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Health-Care, Senior Housing Investors Stepping Up Sales Activity

Companies Have Fixed Their Balance Sheets And Are Ready to Buy Properties, From Medical Offices to Senior Assisted-Living Centers

Health care and senior housing real estate companies have raised hundreds of millions of dollars in equity over the last couple of years, and sales activity tracked by CoStar Group over the last 30 days suggests that companies are beginning to put that capital to work.

In the largest of the deals, Chicago-based Ventas Inc. (NYSE: VTR) in October agreed to acquire, for $3.1 billion in stock, cash and assumed debt, a 118-property portfolio of senior housing assets totaling 13,500 units in New York, New England, Boston and California from privately held operator Atria Senior Living Group. Atria is owned by funds affiliated with private equity firm Lazard Real Estate Partners.

Other large transactions announced in recent days include a deal by Senior Housing Properties Trust (NYSE: SNH) to acquire a 2.8 million-square-foot portfolio of medical properties from Commonwealth REIT for $470 million, two acquisitions totaling $102.6 million by Scottsdale, AZ-based non-traded REIT Healthcare Trust of America, Inc. (HTA) and formation of a $200 million joint venture between Morningside House Senior Living, an operator of senior housing communities, and Chicago-based private-equity real estate firm Harrison Street Real Estate Capital.

Analysts said that the outlooks for health care REITs and fundamentals are stable, with companies improving their balance sheets over the last 18 months through capital raised in equity offerings. Many expect much of the new funds raised to be used for acquisitions.

"With more clarity as to capital costs and health care reform, we have seen increased investment activity in recent months and expect this trend to accelerate in the upcoming year as the REITs look to expand growth and diversification efforts," noted Moody's analyst Lori Marks, adding that ratings actions in recent years in the sector have been "decidedly positive." Eight of the 10 Moody's-rated health care REITs have stable outlooks and two have positive outlooks.

The defensive characteristics of health care have been helping to insulate health care REIT operators from the adverse effects of this recession. That being said, none of the property sub-types are wholly immune from the macroeconomic climate, and tenant monitoring remains especially important," Marks said.

Investor interest for seniors housing and health care assets remains constant, according to Jones Lang LaSalle's Fall U.S. Capital Markets Outlook bulletin. Senior developments idled for the past two years are now better able to secure financing although the HUD 232 program is the primary lender to date. There has been a noticeable increase in the number of seniors housing companies seeking sites for product to be delivered to the market in 2012 and 2013. The third quarter of 2010 will show increased activity in this sector.

Health care properties such as medical office and ambulatory care facilities continue to attract investment dollars as the sector performed comparatively well through the downturn, with investor sales accelerating as cap rates compressed occurred in the first half of 2010, JLL said. Development activity is growing as hospital systems, having stabilized financially over the past year, are launching previously planned projects.

The Ventas acquisition from Louisville, KY-based Atria, the fourth-largest operator of assisted living properties in the U.S., will increase the portion of Ventas' net operating income received from private-pay assets to over two-thirds of total NOI and will establish Ventas as the largest owner of seniors housing communities in the U.S., noted Debra Cafaro, Ventas chairman, president and CEO.

The inherent growth in the portfolio will likely improve Ventas' growth rate, Cafaro said.

Demographic trends, especially the aging of the baby boomers, will benefit health care property owners, Moody's said. The rating agency expects passage of health care reform to be "credit neutral" over the intermediate term.

"Positively, it expands coverage and its emphasis on improved efficiency and quality of care bodes well for medical office demand. Negatively, expansion of care that will come at a large cost could pressure those segments that rely on government reimbursements," Moody's said.

Senior Housing Properties Trust exercised its right of first refusal to buy assets from former parent Commonwealth REIT. The 27 properties in 13 states will close before June 30, 2011. The weighted cap rate for the properties is about 8.4% for the mostly older properties, which are 95% occupied and are leased primarily to medical services providers and other medical-related tenants. The largest properties, two office towers totaling 331,000 square feet and garages connected to Cedars Sinai Hospital in Los Angeles, traded at a lower cap rate and are mostly leased to medical practice groups affiliated with the famed hospital.

One of the most active buyers of medical property in 2010, Healthcare Trust of America, Inc. has year to date acquired about $412.3 million in medical office and health care-related assets totaling 1.9 million square feet. The properties are 98% leased with an average remaining lease term of over 8 years. HTA has agreements for the purchase of an additional $392 million in medical office buildings and health care assets totaling about 1.5 million square feet, expected to close by the end of the year.

HTA is under contract to acquire five on-campus medical office buildings in New York, Arizona, Florida, Missouri and Nevada totaling 307,000 square feet from developer Rendina Cos., for $86.1 million. The company has closed on three of the five buildings and plans to close on the other two by year end. Healthcare Trust also this week announced the purchase of Raleigh Medical Center, an 89,000-square-foot, three-story multi-tenant near the Rex Healthcare main campus within the Research Triangle in Raleigh, NC, for about $16.65 million. In late October, the public, non-traded REIT announced it will acquire a portfolio of medical office buildings located in New York, Massachusetts and Florida for $196.6 million in one of the largest MOB deals of the year.

Harrison Street Real Estate Capital, a Chicago-based private equity firm, entered into a $200 million joint venture agreement with Morningside House Senior Living that includes recapitalizing six Morningside communities in suburban Washington, DC and Baltimore, MD. The joint venture also reserves $100 million for future JV investments in the Mid-Atlantic area over the next three years.

Under the initial $100 million investment, the joint venture, 90% owned by Harrison Street, will acquire 480 private-pay rental units for affluent assisted living and memory care residents. The six properties include: Morningside House of Ellicott City in Ellicott City, MD; Morningside House of Friendship in Hanover, MD; Morningside House of Laurel in Laurel, MD; Morningside House of Satyr Hill in Parkville, MD; Morningside House of St. Charles in Waldorf, MD, and Morningside House of Leesburg in Leesburg, VA.