

“Impact of 2009 Economy on Senior Care Facilities”

The U.S. financial system has been under significant stress for more than a year. Chicago area employment has been falling since January, led by losses in construction, manufacturing and financial services. The housing market has yet to stabilize, and every segment of the commercial real estate market is weakening. Tourist inflows are declining. Deteriorating local fiscal conditions are leading to cutbacks.

So the question we address here is: *What is the economic impact on senior care facilities?*

Nursing Facilities (SNFs and ICFs)

Of all the senior care facilities, we feel that SNFs and ICFs are the most immune to economic downturns as they are need-based rather than driven by lifestyle choices. When long-term nursing care is required, seniors are forced to make that decision for care/safety reasons or must swallow the very high costs of home health care services charging huge fees for comparable in-home nursing care.

Over the past 2 years in the Chicago Metro market, we have seen stable Medicaid and Medicare occupancies in SNFs and ICFs. For the most part, the private pay market has been stable to slightly declining. Operators report that decision makers are simply taking longer to decide – preferring to wait until the resident “spends-down” assets to transition more quickly onto Medicaid. Also, as seniors often have to sell their homes to afford private pay rates, the housing market downturn has created a further obstruction that SNFs and ICFs will have to hurdle. We see the private pay market declining in 2009 and 2010 with a recovery likely tied to the housing markets.

Assisted Living and Independent Living Facilities (ALFs and ILFs)

Here is where we see the main crunch being felt by the senior care industry. Some portion of seniors will be forced to consider moving into an ALF due to care needs. However, as previously stated, without the ability of seniors to sell their homes, we feel that ALF occupancies will be declining in 2009 and 2010 with a recovery likely tied to the housing markets. The only possible exception is dedicated memory care (Alzheimer’s and dementia) ALFs which offer specific care likely not attainable from other sources. Supportive Living Facilities benefit from accepting Medicaid residents so in-house private pay residents can transition onto Medicaid when assets have been exhausted.

The ILF market seems to hang the most in the balance. The housing downturn will certainly be cause for concern. This will especially be true for ILFs charging significant “entry fees” of \$100,000 or more. Again, with money tied up in their homes, seniors will not be able to afford an ILF. We would not be surprised if some such ILFs began offering monthly rental option with no large down payment.

Recent Transactions (Cap Rates)

Interestingly, we have seen a very active Chicago area SNF market in 2008 and early 2009. There is heavy competition to acquire SNFs with recent cap rates in the 11% to 13% range – both for stabilized operations and for “turn-arounds”. Financing is still available both from conventional sources (banks) and from HUD’s new LEAN program. The downstate Illinois market, as usual, tends to command inferior cap rates in the 12% to 14% range.

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