THE SeniorCare Investor
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In This Issue

We put together our M&A valuation statistics for the last four quarters, and the results were mixed. The average assisted living price rose from its near-term bottom, and skilled nursing values surprisingly soared. Ever-steady, the independent living market did not see a big change in average price.

See article at right

Out from the Bottom

About 11 years ago, a couple of transactions told us that the post-Great Recession bottom had been reached for seniors housing M&A and the recovery had begun. This past June offered similar signs, and we hope that we are right....................................See article at right

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AL & SNF Values Rise; IL Stays Steady

The Updated M&A Stats Offer Some Mixed Results

We have been waiting for the floor to give out on seniors housing and care values. After all, with so much distress in the market and with both census and operating margins tanking nearly across the board, how could average prices not fall precipitously? If you read the 26th Edition of *The Senior Care Acquisition Report*, you know that investor interest and values certainly did fall from 2019, arguably the pinnacle of the market, to 2020. There were 453 publicly announced deals in 2019 versus 352 in 2020 (a 22% drop), and disclosed dollar volume fell by more than 50% year over year from $16.95 billion in 2019 to $7.9 billion in 2020.

Average prices for the different senior care sectors dropped too. Skilled nursing properties saw their average price per bed fall from $93,000 in 2019 to $79,700 in 2020, a 14% decrease. Assisted living reported the most dramatic decline. After rising 33% in value from $186,400 per

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Seniors Housing: Out from the Bottom

Several Signs Suggest the Market Has Turned a Corner

In the past 13 years, we have experienced two major financial traumas, each from very different causes and each having a very different impact on the seniors housing and care market. The Great Recession of 2008-2009 was a financial markets-induced economic downturn with a relatively long tail. The pandemic-induced recession of 2020-2021 was the result of a health crisis and the resultant shutdowns, but one where the financial markets recovered in less than a year, and the economy came roaring back just as quickly.

For the seniors housing and care industry, the Great Recession had a much less severe impact than currently, with assisted living emerging as the darling and labeled as recession-resistant, if not recession-proof by some. The CCRC sector was harmed the most because the housing market collapsed after a huge run-up in values, and most CCRC customers rely on their home sale to fund the entrance fees that can range from $100,000

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Newmark also helped finance the deal, arranging a $28.6 million loan through **MidCap Financial** at 70% loan-to-value. The full-recourse loan came with a three-year, interest-only term and two one-year extensions. There was a floating rate based on 30-day LIBOR with a 50-basis point floor, resulting in a spread of 4.75% and an all-in rate of 5.25%.

There was another recap and financing closed by Newmark involving a senior living community in Dallas, Texas. Built in 2010 with 215 independent living and 113 AL/MC units, with occupancy around 90%, the property was recapped by **Harbert Management** for an undisclosed price but was financed by an $83 million loan provided by **Freddie Mac.** There was a seven-year term, four years of interest only and a floating interest rate based on 30-day average SOFR, for a spread of 2.75% and all-in rate of 2.8%.

Last month we reported on the sale of two senior living communities in South Carolina by **Kandu Capital** and its operating affiliate **Bloom Senior Living.** They did well on the sale, especially at the tail end of COVID, and we referred to it as maybe a triple based on the price compared with the original cost basis.

It looks like they have done it again, but this time with a property in St. Petersburg, Florida, with Newmark handling the sale. This 94-unit assisted living and memory care community was operating at breakeven when Bloom purchased it in 2017 from a local owner/operator. It didn't do much better the next year, but finally made it into reasonably positive territory by 2019, and then doubled the EBITDA before management fee to $600,000 in 2020, with census currently at 82%.

Bloom paid approximately $5.5 million in 2017, or $58,500 per unit, which despite the lack of profits, seemed like a steal since it was built in 2014 with 72 assisted living units and 22 memory care units. Just four years later, they turned around and sold it for $12.5 million for a nice 127% gain. Especially for a sale during the pandemic, we would call this a home run, maybe with a runner on first.

The $12.5 million price represents a 4.3x multiple of revenues, and a 4.8% cap rate based on the first six months of 2021 EBITDA, annualized. But the buyer, Alabama-based **Atlas Senior Living**, was certainly not looking at this as a 4.8% cap rate deal. With census on the rise for the sector, combined with the potential for higher rates and more services at the community, our guess is that their stabilized cap rate is closer to 7%, and maybe higher. We do not know of any physical plant improvements that might be made to enhance census and rates. Plus, leverage was quite low for the seller, so net proceeds must have been close to $9 million.

If that deal was a home run, this next one may be a grand slam, as Kandu then sold its 91-unit assisted living community in Lakewood, Ohio for $11.8 million, or nearly $130,000 per unit. While that price per unit will not be breaking any records, Bloom had purchased the community in 2010 for just $3.1 million out of the **Sunwest Management** bankruptcy.

Do the math, and that is a 380% return on the price 11 years ago. Factor in the debt, and the return on equity invested was even better. Yes, the hold period was 11 years, but it is hard to make that kind of money in any time period, and they bought it coming out of the Great Recession and sold it coming out of the Great Pandemic. The annual return on total capital was 13%, but when the debt is factored in, the annual return on equity could be between 25% at the low end and unlimited if they financed the entire amount. Alex Vice of **Walker & Dunlop** represented the seller in the Ohio transaction, and **The Nathanson Group PLLC** served as legal counsel to Bloom on both the Ohio and Florida sales.

The W&D Investment Sales team led by Mark Myers, Josh Jandris and Brett Gardner also posted a couple of deals, representing **Lexington Health Network** in both. First, they sold a supportive living facility to a regional owner/operator in Illinois. The second was a master lease agreement negotiated for **Legacy Healthcare** to take over eight SNFs and 1,550 beds in the Chicago MSA.

Blueprint Healthcare Real Estate Advisors reported an million, or $144,100 per unit, in cash and kept Sonata Senior Living as the operator. **JLL** handled the transaction and also announced that it closed acquisition debt for Fortress. MidCap's $46 million loan comes with a floating interest rate and also provides for future capital improvements.

Walker & Dunlop Managing Director Kevin Giusti and Senior Analyst Brian Neal recently originated $37.47 million in financing for four assisted living and memory care facilities: Bloom at Bluffton in Bluffton, South Carolina; Bloom at Hilton Head in Hilton Head, South Carolina; Cascades of Tucson, in Tucson, Arizona; and Regency Jackson in Jackson, Tennessee (we covered the last two on page 22).

The Bloom Portfolio consists of two assisted living and memory care homes in South Carolina with 117 total units that sold in May for $12.25 million to **WindRiver Companies** for a cap rate around 5.7%. Built around 20 years ago, the communities had seen occupancy decline to 70% due to the pandemic and several new communities opening in the area. Mark Myers and Alex Vice of Walker & Dunlop represented the seller, **Kandu Capital**, in the deal and arranged the $11.3 million acquisition loan with a two-year term from **Locust Point Capital**.

Sometimes to get a deal done you have to get creative and be flexible. It appears that was the case for the recent sale of a 55-unit assisted living and memory care community located in Utah. Of the total, 42 units are assisted living and 13 are memory care. Even though capital sources have opened up, to get maximum leverage, if that is what you want or need, your lending groups can get flexible.

Live Oak Bank and **HJ Sims** teamed up to provide the financing solution for the buyer of this community, a regional owner/operator with 15+ years of experience that currently manages more than 1,600 units in more than 25 communities across five states in the Mountain West region.

In order to minimize the equity required, the buyer for this 55-unit community wanted to maximize its leverage. Live Oak and Sims put together a short-term first mortgage structured as an A/B uni-tranche loan, so there was one debt obligation, one monthly loan payment and one set of loan documents.

The way it works is that the larger portion of the loan was funded by Live Oak Bank and carries one interest rate (the A portion). The smaller portion (the B piece), and at a higher rate, was funded by Sims and is subordinated to the Live Oak piece. Sims gets its funds for these types of investments from its pool of high-net worth individuals. But both loans are part of the first mortgage structure.

The loan is interest only for the first two years of the three-year term, and there is a 25-year amortization. They also structured the loan so that the first payment was pushed out one month. This, combined with the interest-only feature, provided the buyer with some financial flexibility to quickly complete some improvements to the physical plant.

On top of this, part of the loan proceeds funded a capex reserve as well as a debt service reserve. The bottom line is that the borrower got the leverage they needed, the flexibility on payment as well as funds for improvements for what is an older property. Adam Sherman of Live Oak Bank and Brady Johnson and Curtis King of HJ Sims completed the financing for the buyer. Senior Living Investment Brokerage handled the sale for the seller.

CONSTRUCTION LOANS

We're also seeing a healthy number of construction projects announced and financed, albeit not at a worrying pace, yet. They have tended to be in the lower-acuity markets, like active adult and independent living, but many projects also have included a continuum of care, which we know is popular among investors. The Village on Morehead, a to-be-built, Class-A, 199-unit senior living complex in Charlotte, North Carolina, has secured construction financing courtesy of **CBRE** Senior Housing's Aron Will, Austin Sacco and Tim Root. CBRE arranged this loan on behalf of a joint venture between **Bridgewood Property Company** and **Harrison Street**.

This 12-story independent and assisted living community