

I. SENIOR CARE: THE ONLY SECTOR PROJECTED TO GROW

As the investment world scouts for the next real estate success story, senior housing and its related care products will attract substantial interest. An aging population will be the prime catalyst for growth in this niche. People 65 years and older will account for nearly 20% of the overall population in the U.S. as early as 2030. Today, this group makes up almost 13% of the population, or about 40 million people. This growth bodes well for investment returns in the senior care spectrum, including skilled nursing, assisted living (AL), memory care/Alzheimer's and independent living (IL) facilities, as well as continuing care retirement communities (CCRCs).

The need-based aspect of most senior care products reduces their dependence on the economy compared to their housing, office and retail counterparts. The typical occupancy for various levels of senior care currently ranges from 87% to 89%, lower than an average of 92% in 2008 but certainly better than the current 80% to 85% occupancy rate for office space. Revenue growth for senior housing averaged 3% over the past 20 years, with much of that attributable to occupancy gains and value addition, as well as limited phased expansions. Capitalization rates for these properties now range from 9% to 11%.

This is not to say that the senior care is 100% recession proof. But recessionary effects on the sector are minimal, offering greater potential for stronger long-term IRRs. Returns for senior housing with post-acute care products are generally higher than other healthcare commercial real estate such as medical office buildings. The average IRR for senior care properties can hover in the 16% to 20% range. Aggressive firms aim for returns in the high 20% range for distressed assets with 50% occupancy rates. Realized returns heavily depend on the type of investor. High net worth individuals who favor monthly cash flow would be likely to see IRRs of about 10% on an annual basis. Bigger funds willing to take the long view — at least a few years — can expect higher returns of 20% to 30%.

Most acquisition and construction activity will revolve around skilled nursing and AL facilities, especially those with Alzheimer's care units. Lending activity also is strongest for these product types, thanks in part to government sources such as Freddie Mac, Fannie Mae and HUD, as well as commercial healthcare real estate finance companies like GE Capital, Healthcare Financial Services. While government-sponsored entities (GSEs) may be the lifeblood of permanent financing for the industry at the moment, there is no predicting how the political environment will impact the cost and availability of these capital sources. Some investors and advisors assume a two- to five-year transition of the GSEs into private entities or public/private partnerships which lends uncertainty to the marketplace. Astute players will capitalize on this through the creation of new, innovative forms of debt, including the resurrection of bridge and mezzanine financing models.

Florida and California, as well as cities such as Las Vegas and Phoenix, traditionally have been good markets for senior housing but the current weakness in residential markets has temporarily dampened their popularity. Colorado, Texas and parts of the Midwest are emerging as good investment options while states facing budget issues such as California, Illinois, Michigan, Minnesota and New Jersey lose their luster amid growing concerns about Medicaid reimbursements. Forty-six states face budget shortfalls amounting to nearly \$130B this year and about 40 states have already indicated they will face shortfalls in 2012 to the tune of \$113B. To bridge budget deficits, states often cut healthcare spending, putting Medicaid funding in jeopardy. This is magnified by high unemployment rates as more people scramble for subsidized care as income levels drop.

II. INVESTMENT POTENTIAL STRONG WITH HIGH-TEEN RETURNS

The effects of pent-up demand and a strengthening stock market will extend well beyond funding acquisitions by publicly traded REITs and driving valuations. More private equity will be unleashed and community banks will increasingly fund development and acquisitions as the year progresses. An unequal supply/demand ratio ensures investment growth. Industry analysts peg the total market cap rate for investment-grade senior housing products at \$230B and \$260B for an estimated 21,000 properties with 2.8 million units.

Investors will focus more on AL and skilled nursing with Alzheimer's care. As of Q4 2009, this sector generated a cumulative return 2.7 times better than its mid-2003 value when compared with the entire commercial real estate sector, which posted a cumulative gain of just 1.5 times of its mid-2003 value, according to the National Council of Real Estate Investment Fiduciaries (NCREIF).

There are insiders who feel that investment in AL will be limited due to state budget troubles and associated shortages in Medicaid reimbursements. Because rules vary widely between states when it comes to qualifying for Medicaid payments, only a very small portion of AL facilities, less than 20% on average, is dedicated to Medicaid patients versus the number of units set aside for skilled nursing. In a similar fashion, the majority of AL units with Alzheimer's care are allocated to private pay or long-term insurance patients. There is no doubt that the need for AL will guarantee a demand for this level of care. And without any near-term reimbursement issues, most acquisitions by healthcare REITs, including recent high-profile deals, can be expected to involve these properties.

Investors and lenders will measure skilled nursing facilities based on metrics spotlighting reimbursement in a specific state, such as consistency or volatility of reimbursements, the political climate, budgeting practices, and the existing and anticipated population of older people. Many skilled nursing investors prefer that at least 10% of a facility's residents be supported by Medicare, with the balance supported by Medicaid. These same investors can view a facility with more than 90% of its residents supported by Medicaid as an opportunity to add value and improve the payor mix.

Independent living suffered most in the economic downturn, specifically from the crash in the housing market and home values. The housing collapse left potential buyers unable to sell their properties, preventing them from purchasing independent living units. IL units will not recover anytime soon as there is no indication that the housing market will recover in any significant manner for at least two years.

The same diversity that could have aided in the popularity of CCRCs also was this property type's downfall. The many levels of care within a CCRC and the associated management overhead require a capital-intensive approach and there is not much cash making the rounds these days. The inability of potential residents to transition from homes to IL units, the initial entry point for CCRCs, effectively eliminates CCRC as a viable option in today's market. The same is true for occupants of IL units who cannot sell and move into AL units, lengthening transition times, stifling short-term cash flow and depressing IRRs. The CCRCs offering an option to rent IL units, thus circumventing the sell/buy transition into IL, are finding some success enticing new residents.

INVESTMENT PROFILE OF MAJOR SENIOR HOUSING PROPERTY TYPES

<i>Characteristics</i>	IL Units	AL Units	Skilled Nursing	Alzheimer's/ Dementia Care
<i>Occupancy in Q3 2010</i>	87.1%, down 30 bps from Q2	88.7%, up 40 bps from Q2	88.5%, down 0.1% from Q2	88.9% as of Q4 2009
<i>Average Monthly Rent and YOY Rent Growth</i>	About \$2,700 0.8%	About \$3,500 0.5%	Per diem rate of \$264 if private pay, about \$170 if paid by Medicaid and more than \$400 if paid by Medicare 3.3%	Above \$4,500 if part of AL facility or about \$233/day if part of Skilled Nursing
<i>Pay</i>	All Private Pay	Mostly private pay with some help from Medicare	Mostly government payments	90% private pay
<i>Operating Margin</i>	On the high end at 35% to 45%	About 30% to 40%	About 15% to low 20%	About 30% to 40%
<i>Price/Unit as of Q3 2010 and YOY Comparison</i>	\$65,000 Up 11%	\$114,300 About the same	\$44,900/bed Down about 5.5%	N/A as its part of AL and Skilled Nursing
<i>Average Acquisition and Development Cap Rate</i>	8% for acquisitions and more than 10% for development	10% for acquisitions and about 12% for development	13% for acquisitions and 15% for development	N/A
<i>Estimated Supply as of Q4 2009</i>	670,000 units	503,000 units	1.5 million units	105,000 units
<i>Associated Demand & Risks</i>	Less need-based product that depends on the housing sector. There is no guaranty of length of stay.	Highly need-based investment with a mix of private and government pay; considered safe and preferred by the majority of the industry.	Highly need-based. Gets sizeable funds from the state, so there is less worry about tenant delinquencies. Although it can get risky if reimbursement amounts drop or if payments from the state are delayed.	Need-based product that is going to gain more business and is touted as a safe investment.

Sources: National Investment Center, Marcus & Millichap, ARA Seniors Housing Group

Dire Need for Memory Care Units

While AL facilities are of more interest to investors, memory care units will be in demand going forward. There are more than 4,000 properties nationwide currently offering memory care services, the majority of which are a part of a bigger backdrop such as skilled nursing or AL, or a component of a CCRC. Only about 600 of these properties are standalone memory care facilities. Though many developers are already beefing up the ratio of memory care units within planned senior care facilities, this niche will remain underserved in the short term and offer ample room for growth.

Housing and care services for Alzheimer's will deserve special attention. The disease accounts for about 60% to 80% of all dementia cases and estimates suggest that the number of Alzheimer's units will need to quadruple by 2030. Alzheimer's afflicts about 35 million people worldwide — 5.3 million in the U.S. alone. Current estimates indicate that in the U.S. a person is diagnosed with the disease every 70 seconds. This rate of diagnosis is projected to accelerate to every 33 seconds by 2050. The estimated costs of dementia are \$604B worldwide and \$172B in the U.S. The rate of increase in demand for dementia-related care will be highest in the Northwest, projected to jump 100% between 2000 and 2025, followed by increases of 65% in the southern coastal states and 48% in the Midwest and Northeast.

These growing needs will foster expansion of existing memory care facilities and the development of new facilities. In 2009, about 59% of AL facilities provided specialized Alzheimer's and dementia care, charging an average of \$4,435 per month or \$53,220 annually. About 29% of nursing homes had separate Alzheimer's Special Care Units (SCUs). The average cost in 2009 for a private room in these SCUs was \$233 per day, or \$85,045 annually. The average cost for a semi-private room in an SCU was \$208 per day, or \$75,920 annually.

Medicare beneficiaries aged 65 and older in need of dementia care were eight times more likely than other Medicare beneficiaries in the same age group to stay in a skilled nursing facility under Medicare coverage. In 2004, it was estimated that the group with dementia had 319 stays per 1,000 beneficiaries, compared with 39 stays per 1,000 beneficiaries for those without a dementia diagnosis.

Pay Attention to Inpatient Rehab & LTACH

The appetite will be strong among investor/buyers and lenders for post-acute care products such as inpatient rehab facilities and long-term acute care hospitals (LTACHs). These need-based products offer relative safety since there is not much spec product in either niche and supply/demand ratios are fairly balanced. Both types of facilities can benefit from partnerships with hospitals, particularly as government reimbursements shrink; hospitals can clear beds as inpatient rehab centers and LTACHs offer post-operative care for invasive surgeries and provide a dedicated environment for sufficient healing before a patient returns home.

This niche is not necessarily well understood due to a perception of complexity. While inpatient rehab facilities and LTACHs don't carry the operative risks inherent with hospitals, they do bear different types of risk. Inpatient rehab centers typically provide care revolving around post-op therapies, physical and occupational therapy and psychological therapy. LTACHs usually tackle the more serious care required after surgeries and treatment for cardiovascular and neurological diseases.

Underwriting these facilities on a proforma basis can address financial risks. Proponents believe inpatient rehab facilities and LTACHs can be perfect built-to-suit models through which a hospital and developer can enter into an off-balance sheet transaction, with the hospital signing a lease that assures the developer of occupancy rates, allowing for more favorable construction loan terms.

A recent joint venture involving Cornerstone Healthcare Plus REIT backs this trend. The JV brings the REIT into the development of the Specialty Rehabilitation Facility in Littleton, Co., with development partner The Cirrus Group, which brings expertise in the construction of healthcare-related products and inpatient rehab facilities to the deal. CareMeridian LLC will manage the center. Construction will commence during Q2 2011 on the 36-bed, 27,000-s.f. post-acute care center, which will provide services for patients requiring care for neurological injuries.

III. 2011 Good for Transactions

Transaction velocity for senior housing improved considerably in 2010 and is anticipated to increase this year, mostly due to a growing aggressiveness among REITs and their willingness to pay full price for good assets. Much of the money that will be deployed by REITs was raised on the public market, often senior unsecured debt carrying a five- to 12-year term. With interest rates still at attractive levels of 4% to high 6%, large denomination deals will power much of the transaction volume. REITs have an added incentive to form alliances or acquire private senior housing operators: tax laws that allow REITs to partake in operating income produced by senior housing properties. For REITs, this is a better deal than only relying on flat-rate rent in NNN leases.

Ventas' \$7.4B planned purchase of Nationwide Health Properties solidifies the theory that large REITs will move on large portfolios in 2011. This acquisition announcement came out during early Q1 2011, months after Ventas' \$3.1B purchase of the assets of AL company Atria Senior Living Group. These mega deals are an extension of an already busy 2010 for the large REITs, including Health Care REIT's \$817M partnership deal with Merrill Gardens LLC, and HCP's \$6.1B acquisition of 338 assets consisting of skilled nursing and AL facilities owned by HCR ManorCare. The pace of senior housing acquisitions will likely continue well into 2011 as REITs have a lot of money in reserve and stock options.

However, as transaction volume increases it's more likely that per-deal dollar volume will fall. Large deals are few and far between in senior housing and chances are fewer \$1B-plus portfolio acquisitions will be consummated this year. The focus will shift to midsized and smaller deals.

It's also likely that this frenzy of deal will not continue for too long. Senior housing is operation-based and properties in this sector aren't traded as often as other commercial properties, such as apartments or retail. Compared to apartments and retail, there is not as much institutional money backing senior housing, reducing pressure to churn out adequate returns by constantly buying and selling units.

Foreign investors, however, can be expected to intensify their pursuit of senior housing assets and operating companies, as they have for the last two years. They seem to be attracted to idea of senior housing as a defensive real estate strategy based on the need for supportive services and as a sector that compares favorably to other sectors in an economic slowdown. Senior Housing Investment Advisors anticipates a dramatic increase in the volume of engagements for new domestic and international investors looking to enter this business. The firm is already tracking investors from Pacific Rim countries such as China,

Singapore and Australia who are actively hunting for properties. Chances are interest in senior housing among foreign sources of equity and debt will intensify, specifically with foreign institutions and investors looking to establish dedicated debt funds. Senior Housing Investment Advisors also anticipates a substantial increase in the volume of real estate transactions utilizing its advisory services this year, with portfolios and individual assets seeing compressed cap rates translating into higher values for its owner/clients.

While some distressed opportunities may appear in senior housing, it will not be to the extent of those available in the office or hotel sectors. The current climate in senior housing may, in some cases, preclude an owner from acknowledging that a property may be distressed and prevent any discounting. A lot of these assets currently are being marketed at prices higher than would be expected, but as interest and revenues shrink over time, they could become investment prospects once owners cut prices.

In many cases distressed properties aren't performing at an optimal level and are operationally distressed. For these properties, it's a waiting game for buyers. Renaissance Senior Investments (RSI) is one firm looking at all types of senior housing, including distressed properties with occupancies as low as 50%. The company was formed in 2009 and regularly talks with brokers as it monitors the market. It's also counts on patience to ferret out deals. RSI also will acquire performing properties with an eye to expansion to add value. It recently purchased the 36-unit Crown Cypress assisted living facility in Kingsport, Tenn. The property is about 93% occupied and expected to return about 10% to equity investors based on current performance. The facility also has about five acres of land for possible expansion. The Crown Cypress acquisition was the second deal for RSI in the last few months. In November it picked up an AL asset in Shelbyville, Ky.

RSI could pick up four to five properties this year and build up a portfolio of 20 to 30 assets during the next few years with its current backing from high net worth investors. It also hopes to secure a larger source of equity going forward. Ideal transactions will offer a minimum of 30 units. RSI's willingness to start with prices of about \$2M may give it an advantage over some of the bigger players who will not consider these smaller deals.

Cambridge Investment and Finance Co. also could emerge as an investor in senior housing via new construction and acquisitions. The equity arm of senior housing lender Cambridge Realty Capital favors AL, IL and skilled nursing product for acquisitions, preferring facilities with 100 or more beds. Cambridge Investment and Finance historically has been a buyer of turnaround or poor-performing properties to which it can add value through occupancy and NOI growth, and payor mix is important to its NOI calculations. It will consider old and new properties and can tap hundreds of millions of dollars for deals nationwide.

IV. ROBUST LENDING ACTIVITY

Much of the lending activity revolving around senior housing entails the refinancing of existing properties as owners and operators move to take advantage of lower interest rates. Private lending is prevalent in this sector, with top firms lending on healthcare properties. Construction financing tends to be provided by regional community banks. In general, lenders favor established senior housing players over unproven developers and owners, making it difficult for newer firms to break into the market. This barrier to entry inherently curbs competition and overbuilding.

Private lenders, such as GE Capital, Healthcare Financial Services, can close deals faster than their government-sponsored counterparts. Serious about the senior housing and skilled nursing sectors for about 12 years, the company was very active during the past two years, which were marked by a lack of unsecured senior debt. Most of its real estate deals fund skilled nursing and AL, a focus the company will maintain going forward. While budget cuts are a concern for skilled nursing, it is a need-based product that will always be in demand.

GE Capital, Healthcare Financial Services' current activity focuses on debt financing rather than equity investments. It doesn't underwrite HUD loans, drawing on its own money to fund all deals. Although its typical deal averages about \$40M, loans can start in the \$8M to \$10M range and reach as much as \$250M to \$300M. The company writes these loans to three- to seven-year terms, with 25-year amortization. Depending on collateral and leverage, rates currently could start at LIBOR plus 4% on a floating basis or LIBOR plus 5.25% on a fixed basis. GE Capital, Healthcare Financial Services sticks to 65% to 80% LTVs for its borrowers, who are mostly owners/operators. The company recently led the debt side of things for AVIV REIT in its strategic partnership with equity investor Lindsey Goldberg. The REIT is one of the largest owners of skilled nursing facilities in the U.S. with 171 properties and 17,000 licensed beds.

One top senior housing lender, BBVA Compass, will be a source of debt during 2011, with about 60% of its senior housing business comprised of construction loans. BBVA can be expected to focus on sponsorship and property operators when considering a loan, and currently targets AL/memory care facilities due to the need-driven nature of the product. The lender deems projects centered on IL less attractive due to continued uncertainty in the housing market.

BBVA's typical terms for construction financing include requiring 35% to 45% upfront cash equity and full recourse for loans with three-year primary terms and conditional extension options. Pricing starts at LIBOR plus 300 bps to 400 bps with a 5.5% to 6% "all in" floor rate. The equity requirement can fall to the 25% to 35% range for acquisition financing. BBVA completed approximately \$50M worth of loans in 2010 and anticipates its 2011 lending volume reaching the \$200M-plus range. Its top customers include most of the public senior housing companies such as Sunrise, Emeritus, Capital Senior Living and Brookdale, and private companies such as Senior Resource Group, Senior Lifestyle Corporation, Kisco Senior Living and Oakmont Senior Living.

GSEs, HUD Lead the Lending Scenario

There is no denying that the GSEs and HUD have been aggressive in the senior housing and healthcare sectors during for the past few years. HUD wrote about \$2.7B worth of loans in the healthcare sector in 2010. Its construction lending volume totaled about \$200M across 15 deals while refinancing and acquisition loans accounted for about \$2.5B over 310 deals. Fannie Mae and Freddie Mac each crossed the \$10B-threshold during 2010 in lending on multifamily, which includes senior housing assets. Both Fannie and Freddie are expected to increase their business this year, with some projections suggest that Freddie Mac's lending could grow by 15% to 20%.

Senior housing accounted for at least \$600M of the loans written by Freddie Mac last year and the GSE's lending could exceed that amount in 2011. The majority of its senior housing business in 2010 was refinancing, but going forward Freddie Mac expects to do more acquisitions as more private equity steps in to buy properties. Freddie Mac typically underwrites to 65% to 75% LTVs on stabilized or near-stabilized

properties and favors occupancy rates of at least 85%. Besides consideration of the local senior population and related demand metrics in a market, the GSE also studies the Medicaid mix. Ironically, Freddie Mac is not too keen on properties with a high Medicaid payor ratio because of the risks associated with cutbacks to or delays in government reimbursements.

Freddie Mac achieved two major milestones in 2010. First, the GSE closed on a \$200M structured credit facility with an institutional fund client under its Multi-Asset Flow Facility (MAFF) product line, giving the borrower the ability to refinance or acquire properties. Freddie Mac hopes to piece together more such deals this year. Its other big move made senior housing loans eligible for securitization under its Capital Markets Execution (CME) product line. CME essentially allows borrowers to avail themselves of lower interest rates through the sale of individual loan as securities, but in the case of senior housing, will create seniors housing-only pools of mortgages. Freddie Mac has 20 deals in the pipeline that will utilize the CME program. Last year, nine loans totaling \$100M were closed through this program.

Like the GSEs, HUD likely will see a substantial increase in deals this year. The HUD 232 LEAN program for long-term care facilities saw a 100%-plus increase in deal volume over the past fiscal year due to the lack of money in conventional capital markets. At any given time the GSE has at least 300 applications pending and HUD recently displayed confidence in strong growth by hiring 25 additional full-time employees to help with the workload. The much more favorable terms of the agency's programs, particularly its non-recourse loans, also ensures interest. HUD loans carry a 35-year amortization with interest rates based off 10-year Treasury notes, about 3% right now. For AL properties, HUD's LTVs hover near 80% for nonprofits and 70% for other developers. For skilled nursing, HUD's LTVs are 85% for nonprofits and 80% for others.

With over a decade funding healthcare facilities through HUD programs, Love Funding taps the government agency for 90% of its originations and its volume has risen considerably during the last few years. Love Funding closed more than \$200M worth of HUD deals in 2010 and stands a good chance of eclipsing the \$400M mark this year — it's already flush with enough deals to carry it through the first half of 2011. The lender keeps it safe, underwriting refinancings and acquisition and construction loans with LTVs of 70% to 75%. Terms include a DSC of about 1.18x. Typical refinancing rates are 3.75%, while rates on new construction run about 5%. Typical construction loan amounts range from \$10M to \$20M.

Love Funding recently closed on a \$32M construction loan via the HUD 232 program for a skilled nursing and AL project in Wellington, Fla. The 86,000 s.f. building will be built by Palm Health Partners of Jupiter, Fla., a regional developer that recently sold most of its portfolio to Signature Properties. The non-recourse loan carries an LTV ratio of at least 80% for an LTC ratio of about 65%, with an interest rate of 4.7% on a 40-year fixed term. The loan is expected to close soon and initial groundwork has commenced on the \$44M project, which will offer 52 AL beds and 120 skilled nursing beds. The pro forma includes a payor mix of 20% Medicare, 70% Medicaid and 10% private insurance.

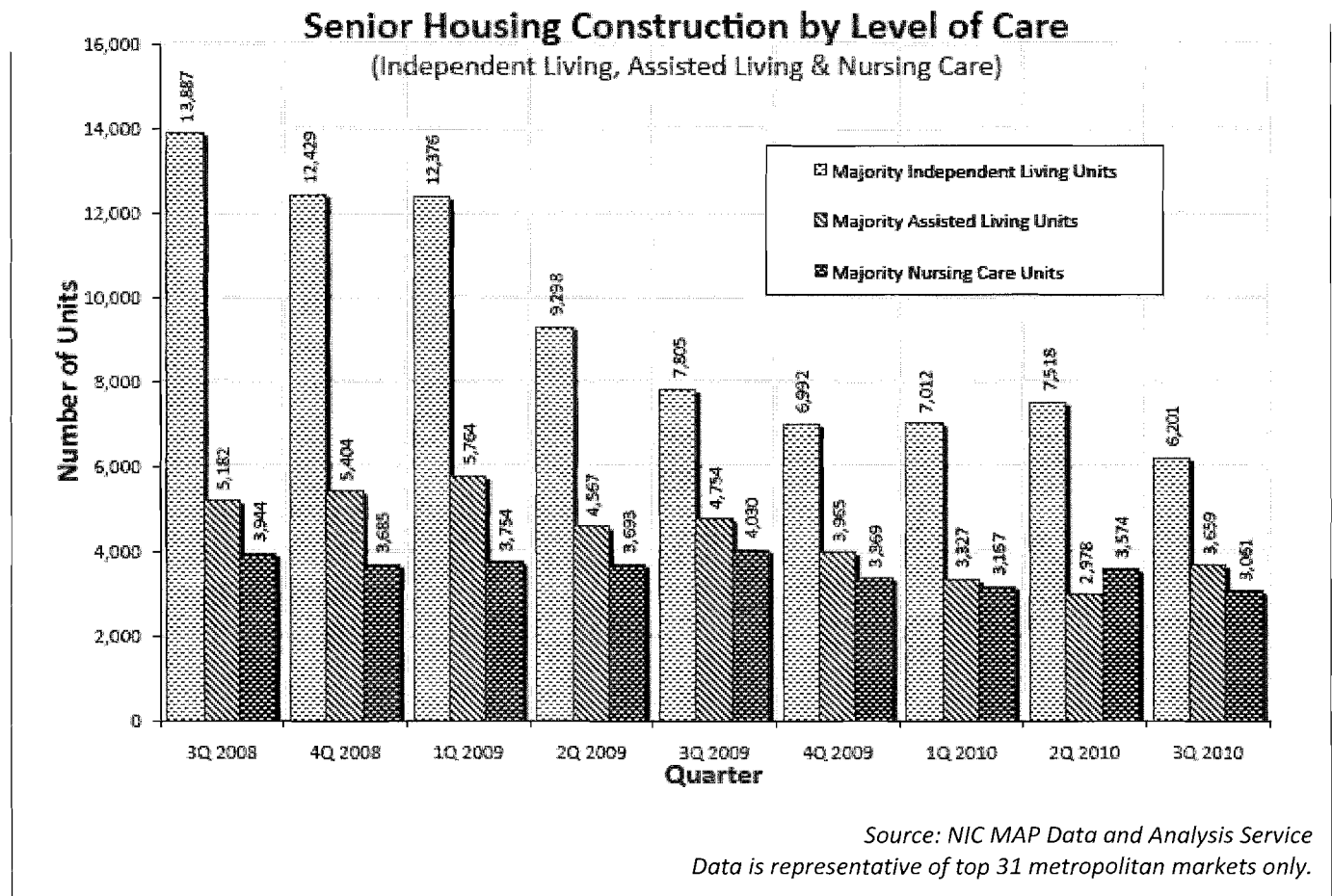
Cambridge Realty Capital expects increasing refinancing and acquisition lending through HUD programs. Cambridge Realty taps HUD as well as private investors to write bridge loans to be replaced by HUD takeouts. Its underwriting, though variable with the type of senior housing, typically requires a 20% IRR. HUD loans underwritten by Cambridge Realty include an LTV of up to 80% and interest rates of about 4%. One of the lender's most recent deals put together a construction-to-perm loan under the HUD 232 program for the 129-unit Ottawa Pavilion skilled nursing project in Ottawa, Ill.

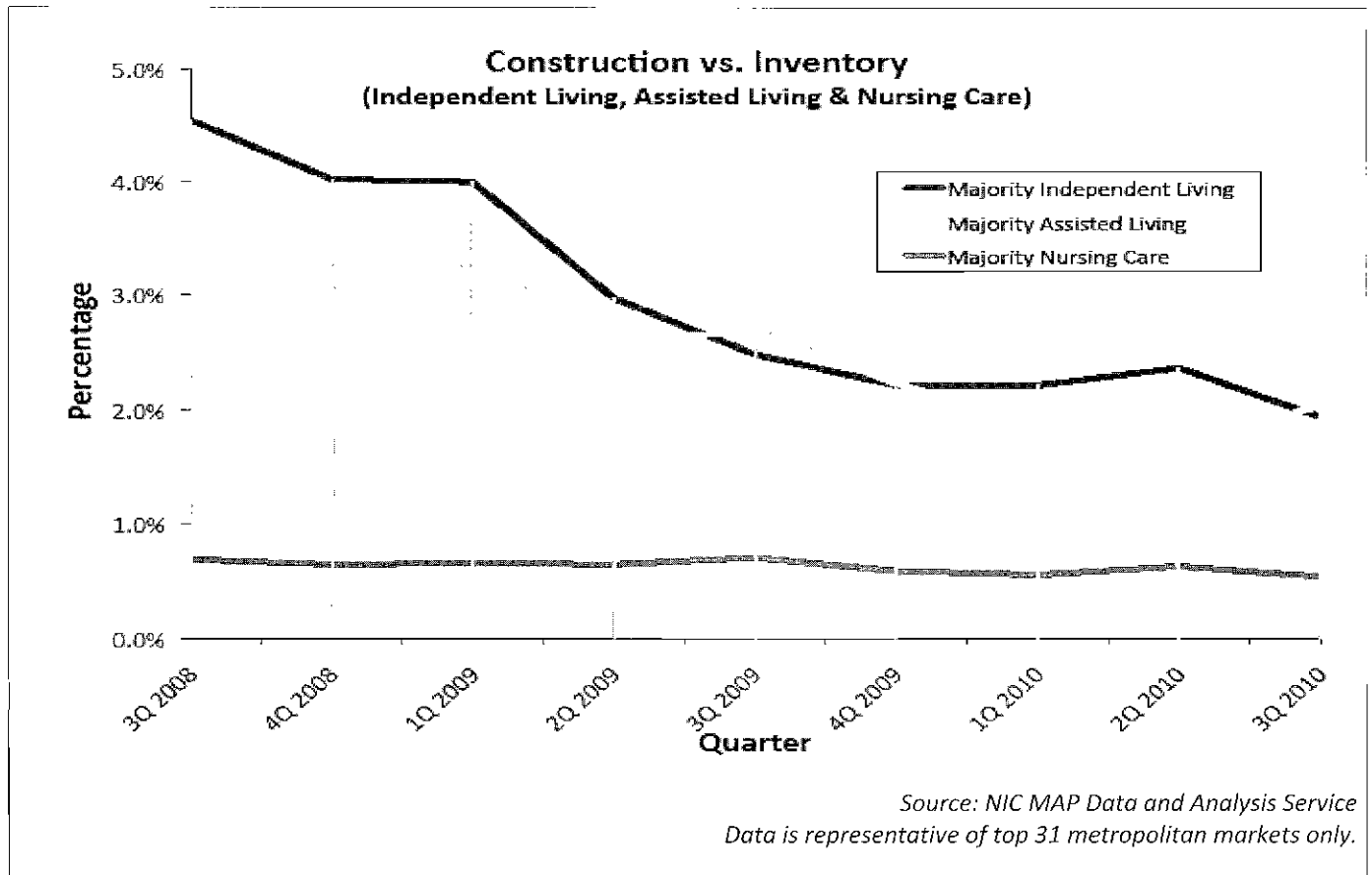
Walker & Dunlop also taps GSE sources to fund senior housing loans. It recently drew on the HUD 232/223 (f) program to shell out a \$104.7M acquisition loan for Ark Holding Co.'s purchase of 18 skilled nursing facilities in South Carolina. This is the second deal of this magnitude for Walker & Dunlop in the last nine months. It closed on a \$162.2M loan in August to refinance 16 facilities owned by IBHSAR Holdings in Florida. The loans, attached to properties with occupancies greater than 90%, were underwritten to 2.60 DSC.

V. CONSTRUCTION TRENDS

Construction activity will inch up this year, driven primarily by experienced owners/operators with access to private capital and/or good relationships with institutional lenders and regional banks. It will be a while before the industry's growth nears 2008 levels. New construction starts dropped by more than 30% in 2010 compared to 2009 levels, after falling by 60% in 2009 from 2008 levels. Absorption increased by 1.2% during the third quarter of 2010 for all types of senior housing properties, excluding skilled nursing, which saw absorption decline by 0.7%. Construction activity also declined slightly in Q3 to 2%, leading to a nearly balanced supply-demand ratio, as inventory grew by 1.7%.

In the face of a growing need for senior care facilities and this decline in new deliveries, the supply of existing units will quickly be outstripped by demand for need-based products such as skilled nursing, assisted living and dementia care facilities.





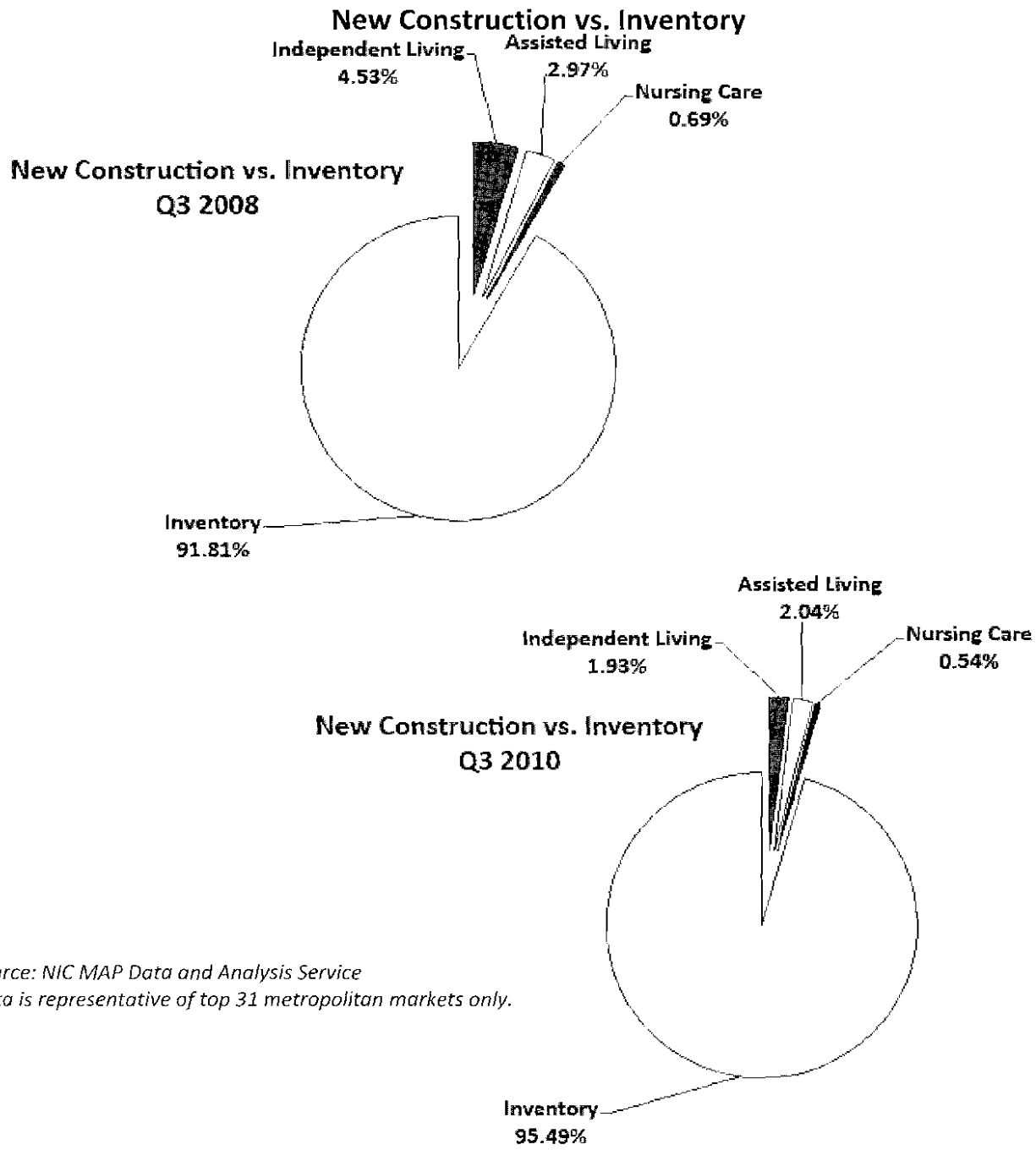
The need for these types of facilities will only increase. Approximately 78 million baby boomers will turn 65 this year, followed by at least three to four million boomers added to that roster for every year during the next 18 years. The current inventory of senior housing units or beds totals 2.5 million to 3 million. Forecasts indicate that the industry needs to add at least 94,000 units each year — an increase of 60% between 2010 and 2030 — to keep up with expected demand.

Large developers and owner/operators, such as Aegis Living, bank on this supply/demand imbalance and the lack of lending to keep newcomers at bay, leaving room for larger, more established firms to take advantage of lower land, construction and labor costs. This combination of fundamentals hasn't existed in 25 years and has Aegis eyeing the acquisition of quality pieces of land in markets it wouldn't have considered a few years ago. It has tied up one site in Seattle and two in Northern and Southern California. One of its upcoming projects, Madison Park in Seattle, will offer 100 AL and Alzheimer's units, luxury amenities, and a view of the city and Lake Washington. About 25 units will cater to Alzheimer's patients, renting for about \$7K per month. The remainder of the units will offer AL care for about \$3K per month. Construction of Madison Park will begin in 10 to 12 months.

Aegis develops about \$30M to \$100M worth of property annually. Through relationships with a few conventional banks it secures construction financing with takeouts funded through Fannie Mae and Freddie Mac. Aegis taps 50 stakeholders/high-net worth individuals for an equity stake to reduce its typical LTV to about 75%.

For smaller players without ready access to cash, fee-based assignments might not only generate revenue but also offer an access to new markets and mitigate the sector's high barrier to entry. Renaissance Senior

Living, for example, works on fee-based developments in Texas, Louisiana, Oklahoma and Canada while hunting for investment and turnaround opportunities. The firm uses this strategy, which may allow the company to open a satellite office in Arizona, as an opportunity to move into new markets and states with a minimal impact on its ledger.



Source: NIC MAP Data and Analysis Service
Data is representative of top 31 metropolitan markets only.

VI. HEALTHCARE REFORM AND ITS IMPACT

Though it has yet to play out, healthcare reform threatens to have a huge impact on the operation of senior housing facilities and, subsequently, their profitability and value. Under the Community Living Assistance Services and Supports Act (CLASS Act), a part of the Affordable Health Care for America Act, users of government-sponsored healthcare insurance will face cuts in Medicaid payouts, which will most dramatically impact skilled nursing. Older communities relying on Medicaid will face not only lower reimbursements but stiff competition from newer updated facilities specifically designed to cater to — and profit from — a payor mix of Medicare and private-pay patients. State budget deficits and looming state-level healthcare cuts will exacerbate the problem. On the other hand, AL facilities will get a boost from reform as the bill provides at least \$50/day in reimbursement, encouraging residents to stay at AL facilities longer and to delay a move to skilled nursing.

Profitability of senior care facilities, and their corresponding value, may best be ensured through the coordination of rehabilitation, post-operative treatment and on-going therapy care with referring hospitals. The transition of patients from a hospital to a care facility often is fragmented. Most hospitals don't track patients past discharge to post-operative treatment or rehabilitation. This absence of follow up leads to a high rate of relapse and readmission. Nearly 20% of all Medicare readmissions are within 30 days of discharge and the Centers for Medicare & Medicaid Services estimates that up to 80% of these readmissions are avoidable and cost the agencies at least \$15B. The Affordable Health Care act addresses these issues with provisions aimed at reducing readmissions by promoting episode-based payments (EBPs) that will cater to a patient's entire treatment cycle. By encouraging more optimal and predictable outcomes through the coordination of care and bundling all costs for a clinical condition for a defined period of time, an EBP system could eventually allow facilities across several levels of care to better predict occupancy, revenue, and, ultimately, profitability.