Sanford Health selling affordable housing portfolio

Modern Healthcare Illustration / Getty Images

Sanford Health is selling the portfolio of more than 40 affordable housing facilities it acquired through its 2019 merger with Evangelical Lutheran Good Samaritan Society.

California Commercial Investment Group, a Westlake Village, Calif.-based acquisition, asset management and development firm, has signed a letter of intent to buy the health system's 42 facilities across 18 states. The deal will close on a rolling, location-by-location basis throughout 2021. The parties did not share the proposed price.

Not-for-profit Sanford disclosed in a recent financial statement that its affordable housing division, which includes 1,700 mostly U.S. Department of Housing and Urban Development-funded units, loses $1.8 million on operations annually, and selling them will erase $33.6 million worth of debt from its balance sheet. Sanford's operating income jumped 88% year-over-year to $291 million in 2020. Revenue grew 7% year-over-year to $6.7 billion in 2020.

"To be successful at affordable housing, you need scale," said Eric Vanden Hull, vice president of finance for the Good Samaritan Society, which is now part of Sanford. "Seventeen hundred units may sound like a lot of units, but compared to some of these bigger ones, it's pretty small. We just didn't have the unit scale."

All but one of the complexes are part of legacy Good Samaritan. Sanford owned one affordable housing facility prior to its merger with Good Samaritan. Seven of the buildings are located in Nebraska, five in South Dakota and the rest are in Arizona, Colorado, Oregon, Illinois and several other states.

When Sioux Falls, S.D.-based organizations Sanford and Good Samaritan completed their merger in 2019, Sanford's leadership examined Good Samaritan's service lines, which include more than 200 post-acute facilities, nursing homes, assisted-living facilities, hospice and home health. Vanden Hull, who worked for Sanford prior to the merger, said the affordable housing program had been losing money for several years and it has always carried a high level of debt.

Few hospitals indicated in a 2019 Urban Institute survey they were directly investing in affordable housing projects. Of the 45 not-for-profit health systems that participated, just 13 said they were dedicating capital to affordable housing development. And six of those had spent $250,000 or less.

Sanford and Good Samaritan chose CCI as the buyer because it has agreed to keep the facilities open "as long as possible," Vanden Hull said.

"It'll be pretty much business as usual for the residents," Vanden Hull said.

CCI is a "preservation buyer" and plans to keep all the facilities open for the foreseeable future, Danielle Ohana Hastie, the company's executive vice president of acquisitions & asset management, wrote in an email.

"We have no intent to close any of them at this time," she said.

Ohana Hastie said CCI, which currently has a portfolio of about 7,000 affordable housing units nationwide, also expects to hire most of the 100 employees that work in Good Samaritan's affordable housing program.

Sanford's financial statement shows its affordable housing business generated $15.3 million in operating revenue in 2020 and cost $17.1 million to run. The statement shows the portfolio of housing assets is valued at just under $100 million.

Despite its improved operating performance, Sanford's volumes took a hit in 2020 due to procedure suspensions related to the COVID-19 pandemic. Admissions were down 6% year-over-year, and surgical procedures were down 10%. Emergency department visits fell 8%.

The health system had an eventful 2020. On top of the pandemic, it announced plans to merge with Salt Lake City, Utah-based Intermountain Healthcare in October. The parties scrapped those plans two months later following the abrupt resignation of Sanford's longtime CEO.