

Premium Content: Healthcare Nontraded REITs

Nontraded REIT Industry Review: Second Quarter 2015



Summit Healthcare REIT, Inc.

Summit Healthcare was formed in 2004. In 2012, it formed Cornerstone Healthcare Partners with Cornerstone Healthcare Real Estate Fund. Until April 1, 2014, the REIT's business was managed pursuant to an advisory agreement with Cornerstone Realty Advisors, LLC. Beginning April 1, 2014, the Company became self-managed and hired employees to directly manage its operations.

The REIT originally invested in multi-tenant industrial properties as Cornerstone Core Properties REIT. In 2012 it began divesting its industrial properties and acquiring healthcare properties. By December, 2012, it owned five healthcare properties and nine industrial properties. By December, 2013, it had changed its name to Summit Healthcare REIT and was solely invested in healthcare properties.

The REIT is in the Maturing LifeStage of closed REITs that is marked by refinement of the portfolio through dispositions, targeted acquisitions and debt policy. Metrics should begin to move in line with publicly traded REITs.

Key Highlights

- In April, 2015, the Company contributed six properties to a 10%-owned Joint Venture which reduced the real estate properties account by \$40.4 million and loans payable by \$30.1 million, for a total net contribution of \$9.9 million.
- The REIT recorded a loss on disposition for the six months ended June 30, 2015, related to the disposition of Sherburne Commons, of \$1.6 million. A note receivable collateralized by the property has a balance of \$4.7 million and no funds have been collected.

Capital Stack Review

- Debt Ratio – The Company's debt to total assets ratio decreased significantly to 59.1% as of 2Q 2015 compared to 67.3% in 4Q 2014.
- Debt Maturity – 68.4% of the REIT's debt matures after 2017.
- Debt Breakdown – 53% of the Company's debt is at unhedged variable rates with an average weighted interest rate of 4.43% for all debt.
- Loan Activity – Had net proceeds from loans payable of \$11.44 million in the six months ended June 30, 2015.
- Cash on Hand – 10.6% cash to total assets ratio is up from the 3.8% ratio reported in 4Q 2014.

Metrics

- Distribution – The Company has not made stockholder distributions during 2015.
- Distribution Source – Not applicable.
- MFFO Payout Ratio – Because the REIT does not pay distributions, this ratio is not applicable.
- Fee Waivers and Deferrals – None reported.
- Interest Coverage Ratio – The Company's interest coverage ratio was 2.3x during the first half of 2015.
- Impairments – None for six months ended June 30, 2015.

Real Estate Portfolio

- As of June 30, 2015, the portfolio consisted of 11 properties which were 100% leased to the operators of the related facilities.
- Acquisitions – No acquisitions in 2Q 2015.
- Dispositions – Sold six properties for \$9.91 million in 2Q 2015.
- Leased – The properties were 100% leased as of June 30, 2015.
- Lease Expirations – Not reported.
- Geographic Diversification – Four properties are located in Oregon and four are located in North Carolina. One each in Texas, Illinois and California.

Cash Flow Analysis

- Operating Cash Flow – Increased to \$1.1 million for the six months ended June 30, 2015 vs negative \$1.1 million for the same period in 2014.
- Net Cash Flow – Was a positive \$5.98 million for the six months ended June 30, 2015 vs. negative \$1.67 million for the same period in 2014.
- Outlook – The REIT's net loss of \$1.4 million was an improvement from the same period in 2014 (\$2.7 million). Net operating income improved in 2Q 2015 to \$2.15 million from \$1.56 million for 1Q 2014. Six-month revenues were up \$1.9 million from the 2014 period while general and administrative expenses rose only \$0.3 million, all positive signs.

Additional nontraded REITs currently managed by Summit: None

Nontraded REITs managed by Summit that have completed full-cycle events: None

