



# **Appraising Assisted Living Facilities for Investment and Lending Opportunities**

**Presented by:**

**HTG Consultants, LLC**

**2 Penn's Way, Suite 405**

**New Castle, DE 19720**

**(302) 322-4100**

**e-mail: [rjmercerc@htgconsultants.com](mailto:rjmercerc@htgconsultants.com)**

**Investing in Assisted Living '99**



# General Outline

---

**1. Key Underwriting Issues**

**2. Identification of Major Risk Factors**

**3. Real Estate VS Business Value**



# What are the key underwriting Issues?

- o **Credit analysis**
- o **Operator track record**
- o **Market / Need Analysis**
- o **Feasibility /Sensitivity Analysis**
- o **Timing requirements**
- o **Deal structure**
- o **Collateral**
- o **Equity requirements**
- o **Loan to value ratio/Appraisal Issues**
- o **Debt Service Coverage Ratios**
- o **Exit strategy**

# What are the Value/Underwriting Issues?

## Market

**Demographics**

**Competition**

**Project  
Positioning**

**Regulatory  
Environment**

## Management

**Direct Industry  
Experience**

**Depth &  
Reputation**

**Adaptability**

**Historic  
Operating  
Performance**

## Collateral

**Physical Plant**

**Marketability**

**Location**

**External Forces**

## Structure

**Financing  
Requirements**

**Liquidity &  
Default Risk**

**Recourse**

**Upfront and  
long-term  
costs**

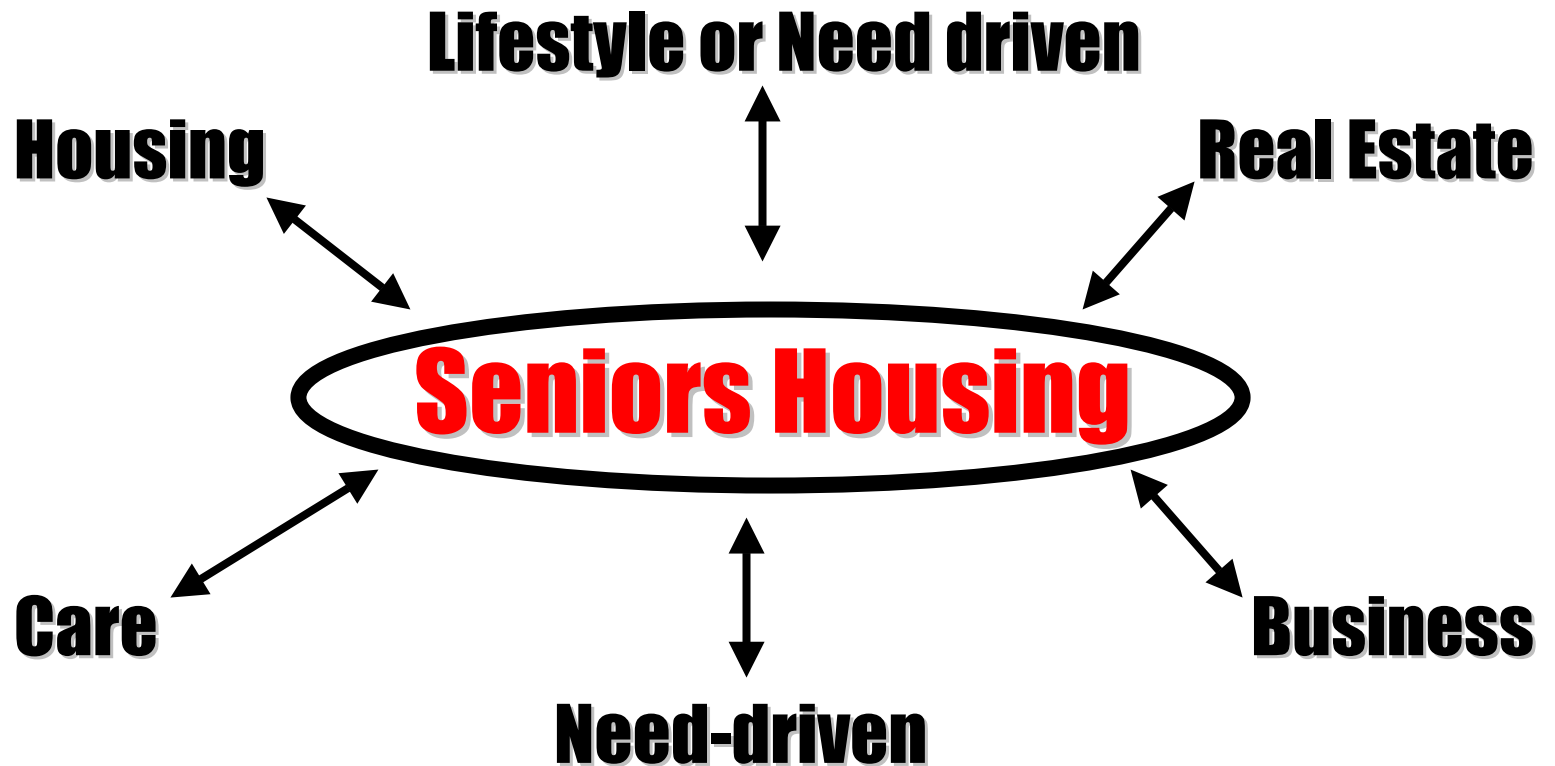
# What are the market forces?

- ⌚ **Market segmentation**
- ⌚ **Delivery of senior services**
- ⌚ **Product positioning**
- ⌚ **Market sophistication**
  - **Managed care impact?**



**Accurately defining true supply and demand**

# What are the market forces?





# How is the market segmenting?

---

- ⌚ **Licensure and regulation**
- ⌚ **Market/ resident profile**
- ⌚ **Ownership**
- ⌚ **Revenue and reimbursement structure**

- ⌚ **Operating model**
- Acuity levels**
- ⌚ **Staffing**
- ⌚ **Service levels**
- ⌚ **Profitability**

# How can management position its product?

## ∞ Acuity-Hours of care per resident day (prd)

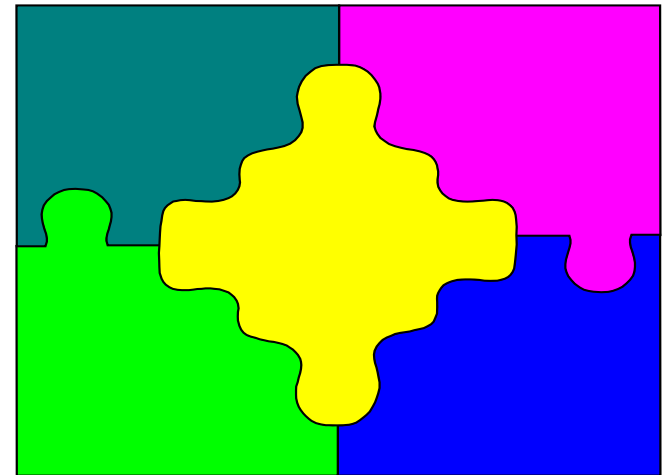
- **0.75 to 1.50 for assisted living**
- **1.00 to 2.00 for Alzheimer's care**

## ∞ Pricing

- **Structure**
- **Levels**

## ∞ Amenities

## ∞ Affiliation





# How is the market changing?

---

- ⌚ **Integration of health care delivery system**
- ⌚ **Percent of population in managed care programs**
- ⌚ **Private pay population in skilled nursing facilities**
- ⌚ **Acute care bed supply**
- ⌚ **Operator profile**
- ⌚ **Area demographic, income and employment profile**



# What are key service issues?

---

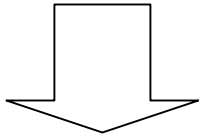
∞ **Staffing type and costs**

∞ **Outcomes and length of stay**

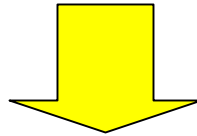
∞ **Acuity management**

# Who's the Competition?

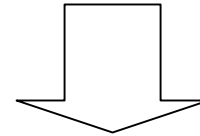
## Qualified seniors housing choices



**Congregate**



**Assisted Living**



**Nursing**



**You must understand the current market mix and future market trends. Make sure you don't overlook the competition from non-traditional sources**



# How do you Calculate Demand?

---

**Age and frailty qualified population**

**less**

**allowance for informal caregiving options**

**less**

**allowance for home healthcare options**

**less**

**income screen**

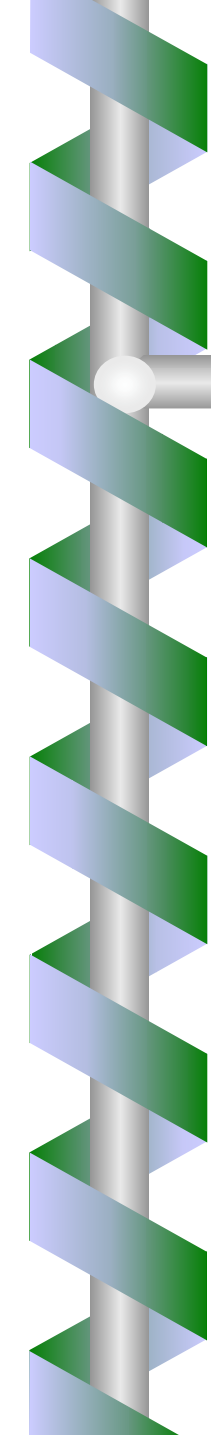
**adjusted for migration**

**= population to reside in a LTC option**

# Where is regulation going?

- Ω **States licensing requirements**
- Ω **Several states have CONs**
- Ω **Licensed under many names/titles**
- Ω **Staffing and training requirements**
- Ω **Fair housing legislation/ADA issues**
- Ω **Building codes and life safety issues**

*Key regulations are happening at the state level.*

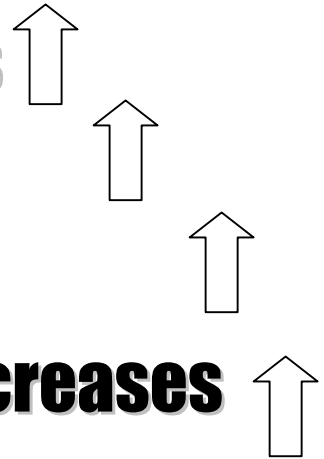


# How will the market become more profitable?

- ∩ **Professional management-infrastructure**
- ∩ **Consolidation**
  - **Reduction of general and administrative expenses**
  - **Regional presence, reduction of management fee expense**
- ∩ **Economies of scale**
- ∩ **Market control**
- ∩ **Marketing (resident retention and leasing)**

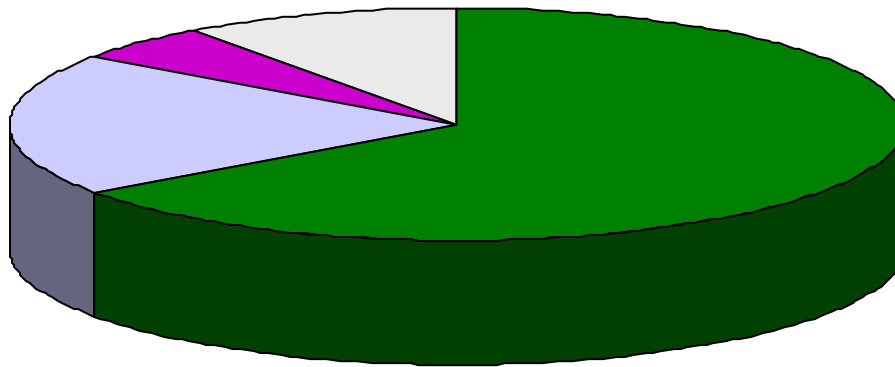
# Is it Real Estate or a Business?

- ∞ **As the resident acuity level increases**
- ∞ **The management intensity increases**
- ∞ **The business component increases**
- ∞ **The risk associated with cash flow increases**



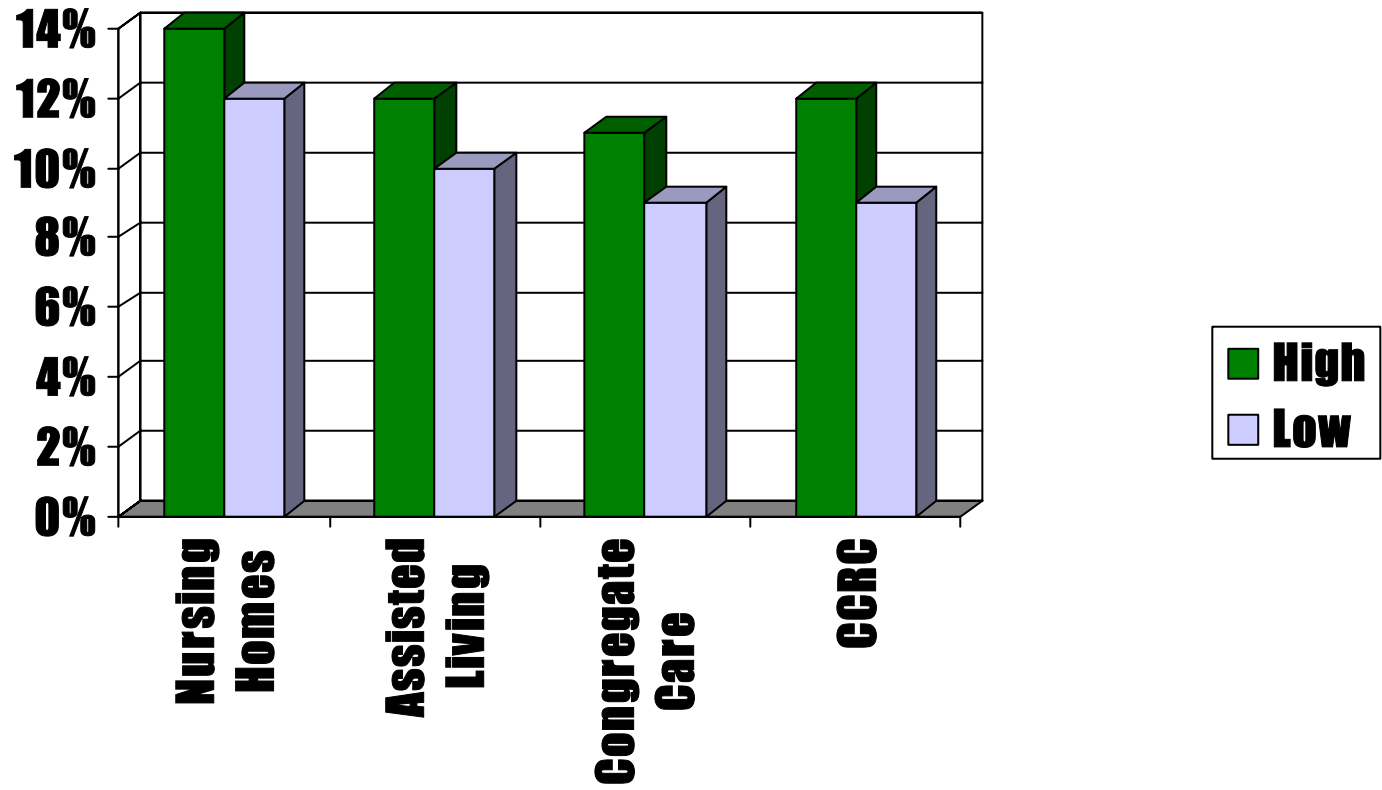
**Key Conflict: AL operates like a business but wants to be underwritten like real estate.**

# How can assisted living values be allocated?



- ∞ **Management intensive**
- ∞ **Similar for both hospitality and healthcare models**

# What are the Capitalization Rates for Senior Housing and Long-Term Care Assets?



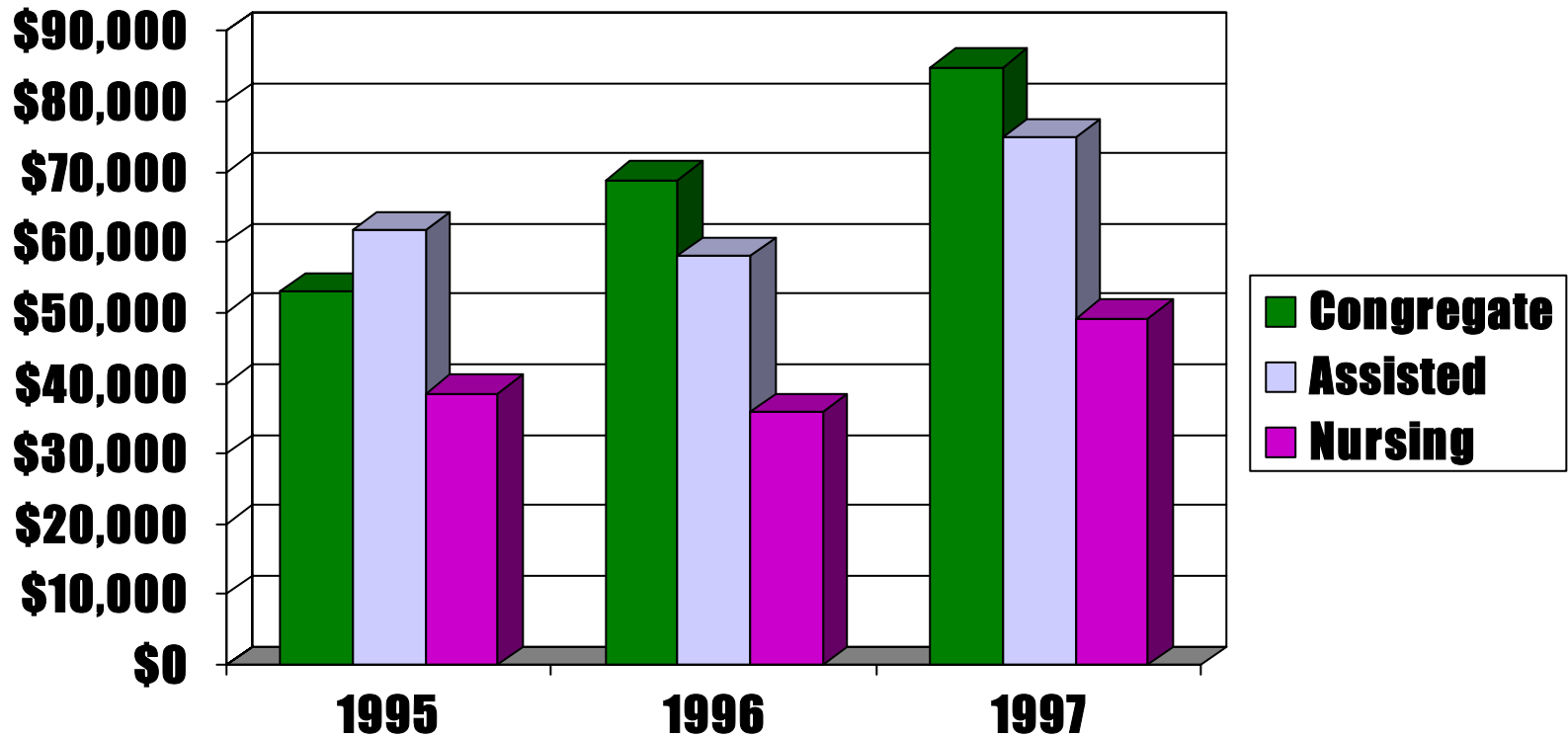


# What's going on in the market?

---

- ⇒ **Public companies chasing critical mass and earnings.**
- ⇒ **Buyers willing to pay for projected cash flow.**
- ⇒ **Tentative capital inflows funding conventional acquisitions and refinancings.**

# Where are the values? Per Unit/Bed Value Trends-ASHA



# What are the Appraisal Pitfalls?



- ⌚ **Operating expenses on a per resident day basis?**
- ⌚ **Healthcare land sales?**
- ⌚ **Staffing levels meet minimum requirements?**
- ⌚ **Staffing appropriate for acuity levels?**
- ⌚ **Unit and bed mix changing?**
- ⌚ **Market sales reflect forecasted financials and typical purchaser profile?**
- ⌚ **Impact of not-for-profit status considered?**



# Summary and Wrap-up

---

- 1. The market is becoming more sophisticated than ever before.**
- 2. Understanding the risks of development and operation of senior housing is now more important than ever before.**
- 3. The market needs more sophisticated analysis other than just appraisal analysis.**
- 4. Need to balance risk of business vs stability of real estate.**