

# AssistedLiving

BUSINESS STRATEGIES, RESIDENT CARE AND NEWS

## BREAKING NEWS

### OPERATORS FACED OFF

against consumer groups during recent congressional hearings on legislation that would disallow pre-admission arbitration agreements.

### STATES ARE GOING TO

face continuing economic uncertainties next year, according to a new report from the Nelson A. Rockefeller Institute of Government. The investigation sees an economic downturn, combined with lower tax revenues and inflationary pressures as contributing factors. States help pay for Medicaid-covered care, and the downturn could adversely affect future outlays, experts warned.

## Going with the flow

The nation's housing and credit sectors are undergoing changes

BY JOHN ANDREWS

It has taken a year, but seniors housing is finally starting to feel the pain that is pulsing through the rest of the economy. Fortunately for the industry, though, its discomfort level is much milder than most.

Still, the reversal of fortune is 180 degrees from January 2007, when it appeared that the industry's strong financial momentum could continue indefinitely. And even when cracks started to appear in the mortgage and credit sectors, seniors housing financiers didn't think the industry would be affected.

"Last year, I couldn't have guessed that we'd be in the state we are now and maybe that's a failing on my part," said Curt Schaller, senior managing director of Chicago-based GE Financial. "But anyone who said they foresaw the market going from the most liquidity we've ever seen to virtually a handful of lenders is a liar."

The current downturn is nothing like the implosion of 1999-2000, when market saturation, poorly conceived projects, weak operating fundamentals and ill-advised transactions combined to suffocate investment. The industry spent several years in dormancy before finally recovering from the trauma.

This time, the trouble hasn't come from within, but from external factors beyond the industry's control. Independent living and continuing care retirement communities have been hit the hardest as the residential real estate market collapse takes its toll on their prime demographic, noted Dan Biron, senior vice president and



Capital remains available but the tide has changed.

director of healthcare programs for Columbus, Ohio-based Lancaster Pollard.

"The consensus among our clients is that independent living is clearly affected by the decline of the housing market," said Biron, who emphasized that his expertise is with for-profit facilities. "Certain states, such as Florida, California, Nevada, Michigan and Ohio, are seeing the biggest dips in the single-family housing market and certain facilities are struggling because the seniors can't

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## Industry news

### ▲ New palliative care rules

Palliative care workers are allowed to sedate some residents with intractable pain at the end of life—but only as a last-resort measure, according to a new ethical guideline approved by the American Medical Association at its recent annual meeting. The new ethical guideline does not permit physicians to use the sedation treatment to allay a resident's emotional stress, instead calling for social and spiritual guidance in those instances. The guideline also does not permit doctors to use palliative sedation to end a life.

### ▲ Falls taking a lethal toll

Falls should be a leading concern for the elderly, but not necessarily for the reason many think. The damage can go far beyond a demobilizing broken hip or other bone, researchers recently noted. Almost 8,000 seniors died from brain injuries caused by falls and 56,000 other elderly individuals required related hospital care in 2005, according to a Centers for Disease Control and Prevention report in the *Journal of Safety Research*.

### ▲ Ability tied to mortality

How well older adults get out of bed on their own and balance a checkbook is a more accurate predictor of their likelihood of dying within five years than their chronic disease diagnosis, a new study finds. Researchers at the San Francisco VA Medical Center found that among participants aged 80 and older, functional limitation proved to be the stronger predictor of five-year mortality than chronic disease. For younger participants—aged 50 to 59—chronic disease conditions such as high blood pressure and diabetes were significantly stronger predictors of mortality than functional measures. As participants aged, the predictive power of chronic disease declined faster than that of physical ability. The study appeared in the July issue of the *American Journal of Public Health*.

## COVERSTORY [CAPITAL] *continued from front cover*

### “Credit is still available, but there are a lot fewer players.”

Dan Biron  
Senior vice president and  
director of healthcare programs  
Lancaster Pollard

unload their houses. Because skilled nursing and assisted living have higher acuity residents, they aren't feeling as much of a pinch.”

The credit meltdown has also breached into seniors housing, lessening investment opportunities on both sides of the equation, Biron said.

“Lenders have gotten much more conservative, not underwriting pro forma lending and avoiding perceived risks,” he said. “Credit is still available, but there are a lot fewer players. We are bullish because the market is still there and the risks are still pretty minimal.”

### READING THE SIGNS

Even if analysts couldn't predict that the seniors housing engine would slow by mid-2008, there were signs that the supercharged activity was overheating, said Craig Jones, senior managing director of Columbus, Ohio-based Red Capital.

“It was becoming the Wild West,” he said. “When nursing home spreads get to 115 basis points of treasuries, you know the end is near. It happens every time the healthcare business gets hot and heavy.”

Another sign, Jones said, is when commercially backed mortgage securities activity heats up.

“Prices were becoming ludicrous,” he said. “Anything could have been financed, but we kept a level of discipline. When CMBS pools take away from agencies, it's a good time for a reality check.”

Commercial banks – usually the last ones in and the first ones out – are now in sharp pullback mode, analysts



Real estate and general economic downturns are combining to reduce new construction and the flow of capital, experts say.

PHOTO: ISTOCKPHOTO

say. Some of that is due to regulators cautioning against investing, while major mergers, such as Bank of America-LaSalle and GE-Merrill Lynch, have also quieted activity.

### FANNIE-FREDDIE FACTOR

One positive sign was that federal mortgage lenders Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Mortgage Corporation) were still actively involved in the marketplace, Schaller observed.

“They are still aggressive and that is propping up values in seniors housing,” he said. “The non-Freddie/Fannie market couldn't get any worse, so if they stumble, seniors housing is in for some real pain.”

Brian Pollard, senior managing director for Lancaster Pollard, agrees that increased volumes by Freddie Mac and Fannie Mae are encouraging. He adds that HUD is becoming more active in the market, as well, which signals a return to basics.

“HUD is a funding source that, because of its cumbersome nature, caused people to pursue other options if they had them,” he said. “But after the market meltdown, people are once again reverting to HUD.”

### THE CAPITAL QUEST

Glen Ellyn, IL-based Senior Living Investment Brokerage currently has in progress about 25 transactions, involving assisted living, independent living, memory care and skilled nursing facilities. Managing Director Jeff Binder says the company is still interested in providing funding to operators with sound fundamentals.

“Experienced developers and operators with proven track records, appealing markets with strong demographic bases and limited competition are most likely candidates for funding,” he said.

“Independent living projects are reviewed on a case-by-case basis, with the ‘right’ owner/operator having a strong trailing financial profile and limited potential for increased competition.”

The big question, Pollard says, is when capital will return in earnest. He says it could be a while.

“The REITs remain strong, foreign capital continues to come in, HUD, Fannie Mae and Freddie Mac will remain players and grow their respective market shares,” he said. “But it could be late 2009 before traditional creditors get back into the market again.” ■