

SENIOR LIVING KEY FINANCIAL INDICATORS SHOW LENDING VOLUME DOWN FOR THE LARGEST LENDERS

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Contact: Renee Tilton or Jeff Davis, (410) 626-0805

ANNAPOLIS, Md. – Loan volume placed in the second quarter of 2004 was down 33 percent from the previous quarter to \$336 million – and down 42 percent compared to the second quarter of 2003 – 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.

The loan volume collected by NIC represents the quarterly lending activity of the top 12 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 banks.

Anthony J. Mullen, NIC research director, believes part of the decline in loan volume during the second quarter 2004 can be attributed to increasing competition throughout the lending spectrum to this industry. "We are seeing more and more banks, especially regional and smaller ones, enter or re-enter seniors housing and long term care," explained Mullen. "But we're also seeing REITs and more institutional investors getting involved, and thus, taking away some of the business reported by the lenders we track." Mullen also indicated there could have been a temporary lull in lending activity during the second quarter, because there were few mergers and acquisitions happening at that time.

Loan performance remained steady during the second quarter at 94.25 percent. Although independent living continues to perform exceptionally well on the permanent debt side, assisted living and skilled nursing are still not performing at a level that would make the senior living industry on par with other real estate asset classes. "To do that, the total industry performance needs to improve to 98 percent," said Mullen.

"The good news is that assisted living and skilled nursing have at least stayed steady for several quarters with just a little movement up and down on the delinquency and restructuring side," he added. Permanent debt delinquencies for assisted living rose slightly from 6.15 percent last quarter to 6.28 percent in the second quarter. But skilled nursing experienced a decrease, going from 10.9 percent to 8.92 percent.

Median occupancy rates for assisted living held steady during the second quarter, with freestanding skilled nursing continuing to improve to 88.5 percent, which was up 250 basis points from the first quarter. More than 3,600 properties with approximately 400,000 units reported their numbers to NIC for the second quarter of 2004.

On the other hand, occupancy rates for skilled nursing within continuing care retirement communities (CCRCs) showed a sharp decline for the second quarter, going from 87 percent during the first quarter down to 84.5 percent. And overall median occupancy for CCRCs dropped from 90 percent in the first quarter to 88 percent in the second.

Marc Thompson, healthcare department manager for Bank of the West, and a panelist during a recent NIC Executive Circle conference call, sees a bifurcation of the market in terms of occupancy between new product that is coming on the market and older product – even those that were well-built and well-located. “We’re seeing high-rate growth, high absorption rates in fill-up for the newer, high-quality product that has been built in the last five years and has some continuum of care in the facility,” he said. “But some product that’s about 10 years and older is having difficulty competing against the newer product type in the marketplace.”

Average net move-in rates for the second quarter show that assisted living continued to hover around 3 net move-ins per month, demonstrating that those properties open less than 24 months still have room for improvement. On the other hand, move-in rates for CCRCs continued to have strong absorption patterns, with 10 per month during the same quarter, down slightly from 10.5 during the first three months of 2004.

On a positive note, the average capitalization rate dropped almost 100 basis points for independent living during the second quarter – going from 10 the first quarter to 9.1. And the lowest capitalization rate reported for the sector was 7.5, compared to 8.75 in the last quarter. Also positive, the average assisted living capitalization rate dropped slightly to 10.8, with the lowest reported rate at 8 compared to 8.75 during the first quarter.

According to Tom Conway, principal at Macquarie Capital Partners LLC, and another panelist during the Executive Circle call, “The capitalization rates that we’re seeing on the lower end of the ranges are portfolios where high-quality operators are involved and the assets have had good track records over the last few years of stabilized occupancy.” He believes that the rates on the high end reflect more one-off transactions “where the assets may be stable, but investors are not as willing to pay up for a situation like that.” 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 or call (410) 267-0504.

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***Attention seniors housing and care, business and financial editors: To register for conference media credentials, visit www.NIC.org/pressreg <<http://www.NIC.org/pressreg>> or contact Renee Tilton at rtilton@crobymarketing.com. ***

NIC Press Contact:

Renee Tilton
(410) 626-0805 Phone
(410) 268-4620 Fax
rtilton@crobymarketing.com

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