

## New Financing Option for Senior Living Facilities – The TIC Offering

### Presenters

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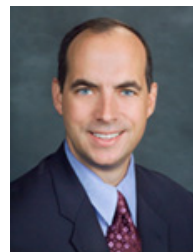
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## Today's Presenters



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## New Sale-Leaseback Option

- The return of capital
- Consolidation of the marketplace
  - 2006 Brookdale Senior Living acquisition of American Retirement Corporation for \$1.2 billion results in a company with 535 facilities in 34 states with the ability to serve 50,000 residents
- The vast majority of facilities in the U.S. are independently owned or are part of smaller state-wide or regional companies

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## Senior Living Industry

- Recent statistics indicate that there are 36,451 licensed assisted living facilities in the U.S.
- From 2000 – 2002 the number grew from 32,886 to 36,399
- Some communities were built in the 1970's and are looking to modernize and expand

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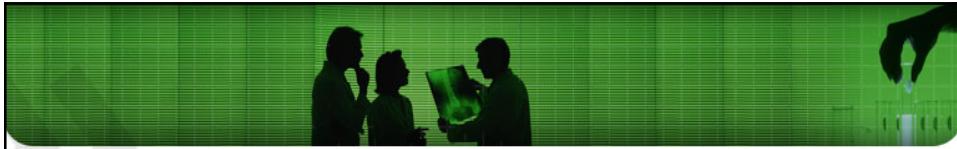


## Senior Living Industry (cont'd)

- Industry is looking for new tools to continue expansion:
  - Emergence of REITs and sale – leaseback arrangements
  - Purchase of portfolios
  - Diversification of property types (CCRCs, SNF, IL and AL)

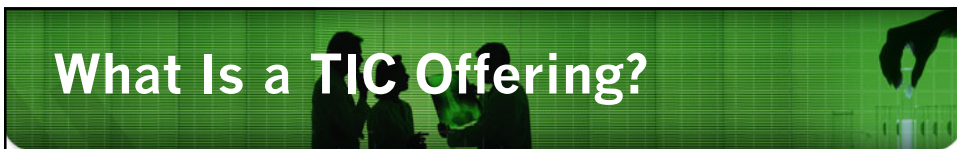
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## Tenant-in-Common (TIC) Offerings

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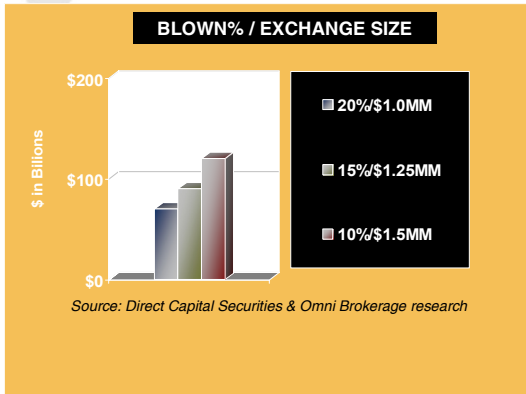
## What Is a TIC Offering?

- A private placement of interests in income-producing real estate, typically to 5-15 accredited investors
- The Transaction is structured as a sale of the real estate by the owner (“Sponsor”) to the investors
- Each Investor owns an undivided fractional interest in the entire property as a tenant-in-common (hence “TIC”)
- TIC interests qualify as “like kind” property for investors engaged in a 1031 like-kind exchange

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# The "Exchange" Market



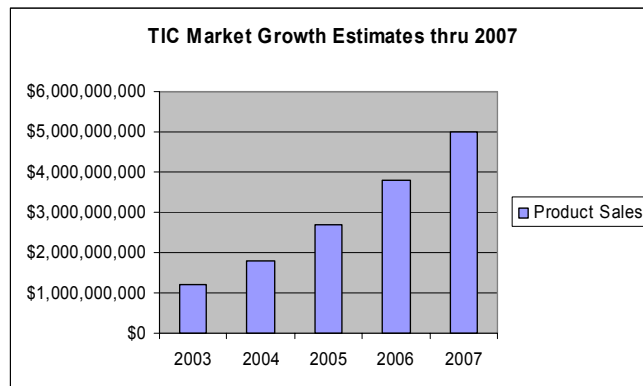
- Over 200,000 Form 8824s filed annually
- "Blown" exchange %, exchange size and "overhang" are increasing
- Exchangor Goals are NOT being met

Federal Capital Gains Tax  
+ Recapture + State Tax

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# The "TIC" Market in 5 Years...



Source: Direct Capital Securities estimates

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## The Background: IRS Revenue Procedure 2002-22

- In 2002, the IRS issued Rev. Proc. 2002-22, which provides ruling standards for determining whether an arrangement constitutes a tenancy in common and not a partnership or other entity
- 2002-22 is a “safe harbor” and is considered to define relatively conservative standards that must be met in order to obtain an IRS ruling
- Certain of the requirements of 2002-22 are difficult to satisfy in real transactions, and virtually no TIC arrangements currently marketed, meet all 15 requirements set forth in 2002-22
- Law firms have nonetheless regularly issued “should” opinions, based on the conclusion that the arrangement is a TIC even if it does not fully comply with the safe harbor

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## Advantages and Problems with TICs

- A properly structured TIC is an interest in real estate, and qualifies as like kind property in a 1031 exchange
- TICs, however, are generally very complex, awkward arrangements
- Biggest problem is that a TIC cannot have centralized management, and so TIC members have on-going management responsibilities that are awkward (at best) to discharge
- TIC members all have a right of partition, and so the arrangement has inherent instability

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## New Development: Revenue Ruling 2004-86

- In 2004, the IRS ruled in Rev. Rul. 2004-86 that, on the facts presented, an interest in a Delaware Statutory Trust (“a DST”) holding real estate was like kind property for a 1031 exchange of real estate
- The DST arrangement has some potential advantages over a TIC, principally that it allows centralized management through a trustee and eliminates the partition and management problems
- The bad news is that DSTs require a very rigid, fixed unit investment trust structure that is not always suitable for a particular transaction

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## Who Can Be a Sponsor?

- Any reputable, experienced real estate owner/manager
- Preference is given to potential sponsors who have a functioning “back-of-the-house”, real management experience and who are committed to doing a series of transactions, at least 2-3 per year

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## What Type of Real Estate Can Be Sold to TIC Investors?

- Generally must be income producing and at or near stabilization with reasonable absorption and roll-over assumptions
- Property categories cover a broad range, including office, multifamily residential, industrial, retail and even hotels and senior living facilities
- Property can be single or multi-tenant
- Secondary and even tertiary markets are okay

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## Deal Size

- Typical deal size is at least \$10 million, and generally not more than \$50 million
- Several properties can be included in one offering

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## What Are the Typical Economics

- Transactions are typically leveraged in the 50-60% range
- Investors look for cash on cash return starting as low as 6% (7.5% is more typical) and stepping up over time to as high as 10%
- Master Leases with single-purpose Sponsor affiliates allow sale at stabilized value 2-3 years before actual stabilization. Master Leases can also preserve some or all of the rental upside for the Sponsor
- Load (costs of sale) is relatively high (12-18%), but net proceeds are still typically higher than from an outright sale for non-investment grade property
- Sponsor typically has the right to manage the property for market management fees, and to either buy-back the property 5-7 years out or collect a 2-3% disposition fee if the property is sold to a third party

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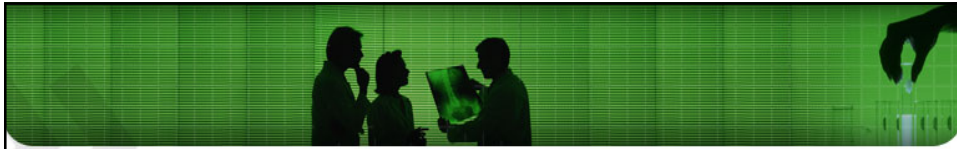


## Why Should a Property Owner Become a Sponsor?

- Provides an additional exit strategy for non-institutional grade income producing real estate
- Allows a sale of property while retaining management and preserving an option to reacquire
- Provides repetitive access to low-cost equity capital

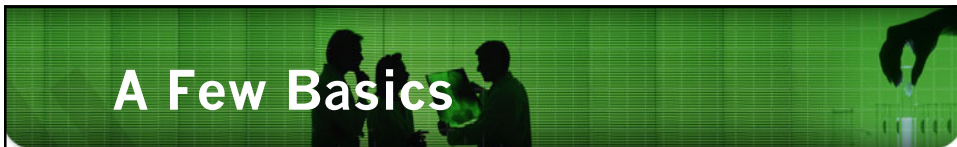
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## Senior Living TICs

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## A Few Basics

- Owner of real estate
  - Up to 35 TIC investors
  
- Owner of license, personal property and business assets
  - Master Lessee
  
- Number of facilities
  - Not more than two
  
- Deal size:
  - \$12 - \$35 million

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## A Few Basics (cont'd)

- Debt
  - 50 – 65% LTV
- Net equity raise
  - \$6 – 17 million
- Typical load
  - 15 – 25% of equity raised
- Typical return to investors
  - 6.5 – 8.5% of gross equity

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## A Few Basics (cont'd)

- Property type
  - Any senior living facility with stabilized income and strong operator
  - Value-add, i.e. turn-around, may be okay
- Return
  - IRR in the low double digits is okay
- Mater Lease
  - Separates the business from the real estate
  - Master Lessee gets most or all of business upside
  - Master Lessee has FMV option to reacquire

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## Owner/Operator Does Not Want to be a Sponsor

- Owner can do a sale/leaseback of real estate with a TIC sponsor who will conduct the offering
- TIC sponsor may want to condition sale on a successful offering
  - This adds time and risk, both of which at a minimum should be paid for
- Deal only with well-capitalized sponsors with a successful track record

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## Owner/Operator Wants to be a Sponsor

- Must be committed to doing at least 3-4 transactions per year
- Must be adequately capitalized and capable of providing timely and accurate financial reporting
- Must be approved by a third party due diligence firm
- Must retain Managing Broker Dealer

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## Why be a Sponsor?

- Relatively low cost equity
- Truly passive, tax-advantaged investor
- Operating control and operating upside
- FMV option to reacquire

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## Why Not a REIT?

- Less due diligence
- More flexibility on property type and location
- No security deposit
- Lower reserves
- REIT is unleveraged return
- More operating upside
- Option to purchase
- Less onerous reporting requirements

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# Summary

- TIC Offerings can increase available price on sale of the real estate
- Owner/operator essentially gets 100% financing and retains operating upside and control
- Can not be used just to sell properties that are otherwise difficult to sell

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# Rambling Oak Summary

## Rambling Oaks Assisted Living & Rambling Oaks Courtyard OFFERING SUMMARY



### New Senior Housing TIC Ownership Opportunity

OKLAHOMA CITY / NORMAN, OK

- 8.0% projected master lease payment in year one
- Minimum investment: \$504,280
- 7.0% ownership interest (\$903,000 debt)

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# Rambling Oak Summary (cont'd)

## Property Description

Rambling Oaks Assisted Living (ROMA) in Norman, Oklahoma was built in two phases. Phase I and II are divided by the dining room. The center features a full service kitchen, dining room, reception room, library, lounge, and laundry area. Rambling Oaks Courtyard (ROCY) in Oklahoma City has a full service kitchen, two dining rooms, reception room, laundry room, library, lounge, and laundry area. Both properties are single-story, wood frame structures with a light-tight design. Resident rooms are located along each side of the main corridor with some facing an interior courtyard. These two properties are located approximately 17 miles apart on the north side of the Oklahoma City MSA within proximity to interstate and state highways, and many retail services, entertainment/recreation options, and medical services.

Some of the information above was obtained from the appraiser. The appraiser was prepared for the Sponsor's mortgage broker for use only in connection with the loan and should not be used for any other purpose.

Property Type	Senior Housing Assisted Living
Year Built	10 Year (I) and 2 Year (II) (Interim Only)
Financing Terms	10 Year Amortized 2 Year Interest Only
Minimum Investment	\$100,000
Occupancy and 95% Loan to Value based on number of units	ROMA: 90% ROCY: 90% Residual: 95%
Cash Flow	\$2,300,000
Pre Income NOI	\$3,570,732
Debt	\$12,900,000
TRM Debt to Equity Ratio	66.7% / 33.3%
Projected Master Lease Payment	Balance: \$0%
Purchase Cap/TK Cap	8.75% / 7.87%

- Buildings**
- Construction (both properties): Wood frame with brick veneer, insulated frame walls with double-pane aluminum frame windows
  - Year Built: ROMA: 1999/2000; ROCY: 2003
  - Number of Units: ROMA: 75; ROCY: 63
- Mechanical and Electrical**
- HVAC (both properties): Central multiple units for offices, kitchen, common areas, individual through-wall HVAC units for resident rooms
  - Fire/Security (both properties): All units have 24-hour emergency call system with central monitoring. The buildings are sprinklered and contain smoke detectors.
- Unit Amenities Include**
- Individually controlled heating and cooling system
  - Pool tables including back table
  - Refrigerator and microwave oven
  - Walk-in closet and entryway storage
  - Walk-in shower
  - Centrally maintained non-emergency maintenance call system in office units at Rambling Oaks Courtyard
- Community Amenities:**
- Hobbying club/clubhouse
  - Library
  - Traditional "corner" back porch
  - Game room
  - Walked path
  - Exercise area
  - Amphitheater/entertainment room and TV lounge
  - Pool office
  - Guest room and dining room
  - Two enclosed courtyards

\*The \$12,900,000 purchase price includes certain tangible and intangible assets (the "Master Lease Property") used in the operating business based at the Property, which the Sponsors have retained the right to use. The Master Lease Property will be used by the Company and transferred to the Master Lease at closing and will be owned by the Company. Therefore, only \$17,000,000 (which includes \$50,000 in below cost closing costs) will be used to acquire the Property. The Purchase Price advantage is calculated based on the \$12,900,000 amount. See also the 100% loan to value for the Master Lease Property.



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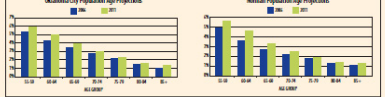


# Rambling Oak Summary (cont'd)

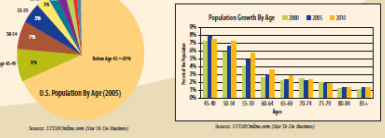
## Market/National Information

Competitive Residences	Number of Assisted Living Beds	Year Built	Rental Range	Occupancy	Pay Type
Albany Chase Lodge	32	1999	\$1,995-\$2,295	97% (includes Alzheimer's occupancy)	Private Pay
Albany Standing House	32	1995	\$1,995-\$2,195	100%	Private Pay
Crystal Place	40	1999	\$1,800-\$2,400	95%	Private Pay
Somerset	121	1997	\$1,853-\$2,450	90% (includes Alzheimer's occupancy)	Private Pay
Timberwood*	46	2001	\$2,000-\$2,475	100%	Private Pay
Rambling Oaks Assisted Living	70 (38 Assisted)	1999/2000	\$2,200-\$2,350	90%	Private Pay
Rambling Oaks Courtyard	63 (35 Assisted)	2003	\$1,995-\$2,400	90%	Private Pay

\*Includes PMA (primary market area). Source: Appraisal. Rambling Oaks: Mixed occupancy = 33%.



Population Estimates	2000	2001	2002	2003	2004	2005	2006-2010
Oklahoma City	591,770	572,070	558,470	528,500	526,700	501,220	-4.87%
Norman	66,760	68,260	68,800	69,900	69,700	701,720	+3.10%
Oklahoma City / Norman	885,530	640,330	627,270	598,400	606,400	672,940	+1.00%
Oklahoma	3,458,612	3,461,682	3,467,338	3,504,900	3,523,500	3,642,900	+3.82%



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# Rambling Oak Summary (cont'd)



**Regular Services Available for All Residents (Offered at Both Properties)**

- Full three meals service six or seven days a week
- Personal care includes:
  - Medication assistance, dressing, bathing, and grooming
- Full activity program
  - Resident entertainment, musical programs, movies and programs, and bus tours/travel
  - Exercise classes
  - Art and craft
  - Shopping trips
  - Religious activities
- Housekeeping
  - Weekly housekeeping
  - Weekly laundry of personal items, bed linen, and towels
  - Free laundry facilities for personal use
- Dining
  - Three meals a day, seven days a week plus snacks
  - Menu designed by licensed dietitian and prepared by dietary team
  - Select select casual restaurant style
- Transportation
  - Scheduled complimentary bus transportation to local shops
  - Shopping, medical appointments and medical facilities, and scheduled religious and cultural outings
- Single family
  - Enjoy all guest services in a fully furnished apartment for up to 30 days

**Rambling Oaks Assisted Living Unit Mix**

Apartment Type	S.F.	# of Units/Type	Start	Base Revenue
Phase (Studio)	400	15	\$2,200	\$33,000
Phase (1-Bedroom)	400	20	\$2,250	\$45,000
Phase (2-Bedroom)	500	10	\$2,250	\$22,500
Studio (Studio)	300	5	\$2,600	\$13,000
Studio (1-Bedroom)	300	12	\$2,600	\$31,200
Studio (2-Bedroom)	300	4	\$2,600	\$10,400
Studio (3-Bedroom)	300	1	\$2,600	\$2,600
Studio (4-Bedroom)	400	1	\$2,750	\$2,750
Studio (5-Bedroom)	500	1	\$3,150	\$3,150

% of 9/15/2006

**Rambling Oaks Courtyard Unit Mix**

Apartment Type (all studios)	S.F.	# of Units/Type	Start	Base Revenue
Phase (Studio)	400	13	\$1,995	\$25,935
Phase (1-Bedroom)	400	7	\$2,175	\$15,225
Phase (2-Bedroom)	500	2	\$2,225	\$4,450
Phase (3-Bedroom)	500	2	\$2,475	\$4,950
Phase (4-Bedroom)	500	6	\$2,775	\$16,650
Phase (5-Bedroom)	500	2	\$2,925	\$5,850
Studio (Studio)	300	8	\$2,875	\$23,000
Studio (1-Bedroom)	300	1	\$2,875	\$2,875
Studio (2-Bedroom)	400	1	\$2,990	\$2,990
Studio (3-Bedroom)	400	1	\$3,190	\$3,190
Studio (4-Bedroom)	400	4	\$3,390	\$13,560
Studio (5-Bedroom)	500	6	\$3,490	\$20,940
Studio (6-Bedroom)	500	6	\$3,490	\$20,940

% of 9/15/2006

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# Regulatory Concerns

- Is there a Certificate of Need Process?
  - How long does the process take?
  - What kind of information must be disclosed?
- Will the sale require a new license?
  - How long does the process take?
  - What kind of information must be disclosed?
- If owner is a person who is in a position to make referrals, does his interest fall within the investment safe harbor to the Anti-Kickback statute?

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## Regulatory Concerns (cont'd)

- Is there a requirement that the licensing agency be notified in advance?
  - 30 Days in Advance?
  - 60 Days in Advance?
  
- May be difficult as identity of purchasers may not be known until later
  
- Have any of the owners been excluded from Medicaid or Medicare?

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## Questions & Answers

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