

Key Financial Indicators Show Decreases In Permanent Debt Delinquencies For Assisted Living And Skilled Nursing

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ANNAPOLIS, Md. - Permanent debt delinquencies decreased for assisted living and skilled nursing in the first quarter of 2004, according to the NIC 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 first quarter of 2004 was down to \$499 million compared to \$527 million placed in the first quarter of 2003.

Anthony J. Mullen, NIC research director, noted that while the loan performance rate for performing properties improved slightly in this quarter from the last quarter - going from 93.1 to 94.2 percent - it was still not where it should be. "Ideally, the performing loan rate for permanent debt should be around 97 to 98 percent in order for the industry to be on par with other real estate classes," said Mullen. "However, for independent living, permanent debt continues its stellar track record with no delinquencies among the largest permanent lenders."

On the other hand, decreases in permanent debt delinquencies for assisted living and skilled nursing were positive news for the industry. In the first quarter of 2004, permanent debt delinquencies for assisted living were 6.15 percent compared to 6.72 percent in the previous quarter. Skilled nursing also experienced a decrease in permanent debt delinquencies - going from 12.54 to 10.9 percent.

This quarter's results also revealed that short-term debt delinquencies for skilled nursing slightly increased, inching up from 7.18 percent in the last quarter to 7.2 percent. Conversely, assisted living significantly reduced its short-term debt delinquencies to 2.28 percent in comparison to 4.89 percent from last quarter.

Occupancy rates in the first quarter of 2004 showed encouraging signs, according to Frank Morgan, a healthcare analyst with Jefferies & Co., who closely tracks several of the publicly traded companies.

"NIC's financial indicators reflect what we're currently seeing in the marketplace, which is a slow recovery in occupancy levels over the last few years across all of the industry sectors," said Morgan, during a recent NIC Executive Circle conference call with industry leaders.

"In general, we're experiencing a reduction of new capacity coming online and seeing a growing acceptance of service delivery within seniors housing and care."

For assisted living, the median occupancy rate for stabilized properties has moved up from 83 percent in the first quarter of 2003 to 86 percent in this quarter. The median occupancy rate for skilled nursing held steady from last year's first quarter at 86 percent.

Average net move-in rates for the quarter stayed below 3 (2.7) net move-ins per month for assisted living, which means that there is still considerable room for improvement for properties that have been open less than 24 months.

On a more positive note, there was a decrease in the average capitalization rate for skilled nursing, assisted living, and independent living properties in the first quarter of 2004 in comparison to the previous quarter. The average capitalization rate for skilled nursing fell from 13.6 to 12.9 percent, which may indicate that investors have become more confident in investing in skilled nursing properties. Independent living decreased from 10.3 to 10 percent and assisted living showed a small decrease from 11 to 10.9 percent. Furthermore, results from this quarter showed some compression in the range of capitalization rates for skilled nursing, with a spread of 620 basis points compared to 710 in the previous quarter. A reported assisted living transaction of 8.75 percent continues to emphasize the point that there is both interest and competition among investors that is driving capitalization rates down for the very best properties.

Bob Noonan, chief investment officer of Benchmark Assisted Living, who also participated in the Executive Circle call, believes that the reductions in capitalization rates are a good sign that the industry is on the mend. "Although there are not a large number of deals getting done, capitalization rate decreases are definitely taking place and it solidifies the fact that there is more capital gravitating to the marketplace, especially for operators that have class 'A' properties with occupancies of 90 percent or higher," said Noonan. 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 call (410) 267-0504.

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