

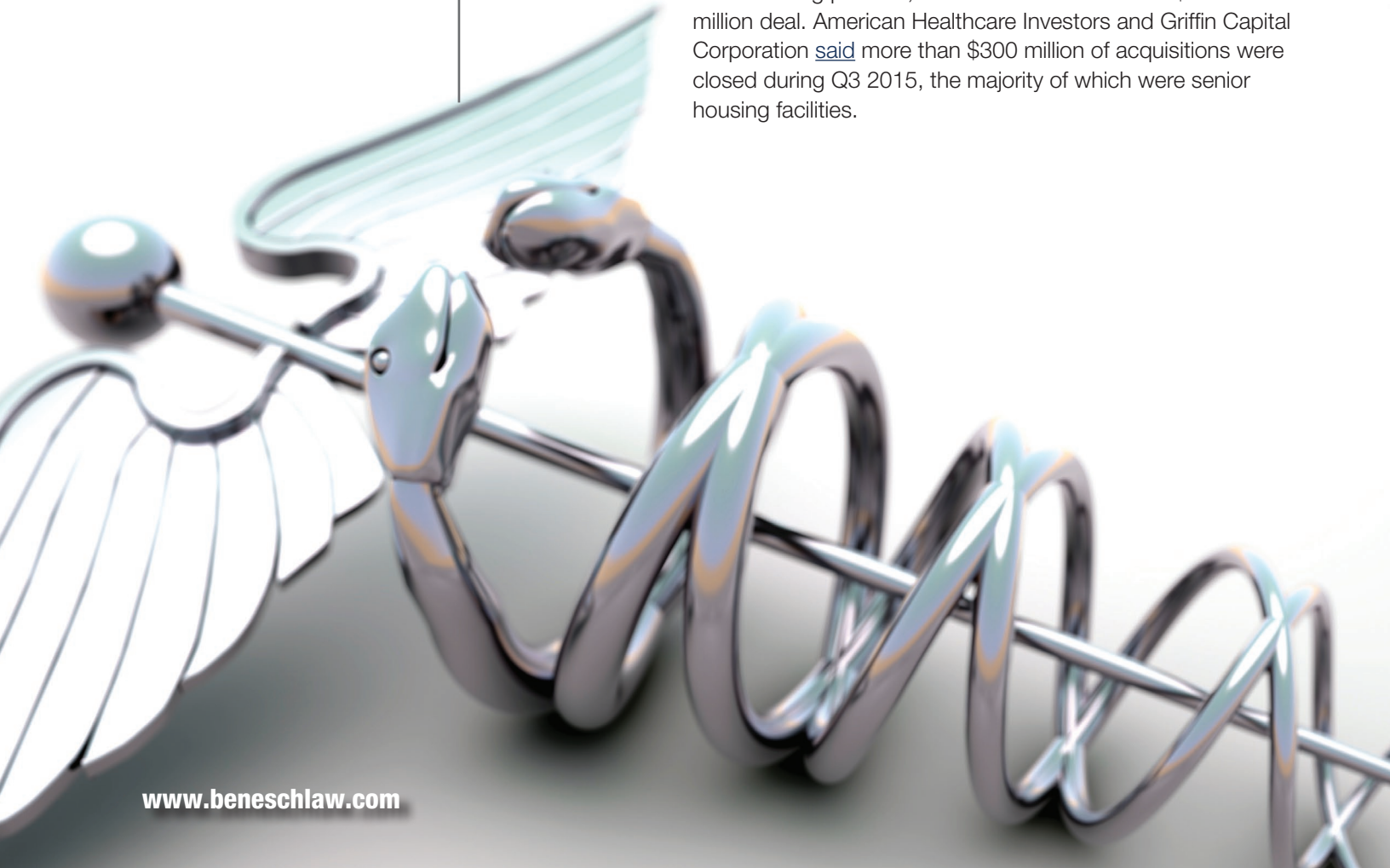
# Senior Housing Quarterly Report—Q3

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## 1. Key Findings

- The state of senior care was a major story during the third quarter, both in terms of the care provided and the facilities. Experts debated over the growth of the senior living provider market, with some worrying about it possibly becoming overbuilt to the point where there will be more senior living facilities than needed.
- Transaction activity remained consistent throughout the quarter, even if the majority were consistently for small amounts. In terms of bigger activity, Genesis Healthcare bought another wave of living facilities from a senior living provider, this time from Revera in a \$240 million deal. American Healthcare Investors and Griffin Capital Corporation said more than \$300 million of acquisitions were closed during Q3 2015, the majority of which were senior housing facilities.



## 2. Industry Trends

### Senior Housing Market

In July, National Investment Center for Seniors Housing & Care (NIC) [released data](#) suggesting the senior housing sector could be overbuilt as declining occupancy is outstripping demand. [The Wall Street Journal](#) also reported similar findings in August, where in the 31 markets where occupancy fell, new construction represented 6.4% of the existing inventory, compared to 3.4% in 2011. As a result, some senior home providers have taken a hit as worries rise about higher vacancy rates and lower rentals.

However, a separate report released by NIC [found](#) occupancy rates rose slightly from Q2, with assisted living at 88.3% and independent living at 91.1% in Q3. The report says this valuation reflects an improving real estate market and recovering economy. Also, real estate experts [predict](#) further senior housing construction as it remains a lucrative venture for construction outfits.

The majority of construction during the timeframe was mostly small-scale, with a fair amount of construction projects coming in at \$10 million or under. For example, [Brookdale's dementia-care expansion](#) cost just \$7.4 million.

Also notable during the period are non-profit senior living organizations increasing their acquisition activity, and going after for-profit senior establishments. [Experts say](#) recent purchases by non-profits of for-profit portfolios show non-profits are looking for acquisitions that will help extend their mission and also maintain their reputation. Irving Levin Associates also [noted](#) that while the dollar amount for senior housing M&A for the first half 2015 is lower than 2014, the amount of actual deals is higher.

### Senior Living

With the senior population continuing to grow, the facility construction is expected to follow suit. But with that growth trend, new tactics may be required. A Health and Housing Task Force [report](#) by the Bipartisan Policy Center found those working in housing and healthcare must collaborate regularly to harness opportunities presented by the expanding population of older adults. The report says that by closely connecting healthcare and housing, older adults' health outcomes can be improved, healthcare system costs reduced and millions of older adults can age as they choose. The adequate healthcare of the elderly does remain an issue, [according](#) to the International Labour Organization.

Another burgeoning issue senior providers are facing is pressure on wages that could take a direct toll on their bottom line, primarily from minimum wage hikes and extending overtime pay [stemming from a White House proposal](#) to increase minimum wage. The Long-Term Care Minimum Data Set (MDS) created [financial sensitivity models](#) to provide insight on how the senior living industry might be affected by an uptick in the minimum wage, and found some facilities could see an annual payroll increase of 10.2%, a total expense increase of 4.5% and a net operating margin decrease of 3.4%.

Concerns over senior care continues to be a reoccurring theme, especially as some news events focused on providers either having to deal with not providing sufficient service or enhancing what they already provide. A review by the Alzheimer's Association [found](#) a majority of Massachusetts nursing homes that advertise dementia care appear to be not fully complying with state rules designed to ensure they are not making false claims about their services and can appropriately treat their most vulnerable patients.

The use of senior care facilities for specific chronic diseases, such as Alzheimer's and dementia, is also on the [rise](#) as more providers recognize the increasingly sick senior populace.

### 3. Industry News

#### Regulatory/Legislative

The quality of care provided was also a trending topic throughout the time period, with both studies and legal action taken to earmark what seems to be an ongoing issue. One of the biggest judgements made against senior care providers came from Office of Inspector General (OIG), which [reported](#) that despite seeing little change in the age or condition of their patients, they have increasingly billed Medicare for highly intensive and profitable services at significant expense to the program. OIG says that increased use of intensive physical and occupational therapy for nursing home patients added \$1.1 billion to Medicare's \$52 billion budget for skilled-nursing care in 2013, and \$900 million of that amount was the result of a hike in the use of the most intensive therapy, yet the patients who received the services were largely the same age, with the same medical conditions.

Centers for Medicare & Medicaid Services (CMS) also [addressed](#) quality senior care, proposing changes to long-term care operations, including individualized meal plans, antipsychotic use and staff training, which it hopes will "modernize" the long-term care industry. CMS says the proposed changes would help reduce hospital readmissions, cut the rate of infections and increase the overall quality and safety of nursing homes.

However, the CMS [came under fire](#) in July for proposing a 0.2% cut to outpatient prospective payment system rates for 2016, which means approximately 3,800 hospitals and 60 community mental health centers would collectively get \$43 million less than they got in 2015.

The HHS OIG [announced](#) the creation of a new litigation team to concentrate on identifying and fining Medicare and Medicaid fraud. The team's creation is aimed at putting further pressure on physicians, drugmakers and other healthcare organizations suspected of defrauding the federal government.

Outside of fraud worries, the senior healthcare sector also issued concern over the rise of health insurer mergers. The American Medical Association [said](#) recent merger activity could lead to higher prices due to anti-competitive activity. One such mega-merger, [Anthem buying Cigna](#), valued at \$54.2 billion, will create the nation's largest health insurer by enrollment, covering roughly 53 million patients in the U.S. However, Forbes [says](#) these major mergers could disrupt the market in a positive way.

Capital One's purchase of GE's healthcare finance unit for [\\$8.5 billion](#) was also a noticeable event for the healthcare industry, as the GE unit provides multiple loans to senior housing providers, medical offices, hospitals and more.

Senior living M&A transactions, like hospital mergers, are currently at an all-time high. The National Investment Center for Seniors Housing and Care [reported](#) \$4.2 billion in dollar volume was recorded in the U.S. during Q3 2015 from 226 separate M&A transactions.

## 4. Transactions

Notable transactions for the period include:

- [Griffin-American Healthcare REIT III acquired Trilogy Investors](#), the parent company of Trilogy Health Services, for \$1.125 billion pursuant to a JV with NorthStar Healthcare Income (NHI). Trilogy is an owner-operator of purpose-built integrated senior healthcare campuses throughout the states of Indiana, Ohio, Michigan and Kentucky. Trilogy now operates a total of 96 properties comprised of more than 10,000 beds.
- [Genesis acquired the real estate for 20 of Revera's 24 properties](#) in a \$240 million deal, with the remaining four going under long-term lease agreements with Healthcare REIT. The 24 skilled nursing facilities in the portfolio contain 2,056 beds, bringing Genesis' total bed count to 44,805, further solidifying its top ranking on the American Health Care Association's list of largest nursing facility companies. The deal includes eight skilled nursing facilities in New Jersey, five in Vermont, three in Washington, two in Connecticut, two in Massachusetts, and one each in Maryland, Virginia, New Hampshire and Rhode Island.
- Senior housing private equity investor Blue Moon Capital Partners [closed on a \\$52.5 million development JV](#) with The Damone Group for the development of a 180-unit independent living, memory care and assisted living campus in Michigan. The closing represents Blue Moon's first investment stemming from its \$175 million fund, Blue Moon Senior Housing, which invests in developing new senior housing communities in JVs with developers and operators.
- [New Senior Investment completed a \\$640 million purchase](#) of a portfolio from Holiday Retirement. The properties are 100% private pay and span 3,298 units across 21 states, and have a 89.8% occupancy rate. New Senior owns 152 properties in 37 states and is an affiliate of Fortress Investment Group.
- American Healthcare Investors and Griffin Capital Corporation, the co-sponsors of Griffin-American Healthcare REIT III, [said more than \\$180 million of acquisitions were closed during the third quarter of 2015](#), most of which were senior housing. The REIT completed the acquisition of nine healthcare properties in five states for an aggregate purchase price of \$180 million during Q3.

## 5. Outlook

[A Place for Mom](#) predicts that there will be big changes in the senior care market in the near future. The decline of the traditional nursing home model of care seems possible, and technology will continue to play a bigger role.

With M&A action hitting [all-times highs](#) for the senior housing market, some big changes are expected to happen, including big brands consolidating. [Goldman Sachs said Brookdale Senior Living](#) is one of six companies deemed a likely acquisition target in the healthcare sector in the coming year.

Cost effective senior living solutions will be more important than ever, especially as longer life-spans result in higher costs. Many are unprepared for the high cost of senior housing, and the role of inflation on their budgets. Employee turnover and [job cuts](#) will also remain an issue, especially as [demand](#) for skilled workers and a consistent workforce increases.