

## TIPS FOR SELLING YOUR SENIOR HOUSING COMMUNITY

*This newsletter is the first in series on how to prepare your senior housing community or portfolio for sale.*

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03.01.17

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### Preparing Your Financials

In many ways, when preparing your senior housing community for sale, it is helpful to think through the eyes of the buyer and where they place value. The perception of risk is an important element in your valuation. Working with a good broker, you may be able to mitigate perceived risks to a buyer to enhance your value. One place to start is a well-presented set of financials.

#### Income Statement

- 1** Net operating income matters. It is the single biggest factor in the value that you can control. Cap rates are the other major factor, but you have little control on cap rates. The earnings before taxes, depreciation amortization and rent will have the greatest impact on your value. Do whatever you can to maximize the earnings without sacrificing stable revenue. Every dollar you drop to the bottom line will come back to you 8-18X in a senior housing transaction.
- 2** Revenues. Track both monthly physical occupancy as well as monthly revenues. If you have a base rent and separate charge for services, it is best to reflect that break out in the income statement. This will enable a buyer to track value added services.
- 3** Buyers like to see disciplined, consistent rent increases annually. Your ability to reflect regular increases on the income statement will be rewarded.
- 4** Invest in turbo charging your census. If you have had effective marketing programs in the past, invest in them prior to a sale. As much as 60-70% of the new census revenue will drop to your bottom line.

- 5 Don't change accounting approach. If you have been on a cash basis of accounting, stay on a cash basis, don't switch to accrual a month before you decide to sell. Buyers are looking for consistency of earnings from year to year and aren't willing to reconstruct or unwind your income statements.
- 6 Ideally, buyers want to see a general uptrend in earnings from year to year and stable or slight rise in expenses. If they see a sudden drop in expenses, such as food, payroll or marketing, that will raise a red flag and could cause concern about the viability of the revenue stream going forward.
- 7 To the extent you have unnecessary payroll not key to operations, it is better to eliminate those positions at least 6 months prior to a sale in order to prove out that those positions weren't critical in maintaining the revenue base.
- 8 Any unnecessary operating expenses should be cut while not sacrificing quality.
- 9 Itemize on your income statement extraordinary and non-recurring revenues or expenses. These will generally be adjusted out in calculating the NOI and it's best if you consistently itemize those items for valuation purposes. This may also include country club membership costs, sale of land, auto expense for the owner, all of which may be legal and legitimate costs per the IRS, but would be adjusted in a valuation. Buyers like to see a consistent trend in line items from year to year.

### **Supplements to the Financial Statements**

- 1 A monthly rent roll which includes unit description and unit rent will support a buyer's analysis. If possible, break out base rent from service revenue on the rent roll and the income statement.
- 2 Lease costs and interest costs associated with debt will be generally excluded from the NOI calculation.

## Balance Sheet

- 1 Generally, the balance sheet is not as vital as the income statement in a single community sale, as buyers are focused on cash flows prior to debt. However, there are some things to watch for. Some buyers want to see debt information. That is sensitive information and should not be shared unless there is a very compelling reason. Buyers are responsible for securing their own debt and the seller's debt information may be kept confidential. In a distressed situation, some less than scrupulous buyers will approach lenders once they learn of a sale and negotiate directly with a lender for control of the mortgage which may ultimately give them control of the asset.
- 2 Make necessary capital investments, such as a new roof, van or boiler equipment. Make it as easy as possible for a buyer to step into a stable cash flow situation. That will get you the best premium on your community.
- 3 A spike in A/R will generally raise a red flag. If there is a spike in A/R, be prepared to provide a concise explanation. A large balance in A/R from rent due in assisted living is not a good sign, as tenants are expected to pay in cash on the first of the month.
- 4 Don't lock yourself into HUD financing prior to a sale. HUD is terrific for long term hold, but carries steep penalties if you sell early.

On a final note, don't wait until the last minute to have your financial statements in good order, as it will be part of the overall process to add value and ensure the best price for your senior housing community.

## Contact Info

If we can assist you with the sale of your senior housing community, contact us for a complimentary, no-obligation, facility valuation. You can reach us by **email** or 312-558-1590.

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