

COVID-19 Threatening Long-Term Financial Sustainability of Senior Living Facilities

If such facilities can't bring in new residents, their business model essentially collapses.

April 16, 2020

The novel coronavirus COVID-19 is having a profound effect on the nation's hospitals as they struggle to secure testing and equipment and to stay afloat financially.

Senior living facilities, which reportedly account for more than 3,600 of the 27,000 deaths in this country from COVID-19 as of earlier this week, is another sector of the healthcare industry facing grave uncertainty.

Some of the challenges at such facilities mirror what's happening at hospitals. Personal protective equipment such as face masks are in short supply, and workers at senior living centers are concerned about their health and the health of their residents as they risk exposure on a daily basis. The situation is tense, and getting more so by the day.

The problem with senior living facilities, however, is that they have far fewer opportunities for revenue than do hospitals, and while hospitals are struggling mightily with their finances, many senior communities are fighting for their very survival as revenue streams dry up. Such facilities earn their bread by accepting new patients, but because COVID-19 poses a particular threat to older Americans, many are hesitant to become residents -- threatening the financial model upon which senior centers are built.

Matthew Rubin, senior managing director at SOLIC Capital Advisors, is a financial advisor to a senior living facility based in the Midwest. The entity is in financial distress. It had been dealing with issues in terms of its overall performance, but also dealing with cash liquidity issues given its operational challenges. Add COVID-19 on top of that, and it's been a recipe for a perfect storm.

Luckily, the facility has not had any confirmed cases of COVID-19, and that's been due in part to some policy and procedure changes that were made in light of the pandemic. In early March, the facility went into a lockdown, locking all doors to the building except for the front entrance so that residents couldn't enter or leave. Essential vendors who came to the facility were subjected to a series of questions to ascertain how they were feeling health-wise, and also underwent thermometer checks if they needed to enter the building. Guests have not been allowed to visit the facility, not even to chat with their loved ones through the relative safety of glass windows.

That last measure was a tough decision to make, and has resulted in some backlash. The facility secured police orders to help enforce the no-visitors policy. But while there's been some griping, it has so far kept the coronavirus out of the building.

"Where we have had some difficulty is in some of these independent living folks," said Rubin. "We have over 300 people in apartments. Independent living is about half the community. In the Midwest, they could go about their normal day. We had a hard time keeping them under wraps and keeping them in their rooms. We caught several sneaking out of the facility -- they're going to McDonald's, Chick-fil-A, Walmart. It created an interesting dynamic. Residents are obviously taking this very seriously, because we have residents taking pictures with their

iPhone of others leaving and coming back with a Chick-fil-A bag. They essentially get called to the principal's office and are told to abide by the rules."

ONGOING STRUGGLES

Rubin said that in terms of supplies and operations, one of the key things senior living facilities need to do is analyze which vendors are truly critical, and then call those essential vendors to negotiate discounts or see if they can waive or defer certain fees.

When it comes to PPE, there's currently a wide gulf between hospitals and senior centers. PPE is going to hospitals first, which is as it should be: Hospitals after all are on the front lines of battling the epidemic, and are dealing with the worst and most critical cases, with healthcare workers subjecting themselves to risk on a daily basis.

Yet this prioritization, while necessary, is making it difficult for senior living facilities to secure the same supplies, potentially leaving workers at these facilities in danger of contracting illness. In particular, the facility has had a difficult time securing the necessary N95 masks for staff use.

"At the beginning, we were rationing those masks off to nurses and physicians," Rubin said. "Any of our folks who were providing care had one mask per week. We've increased it to three masks a week now. Some (staff) were stealing Purell and thermometers. So quickly we utilized a room that wasn't being used and locked a bunch of stuff in it. Three people have a key."

The staff has been experiencing hardships beyond equipment shortages. Many have children living at home, and for single parents especially, securing child care is an ongoing concern. Other staff members are simply nervous about becoming sick and don't want to come in to work.

But as daunting as those challenges have been, revenue by far has been the biggest concern. When a resident dies or moves out of the facility, there's often no new resident coming in to take their place, and since the financial model of senior living facilities revolves primarily around new admissions, many centers are burning through their cash reserves wondering if they can remain sustainable in the long term. If the coronavirus pandemic lasts for many more months, facilities will simply be unable to sustain themselves. And there are few options at this point for how to address that.

"We're trying to work that out," said Rubin. "Part of the problem is the state has been changing their regulations. At first they left it up to the facility to be able to admit anyone they want. Separately they suggested moving forward with accepting people from hospitals coming into the facilities -- that's where they get a bunch of their admissions. Initially we shut it down, not letting anyone in. Now we've opened it up, but we're more selective about who can come into the facility. We would theoretically run out of cash if we didn't let anyone in at all by June."

The supply chain situation has been slowly improving, with more masks and critical supplies coming into the facility. That has provided a glimmer of hope. The fact, though, is that the business model for senior living was not built to withstand a long-running pandemic of this magnitude, which leaves the industry in an extremely precarious position.

"It's a huge problem for the industry," Rubin said. "We need new revenues. We need sales. So all of our models are shot, because we have no idea what comfort individuals are going to have for communal living going forward. Forget the next four to six weeks -- what about the next two to three years? To the extent these facilities

rely on new sales to cover liabilities for people leaving the facility, they're going to continue to struggle. We'll have more struggles in this space if we don't continue to bring in new residents."

The extent to which this affects other senior living centers is largely dependent on their financial stability heading into the crisis. Lockdowns and visitor restrictions seem to have helped in terms of containing COVID-19's spread, but addressing safety and addressing liquidity are two different concerns at this point, and many facilities such as the one in the Midwest are essentially cash flow neutral.

Certain federal programs can assist with cash flow, such as FICA deferrals that could total about \$50,000m per month. That's helpful, but it's a temporary bandage; the industry needs a longer-term fix, which would require a restructuring with lenders.

"Every company is different," said Rubin. "You have deep pockets or you don't, and if you don't it falls on the banks and lenders. The question for them is, 'Do we want to continue to fund a distressed entity?'"

Either way, those who run senior living centers are white-knuckling their way into an uncertain future.

###