

Skilled Nursing Scares Wall Street

High risk, difficult fundamentals and limited profit margins continue to keep conduit lenders out of the market for skilled-nursing facilities, with the outlook for seeing CMBS deals close in this contentious niche nominal at best. Wall Street and conduit lenders are, for the most part, unwilling to touch senior projects other than high-end independent living facilities because of the inherent financial concerns and rampant delinquencies that have decimated the senior lending market for the last several years with skilled nursing topping the black list.

Uncertainty of payment of state Medicaid and federal Medicare benefits, the staple income for many of these facilities, along with soaring litigation and increased liability insurance costs also forced a decrease in value that keeps conduits steering clear.

But, portfolio lenders including **Dominion Healthcare Financial**, **GE Healthcare Finance**, and **CapitalSource Finance** expect to pump some life into skilled nursing lending this year as it begins to emerge from the recent downturn. Cuts at the state level have not been as dramatic as anticipated and the federal government is currently revisiting Medicare

givebacks, with a positive outlook for considerable increases in reimbursements. And, occupancy rates have stabilized at around 85% after bottoming out at 80% in 2000.

These lenders face strong competition from agency lenders as well – particularly HUD – including **Cambridge Realty Capital**, **GMAC Commercial Mortgage** and **Glaser Financial**. Fannie and Freddie are also working to up their senior lending volumes through new programs.

Skilled-nursing facility owners that survived the downturn overall carry less debt on their books and have fewer properties that are struggling, lowering their liability exposure. And, many are looking to sell, which means deals are currently plentiful and lenders compete aggressively to close them.

In the first six weeks of the year, lenders underwrote more than \$50M in skilled-nursing deals, a majority of which are acquisitions of small to moderate-sized pools of properties throughout the U.S., with as much or more already under application. Lenders are keeping it conservative, only willing to lend on three- to five-year mini-perms to experienced borrowers on value-added deals. As with

any senior property, don't expect lenders to fund construction loans for skilled nursing facilities this year until occupancy rates shift upward.

Dominion Healthcare's CEO **Paul Horvitz** is seeing tremendous demand for Dominion's bridge product, funding developers looking to do significant rehabilitation or expansion while working their way through the HUD system to secure long-term, fixed-rate financing. Portfolio lenders are at ease, Horvitz believes, because they don't require the financial reserves and paperwork that HUD does.

CapitalSource Healthcare Finance Director **Jim Pieczynski** expects his 2004 volumes to come in well above the \$400M CapitalSource closed in 2003, as the lender combines bridge, HUD takeout and working capital financing to borrowers throughout the country.

GE Healthcare Financial just closed a \$20M deal for a pool of facilities in Michigan. GE Senior Vice President **John Cobb** is able to reliably fund these projects fast with the additional option of working in extra funds for working capital and other financial needs due to GE's comprehensive healthcare financing options.

Jim Kessinger, of California-based Kessinger & Associates has closed two to three hotel construction loans per year over the past five to six years using federal government loan guarantees. In this time, he has secured over \$120M in low interest loans for hotel construction in the 75% LTV to 80% LTV range.

In a recent \$20M hotel construction deal he closed in **Spartanburg, S.C.**, Kessinger was able to secure \$8M from a local bank and then \$12M in a B and I loan guarantee from the federal government. The deal was priced at around 5% and fully amortized over 25 years. The guaranteed portion of the loan was divided in 12 government-backed debentures and sold on Wall Street.

B&I Program Secures Rural Hotel Cash

Getting cash for any kind of commercial construction in rural U.S.A. can often be a challenge. When it comes to hotel construction loans in rural areas, borrowers and brokers have had to seek out other avenues rather than just conventional local lenders. Creativity is often required.

Both the federal government and local bond programs will be an increasingly popular avenue to use to get funds to finance hotel construction projects outside major cities in 2004. **Kessinger & Associates** taps the federal government's **Business and Industry** (B and I) loan program to get commercial deals done in rural areas.

The B and I Guaranteed Loan Pro-

gram is a carbon copy of the SBA 504 program, but it can lend up to \$25M. The U.S. Department of Agriculture initiative aims to help create jobs and stimulate rural economies by providing financial backing for rural businesses. It provides guarantees up to 80% of a loan made by a commercial lender. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing.

B&I loan guarantees can be extended to loans made by recognized commercial or other authorized lenders in rural areas. This includes all areas other than cities of more than 50,000 people and the contiguous and urbanized area of such cities or towns.