

RCFE Resource

FOR ACCURATE RCFE HOME AND BUSINESS VALUATIONS

Call us **TODAY** for a **FREE** valuation of your care home and business.
(949) 397-4506



Michelle J. London MBA, CPA, MICP, BROKER

Acquisitions and Sales

DRE# 01971087

Phone: **(949) 397-4506**

michelle@commlre.com

Melvyn D. Richardson

Acquisitions and Sales

DRE# 01318955

Phone: **(949) 500-3630**

melvyn@commlre.com

www.rcferesource.com

Call or Text "RCFE" to
(949) 397-4506



RCFE MARKET REPORT:

Pricing is Crucial

Buyers now have the upper hand when negotiating in today's market, which means sellers must painstakingly arrive at the asking price to be successful.

CAREFUL PRICING

To find success, sellers need to price their care home according to its Fair Market Value based upon its location, condition, upgrades, amenities, age, décor, and overall appeal.

For almost two years sellers got away with arbitrarily pricing a care home where nearly everything sold quickly, with multiple offers, and closed sales prices way above their asking price. It was an auction-like atmosphere. There were many buyers that viewed nearly everything that hit the market. Care homes were listed FOR-SALE and, in some cases, buyers were only allowed to see a care home during a narrow window, and then all offers had to be submitted by a set deadline. After sifting through two or more offers, only one lucky buyer won. All the other buyers had to go back to the drawing board.

Pricing a care home was so random, that many care homeowners wanted even more than the price suggested by the real estate professional, leaving the professional scratching their head in disbelief that it would ever sell. Often, after placing the care home on the market, they were still able to procure multiple offers and ultimately sell above the asking price. The housing market was out of control and values surged higher. Not only did the record low mortgage rate accelerate demand, but the inventory also plunged throughout the pandemic. The mismatch between supply and demand paved the way to a historic rise in care home values.

Those days are gone. The Federal Reserve has slammed on the brakes and done everything in their power to "reset" the housing market,



one of the main economic drivers of the economy. As a result, mortgage rates have skyrocketed from 3.25% at the start of the year to 7.12% today, according to Mortgage News Daily, more than doubling, higher yet for care homes, another historic rise.

The Federal Reserve made it perfectly clear coming out of the Jackson Hole, Wyoming economic conference that they were going to be extremely aggressive in raising the Federal Funds Short Term Rate further and that they were not going to change their stance through 2023. Getting inflation under control was now their main objective.

Today, sellers no longer get away with stretching the asking price. Those days are gone. In fact, they must be extremely careful in arriving at a care home's Fair Market Value, or they will not find success. It is not as easy as pricing it right at the most recent comparable sale either. Rarely are two homes completely identical. There is a lot more that goes into the value of a home: location, condition, upgrades, amenities, age, décor, and overall appeal.

Today's buyer wants a care home to look like a model, turnkey. When it falls short, buyers will subtract from value. If a home needs carpet, the walls are scuffed and dirty, the kitchen is outdated, the yard needs work, the patio is cracked, the light fixtures are old, the bathrooms are dated, and there is plenty of deferred maintenance, buyers will subtract heavily from value. Many buyers will just skip these care homes altogether and wait for a home to come along that is already done and fully updated.

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Ask The Broker

BUYING AN EXISTING RCFE BUSINESS



Q: I'm considering purchasing an existing RCFE business. What am I actually buying? The residents? The license? The income?

A: When you buy an existing RCFE business, you CANNOT buy residents or the license. The residents are free to go at will, but if they are happy with their home, customarily they will stay when the new owner takes over, absent significant rent increases or changes in the level of care required.

Your broker can put a "clawback clause" into your purchase contract. A clawback agreement is between the seller and buyer of the business and provides that if the new buyer loses residents after the sale in the first few months not due to rent increases or changes in the level of care provided, then the buyer will receive a portion of the purchase price back. The terms of the agreement and the triggering event must be stipulated clearly in advance. Clawback clauses can be tricky and will definitely complicate transactions.

So, are you buying the license when you purchase a care home? You can't buy the license, because each new owner must obtain their own facility license. However, you are purchasing the right to operate under the **seller's facility license** until you have received your own.

This means you can start your operations for an RCFE when escrow closes, prior to obtaining your own facility license. You will collect rents and be responsible for expenses. Otherwise, you would be carrying a mortgage or lease for many months until such licensure occurs without any way to recoup cash flows from business operations.

For an Adult Residential Facility (ARF), you must also accomplish an additional step, namely, getting vendored by Regional Center in order to get

reimbursed for resident care.

Goodwill is the major asset you acquire when you purchase a care home. It is an intangible asset, as opposed to a tangible asset, like furniture or equipment. **Goodwill represents the difference between the selling price of the business and the fair market value of the tangible assets.**

Goodwill is based in part on the **principal of anticipation**, or, the anticipated future cash flows expected to be received from business operations. This is determined in part by an examination of the historical P&Ls. That's why it's imperative that sellers maintain accurate profit and loss statements that truly reflect revenues and expenses from operations.

Also contributing to goodwill is the reputation of the facility, its standing in the community, and how it compares to other care homes in the area. This positive influence will theoretically "rub off" on the new owner by means of word-of-mouth referrals from those familiar with the RCFE.

For ARFs, residents are furnished by Regional Center at a negotiated rate depending upon level of care (Levels 1, 2, 3 and 4a-4i), Level 1 being the lowest level of reimbursement and 4i the highest.

In conclusion, the primary assets you are acquiring when you purchase a care home are: (1) the ability to continue operations under the seller's license until you receive your own facility license; (2) goodwill; (3) Tangible assets, such as furniture, appliances and home goods; and (4) inventory of supplies on hand.

**Please text your questions to: Michelle J. London at 949-397-4506.
Your inquiry may be featured in an upcoming edition of this newsletter.**

Current Listings



To view our current listings
visit our website at

www.rcferesource.com

CURRENT LISTINGS

RCFE #1 - FRESNO RCFE FOR SALE

- Home and Business
- 7 BDR/4 BA, 3,569 s.f.
- Charming and immaculate
- \$683K Home; \$120K Business

RCFE #2 - FRESNO RCFE FOR SALE

- Home and Business
- 7 BDR/4 BA, 3,411 s.f.
- Beautiful and light filled
- \$642K Home; \$120K Business

RCFE #3 - FRESNO RCFE FOR SALE

- Home and Business
- 8 BDR/4 BA, 3,744 s.f.
- Spacious and pristine
- \$715K Home; \$120K Business

TUSTIN - RCFE FOR SALE

- Home and Business
- Two story home
- 4 Resident rooms/3 BA 3,178 s.f.
- Upstairs 3 BDR/1 BA owner's suite
- Gorgeous RCFE!
- \$1.50M Home; \$75K Business

MISSION VIEJO - RCFE FOR SALE

- Home and Business
- 6 BDR/3 BA, 2,439 s.f.
- Lovely home
- \$1.20M Home; \$150K Business

HEMET - RCFE FOR SALE

- Home and Business
- 4 BDR/2 BA
- Nicely Decorated
- Home \$525K; Business \$125K

COMING SOON (please call for details)

WALNUT CREEK - RCFE FOR SALE

- Home only; long-term tenant in place
- 7 BDR/8 BA, 3,400 s.f.
- Beautiful home
- 4% cap rate

ANAHEIM - RCFE FOR SALE

- Home and Business
- 4 BDR/2 BA, 1,500 s.f.
- Nice home

RCFE MARKET REPORT: Pricing is Crucial

Continued from Page 1...

ATTENTION SELLERS: To find success, sellers must price their homes according to its **Fair Market Value**. Pricing a home accurately is more important today than any other year since the end of the Great Recession. Negotiations are now leaning in favor of buyers, prices are slowly falling, and with affordability taking a drastic hit, buyers are unwilling to stretch, and they will do their due diligence in approaching any offer to purchase. Pricing a care home at the last comparable sale, yet it needs a lot of work, will simply not sell in today's market. As a result, sellers have a choice. They can either invest in their care home and update it prior to placing it on the market, or they can adjust the price to reflect the work that needs to be done. Buyers will also subtract for the hassle to do it themselves.

With the market leaning in the buyer's favor and values slowly falling, careful pricing is crucial.

SENIOR LIVING COALITION CALLS ON CONGRESS TO ADDRESS WORKFORCE CRISIS

Excerpted From Mcknight's Senior Living | Kimberly Bonvissuto

A coalition of senior living advocacy groups is calling on congressional leaders to build and train the workforce needed now – and into the future – to care for the nation's rapidly growing aging population.

Argentum, the American Seniors Housing Association and LeadingAge sent letters to Capitol Hill and the House 21st Century Long-Term Care Caucus with proposed solutions to stem the workforce shortage in senior living, with a focus on immigration, federal workforce development programs and tax incentives for both workers and employers.

In the letters, the organizations recounted how long-term care providers lost more than 100,000 caregivers in the first 20 months of the pandemic, a decline of more than 10% from pre-pandemic employment levels.

The coalition specifically called for Congress to:

- Add to federal incentives to allow providers to retain and attract qualified staff members;
- Increase existing federal workforce funding allocations to states, prioritizing long-term care;
- Fund career pathway opportunities in senior living and geriatric care in academic settings;
- Expand and incentivize the registered apprenticeship programs to develop

- career pathways for providers, and implement grant programs within stakeholder partnerships; and
- Enact commonsense immigration programs that build international pipelines of trained caregivers.

The coalition's effort follows collective ones over the past several months by the associations to "sound the alarm" on the workforce crisis.

Workforce problems are not going away

More than 20 non-immigrant visa categories exist, but none are well-suited for the caregiver, dietary aid, medical technician and other critical positions in the senior living industry. The immigration system, ASHA President and CEO David Schless said, is long overdue for reform to allow senior living employers access to foreign workers who want to come to the United States to care for older adults.

Time to "take action"

President and CEO of LeadingAge Katie Smith Sloan called on Congress to "do your part – take action!" "Older adults and families cannot access the care and services they need due to workforce challenges across the aging services sector. More workers are needed, and to get them here, an all-of-government approach is needed."

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NEW ALZHEIMER'S DRUG SHOWS PROMISE IN SLOWING DISEASE

Excerpted from McKnight's Long-Term Care | John Roszkowski

In a potentially significant breakthrough in the treatment of Alzheimer's disease, recently completed clinical trials show a new experimental drug treatment could significantly slow the progression of the disease in the early stages.

Japanese drugmaker Eisai Co. Ltd. and its U.S. partner Biogen Inc, announced that Eisai's large global Phase 3 Clarity AD clinical trial confirmed positive results of lecanemab in treating early Alzheimer's. Lecanemab is an investigational anti-amyloid beta protofibril antibody for the treatment of mild cognitive impairment due to Alzheimer's disease and mild Alzheimer's with confirmed presence of amyloid pathology in the brain.

The Phase 3 trial was a placebo controlled, randomized study of 1,795 people with early Alzheimer's disease over a period of 18 months. The results of the trial found that those who took the lecanemab treatment saw a 27% reduction in cognitive

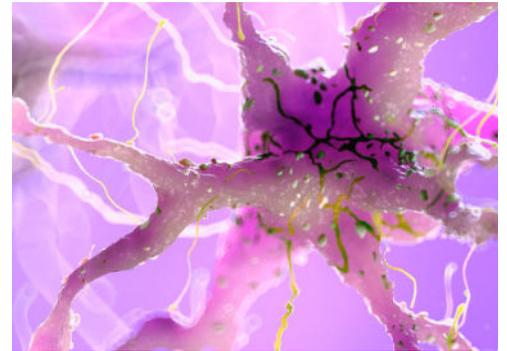
and functional decline, compared to those in the placebo group.

The announcement gives "patients and their families hope that lecanemab, if approved, can potentially slow the progression of Alzheimer's disease, and provide a clinically meaningful impact on cognition and function," said Michel Vounatsos, CEO of Biogen, in a news release.

"Importantly, the study shows that removal of aggregated amyloid beta in the brain is associated with a slowing of disease in patients at the early stage of the disease," he said.

In a statement, the Alzheimer's Association, which represents the 6 million people living with Alzheimer's, called the positive findings of the lecanemab clinical trials "the most encouraging results in treating the underlying causes of Alzheimer's to date."

"For people in the earliest stages of



Alzheimer's, this treatment has the potential to change the course of the disease in a clinically meaningful way," the statement read. "These results indicate lecanemab may give people more time at or near their full abilities to participate in daily life, remain independent and make future health care decisions."

Eisai will present the Clarity AD study results on Nov. 29 at the Clinical Trials on Alzheimer's Congress and publish the findings in a peer-reviewed medical journal. They hope to get expedited FDA approval for use of the drug in January.

THINKING OF BUYING OR SELLING?

Let our RCFE Resource team of professionals bring proven expertise to help you get the highest sales price for your RCFE or ARF!

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