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06/05/2013 The Admiral at the Lake CCRC finds it tough to compete in a desperate market - MEWSings

The Admiral at the Lake opened as a high-rise continuing care retirement community (CCRC) in the summer of 2012, with continued development through the spring of 2013. Located on 2.1 acres on Chicago's north lakefront, the Admiral is a full-range CCRC which actually meets planned occupancy targets, a rarity in today's market. Nevertheless, the question remains whether the pace of move-ins and the price point of unit sales are sufficient to bring about operational sustainability.

In the meantime, bonds trade at a lofty premium. An 8% coupon USD 56.865m bond for the Admiral maturing 2046 traded in round lots at 120.093, to yield 4.637%, on 11 April 2013.

The Admiral operates 200 independent living units (ILUs), 39 assisted living units (ALUs), 17 memory units dedicated to Alzheimer's and dementia treatment, and 36 skilled nursing beds (SNBs). All units are located in a high-rise tower.

According to a March 2013 Status Report filed on Electronic Municipal Market Access (EMMA), as of 10 May 2013, the Admiral had achieved occupancy of 56.5%, compared to a 50.5% occupancy target for 30 June 2013, as outlined in the Admiral's original feasibility study. Stabilized occupancy is expected to be reached in August 2015. To generate the favorable pace of move-ins, the Admiral has had to accept lower average entrance fees in 2013, as well as pricing contract structures with higher refundability provisions.

Also, although the Admiral is on pace with occupancy, marketing has dragged and is behind target levels. The percentage would actually be worse if "no penalty" refunds were included in the attrition rate, according to an 8 February 2013 marketing audit filed on EMMA.

Desperate times call for desperate measures

Interestingly, one of the main challengers to the Admiral's success is the **Clare at Water Tower**, a deluxe, high-rise CCRC with 248 ILUs that filed for bankruptcy in November 2011, underwent a reorganization process, and eventually emerged via a sale to new owners. The Clare is currently only at 50% occupancy, according to the marketing audit.

The Clare attempts to attract more volume by offering deep discounts on residency contracts. Given the Clare is also offering a high-rise retirement living option in an area of Chicago that is even more attractive than the Admiral's location, it holds the Admiral's toes to the fire. The Admiral has also suffered from a high level of turnover in marketing staff with ongoing vacancies on its sales team. Despite these lower staffing levels, higher than anticipated staffing expenses have resulted from the earlier-than-expected opening of the ALUs and SNBs.

As of 28 February 2013, the weighted average home sale in the primary market area was about USD 399,602, according to the marketing audit. It is tricky to convince seniors to sell homes at that average sale point, to then turn over the bulk of those proceeds to meet the Admiral's entrance fee requirement, which ranges from USD 349,900 to USD 1.2m. Even though the Admiral's monthly fees are less than those of its competitors, the first and foremost hurdle is getting people to purchase a unit and fork over those upfront entrance fees. If potential residents are unwilling or reluctant to do so, the value derived from competitive monthly pricing has a very small role in the conversation. As fierce competition in the area drives down pricing and real estate values remains below the height of the market, the Admiral's primary challenge will be to materially broaden its reach.

Representatives at the Admiral declined to comment.

by Jody Madala

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