



CAMBRIDGE

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SENIOR HOUSING/HEALTHCARE INDUSTRY'S ABILITY TO ROLL WITH ECONOMIC PUNCHES LEADS TO OPTIMISTIC PROJECTION FOR 2010

The Great Recession of 2009 wasn't especially kind to the owners of commercial real estate assets, but the pain was spread around unevenly.

"In hindsight, it was a breakthrough year for senior housing and healthcare properties, as the extent to which senior housing demand is sustainable during different economic environments began to more fully sink in with lenders and investors," Cambridge Chairman and funding expert Jeffrey A. Davis observes.

"Last year, senior housing/healthcare properties were the strongest real estate asset class in most lender and investor portfolios, and this isn't likely to change as the economy continues to work its way through what has been a slow revival process to date," he said.

Davis is Chairman of Chicago-based Cambridge Realty Capital Companies, one of the nation's leading senior housing/healthcare lenders. The company is consistently ranked among the top FHA-approved HUD healthcare lenders and is involved in direct property acquisitions, joint ventures and sale leasebacks through its Cambridge Investment and Finance Co. subsidiary.

"The recession of the last two years has obviously had some negative consequences for the senior housing/healthcare industry, but the industry has proven to be remarkably recession-proof in the current downturn. Overall, the industry's resilience has been impressive," he maintains.

Mr. Davis notes that weakness in the residential housing market and the overall decline in consumer confidence forced many seniors to delay moves into independent living properties. But the impact on occupancy in other industry sectors has been less apparent, and this especially applies to skilled nursing homes, where the majority of residents are funded by Medicaid, Medicare and private insurance.

"The federal government's stimulus program, coupled with the willingness and ability of states to meet their responsibilities to the Medicaid population, has enabled nursing home operators to perform at a high level while providing excellent care for residents.

"Moving forward, the pace of the economic recovery and how well state governments are able to resolve well-publicized budgetary woes will dictate how smoothly and effectively this dynamic unfolds. Skilled nursing facilities still could face additional challenges as a result of decreasing state revenues and Medicaid cuts, but the industry's greatest cyclical challenges appear to be behind us at this time," he

believes.

"The bottom line is that the business case for senior housing received exceptionally strong validation in 2009. Senior housing properties have generally performed well in the current crisis and could perform even better if economic growth proves to be sustainable in the second half of the year," he said.

Mr. Davis thinks the debt markets will continue to be challenged over the next 12 months, with both lenders and investors continuing to fixate on how well transactions support underlying economics. Special emphasis will continue to be placed on cash flow, property history and performance.

For senior housing/healthcare borrowers, HUD Lean was the developing story in 2009, with the federal agency processing a record \$2 billion dollars in new loans, including MAP, TAP and loans underwritten using the new Lean rules that have standardized and streamlined the HUD application process. On the equity side, there was lots of talk but little action in 2009, but 2010 is shaping up as a more robust year for investments.

"In the past, the fact that senior housing/healthcare properties were not a pure commercial real estate play was a distraction for investors, but in some quarters this reality is beginning to be viewed more as a blessing than a curse," he observed.

He offers the following observations on capital sources and equity investments for the year ahead.

HUD Lean. Demand for HUD financing is through the roof due to continued contraction in the capital markets and debt maturity. Underwriting for assisted living and skilled nursing home properties continues to move tighter as loan to value has decreased over the last 12 months, from 85 percent to 80 percent, and cap rates have increased. HUD Lean remains a program in transition, with the agency scrambling to resolve issues related to the heavy demand for this product. From the borrower's perspective, current low interest rates make these loans more attractive, but upside pressure on rates could be developing in the year ahead.

Fannie Mae and Freddie Mac. These capital providers are committed to supporting the senior housing industry. Both focus on assisted living and independent living properties, and both got off to a slow start in 2009 but gradually increased volume as the year went on. The expectation is that 2010 loan volume will continue to rise. Over the past 14 months, both Fannie Mae and Freddie Mac continued to tighten underwriting standards and this trend is expected to remain in place as well.

Commercial Banks. Thanks largely to government intervention, the major national banks were able to stare down economic Armageddon, but spent most of 2009 focused on non-commercial real estate problems and are not expected to be a major source of funding for senior housing in the year ahead. Like the large national banks, regional banks were not players on any level in senior housing last year and are still dealing with commercial real estate issues. But these lenders appear to be warming to the task and could step up to fill some funding gaps in the months ahead. Community banks could also be joining the hunt as well, with the focus on local relationships and deposits.

Insurance Companies. This could very well be the year of the insurance company in senior housing. Last year, insurance companies were able to take advantage commercial real estate lending opportunities without worrying about competition from commercial mortgage-backed securities (CMBS). The companies created extremely conservative underwriting guidelines and cherry-picked the most profitable low leverage, high interest and short amortization deals available. The insurance companies have strong real estate groups and strong underwriters and didn't put a lot of troubled loans on their books in 2006, 2007 and 2008, when more competitive factors prevailed. The expectation is that these companies will be acting on opportunities to increase senior housing market share in the months ahead.

Credit Companies. For many of the same reasons, the three major credit companies that are active today in the senior housing/healthcare segment, General Electric, Midcap Financial and Capital Source, might reasonably be expected to increase senior housing lending activity in 2010.

Equity Investment. Senior housing/healthcare investors generally fall in three primary categories: Private Investors, Institutional/Private Equity Investors, and Real Estate Investment Trusts (REITS). As 2009

began, private investors were mostly looking for deeply discounted deals which ultimately failed to materialize, private institutional investors were generally uncomfortable with the sector, and REITS were holding back for various reasons. However, for private investors and REITS, the New Year appears to have ushered in a remarkably different perspective. Private investors are becoming more impressed by the industry's fundamentals and are particularly attracted to performing properties. Likewise, Real Estate Investment Trust managers have noticed the favorable performance data, have money to spend, and could become a major force in transactions moving forward.

Davis says Cambridge has been privately owned since its founding in 1983 as a real estate investment banker specializing in commercial real estate properties. The company today has three distinctive business units: FHA-insured HUD loans, conventional financing, and investments and acquisitions.

The company is one of the nation's leading senior housing and healthcare debt and equity capital providers with more than 300 closed transactions totaling more than \$3.0 billion since the early 1990's, when the firm began its specialization in providing senior housing capital.

Cambridge is the creator of *The Signature Experience*[™], a four-step process designed to transform the traditional lender/borrower relationship and identify "ideal" capital solutions for worthy projects. The company has a national origination office in Los Angeles, and numerous correspondent and brokerage relationships nationwide.

Cambridge publishes the bi-monthly e-PULSE!(R) electronic newsletter, which delivers company news and feature stories via e-mail to corporate friends and clients. Additional information is available on the Cambridge website, www.cambridgecap.com, and Cambridge can be reached at (312) 357-1601 or via e-mail to info@cambridgecap.com.

The firm also has embraced social media and networking via Twitter at <http://twitter.com/cambridgecap> , via Facebook at <http://www.facebook.com/pages/Chicago-IL/Cambridge-Realty-Capital-Companies/19132944489>, and via LinkedIn at <http://www.linkedin.com/companies/454232> , where information on the firm and its employees can be found.

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