

PErspective in HEALTHCARE REAL ESTATE

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE HEALTHCARE AND REAL ESTATE INDUSTRIES

Healthcare property investors remain keen on the senior housing sector as aging demographics drive growing demand for long-term care facilities.



While the number of senior housing real estate deals continues to rise, deal sizes seem to be on the wane. In 2011, the 312 senior

housing and care deals totaled \$27.6 billion in transaction volume, according to data from the National Investment Center for Seniors Housing and Care (NIC). By comparison, from the second quarter of 2014 to the first quarter of 2015, there were 609 deals totaling \$19.9 billion, according to NIC data.

Healthcare property investors – real estate investment trusts (REITs) and private equity firms – are especially attracted to the senior housing sector because of its market fundamentals. Aging demographics mean growing demand and, since most facilities are private-pay, they are less susceptible to government funding decisions than other healthcare properties such as hospitals and skilled nursing facilities.

Some larger REITs have been concentrating their portfolios on the senior housing sector to limit their exposure to government reimbursement issues. Healthcare REIT Ventas announced in April it would spin off most of its skilled nursing facility portfolio into an independently traded REIT. Meanwhile, Health Care REIT raised \$750 million through a benchmark offering of senior unsecured notes to fund, among other things, investments in healthcare and senior housing products.

However, since large portfolio deals in the senior housing sector have been harder to come by recently, some large REITs are downsizing to move the needle with smaller portfolio and single-asset acquisitions –

and some industry insiders predict more REIT spinoffs could be on the horizon. These spinoffs make attractive targets for PE firms. For example, a number of PE firms are currently bidding for an operating company spun out of a recent merger between Ventas and hospital provider Ardent Health Services. The sale of the company could fetch upward of \$500 million.

Analysts have predicted that senior housing will go from a niche sector to a mainstream asset class during the next 15 years as the population ages. The sector is highly fragmented, meaning there are plenty of opportunities for consolidation as smaller providers look to achieve economies of scale.

Distressed deals present additional opportunities. Bankruptcies – as a result of market forces and healthcare reform – are on the rise in the senior housing sector. Mid-sized providers are looking to grow by acquisition after a period where they were priced out of such deals. Although far from straightforward, a successful makeover of a distressed senior housing property can make it an attractive target for REITs and PE firms further down the line.

Big portfolio deals may be down, but there are still plenty of investment opportunities in the senior housing sector as large players spin off businesses and small players look to consolidate.

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Healthcare Industry Contacts:

CHRISTOPHER J. ORELLA
New York
212-885-8310 / corella@bdo.com

STEVEN SHILL
Orange County
714-668-7370 / sshill@bdo.com

PATRICK PILCH
New York
212-885-8006 / ppilch@bdo.com

Real Estate Industry Contacts:

STUART EISENBERG
New York
212-885-8431 / seisenberg@bdo.com

ANTHONY LA MALFA
New York
212-885-8140 / alamalfa@bdo.com

MICHAEL BYRNES
Philadelphia
215 940-7801 / mbyrnes@bdo.com

BRENT HORAK
Dallas
214-665-0661 / lorak@bdo.com

ALBERT LOPEZ
Miami
305-381-8000 / alopez@bdo.com

JOHN RAINIS
Chicago
312-616-4644 / jrainis@bdo.com

CHRISTOPHER TOWER
Orange County
714-668-7320 / ctower@bdo.com

Private Equity Industry Contacts:

LEE DURAN
San Diego
858-431-3410 / lduran@bdo.com

SCOTT HENDON
Dallas
214-665-0750 / shendon@bdo.com

KEVIN KADEN
New York
212-885-8000 / kkaden@bdo.com

RYAN GUTHRIE
Costa Mesa
714-668-7385 / rguthrie@bdo.com

DAN SHEA
Los Angeles
310-557-8205 / dshea@bdocap.com

JOE BURKE
McLean, VA
703-770-6323 / jburke@bdo.com

FRED CAMPOS
Miami
305-420-8044 / fcampos@bdo.com

JERRY DENTINGER
Transaction Advisory Services Partner / Chicago
312-239-9191 / jdentinger@bdo.com

JOE GORDIAN
Director / Dallas
214-969-7007 / jgordian@bdo.com

TUAN HOANG
Director / Los Angeles
310-557-8233 / tmhoang@bdo.com

TODD KINNEY
Director / New York
212-885-7485 / tkinney@bdo.com

MATT SEGAL
Assurance Partner / Chicago
312-616-4630 / msegal@bdo.com

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