

# RCFE Resource

## MOST ACCURATE RCFE HOME AND BUSINESS VALUATIONS

### WHAT'S THE VALUE OF YOUR RCFE?

For a **FREE** No Obligation Consultation CALL us at  
(949) 397-4506



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### RCFE MARKET REPORT:

## Housing Insanity: When Will It End?

The residential resale housing market has been at an unrelenting, torrid, insane pace since July of last year, and, seemingly, nothing will slow it down.

### INTEREST RATES JUICING THE MARKET

For Los Angeles Angels fans, prior to 2002, it seemed that their team would never make the World Series. The Major League Baseball franchise was founded in 1961, and it took them 41 years until they reached the pinnacle games. They had only earned 3 trips to the playoffs prior. As a fan, there were more losing games than winning games, so any vision of hoisting the World Series Commissioner's Trophy was more of a daydream. There was no light at the end of the tunnel, until the Angels made the playoffs with a wild card berth in 2002. They became only the second team ever to win their solo World Series appearance.

Similarly, for care home buyers waiting for the market to slow and turn more favorably towards the buyer, there seems to be no light at the end of tunnel. Housing has lined up in favor of sellers since 2012. Many thought that the pandemic would slow housing, create a deep recession, and erode home values, giving buyers that much desired edge. Instead, rates plummeted to record lows, demand escalated, the inventory of RCFE homes available plummeted to unfathomable depths, and RCFE home values soared to unbelievable heights. The pandemic-led economic recession lasted only two months, and it did not touch the housing industry. Values have climbed year-over-year and the pace of housing has not slowed much at all this year. The market remains insane with plenty of showings, multiple offers, and sales prices above their list prices. At this point, what will decelerate the market enough to allow housing to transition away from a Hot Seller's Market to a Slight Seller's Market, Balanced Market, or even a Buyer's Market? Rising mortgage rates. That is precisely what occurred in 2013 and 2018.

When rates rise, many buyers turn their



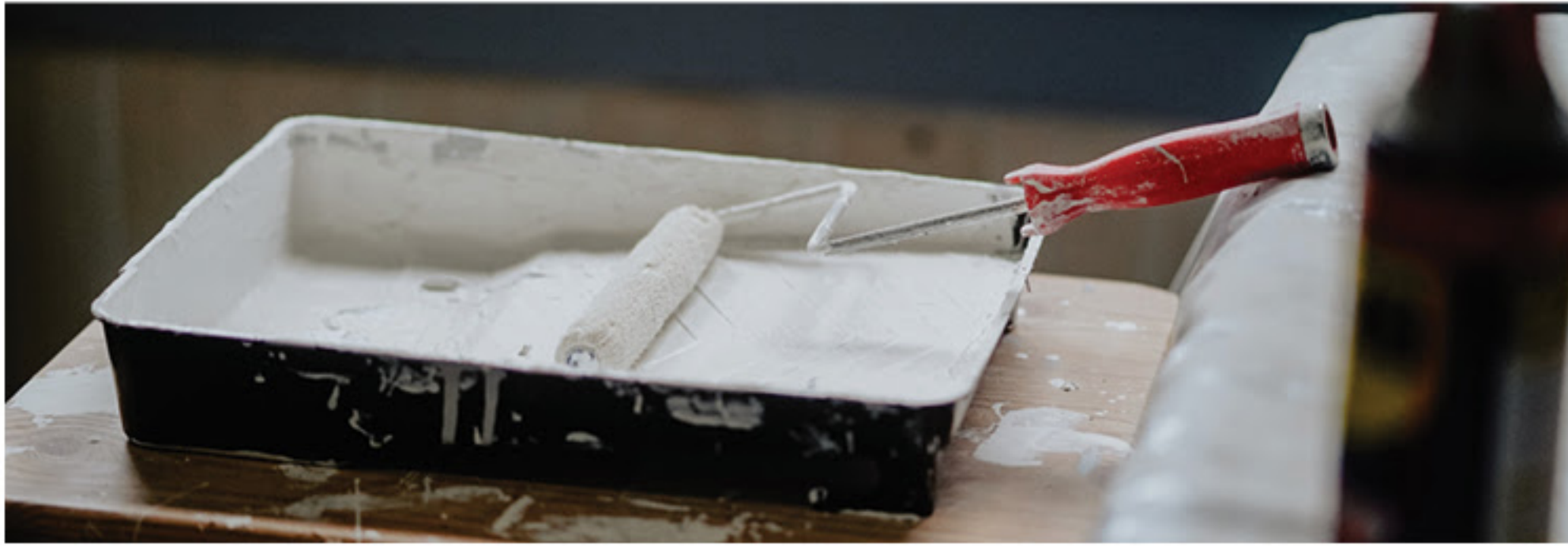
collective noses away from pursuing an RCFE home because monthly mortgage payments rise, and affordability diminishes. As a result, the inventory rises with fewer buyers in the marketplace. It takes longer to sell, with increased seller competition. There are fewer showings than a Hot Seller's Market, far fewer multiple offer situations, sellers still get to call the shots, and home values are not appreciating much at all. It is not a buyer's market, but a market where buyers are not kicking and clawing their way to home ownership.

This year there really has been no relief in the relentless pace of real estate due to the historically low mortgage rate environment. According to Freddie Mac's Primary Mortgage Market Survey®, mortgage rates have risen to 3.14% the highest level since March. Prior to the pandemic, today's 3.14% rate would be an all-time low. The rates for care homes are approximately 2% higher.

For the market to noticeably slow, mortgage rates would need to rise considerably. At 3.5%, it would afford a little bit of relief, but not much. Rates would need to climb to 4% for the market to slow from an insanely Hot Seller's Market to just a Hot Seller's Market. Very few economists project rates to climb above 4%. That is what it would take for the market to move more towards a Buyer's Market.

The light at the end of the tunnel with a shift in the market will not occur until mortgage rates rise substantially. Freddie Mac forecasted a couple of weeks ago that mortgage rates will rise to 3.5% in a year from now. That is not quite enough to slow housing meaningfully. Either rates eventually climb to slow housing, or values will climb to the point that they soften demand. The RCFE housing market just isn't there yet.





## GET READY BEFORE THE SALE.

If you are considering selling your care home, good advance planning will provide a roadmap to obtain the best sale results. There are 5 general areas I would address:

### 1. Plan Your Financial Exit

Consult with financial professionals to weigh your options should you decide to sell your care home. Depending on your anticipated overall tax liability, different tax strategies can be employed.

If you work with us, we will structure a deal based on your immediate cash needs, income requirements, 1031 Exchange plans, and overall tax strategy.

### 2. Documentation

Have all your paperwork in order. Resident's files should be complete. Update caregiver's files, and ensure that continuing education requirements are satisfied. Address outstanding Licensing citations, if any. Prepare financial statements that accurately depict the financial status of the business. If you have not already done so, e-File the most recent year's tax returns. They will be expedited. If you file a paper copy, it could take a year for the IRS to process. In general, you will need 3 years of P&Ls and tax returns.

Update procedure or operations manual. Prepare list of referral and placement agencies you have had success with. Gather service contracts in one file.

Make your business as turn-key as possible.

### 3. The Home

Thoroughly declutter and deep clean home. Engage professionals to clean your floors, carpets and windows (inside and out). Consider power-washing your driveway and walkways, and remove oil stains. If necessary, sow grass seed to replenish lawns, and trim trees, bushes and foliage. Plant pretty flowers. Refresh worn bedding with bright and cheerful new bed clothes. Repair small things, such as burnt-out lightbulbs or broken kitchen drawers. In short, make the home ready for its date with the public. Consider obtaining a home inspection and pest inspection in order to address any possible issues that may arise.

### 4. Seller Financing

Consider offering buyer purchase financing. You may attract a larger pool of otherwise-qualified buyers. We've noted in many transactions utilizing SBA financing, the lender requests the seller to participate in the financing, usually about 5% of the sale price. This is to demonstrate that the seller has some "skin in the game," an investment in the outcome of the transaction. Also, that the seller believes the business is viable and the new owner will be successful.

A wise financial strategy, typical seller financing carries an interest rate anywhere from 5% or higher. Where can you get that from a bank? While we don't necessarily suggest doing so, we've heard of sellers offering 100% carryback financing. It could be a useful strategy if your financial portfolio enjoys diversification of assets and you are seeking a level stream of income while minimizing tax consequences.

### 5. Consult With a Professional Business Broker or Agent

Many care home owners do not accurately estimate the value of their homes and businesses. Some overvalue the business significantly. These businesses don't sell. Some are unrealistic about the value of their homes, insisting that the exact same model "down the street" sold for some exorbitant price and they "know their comps." They forget that they are comparing a care home to a regular single-family residence, not another care home.

The supply-and-demand for care homes is not the same as for typical single-family homes. It varies from market to market and over time. Care homes have been specially

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## Ask The Broker

### SELLING MY CARE HOME

**Q:** I currently lease my care home, and I'm planning on selling the business. Is it difficult to sell a care home business operating upon leased premises?



**A:** First of all, the lease must be assumable to avoid liability for lease payments for the unused term of the lease.

Given that the lease is assumable, and if only a few years are remaining, and the landlord is willing to negotiate an extension of the lease beyond the remaining term, the next hurdle is finding a qualified buyer for the business who can pay all cash. It is virtually impossible to obtain a loan on a business only, unless other real estate is pledged as collateral. The care home usually serves as collateral in a home purchase situation.

Profitable care home businesses generally sell anywhere in the range from about \$150K-\$280K. A prospective buyer would require this cash payment, in addition to the 1st month's rent plus security deposit. However, a comparable home and business, where the real estate is available for sale, typically requires a LOWER cash down payment under SBA financing than the lease situation, which requires ALL CASH for the business.

A real-life example: A nice care home in Riverside leases for \$4,000/month. The same home would sell for approximately \$800K. The business price is \$150K. Cash required under lease scenario is \$150K + \$4,000 1st month rent + \$4,000 security deposit = \$158K. If the home were for sale, under SBA financing, the cash payment required is 10% down on the home + 20% down on business = \$80K + \$30 = \$110K, less than the cash payment to buy the business and lease the home. The lease and mortgage rates are roughly comparable.

A qualified buyer with good credit and the ability to pay cash for the business would probably elect to purchase, rather than lease, a care home. This is due to the many tax advantages, accumulation of equity as a hedge against inflation, potential for price appreciation, ability to make desired modifications to the property, and the long-term certainty of premises upon which to operate. These, in addition to the lower cash payment needed to seal the deal.

Please email your RCFE/ARF questions to broker Michelle J. London (MBA, CPA, MiPA), at [michelle@commire.com](mailto:michelle@commire.com), subject line "Ask the Broker" for possible inclusion in a future newsletter.



## Current Listings



To view our current listings  
visit our website at  
[www.rcferesource.com](http://www.rcferesource.com)

## CURRENT LISTINGS

### Murrieta - RCFE HOME & BUSINESS

- 4 BDR/3 BA, 2,100 s.f.
- Spencer's Crossing Community
- Corner Lot near Clubhouse

### Murrieta - RCFE FOR LEASE

- 5 BDR/2 BA, 2,214 s.f.
- Many neighborhood amenities
- \$5,000/month

## COMING SOON

(Call For Prices)

### Beaumont - RCFE HOME & BUSINESS

- 5 BDR/4 BA, 2,700 s.f.
- High-end furnishings!
- Close to hospitals, medical centers
- Fully paid solar system

### Villa Park - RCFE HOME & BUSINESS

- 7 BDR/4 BA, 3,100 s.f.
- Bright, open space
- Wonderful long-term caregivers

### Mission Viejo - RCFE FOR LEASE

- 5 BDR/3 BA, 2,800 s.f.
- Vacant RCFE
- Beautiful home, nice area

### Fairfield - RCFE HOME & BUSINESS

- 3 BDR/2 BA, 2,039 s.f.
- Spacious rooms
- College Greens neighborhood

### Sacramento - RCFE HOME & BUSINESS

- 5 BDR/3 BA, 2,400 s.f.
- Grosses \$23K monthly

### Continued from Page 2...

modified. They would probably need to be modified back to original purposes to suit the taste of the typical residential buyer should they be sold as single-family homes. So, you see, the comp down the street isn't really a comp.

Hiring an expert professional will generally help you obtain the best results. A great pro will make up for the commission you pay. Selling a care home is not like selling a traditional brick-and-mortar establishment. Accurately valuing the goodwill portion of the business assets and any real estate can add many thousands of dollars to the sale price. Generating maximum buyer interest will garner you the highest sale price. An expert broker has the clients and "know how" to make that happen.

**Call TODAY for your FREE, no obligation consultation. Michelle is a real estate broker and a CPA and would be delighted to provide you with a complimentary home and business valuation.**

## HELPING RESIDENTS COPE WITH LIFE AFTER LOSS

After losing someone we love, it can sometimes be difficult to experience joyful moments without them. While the holiday season can bring back memories of beautiful times spent together, it also reminds residents that their loved ones are no longer there.

If your resident is coping with loss heading into the holiday season, here are a few tips that may help you guide them through the next few weeks.

### Honor old traditions that bring joy

If possible, keep their loved one's memory present by honoring traditions that they shared. Maybe they always enjoyed hot chocolate every day during the month of December. Encourage your residents to share their stories about holidays from years gone past.

### Create new traditions

While it's important to honor old traditions, creating new traditions can also be healing when experiencing holidays without a loved one. It is normal for feelings of guilt or sadness to arise. Make space for residents to process their emotions and to remember that new traditions and memories will never replace all of the beautiful moments they shared.

### Set boundaries

There is no "right" way to participate in the holidays. There may be pressure to push through, but

ultimately, the choice is up to your resident whether to engage at all. Consider what feels right for them.

### Help them reflect on what they are feeling

Grieving during the holidays can be particularly painful. Feelings are magnified and it can be difficult to process so many competing emotions. Stress that they need to be kind to themselves and create space to process what they are feeling.

### Find healthy ways to manage emotions

Create a list of coping skills you can use to help residents when they are overwhelmed. Mindful breathing techniques, listening to a calming song, taking a walk, or drinking a glass of water to calm feelings that come up.

### Share feelings

When we lose someone we love, it is easy to feel alone. Instead of letting your resident isolate, try to help them engage.

If your resident is feeling especially low this holiday season, be prepared to help. The holidays can dredge up many complicated emotions. Everybody needs to find their own ways to cope, and there is no "right" or "wrong" way to approach the holidays after loss. Give them grace as they navigate this new season of life.



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## OUR FEATURED LISTINGS

### JUST LISTED

MURRIETA: RCFE FOR LEASE - 4 BDR - 2 BA - 2,214 SF  
LEASE \$5,000/mo. + BUSINESS \$60K



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PERSONALIZED WEALTH BUILDING IN REAL ESTATE  
COMMERCIAL  
DRE# 01971087, #01318955, #01934115

### JUST LISTED

MURRIETA: HOME AND BUSINESS - 4 BDR - 3 BA - 2,054 SF  
HOME: \$660K; BUSINESS: \$135K



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## THINKING OF BUYING OR SELLING?

We will develop a comprehensive strategy, tailored to help you achieve your RCFE goals.

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