

# RCFE Resource

FOR ACCURATE RCFE HOME AND BUSINESS VALUATIONS

Call us **TODAY** for a **FREE** valuation of your care home and business.  
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**RCFE MARKET REPORT:**

## Housing Insanity Returns

With the number of available care homes to purchase at extremely low levels, there simply are too many buyers competing against each other despite high mortgage rates

**A SELLER'S MARKET**

A three-bedroom, two-and-a-half bathroom, 2,100 square foot home on a 3,700 square foot lot, built in 2003, was placed on the market on the second Tuesday of March at \$1,099,000. This was a single-family residence, not a care home. There was a steady stream of buyers during a three-hour window on Saturday and a two-hour window on Sunday. By Monday evening, more than 20 offers were submitted to the listing agent. The seller countered all offers and asked them to return with their highest and best price. The home closed during the second week of April at \$1,145,000, an astonishing 4% above its list price. This is the current trend in regular residential real estate, and it's being experienced in many cities in California, especially the larger metro areas.

We are noticing the same type of activity with care homes (RCFEs and ARFs). When a nice care home comes to market, we are finding an upsurge in the number of potential buyers. Multiple offers are once again the norm. We haven't yet experienced the premium over list price that we witnessed with care home sales in 2021.

Not every single-family regular residential home sells above the asking price, especially in today's high mortgage rate environment. The sales-to-list price ratio for

detached homes priced below \$2 million so far in April is 99.9%. For luxury homes, anything priced above \$2 million (the top 10% of closings), it drops to 94%. The median time on the market has shortened, and sellers of single-family AND care homes have witnessed the return of multiple offers for sellers to sift through.

The Expected Market Time, the time between coming on the market and opening escrow, is a function of supply, the number of available homes, and demand, a snapshot of recent pending sales activity. Typically, the inventory slowly grows from January through March and then picks up steam during the spring. This is true for typical single-family residential homes and care homes, alike. This year, the inventory of RCFEs and ARFs is at its lowest level for mid-April since 2020, during the initial pandemic lockdowns. Demand readings are down because of higher rates and fewer care homes available to place into escrow.

Despite muted demand readings, there is still considerable demand for nice RCFEs and ARFs in good condition, with little deferred maintenance. The Expected Market Time has dropped like a rock. With the inventory dropping while demand expands, market times continue to fall. When a care home is accurately priced, and in good condition, it acquires instant attention and sells relatively fast. When

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# Ask The Broker

## DISCRETIONARY INCOME

**Q:** I'm in the process of purchasing a portfolio of RCFEs. The seller provided 3 years of P&Ls, but they have so many "add backs" to net income. Please discuss this concept.

**A:** Let me provide a real-life example. A few years ago, a prospective buyer of a portfolio of RCFE businesses for sale in Northern California noticed, while conducting due-diligence, that numerous individuals with the same last name were on payroll. When inquiring about this, he learned that a "salary" of \$75,000/year each was being paid to the seller's sister-in-law, ex-husband, and two sons. They didn't actually work at the RCFE.

That's an "add-back" and it should be included with net income the seller said.

Also questionable was the seller's assertion that auto expenses, such as auto leases for \$25,000/year, gas and insurance charged off as business costs, should be added back to profits.

The issue here is that many sellers try to minimize income and the associated income taxes that must be paid. When it comes time to actually sell, the seller wants to maximize net income in order to realize the highest sale value for their business. Two completely different objectives. A considerable amount of confusion and questions may arise when trying to understand the actual costs in running the business.

The typical way of resolving this dilemma is for the seller to point out the costs charged off to the business but not really necessary to operate.

These explanations, however, sometimes raise more questions than they answer.

And while it was true that the seller was charging the business for his personal auto expenses, it also was the fact that the car was used for needed business activities such as picking up necessary items for the care homes.

A well-prepared adjusted profit and loss statement

anticipates buyer questions and clearly defines what expenses on the operating statement are, and what are not necessary for efficient management of the business. But not every seller or business broker knows how to provide that information in a way that's easy to understand. And not everyone is willing to engage in full and complete disclosure.

It's up to the careful buyer to question every item on the income and expense statement. And to ask questions such as:

- Is each itemized expense necessary in order to operate the business properly?
- Is the listed total for each item the actual expense, or is the real cost lower, or higher than what has been entered in the books? This is often true for items like rent expense charged to the business for use of the premises (in the event that the business owner also owns the real estate).
- What was the ratio of the amount in each expense item to the total of all expenses for the last complete year? How does that figure compare to the percentages in prior years? If there is a substantial change in any single category, what is the reason?

The smart business buyer does not accept, without question, the figures listed in the P&L (or tax returns) and financials of a company being considered, but does some investigating to learn what the figures actually represent.

A "mini-audit" of the income and expenses is also in order. When possible, trace major items of income and expense to independent sources. The total of all monthly resident rents should be traceable to a deposit for that month which appears on the bank statement for the business. This should agree to negotiated rates on the

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## Current Listings



To view our current listings visit our website at

[www.rcferesource.com](http://www.rcferesource.com)

## CURRENT LISTINGS

### LA MIRADA

- 6 BDR/3 BA, 3,300 s.f.
- Home and Business
- Home \$1.35M; business \$180K

### LAKE ELSINORE

- 4 BDR/2 BA, 2,100 s.f.
- Home \$785K; business \$165K

## COMING SOON

(please call for details)

### MURRIETA - RCFE FOR SALE

- Home and Business
- Great net income!
- 6 BDR/4 BA, 2,850 s.f.

### STOCKTON - RCFE FOR LEASE

- 4 BDR/3 BA, 2,200 s.f.
- Nice neighborhood

### FRESNO - RCFE FOR SALE

- Home and Business
- Licensed for 18!

### FRESNO - RCFE FOR SALE

- Home and Business
- Licensed for 6
- Great home

### AMADOR COUNTY - ARF FOR SALE

- Licensed for 4
- 5 BDR/3 BA, 4,200 s.f.
- Two Story
- Excellent net income
- Gorgeous Home

## RCFE MARKET REPORT: Housing Insanity Returns

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market times drop so precipitously, the housing market feels insane. This is when sellers get to call the shots, care home values are rising again, multiple offers are the norm, and sales prices often meet their asking prices.

Buyers entering the market today are blown away at just how quickly care homes that are in good condition and priced according to their Fair Market Values are flying off the market with multiple offers to purchase. Appraisal and inspection contingencies are once again being sometimes waived like they were when mortgage rates were below 3%.

There is very little available for buyers to purchase right now. Anything that does hit the market is inundated with showings and plenty of offers as long as the care home is in reasonable shape and the seller is not stretching the asking price. There is nothing spectacular about the number of buyers looking to purchase today. Today's insane pace is not a function of juiced demand. The issue is that there are very few care homes available today in the beginning of May when there are typically two or three times the current number. The lack of care home inventory in every community is why today's housing market is insane.

Housing insanity has returned to California, and it will not change anytime soon.

## Ask The Broker

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admission agreements plus any raises and trace back to the monthly resident rent roll.

Some typical "add-backs" utilized frequently to compute adjusted net income/sellers discretionary cash/cash flow include:

- Owner's Annual Salary
- Owners Pension
- Owners Health Insurance Premium
- Amortization
- Depreciation
- Interest Expense (typically loans that will be paid off when the business is acquired).
- Rent/Mortgage Payment (if the business is being acquired with an SBA Loan).
- One Time Business Expense (an annual expense the new owner will not have in the future) or extraordinary expense.
- Salary Expense Of Family Members (who don't actually work at the business).

If the buyer is careful and very thorough during the due diligence phase, they will obtain a comprehensive understanding of the actual expenses needed to successfully operate the business. Appropriately excluding the seller's discretionary expenses will provide a much more accurate picture of true business operations.

**Please text your questions to: Michelle J. London at 949-397-4506.**

# 7 FOODS THAT DON'T MIX WITH PRESCRIPTION DRUGS

By: Stacey Colino. Excerpted from AARP Health.



It's routine to ask your doctor or pharmacist if a new prescription drug could interact with other medications you're taking. But have you inquired about potentially problematic foods? It turns out, a handful of commonly consumed fruits, veggies, snacks and drinks can affect the way medicines are absorbed or metabolized in the body.

"It's an issue that's not on a lot of people's radar screens. Honestly, it's not on many doctors' radar screens, either," says Bethanne Brown, a professor of pharmacy practice at the J.L. Winkle College of Pharmacy at the University of Cincinnati. "This information can be found in the packet you receive when you pick up your prescription from the pharmacy, but it can get lost in all the written information provided."

It's especially important for older adults to be aware of potential food-drug interactions. Research from the Lown Institute shows that 42 percent of U.S. adults 65 and older take five or more prescription drugs per day and nearly 20 percent take 10 or more, complicating matters when it comes to remembering how to take each medication.

In some cases consuming a specific food could make a particular drug less effective or potentially increase blood levels of the drug. In other instances the combination could trigger bad, or even dangerous, side effects. That's why it's important to always ask your doctor or pharmacist if there are any foods that can interact with the medicines you're taking.

In the meantime, here are some commonly used medications and the foods and beverages that could create a problematic pairing.

## 1. Dairy and some antibiotics

With antibiotics in the tetracycline class (including doxycycline and minocycline, which are prescribed to treat bacterial pneumonia and other infections) and ciprofloxacin (from the quinolone class, also prescribed for pneumonia and other infections), the calcium in dairy products like milk, cheese and yogurt could inhibit drug absorption, which could compromise the medication's ability to treat your infection effectively.

Your best bet is to avoid calcium-containing foods an hour before, or two hours after, taking one of these antibiotics, Brown says.

## 2. Leafy greens and warfarin

Among the most well-known food-drug interactions is the anticoagulant warfarin (brand names Jantoven and Coumadin) and foods containing vitamin K, such as broccoli, cabbage, kale, spinach, swiss chard, seaweed and other leafy greens. Certain vegetable oils also contain large amounts of K. These vegetables can reduce the effectiveness of the commonly prescribed medication, thus inhibiting its ability to stop or prevent blood clotting, explains Dima Qato, an associate professor at the University of Southern California School of Pharmacy and a senior fellow at USC's Schaeffer Center for Health Policy & Economics.

Before you ditch these foods entirely, ask your doctor whether you should avoid them (or any others) while taking warfarin, or whether you can regularly consume moderate amounts. Some experts now

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# 7 FOODS THAT DON'T MIX WITH PRESCRIPTION DRUGS

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advise people taking warfarin to be super consistent in the amount of vitamin K they consume through food, avoiding large amounts at one time. So, "If you like salad, have it three times a week and the same amount each time," Brown advises, and your warfarin concentration should stay steady.

### **3. Cured meats, soy, other tyramine-containing foods, plus MAOIs**

An older class of antidepressants called monoamine oxidase inhibitors (MAOIs) can have dangerous interactions with foods that contain high levels of tyramine, an amino acid. Taking MAOIs and consuming tyramine-rich foods can lead to a high tyramine level in the body, which can trigger a sudden, dangerous increase in blood pressure. Foods that are high in tyramine include smoked and cured meats, aged cheeses, fermented foods, red wine, some draft beer, soy products (soy sauce, miso, tofu) and very ripe bananas. These days, MAOIs aren't used as frequently to combat depression, but they are sometimes used to treat Parkinson's disease. If you're taking an MAOI, it's best to avoid these foods, Brown says. You can also ask your doctor for a complete list of dietary restrictions.

### **4. Grapefruit and cholesterol-lowering drugs**

Consuming grapefruit or grapefruit juice can inhibit an enzyme that's necessary for statins to be metabolized, Qato cautions. As a result, "the drug stays in the blood and accumulates, increasing the risk of side effects such as muscle pain."

Of the statins, atorvastatin, lovastatin and simvastatin (common brand names Lipitor, Altoprev/Mevacor and Zocor) are the most problematic as far as grapefruit juice goes. To be on the safer side, patients are often advised to avoid grapefruit and grapefruit juice entirely while taking statins, Qato says.

Grapefruit can cause problems when mixed with other medications, too. A few include some anti-anxiety drugs, such as BuSpar, and certain corticosteroids that treat Crohn's disease or ulcerative colitis, such as Entocort EC and Uceris tablet (both budesonide), according to the U.S. Food and Drug Administration.

### **5. Bananas and other potassium-rich foods, plus ACE inhibitors**

If you take blood pressure-lowering ACE inhibitors with potassium-rich foods, including bananas, avocados, tomatoes and dried apricots, you can get high potassium levels in your body, which can lead to potentially dangerous heart arrhythmias, Brown warns. That's why it's wise to limit your intake of potassium-rich foods while taking an ACE inhibitor. It's recommended that some ACE inhibitors, such as captopril and moexipril (brand names Capoten and Univasc), be taken at least an hour before meals.

### **6. Fruit juice and some blood pressure drugs/ antihistamines**

If you're taking a calcium channel blocker (another type of hypertension drug), steer clear of grapefruit juice because it can render the drug ineffective, Qato says. Also, if you're taking the beta blocker atenolol (Tenormin) or the renin inhibitor aliskiren (Tekturna), you should know that drinking apple juice or orange juice could decrease levels of the drug in your body.

In a lesser-known interaction, some of the newer generation of antihistamines – namely, fexofenadine (Allegra) – can also interact with acidic juices, such as apple juice, orange juice and grapefruit juice, Qato says. "These acidic juices could affect absorption and neutralize the effect of antihistamines so they don't really work." If you're seeking allergy relief, Qato advises avoiding these juices within two to four hours of taking one of these antihistamines.

### **7. High-fiber foods and levothyroxine, digoxin**

Consuming soybean flour, walnuts and other high-fiber foods can make levothyroxine – a drug listed under several brand names that is used to treat an underactive thyroid gland – less effective. The same is true if you're taking digoxin, which is sold under several brand names and is used to treat heart failure. High-fiber foods can affect a person's absorption of the drug, Qato explains, so your best bet is to take digoxin at least two hours before or after consuming meals or snacks that are loaded with fiber.

# RCFE

# Resource

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## "ASK THE BROKER" WEBINAR SCHEDULE

RCFE Resource is happy to invite you to our monthly "Ask the Broker" updates.

**Each month, we will present topics of interest to the RCFE and ARF communities. We will email you a link to register. Hope to see you there!**

Tuesday, May 23, 2023	1:00PM	"Not All Insurance Is Created Equal" - GUEST - Blake Thompson
Tuesday, June 20, 2023	1:00PM	"Selling Your Business"
Tuesday, July 25, 2023	1:00PM	"BUYING A TURNKEY CARE HOME vs CONVERTING A SINGLE FAMILY RESIDENCE"
Tuesday, August 22, 2023	1:00PM	GUEST - "Obtaining An Assisted Living Waiver Can Increase Your Net Profits"
Tuesday, Sept. 26, 2023	1:00PM	"THE IMPORTANCE OF CONTROLLING EXPENSES"
Tuesday, October 24, 2023	1:00PM	GUEST Matt Meader - "The Many Benefits of Assisted Living Software"
Tuesday, Nov. 28, 2023	1:00PM	"PERFORMING YOUR DUE DILIGENCE WHEN BUYING A CARE HOME"

## 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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