LAWTON BUILDING AND LOAN

Assisted Living Investing for Beginners

Call or text (817) 862-6922 - lawtonbuildingandloan.com

A plain-English guide from Lawton Building and Loan

Introduction: Why Assisted Living, and Why Now

People are getting older, and they are living longer. That is not a prediction. It is already happening in every town in Texas and across the country.

As people age, many of them reach a point where living alone is no longer safe or practical. They do not need a hospital. They need help with meals, medication, bathing, and getting through the day. That help has to happen somewhere, and there are not enough good places for it to happen.

That gap between the number of older people who need care and the number of quality care beds available is the demand story behind assisted living. It is not a fad, and it is not driven by market speculation. It is driven by demographics, and demographics do not reverse.

For an investor or a would-be operator, that steady demand is attractive. But this business is different from owning a regular rental house. You are not just collecting rent. You are running a care business inside a piece of real estate, and both sides of that have to work.

This guide is for beginners. Most of the people we work with at Lawton Building and Loan start small, with a single residential property run as a licensed care home. That is where this book spends most of its time, because that is where most people should start.

By the end, you will understand how the small care home model works, what licensing involves, how the financing is structured, and how the real estate and the business fit together. The final chapters cover growing from one home to several, and what the next level up looks like when an operator is ready for a larger facility.

A quick note on how we talk about money in this guide. When we discuss what a purchase takes, we do not talk about just a down payment. We talk about your total estimated out of pocket, which includes the down payment plus lender fees, broker fees, approximate title costs, and one year of insurance. That is the honest number, and it is always a range, never an exact figure, until a real deal is priced.

Nothing in this guide is a promise or a guarantee. Every deal is different, terms depend on the property, the borrower, and approval, and the figures used here are examples to help you understand the structure. With that said, let us get into it.

Chapter 1: The Opportunity in Plain Terms

Assisted living sits in the middle of the care spectrum. On one end is independent living, where residents mostly take care of themselves. On the other end is a skilled nursing facility, which is closer to a medical setting.

Assisted living is for people who need daily help but not round-the-clock medical care. Think meals, housekeeping, medication reminders, help with bathing and dressing, and someone awake and present if something goes wrong at night.

Families pay for this because the alternative is often worse. An aging parent living alone, falling, missing medication, and eating poorly is a crisis waiting to happen. A good care home solves a real problem for a family, and families understand that.

That is why this business tends to hold up when other real estate gets shaky. A tenant in a rental house can move out when money gets tight. A resident in a care home is there because they need care, and that need does not pause for a recession.

Who does this fit? It fits people who are willing to operate a real business, not just own a building. It fits people who can hire and manage caregivers, follow state rules, and treat residents well, because reputation is everything in this field.

It does not fit someone looking for completely passive income on day one. Over time, with good staff and systems, an owner can step back from daily operations. But in the beginning, expect to be involved.

The good news is that you do not need to start with a large facility. The most common entry point we see is a regular house, a duplex, or a small multi-unit property, licensed and run as a residential care home. That model is the subject of the next chapter.

Chapter 2: The Small Care Home Model

Most beginners start with small residential care homes. These are properties with 1 to 4 units, ordinary houses or small multi-unit buildings, that are licensed by the state and operated as care homes.

From the street, it looks like a house. Inside, it runs like a small business. Residents live there full time, receive meals and daily care, and pay a monthly rate for the room and the care combined.

The number of residents a home can serve depends on the property, the license type, and state and local rules. A typical small home might serve a handful of residents. The exact capacity is set by licensing, not by how many beds you can physically fit in the building, and that distinction matters.

Here is how the money works in general terms. Each resident pays a monthly rate. That rate is higher than ordinary rent, sometimes much higher, because it includes care, food, utilities, and supervision on top of the room itself.

Against that income, the home has real expenses. Caregiver wages are the biggest one, followed by food, utilities, insurance, supplies, and the mortgage payment if the property is financed. We will go through the expenses in detail in the chapter on running the numbers.

The spread between what residents pay and what it costs to run the home is the business. When the home is full or nearly full, that spread can be healthy. When beds sit empty, the fixed costs keep running, which is why occupancy is the number operators watch most closely.

There are two assets in every one of these deals, and beginners need to see them as separate. The first asset is the real estate, the land and the building. The second asset is the business, the license, the staff, the residents, and the operation itself.

Those two assets are related, but they are financed differently and they are valued differently. A lot of confusion, and a lot of bad deals, come from treating them as one thing. Keep them separate in your mind from the start and everything else in this guide will make more sense.

One more point before we move on. Because these are residential properties, the financing for the real estate side is more accessible than most people expect. We regularly structure acquisition financing on care home properties, both purchases and refinances, up to 75% of the value of the property. We will cover how that works, and how a seller-carried second can sometimes stack on top of it, in Chapter 4.

First, though, comes the topic that has to be handled before any loan closes. Licensing.

Chapter 3: Licensing and Compliance Basics

You cannot run a care home on a handshake. Assisted living is a regulated business, and the license comes from the state. In Texas, that means the state agency that oversees assisted living facilities sets the rules, and your home has to meet them before you take in residents.

The details vary by state and by the type and size of facility, but the pattern is the same everywhere. The state wants to know who owns and operates the home. It wants the building inspected for safety, things like fire protection, exits, and accessibility. It wants the operator and staff to meet training and background requirements.

Getting licensed takes time. There are applications, inspections, and corrections when an inspector finds something that needs fixing. Beginners regularly underestimate this timeline, and it causes problems when a closing date arrives before the license is ready.

That is why licensing comes before the loan, not after it. A lender can finance a property, but the income that pays the loan back comes from a licensed, operating home. If the license is not in place, the business side of the deal is not real yet.

Our advice is simple. Start the licensing conversation early, before you are deep into a purchase. Talk to the state licensing office or a consultant who knows the process in your state. Find out what the property will need, what it will cost to bring it up to standard, and how long approval realistically takes.

Also check local rules. Zoning, city permits, and neighborhood restrictions can affect whether a property can be used as a care home at all. A house can be perfect on paper and still be the wrong property if the local rules do not allow the use.

Compliance does not end when the license is issued. There are ongoing inspections, staff training requirements, resident care standards, and record keeping. Good operators treat compliance as part of the business, not as paperwork to dodge. The operators who get in trouble are usually the ones who cut corners.

Budget for this side of the business honestly. Licensing fees, inspections, required building work, and training all cost money, and they belong in your plan from the beginning, not as surprises after closing.

Once licensing is understood and underway, you can look at the purchase itself with clear eyes. That is where financing structure comes in.

Chapter 4: Buying the Real Estate

Let us talk about how a care home purchase is typically put together, using a simple example. Remember, the figures here are examples of structure, not quotes. Your deal will be priced on its own facts.

Say you find a house or small multi-unit property that fits the care home model, in a location where licensing works and demand is real. The purchase has two parts to think about: the loan on the real estate, and everything you need in cash to close and open the doors.

On the financing side, we structure acquisition loans for care home properties up to 75% of the property value for qualified buyers. That applies to purchases, and the same general range applies to refinances, including cash-out refinances on properties you already own and operate.

Seventy-five percent financing means 25% has to come from somewhere else. Sometimes that is all cash from the buyer. But there is another structure worth knowing about, especially in the small care home world.

In the right deal, the seller can carry a second lien behind the first loan. The seller effectively finances part of their own sale, and the buyer pays that second lien down over time. When a seller-carried second stacks behind a first loan at 75%, total financing can reach about 90% of the value of the property.

That structure lowers the cash a buyer needs to get started, and sellers agree to it more often than people expect. A seller who carries a second gets a sale at their price, interest income over time, and a secured position. It is not right for every deal, and the first loan has to be structured to allow it, but it is a real tool and we use it.

Now let us talk about your cash, using the phrase we use with every client: total estimated out of pocket. That number includes the down payment, meaning the part of the price not covered by financing. It also includes lender fees and broker fees, approximate title costs, and one year of insurance paid up front.

That is the number that matters, because that is the check you actually have to write to get from contract to closing. On a small care home purchase, your total estimated out of pocket might land somewhere in a broad range depending on the price of the property, the structure, and whether a seller second is in place. With a seller second, the range comes down. Without one, it is higher. We will always walk you through that range on a specific property before you commit to anything.

Two more costs belong in your thinking even though they are not part of closing. The

property may need work to pass licensing inspection, things like safety upgrades or room changes. And the business needs working capital for its first months, which the next chapter covers.

Do not stretch to buy the most expensive property you can qualify for. Buy the property where the numbers work with room to spare. In this business, cash reserves after closing are not a luxury. They are how you survive a slow first few months.

Chapter 5: Financing the Business Side

The building is only half the deal. The other half is the operating business, and it needs money too.

A new or newly purchased care home needs working capital from day one. Caregivers have to be hired and paid before the home is full. Food, supplies, utilities, and insurance all come due whether you have two residents or a full house. Marketing to fill beds takes time, and time costs money.

This is the part beginners most often leave out of their plan. They scrape together enough to buy the property, then open the doors with almost nothing left. The first payroll crunch or repair bill puts them in a hole, and a good business can fail for lack of cash rather than lack of demand.

The good news is that business funding exists alongside the real estate loan. Both SBA and non-SBA routes are available for the business side, depending on the operator, the deal, and what the money is for. Business financing can cover working capital, equipment, vehicles, and in some situations the purchase of an existing operation itself.

Which route fits depends on your situation. SBA-backed financing tends to suit owner-operators with a solid plan and documentation who want longer terms. Non-SBA business funding can move faster and fit deals that do not match the SBA box. Part of our job is looking at the whole picture, real estate and business together, and structuring both so they support each other instead of competing for the same dollars.

Documentation is where business financing is won or lost. Expect to provide financial statements or tax returns, a business plan or summary of the operation, entity documents, and personal financial information. The cleaner and more complete your package, the smoother the process.

This is also where paperwork help matters. Getting entity documents, filings, and business records organized is not glamorous, but deals stall over missing documents every week. Joel's sister firm, Sewell Business Services, handles documentation processing and entity formation for operators, and many of our clients use them to get their paperwork in order before and during a deal.

Set the business up properly from the start. Form the right entity, keep business money separate from personal money, and keep records like a business that expects to be reviewed, because it will be, by lenders, by the state, and eventually by a buyer when you sell.

With the real estate financed and the business funded, the next question is a strategic one.

Do you buy an operation that already exists, or do you start one from scratch?

Chapter 6: Buying an Existing Operation vs. Starting From Scratch

There are two ways into this business. You can buy a care home that is already licensed and operating, or you can buy a property and build the operation yourself. Both work. They are very different experiences.

Buying an existing operation means the license is in place, staff are working, and residents are already there. Income starts on day one. For a beginner, that can be the difference between a manageable first year and a stressful one.

It also means you are buying two things at once, the real estate and the business, and both need to be valued and checked. Ask why the owner is selling. Review the financial records, the licensing history, and any inspection reports or deficiencies. A home with a clean survey history and stable staff is worth more than one with problems, even if the buildings look similar.

Existing operations also come with existing habits. Staff may do things the way the old owner did them. Families and referral sources know the home as it was. Taking over means leading a change without breaking what already works.

Starting from scratch means buying the property, doing any needed work, getting licensed, hiring staff, and then filling beds one resident at a time. It takes longer to reach full income, and you carry costs during that ramp-up period with little coming in.

The advantage of starting fresh is control. You build the operation your way from the first day, your culture, your staff, your standards. The purchase price can also be lower, because you are buying a property, not a going business with income attached.

The financing conversation differs between the two paths. An operating home has income history, which supports both the real estate loan and any business financing. A start-up has a plan instead of a history, so reserves and the strength of the operator matter more, and the timeline to break even has to be funded honestly.

Neither path is automatically better. If you value immediate income and a shorter learning curve, buying an operation usually fits. If you value a lower entry price and building things your way, starting fresh can fit. What matters is going in with your eyes open about the trade-offs, and with enough cash reserved for the path you chose.

Whichever path you take, the business will live or die on its monthly numbers. The next chapter is about learning to read them.

Chapter 7: Running the Numbers

A care home is a monthly business. Money comes in monthly from residents, and most costs are monthly too. Learning to run those numbers, honestly and without wishful thinking, is the core skill of operating.

Start with income. Your maximum monthly income is the number of licensed beds multiplied by the monthly rate per resident. That is the ceiling, not the expectation. Real income depends on occupancy, and occupancy is never 100% all the time.

Residents move in and move out. Some pass away, some move to a higher level of care, some families choose a different home. A prudent operator plans around an occupancy level with some cushion built in, then works hard to beat it. If your deal only works at full occupancy every month, it does not really work.

Now the expenses, starting with the one beginners underestimate most: staffing. Care is labor. Residents need help around the clock, which means caregivers across shifts, including nights and weekends. Add payroll taxes, possible benefits, training, and the cost of covering shifts when someone calls in sick or quits.

Underestimating staffing sinks more new operators than any other error. Run the staffing schedule you would actually need to provide good care and meet state requirements, price it honestly, and then add room for turnover. Caregiver turnover is a fact of this industry, and hiring and training replacements cost money and time.

Food is the next expense people lowball. Three meals a day plus snacks for every resident, every day, adds up faster than expected. So do utilities on a house that is occupied and active 24 hours a day, laundry, cleaning, and care supplies.

Insurance deserves its own mention. A care home needs proper liability and property coverage, and it costs more than insurance on a regular rental. Skipping or skimping on coverage is one of the most dangerous mistakes an operator can make. One incident without the right coverage can end the business and reach into your personal finances.

Then come the quieter costs: licensing and inspection fees, accounting and payroll help, transportation, activities for residents, repairs, and the supplies that never stop being consumed. Individually they look small. Together they are a real line in the budget.

Against all of that sits your loan payment, and the reserve you should be building every month for the roof, the water heater, and the things that break. If the numbers work after honest expenses, a fair loan payment, and a monthly reserve, you have a deal worth doing. If they only work with optimistic assumptions, walk away and find a better one.

A simple discipline helps: track your actuals every month against your plan, and investigate any line that drifts. Operators who watch their numbers catch problems while they are small. Operators who avoid their numbers meet the same problems later, when they are big.

Chapter 8: Growing From One Home to Several

Once your first home is licensed, staffed, full or close to it, and running steady, you will start thinking about a second one. That is natural, and for many operators it is where the real business gets built.

Growth changes the math in your favor in a few ways. Staff can sometimes cover or support more than one home. Your referral relationships with hospitals, social workers, and families deepen. Your reputation in the local care community starts bringing residents to you instead of you chasing every placement.

There is also a portfolio effect on the financing side. An operator with a track record, a performing home, and clean financials is a stronger borrower than a first-timer. When we structure financing for a second or third property, that history works for you. It does not guarantee anything, but lenders and our own underwriting conversations go differently when an operator has proven they can run a home.

Refinancing is part of the growth toolkit. A home bought and stabilized can sometimes be refinanced, including cash-out refinancing up to the same general levels discussed earlier in this guide, subject to the deal and approval. That cash can become the cash portion of your next purchase, which is how many operators grow without saving up a full new stake each time.

A seller-carried second on the next purchase can stretch that further, the same structure from Chapter 4. Stack a proven track record, a refinance, and a cooperative seller, and the step from one home to three can happen faster than most beginners expect.

Grow at the speed your management can support, though. Each home needs a lead caregiver or manager you trust. Expanding faster than your staffing and supervision is how quality slips, and in this business a quality slip becomes a licensing problem and a reputation problem at the same time.

There is also a ceiling on the small-home model. Licensing categories, staffing economics, and the limits of residential properties mean a small home can only grow so far. At some point, an ambitious operator stops asking how to add another house and starts asking about a real facility.

That is a different scale of business, with a different kind of financing behind it. It is the subject of the final chapter, and it is worth understanding early, even if it is years away, because the operators who reach that level usually started planning for it while they were still small.

Chapter 9: Scaling Up: Bigger Facilities and FHA 232

Every operator who grows eventually hits the question: what does the next level look like? For care homes, the next level is a purpose-built or properly converted licensed facility, generally 20 or more beds, serving assisted living residents, memory care residents, board and care residents, or a combination.

A facility at that scale is a different business than a house with residents. There is a management structure, department-level staffing, commercial systems, and a licensing category to match. There is also a different class of financing, and the most important program in that class is the federal one this chapter is about.

The FHA Section 232 program, run by HUD, insures loans for exactly these facilities. It is a government insurance program, not a bank product, and it exists because the country needs more residential care capacity than private capital builds on its own. Section 232 covers assisted living, memory care, board and care, and skilled nursing facilities that are licensed and meet the program's requirements.

Here is what the program offers, in general terms. For the purchase or refinance of an existing facility, the structure known as 232/223(f) provides a fixed rate loan that is fully amortizing and non-recourse, with terms up to 35 years and no balloon payment at the end. Non-recourse means the loan is secured by the facility itself rather than the operator's personal assets, which is a meaningful protection at this scale.

For new construction or major rehabilitation, Section 232 offers terms up to 40 years. On purchase and refinance deals, financing can reach up to 80% of the value of the facility for most operators. Those are long terms and steady payments, and for an operator planning to hold a facility for decades, that stability is the point.

There are real requirements. The facility must be licensed and generally must have 20 or more beds. For a purchase or refinance, an existing facility generally needs about three years of operating history behind it. The operation has to show it can carry the payment with room to spare, and the review of the business is thorough.

There is also a trade-off, and you should hear it plainly. The 232 process is longer and more document-heavy than a conventional loan. Appraisals, studies, reviews, and approvals all take time, and the file has to be built carefully. This is not a loan you start when you need money next month.

That is why experienced operators start planning the move a year or more ahead. They keep their financials clean, their licensing record spotless, and their documentation organized, because they know the file will be read closely. When the right facility comes

along, they are ready instead of scrambling.

Where do we fit in? Lawton Building and Loan works with operators on structuring deals at every level in this guide, from the first small home to the facility stage. On a 232 deal, our role is to help you evaluate whether the facility fits the program, structure the transaction, assemble the package the process requires, and walk with you through the steps from first conversation to closing.

Most readers of this guide are not ready for a 232 facility today, and that is fine. The path runs through the earlier chapters: one good home, run well, then several, then the track record and the reserves that make a facility possible. Knowing the destination exists changes how you build along the way.

If you are already operating and a facility is on your horizon, do not wait until you have a property under contract to start the conversation. The planning window is part of the program's design, and using it well is one of the few advantages that costs nothing.

Chapter 10: First-Facility Checklist and Glossary

Use this checklist as your starting map. It will not do the work for you, but it will keep you from skipping steps that are expensive to fix later.

Before you buy:

- Decide whether you are buying an existing operation or starting from scratch.
- Confirm the property can be licensed as a care home, including state requirements and local zoning.
- Talk to the state licensing office early and learn the timeline and the building requirements.
- Run the numbers with honest expenses, realistic occupancy, and a reserve line.
- Know your total estimated out of pocket as a range, including the down payment, lender fees, broker fees, approximate title costs, and one year of insurance.
- Ask whether a seller-carried second lien is possible to bring total financing closer to about 90% of value.
- Plan your business funding for working capital, not just the closing.
- Form your entity and organize your documents. Sewell Business Services can help with entity formation and documentation if you need it.

After you close:

- Finish licensing and inspections before taking residents.
- Hire for reliability first, and train to the standard you want kept.
- Set up proper insurance, bookkeeping, and payroll from the first month.
- Track occupancy, staffing cost, and expenses monthly against your plan.
- Build a cash reserve before you think about growing.
- Keep your licensing record clean. It is an asset you will carry into every future deal.

Glossary:

- **Assisted living:** Residential care for people who need daily help with meals, medication, and personal care, but not round-the-clock medical treatment.
- **Board and care:** A smaller residential care setting, similar in spirit to assisted living, often in a house-like environment.
- **Memory care:** Care designed for residents with Alzheimer's disease or other forms of dementia, usually with secured settings and specialized staff.
- **Care home:** A residential property, often a regular house or small multi-unit building,

licensed to provide care to a small number of residents.

- **Occupancy:** The share of licensed beds that are filled. The single most watched number in the business.
- **Lien:** A legal claim against a property that secures a loan. The first lien is paid first if the property is sold.
- **Seller-carried second:** Financing provided by the seller, secured by a second lien behind the main loan, paid by the buyer over time.
- **Cash-out refinance:** A new loan on a property you own that replaces the old loan and gives you cash back at closing.
- **Non-recourse:** A loan secured by the property itself, where the lender's claim is generally limited to the property rather than the borrower's other assets.
- **Fully amortizing:** A loan that is paid off in full by regular payments over its term, with no large final payment due.
- **Balloon payment:** A large final payment at the end of a loan term. Loans structured without one remove the risk of having to refinance on a deadline.
- **Total estimated out of pocket:** The full cash a buyer needs to close, including the down payment, lender fees, broker fees, approximate title costs, and one year of insurance. Always discussed as a range until a deal is priced.
- **Working capital:** Cash available to run the business day to day, covering payroll, food, and bills while income builds.
- **Section 232:** The HUD program, insured by the FHA, that backs loans for larger licensed residential care facilities of generally 20 or more beds.

A Final Word and Disclaimer

Assisted living rewards operators who combine genuine care for residents with honest numbers and patience. The demand is real, the small home model is a proven way in, and the path from one home to a portfolio, and eventually to a full facility, is one we have watched operators walk step by step.

The terms, percentages, and structures described in this guide are general information based on the kinds of deals we work on. They are not offers, quotes, or guarantees. Every transaction depends on the property, the operator, the documentation, and final approval, and actual terms can differ from the examples given here. Figures in this guide are examples provided so you can understand how these deals are structured.

Talk to Us About Your First Care Home

Whether you are looking at your first property, taking over an existing operation, or starting to think about scaling into a larger facility, the next step is a conversation. Bring us the property, the situation, or just the idea, and we will tell you plainly how the financing could work and what your total estimated out of pocket would look like as a range.

Call or text Lawton Building and Loan at (817) 862-6922.

Find us online at lawtonbuildingandloan.com.