REALIZING SAVINGS THROUGH REFINANCING

Bill Myers
Providers “ought to take a look” at refinancing their buildings, one of the nation’s leading long term care advocates says. Gov. Mark Parkinson, president and chief executive officer of the American Health Care Association (AHCA), says he’s not sure how much longer interest rates will be so favorable and that providers could save a lot of money if they refinance properly.

“Regardless of what your financing is, if you haven’t refinanced in the last couple of years, you really ought to take a look at it,” he says. Parkinson is a former assisted living center operator as well as former governor of Kansas.

“I’ve had members tell me that they have managed the impact of state and federal budget cuts by refinancing their debt and really harness their resources,” he says.

**ANALYSTS WEIGH IN**
Many analysts agree.

“We’re anticipating rates to drop slightly over the next couple of weeks, but again, none of us has a crystal ball,” says Dan Biron, senior vice president
of Berkadia, a company that helps providers obtain financing through the Department of Housing and Urban Development (HUD). “It’s still a very, very attractive interest rate right now.”

Some providers are worried about whether refinancing may affect Medicaid reimbursement. But only “five or six states” have regulations that consider refinancing in reimbursement, Biron says.

And HUD has learned the painful lessons of the past by focusing on streamlining its application process, Biron says.

“There used to be a big queue of close to 400 applications sitting in the corner of someone’s office. And it basically took eight, nine months for someone to pick up the transaction and then start reviewing it,” he says. “What HUD did is hire outside underwriters, consultants, to help them in eliminating that queue.”

Now, it can take less than six months from beginning to end to get their refinancing processed.

HUD is one of the many vehicles for financing, but all lenders appear to be willing to be flexible with providers, experts say.

For instance, HUD is now willing to work with providers to refinance even if they’ve recently done so and are in the so-called “lock-out” period of their

As an experienced lender, our team not only has an in-depth understanding of the business but also understands the needs of our clients. Our team’s experience of over $1.5 billion in FHA/HUD closed loans that have included 9 large or medium size portfolios, demonstrates our expertise and proven track record in the field of seniors housing and healthcare. Our team has also been successful in originating large volumes of Fannie Mae, Freddie Mac and proprietary bridge loans all focused on the seniors housing and healthcare industry.

When you want an experienced, knowledgeable team that can deliver, choose Berkadia.

To reach a Berkadia Seniors Housing and Healthcare team member, call 888-877-6155 or visit berkadia.com
loans, Biron says. And lenders have streamlined their reviews, so financing can go through in a matter of weeks or months, experts say.

A handful of states measure mortgage rates when considering reimbursement, though, so it’s important to talk carefully with lenders, Biron and others say.

“You can control the cost, but at the end of the day, there’s still a lot of savings,” says National Association of REITs (real estate investment trusts) Vice President Brad Case. “If interest rates go up, the value of a bond will fall. But that’s because a bond is a fixed-income instrument. Commercial property is not.”

“There are a lot of positive demographics that are driving the industry: the aging, the baby boom generation. People are living longer. Supply is kept artificially low by the government, so you’ve always got a lot of demand for a limited supply.”

In fact, Roberts says that things are looking so good for long term care that many companies’ stocks may be over-valued.

“The companies are, from an operating perspective, doing very well. I like the industry, longer term,” he says. “But as often happens, you might like the company, you might like the sector, but that doesn’t mean you like the stock.”

Institutional investors have been drawn to long term care because of its big dividends, but “it’s an artificial market,” Roberts says, and it may not be a great buy for now.

“I’m enamored with any stock at the right price. Rolls Royce is a great car, but I don’t want to pay $200,000 for it,” he says. “In my opinion, the group is priced too highly.”

Nonetheless, some health care REITs are already taking an aggressive posture. LTC Properties, for instance, said at a conference in July that it had changed its focus from merely acquiring properties to developing new ones—particularly in homes that focus on dementia treatment.

“We identified some unmet needs in the memory care area, and we started looking for operators to build new properties.”

\[LONG TERM CARE AS INVESTMENT\]

Whatever happens with interest rates, it’s clear that long term care is emerging as a hot, long-term investment, experts say.

“They’re buying it for the demographics,” says John Roberts, director of research at Hilliard, Lyons in Louisville.

“We identified some unmet needs in the memory care area, and we started looking for operators to build new properties.”

\[GOING OVERSEAS\]

Demographics also have an international dimension. Griffin-American, a senior health care REIT, just announced...
that it will now head overseas, taking over a 44-facility portfolio in the United Kingdom.

“The demand for seniors housing in the U.K. is strong, and it’s certainly an attractive market,” Griffin-American Chairman and Chief Executive Officer Jeff Hanson told REIT.com. “Upon closing, our portfolio will exceed $2 billion, based on aggregate purchase price.”

The U.K. deal was valued around $448 million, according to REIT.com.

But it’s not just demographic trends that are making long term care a promising investment. LTC Properties’ Simpson says that President Obama’s health care reforms—particularly the creation of accountable care organizations (ACOs)—have plenty of promise for long term care investors.

“We’re seeing that our operators are getting closer and closer to the hospitals in terms of developing networks,” she says. “They’re doing more direct contracting with managed care companies, which is a little different than what they had in the past. So I think the sophistication of what you’re going to have to do at the skilled nursing properties in terms of networking with other providers is going to increase.”

Indeed, AHCA’s Parkinson, speaking at a panel discussion in July, said that ACOs may well be the path to the “Holy Grail” of his profession—delivering quality care at low prices.

**BREAKING INTO THE BUSINESS**

Cambridge Capital President and Chief Executive Officer Jeff Davis thinks that the Affordable Care Act may be a real opportunity for long term care.

“The hospitals, under the new affordable care act, have strong incentives to get people out of the hospital settings,” he says. “The nursing homes should do well, as long as you have operators that are regionally focused and never losing sight of what their mission is, which is to deliver strong care to their population. It’s really just that simple.” Over the past several weeks, interest rates have gone up, but they’re still fairly low, Davis says.

“Refinancing is always good if you can save money by refinancing or if it

‘Under the new act, the hospitals have strong incentives to get people out of hospital settings.’

We’re a lender who understands your need for certainty and speed. That’s the way we move. And do everything humanly possible to move faster. We focus on getting you what you want when you want it. As a result, we delivered more than $8 billion in a very short time. With Fannie Mae, Freddie Mac, FHA, and alternative sources, too. Move over to Beech Street. Fast.

BEECH STREET CAPITAL

Good enough just isn’t.

James F. Sherman • 240-507-1985 • jfsherman@beechstcap.com
www.beechstcap.com • offices nationwide

©2013 ALL RIGHTS RESERVED, BEECH STREET CAPITAL, LLC
HUD is now willing to work with providers to refinance even if they’re recently done so and are in the so-called ‘lock-out’ period of their loans, Biron says.

Jeffrey Davis

Wendy Simpson

satisfies another need in your business plan,” he says.

Still, providers may find themselves hemmed in by circumstances because the broader markets haven’t woken up to the potential in long term care, Davis says. “In senior living, which includes assisted living, memory care, and independent living centers, there are only so many ways to put long-term, fixed debt on your building. It’s not like commercial real estate,” he says. “There are only so many ways to skin the cat.

“It’s just the markets have not really embraced seniors housing,” Davis adds. “Even though everybody reads the same publications and knows the demographics are super compelling, they’ve never really figured out how to properly underwrite it. It’s just been an ongoing, constant challenge.”

Despite others’ opinions, Davis says that skilled nursing centers may be under-valued as an investment because they remain “challenging, intellectually.”

Many analysts are put off by their own fear of aging and death, and that gets in the way of their analyses, Davis says.

As a result, long term care seems to be sealed off from the bigger investing climate, Davis says.

“At the end of the day, the people that are in the business typically specialize in the business,” he says.

That can make it difficult for investors “to figure out” how they should approach long term care investments, Davis says.

“But once they figure it out, they’re glad they did.”

Your Property & Our Financing

Walker & Dunlop
Commercial Real Estate Finance

Michael Vaughn
Head of FHA Healthcare Finance
mvaughn@walkerdunlop.com
(301) 202-3221

Tom Peters
Senior Vice President, FHA Finance
tpeters@walkerdunlop.com
(360) 713-5901

20 Offices Nationwide

Corporate Headquarters
7501 Wisconsin Avenue, Suite 1200E
Bethesda, Maryland 20814
(301) 215-5500

www.walkerdunlop.com

California loans will be made pursuant to Department of Corporations California Finance Lenders Law License.
The newest version of AHCA’s Long Term Care Survey is now available!

The May 2013 edition has all the most recent updates from CMS, including Revisions to Appendix P on Dementia Care in Nursing Homes and Appendix PP:

- F-Tag 309, Quality of Care
- F-Tag 329, Unnecessary Drugs
- F-Tag 441, Infection Control
- F-Tag 155, Advanced Directives

Find out why it continues to be the most preferred and widely used survey guide for more than a decade.

Make sure you stay compliant and order your copy today.

NEW BONUS CD-ROM includes an electronic manual for convenient search of keywords and F-Tag numbers, exhibits/forms, and CMS transmittals.

**Also Available**

*The Long Term Care Survey Manual (Binder/Notebook Edition)*

Product #6775N-0513
AHCA Members $79.95 Non-Members $85.95

*Because of the reduced frequency of updates released by CMS, AHCA no longer offers subscriptions to The Long Term Care Survey.*

Web: ahcapublications.org
Phone: 800-321-0343 (9:00am–5:00pm, EST)
Fax: 800-869-5605 (24 hours)

AHCA
American Health Care Association

AHCA is not a traditional publisher—when you purchase from us, the proceeds directly support the long term and post-acute care professions, ensuring quality long term care for all those who need it.

Printing of this manual is sponsored by Direct Supply.

The Long Term Care Survey

Improve your facility’s survey performance by increasing your knowledge of the survey process

Appendix PP is table format, comprehensive index and cross-referencing