



Why invest in Skilled Nursing? Why now?

With the aging population now accelerating due to the annual addition of millions of baby boomers and a high barrier to entry for operators, investments in Skilled Nursing Facilities (SNFs) should show nice dividends for decades.

People are getting older, technology is improving medical procedures and the senior population is expected to outgrow younger demographics for the next 30 years. This means that more seniors will require medical care in the near future than at any time in our history. The question of how all these people will be cared for is important to society. While the government is the primary payment source, the public sector is charged with providing the actual services. While the growth of this industry is undeniable, care need be given to where and when businesses consider investing their time and capital.

Any senior project needs to ensure that there is sufficient demand for the type of service they are considering. Feasibility reports and appraisals are important but first hand operational experience cannot be beat. While some facilities may enjoy high occupancies they may also be incredibly obsolete thereby bringing down potential quality of care within a market. Understanding the dynamics of supply and demand therefore must be considered. It is important to understand where SNFs stand in the continuum of Senior Care. At one end is Independent Living, essentially multifamily apartments for seniors where residents might live for many years. There are generally few if any federal rules and the residents tend to take care of themselves. At the opposite end is a hospital. Hospitals care for those critically injured and those with multiple diagnoses. Hospitals are highly regulated yet generally discharge patients within days of providing services. SNFs are generally the receiver of patients discharged from the hospital and needing continued medical care. Time in the hospital is generally covered by insurers (Medicare, Medicaid and Private) for three days, after that facilities like SNFs are expected to provide services to allow the patient to continue their healing and rehabilitation. Unlike Nursing homes from generations past, new facilities are very patient focused and cater to the patients as well as their visiting families. The best SNFs today have beautiful lobbies to greet you, enhanced amenities to please you and increased therapy solutions to heal you. Facilities are generally divided into smaller "house" units allowing more personalized and consistent staff interaction related to medical treatment and dining. The goal of every SNF is to get the patient home as soon as possible so once therapy is completed and injuries healed their successful discharge awaits them. Soon after, a new patient is welcomed in and the process starts over again.

There have been concerns that Medicare funding could dry up. While Medicare does reevaluate payments each year and does have pressure to control its costs it would be difficult to imagine the federal government freezing out such a substantial voting block by closing Medicare. To the contrary, many people believe that SNFs actually provide a lower cost of service needed by Medicare members. With a typical SNF costing 1/5 the cost of a hospital room, yet also providing quality licensed nurses and Physician care, SNFs would appear to be a great tool to actually help lower costs for the system as a whole.

Licensing of facilities is a big part of the success and challenges of running a SNF. Annual surveys of each facility are conducted to ensure that patient care is being maintained at the highest possible levels. While this is beneficial to the patient it also helps the industry stay current on changes that occur year over year. This can be enough to keep many healthcare companies from wanting to enter into the Nursing and Skilled Nursing arena. Many operators are more content slugging it out in the less regulated markets of Assisted Living and Independent Living facilities. As healthcare providers continue to be rewarded for increasing the quality of care and reducing costs (not necessarily a conflicting agenda) SNFs will continue to be in the middle of the healthcare solution.