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Looking up, up, up

Given the demographics, experts predict a substantial demand for senior housing and care is in coming years.

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It’s blue skies for long-term care M&A

Challenges remain, but occupancy, demographics propel market forward

Photos: Getty Images; photo illustration by *McKnight's*

BY DONNA SHRYER

The long-term care mergers and acquisitions market is riding a wave of renewed optimism, even though investors and operators continue to navigate a complex landscape of challenges.

An uptick in activity reflects this glimmer of confidence. The first quarter of 2024 saw 147 publicly announced transactions in the senior housing and care M&A space, according to LevinPro LTC. This marks a major 34% increase compared with the first quarter of 2023 and a more modest 0.7% decrease from the fourth quarter of 2023. To put it

Technology such as artificial intelligence has emerged as staffing shortage solutions. AI can help prevent falls through monitoring systems, wearable devices and video analytics that identify patterns and triggers that increase fall risk. AI then can instigate staff member interventions.

Photos: Getty Images; photo illustration by McKnight's

in other terms, more than $3.5 billion was spent on transactions in the first quarter of this year. The amount skyrocketed by 150% from the year-ago first quarter and also represented an 11% decrease from the fourth quarter of 2023, based on disclosed prices.

This boost in transaction activity follows steadily improving long-term care occupancy rates, which now almost equal prepandemic numbers. It also reflects strong demographic tailwinds that are creating a need for growth and expansion in the senior housing and care market. Simultaneously, persistent staffing issues and stubborn financial dynamics have investors and operators in the field approaching opportunities cautiously.

Signs of recovery

Assisted living accounted for 43% of M&A transactions in the first quarter of 2024, followed by skilled nursing at 39%. Independent living deals comprised 8% of the quarter's total, whereas continuing care retirement communities accounted for 5%. Affordable senior housing and active adult transactions made up 3% and 2%, respectively.

"First-quarter data definitely showed that transaction activity remains low," said Lisa McCracken, head of research and analytics for the National Investment Center for Seniors Housing & Care. She added, however: "There is some increase in transaction activity, and that's more in individual transactions — single communities, maybe two — as opposed to big portfolios changing hands."

This shift toward smaller, more focused transactions suggests a cautious but steady return to M&A activity, said Dan Revie, managing director at specialty investment bank Ziegler. "There are a number of distressed campuses that are working their way through ownership changes in the M&A process," he said. "On the skilled nursing side, the market is strong, with a lot of interest from those looking to acquire skilled nursing."

The caveat, McCracken emphasized, is having access to cash.

"Yes, things are happening," she said. "If you are a strong operator or acquirer and have a solid history with lenders, then things can happen. You may not get everything you want at the price you want, but things are happening."

Recovery drivers

Behind the slow but noticeable improvement in the M&A market is a sort of "been there, done that, have the T-shirt" mentality.

"We've been in this post-COVID recovery environment for an extended period of time

> "If you are a strong operator or acquirer and have a solid history with lenders, then things can happen."
>
> **– LISA MCCRACKEN, HEAD OF RESEARCH AND ANALYTICS, NATIONAL INVESTMENT CENTER FOR SENIORS HOUSING & CARE**

now. And I think certain entities are coming to the realization that sitting and waiting for things to turn around isn't realistic," McCracken said. "At this point, we really have migrated away from pandemic recovery and, quite frankly, I think organizations in senior housing and care are looking ahead, not back."

As the market looks forward, powerful demographic tailwinds spotlighting the Baby Boom generation and its increasing need for senior housing and care are helping fuel the optimism.

"There's that old adage about a rising tide lifts all ships, and I think that when you look at the demographics over the next number of years, there's going to be a substantial amount of demand for senior housing and care," Revie said.

According to the most recent Census Bureau data, more than 15 million adults, or almost 1 in 6 Americans aged 55 or older, are childless, which potentially means fewer familial options for caregiving. At the same time, baby boomers continue to defy traditional life spans, as medical advances and informed healthy lifestyle changes push life expectancy in the United States to 77.5 years. The number of centenarians in the United States, already at an all-time high, is poised to quadruple over the next three decades.

Increased need for senior housing and care already is apparent, McCracken noted.

"The good news — and the headlines that we pay attention to — is that when you look at the market fundamentals, we continue to move in the right direction," she said. "We're quickly approaching pre-COVID occupancy numbers, and strong absorption levels are a reflection of the consumer demand."

> "We're seeing more creativity in getting transactions done now than we did a year or two ago, when it was more of a take-it-or-leave-it environment."
>
> **– DAN REVIE, MANAGING DIRECTOR, ZIEGLER**

Creative measures in a new normal

To keep momentum moving in the right direction, many operators and investors are rethinking business as usual, adapting to the economic environment and creatively reevaluating how to increase portfolio value.

For example, Revie said, existing campus acquisitions are winning in the buy-versus-build debate.

"Given what's going on with inflation and inflated construction costs, a number of buyers view the buy as more attractive than the build," he said. "We'll see how long that continues, but there's a lot of interest in acquiring campuses right now across the whole senior living spectrum, from independent living all the way to assisted living."

Buyers and sellers also are rethinking how to approach deal structures, as traditional financing continues to prove challenging.

"We're seeing more creativity in getting transactions done now than we did a year or two ago, when it was more of a take-it-or-leave-it environment," Revie said.

Elaborating on some of these creative approaches, he said: "For example, seller notes are being used more frequently. Alternatively, we've seen more lease-to-own transactions, where you lease the campuses for a period of time with an acquisition option at some point in the future."

Another spin on tradition is the market's increased interest in value-add properties. Those are assets that offer potential for improvement through better management, strategic repositioning or significant updating.

"There is a degree of underperforming communities and properties out there," McCracken observed. "I think in these situations, particularly if you are underwater from a debt standpoint, the hope is to bring in a buyer who can turn things around."

A key to adding value, according to Revie, is to find a way to expand portfolios and achieve economies of scale.

"Providers are really looking for additional scale that'll enable them to spread their overhead costs across a greater number of buildings and thereby reduce costs at the individual facilities," he said. "I think that's a strong driver behind what's going on in the M&A world."

Thorn in the side of long-term care

Staffing remains a critical challenge in the senior living and care sector. Innovative technologies, however, are emerging as potential solutions. A strong belief exists that artificial intelligence has the potential to streamline operations and give staff members the support they need.

For instance, AI can help prevent falls through monitoring systems, wearable devices and video analytics that identify patterns and triggers that increase fall risk. AI then can alert staff to intervene promptly.

"Fall prevention has significantly improved quality of care on a number of campuses and helped the staff at those campuses," Revie said.

The trick, he stressed, is to balance technology integration with the human element of care.

"Technology will be a big part of long-term care in the future," he said. "But there's always going to be a need for that human element and that quality of care that only a person can provide."

Future of senior housing and care

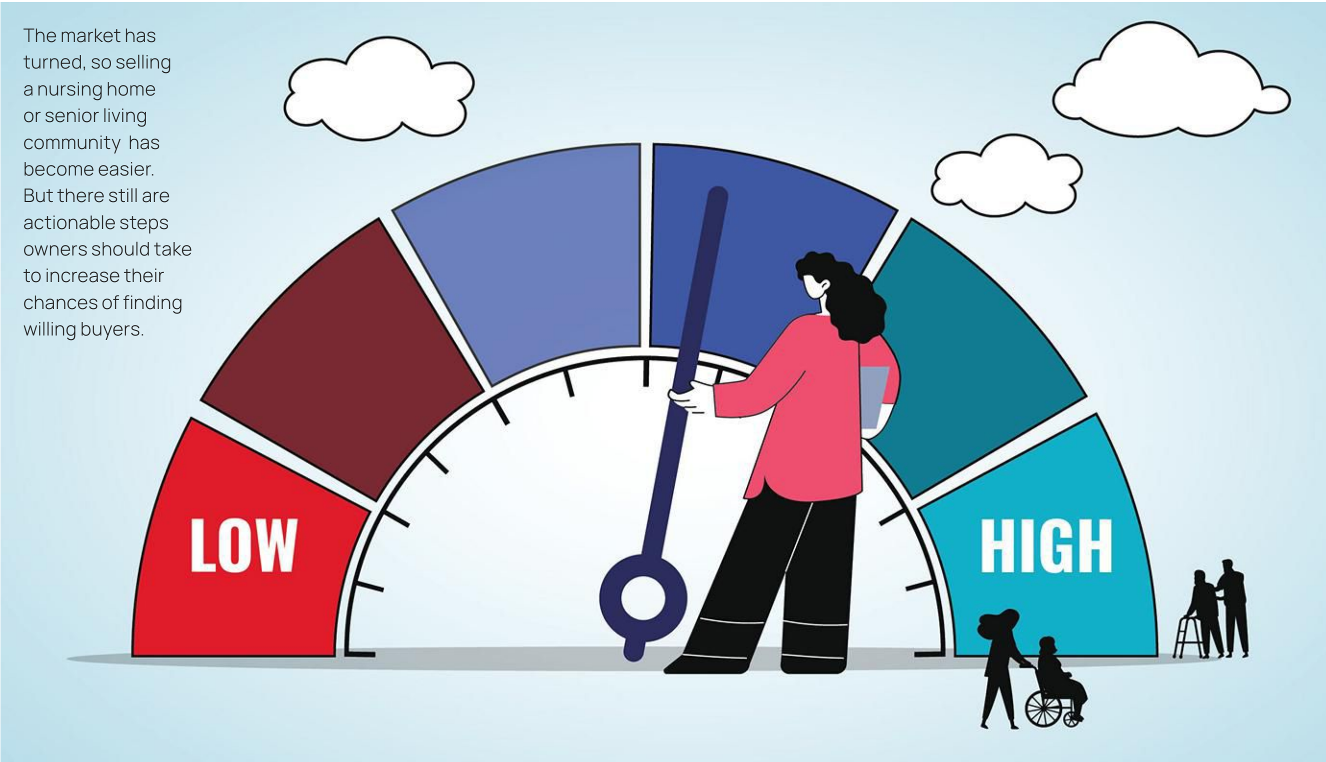
Even as the senior living and care M&A market continues to navigate complex challenges, cautious optimism exists for potential improvements this year. As for the current financial environment, the Federal Reserve has penciled in one interest rate cut in 2024, which may further stimulate M&A activity, although that thought remained speculative as of mid-summer.

Demographic trends also could trigger activity, as demand overshadows financial challenges.

"The age wave is compelling," Revie noted. "So it's hard for me to find reasons to be pessimistic on M&A activity going forward." ■

Looking to sell a property?

Beef up staffing, update living areas to increase appeal, experts advise



The market has turned, so selling a nursing home or senior living community has become easier. But there still are actionable steps owners should take to increase their chances of finding willing buyers.

Photos: Getty Images; photo illustration by *McKnight's*

BY LAURIE BUDGAR

The decision to sell a nursing home or senior living community requires a strategic approach to maximize value, particularly for properties that may be in some degree of operational, financial or physical distress.

The good news is that now may be exactly the right time to begin that selling process.

"The market has evolved a little bit, and … the ability to get a transaction done has become a little bit more attractive than it was 12 or 18 months ago," for both buyers and sellers, said Don Pelgrim, CEO at Wilshire Finance Partners. "It took a little while for the marketplace to adjust to the fact that you had a very steep rise in interest rates over that short period of time."

In addition, absorption and occupancy rates are increasing for all types of facilities and communities, making them more attractive to potential buyers, noted Lisa McCracken, head of research and analytics at the National Investment Center for Seniors Housing & Care.

"There are more people today than ever living in a senior living community. It's fantastic; it speaks to the demand," she said.

McCracken also noted that construction of new buildings has slowed, so buyers looking to expand their portfolios usually must acquire existing properties.

And buyers are eager to find opportunities in every segment of the market, according to Tony Marino, managing director at Cambridge Realty Capital Ltd. of Illinois: "There really is nothing that I've seen somebody say they wouldn't take a look at."

The following are some tips to get the most out of a property sale.

Get real

Maximizing valuation "is going to be about stabilization," Pelgrim said. "It's going to be the ability to demonstrate that you've got consistency in your people, income, operations and plant equipment and that you're generating a sufficient amount of cash flow to justify the valuation."

Marino said that a top priority before someone sells should be to perform an honest and complete assessment of the building and its capital needs.

"In most scenarios, there is work to be done to get an asset back to where it was in its previous glory," he said. Begin by determining what the property will require to turn it around, "and then crafting something that could be easily assumable" for a buyer.

Reputation in the marketplace is critical, too, Marino said, because if it is poor, then an operator ends up with occupancy issues. And McCracken noted that if a seller has occupancy issues in the current environment, that's a red flag to potential buyers.

Scope out staffing

Staff play a big role in that reputation. That's especially true, Marino said, "with market-rate [senior living communities], where you're attracting residents, not referrals."

If the seller's reputation in the community is damaged, then a change of leadership may be in order. "You may have to be willing to part with somebody … maybe bring in some fresh voices to the conversation," Marino said.

Next, look at the marketing or business development team, and, in a nursing home, possibly the director of nursing — basically anyone critical to attracting residents.

"Then it goes to the key staff below them: nurses," Marino said.

Specifically, does the property have enough staff members — without relying on agencies? And can the right nurses be attracted? Nurses are the lifeblood of many long-term care facilities, he said, adding that buyers factor in the current nursing shortage in their offers.

Having the right people in the right roles not only can help improve occupancy levels; it also quickly can improve the culture and operations of a location, making it a more attractive acquisition.

Pelgrim suggested that sellers look at whether they can gain any efficiencies in their staffing models. For example, a senior living community might consider allowing dining room servers to assist with resident care outside of mealtimes, to reduce the number of staff members it needs to employ.

Perk up the property

Data indicate that properties of all types are aging, McCracken said, and that situation can affect any transaction. Unfortunately, older usually is not better.

"Is the facility updated?" she asked. "Are amenities in alignment with the customer demand?" If not, then the seller will need to determine what capital expenditures are needed to create that alignment.

Consider refurbishing the exterior, entryway, lobby, hallways and dining area if they look dated, Pelgrim and Marino suggested. Perhaps add new signage and landscaping. And be prepared to deal with any mechanical issues that may have been neglected.

If a seller doesn't have the capital to invest in such upgrades, options still exist. Some buyers "may be looking for something that has some nicks and scratches and dents in it" that they can acquire at a lower cost, particularly if they're considering repositioning it in the community, Pelgrim said.

Factor in financials

Even if a property has operational or physical challenges, the right financing can help sway a buyer. Often, Marino said, that means having in place a long-term loan "that's fully assumable, nonrecourse, fully amortizing and has a very low interest rate compared to current rates. That's a substantial benefit to a buyer."

Or if a potential buyer thinks it can turn around a distressed building, it may be able to refinance the existing loan for more favorable terms. That's when it is essential for a seller to understand how the property might be repositioned in the marketplace — and communicate that information to potential buyers.

Explore repositioning

If a property no longer is attracting referrals or residents or isn't bringing in the necessary revenue, then it may do better if it is repositioned. Understanding and communicating the options may help owners land a sale. Some potential scenarios:

- Turning closed nursing homes into middle-market independent living communities.
- Transforming double (or larger) rooms into singles. This option has become more appealing to residents since the pandemic, Marino said, especially in the higher-end market for senior living.
- Going down-market and reconfiguring private rooms into doubles. Doing so can increase the per-day rate and the total revenue per room, Pelgrim said.

The option chosen comes down to understanding the market in which the seller operates.

It also can help for the seller to share the original vision of the property with potential buyers, even if that vision never was quite achieved, Marino suggested. That effort could include offering services such as dialysis or memory care, or expanding rehab, he said.

It also is important to note that many states have changed their reimbursement rates post-pandemic, Marino said, especially for specialty offerings such as ventilator care and rehabilitation. Sellers should take the time to explore whether that is true for the state where the property is located and, if so, make sure buyers are aware of it.

Timing the sale

Sometimes, an organic timing for an exit exists.

For example, if the capital stack and ownership structure are coming to an end, then it's a natural time to sell, even if the property is perfectly healthy, McCracken noted. In any case, it's ideal to sell before the property is showing signs of distress, she added.

"Then it's going to be too late," McCracken said. "And, quite frankly, some of the control goes out of your hands."

Similarly, Marino suggested, if a property has reached the limit of its business growth potential, it might be time to consider a sale.

"Most owners are going to have more than one facility," Marino said. "So linking them all together and seeing where the economies are, where efficiencies lie, where long-term relationships have been established," can help someone decide which properties to hold onto, and which to let go.

And sellers in the business for a while should think about how much time and money they personally want to invest in the work, according to Marino. "What is your exit strategy, where do you want to go and when do you want to get there in terms of the next step in your personal and career [goals] in this industry?" he asked. ■

Photo: Tori Soper Photography

BY JOHN HALL

Thought leaders will convene in Washington, DC, in late September to attend the National Investment Center for Seniors Housing & Care's annual Fall Conference. The theme of the event is "Navigating the crossroads: Insights for strategic choices."

"Our goal is to leave attendees with valuable, actionable insights they can apply to their day-to-day business," NIC CEO and President Ray Braun said. "The conference does that by fostering connections and showcasing opportunities." (The complete conference agenda is at *fallconference.nic.org*.)

McKnight's spoke with Braun just before going to press.

McKnight's: What kind of reception do you expect at this year's meeting?

Braun: Registration is moving at a brisk pace, and we expect up to 3,000 attendees. We view our role as leading the evolution of the housing and care industry. The supply/demand fundamentals are compelling, and operating results continue to improve. Because of uncertainty in the capital markets, primarily around debt financing, attendees realize this will be an important time for operators and capital providers to explore strategic options.

McKnight's: What's new about this year's conference?

Braun: Previous conferences showed us that attendees want hands-on, real-life examples of and actionable insights on how they can apply what they learn to their day-to-day work. This is why we've structured some sessions, such as ones about active adult, aging technology and the middle market, to have both a main stage presentation and interactive workshops where attendees can implement lessons with the experts.

McKnight's: What are highlights conference attendees can expect?

Braun: Attendees will want to evaluate the political and economic outlook, among other things. NBC's Chief Political Analyst Chuck Todd and former US Secretary of Health and Human Services Mike Leavitt will engage in an in-depth discussion on the upcoming election and its implications for the senior living and care industry. The timing of our convening in late September couldn't be more salient, given potential monetary policy shifts on the horizon. Diane Swonk, chief economist at KPMG and a globally recognized adviser to policymakers and business leaders, will provide a critical exploration of the economic landscape impacting senior living and care. Also, our "Fireside chat with Chris Merrill," the visionary co-founder, chairman and CEO of Harrison Street, will provide perspective on the keys both to growth and investing in senior housing.

McKnight's: What's the current buying and selling climate for senior housing and care?

Braun: Coming out of the pandemic, we entered an inflationary period, and rates were adjusted to combat inflation. Transaction activity has been solid this year. As expectations adjust for the new normal in interest rates, we would expect increasing activity. People are starting to adjust to the new pricing that's implied through these new interest rate shifts. Buyers and sellers will still need some time to get comfortable with this. We've been at this higher rate environment for a while, and they're starting to adjust pricing expectations, and underwriting reflects that.

McKnight's: How is the recovery in senior living and care going?

Braun: We continue to see increasing occupancy from the pandemic lows. In fact, the number of people living in senior housing and care today is at a historic high. We've also seen significantly higher-than-average rate adjustments to offset the impact of higher inflation on expenses. We're seeing margins improving. Net operating income after expenses is growing. We're also going to need more than half a million units between now and 2030. We hope to see financing and development costs that will turn into rates that are affordable for the consumer. And so that's what people are working through, because the demand is there. It's just a matter of getting it to be economically feasible.

McKnight's: Last year, you said labor and capital markets were a little questionable. Is that still the case?

Braun: Capital markets and availability of debt capital do remain a concern. The labor market is stabilizing compared with where it was just a year ago. We now have a full workforce. Still, attracting, retaining and empowering the best workers remains a challenge on the operations side. ■

It's time for senior living providers to forge primary care partnerships

BY FRANKE P. ELLIOTT

Senior living is emerging from an industry-altering event that turned the fundamentals of the business model upside down. For the first time, congregate care settings were viewed as an "unsafe" place to both live and work due to the highly contagious COVID-19 virus.

The industry experienced unprecedented declines in occupancy rates and revenue, while expenses associated with staffing, enhanced infection control programs, supply costs and, in some cases, building modifications — for instance, special isolation units for residents infected with the virus — increased significantly.

Early signs exist that the industry is poised to rebound from this Black Swan event, with occupancy rates approaching pre-pandemic levels, moderated supply growth, etc. But the aftershocks of the COVID-19 pandemic and the following industry trends are converging to create opportunities for senior living and advanced primary care organizations to work more collaboratively for the benefit of one another and the customers they serve.

- **Aging population and needs-based demand.** The "silver wave" has arrived. One of the largest generations in US history, baby boomers will begin turning 80 in 2026 (the youngest will turn 62 that year). Simultaneously, with the help of home modifications, assistive devices, technology advancements and the increased availability of home- and community-based services, more older adults now are enabled to meet their activities of daily living needs and delay moving into senior living settings. As a result, upon move-in, senior living residents now are older and more medically complex (comorbid, mobility impaired, cognitively declined).

"Adoption of VBC arrangements continues to grow."

– FRANKE P. ELLIOTT, BLOOM HEALTHCARE NETWORK

- **Consumer expectations.** Accordingly, consumer expectations of the senior living industry are changing. Families are more dispersed than ever, and adults are remaining in the workforce longer, making it challenging to get their loved ones to necessary medical appointments. As a result, beyond assistance with ADLs, family members with loved ones in assisted living are looking for solutions that bring care to the resident and don't require travel outside the building.
- **Adoption of value-based care.** In an effort to better control costs and improve quality of care and health outcomes, adoption of value-based care arrangements continues to grow. Increasingly, the federal Medicare program and Medicare Advantage organizations are partnering with advanced primary care providers (and in some cases, senior living organizations) to adopt value-based care arrangements.

Historically, senior living organizations haven't had a pressing need to focus on deeper primary care partnerships. But now more than ever, given the trends, is the time for senior living and primary care organizations to forge new partnerships.

Senior living operators should be intentional and discerning in identifying primary care partners that can bring care directly to their communities and establish collaborative relationships with those that are best positioned to provide longitudinal whole-person care for their residents. They should work with primary care organizations that are purpose-built for value-based care, with the majority of their resident census in value-based arrangements.

Primary care partners should have the financial stability and resources necessary to grow and provide at scale consistent service and outcomes to meet their company's needs across multiple communities. The capability should include the ability to invest in programs and collaborative workflows with community staff members to improve resident safety and overall well-being.

With the right partners, senior living organizations can position themselves to meet the changing needs and expectations of a growing customer base while improving their operating and financial performance by making their communities more attractive to potential residents, improving occupancy and resident retention, and improving customer satisfaction.

Now is the time for senior living and primary care organizations to take their relationships to the next level. ■

Franke P. Elliott is the co-founder and chief strategy officer of Bloom Healthcare and the senior executive for Bloom Health Network, Bloom's wholly owned accountable care organization serving the high-needs population in the ACO REACH Model. This story first appeared on **mcknightsseniorliving.com.**

Guardian Pharmacy Services

COMPANY PROFILE

Guardian Pharmacy Services is one of the fastest-growing and most innovative long-term care pharmacy companies in the US. Through our national network of pharmacies, we provide a wide range of services to assisted living communities, behavioral health facilities, group homes, skilled nursing communities and community providers that support individuals with disabilities.

We conduct business according to the Golden Rule, treating our customers, residents and each other fairly and honestly. Guardian's commitment to excellence and to providing outstanding customer service defines our corporate character and inspires us every day.

WHAT WE DO

Guardian pharmacies work hard to understand each customer and the specific needs of their community. We develop meaningful relationships with staff, residents and families to create fine-tuned, customized pharmacy solutions that ensure safety, accuracy and resident satisfaction.

OUR MISSION

Guardian seeks to enrich the lives of those we serve by delivering comprehensive, innovative medication management solutions that drive value and improve health outcomes.

THE GUARDIAN WAY

Guardian Pharmacy Services has a unique local-autonomy business model that allows us to offer the personalized services of a local pharmacy backed by the strength and resources of a national pharmacy provider. Each Guardian Pharmacy is vested with the authority to make day-to-day decisions at the local level. Assisting our pharmacies is the corporate Guardian Pharmacy Services team in Atlanta, who provides support in areas such as accounting, IT, recruiting, purchasing, contracting, marketing, etc. This support allows the local pharmacy team to focus on customers and the specific needs of their market.

We believe this approach leads to better customer service, and greater accuracy and efficiency of medication distribution.

WHAT WE OFFER

Clinical Support

Guardian streamlines processes and helps integrate multiple eMAR/EHR technologies to make sure medication management is efficient and error-free.

Our pharmacy staff meets regularly with each community through on-site visits, and provides quality reviews and hosts custom education and training programs to help lower the risk of medication error and enhance care quality.

Guardian pharmacists are available to provide expert clinical and regulatory support, including comprehensive medication management services designed to improve clinical outcomes for residents.

Simplified Billing

Medication billing can be challenging for any long-term care provider, but it doesn't have to be. All billing, dispensing, consulting and customer service are handled by the local pharmacy, not from a remote hub.

We educate residents and families on Medicare Part D plans that best fit their needs and help reduce costs. From prior authorizations and noncovered medications to the "donut hole," our local experts take the extra steps and make the extra time to ensure there are no billing issues or questions.

Seamless Pharmacy Transition

Guardian offers hands-on support to new customers making a pharmacy switch. We work hard to ease the transition process by coordinating timelines that reduce the burden on the community and save staff time. ■

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Date Founded:
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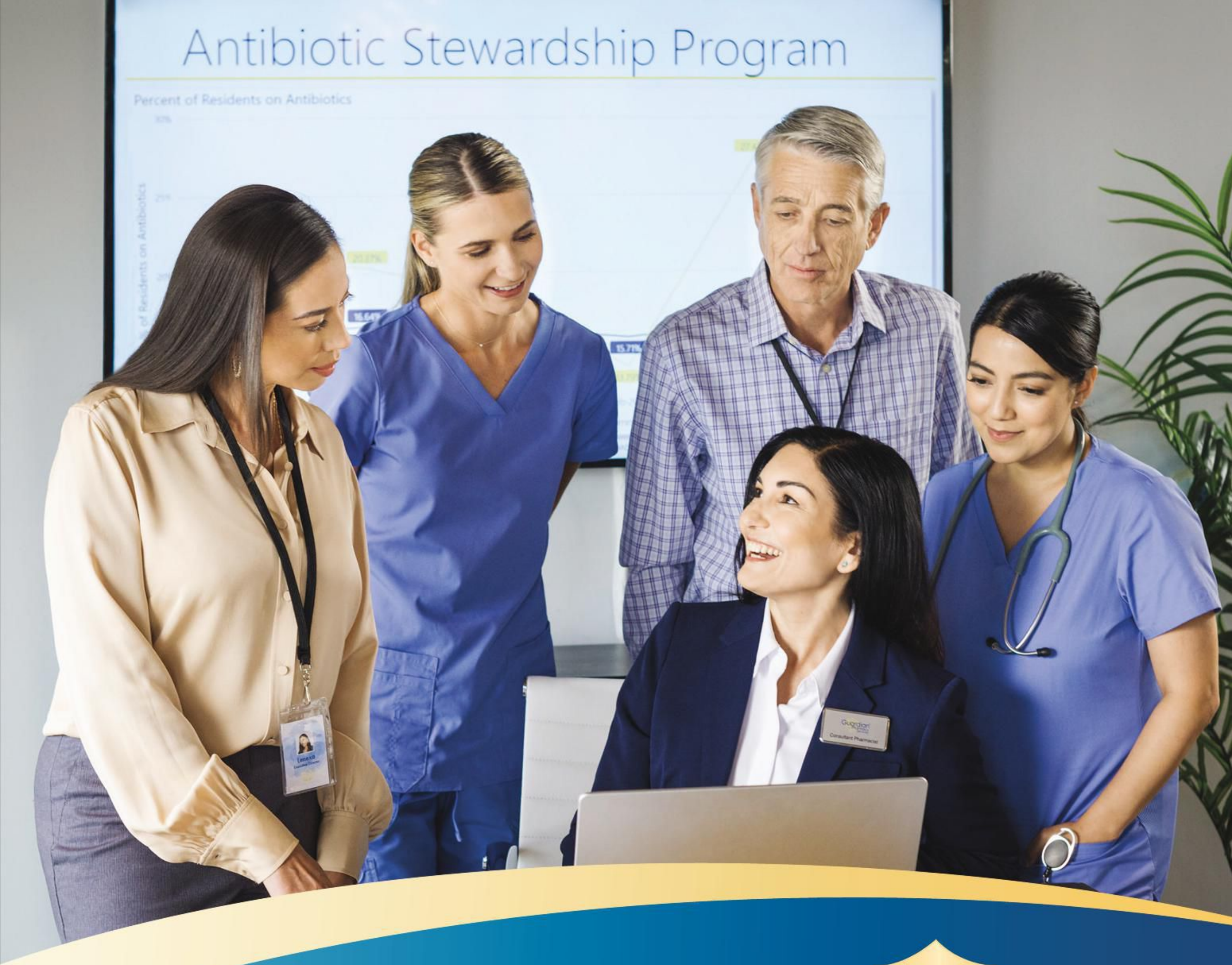
Presence:
Guardian Pharmacy Services is based in Atlanta, Georgia, and currently has 48 pharmacy locations that serve over 162,000 patients across 35 states.



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