
White Paper

Valuation for Assisted Living Facilities

A white paper for owners and operators

- *Optimizing the selling price for assisted living facilities.*

Thinking about selling? Don't leave money on the table.

If you are like many assisted living owners, there will come a time to sell the business. Perhaps you are ready to retire, or it may be time to move on to another type of business venture.

Whatever the case, when it comes to selling your facility, you want to command the highest possible selling price and you certainly do not want to leave money on the table.

But, how do you determine a price that guarantees a good return on your investment, yet is reasonable enough to attract a buyer? Unfortunately, it's easier said than done.

Average sale prices for assisted living facilities across the U.S. provide some measure for owners considering a sale. For instance, the average price paid for assisted living facilities in 1999 was \$79,000 per bed. The average price paid in 2004 was just over \$95,000 per bed.*

While these figures are intriguing, it would be a dangerous practice to view them as solid benchmarks. In some types of real estate, one can reliably use benchmarks and settle on a sales price that's fairly accurate. In assisted living, that's seldom the case. In the assisted living industry there is tremendous variation in the types of properties that come on the market, as well as variations in their age and condition.

At Senior Care Realty, we apply three approaches to ensure that our clients sell their assisted living facilities for top dollar. These approaches include:

- **Income approach**

If you're familiar with the stock market, you have been exposed to the concept of the price/earning ratio. What we do in determining the value of an assisted living facility is similar to this. We study the earnings that the property generates and

Without a proper valuation, an owner could under-value an assisted living facility by hundreds of thousands of dollars.

apply a multiple of those earnings based on what the market indicates that buyers are likely to pay for such earnings. Obviously, the multiple is a key ingredient. It is determined by a number of factors that include a subjective analysis, analyses of comparable sales, discussions with appraisers regarding valuations and our own extensive research.

- **Comparable sales approach**

We conduct a comparable market analysis to illustrate what similar facilities have sold for within a recent time frame. This analysis is based on fact and will consider characteristics such as age of the facility, number of beds, square footage, location,



the listing price and the sold price. The qualifications worked into this equation are condition of the facility and recent financial performance.

- **Replacement cost approach**

While the income and comparable sales approaches generally carry more weight, we sometimes rely on the replacement cost approach to valuation. For properties that are not producing income or cannot be effectively compared to others, the replacement cost approach can be the best indicator of value. However, the replacement cost of a property can only be achieved if the potential income from the property will also support the price.

These three approaches form the cornerstone of a facility's value. Additional points that relate to valuation include the following:

- **Financial performance is important**

Proven financial performance of an assisted living facility is more valuable than projected performance.

Some properties are stable and cash flowing. Others may be new and still in a lease-up phase. The important point to a buyer is this: proven financial performance will command a higher selling price than projected financial performance. Buyers will look for details that indicate how the facility is performing today and its prospects for tomorrow. If you're in the position of having to sell future, or untested earnings

rather than a real track record, you may need to offer a discount to complete a sale.

- **What you paid does not matter**

While the price you paid matters to you, it does not matter to a potential buyer. Your facility's worth, from a buyer's perspective, relates to what they can afford to buy, what the market price is at the time and the income-generating history of the enterprise.

- **Helping the buyer with seller financing**

Seller financing, such as a second mortgage, can frequently support a higher price by making the transaction more convenient and accommodating for the buyer. Some buyers may experience challenges in arranging financing. If you, as a seller, can offer assistance through a type of seller financing, you may be able to command a higher selling price.

For more information

If you are considering selling your assisted living facility, ask for a complimentary valuation from Senior Care Realty. Visit www.seniorcarerealty.com, or call toll free (877) 834-4175.

* The Senior Care Acquisition Report, Irving Levin Associates, Inc.



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