

The SeniorCare Investor 2007

The SeniorCare Investor: Wakefield Capital Is Here

While some people were wondering whether the seniors housing and care acquisition market might be slowing down in 2007 from the record-setting pace of the past two years, it isn't going to happen just yet. Readers are obviously aware that there is an immense amount of capital in the market, looking at all investment alternatives, but with a strong interest in anything that has the word "senior" attached to it. Flying under the radar for the last half of 2006 was a newly formed entity based in Maryland called Wakefield Capital, LLC, but now it will be on everyone's radar screen.

Wakefield was formed last May when NorthStar Realty Finance (NYSE: NRF) entered into an agreement with Chain Bridge Capital LLC to create the company, which will acquire and finance senior housing and health care-related properties. In connection with the formation of the venture, Wakefield acquired substantially all of Chain Bridge Capital's assets, valued at \$64 million, which consisted of 13 net leased properties, primarily assisted living facilities, plus several loans receivable. Chain Bridge was founded by Ed Nordberg, formerly the CEO of Medical Office Properties, which sold its portfolio of MOB's to CNL Retirement Properties in 2004. He was also a co-founder of HealthCare Financial Partners, which was publicly traded until it was sold to Heller Financial in 1999. He will continue to oversee the asset management of the properties acquired by Wakefield, and NorthStar, an internally managed REIT, will fund the acquisitions and will be the majority owner.

We don't know if Wakefield completed any deals last year, even though we heard that they did do some bidding, but it is starting off 2007 with a bang, making a rather bold statement with two large transactions in the first two weeks of January. In the first deal, Wakefield purchased 34 assisted living facilities from Wilkinson Corporation for \$250.5 million, or about \$142,000 per unit. The portfolio has a 91.3% occupancy rate, and the facilities are located in eight states, but 16 of the 34 are in Illinois. The four facilities in Ohio will close when HUD approves the loan assumptions. Wakefield will be leasing the facilities back to Wilkinson, and although the initial lease rate and other terms were not disclosed, we believe it may be between 8.0% and 8.5%. Revenues last year for the portfolio were about \$54.5 million, and the cap rate based on 2007 estimates may have been just above 8%. Lee Blake of JCH Consulting Group represented both sides of the transaction.

Wilkinson Corporation, based in Yakima, Washington, was formed in 1992 to invest in real estate in the Northeast, mostly multifamily and commercial properties. By 2003, the seniors housing market was identified as a sector of the market that was attractive, and the company began acquiring assisted living facilities and portfolios across the country. Perhaps its most important acquisition was the 2004 purchase of Good Neighbor Care (GNC), a small firm based in Eugene, Oregon, that owned and managed three memory care facilities in California (1) and Oregon (2). Wilkinson liked the management team at GNC, and it quickly became Wilkinson's management company for its growing portfolio, which by the end of 2006 numbered

more than 40 assisted living and memory care facilities. Other notable acquisitions included the purchase of the Brookstone Estates portfolio of 10 assisted living facilities in southern Illinois in late 2004 for \$54.1 million and the Carriage Court portfolio of seven assisted living facilities in Ohio and Tennessee for \$63.3 million in late 2005.

Like several companies early last year, Wilkinson started to look at the Canadian REIT market for a possible IPO in order to recapitalize the company and as a source of funds for further growth. But that market took a tumble later in the year, and its attractiveness soon disappeared. In Wakefield, Wilkinson has found a new partner that was apparently easy to deal with and very flexible to meet its needs in such a large financing. We believe the two companies will continue to do business together, whether by funding new acquisitions or buying some of the rest of Wilkinson's assisted living portfolio.

In Wakefield's second transaction of the month, it acquired 15 assisted living facilities from Harmony Living Centers LLC for \$100 million, or just over \$145,700 per unit. The facilities range in size from 20 units to 82 units and were all built between 1990 and 2005. This transaction represents the majority of Harmony's facilities, all of which are located in Wisconsin. Wakefield will lease these 15 facilities back to Harmony, which will continue to operate them, but the terms of the lease were not disclosed.

Harmony was founded in 1998 by Guy Smith, the former CEO of Unicare (which became Extencicare Health Services), and his son Mike Smith. The company now operates 21 communities in 16 Wisconsin towns, and will continue to grow its model in Wisconsin with an emphasis on aging-in-place, and a desire to cluster small buildings on one campus. The proceeds from the sale/leaseback will go to retire debt, provide a return to some of the company's original partners and fund new developments. Bill Mulligan of Ziegler Capital Markets Group represented Harmony in the transaction.

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