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04/22/2013 WindsorMeade CCRC future post-bankruptcy may not be so bright - MEWSings

Prepackaged bankruptcy may become a staple for continuing care retirement community (CCRC) deals done in 2007, allowing facilities that opened during the economic and housing crisis to continue operations while restructuring their debt. **WindsorMeade** is doing just that after issuing USD 114.3m in 2007 for a new campus near Williamsburg, Virginia, which struggled immediately upon opening its doors in 2009.

Investors recently approved a prepackaged Chapter 11 bankruptcy for WindsorMeade, which it filed on 1 March 2013. About USD 50m of new bonds will be issued as part of the 2007 debt restructuring. According to the Restructuring Agreement dated 7 February 2013, the 2007A and 2007B bonds will be discharged and replaced by approximately USD 30m in new senior bonds, issued with a 6% coupon on the 2043 maturity, and subordinate bonds issued at a 2% coupon with a 2048 maturity in an amount equal to 50% of the balance of the 2007A and 2007B bonds. The remaining balances of the 2007A and 2007B bonds will be discharged in full.

The 2007C bonds will be cancelled and replaced by 30-year USD 6.5m senior secured bonds issued with a 6% coupon. Remaining 2007C bonds will also be discharged in full. WindsorMeade will also issue USD 7m to finance construction of another 14 skilled nursing beds (SNB) and 12 assisted living units (ALU), increases of 117% and 86%, respectively, to WindsorMeade's existing 12 SNBs, 14 ALUs, and 181 independent living units (ILU), built with the 2007 bonds.

Occupancy alone wasn't the problem

Occupancy upon opening in 2009 was a major challenge for WindsorMeade. With the restructuring, WindsorMeade believes its break-even point on operations will occur at 80% occupancy, according to Chris Henderson, Chief Executive Officer in a statement made to *Senior Housing News* on 20 February 2013. However, WindsorMeade appeared to almost reach that occupancy target with a Sales Move-In Report dated 15 April 2013 and filed on Electronic Municipal Market Access (EMMA) showing 144 of the 181 ILUs were occupied at 28 February 2013, or about 79.6%. Occupancy in the ALUs was about 64% and 80% in the SNBs, causing the proposed new investment of USD 7m to add new ALUs and SNBs seem questionable.

Even with the almost 80% occupancy, unaudited eight-month results ending 28 February 2013 and filed on EMMA show that WindsorMeade lost USD 6.3m when adjusting for actual cash entrance fees received. The restructuring is expected to reduce debt service, however, even excluding all interest expense for the reported period, WindsorMeade would still have had a USD 3.6m loss. Debt relief alone will not be enough for WindsorMeade to succeed.

A marketing report dated 31 October 2010 and filed on EMMA highlights the main challenges that plagued WindsorMeade, such as entrance and monthly fees on units priced higher than all the competitors in the area and limited options on entrance fee contract structures. WindsorMeade has responded by adding alternative entrance fee refundability options, staggering its deposit structure, and lowering its entrance and monthly fees to get people to move in, according to Henderson in the 20 February 2013 edition of the Williamsburg Yorktown Daily.

Larger challenge remains

But the biggest challenge to WindsorMeade may be insurmountable. A revised method of calculating the market penetration rate in the 2010 marketing report shows sufficient market depth may not exist for this CCRC project. With a penetration rate of 77.6% in the primary market area (PMA), indicating how much of the market must be absorbed in order to fill units, demand for WindsorMeade's services appears tapped out.

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Interestingly, the feasibility study included in the 2007 offering documents showed a much more promising project penetration rate of 4.8% in its PMA.

The inclusion of a USD 359,000 "home value" qualifier in addition to the standard income qualifier (the 2007 feasibility study used a USD 50,000 "income threshold") drove much of the vast difference between the two calculations. Also, the 2007 study used a lower age qualification level of 70 years, versus 75 years in the 2010 marketing report. Given WindsorMeade's major hurdle is getting seniors to pay the entrance fee, usually financed by the sale of a home, the 2010 penetration calculation methodology makes more intuitive sense.

WindsorMeade's market remains competitive, with all facilities showing strong occupancy in the high 90s for all service lines. Several local papers, including those targeted to seniors, have covered the WindsorMeade bankruptcy in some detail, but on a positive note, never once have resident entrance fees been cited as "at risk". Nevertheless, CCRCs are a choice-driven industry and WindsorMeade's challenge is to convey stability and safety to a fairly sparse senior population evaluating whether to part with significant cash to finance a CCRC move-in.

Representatives from WindsorMeade did not return calls for comment.

by Jody Madala

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