



HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

POST-PANDEMIC APPRAISAL TRENDS & CHALLENGES

POST PANDEMIC APPRAISAL TRENDS - PANELIST



**TIMOTHY GAFFNEY-
MODERATOR**

Deputy Chief Underwriter, CBRE. Since 2001, Mr. Gaffney is dual certified in both HUD/FHA MAP and 232 Lean. He began his career in 1986 as a commercial real estate appraiser specializing in healthcare and MF valuation.



CHRISTINE MOSTEIRO

Director at HealthTrust. With 15 years of industry experience, Mrs. Mosteiro has completed more than 1,000 specialized senior housing and healthcare appraisals and is the HUD practice leader



J.P. LoMONACO

President, Valuation & Information Group, specializes in valuation and consulting services for the seniors housing and healthcare industry for 26 years



WAYNE HARRIS

Chief Appraiser, HUD's Office of Residential Care Facilities: Based in Portland, OR. Mr. Harris' staff of appraisers are responsible for the review of appraisal reports submitted with 232 mortgage applications.

POST PANDEMIC APPRAISAL TRENDS & CHALLENGES SUMMARY - AGENDA

MODERATOR

Timothy M. Gaffney – Deputy Chief FHA Underwriter

PANELIST

Christina C. Mosteiro
Director/HEALTHTRUST

J.P. LoMonaco
President-Valuation & Information Group

Wayne Harris
Chief Appraiser - ORCF

DISCUSSION TOPICS

- **Post-Pandemic Appraisal Trends & Challenges**
 1. Staffing Shortages and Contract Nursing
 2. A Tale of Two Facilities
 3. Capitalization Rates – NOI Influences
- **Staffing, Revenues and Legislation**
 1. Innovation: Gig Style option for part time staff
 2. Revenue Relief: SNF Reimbursement – Rate and Service Increases.
 3. General Legislation: New York, Illinois, Nebraska
- **ORCF Updates**
 1. Proposed Appraisal (Chapter 5) Handbook Changes
 2. ORCF E-Mail Blasts
 3. Balancing & Normalizing Financials
 4. Skilled Nursing Census Trends



Christine Mosteiro

HealthTrust

STAFFING SHORTAGE/ CONTRACT NURSING

Issues/Challenges:

- AHCA reported over 240,000 caregivers (15% of its total workforce) left industry since the start of pandemic, minimal gains (Source: Skilled Nursing News May 2022)
- Employment Cost Index (12/21) at 6.6% increase for employees at nursing and residential care facilities (Source: US Department of Labor, Bureau of Labor Statistics)
- Survey by ACHA indicated 58% of nursing homes needed limit to new admissions due to a lack of staff (Source: Fierce Healthcare Jan. 2022)
- LTC wings closed due to staffing issues, resulting in hospital discharge issues
- Increased Contract Nursing vs. Quality of Care/Costs



INCREASED LABOR COSTS

C-19 ADDITIONAL LABOR EXPENSES				
	Per Available Unit/Bed			Ratio of Non-C-19
	Min	Max	Avg	Labor Avg
IL	\$2	\$1,139	\$273	3%
IL/AL	\$5	\$1,310	\$420	2%
IL/AL/MC	\$11	\$6,366	\$962	4%
AL	\$12	\$3,416	\$733	4%
AL/MC	\$47	\$10,539	\$965	4%
MC	\$5	\$12,009	\$1,664	5%
CCRC	\$37	\$5,539	\$1,036	3%
All	\$2	\$12,009	\$899	4%

Source: HealthTrust, *The State of Seniors Housing* database (2020 data)

STAFFING SHORTAGE/ CONTRACT NURSING

Outlook/Resolutions:

- Enrollment in RN programs nationally swelled to 250,000 students (Source: American Association of Colleges of Nursing)
- Emerging trends will focus more on recruitment through technical/nursing schools/trade associations
- Strategic recruitment and retain staff through attendance/signing bonuses, overtime, and incentives, as well as compensation analysis
- Legislative changes and states restructuring minimum staffing/nursing hours requirements
- Discussion in appraisal along with market supported staffing models



STAFFING

1. Tale of Two Facilities
 1. SNF 1 – All private room, 60-bed facility built in 2013,
 2. SNF 2 – More typical 120-bed facility constructed in 1990s
2. Innovation
 1. “Gig” style option for parttime staff
3. Revenue Relief?
 1. SNF – Reimbursement
 2. Senior Housing – Rate and Service increases

CAPITALIZATION RATES-NOI INFLUENCES



REVENUE FACTORS

- Rate increases for AL/MC
- COVID concessions burning off
- LOC revamps and other revenue sources
- Medicaid/Medicare reimbursements
 - UPL
 - Elimination of Wards



EXPENSE FACTORS

- Staffing shortage
- Minimum wage
- Increase wages in 21 states with 11 at or moving towards \$15
- Non-profit abnormal expenses
 - Inflationary factor

COMMUNITY PROFILE COMPARISON

ALL			
COMMUNITY PROFILE	YE 12/31/20	YE 12/31/11	ANNUAL CHANGE
TOTAL PROPERTIES	321	321	
Occupancy	87%	90%	-0.3%
Total Revenues	\$3,522,078,043	\$2,753,930,039	2.5%
Revenues per Occupied Unit	\$62,607	\$52,815	1.7%
Total Operating Expense	\$2,602,134,511	\$2,023,174,866	2.5%
Operating Expenses per Occupied Unit	\$46,255	\$38,800	1.8%
Labor Expenses (included in total above)	\$1,385,019,409	\$1,067,763,404	2.6%
Labor as a Ratio of Revenues	39.3%	38.8%	0.1%
Net Operating Income	\$919,943,532	\$730,755,174	2.3%
NOI per Occupied Unit	\$16,353	\$16,598	-0.1%
Operating Margin	26.1%	26.5%	-0.2%

Source: HealthTrust, *The State of Seniors Housing* database

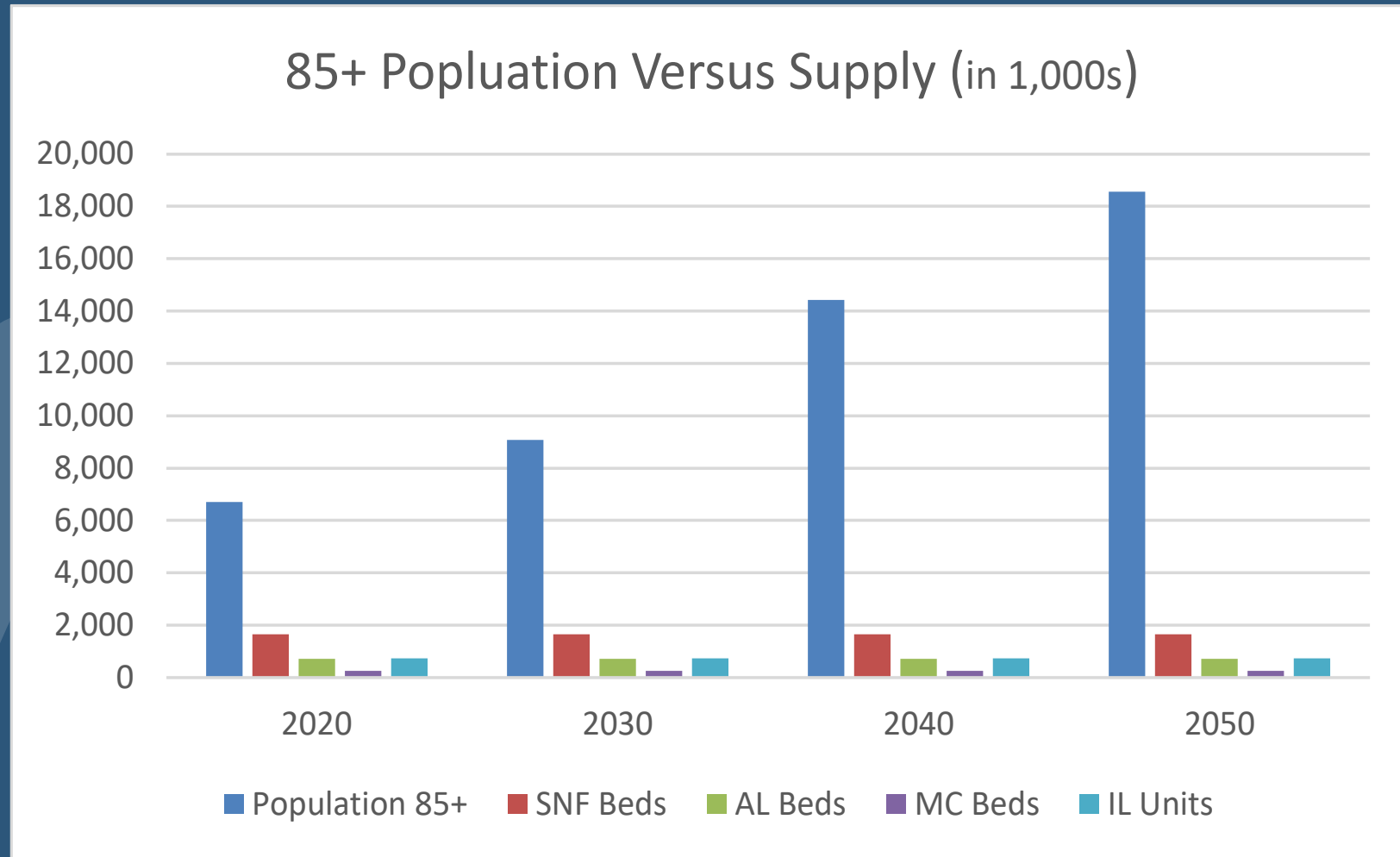
CAPITALIZATION RATES

Emerging Trends

- Inflation & Interest Rate increasing resulting in cost of capital rising
- Complex operating side
- Buyers investing based on targeted yields, as opposed to cap rates
- Demand growing with Baby Boomer population



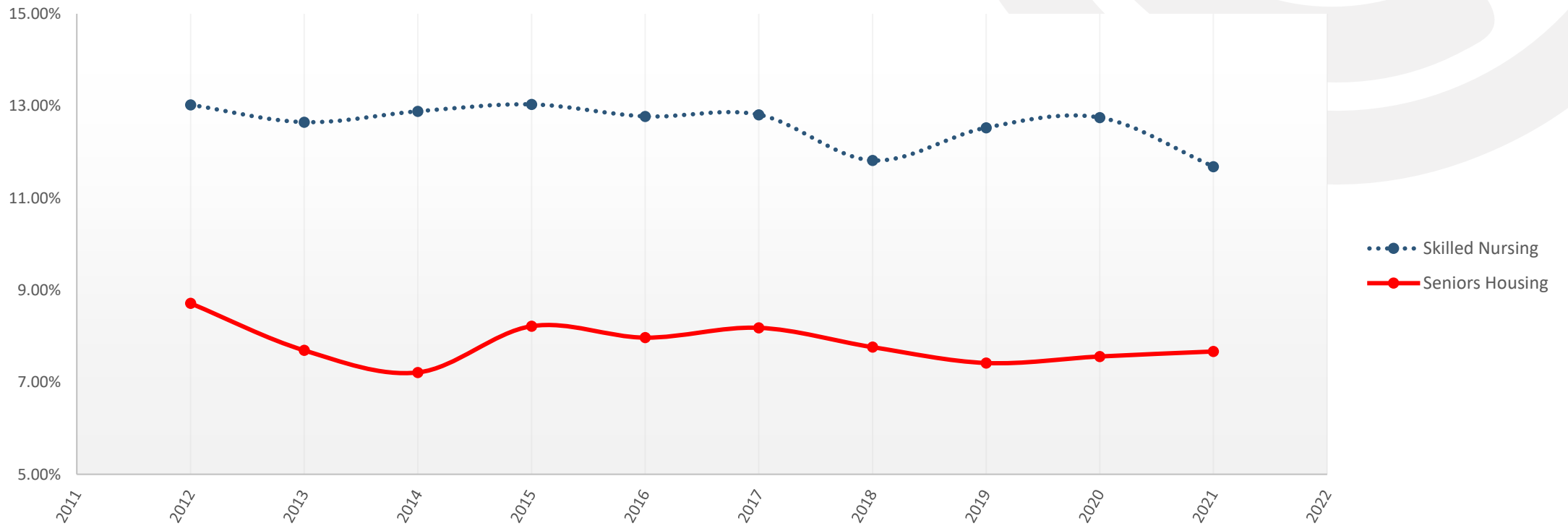
EMERGING TRENDS - POPULATION TREND



Source: Projected Age Groups and Sex Composition of the Population: Main Projections Series for the United States, 2017-2060. U.S. Census Bureau, Population Division: Washington, DC. and NIC MAP® Data Service

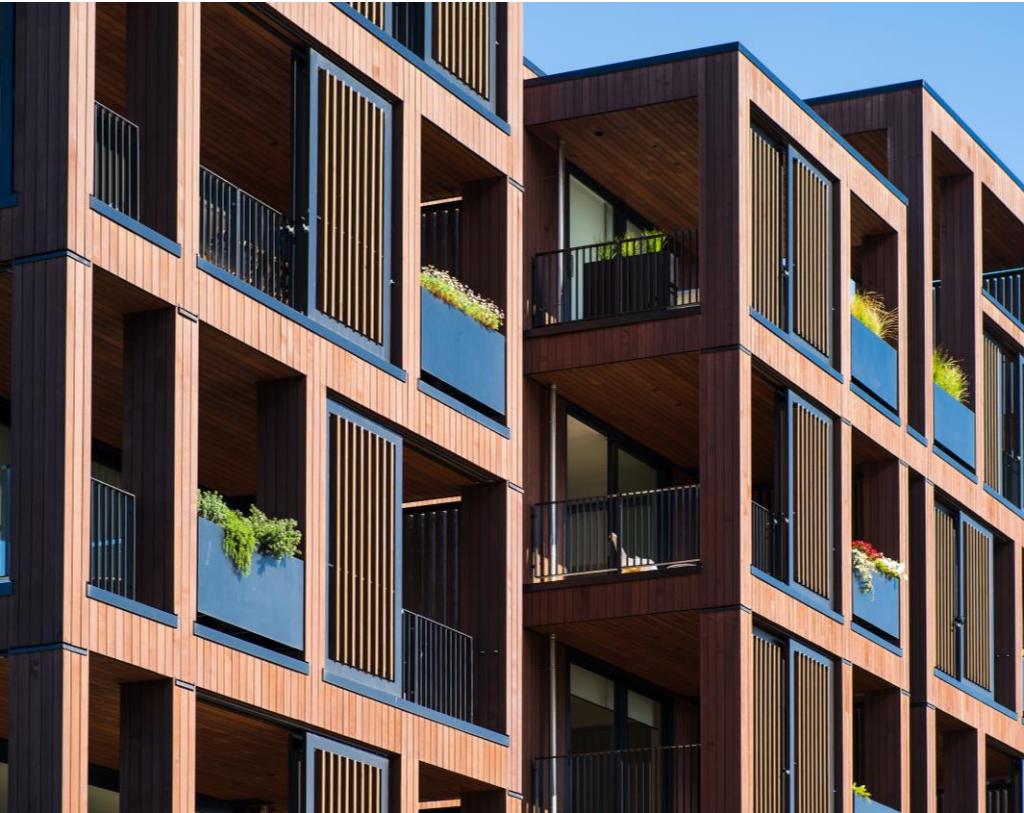
CAPITALIZATION RATES

Cap Rate Trends 10-Year



Source: HealthTrust

CAPITALIZATION RATES-CONCLUSION



- Few stabilized property sales
- Smaller operators exiting market due to challenges
- Deals that fell apart in early pandemic, closed later - often at same price, with rates higher or lower depending on buyer's pro forma
- Reconsideration of “risk” of skilled nursing versus seniors housing
- Cash flows moderating, sale prices remain unchanged or higher, resulting in cap rate compression



J.P. LoMonaco

Valuation and Information Group

New York

NY PHL 2828 – “70/40/5”

1. 70% of funding for direct care
 1. Define “funding”
2. 40% of which must be on resident facing staff
3. 5% profit limit
 1. Define “profit”

Staffing

1. 3.5 hours (2.1 CNA, 1.4 nursing)
 1. One size fits all?
2. 1/3 currently at proposed level
3. Regulations not written
 1. Daily, Weekly?

Investor Reaction

1. Activity
2. Profit Centers



Illinois - HB 246

- Approved in April, waiting for governor's signature and CMS approval
- \$700 million entering the system
- RUG IV to PDPM for case mix adjustments
- Strive Staffing Study to determine add-on (\$9.00 to \$38.68)
- \$70 million will go to value-based purchasing based the star rating system
- Provider Tax Increases
 - 0-5,000 paid Medicaid resident days \$10.67
 - 5,001-15,000 paid Medicaid resident days, \$19.20
 - 15,001-35,000 paid Medicaid resident days, \$22.40
 - 35,001-55,000 paid Medicaid resident days, \$19.20
 - 55,001-65,000 paid Medicaid resident days, \$13.86
 - 65,001+ paid Medicaid resident days \$10.67
 - Any non-profit nursing facilities without Medicaid-certified beds, \$7 per occupied bed day



Nebraska – Bill 1011

- Rates expected to increase 15%-20% for FY 2023
- FY23 rates will use the same days at FY22
- “Inflation Factor” (similar to a budget neutrality adjustment in other states – total dollars divided by days)
- Rebasing in FY24, which may include a census adjustments



AVERAGE SNF PRICE PER BED

POWERED BY
Levin Enhanced proprietary data

Unit: Thousands



*Some data points could not be filled in due to incomplete data.

Use of multiple filters at once can yield irregular results in some time periods due to the smaller sample size.

For further clarification, please contact our editorial team at editorial@levinassociates.com.

Source: LevinPro LTC, 2022

AVERAGE SNF CAP RATE

POWERED BY
Levin Enhanced proprietary data



*Some data points could not be filled in due to incomplete data.
Use of multiple filters at once can yield irregular results in some time periods due to the smaller sample size.
For further clarification, please contact our editorial team at editorial@levinassociates.com.

Source: LevinPro LTC, 2022



Wayne Harris

ORCF

EMAIL BLASTS

- ❖ February 23, 2022, June 30, 2021, & August 27, 2021 – Financial History
- ❖ December 16, 2021 – Staffing Shortage
- ❖ June 30, 2021 & February 24, 2021 - UPL/IGT/QASP/QIPP
- ❖ Oct 28, 2020 - gap between date of financials and date of the report.
- ❖ Feb 26, 2020 – Sales history



BALANCING & NORMALIZING FINANCIALS

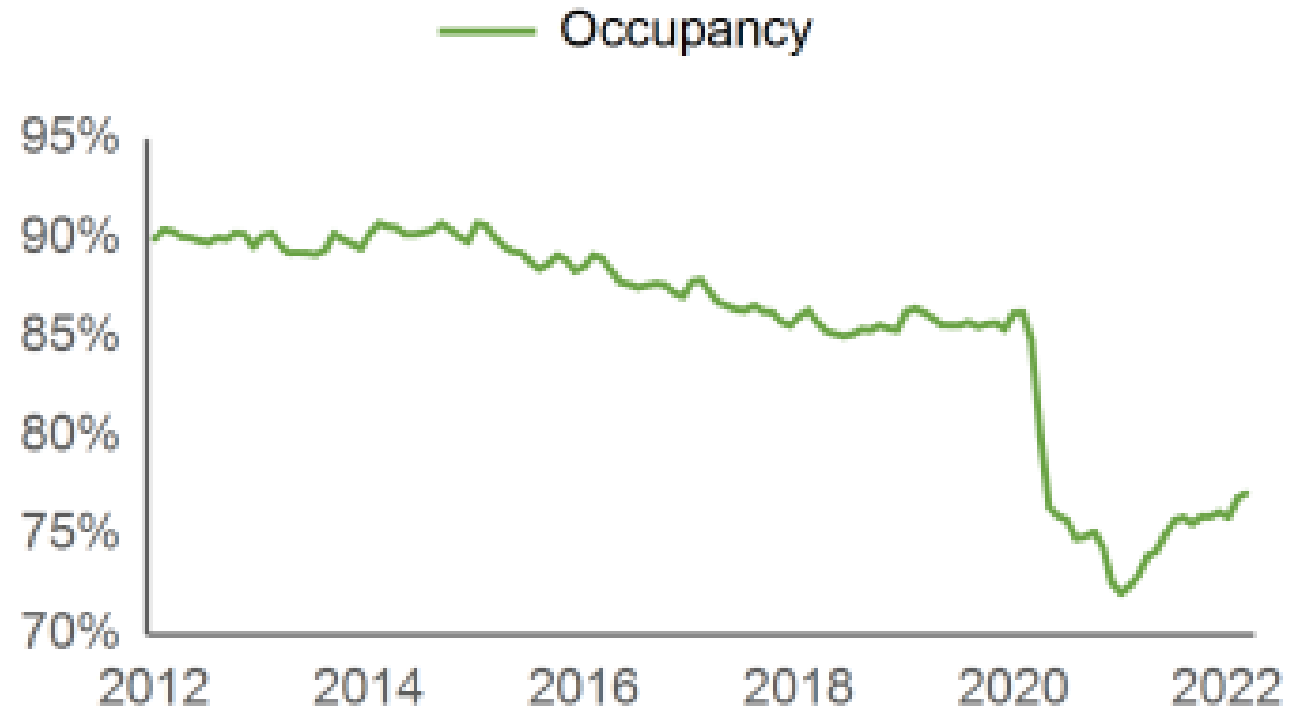
- ❖ Timing of most recent period
- ❖ Difficulty finding line items
- ❖ Covid Expenses
- ❖ Staffing Expenses

Reports
 derived from the raw Income & Expense reports

	FY 2018	FY 2019	FY 2020
Statements	\$634,661	\$642,788	\$1,362,211
OL on Row 39	\$1,562,663	\$1,557,163	\$1,207,211
	\$928,002	\$914,375	-\$155,066
Expense Add-Backs			
Gain/(Loss)			-\$4,368
Operations Revenue			
Leases			-\$1,064,494
			\$27,480
Furniture & Equip	\$111,028	\$111,230	\$96,214
Vehicles	\$8,866	\$8,866	\$8,841
Land Improvements	\$12,259	\$12,142	\$13,199
Lease & Bldg Improve	\$288,580	\$288,986	\$281,369
Expense	\$763	\$763	\$761
Contributions			\$4,383
Expenses	\$1,633		
Primary	\$495,053	\$485,739	\$477,311
Expenses			
Expenses			
	\$9,821	\$6,611	
	\$0		

OCCUPANCY

National Trends





Questions and Answers