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Inside the World of Senior Care Mergers, Acquisitions and Finance Since 1948

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In This Issue

Welltower's CEO, Shankh Mitra, did not hide his disappointment in the REIT's most recent earnings call. Things weren't all bad, but Welltower will look to make some changes. Underperforming operators will have to shape up if they want to remain in Welltower's stable, and the company hired an apartment REIT veteran as EVP and COO to implement new technology and efficiencies across its portfolio. We'll see if that helps.

See article at right

Latest M&A Stats

Looking at our valuation statistics from the last four quarters, the skilled nursing market continues to see soaring prices, while assisted living is in a slump. However, rising interest rates could see prices fall across all senior care sectors.

See article at right

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A Plan for the Future?

Welltower's Blueprint for Change May Not Be for Everyone

When it comes to quarterly earnings calls, there is a real difference between reading a transcript and listening to the actual call. A REIT analyst friend suggested I listen to, and not read, **Welltower**'s (NYSE: WELL) second-quarter call. He was right.

Shankh Mitra, the CEO, has always been upbeat about Welltower's performance and more importantly its future, and at times somewhat aggressive in his opinions, and his passion. But this time, he sounded down, quieter and more reserved than in the past. Not his combative self. Simply put, he was not happy with their second-quarter performance. Simply put, he is not going to stand for poor performance. He stated that if providers don't perform, they will not stay in the portfolio. A warning shot over the bow? Perhaps, but when Shankh is not happy with performance, he means it.

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A Dive into the Last Four Quarters of M&A

How Have Valuations Changed Since Calendar-Year 2021?

After the pandemic, it was tough to imagine buyers diving headfirst in the seniors housing and care M&A market. We wondered if we would reach the heights of the 2019 market, when 453 transactions were publicly announced (with at least 100 more confidentially disclosed to us), values peaked for seniors housing assets and the average price per bed nearly surpassed the record for skilled nursing, too. There were simply too many factors working against the industry, or so we thought.

Following a relatively quiet 2020 with 356 deals, buyers and their capital providers surprised us by announcing 449 deals in 2021. As COVID-19 vaccines were distributed across the country, monthly deal totals kept rising, as everyone seemed to agree that the worst had passed and providers could start rebuilding occupancy. And a rush to close deals before potential tax implications kicked in led to an astounding amount

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of closings in December 2021 that exceeded 75 transactions. The first half of 2022 then saw 277 deals made public, which annualized would top 550 deals.

However, the mood has changed this summer. Inflation, mainly through increased wages and food costs, has hit many communities and facilities, and not every provider can pass those costs on to their residents. Occupancy has been rebounding nicely since early 2021, but the national average remains far below pre-pandemic levels, which were not satisfactory to many owners and operators in the first place. Rising interest rates and general economic uncertainty have been the most-cited reason for dealmaking difficulties, with buyers and sellers renegotiating, bid-ask spreads widening or lenders getting uneasy with deals that just don't pencil anymore.

We are encouraged by some added conservatism in the market, even if it means some added headaches for brokers and lenders trying to get these deals done. Easy for us to say, but no one wants to see those owners not make their debt payments and have to sell in distress. So where do values stand right now? One sector that could (should) see a pricing correction is skilled nursing, as the average price per bed smashed the previous record of $99,200 in 2016 and the high $98,000 average in 2021, rising to $118,600 in the 12 months ended June 2022. To be fair, that average features the sale of **Stonerise Healthcare**'s 17 skilled nursing facilities for an estimated price around $315,000 per bed, for which we explained our assumptions in last month's issue of *The SeniorCare Investor*. Without that deal, the average price per bed for SNFs still rises to $104,200 for the most recent four-quarter period, which would be a record.

The average cap rate for skilled nursing facilities also tumbled another 20 basis points from 11.3% in 2021 to 11.1% in the last four quarters, which is far below the 12.7% average of 2020 and the 12.2% average of 2019. Traditionally, the sector has never veered away from the 12.0% to 13.5% range, so the drop is notable. But we should note that post-pandemic the cash flow we have capped on each deal has never been more inconsistent. We try to cap the most recent trailing financials with any temporary government aid removed, but operations have changed so drastically and so quickly at many facilities that the actual cap rate used by the buyer and seller can be irrelevant.

Many buyers have future performance more on the mind when it comes to the price they're willing to pay, not to mention ancillary service revenue which might not have been there. And there were also many deals without cap rates, so some of the operational difficulties in the market are not accounted for in these averages. So, taking them with a grain of salt is recommended.

However, the average facility sold in the last four quarters was operating better than the average facility sold in 2021, based on the financials disclosed to us. Operating margins improved to an average of 9.2%, up from 8.3% in 2021 and not far off the average in 2019 of 9.7%. Perhaps more significantly, the average NOI per bed rose

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from $7,000 in 2021 to $9,100 in the last four quarters, which actually surpasses 2019's average of $8,550. To most buyers, the level of cash flow they are acquiring matters the most, and it makes sense that so far in 2022 they would be willing to pay a higher price for it. Meanwhile, average occupancy for SNFs that sold in the last four quarters stood at just 69.4%, down from 69.8% in 2021 and 79.7% in 2019. But as so many facilities have shown, particularly the high-quality transitional care facilities that care for a higher acuity, more medically complex patient (usually on Medicare), you can operate very profitably with the right mix of patients, not full census.

Still, if you have full census, it's usually a pretty good indicator of a healthy operation, with strong referrals and an attractive market. And good census is rare these days, so buyers paid a premium for it in the last four quarters, averaging $203,900 per bed for stabilized facilities (occupancy being at or above 85%) and $107,000 per bed for non-stabilized facilities. That is still a strong figure for non-stabilized, but the average does not include many distressed sales with occupancy not disclosed. By comparison, the stabilized and non-stabilized facilities sold on average for $97,000 per bed and $93,000 per bed, respectively, in 2021, and in 2019 they sold for $109,600 per bed and $52,700 per bed, respectively.

Buyers clearly see something in skilled nursing that overcomes the numerous headwinds facing the sector. Those stabilized, profitable SNFs are a different story; it's the older, non-stabilized facilities requiring more capex and struggling to attract the best staff and patients that have been the target of numerous bidding wars. Higher interest rates could change that.

Assisted living communities have been slowly regaining their lost census, but the labor issues and higher expenses have dulled the sector's sheen a bit. We have seen the 10%-12% resident rate increases, but those won't solve the problem of permanently higher wages. Plus, not every community can raise its rents like that, and the ones that do only shrink their potential pool of residents. Most investors will have to adjust their return expectations, which will bring values down.

As such, the average price of assisted living communities in the last four quarters dropped to $178,700 per unit, from $186,800 in 2021. The sector was coming off a record-high in 2019 in terms of value, with the average reaching $248,400 per unit. Interestingly, cap rates have remained near pre-pandemic levels, only dropping by 10 basis points from 7.6% in 2019 to 7.5% in the last four quarters. The average hit 7.9% in 2020 and 7.7% in 2021, which were still below traditional levels. Rising interest rates could cause cap rates to rise later in 2022. But with the lower yields offered by independent living, active adult and multifamily apartments, capital could keep flowing into the higher yielding assisted living sector, depressing cap rates as a result.

Looking at the operations of those assisted living communities that sold in the last four quarters, the average operating margin stood at 20.2%, or 140 basis points lower than the average in 2019 but significantly above the 2021 average of 17.3%. Meanwhile, NOI per unit fell to $10,400 in the last four-quarter period, down from $10,500 in 2021 and from $12,100 in 2019. These averages do not include the sales of very-distressed communities with large operating deficits, so the distress in the market may not be totally captured.

There was a marked difference paid for stabilized communities versus non-stabilized, to the surprise of hopefully no one. Communities with occupancy at or above 85% sold for $262,600 per unit, on average, in the most recent four quarters, while communities with occupancy below 85% sold for $109,300 per unit, on average. That is a much wider gap than in 2021, when the two groups of communities sold for $235,000 per unit and $143,000 per unit, respectively.

But we also see how much less stabilized communities were valued compared with 2019, when they were priced at $336,200 per unit, on average. We have been hearing that more owners of high-quality communities decided to wait and sell in the last year, but the owners of the highest-quality communities have not been wooed off the M&A sidelines. These owners are generally in a stronger financial position and can afford to sell when values rebound even more. But the few that do sell would likely face a small group of very motivated buyers willing to pay up for a safer bet. We shall see if that is the case this fall. Finally, the smaller independent living market has continued to attract steady interest from investors, as its residents are younger and healthier, lengths of stay are longer and labor needs are far less than assisted living and skilled nursing. The average price per unit rose to $208,300 in the last four quarters, up from $177,400 in 2021, but it does remain below the 2019 average of $233,600. As in assisted living, the owners of the highest-quality communities have not sold during and since the pandemic, preferring to collect their cash flow for the time being.

Cap rates continue to depress for the sector, falling to an average of 6.3% in the four quarters ended June 2022, down from 6.6% in 2021 and from 6.7% in 2019. The sector's attractiveness from an occupancy and labor perspective makes it a safer bet, and the cap rate remains higher than the active adult and multifamily sectors, which should keep investors coming. Compared with assisted living, operations were strong at the independent living communities sold in the last four quarters, with the operating margin averaging 27.3% and the NOI per unit reaching $10,600. Both figures are down from 2019, when they averaged 35.1% and $15,700 per unit, respectively.

Less than four months remain in 2022, but things should get interesting with another rate hike expected by the Fed, midterm elections likely coming down to the wire and labor troubles continuing in senior care. But abundant capital in search of yield should keep M&A busy enough to at least break the all-time transaction total for the year. And we will see where values shake out in early 2023.

SENIORS HOUSING ACQUISITIONS

A couple of quiet weeks in August led to somewhat of an M&A slump for the month, with 40 deals made public. We do expect that figure to rise as more deals come to the surface, but it represents the third-lowest monthly deal total of 2022. Only February (27) and May (35) fell below August's level. That does show just how relatively strong

the market has been this year, however, as the first eight months of the year annualized would result in over 530 transactions for the year. That would be a record by far.

In its latest earnings release, **Welltower** (NYSE: WELL) announced the acquisition of six seniors housing communities in California, and it was revealed that Mike Garbers and Cody Tremper of **JLL Capital Markets** represented the seller, **Oakmont Senior Living**, in the deal. The combined purchase price for the portfolio was $312 million, or $520,000 per unit, but the transaction effectively could be separated into two portfolios: three assisted living/memory care communities and three entrance-fee CCRCs.

Oakmont developed all of the properties with **Gallaher Companies**, including opening the three AL/MC communities in 2021. Located in Fullerton, Simi Valley and Roseville, the communities total 263 units. Opening these communities during a pandemic may have been problematic, but being very selective with its sites and focusing on the California market, Oakmont was able to bring occupancy to 95% at the time of closing. Being high-quality communities in desirable areas, and not to mention stabilized, we assume that the per-unit price may have well exceeded $600,000 per unit, with a cap rate just below 6% at stabilization if margins are in the typical high-30s range for AL/MC communities in California.

Meanwhile, the CCRCs are located in Brea, Palm Desert and Santa Rosa, opening in 2013, 2010 and 2013, respectively. They total 337 units, with 67 memory care units and the rest licensed for assisted living, a majority of which were effectively independent living. That structure allows the residents to not have to move rooms as they require more services, unless they need memory care services. Occupancy was also in the 90s, and we assume the properties also operated at healthy margins in the mid- to high-30s. The portfolio will be managed by Oakmont under a RIDEA 3.0 management contract.

In a separate deal, **Kisco Senior Living**, in a joint venture with Welltower, added The Kensington at Walnut Creek in Walnut Creek, California, to its growing portfolio of managed senior living communities. The Kensington will serve as Kisco's second community in Walnut Creek, along with sister community Byron Park. Built in 1998 on six acres, it offers 184 one- and two-bedroom units for assisted living and memory care, each with its own outdoor space and views of the redwood trees surrounding the property.

Speaking of Byron Park, **Cushman & Wakefield** arranged the recapitalization of the property on behalf of a joint venture between Kisco and an institutional investor. The senior living community comprises 187 units of independent and assisted living. Kisco will maintain operations under the new ownership by an institutional real estate owner. Cushman & Wakefield's Rick Swartz, Jay Wagner, Aaron Rosenzweig, Dan Baker and Bailey Nygard handled the transaction.

Sabra Health Care REIT (NASDAQ: SBRA) kicked off the month of August with its second-quarter earnings and announced a $147.4 million acquisition of 12 Canadian seniors housing communities with its newly formed 50/50 joint venture with **Sienna Senior Living.** The acquisition came with an estimated stabilized cash yield of 6.5%. Subsequent to the quarter, Sabra also closed on the acquisition of two additional managed seniors housing communities for $71.7 million with a weighted average initial cash yield of 7.2%. In addition, Sabra generated $40.2 million of gross proceeds from the disposition of eight facilities during the quarter.

We also saw Blake Bozett of **Blueprint Healthcare Real Estate Advisors** sell an assisted living community in Boise, Idaho, comprising 60 units spread across four pods. The buyer of the community is a local owner/operator known as **The Cottages**, which operates pod-style communities in the Boise area. The seller has now exited the Idaho market and looks to focus on its existing assets in neighboring states.

Senior Living Investment Brokerage has been active this summer, closing the sale of an assisted living portfolio with the help of Vince Viverito, Jason Punzel and Brad Goodsell. The portfolio comprised 212 assisted living and memory care units across three properties in the Rocky Mountain region. Built from 2017 to 2020, the portfolio sold for $37.5 million, or $177,000 per unit. Occupancy ranged drastically from a community in lease-up at 12% to a community at 77%. An Arizona-based owner/operator purchased the assets from a Utah-based developer who was looking to exit the industry.

An almost fully occupied community sold in Alabama thanks to SLIB's Brad Clousing and Daniel Geraghty. Built in 2015 in Madison, the 46-unit (30 AL, 16 MC units) assisted living community sits on five acres near the Tennessee border. The community maintained an occupancy rate of 96% at the time of sale, but struggled with rental rates and expenses.

The seller was a local group of physicians who divested the asset for $5.1 million, or $110,900 per unit, at a cap rate of 7.2% based on annualized trailing figures. At the time of sale, the community was bringing in around $2.2 million in revenue and $370,000 of EBITDAR, but it was not fully stabilized in regard to rental rates and expenses. An Alabama-based regional owner/operator that focuses on the Tennessee and Alabama markets bought the property with the intention of stabilizing and holding it in its portfolio for the long-term.

Staying in the Tennessee markets, Andrew Montgomery, Co-Founder and Vice President of **Montgomery Intermediary Group**, sold an assisted living community in the state. The community's owner and operator was looking to retire from the seniors housing business and sold it to another owner/operator in the Nashville area that was looking to expand its existing portfolio.

When stabilized, the community could be operating above 20% margins, which would amount to more than a 10% cap rate on the deal. That is the opportunity for the buyer, as well as the risk. The purchase price was not disclosed, but we understand it to be around $40,000 per unit.

Again in the Volunteer State, **Inspirit Senior Living** and **Venue Capital** expanded their joint venture, adding a

third community in the Knoxville area in just a matter of months. In June, Inspirit and Venue acquired two assisted living communities in Knoxville and Powell: a 62-unit assisted living community renamed Rain Forest Landings and a 40-unit assisted living community renamed Emory Ridge, respectively.

The joint venture's most recent Knoxville acquisition is the assisted living community Windsor Ridge. Built in 2000, it comprises 62 units and 70 beds, with units ranging from 330 to 427 square feet. The community is located near another stand-alone memory care community that Venue and Inspirit acquired earlier this summer, so there is no need to add memory care at the new location. A mom and pop owner, which developed the community around 20 years ago, sold the property for an undisclosed price. Renovations are expected to start immediately.

Kauhale Health made its first acquisition in the seniors housing market, adding the assisted living and memory care community Vicinia Gardens of Otsego to its portfolio. Built in 2016, the community comprises 52 units just south of Grand Rapids, Michigan. **Kauhale Healthcare Real Estate**, an affiliate of Kauhale, sponsored the acquisition. **Locust Point Capital** and **Coastal States Bank** provided debt for the transaction. Vicinia Gardens will be rebranded as Kauhale Otsego.

This may be the company's first acquisition, but earlier this year Kauhale also took over management of the CCRC Vista Grande Villa in Jackson, Michigan. Founded in 2021, Kauhale is led by five principals with a combined 130 years of experience in senior living/post-acute care operations, acquisitions, operational transfers and development. Its investment strategy is to pick off operational outliers that are newly constructed and owned by institutional investors.

Two newly built assisted living/memory care communities in the Detroit, Michigan area found new owners thanks to the team at **Evans Senior Investments.** Built between 2019 and 2020, the communities were small, with less than 65 units at each location. That meant ownership (a growing regional operator) could quickly fill the communities, even during the pandemic, with occupancy standing at 88% at the time of marketing.

The communities also boasted a 34% operating margin at that time, and in January 2022 the seller implemented inflation-based rental rate increases for existing residents that averaged 12%. An added $400,000 of revenue as a result surely made the communities more attractive to potential new owners. The eventual buyer, which is entering the state, paid $38.25 million, or $314,000 per unit, at a 6.5% cap rate based on trailing NOI at the time of marketing.

Also in Michigan, the Knapp-Stahler Group of **Marcus & Millichap** sold a 52-unit assisted living community in Allegan County. Emerging from numerous bidders, the buyer was a regional group which purchased the property at the list price of $9.2 million, or $177,000 per unit. The 2017-built property had strong historical NOI, but experienced a slight downturn through COVID. At the time of the transaction, the property sold at a 6.5% cap rate. The Knapp-Stahler Group also brokered a sale of two AL communities totaling 74 units. The properties were built in 2017 and 1970 in Saginaw County, Michigan. The older building was converted from a school in 2008 with additions put on in 2016. Both properties were in rural settings and ultimately sold to a regional not-for-profit for $8.2 million, or $110,800 per unit. The seller was a local owner/operator who was exiting the industry.

In northern Minnesota, Bob Richards of **Senior Care Realty** closed the sale of a small assisted living community. A local provider that manages other facilities in the area had operated the property since before the pandemic and finally exercised its lease option for a price of $925,000, or $46,250 per unit. Built in 2005, the 20-unit community cares for a combination of private pay and managed care residents. **RWR Realty LLC** was the broker of record, and the community was marketed by Senior Care Realty.

The growing sector of active adult showcased its emerging status this past month with multiple transactions taking place. A California-based investment group, **Tailwind**

Investment Group, acquired the active adult community Vista Grande in Rio Rancho, New Mexico. Built in 1972, the community comprises 168 units and sits on 11 acres just outside of Albuquerque. **Cooper Street Capital** worked with **Northmarq Investment Sales** to help it sell the fully leased community. Cynthia Meister, Trevor Koskovich, Bill Hahn and Jesse Hudson of Northmarq handled the transaction.

National real estate private equity firm **Northland** announced its first active adult acquisition, making Emblem Alpharetta in Alpharetta, Georgia, its seventh residential property for the state in Northland's portfolio. Built in 2006, the 210-unit, fully leased community sits on six acres and offers one- and two-bedroom homes in a four-story building. The seller of the active adult asset was **Wood Partners**, a multifamily real estate developer based in Atlanta. Northland plans to invest $3 million in the property.

Active adult activity continues with real estate investment group **Greystar** announcing the acquisition of The Ivy at Draper, a 277-unit community in Draper, Utah. The community was previously purchased in 2018 for $51.4 million, or $186,000 per unit, by the current seller **Kennedy Wilson.** Built in 2015, the five-story property sits on four acres just south of Salt Lake City.

Danny Shin and Brock Zylstra of Marcus & Millichap helped to broker this transaction. The team worked with **CBRE** to arrange a $44.6 million **Fannie Mae** loan for the acquisition. This transaction is Greystar's second active adult acquisition in the past year. According to our LevinPro LTC database, the real estate group acquired The Vistas of Port Jefferson, a 244-unit active adult community in Port Jefferson Station, New York.

CBRE's Indianapolis/Louisville Multifamily team, in partnership with CBRE National Senior Housing, sold a 356-unit active adult community in Merrillville, Indiana (Chicago MSA), for an entity controlled by the principals of Chicago-based companies **Oculus Development, LLC** and **UIRC, Inc.** CBRE's Indianapolis/Louisville Multifamily team members Steve LaMotte, Jr. and Dane Wilson, with senior housing team members John Sweeny, Aron Will, Garrett Sacco and Scott Bray, represented the seller.

Finally, to end August seniors housing activity, **Capital Real Estate Group**'s U.S. Healthcare Investment Sales practice announced the sale of a two-property seniors housing portfolio consisting of 139 total units in central Michigan. The portfolio's apartment mix consists of 88 assisted living, 33 independent living and 18 memory care units. The two communities are located adjacent to one another and sit on a total of 13.5 acres.

In the last two years, the portfolio has held a steady occupancy rate of over 80% and was sold to a publicly traded REIT for $32.5 million, or $233,800 per unit. Andrew Larwood and Allen Inman of Capital Real Estate Group handled the transaction.

SKILLED NURSING ACQUISITIONS

In skilled nursing M&A news, one of the most expensive transactions took place in Canada. **Chartwell Retirement Residences** (TSX: CSH.UN), the largest Canadian seniors housing company, agreed to sell two of its long-term care facilities for C$112 million, or C$424,000 per bed (or US$331,000 per bed). Net proceeds to Chartwell are expected to be C$56.8 million after paying off C$41.9 million of mortgage debt. The two facilities are located in British Columbia.

The buyers of the 264-bed portfolio are **AgeCare Health Services Inc.** and **Axium Infrastructure Inc.** and its affiliates. Axium is an independent portfolio management firm with approximately C$9.4 billion in assets under management, as well as C$1.7 billion in co-investments.

This is not the first transaction Chartwell has made with AgeCare and Axium. Earlier in 2022, Chartwell agreed to sell 16 long-term care facilities in Ontario with 2,418 beds to the same buyer group. That price was C$446.5 million that included a small management business and the forward purchase of a 17th facility.

Blueprint Healthcare Real Estate Advisors facilitated a competitive stalking horse bidding process on behalf of a court-appointed receiver for a portfolio of four skilled nursing facilities in Texas. Built in the mid- to late-1960s and totaling 704 beds in the Waco, Houston, Dallas and Fort Worth markets, all four facilities participated in

the Texas QIPP program that generated additional cash flow. Emerging from six written offers, a national owner paid $28 million, or $39,800 per bed, for the portfolio, which would be considered below replacement cost. Amy Sitzman and Giancarlo Riso handled the deal.

Representing a nationwide real estate partnership, Nick Stahler and Hap Knowles of The Knapp-Stahler Group of **Marcus & Millichap** sold a 144-bed skilled nursing facility in Tucson, Arizona, for $17.2 million, or $119,400 per bed. Built in 1966, the facility offered the buyer, which has a presence in the state, an opportunity to continue operating with strong revenues while maintaining service contracts established decades ago.

The Prestige Group announced the sale of a 46-bed skilled nursing facility in Watertown, Connecticut. Joe Shallow and Richard Natow handled the transaction. The seller of the facility was not disclosed. An LLC linked to Venkat Doddapaneni was the buyer.

Staying with Connecticut activity, a skilled nursing provider based in New Jersey acquired a portfolio of three senior care properties in the greater Hartford area. **Evans Senior Investments** represented them in the transaction. Featuring one independent living community and two skilled nursing facilities in Manchester and Vernon, the portfolio totals 114 independent living units and 246 skilled nursing beds.

Prior to the pandemic, the properties were 92%+ occupied and featured a strong post-acute rehab census mix within the skilled nursing portion. But operations took a hit, and the portfolio overall was losing money.

On the other side of the country, **Cascadia Healthcare** announced the acquisition of Pinewood Terrace, a 92-bed skilled nursing facility in Colville, Washington. The facility sits on 1.5 acres just a few miles from the Canadian border. Blake Bozett of Blueprint Healthcare Real Estate Advisors marketed this asset on behalf of a seller looking to exit the Washington SNF market to pursue acquisitions in states with more favorable reimbursement and fewer regulatory challenges. Mr. Bozett brought the deal to

regional owner/operators looking to acquire a SNF at an appealing per-bed price with attractive **HUD** financing. Cascadia emerged as the buyer with the intention to increase its presence in the northern Idaho and Washington area.

Meridian Capital Group sold six SNFs consisting of 745 beds in Connecticut for $67 million and arranged $58.7 million in financing from a commercial bank and mezzanine lender for the acquisition. The team also sold two facilities comprised of 111 assisted living units and 20 memory care beds in Ohio for $22.9 million on behalf of a seniors housing private equity firm.

In conjunction, the team arranged a $13.1 million acquisition loan from a finance company and a $7.5 million acquisition loan from a commercial bank for the buyer of the facilities, a growing private owner and operator.

Rounding out their recent activity, they sold a 127-bed skilled nursing facility in Massachusetts for $8.2 million.

A Plan for the Future*.....continued from page 1*

He sounded as if he might have had a cold, and maybe that was why his usual high-energy demeanor was absent. In reviewing the second-quarter numbers, the results were not as bad as he seemed to indicate, or was upset about. They were just not as good as he wanted, and expected, as Welltower's SHOP providers continue to crawl out of the COVID quagmire. As we have been saying for two years, this will be a long slog for the industry, but with a faster return to normalcy for some providers. He has always thought his providers were the best, in top locations and good buildings, so they should be outperforming the others. Except, it just doesn't always work that way.

During the earnings call, not one question was asked about Welltower's "outpatient medical" portfolio, mostly MOBs, which represents nearly 25% of the REIT's NOI. Why no questions? At 94.8% occupancy, 100% private pay and NOI steadily growing by 2.5%, what's to ask? All the questions from the analysts were focused on seniors housing, where the problems have been and where Shankh is unhappy with the performance.

The good news is that the SHOP same-community occupancy (532 communities) continued to increase in the second quarter, up 100 basis points sequentially to 78.8% after a 30-basis point increase in the first quarter. The bad news is that it was at 78.8%, which is lower than where management expected to see it at this point in the recovery. The broader portfolio, with 836 communities at quarter end, increased by "only" 80 basis points to 77.1% after a flat first quarter when others were beating the historical odds of the usual down first quarter.

Same-community NOI in Q2 increased by 9.2% sequentially and 15.2% year over year. Similarly, same-community NOI margin increased by 140 basis points in the second quarter to 22.2%, which followed a 150-basis point increase in the first quarter. These are still relatively low margins, but at least now moving in the right direction. Rate increases combined with census increases have helped, but costs are still climbing at a rapid rate. Same-community labor costs rose 13.1% year over year, while food costs jumped by 17.3%. These represent 66% of total operating costs, and it is unclear how much longer rate increases can match cost increases.

Other issues include the fact that there are 120 seniors housing assets in the portfolio that have negative cash flow. A portion of that is because they are new and filling up, and others we are sure are being repositioned. But that is about 15% of the assets. The other bad news is that the seniors housing leased portfolio, at 77.7% occupancy, had an EBITDAR coverage ratio of just 0.83x. Add in management fees, and the EBITDARM coverage increases to 1.01x. Obviously not where a landlord wants it to be, but survivable as the upswing for the sector as a whole continues.

The skilled nursing sector is basically two very different stories. The triple-net leased portfolio of just 93 properties had a 78.9% occupancy rate and a 1.31x EBITDAR coverage (1.58x EBITDARM). Medicare represents 40.2% of revenues and Medicaid 31.4%. These are certainly performing better than the rest of the skilled nursing sector nationally. It is the “health system” portfolio that is severely underperforming. These are the 205 **ProMedica Senior Care** (formerly the **HCR Manor Care** assets) nursing homes and some assisted living.

They refer to it as “health system” in their reporting because the leases are guaranteed by **ProMedica Health System**, a multi-billion-dollar hospital and managed care company. Occupancy within this portfolio is the lowest in Welltower’s entire portfolio, at 74.4%. Worse, the EBITDAR coverage is a negative -0.29x, meaning there is no cash flow to pay even one dollar of rent to Welltower. When management fees are added back, the EBITDARM margin goes positive to 0.32x rent, but still a losing proposition. Welltower claims not to be too concerned since ProMedica Health is subsidizing these losses. The good news is that Welltower’s cost basis from the purchase is extremely low, which does provide a lot of flexibility.

We wonder, however, how long the ProMedica board will continue with this, despite the obvious lack of a cancellation clause. Annualized rent to Welltower is about $172 million, so that is a significant cash drain for ProMedica Health. In addition, these assets have an average age of 31 years, the oldest in the Welltower portfolio, and with no excess cash flow for what must be needed renovations, it is hard to imagine they will remain competitive for long. Stewart Bainum Sr. must be rolling over in his grave.

So, Welltower does have some issues in its various portfolios, but none that will prevent it from paying its dividend or buying a few billion in assets every year. One issue that seems to be going away, and not too soon, is agency labor expense. Two of its operators (we would like to know which ones) accounted for nearly half of U.S. agency labor at the peak of usage. One of them has reported a $1.1 million decline in monthly usage in June compared with its recent monthly peak. While this is great, and will help stabilize the quality of care, we wonder what the hourly wages are for the newly hired employees, and how that will impact the existing employees. Welltower

management seems to think the labor market has turned the corner, but maybe just agency labor has improved, with overall cost and supply still a problem that will not disappear anytime soon.

The other curious thing, and one which helped to improve NOI with this year's rate increases, is the expectation that large increases in monthly rents are sustainable if inflation remains high. In the past eight to nine months, 10% increases were mostly accepted because there was an understanding of what had happened. After all, many of their residents watch Fox News every day. But to think that repeating those increases will be a slam dunk in 2023 and 2024 to help margins get back to acceptable levels is way too optimistic. Someone paying $4,500 per month today would then be close to $6,000 per month by 2025.

Think about how many people will be priced out at this level. Social Security payments may be going up with inflation, but the average Social Security payment is probably one-third the average assisted living rent, so those COLA increases will not come close to funding three years of annual rent increases. We just hope that a minimum number of potential customers get priced out of the market. But remember, hope is not a business plan.

Finally, getting to the punch line, a little over a year ago, Welltower hired John Burkhart as its new EVP and COO. He had spent 25 years at apartment REIT **Essex Property Trust** (NYSE: ESS), most recently as COO, which has a market cap of about $19 billion and owns nearly 250 apartment buildings. While there, he was instrumental in the development of that REIT's revenue management platform and the implementation of numerous technology and optimization initiatives.

This is where Shankh sees the future, to maybe cure all ills in the current portfolio. We know, too strong, but we believed him when he said if providers don't perform, they will be out. This is one way he wants to help his customer base. He already had RIDEA 3.0, which nobody is clear on what it actually entails, so this may be thought of as technology and efficiency 1.0. Let us explain.

Mr. Burkhart obviously comes from the multifamily side of the real estate business. He believes, in his words, that seniors housing is still in its "infancy." Now, the CDC says that infancy is the first year of a person's life. It can also be defined as the early stage in the development or growth of something. Since seniors housing, in various forms, has been around for more than 100 years, it is hard to think we are still in the infancy stage of development.

Some would argue that "real" seniors housing, with professional management, has been around for maybe 40 to 50 years. Others might point to the development of the "new" assisted living model in the 1980s, where the biggest question was, are you a healthcare model or hospitality model? Seniors housing is very different from multifamily, what with huge labor expenses, a frail customer base and an increasingly picky consumer. Let's not forget litigation. If they start treating it like multifamily, that will be trouble.

The point is that most people would not say we are in our infancy, perhaps adolescence or approaching middle age. Middle age may make more sense, as there was a certain amount of complacency, and maybe a little fat around the middle, that had settled in prior to the pandemic. Perhaps if John, or Shankh himself, had been in our industry 25 or 30 years ago, they would understand where we are coming from with this attitude. And, I think most of their operators would be upset being told they are in their infancy from a development or sophistication or management perspective. We know for a fact many of them think they are very sophisticated. Open for improvement? Of course. But being told what to do? Could spell trouble.

The areas Welltower wants to concentrate on with its providers are technology and efficiency, not to mention customer awareness. Apparently, the new COO did some mystery shopping (by phone) at several Welltower communities (the managers were not named). As a potential customer, about 50% of the time he got no response, not a call back. When they did call back, the average response time was 13 hours. Obviously, this is beyond unacceptable, and has to change. Tell us something we don't know, as this has been a huge known problem for the industry. But look at the turnover of sales staff, and what the incentives are. To change it dramatically will also be expensive, with training, higher wages and better closing incentives. But it will be worth it.

Since they did not elaborate, we are not too sure what technology they want to deploy in their communities, and how they are going to get more efficient, but they are going to try. We are sure the operators will listen, but if the past is any indicator of the future, they will not want to be bullied. And it sounds like Shankh is fed up enough with the lackluster performance that he is ready to bully. Management already rolled out a data analytics pilot to gather more information from providers, but we do not know what they will do with it. Welltower already has about the best in-house data on the industry (so we hear), but not necessarily on individual providers.

Here is one area where John Burkhart's experience could be invaluable. We all know that active adult communities are the new hot commodity, with cap rates driven lower and lower by demand. A question has been emerging, however. Who will dominate this growing sector in the years to come, seniors housing providers or multifamily owners and developers?

If the latter, Burkhart's experience could be crucial for WELL, which is growing its active adult portfolio, despite the lower initial returns. Active adult may be the future competitive playing field pitting these two sectors against each other. And if you think active adult helps solve the forgotten middle-market problem, the battle may grow.

Shankh Mitra has always said his number one goal is to provide great returns to his shareholders, and presumably he means above-market returns. His share price just hit a 52-week low, down 23% since hitting the high five months ago. Perhaps this is what is really upsetting him, and why he wants to kick some butt. But maybe it would be wise not to kick too hard. His customers (partners) have been through a rough 30 months, and they may need kid gloves and a little love. At least for a while.

CONSTRUCTION FINANCINGS

An abundance of construction loans were closed in August, making us wonder just how "slow" the construction market is in our industry. To start, **Cushman & Wakefield** exclusively advised **Avenida Partners** in the procurement of $70 million in joint venture equity and construction financing for its to-be-built active adult community in Folsom, California (Sacramento MSA). The general partner equity was provided by **Blue Mountain Enterprises**, and the limited partner equity was provided by **Argosy Real Estate Partners. Comerica Bank** provided the construction financing. C&W's Richard Swartz, Jay Wagner, Aaron Rosenzweig and Tim Hosmer worked on the transaction. Avenida Folsom will be a trophy 154-unit active adult community featuring abundant amenity spaces and valley views from a fourth-floor sky terrace.

In other construction financings, **Ziegler** closed $197 million in tax-exempt and taxable bonds to fund the ground-up construction of Outlook at Windhaven Forefront Living. Set in Plano, Texas, the community will consist of 153 independent living units, 32 assisted living units and 24 memory care units. Its owner, **Forefront Living**, a Texas not-for-profit organization formerly known as **Presbyterian Communities and Services**, will also operate the community.

The bonds consist of $109.5 million Series 2022A tax-exempt bonds, $88.2 million Series 2022B tax-exempt mandatory paydown securities, and $1.3 million in Series 2022C taxable bonds that were sold publicly to institutional investors. The proceeds of the bonds will be used to finance and refinance the cost of acquiring, developing and constructing the community. Ziegler's Brandon Powell handled the transaction.

Ziegler also helped secure construction financing for Green Cay Life Plan Village, a $250 million development in Boynton Beach, Florida. The 15-acre site at Jog Road and Flavor Pict Road will be developed by **BRP Senior Housing Management LLC** (an affiliate of **Big Rock Partners**) and **Greenbrier Development LLC.**

The resort-like CCRC will comprise around 170 independent living, 16 assisted living and 16 memory care units in a three-story, 340,000-square-foot building. That puts the development cost at more than $1.2 million per unit. Amenities will include multiple dining options, a bar and bistro, fitness and wellness centers, yoga studio, salon, movie theater, multi-purpose spaces, a pool, patios and outdoor areas, as well as access to the adjacent Green Cay Nature Center.

The community's buy-in costs are expected to begin in the mid-$600,000s. It is expected to break ground in 2024 for completion in 2026. Chicago-based investment bank Ziegler underwrote a $36 million bond anticipation note issued through the Palm Beach County Health Facilities Authority for the $18.6 million land acquisition and soft costs.

With financing in hand from **Old National Bank**, a joint venture between **Ryan Companies**, **LCS** and **Harrison Street Real Estate Capital** broke ground on Clarendale West End, a planned 261,000-square-foot, five-story seniors housing community in Nashville's West End district. Situated near Vanderbilt University and downtown Nashville, the property will offer 172 independent living, assisted living and memory care units with plentiful amenities. Old National Bank provided a $58.1 million five-year construction loan to fund the project.

Greystone arranged $52.5 million in debt and equity financing for an active adult development in Gainesville, Florida. Developed by **Discovery Senior Living**, the 180-unit active adult community will be named Discovery Place at Celebration Pointe, which will feature outdoor gathering areas, restaurants, entertainment options, a high-tech theater and a full calendar of festivals and special events. The community sits a few miles from The University of Florida. Construction began in May 2022, and the community should open by early 2024. Cary Tremper and Matt Miller of Greystone originated the financing.

BRIDGE FINANCINGS

In bridge loan activity, **VIUM Capital** followed up its $1.3 billion in transaction volume for the first half of 2022 with a healthy $100 million in closed transactions across seven properties. The activity comprised six bridge loans and one **HUD** refinance in six states from Pennsylvania to Washington.

The largest loan, totaling $20 million, was arranged for a 120-bed skilled nursing facility in Ohio to refinance $9 million of debt from the borrower's acquisition in August 2021. VIUM was able to add leverage to the facility with the new loan, for which the initial funding was based on the trailing 10 months of EBITDAR ending May 2022. Next, VIUM secured a $14.273 million bridge loan to refinance a 144-unit senior living community in Pennsylvania. The loan will allow the borrower to reposition the community in the local market and change the unit mix before taking the debt to permanent financing.

VIUM also refinanced a skilled nursing facility in southern Texas, in addition to providing equity-out proceeds and covering transaction costs, with a $17.08 million bridge loan. Structured at 60% loan-to-value, the loan has a short term and partial recourse that burns down upon submission of the HUD application, which will take place later this month. The borrower leased the property in 2017 and exercised its purchase option in 2018 before continuing to improve performance during the pandemic. So, a HUD take-out should be around the corner.

A 120-bed skilled nursing facility in Washington obtained a $15.55 million bridge loan to pay off seller financing, provide a capex line and cash out at closing. The financing comprises $10 million of initial funding with a $1.5 million capex draw and $4.05 million in earnouts (made up of three tranches). VIUM had already refinanced two other buildings in Washington for the borrower.

Finally, there were two acquisition loans. First, VIUM arranged $12.8 million in bridge financing for the real estate purchase of a 79-unit assisted living/memory care community in Tennessee and $1.3 million to fund the construction of eight additional MC units. The borrower has been operating the community since its construction several years ago. Second, a $7.7 million bridge loan covered the acquisition and rehabilitation of an 83-unit senior living community in Washington. The repeat client will reposition the asset from majority-independent living to a full-service independent living/assisted living/memory care campus.

Meridian Capital Group's Senior Housing and Healthcare team closed $580 million in transaction volume over the course of the summer, bringing their year-to-date total to nearly $3 billion in 2022. These transactions were negotiated by Meridian's Senior Housing and Healthcare platform, led by Ari Adlerstein and Josh Simpson.

The recent transactions include a $115.2 million acquisition loan from a commercial bank in addition to a $15 million A/R line for 10 SNFs with 1,112 beds in California, a $69 million loan from a commercial bank in addition to a $2 million A/R line for the acquisition of one facility and the refinance of two facilities totaling 468 skilled nursing beds in New Jersey, and a $33.8 million acquisition loan from a finance company along with a $2 million A/R line for two SNFs in Louisiana consisting of 260 beds.

They also closed a $32 million acquisition loan from a commercial bank in addition to a $2 million A/R line for a 124-bed SNF in New Jersey, a $28.5 million construction loan from a commercial bank for a Florida community consisting of 99 assisted living and 32 memory care beds, and a $12.4 million acquisition loan from a finance company for two SNFs in Connecticut totaling 314 beds.

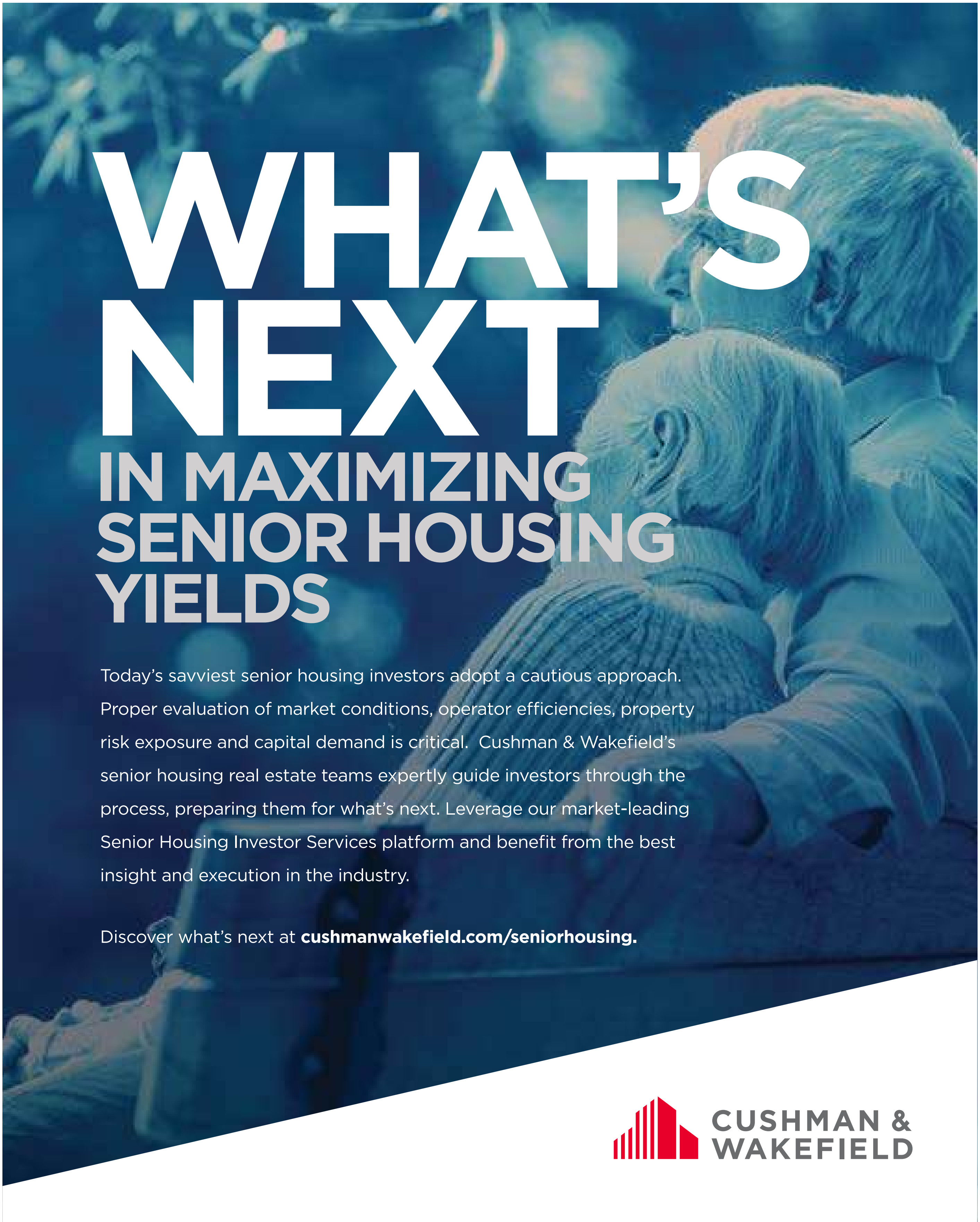
The team's recent refinance activity includes a $21.9 million HUD loan for a facility in New Jersey consisting of 120 SN and 47 AL beds, a $12 million loan from a commercial bank for a facility in Arizona totaling 62 memory care units, and a $6.7 million loan from a commercial bank for a 108-bed SNF in Louisiana.

Capital Funding Group announced that it provided a $40 million loan to refinance an assisted living/memory care community in Simi Valley, California, with Meridian Capital Group arranging the transaction. **Griffin Living**, a large privately held real estate developer, obtained the loan, which repaid an existing construction loan and provided a return of capital to the owners while the community was still in lease-up. Opened in February 2022, the Class-A community has 75 assisted living and 27 memory care units and was over 50% preleased.

Berkadia Seniors Housing & Healthcare announced a combined $48 million in financing for three seniors housing communities in the Pacific Northwest. First, in Washington, Berkadia refinanced a 105-unit assisted living community through Freddie Mac. The borrower secured a $27 million, sub-60% LTV loan, with a 10-year, interest-only term. Built in 2015, the community was 92% occupied at the time of the refinancing, performing well during the pandemic. Next was a $16.21 million acquisition bridge loan arranged for an AL/MC community in Washington. Berkadia provided the loan plus funding for capex and closing costs through its proprietary lending program.

Finally, the third transaction was a $4.77 million loan for a stand-alone memory care community in Oregon, also secured through Berkadia's proprietary lending program. The short-term, variable-rate loan refinanced a 55-bed memory care community that was 96% occupied at the time of the transaction. It is expected to be refinanced by HUD in the next 12 to 18 months.

Northmarq completed a $22 million refinance of a seniors housing property in Croton-on-Hudson, New York.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Springvale Apartments is an active adult community that consists of 31 buildings and 524 units on 35 acres overlooking the Hudson River.

Ziegler continued its busy month, arranging acquisition financing for **Well-Spring Obligated Group**. Ziegler closed three taxable loans for the company to acquire a CCRC in Greensboro, North Carolina, and expand its services as a multi-site senior living operator. Also acting as the swap advisor, Ziegler was able to facilitate the execution of a forward-starting swap, ultimately entering into the swap three months in advance of closing which resulted in the interest rate being 0.55% lower than closing. **Pinnacle Bank** served as the lender for the transaction.

Ziegler also closed $17.75 million in taxable bank financing for the acquisition of The View Alexandria by **Goodwin Living**, formerly Goodwin House. Goodwin Living acquired the property from **Pinnacle Living** this spring, adding to its two other senior living communities in northern Virginia.

The loan was placed with **Truist Bank** with a five-year commitment period at pricing of 1-Month SOFR plus 2.00%, with three years of interest only and a 25-year amortization. To mitigate interest rate risk, Goodwin Living worked with Ziegler Structured Products to implement a fixed payor swap for the five-year commitment period on the entire principal balance at an all-in rate of 4.528%.

Dwight Capital's affiliate, **Dwight Mortgage Capital**, closed acquisition financing totaling $27 million for three assisted living communities in the state of New York. The portfolio consisted of two communities in Jamestown plus an adult day care center. There was also a community in Frewsburg, New York. Altogether, the three communities combined for 293 units of assisted living and memory care. Dwight's Josh Levin originated the transaction. The buyer of the portfolio was **Culture Care Senior Living**, led by CEO Gary Rohinsky.

Blueprint Healthcare Real Estate Advisors not only represented the REIT owner of an Indiana community that it sold, but **Blueprint Capital Markets**, run by Alex Florea, secured acquisition financing for the buyer, **Lloyd Jones.**

Rittenhouse Village of Valparaiso is a 90-unit assisted living/memory care community built in 2009 in Valparaiso, Indiana. The property appears on **National Health Investors**' (NYSE: NHI) most recent property list, with **Discovery Senior Living** serving as the operator/lessee, revealing NHI as the seller in this transaction. The historically profitable community was negatively impacted by the pandemic but started to rebound operationally.

Blueprint Capital Markets coordinated a broad outreach process that included Lloyd Jones' existing lender relationships and Blueprint's network to identify and target new potential lending partners. **Northwest Bank** was ultimately chosen on the strength of its terms, as well as its flexibility and creativity in structuring a loan for a business plan that included both capital and operating improvements in year one. The transaction closed on time despite the changing capital markets environment.

AGENCY LOANS

In agency loan activity, **Greystone** provided a total of $47 million in **HUD** financing for five skilled nursing facilities in California, Connecticut, North Carolina and Ohio. The debt comprised $8.2 million for a 35-bed skilled nursing facility in San Diego, a $10.5 million loan for a 103-bed facility in Dayville, Connecticut, an $8.1 million loan for a 100-bed facility in Norwalk, Ohio, and a $5.75 million loan for a 64-bed SNF in Fremont, Ohio.

Lastly, Greystone provided a $15.1 million loan for a 111-bed facility in Durham, North Carolina. The properties are all receiving the same non-recourse loans with terms of either 30 or 35 years, plus a low rate. Fred Levine of Greystone handled these financings.

VIUM Capital closed a $13.68 million HUD loan for a 199-bed CCRC in Arizona, after a not-for-profit acquired the property in January 2021 with the help of an acquisition bridge loan also secured by VIUM. It features 12 independent living units, 93 assisted living units and 94 skilled nursing beds.

Walker & Dunlop announced that it has structured $57.6 million in HUD financing for three skilled nursing facilities in Illinois. The three facilities were Avantara Park Ridge in Park Ridge, Moraine Court Supportive Living in Bridgeview, and Aperion Care Elgin in Elgin. The 154-bed Avantara Park Ridge received a $15.6 million loan, and Moraine Court, with 185 beds, received the largest loan totaling $28.7 million. Lastly, the 101-bed Aperion Care secured a $13.3 million loan. Josh Rosen of Walker & Dunlop led the transactions that utilized the LEAN 232/223(f) for the refinance of two properties and the 232/223(a)(7) program for the other. The borrower was not disclosed.

NewPoint Real Estate Capital closed five HUD loans totaling over $83 million. The loans include a $29 million refinance of a recently acquired 140-bed SNF for an experienced borrower in New York. The facility was built in the early 1970s and underwent a major renovation shortly after the acquisition. NewPoint also refinanced $51 million in conventional debt for three supportive living facilities in Illinois. Those facilities have a combined 360 beds. Two of the facilities were built in the early 2000s, while the third was constructed six years ago. NewPoint finished its activity with a $3.5 million refinance for a 95-bed SNF in Missouri.

NewPoint was also approved as both a **Fannie Mae** seniors housing lender and **Freddie Mac** Optigo seniors housing lender, adding to its existing HUD and bridge lending platforms. The platform will be overseen by Sean Huntsman, Managing Director, Seniors Housing Originations and Katherine Stewart, Managing Director and Platform Lead at NewPoint.

Eligible properties include independent living, assisted living and memory care facilities, as well as facilities with a limited amount (maximum 20% of NOI) of skilled nursing. Loans can be fixed- or floating-rate, with options for interest-only and a variety of prepayment structures. Terms range from five to 10 years, with up to 30 years for fixed-rate loans.

IN MEMORIAM: BILL SHERIFF

We learned a few days ago that our friend Bill Sheriff, the former CEO of **Brookdale Senior Living** (NYSE: BKD), passed away over the weekend. We lost a true gentleman and a true leader in the seniors housing industry.

Not many people knew Bill well, as he was a quiet, but thoughtful, man. Known to be a man of few words, I had the honor of sitting down with him, one-on-one, for a four-hour interview for **ASHA**'s Entrepreneurial Spirit of Seniors Housing series. And yes, it did last four hours, and yes, he did most of the talking.

I had known Bill for a few decades, but mostly short conversations at conferences or on the phone. But when you spend four hours with someone, starting with when they were born all the way to the present day, with many personal stories, some that could not be printed, well, you do become friends in a very special way. And I will always be thankful for that.

He had to take over the family truck stop business at age 22 when his father died in a car crash. I think that prepared him well for his future as a company and industry leader. He told me his business rule #1 was, "Don't run out of money." Pretty sound advice. Business rule #2 was, "Before making a major decision, think what happens if it ends up being the wrong decision, and whether it can sink your company. If it could, then figure out an alternative." Spot on as well.

One of my fondest memories of Bill was his constant scolding of me for focusing on operating margins and not the absolute level of cash generated, whether at the community level of corporate level. But the phrase "no margin, no mission," coined by the former CEO of the **Daughters of Charity** health system, was as true 30 years ago as it is today, something I had to remind him of, in a joking way. Just so there is no misunderstanding, he was all about mission. But I took his scolding to heart.

He was inducted into the Senior Living Hall of Fame in 2018, a richly deserved honor. He will be missed by all who knew him, and his legacy will live on. And Bill, I got it, but if your margin increases, won't the absolute level of cash flow rise as well? Rest well, my friend. I will miss you and your wisdom.

- Steve Monroe