



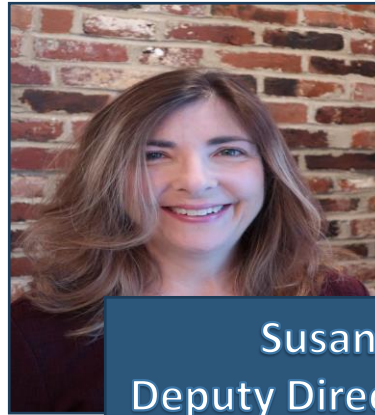
HEALTHCARE MORTGAGEE ADVISORY COUNCIL
Financing Seniors Housing for America

NEW CONSTRUCTION

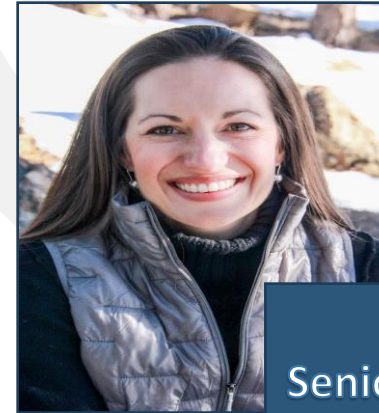
PANEL



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NEW HOUSING FOR OUR AGING POPULATION

- Wave of Seniors
 - 10k people turning 65 each day
 - All baby boomers 65 by 2030
- Available beds
 - 1.0MM Licensed AL Beds
 - 1.7MM Licensed SNF Beds
 - Less than 3MM total Beds
- Pending Influx of AL new construction requests
- Most SNFs built in 70's
 - In need of improved physical plant



LENDER PERSPECTIVE

ORCF ≠ MAP



ORCF

1. No BSPRA
2. No Statutory Limits
3. No Affordable MIP
4. No Concept Meetings
5. Value Constraint
6. 1.45x DSC



MAP

1. BSPRA
2. Statutory Limits
3. Affordable MIP
4. Concept Meetings
5. No Value Constraint
6. Variable

KEY CONSIDERATIONS

- Experience, Experience, Experience
- Developer Experience
- Operating Experience
- Contractor Experience
- Financial Strength



DEVELOPER EXPERIENCE

- Development and Leasing of Similar Beds/Units
- Relevant Experience within Past 5 Years
- Control Over Day to Day Operations
- Development Team Prior Working Relationship
- Participation for Life of Loan
- Key Metrics of Prior Experiences
 - Property name and location
 - Fill pace
 - Net Operating Income
 - Number of beds, units or residents
 - Occupancy
 - Star rating (as applicable)



STRUCTURING

- Operational Control
- Experience in the entity ownership
- Ownership Percentages



EQUITY & FINANCIAL STRENGTH

- Generally Recommend 20%
- Cash is King
- IOD & Working Capital
- Debt Service Reserve Escrow



LEAN THINKING

- Process
- What Makes a Good Request Email
- Other Relevant Points – Ch. 1.4.D.
 - Waivers
 - Environmental Concerns
 - Unusual Site Conditions
 - Flood Hazards or Wetlands
 - Historic or Tribal Consultations
 - US Fish & Wildlife
 - Davis Bacon

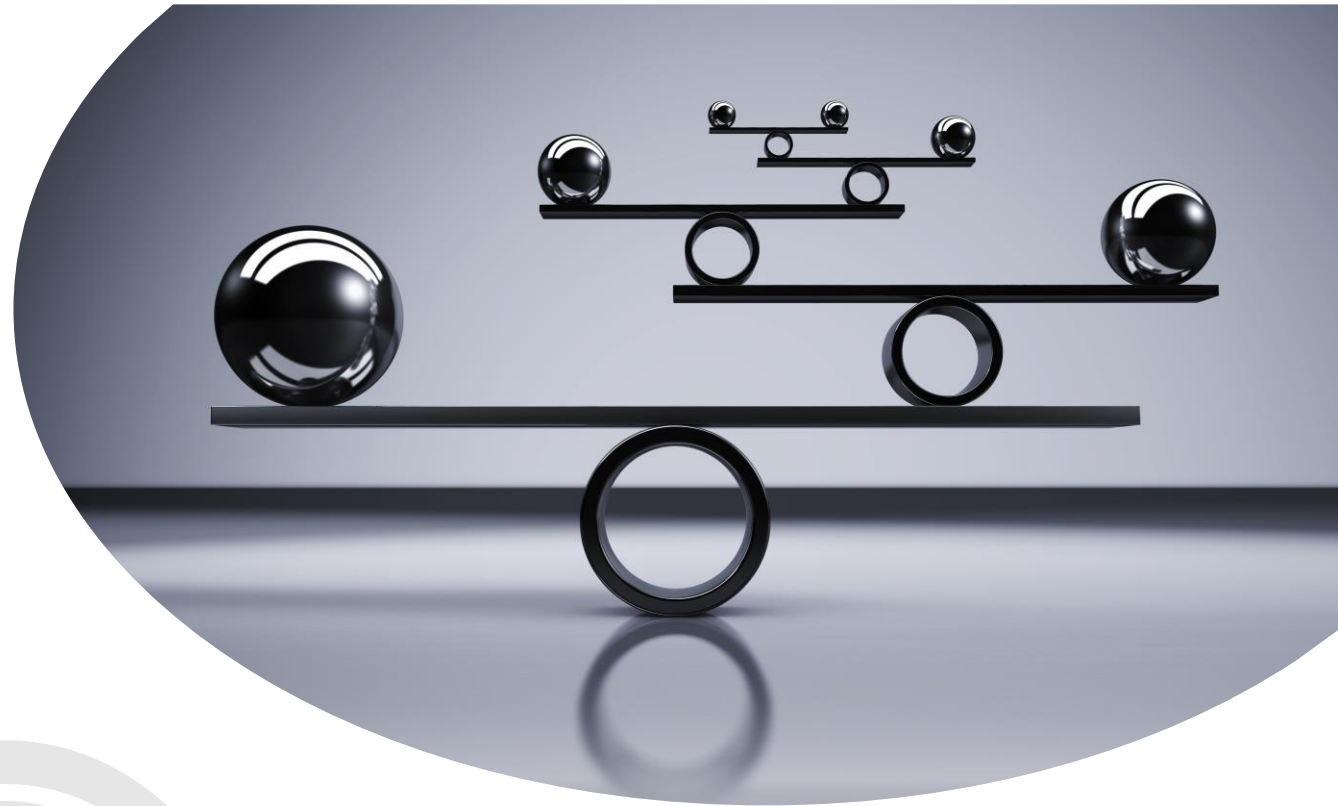


KEY DECISION CRITERIA TOOL

- [New Construction Criteria Template](#)

HUD Tools for Firm Commitment Applications

- [Architecture and Cost Report Statement of Work](#)
- [Accessibility Matrix for Section 232](#)
- [Lender's Pre-Construction Duties](#)
- [Lender's Pre-Construction Conference Agenda](#)
- [New Construction Criteria Template](#) ←
- [Risk Management-Operator Regulatory Agreement Requirements Grid](#)
- [State Risk Grid](#)



KEY DECISION CRITERIA TOOL

- [New Construction Criteria Template](#)

	Strong	Medium	Weak
<i>Investor / Developer</i>			
Successful Relevant Experience in AL/SNF			
# of senior living facilities	10 or more	3 to 9	1 to 3*
Successful Experience Marketing & Leasing Up			
# of senior living facilities	10 or more	3 to 9	1 to 3*
Financial Strength			
Principal of the Developer/Investor Net Worth	> loan amt	Equal to loan amt	< loan amt
Percent Total Equity in Deal			
% of total cost (mortgageable + non-mortgageable)	30% or more	20% to 30%	less than 20%
Land Value			
Notes	Will purchase after constr financing secured	Equity contribution - Purchased within the past 2 years	Equity contribution - Purchased more than 2 years ago
<i>Operator/Management Agent</i>			
Successful Relevant Experience in AL/SNF			
# of senior living facilities	10 or more	3 to 9	1 to 3*
Successful Experience Marketing & Leasing Up			
# of senior living facilities	10 or more	3 to 9	1 to 3*
Financial Strength			
Principal of the Operator/Mgmt Agent Net Worth	> loan amt	Equal to loan amt	< loan amt

KEY DECISION CRITERIA TOOL

	Strong	Medium	Weak
Market			
OHP Appraiser Fill In Item for Consideration & Rate			
Rating basis determined by OHP Appraiser	OHP Appraiser Define	OHP Appraiser Define	OHP Appraiser Define
OHP Appraiser Fill In Item for Consideration & Rate			
Rating basis determined by OHP Appraiser	OHP Appraiser Define	OHP Appraiser Define	OHP Appraiser Define
Unemployment Rate -			
compare to national average - 6.1% May 2014	more than 100 bps below nat'l average	nat'l average +/- 100 bps	more than 100 bps above nat'l average
Barriers to Entry			
Lender and/or OHP Appraiser to identify	High barriers, such as CON	Some barriers	No barriers
Notes			
Competitors			
The # of units at our facility compared existing facilities in the PMA			
	Same or fewer	0% to 100% larger	More than double
Occupancy at comps			
	Greater than 95%	90% to 95%	Less than 90%
Achieved rates compared to subject			
	Equal to or less	Up to 10% above existing	More than 10% above existing

OTHER CONSIDERATIONS



INDEPENDENT LIVING

Maximum 25% of Beds or Units

Full Bathrooms



DAVIS BACON

Building vs Residential Wages

Kitchenettes (sink, countertop, microwave and refrigerator)



LARGE LOAN IMPACT

Over \$35M ORM Review

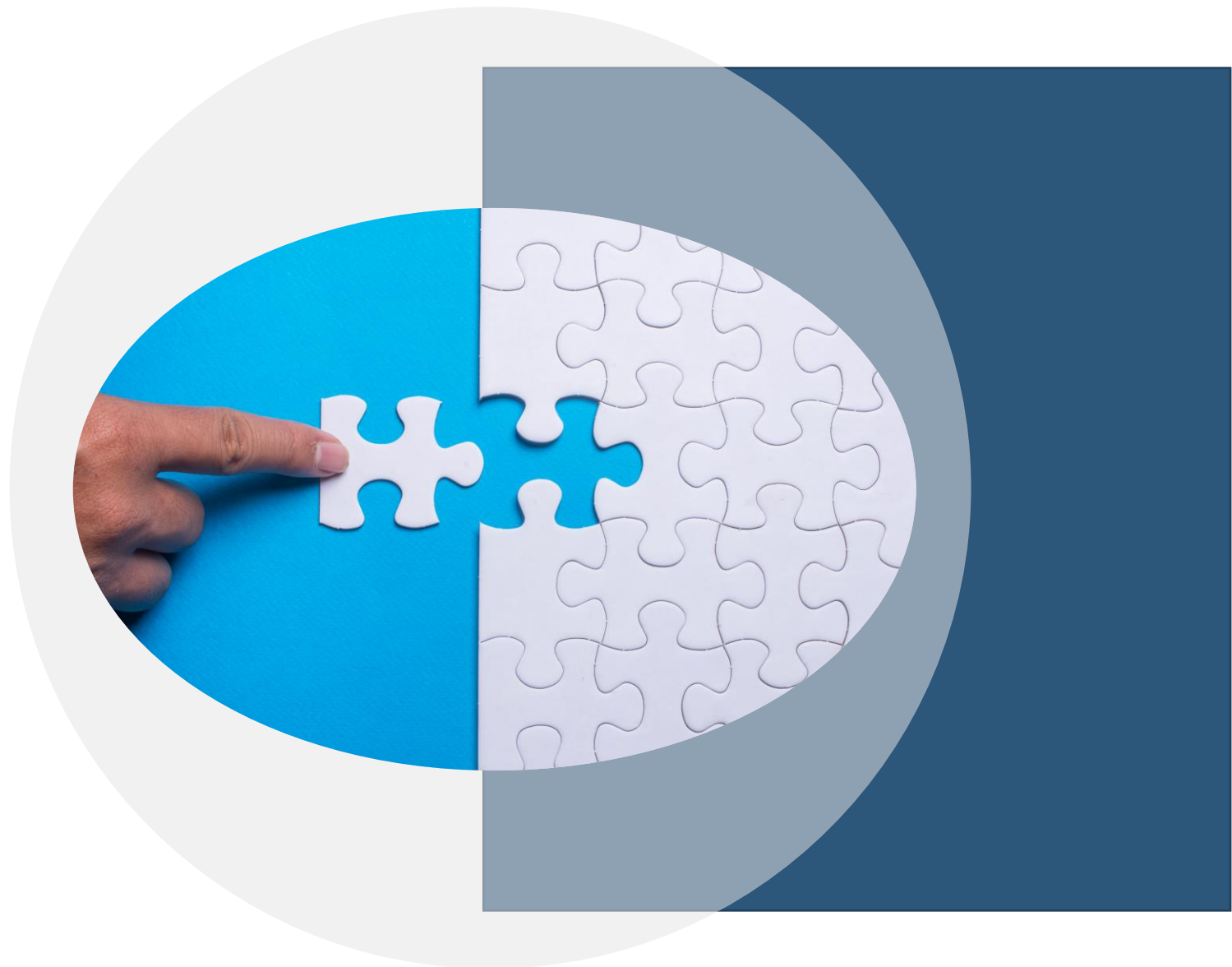


FACILITY LICENSING

Licensing varies by location.
Many projects will not receive licenses until post construction

BEST PRACTICES

- LeanThinking
- Key Decision Criteria Tool
- Vet Experience Early
- Vet Market



VALUATION & MARKET

VALUATION & MARKET ANALYSIS

- Market Analysis
 - Importance of fresh data
 - New Supply Research
 - Net Demand (be conservative)
- Valuation
 - Assumptions (Based on market metrics)
 - Revenue (conservative, market stable?, care fees + base rents)
 - Expenses (Covid adjustments, local exp data best, market staffing support)
 - Cap Rates (most comparable, try not to use pre-pandemic)
 - Make sure the operator model is tight, a sloppy model makes the appraisers/lenders life more difficult and ultimately does not inspire confidence in the development team.



VALUATION & MARKET ANALYSIS CONT.

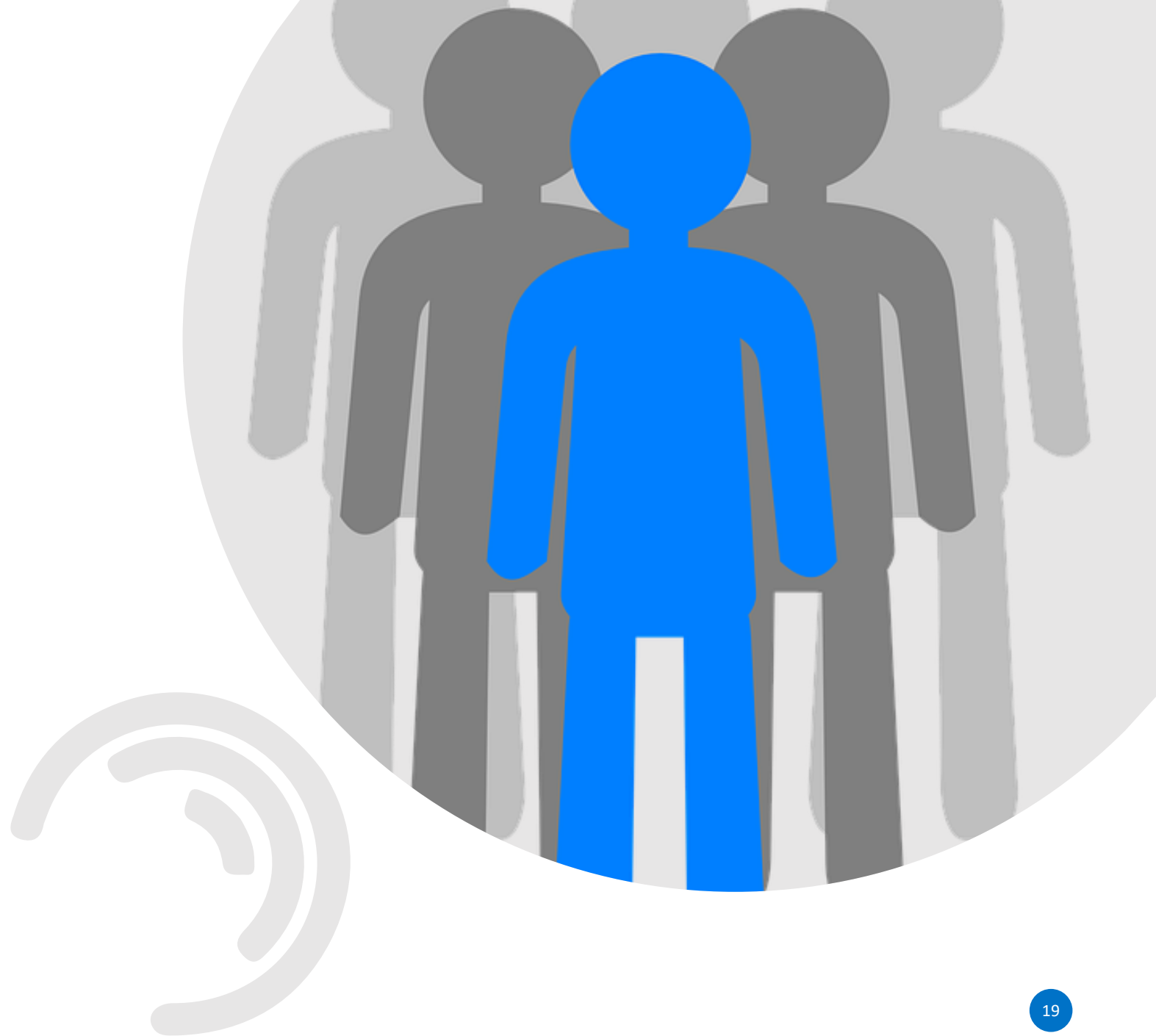
- Costs
 - Costs are very high. Developer needs up to date costs.
 - Be sure the project is feasible even with potential increases in cost, leave cushion
- SNF New Construction – Nursing home new construction is tougher as they will need to operate mostly above the market to be financially feasible, which is harder to support in most markets.
 - Mostly replacement facilities
 - Staffing bigger issue with SNFs
- 241a – Must be conservative and prove need
- IOD – Market based assumptions



STAFFING

Finding competent staff is becoming as challenging as finding residents. A Going Concern value consists of tangible (real estate) and intangible assets. Intangibles include assembling a competent staff.

How to demonstrate the ability to find staff? The market study goes to great lengths to show there is a sufficient supply of residents but ignores the question of staff supply. Adaptations are needed during a staffing crisis.



ENVIRONMENTAL & A/E

ENVIRONMENTAL ISSUES

- Best to identify and attempt to mitigate any known environmental issues early during the environmental review process prior to submitting to HUD
 - Clarify or define any site aggregation issues (e.g. off-site turn lanes, sidewalks, retention ponds, etc.)
 - Properly identify and mitigate fall hazards (high tension powerlines, cell towers, etc.)
 - Complete required Acceptable Separate Distance (ASD) Calculations for on-site ASTs
 - Mitigate or identify elevated noise levels
 - Radon mitigation or delayed sampling/results due to COVID or other site access issues
 - Wetland/Floodplain issues requiring 5 or 8-step reports
 - ❖ Start them early and submit to LEANThinking email for approval of any public notices
 - Complete endangered species reviews for all projects with ground disturbance
 - Complete SHPO correspondence after determining the scope of work to ensure proper notification as part of the Section 106 consultation that may include public notices or archaeological surveys
 - Ensure proper P2 reporting & delineation has been completed for any known vicinity contamination
 - Additional EA Factors required for New Construction projects, including Climate Change, Energy Efficiency and Environmental Justice
 - Avoid choice limiting actions (e.g. moving dirt, grading, demolishing existing buildings, etc.)

EA LEVEL OF REVIEWS – NEWS FLASH

HUD has had multiple webinars in the past month discussing the importance of including in depth and comprehensive information for the EA Factors and Analysis portion of the HEROS.

EBI will be sending out an EA Factor Memo in the near future. This extensive data gathering will be a joint effort between borrowers/client/EBI/etc.

Additional Factors will be added to this area of the HEROS

- Climate Change
- Environmental Justice (more in depth review)

For all 232 NC and 232 SR projects booked, EBI will be sending out an updated EA Factor Questionnaire. Please note it is extensive and is a good starting point to gather all the newly required data from HUD.

HUD's new eGuide for EA Factors should be reviewed here:

<https://www.hudexchange.info/programs/environmental-review/environmental-assessment/>



A&E ISSUES

- Ensure that your A&E Reviewers are reviewing development team qualifications during review of the project plans and costs
- Green experience and qualifications also need to be provided during the A&E Review. Requirements for the green recognition must be included in the plans & specifications.
- Ensure that your A&E Reviewers are completing the Architectural Reviewer and Cost Analyst's SOW
 - The 35 page checklist provides good guidance for the A&E review process and is required to be completed by the A&E Reviewer.
 - Ensure that each applicable accessibility law is met (ADA, ANSI, FHA, UFAS)
 - Ensure that Davis Bacon wage rates are applied for all SNFs and ALFS, whereas memory care projects should include building wage rates due to the lack of kitchens. A request for a Labor Relations Specialist can be submitted through LEANThinking if you have any projects that need a determination before being assigned to an OHP Underwriter.
- Construction cost increases
- Labor Shortages
- Supply chain/delivery issues with materials
- Ensure radon mitigation or radon resistant construction design elements are incorporated into plans/specifications for both substantial rehabilitation and new construction projects

GREEN MIP LOANS

UPDATED REQUIREMENTS: APPROVED PROGRAMS

- New Construction (*EBI is assuming that LEAN will adopt similar certifications*):
 - National Green Building Standard (NGBS)
 - Energy Star: New Construction Multifamily
 - LEED: Home, Low, Mid & High Rise, Healthcare
 - Other:
 - Enterprise Green Communities
 - EarthCraft Multifamily
 - Passive Building Certification
 - Living Building Challenge
- Existing Construction:
 - NGBS
 - Enterprise Green Communities
 - EarthCraft: House, Multifamily

GREEN MIP LOANS

NEW CONSTRUCTION & SUBSTANTIAL REHAB

- Commit to obtaining a HUD-approved green certification
- Retain green consultant to ensure compliance with selected certification
- Generate a Statement of Energy Design Intent (SEDI) showing estimated consumption
- Generate Data Collection Plan
- Obtain green certification after completion of construction

GREEN MIP LOANS - EXISTING BUILDINGS

- Commit to achieving a HUD-approved green certification
- Benchmark energy usage
 - Either obtain & use 100% of data **or** use ASHRAE sampling method to obtain 25% of tenant data
- Complete ASHRAE Level 2 or 3 Energy Audit
 - Level 2 if a GC has been engaged, Level 3 if not
 - Generate SEDI to show property **will** achieve a 75+ score
 - Energy Audit may identify more repairs than you must select
- Obtain selected green certification
- Ongoing monitoring required annually for the life of the loan with an energy star score of 75 or higher



KEY TAKEAWAYS

UNDERWRITING



- Construction Projects are Risky
- Expect Strong Market Demand
- Require Relevant Experience

- Construction Loan Administration
- Separate Training with Lenders



POST CLOSING



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

QUESTIONS



LEANTHINKING@HUD.GOV



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

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THANK YOU!

