



## CIT 5 MINUTE CAPITAL PODCAST SERIES

### EPIISODE FOUR: The Changing Face of Inpatient Healthcare with Steve Warden of CIT Healthcare

**Elliott Forrest:** Welcome to Five Minute Capital, CIT's executive insight series which takes on financial issues in five minutes or less. Today we'll be talking about the changing face of inpatient healthcare with Steve Warden for CIT Healthcare. Thanks for coming in.

**Steve Warden:** Thank you. It's my pleasure to be here.

**Elliott Forrest:** We're in challenging economic times right now. How is that impacting healthcare financing?

**Steve Warden:** The economic climate for healthcare is actually very good. Why is that? Healthcare is not cyclical in the same way that the broader economy is. Healthcare is cyclical more around what we call the reimbursement cycle, which often has to do with government reimbursement or Medicare reimbursement. Healthcare today is viewed actually as a defensive investment. And so capital is still available for healthcare deals. And given the demand for healthcare, there's lots of capital flowing into the healthcare space.

**Elliott Forrest:** When we talk about financing inpatient healthcare, we're not just talking about hospitals – give us the scope of what we're talking about.

**Steve Warden:** Inpatient, or acute care hospitals, represents 35 cents on the dollar of the healthcare dollar spent in this country. However, it's not growing as fast as other parts of the healthcare space. There has been a shift to outpatient, and a shift more to the drug side than the inpatient side. Having said that, there is a lot of demand for inpatient services, which is driven by demographics. We don't have enough beds in this country as the baby boom generation moves to age post-65. So for the last seven or eight years, there's been a construction boom going on in the healthcare space. Where hospitals have been adding beds. In addition, they've been adding other types of facilities to reflect the advances in healthcare technology.

**Elliott Forrest:** And in addition to hospitals, are you also talking about financing long-term health facilities, psych centers, rehab, et cetera?

**Steve Warden:** We're very active in the long-term care space. Many of you may know it as nursing homes, or skilled nursing facilities. There's a real demand in this country for better quality skilled nursing facilities. It comes from a consumer-driven side. That they want newer facilities, places where they can see their parents aging and being treated well. In addition, Medicare is looking for lower cost treatment environments. So it's looking to take patients out of acute care hospitals into what might be known as transitional care, or sub-acute care, to look for lower cost environments than an acute care hospital where, for instance, patients can rehabilitate, recover from strokes, recover from post-surgery. And in order to do that, these skilled nursing facilities need to invest to upgrade their facilities. So we've been supporting it from that perspective.

**Elliott Forrest:** Are we in a construction boom in regard to some of these facilities right now?

**Steve Warden:** There has been a construction boom on the hospital side. But I think we're probably getting towards the latter parts of that construction boom. One of the interesting things about the construction boom is that hospitals have been forced to think about, what are their most valuable assets. And we've been actively involved in helping them think that through. There are examples where hospitals have greater value today for alternative use. Such as other commercial or residential purposes. And they have unlocked the capital to provide healthcare in newer facilities by selling some old facilities for alternate use and rebuilding in lower cost environments. There's an example in the New York City area where a hospital thought that its core real estate was essentially worthless. We're currently working with them and have proven that the value is excess of 50 million dollars.

**Elliott Forrest:** You talk about not enough beds, and the growth of long-term health facilities and I assume the baby boomers are having that kind of impact, yes?

**Steve Warden:** Yes they are. Baby boomers tend to be generally a pretty wealthy generation. A generation that is going to want to age in a home. So, there's been a dramatic growth in assisted living facilities and retirement communities. Another way that this has manifested itself is in the demand for home care services. There's a lot of capital going into home care. Why? Well, there's growth. But also there's reimbursement incentives as a result of it being the lowest cost treatment setting. It's much cheaper to

treat someone in their home than in an institutional setting. So there's active mergers and acquisitions activity in this sector, as well as private equity activity in this sector.

**Elliott Forrest:** Is that what you're seeing in the changes in the way you do deals?

**Steve Warden:** The way we're closing deals – things are a little different than they were a year ago. A year ago the common way to get a deal done was we would underwrite a deal and syndicate it to a group of institutional investors, including hedge funds and CLOs, as well as banks – regional banks, et cetera. The way deals are getting done today is on more of what's known as a club basis. We at CIT, we're in our traditional position as lead left lender, administrative agent and arranger. However, the best way to get a deal done is to focus on a smaller group of lenders taking larger pieces and forming a club to get that done. The structures under which we are financing tend to be a little bit more conservative from a lender's point of view. So we're getting deals done, we're closing deals for our clients, but it's actually a little bit more favourable in how we're getting it done.

**Elliott Forrest:** Steve Warden at CIT Healthcare. Thanks for your insights.

**Steve Warden:** Thank you.

**Elliott Forrest:** And thank you for listening to Five Minute Capital. Please log on to [podcasts.cit.com](http://podcasts.cit.com) for more. I'm Elliott Forrest. This has been a production of CIT. CIT. Capital Redefined.