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Private Equity Makes Play for Skilled Nursing

Covid deaths have had a big impact on investments in the sector.

By Erik Sherman
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The pandemic had a brutal effect in nursing homes. Mortality levels jumped from 17% in 2019 to 22.5% in 2020—nearly a one-third increase—according to a **report from the Office of the Inspector General** for the Department of Health and Human Services. "This 32% increase amounts to 169,291 more deaths in 2020 than if the mortality rate had remained the same as in 2019," the report said.

The data was based solely on Medicare claims, as nursing homes weren't required to report Covid-19 cases and deaths before May 8, 2020, and so the number of deaths in nursing homes was likely higher.

The tragic human effects outweighed others, but there were also economic and business impacts from the pandemic that are currently still affecting the skilled nursing segment.

REITs looking for stable income got nervous, according to investment banker James Cassel, chairman & cofounder, Cassel Salpeter & Co.

“Nursing homes became a petri dish until they figured it out,” Cassel tells GlobeSt.com. “Then when residents left nursing homes [for] a hospital, they didn’t return when they left. And the cost of operations went up. REITs own the real estate, and they rely on rent payments.”

And higher costs mean smaller profits and a greater risk of late or missing rent.

“The market places a premium on focused industries [for REITs],” Kurt Uhler, a managing director in the real estate advisory group, Duff & Phelps, a Kroll business, tells GlobeSt.com. Concentration in a particular area makes it more difficult for a REIT to hedge or respond to issues.

And the REITs are dependent on nursing home operators. “What you get are these very, very, very experienced property owners in senior living and specifically the skilled nursing base.” Relationships with well thought of operators. “These REITs or private equity farms are obviously not operating them themselves.”

“REITs, because they are public, depend highly on the public perception of them,” Krystyna Blokhina Gilkis, an associate attorney in the Law Offices of Pullano & Farrow, tells GlobeSt.com. “With everything going on in the market right now, I think it makes more sense for them to be more conservative and attempt to minimize their exposure not only from bad press but a highly regulated asset.”

Private equity firms, on the other hand, have shown greater interest in skilled nursing because, not in spite of the increased risk.

“I found most private equity firms in any of their deals are more looking to buy operations than real estate,” Cassel says. “With Covid, there was a fair amount of assets on the market which were distressed. We did sell a group and closed it in January. We got proposals from both private operators as well as private equity. The private operators were willing to pay better prices.” That’s likely because of time horizons. “Most private operators are looking for long-term growth,” says Cassel. “Private equity has a time limit. Most of these funds are five- or seven-year investments or hold periods.”