The Dealmakers Forum E-Newsletter, August 13, 2014 - Kandu Capital Acquires Senior Living Community

Bringing You Senior Care M&A Deals and News

August 13, 2014 Issue:

Seniors Housing Weekly Update: 60 Seconds with Steve Monroe

Seniors Housing Values Not In Sync As seniors housing property values continue to rise, the publicly traded stocks are not sharing the same investor excitement...........
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Weekly Senior Care M&A Deals		
Home Health & Hospice		
Acquirer	**Target**	**Price**
The Ensign Group	Angeles Home Health Care	N/A
Advanced Home Care	Central Georgia Home Care Services	Merger
Long-Term Care		
American Realty Capital Healthcare Trust	9 skilled nursing facilities	$42.4 million
Chicago Investor	Mountain Crest Nursing & Rehab Center	$20 million
Transitions Healthcare	Baldock Hills Senior Living	$14 million
Capital Senior Living Corporation	2 assisted living communities	$33.9 million
Diversicare Healthcare Services Inc.	2 senior care facilities	N/A
NorthStar Realty Finance Corp	Griffin-American Healthcare REIT II	$4 billion
MBK Senior Living	Tuscany at McCormick Ranch	$25.5 million

Deal of the Week

Kandu Capital and its operating affiliate, **Bloom Senior Living**, have found an off-the-beaten track, underperforming independent living community outside of Shreveport, Louisiana with about 119 units. Occupancy was just 59%, despite the rest of the market being above 85%. But that doesn't matter, because the buyer plans to invest about $1.0 million converting most of the units so that when they are finished, there will be just 30 independent living units, but also 66 assisted living and 30 Alzheimer's units. Apparently, the building is beautiful but under managed, in a local market with 97% occupancy for assisted living and most Alzheimer's units at 100%. The existing financials are not relevant, so we will do a forecast based on conservative rates of $2,000 for IL, $3,000 for AL and $4,000 for Alzheimer's (these are the low end of ranges). The buyer believes they will reach 95% stabilized occupancy in 24 months (again, conservative), but we used 90% to estimate revenues of about $4.0 million and an operating margin of 28% (given the size, that could get to over 30%). That results in EBITDA of just over $1.1 million, and with a cap rate of 8.0%, the value would come to $13.8 million, or $116,000 per unit (higher with higher occupancy, rates and margin). With a purchase price of $5.5 million, or $46,200 per unit, plus the $1.0 million in renovations, that is a conservative doubling of value. Yes, always easier said than done, but they have done it before............ **Want to read more news? Click here for a free trial to *The SeniorCare Investor* and download the current issue today**

Financing of the Month

Seeing a growing need for memory care, and the thriving community of Lynnwood, Washington with no assisted living or memory care facility built in the past decade, the joint venture of **Living Care Lifestyles** and **Morningside Development Group** built **Quail Park of Lynnwood**. The property, situated on 15 acres on top of a wooded hill with spectacular views, features 85 assisted living units and 45 memory care suites. After construction ended in late 2013, the property had strong leasing momentum, but was not yet stabilized, which led the owners to **Northmarq Capital**. Through the lender's relationship with a national, non-recourse bridge lender, Stuart Oswald of Northmarq Capital's Seattle office arranged $32.5 million, or $250,000 per unit, in financing for the development to pay off its construction loan and pull out additional cash. The non-recourse bridge loan was structured with a 75% loan-to-value (with a value of about $333,000 per unit), 25-year amortization and a three-year term with two years interest only. In addition, the loan also allowed for the owner to receive additional funds once certain performance milestones are met...........**Want to read more news? Click here for a free trial to *The SeniorCare Investor* and download the current issue today**

Stat of the Week

In 2007, health care REITs, both publicly traded and the non-traded REITs, owned approximately 1,050 skilled nursing facilities, or between 9% and 10% of the for-profit market (excluding the 5,000 not-for-profit and government-owned facilities). Since the last market peak in 2007, REITs have more than doubled their holdings of skilled nursing facilities to about 2,170 facilities with 246,000 beds, or almost 20% of the market, which today totals approximately 11,000 facilities and 1.5 million beds (excluding government and not-for-profit). At the end of 2007, these REITs owned approximately 1,260 private pay senior living properties with 112,000 units, according to our rough calculations. Today, that has more than doubled to about 2,670 properties with 266,000 units. If our market size numbers are close, they own about 30% of the market, or a much higher percentage than in the SNF market (20%), even though both have shown significant growth in REITs' portfolios. All of this leads us to believe there still remain many acquisition opportunities for REITs, not to mention all the new development that will be prime targets in a few years............**Want to read more news? Click here for a free trial to *The SeniorCare Investor* and download the current issue today**

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