Capital Funding Group

IN A WORLD WITH COVID-19:

Seniors Housing & Care Impacts, Advocacy Efforts and Financing Solutions to Support Growth

The Impact of COVID-19 on the Long-Term Care and Seniors Housing Sectors

While the COVID-19 pandemic has affected nearly every individual, family and industry, it had an outsized impact on the long-term care and seniors housing sectors. With nursing home and assisted living/memory care residents typically in the most vulnerable age demographic – 80+ years-old – many facilities quickly became COVID-19 hot spots when the pandemic began in March 2020, causing industry-wide challenges. These included historical declines in occupancy resulting in reduced revenues for facilities and increased operating expenses, mainly due to skyrocketing infection control and personal protective equipment (PPE) costs, higher labor expenses and rising insurance costs.

Faced with human capital and cash flow challenges, among numerous other difficulties, operators had to find new ways to navigate a more challenging lending environment. While many banks worked with their existing borrowers, some banks and lenders were unable to be flexible with existing loan terms, and construction debt was very hard to find. Capital Funding Group (CFG) proved able to not only provide continued support to its clients through this difficult time, but to also develop new solutions to meet the needs of the industry. Some industry-focused lenders also increased their advocacy efforts to ensure their clients had – and continue to have – the support they need to succeed.

This white paper examines the impacts of COVID-19 on the long-term care and seniors housing sectors, identifies financial and advocacy strategies that have and will continue to support the industry, and discusses current and anticipatory trends as a result of recent industry-wide challenges.

INDUSTRY-WIDE IMPACTS FROM COVID-19

Challenge: Occupancy

Due to the disproportionate effects of COVID-19 on the long-term care and seniors housing sectors, facilities have experienced historically low occupancy levels. The pre-pandemic occupancy for skilled nursing facilities in the Primary Markets averaged 86.6%, according to NIC MAP data, powered by NIC MAP Vision, and then, by 1Q2021, the average occupancy plummeted to a historically low rate of 74.1%. With the advanced learnings and adjustments to create a safer environment for residents, the development and distribution of COVID-19 vaccines beginning in December 2020, the relaxation of move-in moratoriums, and the reinstatement of many elective surgeries that often release patients for rehab to nursing care facilities, the average occupancy improved to 76.3% in 3Q2021 for nursing facilities.[1]

THE AVERAGE OCCUPANCY RATE OF SKILLED NURSING FACILITIES IN THE PRIMARY MARKETS TRACKED BY NIC MAP VISION REACHED A HISTORICAL LOW IN 1Q2021, AT 74.1%[1]

With respect to assisted living facilities, occupancy increased to 76.9% in the Primary Markets in 3Q2021, up from its pandemic low of 75.4% in 1Q2021 but still below its pre-pandemic level of 85.0%, according to NIC MAP.[1]

Challenge: Staffing Shortages

In addition to reduced occupancy levels, long-term care and seniors housing operators continue to struggle with staffing shortages, a top operational challenge for the industry, which has only been exacerbated by the pandemic and other factors. A recent American Health Care Association (AHCA) industry provider survey indicates a mere 1% of nursing homes and 4% of assisted living facilities report being fully staffed.[2] Similarly, more than half of assisted living providers say they have faced moderate-level staffing shortages since June 2021, while another 30% indicate high-level staffing shortages.[3]

The pandemic has caused heightened regulatory oversight of long-term care and seniors housing facilities and many states have increased staffing needs by requiring more conservative staffing ratios in the COVID-19 environment. These conditions are aggravated by the fact that many employees have resigned during the pandemic, and it is challenging to recruit workers during these higher-risk times.

The healthcare industry turnover crisis and burnout due to staffing shortages is a very real challenge – it's expensive for owners and operators to maintain staff at the rates being offered by third-party staffing agencies or to support overtime needs; these shortages also negatively impact the care and experience of seniors housing residents. While operators would welcome more staff, the issue is much larger – how do they pay for more staff when occupancy is still low? Where do they find more qualified staff?

A RECENT INDUSTRY SURVEY INDICATES A MERE 1% OF NURSING HOMES AND 4% OF ASSISTED LIVING FACILITIES REPORT BEING FULLY STAFFED.[4]

Challenge: High Costs & Decreased Revenue

As a result of historically low occupancy levels and staffing shortages, impediments associated with high operational costs, yet decreased revenues, have been substantial and are expected to persist. According to the American Health Care Association (AHCA), 89% of U.S. nursing homes were operating at a profit margin of 3% or less during 2020.[4]

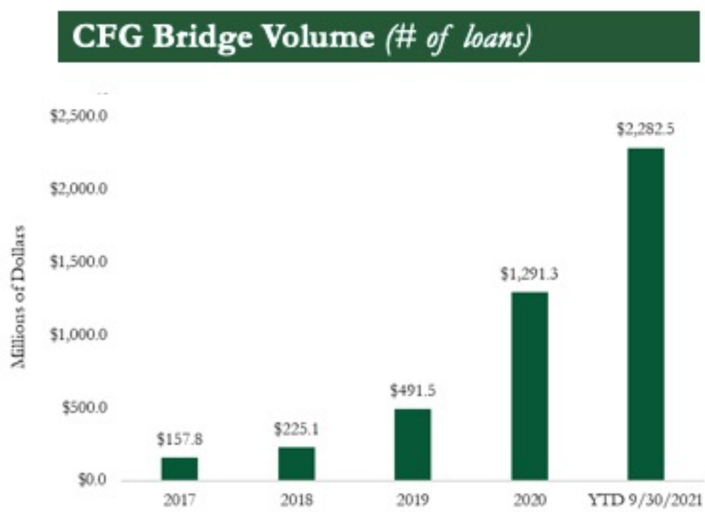
This combination of higher costs and decreased revenue is expected to cause a loss of $94 billion in the long-term care industry between 2020 and 2022.[5] After factoring in the costs of sufficient PPE, additional staffing and staff retention needs, and added COVID-related physical improvements and new procedures, long-term care providers are predicted to spend another $30 billion in 2021.[6]

With these challenges, many owners and operators continue to struggle to generate sufficient cash flow to cover debt service and lease payments. Many facilities have relied on funds from federal and state aid programs to keep them financially afloat but are still struggling.

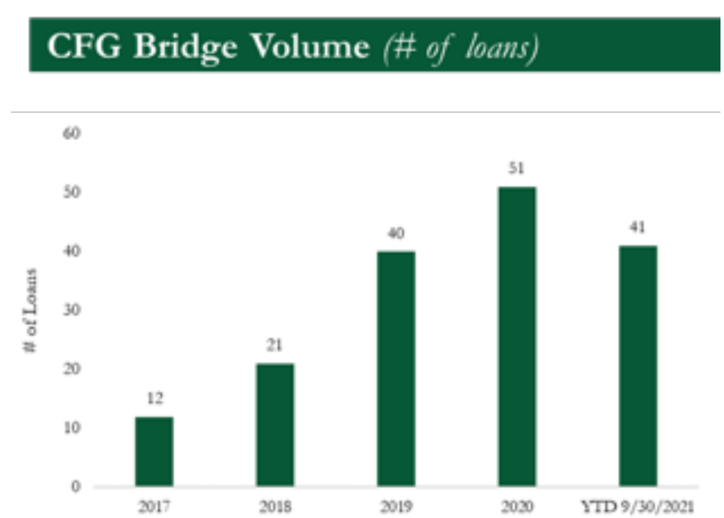
CREATING SOLUTIONS AND ADVOCATING FOR THE INDUSTRY

One-Stop Shop: Creative Lending Solutions

Rather than halting support and financing solutions for the healthcare industry, Capital Funding Group, among other industry-focused capital providers, embraced the challenges – expanding its bridge and HUD lending offerings; establishing CFG Credit Partners, an off-balance sheet debt fund, to supplement its traditional bank lending platform; and growing offerings to focus on the multifamily and seniors housing sectors.



With the company's unique, sole-ownership structure and team of industry experts, Capital Funding Group showed that it has the ability to respond quickly and create unique offerings to meet the needs of the industry. CFG offers a multitude of financing services all under one roof, including FHA/HUD Healthcare Lending, FHA/HUD Multifamily, Bridge Lending, Working Capital Lending, Purchase/Leaseback, Subordinate/Mezzanine Financing, Group Purchasing and Commercial Banking. In 2020, CFG financed approximately $1.3 billion in Bridge-to-HUD financing and $525 million in HUD mortgages. From January to September 2021, CFG closed over $2.3 billion in Bridge-to-HUD financing and $536 million in HUD loans.



Advocating for the Industry

Some lenders, including Capital Funding Group, offered clients payment deferments during the early months of the pandemic and many worked with borrowers who experienced challenges achieving financial covenant requirements. Beyond offering financing solutions to the healthcare industry throughout COVID-19, the need to advocate for change to support the industry was recognized. In particular, Capital Funding Group, in partnership with other capital financing leaders, worked to rally Congress to find ways to supplement the popular HUD 232 program, as the program did not have a way to address long-term mortgage payment relief. With the support from Congress, the group developed a supplement to the HUD 232 program, allowing long-term care providers to take out additional loans - essentially a second mortgage.

This loan option provides long-term care providers relief by allowing supplemental loans, which offer up to 12 months of HUD debt service to be financed and spread over the life of the loan to free up near-term cash flow. Mechanically, a provider could take a new supplemental second loan for an amount and all of that cash would be put into an escrow account; the borrower could then come to a lender and say they are cash-strapped and want to use an amount of their supplement to pay their obligations – providing a reprieve from debt service for up to a year during these trying times.

Supporting the Industry Beyond Financing

Lenders with a strong presence in the healthcare market have seen the high turnover of nursing professionals and the challenges that workers face in advancing their careers – even before COVID-19. Capital Funding Group's owner, founder and chairman of the board, Jack Dwyer, saw an opportunity to address the immediate challenge, and help change the lives of others with a unique win-win situation for the industry and healthcare professionals. This led to the creation of The Jack and Nancy Dwyer Workforce Development Center, Inc., a first-of-its-kind, nonprofit program that provides CNA (Certified Nursing Assistant) and GNA (Geriatric Nursing Assistant) job training, job placement, wraparound services and case management to unemployed and underemployed individuals who aspire to have a career in the healthcare industry.

Staffing turnover, shortages and burnout are not new challenges, and were exacerbated by COVID-19. It will take the industry – and its community and partners – working together to create solutions and pathways to support people in their healthcare careers.

The Jack and Nancy Dwyer Workforce Development Center, Inc. supports job placement and retention of students at healthcare facilities, assisted living facilities and nursing homes, and provides proper training, while identifying goals to achieve over several years. After achieving those goals, students are awarded a scholarship to attend nursing school to reach the ultimate goal of earning a Registered Nurse (RN) license.

Launched in Baltimore, with a growing nationwide presence, Dwyer Workforce Development aims to help resolve the effects of systemic poverty and inequality, the turnover crisis and burnout due to staffing shortages in the healthcare industry by creating a pathway to advance career opportunities through partnerships with nursing homes and long-term care facilities.

Providing better education and creating pathways for career advancement not only benefits nursing professionals, but also improves the lives of seniors housing residents – through increased quality of care and attention.

To help support employees and the community, Capital Funding Group provided aid by reinvesting a portion of funds earned from facilitating Paycheck Protection Program (PPP) loans to provide meals to frontline healthcare workers at skilled nursing and assisted living facilities in Maryland. Giving back to these frontline employees allowed three Maryland restaurants to hire back workers furloughed due to the COVID crisis. Dwyer also donated $100,000 to Helping Up Mission to reopen its emergency shelter program, Overnight Guest Services, which was closed due to COVID-19 health and safety concerns.

LOOKING AHEAD:

INDUSTRY TRENDS AND ANTICIPATED CHANGES

Continued Increases in M&A Transactions

The combination of increased operating costs and reduced revenues has created cash flow challenges for long-term care and seniors housing owners and operators, prompting many to sell their facilities. As a result, lenders such as Capital Funding Group have seen significant M&A activity during 2020 and 2021. Large, national firms have divested assets in states that are not core to their platform; they are eventually purchased by regional providers who are more familiar with the markets. As operators continue to encounter challenging operating issues, Capital Funding Group expects larger players to keep diversifying on the publicly-traded REIT side and consolidate in the skilled nursing and seniors housing sectors. The company also anticipates a further increase in relatively smaller or independent operators selling as a result of cash flow challenges and the uncertainty related to COVID-19.

In 2021, Capital Funding Group continued to see consolidation with good, well-capitalized operators in the long-term care sector and has financed several deals in excess of $250 million in the last nine months, including: the acquisition of skilled nursing portfolios with facilities in Maryland, Pennsylvania, Virginia, North Carolina and Florida, and the refinancing of a skilled nursing portfolio with facilities in California, Colorado and Wyoming. In July, the company closed a Bridge-to-HUD loan in excess of $650 million for the acquisition of a skilled nursing portfolio, with facilities in Virginia and North Carolina, representing the largest single financing deal CFG has executed in 10 years.

Reform: New Regulations and Legislation

COVID-19 has exposed many challenges within nursing homes, including the issue of patient neglect due to staffing shortages; consequently, at both the federal and state law levels, there has been an uptick in regulatory proposals for long-term care and seniors housing facilities.

Prominent government leaders and healthcare advocates have indicated that future legislation could require minimum staffing levels requirements and mandates, which would hopefully be accompanied by higher rental rates. At a federal level, the Dingell proposal could subject poorly performing nursing homes to additional inspections. Recently, the Biden Administration presented an additional $400 billion for HCBS to increase access to nursing home care alternatives.[7] The COVID-19 Protection and Prevention Act, a Senate bill, has proposed many federal initiatives to protect long-term care and seniors housing residents, including: providing $20 million in an emergency fund to support staffing, testing, PPE and other essential needs; issuing guidance on resident cohorting based on facility compliance history; requiring the collection, publication and analysis of COVID-19 cases and deaths in nursing and immediate care facilities.[8]

State policymakers are following suit, with one Rhode Island proposal requiring healthcare staff spend 4.11 hours on care per patient per day – the amount of time studies have indicated is necessary to prevent patient neglect. Similarly, New Jersey has created annual aggregate revenue requirements facilities must spend on direct patient care to ensure proper nursing home conditions.

Flexibility and New Solutions

Lenders with expertise in the healthcare industry understand the goals and needs of the long-term care and seniors housing sectors. Some, such as Capital Funding Group, have a vested interest, and the flexibility and resources, to continue to develop new, flexible financing products, advocate for the industry on a national level, and create programs and initiatives to support the industry and community at large.

To learn more, visit www.capfundinc.com or call (410) 342-3155.

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[1] NIC, "Senior Housing Occupancy Increases in Third Quarter," Oct. 10, 2021.

[2] Forbes, "Staff Shortages are Hammering Long-Term Care Facilities, Home Care Agencies and Families," Sept. 22, 2021.

[3] Seniors Housing News, "77% of Assisted Living Providers Say Staffing Crisis is Getting Worse," Sept. 22, 2021.

[4] American Health Care Association, "Long Term Care Closures Mount as COVID-19 Exacerbates Financial Shortfalls," Nov. 19, 2021.

[5] McKnight's Long-Term Care News, "Long-Term Care to Lose $94 Billion Due to Pandemic: Forecast," Feb. 10, 2021.

[6] American Health Care Association, "Protect Access to Long Term Care for Vulnerable Residents."

[7] Harvard Law School's Bill of Health, "Long-Term Care After COVID: A Roadmap for Law Reform," June 2, 2021.

[8] U.S. Senate's Special Committee on Aging, "Nursing Home COVID-19 Protection and Prevention Act (S.3768)," May 19, 2020.