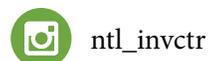
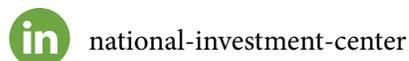


Diving Deeper into the Skilled Nursing Sector

by Beth Burnham Mace
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June 18, 2018



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Today's Skilled Nursing Sector is in a period of dynamic change.



Beth Mace

The mission of the National Investment Center for Seniors Housing & Care (NIC) is to help ensure that a greater number of America's seniors have access to quality housing, care and services, thereby enabling them to live meaningful, purposeful lives. We accomplish this goal by providing data, analytics and connections that bring together investors and care providers.

While many industry participants are familiar with [NIC's seniors housing market fundamentals and transactional data and research](#), some are surprised to learn that NIC also conducts independent research in the skilled nursing sector. This sector has commonalities with the private-pay seniors housing sector, but it's also marked by some key differences.

This article will discuss NIC's data and research in the skilled nursing sector. But let's begin by highlighting several notable differences between skilled nursing and private-pay seniors housing.



Liz Liberman

- First, operationally the degree of services delivered in the skilled nursing sector is much higher than in the seniors housing sector. The descriptor "skilled nursing" is key, since these residents require the skill set of medically-trained staff.
- Second, a tremendous need for capital exists, both to upgrade technology and to reposition or replace aging buildings to meet the demands of higher-acuity patients, as well as payors and care partners. Half of the skilled nursing properties in the top 99 metro markets were built before 1980, so investment in real estate and operations is imperative for future success.
- Third, the skilled nursing sector needs to attract new real estate investors and private equity health care investors, to fund the needed transformation of buildings and technology and prepare for the oncoming wave of aging Americans.
- Fourth, the lack of available data and transparency in skilled nursing, relative to seniors housing, has contributed to a lower level of investment in the sector.
- Fifth, residents in skilled nursing may be either long-term or short-term. The latter stay in a skilled nursing property for rehabilitation purposes following an acute care episode in a hospital. These stays tend to be for a defined period of time and are usually less than 60 days.
- Sixth, and most notably, a large part of skilled nursing revenue come from government sources such as Medicaid in the case of long-term residents, or Medicare in the case of post-acute rehabilitation, rather than directly from the consumers in private-pay alternatives.

History of the NIC SNF report

Today's skilled nursing sector is in a period of dynamic change. Unlike the private-pay seniors housing sector, skilled nursing is under the influence of federal and state governments as the primary payor. Policies at both the state and national level, usually geared toward lowering government spending, impact the market dynamics of skilled nursing. For investors, the uncertainty associated with policy changes can leave them hesitant to commit funds to this sector.

Additionally, and most recently, new players in the post-acute care space such as home health and home care, as well as assisted living operators, are bringing more competition to this market. Evolving demographics and technology disruptions add further elements of change to this sector.

The lack of available data and transparency in skilled nursing, relative to seniors housing, has also contributed to a lower level of investment in the sector. Indeed, until recently, investors have had limited timely, relevant and consistent data to understand the impact of these trends on the market. Recognizing these changes and the need for data, NIC has been trying to address this information need. This is not dissimilar to the role NIC has played in the seniors housing and care industry since 1991. As an independent arbiter and successful aggregator and interpreter of data, NIC has brought key metrics to the investment community.

This background explains the genesis of NIC's Skilled Nursing Data Initiative. Through this initiative, NIC now collects data on market fundamentals in the skilled nursing sector. Investors need these data points to make informed and timely business decisions, including occupancy and revenue data such as the average daily rate by payor class (which includes Managed Medicare data), as well as quality mix, skilled mix and patient day mix. At this time, NIC has six years of monthly data starting in October 2011 that has been—and continues to be—collected directly from a diverse group of skilled nursing operators.

Recent expansion of NIC's SNF report includes urban/rural details and revenue mix

NIC's Skilled Nursing Data Report has recently been expanded to include urban and rural trends. Key findings have emerged. We found that less than 5 percent of revenue mix in rural areas is due to managed Medicare, compared to 11 percent in urban areas. Managed Medicare or Medicare Advantage generally needs an abundance of providers to be successful because the program is based on creating preferred provider networks, which is more difficult to achieve in rural areas. A small percentage of skilled nursing residents are covered by this program that resembles private insurance for Medicare beneficiaries. Savvy investors know the trends in managed Medicare are important to monitor because they impact margins (typically lower than traditional Medicare) and business strategy, which demands providers be willing and able to find and accommodate partners to gain market share.

Future of NIC's SNF Report will include state-level data

Continuing with the trend of geographic focus, NIC intends to expand the Skilled Nursing Data Report further to include state-level data. States' regulations and Medicaid reimbursement rates vary in many ways that may affect skilled nursing properties' bottom lines. Real estate investors looking to enter this market have very few data resources available, if at all, to understand the difference among markets in different states and how state regulations and legislation can impact potential investments.

For example, in New Jersey, state regulators are moving quickly toward implementing managed Medicaid for all Medicaid recipients. Managed Medicaid could result in lower Medicaid reimbursement rates because, like Medicare Advantage, those third-party entities have the ability to negotiate rates (unlike traditional Medicaid). That kind of policy could further impact skilled nursing because managed Medicaid companies may be able to steer residents away from nursing homes altogether. Whether or not these policies change overall occupancy is difficult to determine at this time and is a major motivator for NIC to bring further transparency to state-level data.

For those readers interested in learning more about NIC or about the Skilled Nursing Initiative, access to the report is free at <http://www.nic.org/skillednursing>. We also welcome operators of skilled nursing properties who may want to become data contributors. Each operator who contributes data to NIC on a monthly basis receives a benchmark comparison report, as well as access to two NIC MAP® webinars in 2018. All contributor data is confidential.

Beth Burnham Mace serves as chief economist and Liz Liberman as health care analyst with NIC. This article also appears on [National Real Estate Investor](#).