



INSIDE THE WORLD OF SENIOR CARE MERGERS, ACQUISITIONS AND FINANCE SINCE 1948

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The skilled nursing industry may be at a crossroads as it tries to navigate around reimbursement changes, potential short-falls in reimbursement, unusual verdicts and a nasty lawsuit among the owners of one of the largest chains in the country.

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Second Quarter Census Preview

Two public companies have reported their second quarter results, NIC has come out with its occupancy numbers and some private companies tell us where they stand in this difficult environment.

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Recent Skilled Nursing Deals

A couple of turnaround deals highlight this month's activity.

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Assisted Living Acquisition Market

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SNF BUSINESS AT A CROSSROADS

Lawsuits, Verdicts, Reimbursement: Bracing For The Future

Very few people remember what happened a little more than seven years ago, but in early 2003, an unknown entity (at least to the senior care world) stepped in at the last minute and snatched the remaining assets of a bankrupt **Integrated Health Services (IHS)** from the presumed buyer, literally on the steps of the court house. **Trans Healthcare Inc. (THI)** thought it had the deal wrapped up for \$97.5 million, but an entity called **Abe Briarwood**, backed by **Cammeby's International**, swooped in for \$114 million in cash and was willing to assume the post-petition Medicaid and Medicare billing liabilities, something that made the court very happy.

We are certain that the founder of Cammeby's, one Rubin Schron, had no idea where this initial acquisition would take him in the rough and tumble skilled nursing industry, which he may have thought would be a walk in the park compared with the brass knuckles New York City real estate market where he made his fortune. And, most certainly, he never thought he would now be in court pitted against a man he trusted with everything. How this unfolds could have significant ramifications for the skilled nursing acquisition market, on top of all the other developments that are giving some owners concern over

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SECOND QUARTER CENSUS PREVIEW

Some Clues As to What Is Happening In Seniors Housing

Only a few companies have reported their second quarter earnings results, and in one case we get a partial story on a company's operating performance. But **NIC MAP** has come out with its preliminary numbers on second quarter occupancy and unit pricing trends, and the story seems to be a mixed bag. Based on the top 31 metropolitan markets (not the full 100 markets which should come out soon), average assisted living occupancy in the second quarter increased by 20 basis points from the

first quarter to 88.3%, and increased by 50 basis points from the year-ago quarter. That is all good news, even though the current occupancy is slightly below that of the fourth quarter last year.

On the independent living side, the story is not as positive for the industry. Average occupancy in the 31 metro markets has steadily declined from 88.2% in the fourth quarter last year to 87.9% in the first quarter of 2010 to

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month and 11 dementia care residents at an average of \$3,275 per month. The regional buyer's identity has not been disclosed, but if they can get occupancy close to 90% and maintain the same proportion of dementia residents, revenues and EBITDA could grow to about \$2.7 million and \$675,000, respectively. At a purchase price of \$4.95 million, or \$56,900 per unit, that would put the pro forma cap rate at 13.6% before the costs to fill it up. Financing was provided by a Georgia-based bank with a U.S.D.A. guarantee. Mike Pardoll of Marcus & Millichap represented the buyer.

In yet another Sunwest divestiture, **Kandu Capital, LLC** and its operating affiliate, **Bloomfield Senior Living**, just closed on the purchase of two assisted living facilities in Indianapolis, Indiana, for \$4.5 million, or \$40,540 per unit. One of the facilities has 56 units and 34,000 square feet and was built in 1989; occupancy is currently 99%. The second facility was built in 1994, has 55 units and 35,000 square feet, and currently has an occupancy rate of 90%. These represent Kandu's third and fourth acquisitions in the seniors housing area since the beginning of the year.

In the final Sunwest sale for this month, **Ventana Winds, LLC**, a joint venture between Jeffrey Levine and John Berry, the owner of the Scottsdale, Arizona-based

seniors housing company **The Hampton Group**, purchased a 116-unit Alzheimer's and assisted living facility outside Phoenix for \$7.1 million, or \$61,200 per unit. The Department of Health Services had been threatening to decertify the facility and there were also some structural problems that made the sale difficult, not to mention being sold via a 363 auction. Jacob Gehl of Marcus & Millichap represented the seller, and The Hampton Group will be the manager and will immediately start renovations.

Salem Equity, LLC has closed on the purchase of a 96-unit independent, assisted living and memory care community in Florida. The property was built in 2001 and at the time of closing occupancy was 74%. The property consists of a clubhouse plus eight separate cottage-style buildings on the campus. Salem purchased it for \$3.4 million, or about \$35,400 per unit. At 89.6% stabilized occupancy, Salem expects to achieve a 15% unlevered return with average monthly rents of \$3,250. Ryan Maconachy and Scott Corbin of **ARA Seniors Housing** represented the seller.

In one small sale of an independent living community in Iowa, a local buyer purchased a 16-unit community for \$650,000, but with the three extra acres that came with the purchase, the buyer plans to double the size of the commu-

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