

# CHANCERY MONTHLY NEWSLETTER

*In 2024, smaller senior living operators face growth challenges due to limited access to capital and lack of scale for competitive acquisitions. Companies like Clearwater Living and OneLife Senior Living focus on regional expansion, leveraging relationships with lenders and investors to navigate financial hurdles and operational agility amidst industry consolidation.*

## Smaller Senior Living Operators Lean on Relationships as New Growth Remains Tough

In 2024, senior living operators are seeking growth with an eye on future demand – no easy feat given challenges in lending and development. For smaller companies, that is an even harder nut to crack.

For one, smaller senior living companies often don't have the cash to buy portfolios of communities or embark on extensive development strategies. Although many companies seek growth with a larger, more well-capitalized partner, smaller operators don't always have the track record to notch deals or third-party management agreements with bigger players. Financing is also still harder to get than in the past, a fact that can be especially true for a smaller company.

Faced with those challenges, smaller companies – including Newport Beach, California-based Clearwater Living, which now has 12 communities – are growing their relationships with lenders and potential partners to stay nimble for the future, often with a focus on a regional footprint.

“This truly is a period where relationships are paramount,” Clearwater Living CEO Tony Ferrero told Senior Housing News. “We are blessed with a portfolio that continues to operate exceedingly well without any legacy challenges or debt maturities that could negatively impact our focus.”

### Capital challenges limit growth

One of the biggest limiting factors in small operators' growth strategies is capital – specifically, the lack thereof. While many operators are champing at the bit to grow through acquisitions or development, their plans are only viable if they can find sufficient funding to do so.

With fewer capital partners to work with now than in the past, Ferrero said that he has spent more time in 2024 educating new capital partners who aren't as well-versed in senior living.

We continue to see sellers still demanding 2021 and 2022 cap rates on acquisitions that are not in line with current debt markets," Ferrero said. "That adjustment will inevitably happen as each deal is reaching the end of its cycle."

New entrants into senior living are having to look far and wide for partners to facilitate their plans. That is what occurred with Adava Care, a recent entrant into the senior housing industry with 12 newly acquired communities in Wisconsin, totaling 279 units. Before acquiring the portfolio, Principal Kurosh Dejosha operated three behavioral healthcare facilities.

Pulling off the deal had its fair share of difficulties, Dejosha told Senior Housing News. Dejosha said he attended National Investment Center for Seniors Housing and Care (NIC) events in an attempt to make as many connections within the industry as possible. Once he found a suitable portfolio and a broker to sell it, he shifted to sourcing capital with which to buy the communities.

Anyone and everyone that I knew, I contacted. I made a spreadsheet of every lender within 100 miles of me, and just started calling them ... from banks, to credit unions, to hard money lenders," Dejosha said. "From the 100-plus people I contacted ... maybe six to eight showed some level of interest. Then I narrowed down to two or three letters of commitment. And then, one finally made it."

Dejosha said he feels future deals will be easier to pull off now that he has a successful one under his belt. Now, he is working to establish a track record of good results in the portfolio under his company's ownership. Already, more companies have come forward as potential investors for future projects, he said.

Ferrero said Clearwater takes an "old fashioned" approach when raising capital for acquisitions by calling one lender at a time and developing relationships with them. The team has been fortunate to have "significant interest" from investors using that approach, he noted.

Ferrero said Clearwater leans on its existing relationships with lenders including Newmark, CBRE, Berkadia and JLL in order to “broaden our potential debt sources, all with the focus on creating the most appropriate capital stack for each project.”

Now is a particularly hard time to be a smaller operator, said Lee Cory, founder of Paradigm Senior Living, a Portland, Oregon-based operator with 11 communities under ownership or management. Conditions are especially hard for assisted living operators, given ongoing changes in resident acuity and length of stay, he said.

Paradigm specializes in turnaround projects, but those deals are sometimes hard to make work.

Smaller operators also have added the difficulty of getting smaller loans and a need for more cash, which according to Cory, limits smaller operators within the industry because of having less overall leverage.

OneLife Senior Living is another smaller operator that grew quickly in 2024. The Denver, Colorado-based company saw substantial growth earlier this year following a merger with Ally Senior Living, bringing the operator up to 19 communities in eight states.

CEO Dan Williams said the operator company has started working with outside funding sources for the first time to better plan for future growth. While OneLife hasn’t had many difficulties sourcing funding to grow, finding the right partner is an important part of the process and is looking to private equity investors to move at a slightly faster pace.

“You can only do so many internal projects in time, maybe you can do one a year with the internal funds that you have,” Williams said. “With private equity, your splits are less because you’re not owning as much, but you can do it at a bigger clip.”

### **Opportunities for smaller operators**

As they do not enjoy national scale, operators of smaller portfolios are focusing their growth efforts on communities and projects in a specific region that would enhance or maintain their ability to respond to challenges.

Ultimately, that is where Ferrero believes smaller operators can shine the brightest. It's also no secret that real estate investment trusts (REITs) and other owners of communities have leaned on companies with footprints centered around a specific region of the country.

He noted that smaller operators are largely more agile in their operations as whole.

“It is an operations-centric business. Smaller firms, such as ours, are able to recognize operational challenges immediately and respond more quickly to course correct as needed,” he said. “That is an advantage for smaller firms with less than 40 communities and geographically focused.”

Clearwater has grown relatively quickly since acquiring four properties from Liv Communities in 2023. Earlier this year, the operator began managing a new community in Houston with partner Hines.

Williams added that he sees a lot of private equity and capital still sitting on the sidelines unsure where or when to deploy their so-called dry powder. He believes smaller operators with portfolios of 20 communities or less can play a big role as operating partners, given they can make turnaround communities successful with a hands-on approach and have owners within the communities themselves as well.

Dejgosha noted that as a smaller operator, there is a risk of acquiring a distressed property because it's speculative the community's potential and requires additional due diligence to ensure their potential and viability, while REITs are able to more easily acquire more attractive offers. He said he will expand Adava Care in the future with a cautious eye toward ensuring such projects are actually viable at the end of the day.

Cory and Ferrero said the plan is to be focused on slow and steady growth through a combination of both acquiring new communities and developing them from the ground up. Ferrero added Clearwater is taking a focused regional approach to new growth in the future.

“Where larger companies may be stretching their regionals out pretty thin, we take a very conservative approach on how we would staff our regional team members across either geographically or by the number of communities,” he said.

With an industry facing a wall of debt maturities valued in the billions, Williams said there should be more good growth opportunities for operators taking the regional growth approach. He believes that some communities may trade at dollar amounts half of what it cost to develop them on a per-unit basis.

“When the opportunity like that presents itself, the return on investment is way in favor of doing an acquisition that you could turn around,” Williams said. “I think a smaller operator is in a better position to make that turnaround successful because they have more hands-on type experience.”

*Original Article:*

<https://seniorhousingnews.com/2024/07/01/smaller-senior-living-operators-lean-on-relationships-as-new-growth-remains-tough/>

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