

# SENIOR LIVING KEY FINANCIAL INDICATORS SHOW LENDING VOLUME BACK TO 'NORMAL' LEVEL

**FOR IMMEDIATE RELEASE: January 24, 2005**  
**Contact: Renee Tilton or Jeff Davis, (410) 626-0805**

ANNAPOLIS, Md. - Loan volume placed in the third quarter of 2004 was up significantly from a low in the second quarter - \$783 million compared to \$336 million - according to the NIC Key Financial Indicators released today by the National Investment Center for the Seniors Housing & Care Industries (NIC). The third quarter volume was also up by almost one-third from the third quarter of 2003.

The loan volume collected by NIC represents the quarterly lending activity of the top lenders (non-REITs) that make permanent debt or short-term debt investments in seniors housing and care, including Fannie Mae, Freddie Mac and several of the larger credit companies and banks.

"The amount placed in the second quarter of 2004 was so low, that we thought it was either an aberration or maybe the beginning of a structural change in which lending was moving away from the 9-10 largest lenders in the country toward smaller, regional lenders," said Robert G. Kramer, NIC president. "It now appears that it may very well have been an aberration, based upon the numbers from the third quarter, though we'll certainly want to confirm this trend with data from the fourth quarter."

Loan performance also continued to show overall improvement, with steady growth in performing loans from 93.5 percent in the third quarter of 2003 to 96 percent during the same period in 2004.

Occupancy rates also showed slow, but steady growth through the third quarter of 2004. More than 3,800 properties with approximately 450,000 units reported their occupancy numbers to NIC for the third quarter of 2004. Assisted living particularly saw an improvement. "We wanted to see a couple more quarters to confirm this trend, and I think we can now officially state that the bottom in assisted living was, indeed, reached early in 2004," declared Anthony J. Mullen, NIC research director. "We are now back at 87 percent on a median basis for the sector across the country, an occupancy rate that we have not reached since the year 2000."

Average net move-in rates for those assisted living properties open less than 24 months also improved, going from 3.2 in the second quarter of 2004 to 4.7 in the third. On the other hand, the average rate since opening dropped from 5.5 to 4.5. "But that's to be expected, as buildings move further away from their original opening dates," explained Mullen, "nevertheless, we have enough same-store results to show that the third quarter was very good in terms of move-ins."

The average capitalization rate held steady for assisted living and skilled nursing during the third quarter, although it rose from 9.1 to 9.4 percent for independent living. The basis point spread also expanded for the care sectors, increasing 160 basis points for assisted living with the lowest reported capitalization rate at 8.4 and the highest at 14. For skilled

nursing, the spread increased 440 basis points from the second quarter, with 9.2 reported for the lowest capitalization rate and 16.8 for the highest.

“When looking at capitalization rates, providers need to remember several things,” said Mullen. “First, there has been a difference, historically, in the loan-to-value calculation and the capitalization rate that the average lender uses in their internal valuation approach, compared to the capitalization rates that properties actually trade at in the marketplace, which tend to be somewhat lower. That’s an important distinction to understand.”

“Second, not all operators will be able to receive the capitalization rates reported on the low end of the ranges,” he continued. “Those rates tend to be reserved for premier operators with premier locations, such as in heavily populated areas on the coasts. Also, selling off a number of properties in a portfolio will yield a better capitalization rate than one-off transactions.”

Lastly, Mullen pointed out that research conducted in the real estate community has shown that capitalization rates seem to trend and follow interest rates. “Certainly, if we remain in a low interest rate environment, there’s a case to be made that lower capitalization rates are reflective of this environment.”

Every quarter since 1999, the nation’s leading senior living lenders, operators and appraisal professionals have reported their key financial and performance data to NIC, which is then posted as the NIC Key Financial Indicators on <[www.NIC.org](http://www.NIC.org)>. Anyone can access the information free of charge.

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 September 28-30, 2005, in Washington, DC - are used to fund research on issues of importance to the industry. For more information, visit [www.NIC.org](http://www.NIC.org) <<http://www.NIC.org>> or call (410) 267-0504.

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**NIC Press Contact:**

Renee Tilton

(410) 626-0805 Phone

(410) 268-4620 Fax

[rtilton@crossbymarketing.com](mailto:rtilton@crossbymarketing.com)

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