



# **Appraiser's Perspective on Section 232/LEAN Processing and Valuation of Senior Housing Assets**

**Presented to:  
Texas Health Care Association  
Annual Convention  
November 5, 2009**



# Types of Seniors Housing

# Seniors Apartment Community

- Legally restricted to seniors
- Not required to be licensed
- 60 to 240 units typical size
- Similar in design to “family” complexes, except:
  - Normally have elevators
  - May have interior halls
  - More common area
  - Normally only 1 and 2 bedroom plans (60/40 mix typical)
- Often have rent/income restrictions (LIHTC or HUD Section 202)
- DO NOT provide care of any kind
- May provide some a la carte services
- May qualify for HUD Financing using the 221(d)4 or 223(f) programs



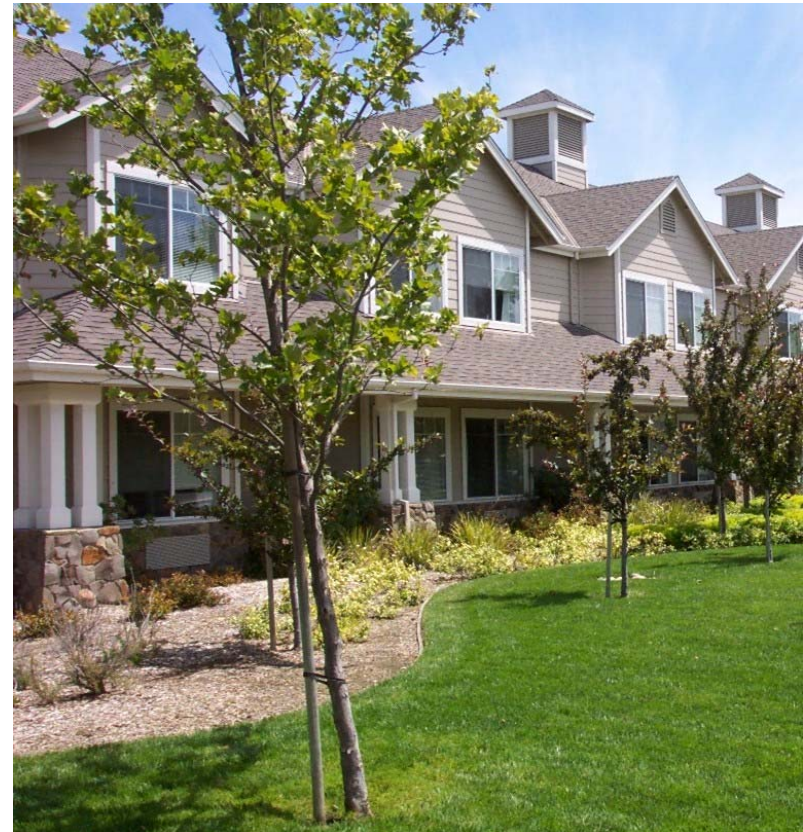
# Independent Living Facility (ILF)

- Not required to be licensed
- Average size is +/-150 units
- Typically 30%-40% of building is common area
- Typical unit size is 400 to 1,000+ sf
- Typical rents are \$1,000 to \$2,500 per unit per month
- Services normally include:
  - 1 to 3 meals per day
  - Housekeeping
  - Utilities
  - Monitoring
  - Activities and Transportation
- For LEAN, up to 25% of the units in a facility can be unlicensed IL
- HUD does not finance facilities with more than 25% of units classified as IL



# Assisted Living Facility (ALF)

- License required
- Average size is +/-60 units
- Typically 35%-50% of building is common area
- Typical unit size is 350 to 700 sf
- Typical rents are \$1,500 to \$5,000+ per unit per month
- Services normally include:
  - 3 meals per day
  - Housekeeping
  - Utilities
  - Monitoring
  - Activities and Transportation
  - Assistance with ADLs
- Qualifies for HUD Financing using the 232 Program



# Nursing Facility (NF)

- License required, Certificate of need required in many states
- Average size is +/-110 beds
- Typically 50% or more of building is common area
- Units typically 300 to 500 sf and house 1 to 4 beds
- PP rents from \$80 to \$200+ per day
- Services normally include:
  - 3 meals per day
  - Housekeeping
  - Utilities
  - Monitoring
  - Activities and Transportation
  - 24 hour nursing care
- Qualifies for HUD Financing using the 232 Program



# “Board and Care”

- **Board and Care is a term used by HUD. Board and Care homes are eligible for financing using the 232 program. According to HUD, a board and care home must:**
  - **Have group dining facilities**
  - **Provide room, board and continuous protective oversight**
  - **Must provide areas for central dining, kitchen (or preparation area where food is supplied from an offsite location), lounges, recreation, and other multipurpose rooms.**
  - **Must offer three meals per day to each resident**
  - **Must be regulated by the State in accordance with Section 1616(e) of the Social Security Act (Keys Amendment) and meet the State’s eligibility requirements.**

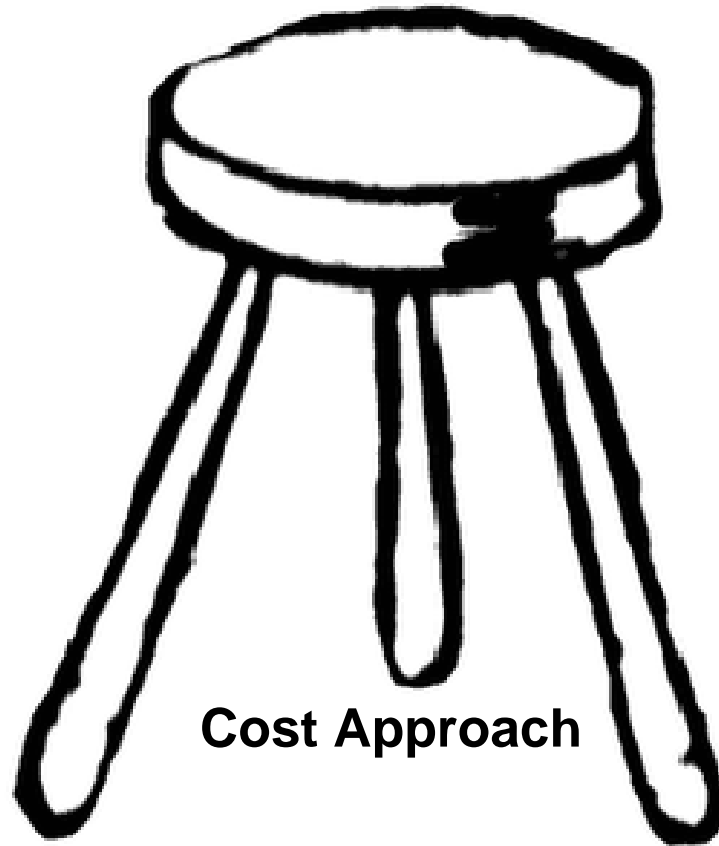
# Valuation of Seniors Housing

# Regulations



- **Uniform Standards of Professional Appraisal Practice (USPAP). Changes annually.**
- **FIRREA**
- **HUD MAP – still applies for 221 and 231 deals**
- **HUD LEAN – for 232 program**
- **Codes of Ethics of professional associations such as the Appraisal Institute**

# Three Approaches to Value



**Cost Approach**

**Income Approach**

**Sales Comparison  
Approach**

# Three Approaches to Value

## Income Approach

Provides an indication of value based upon the income producing ability of the property appraised

Most valid approach to value for income producing properties

Typically is the primary approach to value for SNFs and ALFs

## Sales Comparison Approach

Provides an indication of value based upon what other properties in the market are selling for

Is a valid approach, but reliability is dependent upon finding recent "comparable sales" similar to subject. Also, must adjust comparable sales for differences relative to subject, and adjustments are difficult to accurately derive

Typically provides a reasonable range in value, but difficult to adjust comparables for myriad of differences

One caveat - HUD has said they the sales approach MUST support the income approach - meaning that the appraiser must have sales at similar prices per bed/unit

## Cost Approach

Provides an indication of value based upon the cost to replace the facility, less depreciation

Not very useful for SNFs and ALFs. Does not include intangible value. Also, typically does not consider changes in building codes. VERY difficult to estimate depreciation

Generally only used for newer properties, or when the client requires it.

HUD does consider this relevant for new construction. In such cases should consider value of CON or Medicaid Contract, and lease-up costs.

# Definitions

**Going Concern Premise.** One of the premises under which the total assets of a business (TAB) can be valued; the assumption that a company is expected to continue operating well into the future (usually indefinitely). Under the going concern premise, the value of a business is equal to the sum of the value of the tangible assets and the value of the intangible assets, which may include the value of excess profit, where asset values are derived consistent with the going concern premise.

Included in the Going Concern or Total Assets of the Business are:

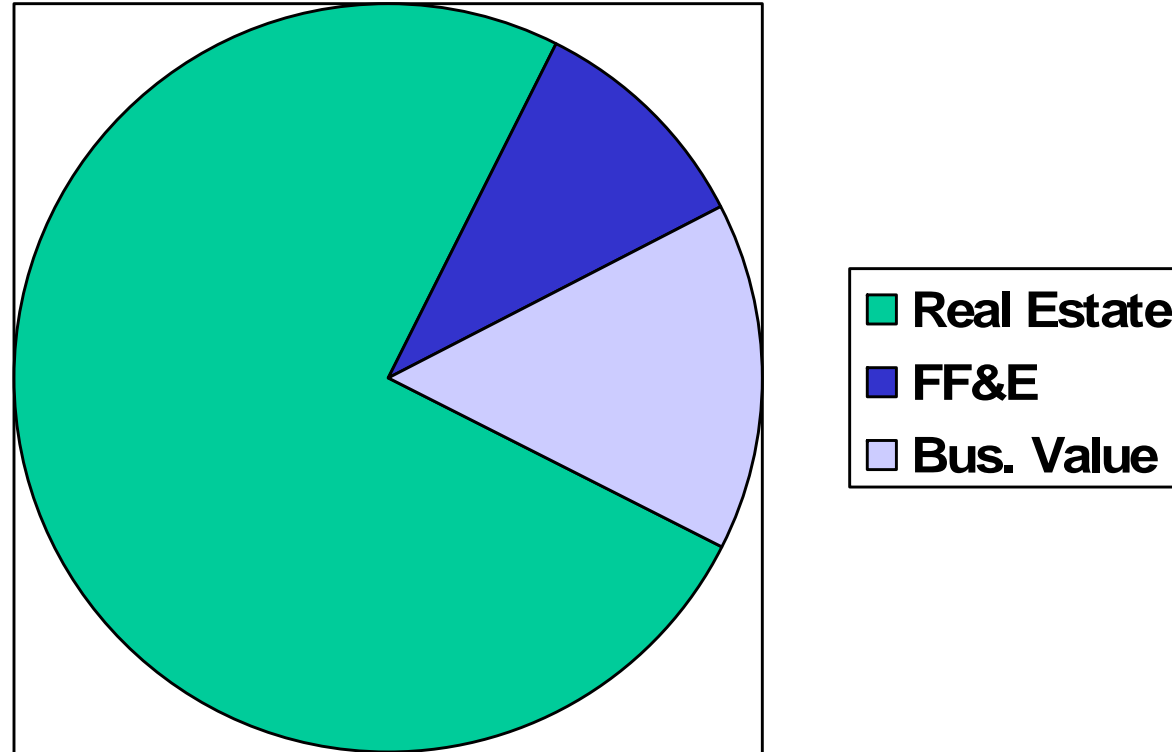
**Real Property.** All interests, benefits, and rights inherent in the ownership of physical real estate; the bundle of rights with which the ownership of the real estate is endowed. In some states, real property is defined by statute and is synonymous with real estate.

**Furniture, Fixtures and Equipment (FF&E).** The movable property of a business enterprise not classified as stock or inventory or leasehold improvements; frequently found in the ownership of hotels or motels, restaurants, assisted living facilities, service stations, car washes, greenhouses and nurseries, and other service intensive properties. Furniture, fixtures and equipment frequently wears out much more rapidly than other components of those properties.

**Business Enterprise Value.** A term applied to the concept of the value contribution of the total intangible assets of a continuing business enterprise such as marketing and management skill, an assembled workforce, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements.

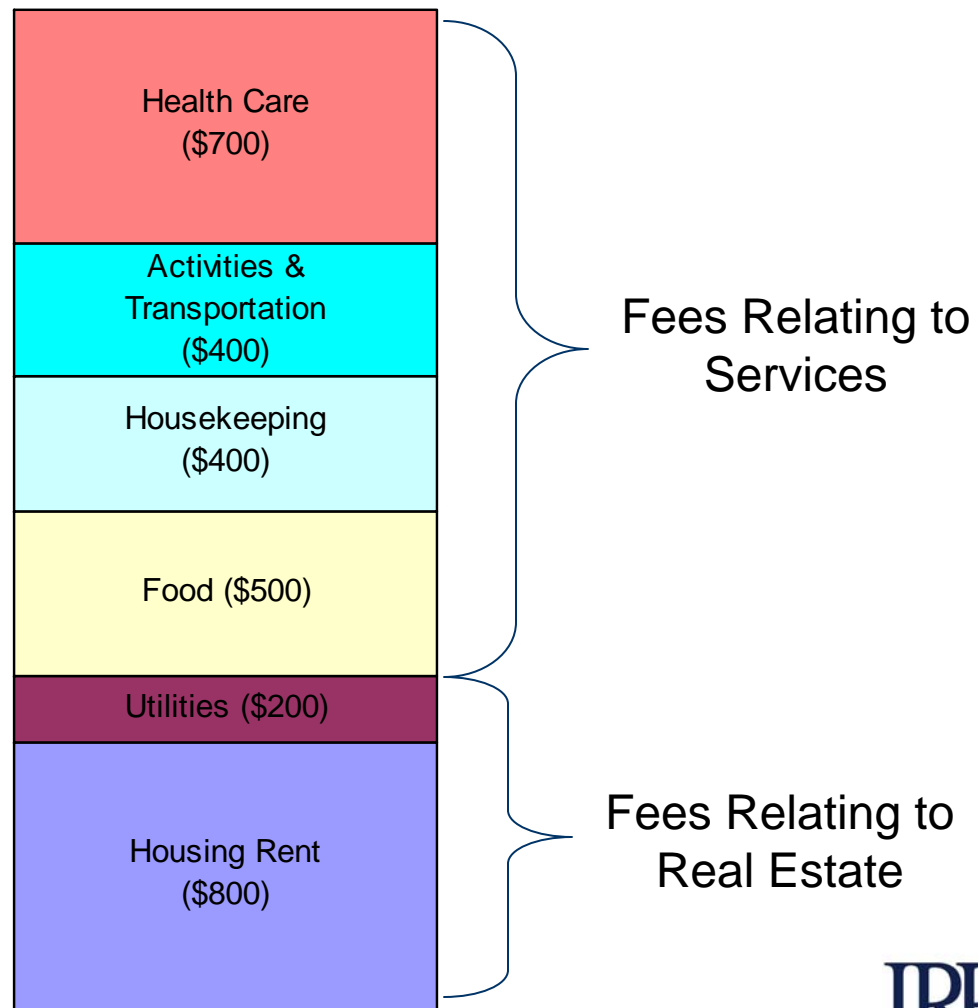
# Components of Value

## Components of Value/Price



# Why There is a Business Component

Allocation of a \$3,000 Monthly Assisted Living Fee



# Supply & Demand

- **For 232 and 221 new construction deals, HUD requires a separate market study**
- **For refinances, no market study required, but the appraisal must contain supply and demand information**
- **Important considerations for HUD deals:**
  - **Demand for a new project should be from unmet or new demand, and not from reallocation of market share**
  - **A new project must not be detrimental to existing supply**
  - **Market occupancy must be considered**

# Cost Approach

- **Cost to build “replacement facility” often higher than “reproduction cost” due to changes in state regulations**
- **Cost approach does not include intangibles**
- **Difficult to accurately account for value of CON or Medicaid Contract, if any**
- **Often extensive depreciation**
- **Sets lower range of value**
- **Limited weight in deriving value conclusion**
- **Not relied upon by market participants**
- **HUD does consider for new construction**

# Cost Approach - Summary

Cost Approach Summary			
Building Area Square Feet			33,040
Number of Operating Beds			122
Item	Dollars	Per Square Foot	Per Bed
Direct Costs	\$3,774,621	\$114.24	\$30,940
Indirect Costs	\$943,655	\$28.56	\$7,735
Entrepreneurial Profit	\$707,741	\$21.42	\$5,801
<b>Total Cost New</b>	<b>\$5,426,017</b>	<b>\$164.23</b>	<b>\$44,476</b>
Less Physical Deterioration Curable	\$0	\$0.00	\$0
Less Physical Deterioration Incurable	(\$1,480,000)	(\$44.79)	(\$12,131)
Less Functional Obsolescence Curable	\$0	\$0.00	\$0
Less Functional Obsolescence Incurable	\$0	\$0.00	\$0
Less External Obsolescence	\$0	\$0.00	\$0
<b>Depreciated Value of the Improvements</b>	<b>\$3,946,017</b>	<b>\$119.43</b>	<b>\$32,344</b>
Plus Land Value As Though Vacant	\$100,000	\$3.03	\$820
<b>Total Indicated Value of Real Property</b>	<b>\$4,046,017</b>	<b>\$122.46</b>	<b>\$33,164</b>
<b>Total Indicated Value of Real Property, Rounded</b>	<b>\$4,050,000</b>	<b>\$122.58</b>	<b>\$33,197</b>
Plus Replacement Cost of FF&E, Rounded	\$610,000	\$18.46	\$5,000
Less Depreciation of FF&E, Rounded	(\$280,000)	(\$8.47)	(\$2,295)
<b>Net Depreciated Value of FF&amp;E</b>	<b>\$330,000</b>	<b>\$9.99</b>	<b>\$2,705</b>
<b>Indicated Total Value Via the Cost Approach</b>	<b>\$4,380,000</b>	<b>\$132.57</b>	<b>\$35,902</b>

# Sales Comparison Approach

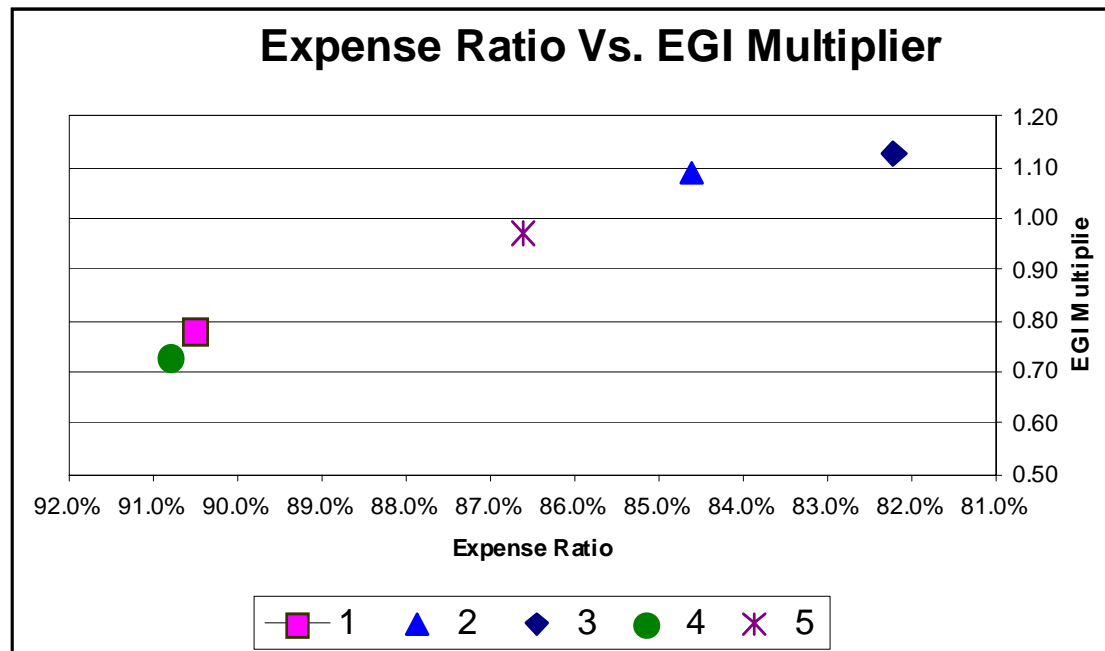
- **For SNFs, focus on sales in same state due to differences in reimbursement. For ALFs, same region.**
- **Often necessary to expand search to other markets**
- **Limited number of arm's length sales**
- **Sales Comparison best when used to provide ranges**
- **Comparisons**
  - **Sales Price Per Bed**
  - **Effective Gross Income Multiplier (sales price divided by effective gross income)**

# Sales Comparison Approach – Adj. Grid

Adjustment of Comparable Sales					
Element of Comparison	Comparable Number				
	1	2	3	4	5
Property Name	Gordon Oaks Convalescent Home	Southern Healthcare Portfolio	Holston Health & Rehabilitation	Spring Gate Health & Rehabilitation	Glen Oaks Convalescent Center
Unadjusted Price Per Bed	\$54,000	\$70,000	\$57,798	\$72,133	\$39,038
Adjustment for Property Rights Conveyed	\$0	\$0	\$0	\$0	\$0
Adjustment for Financing Terms	\$0	\$0	\$0	\$0	\$0
Adjustment for Conditions of Sale	\$0	\$0	\$0	\$0	\$0
Adjustment for Market Conditions	\$0	\$0	\$0	\$0	\$0
Adjusted Price Per Bed Before Physical Adjustments	\$54,000	\$70,000	\$57,798	\$72,133	\$39,038
Adjustment for Location	\$0	(\$14,000)	\$0	(\$14,427)	\$0
Adjustment for Age/Condition	(\$5,400)	\$0	(\$5,780)	\$0	\$3,904
Adjustment for Quality	\$0	\$0	\$0	\$0	\$0
Adjustment for Economic Characteristics	\$0	\$0	\$0	\$0	\$0
Adjustment for Use/Zoning	\$0	\$0	\$0	\$0	\$0
Adjustment for Non-Realty Components	\$0	\$0	\$0	\$0	\$0
Final Adjusted Sales Price Per Bed	\$48,600	\$56,000	\$52,018	\$57,706	\$42,942
Low of Adjusted Prices	\$42,942				
High of Adjusted Prices	\$57,706				
Average of Adjusted Prices	\$51,453				

# Sales Comparison Approach - EGIM

Comparison of Expense Ratios and EGIMs		
Comparable Number	Expense Ratio	EGIM
3	82.2%	1.13
2	84.6%	1.09
5	86.6%	0.97
Subject	87.7%	?
1	90.5%	0.78
4	90.8%	0.73



# Sales Comparison Approach - Conclusion

Indicated Value Using Price Per Bed						
Range	Price Per Bed	X	Subject's Beds	=	Indicated Value	Rounded
Low of Range	\$50,000	X	122	=	\$6,100,000	\$6,100,000
High of Range	\$60,000	X	122	=	\$7,320,000	\$7,320,000

Indicated Value Using EGIM						
Range	EGIM	X	Forecast EGI	=	Indicated Value	Rounded
Low of Range	0.80	X	\$7,617,989	=	\$6,094,391	\$6,090,000
High of Range	0.90	X	\$7,617,989	=	\$6,856,190	\$6,860,000

Summary of Sales Comparison Approach Value Indications		
Unit of Comparison	Low Of Range	High of Range
Sales Price Per Bed	\$6,100,000	\$7,320,000
EGIM	\$6,090,000	\$6,860,000
<b>Concluded Value</b>	<b>\$6,600,000</b>	
Less Income Loss to Stabilization	\$0	
Less Repairs	\$0	
Plus Excess Land	\$0	
<b>Concluded As Is Value</b>	<b>\$6,600,000</b>	

# Sales Comparison Approach – LEAN Issues

**HUD says:**

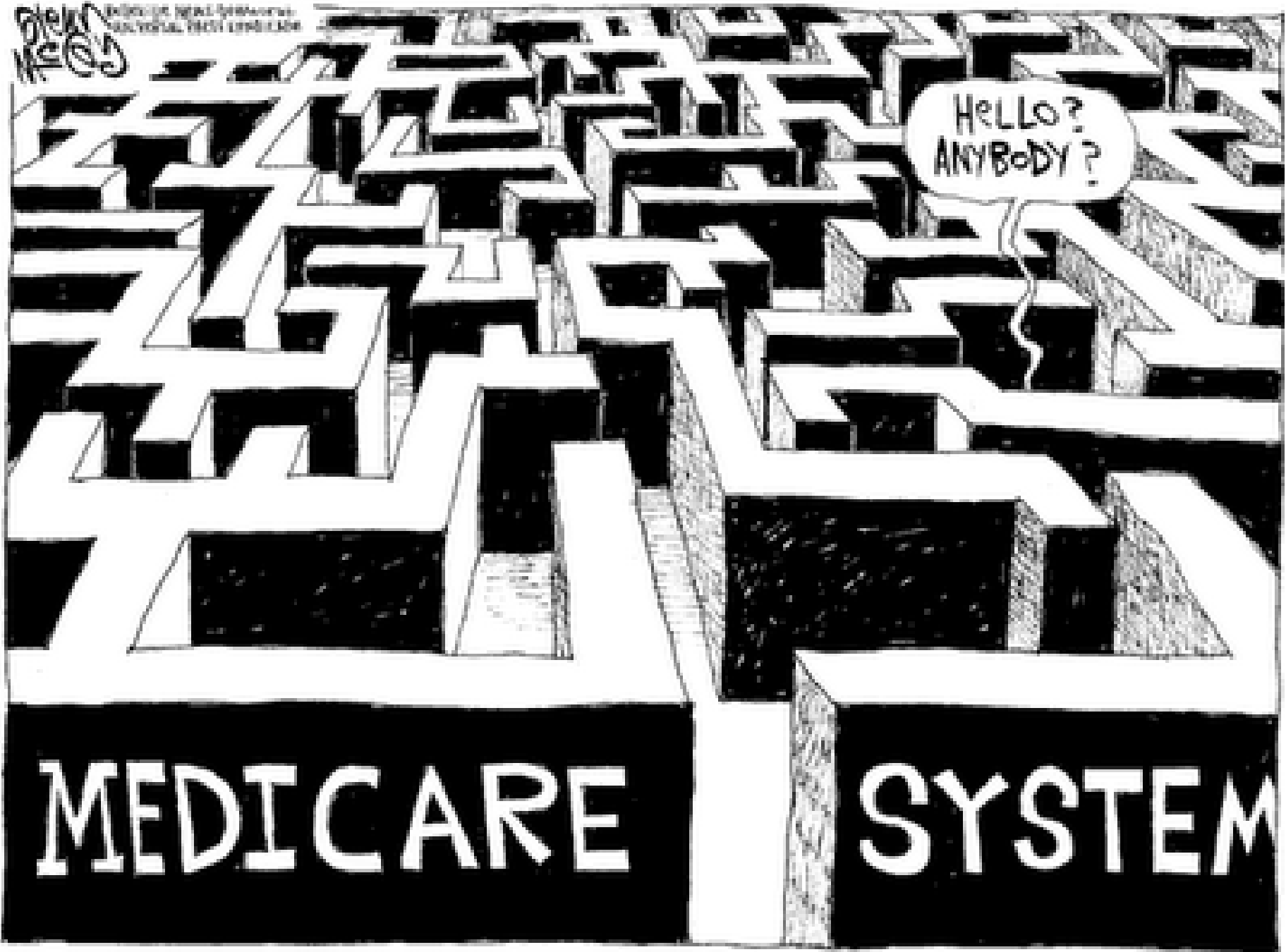
**“Don’t ignore the Sales Comparison Approach! HUD recognizes that incomes vary from facility to facility and the Income Approach is key to the valuation of the going concern. But what HUD wants to know for its loan decisions is what the property would sell for with an Operator in place at the projected occupancy. This is the “market value” of the going concern. It is an indicator of trouble when comparable building sales do not support the conclusions of the income approach.”**

# Income Approach – Rate Analysis

- **Private pay – determined by survey of competing facilities in the market and rates being actually achieved at subject**
- **Medicaid Rate Structures Vary From State to State**
  - **Facility Specific (Based on Cost Report)**
  - **Single Rate or Regional Rates**
  - **Tiered (Similar to Medicare)**
- **Medicare Rates all Based on PPS using RUGs**
  - **RUG Rates Adjusted by Region**
  - **Average Medicare rate varies from day to day**

DR. M. S. O.

EXHIBIT REAL-DRUGS  
POLITICAL FACTS 1982-1984



# Income Approach – Medicare Rates

- PPS Phased in over 4 years beginning in 1998
- Medicare “Cliff” took effect October 1, 2002. The “Cliff” was a +/-17% decline in rates, partially offset by a Market Basket increase
- Increase on October 1, 2003 of 6.4%
- Increase on October 1, 2004 of 2.8%
- RUG Refinement and 3.1% Market Basket increase on October 1, 2005
- Increase on October 1, 2006 of 3.4%
- Increase on October 1, 2007 of 3.3%
- Increase on October 1, 2008 of 3.4%
- Expected net change of 1.1% effective October 1, 2009

# Income Approach – Rate Analysis

- **Medicaid Rate Structures Vary From State to State**
  - **Facility Specific (Based on Cost Report)**
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- **Medicare Rates all Based on PPS using RUGs**
  - **RUG Rates Adjusted by Region**
  - **Average Medicare rate varies from day to day**

# Income Approach – Texas Medicaid

- **Prior to September 1, 2008, calculated using the TILE system**
- **Effective September 1, 2008, converted to RUG-based system. Resulted in net increase estimated at +/-6%. But some facilities experienced a lesser increase and some a greater, depending upon case mix.**
- **Rate increase effective September 1, 2009 of 2.8%. However, actual rates likely to increase at a higher level due to increases in resident acuity ratings.**

# Income Approach – Historical Rate Analysis

Income Summary								
Item	Year Ending 12/31/2007		Year Ending 12/31/2008		Year to Date Annualized Ending 5/31/2009		Budget for the Year Ending 12/31/2009	
	\$	PRD	\$	PRD	\$	PRD	\$	PRD
<b>Room &amp; Board -</b>								
Independent Living	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Assisted Living	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Private Pay Nursing	\$732,424	\$113.59	\$1,054,745	\$121.64	\$1,236,329	\$128.50	\$1,093,470	\$127.00
Ins/Mgd Care/Hospice Nursing	\$190,289	\$141.66	\$595,809	\$164.04	\$422,225	\$131.19	\$624,110	\$175.41
Medicaid Nursing	\$835,664	\$97.20	\$1,626,931	\$110.81	\$1,670,916	\$115.57	\$1,880,816	\$112.00
Medicare Nursing	\$3,289,867	\$313.99	\$4,093,636	\$381.23	\$4,083,478	\$391.77	\$4,079,790	\$390.00
VA Nursing	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
<b>Total Room &amp; Board</b>	<b>\$5,048,244</b>	<b>\$187.90</b>	<b>\$7,371,121</b>	<b>\$195.40</b>	<b>\$7,412,947</b>	<b>\$196.52</b>	<b>\$7,678,186</b>	<b>\$194.77</b>
<b>Therapy &amp; Other -</b>								
Therapy & Ancillary Income	\$75,398	\$2.81	\$146,981	\$3.90	\$159,226	\$4.22	\$189,226	\$4.80
Other Income	\$2,351	\$0.09	\$7,819	\$0.21	\$4,872	\$0.13	\$5,877	\$0.15
<b>Total Therapy &amp; Other Income</b>	<b>\$77,749</b>	<b>\$2.89</b>	<b>\$154,800</b>	<b>\$4.10</b>	<b>\$164,098</b>	<b>\$4.35</b>	<b>\$195,103</b>	<b>\$4.95</b>
<b>Income Summary -</b>								
Total Room & Board Income	\$5,048,244	\$187.90	\$7,371,121	\$195.40	\$7,412,947	\$196.52	\$7,678,186	\$194.77
Total Therapy & Other Income	\$77,749	\$2.89	\$154,800	\$4.10	\$164,098	\$4.35	\$195,103	\$4.95
Prior Period Adjustments	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
Contractual Adjustments	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
<b>Total Income</b>	<b>\$5,125,993</b>	<b>\$190.80</b>	<b>\$7,525,921</b>	<b>\$199.50</b>	<b>\$7,577,045</b>	<b>\$200.87</b>	<b>\$7,873,289</b>	<b>\$199.72</b>

# Income Approach – Census/Occupancy Analysis

Payor Mix and Occupancy								
Payor Source	Year Ending 12/31/2007		Year Ending 12/31/2008		Year to Date Annualized Ending 5/31/2009		Budget for the Year Ending 12/31/2009	
	Days	%	Days	%	Days	%	Days	%
Independent Living	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Assisted Living	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Private Pay Nursing	6,448	24.0%	8,671	23.0%	9,622	25.5%	8,610	21.8%
Ins/Mgd Care/Hospice Nursing	1,343	5.0%	3,632	9.6%	3,218	8.5%	3,558	9.0%
Medicaid Nursing	8,597	32.0%	14,682	38.9%	14,458	38.3%	16,793	42.6%
Medicare Nursing	10,478	39.0%	10,738	28.5%	10,423	27.6%	10,461	26.5%
VA Nursing	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>26,866</b>	<b>100.0%</b>	<b>37,723</b>	<b>100.0%</b>	<b>37,721</b>	<b>100.0%</b>	<b>39,422</b>	<b>100.0%</b>
Available (Operating) Beds	115		115		115		115	
Available Res. Days	42,090		41,975		41,975		41,975	
Occupancy Rate	63.8%		89.9%		89.9%		93.9%	

# Census/Occupancy – HUD LEAN Issues

- **For existing projects with no expansion or rehab:**
  - **The forecast census should be based upon the mix shown in the last 3 years of financials. The forecast occupancy and mix should generally be within the historical range.**
- **For new construction, expansions, and substantial rehabs:**
  - **Medicare census % must not be greater of:**
    - **10%**
    - **The market average**
  - **Private pay census % should not exceed:**
    - **The market average**
  - **Combined Medicare and PP census % must not exceed 30%**

# Income Approach – Expense Analysis

HOUSEKEEPING AND LAUNDRY EXPENSE COMPARISON									
ITEM	INCOME & EXPENSE COMPARABLES				SUBJECT				PRO FORMA
	1	2	3	AVERAGE	FOR YEAR ENDING 12/2001	FOR YEAR ENDING 12/2002	FOR YEAR ENDING 12/2003	BUDGET 12/2004	
Resident Days	35,371	31,981	67,710	45,021	78,204	76,504	74,468	76,504	77,570
Total Income	\$5,638,446	\$6,632,976	\$10,159,948	\$7,477,123	\$9,141,272	\$9,763,520	\$10,162,738	\$10,037,248	\$10,163,172
Wages	\$169,398	\$0	\$0	\$56,466	\$271,189	\$282,968	\$50,248	\$0	\$50,420
Payroll Taxes/Benefits	\$28,488	\$0	\$0	\$9,496	\$66,314	\$67,861	\$11,273	\$0	\$11,597
Supplies	\$31,585	\$0	\$370,476	\$134,020	\$82,721	\$80,824	\$395,042	\$450,905	\$403,363
Total Hskping & Lndry Expense	\$229,471	\$0	\$370,476	\$199,982	\$420,224	\$431,653	\$456,563	\$450,905	\$465,380
Wages PRD	\$4.79	\$0.00	\$0.00	\$1.60	\$3.47	\$3.70	\$0.67	\$0.00	\$0.65
Payroll Taxes/Benefits PRD	\$0.81	\$0.00	\$0.00	\$0.27	\$0.85	\$0.89	\$0.15	\$0.00	\$0.15
Supplies PRD	\$0.89	\$0.00	\$5.47	\$2.12	\$1.06	\$1.06	\$5.30	\$5.89	\$5.20
Total Hskping & Lndry Expense PRD	\$6.49	\$0.00	\$5.47	\$3.99	\$5.37	\$5.64	\$6.13	\$5.89	\$6.00
Wages %	3.0%	0.0%	0.0%	1.0%	3.0%	2.9%	0.5%	0.0%	0.5%
Payroll Taxes/Benefits %	0.5%	0.0%	0.0%	0.2%	0.7%	0.7%	0.1%	0.0%	0.1%
Supplies %	0.6%	0.0%	3.6%	1.4%	0.9%	0.8%	3.9%	4.5%	4.0%
Total Hskping & Lndry Expense %	4.1%	0.0%	3.6%	2.6%	4.6%	4.4%	4.5%	4.5%	4.6%

# Income Approach – Expense Forecast

- **For HUD LEAN, expense forecasts should:**
  - **Be based upon analysis of 3 years of historicals plus YTD**
  - **Be based upon at least 3 “expense comparables”**
  - **Include a “market” management fee expense**
  - **Include a “market” reserves for replacement expense**
  - **Be reflective of “stand alone” operations of the subject property**
  - **Be reflective of the forecast census mix, with extra attention paid to the Medicare mix**
- **Income and expense forecasts should reflect what a “typical” buyer would underwrite**



# Income Approach – Cap Rate Selection

- **Derive From**
  - **Comparable Sales**
  - **Published Surveys ([www.nic.org](http://www.nic.org))**
  - **Direct Investor Surveys**
- **Consider**
  - **Location**
  - **Quality condition of physical plant**
  - **Strength of market**
  - **Payor mix**
  - **Risk**

# Income Approach – Cap Rate Selection

Item	Direct Capitalization		
	Dollars	PRD	% of Revenue
Total Effective Gross Income	\$7,752,311	\$205.21	100.0%
Less Total Expenses	\$6,555,838	\$173.54	84.6%
Net Operating Income	\$1,196,473	\$31.67	15.4%
Capitalization Rate	13.00%		
Indicated Value	\$9,203,639		
Rounded to Nearest \$10,000	\$9,200,000		
Less Absorption Loss	\$0		
Less Repairs/Renovation	\$0		
Plus Excess Land	\$0		
Indicated As Is Value	\$9,200,000		
Indicated As Is Value Per Bed	\$80,000		

# Income Approach – Value Conclusion

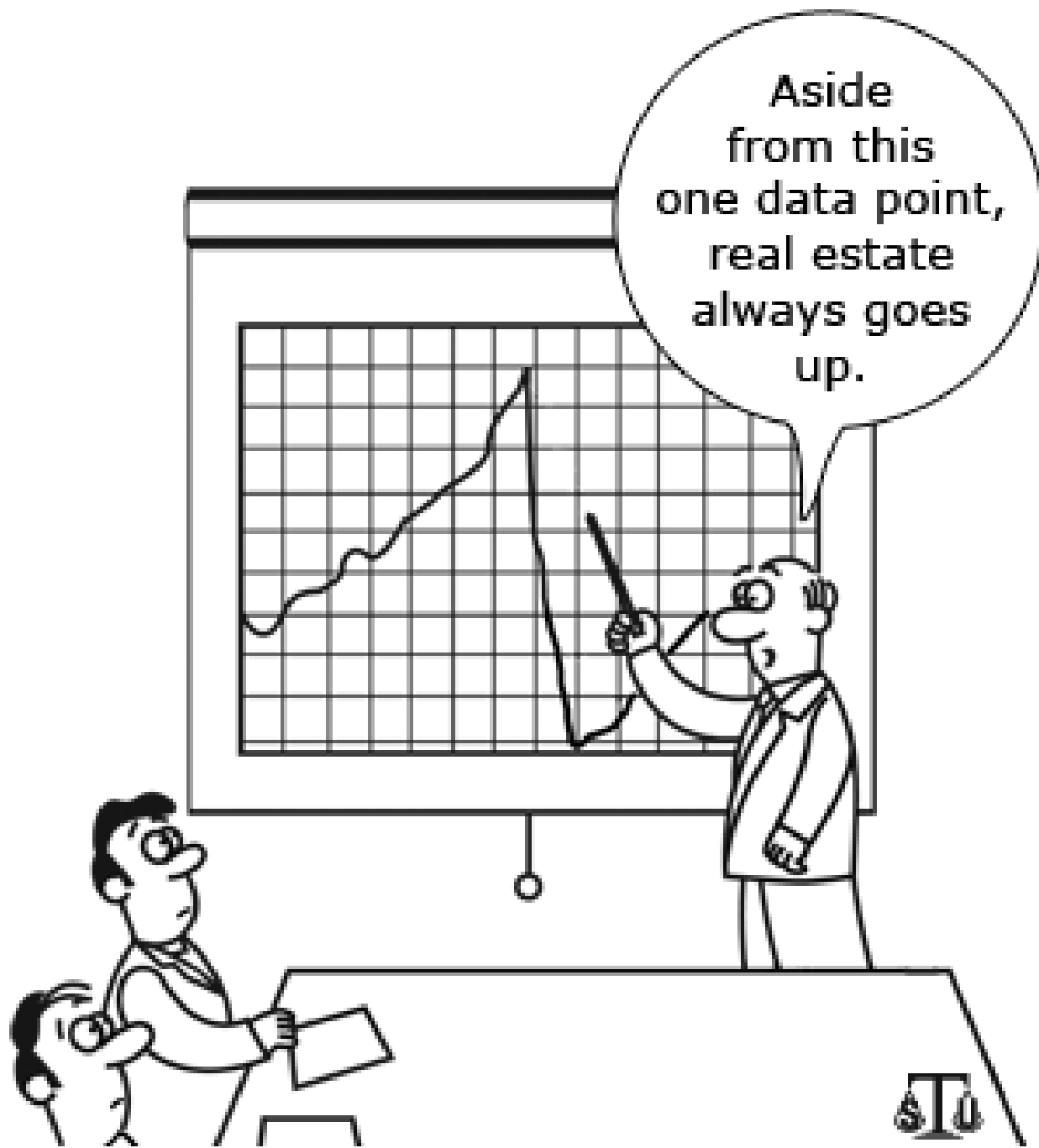
- **Reconciliation is the process of considering the results of the three approaches to value and assigning a weighting to each approach**
- **For HUD LEAN, the cost approach is rarely given any weight except for new construction.**
- **For HUD LEAN, the sales comparison approach may be given some weight. But more importantly, the results must support the income approach.**
- **Typically, primary weight is placed in the income approach value indication**

# Comparison of Appraisal Requirements

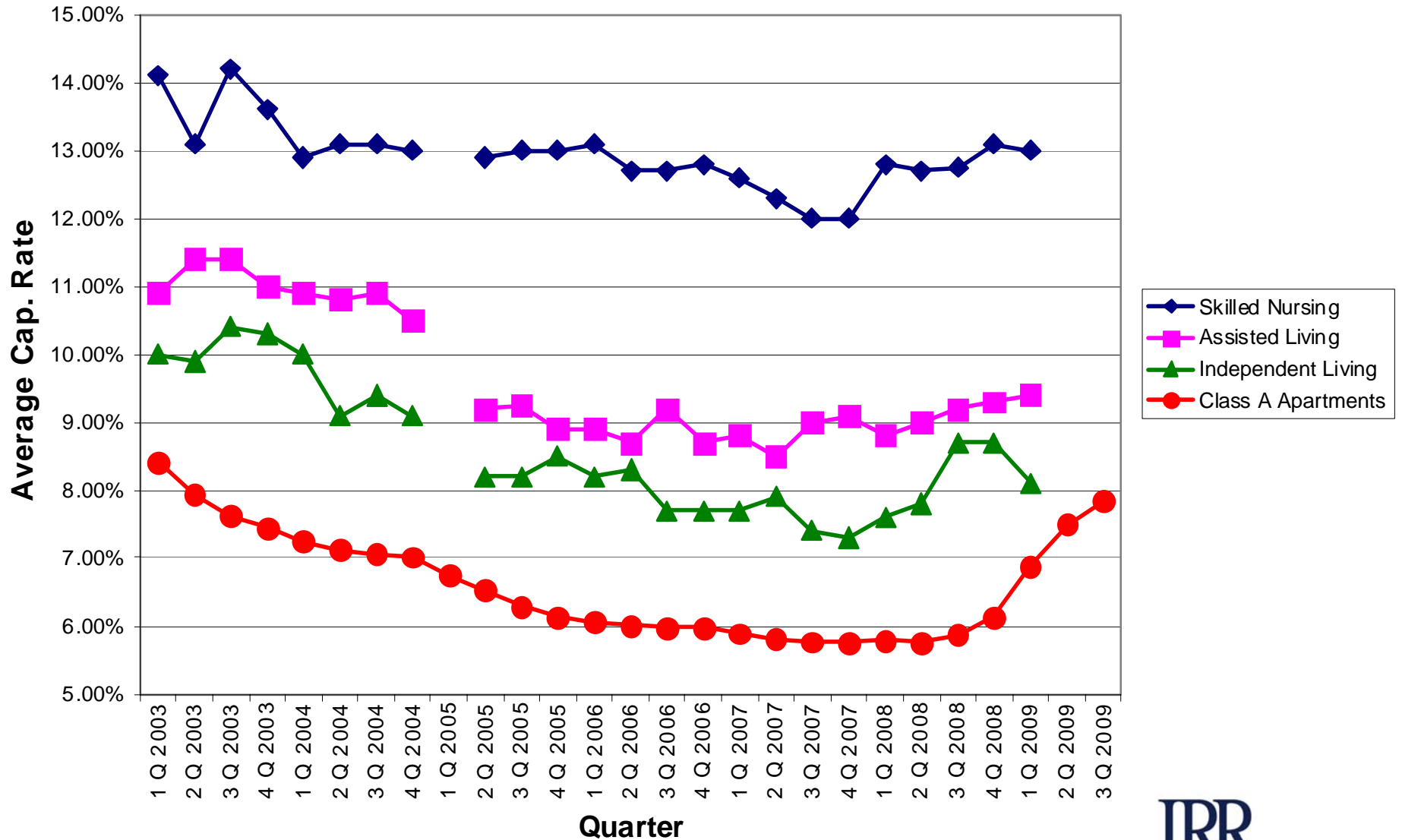
ITEM	MAP	LEAN	"MARKET"
<b>Valuation Includes:</b>	HUD values include only real estate and FF&E, not intangibles	All assets of the business enterprise	All assets of the business enterprise
<b>Cost Approach:</b>	Cost figures from Cost Analyst	Appraiser develops cost approach	Appraiser develops cost approach
<b>Sales Comparison:</b>	Intangible business value must be adjusted out of comparables	Market basis (ongoing discussion with HUD about Economic Adjustments)	Market Basis
<b>Management Fee:</b>	Not deducted as an expense for HUD Value	Market management fee deducted as an expense	Market management fee deducted as an expense
<b>Census Mix:</b>	Maximum Medicare/PP mandated by HUD	Maximum Medicare/PP mandated by HUD	No maximums or minimums - determined by analysis of market
<b>Occupancy:</b>	Maximum of 95% set by HUD	Maximum of 95% set by HUD	No maximum - determined by market
<b>Proprietary Earnings Adjustment:</b>	NOI must be adjusted down by the estimated amount of proprietary earnings	No proprietary earnings adjustment!!!!!!!	No proprietary earnings adjustment!!!!!!!

# Cap. Rate & Value Trends

Aside from this one data point, real estate always goes up.

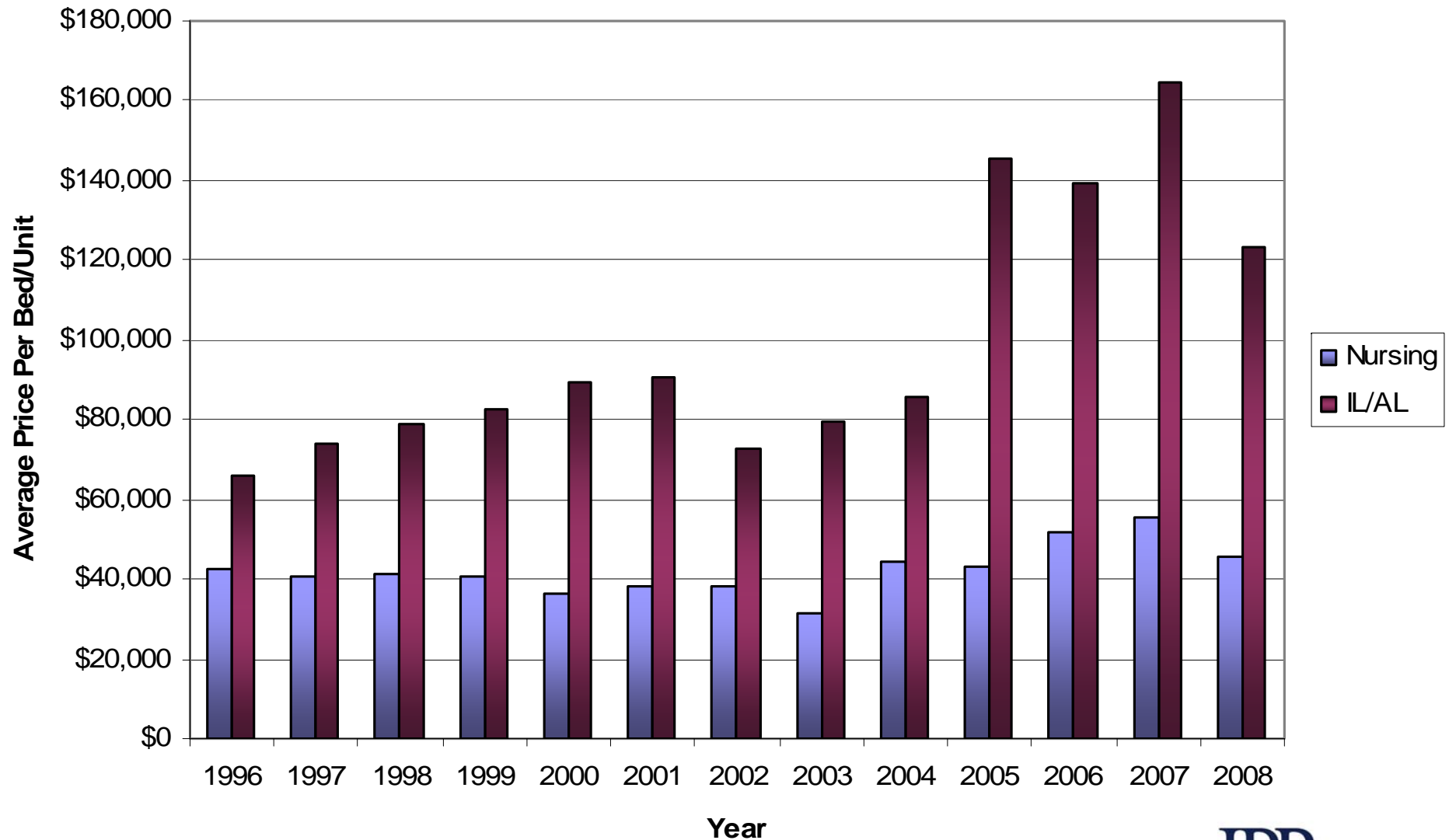


# Cap. Rate Trends



Sources: NIC & Korpacz Real Estate Investor Survey

# Price Per Unit/Bed Trends



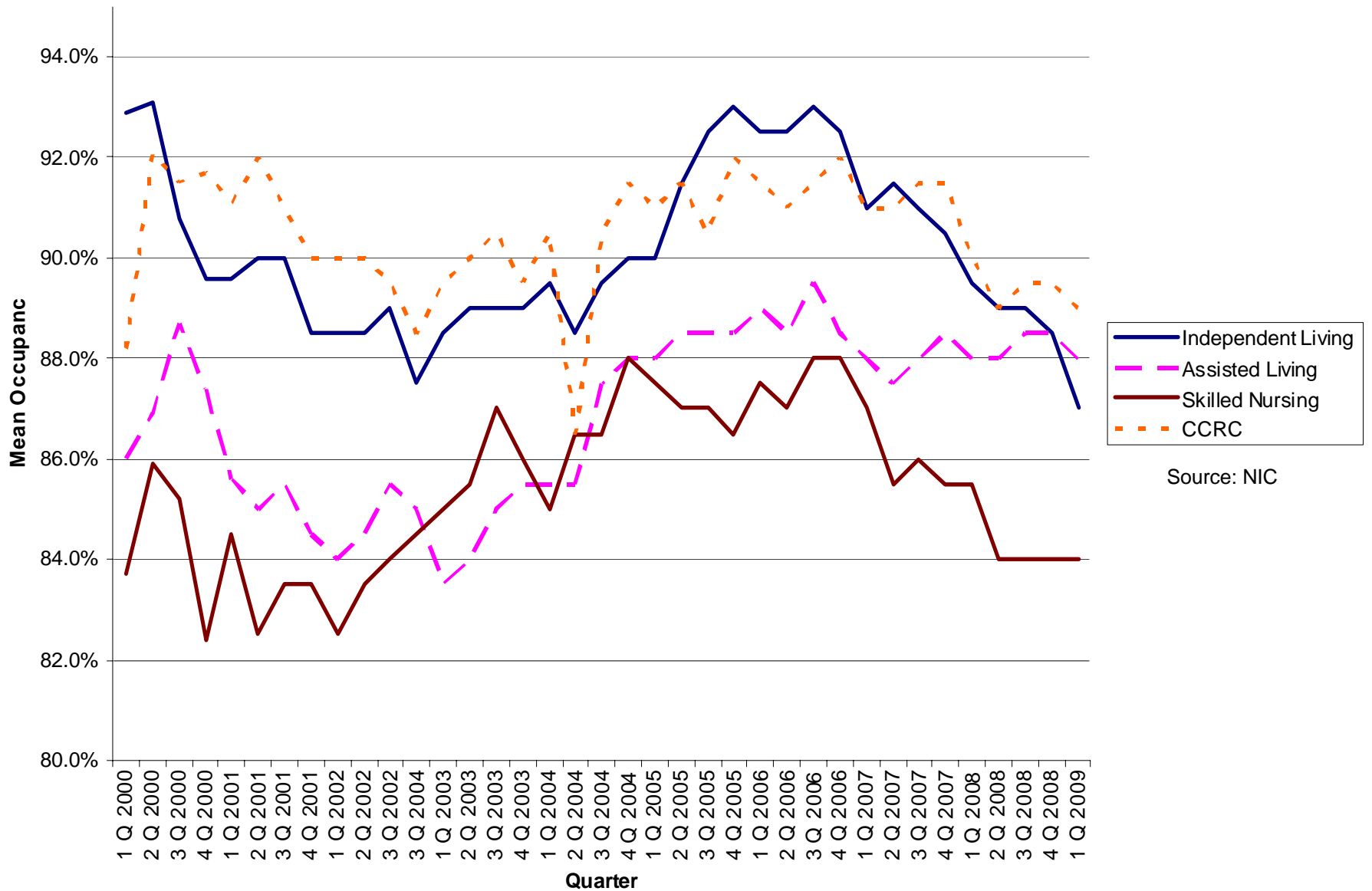
Sources: The Senior Care Acquisition Report

# Observations

- **Seniors housing capitalization rates have generally moved in lock step with cap rates in other sectors – with the exception of SNF cap rates**
- **The decline in cap rates that occurred from 2003 through 2008 occurred in all sectors of the real estate market**
- **Currently, “need based” seniors housing is viewed as being less susceptible to recession than other property types**
- **Seniors housing has superior prospects for income growth looking ahead.**

# Market Trends

# National Occupancy Trends



# ALF Trends – Top 31 Metro Markets

Quarter	# Properties	# Units	All Properties Occupancy	Stabilized Occupancy	Quarterly Absorption	Quarterly Inventory Growth	# Properties Under Construction	# Units Under Construction	YoY Rent Growth (Monthly)	YoY Rent Growth (Daily)
Property Type: Majority AL										
4Q2005	2,213	166,673	90.56%	90.83%			46	3,868		
1Q2006	2,217	167,367	90.54%	90.88%	605	694	46	3,513		
2Q2006	2,221	167,335	90.88%	91.45%	533	-32	39	2,789		
3Q2006	2,226	168,224	90.81%	91.39%	694	889	47	3,252		
4Q2006	2,231	168,785	91.02%	91.63%	866	561	45	3,233	6.37%	
1Q2007	2,237	169,461	91.09%	91.50%	734	676	38	2,881	6.47%	
2Q2007	2,228	169,391	90.23%	90.87%	-1,524	-70	43	3,215	6.88%	
3Q2007	2,225	169,870	90.24%	90.77%	454	479	49	3,659	6.05%	
4Q2007	2,224	169,949	90.29%	90.76%	141	79	55	4,162	6.18%	
1Q2008	2,217	168,987	89.37%	90.00%	-2,419	-962	59	4,797	6.10%	
2Q2008	2,221	169,645	88.89%	89.51%	-223	658	55	4,682	4.90%	
3Q2008	2,221	169,876	88.50%	89.13%	-449	231	47	4,228	4.39%	
4Q2008	2,222	170,523	88.65%	89.13%	825	647	50	4,275	3.21%	
1Q2009	2,222	170,766	87.88%	88.30%	-1,111	243	54	4,502	2.70%	
2Q2009	2,236	172,346	87.57%	88.33%	856	1,580	37	3,109	2.09%	

Source: NIC MAP

# SNF Trends – Top 31 Metro Markets

Quarter	# Properties	# Units	All Properties Occupancy	Stabilized Occupancy	Quarterly Absorption	Quarterly Inventory Growth	# Properties Under Construction	# Units Under Construction	YoY Rent Growth (Monthly)	YoY Rent Growth (Daily)
Property Type: Majority NC										
4Q2005	4,091	582,873	90.45%	90.56%			30	3,920		
1Q2006	4,083	582,159	90.87%	90.98%	1,751	-714	29	3,736		
2Q2006	4,076	581,537	90.60%	90.75%	-2,129	-622	25	3,292		
3Q2006	4,060	579,018	90.72%	90.82%	-1,587	-2,519	27	3,723		
4Q2006	4,055	578,469	90.72%	90.82%	-470	-549	25	3,519		4.76%
1Q2007	4,042	577,685	90.89%	91.01%	270	-784	26	3,324		4.40%
2Q2007	4,033	576,667	90.56%	90.67%	-2,844	-1,018	28	3,747		4.36%
3Q2007	4,029	576,503	90.45%	90.56%	-788	-164	30	4,325		4.49%
4Q2007	4,027	575,772	90.23%	90.34%	-1,915	-731	25	4,043		4.79%
1Q2008	4,024	574,842	90.23%	90.40%	-838	-930	26	4,201		5.21%
2Q2008	4,016	573,880	89.77%	89.95%	-3,501	-962	27	4,083		4.91%
3Q2008	4,001	572,816	89.46%	89.66%	-2,730	-1,064	27	3,997		4.68%
4Q2008	3,998	572,079	89.42%	89.60%	-914	-737	24	3,792		3.83%
1Q2009	3,994	571,284	89.38%	89.55%	-919	-795	26	3,841		3.31%
2Q2009	3,991	570,899	89.22%	89.39%	-1,280	-385	21	3,486		3.21%

Source: NIC MAP

# ALF Trends – Dallas

Quarter	# Properties	# Units	All Properties Occupancy	Stabilized Occupancy	Quarterly Absorption	Quarterly Inventory Growth	# Properties Under Construction	# Units Under Construction	YoY Rent Growth (Monthly)	YoY Rent Growth (Daily)
Property Type: Majority AL										
4Q2005	95	6,060	88.26%	88.26%			6	428		
1Q2006	96	6,146	89.38%	89.38%	144	86	6	428		
2Q2006	97	6,182	90.67%	90.67%	112	36	6	428		
3Q2006	98	6,283	90.39%	90.39%	74	101	6	403		
4Q2006	99	6,375	87.71%	88.70%	-88	92	5	307	8.48%	
1Q2007	105	6,849	88.25%	89.23%	453	474	4	221	9.35%	
2Q2007	105	6,904	85.97%	86.73%	-109	55	5	278	8.18%	
3Q2007	106	6,996	86.03%	86.64%	83	92	5	316	5.04%	
4Q2007	104	6,809	87.99%	88.26%	-27	-187	5	316	6.22%	
1Q2008	106	6,919	87.05%	87.82%	32	110	4	302	4.03%	
2Q2008	107	6,949	86.71%	87.30%	2	30	4	292	5.73%	
3Q2008	107	7,098	86.23%	87.59%	95	149	2	122	4.52%	
4Q2008	107	7,116	85.70%	86.40%	-22	18	3	160	3.13%	
1Q2009	107	7,115	86.47%	87.10%	54	-1	4	172	4.19%	
2Q2009	107	7,113	86.23%	86.60%	-19	-2	5	251	2.60%	

Source: NIC MAP

# SNF Trends – Dallas

Quarter	# Properties	# Units	All Properties Occupancy	Stabilized Occupancy	Quarterly Absorption	Quarterly Inventory Growth	# Properties Under Construction	# Units Under Construction	YoY Rent Growth (Monthly)	YoY Rent Growth (Daily)
Property Type: Majority NC										
4Q2005	171	23,226	84.99%	84.97%			2	248		
1Q2006	172	23,307	84.80%	85.32%	24	81	3	365		
2Q2006	171	23,279	83.45%	84.66%	-338	-28	3	365		
3Q2006	171	23,433	84.70%	85.38%	422	154	5	669		
4Q2006	172	23,570	84.72%	85.31%	122	137	4	544		4.89%
1Q2007	174	23,806	84.12%	84.61%	55	236	4	554		3.98%
2Q2007	176	24,069	83.08%	83.46%	-29	263	4	554		3.15%
3Q2007	178	24,478	83.49%	83.83%	440	409	2	250		1.61%
4Q2007	182	24,919	82.17%	82.71%	40	441	3	386		3.21%
1Q2008	182	24,882	81.77%	82.38%	-129	-37	2	261		3.33%
2Q2008	183	24,964	81.11%	82.10%	-99	82	2	162		3.08%
3Q2008	183	24,977	80.57%	81.28%	-124	13	2	162		3.65%
4Q2008	183	24,952	80.52%	81.17%	-32	-25	3	222		1.98%
1Q2009	182	24,896	80.40%	80.70%	-75	-56	4	358		2.41%
2Q2009	183	25,033	79.93%	80.46%	-7	137	2	196		2.70%

Source: NIC MAP

# ALF Trends – Houston

Quarter	# Properties	# Units	All Properties Occupancy	Stabilized Occupancy	Quarterly Absorption	Quarterly Inventory Growth	# Properties Under Construction	# Units Under Construction	YoY Rent Growth (Monthly)	YoY Rent Growth (Daily)
Property Type: Seniors Housing										
Property Type: Majority AL										
4Q2005	53	4,191	92.31%	92.65%			3	230		
1Q2006	53	4,176	91.75%	92.00%	-37	-15	4	249		
2Q2006	53	4,131	93.85%	93.85%	46	-45	4	249		
3Q2006	53	4,161	92.50%	92.50%	-28	30	4	249		
4Q2006	53	4,172	93.88%	93.88%	68	11	4	249	7.26%	
1Q2007	53	4,198	95.44%	95.44%	90	26	3	217	6.41%	
2Q2007	54	4,310	92.13%	92.76%	-36	112	1	19	7.55%	
3Q2007	55	4,363	90.94%	91.59%	-3	53	1	19	7.14%	
4Q2007	55	4,368	91.10%	91.64%	12	5	2	44	5.47%	
1Q2008	56	4,491	90.00%	91.48%	63	123	2	44	5.88%	
2Q2008	57	4,620	90.97%	91.41%	161	129	2	44	4.56%	
3Q2008	57	4,614	91.35%	92.14%	12	-6	2	44	4.84%	
4Q2008	57	4,639	91.92%	92.64%	49	25	1	16	4.63%	
1Q2009	57	4,643	91.54%	91.96%	-14	4	1	16	4.95%	
2Q2009	57	4,670	90.69%	90.99%	-15	27			1.81%	

Source: NIC MAP

# SNF Trends – Houston

Quarter	# Properties	# Units	All Properties Occupancy	Stabilized Occupancy	Quarterly Absorption	Quarterly Inventory Growth	# Properties Under Construction	# Units Under Construction	YoY Rent Growth (Monthly)	YoY Rent Growth (Daily)
Property Type: Majority NC										
4Q2005	111	14,418	82.62%	83.81%						
1Q2006	111	14,397	83.19%	83.65%	65	-21				
2Q2006	111	14,341	83.30%	83.82%	-31	-56				
3Q2006	110	14,228	83.67%	83.71%	-41	-113				
4Q2006	110	14,227	83.92%	84.11%	34	-1	1	130		4.79%
1Q2007	110	14,093	83.31%	83.25%	-197	-134	2	250		4.47%
2Q2007	111	14,188	85.14%	85.11%	339	95	3	370		4.90%
3Q2007	112	14,419	85.65%	85.61%	270	231	4	550		5.58%
4Q2007	112	14,535	84.14%	84.14%	-120	116	4	550		3.50%
1Q2008	111	14,332	83.32%	84.48%	-288	-203	5	670		6.31%
2Q2008	110	14,248	84.00%	84.83%	26	-84	5	670		3.59%
3Q2008	112	14,536	81.62%	83.49%	-103	288	4	544		3.20%
4Q2008	111	14,362	82.16%	83.64%	-65	-174	4	544		3.81%
1Q2009	111	14,310	82.10%	84.31%	-51	-52	3	368		2.29%
2Q2009	111	14,310	81.44%	82.99%	-94	0	3	368		3.55%

Source: NIC MAP

# ALF Trends – San Antonio

Quarter	# Properties	# Units	All Properties Occupancy	Stabilized Occupancy	Quarterly Absorption	Quarterly Inventory Growth	# Properties Under Construction	# Units Under Construction	YoY Rent Growth (Monthly)	YoY Rent Growth (Daily)
Property Type: Seniors Housing										
Property Type: Majority AL										
4Q2005	32	2,417	88.46%	88.46%						
1Q2006	32	2,423	89.94%	89.94%	41	6				
2Q2006	32	2,417	91.58%	91.58%	34	-6				
3Q2006	31	2,195	94.19%	94.19%	-146	-222				
4Q2006	31	2,195	94.05%	94.05%	-3	0	1	50	7.36%	
1Q2007	29	1,987	95.07%	95.07%	-175	-208	1	50	4.50%	
2Q2007	29	1,988	92.38%	92.38%	-52	1	1	50	6.75%	
3Q2007	29	1,990	93.11%	93.11%	16	2	1	50	5.60%	
4Q2007	29	2,002	92.20%	92.82%	-7	12	1	50	13.30%	
1Q2008	28	1,972	92.24%	92.24%	-27	-30	1	50	12.15%	
2Q2008	29	2,016	89.17%	89.17%	-21	44			9.26%	
3Q2008	29	2,017	90.48%	90.41%	27	1			8.03%	
4Q2008	29	2,016	90.53%	90.57%	0	-1			3.40%	
1Q2009	29	2,016	90.79%	90.79%	5	0			1.50%	
2Q2009	29	2,037	91.67%	91.67%	37	21			1.18%	

Source: NIC MAP

# SNF Trends – San Antonio

Quarter	# Properties	# Units	All Properties Occupancy	Stabilized Occupancy	Quarterly Absorption	Quarterly Inventory Growth	# Properties Under Construction	# Units Under Construction	YoY Rent Growth (Monthly)	YoY Rent Growth (Daily)
Property Type: Majority NC										
4Q2005	73	8,966	87.00%	86.99%			4	452		
1Q2006	73	9,027	86.74%	86.73%	30	61	3	392		
2Q2006	73	9,016	85.56%	85.56%	-117	-11	3	392		
3Q2006	73	9,022	86.25%	86.25%	68	6	3	392		
4Q2006	75	9,217	84.96%	85.34%	49	195	1	146		4.41%
1Q2007	76	9,355	83.91%	85.81%	19	138				3.15%
2Q2007	75	9,274	84.70%	85.93%	5	-81	1	100		5.71%
3Q2007	75	9,252	85.07%	85.88%	16	-22	1	100		7.30%
4Q2007	75	9,269	85.22%	86.15%	28	17	1	100		9.30%
1Q2008	76	9,344	84.75%	86.44%	20	75	1	120		7.53%
2Q2008	76	9,345	82.99%	84.66%	-164	1	1	120		6.52%
3Q2008	76	9,342	84.69%	86.06%	156	-3	1	120		4.98%
4Q2008	76	9,311	84.74%	86.14%	-21	-31	1	120		3.09%
1Q2009	76	9,323	84.02%	84.70%	-57	12	2	244		2.41%
2Q2009	76	9,292	83.83%	84.76%	-43	-31	1	124		2.68%

Source: NIC MAP

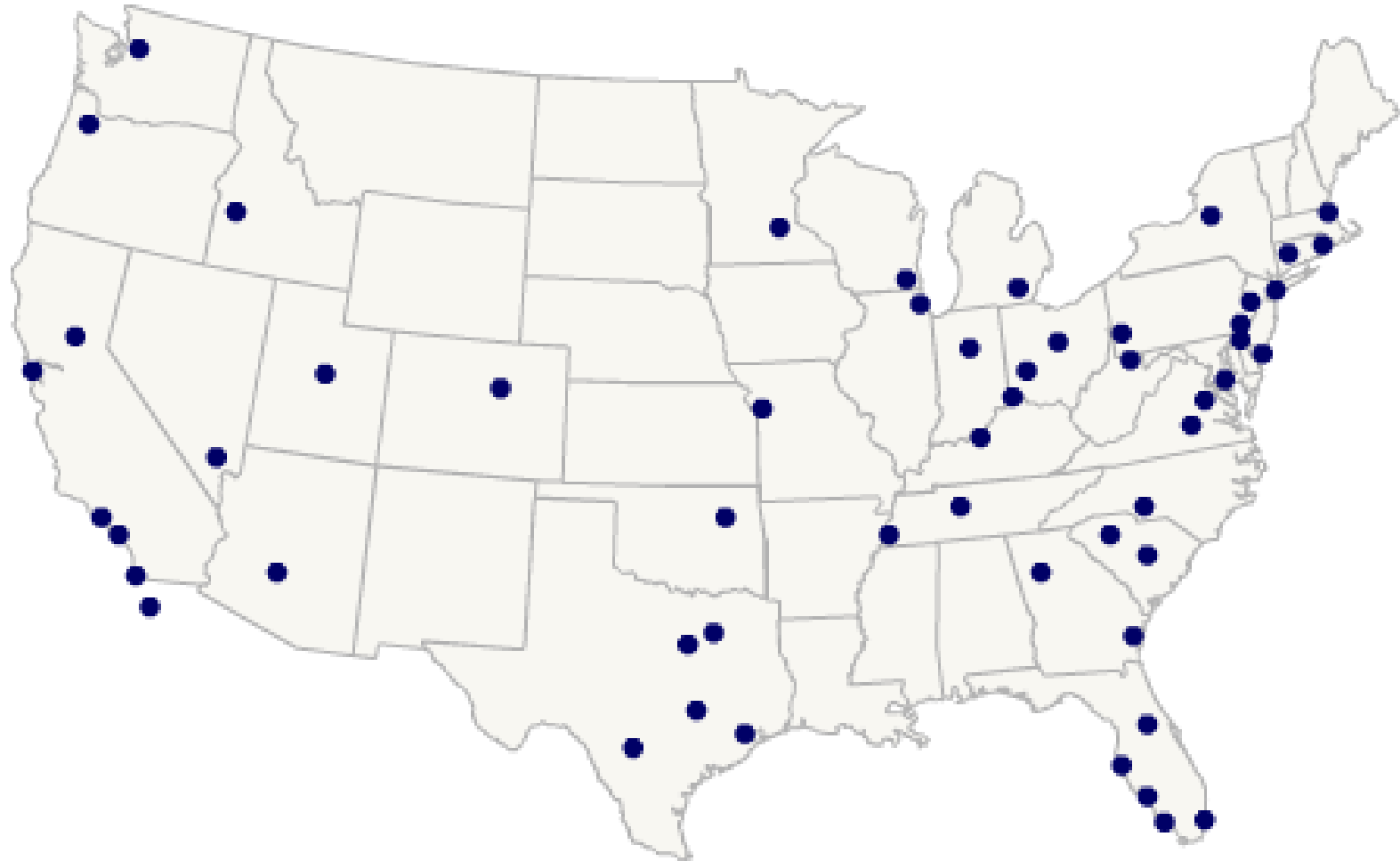
# Observations From the Front Lines

- **Cash is king!**
- **Seeing two types of buyers:**
  - **Operators looking to expand their portfolio**
  - **“Vultures” looking to buy for pennies on the dollar**
- **REITs have been quiet**
- **Financial buyers have been quiet**
- **But Q4 will see the return of the REITs and other financial buyers to the market**
- **“Distress” is still the buzzword, but not much distress in the seniors housing space.**



# About Integra Realty Resources

# Office Locations



# Seniors Housing & Health Specialty Practice

- **IRR Specialty Practice Groups are focused upon specific industry sectors**
- **IRR's Seniors Housing and Health Care Specialty Practice includes 30 analysts in 14 offices**
- **"Core office" is Dallas with 14 team members**
- **10 MAI designated appraisers nationally**
- **Certifications maintained in nearly every state**
- **Completed in excess of 5,000 seniors housing/health care assignments 2000 to present**

# Specialty Practice Services

- **Appraisals, ranging from single assets to multi-property portfolios. Approved to prepare appraisals for FNMA, Freddie Mac, HUD; and various banks, pension funds, and other lenders**
- **Market rent studies**
- **Purchase due diligence**
- **Expert witness**
- **Market and property assessments**
- **Ad valorem tax protests**
- **Market and feasibility studies**
- **Counseling services**

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