Jeffrey Davis

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In this Voices interview, Senior Housing News sits down with Cambridge Chairman and CEO Jeffrey Davis to learn how senior living finance has been impacted by the COVID-19 pandemic. Davis also shares insight into what senior housing operators are doing to adapt and navigate the new landscape of senior living, and how a 2020 U.S. Department of Housing and Urban Development (HUD) program kept Cambridge busy last year, and into today.

Editor's note: This interview has been edited for length and clarity.

Cambridge Realty Capital Companies is one of the nation's leading nursing home, assisted living and health care debt and equity capital partners. To learn more about how Cambridge can help your operation, visit cambridgecap.com.

Q: Senior Housing News:
You founded the company in 1983. What led you to start Cambridge, and how has it evolved over these four decades?

Jeff Davis: It's hard to believe how long we have been in financing — basically after graduate school. I started it because I was in a traditional real estate financing environment and a couple of things happened. One, there was always a lot of internal competition for deals because we were based in Chicago, which has a limited market to work in. Originators were always fighting with each other.

Perhaps more importantly, one of the deals we worked on was a five-building nursing home portfolio. That was the first time in my six or seven years with Baird and Warner that anybody saw a nursing home deal — we ended up doing three of the five facilities with Lincoln National Life of Ft. Wayne, Indiana.

Second, I liked that there was a moat around nursing home financing and investment because you needed to know that business to be effective. I realized there weren't a lot of people working nursing homes because they were focused on typical deals. Those who were usually had some form of relationships built, and that worked out well.

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Third, we sat next to a HUD group during my initial work at Baird & Warner Mortgage Banker Group — probably the most active HUD group in Chicago at the time — and we were very much local. They were extremely active and had a solid HUD practice. Even though we did not use HUD on the initial deal, it created opportunities down the road.

In fact, when I had my first hire of a loan officer and HUD specialist, I remembered sharing with him (Andy Erkes) that his future would be in the health care world, not commercial real estate. Little did I know it would shortly be our primary work activity.

Q: Senior Housing News: What markets does Cambridge operate in, and what are your specific areas of expertise?

Davis: We are national and have been for many years, but we started working locally in the Chicago market early in our efforts, primarily on the North Side of Chicago and the northern suburbs.

As that evolved, we realized our skill set was transferable to any market because the business had similar tenets. That was how we went about doing it. We didn't have to focus on any one market. We went anywhere with strong fundamentals and opportunities. Because of that, it did not take long to eliminate a lot of the traditional product types — retail, office, industrial and multi-family — and solely concentrate on both senior housing and skilled nursing homes.

> "There have been a lot of attempts at new development, but it has not happened yet. There is a lot of activity, but not a lot of closings."

Q: Senior Housing News: Where was the senior living and skilled nursing industry during the early stages of the pandemic regarding the available and popular financing options that you are helping your clients achieve today?

Davis: That is an area we weren't sure how to approach for the first couple of months of the pandemic, but once we started, a couple of things happened very quickly. Chairman (Jerome) Powell of the Federal Reserve basically slashed interest rates as low as he could. When the 10-year Treasury was at 60 or 65 basis points, basically, all the other lenders followed, and there was a tremendous run by all sorts of financiers.

HUD followed suit quickly. Through the Interest Rate Reduction (IRR) program, HUD was able to basically create an environment where almost every client in our 150-facility portfolio was possibly a candidate for a refinance without any closing costs.

That kept us incredibly busy in 2020, and so far also into 2021. That was the primary program we focused on.

Q: Senior Housing News:
What changed during the pandemic from a finance perspective?

Davis: Across the entire market, different areas of government created a lot of stimulus money. The senior housing market benefitted from PPP and other stimulus loans, which attracted mostly SNF (skilled nursing facility) owners. Health care and senior housing had similar programs, and the stimulus money kept those two businesses going forward.

The traditional lenders were also incredibly accommodating. They created forbearance programs for a lot of the borrowers and collaborated to better support the existing operators. That is what the environment was like.

In the pandemic environment, underwriting and closing new loans took on a new flavor. Most of the conventional lenders significantly reduced their loan-to-values or loan-to-cost. If they were going to do business, they just wanted to do business with people they have worked with before, and that made it hard for new people to get into the business. They did not have the equity, they did not have the debt and they just did not have the tools to move forward because they didn't have a relationship with a lender.

There have been a lot of attempts at new development, but it has not happened yet. There is a lot of activity, but not a lot of closings.

"A lot of the activity will come when the lenders start enforcing their loan agreements and take the properties back."

Q: Senior Housing News:
When do you foresee that changing?

Davis: A lot of the activity will come when the lenders start enforcing their loan agreements and take the properties back. Frankly, people want to believe that the senior living and the non-skilled nursing home market is robust, but it is really at the beginning stages of the baby boomers, with an average age of 80 to 84 years old.

A lot of age-appropriate people are moving in, but they are not necessarily age-appropriate for these facilities. It is in the early stages, but change is going to happen because of the demographic core.

Q: Senior Housing News:
Cambridge is known for its expertise in HUD programs. For anybody that's either new to this market or getting into the market, what advice do you have for utilizing HUD programs for the first time?

Davis: A lot of owners understand financing, but they don't always have the right questions to ask new lending relationships. You need to do your due diligence on a lender and find out where they spend most of their time and what kind of success rate they have. There are a lot of simple questions you can come up to ultimately make your life easier as a lender. Sort of the saying, knowledge is power. Ask the questions needed. That is vital and critical.

For now, the new opportunities are only going to happen when the banks decide to move forward on this forbearance and start pulling back. Other things can happen, but we're in a government-suspended part of the business position because there's almost been a universal forbearance. It has been helpful, but it isn't really getting the market going again.

It's just difficult to do deals right now. You can do them, but the people that were very accommodating, like other lenders, are not as accommodating as they were. They ask a lot more questions, and if you try to make something stand up as if it was 2018-2019, it just is not going to happen.

> "The best performers (during COVID) were product types that were not people-intensive."

Q: Senior Housing News:
Shifting gears to your own operations at Cambridge, how did the pandemic and lockdown requirements play out for your company? Is there anything that changed that will change permanently for you on an operating level?

Davis: We always had some remote employees, and most people really felt good about the remote working restrictions.

Second, since the country was basically working on a remote basis, and still is, it eliminated the face-to-face market, which is validated by many industries. Look at the airlines, for example. Their business is coming back, but it is mostly leisure travel, not business travel. We are in Chicago and no one's expecting anybody to run to Florida or Arkansas for meetings.

To a certain extent, I think it helped. It made people realize the world has a workforce of specialists. We were very fortunate to have found an area we could specialize in, which was senior housing and health care financing and investment, and that is really where our success has come from.

I also think it is important to realize which product types did well during the pandemic. The best performers were product types that were not people-intensive. Multi-family, data centers, warehouses and storage facilities did the best, and hospitality and retail had the most difficult time.

Q: Senior Housing News: Entering this year, 2021, no one knew what to expect. What's been the biggest surprise to you in senior living and what impact do you think it will have for the remainder of this year and going forward?

Davis: I am still very surprised that the lenders have been so accommodating up to this point. Secondly, the government stimulus has continued. It is almost like a never-ending fountain of money for some. I was also very surprised when I heard some talk about a nearly $2.3 trillion program where the government wanted to eliminate senior housing money or health care for seniors.

You can never predict what will happen, but I think that more logical heads will prevail. Changes will happen, in my mind, beginning in the third and fourth quarter. Those changes may evolve slower than you would think, but it will happen. They must take place because you need a market that is ultimately not dependent on stimulus money.

We continue to look for other opportunities and are hoping to find them sooner than later to complement the HUD program. We need to find different ways to have more diversification with a few other activities, and we are working on that. That's probably the best thing to bring up right now.

At the end of the day, none of these products will be obsolete any time soon, because as much as seniors love to take care of themselves and live independently, they can't do that forever and need assistance with activities of daily living. It's a need-based product. Nursing homes are even more need-based. Even when you think things are going to change, they won't necessarily change that much. All you can do is try to improve your operation from whatever side of the business you're on.

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