

SENIOR LIVING FINANCIAL AND PERFORMANCE INDICATORS SHOW PERMANENT DEBT DELINQUENCIES UP FOR ASSISTED LIVING

Second Quarter 2003 Results Also Show Troubled Properties in Congregate Care

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ANNAPOLIS, Md. – The second quarter of 2003 showed delinquency rates in permanent debt were up for assisted living and congregate care, according to Key Financial Indicators released today by the National Investment Center for the Seniors Housing & Care Industries (NIC). These financial and performance indicators, reported quarterly to NIC by the nation's leading lenders, owners/operators and appraisal professionals in the senior living industry, have been gathered and posted free of charge on www.NIC.org since 1999.

Loan volume placed in the second quarter of 2003 increased from the first quarter, with about \$580 million placed by lenders in seniors housing and care.

However, loan performance was less positive, as the delinquency rate for the entire seniors housing and care industry more than doubled.

Whereas previous delinquency rates in permanent debt were primarily driven by skilled nursing, the second quarter saw a significant increase to 10 percent for the assisted living sector.

Permanent delinquencies for skilled nursing stayed steady, although those for short-term debt investments about doubled from the first quarter to more than 13 percent.

"The good news is that troubled properties in assisted living may finally be working their way through the system," said Robert G. Kramer, president of NIC. "Most people feel assisted living is about a year behind skilled nursing in this cycle. But the industry can be encouraged by the fact that the skilled nursing companies that went into and survived bankruptcy – the public chains – are now in better shape. They emerged less-leveraged and had shed their troubled properties, including those in high-liability, high-risk states."

Anthony J. Mullen, director of Executive Development for the Johns Hopkins/NIC Seniors Housing & Care Program, agreed that the assisted living sector would not be able to realize a true rebound until the troubled properties work their way through the system.

"Many lenders have been extremely patient and have tried to avoid having to take action on these loans," he said. "But now, they are seeing no other options. That means properties are going to change hands, and operators who have been struggling along at 83 percent and below occupancy rates are going to be forced to come up with more equity or let the property go back to the lender."

For the first time, congregate showed some troubled properties in delinquencies, as well as restructurings. Mullen believes that this increase is again related to the drop in occupancy rates, from a 94 percent occupancy rate in this sector just a little over two years ago down to 89 percent during the second quarter.

Occupancy rates in assisted living increased slightly from the first quarter of 2003, but were still low at a median rate of 84 – a number considered too low to be able to generate an acceptable equity return.

The second quarter showed continued evidence that skilled nursing occupancy rates have stabilized over the past year. Mullen cautioned, however, that nursing home operators may need to get used to having occupancy rates in the mid-80s for the foreseeable future.

Although congregate showed a decline in the average move-in rate since opening (for properties open less than 24 months), assisted living showed an encouraging increase. In fact, the average move-ins per month for the quarter for assisted living was 3.8, which was the highest in at least two years.

Capitalization rates for assisted living had a wide spread between the high and the low of 830 basis points, with a 50 basis point increase overall from the last quarter. This was the largest spread shown for assisted living capitalization rates since the KFIs have been tracked.

Such a spread suggests, on the one hand, that a number of non-stabilized properties are trading at rates reflective of the high risk perceived by investors. At the same time, capitalization rates below 10 provide further evidence that there is a group of stabilized, well performing, cash-flowing properties that are in great demand by investors. But even with the high rates, properties are trading and the 'financial log jam' seen in the past is breaking up.

Also, though there continued to be a large spread between the high and the low, the average capitalization rate for skilled nursing dropped 100 basis points, reflecting an increasing appetite for these properties among investors. "It could also show that the worst fears of the sector over the past several months did not materialize," said Kramer. "In other words, Medicaid cuts were not as bad as feared, Medicare givebacks were better than expected, and public chains are performing better than anticipated. When we add all those factors together, lenders and investors seem to be feeling better about the sector."

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 6-8, 2004, in Chicago, IL – 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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