

Finding Financing For Seniors Housing Requires Preparation And Understanding

The sleeping beauty that is the senior housing industry is still sleeping, but at least she's out of her coma.

BY PAUL S. HORVITZ

Financing the purchase or refinancing of seniors housing real estate has been a difficult process for the last several years. A few of the reasons are:

- Seniors housing has a business value attached to the simple real estate evaluation. When the business aspect loses money, the value of the asset is dramatically diminished.
- Wall Street and conduit lenders stopped funding seniors housing because of overbuilding and high delinquencies.

■ Nursing facilities primarily generate revenue from state and federal reimbursement programs, such as Medicaid and Medicare. State and federal budget deficits and decreased reimbursements from these programs have adversely affected seniors housing.

The best way for a borrower or agent to successfully secure a loan for a seniors housing facility is to understand the process of seniors housing lending. You must know where your property fits in the prospective

lender's pecking order, who the prospective lenders are, and how to prepare to increase your project's chances of getting approval from the sleeping princess that is your prospective lender.

Let's talk about where your property fits within the property types composed of seniors housing.



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congregate to subacute care.

Often residents pay entrance fees and annual maintenance fees. Due to upfront entrance fees, determining the appropriate normalized cash flow is complicated.

Senior apartments are merely age-restricted apartments limited to residents 55

and older.

Skilled nursing facilities (SNF) provide 24-hour nursing care. The market is heavily regulated; new projects require a certificate of need (CON) in some states.

Reimbursements from Medicaid or Medicare necessitate extensive record keeping. They range from intermediate to subacute care facilities, generally for residents recently released from hospitals and who require intensive nursing care.

Corridors are generally wide and centered around a nursing station. They can be private pay, insurance, or state/federal pay (Medicaid and/or Medicare).

Most real estate lenders don't make loans to the seniors housing industry, and most who do only finance senior apartments, congregate care and assisted living. That is, if you're lucky and, most importantly, prepared.

How to get prepared

Here are a few basic points to remember when preparing a loan application.

- Know what you want, namely the

Definitions of property types

Assisted living facilities (ALF) are designed for residents who require assistance with "activities of daily living" such as dressing, bathing, housecleaning, preparing meals and taking medication.

The staff is generally trained in customer service and personal care. Although they have a nurse on staff, residents do not require regular nursing care.

They have different building designs than congregate care facilities. Offices for one additional service provider are necessary, common areas are designed to handle residents with additional support needs and increased wheelchair use.

Units are smaller and may be private or semi-private. Most often the revenues come from private pay.

Congregate care facilities (CCF) are commonly referred to as independent living facilities; they provide residents non-medical services such as meals, housekeeping, transportation and security.

On-site staff or third-party health-care services provide limited health-care services. Generally, licensing is not extensive. Projects look like multifamily except common areas are larger and units are smaller. Typically there is a common dining room.

Units may contain special apparatus such as emergency pull cords and grab bars. Most often, revenues come from private pay.

Continuing care retirement communities (CCRC) are large projects that offer a continuum of care, from

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exact amount of the loan that works for you. Be ready to show a specific use of funds to your prospective lender.

■ If it's a purchase money transaction, be realistic about the loan-to-value you are requesting.

■ Be ready to personally guarantee, as most lenders require a guarantee.

■ Fix up your property. Your prospective lender is much like a prom date. You're only going to the big dance if you look the part.

■ Review your balance sheet and historical operating numbers. They must make sense to you or they won't fly to your lender.

■ Review the title report. Clear up potentially hard-to-explain liens before making an application.

■ Know how your facility measures up against the competition, both in your market and regionally.

■ Have an understanding of your occupancy level numbers and percentages.

■ Prepare a business plan to increase your occupancy rate to industry norms. Borrow a template from a well-known software program on business plans.

■ Type your application or print clearly, and attach all exhibits the lender requires at the time of submission. Trailing data only confuses the process.

■ Be realistic on your property's market value. It helps to be familiar with what the lender's appraisal will cover in scope.

■ Learn your lender's loan-to-value limits.

■ Find out the debt coverage ratio (DCR) your lender requires. Know what a debt coverage is. It's a simple percentage calculation that divides your prospective annual payment into your net operating income. Most lenders require at least a 1.35 DCR.

■ Find out if your lender allows subordination of junior financing, if you require it.

■ Find out the prepayment penalty associated with your new loan. The types of prepayment options offered in the industry differ and can be very important to your decision of what type of loan or lender to take. You might get through the lending and approval process gauntlet only to discover you may be able to check in but you can never leave.

Types of prepaids

These are three types of prepayment penalties:

The percentage or diminishing scale with a loan call or due date. For example, 5% the first year, 4% the second year, 3% the third, 2% the fourth, 1% the fifth and none there-

after. A lock out - you simply cannot prepay your loan until the lock out period expires.

Yield maintenance or defeasance - this one is tricky and requires both knowledge of future interest rates and a Ph.D. in mathematics.

So now you are prepared. But who the heck is going to consider your loan?

If you're a big fish, you can go to a large bank or investment banker. That is, if your statements are audited, your cash flow is positive and you have multiple properties.

Oh, and your request must be at least \$25 million. So where does the average seniors housing owner go to secure a loan on one or two properties? Over the last several years, the loan of choice (unless you golf with your local banker and always let him or her win) is FHA/HUD or a Fannie Mae loan.

FHA is a bureaucracy. It takes a long time to even get an appointment to discuss getting an application. Some mortgage specialists know this process cold, and there are good ones out there. Get one who can do what they call MAP (Multifamily Accelerated Processing), otherwise known as the "fast track process."

Don't expect the fast track to be fast. It's sort of like the express lane at the grocery market that only takes cash when you only brought your check-book.

Conduit lenders are the Wall Street people with the yield maintenance or defeasance prepayment penalty outlined earlier. Remember the sleeping beauty reference. Conduit loans are generally not currently available.

Portfolio lenders can essentially do what they want within the confines of the program the lender has prescribed for you.

What does the future of the seniors housing market look like?

The answer to this question lies in the math. None of us are getting any younger, but we are living longer. The chances of the boomer generation matriculating through the seniors housing maze are unprecedented.

Government will not be able to fund the industry needs. There is simply not enough money to allocate now or in the future from FHA/HUD to fuel the real and future demand.

Just by sure force of numbers, it would seem that most facets of the lending industry must embrace lending parameters to serve seniors housing. This must happen in the near future, once the excess of product in some markets is absorbed. ●

AGENDA

CONTINUED FROM PAGE 2

Today, we find what I would call the "unusual lender," one who will consider the out-of-step deal, the deal that has some problems, the deal that your typical lender will not consider, the type of deal that has merit, but has a hard time persuading lenders to at least consider looking at it.

In our industry, we refer to those lenders as "semi-hard to hard" money sources. If, after careful underwriting, the lender decides to approve the loan, the rate, terms and conditions, are what we would call "tough." But remember, the deal is not a cream puff. The cost may be expensive in today's lending environment, but if it satisfies your needs, then you go for it, and consider refinancing at some future date.

As a commercial mortgage broker for the past 14 years, I find that clients know more than they sometimes are willing to admit. Sometimes they think or wish we could be miracle workers. Sometimes they only want to hear the

good news and not the bad.

They think they have that cream puff and won't admit there is some sourness in the transaction. A professional commercial mortgage broker will and should level with the borrower on aspects of the property and loan transaction. No use wasting time and energy. We only get paid if the deal is accepted and funded.

My previous articles have encouraged readers to check the credentials of mortgage brokers who work on the client's behalf. If you don't, shame on you. If you don't ask for references and previous transactions, shame on you. Too many clients have wasted valuable time and money, only to find out that the broker cannot do what he promised.

Not all deals are cream puffs. If they were, many brokers in our industry would be out of business. The deals would float to the local lenders and be looked at as a piece of cake. Regardless, I still will recommend to clients to use a professional commercial mortgage broker to get their deal done. Cream puff or not, it will be the best investment that you will make in this crazy world of commercial loan financing. ●



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