

Senior Housing & Care Report™

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Bridge Loans to Buoy Acquisitions

Expect mortgage bankers to pour more cash into short-term bridge loans for established investor/managers planning the acquisition of a wide range of senior housing properties in the year ahead. Veteran senior housing specialists such as **Cambridge Realty Capital** and **Dominion Healthcare** are guardedly optimistic about the beginning of a market resurgence in 2001. But they will be reluctant to finance new development projects. Nearly all of the senior housing construction deals approved by mortgage bankers this year will be FHA-insured loan packages funded through HUD programs. Conservatively underwritten acquisition loans for existing properties will account for most of the financing deals these lenders hold in their own portfolios.

The focus on acquisition loans reflects mortgage bankers' conviction that many markets are still threatened by overbuilding despite the swelling of the senior population and the sharp slowdown in senior housing construction over the past two years. Don't be surprised if lenders help spur a game of musical chairs among senior housing REITs and private investors alike. Much of the financing action will involve owner/operators who are combining new loans with the proceeds from earlier property sales to make new acquisitions and/or upgrade their portfolios.

Dominion Healthcare will concentrate on 12- to 36-month, variable-rate bridge loans up to \$10M for the acquisition or refinancing of single senior housing properties until the market takes an upswing. It will also participate with banks and credit companies on five- to 10-year mortgages averaging \$25M to \$35M for the acquisition or refinancing of multi-property senior housing portfolios. Dominion expects to fund up to \$150M in bridge loans this year. Participations with other lenders may total as much as \$200M. Dominion will take

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New Year Strategies to Reinforce Conversion Trend

Expect even more senior housing developers to turn their attention to conversions this year as the combination of rising land costs and lenders' tighter grip on construction cash makes new development projects harder to pencil out. Opportunistic developers will cast a particular eye toward old hotels, hospitals and nursing homes that can be transformed into both market-rate and affordable housing for seniors nationwide. City councils and planning agencies often favor conversions as a way to save an historic building while providing much needed housing for seniors. Redevelopment specialists can often use the proceeds from the sale of state and/or federal historic tax credits to help meet their equity costs on these projects. Those willing to reserve a portion of the redeveloped properties for lower-income tenants can qualify for low-income housing tax credits.

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Senior Facts

The number of people age 65 and older in the U.S. is expected to rise to about 40.1 million by 2010. This number will represent 13.4% of the population. The senior population age 65 years and older is expected to increase to 53.35 million by 2020. This number will represent 16.4% of the population Source: *U.S. Census Bureau*.

Mature adults are the fastest growing group that is buying computers and logging onto the Internet. They are also the fastest growing demographic segment of the population. 7.6 million Americans age 50+ are on-line. Americans age 55+ logged the most usage at an average of 33 hours each month. This compares to an average 24 hours a month by other age groups. Source: *Seniorjobbank.com*

In 1997 45,583 senior housing units were under construction. This number increased to 50,667 in 1998 and climbed to 65,879 units in 1999. In 2000, the number decreased to a total of 35,305 units constructed. Source: *Seniors Housing Statistical Digest, 2000-2000*. American Seniors Housing Association.

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as much as a \$10M piece in these multi-lender transactions. Dominion expects to fund about 15 short-term bridge loans during the year ahead. Borrowers can expect the firm to cap LTVs at 75% and price the loans to float 3.25% to 6% over the 30-day LIBOR index. This would put start rates in the mid 9% to mid 12% range based on late 2000 figures. Dominion will focus on properties whose current cashflows can support a debt service coverage ratio of 1.45 to 1 or higher. It will require full recourse on most deals. Dominion will supplement its bridge loan program by pumping another \$50M into HUD loans.

Cambridge Realty Capital expects to boost its volume of both short-term bridge loans and longterm

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Transamerica Senior Living looks to follow last year's purchase of an old hospital in San Francisco by closing more deals for the acquisition of established properties along the West Coast that can be redeveloped as assisted-living facilities. The non-profit **Foundation for Social Resources** plans to focus on the conversion of existing properties from California to Texas into affordable senior housing complexes. **Covenant Communities** will scout new opportunities in the Southwest after starting work last year on its \$12.2M conversion of the historic 300-room Hamilton Hotel in Laredo, Texas, into 165 apartments for low-income seniors. **Wilder Balter Partners** looks to accelerate its conversion activities in the Northeast after taking on the \$9.85M redevelopment of an old nursing home in Hyde Park, N.Y.

mortgages funded through Fannie Mae, Freddie Mac and HUD's Section 232 program. The firm projects a bridge loan volume of at least \$25M for the new year. Cambridge will consider deals as small as \$1M for owner/operators looking to buy proven senior properties.

Cambridge will capitalize on its new relationship with **American Property Financing (APF)** to book more Fannie Mae and Freddie Mac deals. Cambridge used the APF alliance to book just two agency loans in the final quarter of 2000 (*see Straight From the Market, page 2*). But it expects to close \$50M to \$75M of Fannie Mae and Freddie Mac deals this year. Cambridge aims to boost its volume of HUD 232 loans to \$150M this year from about \$100M in 2000.

Much of the activity will involve joint ventures between for-profit and nonprofit organizations. Look for the Foundation for Social Resources to structure more of its conversion initiatives like the JV it formed last year with **MCM Development** to develop the 80-unit Eastridge Apartments in Grass Valley, Calif. The partners raised \$700T of equity cash by selling \$815T of low-income housing tax credits to **Paramount Financial Group**. **Covenant Communities** and **Wilder Balter** expect to complete their ongoing projects later this year. **Wilder Balter** raised \$8M of equity for the New York project by selling about \$9.8M of LIHTCs to **Lend Lease Real Estate**. **Covenant** joined with the **Laredo Housing Finance Corp.** to redevelop the old Hamilton Hotel. The partnership raised equity cash by selling \$2.2M of historic tax credits plus \$6.8M of LIHTCs to **Related Capital Co.**