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# Senior housing and health care market transactions increased by 50% in 2011

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There is a bull market underway regarding the senior housing/health care acquisition market, one that is expected to continue. The following, taken from The Senior Care Acquisition Report - 2012, expands on this topic by taking a look back at the last few years of sales activity.

Perhaps the best way to characterize 2010 was as a warm up year for 2011. After a very slow two-year period in 2008 and 2009 that was distinguished only by the number of non-stabilized and distressed property sales in a market where most lenders went into hiding, the seniors housing and health care acquisition market turned the corner in the third quarter of 2010. It was not just a few large deals, but a new market psychology seemed to take hold combined with a renewed confidence that the industry's prospects would, in fact, begin to improve. A few high quality seniors housing properties were sold at per unit prices and capitalization rates that were about the best the market had seen in a few years. Market participants weren't sure what it all meant, but when the health care REITs began their jumbo buying spree that continued through the first quarter of 2011, the stage was set for a new market environment, but one that went much deeper than simply the REITs spending $20 billion after two years spent improving their balance sheets and expanding their access to capital.

Since 2000, there have been just two periods of significant M&A activity in senior housing and health care, and so far they have both been for a two-year period, including the current one. It should be noted that the current bull market is still underway and may in all likelihood continue for several more years, especially if interest rates remain at historic lows for the next several years, which is the stated policy of the Federal Reserve. In terms of dollar volume in the market, however, if the REIT transactions that are considered to be more like financings are removed, 2009, 2010, and 2011 all look very similar with between $3 billion and $5 billion of non-REIT acquisitions. That said, REITS are an active and important participant in the market and should not be discounted, especially since they seem to be the "go to" buyer for investors looking at an exit strategy because of their low cost of capital, a phenomenon that may be with the market for a few more years.

The dollar volume of transactions in seniors housing and health care is an important indicator of the strength of a market because it defines the amount of capital that is not only allocated to the sector, but also committed to the sector. Obviously, the REITs are an important part of the capital commitment equation. But the depth of the market can be best looked at by how many transactions are publicly announced in a given year. Because this number of transactions encompasses everything from a $6 billion REIT sale/leaseback to the purchase of a 32-unit assisted living community, the trend over time demonstrates not just how many properties or portfolios are on the market, but the level of buying interest in general. And because many transactions need debt to close, it also indicates the amount of capital available in the acquisition market. To be fair, there were several buyers in 2011 that paid cash for their acquisitions and will refinance as they improve operations and cash flow. That said, when transaction volume increases, and especially if prices increase, the market's strength is definitely noticeable.

In 2011, the number of publicly announced transactions in the senior housing and health care market increased by more than 50% to a record 171 transactions. The fact that the transaction volume in 2011 was higher than it was in both 2006 and 2007, when the froth in the market was very noticeable, certainly demonstrates the depth of the market beyond simply the high-cost REIT transactions. In some ways, the market can be broken down into three tiers. The first tier would be those very large deals, with high quality and high prices and relatively low capitalization rates announced mostly by the REITs (although the capitalization rate on many of these rally is not the appropriate valuation tool). The second tier would be high quality properties or small portfolios with high prices and low capitalization rates, while the third tier is those lower quality properties (or non-stabilized or distressed for any reason) with lower prices and higher capitalization rates. It is this third tier where the highest potential return can be realized because of the past performance and lower value, which is partly what attracts the buyers to these properties. With the election year uncertainties in 2012, combined with the fact that the volume was unusually high in 2011, it will be difficult to match 2011s record number of transactions.

Michael Bertrand, MAI is vice president of CBRE | Valuation & Advisory Services-South Central Region, New Orleans, LA.