

LEGAL NEWS ALERT

Ruskin Moscou Faltischek's Seniors' Housing Capabilities

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- Evaluating Model Types for Developers
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Wayne L. Kaplan is Of Counsel at Ruskin Moscou Faltischek, P.C., one of New York's leading healthcare and business law firms, and is head of the firm's Seniors' Housing Group. Wayne was one of the founders and General Counsel of Kapson SENIOR QUARTERS Corp. and is currently Chairman of the Legal Committee and member of the Board of Directors of the Empire State Association of Assisted Living. He can be reached at wkaplan@rmfpc.com or 516-663-6553.



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The Industry Today

The U.S. is in fear of a deep recession, the stock market is tanking, home prices are plummeting, unemployment is rising, retail sales are tumbling, demand for commodities is sinking, bank earnings keep falling, and consumer confidence is shaky at best. The disconnect between the seniors housing buyer and seller in today's market continues to be fairly wide and there is apprehension on both sides of the table that didn't exist a year or two ago. Is all lost in the seniors housing industry? NO.

The demographics are still strong and are getting stronger. Also, there will be fewer new entrants to the industry, new construction will be scaled back and therefore there will be less competition in the coming years. As a result, good operators will go forth and prosper. The industry will periodically experience significant challenges just as it always has, including financial bubbles much like the one whose collapse is plaguing us now. In this slow acquisitions market, the few transactions that are getting done are either small, at a low price, or both. However, the increasing size of the senior population will intensify demand for senior housing opportunities in the future, making current senior living communities even more valuable.

Construction of new seniors housing units has slowed by 12% over the last year, largely due to the frozen credit markets, and building activity is likely to decline even further in the months ahead according to the "Seniors Housing Construction Trends Report - 2008." Bob Kramer, President of NIC, says new product will become scarce after 2011. The building data shows that independent living units represent about 37% of the total units under construction, followed by apartments (29%), assisted living (17%), nursing care units (11%) and memory care (6%).

However, the seniors housing market is not on life support. Leasing velocity may have trended down, but units are being absorbed. Shovels may not be cracking through the earth as before, but projects are going up. Facilities are not flipping at rapid-fire pace, but investors are buying. And while financing is no longer easily obtained, borrowers are sourcing capital. The bottom line is: deals are still getting done.

Future Residents

According to Mr. Kramer, the average age of new residents in assisted living is now 84. The big wave of baby boomers won't be ready for seniors housing until about 20 years from now, so the industry will have time to find out what boomers want. And they will want something different from their parents. The focus will be on lifestyle and experience. The whole notion of successful aging

will be important, and buildings will have to focus on fitness, nutrition, active learning and socialization. It will be up to the industry to draw the contrast and show what it will be like to live in a vital community versus living alone at home. Boomers will want to maximize the retirement experience, not avoid it.

As Costs Rise, Assisted Living Remains the More Affordable Care Choice

The average daily cost for assisted living is still less than half the average daily cost for a private room in a nursing home – which helps fuel support for allowing seniors to age in place once they move into assisted living communities. According to the 2008 Long-Term Care Cost of Care research report from Prudential Financial, the average daily cost for assisted living is about \$100, or \$3,241 per month. The average daily cost for a nursing home private room is \$217, or \$6,600 per month.

Independent Living is Not Discretionary

Independent living facilities and CCRC's have been hit hardest by the mortgage crisis, losing prospective residents due to a rising number of seniors' inability to sell their homes. However, the transition from a single-family home is not purely discretionary. This is not simply a matter of what the consumer wants – seniors are moving because of health-related lifestyle reasons.

What Other Experts Are Saying

“It is always important to remember that capital is a commodity, it moves quickly and has no boundaries. As such, it will always go where the returns are the highest for the relative amount of risk. Despite the gyrations in the seniors housing publicly traded equities over the last few months, with much of that volatility based on fear, uncertainty and a lack of knowledge of the facts, the seniors housing and care industry not only remains a relatively safe investment vehicle, the returns will be favorable for many years and should beat other “real estate” oriented investments as well as other health care investments.

The impact on the industry from the crisis of confidence on Wall Street may be severe in the short term, but it will also result in a more inward-looking industry focusing on operations, staffing, quality of care innovations and, perhaps,

cooperation, and that will benefit everyone in the long term. For now, however, the strongest credits will still have access to capital, albeit at a higher price, while the weaker credits will either be locked out of the market or the price will be too high. For everyone in the industry there will be a renewed lender focus on track record, and it better be a good one.”

– **Steve Monroe, Editor** – The SeniorCare Investor

“We see growth in all forms of seniors housing except for nursing care. We will reach a point in the next 10 years where skilled nursing will no longer be the primary [seniors housing] segment.”

– **Robert Kramer, Pres. of the National Investment Center for the Seniors Housing & Care Industry (NIC)**

“Senior living's strong fundamentals are characterized by its dual health-care and real estate role and by the strong demographic trends that typify the senior living industry, and these fundamentals make its outlook positive despite the current credit crisis.”

– **Adam Heavenrich, Pres. of Heavenrich & Co.**

“Right now everybody is looking at cash flow and saying, ‘What's the trailing 12-month net operating income?’”

– **Chris Sonne, Managing Director, Cushman & Wakefield**

“All business cycles divide companies into three I's: innovators, imitators and idiots.”

– **Warren Buffet**

“I skate to where the puck is going to be, not to where it has been.”

– **Wayne Gretzky – Hockey Great**

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RUSKIN MOSCOU FALTISCHEK P.C.

Smart Counsel. Straight Talk.

East Tower, 15th Floor

1425 RexCorp Plaza, Uniondale, NY 11556-1425

516.663.6600 ▼ www.rmfp.com

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