



# THE SeniorCare INVESTOR

INSIDE THE WORLD OF SENIOR CARE MERGERS, ACQUISITIONS AND FINANCE SINCE 1948

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A rush of year-end closings, including one of the largest of the year.

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## ASSISTED LIVING MARKET

**California Deals.** Last month we profiled an acquisition of a large independent living community in Arizona by **West Living**, but what we didn't know was that they had also purchased a second community that was almost as large. Located in California, this campus includes a main building with 98 units that are mostly assisted living, plus six "cottages" that contain eight units each for a total of 48 units that are mostly independent living. The occupancy in the main building is about 80%, while the cottages are much lower at 50% for a combined 70% occupancy for the community. Occupancy a year ago was about 61% after the secured lender (the seller) foreclosed on the property in November 2008. Average rents across the board are about \$4,000 per month. When they foreclosed, **Medical Capital** leased the property for one year to a third party manager, **Autumn Care**, which was able to bring the occupancy up to the current level, but the sale coincided with the end of their agreement.

This community was built in 1980, and West Living plans on spending \$2 to \$3 million in improvements over the next few years to spruce things up a bit, which we assume will be money well spent. The purchase price was \$14.4 million, or \$98,600 per unit, which translates into a 9.6% cap rate on 2010 estimated EBITDA. Revenues are projected to be just over \$5.1 million with a 27%

operating margin, but that assumes a modest 4% increase in revenues from 2009 and not much of a change in occupancy until later in the year. The independent living cottages have obviously been the problem, and management believes it will take at least two years to bring them to stabilized occupancy. And, once that happens, as part of the deal there are an additional 1.8 acres that can be developed in the future.

This acquisition, like the one in Arizona, was purchased with all cash and will be financed at a later date when the cash flow and value are both much higher. West Living has a 20-year time horizon, and with "patient capital" backing them, they will have the time to get it done the right way. The company wants to complete 12 to 15 acquisitions in the next three to four years, so they plan to be busy. In addition, they have a development in La Quinta, California that should break ground in 2011 and another one in Carlsbad that should start in 2012. Obviously, this management team is optimistic on the sector's future, and for a reason.