

Senior Living Financial Indicators Show Increases in Permanent Debt Delinquencies for Assisted Living and Skilled Nursing

FOR IMMEDIATE RELEASE: April 26, 2004

Contact: Renee Tilton or Dacrie Brooks, (410) 626-0805

ANNAPOLIS, Md. – Permanent debt delinquencies increased for assisted living and skilled nursing in the fourth quarter of 2003, 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 fourth quarter of 2003 was \$763 million in comparison to \$834 million in the fourth quarter of the previous year. According to a recent NIC Executive Circle conference call with industry leaders, volume levels – as reported by major national lenders, including Freddie Mac and Fannie Mae – did not grow appreciably from the same time last year. The speakers on the call also predicted that traditional lenders would become more active and that the industry would see an increase in loan volume as the appetite for the higher yields in healthcare and seniors housing continues to grow.

“We’re seeing a huge increase in the desirability of the high-yield market for the private placement of corporate debt in healthcare, particularly with the healthcare REITs,” said Arnold Whitman, CEO and co-chairman, Formation Capital, LLC. “Because rates have dropped so dramatically, the extra yield makes it more compelling for traditional debt buyers to invest in seniors housing and care than in apartments or other real estate classes. This, in turn, puts pressure on traditional mortgage lenders to lower their interest rates.”

Despite increased loan interest, this quarter's results reflected a low loan performance with an overall delinquency rate of 4.6 for the entire seniors housing and care industry. The delinquency rate showed that there are still more troubled properties than optimal.

Although permanent debt delinquencies increased in the fourth quarter of 2003 for the assisted living and skilled nursing sectors, there were no permanent debt delinquencies for independent living. In addition, there was a 2 percent drop in the delinquency rate for short-term debt.

Kathryn Sweeney, principal, of AEW Capital Management, also noted that the independent living sector had an increase in occupancy rates – going from 89 to 91 percent in the fourth quarter of 2003. “We’re also seeing higher occupancies for class ‘A’ properties as consumers are making purchases based on quality.” She added, “This means that these properties will continue to receive favorable pricing from lenders and buyers.”

For assisted living, median and average occupancy rates held steady for the fourth quarter at 85 percent. The median occupancy rate rose slightly for skilled nursing from 87 to 88

percent in this quarter, while CCRC median and average occupancy rates dropped slightly to 90 percent and 89.5 percent, respectively.

Anthony J. Mullen, NIC's new research director, also noted that results from this quarter are continued evidence that occupancy rates for assisted living are not going to jump back up to the mid 90s any time soon.

Average capitalization rates came down slightly in the fourth quarter of 2003. For independent living, the capitalization rate decreased slightly from 10.4 to 10.3 in this quarter, while it went from 11.4 to 11 for assisted living.

"The current capitalization rate spread reflects what we're seeing happen with class 'A' properties and what they're trading at," said Sweeney. "This is certainly good news for operators with stabilized, cash-flowing properties that have occupancies of 90 percent or better."

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.

###

NIC Press Contact:

Renee Tilton

(410) 626-0805 Phone

(410) 268-4620 Fax

rtilton@crosbymarketing.com

Close This window