



THE SeniorCare Investor

Inside the World of Senior Care Mergers, Acquisitions and Finance Since 1948

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Transaction activity tanked in the first quarter of 2023, but in some ways, it could have been worse. However, the pace of dealmaking in the last two months of the quarter does not bode well for transaction activity going forward. And the deals that will most likely get done in 2023 will be for struggling assets. Meanwhile, skilled nursing facilities continue to command high values, despite the higher capital costs.

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Debt, Distress and Default

The seniors housing and care industry has been through a lot in the last three years, from a census, staffing and margin perspective, but some of the biggest companies and major seniors housing portfolios are facing bigger issues with leverage and fast-rising capital costs.

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Q1:23 M&A Activity Falls Below 100 Deals

The Market Hits the Lowest Point in Deal Activity Since Q1:21

According to many brokers, and certainly most lenders, the first quarter of 2023 was the worst dealmaking environment since the depths of the Great Recession. For those who write about transaction activity, it was very quiet, although there was no shortage of market issues on which to opine, so do not worry.

We recorded 95 publicly announced transactions in the first three months of the year, which is down 15% from the 112 deals announced in Q4:22 and down 32% from the 139 deals of Q1:22. You don't have to go too far back in history to find a slower dealmaking quarter; that was Q1:21 when we recorded just 85 transactions. Vaccine distribution had just started, and investors were understandably waiting to see the results, which, thankfully, were extremely positive and ushered in the busiest period of M&A activity in history.

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Debt, Distress and Default: What Now?

Major Defaults and Restructurings Are Hitting the Market

A funny thing happened on the way to the bargain-basement sales market. Well, actually not so funny. Many of you may remember the predictions for the first half of 2021 when a lot of distressed properties and portfolios were expected to hit the market. The cash-rich vulture funds, and others, were lining up to take advantage of big discounts, especially that ubiquitous "discount to replacement cost," something which in this market may lack meaning. There were supposed to be value-add properties and "just have to sell" portfolios.

But this did not happen, at least not at the scale that was expected. Why? First of all, the government financial support at the state and federal levels kicked in and many operators thought they could ride out the storm with this extra cash. Second, lenders were engaged in the "extend and pretend" mentality and really did not want to be known as the bad bully during a terrible pandemic. A wise decision. And bank regulators loosened

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and developer from Chicago expanding into new markets.

Lastly, although not closed yet, after successfully deploying the vast majority of capital from its inaugural fund, **Marquee Capital** announced that it is formally launching its second real estate fund, **Marcus RE Fund II, LP**, that will also include seniors housing in multiple geographies as well as opportunistic real estate plays with proven sponsors.

The firm seeks to raise \$100 million from other family offices, high-net-worth individuals, consultants, wealth managers and institutions. Marquee Capital recently rebranded from **Berengaria Development**, however the firm is still closely affiliated with **Marcus Investments**, the Marcus' family office.

Marquee Capital noted seniors housing's stable cash flow and extreme value-add opportunities as reasons to get in the space. With over \$300 million in current assets under management, over \$700 million in total transactions, 1.85 million square feet of retail assets managed and 540 senior housing units, it should be a significant player in the industry in the coming decade.

SKILLED NURSING ACQUISITIONS

As relatively strong as the skilled nursing facility market has been in light of the capital markets issues, especially compared with the seniors housing M&A market, a couple of exits were announced in the sector. Some either do not see the long-term benefits of the sector or see the high values as excellent motivation to get out now. It is probably mostly the latter.

After overseeing a tremendous occupancy recovery across its seniors housing assets, which we profiled during the month, **Bloom Senior Living** and its family office owner **Kandu Capital** have decided to focus on that sector while divesting their remaining legacy skilled nursing and mental health/psychiatric facilities located throughout California.

The sales included a 255-bed skilled nursing/special treatment program facility in Santa Ana, the leasehold in

an 80-bed mental health rehabilitation center in Mission Viejo, and a 45-bed skilled nursing/special treatment program facility in Los Angeles that sold for \$5.7 million, or \$126,700 per bed.

The collective purchase price for the other two assets was \$65.12 million, or about \$224,000 per bed for the larger facility and \$100,000 per bed for the leasehold. Occupancies were in the 90s for all three assets, which were acquired on initial investments of approximately \$9 million. These sales also follow the strategic sale of four seniors housing communities in 2021 for nearly \$37 million on initial investments of approximately \$15 million.

Like the seniors housing sales, the California facilities had a modest ~\$6 million mortgage, which is consistent with Kandu's conservative capital structures. In aggregate, Kandu has realized proceeds of nearly \$108 million since May 2021 on initial investments of approximately \$24 million with around \$15 million of debt leverage. Low leverage (or a willingness to do all-cash deals) will be an asset in making deals in 2023, which Bloom/Kandu plans on doing a lot of this year.

Invesque (OTCMKTS: MHIVF) released its full-year 2022 earnings and announced that it is making progress in its refocus towards a private pay, seniors housing portfolio. During the fourth quarter and subsequent to year-end, Invesque sold or entered into a purchase and sale agreement for two medical office buildings for a combined \$12.03 million.

With the sales, which included Brantford Medical Center in Brantford, Ontario and MetroWest Medical Center in Orlando, Florida, Invesque exited the Canadian MOB market and has two MOB's remaining in the United States. Plus, sales of two remaining MOB's are expected to occur over the next few months.

In addition, Invesque entered into a purchase and sale agreement to sell eight skilled nursing facilities in the Midwest, which it currently leases to **SymCare**, sold for \$125 million. The deal is expected to close before the end of the second quarter and would leave the company