

Valuing Assisted Living Facilities

*2nd Annual Senior Living Education
Seminar
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Presenter

Alan B. Simons, CPA/ABV/CFF, CMPE
Partner, Health Care Valuation Practice
CliftonLarsonAllen LLP
610 W. Germantown Pike
Suite 400
Plymouth Meeting, PA 19462
267-419-1120
alan.simons@cliftonlarsonallen.com

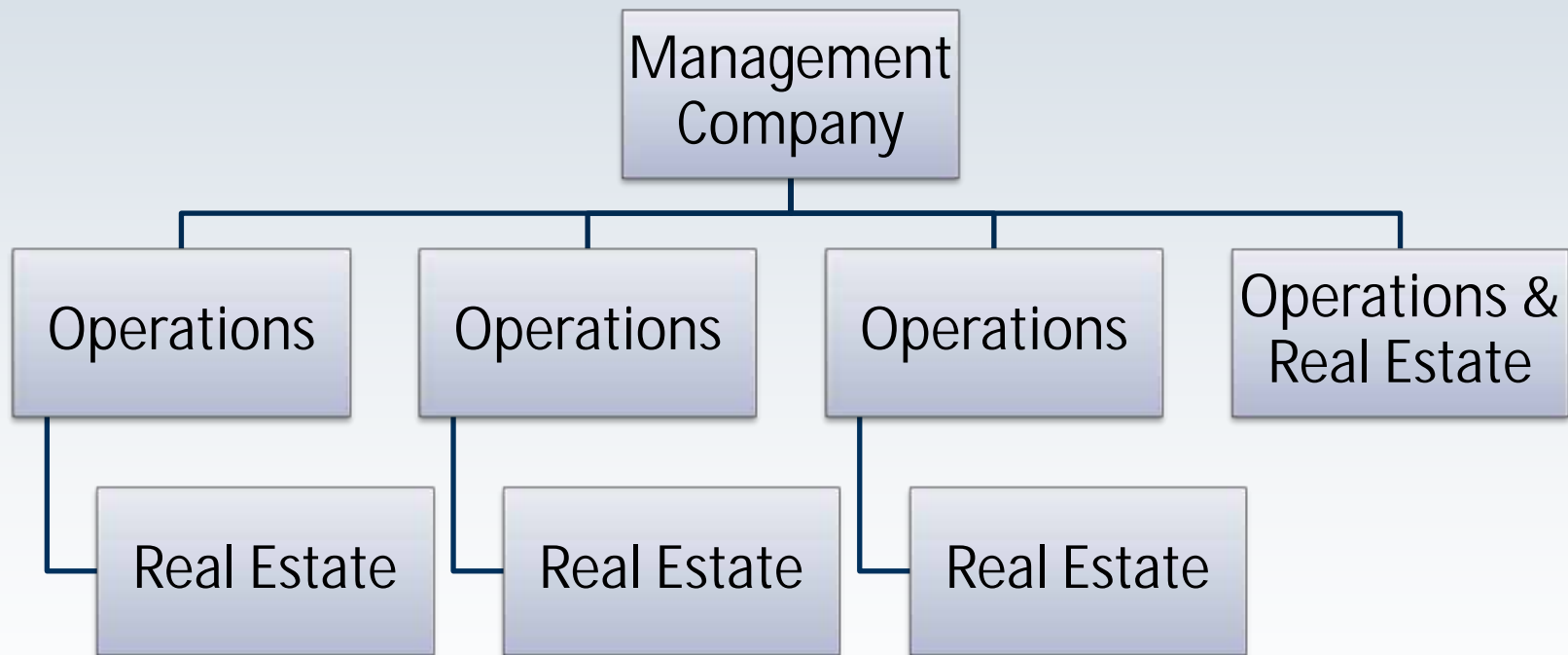
Today's Agenda

- Value Drivers
- Sources of Industry and Market Data
- Valuation Example

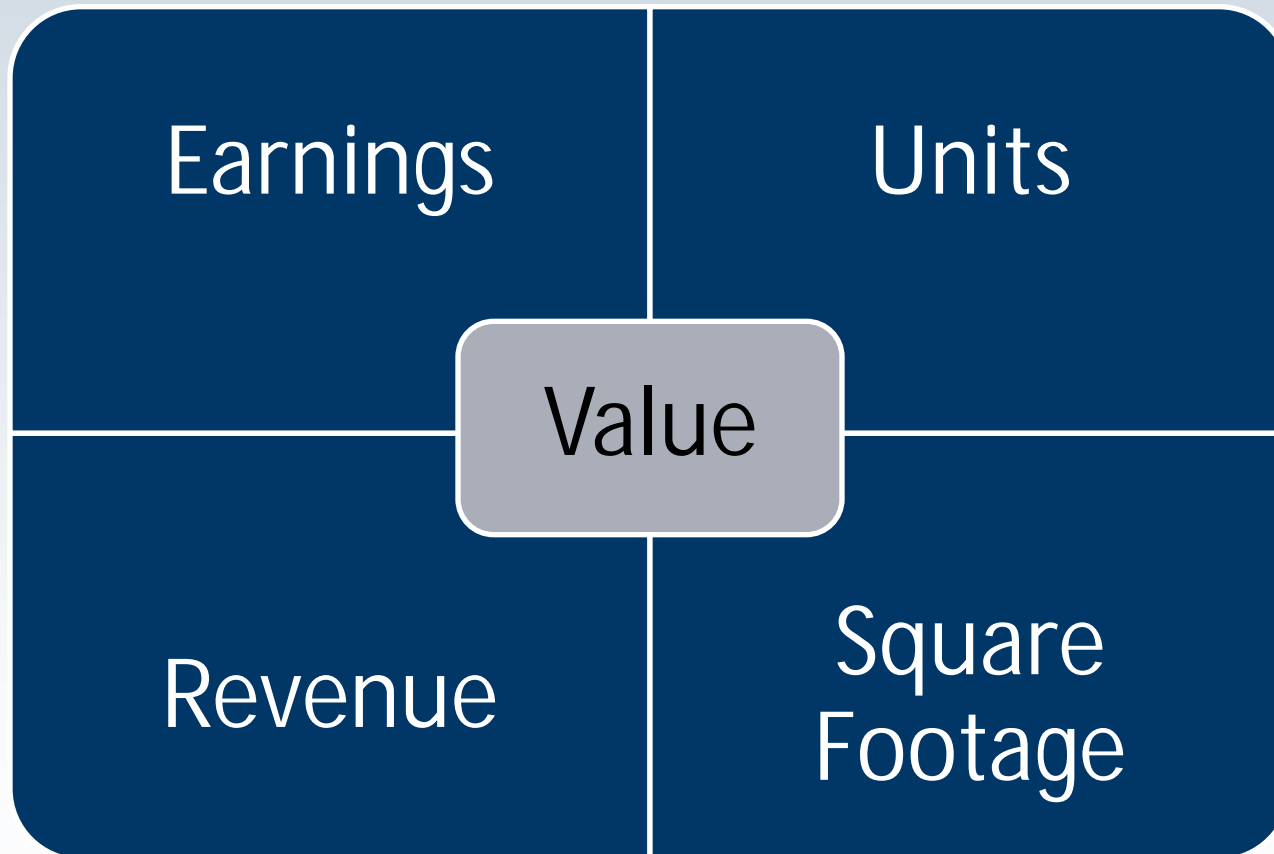
Assisted Living Organizational Structures



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⁽¹⁾</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> ⁽¹⁾		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		2012		Basis Point Change from 2011
	<u>All Responses</u>		<u>Adjusted Responses</u> ⁽¹⁾		
	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

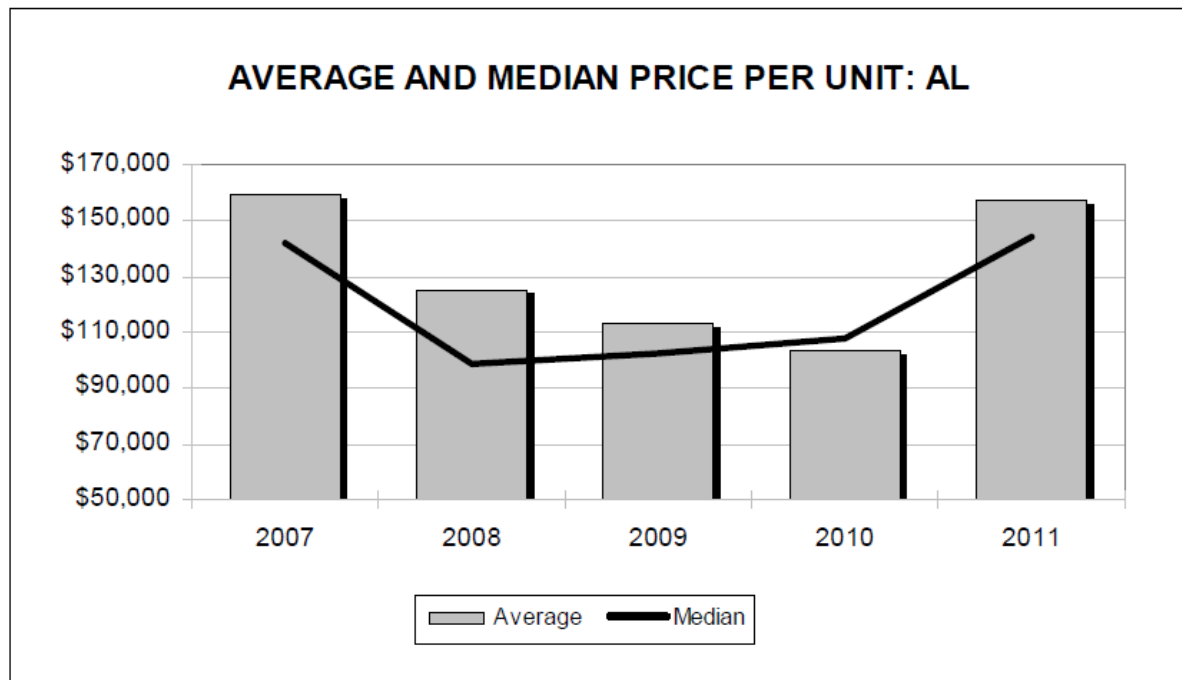
Irving Levin Senior Care Acquisition Report

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

Irving Levin Senior Care Acquisition Report

Price per Unit

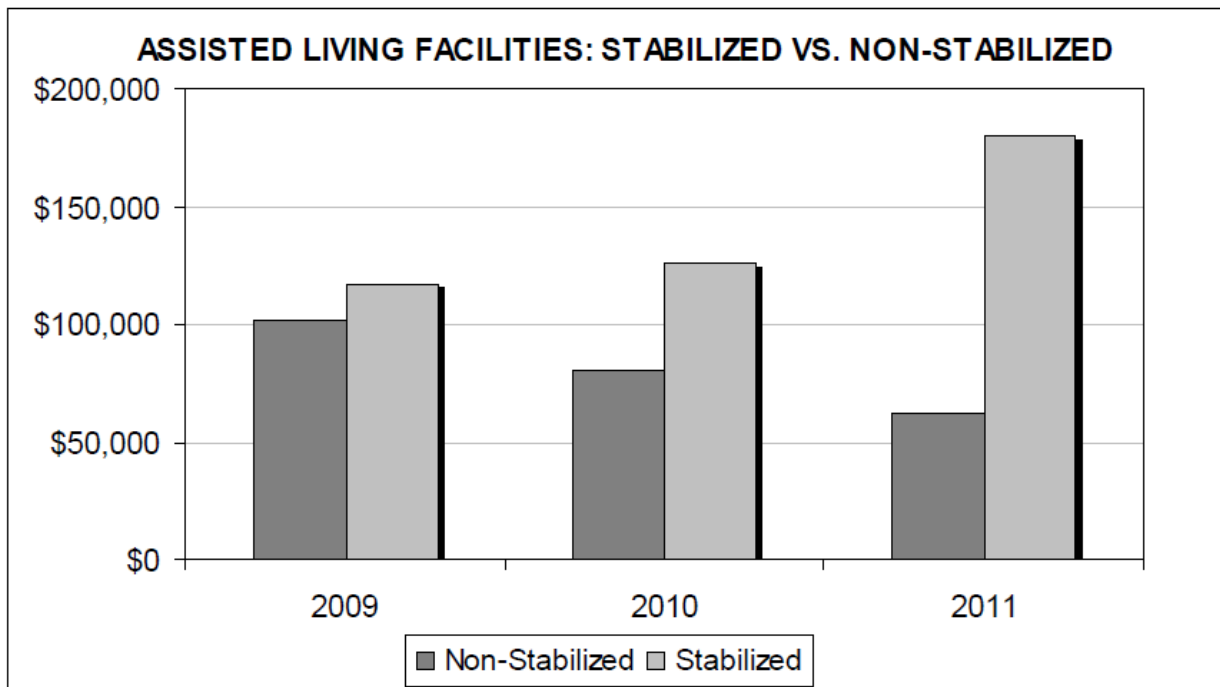
The average and median price per unit, respectively, in each of the past five years for assisted living is as follows: \$159,100 and \$142,000 in 2007, \$124,900 and \$98,400 in 2008, \$113,300 and \$102,400 in 2009, \$103,300 and \$107,800 in 2010 and \$156,900 and \$144,400 in 2011.



Irving Levin Senior Care Acquisition Report

Stabilized vs. Non-Stabilized Price per Unit

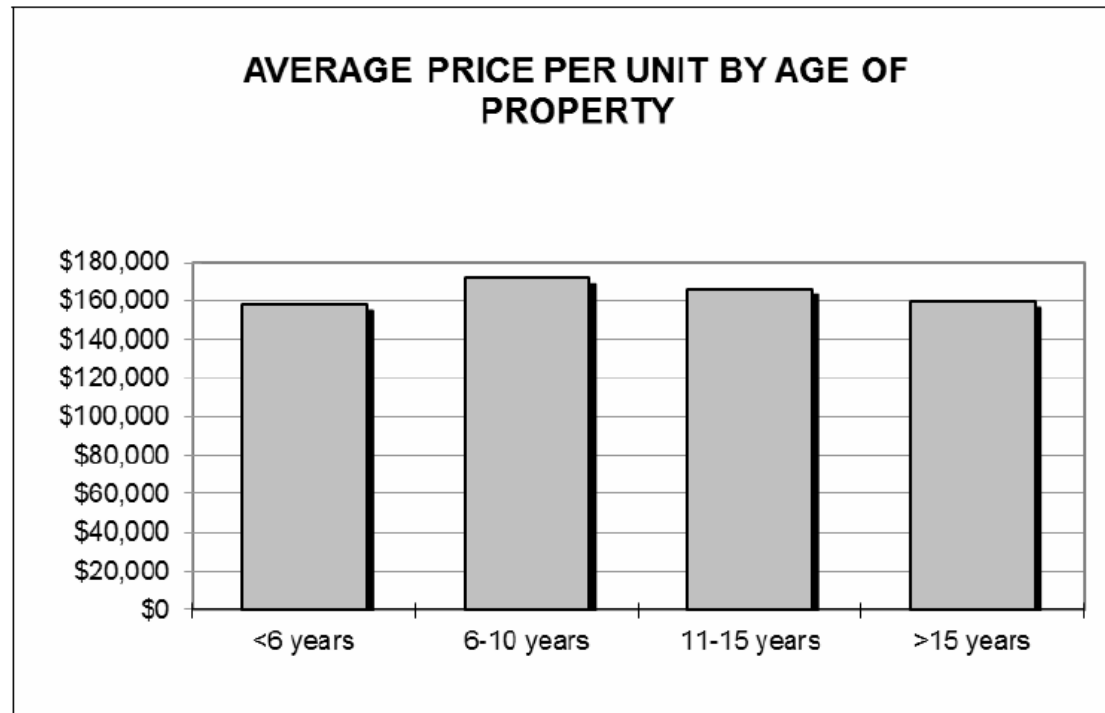
The average price per unit for stabilized communities in 2009, 2010 and 2011 was \$117,000, \$126,400 and \$179,800, respectively. The average price per unit for non-stabilized properties in 2009, 2010 and 2011 was \$102,000, \$69,200 and \$62,500, respectively.



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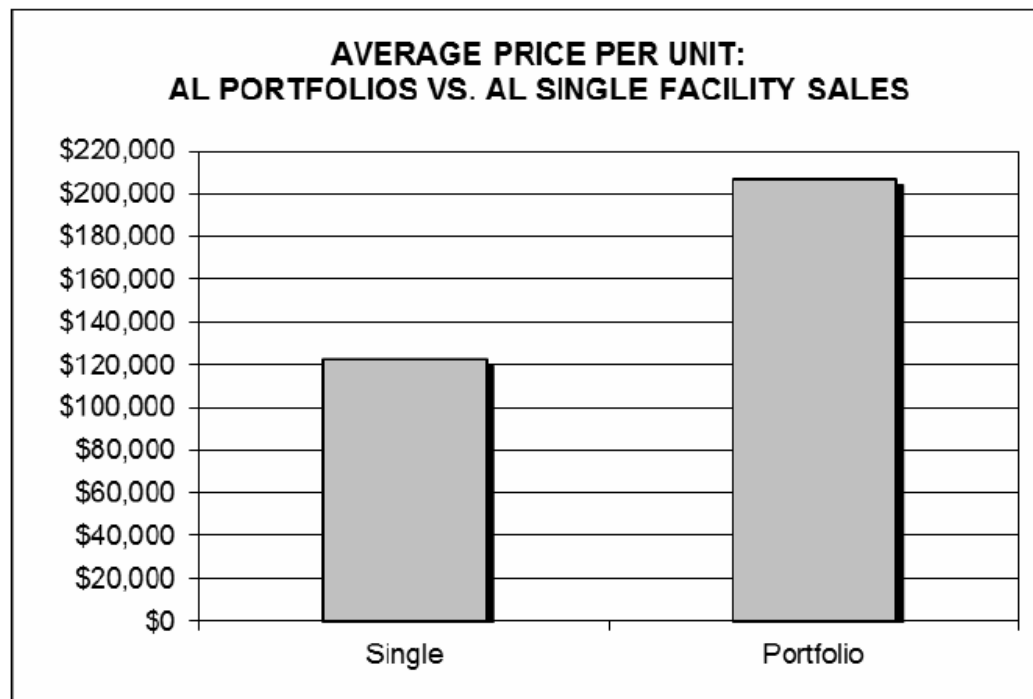
Price by Age of Property

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.



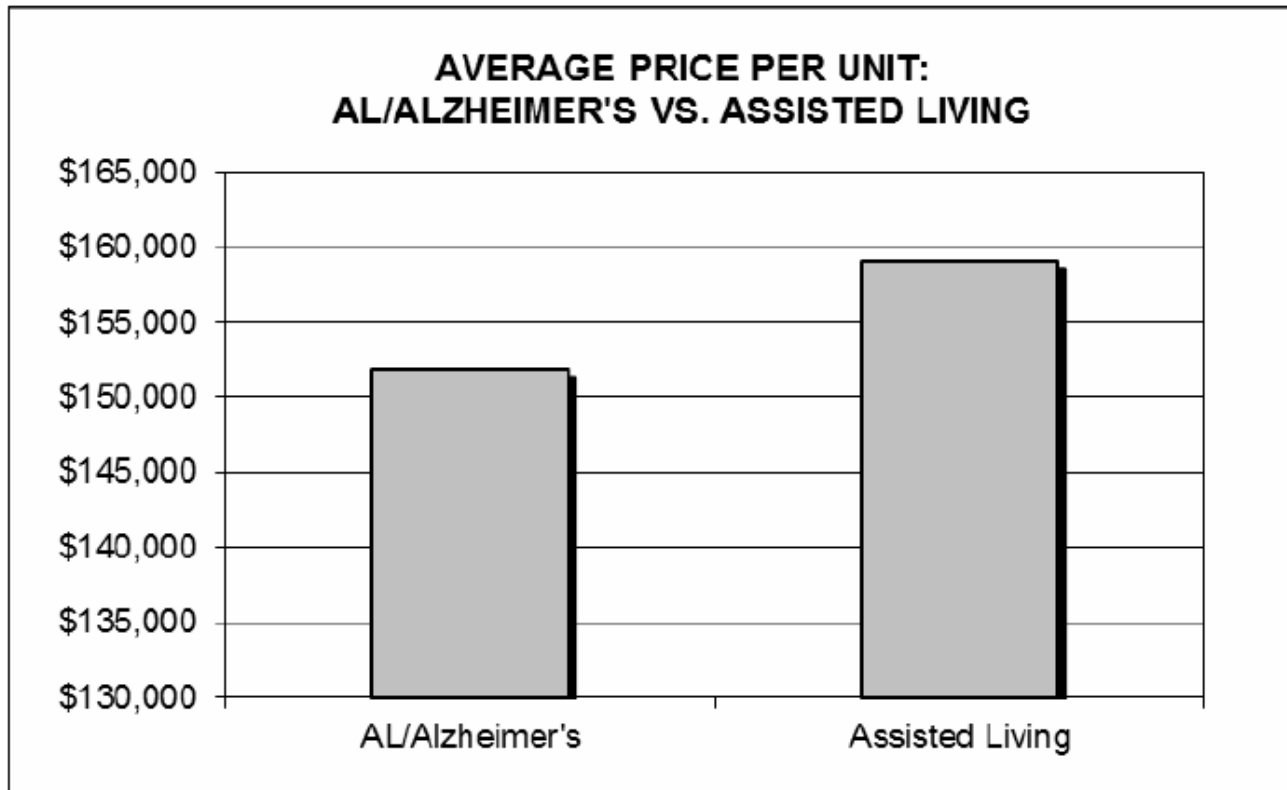
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In 2010, the spread between the portfolio sales and the single sales was a relatively wide \$67,000 per unit. With the higher quality sales across the board in 2011, that spread widened to nearly \$85,000 per unit, with portfolio sales increasing by 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.



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Price/Unit With & Without Alzheimer's



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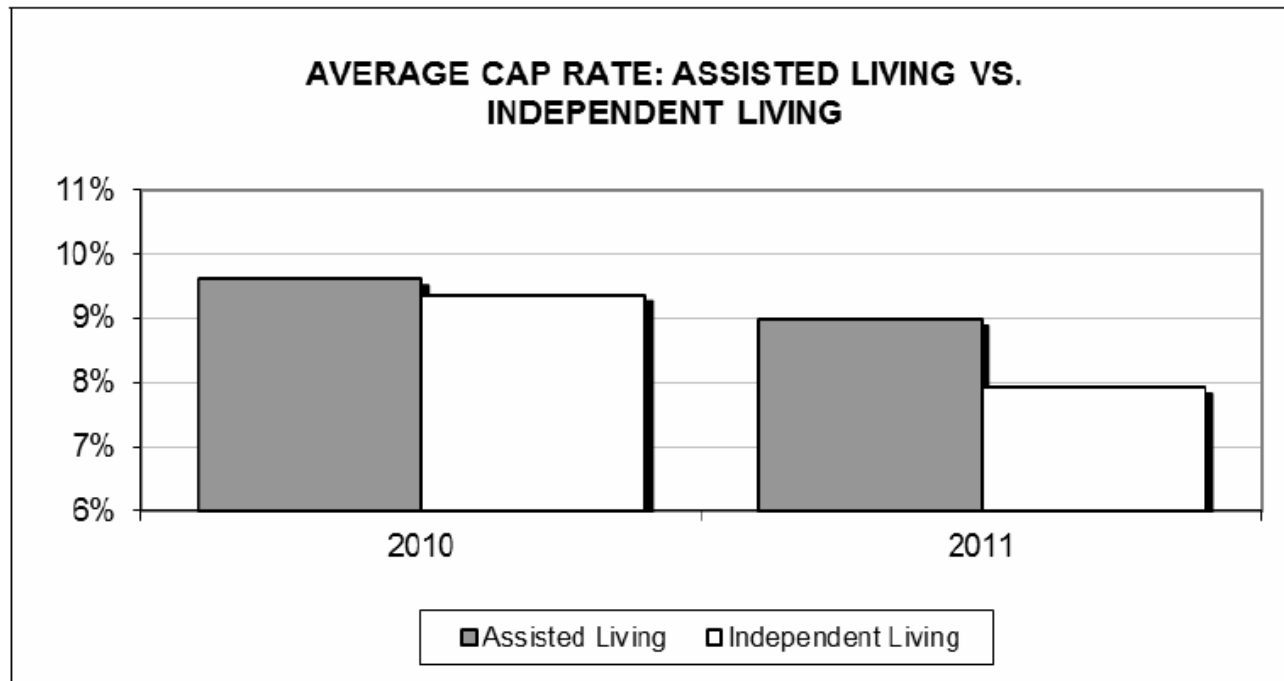
Definition of NOI

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.

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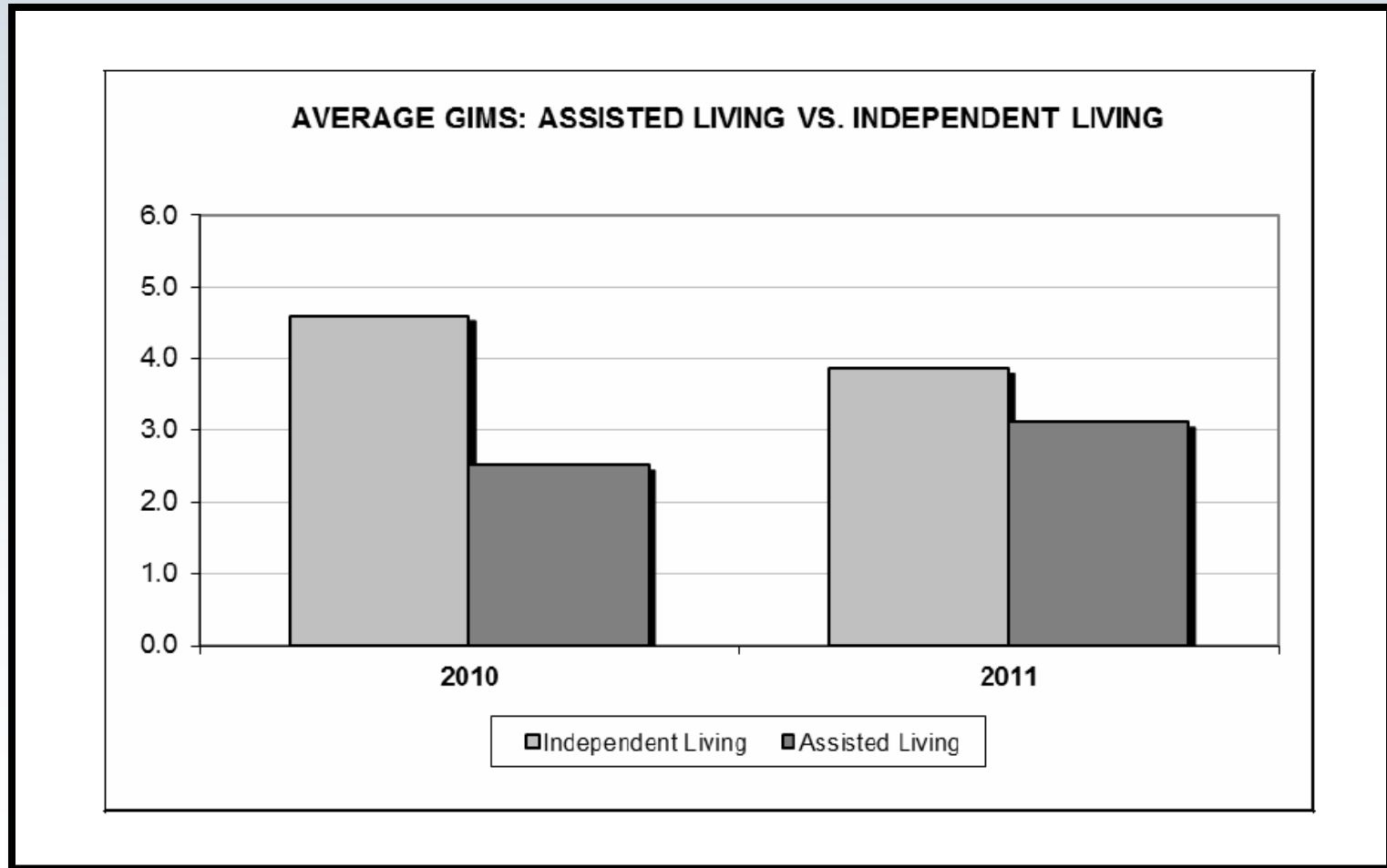
Average Cap Rates

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.



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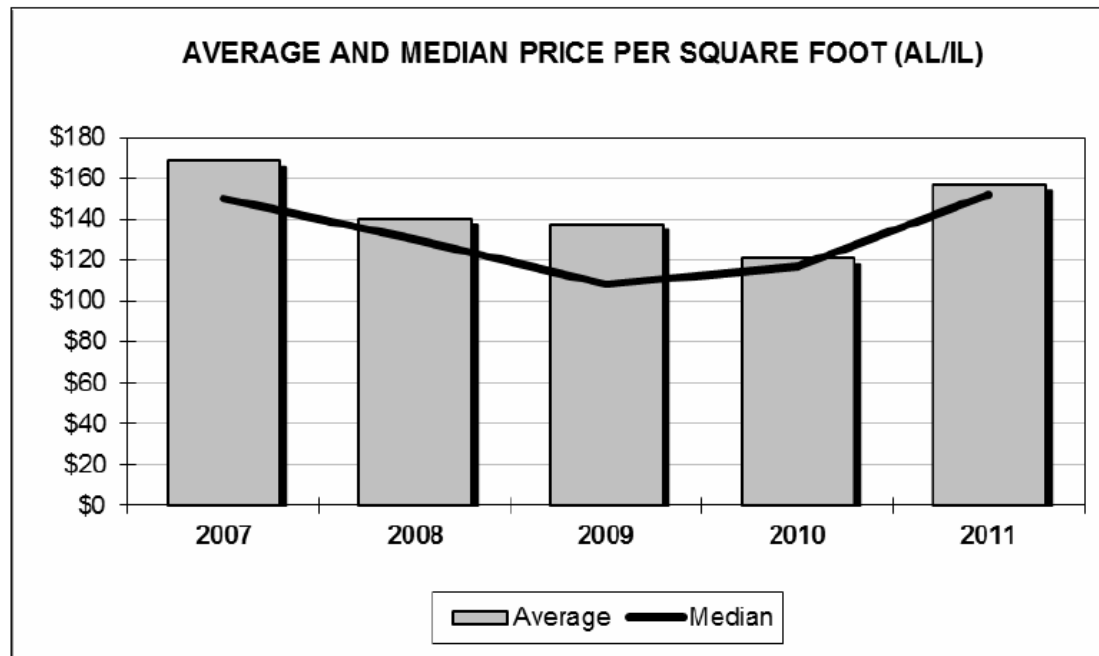
Gross Income Multiples



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
Spread Over Base**											
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%
Interest Rate											
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%
Debt Coverage Ratio											
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
Loan-to-Value Ratio											
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%
Amortization (Yrs.)											
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
Term (Yrs.)											
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
** 10-Year Treasury											

*1st Quarter 2012 Data

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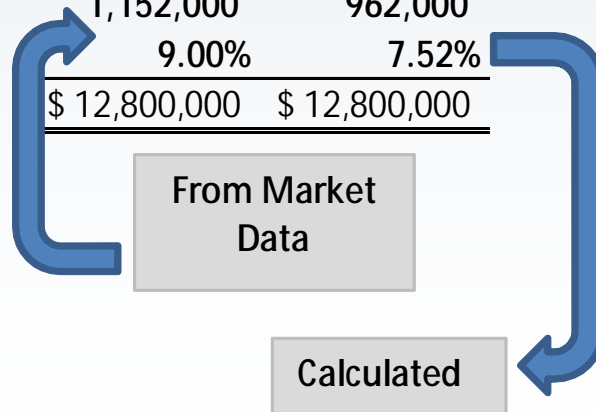
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Valuation Example

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)
NOI/Cash Flow to IC	1,152,000	962,000
Capitalization rate	9.00%	7.52%
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%
MVIC	\$12,800,000	100.00%
NOI	\$1,152,000	
NOI Cap Rate	9.00%	

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

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>

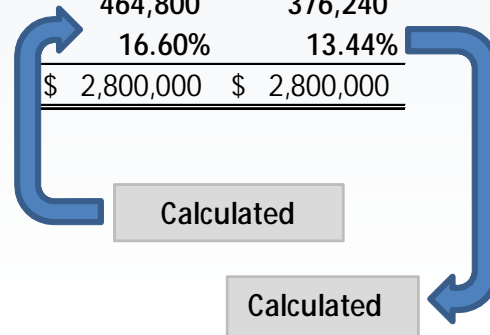
What if Real Estate Isn't Sold

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)
Net income w/o real estate	146,400	146,400
+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)
NOI/Cash Flow to IC	464,800	376,240
Capitalization rate	16.60%	13.44%
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%
MVIC	\$ 2,800,000	100.00%
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%
WACC capitalization rate	<u>13.44%</u>

Questions?