

# Valuing Assisted Living Facilities

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Healthcare Valuation: Part 8  
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# Today's Discussion

- What is an Assisted Living Facility
- Trends in Assisted Living
- Organizational Structures
- Value Drivers
- Sources of Industry and Market Data
- Valuation Example

# Definition of Assisted Living Facility

A residential care facility for individuals who can no longer live independently but generally do not require the skilled level of care provided in a nursing home.



# Types of Assisted Living Facilities

- Small stand alone facility
- Large stand alone facility
- Part of Continuing Care Retirement Community

# Residents Living in Assisted Living

- Majority of residents were non-Hispanic white, females
- Over half aged 85 years and over
- Almost 4 in 10 residents received assistance with 3 or more activities of daily living.
- More than  $\frac{3}{4}$  have had at least 2 of the 10 most common chronic conditions

# Revenue Sources for Assisted Living

- Average cost is \$3,477/month or \$41,724
- Not covered by Medicare or most other medical insurance
- Medicaid coverage varies by state
- Delivery of services

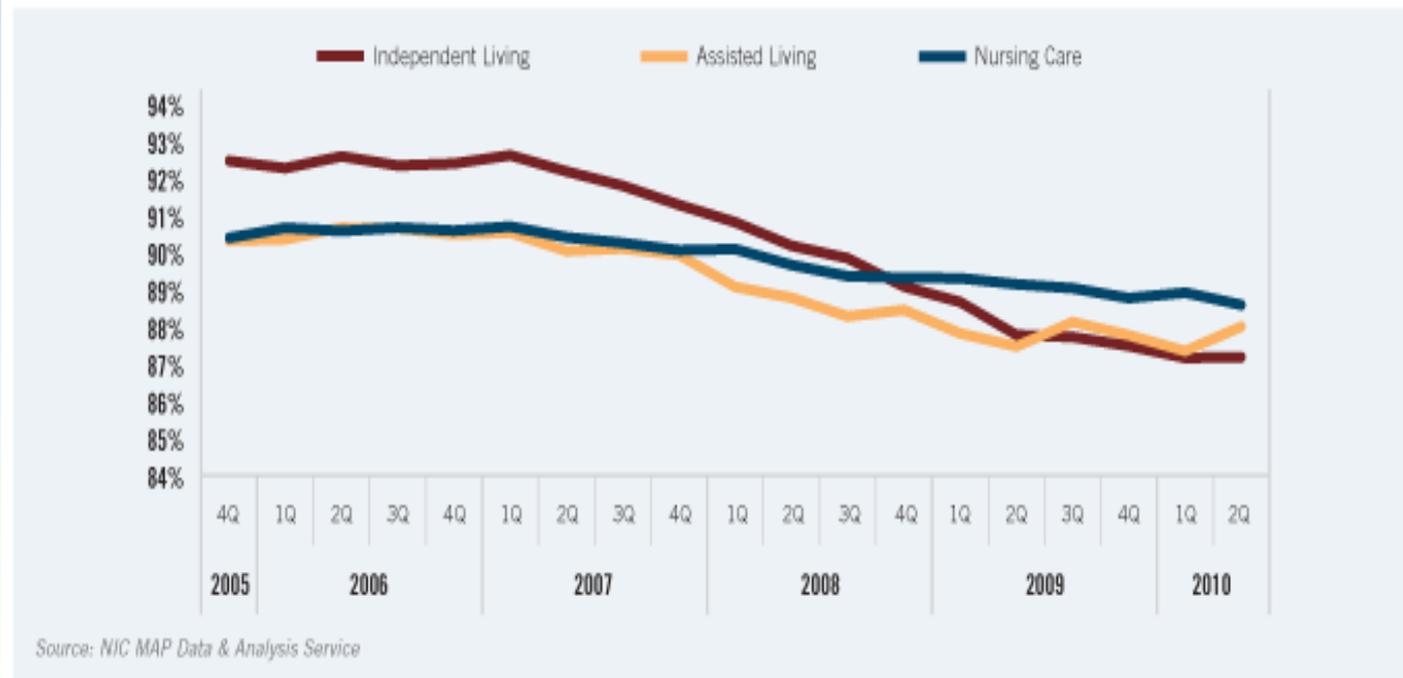
# Assisted Living Market

- 82% are stand-alone facilities
- 1% are connected to a hospital
- 16% are connected to a nursing home
- 1% are connected to both hospital and nursing home

# Property Market

## Occupancy by Property Type; MAP31

4Q05-2Q10





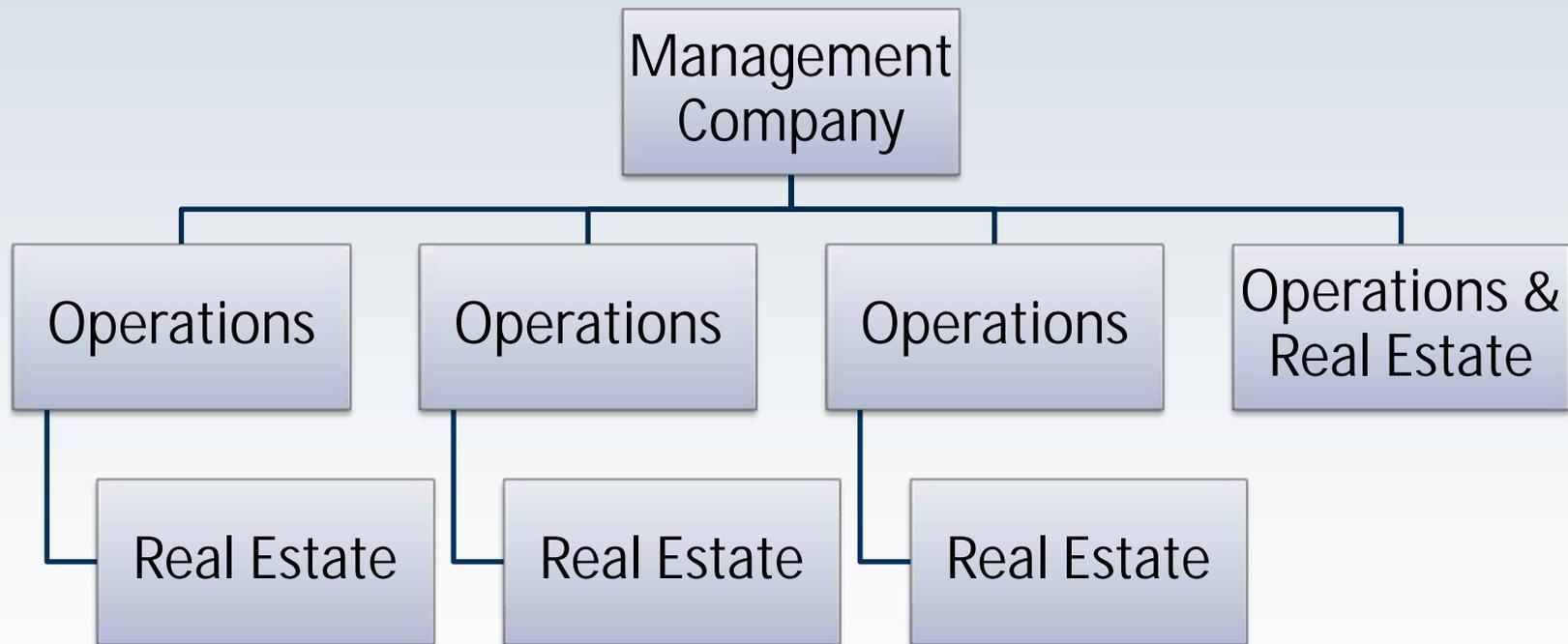
# Future of Assisted Living

- Baby Boomers
- Impact of the Affordable Care Act
  - CCRC's Without Walls
- Technology Innovation

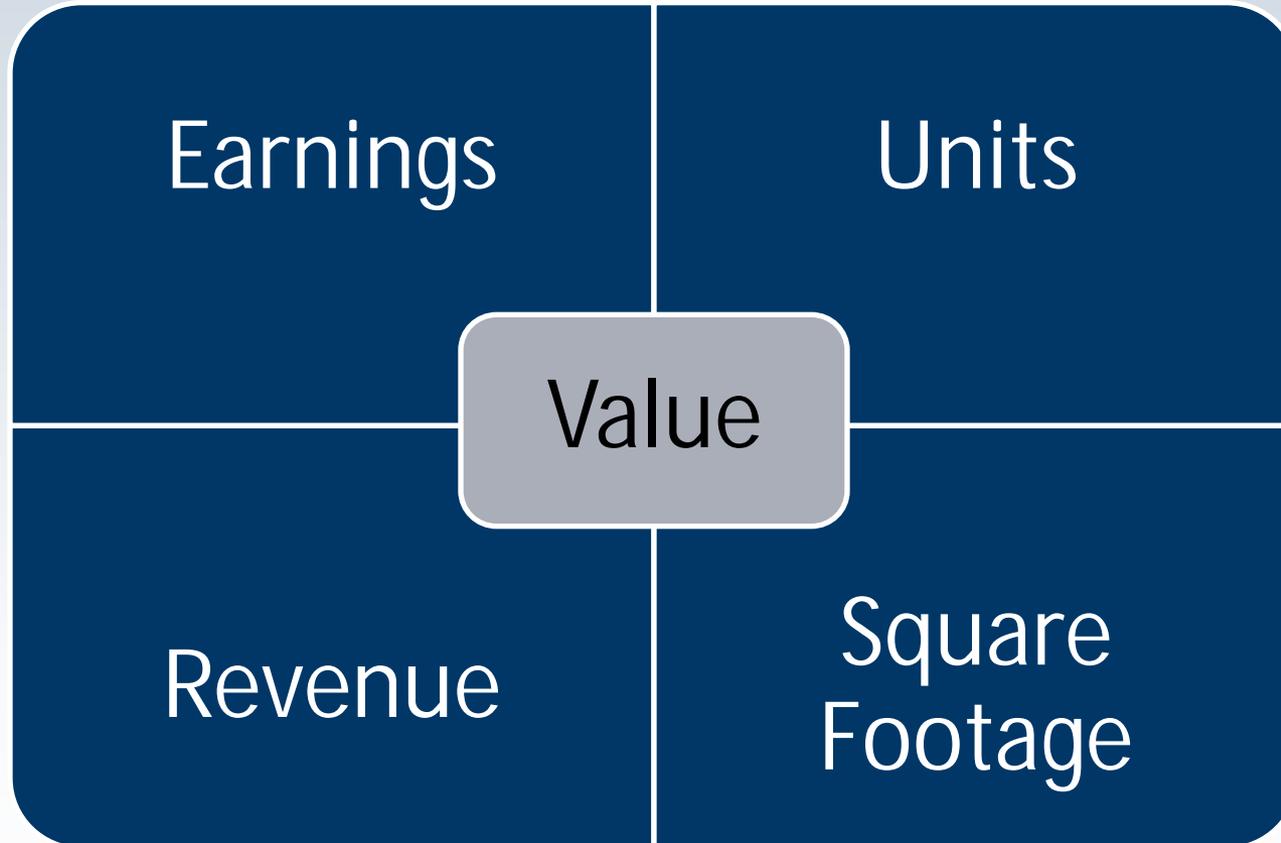
# Assisted Living Organizational Structures



# Assisted Living Portfolio or Management Co.



# Assisted Living Primary Value Drivers



# Sources of Information

## Senior Housing Investment Survey

<http://slvsinc.com/index.html>

# Senior Housing Investment Survey

## Overall Capitalization Rate

	2012		2012		Basis Point Change from 2011
	<u>All Responses</u>		<u>Adjusted Responses<sup>(1)</sup></u>		
	Range	Average	Range	Average	
Age Restricted Apartments	6%-9%	7.2%	6%-9%	7.2%	-30
Unlicensed Congregate Living	6%-12%	7.9%	7%-11%	8.0%	-20
Licensed Assisted Living	7%-12%	8.6%	7%-11%	8.5%	-30
Licensed Alzheimer/Dementia Care	8%-12%	9.2%	8%-12%	9.2%	+10
Licensed Skilled Nursing-Long Term Care	8%-15%	12.2%	10%-15%	12.2%	-30
Licensed Skilled Nursing-Subacute Care	7%-20%	12.3%	10%-15%	12.2%	-80
Continuing Care Retirement Community	7%-15%	9.5%	8%-12%	9.4%	-40

(1) Excludes lowest 5% and highest 5% of responses.

Source: Senior Living Valuation Services, Inc.

# Senior Housing Investment Survey

## Internal Rate of Return (Discount Rate)

	2012 <u>All Responses</u>		2012 <u>Adjusted Responses</u> <sup>(1)</sup>		Basis Point Change from <u>2011</u>
	Range	Average	Range	Average	
Age Restricted Apartments	6%-20%	10.2%	8%-15%	10.1%	+50
Unlicensed Congregate Living	6%-20%	11.1%	9%-15%	10.9%	-20
<u>Licensed Assisted Living</u>	5%-25%	12.4%	9%-15%	12.2%	+50
Licensed Alzheimer/Dementia Care	6%-25%	13.0%	9%-24%	12.6%	+50
Licensed Skilled Nursing-Long Term Care	6%-28%	14.9%	12%-17%	14.6%	-30
Licensed Skilled Nursing-Subacute Care	6%-28%	15.7%	12%-20%	15.2%	-10
Continuing Care Retirement Community	5%-24%	12.9%	10%-20%	12.5%	-80

Source: Senior Living Valuation Services, Inc.

# Senior Housing Investment Survey

## Equity Dividend Rate (Cash on Cash Return)

	2012 <u>All Responses</u>		2012 <u>Adjusted Responses</u> <sup>(1)</sup>		Basis Point Change from <u>2011</u>
	Range	Average	Range	Average	
Age Restricted Apartments	4%-18%	9.9%	5%-13%	9.7%	+30
Unlicensed Congregate Living	4%-20%	11.3%	5%-15%	11.1%	-120
<u>Licensed Assisted Living</u>	3%-21%	12.3%	7%-17.5%	12.3%	+20
Licensed Alzheimer/Dementia Care	3%-25%	12.9%	7%-18%	12.6%	-40
Licensed Skilled Nursing-Long Term Care	2%-30%	15.1%	8%-20%	14.9%	-90
Licensed Skilled Nursing-Subacute Care	3%-30%	16.0%	10%-20%	15.9%	-60
Continuing Care Retirement Community	6%-21%	13.1%	9.5%-18%	12.9%	-70

(1) Minus 5% Highest and 5% Lowest Responses

Source: Senior Living Valuation Services, Inc.

# Sources of Information

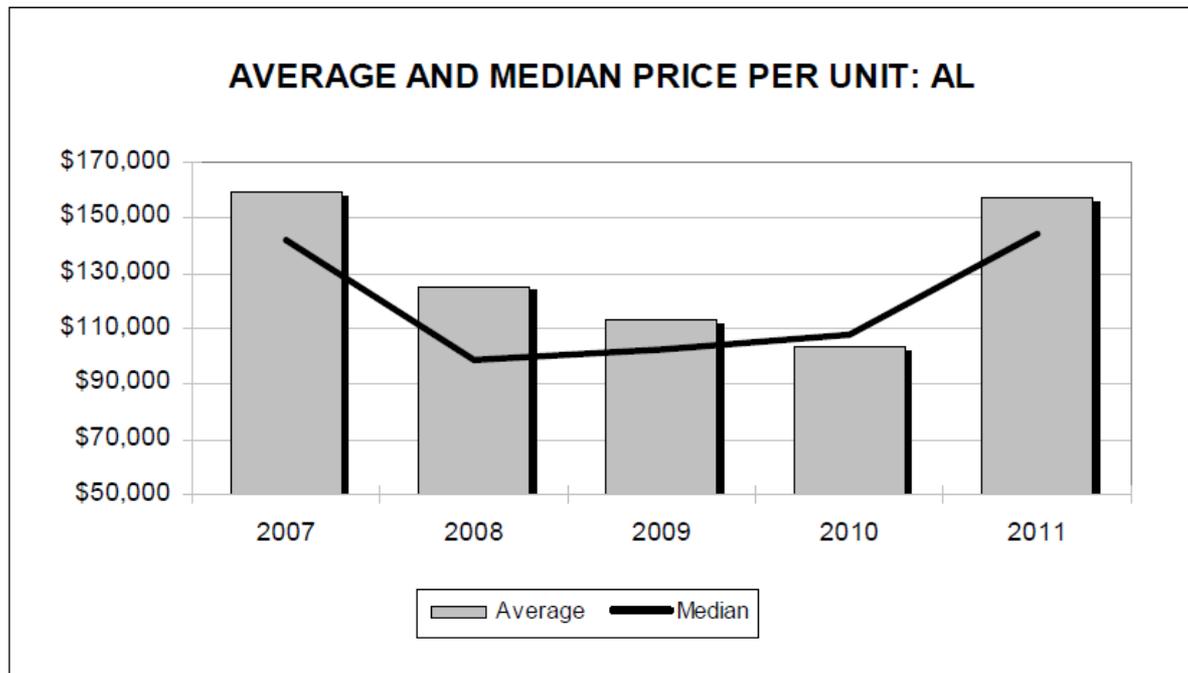
## Irving Levin Senior Care Acquisition Report

<http://www.levinassociates.com/>

# Irving Levin Senior Care Acquisition Report

## Price per Unit

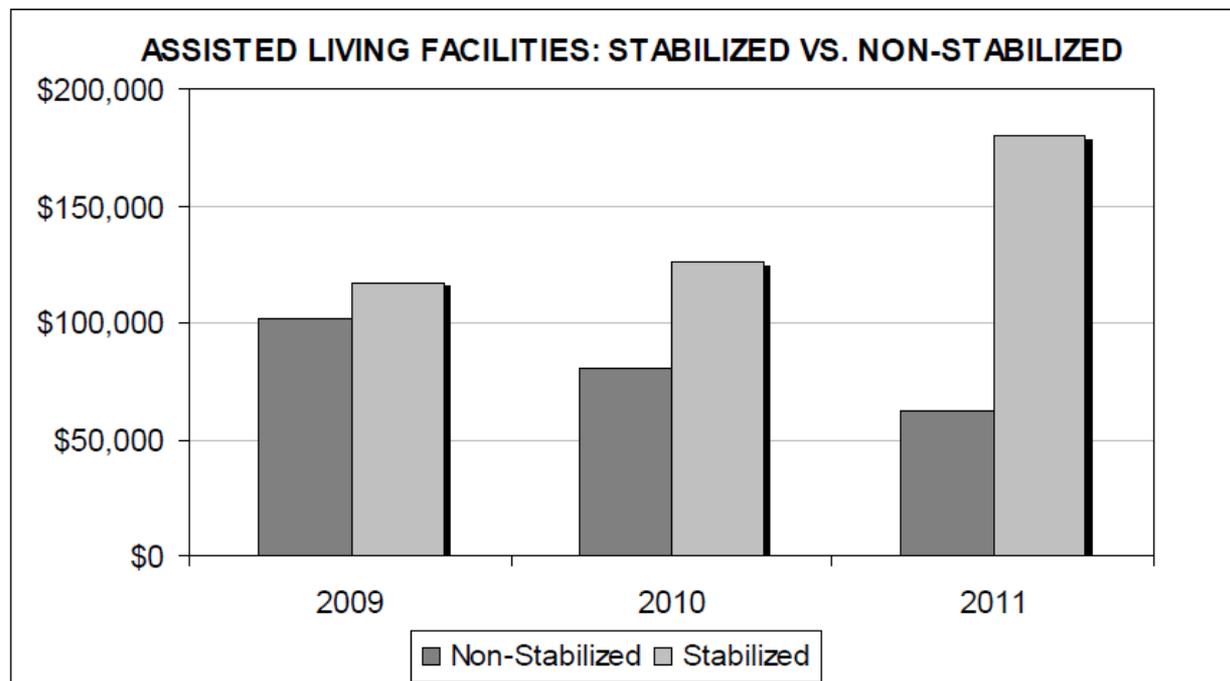
The average and median price per unit, respectively, in each of the past five years for assisted living is as follows: \$159,100 and \$142,000 in 2007, \$124,900 and \$98,400 in 2008, \$113,300 and \$102,400 in 2009, \$103,300 and \$107,800 in 2010 and \$156,900 and \$144,400 in 2011.



# Irving Levin Senior Care Acquisition Report

## Stabilized vs. Non-Stabilized Price per Unit

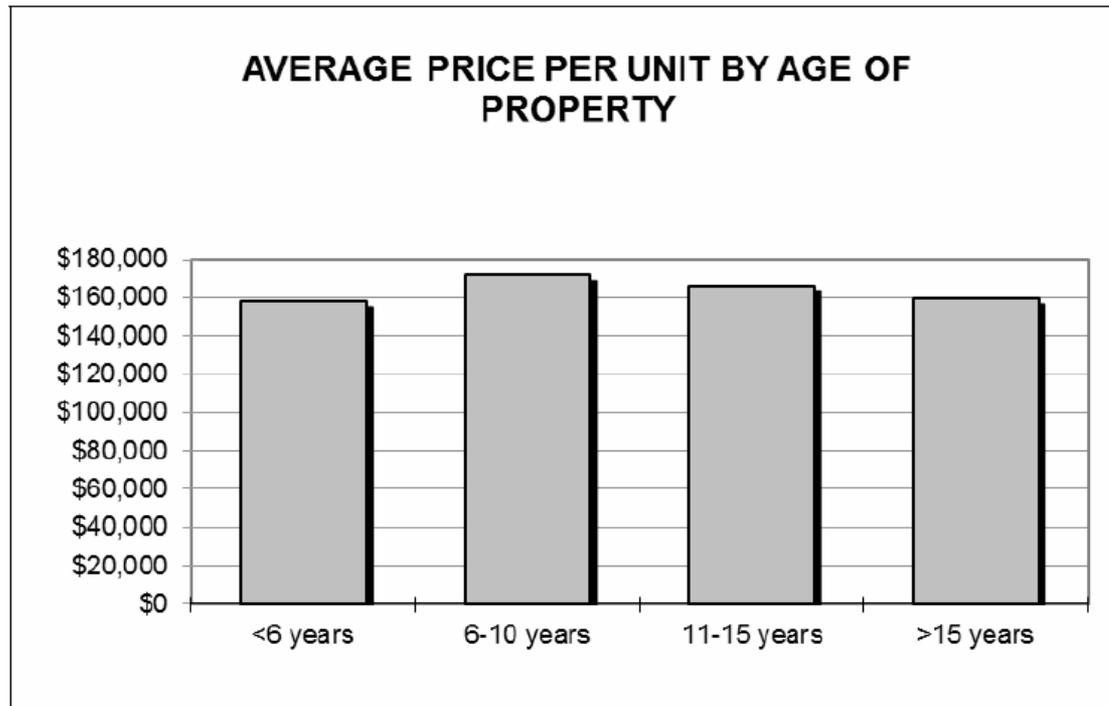
The average price per unit for stabilized communities in 2009, 2010 and 2011 was \$117,000, \$126,400 and \$179,800, respectively. The average price per unit for non-stabilized properties in 2009, 2010 and 2011 was \$102,000, \$69,200 and \$62,500, respectively.



# Irving Levin Senior Care Acquisition Report

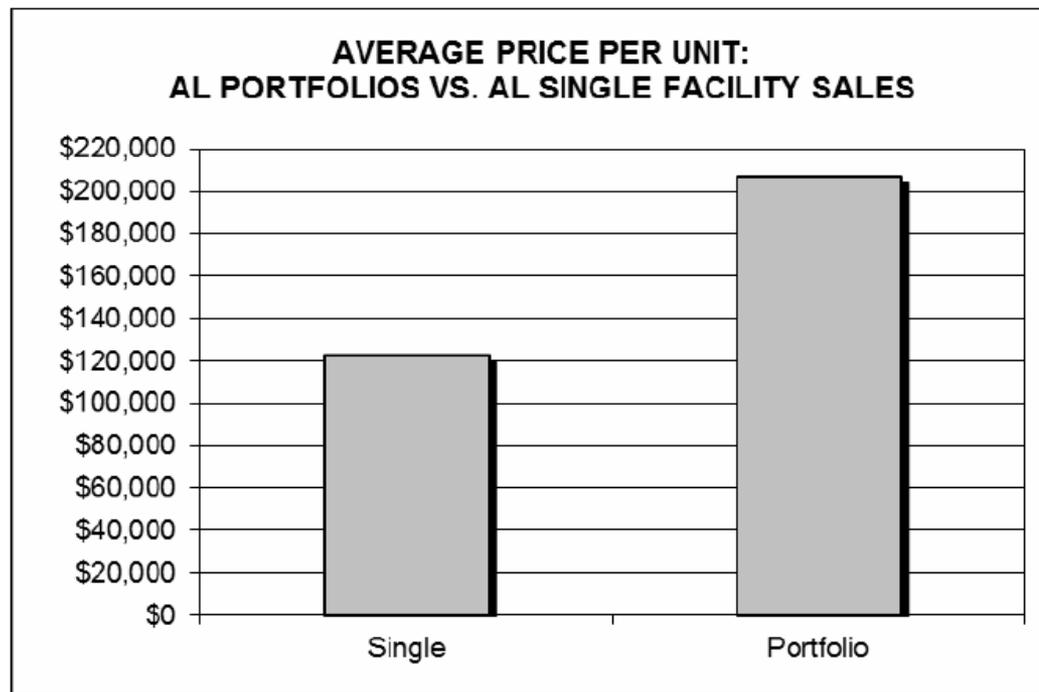
## Price by Age of Property

The average price paid per unit (in the order shown in the graph below) is as follows: \$157,900, \$171,600, \$166,000 and \$159,300.



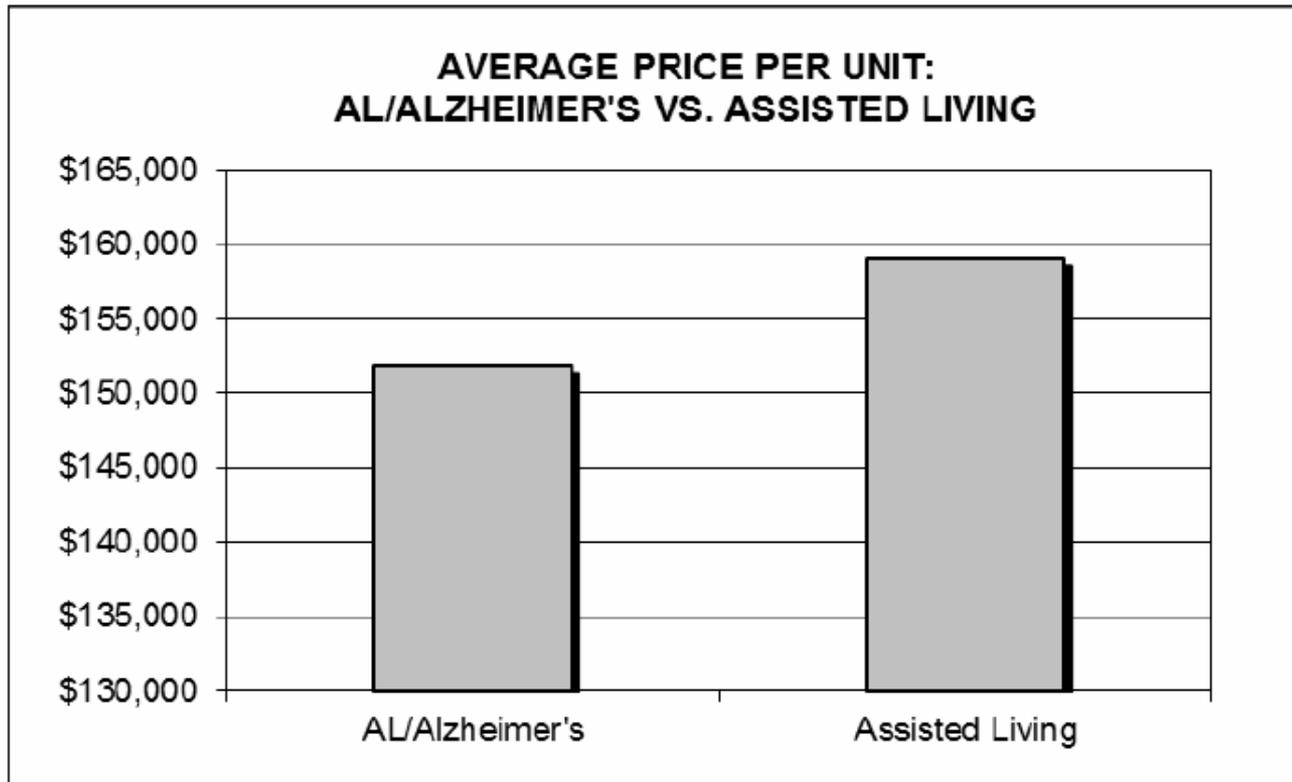
# Irving Levin Senior Care Acquisition Report

In 2010, the spread between the portfolio sales and the single sales was a relatively wide \$67,000 per unit. With the higher quality sales across the board in 2011, that spread widened to nearly \$85,000 per unit, with portfolio sales increasing by about \$52,000 per unit to \$207,000 and single asset sales increasing by \$35,000 per unit to \$122,100. For the first time ever, the average per-unit price for assisted living portfolio sales exceeded \$200,000 per unit.



# Irving Levin Senior Care Acquisition Report

## Price/Unit With & Without Alzheimer's



# Irving Levin Senior Care Acquisition Report

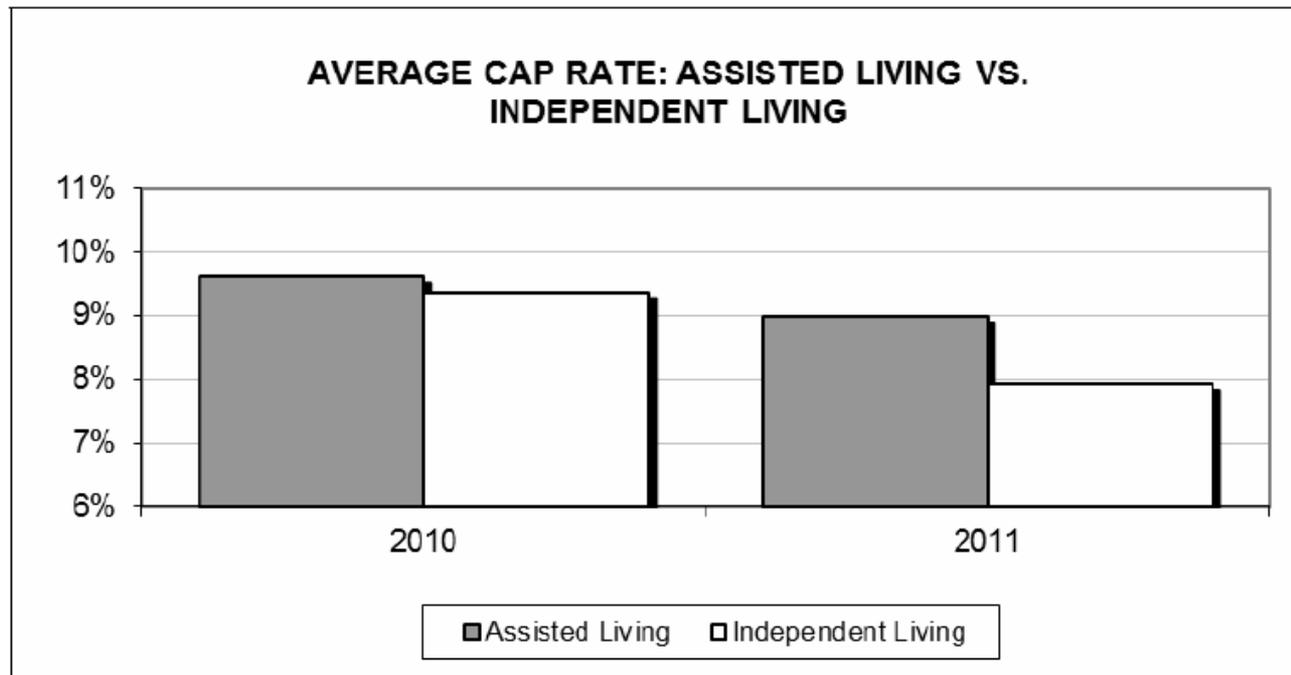
## Definition of NOI

The capitalization rate, in theory, is composed of the cost of debt and the expected return on equity. Just like for skilled nursing facilities, in this Report the average cap rate for independent and assisted living sales (seniors housing) is based on those sales that are arm's length and include both the real estate and the business operations. The net operating income (NOI), which is interchangeable with cash flow and EBITDA in this Report, is divided by the purchase price to derive the cap rate. And just like for skilled nursing facilities, the NOI is after a management fee (usually 6% of revenues for seniors housing) and before any replacement reserves because of the wide range in replacement reserves used in the market, which can be up to \$1,000 per unit. The NOI is usually based on the most recent 12-month period before the sale or the most recent stub period annualized; at times, when these have not been available, a pro forma NOI has been used, but this was not the norm.

# Irving Levin Senior Care Acquisition Report

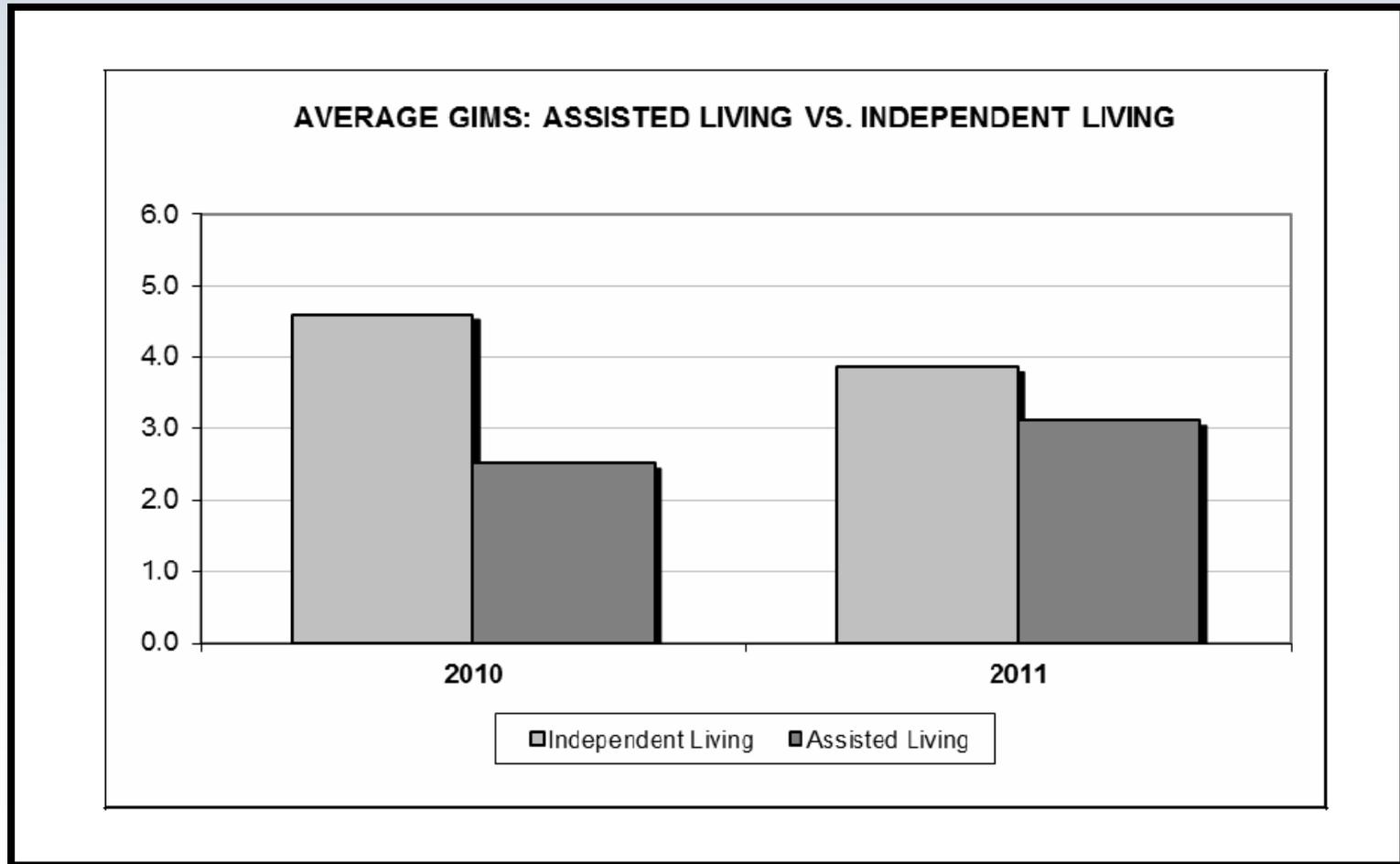
## Average Cap Rates

The average assisted and independent living cap rates in 2010 were 9.6% and 9.4%, respectively, while the average assisted and independent living cap rates in 2011 were 9.0% and 7.9%, respectively.



# Irving Levin Senior Care Acquisition Report

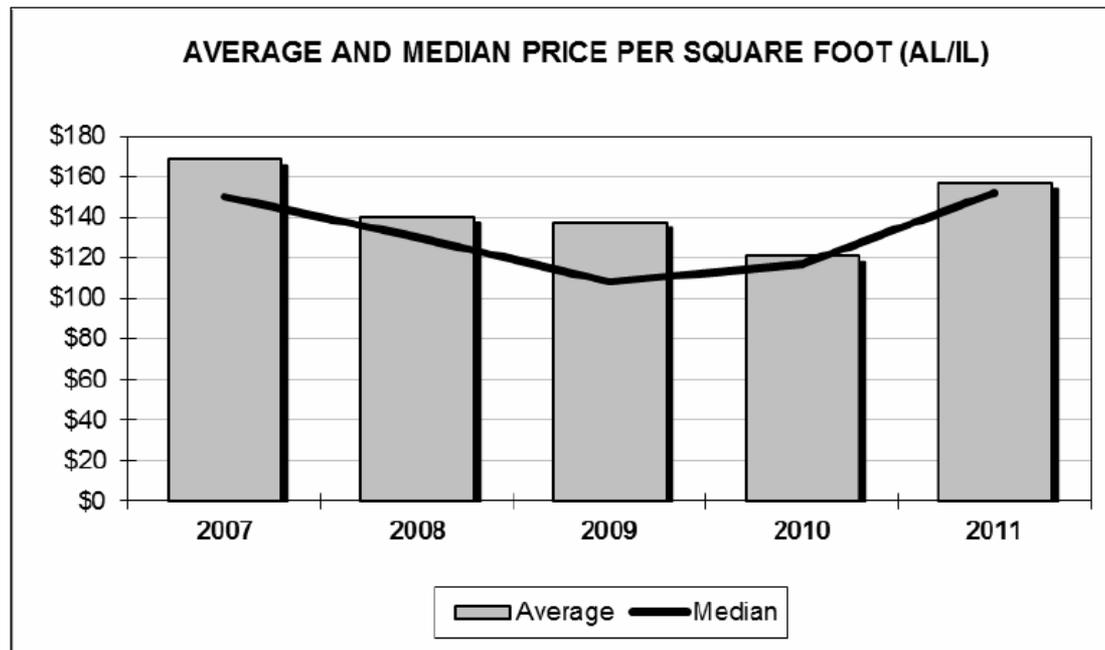
## Gross Income Multiples



# Irving Levin Senior Care Acquisition Report

## Price per Square Foot

The average and median price per square foot, respectively, in each year is as follows: \$168 and \$150 in 2007, \$140 and \$130 in 2008, \$137 and \$108 in 2009, \$121 and \$117 in 2010 and \$157 and \$152 in 2011.



# Sources of Information

RealtyRates.Com

# Capitalization Rates

## RealtyRates.com INVESTOR SURVEY - 2nd Quarter 2012\*

### CURRENT & HISTORICAL CAP RATE INDICES

#### Method-Weighted\* Property Category Indices

Year	Apts		Golf		Healthcare Senior Housing		Industrial		Lodging		MHR/V Park		Office		Retail		Restaurant		Self Storage		Special Purpose		Weighted* Composite Indices	
	Rate	BP	Rate	BP	Rate	BP	Rate	BP	Rate	BP	Rate	BP	Rate	BP	Rate	BP	Rate	BP	Rate	BP	Rate	BP	Rate	BP
	Chg		Chg		Chg		Chg		Chg		Chg		Chg		Chg		Chg		Chg		Chg		Chg	
2012	8.40		12.06		8.88	-33	9.18		10.61		9.11		9.53		9.21		11.75		10.21		11.05		9.66	
1st Qtr.	8.40	-14	12.06	-6	8.88	-2	9.18	-16	10.61	-7	9.11	-34	9.53	-5	9.21	-8	11.75	-14	10.21	-2	11.05	-8	9.66	-10
2011	8.60	-29	12.00	-22	9.21	-40	9.49	-11	10.81	-24	9.48	-8	9.44	-10	9.28	-26	11.70	-14	10.69	-3	11.12	-17	9.81	-19
4th Qtr.	8.54	26	12.13	34	8.90	-17	9.34	2	10.68	24	9.45	36	9.58	25	9.29	17	11.88	41	10.23	-27	11.13	17	9.77	17
2010	8.89	4	12.22	5	9.62	15	9.60	12	11.05	7	9.55	22	9.54	16	9.54	25	11.84	12	10.72	21	11.30	0	10.00	13
2009	8.85	8	12.17	16	9.47	10	9.48	10	10.98	-7	9.33	1	9.38	29	9.29	20	11.72	15	10.50	37	11.30	8	9.87	14
2008	8.77	-4	12.01	29	9.37	-16	9.38	-14	11.05	56	9.32	-5	9.09	-16	9.09	-11	11.57	-28	10.13	20	11.22	-7	9.74	-1
2007	8.81	-45	11.72	-21	9.53	-65	9.52	-25	10.49	-28	9.37	-26	9.25	-47	9.20	-12	11.85	61	9.93	-38	11.29	-24	9.75	-28
2006	9.26	12	11.93	47	10.18	15	9.77	35	10.77	27	9.63	41	9.72	26	9.32	30	11.24	18	10.31	27	11.53	9	10.03	26
2005	9.14	14	11.46	80	10.03	-16	9.42	-30	10.50	-21	9.22	19	9.46	6	9.02	16	11.06	5	10.04	13	11.44	-30	9.77	2
2004	9.00	-19	10.66	28	10.19	-37	9.72	19	10.71	-98	9.03	-48	9.40	-4	8.86	-19	11.01	-15	9.91	-13	11.74	-30	9.75	-19
2003	9.19	-2	10.38	-32	10.56	64	9.53	33	11.69	56	9.51	-11	9.44	1	9.05	-18	11.16	8	10.04	-53	12.04	105	9.94	12
2002	9.21	-40	10.70	18	9.92	-39	9.20	-61	11.13	26	9.62	-60	9.43	-35	9.23	-62	11.08	-3	10.57	-12	10.99	-177	9.82	-41
2001	9.61	64	10.52	133	10.31	90	9.81	16	10.87	98	10.22	-68	9.78	-35	9.85	-53	11.11	47	10.69	13	12.76	32	10.23	21
2000	8.97		9.19		9.41		9.65		9.89		10.90		10.13		10.38		10.64		10.56		12.44		10.01	

\* Weighted by methodology: Band-of-Investment, DCF Technique, Sales Survey

^ Further weighted by property category

\*1st Quarter 2012 Data

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# Financing Terms

RealtyRates.com INVESTOR SURVEY - 2nd Quarter 2012*											
PERMANENT FINANCING											
	Apt.	Golf	Health Senior Housing	Ind.	Lodging	MH Park	Office	Restaurant	Retail	Self Storage	Special Purpose
<b>Spread Over Base**</b>											
Minimum	0.67%	1.20%	0.83%	0.83%	1.15%	0.83%	0.83%	1.92%	0.80%	0.90%	1.84%
Maximum	6.80%	11.50%	7.86%	6.49%	11.26%	7.86%	6.49%	11.52%	7.24%	6.49%	12.18%
Average	2.70%	5.73%	3.25%	2.98%	3.89%	3.80%	3.16%	4.53%	3.03%	5.13%	4.74%
<b>Interest Rate</b>											
Minimum	2.64%	3.17%	2.80%	2.80%	3.12%	2.80%	2.80%	3.89%	2.77%	2.77%	3.81%
Maximum	8.77%	13.47%	9.83%	8.46%	13.23%	9.83%	8.46%	13.49%	9.21%	9.21%	14.15%
Average	4.67%	7.70%	5.22%	4.95%	5.86%	5.77%	5.13%	6.50%	5.00%	5.00%	6.71%
<b>Debt Coverage Ratio</b>											
Minimum	1.10	1.20	1.12	1.15	1.00	1.15	1.15	1.15	1.05	1.15	1.15
Maximum	1.96	2.40	2.30	2.15	3.00	2.05	2.25	2.40	2.25	2.75	2.10
Average	1.43	1.65	1.56	1.50	1.64	1.42	1.70	1.71	1.43	1.67	1.70
<b>Loan-to-Value Ratio</b>											
Minimum	50%	50%	50%	50%	50%	50%	50%	50%	50%	80%	50%
Maximum	90%	80%	90%	85%	80%	80%	80%	75%	80%	50%	80%
Average	73%	64%	70%	69%	65%	70%	68%	62%	70%	68%	62%
<b>Amortization (Yrs.)</b>											
Minimum	15	15	15	15	15	15	15	15	15	30	15
Maximum	40	30	40	30	30	30	30	30	30	15	30
Average	26	20	24	24	22	25	25	20	24	28	20
<b>Term (Yrs.)</b>											
Minimum	3	5	3	3	5	5	3	3	3	3	3
Maximum	40	30	25	30	30	30	30	15	10	10	20
Average	20.50	9.00	13.65	11.46	7.80	9.15	8.00	7.45	6.20	6.10	7.85
<b>** 10-Year Treasury</b>											

\*1st Quarter 2012 Data

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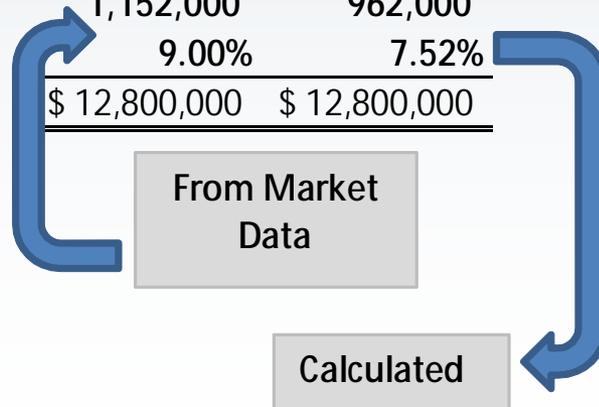
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# Valuation Example

# NOI versus Cash Flow to Invested Capital

	Real Estate Owned	
	NOI	Cash Flow to IC
Net income	\$ 250,000	\$ 250,000
+Interest expense	400,000	400,000
+Depreciation	350,000	350,000
+Rent		
+Current management fee	392,000	392,000
-6% management fee	(240,000)	(240,000)
+/- working capital		(10,000)
-Capital expenditures		(80,000)
NOI/Cash Flow before Taxes	1,152,000	1,062,000
Federal & state taxes		(100,000)
<b>NOI/Cash Flow to IC</b>	<b>1,152,000</b>	<b>962,000</b>
<b>Capitalization rate</b>	<b>9.00%</b>	<b>7.52%</b>
Indicated value	\$ 12,800,000	\$ 12,800,000



Note: a capitalization rate has the long-term cash flow growth assumption built in

# Reconciling WACC to NOI Cap Rate

Tax Rate: 40.00%

	Pretax	After Tax	Weight	WACC
Cost of Debt	5.22%	3.13%	54.69%	1.71%
Cost of Equity	18.35%	18.35%	45.31%	8.31%
			<u>100.00%</u>	<u>10.03%</u>

	Amount	Percent
Debt	\$ 7,000,000	54.69%
Equity	5,800,000	45.31%
<b>MVIC</b>	<b>\$12,800,000</b>	<b>100.00%</b>
NOI	\$1,152,000	
NOI Cap Rate	9.00%	

WACC discount rate	10.03%
LT cash flow growth rate	-2.51%
<b>WACC capitalization rate</b>	<b><u>7.52%</u></b>

# Market Multiples

Gross income	\$ 4,266,667
Gross income multiple	x 3.00
Indicated value	<u>\$ 12,800,000</u>

Price per unit	\$ 150,000
Number of units	x 85
Indicated value	<u>\$ 12,800,000</u>

Price per square foot	\$ 160.00
Square footage	x 80,000
Indicated value	<u>\$ 12,800,000</u>

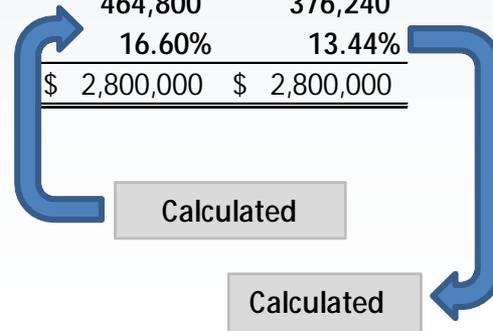
# What if Real Estate Isn't Sold

Estimated value of real estate	\$10,000,000
RE capitalization rate	8.34%
Estimated rent	\$833,600

	Real Estate Not Owned	
	NOI	Cash Flow to IC
Net income w/real estate	\$ 250,000	\$ 250,000
+Interest expense on RE	400,000	400,000
+Depreciation on RE	330,000	330,000
-Rent	(833,600)	(833,600)
<b>Net income w/o real estate</b>	<b>146,400</b>	<b>146,400</b>
+Depreciation on F&E	20,000	20,000
+Current management fee	392,000	392,000
-6% management fee	(240,000)	(240,000)
+/- working capital		(10,000)
-Capital expenditures		(20,000)
NOI/Cash Flow before Taxes	464,800	434,800
Federal & state taxes		(58,560)
<b>NOI/Cash Flow to IC</b>	<b>464,800</b>	<b>376,240</b>
<b>Capitalization rate</b>	<b>16.60%</b>	<b>13.44%</b>
Indicated value	\$ 2,800,000	\$ 2,800,000

Adjustments to remove real estate

Note: a capitalization rate has the long-term cash flow growth assumption built in



# Cost of Capital without Real Estate

Tax Rate: 40.00%

	Pretax	After Tax	Weight	WACC
Cost of Debt	5.22%	3.13%	15.89%	0.50%
Cost of Equity	18.35%	18.35%	84.11%	15.43%
			<u>100.00%</u>	<u>15.93%</u>

	Amount	Percent
Debt	\$ 445,000	15.89%
Equity	2,355,000	84.11%
<b>MVIC</b>	<b>\$ 2,800,000</b>	<b>100.00%</b>
NOI	\$464,800	
NOI Cap Rate	16.60%	

An NOI cap rate is primarily used for real estate valuation →

WACC discount rate	15.93%
LT cash flow growth rate	-2.49%
<b>WACC capitalization rate</b>	<b><u>13.44%</u></b>

# Questions?