

COMMERCIAL CORNER

Alex Ruggieri, CCIM, MBA, GRI

Senior Investment Advisor, Sperry Van Ness/Ramshaw Real Estate



HOUSING FOR SENIORS IS ONE OF THE STRONGEST TRENDS IN DEVELOPMENT. COMMERCIAL BROKER ALEX RUGGIERI ASKS AN OPERATOR, AN APPRAISER, A DEVELOPER AND A TRADE ORGANIZATION EXECUTIVE TO SHARE THEIR PERSPECTIVES ON CURRENT TRENDS IN THE INDUSTRY.



Wayne Smallwood

Executive Director
Affordable Assisted Living Coalition
Springfield, Illinois
www.aalconline.org

Q. What is the AALC?

A. The Affordable Assisted Living Coalition represents Supportive Living Facilities (SLFs), the affordable, Medicaid-waiver model of assisted living in Illinois that operates under a program administered by the Illinois Department of Healthcare and Family Services (HFS), the State Medicaid agency.

An SLF is a residential setting that provides or coordinates flexible personal care services, supervision and assistance (scheduled and unscheduled), activities, and health-related services with a service program and physical environment designed to minimize the need for residents to move within or from the setting to accommodate changing needs and preferences; has an organizational mission, service programs and a physical environment designed to maximize residents' dignity, autonomy, privacy and independence; and encourages family and community involvement. Before SLF, assisted living was unavailable in Illinois to those who need Medicaid assistance.

The first SLF opened in 1999 and serve seniors and persons with disabilities, regardless of income, who would otherwise be served in institutional settings, such as nursing homes. It is important to note that approximately one-third of all SLF residents have resided in a nursing home and that about one-fifth came directly from a nursing facility.



Carrie Boone Bentley

Carriage Crossing Senior Living
Champaign, Illinois
www.carriagecrossing-sl.com

Q. What is Assisted Living?

A. While some perceive Assisted Living as a long term care facility, it is in fact a lifestyle option for seniors. Many communities offer a myriad of amenities for each resident to choose from. An Assisted living environment is one that provides an option for those who no longer can or wish to live on their own. Most residents wish to obtain as much independence as possible, while obtaining a sense of security provided by staff. Enrichment activities are integrated within the community and provide residents a connection with their community as well as a sense of purpose and accomplishment.

The environment of Assisted Living varies, but usually they strive for a home like environment with each apartment being their very own, like adding special touches of décor for their personal preference. Typically apartments include studio, one and two bedroom models. Kitchenettes usually feature a small refrigerator and microwave. Each state has their own policies that define and regulate what care and services are required for an assisted living community to meet state standards. Illinois is regulated thru IDPH- Illinois Department of Public Health. Assisted living is typically paid for from private funds, but there are a few exceptions. Some long-term care insurance policies cover licensed assisted living. At the end of the day, an Assisted Living Community makes perfect since for the aging senior to want these things out of life!

“The senior housing market is directly connected to the healthcare market.”



Phil Dean, CCIM

President & CEO
Greystone Community
Investments, LLC
Rockford, Illinois

Q. What opportunities do you see in the senior housing market niche for developers?

A. Senior housing is a broad category including independent living, assisted living, memory care, senior and disabled supportive living facilities, nursing care, continuum of care facilities. The senior housing market is directly connected to the healthcare market.

Each of these categories, except independent living, requires a state license for the facility and a state licensed operator to manage the facility. A perfect partnership pairs and experienced real estate/project developer with an experienced licensed facility operator.

Q. What challenges exist in bringing a project to the market?

A. Independent living facilities, as well as most continuum of care facilities, usually require large entry fees which have traditionally been funded by the sale of the residents personal real estate which has been slowed and diminished by market conditions.

HUD guaranteed funding for new un-stabilized projects disappeared from Illinois entirely for a few years. It is difficult to impossible to obtain for a for-profit corporation. Almost all available funding now requires full recourse which does not work well in partnerships.

Funding reserves have become burdensome and conditions now require all, or the majority, of the developer fee to be delayed for a period of years. Payment to the developer is made only when, or if, the facility has achieved an objective financial performance. Should the facility reserve accounts deplete, the deferred developer fee is used to replenish those reserves.



Michael L. Cooper

President
The Cooper Valuation Group
Hinsdale, Illinois
www.coopervaluationgroup.com

Q. What are senior care developers looking for in terms of site selection for building new facilities?

A. Developers of skilled nursing and assisted living facilities focus on several factors. The key factor appears to still be the strength of local demographics. The most savvy developers keep a keen eye on financing - specifically on whether a lender will commit to financing based on a risk assessment of the project. Lenders perceive less risk for proposed projects in wealthy/affluent markets with a strong projected growth in the elderly segment.

Q. How are senior care properties valued?

A. These properties are traded based on profitability. In our work, industry participants (buyers, sellers, brokers, lenders) focus almost entirely on achievable net operating income (“NOI” = income - expenses). The other key valuation metric is a capitalization rate (“cap rate”) often expressed as a percentage. Dividing NOI by a cap rate yields value. Cap rates for skilled nursing facilities in the Chicago Metro area typically range from 12% to 13%. The assisted living range is lower at 8% to 10%, based on less risk. Newer properties with stable past NOI histories will command the best (lowest) cap rates.

“The most savvy developers keep a keen eye on financing — specifically on whether a lender will commit to financing based on a risk assessment of the project.”

Alex Ruggieri, CCIM, S.E.C., GRI, MBA is Senior Investment Advisor with Sperry Van Ness/Ramshaw Real Estate in Champaign. He is currently serving on the NAR Presidential Advisory Group for Commercial Outreach. Past service includes NAR Commercial Committee and IAR Commercial/Industrial/Investment committee