

**Senior Living and Long Term Care
Properties
An Institutional Investor Introductory
Primer**

**Cambridge Realty Capital Companies
Chicago, Illinois**



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Footnote: A majority of the data from the data from this slideshow was compiled by The National Investment Conference (“NIC”), a not for profit organization dedicated to the process of capital formation in the senior living and long term care industries.



Capitalization Rates Quarter Ending 6/30/06

*From transactions involving major appraisal firms specializing in the senior living industry
Supplied by NIC*

Property Type	Low	Average (Mean)	High	Number of property transaction Involved
Independent Living	7.0	8.3	10.2	36
Assisted Living	7.3	8.7	11	92
Nursing Homes	12.0	12.7	13.5	49
CCRCs	*	*	*	*

❖ Capitalization rates are most often defined as: forecast earnings (or NOI or EBITDA) divided by market valuation of (or price paid for) the enterprise.

❖ Mean Capitalization rates are weighted by the number of property transactions involved. Low and high values represent a range of reported values. Though appraisers are requested to submit capitalization rates only for transactions that have closed during the quarter, this quarter's data may include some transactions proposed but not yet closed, or from refinancing valuations.

*Not enough transactions to report this quarter.



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Senior Living Categories

A \$800 - \$1,500 Monthly Fee	B \$1,200 - \$2,800 Monthly Fee	C \$2,200 - \$4,500 Monthly Fee	D \$3,000 - \$7,000 Monthly Fee
100% For Housing	45% or Services 55% for Housing	65% for Services & ADL Care 35% for Housing	75% for Services, ADL Care, & Medical Care 25% for Housing
<ul style="list-style-type: none"> ● Real Estate 	<ul style="list-style-type: none"> ● Real Estate ● Services Meals, Transport, Housekeeping 	<ul style="list-style-type: none"> ● Real Estate ● Services Meals, Transport, Housekeeping ● ADL Care Bathing, Dressing, Transferring, Eating, Toilet Use ● IADL Care Finances, Phone Use, Shopping, Money Mgmt. 	<ul style="list-style-type: none"> ● Real Estate ● Services Meals, Transport, Housekeeping ● ADL Care Bathing, Dressing, Transferring, Eating, Toilet Use ● IADL Care Finances, Phone Use, Shopping, Money Mgmt. ● Medical Care Specific Disease, Nonambulatory, Intensive Medical
<ul style="list-style-type: none"> ● Seniors Apartments ● Active Adult Communities ● Owner-Occupied Single Family Mobil Homes 	<ul style="list-style-type: none"> ● Congregate Care Facilities ● Independent Living Units in: CCRC Facilities ● Board and Care (services only provided) 	<ul style="list-style-type: none"> ● Assisted Living Facilities ● Assisted Living Units in: Congregate Care Facilities CCRC Facilities ● Board and Care (services & care provided) 	<ul style="list-style-type: none"> ● Nursing Homes ● Skilled Nursing Units In: Congregate Care Facilities CCRC Facilities Hospitals



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Senior Living Terms and Definitions

Just as with any industry, some specialized terms are necessary to understand the senior living industry. The two major groupings of care provided (or needs met) for seniors are assistance with activities of daily living (ADLs) and instrumental activities of daily living (IADLs).

The ADL Index describes the physical activities that an elderly person may need help with such as walking, dressing, bathing, eating, toilet use, and administering of medication. A study by the Assisted Living Facilities Association of America (now known as the Assisted Living Federation of America) found that walking, going outdoors, and bathing were the most common ADL limitations for adults over age 85; while bathing, dressing, and medication reminders or dispensing were the most common ADL limitations for assisted living residents.

The IADL Index describes more complex, combined mental/physical functions. IADL limitations usually describe some level of cognitive impairment. The major areas of IADL assistance include meal preparation, shopping, telephone use, housework, and money management. These activities appear to rely more heavily on memory or mental-function alertness rather than strictly physical function.

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Senior Living Terms and Definitions

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The senior living industry provides not only shelter for people, but also different levels of care and service. These levels of care help to define and group the business of senior care, as well as determine the design criteria for the shelter being provided. At the level where no personal service or care is provided, seniors housing can be like any other form of residential housing including single family and multifamily units. At this level (of “no care provided”), the major design criteria differences between seniors and nonseniors housing are in the recreational amenities provided and the senior-sensitive design features in bathrooms and kitchens. Since most seniors are retired, adults-only communities (apartment or single family) usually provide expanded recreational and meeting room facilities for seniors to use at all times of the day. Many communities also provide organized activities, recreation and, even travel opportunities.



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Senior Living Categories Definitions

As in the hotel business, a combination of real estate and services are provided in the seniors housing industry.

Category A is real estate with no additional services provided (beyond such items as exterior maintenance and/or recreation facilities sometimes provided to multifamily real estate).

Seniors who are healthy and active and need no support or care have a number of options for places to live. These include: staying in their current home, moving to a retirement community, or moving to a seniors-only, age-restricted apartment complex. The seniors may own or rent the real estate they inhabit.

Category B is real estate with services such as meals, transportation, and housekeeping. These unskilled services may be contracted for independently (through one or several providers of home-based care or providers of home healthcare) or purchased with the housing. Within a seniors housing facility, this category is most commonly referred to as an independent living unit.

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Senior Living Categories Definitions

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Category C is *real estate with services and ADL care*. ADL care includes assistance with activities such as getting out of bed or chair, bathing, dressing, toilet use, eating, and medication reminders; and with IADLs such as handling finances, money management, phone use, and shopping. People in this category may also need minor healthcare assistance (such as help with medication administering) or have a physical or cognitive disability. When provided in a seniors facility, this category is most commonly referred to as an assisted living unit.

Category D is *real estate with services, ADL care, and medical care*. Medical care includes such things as specific disease care, nonambulatory care, and intensive medical care. Facilities offering these services have been traditionally referred to as skilled nursing units.



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The Property Types Defined

Active Adult Communities:

These are age-restricted communities specially designed for seniors. These communities consist of detached or attached homes where the major living space is on the first floor. These communities typically attract the youngest segment of the seniors population and almost always have a clubhouse and provisions for a substantial number of lifestyle activities. Many of these communities have pools, tennis courts, and walking trails. Active-adult communities are almost always characterized by an ownership structure (either fee-simple, condominium, or cooperative ownership) and provide most of the outdoor maintenance for residents.



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The Property Types Defined

Seniors Apartments:

These are age-restricted apartment communities specifically designed for seniors. The communities generally consist of two or more stories in one or more buildings. Many of the communities provide some lifestyle activities through a clubroom or clubhouse. The main additional functions found in these facilities are recreational in nature. Because seniors are typically retirees with additional leisure time, the recreational and social amenities become an important part of everyday living. Many communities have secured entrances for resident safety, since enhanced security is typically a major concern of senior residents. Many seniors who move at this stage of life prefer to live in complexes that are exclusively dedicated to their age group, so as not to be disturbed by the activities of younger age groups. Recent changes to the Fair Housing Act have made age-restricted communities easier to justify, especially with the provisions allowing seniors-oriented services or activities to be provided on- or off-site. Almost always, a seniors apartment is characterized by a rental payment structure.

Many seniors apartments have been developed with low-income tax credits. Many of the successful seniors apartment projects cater to low- and moderate-income households.



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The Property Types Defined

Congregate Care Facilities (CCFs)

These age-restricted communities, specially designed for seniors, almost always consist of two or more stories in one or more buildings. A few communities offer attached or detached homes. Congregate care facilities are designed for residents who require little, if any, assistance with ADLs. The facility also provides at least one major congregate services (either meals, housekeeping, transportation, or activities), although most communities include three or more congregate services. Utilities may also be part of the paid fee. Living units are usually smaller than other apartments and have the added features of an emergency pull cord for help and grab bars in the bathrooms. Some units may be fully wheelchair accessible and incorporate design considerations such as three-foot wide doors and floor plans without steps or bumps.

CCFs are typically multi-unit dwellings that have common recreational facilities and a common dining facility with an institutional-type kitchen to offer daily meals. Public transportation access via a city bus stop or subway station, or private transportation, such as shuttle bus service, may be provided for residents. If the buildings are multi-floor, elevators are necessary. HVAC systems must be properly sized to maintain constant temperatures as seniors can be more temperature sensitive. Hallways and common areas are generally equipped with railings and other walking aids. Buildings are usually located near residents' former neighborhoods so that residents can continue to maintain their social and civic contacts.

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The Property Types Defined

Congregate Care Facilities (CCFs) Continued

The facility's number of units may vary from under 20 to over 200, but current wisdom finds that project sizes around 100 units provide the most efficient scale economies and profitable service capabilities, while still providing a residential instead of an institutional atmosphere.

Some congregate communities have unbundled their service and charge for the separately, through a systematic "menu of services" that are offered on an ala cart basis. (This service offering distinguishes CCFs from seniors apartments.) Many congregate communities now offer assisted living care in a separate wing, building, or floor. Congregate communities are almost always rental; both real estate use and services provided are paid for in the monthly fee.



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The Property Types Defined

Independent Living Units (ILUs)

In many places, the term independent living unit (ILU) is also used to describe congregate care type units of seniors housing that are part of a larger complex, where some level of additional care is provided. One of the problems encountered by CCF and ILU facilities in the early 1990s was that operators had not planned for the “aging in place” process, whereby once-independent seniors eventually required more ADL services and support. Some seniors worried that if their health deteriorated, they would not be allowed to remain in the facility, and thus were afraid to move into a CCF at all.

In the mid-1980s, many apartment and entrepreneurial real estate developers turned to seniors housing because the 1986 TEFRA tax act reduced the attractiveness of traditional apartment investments. At that time, the popular development model was an upscale congregate care facility. These facilities attempted to provide an independent-living environment for seniors with extensive recreational amenities (the “cruise ship” model), along with some security and emergency medical options should a problem arise. The anticipated scenario of people retiring at age 65 and moving immediately to a congregate community near their current neighborhood never materialized. What developers learned was that most seniors are not in the market for congregate communities until their middle to late 70s and, even then, are resistant to paying the high monthly fees that many of these communities must charge. (Most people prefer to stay in their current residences until they have a medical problem or decrease in their ability to function independently. This life change most typically happens in the age range of 75 to 84, not at age 65.)



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The Property Types Defined

Assisted Living Residences / Assisted Living Facilities (ALFs)

The Assisted Living Federation of America (ALFA) defines assisted living as “a special combination of housing, personalized supportive services, and healthcare designed to respond to individuals who need help in activities of daily living, but do not need the skilled medical care of a nursing home.” Industry standards today suggest that persons are appropriate for an assisted living facility when those persons need help with three or fewer ADLs on a daily basis. ADL assistance is considered to be low-skilled work that does not require medical training. A challenge for the industry is to provide consistency and quality, as it is difficult to find employees at this level who are dedicated or motivated to provide top-quality care at the wage rate that many companies currently pay.

The additional services provided by assisted living facilities require different building design components. Offices for the additional service providers are necessary; common areas need to be designed to handle residents with additional support needs; and, the increased use of wheelchairs in all areas must be considered in building design. Intercom and/or room-monitoring systems are necessary to provide additional safety and improved recreation time in emergency situations. The staff in these facilities usually require training in customer service and personal care, as they must be able to both identify and care for residents' problems.

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The Property Types Defined

Assisted Living Residences (ALFs) Continued...

In recent years, the amount of care provided in assisted living facilities has increased. With the proliferation of ALFs being offered as a lower-cost alternative to nursing homes, more people are choosing assisted living – even if these persons require a higher level of care. Thus, assisted living facilities are now moving to care for more physical disabilities, some nonambulatory situations, and even early stages of specific diseases where intensive medical care may not be required.

Residents in these situations are “not quite” in need of the full services found in the more intense hospital bed environment of a skilled nursing facility. There has been, and will continue to be, debate within the industry over the appropriate placement of seniors in assisted living versus nursing homes, and some states have already moved to keep “heavy care” residents out of ALFs.

Current economics place the size of the private living space in an ALF within a range of 300 gross square feet for an efficiency unit to 750 square feet for a large, one bedroom unit. These units are typically (though not always) private, and the resident can still have the same general level of control over the space as any tenant would have in a rental apartment. Common areas and community space in the most recently developed ALFs may total as much as 30 to 40 percent of the gross square footage of a project. Dining rooms, kitchen and laundry areas, library space, activity and craft centers, and living rooms are the most common amenities available to residents. The theory is that socialization and stimulation are essential for independent and healthy aging. Current industry practice is to build freestanding ALFs with an average range of 40 to 100 units, depending upon market forces, site constraints, and program orientation.



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The Property Types Defined

Skilled Nursing Facilities (SNFs)

Historically, skilled nursing care facilities were used to house many seniors requiring any level of care when the residents were not able to remain either in their own homes or within the care of their families. The high expense of nursing homes made these facilities inaccessible to a large portion of the population, unless the resident could qualify for Medicaid eligibility. Today, many skilled nursing homes are evolving to handle, or are already handling, seniors with intensive medical care needs. Some facilities now specialize in specific disease care such as Alzheimer's or dementia care. (Some assisted living facilities are also specializing in these types of care at reduced costs from nursing homes.)

The skilled nursing facilities require the same physical characteristics of those previously discussed seniors facilities, with the additional requirements of medical care that bring them close to hospital standards (except for the need of an operating room). Rooms are equipped with patient-monitoring devices and emergency-call systems. Oxygen systems may also be present. By their nature, these facilities tend to take on a more institutional atmosphere that allows for efficient cleaning and sterilization. Multiple-floor and single-floor designs are both common. These facilities have historically been located near hospitals to allow doctors ease in visiting patients. Today the location seems to be less critical, as rotational visiting systems allow doctors to share the work and as high-skilled nursing staffs take care of more functions that previously handled by doctors.

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The Property Types Defined

Skilled Nursing Facilities (SNFs) Continued...

Individual room sizes in SNFs are reduced to as little as 100 square feet. Common areas range from very little to extensive. Those SNFs with more extensive common areas have as many amenities as found in independent living facilities. The costs of developing and maintaining these facilities vary, usually dependent on geographic location.



The Property Types Defined

Continuing Care Retirement Communities (CCRCs)

A CCRC is an age-restricted community that in many ways is identical to a congregate retirement community.

The key difference is that a CCRC *must* have nursing care offered under a contract. This removes the residents' fear of having to leave the facility when they become frail, as each resident contract holder is guaranteed a nursing bed when needed. Many CCRCs also offer more detached and attached homes than a typical congregate community and have more married couples as residents. Virtually all CCRCs have skilled nursing facilities on-site (in the same building or in an adjacent building on the "campus") and most offer assisted living care as well. Rental CCRCs (currently about two-thirds of existing facilities) are often characterized by entrance fees or deposit plans that require a substantial down payment. The alternative is an ownership (condo or co-op) plan (about one-third of existing facilities).

CCRCs bring together two or three facility types: either congregate, assisted living and skilled nursing, or congregate living and nursing care. Each facility type is usually a separate building on the site, but the buildings may be connected with enclosed bridges or walkways. By having all three types of facilities in one location, residents are able to "age in place" by moving to new areas in the same facility as their health or disability needs dictate. This concept addresses a major concern of many seniors who are afraid that if they can no longer function at the appropriate level in their current facility, they will be "left out in the cold with no place to go." Thus, guaranteed availability of the next level of care is addressed within the CCRC facility. About one-third of the CCRCs also guarantee the cost of nursing and assisted living care. This arrangement is referred to as a "life care community." These life care communities must be actuarially sound, and virtually all are nonprofit organizations.

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The Property Types Defined

Continuing Care Retirement Communities (CCRCs) Continued...

The unit mix in CCRCs varies, but there are usually a larger number of ILUs than SNFs. This declining percentage of SNFs is a function of both residents' mortality and demand. The number of people to date who actually have planned ahead for the needs of their old age is small. The growth of CCRCs will be a function of the population's exposure to, and education about, the needs and realities of aging. Most for-profit companies will develop only rental communities.



The Property Types Defined

Board and Care Facilities

The term “board and care facilities” is no longer used as a standard definition in the seniors housing industry. However, because the U.S. government still publishes data using that term, a definition is given here to avoid confusion. Most of these facilities are a subset of congregate care type facilities or assisted living facilities, depending upon whether they provide mainly services or mainly care with services. Most of these facilities contain less than 25 beds and are considered “mom and pop” operations. Many are home to low- or moderate-income persons who are receiving Supplemental Social Security (“SSI”) payments from the federal government.



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