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Cambridge Realty Capital Companies

e-PULSE!

February 2009, Issue 96

About
Cambridge

Owners, Operators
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Lenders and
Investors

Consultants

The Media

Financiers to the National Senior Housing / Healthcare Market!

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The Lead Story

CAMBRIDGE NOT A ONE-TRICK PONY; COMPANY THRIVES AS BOTH A LENDER AND MERCHANT BANKER, CHAIRMAN SAYS

Cambridge Realty Capital Companies Chairman Jeffrey A. Davis reports the company has closed some 300 senior housing/healthcare loans totaling more than \$2 billion and has consistently ranked among the nation's leading HUD 232 healthcare lenders.

"Because of the success we've had underwriting conventional and insured HUD loans, some tend to think of Cambridge as strictly a debt financing company. More accurately, we should probably be viewed as a merchant banking firm that is able to offer owners both debt and equity funding strategies," he suggests.

Mr. Davis points out that the company's principals have a long history of involvement in the acquisition, development and ownership of commercial real estate properties, dating to the late 1970s. Cambridge was founded in 1983 and, during the decade of the '80s, participated as a principal in the ownership and development of both office and industrial



In This Issue:

[CAMBRIDGE NOT A ONE-TRICK PONY: COMPANY THRIVES AS BOTH A LENDER AND MERCHANT BANKER, CHAIRMAN SAYS](#)

[SENIOR HOUSING AND HEALTHCARE ACQUISITION AND EQUITY GUIDELINES](#)

[SPECIALIZING IN SENIOR HOUSING & HEALTHCARE FINANCE IS DEDICATED PROCESS AT CAMBRIDGE](#)

[WEST COAST ATTORNEY OFFERS HEALTHCARE OPERATORS ADVICE ON SELLING THE BUSINESS IN A DIFFICULT MARKET](#)

[CHAIRMAN RECALLS EVENTS THAT HELPED CAMBRIDGE BECOME SENIOR HOUSING/ HEALTHCARE LEADER](#)

[CAMBRIDGE TO PARTICIPATE AT NIC CONFERENCE](#)

[HAVE A DEAL?...MEET CAMBRIDGE IN 2009!](#)

Related Links

the ownership and development of both office and industrial buildings.

"We were involved in joint ventures or partnerships with experienced owner/operators or builder/developers, and were totally focused on creating the right capital structure for these transactions. This experience proved invaluable when the focus changed and our business model shifted to exclusively accommodate the senior housing/healthcare segment in the 1990s," he said.

Late in a decade marred by over-building and credit woes, Cambridge Investment & Finance Company, LLC was created to explore investment opportunities in the senior housing/healthcare market. Initial efforts have targeted underperforming properties with turnaround potential.

For example, with a joint venture partner, Cambridge in 2000 purchased Waverly Gardens, a 197-unit senior housing independent and assisted living community in Memphis, Tenn. The property had been repossessed by its institutional owner, Pacific Life Insurance Co., when the developer filed for bankruptcy. Following restoration and a return to profitability, Cambridge sold its interests in the property to its joint venture partner.

Mr. Davis says the company subsequently began a series of sale/leaseback transactions for owners experiencing financial difficulties. In this group of acquisitions were the 142-bed Dowagiac Nursing Home in Michigan, the 172-bed Hockessin Hills Care Center in Delaware, and the 100-bed Tilton Terrace Healthcare Center in the same state. When the owners of the Rainbow Beach Nursing Home in Chicago, Illinois experienced cash flow problems, Cambridge was able to step in to provide working capital to ownership in exchange for a favorable purchase price and the time needed to put the transaction together.

More recent transactions have revolved around the acquisition and lease of two nursing homes in Evansville, Indiana, and the acquisition of four assisted living properties in the Green Bay and Appleton, Wisc. area that were being operated by an absentee owner. In the latter situation, Cambridge purchased the properties and created a structure with a third-party manager from the Appleton/Green Bay area.

"Our experience in this dynamic has given Cambridge a far greater understanding and awareness of ownership issues. Property owners shouldn't hesitate to call on us for assistance, whatever their capital needs might be," he said.

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Quote of the Week

"Don't forget until too late that the business of life is not business but living."

- Barry C. Forbes

SENIOR HOUSING AND HEALTHCARE ACQUISITION AND EQUITY GUIDELINES

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Housing/Healthcare Acquisition and Equity Guidelines

PURCHASE AMOUNT:
\$2.5 million to \$250 million

Property Types:

- Congregate Apartments
- Multi-Level Facilities
- Assisted Living Facilities
- Nursing Homes - Skilled and Intermediate Care

GEOGRAPHIC PREFERENCE:

Midwest Preferred

HIGHLIGHTS:

- Joint Venture with Owner / Operator
- 100% Interest or Partial Interest
- Operating Leases Available
- For-Profit or Not-For-Profit Structure
- Mortgage Notes

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DETAILS CONTACT:

Financing Information Group

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Working with Cambridge

SPECIALIZING IN SENIOR HOUSING & HEALTHCARE FINANCE IS DEDICATED PROCESS AT CAMBRIDGE

On its website, in this corporate newsletter and elsewhere, Cambridge Realty Capital has been described as "a dedicated firm specializing in senior



housing and healthcare financing."

"But what does this really mean?" asks Cambridge Executive Vice President Brent Holman-Gomez.



For one thing, it means the Cambridge staff "fully understands that your senior housing/healthcare property isn't an apartment or office building!" he observes.

"Over the past 10 years, Cambridge has emerged as one of the nation's leading senior housing/healthcare lenders. But clients still identify with us as a small company that is totally immersed in the market segment it knows best.

"We're not doing the majority of our business in other types of real estate. And we're not focused on a much larger business unit, because senior housing/healthcare finance is all we do. Our clients know who is making decisions on their behalf, and can easily find and talk with people who are knowledgeable about the process and the progress of their loan," he explained, adding:

"We know the basics of the business, which enables us to more efficiently handle requests for information with fewer missteps and more certainty of execution."

Mr. Holman-Gomez points out that Cambridge is constantly in the market for funds.

"We recognize that the number of players in the market changes with regularity. Our expertise extends to finding the lenders and investors that don't advertise, that no one knows are in the market, and that deliver better terms to our clients as a result.

"Typically, borrowers only want to concern themselves with funding when their loans are coming due. We pride ourselves on being able to quickly communicate what is available and what should be expected from the capital markets. And we're often able to help clients approximate the value of their property or get help from appraisers who specialize in this area," he said.

Cambridge works closely with small and medium-sized family-owned enterprises and is "thoroughly familiar" with Medicaid and Medicare reimbursement issues. Based on this awareness, the company "is able to more quickly understand changes in operating performance.," Mr. Holman-Gomez maintains.

"Keeping abreast of industry trends and issues also is something we do well. And the company's extensive experience in this market segment has given the staff a unique perspective on transaction terms. Simply, we know what's acceptable and what isn't. And we're very good at estimating investor thresholds. For example, how low can they go?

"The other unique thing about Cambridge is the company's first-hand operational experience. Cambridge has held nursing homes and other types of senior housing properties as assets and fully comprehends the structure of these businesses," he

added.

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WEST COAST ATTORNEY OFFERS HEALTHCARE OPERATORS ADVICE ON SELLING THE BUSINESS IN A DIFFICULT MARKET

Given all the challenges facing the healthcare industry today, some independent operators have been asking themselves if now is the time to sell the business and move on to another phase of life.

"For these operators there are no easy answers. A number of factors need to be examined closely with the seller's goals in mind," says attorney Jennifer M. Sternshein, Esq., of the Sanders, Collins & Rehaste LLP law firm in Orange, Calif. The firm has substantial experience in the acquisition, divestiture and financing of healthcare businesses and, with mutual clients, has worked extensively with Catalyst/Cambridge Healthcare Finance, Cambridge Realty Capital's West Coast affiliate in Los Angeles



Ms. Sternshein points out that in a volatile lending environment, it can be risky to get involved with a buyer who may or may not be able to procure the financing needed to close the deal. But the economic climate is only one of several factors that sellers must consider.

In the first in a series of three interviews with the editors of Cambridge's e-PULSE! newsletter, she suggests that sellers need to remember they do have options. Also, as long as the seller knows what he or she hopes to achieve, the "right" team of legal and financial advisers will be able to structure the deal to meet their specific needs.

However, before they get to this point, sellers usually need to address a number of specific questions related to such things as lifestyle and goals, tax considerations, how the transaction will be structured, timeline considerations, financing, regulatory considerations and pricing, Ms. Sternshein observes.

When contemplating a sale, the first thing an independent operator needs to question is his or her lifestyle and goals. Am I ready for a change, or do I need to adjust my lifestyle to either improve health or quality of life? Am I emotionally ready to sell

the facility?

Often, tax considerations loom very large with sellers. Typically, they want to know how much tax will be owed if the sale is made now, six months from now, or a year later? And they want to know how to be tax efficient.

Ms. Sternshein says sellers usually ask a number of questions related to the way a transaction will be structured. For example, is it best to receive a lump sum at closing and invest it accordingly, or would an installment sale work better? Are goals better served by carrying back a note for a credit-worthy buyer to provide a steady stream of income for a time-certain period? Does a 10131 Tax Deferred Exchange make sense in my situation? Are there gift or estate planning goals that need to be addressed? Can finances be structured in a way that better meets the seller's needs or makes finding a buyer easier?

It's important for operators to get a handle on what's driving their desire to sell, she points out. Is there a personal matter demanding attention? Are regulatory changes problematic? Have there been a series of poor surveys or a threatening patient liability suit? Has the surrounding population shifted or new competition moved into town, making it more difficult to maintain census? Is a non-union facility under pressure to organize? Or is it simply time to invest time and energy elsewhere?

On the subject of financing, sellers need to know if they'll incur a pre-payment penalty by selling now, and when the pre-payment penalty will lapse. Also, if there is a penalty, is the upside big enough to minimize its effects? If the seller is leasing, how much time remains on the lease? Is there a purchase option that might add value for certain buyers?

Regulatory considerations can also be critical, Ms. Sternshein maintains. Are there new regulations that will make operations more challenging? Does it make sense to time the sale around a license renewal date to avoid another year of license fees? And, if the property is in California, is it desirable to time the sale around the inevitable annual budget crisis and ensuing Medi-Cal payment suspension?

Pricing is the other major consideration. What is the business and real estate worth? If sold now, will the price per bed meet the seller's financial goals?

"Professional help is available to help sellers sort these things out. Without looking at these fundamental issues, a seller can incur unnecessary expense by heading towards a transaction for which they are not prepared," she said.

CHAIRMAN RECALLS EVENTS THAT HELPED CAMBRIDGE BECOME SENIOR HOUSING/ HEALTHCARE LEADER

Cambridge Chairman Jeffrey A. Davis is a 1975 graduate of the University of Illinois with a BA degree in finance, and earned a Masters degree in real estate investment, analysis and appraisal from the University of Wisconsin in Madison one year later.



The timing, he recalls, wasn't terribly auspicious for anyone hoping to make a career statement in real estate finance.

Jimmy Carter was sworn in as the 39th U.S. President in 1977, and two years later his newly appointed Federal Reserve Board Chairman Paul Volker declared war on inflation. As a result, during the Carter Presidency, short-term interest rates shot up from 9 percent to 22 percent, fell back to 11 percent, then raced ahead to peak once again at 22 percent. During this period, long-term rates were bouncing between 9 percent and 15 percent.

Speaking at a meeting of the University of Illinois Real Estate Club in Champaign-Urbana, Mr. Davis described how this tumultuous period "changed my perspective and career forever."

At the University of Wisconsin, Mr. Davis studied under James Graaskamp, PhD. Following graduation, he joined Chicago-based Baird & Warner, a diversified real estate finance company and the nation's oldest commercial and residential brokerage firm.

At Baird & Warner, Mr. Davis worked on financing all types of commercial real estate properties, including office, industrial, retail and multi-family, and swiftly rose through the ranks to become the company's youngest-ever senior vice president. The commercial business was based on traditional correspondent relationships and, as a harbinger of things to come, at his first loan meeting at Baird & Warner he learned the company had lost its correspondent account with Phoenix Mutual.

With interest rates gyrating all over the place, financing commercial real estate was a heady challenge in those days. But the Cambridge Chairman told U of I Real Estate Club members that one deal in particular had a memorable impact.

"A public company in Oklahoma City was liquidating its portfolio of nursing homes, including a five-property portfolio that was purchased by a local Chicago owner/operator. Baird & Warner financed three of the five buildings with capital provided by Lincoln National Life of Fort Wayne, Ind.

"Two things stand out in my mind. It took almost nine months to get this deal done, which was an inordinately long period for that point in time. The other thing that impressed me was how

profitable these nursing homes were, even with interest rates at 14.6 percent.

"I mentally filed this insight away, but wasn't able to act on it until much later when my own company reached an important crossroads in its corporate development," he said.

Mr. Davis founded Cambridge in 1983 to provide structured finance for commercial real estate developers. HUD expertise was added a year later, ostensibly to fund multi-family housing utilizing tax-exempt revenue bonds. However, this focus began to shift in 1986 when the State of Illinois lifted a Certificate of Need moratorium for nursing homes that had been in place for 10 years.

"Two years later we provided an \$8 million new construction/permanent loan to a Glenview, Ill., apartment developer who wanted to build a new nursing home just down the road from a completed apartment project we had financed through HUD using tax-exempt revenue bonds. And then we got a call from an owner in Atlanta and funded a \$5 million replacement facility using the same funding vehicle," he said.

Mr. Davis recalls that during the massive commercial real estate market downturn that began in the late 1980s and moved through the early 1990s, Cambridge transitioned from being a financier of multiple real estate projects and categories to senior housing/healthcare specialists. In recent years, the company has consistently ranked among the national industry leaders and has closed more than 300 senior housing/healthcare transactions totaling more than \$2.75 billion.

Looking ahead, there are several important demographic trends that are expected to increase demand and encourage the development of senior housing properties, he believes.

"The U.S. Census Bureau has projected the U.S. population over 65 will increase from 35 million people in 2000 to over 86.7 million in 2005. Additionally, the U.S. population over the age of 85 will increase from 4.2 million people in 2000 to 6.2 million in 2010, 7.2 million in 2020, and 9.2 million in 2039. Currently, both the average and median age of residents in independent living facilities, assisted living properties and skilled nursing homes is approximately 83.5 years," he noted.

Where To Meet Cambridge

CAMBRIDGE TO PARTICIPATE AT NIC CONFERENCE

Cambridge Realty Capital Companies will be among the participants at the 2009 NIC Western Regional Symposium scheduled for March 11-12, 2009 at the Hilton San Diego Bayfront Hotel in San Diego, CA.



Cambridge Chairman Jeffrey A. Davis, Senior Vice President Brent Holman, and Hymie Barber,

**National Investment Center
For the Seniors Housing & Care Industry**

President of Catalyst/Cambridge Healthcare Finance will attend the event and be available to discuss the company's HUD and conventional lending programs and joint venture opportunities.

Mr. Davis said the National Investment Center for the Seniors Housing & Care Industry (NIC) seeks to advance industry goals by facilitating informed investment decision-making and providing excellence in networking, professional education and research. The symposium will also focus on a variety of educational topics.

In addition to owners and operators, conference participants will include developers, pension fund managers and advisors, real estate managers and advisors, commercial finance companies, lending officers for banks, S&Ls, insurance companies, mortgage brokers, venture capitalists, investment bankers and other debt and equity financiers.

Those interested in meeting with Cambridge should contact Communications Coordinator Karlene Holleman at: (312) 521-7606. FAX (312) 357-1611. E-mail: KH@Cambridgecap.com
KH@Cambridgecap.com.

Additional conference information is available at www.nic.org.

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We'd also love for you to come to [Cambridge's world headquarters](#) in Chicago, Illinois, to visit!

Schedule an appointment by contacting Karlene Holleman, Director of Communications:

Phone: 312-521-7606

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Are you in or around the Southern California area? Feel free to contact Hymie Barber, President of Catalyst/Cambridge Healthcare Finance, to discuss your transaction:

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Privately owned since its founding in 1983 as a real estate investment banker specializing in commercial real estate property financing, Cambridge Realty Capital Companies, together with its affiliates, has emerged as one of the nation's leading senior housing and healthcare debt and equity capital providers, closing 300 separate transactions totaling \$2.75 billion in the last 15 years.

The company is one of the nation's leading HUD 232 FHA / MAP-approved lenders for nursing homes and assisted living facilities, and has an integrated debt / equity financing strategy that includes conventional first mortgage lending; bridge lending; mezzanine debt financing; direct property acquisitions / joint ventures; sale / leaseback financing, and acquisition of distressed debt.

Cambridge is also the creator of The Signature Experience(TM), a four-step process designed to transform the traditional lender / borrower relationship and identify ideal capital solutions for worthy projects.

Chicago-based Cambridge works nationwide and has a regional office in New York, affiliate office in Los Angeles, and correspondent relationships in other US cities.

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