

LEGAL NEWS ALERT

Ruskin Moscou Faltischek's Seniors' Housing Capabilities

- Licensing Applications and Regulatory Matters
- Real Estate, Construction and Financing
- Contract Drafting and Reviews
- Counsel and Advice on Third Party Deals
- Project Related Litigation
- Compliance Audits
- Fostering Alliances Between Housing and Healthcare Providers
- Exit Strategies
- Facility Sales and Refinancing
- Evaluating Model Types for Developers
- Federal and State Legislation
- Employment Matters
- Occupational Safety and Health Administration (OSHA) Regulations
- Antitrust Regulations
- National Labor Relations Act
- Copyrights and Trademarks

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Wayne L. Kaplan

The Industry Today

The seniors' housing acquisition market won't be slowing down just yet from the record-setting pace of the last 2 years. With so much money chasing so many deals, demand has never been so robust, particularly for high-quality seniors' housing facilities, and cap rates keep declining.

Sale Prices

The average sales price per unit for assisted living facilities in 2006 dropped by 5% to \$132,900, according to the SeniorCare Investor, but demand was stronger than it was in 2005. The supply of higher-end properties and portfolios diminished somewhat in 2006 over 2005, and the average price per unit was helped by the continued decline in cap rates in 2006, especially for the more high-profile portfolios. While there are still an abundance of transactions that sell at cap rates in the 9% to 11% range, the more publicized ones tend to be in the 6% to 8% range. Steve Monroe wrote that assisted living facilities are getting more expensive to build, are getting larger in terms of the number of units and the total square footage per unit, and therefore the prices will most likely continue to escalate. Most older and/or smaller facilities sell in the \$75,000 to \$125,000 per unit range, and the newer and higher-end facilities will most likely be selling in the \$250,000 to \$400,000 per unit range in the next 5 years. Independent living facilities sold for an average of \$145,700 per unit in 2006, unchanged from 2005.

Occupancy Rates (3rd Quarter 2006 vs. 3rd Quarter 2005)

ALFs	= 89.5%	vs.	88.5%
ILFs	= 93%	vs.	92.5%
SNFs	= 88%	vs.	87%
CCRCs	= 91.5%	vs.	90.5%

Alzheimer's Facts and Figures

According to a report entitled "2007 Alzheimer's Facts and Figures" put out by the Alzheimer's Association, 2.4 million people aged 75 to 84 years old, which is 19% of all U.S. adults in this age range, have Alzheimer's Disease. Among Americans aged 85 and older, an estimated 42%, or 2.2 million people, are living with dementia. 300,000 Americans aged 65 to 74 have Alzheimer's, which is 2% of the population in this age range, and approximately 500,000

Americans younger than 65 have Alzheimer's or another form of dementia. At least 200,000 of those younger than 65 have early-onset Alzheimer's or other dementia diseases such as Lewy Body Disease, Frontotemporal Disease, Normal Pressure Hydrocephalus, Parkinson's Disease, or Creutzfeldt-Jakob Disease.

The Baby Boomers

The post-World War II baby boom generation is nearing retirement age. There are approximately 79 million of us. Those born in the Roaring '20s, between 1918 and 1929, are adding to the number of U.S. residents above the age of 85 at the rate of about 3% each year, and are increasing the demand for skilled nursing. Moreover, the baby boomers' parents, who are still robust are, for the most part, sitting on investments and retirement funds that will be inherited by the baby boomers over the next 10 to 20 years in the greatest generational wealth transfer in history. The boomers, like their parents, are now beginning to become empty nesters and will shortly begin looking for age-restricted communities and semi-retirement homes and, ultimately, assisted living facilities and then skilled nursing facilities, increasing demand for the health care sector. By 2020, one in six Americans will be 65 or older and baby boomers will experience the joys and trials of advanced age far longer than previous generations. Scary...

How Assisted Living Providers Charge for Their Care

According to the "2006 Overview of Assisted Living" from NIC:

Type	Percentage
Properties Offering One All Inclusive Rate	22%
Properties Offering A La Carte Care for Fees	16%
Properties with Tiered Pricing Above Base Rate	51%
Properties Charging by the Hour or Other Time	3%
Properties with Other Types of Plans	8%
Total	100%

In freestanding dementia care properties, those offering an all-inclusive rate for care represent 56% of all payment plans.

What Other Experts are Saying

"Debt is still very low and it does not look like the Fed is going to raise rates in the near future. That's going to keep cap rates where they are."

- Harvey Green, Marcus & Millichap

"The seniors housing industry is at a positive inflection point in the cycle with little supply coming on line over the last 5 to 7 years, while demand for the product has been increasing and will continue to do so."

- Ray Lewis, CIO, Ventas

"No."

- Ken Dychtwald, aging specialist and author, who was asked at the last NIC conference whether what (seniors' housing projects) we are building today will be what the baby boomers will want 10 or 20 years from now.

"I always tell people, if you've seen one C.C.R.C., you've seen one C.C.R.C."

- Lauren Shaham, American Association of Homes & Services for the Aging (on navigating the residential costs of C.C.R.C.s, which vary by institution)

"There are now stronger operators in the business, greater depth of talent, a high degree of sophistication and more reliable data."

- David Schless, American Seniors Housing Association

"We've never seen the senior's housing market as dynamic as it has been this year. Customers are demanding more choices than ever before, and the emphasis on delivering quality is more important than ever. Add to that an environment where the cost of capital has become very competitive, and it's easy to understand why investors are searching hard for the right opportunity and why operators are trying to figure out how to respond to market demand and the high level of investor interest."

- Robert G. Kramer, NIC

"Sometimes the best deal is the one you don't do."

- Unknown



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