Middle Market Insights

Lending Outlook Brightens for Senior Housing and Care

By Matthew Huber
Market Manager, Healthcare Finance

People's United Bank®

In a damaged economy when most industries were reeling from the pandemic, the senior housing and care industry stood out for the severity of its struggles. As COVID-19 swept through the elderly population in 2020—effecting each facility to varying degrees—operators retrenched. Current projects came to a halt, and those in design were postponed as operators focused on keeping their populations safe and navigating the emergency. At the same time, lenders became much more conservative, entertaining just a few requests toward the end of the year and only from the strongest operators.

While the country is not out of the woods, the darkest days are past and there's cautious optimism among operators and lenders for late 2021 and especially 2022. The vast majority of senior housing residents have been vaccinated, occupancy declines have slowed, and providers are reporting increased inquiries as states open up. In fact, some operators are seeing the first indications of pent-up demand from 2020. Many families held back decisions to move parents during the pandemic, and now a strong housing market is making it easier for potential residents to sell their homes quickly. Moreover, the pandemic has reinforced the benefits of socialization, which for many suddenly makes senior housing more attractive.

So far in 2021, we've seen an increasing number of requests for new construction and acquisition financing, a trend we expect to continue. Continued low interest rates are also spurring a fair amount of refinancing requests, sometimes combined with financing to add new units, as operators become more optimistic about the economic recovery in 2021. So, it's an opportune moment to consider some best practices for establishing a relationship with a lender and keeping that relationship healthy.

Read this paper to learn:

- Why There is Cautious Optimism Among Lenders and Operators
- What Factors are Causing an Uneven Recovery Across Sectors
- Which are the 10 Best Practices for Borrowers

Recovery Varies by Sector

Although more funding is available now than in 2020, it's only available to operators with the best track records and strong equity partners.

But even for these companies, terms have not returned to pre-pandemic levels, especially with regard to leverage. For example, at People's United Bank we require more equity for construction financing than before the pandemic (30-40% in early 2021 vs 25-35% at the beginning of 2020). Of course, those are just averages. Not all construction loans are alike, especially since different sectors of senior care and housing are bouncing back from the pandemic at different rates.

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In general, continuing care retirement communities (CCRCs) held up well during the pandemic and are poised to perform strongly, especially if the early signs of pent-up demand prove true. Assisted living (AL) and memory care (MC) facilities are in slightly less strong positions. But once some of the more recent AL/MC construction has been absorbed, probably toward the end of 2022, new financings are likely to pick up. In these areas our recent deals have included a $12.5 million refinance for a CCRC, a $45 million refinance for an IL/AL/MC, a $11.3 million deal to finance the fit-out and equipment for a new ambulatory surgery center, and a $30 million construction loan for a new AL/IL facility.

The sector that continues to face the stiffest headwinds is undoubtedly skilled nursing facilities (SNFs). These facilities are struggling with staffing shortages (given the lingering fear many have of working in these environments), low occupancy and negative press. Their stimulus money from 2020 has been spent, their frail populations are expensive to care for, and Medicare and Medicaid reimbursements are skimpy. All of this puts intense pressure on margins.

10 Best Practices for Borrowers

Given this backdrop, what should operators keep in mind when approaching lenders about financing and then building a relationship with that lender? We have identified 10 key best practices.

When looking for financing:

1 Be realistic about projections for the next three to five years, and don't assume everything will stabilize by the end of 2021 or early 2022. Projections need room for error. Vaccinations may take longer than expected, there could be another wave of infections, and as stimulus wears off the effects are uncertain.

2 Demonstrate a clear understanding of the construction budget, ideally based on previous work with the same construction companies. Build in ample reserves, up to 20%.

3 Present as complete a financial picture of the project at one time as possible. Avoid giving the lender a slow drip of information that can make it begin to worry that other information is missing.

4 Be prepared for tighter deal structures until there's marked improvement in occupancy and performance. More equity and lower loan-to-value (LTV) are the rule of the day.

5 Articulate strong commitment to the project. Say up front that if conditions change you won't hesitate to put more equity in the deal.

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Once financing is secured:

6 Don't treat the bank like it's just another vendor. It's actually the biggest investor in the project, so creating an open dialogue is critical.

7 Keep the bank in the loop during construction. Good news or bad, banks can be better advocates if they understand what's happening on the ground at the site.

8 Timely financial reporting and budget forecasts are more critical than ever. It's important to stay in close contact with your banker, especially when a financial problem arises.

9 Be prepared to discuss staffing, which is the number one challenge at many facilities, including strategies for attracting and retaining staff. Staffing effects occupancy, which effects cashflow, so banks care deeply about it.

10 Remember that a good relationship with a bank is valuable throughout the economic cycle. Building trust in today's difficult environment will continue to pay dividends as conditions improve.

Despite a very rough 2020 and an uncertain timeline for the recovery, the long-term outlook for senior housing and care is strong. Sales understandably slowed during the pandemic, but prices actually held up well. And there is massive demand going forward. This year the first baby boomers turn 75, and as they approach and pass the 80-year mark demand for senior housing and care will surge. Now is an excellent time to build a long-term relationship with a lender that is knowledgeable and committed to the industry.■

Matt Huber the Market Manager of Healthcare Finance with People's United Bank. He has over 30 years experience in the Healthcare Banking and Real Estate industries. Matt was previously with KeyBank Real Estate Capital, First Niagara Bank and M&T Bank in various leadership roles focused on the Healthcare and middle market industries. Most notable was his development of First Niagara Bank's de-novo Healthcare Finance Business into a $2.5 billion portfolio, ultimately acquired by KeyBank. Matt has an MBA from The University of Rochester's William E. Simon School of Business and a B.S. from St. John Fisher College, Summa Cum Laude.

Additional contributors to this paper: **David J. Canestri**, SVP, Healthcare Finance, **Claudia Gourdon**, SVP, Healthcare Finance, **Virginia Stolzenthaler**, SVP, Healthcare Finance, **Walter Unangst**, SVP, Healthcare Finance and **Ryan Zyskowski**, VP, Healthcare Finance.