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### The Seniors Housing Lending Environment: A Discussion with Beth Mace



In the latest in a series of dialogues with key players regarding the current lending environment in the seniors housing and care industry, Michael Hargrave, vice president - NIC MAP<sup>®</sup>, recently interviewed Beth Mace, director-AEW Research, AEW Capital Management, L.P.

*Recently you published an article in NCREIF's quarterly newsletter (NCREIF is the acronym for National Council for Real Estate Investment Fiduciaries. The article (attached) highlights the performance of seniors housing properties in the NCREIF database compared to other property types.) Can you walk us through the steps that were taken to include these properties in the NCREIF database? What is the importance of including seniors housing properties in the NCREIF database?*

**Ms. Mace:** As background, NCREIF is a non-profit organization that publishes commercial property returns with a goal of "increasing the understanding of, and lending credibility to real estate as an institutional investment asset class." The organization produces the often-cited NCREIF Property Index (NPI), which is a historical measurement of property-level returns for industrial, office, multi-family and retail properties. The database is comprised of operating properties acquired, at least in part, on behalf of tax-exempt institutions and held in a fiduciary environment. Since 2002, NCREIF has been collecting return data on the seniors housing sector. The data currently resides in NCREIF's "other category" and is not part of the NPI index. For NCREIF purposes, seniors housing does not include traditional institutional "nursing home" facilities. As of the third quarter 2009, 13 managers reported data on 66 stabilized seniors housing properties to NCREIF. The value of these assets totaled \$2.355 billion. In general, these managers oversee more than just seniors housing properties and report quarterly data into NCREIF on all of their assets under management, which includes seniors housing.

It's important that the seniors housing sector is valued in the same way as other institutional real estate in order to compare relative return performance. This is especially important for institutional investors who often make sector allocation decisions based on return characteristics. Additional investor interest and capital is likely to emerge by including seniors housing in the universe of properties tracked by NCREIF as familiarity with the sector increases.

*Can you summarize the highlights with regard to the performance of seniors housing properties in the NCREIF database?*

**Ms. Mace:** Since inception, returns for the seniors housing properties in the NCREIF database have outperformed the overall NPI index and the apartment component of the NPI. As of the third quarter of 2009, the seniors housing category had generated a cumulative return that was 2.3 times its mid-2003 value. This compares with a cumulative gain of 1.4 for the apartment index and 1.5 for the entire index. The outperformance stems from greater gains in both the appreciation component (1.4 versus 1.0 and 1.1,

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respectively) and the income component (1.6 versus 1.4 and 1.5, respectively).

**3. With 13 managers reporting on 66 properties, there is a need for a greater number of properties to be included in the database. What can we do to help this effort?**

**Ms. Mace:** I encourage managers of seniors housing to contribute their data to NCREIF. The analysis I did was based on a fairly small sample size and it would be helpful to have a broader array of properties to be able to examine return parameters by property type to geographic location. For more information on how to become a data contributing member, go to <http://www.ncreif.com/apply.aspx> or [CLICK HERE](#) to download a PDF version of the NCREIF Membership Brochure.

**Look for an interview with INSERT NAME FROM MIKE, managing director, Contemporary Healthcare Capital, LLC in the March 2010 edition of the NIC Insider.**

## NIC Research Insights

### The Current State of the Economy and Implications for Seniors Housing Occupancy

Home prices have taken a slight step back on the path to recovery according to recent S&P/Case-Shiller data. After five consecutive months of home price appreciation, data for October and November show a slight retraction. In the most recent two months for which data is available, the Composite-20 index has declined -0.3%, foreshadowing a quarterly net decline in home prices unless December shows significant improvement (unadjusted for seasonality).

The strong relationship between home prices and occupancy suggests that occupancy will likely experience some resistance on the road to recovery. The improvement in home prices coincided with the 0.3% increase in seniors housing occupancy in 3Q09, with occupancy likely benefiting from the improvement in housing. But with home prices likely declining in 4Q09, what will this mean for occupancy?

Although home prices may have reached a resistance point, it is important to note the overall economy is experiencing net growth. The Bureau of Economic Analysis recently released the advanced estimate of 4Q09 GDP, which rose at an annual pace of 5.7%. This should mark consecutive quarters of economic growth, although most of the 5.7% can be attributed to the government stimulus plan. However, the aggregate GDP for the United States is still at levels from the first half of 2008, representing a year and a half of lost economic growth.

The employment market still represents a significant hurdle before a full recovery can begin. During January, an additional 20,000 jobs were shed according to the nonfarm payroll totals released by the U.S. Bureau of Labor Statistics. The pace of the job losses has improved greatly from the first half of 2009, but the economy is still waiting for sustained job creation. More and more economists believe this will be a jobless recovery. Until job creation happens, assisted living occupancy is likely to face resistance due to decreased numbers of adult children being able to contribute to financing for care.

For current market-by-market information on seniors housing performance, please visit [www.nicmap.org](http://www.nicmap.org)

Sources Referenced:

- NIC MAP® Data & Analysis Service
- S&P/Case-Shiller Home Price Index
- U.S. Bureau of Economic Analysis
- U.S. Bureau of Labor Statistics

## NIC MAP® Update

### 4Q09 NIC MAP Reports Now Available

NIC MAP has released all 4Q09 NIC MAP reports. These reports include data collected from over 12,300 seniors housing & nursing care properties and provide data on occupancy, rent growth, inventory and construction for each of the 100 largest metro markets.

**New This Quarter** - The Construction Monitor and the MAP Monitor, two reports previously only available to

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[CLICK HERE](#) to purchase your NIC MAP Reports today or contact [Amber Jacobs](#) at (410) 267-0504 for more information.

Current subscribers can access the reports and data they subscribe to by visiting [www.nicmap.org](http://www.nicmap.org) and logging in.

## NIC Events Update:

### National Skilled Nursing Investment Forum

#### How Will Healthcare Legislation Impact Skilled Nursing?

##### Panel of Experts to Examine Effects of Potential Legislation and RUGs IV on Long-Term Care

On March 9th during the 12:00 p.m. luncheon, a knowledgeable group of experts will look at [The Impact of Healthcare Reform on Long-Term Care and Especially on Skilled Nursing Facilities: The View from Washington, D.C.](#) Moderated by **Brian Fortune**, chief political strategist, Marwood Group, and including **Alan G. Rosenbloom**, president, Alliance for Quality Nursing Home Care; **Greg Miller**, senior vice president-corporate development, Kindred Healthcare, Inc.; **Eric Gommel**, vice president, Stifel Nicolaus; and **Neil Pruitt, Jr.**, chairman & CEO, UHS-Pruitt Corporation, and vice chair of the American Health Care Association (AHCA), the panel will discuss what may emerge from the health care debate, including employer insurance requirements, post-acute bundling, transparency requirements, the CLASS Act, and the merging of payment mechanisms with quality measures. In addition, panelists will focus on the potential "game changing" impact of RUGs IV for skilled nursing providers.

*The inaugural National Skilled Nursing Investment Forum, debuting in San Diego, CA on March 8-10 2010, has over 550 industry operators, financiers, association heads and government representatives with a vested interest in the skilled nursing sector currently registered.*

[CLICK HERE](#) to download a PDF of the Preliminary Program.

[CLICK HERE](#) for more information and to register.

### Regional Symposium

#### Sam Chandan to Address the Economy and Its Effect on Capital for Our Industry

##### Leading Economist and Industry Financiers to Provide Update on Agency Lending and Capital Availability

The general session at 4:00 p.m. on Wednesday, March 10th, [The Economy & Its Effect on Capital for Our Industry](#), will feature **Sam Chandan**, newly appointed global chief economist and EVP of Real Capital Analytics, who will use his expertise to provide strategic insight into policy and regulatory initiatives that impact commercial real estate. Following his forecast for commercial real estate fundamentals, Chandan will provide an analysis of seniors housing and the availability of capital for our industry.

Next, this two-part session will present panelists -- including **Brian Beckwith**, senior managing director, GE Capital, Healthcare Financial Services; **Jay Flaherty**, chairman and CEO, HCP, Inc., **Noah Levy**, managing director, Prudential Real Estate Investors; **Angela Mago**, senior vice president & national manager, KeyBank Real Estate Capital—Healthcare Group; and **Bradley G. Razook**, managing director, CS Capital Advisors -- that will be led by moderator **John A. Moore**, CEO of Atria Senior Living Group, who will drill down further to discuss how changing economic conditions are impacting seniors housing and care financing, both now and in the coming year.

**With over 650 attendees currently registered**, the 2010 NIC Regional Symposium is a must-attend educational and networking event that will bring together key representatives from the private-pay seniors housing sector, including owners, operators and developers with debt and equity capital providers to the industry.

[CLICK HERE](#) to download a PDF of the Preliminary Program.

[CLICK HERE](#) for more information and to register.

### Attendee Resources

**New this year:**

Visit the new Attendee Resource pages on our website in preparation for the upcoming National Skilled Nursing Investment Forum & NIC Regional Symposium. This new feature allows registered attendees to access a regularly updated list of attendees, send meeting requests through our secure Event Messaging System (requires confirmation number), download available session presentations, access hotel floor plans with NIC event locations noted and more! Once you are registered, you may [CLICK HERE](#) to visit National Skilled Nursing Investment Forum resources, and [CLICK HERE](#) to visit the Regional Symposium resources.

### NIC Posts 3Q09 Key Financial Indicators

NIC has posted to its website updated 3Q09 data from its Key Financial Indicators (KFIs) service. Each quarter since 1999 NIC has posted, through its KFI service, key statistics on loan volume, loan performance, and capitalization rates. Highlights for the third quarter include:

- The total amount placed in the quarter was \$2,035 million, which is up from the 2Q09 total of \$427 million and up from the 3Q08 total of \$1,006 million. While the third quarter amount placed was up, the amount placed in the first three quarters of the year (\$2,924M) is down 51% from the same period in 2007 (\$5,997M).
- The percentage of performing loans at 98.5% in 3Q09 is down 40 basis points from 3Q08 when it was 98.9%.
- For IL, cap rates were up 10 basis points from 8.7% in 3Q08 to 8.8% in 3Q09. The IL cap rate has increased 21% from the historical low of 2007.
- For AL, cap rates were up 40 basis points from 9.2% in 3Q08 to 9.6% in 3Q09. The AL cap rate has increased 13% from the historical low of 2007.
- For nursing homes, cap rates were up 45 basis points from 12.75% in 3Q08 to 13.2% in 3Q09. The nursing home cap rate has increased 10% from the historical low of 2007.

Each quarter, NIC posts the current quarter KFIs for [complimentary viewing](#). NIC also makes available a downloadable time series as well as analysis of KFI data to [NIC Executive Circle](#) members.

### Upcoming Access to Nature Webinar Series Based on NIC Seniors Housing & Care Journal Award-Winning Article

Next month, the Pioneer Network will be offering a three-part webinar series that investigates outdoor environmental design and green spaces to benefit older adults.

**The webinar series will take place on three Tuesdays in March -- the 2nd, 9th and 16th from 1:00pm to 2:00 p.m. EST.**

The series is based on a set of **2009 Centers for Excellence in Assisted Living (CEAL)** award-winning videos created by Susan Rodiek, Ph.D., who developed Access to Nature for Older Adults (2009), a research project and set of three educational videos that translate evidence-based principles into applicable design solutions for residential settings for older adults. Dr. Rodiek first published her research in the NIC *Seniors Housing & Care Journal* where her article received the 2008 GE "Best Research Paper" prize. Dr. Rodiek will be the main guide for each of the webinars.

In interviews with about 1,600 people from 68 randomly-selected assisted living facilities across the U.S., Dr. Rodiek concluded that most facilities provide outdoor space for residents, but residents typically don't use it as much as they could. Rodiek's research focuses on architecture, especially the design of facilities for the elderly and health care settings, with an emphasis on human-behavior research. She is holder of the Ronald L. Skaggs Endowed Professorship in Health Facilities Design.

"There's a lot of research that shows spending time outside can have major health benefits for older people," Rodiek said. "If a resident goes outdoors for even five or 10 minutes a day, it can greatly benefit health, mood, sleeping patterns, hormone balance and vitamin D absorption. Unfortunately, the physical environment is not typically designed to support a resident's desire to go outdoors - the problems may be easy and inexpensive to fix, but often they are not recognized by staff and administrators."

The series will explore cost-effective guidelines for creating green spaces that seniors will use.

[CLICK HERE](#) to read more about the upcoming webinars.

## Seniors Housing & Care Industry Calendar

### *February 2010:*

- 17-19 [AHLA](#) Long Term Care and the Law Conference - Miami, FL  
 22-24 [AAHSA](#) Future of Aging Services Conference and Leadership Summit - Washington, DC

### *March 2010:*

- 2 Access to Nature Webinar: The Value of Nature for Older Adults - 1:00 p.m. EST  
 led by Susan Rodiek, Ph.D., Professor in Health Facilities Design, the College of Architecture, Texas A&M University  
 sponsored by the Pioneer Network
- 8 **NIC Conference Planning Committee Meeting, San Diego, CA**
- 8-10 **NIC National Skilled Nursing Investment Forum, Hilton, San Diego, CA**
- 9 **NIC Executive Committee Meeting, San Diego, CA**
- 9 Access to Nature Webinar: Improving Outdoor Access for Older Adults - 1:00 p.m. EST  
 led by Susan Rodiek, Ph.D., Professor in Health Facilities Design, the College of Architecture, Texas A&M University  
 sponsored by the Pioneer Network
- 9-11 **NIC Regional Symposium, Hilton, San Diego, CA**
- 11-12 [AHCA/NCAL](#) Independent Owner Conference - Scottsdale, AZ
- 16 Access to Nature Webinar: Safe and Usable Outdoor Spaces for Older Adults - 1:00 p.m. EST  
 led by Susan Rodiek, Ph.D., Professor in Health Facilities Design, the College of Architecture, Texas A&M University  
 sponsored by the Pioneer Network
- 24-25 [PREA](#) Spring Conference, The InterContinental Boston, Boston, MA

### *April 2010:*

- 14-16 **Joint NIC/ [ASHA](#) Spring Meetings, Dallas, TX**
- 21-23 [AHCA/NCAL](#) Spring Multifacility Conference for CEOs and Senior Executive Leaders - Clearwater Beach, FL

### *May 2010:*

- 1-4 [LTC 100](#) Conference, Key Biscayne, FL
- 25-27 [ALFA](#) Annual Conference & Expo, Phoenix, AZ

**(denotes NIC Events)**

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