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COMMERCIAL REAL ESTATE

Four Bidders Are Finalists for Griffin-American Healthcare REIT II

By ROBBIE WHELAN

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The Evergreen Retirement Community in Cincinnati, a property owned by Griffin-American Healthcare. *Cushman & Wakefield*

Four bidders have emerged as finalists to buy a health-care real-estate investment trust in a deal that could value the company at nearly $3.7 billion, according to people involved in the negotiations.

The bidders for Irvine, Calif.-based Griffin-American Healthcare REIT II Inc. are Chicago's Ventas Inc. ; Health Care REIT Inc., of Toledo, Ohio; investor Nicholas Schorsch's American Realty Capital Healthcare Trust ; and a division of NorthStar Realty Finance Corp. , these people said.

Griffin-American Healthcare owns senior housing and skilled nursing facilities, hospitals, medical office buildings, lab space and other properties related to medicine in 30 states and the U.K. The company is a nontraded REIT, meaning it is publicly owned but not traded on a stock exchange. Instead, shares in the company were sold by a network of broker-dealers to investors.

The investors, mostly retirees and other individuals, paid between $10 and $10.22 a share from 2009 to 2013. Current offers from the four finalists have topped $12.50 a share, according to people briefed on the price, which would put the company's value at $3.66 billion.

A deal is expected to be finalized in the next two weeks, these people said, but negotiations still could fall apart.

Griffin-American's share price was last valued by the company at $10.22 in 2012. Its rise reflects the increasing demand for properties that are leased out to operators of nursing homes, assisted living facilities and other health-care businesses, typically on a long-term basis. A spree of acquisitions since the real-estate downturn, combined with the recovering U.S. economy and a rising number of baby boomers expected to use senior-care facilities in coming years, has driven up the values of health-care properties over the past few years.

The steady revenue from these leases has increased in value in a world in which low interest rates have sparked a hunt among investors for higher yields.

In 2013, $21.3 billion of senior housing, skilled nursing facilities and medical office buildings were sold, up 22% from the previous year, according to RBC Capital Markets. Since May 2011, the industry's biggest company by market capitalization, Ventas, has completed $11.4 billion in corporate mergers and acquisitions, buying thousands of senior and assisted living facilities across North America.

"The market is very fragmented and there are a lot of opportunities out there," said Michael Carroll, a health-care REIT analyst with RBC. "Returns are higher than their cost of capital, so the companies have been able to make some pretty good investments over the last few years."

The bidding for Griffin-American also comes at a time when a number of nontraded REITs are undergoing sales, mergers or public listings so that investors can cash out. Of the 111 nontraded REITs that have sold shares since the early 1990s, 39 have gone the full cycle of raising money, buying property and returning cash to investors via a sale, merger or listing, according to Robert A. Stanger & Co., an investment bank that tracks the industry.

Last year, nontraded REITs returned a record $16.2 billion to investors through listings, sales or mergers. Through April 15 of this year, that figure totaled $8.2 billion, more than half of 2013's total, according to Stanger.

This year "is going to be something of a litmus test for nontraded REITs, to see if they can exit quickly into the public market," said Scott Crowe, a portfolio manager with Resource Real Estate in New York, a firm that buys real estate and invests in shares of nontraded REITs on the secondary market. "I think [deals] still make sense in places like the health-care space where there's a long history of those companies trading at a premium" to the value of their assets.

The industry has increased in popularity over the past few years because the REITs typically pay relatively high dividends, usually in the 6% range, which makes them attractive to mom-and-pop investors. Fundraising by nontraded REITs climbed 90%, to $19.6 billion, from 2012 to 2013, according to Stanger.

The industry has come under criticism for weak disclosure and high fees. Some nontraded REITs have in the past told investors that their shares are worth the same as the offering price for five or more years, despite significant fluctuations in the property market and hefty fees taken by brokers and others on the sale of shares. New rules introduced by regulators this year, if approved, would help counter some of that criticism.

Griffin-American Healthcare was originally named Grubb & Ellis Healthcare REIT II Inc. and sponsored by the commercial real-estate-services firm of the same name.

But in early 2012, with Grubb & Ellis Co. about to file for bankruptcy protection, the firm transferred its nontraded REIT advisory and dealership business to a team led by American Healthcare Investors and Griffin Capital Corp., changing the fund's name in the process. The company has raised $2.84 billion from investors.

Write to Robbie Whelan at robbie.whelan@wsj.com