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EXPERT SAYS SENIOR HOUSING/HEALTHCARE PROPERTIES WITH STRONG CASH FLOW ARE POISED TO TAKE ADVANTAGE OF LOW RATES IN 2012

Housing industry woes and the debt crisis in Europe remain the greatest impediments to economic growth and expansion in the U.S., but the "Teflon" senior housing/healthcare industry should be okay in 2012, one expert is predicting.

Cambridge Realty Capital Companies Chairman Jeffrey A. Davis says the World Bank is predicting the Eurozone will contract by 0.3 percent in 2012, but the U.S. economy is expected to lurch along with a 2.2 percent growth rate, high unemployment and a housing crisis that isn't mending itself.

"If this is the scenario we get, the year ahead will not be substantially different than the one immediately preceding it. The outlook for the industry will hardly be robust, but owner/operators with properties that can demonstrate a strong cash flow will find borrowing costs as low as they've been in decades," he said.

Cambridge is one of the nation's leading FHA-approved HUD LEAN lenders, with more than 400 closed senior housing/healthcare transactions totaling more than $4.5 billion. The company also offers conventional funding solutions and has an investment strategy that includes direct property acquisitions, joint ventures and sale/leaseback transactions through its Cambridge Investment and Finance Co. subsidiary.

When evaluating the senior housing/healthcare segment, there's a need to distinguish between private pay and the segment of the industry that relies on government programs, Davis said.

"Because a decision to move into a government-supported senior housing/healthcare facility is 100 percent need-based and not discretionary, the performance of these properties is less likely to be impacted by a sluggish, under-performing economy.

The housing market correction has seriously impacted the industry's independent living segment, with no turnaround in sight.

"In his recent State of the Union address, President Obama outlined yet another program aimed at qualifying more borrowers for low interest loans. And the Federal Reserve Board is doing its creative best to make housing more affordable," he noted.

Davis says he would not be surprised to see the Fed extend the controversial policy of quantitative easing, or QE3. In this program, the central bank “prints” money to buy long- and short-dated government debt with the goal of driving down interest rates, boosting demand for investment capital and increasing economic output

Davis said interest rates are projected to remain low for the foreseeable future but more cautious underwriting standards will continue to apply. Lenders have a strong incentive to make loans but the financing focus is on properties that can demonstrate strong cash flow.

Cambridge offers the following observations on capital sources and equity investments for the year ahead:

**HUD LEAN:** This funding source has grown significantly in the current cycle and remains a bright spot in both multifamily and senior housing areas. The HUD 232 program has successfully dealt with an unprecedented increase in demand since 2009 and has made great strides in dealing with the backlog that resulted as orders soared. It is anticipated that HUD will have eliminated the backlog and queues that were created to facilitate the loan application process by the end of the first quarter of 2012.

**COMMERCIAL BANKS**: Commercial banks are expected to increase lending activity in the senior housing sector during 2012. Banks have been heavily burdened by the need to dispose of underperforming, under-collateralized commercial real estate loans. Activity in the senior housing area has picked up as banks seek to put their money into earning assets. This trend is expected to continue.

**FREDDIE MAC/FANNIE MAE:** These agencies operated under a dark cloud throughout 2011. Regrettably, problems resulting from single family loan activity projected up the line. Not much is expected from these players in the year ahead.

**INSURANCE COMPANIES:** There’s little new to report on this group for 2012. Insurance companies have strong real estate groups and underwriting and do not have a lot of troubled loans on the books. Typically, they follow extremely conservative underwriting guidelines and tend to cherry-pick the most profitable low leverage, high interest and short amortization commercial real estate deals available. Insurance companies were only marginally involved in senior housing/healthcare properties last year and will most likely not be aggressive participants in the year ahead.

**CREDIT COMPANIES**: It is anticipated that the major credit companies, including GE Capital, will once again be more active in senior housing in 2012. In today’s market, credit companies are able to demand and get higher interest rates for well performing, stable properties that provide strong, risk adjusted-returns.

**EQUITY INVESTMENTS:** Senior housing/healthcare investors generally fall into three primary categories: private investors, institutional/private equity investors, and Real Estate Investment Trusts (REITs). All are expected to be active in 2012. Over the past two years the larger public REITs have been able to raise a tremendous amount of money in the unsecured debt market at very low rates, a trend that is expected to continue and involve both existing and new sources.

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

Cambridge has consistently ranked among the country's top five FHA-insured HUD lenders (now HUD Lean) over the last 15 years and offers an array of conventional lending options, including permanent construction and interim loans on either a floating or variable rate basis. The company's principal investment strategy includes direct property acquisitions and joint ventures, sale/leasebacks, conventional and mezzanine debt financing, and the acquisition of distressed debt. The company has acquired 16 facilities totaling approximately $60 million.

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 as well as monthly updates of other relevant news and breaking trends. 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/cambridgecap, via blog at www.cambridgecap.com/blog 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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