

May 2020

Healthcare Real Estate Update



LAWRENCE, EVANS & CO., LLC

Investment Banking | Healthcare Finance | Consulting

What a wild ride it has been these last three months! Even as we see the prospect of re-opening the economy in the near future, we continue to see an unemployment rate of near 20% and continuing lockdowns in skilled and assisted living centers. Multifamily owners and operators continue to be impacted by the coronavirus. Many of our clients have been informed that several banks, bridge lenders and CMBS programs are unwilling to close on their loan commitments or have dramatically changed the loan terms. Additionally, community banks have significantly reduced their exposure to construction lending. If leading market indicators continue to worsen, it would not be surprising to hear that more warehouse lines for bridge lenders are canceled or funding capacity is reduced. This has significant implications for the multifamily market.

Market Rates					
Fed Funds Target	0% - .25%	5 year Treasury	0.35%	5 year Swap Stack	0.38%
1 Month Libor	0.17%	7 year Treasury	0.54%	7 year Swap Stack	0.52%
3 Month Libor	0.37%	10 year Treasury	0.70%	10 year Swap Stack	0.69%
WSJ Prime Rate	3.25%	30 year Treasury	1.43%	30 year Swap Stack	0.98%

Now, as in the past when credit has tightened, borrowers should look to the government agency programs such as Freddie Mac, Fannie Mae or HUD. In the Seniors space, Fannie and Freddie have tightened their underwriting but are still the go-to programs for larger scale portfolio plays.

HUD is still open for business and has not substantively changed its underwriting criteria. HUD has historically offered the highest loan proceeds and the longest loan term. The HUD programs offer fully- amortizing loans with avoid future interest rate risk as well as term/balloon risk in a down market.

Despite the social distancing measures, HUD has been busy updating several of its programs. In early March that the U.S. Department of Housing and Urban Development (HUD) revised its policy that required three years of post-construction occupancy before applying for refinancing under HUD’s 223(f) program. Lifting the three-year requirement will allow borrowers to break ground quicker, allow construction to be completed without prevailing wage rates (Davis-Bacon Act) resulting in even lower construction costs and upon asset stabilization, be able to access cheaper financing through the 223(f) program. The upside of this has been limited recently due to the reluctance of many community banks to loan on new construction projects. Established developers with a track record of lease-up success should continue to find financing, albeit with terms more stringent than they might have seen three months ago.

Any property owner with an existing construction loan in place on a stabilized property might be throwing away money by not taking part of the recent changes, which as of May 25, 2020, had fixed rates of approximately 2.50 percent. 223(f) HUD loans for multifamily properties offer assumable, non-recourse loans at 80 percent of the new fair market value. Since the new leverage point is 80 percent of the new fair market value, an additional benefit is that the borrower with a stabilized asset might receive close to 100 percent financing or potentially cash out of the project.

Under the new rule, stabilized multifamily properties must meet the Debt Service Coverage Ratio threshold for at least three consecutive months of 1.17x for market rate projects and 1.11x for affordable projects. Calculations of the DSCR would factor in any rent concessions such as free rent. Application requirements include such items as a 12-month projection of income and expenses, a current rent roll and historical lease-up information.

The recent policy change is approved for two years, at which point the policy will be evaluated for the impact it has made on increasing the supply of affordable workforce housing and other objectives. There are no guarantees, but the new government policy changes should likely be reinstated in 2022 because borrowers are refinancing loans with less risk since the properties would be built and stabilized.

As always, the HUD programs are focused on the buy/build and hold developer. Fannie and Freddie are still the go-to for hold periods of 5 years or less. With current HUD rates are at historic lows, anyone seeking acquisition financing or seeking to refinance existing debt should consider giving HUD a second look.

Skilled						
Company	Ticker	Price 5/22/2020	Price 1/1/2020	YTD %	Price 5/22/2019	TTM %
Diversicare Health	PINX:DVCR	1.50	2.20	-31.8%	3.69	-59.3%
Ensign Group	NAS:ENSG	43.24	45.37	-4.7%	52.56	-17.7%
National HealthCare	NYS:NHC	65.18	86.43	-24.6%	78.01	-16.4%
Genesis Healthcare	NYS:GEN	1.04	1.64	-36.6%	1.23	-15.4%

Source: Pitchbook Data, Inc.

ALF/ILF						
Company	Ticker	Price 5/22/2020	Price 1/1/2020	YTD %	Price 5/22/2019	TTM %
Brookdale Senior Living	NYS:BKD	3.31	7.27	-54.5%	6.89	-52.0%
Capital Senior Living	NYS:CSU	0.61	3.09	-80.4%	4.04	-85.0%
Five Star Senior Living	NAS:FVE	4.02	3.71	8.4%	5.63	-28.5%

Source: Pitchbook Data, Inc.

REITS						
Company	Ticker	Price 5/22/2020	Price 1/1/2020	YTD %	Price 5/22/2019	TTM %
Welltower	NYS:WELL	47.82	81.78	-41.5%	80.22	-40.4%
National Health Investors	NYS:NHI	52.98	81.48	-35.0%	79.79	-33.6%
Ventas	NYS:VTR	33.71	57.74	-41.6%	64.93	-48.1%
Sabra Health Care	NAS:SBRA	13.14	21.34	-38.4%	19.70	-33.3%
Healthpeak	NYS:PEAK	24.55	34.47	-28.8%	31.33	-21.6%
LTC Properties	NYS:LTC	36.03	44.77	-19.5%	45.78	-21.3%
CareTrust	NAS:CTRE	18.82	20.63	-8.8%	25.31	-25.6%
New Senior Investment Group	NYS:SNR	2.74	7.65	-64.2%	6.38	-57.1%
Omega Healthcare Investors	NYS:OHI	29.57	42.35	-30.2%	36.75	-19.5%
Diversified Healthcare Trust	NAS:DHC	2.87	8.18	-64.9%	7.66	-62.5%

Source: Pitchbook Data, Inc.

Others						
Company	Ticker	Price 5/22/2020	Price 1/1/2020	YTD %	Price 5/22/2019	TTM %
FNMA	PINX:FNMA	2.18	3.12	-30.1%	2.96	-26.4%
FMCC	PINX:FMCC	2.12	3.00	-29.4%	2.83	-25.1%
Orix	NYS:IX	61.76	83.41	-26.0%	69.75	-11.5%
Walker & Dunlop	NYS:WD	39.06	64.68	-39.6%	52.51	-25.6%
Marcus & Milichap	NYS:MMI	27.08	37.25	-27.3%	32.95	-17.8%
Cushman & Wakefield	NYS:CWK	9.56	20.44	-53.2%	18.01	-46.9%
Arbour Realty Trust	NYS:ABR	7.89	14.35	-45.0%	12.88	-38.7%
Jones Lang LaSalle	NYS:JLL	93.57	174.09	-46.3%	130.26	-28.2%
CBRE Group	NYS:CBRE	40.30	61.29	-34.2%	47.29	-14.8%

Source: Pitchbook Data, Inc.

Lawrence, Evans & Co., LLC. is a boutique healthcare financial advisory and investment banking firm comprised of senior level professionals who provide lead advisory services to private companies, lenders, and other parties-in-interest that are executing financial and strategic transactions. Founded in 2003, the firm provides a wide array of services such as finance and capital raising, mergers and acquisitions, management consultancy services, turnaround management and restructuring, and real estate finance and development. The firm caters to the healthcare providers and service companies (senior housing, hospital, physician services, dental, dermatology, ophthalmology, physical therapy, behavioral health, RCM, HCIT, Population Health, etc.), transportation and logistics, and business services sectors. Transactions are typically under \$250 million or \$15 million EBITDA.

INVESTMENT BANKING & CORPORATE FINANCE	<ul style="list-style-type: none"> • Private Company Sales • Division/Subsidiary Divestitures • Distressed Transaction Advisory 	<ul style="list-style-type: none"> • Acquisition Advisory Services • Private Market Financings • LBO's and Recapitalizations
CONSULTING	<ul style="list-style-type: none"> • Strategic Options Analysis • Valuations & Financial Assessments • Interim CEO/CFO 	<ul style="list-style-type: none"> • Strategic Planning • Organizational Reviews • Expert Testimony & Opinions
TURNAROUND & RESTRUCTURING	<ul style="list-style-type: none"> • Turnaround Management • Debt Restructuring/Refinancing • Orderly Liquidations 	<ul style="list-style-type: none"> • Chief Restructuring Officer (CRO) • Bankruptcy Planning / 363 Sales • Receivership / Trustee

Represented Healthcare Transactions

<p>CCRC REFINANCE</p> <p>17,465,000 SERIES 2015A 5,120,000 SERIES 2015B</p> <p> ACTED AS ADVISOR</p>	<p>SKILLED NURSING AND ASSISTED LIVING PORTFOLIO</p> <p>MIDWEST</p> <p>\$35,000,000 MULTI-FACILITY REFINANCING</p> <p> ACTED AS ADVISOR</p>	<p>SKILLED NURSING FACILITY</p> <p>MICHIGAN</p> <p>\$4,000,000 REFINANCING TERM NOTE & REVOLVER</p> <p> ACTED AS ADVISOR</p>	<p>125 ACRES OF LAND</p> <p>CITY OF LOS ANGELES</p> <p>REAL ESTATE ACQUISITION FINANCING</p> <p> ACTED AS ADVISOR</p>
<p>ACUTE CARE HOSPITAL TEXAS</p> <p>ACQUISITION CAPITAL PRIVATE PLACEMENT SENIOR AND SUB-NOTE WORKING CAPITAL LINE</p> <p> ACTED AS ADVISOR</p>	<p>SOUTHEASTERN US HOSPITAL OPERATOR</p> <p>\$65,000,000 3 HOSPITALS</p> <p> ACTED AS ADVISOR</p>	<p>\$70MM MIDWEST SPECIALTY WAREHOUSE, BROKERAGE, TRUCKING</p> <p>BUY-SIDE SEARCH</p> <p> ACTED AS ADVISOR</p>	<p></p> <p>HYATT house</p> <p>175 ROOM \$18,026,000</p> <p>NON-RECOURSE HOTEL CONSTRUCTION LOAN</p> <p> ACTED AS ADVISOR</p>

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