



BUSINESS

FINANCIAL NEWS AND GROWTH STRATEGIES FOR PROVIDERS AND SUPPLIERS IN THE NOT-FOR-PROFIT SECTOR

IN THIS ISSUE

American Recovery & Reinvestment Act of 2009

Certain provisions of the federal stimulus bill offer opportunities to the senior housing sector. Bankers explain the provisions, how they might impact senior living providers and why there may be more capital flowing to the sector.

See page 1



Encouraging Philanthropy In Troubled Times

In what is a very difficult time to be asking for charitable donations and gifts, Wesley Enhanced Living recently embarked on the first capital campaign in its 120-year history.

See page 1



Q & A With Kevin Svagdis

The president of Morrison Senior Living talks about the need to transform communities to meet the expectations of the new generation of CCRC residents — the Silents.

See page 2



Recent Not-For-Profit Financing And Refinancing Activity

See page 4



The Acquisition Market

After record prices in the skilled nursing, assisted living and independent living markets in 2007, all three sectors saw a significant drop in the average price paid per bed or unit in 2008. Also, because of the deteriorating capital markets, the dollar volume of transactions was the lowest in five years. A few not-for-profit transactions closed recently, and Stamford Hospital has picked the winning bidder for its CCRC.

See page 12

AMERICAN RECOVERY & REINVESTMENT ACT OF 2009 *Some Provisions Offer Opportunities For The Senior Housing Sector*

Among the provisions of the American Recovery & Reinvestment Act of 2009, the \$787 billion stimulus bill signed by President Obama on February 17, some of those provisions may positively impact senior living providers seeking financing in 2009 and 2010 — specifically, those provisions that encourage investments by banks in all kinds of tax-exempt bonds and that provide economic incentives to the issuers of tax-exempt bonds.

“Small issuer” redefined

In general, financial institutions may take a tax deduction only for that portion of their interest expense that applies to the cost of buying and carrying tax-exempt bonds that are designated bank-qualified by a “small

issuer.” The Act redefines “small issuer” by increasing the amount of bonds that can be designated as bank-qualified during calendar years 2009 and 2010 from the previous limit of \$10 million to the new limit of \$30 million.

Further, the Act provides that those bonds will be treated as if they were issued by the entity for whose benefit they were issued — the underlying borrower (the senior housing provider) — for purposes of designating them as bank-qualified. In the past, the limit was applied to the actual issuer (the municipal conduit). In most states, bank-qualified bonds are issued through a city housing authority,

...continued on page 6

ENCOURAGING PHILANTHROPY IN TROUBLED TIMES *WEL Ties Its Evangelical Manor Capital Campaign To Renovations*

Trying to secure the necessary financial resources for operations, capital, and endowment is a challenge for senior living providers in this uncertain economy. People in all financial groups are tightening their belts, long-established businesses are closing or on the verge, unemployment is continuing to rise, and we have no evidence yet that the economy has “hit bottom.” So what does that mean for philanthropy? For charitable donations?

“Just keep moving forward,” advised Thomas Mesaros, CFRE,

President and CEO of **The Alford Group**, a consulting firm that has worked exclusively with not-for-profit organizations for 30 years. “It’s hard, because you want to step back,” he added. “You have to be cautious, but the conviction of your mission must be your guiding light. Keep telling your story to prospective donors. Tell them about your philanthropic interest in serving the whole community, that you’re providing a good lifestyle and sense of security for residents, and make sure that they get the message.”

...continued on page 7

Q & A: Kevin Svagdis, President, Morrison Senior Living

Kevin Svagdis is president of Morrison Senior Living, a food service company dedicated to providing food, nutrition and dining services exclusively to senior living communities. Based in Atlanta, Georgia, the company serves approximately 370 senior living clients in 41 states. In hundreds of interviews with seniors, industry leaders, clients and marketers, Morrison assembled a massive index of ideas, wants, suggestions and proven practices to assist communities looking to transform themselves to better serve a new generation of seniors who are beginning to move into CCRCs. We spoke with Svagdis to learn how this new generation — the “Silent Generation” — will differ from the “GI Generation,” whom communities have been serving for the last decade or so, and the challenges the industry is facing in order to meet the expectations of the Silents — who may not be so silent after all!

Senior Living Business

ISSN#: 1938-6613

Published Monthly by:

Irving Levin Associates, Inc.

268-1/2 Main Avenue

Norwalk, CT 06851

(203) 846-6800 Fax (203) 846-8300

info@seniorlivingbusiness.com

www.seniorlivingbusiness.com

Publisher:	Eleanor B. Meredith
Executive Editor:	Stephen M. Monroe
Editor:	Jane E. Zarem
Associate Editor:	Gretchen S. Swanson
Circulation:	Stacey Faillaci
Advertising:	Karen H. Pujol

Annual Corporate Subscription Rate: \$587

© 2009 Irving Levin Associates, Inc.

All rights reserved. Reproduction or quotation in whole or part without permission is forbidden.

This publication is not a complete analysis of every material fact regarding any company, industry or security. Opinions expressed are subject to change without notice. Statements of fact have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. This Firm or persons associated with it may at any time be long or short any securities mentioned in the publication and may from time to time sell or buy such securities. This Firm or one of its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this publication. POSTMASTER: Send address changes to *Senior Living Business*, 268-1/2 Main Avenue, Norwalk, CT 06851.

What generational differences have you observed between current CCRC residents and future prospects?

For the last 15-20 years, retirement communities have been serving what we call the “GI Generation” — people born between 1901 and 1924. Very slowly over the past four or five years, the new residents have been coming from the “Silent Generation” — those born between 1925 and 1945. The “Baby Boomer Generation” will come next.

As the Silents began moving into our senior communities, we noticed that they were asking for different things. Their expectations were a lot higher, and this shift was happening across the country. So we hired a third-party consultant to conduct a year-long study. It focused on the entire retirement community setting, not only on dining, and the findings have a huge implication for the way we must operate retirement communities in the future.

What were the results of your research? We presented 20 questions to 80 focus groups across the country. On almost every question, the findings indicated a 180-degree difference in the responses from the Silent and GI generations. Basically, the Silents want to continue to grow and enrich their lives after moving into a retirement community. And they want to stay connected to the greater community. If they volunteer at the local library or are on the board of the local bank, they want to continue those activities. In fact, many still work. They also don’t want to move away from their children and grandchildren, whereas the GIs are more inclined to move to Florida, Arizona, or California. There really are stark differences between the expectations of the two generations.

Further, this new generation is wealthier, more educated, and usually married (moving in as a couple). So based on those key demographics, along with an examination of their buying behaviors, we determined four key criteria that make the expectations of the Silents vastly different from those of the previous generation:

1) *Control*. The Silents want more control of the outcome. When dining, for example, the GIs just want their meal and don’t care much about what’s on the menu. The Silents want varying menus and specific kinds of dishes.

2) *Flexibility*. The GIs are happy with one dining venue. The Silents want a choice — a café, a bistro, and a dining room — and they want extended hours. Beyond

dining, they want flexible fee structures. Or they may want to customize their unit with new cabinets or countertops or fixtures. And they're willing to pay for that flexibility.

3) *Value.* The Silents have traveled, stayed in high-end hotels around the world and eaten in fancy restaurants. So when they move into a retirement community, they bring those expectations with them. They will spend money if they see intrinsic value in the product. For retirement communities, that translates to providing services such as fine-dining restaurants or, say, access to college classes.

4) *Trust.* Transparency is critical. If the community is considering a new construction project, the Silents want to see the financial statements to understand how the organization is spending its money, the vendors it's using for the new project, and all the price comparisons.

What challenges are facing the industry? We must reposition our communities in terms of the physical environment and amenities, the programs and services provided, and the inherent culture of the organization — from just caring to both caring and hospitality. The Silents are looking for a lifestyle. They want to live and grow and experience and continue learning. They want to go to

museums in customized transportation such as a town car, not in a big white bus, and as a couple, not in a big group. Customization is very important.

Also, we haven't promoted a positive lifestyle to this group on a consistent basis. In our focus groups, the only question the two generations of residents answered the same was, "Why are you living here right now?" They all said, "We had to. I got sick" or "...my spouse got sick and passed away" or "...we needed the help." Further, 80% of the participants said that if they had known what the community was like before they arrived, they would have moved in sooner. So we must do a better marketing job — selling a lifestyle that the resident can enjoy in the first five, six, or seven years in a CCRC.

How will the Baby Boomers differ from the Silents? We didn't study the Boomers directly, but the expectations of the Boomers are much more aligned with those of the Silents than with those of the GIs. So a community that is transformed to appeal to the Silents will be better positioned when the Boomers arrive, and future changes should be incremental. Still, the community looking to transform can't alienate residents who have been customers for the last 20 years. That's another huge challenge. □

The Latest SeniorCare Investor Audio Conference Is Now on CD!

Senior Care Merger and Acquisition Market: Profiting from the New Buyer's Market

Order the CD or transcript of this *SeniorCare Investor* audio conference featuring an exclusive tally of senior care merger and acquisition activity in 2008, and expert analysis of what has changed and what to expect for 2009.

Here's just some of what you'll learn in this in-depth, 90-minute audio conference:

- ✓ Where were cap rates in 2008 and where are they going in 2009?
- ✓ Who are the buyers today?
- ✓ Where can you find acquisition financing, and what does it cost?
- ✓ What has happened to the average price per bed and unit, and what does it mean for investors?
- ✓ When will the large transactions come back to the market?
- ✓ Will potential bankruptcies flood the market with properties for sale?

Speakers: **Stephen M. Monroe** (moderator), editor of *The SeniorCare Investor* and *The Senior Care Acquisition Report*, and Executive Editor of *Senior Living Business*; **John Cobb**, President & CEO, Senior Lifestyle Corporation; **Jon E. Santemma**, Managing Director in the UBS Global Healthcare Investment Banking Group; **Chuck Herman**, Executive Vice President and the Chief Investment Officer, Health Care REIT; **George Hager**, Chairman and Chief Executive Officer, Genesis HealthCare.

Cost: \$347 per CD or Transcript.

Call 1-800-248-1668 for more information or to order.

90303yslb

Recent Not-For-Profit Financing And Refinancing Activity...

• **Herbert Star Apartments**, Brocton, New York, \$1.7 million refinancing structured by **Lancaster Pollard** (2/27)

Herbert Star Apartments is a 42-unit affordable seniors housing community in southwestern New York. More than 20 years old, the facility needed improvements. Lancaster Pollard worked with the local HUD office to negotiate terms and complete the refinancing of the organization's FHA Section 202 direct loan. The \$1.7 million refinancing is insured by the FHA Section 223(f) program. To improve the quality of life for its elderly residents, Herbert Star will spend nearly \$275,000 in repairs. The major renovations include adding a covered walkway at the facility, replacing windows and adding new cabinetry and countertops to the units. In addition, the community's replacement reserve will be replenished by a \$163,000 deposit generated from loan proceeds.

• **Islandview Apartments**, Grand Island, New York, \$1.9 million refinancing structured by **Lancaster Pollard** (2/27)

Islandview Apartments is a 50-unit affordable housing community for seniors just north of Buffalo, New York. The aging facility, built in 1987, was in need of repairs and improvements. Lancaster Pollard worked closely with the local HUD office throughout the loan process to ensure a smooth closing. The organization's FHA Section 202 direct loan was refinanced as a \$1.9 million loan insured under the FHA Section 223(f) program. As a result of the refinance, Islandview was able to administer more than \$200,000 in renovations to improve the comfort and safety of its residents. The improvements include roof repairs and window replacement, as well as renovation of the facility's community center. In addition, the nearly \$24,000 in annual debt service savings will be used to add a neighborhood network center and an on-site walking path, as well as to increase the working hours of resident aides.

• **Christian Health Care Center (CHCC)**, Hawthorn and Wyckoff, New Jersey, \$14.97 million financing structured by **Ziegler Capital Markets** (2/19)

CHCC operates **Heritage Manor Nursing Home**, a 252-bed skilled nursing and medical-care facility; **Hillcrest Residence**, a 39-bed Class C boarding house; **Evergreen Court**, a 40-unit supportive senior housing complex; **Longview Assisted Living Residence**, a 95-bed assisted living facility with a specialized unit for residents with

memory impairment; **Southgate Behavior Management Unit**, a 40-bed long-term care facility that specializes in behavior-management treatment; and **Christian Health Care Adult Day Services**, which provides day programs for area seniors. The \$14.97 million tax-exempt bond issue was structured with variable rate demand bonds enhanced by a letter of credit from **Valley National Bank** (rated S&P: "A/A-1") with very favorable fees. The bonds will wrap around CHCC's existing net debt service and amortize from 2010 through 2038. Bond proceeds provided monies for the current refunding of Series 1997A Bonds, construction of a Great Room, and renovation of the laundry area and long term care unit at **Heritage Manor**. In addition, the proceeds will fund a portion of the interest and letter-of-credit fees for approximately 12 months on the new money portion, as well as fund the costs of issuance.

• **Christian Living Communities**, Greenwood Village, Colorado, \$30 million in financing structured by **Ziegler Capital Markets** (2/20)

Christian Living Communities operates three senior living campuses in and around Denver: **Johnson Center**, **Holly Creek** and **Clermont Park**. The Series 2009 bonds will fund Phase I of Clermont Park's renovation project, consisting of the refurbishment of the existing ILU building and conversion to tailored living and the construction of a new 64-bed skilled nursing facility and town center. The bonds are secured on a parity basis with the borrower's outstanding debt totaling just over \$90 million. Ziegler structured the issue with medium- to long-range term bonds and EXTRASSM, achieving a 9.0% yield on the longest term (25 years) bond. The strong demand from retail investors, as well as solid institutional investor interest for the \$30 million issue, led to an 8.67% average fixed-rate yield. When the current project is completed, the communities will consist of 374 independent living units, 122 assisted living units, and 251 skilled nursing and memory support beds. □

FREE ADDITIONAL COPIES OF SENIOR LIVING BUSINESS

Paid subscribers may request additional copies of *Senior Living Business* for staff or board members at no extra charge. To sign up, please call Karen Pujol at (800) 248-1668 or e-mail your request to customerservice@levinassociates.com.

Health Care Investment Publications From Irving Levin Associates

HEALTHCARE CORPORATE FINANCE NEWS

Count on the industry's standard for your news. *Healthcare Corporate Finance News* is a quick and cost-effective way to follow the top health care financial stories and their impact, corporate shifts, mergers and acquisitions, IPOs, venture capital and private placements. You'll stay current -- easily -- on these industry sectors: pharmaceutical, biotech, long-term care, managed care, physician medical groups, e-health, hospitals, medical devices and products, and more. (12 monthly issues, weekly deal e-lets and standard subscriber access to the Deal Search Online database of VC deals.)

THE HEALTH CARE M&A INFORMATION SERVICE

Stay ahead of the M&A activity. *The Health Care M&A Information Service* is a comprehensive service 100% devoted to health care mergers and acquisitions for the serious analyst and investor. Week-in and week-out, this service alerts you to developments in every key segment of the health care service and technology sectors. (12 monthly issues, 50 weekly e-lets, 4 quarterly reports, plus standard subscriber access to the Deal Search Online database of M&A deals)

THE SENIORCARE INVESTOR

Make the smart investment decisions with the "inside scoop". For over 50 years, this hard-working newsletter -- *The SeniorCare Investor* -- has been tracking mergers, acquisitions, IPOs and corporate news in the senior care market, including nursing home and assisted living facilities, retirement communities, REITs and home health care. Find out the latest deals, key financial events and stock performance along with expert news and analysis from the industry's leading market analyst. (12 monthly issues plus periodic news alerts by email)

SENIOR LIVING BUSINESS

Where not-for-profits providers turn for financing and growth strategies. *Senior Living Business* is the newsletter where margin meets mission, advising you on how to grow your bottom line to meet the all-important mission of quality care for seniors. Each monthly issue explains the best ways to finance not-for-profit facilities and explores best practices for keeping them top-notch. (12 monthly issues plus periodic news alerts by email)

ANNUAL ACQUISITION REPORTS

Track the trends in the hottest health care sectors. Health care investors and executives alike rely on Irving Levin's annual acquisition reports to understand the markets for long term care facilities, assisted living facilities, hospitals, physician practices, and other health care assets. All new for 2009: *The Senior Care Acquisition Report* and *The Health Care Acquisition Report*.

DEAL SEARCH ONLINE: M&A AND VENTURE CAPITAL TRANSACTION DATABASES

Tap into the most comprehensive databases of health care transactions. Irving Levin's online databases are updated daily for the most accurate and reliable transaction information. Research at your fingertips, 24 hours a day, 7 days a week. Call 1-800-248-1668 or visit www.dealsearchonline.com for more information or to set up an account.

Publication Order Form

To order, return this order form or call toll-free 800-248-1668.

- Healthcare Corporate Finance News* (\$547/year)
- The Health Care M&A Information Service* (\$2,197/year)
- The SeniorCare Investor* (\$597/year)
- Senior Living Business* (\$587/year)
- The Senior Care Acquisition Report* (\$595/copy)
- The Health Care Acquisition Report* (\$595/copy)

Please check one:

- Check enclosed payable to **Irving Levin Associates, Inc.**
- Bill me
- Charge my: Visa MasterCard American Express
- Card #: _____ Exp.: _____
- Signature: _____

SHIP TO:

Name: _____
 Email: _____
 Company: _____
 Address: _____

 Phone: _____ Fax: _____

Mention this code: 90303ys1b

Fax Credit Card orders to: (203) 846-8300



**IRVING
LEVIN ASSOCIATES, INC.**
 Health Care and Housing Investments since 1948
 268-1/2 Main Avenue • Norwalk, CT 06851 • 203-846-6800
general@levinassociates.com • www.levinassociates.com

Economic Recovery Act, *continued from page 1...*

county health care authority, or other eligible municipal conduit. Sometimes, a borrower had to shop around for a municipal authority that had not already reached its \$10 million limit — an almost impossible task in areas with five or six not-for-profit senior housing providers within the political boundaries of that issuer. In those cases, only one borrower might be able to access the program.

Now, by applying the limit (now increased to \$30 million) to the borrower or direct obligor of the bond, the issuer (the senior housing provider) has a lot more control over whether its bonds will be bank-qualified.

The increase to \$30 million per issuer is also significant, because \$10 million is certainly not enough in today's market to accomplish the goals of many borrowers — particularly for large projects. The \$30 million limit would work for most expansion or repositioning projects, as well as for many refinancings or acquisitions.

“The higher limit could be a good opportunity,” observed Bill Pomeranz, managing director of **Cain Brothers** in San Francisco. “A client who was looking for \$10 million in financing, for example, will now be able to finance a bigger project.”

Safe harbor for banks

The Act also creates a safe harbor, called the “2% de minimis rule,” which permits financial institutions to deduct 80% of the cost of buying and carrying all tax-exempt obligations — bank-qualified or otherwise — to the extent that the bank's tax-exempt holdings do not exceed 2% of the average adjusted basis of its total assets.

If the bank has \$1 billion in assets, for example, it could hold up to \$20 million or less in tax-exempt obligations and qualify for the 80% deduction of interest on indebtedness related to those tax-exempt obligations. Again, this provision applies only to tax-exempt bonds issued in 2009 or 2010.

In the past, banks could take the tax deduction only for bonds that were designated as bank-qualified. The safe harbor creates a more liquid market for tax-exempt bonds by allowing the bank greater access to the deduction that's typically associated with tax-exempt interest and thereby opens up a whole new area of investment. Expanding the number of tax-exempt bond buyers should also help push

interest rates down.

“A number of banks that are interested in working with senior living providers do not have investment grade ratings that are high enough to allow them to issue a letter of credit to enhance the tax-exempt bond issue,” explained Rod Rolett, Executive Vice President at **Herbert J. Sims & Co.** “By providing a letter of credit, the bank essentially guarantees to the buyer of the bond that principal and interest will be paid on a timely basis. But if the bank's rating is below the A category — even at the bottom of the A category, such as an A- — there may be little demand for tax-exempt bonds that are enhanced with that bank's letter of credit.”

Many small and mid-size regional or local banks, however, are very strong or healthy from a capital perspective and have a desire to lend to qualified not-for-profit 501(c)(3) senior housing providers. They're just not able to issue a letter of credit that works for the buyers of the bond. Now that the bank can agree to purchase the bond issue directly, Rolett believes that will be of great value to the not-for-profit senior housing market.

“Clearly, these provisions of the Act are an attempt to open up some money for tax-exempt investments and make it easier to close those transactions,” he said. “It gives the not-for-profit borrower permission to issue a larger amount of bank-qualified debt and it gives the banks a greater incentive to buy those bonds, because they're getting a greater tax deduction.”

Bonds that are not bank-qualified could be offered more widely than was previously the case, as they can now be offered directly to banks. And that could be very beneficial for the not-for-profit senior housing market, according to Rolett.

Impact on the sector

“From a practical standpoint, bond underwriters have always wanted issues to be bank-qualified,” noted Tom Green, CEO of **Lancaster Pollard**. “Banks historically had ready cash to buy municipal bonds, and being bank-qualified opened up the issue to a bigger market. The changes provided in the Act should effectively expand the number of issues that are eligible for the bank-qualified designation.”

The changes will also allow more issuers to access the lower interest rates historically available for bank-qualified

bonds. And while few empirical studies have analyzed the interest-rate difference between bank-qualified and non-bank-qualified bonds, the differential prior to 2008 was generally about 10 to 20 basis points, according to Green. So a benefit did accrue to not-for-profit senior living projects — but only on the shorter term maturities that were purchased by the banks.

“With the crisis that began in October 2008, the rate differential increased to as much as 50 basis points for these maturities in which the banks had an interest,” he explained. “Due to the increased number of bank-qualified, tax-exempt bonds that will be issued in 2009 and 2010 — combined with the 2% de minimis rule, or safe harbor — banks will now have an interest in buying tax-exempt bonds that are not designated as bank-qualified. As a result, non-bank-qualified tax-exempt bonds should be priced at a slightly lower rate, which should significantly reduce the rate differential.”

The involvement of investment banking firms with regard to the changes affecting “small issuers” in the next two years will remain about the same in terms of their services to senior living clients. Instead of offering the bonds to its stable of investor clients or to investors in the broader community, however, the bonds could be sold directly to a bank. The investment advisor will still structure the bond offering for the borrower (the senior living client), prepare and distribute a request for proposal for loans, and then help the borrower identify interested banks, negotiate with those banks, and document and close the loan. Any bond offering under \$30 million that is issued for that borrower would be bank-qualified.

Whether the banks have an appetite for this paper will depend, of course, on the bank’s general interest in tax-exempt bonds and its current profitability. “Banks generally purchase the bonds with shorter maturities — three, five, seven, or ten years,” added Green. “Bonds with maturities beyond ten years are generally institutional sales.”

So while by no means a cure-all, Green believes the changes provided by the Act are certainly going to benefit the senior living communities. “During late 2008, the municipal market had completely disconnected from the rest of what I would call the interest-rate complex,” he said. “It’s still a bit disconnected; but this is, in part, an attempt to open up that market and make it more liquid. We hope it proves to be a benefit for all of us.” □

Philanthropy, *continued from page 1...*

For not-for-profits with a mission to serve the community, philanthropy is the only way to “lower a line down” to those who, otherwise, never would be able to participate in the kind of services that the organization provides. “Whatever you do, don’t whine,” Mesaros added. “Nobody wants to hear ‘woe is me’ stories. Instead, be positive. Talk about the community experience. And look ahead.”

To give the current state of the economy some perspective, he offered some facts and observations. “First of all, if we have 8% unemployment at the present time — and that may soon approach 10% — it means that 90% of the population is still working. Secondly, not everyone had investments in the stock market. And some of those who did are really quite wealthy. Instead of having \$20 million in assets, perhaps they’re down to \$15 million. That’s still a lot of money.”

Mesaros also noted that the United States has experienced 17 recessions since the end of World War II — and 16 recoveries. And in the 15 times since 1957 that the Dow lost more than 15% of its value, the average gain the following year was almost 34%, according to **UBS**.

“We’re concerned about bank failures,” he added, “and people are relating this economy to The Great Depression. It’s certainly a serious economic situation, but we had 25% unemployment during the 1930s. We’re not anywhere near that. And bank after bank failed. So far, about two dozen of the 8,500 banks in the United States have failed, and the depositors have all been protected. Small local banks are pretty healthy. So I am predicting a 17th recovery, although I’m not sure when. No one knows, so you just have to push ahead.”

Mesaros suggested that this is a particularly good time to approach possible donors about long-term philanthropy — estate planning or gifts that don’t materialize until the donor dies. “A donor’s future commitment to give a gift is likely to be worth a lot more when it is received than it is worth today,” he said.

Further, dividing a significant gift into a four- or five-year commitment may be more workable for the donor than giving the entire amount all at once. And rather than stretching out, say, a \$1 million gift in equal payments over four years, it might be smart in this economy to suggest

...continued on page 8

\$100,000 the first year, \$200,000 the second year, \$300,000 the third year, and \$400,000 the last year. “It still adds up to a \$1 million commitment to the organization, but the donor can ride the wave of recovery,” he said.

Mesaros advises his clients to determine their top 50 or 100 donors, depending on the size of the organization, and develop personal relationships with them or build on relationships that have already been developed. “These are people who could really make a difference in the organization’s future,” he said. “Talk with those elite donors at least once a month — not asking for a gift, but simply communicating with them about the challenges you’re facing, how you’re meeting those challenges, and also sharing good news. Pick up the phone, suggest a cup of coffee, plan a little event — perhaps an informal, but structured, luncheon with four or five donors at a time.” That doesn’t mean ignoring the other donors on your list, of course. He suggested reaching that group through newsletters, e-blasts, direct mail, and similar methods.

“It’s not rocket science,” he continued. “It’s all about people and relationships. Most donors give to five or more organizations, so you can almost count on the fact that your competitors are communicating with these top donors. And you don’t want to fall off their list.”

Despite his advice to continue moving forward with philanthropic efforts, Mesaros conceded that this might not be the best time to launch a major fundraising campaign. Nevertheless, that’s exactly what **Wesley Enhanced Living (WEL)** has done on behalf of **Evangelical Manor**, its flagship community in northeast Philadelphia.

Revitalizing Evangelical Manor

Evangelical Manor was WEL’s first CCRC and has been serving northeast Philadelphia for 80 years. It represents WEL’s roots and the core of its mission. And because of the Manor’s success and strong balance sheet over the years, WEL was able to acquire other communities. Other than a minor facelift in the 1980s, however, the Manor has not been renovated since the 1950s and was in dire need of revitalization from a physical plant perspective, according to Dawn George, Vice President of Wesley Enhanced Living.

“In the recent past, we’ve done several renovation projects in our other CCRC communities,” she said, “but we’re thrilled about this project. The residents of Evangelical Manor deserve a much more modern place in which to live.”

WEL’s \$23.1 million construction project involves completely renovating the 120-bed skilled nursing component of the CCRC, integrating a neighborhood care concept, creating open dining and modernizing the rooms. Northeast Philadelphia is a tight-knit community comprised of a deep-rooted group of neighborhoods where many residents live their entire lives. Integrating the neighborhood concept into skilled nursing care should be a particularly good fit.

Fortunately, the bulk of the financing for the project was in place before the bottom fell out of the market. That financing includes \$20 million in privately financed tax-exempt bonds through **Citizens Bank**, WEL’s primary banking relationship, and a \$3.1 million capital campaign, which is pure fundraising — a blend of bequests, planned giving, foundation support and individual gifts.

“Planning for the fundraising began about three and a half years ago,” said George. “We were in the ‘quiet’ phase, or ‘leadership gift’ phase, for the last two years and raised \$2.1 million. The textbook on capital campaign financing recommends that you secure approximately 50% of your total in leadership gifts before reaching out to the public. So in October 2008, we launched the ‘public’ side of the campaign to raise the remaining \$1 million.” The launch of the public fundraising effort coincided with the start of construction — which provided a positive public relations hook. It also coincided with the beginning of the economic meltdown.

Grass-roots efforts

“While we will continually evaluate our strategies to see what will be most effective in this economy, I’ve always viewed a grass-roots campaign on the public side as essential to the success of the overall campaign — and particularly in this area,” said George. “This is a modest community. The potential donor base includes hard-working, primarily blue collar, faith-based people who may have given to their church, school, or national charities but may not have ever participated in giving to a capital campaign. So it’s very grass roots.”

Maximizing the visibility of Evangelical Manor residents is key among the fundraising strategies that she is employing to reach local donors. The resident council has taken a leadership role in the effort, including interviewing most of its members and rolling out ads featuring their profiles in the newspaper that most local people read regularly. “We’re trying to put a face on who lives and works at the Manor,” George said. “The neighbors know

most of the residents, so we're saturating the media market in an effort to really tug at the local heartstrings."

Borrowing from an acute-care fundraising technique, George is also reaching out to grateful families — people who have a loved one who currently lives at the Manor or who lived there in the past and, therefore, have an affinity to the community.

Then, she has embraced a rather fun concept to reach another donor constituency — 40- to 60-year-old women with some disposable income, in the middle-to-wealthy income bracket, who are familiar with the topic of caring for aging parents. "The 'girlfriends' idea is a hot concept among baby boomers," George explained. "So we've organized a reasonably priced 'girl's night out' themed event for about 150 women in order to get them interested in Evangelical Manor's capital campaign. It will be held at one of the lovely boathouses on the Schuylkill River in Philadelphia, which will be a real treat for anyone who otherwise couldn't get to go there." In addition to cocktails and hors d'oeuvres, the evening will include an armchair conversation with Pennsylvania's Secretary of Public Welfare.

And to bring attention to the campaign's direct mailings and involve recipients in both the project and the mailings, George devised a puzzle concept. "We're doing a 12-mailing campaign over 20 months to local residents, people with power of attorney over residents of the Manor, grateful families, and surrounding businesses," she explained. "Each mailing includes a message with an update of the construction project and a few pieces of a 30-piece magnetic puzzle."

One section of the puzzle says, "I made my gift." And while the recipient can make a gift at any point during the campaign, the puzzle can't be completed without that "I made my gift" piece. "We feel this will help the residents and their families follow the progress of the construction and want to become stakeholders," she suggested. "We think our puzzle concept transcends the fact that they're being asked to give money. And we also hope that they will feel that they can make a big impact with a small donation. The public phase of the campaign really is about small donations. While we're always happy to accept large gifts, we're well aware that this group probably doesn't include any big donors."

Building WEL's fundraising component

WEL has been around since 1888, but the organization

Four tips for approaching philanthropy in today's economy

1. Keep talking to donors and prospective donors. Don't pull back because of the economy.
2. Talk about the facts and how your organization is responding to today's challenges. Be positive.
3. Explain what sets your organization apart, your mission, and your plans for the philanthropic gift.
4. Communicate with top donors at least once a month to develop or build on personal relationships.

never depended much on fundraising until recently. As a result, it doesn't have a built-in culture accustomed to making charitable gifts. In fact, this current effort is the organization's first capital campaign in its 120-year history.

"We're in the process of building the fundraising component of the organization," said George. "There's nothing like a capital campaign to do that, but it's really hard to do a capital campaign without a long list of people who have already given to the organization. That's why our strategies must be incredibly creative and unique."

To come up with some ideas, WEL organized focus groups to get feedback on the look of its campaign marketing materials and the messages they deliver. "We use a lot of red, white and blue," said George, "and we include people's faces. We intentionally use phrases such as 'building the fabric of community' and words such as 'transforming' and 'revitalizing' the community so that people understand that Evangelical Manor is home to people who still contribute to society and are enjoying a worthwhile day-to-day existence. There's vitality and wisdom inside this community that people in the surrounding neighborhoods need to know and care about. That's really what our messages communicate." In addition to meeting or surpassing the \$3.1 million goal and having hundreds of donors, the true test of success will be sustaining a certain portion of the donor base.

"We really are trying to generate a lot of attention and good will through this project," she said. "The last thing we wanted to do was transfer the burden of these construction costs into higher fees or monthly charges for our residents. And we're not doing that at all." □

Grasp the state of the senior and health care M&A markets quickly and effortlessly with...

The 2009 Annual Merger & Acquisition Reports

Want to monitor who's buying what—and for how much? Need to track the market's prevailing pricing and terms? Want insights into the fastest-growing markets, “hot” areas and top dealmakers?

Get these hard-to-find facts directly from the industry's most quoted merger and acquisition information source. Join dealmakers and analysts who rely upon these reports, and you can:

- Track the growth, acquisitions and consolidations of your competitors, prospects and potential business partners for all of 2008
- Benefit from hard-to-find transaction facts and statistics
- Monitor current market pricing and terms to increase your market knowledge and competitiveness
- Save time with at-a-glance financial data, including unit and revenue multiples
- See the big picture with our exclusive five-year stats for the health care M&A market
- Get insightful trend analysis from the experts in health care M&A since 1948

Choose from these two all-new annual reports:



The Senior Care Acquisition Report, 14th Edition, is the bible of M&A in:

- ✓ *Nursing homes*
- ✓ *Assisted living*
- ✓ *Independent living*
- ✓ *Home health care and hospice*



The Health Care Acquisition Report, 15th Edition, contains invaluable stats and transaction data on:

- ✓ *Hospitals*
- ✓ *Managed care*
- ✓ *Physician medical groups*
- ✓ *Rehabilitation*
- ✓ *Labs/MRI/dialysis*
- ✓ *Behavioral health*

ORDER TODAY!

CALL: 1-800-248-1668
FAX: 1-203-846-8300

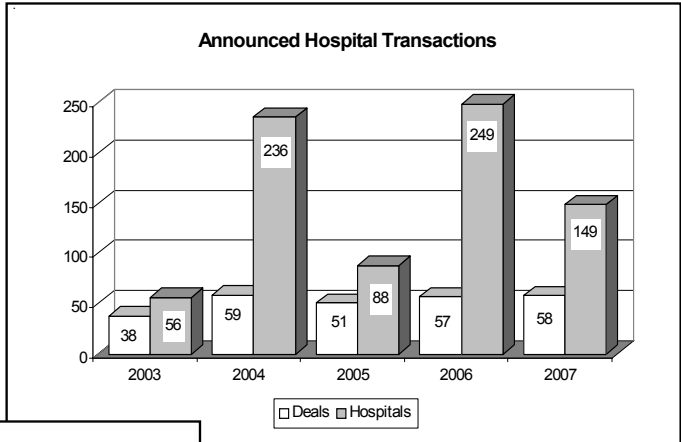
ONLINE: www.levinassociates.com/publications/reports2009.htm

MAIL: 268-1/2 Main Avenue
Norwalk, CT 06851

Here's what you get when you order one of The 2009 Annual Merger & Acquisition Reports...

TARGET: Parker Ridge	ACQUIRER: Christopher Place Senior Communities, LLC
LISTING: Nonprofit	LISTING: Private
LOCATION: Blue Hill, Maine	CEO: Charles E. Maulbetsch
UNITS: 47	PHONE: 734-997-7015
REVENUE: \$2,800,000 (annualized)	FAX: 734-997-7031
NET INCOME: 600,000 (EBITDA)	WEB SITE: www.chrisplacesenior.com
Eastern Maine Healthcare Systems is selling Parker Ridge, a 47-unit retirement facility that has 34 independent living and 13 assisted living units. Built in 1992, it was 100% occupied at the time of sale.	Christopher Place Senior Communities operates senior care facilities.
ANNOUNCEMENT DATE: August 29, 2008	PRICE PER UNIT: \$129,787
PRICE: \$6,100,000	PRICE/REVENUE: 2.18
TERMS: Not disclosed	PRICE/INCOME: 10.17
The target community was built in 1992 and expanded in 2000. In addition to the 34 independent living and 13 assisted living units, there are 24 cottages on the property that are individually owned, but pay a ground lease to the owner as well as monthly dues for additional services. The facility underwent a major conversion from condos to rental in 2005 to 2006. The facility is currently 100% occupied with a waiting list of 55 people. Cain Brothers represented the seller in this transaction.	

Five-year statistics by market sector



Detailed transaction sheets for every deal through Jan. 1, 2009



Market-specific pricing data, including statistics by unit and revenue, and EBITDA multiples

Last Chance To Save \$100!
Order the 2009 Annual M&A Reports
 Fax to 1-203-846-8300 or call 1-800-248-1668

- Report:**
- The Senior Care Acquisition Report
 - The Health Care Acquisition Report
- Type:**
- Regular Subscription (~~\$595~~^{\$495} each)
 - Corporate Subscription (\$1,785 each)
(Includes EXCEL download and unlimited company distribution.)

PAYMENT METHOD: Charge my: VISA MC AmEx Bill me Check is enclosed payable to Irving Levin Associates, Inc.

Card#: _____ Exp. Date: _____

Signature: _____

Name: _____

Company: _____

Address: _____

City, State, Zip, Country: _____

Phone: _____ Fax: _____

Email: _____

90303syslb

The Acquisition Market

After setting record prices in 2007, all sectors of seniors housing and care experienced downturns in selling prices in 2008. The major problem across the board was a decline in the quality of the properties that were sold, as many owners decided to pull back from the market as the credit crisis widened, the supply of capital tightened and buyers were no longer sure what their cost of capital would be in an acquisition. The average price per bed for skilled nursing facilities fell by just over 17% in 2008 to \$45,500 per bed, while assisted living communities dropped by 21% to an average of price of \$124,900 per unit and independent living declined by 32% to \$118,100 per unit. The IL market in particular was quite thin in 2008 with very few high quality communities sold, causing an unusual drop in overall values. It is always important to remember that these averages, and their declines from 2007, reflect what was on the market and do not mean a particular community not on the market dropped by that much. The full details of the results for 2008 will soon be available in our *Senior Care Acquisition Report*.

In Illinois, **Petersen Healthcare** recently acquired a 96-bed skilled nursing facility from a not-for-profit operator for \$1.8 million, or \$18,750 per bed. We believe revenues are just over \$2.7 million with an EBITDA of about \$250,000, yielding a market cap rate of 13.6%. Mark Myers and Mike Pardoll of **Marcus & Millichap** represented the not-for-profit seller in the transaction.

In another transaction, a local not-for-profit hospital in Michigan sold its only assisted living asset, a 40-unit facility that was built in 1998. The purchase price was \$2.75 million, or \$68,750 per unit. The facility has been running at close to 100% occupancy for several years and revenues and EBITDA in 2008 were \$1.25 million and \$220,000, respectively, yielding a cap rate of 8.0%. The hospital also sold to the buyer an adjacent 34-acre parcel for \$200,000 that may be developed with independent living units and additional assisted living units. Jason Stroiman and Michael Brundage of **Senior Living Investment Brokerage** handled the transaction.

Transaction Updates. At the end of February, Louisville, Kentucky-based **Trilogy Health Services** closed on its acquisition of five operating properties from not-for-profit **Franciscan Sisters of Chicago Service Corporation**. We first mentioned this transaction in the November issue last year. The portfolio includes three campuses, each of which has skilled nursing and assisted living, which is

the Trilogy model, plus two separate stand-alone nursing facilities. These five properties are located in Indiana (3) and one each in Kentucky and Illinois. In addition, there is a 33-room nursing facility in Indiana that is closed that the buyer had to take as part of the package, and we assume Trilogy will sell it for its real estate value and it is not included in any of the statistical analysis.

The purchase price was \$34.2 million, or just over \$45,500 per bed/unit. Revenues were just under \$40.0 million, and while the EBITDA margin was about 4% with the previous owner, we believe that in Trilogy's first year of operation it will be closer to 10% after management fees. This would result in a cap rate just over 12%. The portfolio includes 513 skilled beds and 238 assisted living units, and the previous occupancy and quality census mix was 84% and 38%, respectively. In Trilogy's model, the quality census mix is usually 70% and better, with the assisted living units usually newly built and the skilled beds concentrating on higher acuity Medicare patients. We assume Trilogy has budgeted for some capital improvements, since the facilities were built about 20 years ago, and revenues will rise when they start to ramp up the short-term stay business. **Private Bank** provided first mortgage financing for the acquisition, and Ryan Saul and Jason Stroiman of Senior Living Investment Brokerage handled the transaction. There were a total of 14 offers, including three with no financing contingencies.

In what we assume was a very competitive bidding process, Fairfield, Connecticut-based **Jewish Home for the Elderly** was the winning bidder for **Stamford Hospital's** Edgehill CCRC, located in Stamford, Connecticut. Located on 20 acres, the community opened in 1999 and has 207 independent living units, 20 assisted living units and 60 skilled nursing beds. Occupancy is very high (300 residents) with 170 people on the waiting list. **Greystone Senior Living** has been the manager, and although it appears they have been doing a great job, it is unknown whether the buyer will retain them, manage the community themselves or find a new outside manager. **Herbert J. Sims** represented Stamford Hospital during the process, and we believe the price is in the neighborhood of \$70 million, or \$244,000 per unit/bed.

Last month we mentioned a "regional operator" that purchased two SNFs in Pennsylvania from a local not-for-profit. The buyer was Skokie, Illinois-based **Platinum Healthcare, LLC**, and the facilities were Haverford Nursing & Rehab and Main Line Nursing & Rehab.