

SENIOR LIVING FINANCIAL & PERFORMANCE INDICATORS SHOW IMPROVING TRENDS FOR THIRD QUARTER 2002

ANNAPOLIS, MD – The third quarter of 2002 was a good one for the seniorshousing and care industry, according to Key Financial Indicators™ released today by the National Investment Center for the Seniors Housing & Care Industries (NIC).

Updated quarterly and posted free on www.nic.org, these financial and performance indicators include details on loan volume, loan performance, occupancy rates, move-in rates, construction starts, and capitalization rates as reported by the leading lenders, owners/operators and appraisal professionals in the seniors housing and care industry.

"More than half a billion dollars in new loans were placed in the third quarter of 2002," said Robert G. Kramer, NIC executive director. "That news was encouraging, as it represented a 63 percent increase in total project financing from the previous quarter. It was also the largest quarterly amount we've seen flowing into the industry in about two years."

Total loan volume outstanding reported from major capital sources (excluding tax-exempt bond debt) was approximately \$11 billion, down slightly from the second quarter of 2002. That amount was a net result of new loans being made and old loans being paid off.

In the category of outstanding debt, assisted living dropped by about 10 percent from the second quarter to \$4.5 billion. "This drop was in short-term debt or interim financing, but not necessarily construction loans," explained Harvey N. Singer, NIC research director. He added that the amount of permanent debt in this sector rose slightly, most likely due to refinancings.

By contrast, the amount of outstanding, short-term debt for continuing care retirement communities (CCRCs) rose considerably compared to the previous quarter, suggesting that investors are becoming more comfortable with and confident in this sector.

Reported loan performance — that is, loans being paid back, rather than delinquent or in foreclosure — remained steady with almost 98 percent of loans performing in their original or restructured states. This would seem to indicate that the industry is starting to come out of the difficulties that led to non-performing loans.

Occupancy rates for stabilized properties edged up slightly in both the median and the mean (average) for congregate and assisted living, while holding steady for skilled nursing. More than 3,000 properties reported occupancy rates to NIC for the third quarter of 2002, representing more than a third of a million units.

Assisted living (at 3.3 per month) and congregate care (at 6.3 per month) also enjoyed their highest average move-in rates since September 2000, as reported to NIC. "Although the third quarter traditionally posts the highest numbers for move-in rates," said Singer, "the 2002 figures were still higher than the averages from the third quarters of 2000 and 2001."

Also found in the Key Financial Indicators™ section of the NIC Web site, construction starts reported from McGraw Hill's Dodge Seniors information service showed that starts for

assisted living declined during the quarter to their lowest level this year. This could be considered good news, since the industry is still looking to absorb capacity.

In comparison, construction starts for nursing homes jumped to its highest level in two years. Although that number would only amount to a one percent increase in total occupied nursing beds — when these properties actually get built and opened — it would still represent significant growth for a sector that has seen very little new development over the last several years, at the same time as existing properties continue to age and a substantial number have closed citing inadequate reimbursement rates.

The average capitalization rate for all sectors increased slightly during the third quarter of 2002, although it held steady for assisted living. Also for assisted living, the spread between the highest and lowest capitalization rates narrowed significantly from a 7 to a 4-percentage point differential. And the number of reported transactions in this sector doubled to 94, compared to the second quarter.

"The increased amounts of property transactions and debt capital placed into the industry during the third quarter shows that we're starting to see some movement in the capital markets, especially with regard to assisted living," said Kramer. "This suggests that the 'gridlock' of perceived property values between sellers and buyers may finally be starting to break up."

Since 1999, the NIC Key Financial Indicators™ have represented the largest, most up-to-date, single compilation of financial benchmarks in the seniors housing and long term care industry.

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 15-17, 2003, in Washington, D.C. — 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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