

PUBLICATION

Is Now a Good Time to Sell?

Authors: Richard Faulkner, Jr.
November 11, 2009

When divesting of their long term care facilities, owners face challenges in today's environment. Capital is not as free-flowing as it was a few years ago, and private equity groups and larger strategic buyers are not as active in the market. But does that mean now is not a good time to sell? Not necessarily. A potential seller should carefully consider the reasons underlying a decision to sell.

The Market

From a pricing standpoint, participants at a recent conference hosted by the National Investment Center for the Seniors Housing & Care Industry in Chicago report cap rates remain weak from their historic robust highs just a few years ago. So, for a stabilized facility with strong historic cash flows, the transaction market is not indicating the seller-favored returns that flowed from some of the sales in more heady times.

While the absence of large private equity groups acting as buyers has snagged the headlines recently, there are many companies looking to acquire long term care facilities. The most active buyers today are smaller, regional operators. For capital, these companies are using a mix of their own equity, local banking relationships and mezzanine lenders to put together single site or small portfolio acquisitions. For the most part, these buyers are very nimble and can absorb creative deal structures. From the seller's perspective, a smaller regional operator may be a good fit to complete a transaction quickly and quietly.

The Decision

For an owner considering a potential sale, the best course is to examine the objectives behind a possible sale. Some of these objectives may include:

- Disposing of a non-strategic or chronically underperforming asset;
- Retirement or death of a partner;
- Raising capital to de-leverage other assets;
- Taking advantage of changes or anticipated changes in reimbursement or regulation;
- Stemming a tide of litigation from aggressive plaintiffs' lawyers; or
- A shift in the mission of the entity (particularly in the case of non-profit entities).

All of these are valid reasons to consider a sale, and the time may be right to consider your options.

The Next Steps

A company considering a sale should first take stock of the potential pool of buyers in their area. What local facilities have changed hands recently? What valuation matrix was used? Is the buyer still in acquisition mode? Many times this information is available from a qualified broker or other intermediary who specializes in long term care transactions. When evaluating a broker, particular care should be taken to learn how active the broker is in the industry. Most times, your local real estate broker or non-specialized investment bankers will

not know which potential buyers are active and, therefore, are generally not the best choice to sell your long term care facility. Select an intermediary who maintains regular contact with the industry.

Next, make a frank assessment of your operations and physical plant. Is occupancy suffering from some external factor, like a newer facility in town? Is your physical building suffering from lack of capital expenditures and maintenance over time? The best course is to recognize these factors in your initial asking price. You should count on any potential buyer recognizing these same issues, and it is better to have a realistic view of your pricing potential.

A potential seller also should evaluate the tax and structural aspects of a sale. What taxes will be due from the sales proceeds? Is the seller in a position to carry back a portion of the sales price? In today's market, seller financing is often helpful in bridging a gap in the seller's asking price and the buyer's offer price.

Finally, develop a strategic plan for the sales process. Your plan should include confidentiality considerations, due diligence, tax, accounting and reimbursement issues, transition of operations, regulatory approvals, and the most effective use of the sales proceeds. A failure to plan these steps in advance could lead to a delayed closing, unexpected financial results or other unwelcome consequences.

The move from potential seller to active seller has many dimensions. Potential sellers today may have compelling reasons to divest other than trying to time the market at its highest point. For these potential sellers, available indications from the market suggest buyers are still available.