Dealmaker's Handbook

Finding opportunity
Keeping the faith
MAP quest continues
‘What I’ve learned’
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Dealmaker’s Handbook

Older and wiser

As John Andrews notes on page four, one year sure can make a big difference. In 2007, the sky seemed to be the limit when it came to capital availability in the seniors housing and care sector. Ominous warning signs had yet to take hold, finance companies had not lost billions of dollars, and gas was selling for less than $3 a gallon.

It’s safe to say things are not quite where they were in those heady days of only a year ago. But it is worth mentioning that if this were almost any other time, industry experts would be gushing about very upbeat metrics. After all, occupancy rates remain high across the board, innovation is taking hold as never before, and capital still remains available at favorable rates and terms.

But the reality is that our nation has just experienced what could perhaps most delicately be described as a sobering year. Our economy couldn’t seem to decide if it wanted to slide into a recession, housing sales have tanked, fuel costs have exploded and inflationary concerns abound. And, by the way, two wars are in progress. So it’s not surprising to hear many senior living discussions being laced by qualifiers such as “but,” “if” and “however.”

Despite such caution, this remains a remarkably robust sector. And is there any other field with a future as bright? The reality is that this is an opportune time for both operators and capital providers—so long as they act like grownups.

With this, our third annual Dealmaker’s Handbook, we hope you’ll get a comprehensive view of what’s currently happening. We’ll examine what the market seems to be saying, how reliable data is fueling better business decisions, why it has never been more important for lenders and borrowers to work together, ways some operators are taking the lead, what our next president may (or may not) do, and how to enjoy your stay in Chicago—just to name a few.

We owe special thanks to Bob Kramer and his team at the National Investment Center for the Seniors Housing & Care Industry. Without their unwavering patience, guidance and wisdom, many people in this field would be far less enlightened.

John O’Connor, Editorial Director

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A year ago, most observers were astounded by how much capital was available for seniors housing and care projects. While conditions are hardly the same, there’s still plenty of funding for well-run organizations that put services first.

By John Andrews
What a difference a year makes. In roughly 365 days, the flow of investment dollars into the seniors housing and care industry has gone from a flood to a trickle, dammed up by debris from the mortgage and credit crises.

But while this radical reversal of fortune may cause some worries about a return to the industry’s dark days of nearly a decade ago, the situations aren’t comparable, explains Bob Kramer, president of the National Investment Center for the Seniors Housing & Care Industry.

“Unlike the late 1990s, much of this is being caused by external factors beyond our control and not something the industry created,” he said. “The mortgage crisis and credit crunch, combined with an overall weakening of the economy are the major factors.”

The current downturn is nothing like the implosion of 1999-2000, when market saturation, poorly conceived projects, weak operating fundamentals and ill-advised transactions combined to suffocate investment. The industry spent several years recovering from the trauma.

While no one thought seniors housing would be totally insulated from the fiscal carnage sustained by residential housing last year, the extent of the impact caught most industry financiers by surprise.

“Last year I couldn’t have guessed that we’d be in the state we are now and maybe that’s a failing on my part,” conceded Curt Schaller, senior managing director of Chicago-based GE Healthcare Financial Services. “But anyone who said they foresaw the market going from the most liquidity we’ve ever seen to virtually a handful of lenders is a liar.”

Independent living and continuing care retirement communities have been hit the hardest as the residential real estate market collapse takes its toll on their prime demographic, noted Dan Biron, senior vice president and director of healthcare programs for Columbus, Ohio-based Lancaster Pollard.

“The consensus among our clients is that independent living is clearly affected by the decline of the housing market,” said Biron, who emphasized that his expertise is with for-profit facilities. “Certain states, such as Florida, California, Nevada, Michigan and Ohio are seeing the biggest dips in the single family housing market and certain facilities are struggling because the seniors can’t unload their houses. Because skilled nursing and assisted living have higher acuity residents, they aren’t feeling as much of a pinch.”

The credit meltdown has also encroached upon seniors housing, lessening investment opportunities on both sides of the equation, Biron said.

“Lenders have gotten much more conservative, not underwriting pro forma lending and avoiding perceived risks,” he said. “Credit is still available, but there are a lot fewer players. We are bullish because the market is still there and the risks are still pretty minimal.”

Reading the signs
Even if analysts couldn’t predict that the seniors housing engine would stall by mid-2008, there were signs that the supercharged activity was overheating, said Craig Jones, senior managing director of Columbus, Ohio-based Red Capital.

“It was becoming the Wild West,” he said. “When nursing home spreads get to 115 basis points of treasuries, you know the end is near. It happens every time the healthcare business gets hot and heavy.”

Another sign, Jones said, is when commercial-backed mortgage securities activity heats up.
“Prices were becoming ludicrous,” he said. “Anything could have been financed, but we kept a level of discipline. When CMBS pools take away from agencies, it’s a good time for a reality check.”

Commercial banks—usually the last ones in and the first ones out—are now in sharp pullback mode, analysts say. Some of that is due to regulators cautioning against investing, while major mergers, such as Bank of America-LaSalle and GE-Merrill Lynch, have also quieted activity.

More than anything else, it is this retirement to the sidelines that is causing the seniors housing investment slowdown, Kramer said.

“When it comes to difficulty in the market, the one thing impacting seniors housing is the credit crunch,” he said. “Major banks and finance companies can’t get loans off their books and don’t have the ability to make new loans. As a result, the larger deals aren’t getting done now. And it’s creating a pricing vacuum to the point where no one knows the price.”

Silver lining?

A cooldown in investment and deal making isn’t necessarily a negative event, NIC officials say. Operators need a respite period to assess their operations and work on improvements without the distraction of a new project.

“There is a silver lining to seeing the pace slow down,” Kramer said. “Operators and lenders can focus on their properties and portfolios, which is a healthy process.”

Despite struggles, Fannie & Freddie remain a valuable funding option

Federal mortgage lenders Fannie Mae and Freddie Mac have gone through the same turmoil as the rest of the financial services sector, but because of their massive holdings, their troubles are magnified. Between them they hold or guarantee about $5 trillion in mortgages—roughly half of the United States’ $9.5 trillion debt.

Sharp declines in their stock values recently prompted the federal government to initiate a bailout plan that included placing them into a conservatorship for stability. Their financial future is of critical importance to the seniors housing industry because in the wake of the 2008 credit drought, they are among the few lenders that remain active in the investment arena.

R. Buford Sears, senior vice president for M&T Bank in Buffalo, NY, admits he is concerned about the companies’ shaky situation right now.

“They have been particularly strong in fundamentals like occupancy rates and revenues,” he said. “Over the last year the rate of revenue growth has slowed some, but they have fallen from historic highs. And we’re not seeing occupancy rates fall into the 80% range; they are still above 90%, which is healthy.”

Jim Pieczynski, co-president of healthcare & specialty finance for Chevy Chase, MD-based CapitalSource, describes the dormancy as “a period of contentment,” meaning that organizations are fine with merely standing pat for now.

“We’re not seeing a decline in prices – it’s just that transactions aren’t happening right now,” he said. “There are no catalysts forcing people to sell; capital has
just dried up. Sellers aren’t compelled to sell and certainly not because of debt coming due. It’s the same thing on the refinancing side; people have gotten their loans and know they won’t get more proceeds out because interest rates are higher.

**Fannie-Freddie factor**

Despite sustaining collateral damage in the form of tight credit, seniors housing has largely remained unscathed. A major reason why seniors housing hasn’t felt the real estate backlash is that most deals are done in a conventional way, said NIC Vice President Mike Hargrave.

“The industry really doesn’t get involved with exotic financing arrangements that happened in other sectors,” he said. “CMBS exposure is not as pervasive and there is not as much short-term debt out there; there’s not a lot of waivers on loans, like those stipulating ‘interest only.’”

Despite reeling from roller coaster stock values recently, federal mortgage lenders Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Mortgage Corporation) are still actively involved in the marketplace, Schaller observed.

“They are still aggressive and that is propping up values in seniors housing,” he said. “The non-Freddie/Fannie market couldn’t get any worse, so if they stumble, seniors housing is in for some real pain.”

Brian Pollard, senior managing director for Lancaster Pollard, agrees that increased volumes by Freddie Mac and Fannie Mae are encouraging. He adds that HUD is becoming more active in the market as well, which signals a return to basics.

**The capital quest**

Another factor in seniors housing’s favor is capitalization rates, Pieczynski said.

“It’s still in a nice position,” he said. “Independent living and assisted living cap rates have gone down, but skilled nursing facilities have had an 11% to 13% zone and from an investment perspective, if you buy at 14% with a sale lease back at 10%, you will get a reasonable return. For us, it will be the availability of equity capital, which will be used to buy properties for good returns. For buyers it will be leveraging the returns in two years.”

Glen Ellyn, IL-based Senior Living Investment Brokerage currently has about 23 transactions in process, involving assisted living, independent living, memory care and skilled nursing facilities. Managing Director Jeff Binder says the company is still interested in providing funding to operators with sound fundamentals.

“Experienced developers and operators with proven track records, appealing markets with strong demographic bases and limited competition are most likely candidates for funding,” he said.

“Independent living projects are reviewed on a case-by-case basis, with the ‘right’ owner/operator having a strong trailing financial profile and limited potential for increased competition.”

The big question, Pollard says, is when capital will return in earnest and he says it could be awhile.

“The REITs remain strong, foreign capital continues to come in, HUD, Fannie Mae and Freddie Mac will remain players and grow their respective market shares,” he said. “But it could be late 2009 before traditional creditors get back into the market again.”

As the vice president for NIC’s MAP service — a market research program that collects data on 100 major metropolitan areas — Hargrave has spent hours poring over numbers to ascertain the industry’s financial health.

“Some financiers are going out of business and some companies are having difficulty with occupancy, but our data is not showing the deterioration of fundamentals.”

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**IL is not ‘discretionary’**

Independent living facilities and CCRCs have been hit hardest by the mortgage crisis, losing prospective residents due to a rising number of seniors’ inability to sell their homes. Still, operators shouldn’t see that as an excuse for their occupancy rates to fall sharply. President Bob Kramer of the National Investment Center for the Seniors Housing & Care Industry, says. Creativity and determination, he says, can help allay prospects’ fears and get results.

“We’re seeing some operators being very creative in getting seniors to move in, partnering with real estate agents to sell their homes,” he said. “About 75% of seniors own their homes outright, so these are not home buyers who bought in the last five years and had their entire appreciation eaten up. Their homes may have lost some value, but they still have enormous equity in the house.”

 Contrary to popular perception about independent living, the transition from a single-family home is not purely discretionary and that aspect should be emphasized, Kramer said.

“This is not simply a matter of what the consumer wants,” he said. “Study after study of independent living shows that seniors are moving because of health-related lifestyle reasons.”
BY JULIE E. WILLIAMSON

Building and maintaining effective partnerships have always been essential for seniors housing operators and lenders. But most would agree that in today’s shaky economic environment, it’s even more important for both sides to work together to keep the relationship strong.

Experts contend that productive, enduring operator-lender partnerships greatly hinge on open, honest communication—as well as each party’s commitment to fulfilling their mutual commitments and doing what’s necessary to rise above unexpected challenges.

“Integrity and honesty are always easier to maintain when things are going well, but it’s the tougher times when they matter most. That tends to be when you really show a lender [or investor] what you’re made of,” said Thilo Best, chairman and CEO, Horizon Bay Senior Communities, Tampa, FL.

No news isn’t good news

As in any relationship, keeping the lines of communication open is the key to building lasting trust between borrowers and lenders.

Transparency is critical, stressed James (Piet) Pietrzak, president, Smith/Packett Med-Com LLC, a seniors housing and healthcare development company based in Roanoke, VA. “You have to let all the people you’re doing business with—lenders, investors and so on—have all the information. Be very honest and forthright and keep nothing close to the vest.”

While lenders and investors undoubtedly enjoy being presented with positive news and healthy reports from operators (after all, who doesn’t love hearing that their loans and investments are being expertly managed and put to good use)—industry insiders agree that won’t be enough to carry the relationship long-term. Lenders and investors need to know they can count on operators to keep them in the loop across all stages of the relationship—even when the outlook is less rosy.

“One of the biggest mistakes is thinking that because no one likes to hear bad news, you don’t need to tell the lender when problems arise. What you need to be doing is fully disclosing where you are, where you’re going, and how you plan to continue to meet the obligations you agreed upon when the lending relationship was first established,” said Jim Moore, founder of Moore Diversified Services Inc., a seniors housing and care industry consulting and market research firm based in Fort Worth, TX.

Indeed, keeping mum about less than stellar financial or operational performance, legal woes, unsatisfactory survey results, or even competitive disadvantage could cause irreparable damage to the lending relationship.

“Bankers definitely don’t like surprises, so if there’s a problem, get it out in the open. Occasionally, hiccups do happen along the way, and lenders know that. When it happens, though, it’s important to share it quickly and completely,” added R. Buford Sears, senior vice president and senior health care advisor, M&T Bank, Buffalo, NY. “That is really a good litmus test of a borrower’s character—when things happen to not go as planned, how do they respond? If they don’t respond well and aren’t upfront, that lender may think twice about doing business with them in the future.”

Of course, lenders should also be held to the same
honesty and integrity standards as borrowers. As Al Holbrook, chairman of Solomon Senior Living Holdings explained, just as operations at the community level can “hit the wall” from time to time, banks are experiencing the same in today’s market, but for different reasons. “A bank’s openness [in disclosing] their balance sheet difficulties and potential client resolutions will be important over the next 24 months,” he explained, adding that because this is not a short-term business, transparency and a long-term focus must be effectively maintained by both parties.

Further, Holbrook stressed that the success of a mutually beneficial banking relationship relies heavily upon a bank’s ability to assist owners to the permanent debt markets in today’s market.

“Monthly financials, variance reports, a good marketing lead management report and regulatory compliance reports all go a long way in understanding the operations and financial projections of a community.”

Avoid the blame game
When business is adversely affected, from whichever side of the relationship and for whatever reason, it’s good practice to assume responsibility, as opposed to pointing fingers.

As Best explained, blaming the shortcomings on extraneous factors—such as on the economy or the executive director who just left the organization—will only make the lender or investor question the operator’s integrity and lose confidence in their ability to rise above future conflicts.

Best also warned against bluffing one’s way through the problem at hand. “If you’re in a jam, but don’t know the answers, there’s nothing wrong with admitting that. People often assume that saying, ‘I don’t know’ is not an acceptable answer, but I believe there’s nothing wrong with being honest about what you don’t know and then trying to find the answers. Again, that speaks to honesty and integrity, and investors [and lenders] respond to that.”

Above all, though, financial partners respond to an operator’s past performance and consistency in being a solid player in the seniors housing and care segment.

“I believe that who you lend to is more important than what you lend on,” said Steve Gilleland, director, health-care real estate division, CapitalSource.

“What I mean by that is most lenders would much rather do business with someone with a strong reputation and who does the right thing—even if their facility isn’t the prettiest one out there—than with an operator with a shaky reputation who just so happens to have a Taj Mahal facility.”

Setting the stage for success begins with defining objectives early and clearly
A shiny, new business relationship can be quickly tarnished if both parties fail to fully set the parameters of the partnership and clearly define the mutual obligations up-front.

From a lender or investor perspective, it’s essential to have a solid agreement with operators at closing that outlines the borrower’s responsibilities and obligations. That way, there is a “clear understanding on the information to be provided,” stressed Ray Braun, president of Toledo, OH-based Health Care REIT Inc., an equity real estate investment trust that invests across the full spectrum of seniors housing and healthcare real estate.

For borrowers, adhering to the fundamental guiding principles of business will go a long way toward boosting lender confidence right out of the gate. For starters, it’s about being timely and accurate in the way information is prepared for lenders.

“The lender has a sort of checklist for the borrower when they apply for a loan. Getting that information back to the lender in a complete and timely manner will leave a better impression regarding the borrower’s confidence,” said R. Buford Sears, senior VP, Senior Health Care Advisor, M&T Bank Corp., Buffalo, NY. “It’s really basic blocking and tackling, but it’s very important, and it’s a fundamental that some seem to forget.”

Equally important is that operators do not overstate projections or try to overshoot their performance with the lender. That’s especially critical in today’s sluggish economic and real-estate market that is making it more difficult for operators to count on high demand and occupancy rates that drive solid financial performance.

“Right now, there are some challenges and external circumstances going on in the marketplace that none of us can really control. With lending requirements getting stricter, borrowers may be tempted to try and put a positive spin on things and assure that while the rest of the [industry] may be struggling, their own business is going to continue to be unaffected. But that’s not the way to handle it,” explained Jim Moore, founder of Moore Diversified Services Inc., a seniors housing and care industry consulting and market research firm based in Fort Worth, TX.

“What they really should be telling lenders is what specific efforts they’re taking to help adjust to some of those external circumstances,” he says. “Actions do really speak louder than words.”

And when it comes to making projections, those actions should entail stepping out of the back office and getting out in the field to actually see what’s going on in the local market and with the competition.

“I can’t emphasize enough the importance of field work and actually getting your feet on the ground,” noted James (Piet) Pietrzak, president, Smith/Packett Med-Com LLC, a seniors housing and healthcare development company based in Roanoke, VA. “You can put down all the assumptions you want, but without going into the markets you’re going to serve and seeing what’s really going on, you simply can’t be confident that you’ll be able to deliver. It’s those types of unrealistic projections that helped lead to the collapse of assisted living in the 90s.”
MAP quest continues

By John Andrews

Turns out that when seniors housing market financing goes south, NIC MAP points north. The National Investment Center for the Seniors Housing & Care Industry’s Market Area Profiles® (NIC MAP®) service is seeing the first market downturn since its inception in 2004, as the residential mortgage collapse and ensuing credit challenges have stalled investment activity throughout the seniors housing industry.

Created as a tool for researching seniors housing development patterns in the nation’s largest metropolitan areas, lenders and operators have come to routinely use the data for determining future growth strategies. But over the past four years, the market has been on an unprecedented hot streak and now that things have cooled off, is it reflected in lower NIC MAP utilization rates?

Mike Hargrave, vice president for NIC MAP, adamantly says no; in fact, he contends that the service is continuing along unabated. One reason is that it has more than tripled the number of metro areas it profiles, from the top 30 to 100, though Hargrave admits that the 70 new areas are still in an early stage of development.

“We began collecting revenue and occupancy data in the first quarter of 2008 for the top 100 MSAs (metropolitan statistical areas), but the profiles won’t be complete until early next year,” he said. “We do have sophisticated accounts of the entire inventory of properties in the top 100 and in seniors housing, that’s half the equation.”

Another catalyst for a strong NIC MAP usage rate is the escalating value of market data, he said.

“In times like these when underwriting, due diligence and analysis become paramount, it is even more essential to look at existing assets and the potential for new acquisitions or developments,” Hargrave said. “We’ve seen that with existing NIC MAP subscribers as they increase their activity in report downloads and log-ins.”

As the financing pool for new deals has dried up, NIC MAP users are viewing the service a little differently, focusing on other aspects of the marketplace, Hargrave said.

“Companies that may have been using data for acquisitions might be setting up ways to look at existing assets against competitors and that’s actually its primary use,” he said. “People are hungry for information and NIC MAP fits that mold in these times when you have to hunker down and cater to internal operations. It’s the same for the lenders, too. Making sure that your fundamentals are solid translates into the need for information and we’re providing that.”

Tony Mullen, partner with Havertown, PA-based Royal Star Partners and a NIC senior fellow, was instrumental in making NIC MAP a reality in 2004. As a developer of new properties, his firm relies heavily on the service he helped create to plan their growth strategies.

“I honestly don’t see how anyone can do business in this marketplace without it,” he said. “At a minimum, you have to get MSA data for any new project. If this is the best way to track new construction, you’d be unfiduciary in your responsibility if you ignored it. Even if you hired a consultant and you didn’t use it, you’d be negligent.”

New data dimensions

Thilo Best, chairman and CEO of Tampa, FL-based Horizon Bay Senior Communities, says there are always key questions his team needs to investigate, whether it’s for new projects or existing communities.

“We definitely use it when we set prices for each community as well as for entertaining new developments,” he said. “We use it to get rent and occupancy data, which can help us understand why a property may be under-
performing. It’s the best way to know if it is us or the market. We have used it since it came out and for us it’s definitely a competitive advantage. The quality and depth of the data is great.”

The upheaval in residential housing has prompted requests for different sorts of data, such as correlating the impact of declining housing values with property level fundamentals, Hargrave said. Though NIC MAP hasn’t created metrics for this specific situation, he says there are ways to make connections.

“We can’t definitively tell you that the decline in housing is materially affecting seniors housing on the downside,” he said. “We can suggest it, but we don’t have statistical analysis to prove it. NIC MAP probably needs more quarters to run through a vigorous test and from there we could probably correlate it with operating fundamentals and see a change.”

On the asset management side, Real Estate Investment Trusts and operators have “expressed desire” for automatic data feeds to compare their operations with an alternative data set for benchmarking purposes, Hargrave said.

Market contrasts

The process of collecting and synthesizing seniors housing market data often yields some interesting results and Hargrave is more than willing to share some of these findings. There are some striking differences in similar markets, which Hargrave finds fascinating. Pittsburgh, PA, and Portland, OR, for instance, are similar-sized cities with divergent seniors housing market characteristics.

“In the private pay sector—independent living in particular—there are markets that vary greatly in terms of the amount of seniors housing inventory relative to the existing population,” he said.

“In Portland, there are roughly 11 independent living units for every 100 seniors housing households, ages 75 and older, while in Pittsburgh there are two independent living units for every 100 households. So there is over five times as much stock in Portland. But what’s amazing is that there is virtually no difference in terms of demand in both cities, even though Portland is much more saturated. But both cities are rated strongly.”

Demographics, while important, don’t tell the whole story when reviewing a particular area, Hargrave added.

“There is an amazing amount of opportunity that still exists and people would find it if they concentrated on the opportunity equations,” he said. “That is the path to growth in the sector and presents far greater possibilities than relying solely on demographic growth rates down the road. The true opportunity is in effectively delivering and managing better products in markets that show the most potential. That’s what industry efforts need to address in greater detail.”

‘Unbelievable’ response

Though he spends his time steeped in market research, Hargrave says what amazes him most about NIC MAP is the level of participation among the properties surveyed in each market.

“I’ve been around the industry a long time and I know how secretive organizations can be,” he said. “So it’s very surprising to me that the industry, from a data collection standpoint, has supported NIC MAP so strongly.”

Sunbelt development still heaviest in U.S.

The National Investment Center for the Seniors Housing & Care Industry’s Market Area Profiles service reports that the American South and West are seeing the most activity in new property development.

Among the most bustling markets: Atlanta, Charlotte, Denver, Houston and Phoenix, along with cities in the Pacific Northwest, most notably Portland, OR, and Seattle.

“That is definitely where the lion’s share of construction activity is going on right now,” said Mike Hargrave, NIC MAP vice president.

Even with a population migration away from the Midwest and Northeast, potential investors need to be cautious when looking at new projects going on in so-called “hot” areas, he said.

“There are a few markets that are experiencing a lot of construction right now—in Denver, for instance, more than 25% of the market’s inventory is currently being built,” Hargrave said. “When you see that amount of activity going on, you have to consider that demand will have to drastically pick up in order to meet the expected increase in supply. As a result, the occupied penetration rate needs to expand and that’s not a given that it automatically happens.”
Construction drives increased market penetration

BY JULIE E. WILLIAMSON

As is generally the case, seniors housing and care sector construction is not quite at the same level it was a few years ago. But things have hardly come to a screeching halt. In fact, some cities are still experiencing a surge in new starts, with a healthy demand seen in increased occupied market penetration rates to support the burgeoning supply.

Atlanta, Seattle and Denver saw an increase in construction starts, particularly in the independent-living segment, according to recent data from the NIC Market Area Profiles® (NIC MAP®) service. Specifically, these three major metro markets had independent living construction levels in excess of 18% of inventory within the past year.

“In Atlanta, in particular, we’ve seen a lot of activity and increase in supply over the past two years. But the market has also responded with very positive absorption, meaning that the number of occupied units has also increased. When you have this amount of product coming on the market—with very little decline in occupancy—that says to us that consumers are being very responsive to the products being offered,” noted NIC President Bob Kramer.

During the past two quarters, independent living supply in Atlanta rose roughly 13% and absorption climbed 11.5%. The city’s average independent-living occupancy for fourth quarter 2007 came in at 93.7%.

MAP data shows there’s a great deal of construction on the ground in Seattle and Denver, as well, although much of the supply in those markets hasn’t yet opened. Seattle has the nation’s second highest penetration rate for independent living. Average occupancy currently stands at 93.6%, but when Seattle’s new supply comes on line, the occupied penetration rate will need to rise
from 9.6% in the fourth quarter of 2007 to 11.5% to maintain current occupancy.

“This supply growth in Seattle will test the limits of independent living saturation,” said Michael Hargrave, vice president of NIC MAP. He added that Denver could face some absorption challenges, as well. “Luckily, Atlanta, Denver and Seattle aren’t among the worst housing and real-estate markets, so that will likely bode a lot better for developers than if the construction were in, say, Las Vegas.”

The MAP data also revealed that some of the smaller major metro markets, such as Des Moines, IA, and Austin, TX, are ranking relatively high in terms of their construction and penetration rates. “Again, developers are targeting areas with attractive demographic growth rates,” Hargrave explained.

**Economic impact on growth**

When assessing overall construction trends, Kramer said it’s important to explore it in three phases: the funds being made available, the new projects that are breaking ground and the new supply that is completed and officially coming to market.

Based on NIC’s financial indicators, and on loan-volume surveys from eight national lenders, there’s been a significant decline in the amount of loans being given. Specifically, there’s been a 45% drop in loans in first quarter 2008 versus the same quarter in 2007.

“This data isn’t a big surprise given the credit crunch overall, and those figures appear to be in line with what we’re hearing anecdotally from construction lenders who are telling us that they are being much more cautious and selective,” said Kramer. “Their terms are a little tougher and they’re looking for operators who are experienced, have a good track record—and also have the resources to tie them over in case the fill-up period takes longer than anticipated.”

NIC MAP data isn’t currently showing a significant drop-off in new construction at this point, however, Kramer anticipates the decline will be seen in the coming quarters as the credit and overall economic malaise continues. And as for completed construction projects, NIC isn’t expecting to see a significant decline in new product coming to market until early 2010. That’s because most projects take at least 12 to 18 months to complete (and even longer for larger continuing care retirement communities).

While the credit crunch and mounting economic pressures are undoubtedly affecting all real estate markets, Kramer commented that the seniors housing industry has, to date, proven remarkably resilient.

“Our industry is not immune to the economic pressures, but the good news is it hasn’t been negatively affected anywhere near to the extent that other real estate segments have been,” he said. “What we’re seeing now, and will continue to see in the months ahead, is operators hunkering down and focusing more on operating fundamentals, so when things do turn around they’ll be well positioned to grow. And that’s certainly not a bad thing.”

**SNF private pay-rent growth**

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**Laggards**

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Source: NIC MAP® 2008 (figures are for fourth quarter 2006 to fourth quarter 2007)

**SNF bed-check totals**

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**Laggards**

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Source: NIC MAP® 2008 (figures are for first quarter)
When it comes to providing quality care, walking the talk is never easy. But that’s exactly what happens each day at thousands of communities nationwide. These three operators—Chelsea Jewish Nursing Home, The Wealshire & The Ponds and Erickson Retirement Communities—serve their customers in very different ways. What they all have in common, however, is an unwavering commitment to delivering the best possible combination of value and quality to their customers. Articles by John Andrews.

Green Houses designed to boost ALS residents

Unparalleled in scope for the acute-care sector, let alone skilled nursing, a new Green House project at Chelsea (MA) Jewish Nursing Home is dedicated to serving residents suffering from amyotrophic lateral sclerosis (ALS), better known as Lou Gehrig’s Disease.

The debilitating condition, which gradually atrophies all body muscle while keeping the mind intact, can have a devastating effect on ALS patients and their families because of the intensive care required in advanced stages of the disease.

One day Barry Berman, CEO of Chelsea Jewish for more than 30 years, just felt something more had to be done for these patients and immediately went about finding a way to make that happen. That was a little more than 18 months ago. Groundbreaking was scheduled for mid-September on the Leonard Florence Care Center For Living’s new ALS unit, with 20 Green House residences devoted specifically to those with the disease.

Equipped with technology that responds to eye commands, residents will be able to operate doors, window shades, thermostats, televisions and other appliances simply by staring at them. Staff will be specially trained in tending to the ALS patients’ extraordinary needs.

“It will be the only facility of its kind once it’s complete,” Berman said. “We want to give ALS residents as much of a life that technology can possibly offer.”

The Wealshire & The Ponds: A place where ideas happen

“This is the place to work if you have ideas,” education director Virginia Garberding says about The Wealshire & The Ponds, based in Lincolnshire, IL, north of Chicago. “This is a culture of creativity.”

From this fertile environment have come several innovative programs for Alzheimer’s and Parkinson’s residents, including laughter therapy, aquatic, horticulture and sensory stimulation programs.

“The measure of success, however, does not come from how many innovative programs we can design, although the number is extensive,” Garberding said.

The Laughter Club, for instance, is designed to help curb some of the debilitating aspects of Parkinson’s Disease, particularly the “mask-like” facial expression and loss of voice strength. Using interactive group and individual exercises, participants are encouraged to engage in facial and vocal expressions, such as shock or joy. They are combined with breathing, tongue and lip exercises, and vocal intonation practice with the support of a music therapist.
“Telling jokes and having fun is, of course, a mainstay of the club, as is the enjoyment of greater camaraderie,” Garberding said.

Assistant Administrator Shari Floss says working side-by-side with like-minded people brings tremendous professional and personal satisfaction.

“Ultimately, though, our primary motivation springs from the simple truths that our residents teach us,” she said. “Working with individuals who have Alzheimer’s or other dementias, we learn the value of living in the moment and for the moment. We strive to rejoice in every possibility for as long as it exists and arrange our times accordingly. The sight of a butterfly or of a blowing leaf can make or break someone’s day. The cool feel of dirt or the smell and taste of ripe watermelon can calm and assuage. Now that’s important.”

Erickson’s approach to care puts a premium on choice

Serving a market that meets the housing needs of adults in their late 70s—as the continuing care retirement community model does—means giving prospective residents a menu of choices at moderate prices that are desirable to the consumer while also satisfying the company balance sheet.

John Erickson, chairman and CEO of Catonsville, MD-based Erickson Retirement Communities, says he has used this strategy to successfully create a network of 23 communities that combine a maintenance-free active lifestyle with an ever-expanding host of amenities and social activities designed to improve physical and mental health.

“Today’s older adults, who are on the edge of the consumer movement, want choices for ways to spend their time and money,” he said.

“Moving toward that age bracket are those in the baby-boomer generation who were raised in the era of consumerism. These individuals have always had an unending selection of lifestyle options made possible by technology.”

Erickson said his organization has successfully created an atmosphere that “truly defies traditional stereotypes of aging and senior living.” Residents are encouraged to travel, begin new careers, initiate new, meaningful relationships and cultivate interests and hobbies they may not have had time for in the past. Residents reach their unique potentials by being active in volunteer work and taking continuing education classes to name a couple activities, developing new skills, mentoring fellow residents and staff and joining resident councils to help shape the future direction of their respective campus.

“Our 20,000 residents are empowered to create their own lifestyles,” Erickson said. “The environment created on each campus encourages people to explore new things in their lives whether they are spiritual, physical, intellectual, or recreational in nature. People can assimilate at their own pace and at their own comfort level. Typically, isolation and depression don’t have a chance to take root because residents are drawn into special interest groups by the dynamic social structure.”
LTC riding in the back seat—again

Neither leading presidential candidate has much to say when it comes to reforming healthcare or addressing eldercare services. A large part of the problem is that other matters seem to keep taking priority. But that hardly means the eldercare challenges are going to go away.
A

BY JOHN ANDREWS

The presidential election draws nearer, healthcare is an 800-pound gorilla of an issue for Sens. John McCain (R-AZ) and Barack Obama (D-IL). The trouble is, these candidates are already tending to a zoo full of 800-pound gorillas. They include war on two fronts, national security, the housing and credit crises, emerging inflation, a weak U.S. dollar and a skyrocketing federal budget deficit.

Seniors housing and care, which both candidates acknowledge as important, doesn’t seem to be getting front-burner treatment from either. Both have paid lip service to the issue, indicating that they want to overhaul the current healthcare system, but their plans have been short on specifics—especially as they relate to eldercare.

"Hillary Clinton was the only one to address long-term care at all," observed Bob Kramer, president of the National Investment Center for the Seniors Housing & Care Industry. "Considering the fundamental role the elderly play in healthcare expenditures, it isn’t possible to have meaningful healthcare reform without addressing long-term care. With boomers aging and all of their health-related issues, you can’t silo it out and focus just on the hospital. Skilled nursing is the cheaper setting for orthopedic rehab, for instance. The candidates must look at this industry and its key components."

Ray Braun, president of Toledo, OH-based Health Care REIT and immediate past chair of NIC, points out that both Obama and McCain have mentioned that they want to improve the healthcare delivery system by allowing broader access to individuals, which, on the surface appears to favor the eldercare industry.

"Expanding the insured population should reduce bad debts of healthcare providers," he said. "Both candidates support quality initiatives to ensure appropriate services. But that doesn’t mean change in the sector won’t happen. And many of the efforts at reform may be driven by Congress and governors. So it may be worth noting where things stand as the Nov. 4 elections near.

In the Senate, 35 of the 100 seats will be contested. Of these, 33 are regular elections in which the winners will receive six-year terms. Special Senate elections will take place in Mississippi and Wyoming. In these two races, the winners will serve the balance of terms that expire on Jan. 3, 2013. In the House of Representatives, all 435 seats are up for grabs. Gubernatorial elections will also be held in 11 states this year. It’s impossible to know what changes will be coming to the sector. But one thing is for certain: This will be the most expensive election that America has ever seen.

Other seats up for grabs

The leading presidential candidates may not be saying much about seniors housing and care services. But that doesn’t mean the sector won’t happen. And many of the efforts at reform may be driven by Congress and governors. So it may be worth noting where things stand as the Nov. 4 elections near.

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Death by deficit?

Whoever gets elected will inherit a colossal budget deficit when he takes office in January 2009. The White House Office of Management and Budget reports that the projected shortfall of nearly $400 billion threatens to scuttle the next president’s healthcare proposal, whatever it may be.

Contributing mightily to the massive deficit was the $150 billion economic stimulus package enacted earlier this year, along with a significant slowdown in economic growth.

The huge budget hole, compounded by growth in Medicare and Social Security, could effectively stifle the next president’s plans to reform healthcare, according to The New York Times.

“If either candidate imposes unfunded mandates, thereby impacting the profitability of providers, then capital will be deferred,” Braun said. “Conversely, enhancing reimbursement and profitability will attract capital.”

Bailout battle

Federal mortgage lenders Fannie Mac (Federal National Mortgage Association) and Freddie Mac (Federal Home Mortgage Corporation) are still actively involved in seniors-housing investment and financial analysts say their support is vital to the industry’s continued health. Among those is Curt Schaller, senior managing director of Chicago-based GE Healthcare Financial Services.

“Fannie and Freddie are still aggressive and that is propping up values in seniors housing,” he said. “The non-Freddie/Fannie market couldn’t get any worse, so if they stumble, seniors housing is in for some real pain.”

The forces hammering the financial sector finally caught up to Fannie and Freddie in July, sending their stock prices plummeting and putting their continued viability in question. In response, Congress assembled a bail-out plan for the lenders that the president approved. The candidates are on opposite sides of the issue, with Obama supporting the congressional plan as “a necessary step to ensure affordable home ownership... including an essential role for Fannie Mae and Freddie Mac,” while McCain called the plan a “sweetheart deal” that should outrage the public.
‘What I’ve learned’

In the words of Albert Einstein, the only source of knowledge is experience. Fortunately, the seniors housing and care sector is rife with knowledgeable, experienced lenders, investors, operators, and caregivers who have found success through dedication, perseverance and a keen appreciation of the lessons learned in the field. Here, some of the top industry players share—in their own words—a key lesson their years in the business has taught them.

“I often think about some sage advice I got about ten years ago from an 85-year-old resident living at a Chicago retirement community. He told me, ‘The future is not what it used to be, but if you can see the future, you can get there before it happens.’ This is perhaps the best advice anyone can give to senior living leadership, lenders and investors.”
Jim Moore, Founder Moore Diversified Services Inc.

“I always come back to a phrase that a veteran lender in this industry told me when I first got started: He who has the care wins. I always remember that phrase because it is so true. Ultimately, this business is about providing personal services and care to an elderly population. The real estate piece is an important piece of the investment, without question, but the return on that investment comes from the success of the operating business—and the operating business is fundamentally about providing personal services and care to residents. Operators that really focus on that and are passionate about the business they’re in can and should be successful.”
Robert G. Kramer, President NIC

“If, as a lender—or operator, for that matter—you focus on revenues, then expenses will tend to take care of themselves. Revenues in the seniors housing and care industry are generated through the delivery of quality care and services, and quality of care is then reflected in certain metrics, such as occupancy, average rates per day and so on. If you stay focused on quality and revenues then everything else tends to work out well.”
R. Buford Sears, Senior Vice President Senior Health Care Advisor M&T Bank

“Be careful to not burn any bridges. I got my start in this industry through playing basketball, of all things. I met Arnold Whitman and, in 1993, we started a company called Healthcare Capital Finance. I wound up moving over to Centennial Healthcare, a long-term care provider, and during that time, Arnold started Formation Capital. I jumped back over to the lending side in 2004—a decade after I started working with Arnie—and now Formation Capital is our biggest and one of our best borrowers. Remember, an old boss could become your new boss, or as it turned out in my case, your old boss could become one of your best borrowers.”
Steve Gilleland Director, Healthcare Real Estate Division CapitalSource

“I’ve discovered that the opportunities abroad are immense for experienced American seniors housing professionals. In 2006, after 20 years in the seniors housing field, we sold Southern Assisted Living to Brookdale Senior Living. In early 2007, I moved my family to Auckland, New Zealand.
The idea was to take some time off and explore a beautiful new country. But this business has a strange way of pulling you back in. I soon found a great New Zealand company, Vision Senior Living. I now serve on their board and we are exploring a number of new business initiatives, including assisted living. This experience has opened my eyes to the opportunities for all of us in the sector here in the United States to share our expertise with the rest of the world. Aging is not a uniquely American phenomenon. Every society on Earth is going through a massive demographic transition and we here in the States are way ahead of most of them in terms of our philosophy, our creative entrepreneurial zeal, and our proven business models—from large-scale independent living to assisted living and dementia care. So my advice is simple: Like almost every other field, seek a competitive advantage and fresh opportunities beyond these shores.”

Chris Hollister, CEO Hollister & Company.

“The complexities and local nuances of this business dictate that, while there may be best practices, every freestanding operation must embrace and promote the best local variations to operating the business in order to maximize profitability and quality services. We believe the human relationship variable or positive ‘spirit’ as we call it will do more to drive financial success and high quality delivery of service at a community than any other practical business process we have tried to implement. The executive director is absolutely critical in leading this management variable, and this person must be led with the highest respect and dignity from the Home Office.”

Al Holbrook, Chairman Solomon Senior Living Services LLC

“Be honest and do business the right way. An industry veteran welcomed me to seniors housing and care (back in 1991) by saying ‘be careful who you walk over on your way up the ladder, because they will walk over you on your way down.’ This industry is very small and close knit, think about all of the acquisitions and job hopping that have occurred over the years. The statement really hits home when you think of it in that light. My experience has shown me that only those who truly care about the overall good of our industry, from residents to employees to doing things the right way have been the ones who have succeeded over time and continue to thrive in today’s environment.”

Michael Hargrave, VP, NIC MAP

“The key thing to me about this industry is that it really is all about the people—and by ‘people,’ I mean employees, residents and outside parties such as investors and capital providers. It’s important to treat people well and fairly, and to focus on what matters most. Obviously, we’re in a people- and capital-intensive business, but I think a lot of people tend to focus on the capital side, particularly in a cycle where there are a lot of acquisitions. But we must remember that it’s the way we deal with people that matters most. It really is true that a reputation is a hard thing to build and an easy thing to break.”

Thilo Best, Chairman and CEO Horizon Bay Senior Communities
Your kind of town

If you are coming to Chicago for the first time, get ready for a real treat. Few other places have as much to offer visitors. If you’ve been to the Windy City before, welcome back.

Chicago will be the setting for this year’s NIC Conference. The event will take place Sept. 10-12.
Chicago delivers a pleasant surprise to many first-time visitors. Meanwhile, long-time visitors often think of the city as a hidden treasure. Chicago offers first-rate museums, a world-famous aquarium, numerous top-ranked dining and entertainment venues, miles of lakefront walkways and bicycle paths, plus great art and architecture.

And there may be no better time to visit than September. Mild temperatures and (usually) sunny days make visiting even more pleasant.

While most NIC attendees will be focused on capital and deal making, it’s probably a good idea to set aside some down time for the culinary, cultural and other delights the Windy City has to offer.

Pressed for time? Then see the expanse of the Chicagoland area from 1,000 feet above at the nearby John Hancock Observatory. It’s less than a mile to the north on Michigan Avenue. Better yet, stop by for a bite at the Signature Room at the 95th. Lunch is available from 11 a.m. to 2 p.m., while dinner is served from 5 p.m. to 10 p.m. For reservations, call 312-787-9596.

Just to the east at Navy Pier, Time Escape is a 3-D motion simulation experience allowing you to travel through Chicago’s history, present and future. There are a variety of boat tours departing from Navy Pier and other city locations, as well as city bus tours, which point out significant landmarks and provide interesting information about Chicago and its history.

Chicago’s skyline and lakefront help make it one of the nation’s most scenic cities. Expect temperatures in the mid to high 70s.

Subway Series in the making?

Pennant fever is a rare condition in Chicago. After all, the city’s two major league teams share only five championships between them. But this year, both the Cubs and the White Sox remain serious play-off contenders.

Fans on both sides of town are already girding for a Subway Series, which has happened only once before in the Windy City. (Sox fans claimed bragging rights when their club won the 1906 series.)

The Sox—who captured their third title in 2005—will be in town during the NIC meeting. The Toronto Blue Jays play night games on Wednesday and Thursday (Sept. 10 and 11). A weekend series against the Detroit Tigers kicks off Friday evening. Tickets are available by calling U.S. Cellular Field, at 312-674-1000.

While the Cubs will not be playing at Wrigley Field during the NIC event, daily tours are available. Tour stops may include the Cubs clubhouse, press box, visitors clubhouse, bleachers, dugouts, on-deck circles, mezzanine suites and security headquarters. For more information, call the Wrigley Field Tours Hotline at 773-404-CUBS.

Both ballparks are about a 15-minute cab ride from the host hotel.

Taking in the sights

Millennium Park, a 24.5-acre urban oasis located on Michigan Avenue between Randolph and Monroe streets, features “Cloud Gate,” one of the world’s largest outdoor sculptures. Because of its legume-like shape, many locals refer to the silver structure as “The Bean.”

Down on the Loop’s streets, you can find sculptures by Picasso, Chagall, and other masters, as well as restaurants serving some of the country’s best deep-dish pizza.

The John G. Shedd Aquarium and Oceanarium, one of the world’s largest indoor aquariums, presents a diversity of underwater habitats and creatures.

The Field Museum’s hands-on exhibits make learning about natural history fun. At the Museum of Science and Industry, you can walk through a 16-foot model of a beating human heart.

You can explore the stars, galaxies, and solar systems at the Adler Planetarium and Astronomy Museum’s exhibits and planetarium shows. The museum’s Far Out Fridays include fun nighttime telescope viewing of the starry skies and other special programs.

With attractions and activities galore, Chicago truly is your kind of town.
Focused solely on healthcare loans, Capital Funding Group is a national leader in HUD financing of healthcare facilities. Our unparalleled experience in the industry translates into a smooth, successful experience from the initial underwriting of the transaction through the life of the loan. Just relax and focus on your business while we take care of your HUD loan.

Call 410.342.3155 or Visit Us Online CapFundInc.com
McKnight’s Capital Corner

The following pages showcase firms that provide capital and services to the seniors housing and care sector. They appear in alphabetical order.

A profile appears for each firm. This overview offers insight into each firm’s mission, history, range of services and types of properties served.

For each company, we have included a “Fast Facts” box of convenient information, such as mailing address, contact names, phone and fax numbers, Web-site address, eligible properties and other useful material.
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Cash Flow Loans • DIP Financing • Construction Financing • HUD Financing
Company Profile

CapitalSource Inc. (NYSE:CSE) is a commercial lender offering focused lending products and serving clients in the middle market. CapitalSource Inc. and its subsidiaries collectively managed total assets of approximately $17.3 billion as of June 30, 2008, including a commercial loan portfolio of $9.4 billion and a healthcare net lease portfolio of $1.0 billion. CapitalSource operates principally through its CapitalSource Bank subsidiary, which had $5.2 billion in deposits and 22 retail banking branches as of July 25, 2008.

We are the premier one-stop resource in the healthcare lending space today with offices located throughout the U.S. We specialize in lending solutions for skilled nursing and senior housing providers, as we consistently deliver the certainty of execution, speed and knowledge our clients demand.

We originate, underwrite and service all our loans while maintaining the strength, scale and flexibility to address financing needs in a changing market. We employ more than 150 deal professionals, which enables us to apply even more product solutions to your situation.

Our Philosophy

We take an entrepreneurial approach to doing business and have the ability to underwrite and hold any size transaction. We consistently apply our deep industry expertise to drive our execution. This practice affords us the ability to fully leverage our unmatched array of product offerings in order to meet our clients’ needs.

What We Offer

Whether you need conventional financing, a bridge loan, mezzanine or a sale leaseback transaction, we can help you unlock your potential with the right financing solution to meet your needs.

FastFacts

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E-mail: sgilleland@capitalsource.com
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Atlanta, GA 30328

Eligible properties:
- CCRC
- Assisted living
- Congregate care
- Rehab hospital
- Skilled nursing
- Retirement communities
- Hospital
- Medical office

Options:
- Substantial rehab
- Refinance
- Acquisition
- Exit

Product base:
- Bridge loans
- HUD
- Line of credit
- Term loans
- FHA
- Lease
- Leasehold mortgages
- Sale leaseback

Our diverse suite of financial products includes:
- Floating rate mortgage debt financing
- Sale leaseback
- Revolving lines of credit
- Bridge loans
- Mezzanine financing
- Debtor-in-possession financing
- HUD financing
- Construction/Substantial renovation financing

A Successful Partnership

It is critical to us that all our borrowers have a proven track record of profitability and debt management which lends itself to the comprehensive credit standards we maintain. Cooperation and transparency are some of the attributes that we value, and in turn, expect when financing any transaction.
The management team of Contemporary Healthcare Capital has been providing creative financial solutions to the senior care industry nationwide for nearly two decades.

With direct access to our senior managers, we can create the ideal loan or equity investment to suit your specific needs. Providing more than a menu of standard financing options, our experience and industry knowledge enable us to provide the strategic insights that lead to the financial success of your business.
Contemporary Healthcare Capital (CHC)

Company Profile
Contemporary Healthcare Capital, LLC (CHC) is a leading provider of senior mortgage, mezzanine debt and equity to healthcare service companies nationwide. For over 20 years, CHC’s experienced team of lending and investment professionals has made loans and investments exclusively in the healthcare services industry. CHC specializes in providing structured financial products, offering knowledge and experience that is unmatched in the industry. The company’s six funds are managed and underwritten by the same team, allowing for a seamless program for each borrower. All products can either be used together or individually, depending on the circumstance and need.

Despite the downturn in the capital markets, CHC has maintained a strong, well-capitalized position throughout 2008. Industry concerns about the global credit markets have not had any negative impact on CHC’s ability to fund deals. As a sign of its commitment to the industry, CHC launched its new construction fund in April of this year at a time when many lenders had withdrawn from the market or reduced the leverage that they were willing to provide.

CHC’s clients span a wide variety of sectors within the healthcare industry including: long-term care, senior housing and related healthcare services including acute care and specialty hospitals, durable medical equipment providers, rehabilitation providers, home healthcare companies, institutional pharmacies, hospices and others.

Our Philosophy
CHC’s specialty is providing creative healthcare financing. CHC funds can provide up to 100% financing for borrowers through the use of a stacked financing structure. This structure provides an excellent alternative to REITs since the borrower maintains ownership and control of its real estate. Service providers avoid dilution by not having to take on equity partners. CHC assigns a senior partner to all aspects of the process, from origination to underwriting, to closing through surveillance. This ensures that the borrower is getting straight answers to their questions and brings accountability to the relationship. According to CHC client Sidney Greenberger, chief executive officer of AristaCare Health Services, “At AristaCare we specialize in taking over troubled facilities and turning them around. CHC has the willingness and insight to provide the financing necessary to make these transitions happen. We value our partnership with CHC because they are able to share our vision of what a facility has the potential to become.”

FastFacts
Website: www.ContemporaryCapital.com
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Address: 1040 Broad Street, Suite 3B
Shrewsbury, NJ 07702

Eligible properties:
- Skilled nursing
- Assisted living
- Congregate care
- Skilled nursing
- Retired communities
- Hospital
- Substantial rehab
- Rehab hospital

Options:
- Acquisition
- Refinance
- Exit

Product base:
- Bridge loans
- Line of credit
- Leasehold mortgages
- Term loans

What We Offer
CHC’s broad spectrum of financial products include the following: Acquisition Financing, Refinancing and Recapitalization, Leasehold Financing, Construction Financing, A/R Financing, Cash Flow Lending, Working Capital and Other Structured Financial Products.

Eligible clients include: Seasoned operators of skilled nursing, assisted living, dementia care and independent living facilities as well as home health care, outpatient rehab facilities, psychiatric facilities, staffing companies, and other reimbursed healthcare service providers.
“The Freddie Mac program is a powerful source of financing to the seniors housing industry. Freddie Mac understands our customers’ objectives and has the flexibility to work with us to structure attractive deal terms to meet their needs.”

Expect more from a lender who has the flexibility and stability needed to take your deal to completion. A major real estate investment group recently experienced this firsthand, when Freddie Mac purchased a $140 million pool of mortgages in the seniors housing market. The deal included seven different senior housing facilities with a total of 880 units in four states. This enabled the operator to refinance and recapitalize the properties. A lead member of the investment group stated he was particularly pleased with how Freddie Mac stood by them even during an exceptional amount of turbulence in the financial markets.

To learn how you can expect more with Freddie Mac and to see a list of our Program Plus® lenders, visit www.FreddieMac.com/expectmore.
Freddie Mac

Company Profile
Freddie Mac is a stockholder-owned corporation chartered by Congress in 1970 to make homeownership more accessible and affordable by increasing the supply of money that mortgage lenders, such as commercial banks, mortgage bankers, savings institutions, and credit unions can make available to homebuyers and multifamily investors.

The Freddie Mac Multifamily Division helps to ensure an ample supply of affordable rental housing by purchasing mortgages on apartment buildings with five or more units and by enabling the purchase, refinancing, and rehabilitation of older buildings and the construction of new affordable apartments. Freddie Mac Multifamily also purchases loans on walk-ups; co-op buildings (but not individual units); and mid-rise, high-rise, and garden-style apartment complexes. We buy these loans from a network of Freddie Mac-approved Program Plus® and Targeted Affordable Housing lenders with over 150 branches nationwide.

What We Offer
Freddie Mac’s Seniors Housing product serves the growing segment of housing dedicated exclusively to America’s aging population. We offer flexible loan terms for property types including age-restricted apartments, independent living, assisted living, assisted living with dementia care, and Continuing Care Retirement Communities with a limited amount of skilled nursing.

A Successful Partnership
Borrowers who partner with Freddie Mac through a Freddie Mac Seller/Servicer and choose a Freddie Mac Seniors Housing Mortgage enjoy the following benefits:

Flexibility: We offer permanent loans, supplemental loans for our permanent loans, structured credit facilities and other options to serve your financing needs.

Stability: A stable source of capital, Freddie Mac is in the market every day and is committed to offering competitive, market-driven pricing and delivering what we promise.

Experience: Freddie Mac is one of the largest investors in the business. We have provided financing for a wide variety of seniors properties throughout the country for many borrowers. These borrowers include some of the most prominent seniors housing owner/operators in the industry, many of whom have sought Freddie Mac seniors financing for multiple properties. We understand the seniors housing industry and have regional and national senior housing specialists dedicated to serving this market.

We invite you to talk to one of our Freddie Mac Multifamily Seller/Servicers to find out why you can expect more from Freddie Mac on your next seniors housing deal.
Discover the advantages of working with a specialty lender that is dedicated to providing value-added financing solutions to the healthcare industry.

At HFG, we offer secured revolving credit facilities, term loans and real estate loans from $5 Million to $100 Million with terms custom-tailored to all kinds of healthcare service providers, including:

- Acute Care Hospitals
- Skilled Nursing Facilities
- Home Health Agencies
- Large Physician Groups
- Pharmacy Services
- LTAC’s and Rehab Hospitals
- Behavioral Health
- Diagnostic Imaging

Let our experienced healthcare professionals tailor the optimal loan structure for your working capital needs, major capital purchases, growth capital, replacement financing, acquisitions, bridge financing, and turnaround and DIP/exit financing.

To work with the specialty lender who will focus on helping you achieve your goals, contact the HFG representative in your area.

---

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www.hfgusa.com
Healthcare Finance Group Inc.

Company Profile
Healthcare Finance Group Inc. (HFG) is a senior secured lender catering exclusively to the healthcare industry. Our firm is headquartered in New York City and serves clients nationwide with offices in Los Angeles, Ft. Lauderdale and Philadelphia. HFG was formed in 2000 following a successful management-led buyout from Daiwa Securities America.

Our Philosophy
Healthcare Finance Group Inc. has an exclusive healthcare focus with a dedicated team of healthcare finance experts. At HFG we understand the challenges faced by today’s healthcare executives, and work with them to help address these challenges. We are a nimble organization with streamlined business processes and well-developed execution capabilities. Our management executives are easily accessible to all our prospects and clients. Putting clients first, we focus intensively on providing the best possible services and finding solutions to the unique needs of each client.

What We Offer
HFG provides flexible senior debt financing solutions from $5 million to $100 million to all kinds of healthcare companies.

Revolving Lines of Credit
HFG’s committed lines of credit provide availability based on the net collectible value of a client’s accounts receivable, typically up to 85% against receivable aged up to 180 days. We are happy to commit these credit facilities for terms of one to five years, with the most common arrangements being three years. Pricing on HFG’s lines of credit are typically in the range of 30-day Libor plus 3.50% - 4.00%, depending on the size of the commitment and credit quality of the borrower. A commitment fee of 1.0 – 1.5% is typical.

Term Loans
For its line of credit clients, HFG may provide term loans secured by assets other than receivables, which are primarily based on a multiple of EBITDA, typically up to 3.0 times. We can also help our clients arrange term loans based on higher multiples of EBITDA, up to 4.0 times. Pricing on term loans can be as low as Libor plus 4.50% to as high as 20%, depending on the amount of EBITDA the borrower generates, the multiple of EBITDA the borrower is seeking to borrow, and the value of the collateral securing the term loan. Commitment fees on term loans are usually 1.5 – 2.0%.

Real Estate Loans
Healthcare Finance Group provides first mortgage debt / mini-perm real estate loans primarily to the long term care industry to meet clients’ acquisition and/or refinancing needs. Deal size is from $5MM to $50MM with LTV up to 75% and a term of three to seven years at competitive spreads over Libor. A fixed pricing is available upon request.

A Successful Partnership
At Healthcare Finance Group, we strive to build lasting client relationships that go beyond a specific transaction. Direct access to executive management enables our clients to tap into much more than a pool of capital. Having HFG as a knowledgeable resource, our clients acquire the advantage to keep them a step ahead in the ever-shifting healthcare industry.
Let the money flow

Release your property’s equity with Lancaster Pollard’s EquityTap™

EquityTap is an attractive way to extract equity or attain greater financial leverage when refinancing or acquiring stabilized long-term care facilities.

EquityTap is a proprietary financial product from Lancaster Pollard, an independent investment banking and mortgage banking firm created specifically to help senior living facilities of all sizes meet their capital funding needs.

Lancaster Pollard’s Financial Options Include:
- Taxable and Tax-Exempt Bonds
- Credit Enhancements
- Proprietary Programs
- HUD/FHA & USDA Loans

To learn more about extracting equity call us at (866) 611-6555 or visit our website at www.lancasterpollard.com.

Lancaster Pollard

We don’t just finance projects. We finance progress.

Atlanta • Austin • Columbus • Denver • Kansas City • New York

Registered Securities Broker/Dealer. HUD/FHA Approved Lender. GNMA Security Approved Seller/Service. Member FINRA, SIPC & MRSB
Lancaster Pollard

Company Profile
Lancaster Pollard has been a consistent and dependable source of capital funding for senior living since 1988. We work with small and large organizations, for-profit and nonprofit organizations, independent living, assisted living, nursing facilities and CCRCs; and, we understand that each of their situations is unique. We offer a full range of investment banking, financial advisory, mortgage banking and investment advisory services. As a leading underwriter of bonds and mortgage loans, we have a clear understanding of, and considerable experience with, the borrowing ability of these organizations. Lancaster Pollard has earned a reputation for sound financial advice, cost-effective options, and outcomes that exceed clients’ expectations.

Lancaster Pollard is headquartered in Columbus, Ohio and has five offices to serve clients nationwide, including: Atlanta, Austin, Denver, Kansas City and New York.

Our Philosophy
Lancaster Pollard was specifically created to serve the senior living sector. The founders recognized that the capital markets did not have a complete, uniform understanding of the senior living sector and as a result, access to capital was sometimes more limited, and the cost of capital more expensive. Lancaster Pollard is an independent firm, free from the influences inherent with ownership by or affiliation with large commercial banks. This independence allows us to provide more objective consultation, consider the entire spectrum of appropriate options and actively negotiate the most advantageous terms and covenants for our clients.

If you choose a mortgage or guaranteed loan, your relationship with Lancaster Pollard is for the life of your loan, as we service every loan we underwrite. Our goal is to provide a level of service that exceeds your expectations. Anything less is simply unsatisfactory. You can expect the same level of attention and commitment in the servicing of your mortgage loan as when we structured it.

What We Offer
Lancaster Pollard is committed to developing innovative, low-cost plans of finance for expansion, renovation, new construction and refinance.

Our diverse platform of services was created especially for senior living, and it continues to evolve and adapt to new trends and changing markets with this sector’s needs in mind. Currently, options include:

- HUD/FHA Mortgage Insurance
- Proprietary EquityTap™ high leverage debt program
- Taxable and Tax-Exempt Bonds
- USDA Guaranteed Loan Programs
- Traditional Credit Enhancements
- Bank Private Placements

More financing options means better access to affordable capital in any market condition and better opportunities to match an appropriate finance strategy to your goals and objectives.

A Successful Partnership
Our dedicated associates are committed to exceeding our clients’ expectations. In an inherently transactional business, we develop capital financing solutions that meet short-term financial needs while safeguarding long-term financial viability.

FastFacts
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Eligible properties:
- CCRC
- Skilled nursing
- Assisted living
- Retirement communities
- Congregate care
- Hospital
- Medical office
- Ambulatory surgery
- Rehab hospital

Options:
- Construction
- Acquisition
- Substantial rehab
- Refinance

Product base:
- FHA
- HUD
- Taxable and tax-exempt bonds
- Traditional credit enhancements

Our diverse platform of services was created especially for senior living, and it continues to evolve and adapt to new trends and changing markets with this sector’s needs in mind. Currently, options include:

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- USDA Guaranteed Loan Programs
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- Bank Private Placements

More financing options means better access to affordable capital in any market condition and better opportunities to match an appropriate finance strategy to your goals and objectives.
What Is Your Exit Strategy?

SNF | 184 Beds
St. Louis, MO

ALF/ILF | 77 Units
Terre Haute, IN

ALF | 102 Units
Stillwater, OK

ALF | 85 Units
Port Charlotte, FL

ILF 75 Units
Salem, OR

ALF | 47 Units
Dallas/Ft. Worth, TX

Our Singular Focus Is The Confidential Sale Of Senior Housing Facilities.

At Senior Living Investment Brokerage, we identify all active buyers and continue to track buyers coming in and out of the market. Our vast experience with long-term care real estate has proven to be an invaluable asset when selling facilities. With our many years of real world experience and abundance of current market information, we are better qualified and ready to promote and sell your facility. Because our singular focus is long-term care facilities, we know the business inside and out. While other commercial real estate brokerage firms may service multiple industries, we specialize only in the long-term care & senior housing markets. We offer an unparalleled commitment to our clients, confidentiality and results. What does all this mean for you? Better information, better service and better results.

CALL US TODAY TO DISCUSS YOUR EXIT STRATEGY OPTIONS:

Jeff Binder – St. Louis Office
(314) 961-0070

Grant Kief – Chicago Office
(630) 858-2501

See our many successful exit strategy stories at www.SeniorLivingBrokerage.com
Senior Living Investment Brokerage, Inc.

Company Profile
Senior Living Investment Brokerage, Inc. is a full-service brokerage company dedicated to providing our clients unparalleled service while achieving their investment objectives. From its genesis in 1997 the company has followed certain core beliefs to become one of the top providers of long-term care and senior housing brokerage services - arguably the largest firm solely dedicated to the industry. With offices in St. Louis and Chicago, we are strategically positioned to provide our services nationwide. For more information please visit our website at www.seniorlivingbrokerage.com.

Our Philosophy
Confidentiality and discretion are a priority in long-term care/senior housing transactions and is the foundation from which our process is structured.

At Senior Living Investment Brokerage, Inc. we understand that brokerage does not end at the introduction of buyer and seller. Rather this is just the beginning of our role in completing a transaction - evaluating offers, facilitating due diligence, working with third-party agents, and assisting the title company with closing preparations are just a few examples. Coupled with our thorough underwriting and detailed offering memorandum, Senior Living Investment Brokerage, Inc. provides a complete transaction package unmatched in the industry.

What We Offer
We have compiled a highly skilled team to facilitate confidential private sales of long-term care and senior housing properties. Our understanding of the multiple issues surrounding the transfer of these complex properties enhances the likelihood of a successful sale. Our network is multi-pronged and involves working relationships with key individuals within the industry, including: healthcare attorneys; CPAs/accountants, various health care associations; appraisers; and regulatory/reimbursement contacts. Over the past three years we have on average achieved sale prices at 96% of the value given to our clients.

A Successful Partnership
Confidentiality. Trust. Expertise. Commitment. Credibility. Teamwork. There are many reasons Senior Living Investment Brokerage, Inc. has become a market leader in facilitating long-term care and senior housing transactions. We work with our clients to recognize their specific investment objectives up front and tailor the sales process to meet those needs - we are not bound to a one size fits all approach.

FastFacts
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Eligible properties:
■ CCRC
■ Skilled Nursing
■ Assisted Living
■ Retirement Communities
■ Congregate Care

Options:
■ Divestitures
■ Acquisitions
■ Sale-Leaseback
■ Sale-Manageback
■ Mergers
Thrive regardless.

Ventas helps clients thrive in any business climate. From flexible and full of opportunity, to constrained and challenging. With our deep industry experience, an enterprise value of $10 billion, and reliable access to capital, no one’s better at connecting you with the resources you need. By adapting solutions to situations and combining creativity with speed, we’ve emerged as one of the leading U.S. healthcare REITs. Whether you want to recapitalize or fund future growth, we are open for business. Tap into our liquidity. Find success. Learn more at www.VentasREIT.com.

INDEPENDENT LIVING • SKILLED NURSING • ASSISTED LIVING • SPECIALTY HOSPITALS • MEDICAL OFFICE BUILDINGS

Custom capital tailored for growth."
Ventas Inc.

Company Profile

Ventas, Inc. (NYSE: VTR) is one of the nation’s leading healthcare real estate investment trusts (REITs) and the second largest of the publicly traded equity healthcare REITs, based on the value of its assets and its rental revenues.

As of March 31, 2008, our growing portfolio included 513 healthcare-related facilities containing approximately 51,500 licensed beds and seniors housing units, strategically located in 43 states and two Canadian provinces. For the five-year period ending December 31, 2007, Ventas had an annual total shareholder return of 38.6 percent.

Ventas also is distinguished by its highly experienced management team, which has more than 150 years’ collective experience in sophisticated aspects of healthcare, real estate, restructurings, finance, law, accounting and tax.

<table>
<thead>
<tr>
<th>Type of Facility</th>
<th>Number of Facilities</th>
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<tbody>
<tr>
<td>Hospitals</td>
<td>41</td>
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<tr>
<td>Skilled Nursing Facilities</td>
<td>192</td>
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<tr>
<td>Seniors Housing Facilities</td>
<td>253</td>
</tr>
<tr>
<td>Other Healthcare Facilities</td>
<td>27</td>
</tr>
</tbody>
</table>

Our Philosophy

Ventas is founded on simple, common-sense principles: make consistently sound decisions; work tenaciously, quickly and creatively toward clear objectives; operate credibly with all constituents; seize and create opportunity; remain disciplined, analytic and focused; attract the best management and Board talent; and expect and reward excellence and productivity. Commitment to these ideals leads to success.

What We Offer

With financing available for our customers from $5 million to $500 million, and approximately $10 billion of total enterprise value, Ventas is well-equipped to meet most capital requirements.

Yet, unlike traditional sources, our team of investment professionals can custom-structure deals to meet the most specific needs. We make sure we understand your business objectives, and then tailor deal structures to fit. Whether you want to recapitalize your business or fund future growth, we have the ability to combine sale-leaseback and conventional financing to achieve an attractive, blended cost of capital – with up to 100% financing available. Once the initial review has been completed, we can also move quickly to close a transaction, with a typical timeframe of 45 to 60 days from due diligence to closing, depending on complexity.

A Successful Partnership

Our customers deal directly with decision makers, allowing for rapid turnaround and certainty of execution. Unlike traditional sources of capital, we can move quickly to help you take advantage of timely business opportunities. As a result, Ventas customers benefit from a responsive and reliable partnership with seasoned professionals — and can depend on us for ongoing, industry-specific knowledge and execution capability.

FastFacts

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Louisville Office
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Eligible properties:
■ CCRCs
■ Skilled nursing
■ Retirement communities
■ Hospitals
■ Medical office
■ Rehab & specialty hospitals

Product offerings:
■ Lease
■ Bridge loans

Options:
■ Acquisition
■ Refinance
■ Exit
Integration combines system components to simplify operations, reduce cost, and maximize performance. Yardi INVESTMENT MANAGEMENT software is fully integrated, increasing visibility into asset operations, so fund managers can proactively influence operations and returns. Experience the advantages of seamless integration— with Yardi. For more information, call 800-866-1144 or visit www.yardi.com/IM.
Yardi Systems, Inc.

Company Profile
Yardi Systems is the leading provider of high-performance software solutions for the real estate industry. We set the standard for enterprise management systems by combining responsiveness and technical innovation. The company is dedicated every day to fulfilling our mission statement: Provide our customers with superior products and outstanding customer service. Today Yardi serves more than 15,000 businesses, corporations and government agencies, representing more than 7 billion square feet of commercial space and 8 million residential units globally. The client base includes more than 30 of the most respected senior living owners and operators who collectively operate more than 1,000 communities.

Today’s senior housing market has unique business needs, and the ability to manage these intricacies from an integrated system is paramount to success. Accordingly, Yardi Voyager™ Senior Housing offers an integrated billing, marketing and care solution to its core accounting and financial system. This allows our clients to take prospects from first contact to moving them in, performing assessments, capturing accurate billing charges and managing resident services in an integrated fashion.

Our Philosophy
We develop cost-effective, high-performance products around the needs of our clients. Organizations expect ready access to information, along with the ability to drill down from top to bottom for complete transparency in real time, and we offer technology and services that have transformed how people work within the senior housing industry. As a pioneer in offering a browser-based solution, Yardi continues to provide the assisted living market with state-of-the-art products that give our clients the integration and competitive edge they need to succeed.

What We Offer
Voyager Senior Housing is a powerful, dynamic solution for optimal administration of independent living, assisted living, and dementia care communities. It is the only fully integrated senior housing solution that combines a full general ledger accounting package with resident billing, marketing, and core functionality in a single, robust system. With an intuitive design, Voyager Senior Housing enables management of residents, marketing leads, assessments, and care plans with remarkable speed and efficiency. The system’s browser-based technology provides secure, global access to real-time information across an entire portfolio of communities. One centralized database means more efficient and accurate processing and access to up-to-the-minute reports anywhere, at any time. Along with comprehensive reporting, Voyager Senior Housing provides true business intelligence with configurable Executive Dashboards and Analytics. Executive Dashboard allows an entire financial and operational picture from a single screen. Furthermore, Voyager Senior Housing streamlines key business processes by integrating many components, thus eliminating redundant data entry, accelerating the workflow cycle and providing centralized management. This is a complete solution that provides innovative, easy-to-use tools designed specifically for the senior housing industry.

A Successful Partnership
Yardi’s business philosophy includes maintaining close partnerships with clients at all stages of the relationship—system set-up and test, data conversion, implementation and ongoing training—to make sure they are fully able to capitalize on the tremendous benefits available through Yardi’s senior housing products.
A REMEDY THAT’S EASY TO TAKE

At Bridge Finance Group, we are healthcare specialists who understand that securing financing does not have to be a painful, drawn-out process. We are committed and structured to quickly identify and provide financing that meets your needs.

Call us today to learn how to get the peace of mind that comes from knowing that your financing is in place.

Bridge Finance Group. The way to grow.

1.800.811.2162
www.bridgefinancegroup.com