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Brookdale Senior Living seems to have moved one step forward in cleaning up the mess created by the acquisition of Emeritus. Even though there has been little news, let alone clarity, on the pursuit of strategic alternatives to enhance shareholder value, Brookdale came to some major agreements with HCP, Inc. to realign their massive relationship. This should benefit both of them in the long term, and enhance Brookdale's strategic flexibility and operations. See article at right

Senior Care Financing

There has been a lot of rumbling that financing for the seniors housing and care business is drying up, especially for development. But with so many new lenders and equity providers, and new entrants with their historical banking relationships, we still believe there is plenty of capital around to fill the need. See article at right

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Brookdale and HCP Deal For Future

Trying For A Win-Win, Landlord And Tenant Agree to Changes

While the market has been waiting for an announcement from Brookdale Senior Living (NYSE: BKD), any announcement, that might enhance shareholder value, the company's share price just continues to plummet. Since around the time the company announced its acquisition of Emeritus a few years back, the stock plunged from \$39.89 to a low of \$9.44 in late October. That represents a loss in market value of about \$5.66 billion, not that anyone needs to be reminded of that. But it is an astounding number, and one for the record books in the senior care market.

In the middle of October, when the shares dipped below \$10.00 for the first time, we said enough is enough in our weekly video (60 Seconds with Steve), it was just worth more than that. Not the \$20 per share that shareholder Land & Buildings thinks it is. Not the \$30 of real estate value, then \$25, then \$20 and now in the teens of real estate value that everyone

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Senior Care Financing Remains Robust

Despite Contrary Perceptions, Many Financing Options Remain

All we seem to hear about is that the financing market is not what it was 18 months ago. Construction financing is drying up, interest rates are rising, and caution is the word. While we would agree that caution has certainly begun to creep into the conversation, especially with some of the traditionally more conservative lenders, we would disagree with the consensus. In fact, there would seem to be more lenders in the market than ever before.

One only has to look at the NIC Spring and Fall Investment Forum Guides to capital providers. The lending stalwarts are still there, but there are many names we have never heard of, some offering just a more local platform, but others are regional and national. And, most of them are still doing construction financing. The problem is that they may not be doing it with quite the same rigor of two years ago.

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community for \$3.18 million, or \$88,300 per unit, with an 8.0% cap rate. The seller was a developer who was looking to exit operations after relocating to Minnesota.

They did, however, leave the 17-year old community in fine shape, with 97% occupancy and a 23.5% operating margin on about \$1.075 million of revenues, which could still be improved. There is the opportunity to expand with an additional 24 units (36 beds) of memory care, as well as a new dining room and more common space. Attracting a higher acuity resident could certainly help with the operating margin, if the job is done right.

Washington State-based Morningdew, LLC has also been drawn to the Sunshine State, adding its third property there to its portfolio. Built in 1998 in Summerfield (just north of The Villages), the assisted living community has 46 beds in 42 units. Under its ownership by the not-for-profit Marion County Hospice, the community did not boast a strong operating margin.

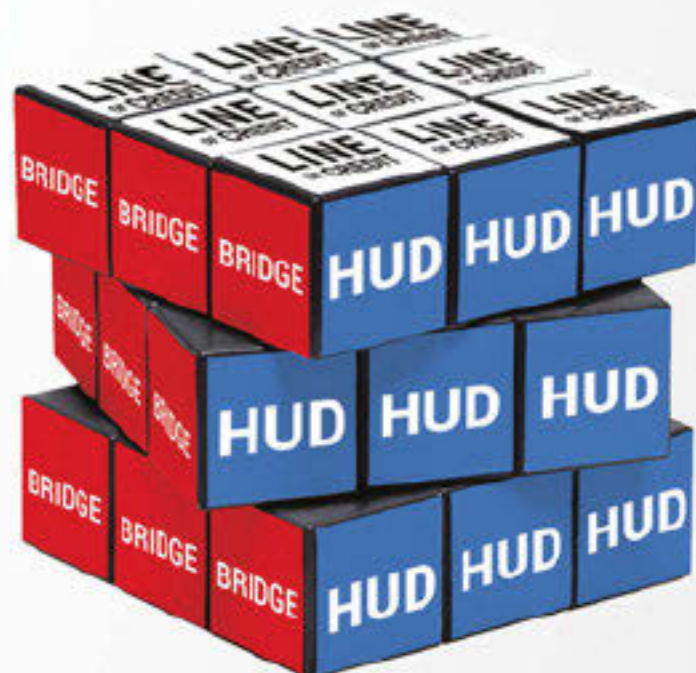
Ken and Damien Carriero of Colliers International were hired to facilitate the off-market transaction. Interestingly,

an individual had the property under contract with the seller, but through a clause stating that he could assign the contract, decided to sell. So, Morningdew purchased the contract for \$4.035 million, or \$96,100 per unit.

In a case of some serious value-add possibilities, Kandu Capital, LLC and its operating partner, Bloom Senior Living, purchased a 96-unit assisted living and memory care community in St. Petersburg, Florida that was built in 2014. The community has 72 AL units and 24 MC units, and despite the rates being a bit below market, occupancy was just 82%. The purchase price was \$5.55 million, or \$57,800 per unit, reflecting the fact that only 56% of the census was private pay. The operating margin was only 20%, which also weighed in on the valuation. Consequently, the cap rate based on annualized 2017 cash flow was close to 10%.

The buyer believes that, with an increase in occupancy through more hands-on management, the census should be able to grow in 2018, and with just a small increase in operating margin, EBITDA should be at least \$650,000 next year. With a few more tweaks to unit layout and

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memory care, by 2019 cash flow could be at least \$800,000, if not higher. Depending on your cap rate assumptions, that would put the value closing in on \$10 million, or almost doubling their investment. We are confident in their projections because they have done it before, a few times. Daren Dudgeon of Senior Care Realty represented the seller, and Lisa Lautner and Heidi Brunet of Berkadia placed \$3.0 million in financing.

Virginia saw a couple of transactions this month too. CBRE sold yet another First Centrum independent living community in Virginia, a couple of years after selling the developer's 118-unit Glen Allen (Richmond MSA) community for \$25.88 million, or \$219,280 per unit. The latest deal featured a 120-unit community in Williamsburg. Built in 2010 by First Centrum, it features a range of unit options, from 660 square feet to 1,267 square feet. Current asking rents start at around \$2,200 for the one-bedrooms and go up to about \$2,900 for two bedrooms. Operations were strong, with a near-50% margin, and it was well-occupied, at 94%, which was certainly helped by the property's location near historic Colonial Williamsburg, shopping, dining and medical services.

In a process led by Lisa Widmier and Ross Sanders of CBRE, the community sold for \$24 million, or \$200,000 per unit, with a 7.5% cap rate. Aron Will also arranged an \$18.2 million 10-year, fixed-rate Freddie Mac loan, with 66 months of interest only, on behalf of the buyer to finance the deal. Like the Glen Allen deal, a fund sponsored by Chicago-based Green Courte Partners was the buyer, and will bring on Solvere Senior Living to third-party manage.

When CareTrust REIT (NASDAQ: CTRE) announced a spate of deals at the beginning of this month, on top of an already busy year, one deal in particular stood out, mainly for the fact that it did not involve a skilled nursing facility. With a couple of exceptions when the REIT purchased a few memory care communities in Wisconsin and Minnesota, 2017 has mostly seen a build-up of CareTrust's skilled nursing portfolio, including 20 facilities in five transactions announced so far this year.

However, CareTrust bucked its recent trend and also acquired a portfolio of three assisted living communities in Virginia from Amerisist Assisted Living for an

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Various locations, U.S.
Seniors housing
Fannie Mae financing: \$975,000,000
Q3 2017

