



CAMBRIDGE

Senior Housing & Healthcare Capital

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PRESS RELEASE

7/14/17

ARE YOU BETTER OFF OWNING OR LEASING SENIOR CARE REAL ESTATE?

Senior care business owners have been known to struggle with the owning vs. leasing question, but the answer to the "are you better off" question is always the same.

"It all depends," says Cambridge Realty Capital Companies Chairman Jeffrey A. Davis.

Cambridge is one of the nation's leading senior housing/health care lenders and acquires senior care properties through its Cambridge Investment and Finance Co. acquisition arm. From an operational standpoint, Mr. Davis suggests there's not a world of difference between owning and leasing the real estate.

"Either way, the business owner has the right to occupy the property and keep the profits earned. The license is in the business owner's name and the business owner is responsible for property maintenance. Also, the physical appearance of the building will essentially look the same," he said.

"There isn't a right or wrong way to go, but there are advantages and disadvantages with either option. The essential differences between the options are economical," he points out.

Mr. Davis says those leasing the buildings must pay the property owner a security deposit, while those buying the property must come up with a much larger down payment. When leasing the property, the money saved by not purchasing the real estate can be put to work in other ways.

For example, he says the money saved by not investing in real estate might be used as working and operating capital or to finance growth. Capital improvements are another possibility, or the money may be better spent investing in people and home office expenses.

The obvious disadvantage for lessees is they cannot obtain 100 percent appreciation on the property. Lease costs may be higher, but not always, and the lessee must pay for capital improvements that enhance the building's value.

"Pride of ownership does count for something. And capital used for improving buildings can enhance the value of the property and the value of the owner's investment as well," Mr. Davis said.

With mortgage rates at current lows, real estate can be a great place to invest if the owner has capital to invest. However, on the flip side, purchasing requires 25 percent to 30 percent equity when borrowing from a bank or institutional lender, which is a huge barrier for many.

Among the disadvantages to purchasing is the fact that buyers need a good credit score and solid bank or other types of financial relationships. And there is always the possibility that capital used for buying buildings may be better purposed in other ways.

"It's important that the business not be undercapitalized," he said.

Mr. Davis says lessees may be confused about various control issues, such as who owns the license, property modifications or expansion, and the length of the lease. Sometimes they worry about whether they'll be in the building for a long period of time.

Among owners who purchase senior care real estate, misconceptions related to passive investments and the terms and conditions of loan options are not uncommon. Also, borrowers should not delude themselves into believing credit ratings are not important or that HUD financing is easy.

"The idea that if the market changes there will always be somebody around to buy the buildings may not be applicable in some markets," he added.

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. The company is one of the nation's leading senior housing and healthcare debt and equity capital providers, with more than 400 closed senior housing transactions totaling more than \$4.5 billion since the early 1990's, when the firm began its specialization in providing senior housing capital.

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, joint ventures and sale/leasebacks. 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 Capital Wisdom(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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