2011 National Skilled Nursing Investment Forum

Creative Financing in a
Low Leverage Environment
"The Real Deal"

National Investment Center
For the Seniors Housing & Care Industry

2011 National Skilled Nursing Investment Forum

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The “Objective” of the break-out session entitled “Creative Financing in a Low Leverage Environment” is to provide:

- Live examples of certain “Creative Financing” being transacted in today’s marketplace
- Details about how and why these opportunities were compelling to the lender
- Details about the lender’s approach to underwriting these transactions

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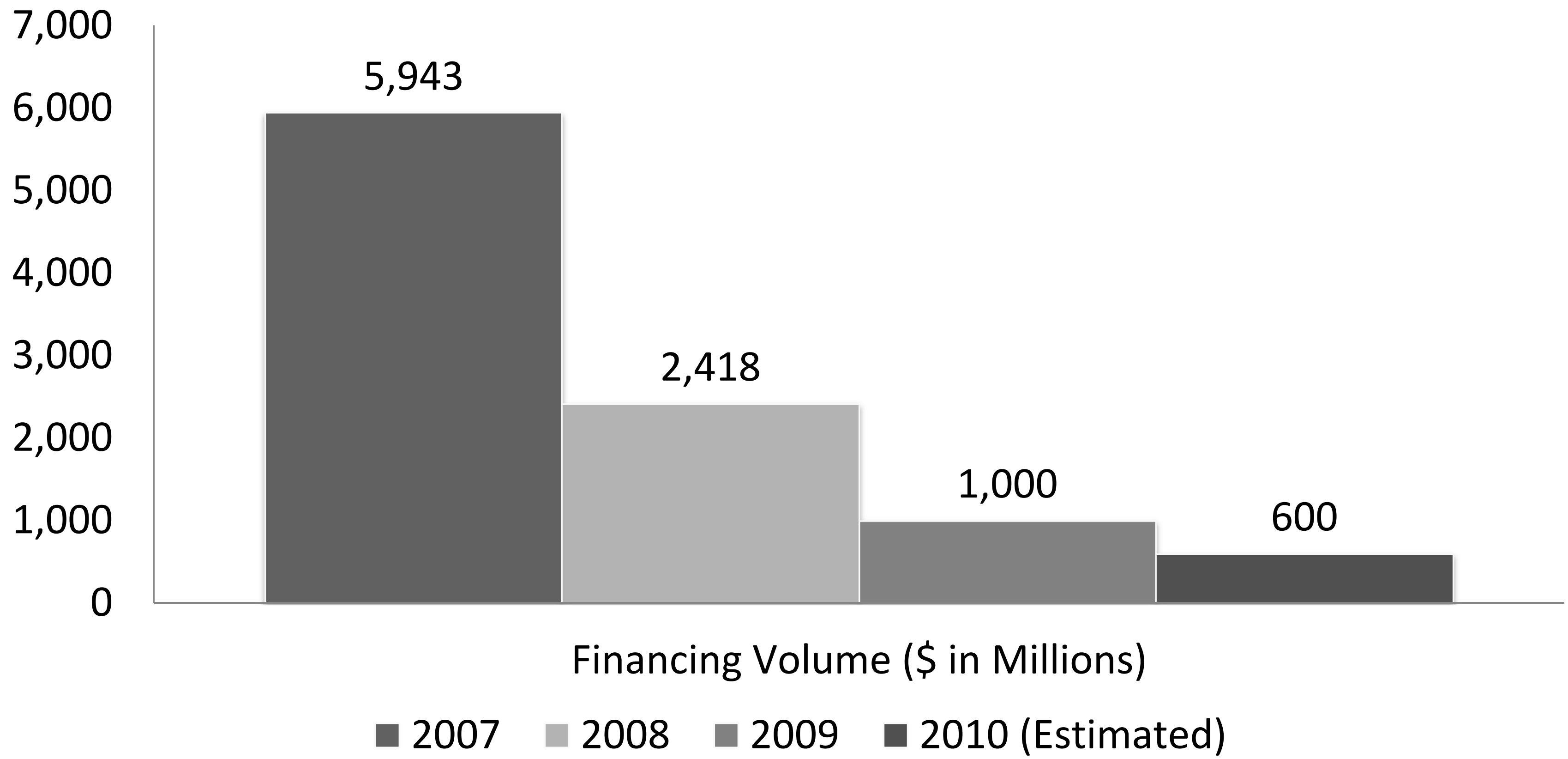
Why are “Creative Financing” solutions needed in today’s “Low Leverage Environment”. Because senior debt is scarce compared to years past.

To illustrate this point, the following slides provide historical loan volumes from 2007 to 2010 for Fannie Mae, Freddie Mac and also a collection of seven institutional lenders as presented by NIC.

FNMA Financing Volume



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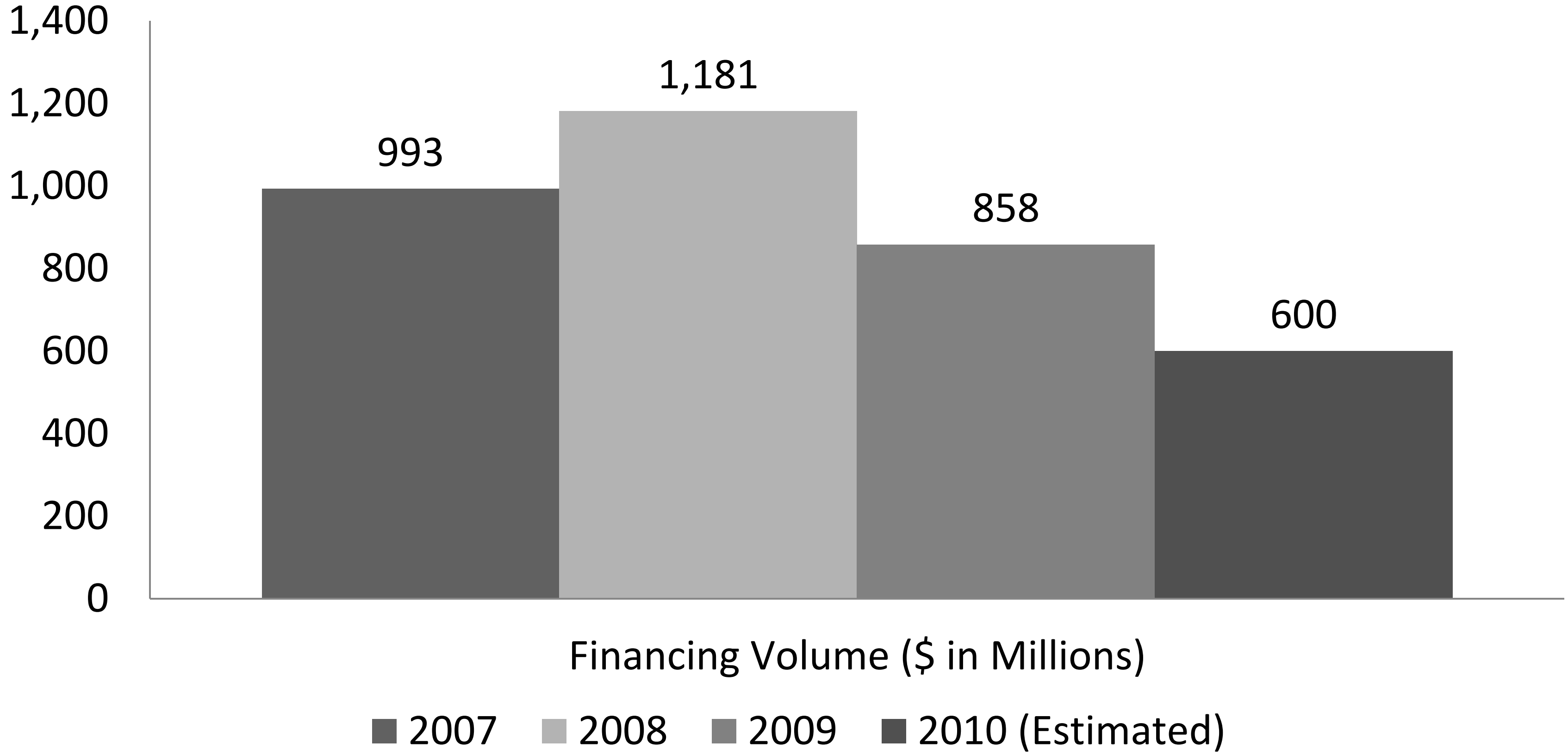
Freddie Mac Financing Volume



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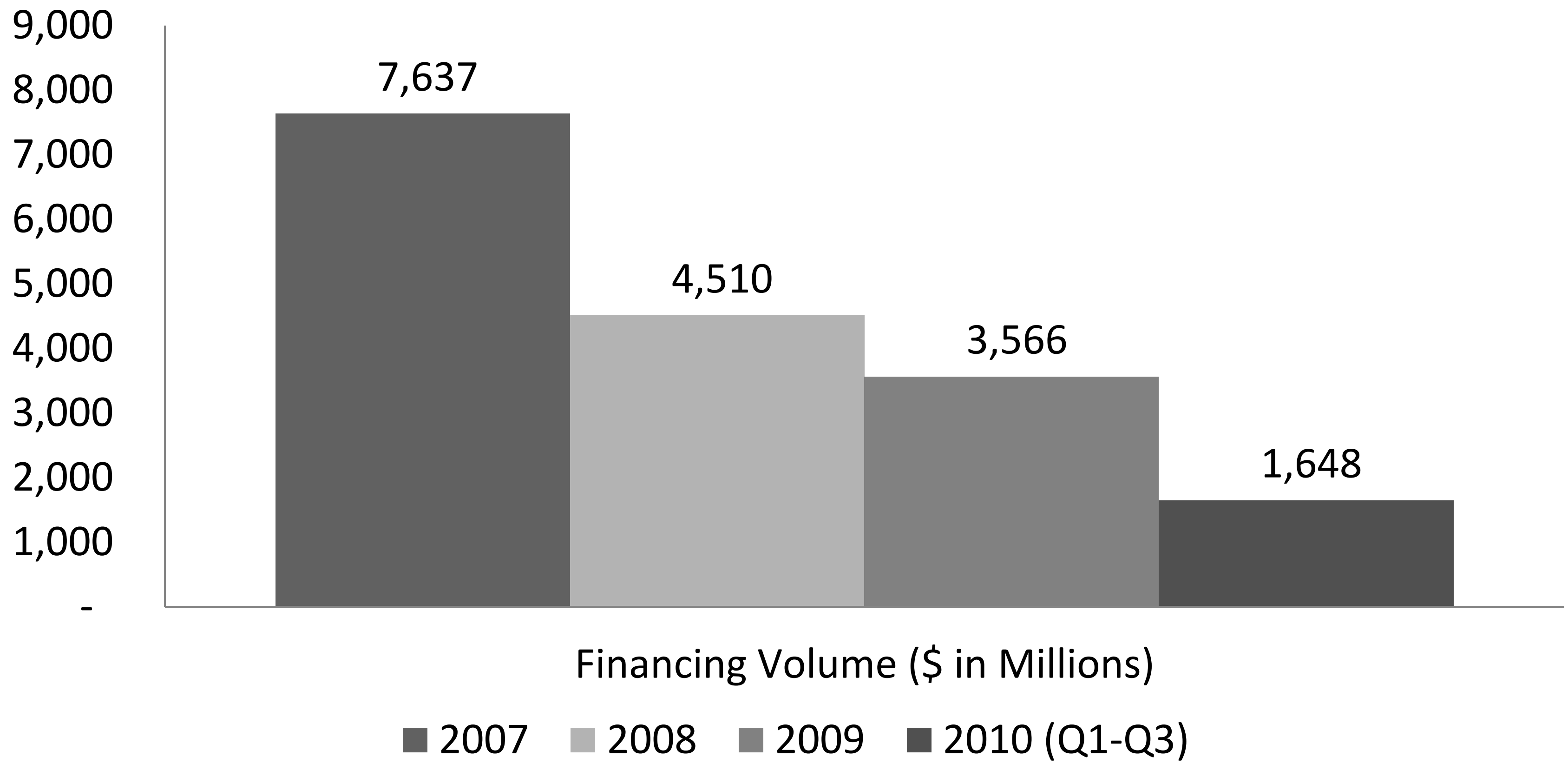
NIC (Seven Institutional Lenders) Financing Volume



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Contemporary Healthcare Capital

Acquisition and Renovation Financing

Case Study

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Contemporary
HEALTHCARE CAPITAL LLC

Transaction Overview

AristaCare, a New Jersey based skilled nursing operator requested financing of approximately $17 million to:

- Acquire the Real Estate and Operations of a 180 bed SNF
- Substantially Renovate the Facility
- Provide Working Capital
- Pay Closing Costs

The financing consisted of a Senior Mortgage Loan of $12,600,000, a Mezzanine A Loan of $1,700,000 and a Mezzanine B Loan of $2,390,000.

Situational Detail

The 180-bed skilled nursing facility is located in Southern New Jersey. The Facility consists of a two-story, 63,800 sf building built in 1986 on 5 acres of land. There is a deep market in terms of an elderly population, but there is also considerable nursing home competition in the market, some of which is much newer than the Facility.

Situational Detail

The Facility had a troubled history that began in 2004. Prior to 2004, the Facility was leased and operated by competent operators. However, these operators relocated the majority of the residents to a newly built skilled nursing facility located approximately 10 miles from the Facility. The landlord then leased the Facility to another operator. This operator owned another facility north of the Facility, also in New Jersey. They sold that facility to a developer and then put all of the residents on buses and relocated them to the Facility, allegedly without formal consent or notification to the state or union officials. In addition to the negative press and relationships with the state and families, the operator and the landlord refused to invest in any improvements in the Facility.

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Contemporary
HEALTHCARE CAPITAL LLC

Situational Detail

As a result of these factors, the Facility continued to experience a high vacancy rate. In addition, the State opened a criminal investigation into reimbursement issues, and, as a result, two of the former operators were subsequently convicted of Medicaid fraud.

As this was all unfolding, the operators failed to make payments on the lease and the landlord failed to make payments on a securitized mortgage. As the mortgage servicer began foreclosure proceedings, AristaCare negotiated a purchase of the Facility from the owner and separately negotiated a deal with the operator to relinquish the lease.

Situational Detail

Due to the potential negative impact on existing residents, AristaCare was able to receive special consideration from the state and obtained a new provider agreement, thus shielding them from potential Medicaid liabilities stemming from the prior operators.

Transaction Challenges

The challenges for the financing team were numerous:

- The Facility required a very deep turnaround and had a poor reputation in the community
- Substantial capital improvements were needed
- A large amount of working capital was needed to cover operating expenses and debt service during the construction period and fill-up period
- The deal had to close extremely quickly in order to block the foreclosure

Financing Structure

Sources	Amount	% of Cost
Senior Mortgage Loan	$12,600,000	66%
Mezzanine A Loan	$1,700,000	9%
Mezzanine B Loan	$2,390,000	13%
Total Debt	$16,690,000	88%
Equity	$2,300,160	12%
Total Sources	$18,990,160	100%

Financing Structure

Senior Mortgage Loan

Five year term. Interest only for two years followed by payments of principal and interest based on a 23 year amortization schedule.

Secured by a senior lien on all real property of the Borrower and a priority interest on all other tangible and intangible assets of the Borrower.

Financing Structure

Mezzanine A Loan

Five year term. Interest only for two years followed by payments of principal and interest based on a 23 year amortization schedule.

Secured by a second mortgage on the Facility and a second lien on all other assets of the Borrower, both tangible and intangible. Subordinated only to the Senior Mortgage Loan.

Financing Structure

Mezzanine B Loan

Five year term. Interest only for five years.

Secured by a third lien on all assets of the Borrower. Subordinated to the Senior Mortgage Loan and the Mezzanine A Loan.

Borrower Background

The Borrower's model focuses on acquiring underperforming nursing facilities and transforming them to sub-acute facilities. There are several approaches that the company has consistently implemented. Their strategic business plans have yielded increased profitability, innovative programs, efficient operations and cutting edge healthcare delivery systems for their clients.

At the time of closing they operated one facility in Pennsylvania and three facilities in New Jersey which were characterized by low occupancy and significant deferred maintenance at the time the company took over operations. All facilities have been successfully turned around and are profitable.

Borrower Background

An example of the Borrower's progressive approach is their response to the cultural issues in long-term care. They have taken measures at three of their New Jersey facilities, including the Facility, in order to cater to specific ethnic groups in units at these facilities.

With respect to government reimbursement, they have been successful in maximizing Medicare reimbursement through the development of sub-acute rehab units as well as Medicaid reimbursement.

The Turnaround

Similar to their other facilities, the Borrower planned to take advantage of the building's potential through a transformation of both operations and physical plant. The Facility had wide hallways, spacious common areas, and an oversized dining room. The Facility's layout was designed with one 60-bed unit on the first floor and two 60-bed units on the second floor. The Borrower converted the oversized dining room into a rehabilitation gym, built-out the entire first floor as a sub-acute unit and housed a 120 bed LTC unit on the second floor.

The Turnaround

Prior to acquiring the Facility the Borrower had introduced the concept of culturally oriented units at their other facilities resulting in rapid gains in census. They offered a 50-bed Indian unit and a 60-bed Indian unit in two of their other New Jersey facilities. Both units are fully occupied. They were able to introduce a similar arrangement at the Facility, which is located between two major Indian communities. With the initial focus on building census, Indian Medicaid patients were accepted while in the process of renovating the first floor and converting the dining room into rehab gym. Subsequent to the completion of renovations, the Borrower sought to increase quality mix.

The Borrower was able to complete the planned renovations and increase the acuity level of patients which resulted in progressively higher expenses and reimbursement rates. These factors help to contribute to a higher Medicaid Rebasing.

Medicaid Rebasing

In the state of New Jersey, a new facility operator is reimbursed at the seller's rate until 12 months later when rebasing occurs and a new rate is set based on expenses for the prior 12 months. If expenses have risen then the rate is adjusted upward, and the operator receives a retroactive payment compensating them for the difference back to the purchase date.

It has been the Borrower's strategic approach to make large initial capital improvements and to also select higher acuity patients which results in progressively higher expenses and reimbursement rates in all of its New Jersey facilities.

Medicaid Rebasing

In July of 2010 the Borrower had received their Medicaid Retroactive Payment from the state.

The Medicaid Retroactive Payment and some additional cash from the borrower (savings from coming in under budget on the fill-up of the Facility) were used to pay off the entire balance of the Mezzanine B Loan including all accrued interest.

Status at Closing

At the time of closing the Facility had an overall occupancy of 55% and was not profitable.

The Facility was valued at $12,900,000 as-is, $15,300,000 as-complete, and $18,800,000 at stabilization.

Current Status & Performance

The performance of this facility has increased substantially with occupancy currently at 91%, a 17.2% operating margin, 2.58 DSCR on the Construction loan, and 2.06 DSCR on the Mezzanine A loan.

The Borrower was able to repay the Mezzanine B Loan with proceeds from the Medicaid Retroactive Payment in August of 2010.

A portion of the Mezzanine A Loan was also repaid December 2010.

Based on the recent valuation of the Facility ($23,000,000), the Borrower has produced a net increase in value of approximately $7 million since the completion of renovations.

Exit Strategy

The Borrower's intention is to recapitalize the Facility with HUD as soon as possible.

Based on the Facility's current performance, CHC does not foresee any difficulty in recapitalizing the Facility.

National Health Investors

Construction Financing

Case Study

Who is National Health Investors

- NYSE traded Real Estate Investment Trust (NHI)
- 1.2 to 1.3B market cap
- 118 properties located in 21 states
- Sale-Leaseback, Second Mortgages and Construction Financing

If past history was all there was to the game, the richest people would be librarians.

- *Warren Buffett*

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Presentation Overview

- New Construction – The Opportunity
- NHI – Construction Finance Example
- Other REIT Offerings

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The Opportunity: Construction Start are Down

"Starts were down 32% from the prior year for all combined seniors housing and care properties, including senior apartments, and down 57% from two years ago. We also saw a drop-off in entrance-fee CCRC construction, which accounted for 13% of all units under construction, compared to 22% in 2009."

- Robert Kramer
President, NIC

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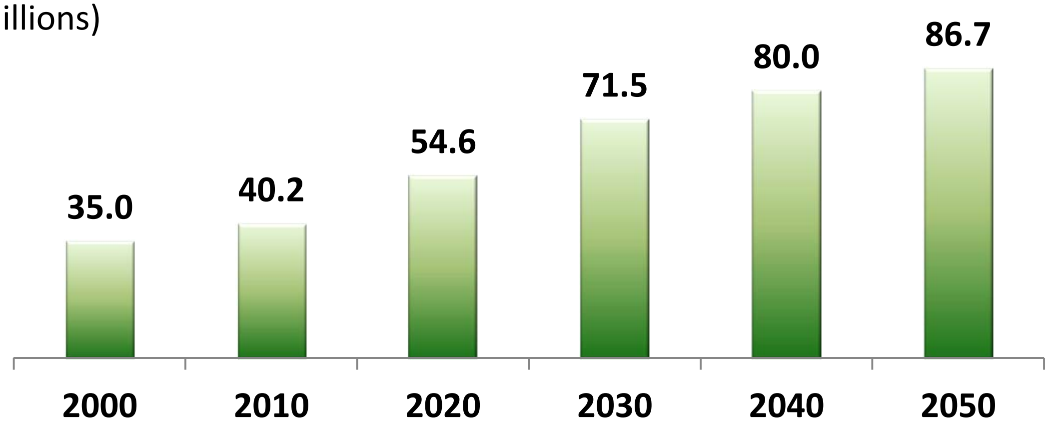
The Opportunity: Demand Continues to Grow

65+ population surges over the next 20 years.

85+ population grows by another 1,000,000 over the next 10 years.

Population Aged 65 and Over: 2000 to 2050

(in millions)



Note: The reference population for these data is the resident population.
Sources: 2000, U.S. Census Bureau, 2001, Table PCT1 2; 2010 to 2050, U.S. Census Bureau, 2004.

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NHI
NATIONAL HEALTH INVESTORS

NHI – Construction Finance

Construction Finance Example:

- Santa Mesa, AZ, Transitional Rehabilitation Facility
- $13,800,000 Construction Financing
- SNF licensed short-term rehabilitation center
- Loan closed June 2010
- Planned opening April 2011
- High-end décor
- Caters to Medicare / HMO / Private Pay (No Medicaid)

NHI – Construction Finance

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NHI – Construction Finance

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Underwriting Considerations

Market Study

- Double deep demand
- Existing competition is mostly traditional SNF

Location

- Close proximity to regional hospital

Operator Experience / Track Record

Credit Worthiness

- Personal Guaranty
- Letter of Credit

Deal Structure

Construction Loan

- Interest funded through loan
- 10% rate but at 85% Loan to Cost (LTC)
- 5 year interest only loan
- Third party oversight of draw requests

Additional Borrowing

- NHI will fund up to an additional $2M based at a 1.7 debt service coverage ration (DSCR)

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Deal Structure (Cont.)

Purchase Option

- NHI has the option to purchase and lease-back the TRC at a mutually agreed upon price that leaves a 1.5 lease service coverage ratio (LSCR) over a 10% lease rate

Mutual agreement to sell

- Either party can approach the other with an opportunity to sell the property at an above market cap rate

Healthcare REIT's as a Capital Source

Sale/Leaseback

- Generally utilized by operators to address debt maturities, monetize equity or make an acquisition.
- SNF lease rates generally 9 to 11%
- AL lease rates generally 8 to 10%

Taxable REIT Subsidiary (TRS) JV Structure

- REIT Investment Diversification and Empowerment Act of 2007 (RIDEA)
- The Act increased the limit on TRS ownership to 25% of gross assets

Mezzanine Loans

Construction Financing

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