The essential guide

Dealmaker's Handbook
2010

Riding out the storm

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A SUPPLEMENT TO
McKnight's
LONG-TERM CARE NEWS
IN PARTNERSHIP WITH
NIC
National Investment Center
For the Seniors Housing & Care Industry

Dealmaker's Handbook

When capital goes missing

It was two years ago that our nation's economy went into a frightening and unexpected tailspin. Opinions vary about what caused the worst downturn since the Great Depression. But there seems to be growing agreement that a liquidity shortfall played a central role.

In the interim, tremendous personal, corporate and government fortunes have simply vanished. Perhaps more concerning: there seems to be greater public concern about how well American-style capitalism actually works. Given the current climate, such doubts shouldn't be too surprising. Revolutions are seldom demanded when the future looks rosy.

While it would be silly to say things have returned to the halcyon days of just 30 months ago, there are signs that the worst may be over. But more capital is clearly needed in this sector. The sooner the better.

In the interim, it's refreshing to know that many operators have weathered the current storm by continuing to do the things that made them successful in the first place: delivering value by focusing on the fundamentals. That approach also happens to be the theme for this year's NIC conference.

In the pages ahead, we hope to provide a helpful read about the trends, opportunities and challenges reshaping senior living.

We again owe special thanks to Bob Kramer and his team at the NIC. If you are involved in a deal any time soon, there's a good chance they helped make it happen.

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McKnight's
LONG-TERM CARE NEWS


Senior living operators have survived the greatest downturn since the Great Depression by delivering value and focusing on fundamentals.

Riding out

BY JOHN ANDREWS

The worst financial crisis since the Great Depression arrived two years ago. Triggered by a liquidity shortfall, the downturn has taken a dramatic toll on consumers, businesses and even governments. But while many sectors are reeling, the eldercare field seems to have more than held its own, financial experts say.

"The senior living industry has weathered this storm very well—much better than other asset classes," said Brian Pollard, senior managing director for Columbus, OH-based Lancaster Pollard.

"Need-driven long-term care has fared particularly well. Choice-driven services such as independent living are feeling more of an impact, but still not so much as traditional asset classes."

Newer entry-fee continuing care retirement communities have been hit especially hard. This is largely due to erosion in the residential housing market, Pollard said. The choice-driven sector continues to see depressed occupancy numbers and reduced pricing power, along with a still-stagnant construction climate. Still, he said the so-called green shoots of recovery are beginning to appear.

"A lot of folks have been putting off a decision to move into senior communities, but many of our clients are seeing some improvement in demand as the economy continues to stabilize, the housing market begins to improve, and overall consumer confidence rises," he said. "We are also beginning to see the traditional credit markets thaw, which should improve flow of capital in the back half of 2010 and into 2011."

In surveying the economic landscape over the past two years, Ray Lewis, chief investment officer for Chicago-based Ventas, believes "the operating fundamentals of seniors housing communities have held up extremely well, particularly when compared to the performance of other real estate asset classes."

"The senior living industry has weathered this storm very well–much better than other asset classes."

Brian Pollard
Senior Managing Director
Lancaster Pollard

Despite declines in occupancy, "rates have generally increased more than inflation and expenses have been controlled so that many operators are still experiencing positive [net operating income] growth," Lewis said. "Going forward, with limited new supply and an improving economic environment, underpinned by a stable housing market and lower unemployment, seniors housing fundamentals should continue to improve."

Not out of the forest

Steve Gilleland is director of Chevy Chase, MD-based CapitalSource. He predicts that the economy will "bounce along the bottom" for a while. This will be the result of several lingering negative factors, including relatively high unemployment and continuing instability in the housing market. Though consumer spending is the catalyst for economic recovery, Gilleland wonders "if consumers don't have jobs, how can they spend?"

To be sure, consumer confidence needs a boost, agreed Mark O'Brien, vice president of sales and marketing for Philadelphia-based Gemino Healthcare Finance. Additionally, "lenders have to get comfortable with all of their problem loans and make sure they have the capital to ramp up lending," O'Brien said, adding that residential real estate will most likely be the last area of the economy to recover.

Mike Hargrave, vice president of the National Investment Center for the Seniors Housing & Care Industry's Market Area Profiles (MAP), continues

the storm

to see "a lot of angst in the economy, with a slew of foreclosures to come."

Lenders with heavy residential investments "continue to have issues that haven't been dealt with yet, haven't been fully realized on balance sheets and have no programs in place to solve their problems," he said. Although these lenders "are in the process of dealing with it," Hargrave says "it will be a painful process of bottoming out and it may take several more years before they can fully climb out of it."

Fundamental focus

While several factors have played a role in helping the seniors housing and long-term care sectors survive the economic turmoil relatively well, financial authorities say it is providers' adherence to strong fundamentals that have made the difference. By tightly managing operations, facility operators are desirable loan candidates even in the recession's harsh capital environment.

"Most of the lenders we deal with retain a positive attitude related to the industry and understand the fundamentals are quite strong compared to other sectors,' said Jeff Binder, managing director for St. Louis-based Senior Living Investment Brokerage. "Conversely, when a new or less experienced lender is engaged, the learning curve for them to grasp the fundamentals of the sector can be significant when their past lending has been focused on other forms of real estate."

"Lenders are looking for operators with solid track records."

Tim Sanders
Managing director
Capital Funding Group

Lenders "without question" have expanded their due diligence significantly when considering loans, Binder said, and the foundation of their research looks at operating experience, management strength, financial viability and accuracy/accessibility of records.

Other elements of the facility operator credit profile, Pollard adds, are quality of care, occupancy, case mix, cash flow and judicious use of financial leverage. "The 'story' projects, which require a leap of faith to get from present to future, are a definite casualty of the past several years," he said.

Tim Sanders, managing director at Baltimore-based Capital Funding Group, said the lending

Rents and construction starts improve, but occupancy levels mixed

Newly-released figures from the National Investment Center for the Seniors Housing & Care Industry show that rents and new construction are up. However, the story remains mixed for census levels.

Occupancy rates fell for independent living and rose for assisted living in the second quarter of 2010, while the pace of rent growth slowed markedly, according to NIC MAP, a data and analysis service of the National Investment Center for the Seniors Housing & Care Industry (NIC). The data also showed the first rise in trailing-twelve month (TTM) construction starts since the first quarter of 2009 for seniors housing (both independent and assisted living properties) due to construction beginning on several entrance fee CCRCs.

The average occupancy rate for assisted living properties in the second quarter of this year was 88.3%, up from 87.8% in the first quarter. Conversely, occupancy rates fell to 87.4% for independent living properties during the second quarter of 2010, down from 87.5% in the first quarter and 88.0% for the same period a year ago. "Although the occupancy rate for independent living is still declining, there are some signs that it may be at or nearing its cyclical bottom," said Michael Hargrave, vice president, NIC MAP. "For example, during the last year the independent living occupancy rate is down 0.6 percentage points, compared to the previous four quarters when it was averaging a decline of 1.85 percentage points."

The skilled nursing occupancy rate was 88.6% in the second quarter, down from 88.9% in the first quarter and 89.2% in the second quarter of 2009. "Skilled nursing trends continue to show both declining absorption and declining inventory growth," said Hargrave.

One of the key drivers of the recent stabilization in occupancy rates appears to be a return to positive absorption. Although annual absorption for seniors housing properties was flat in the second quarter of 2009, the number improved to 1.7% for the second quarter of this year.

Rent growth for seniors housing in the second quarter of 2010 was still positive, although it slowed markedly compared to previous quarters. The average monthly rent (AMR) per unit was $2,705 for independent living and $3,525 for assisted living. For both types of properties, the year over year rent growth was 0.7%. In comparison, the year over year rent growth in the first quarter of 2010 was 1.6% for independent living and 1.4% for assisted living.

"This reflects an increase in the percentage of operators who are telling us that they are adjusting their market rents," said Hargrave. "In the second quarter of 2009, the percentage of properties that reported a decline in year over year rents was 9.1%. Now, a year later, that number is 15.7%."

In contrast, there was no slowdown in the growth rate for private pay AMR for skilled nursing in the second quarter of this year. For the same period, the AMR for skilled nursing was $7,979 (compared to $7,734 on the year before).

For independent living, TTM construction activity was 1.1% of existing inventory in the second quarter of 2010, compared to 0.9% in the previous quarter and 1.0% a year ago. TTM construction activity was also 1.1% in the second quarter of 2010 for assisted living, compared to 0.9% in the first quarter and 1.3% one year earlier.

"This quarter we saw an increase in the level of construction starts for seniors housing," said Hargrave. "The 1,659 seniors housing units that were started in the second quarter represent a 52% increase over the average number of starts per quarter during the previous four quarters."

community is looking for a well-defined and concise business plan with projections that have some thought behind them. Risk tolerance at this stage is still relatively low, he said. Lenders are looking for low leverage transactions, such as a maximum of 75% loan-to-value ratio and underwriting on in-place cash flow.

"In tight credit environments, lenders are looking for operators with solid track records—especially those that are well capitalized and have successfully navigated economic downturns," Sanders said.

Ventas generally invests in seniors housing communities that deliver reliable, consistent and growing cash flows, Lewis said.

"Operators that have a track record of managing well-occupied and stabilized communities and who are innovative and forward thinking in their approach to providing care and services to residents will attract Ventas' attention," he said. "Also, operators who continually invest in people, systems and technology will generally attract capital."

Lenders underwriting a stabilized asset generally want 90% occupancy for the last 12 months and overall stable revenues, Hargrave said.

"An indicator of trouble will be overuse of discounting and concessions," he said. "If you're coming for financing, you will be asked why you want it–and that can tell a lot."

Return to 'normalcy'?

The question industry analysts are grappling with and don't have a definitive answer for is "When will things get back to normal in the seniors housing industry?"

Doug Korey, managing director for Shrewsbury, NJ-based Contemporary Healthcare Capital, thinks it could take years before lenders and investors return to the normalcy of providing construction and permanent capital.

"As patient lenders and investors, we believe that the long-term care and seniors housing industry is fundamentally sound and growing—however, the world outside our industry needs to repair major damage before life gets back to 'normal,'" he said.

"Although there is stability in the market today, we need to be very patient in clearing through these hurdles that remain from the collapse of the global economy," he said. "Our company remains very committed to the industry, as do many others, but we must not kid ourselves that these issues will be fixed in the short term."

Korey sees four main areas that need to improve—unemployment, the commercial real estate market, state budget deficits and foreign investment. At the same time, interest rates need to remain stable. If all of these factors improve or occur, then the industry should be able to see valuations improve, lending and investment capital return and general buyer interest increase, he said.

"I, as do many of my colleagues, hope that 'normal' does not mean going back to the frenzied and relaxed lending standards of 2007-2008," Korey said. "Perhaps higher interest rates will temper radical enthusiasm, but regardless, we should all be willing to remain disciplined for the long term. That is the only type of lending and investing that will grow our industry on a consistent and upward path to meet the demographic and social needs of the industry's residents." ■

How sectors compare

	Independent living		Assisted living		Nursing care	
	2Q10	2Q09	2Q10	2Q09	2Q10	2Q09
Occupancy rate	87.4%	88.0%	88.3%	87.8%	88.6%	89.2%
Average monthly rent (unit)	$2,705	$2,686	$3,525	$3,502	$7,979	$7,734

Source: NIC MAP® Data & Analysis Service, 2010

Zandi, Gingrich to speak

Mark Zandi, chief economist and co-founder of Moody's Economy.com, and Newt Gingrich, former Speaker of the House and founder of the Center for Health Transformation, will deliver the keynote addresses at the 20th Annual National Investment Center for the Seniors Housing & Care Industry (NIC) Conference. This premier dealmaking event brings together seniors housing and care providers, financiers and developers—with portfolios ranging from international and national to regional and local—in an informative forum designed to facilitate networking.

This year's conference will return to the Sheraton Chicago Hotel & Towers in Chicago, on Sept. 22-24. The theme will be: "Seniors Housing & Care Performs: Delivering Value by Focusing on the Fundamentals."

A friend in need

HUD, Fannie or Freddie may not be the preferred capital choices for many operators. But they are delivering funding at a time when it's needed

BY BRIAN O'CONNELL

With private-sector capital more difficult to obtain, many operators are getting a lending hand from government-related entities.

For example, the Department of Housing and Urban Development (HUD) recently announced grants to help convert existing multifamily projects into assisted living facilities.

"The funding will allow the elderly an opportunity to age in place in familiar surroundings as they become older and require supportive services," says HUD Secretary Shaun Donovan.

Many operators are also taking advantage of HUD's Lean Program, which was devised as a way to expedite loans under the department's Section 232 program. In the past, applications from nursing homes and assisted living operators were submitted to HUD's various regional offices. The Lean Program consolidates the process by accepting applications online. As a result, processing times have been reduced dramatically. In the past, an applicant could expect to wait four to six months for an answer. These days, the turnaround time is closer to 40 days.

Federal funding supplies are expanding at a time when private lenders—most notably banks—are tightening the credit spigots and keeping an arm's length from seniors housing financing.

In addition to HUD, Fannie Mae and Freddie Mac have emerged as notable players.

"Over the past year-and-a-half, HUD, Fannie and Freddie have basically been the only sources of permanent financing in the seniors housing market," says Robert G. Kramer, president of the National Investment Center for the Seniors Housing & Care Industry. "The credit markets have pretty much shut down—there is very little financing available."

The American Seniors Housing Association estimates that the big government sponsored enterprises now account for about 95% of all financing for permanent debt in seniors housing.

"It's certainly a good thing for the seniors housing sector to have GSEs like Fannie and Freddie around," says Dave Schless, president of the ASHA. "There's been so much focus on the residential real estate market that, without realizing it, it's led to a disastrous impact on the seniors housing market."

"You'd love to see more private capital sources in the game, but HUD, Fannie and Freddie are the strongest financing sources right now," Schless adds.

"Over the past year-and-a-half, HUD, Fannie and Freddie have basically been the only sources of permanent financing in the seniors housing market."

Robert G. Kramer
President
NIC

A question of sustainability

The financial muscle provided by the GSEs comes at a time of dynamic change in the U.S. seniors housing market. NIC data show that while rental prices continue to climb, it's a mixed bag for by-sector occupancy rates (for more, see page 6).

While Fannie, Freddie and HUD have provided much-needed funding, doubts remain about whether these entities can keep pace with sector demand.

"You can never say for sure what will happen a few years from now, but you look at Fannie Mae or Freddie Mac and see that they have lost tens of billions of dollars, and have already been taken under conservatorship," explains Mike Hargrave, vice president of the National Investment Center for the Seniors Housing & Care Industry's Market Area Profiles service. "So there is a day of reckoning coming. The seniors housing industry needs to prepare for the possible time when that source of financing is significantly reduced."

That day may be coming sooner than housing advocates want—or think. The 800-pound gorilla in the room is the financial future of government-sponsored enterprises like Freddie and Fannie. Calls from Republican members of Congress for stricter regulations and more accountability from such agencies are growing louder. While most Democrats seem to want to keep both entities federalized, that may be a politically unpopular move when the American public is so focused on the government's purse strings.

According to government estimates, Freddie and Fannie have combined to lose billions of dollars.

"We really need Fannie and Freddie – and we'll be needing them for many years to come. But we do expect government action to shape the country's housing finance system, which really wasn't a big part of the overhaul of the financial system this summer," says Schless.

For now, as Fannie and Freddie (and to a lesser extent, HUD), go so goes the seniors housing finance market. While many operators may not be thrilled to be dealing with the government, few other options are readily available in the current economic climate. ■

Freddie and Fannie also looking for more funding

After posting a $6 billion loss in the second quarter, government-controlled mortgage buyer Freddie Mac has asked for $1.8 billion in additional federal aid.

Freddie Mac is required to pay a 10% annual dividend to the Treasury Department on money provided by the government. That made up $1.3 billion of the company's second-quarter losses.

It was only two years ago that the government rescued Freddie Mac and its sibling company, Fannie Mae, from certain failure. The new request means they have needed $148.2 billion to stay afloat, about $63.1 billion of which is being used by Freddie Mac.

Freddie Mac's main challenge is that it continues to lose money from previously-backed loans. Many transactions took place before the housing market collapsed. Freddie had $118 billion in bad loans at the end of June, up from $103.4 billion at the end of last year. It owned more than 62,000 foreclosed properties in June, up from about 35,000 a year earlier.

Both Fannie Mae and Freddie Mac have lost tens of billions of dollars in the last two years. Just prior, Fannie Mae requested $1.5 billion after posting a second-quarter loss of $3.13 billion.

Still, the two companies are taking different approaches to their situations. Fannie Mae sounded optimistic while Freddie Mac offered a more tempered view.

"We recognize that high unemployment and other factors still pose very real challenges for the housing market," Freddie Mac chief executive Charles E. Haldeman Jr., said in a statement. "With that in mind, we continue to focus on the quality of the new business we are adding to our book to be responsible stewards of taxpayer funds."

REITs at home in senior living

Emerging as a replacement source for traditional lenders

BY KATY HEIDER

Since the start of the recession in late 2007, a combination of overleveraged debt and rapidly declining property values left many traditional lending institutions vulnerable to failure, acquisition or government takeover. Although this volatility was not related to healthcare real estate per se, it did have a domino effect on the market, and construction activity declined as healthcare operators found themselves on a shrinking island of available investment sources. Many hospitals, for example, lost funding for capital improvements as the tax exempt bond market shut down.

The recent economic downturn is widely viewed as the worst since the Great Depression. Commercial and residential real estate in particular have been hit hard and may not recover for several years. In fact, according to the February 2010 Congressional Oversight Panel Report on commercial real estate, the worst may still be ahead: $1.4 trillion in commercial loans will mature over the next four years, and half are estimated to be "underwater." The report further states that a resulting wave of defaults could trigger another major economic crisis, although it will be difficult to know for sure until the next year or two when the largest losses are projected to occur.

Industry experts agree that commercial real estate reached a trough in the past year, but growth remains tepid and continues to trend sideways, and vigorous investment isn't coming back anytime soon. There have been some signs this year that traditional lenders are slowly returning to the market, but with more stringent underwriting standards and higher equity stakes from borrowers.

One investment sector has managed to fare much better than others, however: real estate investment trusts. As the market started trending downward in 2007, healthcare REITs responded by shoring up their balance sheets and liquidity and reducing leverage.

"Early on in 2007 we identified certain market indicators that led us to believe in increasing volatility," said Ray Lewis, executive vice president and CIO of Ventas Inc. "We were able to decrease debt and maintain a strong balance sheet and productive portfolio that held up very well during the recession."

"All of us in the healthcare REIT sector have been very active raising capital and stabilizing balance sheets," said Chuck Herman, executive vice president and CIO of Health Care REIT Inc. "Some degradation in occupancy occurs in any down cycle, but this market is generally viewed as recession resistant."

Healthcare real estate has seen a decline in the last few years like every other sector–occupancy rates in seniors housing, for example, declined by an average of 0.5% per quarter between 2007 and 2009–but industry observers agree that healthcare REITs have emerged well positioned not only to bring capital investment back into the market but fill voids that were left by other types of lenders.

"The financial crisis opened people's eyes to alternative methods of financing, whether REITs or private equity firms," said Murray Wolf, publisher and founding editor of Healthcare Real Estate Insights. "They look at REITs as a great opportunity but are also being forced to look at them because there are fewer options available."

Lewis agrees. "With the credit crunch and resulting impact on the banking industry, a number of traditional capital sources are no longer active," he said. "REITs have good access to capital and an appetite to invest, and we could be a replacement source for traditional lenders."

The first two quarters of 2010 have reflected this appetite for investment. Health Care REIT raised its investment guidance by $800 million for the year, bringing its gross investments to more than $2 billion, and Ventas acquired Lillibridge Healthcare Services in a cash deal that added 153 medical office and outpatient facilities totaling 8.6 million square feet to its portfolio.

"Medical office is a large and growing space," Lewis said. "With the advent of healthcare reform and potentially up to 30 million insured coming into the healthcare system, there's projected to be a strong demand for medical office space to treat people, growing at 30% over next 10 years. We're looking at increasing our portfolio by 15% to 20% over the next 5 years."

Ventas also expects to continue expansion in the seniors housing market. In June it acquired minority interest in two of its Sunrise managed properties for $9.9 million, which represented a cap rate of more than 9% on its net operating income.

"We like the supply and demand fundamentals of seniors housing," Lewis said. "There has not been a lot of new supply over the past five to10 years, but demographic trends are favorable. This market is very well positioned for good, stable consistent growth and we would like to increase investment."

Seniors housing has become a staple investment

"REITs have good access to capital and an appetite to invest."

Ray Lewis
EVP, CIO,
Ventas Inc.

for many REITs and an increasingly attractive asset because of better and smarter building, more amenities, and a demographic that is projected to grow over the next few decades.

"The industry is maturing in that the products that are built these days are much more advanced and community oriented," said Mike Hargrave, vice president of NIC MAP. "More seniors are choosing to move into these types of communities, and they're a fairly defensive investment in times of recession."

Investing, improving

Like Ventas, Health Care REIT has been augmenting its seniors housing portfolio. On August 5, the REIT announced a partnership with Merrill Gardens LLC to own and operate a portfolio of 38 seniors housing and care communities located on the West Coast.

"From a real estate perspective, we like the investment characteristics of properties that have multiple tiers of care where residents are well cared for, can age in place and don't have to move every few years," Herman said. "Emphasis on wellness is also a big focus for us."

"The Merrill partnership was our first RIDEA transaction," he continued, in reference to the REIT Investment and Empowerment Act of 2007 that provided REITs with more flexibility to manage their investments.

"We do think RIDEA is an important improvement in how REITs can invest, and we expect to do others in the future," Herman said. "We think it will become a prevalent investment structure for investors in our space and see a move away from triple net," he said, adding that certain types of transactions are more suited to triple net, so long-term lease arrangements won't disappear entirely.

In spite of positive indicators and the future trends pointing upward, REITs are long-term investors, generally risk-averse, and will continue to be selective in the types of transactions they pursue.

"We maintain a strong relationship investment platform and about 80% of our transactions are off-market," Herman said. "There is a better risk-reward tradeoff than with auction deals."

For Ventas, the strength of the operator is just as important as the location of the property. "We look at what systems the operator has in place to manage the business," Lewis said. "It's the operator who generates the cash flow from the real estate." ■

Saved by rehab

More skilled nursing facilities have begun to offer rehabilitation services as a way to improve care—as well as their bottom lines

BY KIMBERLY BUCKLEY

Nursing home-based rehab care? Twenty years ago the idea would have sounded ludicrous. But rehabilitation services are becoming a standard option at many skilled care settings. And it appears that the trend is just getting started.

Early reviews are showing that rehab care in traditional long-term care settings can be a win-win-win. The federal government gains by paying less for care in these settings than in Long Term Acute Care Hospitals (LTACHs) or Inpatient Rehab Facilities (IRFs). Facilities gain by tapping into a Medicare funding stream that often is several times higher than rates available through their state's Medicaid program. Customers can gain as well. Many can receive care closer to their homes—or not have to leave a facility if they are already a resident.

Some see the field's shift toward rehab care as a push-back against what other sectors have done to nursing homes. Thirty years ago, assisted living was essentially an unknown option for eldercare services. Through the efforts of pioneers like Paul Klaassen at Sunrise Senior Living, the assisted living option became a largely preferred housing choice—particularly for those who had relatively minor caregiving needs and the financial resources to cover such care. As a result, there are now more than 36,000 assisted living communities nationwide, serving a population in excess of a million people each day.

But while this shift was a boon for assisted living operators, it torpedoed many skilled care operators. They saw their most desirable residents—private payers with relatively few caregiving needs—steadily migrate out the door. This came at a time when Medicaid payments remained paltry and late. For a sector struggling with relatively low profit margins, a response clearly was needed.

According to Richard Bane, immediate past chair of the Massachusetts Senior Care Association and CEO of Bane Care Management in Salem, MA, rehab has allowed two businesses to essentially operate under one roof. "One business services the short-term post-acute patients with short lengths of stay," says Bane, "while the other business services the long-term elderly resident who can no longer remain safely at home."

But according to Bruce Yarwood, president of the American Health Care Association, old perceptions can be hard to break. He said that when he takes policymakers into a nursing facility and demonstrates rehab care in action, they still see skilled care facilities as a place where people don't really want to live.

"Rehab is where our future lies, but it's a long story that has to be told—and we have to be able to prove that we do a good job at it," he said.

Short-term rehabilitation services have flourished in long-term care settings during the past decade, thanks largely to new funding stream they allow providers to tap: Medicare. The average overnight cost at a rehab hospital is $1,500. The same night's stay in a SNF setting can range from $300 to $600. Since SNF services can provide a low-cost, high-quality alternative to hospital rehab services, post-acute SNF stays will continue to grow over the next several years, experts predict. Growth of this trend also will continue as aging baby boomers enter and impact the healthcare system in the next several years, they add.

Reimbursement for SNFs comes either from Medicare Part A insurance or managed care insurance. While most managed care insurance pays SNFs a flat per diem for short-term rehab services, Medicare Part A insurance coverage is dictated by Medicare's Minimum Data Set 2.0 Prospective Payment System (PPS) model. The MDS is a comprehensive clinical assessment tool mandated by the federal government for all SNF Medicare-eligible patients. PPS is a method of reimbursement in which Medicare payment is made based on a pre-determined, fixed amount. The payment amount for a particular service is derived based on the classification system of that service. Such patients are categorized into Resource Utilization Groups III (RUGs III) based on the amount of required care. Simply, Medicare Part A reimbursement is determined by the differentiation of care provided to each patient. Greater amounts of specialized services—such as physical, occupational, or speech therapies—as well as extensive services, such as IV or oxygen therapies, provide greater opportunity for maximum reimbursement. Therefore, SNFs generally strive to attract the most desirable rehabilitation candidates in an effort to maximize revenues.

In October, the federal government plans to implement MDS 3.0 and RUGs IV. While the intent of updating the tool is to improve accuracy as well as patient involvement in care planning, there is great concern that the major revision of these assessments used for determining rehab care will have a profound impact on skilled care operators.

There is speculation that RUGs IV favors a medically complex model versus the rehab model of RUGs III, thereby reducing overall investments.

"Rehab is where our future lies."

Bruce Yarwood, President AHCA

Profit margins and bottom lines will be challenged by new Medicare regulations that limit the SNFs ability to easily capture extensive and specialized services, some predict.

Numbers changing

A specific challenges will be the elimination of the hospital look-back period, which allowed SNFs reimbursement for extensive services such as IV and oxygen therapies provided in the hospital prior to admission to the SNF. Under RUG IV these extensive services must be provided in the SNF to qualify for reimbursement.

New regulations regarding the estimation and delivery of therapy services also will challenge SNF practices. RUGs III rules allow therapists to estimate, to a certain degree, the amount of therapy to be delivered within the first 14 days of SNF rehab stay. SNFs are paid based on this estimation regardless of the amount of therapy actually delivered. RUGs IV eliminates this estimation option. The most concerning change with regard to therapy for some SNFs is the new concurrent therapy regulation. The Centers for Medicare & Medicaid Services defines concurrent therapy as the "treatment of 2 residents at the same time, when the residents are performing two different activities, regardless of payer source, both of whom must be in the line of sight of the treating therapist for Medicare Part A."

RUGs III allows a 1:1 ratio, or 100%, of billable therapy time for concurrent therapy. For example, one therapist providing 60 minutes of therapy to three patients could bill each patient 60 minutes to total 180 minutes of billable time. The new ruling under RUGs IV requires the therapist to divide the total amount of therapy time delivered by the number of patients receiving services. Considering the former example, that same therapist is now allowed to bill each patient only 20 minutes for a total of 60 billable minutes. Ultimately, this new ruling decreases the amount of billable therapy time when therapy services are provided concurrently. Therefore, SNFs consistently practicing concurrent therapy will be financially challenged by this new ruling.

Peter Clendenin, executive vice president at NASL, admits the MDS 3.0/RUGS IV will initially be challenging for skilled care operators. At the same time, he points out, they provide "lower cost options than hospital stays, home-like environments for patients, and individualized, unique rehabilitation for the short-term rehab population." ■

Uncertain prognosis

Healthcare reform is required by a new law, but many pieces are still missing

BY JOHN ANDREWS

Changes outlined in a new healthcare law might eventually have a dramatic impact on senior living operators. But many industry insiders are taking a wait-and-see attitude until more specific guidance becomes available.

"A key to understanding healthcare reform is that Congress outlined it, but left it to [Health and Human Services Secretary Kathleen Sebelius] to fill in many details," said Robert G. Kramer, president of the National Investment Center for the Seniors Housing & Care Industry. "The way we deliver healthcare will be transformed, but what will the result be? Nobody knows at this point."

President Obama signed The Patient Protection and Affordable Care Act into law earlier this year. The new statute calls for numerous health-related changes over the next four years. These include a new long-term care payment option, expanded health IT funding, greater scrutiny on care, expanded Medicaid eligibility, subsidized insurance premiums and incentives for businesses to expand insurance coverage.

Kramer predicts the new law will directly and indirectly affect many operators. Among the likely shifts ahead are greater culture change within skilled care, stronger performance and payment links, heightened wellness/prevention efforts and more streamlined resident transfers across the eldercare spectrum.

Demonstrations and pilot projects will also offer more clues, Kramer said. "They have a definite philosophical direction—less institutional bias, more accountability as it relates to measuring outcomes and the establishment of accountable care organizations."

One of the most notable measures in the new law is a provision intended to establish discretionary funds for eldercare-related services. The so-called CLASS Act is a voluntary, federally administered, consumer-financed insurance plan. Workers enrolled in the program will pay into an insurance fund, which pays limited benefits for support services, including assisted living. The benefit cash amount will be determined by an assessment of a person's need for help due to a physical or cognitive limitation.

Although components of the CLASS Act are scheduled to take effect Jan. 1, 2011, HHS Secretary Sebelius must develop the details of the plan before people can sign up. The law requires the secretary to release plan details by Oct. 1, 2012. Policy watchers see that as a more realistic launch date. Enrollees must contribute to the plan for five years before becoming vested, which means benefits won't likely be issued until 2017, at the soonest.

Mike Hargrave, vice president of the NIC MAP service, says the general consensus among his colleagues is that it's still too early too predict how dramatic this proviso will be.

"Some people I talk to say it will have a profound impact, while others say because it's an optional program, no one will buy into it if they don't have to," Hargrave said. "On the face of it, the CLASS Act could provide a massive benefit for the sector. But it will be a number of years before it is set up. A lot of people are saying they're not sure it will get mass participation and if it doesn't, my understanding is that it won't have a lot of potential. I don't know what it will take to get participation, but there is some doubt."

Maribeth Bersani, senior vice president of public policy for the Assisted Living Federation of America, says her organization plans to launch an educational effort about the CLASS Act.

"We want people to know that it will be a great benefit for those without long-term care insurance," she said.

Other positive parts of the healthcare reform effort, Bersani said, are geriatric training and criminal background checks "because they raise the bar." Overall, she says the attention placed on long-term care issues is a positive development, but adds that more needs to be done going forward.

"This is just the tip of the iceberg," she said. "Now that reform has passed, we need to focus on other long-range issues, such as the solvency of the entitlement programs and the impoverishment aspect of Medicaid. Although assisted living is a private pay market, if Social Security goes under, we're really in trouble. We have to make sure the safety nets don't disappear."

"The CLASS Act could provide a massive benefit for the sector."

Michael Hargrave
VP-NIC MAP®
NIC

MDS 3.0 and reform

From a policy perspective, healthcare reform and looming changes in the way Medicare categorizes and compensates their care "represent the greatest change in more than a decade for long-term care and healthcare overall," said Kate McCarthy, business account manager for Lexington, MA-based PointRight. "In [the coming Minimum Data Set], the scope of assessing residents has changed dramatically, as it is now patient-centric and intended to ensure that patient needs are met and outcomes improve. There have been incremental changes in recent years, but in terms of overhaul and thinking differently about healthcare, this is a fundamental shift in not only ideology, but design."

Mary Chmielowiec, executive vice president of PointRight Insurance Group, adds the MDS 3.0 represents "a move to a holistic, resident-centric approach that dramatically impacts both skilled nursing and corporate processes. Not only are their tools of measurement changing, but so will their payment systems."

MDS 3.0 and healthcare reform represent a cultural and ideological shift designed to improve quality outcomes and patient satisfaction along with having "a significant tie-back to reimbursement," McCarthy said. "Healthcare reform calls for everything from bundled payments to value-based purchasing and penalties for not meeting quality measures. It behooves people to think now about ways to streamline the patient care system to ensure their ability to understand their performance, reduce unnecessary spending and improve or maintain their bottom line."

New tech tools

Health information technology is an important catalyst for providers to gain control of their operations and meet the future demands of healthcare reform, experts say.

In McCarthy's view, long-term care providers are well situated to adopt new IT systems by taking advantage of the Obama administration's American Recovery and Reinvestment Act. The stimulus program has earmarked at least $20 billion for health information technology. ■

Nursing 'sick' communities

Simple steps can help restore sub-par performers to good health

BY JIM MOORE

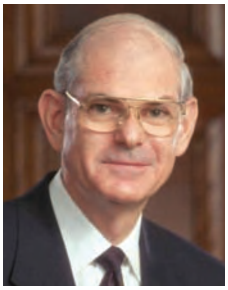
In today's market, no senior living community is immune from catching a sub-par performance virus. That is because markets are maturing and competition is intensifying. A better-educated, more demanding consumer presents additional challenges. Rapid advances in the state-of-the-art of service delivery favor some of the newer communities over even well-established ones with good reputations of the past.

One of the most significant challenges for the owner of a troubled community is recognizing that the community is, in fact, sick. As with one's own health, early symptoms are often ignored.

Lack of early detection eventually causes some communities to fail when timely corrective action could have saved them.

Troubled communities are similar to personal health emergencies from several perspectives. Negative cash flow is like uncontrolled loss of blood. Unstable financial operations are similar to irregular heartbeats. The actions needed to turn around a community in the throes of a fiscal crisis are strikingly similar to how medical professionals would respond to a personal medical emergency.

Many owners of troubled communities are so caught up in observing the symptoms that they don't analyze the actual disease. Frequently there are multiple problems and conducting a business triage analysis will help you decide which to attack first.



"One of the most significant challenges for the owner of a troubled community is recognizing that the community is, in fact, sick."

Jim Moore
President
Moore Diversified Services

Check the vital signs

In other words, stabilize the patient. To take corrective action, ask and answer the following: 1) Is your age- and income-qualified market of sufficient size? 2) Have you realistically defined your primary market area? 3) Has your market area changed because of the passage of time and the encroachment of new competition? 4) What is the real level of competition, both now and in the foreseeable future? 5) Do you have a sufficient number of potential marketing leads that, properly explored, can translate into adequate closed sales? 6) Are there serious misperceptions about your community in the marketplace that are having a negative impact on sustaining acceptable occupancy levels? 7) What are your community's strengths and weaknesses? 8) What are your competitors' strengths and weaknesses? 9) Have you implemented a lost-prospect analysis? 10) Are your staffing, operating, and financial ratios in line with industry benchmarks?

Comprehensive care

A financially ailing community may need both short-term medication and a new long-term operating life cycle strategy. For every community there are maybe 50 worthwhile strategies that can at least be evaluated as part of a comprehensive turnaround approach. About half of these can be implemented with relative ease. The other half are likely to be difficult, painful and frequently expensive. Like the medical analogy, bitter pills in the short-run may be necessary for long-run survival. Among the strategies are: 1) Engage in sharpened market positioning by asking, "What business are we really in?" 2) Don't lose control of your referral pipeline as new players enter your market. 3) Explore additional sources of revenue such as tiered pricing, rehabilitation, home health services and expanded campus and outreach services. 4) Extend the average length of stay of your residents by redefining admission and discharge criteria or where necessary, adding other components of the continuum of care. 5) Explore other market niches such as Alzheimer's, respite care and "catered living." 6) Create an understandable, equitable, flexible and market-responsive pricing structure. 7) Get creative with affordability, including prudent resident spend-down and carefully conceived semi-private accommodations. 8) Establish best practices and benchmarking initiatives across the board, making detailed competitive comparisons on a local and regional level. 9) Reposition your community through cosmetic changes or modifying the physical plant. Adaptive re-use from one product type to another sometimes may be the only solution for a product or service delivery strategy that is no longer appropriate in a changed marketplace. 10) Establish a more comprehensive sales and marketing program. It could be a must if you want to spur new, qualified traffic to your community. 11) Finally, conduct lost-prospect surveys; they can yield invaluable marketplace intelligence.

Many troubled communities fail when fundamental and focused corrective actions might have breathed new life into them. With business acumen and the courage to change, you can turn a sick property into a healthy success story. ■

Jim Moore is president of Moore Diversified Services Inc., a national seniors housing and healthcare consulting firm based in Fort Worth, TX. He has written several books about assisted living and seniors housing, including Assisted Living Strategies for Changing Markets.

NIC Conference: Deals, knowledge and more

Seniors housing and care professionals looking for best practices to help them emerge from the recession stronger will find them during the sessions scheduled at the 20th Annual NIC Conference. Acknowledged as the industry's top dealmaking event, this hallmark conference of the National Investment Center for the Seniors Housing & Care Industry (NIC) will be held Sept. 22-24 at the Sheraton Chicago Hotel & Towers.

Amid a tumultuous credit market and cautious consumers, the seniors housing and care industry has emerged as a survivor of the recession. Astute providers have maintained revenue through disciplined concentration on operations. Lenders have tightened underwriting guidelines and are working with only the most proven operators. By remaining grounded in the fundamental needs of the resident, the caregiver, and the investor, seniors housing and care has constructed a platform that is poised for continuing growth.

Facing uncertainty

Although the industry has data to prove its ability to perform against great odds, the future is uncertain. Will consumers remain cautious about spending money, and what will this mean for occupancies and the need to demonstrate value? What will be the impact of impending economic factors, such as the slow upturn in unemployment, troubled commercial real estate loans and the dearth of debt capital? How will the industry be affected by government efforts to further regulate the financial sector and by continued pressure to control healthcare costs, including long-term care? And how do you determine which market opportunities will likely result in a favorable outcome?

The 20th Anniversary Conference will provide participants with the building blocks needed to capitalize on today's opportunities. Educational sessions will feature industry leaders who will discuss their strategies for providing value in a difficult economic climate, stimulating revenue growth, and matching capital with responsible providers.

- Listen to a keynote address by **Newt Gingrich**—former Speaker of the House and Founder of the Center for Health Transformation—where he'll give his vision for healthcare—today and tomorrow.
- Get predictions on the futures of the economy, the credit market, capital availability and interest rates from leading economist **Mark Zandi**.
- Gain valuable insights about the practical implications of the healthcare reform legislation and how it affects your bottom line.
- Listen to a panel of seasoned executives describe the past 20 years of the seniors housing and care industry, as well as their predictions for the industry's next 20 years.
- Discover the fundamentals that continue to position the industry for future success.
- Learn who will replace the lost sources of debt capital, the advantages of public versus private capital, and the best places to find available financing.
- Hear sophisticated operators explain how a focus on value can attract customers and investors.
- Find out how seniors housing and care compares to other commercial real estate asset classes and get the data that shows our comparative performance during the recession.
- Network with industry peers, including national financiers and distinguished operators, and discover how they are building their businesses in an unpredictable economy.

Thursday Morning Sessions–
10 a.m.–11:30 a.m.

Medicare Changes and
Their Impact on Long-Term Care
On October 1, the federal Medicare system will undergo significant changes in its reimbursement of skilled nursing providers—changes that will require the entire industry to critically evaluate all aspects of their operations. In this session, a panel of experts representing four of the largest skilled nursing operators will discuss MDS 3.0/RUGs IV, concurrent therapy, and other significant changes in the Medicare payment systems.

Seniors Housing 101
Designed as an introduction to the seniors housing and care industry, this informative session will utilize the "NIC Investment Guide 2010" "Investing in Seniors Housing & Care Properties", NIC MAP research and data, and comparative information from NCREIF and NAREIT to examine the fundamental parameters and the current performance of the industry. The panel will provide a framework for analysis.

Navigating Today's Conventional
Financing Market
Which conventional lenders are actually completing deals, and how do they really view the seniors housing and care industry? Who still plays in transactions of $35 million and more? Experienced balance sheet financiers from actively lending institutions will reveal the answers to these questions.

Commitment to Quality Services:
Effects of the Great Recession and
Where Do We Go From Here?
How do seniors housing and care facilities maintain quality services during recessionary times? Come hear a panel of savvy operators describe their techniques for managing costs and continuing their commitment to excellence.

Thursday Afternoon Sessions–
1:30 p.m.–3:p.m.

Advanced Underwriting:
How to Recognize and Deal with Risk
During challenging economic times, a focus on fundamentals and analytical decision-making will produce successful results. A panel featuring three different types of capital providers plus savvy operators will present two seniors housing case studies that illustrate the factors that drive investment decisions.

Sales & Marketing: The New Fundamentals
The economic environment has challenged the seniors housing and care industry to recalibrate many aspects of its business. If you want to convert more of your visits into sales, come listen to this panel of executives.

Accessing REIT Capital
Healthcare REITs have raised significant amounts of capital and are expected to be a meaningful source of future financing to the seniors housing and care industry. In this session, select leaders from the REIT sector will describe the type of activity we can expect from REITs for the remainder of 2010 and into 2011.

Friday Sessions–
10:30 a.m.–noon

The Future of Agency Financing
Based on the fact that available debt capital of recent years has declined considerably, government-sponsored agencies—HUD, Fannie Mae and Freddie Mac —have been a capital lifeline for the seniors housing and care industry. But as we exit the recession and face the possibility of major overhauls by Congress, what does the future hold for these funding sources?

Case Studies of Valuations
What factors influence valuations in the seniors housing and care industry? This panel, which represents a broad cross-section of the industry, will share their individual viewpoints on the components that affect valuations, including capital availability, the strength of operating fundamentals, and the health of the economy and its impact on sustainable growth.

Medicaid Funding and the
Future of Skilled Nursing Properties
State budgets are facing increasing pressure as the cost of long-term care continues to escalate, and state Medicaid systems across the country are evaluating creative solutions—including home and community-based programs—to meet the growing demand for long-term care services. So what does this mean for the future of Medicaid funding for skilled nursing? Find out as this diverse panel of experts debates this topic in a Q&A format. ■

20th Annual Conference Schedule

Tuesday, September 21

8:00 a.m. - 2:00 p.m.	NIC Future Leaders Council Meeting (invitation only)
10:00 a.m. - 12:00 p.m.	Executive Committee Meeting (invitation only)
12:30 p.m. - 2:00 p.m.	NIC/ASHA Leadership Luncheon (invitation only)
2:30 p.m. - 5:00 p.m.	Board of Directors Meeting (invitation only)
4:00 p.m. - 6:00 p.m.	Registration open
5:00 p.m. - 6:45 p.m.	FLC Reception (invitation only)

Wednesday, September 22

7:00 a.m. - 8:30 a.m.	NIC Committee and Task Force Meetings (invitation only)
8:00 a.m. - 8:00 p.m.	Registration open
8:00 a.m. - 8:00 p.m.	Networking Lounges open
8:30 a.m. - 11:30 a.m.	NIC MAP® market briefing
12:00 p.m. - 1:30 p.m.	NIC Committee and Task Force meetings (invitation only)
2:00 p.m. - 8:00 p.m.	NIC Cyber Café & Data Center open
2:00 p.m. - 4:00 p.m.	Operator Advisory Board Meeting (invitation only)
4:00 p.m. - 5:00 p.m.	Newcomers Reception (invitation only)
4:30 p.m. - 6:00 p.m.	Board of Directors Reception (invitation only)
6:00 p.m. - 8:00 p.m.	20th Anniversary Opening Reception

CELEBRATING

Thursday, September 23

7:00 a.m. - 7:00 p.m.	Registration open
7:00 a.m. - 8:00 a.m.	Continental breakfast
7:30 a.m. - 7:00 p.m.	Networking Lounges open
7:30 a.m. - 7:00 p.m.	NIC Cyber Café & Data Center open
8:00 a.m. - 9:15 a.m.	Opening Plenary Session with Mark Zandi: The Outlook for the Economic Recovery & Capital Markets
9:15 a.m. - 10:00 a.m.	Coffee & Networking break
10:00 a.m. - 11:30 a.m.	Four concurrent sessions • Medicare Changes and Their Impact on Long-Term Care • Seniors Housing 101 • Commitment to Quality Services: Effects of the Great Recession and Where Do We Go From Here? • Navigating Today's Conventional Financing Market
11:30 a.m. - 1:15 p.m.	Networking Luncheon with keynote address by Newt Gingrich: The Cost, Consequences, and Future of Healthcare Reform
1:30 p.m. - 3:00 p.m.	Three concurrent sessions • Advanced Underwriting: How to Recognize and Deal with Risk • Sales & Marketing: The New Fundamentals • Accessing REIT Capital
3:00 p.m. - 3:45 p.m.	Coffee & Networking break
3:45 p.m. - 5:15 p.m.	Plenary Session: 20 Year Perspective: The Past, The Present and The Future of Seniors Housing and Care
5:15 p.m. - 7:00 p.m.	Meet the Investors Reception

Friday, September 24

8:00 a.m. - 10:00 a.m.	Registration open
8:00 a.m. - 12:00 p.m.	Networking lounges open
8:00 a.m. - 12:00 p.m.	NIC Cyber Café & Data Center open
8:30 a.m. - 9:30 a.m.	Continental breakfast
9:00 a.m. - 10:15 a.m.	Plenary Session: The Changing Healthcare Landscape and How It Affects Your Bottom Line: Views from Washington Insiders
10:30 a.m. - 12:00 p.m.	Three concurrent sessions • The Future of Agency Financing • Case Studies of Valuations • Medicaid Funding and the Future of Skilled Nursing Properties
12:00 p.m.	Conference adjourns

Contemporary Healthcare Capital, LLC (CHC)

Company profile

Contemporary Healthcare Capital, LLC (CHC) is a leading provider of senior mortgage, mezzanine debt and equity to healthcare service companies nationwide. For over 20 years, CHC's experienced team of lending and investment professionals has made loans and investments exclusively in the healthcare services industry. CHC specializes in providing structured financial products, offering knowledge and experience that is unmatched in the industry. The company's six funds are managed and underwritten by the same team, creating a seamless program for each borrower. All products can be used either together or individually, depending on the circumstance and need.

Despite the downturn in the capital markets, CHC is having its strongest year of deal closings in its history. Maintaining a strong, well capitalized position, CHC provides more than a menu of standard financing options. Its unmatched experience and industry knowledge provide the strategic insights that will contribute to the financial success of your business.

CHC's clients span a wide variety of sectors within the healthcare industry, including: long-term care, senior housing and related healthcare services including acute care and specialty hospitals, durable medical equipment providers, rehabilitation providers, home healthcare companies, institutional pharmacies, hospices and others.

CHC's latest new products designed to enhance the borrowing experience include:

Senior Mortgage Product – This product addresses the declining leverage and general availability of senior mortgage financing, which in turn has driven up the need for greater equity dollars, by providing a higher loan to cost/value senior mortgage product to long-term care and senior housing customers.

Offering a fixed rate of interest for a maximum term of five years, this product allows for up to 95% loan to cost, including any applicable reserves and expenses for the aforementioned capital needs. The current coupon payment is set at levels that are comparable to those charged by a REIT. Unlike a REIT, the borrower maintains the ownership of the facility. An equity kicker or exit fee is charged which allows both the borrower and CHC to share in the upside of the facility. As an additional incentive to the borrower, the equity kicker, in most cases, can be optionally redeemed at a predetermined yield. This allows the borrower to maximize the value of the facility while knowing the exact exit yield.

Accounts Receivable Financing Product –This product offers traditional accounts receivable financing of $1 million to $10 million to both long-term care operators as well as healthcare service companies. The new product lends against a percentage of a company's outstanding accounts receivable balance, based on the type of payers, including Medicaid, Medicare, VA and commercial insurance carriers.

CHC Leads the Industry in Product Selection

CHC's broad spectrum of financial products include:

- Acquisition Financing
- Leasehold Financing
- Construction Financing
- Refinancing and Recapitalization
- Other Structured Financial Products
- Cash Flow Lending
- Working Capital
- AIR Financing

FastFacts

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Eligible properties: ■ Skilled nursing ■ Assisted living ■ Retirement communities ■ Congregate care ■ Hospital ■ Ambulatory surgery ■ Rehab hospital

Options: ■ Construction ■ Substantial rehab ■ Acquisition ■ Refinance ■ Exit

Product base: ■ Bridge loans ■ Line of credit ■ Leasehold mortgages ■ Leasehold mortgages ■ Term loans

GE Capital, Healthcare Financial Services

Company profile

With over $17 billion invested in more than 30 sub-sectors including senior housing, hospitals, pharmaceuticals, and medical devices, GE Capital, Healthcare Financial Services is a premier provider of capital and services to the healthcare industry. With veteran experience in real estate finance, corporate finance, life science finance and equipment finance, our team of professionals provides deep industry expertise to create business and financial solutions tailored to meet the individual needs of our customers.

Our philosophy

GE Capital, Healthcare Financial Services provides customized real estate financing solutions for senior housing portfolios and medical properties to help customers achieve their goals.

What we offer

Our dedicated Healthcare Real Estate team has decades of experience and delivers real estate financing products to a wide range of healthcare providers. Our customized financing solutions include first mortgages, interim financing, forward commitments, operating leases and capital leases.

FastFacts

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Eligible properties: ■ CCRC ■ Skilled nursing ■ Assisted living ■ Independent living ■ Medical office

Options: ■ Acquisition ■ Refinance ■ Exit

Product base: ■ Bridge loans ■ Line of credit ■ Leasehold mortgages ■ Term loans

A successful partnership

As a long-term provider of both debt and equity to senior care providers, we focus on building and sustaining valued relationships with our customers. Three out of four of our transactions are with repeat customers. GE Capital, Healthcare Financial Services has investments of approximately $8 billion in senior housing, skilled nursing and medical office financings and has provided capital to seven of the 10 largest assisted living providers and 12 of the top 20 skilled nursing home operators, as well as to many of the small to mid-size operators.

Lancaster Pollard

Company profile

Lancaster Pollard has been a consistent and dependable source of capital funding for senior living since 1988. Our diverse platform of services was created especially for senior living, and it continues to evolve and adapt to new trends and changing markets with this sector's needs in mind. We work with small and large organizations, for-profit and nonprofit organizations, independent living, assisted living, nursing facilities and CCRCs; and we understand that each of their situations is unique. We offer a full range of investment banking, financial advisory, mortgage banking and investment advisory services. As a leading underwriter of bonds and mortgage loans, we have considerable experience assisting organizations with their funding needs. Lancaster Pollard has earned a reputation for sound financial advice, cost-effective options, and outcomes that exceed clients' expectations. Lancaster Pollard is headquartered in Columbus, Ohio and has offices to serve clients nationwide, including: Atlanta, Austin, Denver, Kansas City, Los Angeles and New York.

LANCASTER POLLARD *Financing Progress*

Our philosophy

Lancaster Pollard was specifically created to serve the senior living sector. The founders recognized that the capital markets did not have a complete, uniform understanding of the senior living sector and as a result, access to capital was sometimes more limited, and the cost of capital more expensive. Lancaster Pollard is an independent firm, free from the influences inherent with ownership by or affiliation with large commercial banks. This independence allows us to provide more objective consultation, consider the entire spectrum of appropriate options and actively negotiate the most advantageous terms and covenants for our clients.

If you choose a mortgage or guaranteed loan, your relationship with Lancaster Pollard is for the life of your loan, as we service every loan we underwrite. Our goal is to provide a level of service that exceeds your expectations. Anything less is simply unsatisfactory. You can expect the same level of attention and commitment in the servicing of your mortgage loan as when we structured it.

What we offer

Lancaster Pollard provides debt financing for senior living renovation, expansion, acquisition, new construction and refinance.

Our focus on senior living means better understanding and articulation of your organization's unique credit characteristics, and our platform of options means better access to affordable capital in any market condition and better opportunities to match an appropriate finance strategy to your goals and objectives, such as:

- Taxable and tax-exempt bonds
- FHA mortgage insurance
- Fannie Mae Seniors Housing Products
- Our proprietary high-leverage EquityTap™ program
- Bank private placements and traditional credit enhancements

Lancaster Pollard has one of the largest groups of finance professionals in the nation focused on senior living. Our knowledgeable associates:

- Help you evaluate and understand your financing options to determine the best possible financial structure
- Offer investment banking and mortgage banking services under one roof, streamlining the process for organizations who combine government credit enhancements with tax-exempt bonds
- Navigate your loan process to ensure a quick and smooth process
- Diligently negotiate the best and most flexible terms possible in the current marketplace

A successful partnership

Our dedicated associates are committed to exceeding our clients' expectations. In an inherently transactional business, we develop sustainable capital financing solutions that meet short-term financial needs while safeguarding long-term financial viability.

FastFacts

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Eligible properties: ■ CCRC ■ Skilled nursing ■ Assisted living ■ Retirement communities ■ Congregate care ■ Hospital ■ Rehab hospital ■ Medical office

Options: ■ Construction ■ Substantial rehab ■ Acquisition ■ Refinance

Product base: ■ Fannie Mae ■ FHA ■ HUD

Senior Living Investment Brokerage, Inc.

Company profile

Senior Living Investment Brokerage, Inc. is a full-service brokerage company dedicated to providing our clients unparalleled service while achieving their investment objectives. From its genesis in 1997, the company has followed certain core beliefs to become one of the top providers of long-term care and senior housing brokerage services—arguably the largest firm solely dedicated to the industry. With offices in St. Louis and Chicago, we are strategically positioned to provide our services nationwide. For more information please visit our web site at *www.seniorlivingbrokerage.com*.

Our philosophy

Confidentiality and discretion are priorities in long-term care/senior housing transactions and are the foundation from which our process is structured.

At Senior Living Investment Brokerage, Inc. we understand that brokerage does not end at the introduction of buyer and seller. Rather, this is just the beginning of our role in completing a transaction—evaluating offers, facilitating due diligence, working with third-party agents, and assisting the title company with closing preparations are just a few examples. Coupled with our thorough underwriting and detailed offering memorandum, Senior Living Investment Brokerage Inc. provides a complete transaction package unmatched in the industry.

What we offer

We have compiled a highly skilled team to facilitate confidential private sales of long-term care and senior housing properties. Our understanding of the multiple issues surrounding the transfer of these complex properties enhances the likelihood of a successful sale. Our network is multi-pronged and involves working relationships with key individuals within the industry, including: healthcare attorneys, CPAs/accountants, various health care associations, appraisers, and regulatory/reimbursement contacts. Over the past three years, we have on average achieved sale prices at 96% of the value given to our clients.

A successful partnership

Confidentiality. Trust. Expertise. Commitment. Credibility. Teamwork. There are many reasons Senior Living Investment Brokerage Inc. has become a market leader in facilitating long-term care and senior housing transactions. We work with our clients to recognize their specific investment objectives up front and tailor the sales process to meet those needs—we are not bound to a one-size-fits-all approach.

FastFacts

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Eligible properties: ■ CCRC ■ Skilled Nursing ■ Assisted Living ■ Retirement Communities ■ Congregate Care

Options: ■ Divestitures ■ Acquisitions ■ Sale-Leaseback ■ Sale-Manageback ■ Mergers

SunDance Rehabilitation

Company profile

The SunDance Difference…Partnership

A rehabilitation provider should be an extension of your caregiving team, linking people in performance and partnership. SunDance has built a reputation for both clinical excellence and dedication to the fiscal success of our business partners as a premier provider of rehabilitation and wellness services across skilled nursing, assisted living, retirement communities and sub-acute settings. Our strong, national base in 38 states and unique regional structure enable us to sharpen your competitive edge.

Unparalleled customer service and employee satisfaction, excellent clinical outcomes and regulatory–financial expertise are core elements of The SunDance Difference. Our resident advocacy philosophy, innovative core products and programs and consultative services make us unique in each marketplace. Everything about SunDance makes us the exceptional choice for rehabilitative care and business partnering.

SunDance provides a complimentary clinical and financial analysis to identify opportunities for clinical, patient management, revenue enhancement, and rate optimization and performance technology. Advocacy–Innovation–Competency–Versatility are the cornerstones of our successful partnerships.

Learn why we are *The Provider of Choice for Providers of Care.*

Our philosophy

1. **Resident-Centered, Outcome-Focused Advocacy Products and Services:** Our ever-expanding, innovative core products and clinical expertise are competitive strengths both for SunDance and our customers with examples including: Senior Solutions™, BEST™, Dementia 'Can Do'℠, Blueprint for Success℠ (Visual Health Information), Adding Functional Play to Skilled Therapy (Wii), Hey Therapy℠.
2. ***'Fun in Functional'* FUNctional Kits™:** Functional vs. impairment-based interventions proactively improve clinical outcomes, service metrics and resident/family satisfaction.
3. ***Pathways to Wellness*™ and Active Aging:** Services and programs responsive to and customized for the unique needs across the continuum of care to promote and maintain maximum independence.

FastFacts

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Eligible properties: ■ CCRC ■ Skilled nursing ■ Assisted living ■ Retirement communities ■ Congregate care ■ Hospital ■ Ambulatory surgery ■ Rehab hospital ■ Medical office

What we offer

1. **The Right Information At The Right Time:** Utilize technology to enhance clinical outcomes, patient management, customer communication and financial results (service volume optimization, therapy intensity, LOS, revenue cycle management) via our customized Therapute© system.
2. **Consultative Services and Customer Support Team:** Our business partners receive operational tools and trainings via seminars, teleconference series, webinars and on-site visits to optimize Medicare operations, revenue and rate; navigate RUG IV reimbursement and MDS 3.0 changes; manage the survey process, RAC and payment audits and provide case mix solutions, market analysis and compliance support.
3. **Increase Your Rehab Program's Marketability:** Highlight and package your capabilities and patient/resident outcomes utilizing our Clinical Outcomes Measurement System for discharge planners, families, physicians and referral influencers to increase your competitive differentiation and customer base.

Yardi Systems

Company profile

Yardi Systems is a leading provider of high-performance software solutions for the senior housing industry. We set the standard for enterprise management systems by combining responsiveness with technical innovation. The company is dedicated every day to fulfilling our mission statement: Provide our customers with superior products and outstanding customer service.

Today's senior housing market has unique business needs, and being able to manage those needs from an integrated system is paramount to success. Accordingly, Yardi Voyager Senior Housing™ integrates a billing, marketing and care solution with a core accounting and financial system. This allows our clients to manage all senior housing functions— marketing, clinical assessments, care plans, accounting and billing—from one platform. "We needed a true information system, not just an accounting system, and we found it in Yardi," said Wick Peterson, executive vice president and chief financial officer of Senior Resource Group LLC.

Our philosophy

We develop cost-effective, high-performance products around the needs of our clients. Organizations expect ready access to information, along with the ability to drill down from top to bottom for complete transparency in real time, and we offer technology and services that have transformed how people work within the senior housing industry. As a pioneer in offering a browser-based solution, Yardi continues to provide the assisted living market with products that give our clients the integration and competitive edge they need to succeed. "Yardi has been an important strategic partner that is willing to listen to our needs and respond with value-added solutions," said Mark Schulz, chief financial officer of Vintage Senior Living.

What we offer

Voyager Senior Housing is a powerful, dynamic solution for optimal administration of independent living, assisted living, and dementia care communities. It is a fully integrated senior housing solution that combines a full general ledger accounting package with resident billing, marketing, and care functionality in a single system. With an intuitive design, Voyager Senior Housing enables management of residents, marketing leads, assessments, and care plans with speed and efficiency. The system's browser-based technology provides secure, global access to real-time information across an entire portfolio of communities. One centralized database means more efficient and accurate processing and access to up-to-the-minute reports anywhere, at any time. Along with comprehensive reporting, Voyager Senior Housing provides true business intelligence with configurable Executive Dashboards and Analytics. Executive Dashboard displays an entire financial and operational picture from a single screen. Furthermore, Voyager Senior Housing streamlines key business processes by integrating many components, thus eliminating redundant data entry, accelerating the workflow cycle and providing centralized management. This is a complete solution that provides innovative, easy-to-use tools designed specifically for the senior housing industry. "Voyager gives us real-time, portfolio-wide oversight. The centralization of accounting information lets us spot issues quickly and share best practices across all of our communities," said Justin Wilson III, chief operating officer of Continuing Life Communities LLC.

FastFacts

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Address: 430 S. Fairview Ave., Santa Barbara, CA 93117

Eligible properties: ■ CCRC ■ Assisted living ■ Retirement communities

Options: ■ Construction ■ Substantial rehab ■ Acquisition

Product base: ■ HUD

A successful partnership

Yardi's business philosophy includes maintaining close partnerships with clients at all stages of the relationship—system set-up and test, data conversion, implementation and ongoing training—to make sure they are fully able to capitalize on the benefits available through Yardi's senior housing products.

Companies at a glance

Capital Funding Group
(410) 342-3155
www.CapFundInc.com

Contemporary Healthcare Capital LLC
(732) 578-0533
www.contemporarycapital.com

GE Capital, Healthcare Financial Services
(312) 441-7529
www.gecapital.com/healthcare6

Lancaster Pollard
(866) 611-6555
www.lancasterpollard.com

Red Capital Group
(800) 837-5100
www.redcapitalgroup.com

Resource Systems
(800) 338-3681
www.resourcesystems.net

Senior Living Investment Brokerage Inc.
(630) 858-2501
www.seniorlivingbrokerage.com

SunDance Rehabilitation
(888) 267-2220
www.sundancerehab.com

Yardi Systems
(800) 866-1144
www.yardi.com

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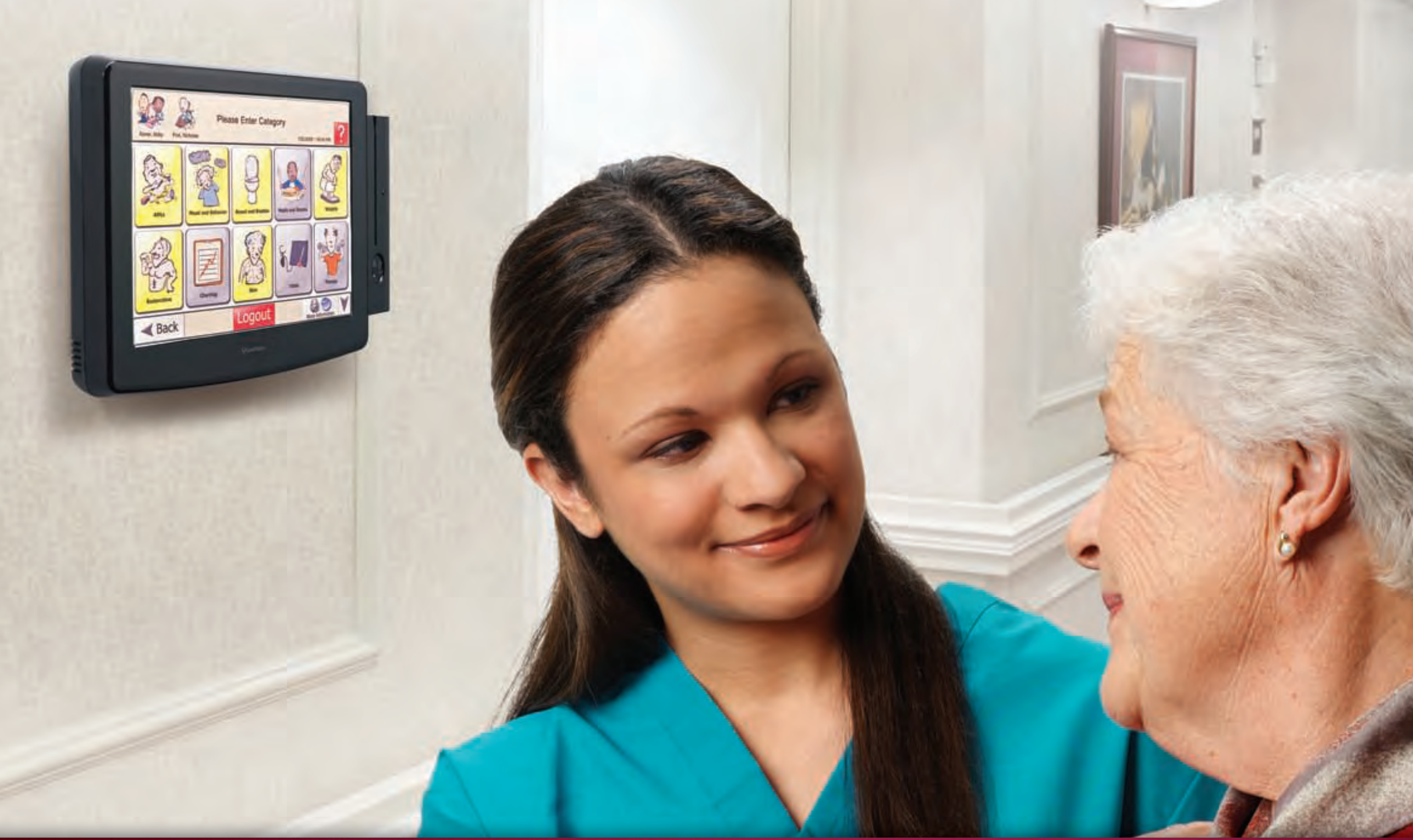

Resource Systems

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