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# ON THE MONEY

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## Search for stability

Industry aims to find footing amid persistent inflation and robust M & A environment

BY JOHN HALL

Over the past three years, there's been plenty of doom and gloom to satisfy the most pessimistic of long-term care market observers. Yet there are sufficient amounts of optimism about the year to come.

It wasn't long ago that the country's gross domestic product was 40 points in negative territory and a deafening silence swept over commercial real estate markets. But just 18 months later, the slow and steady hum of rebound in the closing days of 2021's fourth quarter once again showed grizzled veterans and freshly minted business school graduates alike just how resilient the long-term care markets really are.

The investment community has many ways of reading the temperature of healthy markets. A notable metric comes from senior housing investment returns, which at the end of June showed continued improvement and positive gains for the seventh consecutive quarter. That contrasts with the negative 1% return recorded as the pandemic first raged in the second quarter of 2020, according to data from the National Council of Real Estate Investment Fiduciaries.

Still, as of the first quarter of 2022, senior housing and care inventory growth had slowed, mainly because of the effects of the pandemic on supply pipelines, said Beth Burnham Mace, chief economist and director of research and analytics for the National Investment Center for Seniors Housing & Care. She offered an analysis of a mid-June report from NIC MAP Vision, a web-based suite of research and analysis tools for senior housing.

### M&A heating up

Mergers and acquisitions are among the most compelling signs of healthy markets.

"One of the larger deals over the past 12 months was Omega Healthcare's sale of its Gulf Coast Healthcare nursing homes and Welltower's acquisition from StoryPoint,"

noted Robert G. Kramer, founder and fellow at Nexus Insights and co-founder and strategic adviser of NIC.

Omega sold most of its previously leased and operated Gulf Coast facilities for more than \$318 million in cash in May, according to published reports. Earlier in the year,



Photo: z\_wel/Stock/Getty Images Plus

Welltower and StoryPoint Senior Living announced a strategic partnership through which Welltower agreed to acquire 2,787 units across 33 assisted living, memory and independent care communities in Michigan, Ohio and Tennessee. The deal was worth approximately \$548 million, or \$197,000 per unit, according to Welltower.

"Those were good-sized deals but also an indication of how high prices have been getting," added Kramer, noting as other examples a January transaction on a California property for \$725,000 per unit and another at \$705,000 per unit.

"Right now, there's enormous variation and some really high prices, which speaks to how competitive the markets can get," he said.

## Sustainable growth ahead?

"Activity is expected to continue to be robust," said Lisa McCracken, director of senior living research at Ziegler. "However, there will be more distressed transactions for those campuses that have struggled to recover post-COVID and for skilled nursing, particularly rural, that face staffing and other challenges."

Private equity continues to seek strong-performing senior housing assets. The right operator, however, is more important than ever, she noted.

"Occupancies have continued to improve as we move past COVID. While rents have gone up with inflation, we will see if that will be enough to keep pace with staffing challenges in some markets," she said. "As

see that by the bidding wars, the prices that are being paid and the multiple bidders. Investors are also chasing yield. With capitalization rates now at 12 to 13%, it still is an attractive place for investors to put their money."

**"Right now, there's enormous variation and some really high prices, which speaks to how competitive the markets can get."**

— ROBERT G. KRAMER

In short, Kramer believes a great deal of activity in the skilled sector will be among buyers looking for economies of scale. But he also expects more from other sectors.

"On the private-pay senior living side, there's demand, especially with big players like the real estate investment trusts, many of whom have plenty of dry powder and are waiting for the right opportunity at the right price," he added. "But they're going to be strategic in terms of how well it fits."

Mace believes investor interest in senior housing remains robust, with many reasons for cautious optimism.

"First, on the supply side of the equation, delayed or unfunded projects in 2020 are translating into reduced inventory growth today," she stated. "In fact, inventory growth in the first quarter of 2022 was the weakest since 2013 as the impact of the pandemic on development pipelines

She also acknowledged that while there are challenges on the demand side, among them a slowing economy, a bear stock market, higher mortgage interest rates and its accompanying impact on selling homes, and accelerating inflation and its effect

on consumer confidence. But "the value proposition of senior housing will win the day," Mace said.

She believes the pandemic created an atmosphere of isolation for many older adults and the lure of living in a community with others will further support demand for senior housing.

"The segmentation and expansion of senior housing in serving the vast numbers of seniors in the so-called 'forgotten middle' cohort will add further strength to demand," she said. "And finally, strengthening demographics will support the sector's recovery. Based on the most recent U.S. Census Bureau projections, the 80-plus population cohort will increase by 325,000 persons in 2021, to 500,000 in 2025 and by 1 million 80-plus older adults in 2027.

"For these reasons, investor interest remains strong."

## Reality check?

But as the past few years have shown, changes are afoot in how care and services will be delivered, and where.

"On the whole, the industry is shrinking," Kramer said. "There are fewer beds and fewer properties."

Even recent care expectations associated with the so-called baby boomer explosion are being stress-tested and re-examined.

"One of them is the ability to deliver a certain level of skilled nursing and hospital-level care at home," he noted. ■

**"The segmentation and expansion of senior housing in servicing seniors in the 'forgotten middle' will add further strength to demand."**

— BETH BURNHAM MACE

the economy cools, the staffing challenges should subside."

Kramer said he is bullish on nursing homes.

"No question, there's an appetite out there for skilled facilities," he said. "You

in 2020 became evident in the 2022 data. Meanwhile, the number of seniors housing units under construction was the lowest since 2015. And starts are likely to linger at moderate levels and well below their peaks seen in the 2016 to 2018 period."





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# Guardian Pharmacy Services

## COMPANY PROFILE

Guardian Pharmacy Services is one of the fastest-growing long-term care pharmacy companies in the United States, providing a wide range of services to assisted living communities, skilled nursing homes, CCRCs and home and community-based services programs through our national network of pharmacies.

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 community staff, residents and families to create fine-tuned, customized pharmacy solutions that ensure safety, accuracy and resident satisfaction.

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Guardian aims to personally empower our customers with the resources they need to

provide the best service to their residents. We maintain the highest level of service and sensitivity required to meet the individualized needs of each community.

## THE GUARDIAN WAY

Guardian Pharmacy Services has a unique business model that allows us to offer both the personalized services of a local pharmacy as well as the resources of a large corporation.

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 provide support in areas such as accounting, IT, recruiting, etc. This support allows the local pharmacy team to focus on customers and the specific needs of their market.

We believe this business approach leads to better customer service, 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.

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### *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 burden on the community and save staff time.



## FASTFACTS

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**Email:**  
[answers@guardianpharmacy.com](mailto:answers@guardianpharmacy.com)

**Address:**  
171 17th Street NW, Suite 1400, Atlanta, GA 30363

**Date Founded:**  
2004

**Presence:**  
Guardian Pharmacy Services is based in Atlanta, Georgia, and currently has 41 pharmacy locations that serve nearly 143,000 patients across 28 states.

## Troubled waters

### NIC chief offers cautious optimism about future

The National Investment Center for Seniors Housing & Care will host its 2022 Fall Conference Sept. 14 to 16 at the Marriott Marquis in Washington, DC. *McKnight's* recently sat down with NIC President and CEO Brian Jurutka to chat briefly about the current, at times tumultuous, market conditions.

**McKnight's: What's your perspective on the current buying and selling environment?**

**Jurutka:** The landscape has changed over the past two years, with labor concerns becoming even more acute, rising costs, supply chain shortages and inflation. I think there's a general sense of re-assessing assumptions in today's market. In today's world, it's about estimating what revenues and expenses look like in a world with COVID-19, pulling out one-time events while estimating ongoing expenses.

**McKnight's: NIC's Executive Survey Insights Wave 42 released in June asserts there is "waning optimism regarding operating margins." Your thoughts?**

**Jurutka:** Margins are being compressed with rising operating expenses. Labor, the largest portion of operating expenses, is of particular concern.

**McKnight's: How is inflation affecting the overall "vibe" in the market, if you will?**

**Jurutka:** On the new development side, inflation and supply chain shortages are having a downward pressure on development as the sector looks to adjust to unpredictable material delivery timelines and rising costs where, in some instances, it's challenging to find guaranteed maximum price contracts from contractors.

Inflation also means residents are more accepting of increased pricing, particularly when coupled with messaging that increased pricing helps keep the caregiv-

ers with whom residents have built relationships.

**McKnight's: How does a potential recession affect your outlook?**

**Jurutka:** A recession may help ameliorate labor shortages. Uncertainty in pricing, rates, labor availability and all the factors associated with a potential recession make it challenging to model the future. All of that emphasizes the need for more data — and data with less of a lag — to understand trends more deeply to better estimate the future.

Despite the uncertainties, there are reasons for cautious optimism for the sector, but the path forward may be a bit bumpy due to the prevailing winds in the broader economy. Inventory will continue to expand, although at a reduced pace in the near term, which should act as a tailwind for occupancy improvement.

And while demand may be also affected by economic headwinds, the value proposition of seniors housing — security, socialization, engagement, room and board, care coordination and lifestyle — remains in place and ultimately should win the day by attracting new residents for seniors housing properties.

— John Hall





## An idea whose time has gone?

Public-private partnerships no longer make sense for SNFs, report finds

BY KATHLEEN STEELE GAIVIN

The system of public-private partnerships for generating capital is failing the skilled nursing sector, according to the findings of a research paper commissioned by the National Investment Center for Seniors Housing & Care and written by ATI Advisory.

Historically, private investment has provided the capital to build nursing homes. State and federal governments, meanwhile, have offered daily operational support via reimbursement mechanisms, which are bound by regulation regarding how these payments are used, according to the report.

“Over time, federal and state governments have effectively reduced their respective commitments to cover daily, operational expenses, making it more difficult for nursing home operators to obtain private capital to fund long-term investments,” said Robert Shalett, director of communications at ATI Advisory. “Importantly, the challenge is not lack of private capital but lack of the right type of capital.”

According to the research, this public system, which once was intended to attract private capital and enterprise to develop infrastructure for long-term care, “has not evolved to meet the increasing needs of a rapidly aging America in conjunction with practical budget constraints.”

### Ripe for redo

The report calls for reinvention of the system. Current regulatory and reimbursement government policies, Shalett said, “discourage investors who are interested in creating value by investing in innovation and modernization that will drive long-term quality improvements and maximize support for staff, especially frontline workers. Instead, policy today attracts investors who are looking to extract value through financial engineering.”



Photo: enshakery / DigitalVision Vectors

Traditionally, private investment has provided capital to construct nursing homes, and government has supported the industry with reimbursements. That model no longer is viable, a new report finds.

A solution, he said, is for federal and state governments to implement policy changes that encourage investors to fund initiatives geared toward “revolutionizing the nursing home industry.”

“Going forward, policy focus must balance increasing transparency and accountability requirements with measures that support greater predictability and distribution of funds that incentivize constructive long-term investments [such as staff training and development, telecommunications infrastructure, air monitoring and purification upgrades, and shifting to private rooms where possible],” Shalett said.

In terms of predictability, he said, a “more coordinated public-private capital approach focused on mutual transparency could offer investors more foresight into future revenue prospects, attract appropriate investors and streamline regulation.”

As far as distribution of funds, he noted, “existing government funds could be more efficiently allocated among nurs-

ing home operators to promote more private investment.

“Today, private investors are largely competing against marginal nursing home operators who, unlike investor-backed providers, are not focused on optimizing services and costs to enhance operations, but nonetheless will be reimbursed at the same amount,” Shalett added.

### Movement

Change is in the works, albeit slowly. Shalett said many operators across the country already are pursuing the types of long-term investments previously mentioned, but on a limited, or short-term, capital base.

The Department of Health and Human Services also has taken an important step in requiring timely reporting of data related to corporate structure and flow of funds.

“As a next step, policymakers may consider how to better align future reimbursement and regulatory policy with private capital markets,” Shalett said. ■