

Operator Challenges

A Steeplechase Race



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MEET THE PANEL

Jeff Kagan, Esq.

President

Sterling Senior Care

Jeff Kagan, Esq., is the President of Sterling Senior Care, a healthcare company that currently owns and operates 10 healthcare communities in Maryland, including eight skilled nursing facilities and two assisted living facilities. Jeff oversees the day-to-day operations of the facilities as well as acquisitions and financing of new facilities and HUD refinances.

Jeff is also a licensed nursing home administrator and has been Certified in Healthcare Compliance. Jeff received his J.D. from Columbia Law School in 2000.



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Colleen Blumenthal, MAI COO & Partner HealthTrust

Colleen H. Blumenthal, MAI, has been appraising real estate and consulting with owners and investors for over 30 years, specializing in seniors housing and healthcare since 1992. She has developed HealthTrust's agency (offering both appraisal and consultant reports) and HUD platforms. In addition to her duties as the Chief Operating Officer of HealthTrust, she has served as the task force lead on the American Seniors Housing Association's *State of Seniors Housing* for the last 16 years; is a member of ULI's Senior Housing Council; speaks regularly on the seniors housing industry and valuation; has coordinated research and written studies with the American Seniors Housing Association and other seniors housing organizations; and has authored several seminars and white papers on seniors housing and care properties.



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Abby Hugill

Supervisory Account Executive Workload Manager Underwriting Division, ORCF

Abby Hugill joined HUD in 2008 through the MBA Fellows Program. Following the 2-year career development program, she worked for the Office of Healthy Homes before joining ORCF in 2018. She started as an Underwriter and was promoted to Underwriting Work Load Manager in May of 2024. Prior to joining HUD, Abby worked in the residential mortgage industry, where she advanced from an Underwriter to AVP of Underwriting and to VP, Regional Operations Manager. She holds a business degree from Michigan State University and an MBA from University of Colorado. Abby has called Colorado home since 2000 and lives in the foothills west of Denver with her husband and two sons, age 11 and 13.



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Jennifer Tadlock

Supervisory Account Executive
Workload Manager
Underwriting Division, ORCF

Jennifer has been with HUD for nearly 20 years cumulatively, starting in Multifamily Seattle, segueing to a hybrid risk management position in HUD San Francisco briefly, and now with ORCF out of Seattle since 2012. Prior to HUD she worked in non-profit small business lending and community development.



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Jennifer Zaucha

SVP & Senior FHA Underwriter

M&T Realty Capital Corporation

Jennifer Zaucha, Senior Vice President, is a Senior FHA Underwriter with M&T Realty Capital Corporation. She has seven years of FHA underwriting experience at M&T RCC, primarily focused on Section 232/LEAN transactions, and has worked on the underwriting of over \$500M of LEAN and MAP loans. In 2023, Ms. Zaucha collaborated with industry members to develop the course content and teach the inaugural MBA FHA Section 232 Virtual Workshop Series; she returned as an instructor in 2024. Ms. Zaucha is a founding board member and past President and Vice President of the Eastern Lenders Association Emerging Professionals Group (ELA EPG). She graduated from the University of Maryland with bachelor's degrees in Finance and Government & Politics.



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CHALLENGES



Operator Challenges

- **Bad Press**

- Impact on occupancy is not significant – if residents need to be in a facility they need to be in a facility
- Increases scrutiny and regulatory oversight
- Creates adversarial relationships between operators and legislators

- **Quality of Care – State Surveys**

- Many states are backlogged
- Significant resources invested in preparing for and completing a survey cycle
- Individual survey can find staffing or other deficiency at a point in time that is not representative of standard facility operations
- Surveys resulting in more deficiencies and higher severity of deficiencies than before the pandemic

Operator & Valuation Challenges – Reimbursement

- Medicare utilization on the decline
- Managed Care utilization increasing
 - Rates not keeping up with Medicare
 - Shorter average stays than Medicare
 - Medicare allows facilities to determine the length of stay and then audits to ensure stay lengths are appropriate
 - Managed Care dictates length of stay and outcomes are often worse; residents might end up returning to the hospital
- Operator – Delays in reimbursement

Operator Challenges – Staffing

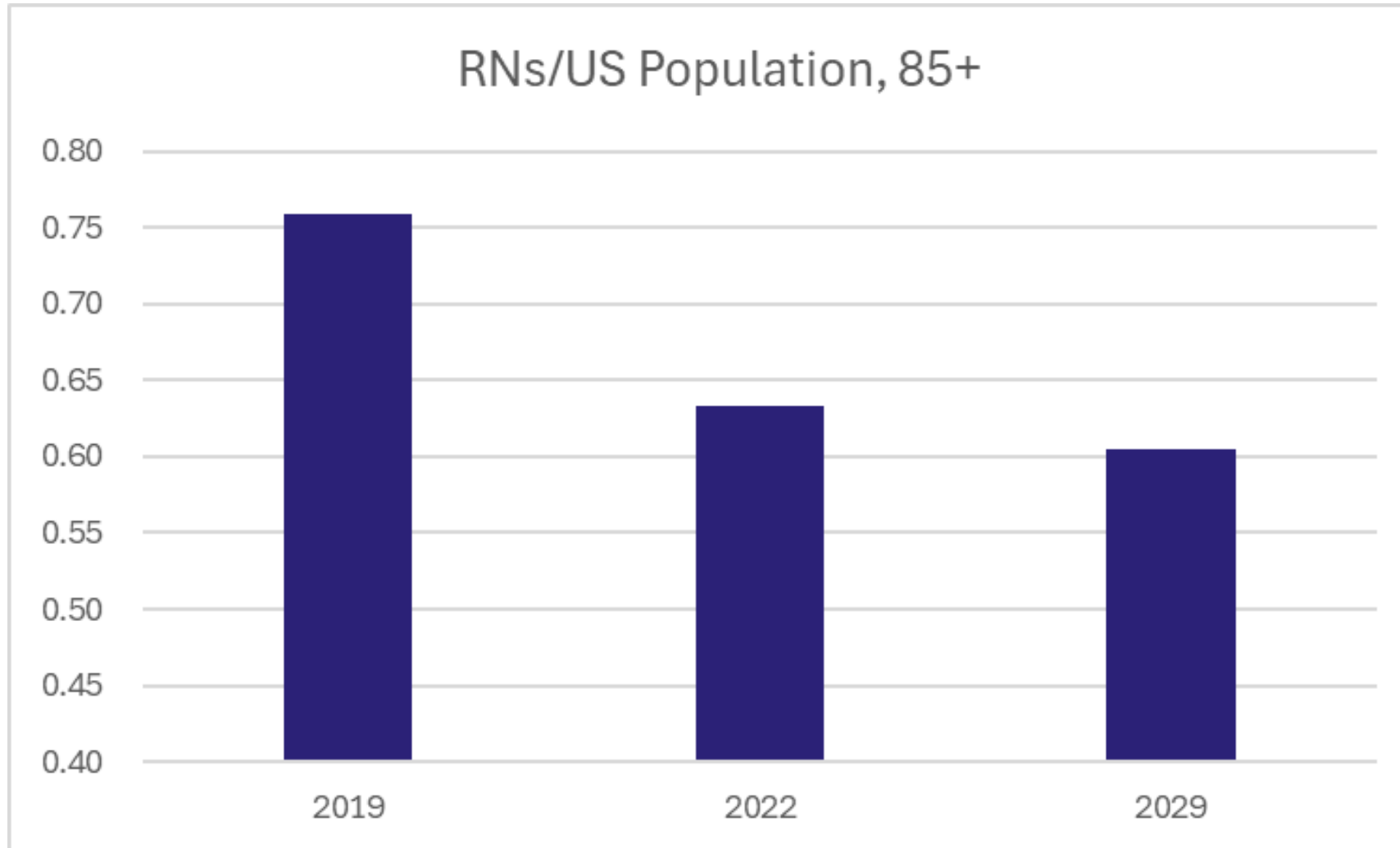
- **CMS Staffing Mandate**

- Many states already have their own staffing mandates, creating additional regulatory burdens
- Licensed Practical Nurses (LPNs) should have been included in staffing ratios
 - Provide valuable care services
 - Education very similar to RNs
- Mandatory Staffing Ratios are very high
 - One staffing model is not the solution at all facilities
 - Would be better to require adequate staffing for a given facility's patient population than to have a singular requirement

- **Availability of Staff – Registered Nurse (RN) Shortage**

- Current shortage and pipeline is insufficient
- Some states have created incentive programs for RNs to relocate but this does not increase overall supply of staffing just the geographic distribution of it
- Programs available for other staff types to train to become RNs but there is insufficient demand for enrollment
- Immigration currently not a viable pipeline

Operator & Valuation Challenges – Staffing



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Source: National Nursing Workforce Survey (2020, 2022), BLS and Claritas

Operator & Valuation Challenges – Staffing

- **Cost of Staffing**
 - Increased staffing cost to meet state and federal mandates
 - Increased staffing cost to prepare for and complete state surveys
 - While overall wage indexes are decreasing, the Senior Housing wage index has lagged (demand still greater than supply)
- **Valuation – Possible to calculate the actual cost of staffing compliance for state and federal mandates**

Operator & Valuation Challenges – Staffing

STAFFING MATRIX			
	Stabilized FTEs	Wage Rate	Stabilized Total
Admin & General			
Executive Director	1.00	\$55.10	\$114,618
Receptionists/Clerical	2.00	\$19.01	\$79,083
Office Staff	1.50	\$21.44	\$66,893
Admissions Staff	2.00	\$26.31	\$109,467
Nursing			
DON	1.00	\$54.34	\$113,026
Unit Mgrs/MDS Coordinator	4.00	\$45.61	\$379,493
RNs	4.28	\$42.70	\$380,128
LPNs	10.70	\$30.25	\$673,059
CNAs	32.87	\$20.04	\$1,370,083
Medical Records	1.48	\$24.07	\$73,836
ACTIVITIES/SOCIAL			
Director of Resident Services	1.00	\$31.42	\$65,362
Driver	0.67	\$18.94	\$26,270
Social Workers	1.00	\$30.16	\$62,729
MAINTENANCE			
Maintenance Director	1.00	\$26.36	\$54,832
Maintenance Technicians	0.77	\$17.02	\$27,136

Source: HealthTrust

Operator & Valuation Challenges – Staffing

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HT PROJECTED NURSING CARE STAFFING

Position	FTEs	Residents	Hours/Resident	Requirement	Compliance?
RNs	9.28	67	0.70	0.55	Yes
LPNs	10.70	67	0.80	--	--
CNAs	32.87	67	2.46	2.45	Yes
Subtotal			3.96	3.48	Yes
Total Nursing Care/Resident			3.96	3.48	Yes

Source: HealthTrust

Operator & Valuation Challenges

- Insurance – availability & cost
- Increased Regulation – costs for preparation or costs for failing to meet requirements
- Rural facilities
 - Declining populations
 - Lack of staffing and availability of agency staffing – no ability to meet staffing mandates
 - Valuation – price/bed very low
- Assisted Living Facilities – overall occupancy has recovered from the pandemic but remains depressed compared to 8-10 years ago

Operator & Valuation Challenges – Financing

- Interest Rates – interest rate environment still high
- Overall, actual operator margins are improving, but HUD is still viewing operations and valuation very conservatively
- Operator –
 - HUD focus on previous experience, particularly previous HUD experience
 - Newer operators with less experience could be less risky than larger operators who are less nimble
 - Scalability has limits in this industry
 - Previous HUD experience does not inherently mean a client is lower credit risk
 - Corporate Credit Review (CCR) Mortgagee Letter: Requires operators to complete a CCR where they might not have had to previously

Operator & Valuation Challenges – Facility Sales

- **Operator**

- Change of Ownership (CHOW) Process & DOH Approvals

- Increasingly difficult and slow in many states
 - Enhanced scrutiny
 - Increased restrictions

- Often operators have a reason for exiting the facility and a slow sale does not improve operations
 - Results in more interim management agreements while waiting for CHOW to process

- HUD TPA Approvals

- Timing delays – process is taking at minimum nine months from beginning of application preparation to “loan closing”
 - HUD does not like the interim management agreements that are often needed to bridge the significant HUD TPA and CHOW/DOH processing delays

- **Valuation – fewer buyers are able and willing to be in market**

- Difficulty of acquisition process
 - Previously discussed operator challenges

ORCF Perspective

- **Staffing**
 - Availability in the market and expense to obtain
 - Agency
 - Trends – cost increases
 - Impact on Quality of Care
 - Ability to meet state & federal minimums
 - Explanation of 1-star staffing rating
- **Quality of Care – successful risk management program**
 - Subject facility
 - Related facilities – especially facilities on PLI policy

ORCF Perspective continued

- Experience of Operator's principals at other facilities

- Similar experience
 - Size
 - Resident acuity
 - Regulatory environment (state/region)
- Positive cash flows (provide turn-around projects for recent purchases with stark increases in NOI)
- Mortgage payment history (especially for any other HUD-insured facilities; any delinquencies or defaults on related HUD-insured facilities will stop processing)
- HUD-insured projects in good standing with Asset Management
 - Timely financial submissions
 - Completion of requests such as action plans
 - Acceptable star-ratings
 - Strong portfolio DSCR (especially if new application has lower DSCR)

FUTURE OUTLOOK

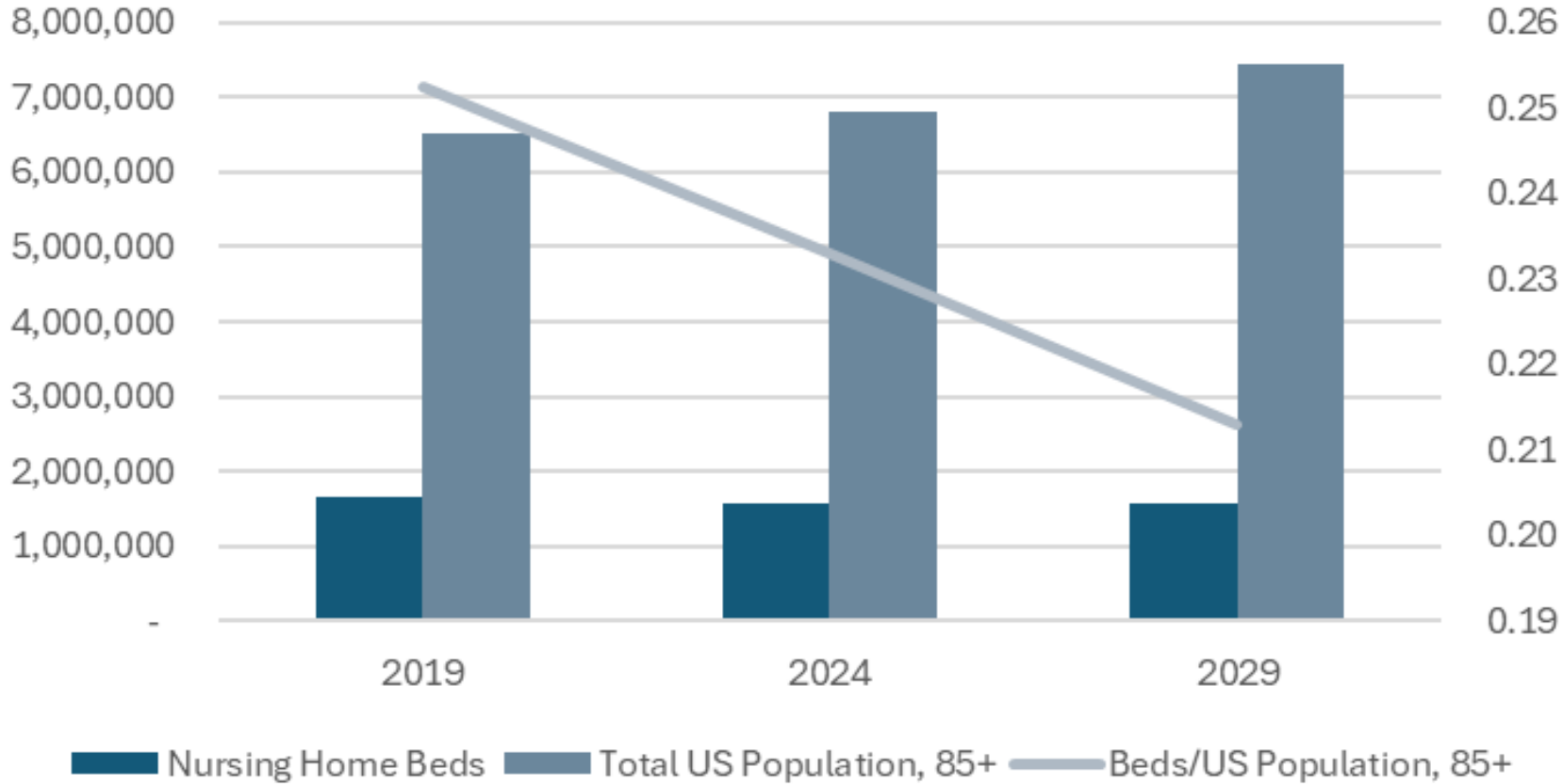


Operator & Valuation Perspective

- State Surveys – some states have hired contractors and are back on schedule
- Financing – Interest Rates – interest rate environment expected to improve
- Reimbursement
 - Many states have increased/are increasing Medicaid rates
 - Managed Care
 - After showing outcomes, some operators are negotiating better rates
 - Some states have formed groups to negotiate better managed care rates (e.g. Iowa)

Operator & Valuation Perspective – Senior Demographics

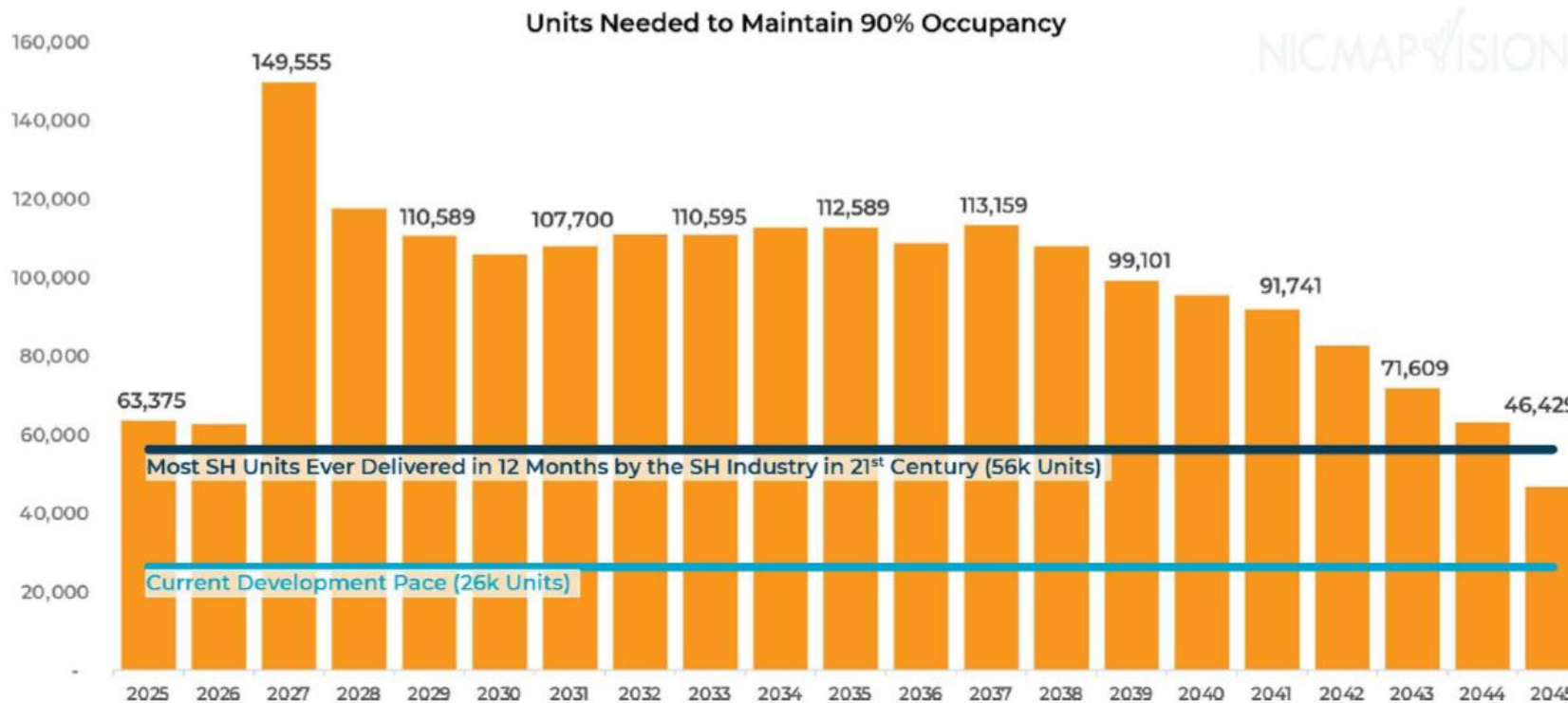
Nursing Home Supply vs 85+ Population Changes



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Operator & Valuation Perspective – Senior Demographics continued

Unit Growth Needed Will Exceed Prior Records



Operator & Valuation Perspective – Staffing

- Costs have largely stabilized
- Market somewhat improved; agency utilization lower

NURSING EXPENSE TRENDS (MEDIAN)

	Projected (2024)	2023	2022	2021
Agency PRD	\$13.15	\$14.66	\$21.70	\$5.04
Nursing Salaries PRD	\$112.38	\$106.13	\$96.57	\$92.36
Total Nursing Costs PRD	\$154.57	\$159.69	\$166.11	\$146.57

Source: HealthTrust

ORCF Perspective

- In general, we are seeing financials with strong positive trends
- Many states are increasing rates, and expenses are starting to stabilize
- Projections in EGI need to be supported by an effective rate letter and recent performance; if not, mitigation or hold required
- Loan Volume in FY 2024 was better than we expected (263 firms issued)
- FY 2025 volume is increasing drastically with rates coming down
- CMS Data is helpful, but there is a lot of noise, many states are behind on annual surveys

Questions?



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Thank you!

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