

LEGAL NEWS ALERT

Ruskin Moscou Faltischek's Seniors' Housing Capabilities

- Licensing Applications and Regulatory Matters
- Real Estate, Construction and Financing
- Contract Drafting and Reviews
- Counsel and Advice on Third Party Deals
- Project Related Litigation
- Compliance Audits
- Fostering Alliances Between Housing and Healthcare Providers
- Exit Strategies
- Facility Sales and Refinancing
- Evaluating Model Types for Developers
- Federal and State Legislation
- Employment Matters
- Occupational Safety and Health Administration (OSHA) Regulations
- Antitrust Regulations
- National Labor Relations Act
- Copyrights and Trademarks

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The Industry Today

Recently back from the NIC Conference in Washington and the joint was jumping. While the credit markets have definitely tightened up from where they were before the summer, debt and equity is still available, just a little more expensive and a little harder to access. Deals are getting more difficult to price because of market volatility and are now being done on trailing 12-month numbers and no longer on pro-forma 1st or 2nd year numbers as they had been. Consolidation will

probably continue at a moderate pace, but pricing may soften because fewer buyers with less capital will be competing for properties. NIC had two great keynote speakers: Newt Gingrich at breakfast and Alan Greenspan at lunch.

Market Overview

According to NIC President Bob Kramer, "This last year has been as good as we've ever had, no doubt." It may continue over the next year, but construction is still at relatively low levels. It takes at least 12 to 18 months between groundbreaking and opening, so there's not a huge amount of supply coming during that time to alter occupancies. The greatest construction growth is in independent living and there is a possibility that there may be too much supply in individual markets. According to Steve Monroe and the SeniorCare Investor, the current healthy industry environment may become even healthier because an impact can already be seen in the acquisition market. Prices, cap rates and return expectations will be rationalized with the events of this summer, and that is good for the industry, especially for those operators that want to make strategic acquisitions. The sellers are the ones who will have to change their expectations, but they will still be better off today than in eight of the past ten years. Waiting for the next rally to sell, however, may be a long wait.

Recent Blockbuster Deals

Carlyle acquires Manor Care, Fortress Investment purchases Holiday Retirement, Emeritus pursues Summerville, Ventas purchases Canadian Sunrise Senior Living REIT, Genesis Healthcare taken private by Formation Capital & JER Partners, Atria purchases Sterling Glen, and Sunrise may be putting out "for sale" feelers.

Alzheimer's & Dementia

More than 5 million Americans are living with Alzheimer's disease, a 10% increase from 2002, and a count that supports the long-forecasted dementia epidemic as the population grays. Dementia strikes 1% of those between 60 and 64, and becomes more common with the advancement of age, affecting 45% of the 95-plus age group. 90% of dementia patients live at home in developing countries and relied on 1.6 hours of informal care per day, which is the same amount requested by those in developed countries, where 73% live at home.

Today, the drugs available for Alzheimer's patients only treat symptoms of the disease. The FDA recently approved the first skin patch (known as Exelon or Rivastigmine) to treat mild to moderate dementia symptoms. But nine drugs currently being tested in clinical trials show promise in halting the progression of Alzheimer's.

Seniors' Housing Construction Costs per Gross Square Foot

	September 2006		May 2007		% Change
	Low	High	Low	High	
Independent Living	\$116	\$145	\$125	\$168	12%
Cottages	\$105	\$133	\$112	\$143	4%
Assisted Living & Memory Care	\$154	\$189	\$166	\$222	13%
Skilled Nursing	\$160	\$218	\$174	\$236	8%
Commons	\$200	\$289	\$212	\$311	7%
Underground Parking	\$68	\$106	\$77	\$122	14%

Component costs include the full burden of general conditions, insurance, taxes, performance bonds and fees. Costs are based on a national average with a city index of 100. Site development costs are not included. Source: The Weitz Company

Health Care REITs

Health Care REITs were the best REIT performers in the 3rd quarter of 2007, with total returns up 11%. One reason is that investors bet on the need for assisted living facilities for years to come, thanks to the steadily growing demographic of affluent seniors.

What Seniors Value Most

Maintaining Independence	92%
Financial Stability	91%
Staying Active	90%
Physical Fitness	85%
Easy Health Access	83%

Seniors' Greatest Fears

Health Care Costs	49%
Losing Independence	41%
Medicare Changes	38%
Overall Wellness	36%
Going to a Nursing Home	33%

The Graying of China

China's population won't always be the engine of growth that it is now, because the country's fast rising proportion of elderly people eventually will drag down the economy. While China's population is relatively young, by the middle of the century it is set to become one of the world's grayest societies. Today, less than 8% of China's population is 65 or older. By 2050, that proportion will rise to 24%, compared with Europe's 28% and 21% in the U.S. Moreover, at 1.3 billion, China's population is impressive now but will be less so in the future. According to U.N. projections, most of the world's total population, which will increase from 6.5 billion today to 9.2 billion in 2050 will come from sub-Saharan Africa and the Muslim world. India's population is expected to overtake China's in 2025, all according to the Wall Street Journal.

National Averages - Occupancies & Monthly Rents

(1st Q 2007)

Independent Living	93.8%	\$2,376
Assisted Living	91.5%	\$3,358
Nursing Homes	90.7%	\$6,360

What Other Experts are Saying

"Supply is solid, demand from baby boomers is strong and operating models are demonstrating depth and quality of service. We're seeing good rental growth for properties and we should continue to see that into the future. Capital markets are extremely strong, but continued strength depends on what happens in the larger economy."

– Ray Lewis, EVP & CIO, Ventas

"My main reason for concern is that everything is so rosy. On the surface, 2008 appears to offer more of the same for long-term care, but it is a presidential election year and the results could conceivably change the environment for 2009."

– Arnold Whitman, CEO, Formation Capital

"One of the key obstacles is that everyone thinks of seniors housing as a real estate business, and though it's a vital component, this is a business that is responsible for caring for people. The provision of quality care is the key determinant of success."

– James Picczynski, Co-Pres., CapitalSource's Healthcare & Specialty Finance Group

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