisition. Most were built to the highest construction standards and quality. And being needs-based, their census is generally good in many parts of the country. They’re just very inefficient on the expense side, so an experienced operator providing good nursing care can capitalize on a financially underperforming skilled nursing asset even in this economy.

Assisted living, on the other hand, is up in the air. The for-profit sector is flooded with smaller, non-performing assisted living facilities, according to Saul. And given the lack of debt available for lower quality assets, they are not trading in big numbers.

Entry-fee CCRCs are proving particularly difficult to finance in this economy. Spreads have widened, increasing the cost of borrowing tax-exempt funds. Investment income is down, making it much tougher (at least theoretically) for organizations to part with cash. And tax-exempt funds may not be used to acquire independent living. The few CCRCs

that do change hands are often sold to a for-profit entity that repositions the property as a straight rental community. But now is definitely not the time to try to do something “outside your wheelhouse,” Mulligan advised. A provider who is intrigued by but has no experience with the CCRC model won’t have much luck asking a lender to leverage 80% of a struggling CCRC in this economic environment.

Stabilized vs. non-stabilized assets

Valuing stabilized assets is still fairly straightforward. It’s a matter of forecasting reasonable cash flows over the near future and applying a cap or discount rate. As a general percentage, on average, Saul is currently achieving cap rates between 12% and 13% for skilled nursing and 9% and 10% for stabilized assisted living.

Non-stabilized assets are much more problematic. They consume cash rather than generate it. Investors require a higher rate of return compared to stabilized assets. And determining when the property will become stabilized is difficult given the current economy. “We value non-stabilized assisted living assets on a price per unit based on an analysis of the specific geographic location and market, which is usually below replacement cost for non-performing properties, and then make an adjustment based on the quality of the asset, financial performance, and how much of a turnaround is involved in the opportunity,” explained Saul. For non-stabilized skilled nursing facilities, he looks at a gross income multiple—typically ranging from 0.7 to 0.9 in today’s market—and multiplies that by gross revenues for a “back-of-the-envelope” valuation.

In the 2006-2007 heyday, when a lot of very inexpensive capital was available in terms of both equity and debt, a lot of non-traditional players were willing to take on non-stabilized assets, valuing them based upon a pro forma of what the community would be like once it was stabilized. That has basically stopped, according to Mike Pardoll, Senior Vice President-Investments at **Marcus & Millichap** in Charlotte, North Carolina. “Almost all acquisitions now are based on trailing numbers,” he said. “And even the stronger players are finding some difficulty getting financing in place when the facility is still in the fill-up phase.”

At this point, Mulligan believes that the only way a non-stabilized facility can get debt is if the borrower can draw on a credit facility secured by other assets, pledge additional collateral, and/or offer guarantees from credit-worthy individuals or entities.

Assumable debt may make the difference between a non-stabilized property selling at par in today’s lending environment or whether some type of restructure will occur, but there are obstacles that must be overcome anytime debt is assumed. What are the borrower requirements (e.g., balance sheet requirements, financial position, and whether only a similar not-for-profit can assume the bonds)? Who pays for the reserves that are already on hand? Will the debt have to be restructured?

If the debt must be restructured, it’s important to understand that not-for-profits can issue tax-exempt bonds to *develop* independent living but not to *acquire* any portion of the asset attributable to independent living (and often the assisted living portion) within six months of the change in control, according to IRS rules. Therefore, a buyer may have to part with some cash over and above the outstanding debt, which happens rarely, or come up with taxable financing.

For a stabilized asset financed with **Fannie Mae**, **Freddie Mac**, or even **HUD**, assumable debt is not much of a factor. Chances are today’s rate is better than when the debt was put in place, if you can get the financing.

Get out the crystal ball

No one ever knows what the future holds, and there’s no guarantee that things won’t get worse. The general feeling now, though, is that we’re indeed approaching a normal market—at least for seniors housing.

“Aside from the need and desire for more lending, I would say that we’re pretty close to normalcy right now as it pertains to valuation and pricing,” said Saul. “The run up to the peak in 2007 was not normal. The amount of liquidity and interest in the market caused a lot of properties to be highly leveraged.”

Today, Saul’s firm is seeing a pretty good balance of activity—at least for deals in the \$1 million to \$25 million range. Buyers that were unable to compete before now appear to be in a position to make sensible acquisitions. “Buyers with lending relationships and with equity raised are in the driver’s seat when it comes to making a quality investment,” he said.

“The key factor [in the return to normalcy] is the housing market,” added Bissel, “and that is starting to stabilize. Once consumer confidence returns and people

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'Smart homes,' *continued from page 1...*

Mechanicsburg, Pennsylvania, began construction on the first of two "smart homes" it plans to build at its **Lutheran Home at Tipton** (Pennsylvania) community. The first one will be a demonstration home that should be open to the public by late September or early October. The second one, which should be finished by the end of the year, will actually house a couple, who have agreed to test it out. Diakon is also setting up a study with a local university that will determine whether the technology is really helping the couple. "The study will determine the usability and acceptability of the new technologies and how best to combine them with our services," said David Baker, Vice President/CIO

Diakon decided to build the "smart homes" to educate its residents, their family members, its staff, and others in the local area to the possibilities of the new technologies and to provide a situation where they can see it, touch it, feel it, and—in the case of the second home—live in it. "We're on board with the concept," said Baker. "Now we're trying to show others what's available."

Diakon plans to invest about \$100 million over the next decade in 70 additional "smart homes" it will build across the street from the models. "We're pre-selling those right now," said Baker. "As soon as we reach 70% on the first 18, we'll start construction." Like the models, all the new homes will have the built-in infrastructure for wireless access. Standard features will also include universal design components (e.g., wider halls and doorways, zero thresholds, minimal steps, anti-scald devices in bathrooms and showers) and a high-tech living environment—easy-to use, big-button, touch-screen security and lighting monitors. Built-in computers will monitor blood pressure and other vital signs, and a system will automatically dispense medications. The heavy-duty technologies—such as Activities of Daily Living (ADL) monitoring, telehealth, and brain fitness software—will be optional, but the infrastructure for those systems will be in place, as well. Residents can decide what they want or need at any point, and the sensors or equipment can easily be added.

Baker estimates that a \$250,000 "smart home" would have about \$35,000 invested in new technologies. That includes the wiring infrastructure and installation of all the standard items and the additional monitoring options. Building multiple homes, of course, would reduce the cost per home. The cost will also be less when the technologies become universally accepted.

The industry's perfect storm

Is this something that providers should be doing, or is it technology for the sake of technology? "We're facing a perfect storm," explained Baker. "First, providers can't scale to meet the looming needs of the aging nation. By 2050, one in five people will be elderly. And three-quarters of adults over age 65 already have at least one chronic condition. Second, we have a shrinking professional caregiver workforce. By 2020, we'll have 400,000 fewer nurses than we need to provide quality care."

The third piece of the storm is meeting baby boomer expectations. "They're all tech-savvy—71% have Internet access, 89% want to age in place, and 92% anticipate that technology will help them live longer and more independently. And 54% are willing to pay \$100 a month extra to access technology," he noted.

The challenge, then, is to provide the quality of life and quality of care for triple the number of seniors, most with chronic conditions, while they remain independent and with a shrinking caregiver workforce. "And oh yes," Baker added, "we need to reduce costs, too."

Technology, of course, is just a tool that supports the care that aging service providers already have in place. It increases professional caregiver efficiency, reduces their workload, and reduces costs. "By far, technology is a positive influence on care giving," said Baker. "It also takes the financial and emotional burden off informal caregivers—the family members—and increases their engagement in the care and support of the older adult."

Diakon's goal is to test out the product in its own communities and then slowly grow into the local neighborhood. "We already offer home services," said Baker. "We'll support that with technology and then branch out beyond our communities—a five-mile ring, a 10-mile ring...people will become a virtual resident of Diakon before ever stepping onto one of our campuses."

Goodwin House buys in

About a year ago, **Goodwin House Inc.** was looking to install Wi-Fi capability in its CCRC located in Alexandria, Virginia, as a benefit to its increasingly tech-savvy residents and their visitors. Separately, the facility needed to update its emergency call system. That was the immediate need, according to Colleen Ryan Mallon, Corporate Director of Marketing. The existing system was a simple alarm that notified staff when a resident pushed a button. If the person needing assistance wasn't in his or her apartment at the

time, staff members were sent scrambling throughout two high-rise buildings, as well as the garage and all the outside public areas, to locate the individual. "It was an inefficient, time-consuming situation," said Mallon, "and it happened frequently. And if it were a serious emergency, we needed to find the person before the situation got worse."

Last September, **Goodwin House Alexandria** installed a system designed by **Healthsense**, an aging services technology company located in Mendota, Minnesota, that now provides free Wi-Fi access throughout the community, along with state-of-the-art emergency monitoring. Participating residents wear a personal pendant (optional, with a \$100 one-time fee) that, when pushed, allows the staff to know the exact location of the individual needing help. "It's a considerable time saver and improves the quality of our emergency response," said Mallon. Currently, about 80 of the facility's 279 residents have opted for the emergency pendant.

Goodwin House paid about \$600,000 to install everything related to the new technology, including the wireless phones carried by nurses. It's important to note, however, that the system was installed in two older buildings—one with 16 floors and another with 12—plus access points in the garage and significant outdoor spaces, including the rooftop and garden areas, so that the residents would have 100% coverage. Smaller buildings and newer construction probably wouldn't cost as much, according to David Fowler, IT Director.

But the additional benefit of the Healthsense system is that, down the road, the organization can easily implement other services and capabilities by simply building them onto the Wi-Fi platform. "For a minimal additional charge, we could put sensors into an individual apartment and, as soon as tomorrow, be able to monitor that one resident through our current system," noted Mallon. "We can have as much or as little as we want."

Actually, Goodwin House is considering installing monitors in assisted living areas of its Alexandria community to detect changes in behavior patterns more quickly than personal observation or word-of-mouth reporting allows. A new building that will open in April 2010 at **Goodwin House Bailey's Crossroads** already has a wireless infrastructure in place, and the organization is considering adding the Healthsense system. And if Goodwin House decides to offer home- and community-based services in the future, the system will allow the staff to monitor someone off-campus. "That's a new business opportunity for us," Mallon added.

"Technology is really an accelerator," she said. "We haven't initiated new technology just to be first or to have the coolest tools and toys. And we're not looking to cut staff in half by using a sensor system. Technology can save time and costs and can tell whether a person is doing well or if something has changed, but it can't replace the face-to-face emotional support of a person asking 'How are you doing.'" □

Valuing Acquisitions, *continued from page 9...*

feel that their homes will sell, the pent-up demand for CCRCs will flow into those properties. As it is, occupancies have slid only a couple of percentage points, on average, so the fundamentals for seniors housing have remained pretty good, comparatively speaking."

The biggest fear is that we haven't seen the other shoe drop in other asset classes. The apartment, office, retail, and industrial sectors haven't seen a significant number of foreclosures, so we'll likely see more stress in the commercial real estate market as a whole. And if return requirements increase for everything else, seniors housing may be impacted to some degree.

Nevertheless, real estate is a cyclical business. Eventually, the market will recover and trend back to a seller's market. "The cap and yield rates for seniors housing may never get as low as they were in late 2007," Bissel

suggested, "but as returns for other property classes go down, seniors housing returns will go down as well."

The demand for seniors housing will certainly increase over the long term, while the amount of new supply delivered will be low over the next two to three years. Therefore, looking out three, four, or five years, the fundamentals for the seniors housing business ought to be very strong. "We'll continue to see affiliations on the not-for-profit side," added Hermann. "In fact, I expect they'll double. We had 13 in 2007, 15 in 2008, and it will not surprise me to see 30 in 2009 as a result of the current challenges that typical acquirers are facing."

The consensus is, though, that providers who will own the successful senior care and seniors housing businesses will understand the business. Investors who don't understand the business will focus on something they do know—apartment buildings, shopping centers, or other commercial real estate. □

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After a slow start late last year, in 2009 the LEAN program has had about 25 financings closed through May 1, plus another 50 more that have received commitments and an additional 117 submitted to HUD and which are currently in process. In the past, there were perhaps 200 to 250 HUD 232 loans funded each year, but now it is expected to increase to about 600 loans. That is a welcome change.

The reason why the LEAN program is so much faster is that there is one loan specialist responsible for reviewing the entire application, as opposed to the past where there could be five or more different people at HUD looking at different parts of the application, and that meant there were five potential bottomless holes the file could fall into for weeks. These loan processors are now all part of the Office of Insured Health Care Facilities and will specialize in health care and senior care properties.

Not-for-profit providers have used FHA financing for years, and the basics of the program are largely the same. This includes non-recourse funding, loan amortizations of up to 35 years or 75% of the remaining useful life (40 years for new construction), maximum loan-to-value of 95% of appraised value for new construction for not-for-profits (90% of appraised value or cost for acquisitions), and minimum debt service coverage of 1.05x, although in reality it is usually higher than that.

The HUD 232 program can be used for skilled nursing, assisted living and board and care facilities. One of the issues that has come up is whether the HUD 232 program can be used for independent living communities. According to the program, a retirement community can be financed with HUD if at least 75% of the units are licensed for assisted living. The intent, as we understand it, is that 75% are licensed and utilized as assisted living, and not simply licensed but really occupied by independent living residents. CCRCs are not financed by HUD, but the HUD 232 program can be used to finance a separate assisted living or skilled nursing facility within the CCRC campus.

One negative of the HUD program for some borrowers is the five-year lock-out on prepayment followed by declining prepayment penalties. But most HUD borrowers are in it for the long term, so this is not usually a problem. The time when it presents a problem is when the value has increased significantly and the operator wants to sell but can't prepay the loan, and the difference between the loan amount and the value is so high that the buyer would have to put too much equity into the purchase if he assumes the HUD debt. Nevertheless, with fixed interest rates that can range between 5% and 6% plus the mortgage insurance premium, borrowers don't have much to complain about in this market, especially since the LEAN program has shaved so much time off the underwriting process.

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