NIC KEY FINANCIAL INDICATORS SHOW STRONG RECOVERY IN SENIORS HOUSING

ANNAPOLIS, Md. – Financial indicators from the second quarter of 2005 show that the seniors housing industry has made a strong recovery from a period of falling occupancies and poor loan performance, according to numbers tracked and released today by the National Investment Center for the Seniors Housing & Care Industries (NIC).

Every quarter since 1999, the nation's leading senior living lenders, owners/operators and appraisal professionals have reported their key financial and performance data to NIC. The information is then posted as the NIC Key Financial Indicatorsä on www.NIC.org and accessed free of charge.

"Our second quarter indicators give factual corroboration to what has been both heard and observed in the industry, namely, that seniors housing is very hot right now and trends are all heading in the right direction," said Robert G. Kramer, NIC president.

Loan volume rose to $692 million dollars during the second quarter of 2005, up from $674 million in the first quarter. The loan volume collected by NIC represents the quarterly lending activity of the top national lenders (non-REITs) that make permanent or short-term debt investments in seniors housing and care, including Fannie Mae, Freddie Mac and several of the larger credit companies and banks.

During the same period, the number of performing loans increased to 98.5 percent, which is the best loan performance NIC has ever tracked. "This number is very encouraging news and finally puts the seniors housing industry on par with other commercial real estate asset classes," said Anthony J. Mullen, NIC research director. He pointed out that the performing loan percentage for office, industrial, multifamily and retail is typically stated for the insurance company market or the CMBS market, which both track just permanent debt investments. NIC, on the other hand, tracks both permanent debt and short-term debt investments, and then combines them. "The delinquency rate on permanent debt, however, really would not be much different than what we're showing," he said. "That's because the portion related to nursing homes, which is our industry's lowest performer, is a relatively small part of the overall sample."

Median occupancy rates for independent living and assisted living for the second quarter of 2005 were the highest that NIC has tracked since the second and third quarters of 2000, providing further evidence of the recovery and strong performance of the seniors housing industry. More than 3,200 properties with approximately 373,500 units reported their numbers to NIC.

During the second quarter of 2005, the median occupancy rate for independent living rose to 92 percent – up from 90 percent during the first quarter, and where it has stood for about five years – with an average of 91.5 percent. The median occupancy rate for assisted living increased to 89 percent, compared to 88 percent during the first quarter, with an average of 88.5 percent. In addition, comparisons of median occupancy rates from a year ago show a two percent increase in independent living (from 90 percent to 92 percent) and a three percent increase in assisted living (from 86 percent to 89 percent).

Median occupancy rates for both skilled nursing facilities and continuing care retirement communities (CCRCs) held steady from the first quarter.

Capitalization rates also showed improvement. “For the first time, cap rates are being reported that corroborate what has been talked about in the market,” said Mullen. “Interestingly, there is still a 100 basis point spread between independent living and assisted living, which has pretty much been the case for some time.”

During the second quarter of 2005, capitalization rates for assisted living ranged from 7.25 at the low end to 10.5 at the high, with a mean of 9.2. Those for independent living ranged from 7 to 10.5, with a mean of 8.2.

“We’re starting to see many transactions of the very best assisted living properties – what we call the upper quartile or upper decile properties – trading down around 7 percent,” explained Mullen, “and pushing them towards independent living, thereby narrowing that 100 basis point gap. But that’s only true for the top-performing properties.”

Capitalization rates for skilled nursing averaged 12.9 for the second quarter, with a range of 8.1 to 14.5. But CCRCs, which is a combination of the three property types, had an average capitalization rate of 8.6. “The marketplace is not penalizing nursing beds inside of CCRCs to the same degree as freestanding nursing beds,” observed Mullen. “So I think the rationale of the CCRC model is being proven out here by the capitalization rate pushing down more towards independent living than up towards nursing homes.”

Year-over-year numbers also showed movement of 100 basis points or more in each product type except for skilled nursing. Compared to the second quarter of 2004, the average capitalization rate for independent living dropped from 9.1 to 8.2 percent and for assisted living from 10.8 to 9.2 percent. Skilled nursing went from 13.1 down to 12.9 percent and CCRCs declined from 9.6 to 8.6 percent.

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 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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