SENIOR LIVING FINANCIAL AND PERFORMANCE INDICATORS SHOW MIXED RESULTS FOR FOURTH QUARTER 2002

Occupancy Down Slightly for Independent Living, But Freefall Appears Over For Assisted Living

ANNAPOLIS, Md. – The fourth quarter of 2002 showed mixed results for the seniors housing and care industry, according to Key Financial Indicatorsä released today by the National Investment Center for the Seniors Housing & Care Industries (NIC).

These financial and performance indicators, as reported to NIC by the nation's leading lenders, owners/operators and appraisal professionals in the senior living industry, are updated quarterly and can be accessed on www.NIC.org free of charge.

Compared to a year ago, loan volume placed for the fourth quarter of 2002 was up 53 percent. Capital placed in the industry increased 26 percent from the previous quarter, with the total amount outstanding remaining fairly constant at $11.4 billion dollars, after taking loan amortizations and refinancings into account.

"When looking at the amount of permanent debt placed during the quarter by product type, there was a pretty hefty increase on the independent living side," said Ray Lewis, NIC board member, and SVP and chief investment officer of Ventas, Inc. "That could be reflective of the increasing role that the 'agencies,' Fannie Mae and Freddie Mac, are playing."

In short-term debt outstanding, the amount for assisted living properties increased by about 13 percent, some of which likely included rewrites or renewals, given historic low interest rates.
Construction loans placed in the last quarter of 2002 were primarily to CCRCs, which saw a 13 percent jump over the previous quarter. On the other hand, the key financial indicators showed little construction loan activity in assisted living. This is probably good news for the sector, since many markets are still absorbing excess capacity.

Reported loan performance held steady with almost 98 percent of loans performing under their original or restructured terms, which was a positive for the industry. But Lewis warned, "We are still in a very favorable interest rate environment. We'll need to see how performance plays out as inflation potentially becomes a factor and interest rates creep up."

When broken out by sector, the proportion of delinquent loans was still highest in skilled nursing. "Clearly, that sector has come under pressure from a number of forces," said Lewis. "The expiration of the Medicare 'givebacks' resulting in reimbursement 'cliffs,' and the increasing cost of obtaining adequate general and professional liability insurance continues to stress the performance of those properties." Short-term loan delinquencies in assisted living saw marginal improvement, although this was not true for permanent (more than 10-year term) assisted living loans.

But occupancy rates for stabilized assisted living properties held fairly steady in both the median and the mean (average). The median at 86 percent was up 2.5 percentage points from a year ago, suggesting that the “freefall” in the sector may be over. And skilled nursing occupancy rates, once again, held steady to improved slightly.

However, occupancy rates declined from both the previous quarter and year in congregate care and CCRCs – product types where the seniors, instead of their adult children, are more often the prime decision-makers. Susan Brecht, president of Brecht Associates, believes that people are taking longer to make major discretionary decisions, such as moving into independent living, because of the recent deterioration of financial portfolios, as well as the general anxiety in the time leading to the war in Iraq.

The average move-in rate also dropped for congregate care properties during the quarter to 4 per month, compared to 6.3 per month during the fall of 2002. Move-in rates for assisted living also dropped. Harvey N. Singer, NIC research director, pointed out that the fourth quarter typically shows the lowest amount of net move-ins (that is, move-ins less move-outs) due to the holidays. “Compared to the fourth quarter in the previous two years, move-in rates seemed to hold steady,” Singer said.

The average capitalization rate for all sectors stayed fairly consistent with the third quarter, although the number of reported transactions was down significantly. Also, the high end of the range of capitalization rates had not gone down, reflecting the uncertainties that investors still feel about the industry, particularly on the long term care side, and the depressed values of some of the properties that did transfer.

Since 1999, the NIC Key Financial Indicatorsä have represented the largest, most up-to-date, single compilation of financial benchmarks in the seniors housing and long term care industry.
Founded in 1991, the National Investment Center for the Seniors Housing & Care Industries is a nonprofit organization providing information about business strategy and capital formation for the senior living industry. Proceeds from its annual conference – scheduled next for October 15-17, 2003, in Washington, D.C. – are used to fund research on issues of importance to the industry. For more information, visit www.NIC.org or call (410) 267-0504.
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