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In This Issue

Most signs point to what should be a bear market in senior care M&A, but deal activity is still at a healthy level, even matching the activity of the pre-pandemic 2019 market. However, a closer look at the numbers shows where the market is soft.

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Bringing Transparency to Pricing

The seniors housing and care market has long had a problem with transparency when it comes to data. Few have been willing to share it. But a new company that has already found great success in the student housing world is hoping to change that.

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M&A Market Could Be Better, Or Much Worse

Activity Is Still at Healthy Levels, Even If Size of Deal Is Not

Justifiably, there is a lot of negativity in the seniors housing and care M&A market right now. The Fed is mulling over another interest rate hike later this year, and rates still stand at their highest level since 2001, with the prospect of them remaining elevated (relative to the last 10 years) for a longer period than initially anticipated. The large amount of debt set to mature in the next year across multiple industries has led to an abundance of caution among banks and their credit committees. With fewer options for debt that is already more expensive, many potential buyers have exited the market.

Consequently, with communities selling for lower values because of the high capital costs and quiet bidding environments, many sellers are sitting on the sidelines, if they are financially able to. So, brokers and lenders, for the most part, have reported less transaction volume, smaller pipelines

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Bringing Transparency To Pricing

New Company Launch Will Provide Timely Data, At Last

Even before the pandemic, most everyone was talking about the need for data with a capital D. Clinical data, operating data, valuation data and M&A data (see LevinPro LTC for that). Too many decisions in seniors housing have been made in an information vacuum for too long. And when that happens, investment mistakes are made. With the economic recovery from the pandemic still in process, and with many lenders and investors still on the sidelines, data of all kinds will be key to a successful comeback, as well as transparency.

Historically, the senior care industry has been very secretive about its operating data, especially census, unit rates, discounts and care level pricing. As a result, it has been difficult to know what is actually happening in specific markets. Secret shopping does not cut it anymore because it is often inaccurate, subject to interpretation, and limited in the amount of information disclosed. You know the old saying, "garbage in, garbage out."

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BLOOM SENIOR LIVING BLOOMS AGAIN

We have often wondered, and have often been asked, how do buyers decide to buy a community (or two) that is losing money with very low occupancy? How do you have the confidence to go into that market, lose money for several months, maybe several hundred thousand dollars or more, and know that you can increase census from 30% or 40%, which is crucial to get cash flow positive again, and maybe up to 90%? The answer is, 1) you have to know the market, 2) you have to understand why you were able to do the same thing a few years ago, and 3) you have to be able to roll up your sleeves, get your hands dirty, and focus on operations. Some companies can do this, but not enough of them.

Let's just say **Bloom Senior Living** knows the Indianapolis, Indiana, market and has proven they know how to make residents, families and associates happy. The proof is always in the census and cash flow. In 2010, it bought two assisted living communities that are now 25 years old. The census at one, with 56 units, is about 77% Medicaid waiver and the other, with 55 units, is 70% Medicaid waiver. While both communities have operated at close to 100% since Bloom took over, they were fortunate to get a large Medicaid rate increase in 2022 and an even larger increase three months ago. One community is running at 100% occupancy and the other at 96%. RevPOR is between $4,700 and $4,800 with combined EBITDA close to $1.6 million, and heading to $1.8 million. And we thought we were still recovering from the pandemic. Bloom paid a combined $4.5 million for the two communities.

Pick your cap rate, but the value today should be between $150,000 and $170,000 per unit, or more than $16 million to $18 million. Not too shabby. The main thing holding back value is the age, small size and heavy reliance on Medicaid. But the industry needs to change its attitude about Medicaid waiver revenues for assisted living, because it is here to stay, will grow, and can obviously be very profitable. These two communities have about $54,000 per unit of **HUD** debt on the books at 4% with a 2052 maturity date. Assuming that a buyer can assume that debt would only increase the value since we are not going to see those interest rates for a while.

Four years ago, Bloom purchased a 78-unit community outside Indianapolis for $5.0 million from **Capital Senior Living**, subsequently renamed **Sonida Senior Living**, which had not been able to turn the community around. The building was less than 80% occupied and losing money. It now runs 30% Medicaid waiver and 70% private pay. It has a combination of 56 AL units and 34 memory care beds. Just after the purchase, it was hit hard by COVID, but turned around pretty quickly, with census now at 94%. Assisted living RevPOR is $5,100 and memory care RevPOR is over $8,100. It, too, should be worth at least $150,000 per unit or more based on current EBITDA of $1.0 million, which is expected to reach more than $1.2 million; current debt is just $50,000 per unit. Not too shabby.

So, three communities in the same market with occupancy between 94% and 100% and all three very cash flow positive at $2.6 million and growing to $3.0 million with a basis of just $9.5 million. You do the math.

That is the backdrop for **Kandu Capital** and Bloom's most recent acquisition of two communities in the Indianapolis market and why they are confident they can turn around these really troubled properties, too. The main reason for their underperformance is most likely because of their poor management, both locally and from the former management company. That is all going to change.

These two communities were in receivership with **Fannie Mae**, and we assume they were part of the **Enlivant** default earlier in 2023. They are 60 and 61 units, built in 1996 and 1997, and had occupancy of 30% and 39%. Both had a combination of assisted living and memory care units. They were purchased for $25,000 and $35,000 per unit, respectively, or, as Shankh Mitra is fond of saying, below replacement cost. But in this case, way below replacement cost no matter how you measure it.

Basically, Fannie Mae had to dispose of them and did not want to pay for ongoing losses. And let's just say, whoever was managing them on behalf of Fannie Mae either didn't know what they were doing, or had given up trying. No alignment of interests. They were losing up to $100,000 per month, and that is going to change pretty quickly. **Blueprint Healthcare Real Estate Advisors** represented the seller.

Both communities are 100% private pay, and while Bloom expects to continue pursuing the private market, it will enroll them in the Medicaid waiver program as soon as possible, a process that should be somewhat easy since the state already knows them. Projected stabilized EBITDA for each of them is about $800,000 to $900,000, with the goal to get there within 18 months.

It is tempting to say yeah, right, from those low occupancy rates and mismanagement? But their confidence level is high because of the performance of their other three communities in the market, attracting Medicaid waiver residents at the new, higher rates, and being more hands on from the management side, with a change in culture. With a combined cash price of $3.64 million, and no debt, this has all the markings of not just a home run, but a grand slam. It may just be déjà vu all over again for Bloom.

Senior House*...cont. from page 1*

Four years ago, a private startup decided to tackle the problem of market transparency in the student housing market. Launched by CEO Charlie Matthews, **College House** developed a platform and data analytics program for investors and owners of student housing around the country. In just four years, the company has captured a robust data set that includes more than 85% of the capacity in purpose-built student housing. This includes more than 270 college markets, 3,200 purpose-built buildings, 1.2 million beds and 30,000 student-competitive properties within three miles of campus.

They must have struck a nerve, or filled an unmet need (or both), since they now have 22 of the top 25 student housing owners and managers participating, respectively. This includes institutional equity, private equity firms and other large regional owners such as **CORE Spaces, Cardinal Group Companies, Landmark Properties, Coastal Ridge Real Estate** and **CBRE**. What these investors do is provide their own data to the