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Mission Capital to Market Distressed Nursing-Home Loan

KeyBank, special servicer of a $112 million CMBS loan against 42 skilled-nursing properties in Texas, has tapped Mission Capital Advisors to offer the troubled loan for sale.

The loan, securitized through GMAC Commercial Mortgage Securities Inc., 1998-C1, has been with KeyBank for some 12 years, making it the longest tenured loan in special servicing. It originally matured in 2008, but was repeatedly extended through last August.

Only 34 of the 42 properties, with 3,252 licensed beds, are currently in operation. The remainder, with 594 beds, are closed. Those that are open operate at a 60 percent occupancy rate and last year generated $5.6 million of earnings before interest, taxes, depreciation and amortization, according to servicer data compiled by Trepp LLC. All of the properties rely on some sort of government payment for revenue, either Medicare or Medicaid.

The loan originally had a balance of $225.4 million and was collateralized by 88 nursing homes in Texas and Illinois that Senior Living Properties LLC of Dallas had acquired in 1998 for $246 million.

The company, unable to muster a large enough loan to fund its purchase, had lined up a surety bond from ZC Specialty Insurance Co., a unit of Zurich Insurance Group, that provided a financial backstop. In exchange for a hefty premium - 70 percent of the portfolio's free cash flow after $4 million - the Zurich unit would ensure that service providers to the properties would be paid, thereby reducing the risk that occupancy would decline.

Armed with the surety bond, Senior Living, which filed for bankruptcy in 2002, was able to get a total of $246 million of financing, which included a $20 million mezzanine loan, from GMAC. The Dallas company, according to legal briefs filed during its bankruptcy, put up only $200 of equity toward the portfolio's purchase.

Because of changes in the way nursing homes were reimbursed by Medicare and Medicaid, the portfolio started suffering in 2000. That eventually led to Senior Living's bankruptcy filing. It then was ordered to liquidate its portfolio and by 2006 had sold off its Illinois holdings. Proceeds of those sales, plus the $70.7 million that was remaining in the surety bond, were applied to reducing the CMBS loan's balance.

The loan was repeatedly extended and in 2010 its collateral properties were put up for sale, but soft demand and tough capital-market conditions stymied a transaction. Another sales effort got under way in 2012, but it too failed to result in a transaction.

The loan is the last in the collateral pool for the GMAC 1998-C1 deal. Its collateral properties are scattered throughout Texas in towns such as Gilmer, Waxahachie, Roscoe and Lake Jackson, and were constructed during the 1960s and 1970s.

The thinking is that some of the properties might have a better alternative use, which might make those appealing to opportunistic players. A number, meanwhile, perform well, with occupancy rates near 90 percent. Those might interest certain institutional players.

Mission Capital last week started distributing information on the loan offering and plans to take indicative bids on April 2 and final bids the day after. It aims to complete a sale by May 2.