

# NIC 2015

# FORUM IN REVIEW

## NIC 2015 CAPITAL & BUSINESS STRATEGIES FORUM

A Conference for Small/Mid-Cap Operators in Seniors Housing and Post-Acute Care

where  
connections  
lead to business



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## Day 1 At NIC Forum Highlights Industry Challenges And Opportunities

### *Networking Opportunities Expanded*

With more than 1,200 attendees, the NIC 2015 Capital & Business Strategies Forum kicked off in San Diego with new networking opportunities, panel presentations and peer-to-peer sessions. The three-day Forum highlighted the key issues facing the seniors housing and care industry while offering opportunities for small /mid-size operators to explore strategic capital and business options.

“This is a transaction-oriented event,” said Bob Kramer, CEO of NIC, speaking at the newcomer’s reception which was attended by about 200 first-time NIC meeting participants. “We are providing an efficient platform to facilitate discussions among industry stakeholders.”

Another highlight of the day was the new *Capital Connections* networking sessions, three concurrent sessions where 37 capital providers pitched their financial products to capital seekers. The program was repeated Wednesday afternoon.

The day’s panel presentations reviewed financing options for seniors housing skilled nursing providers, along with a primer for new investors in seniors housing and care. Speaking at the session on investing in the sector, Kathy Sweeney, co-founder and managing partner at Blue Moon Capital Partners, said, “Data is knowledge. Transparency has accelerated the maturity of the industry.”

Amid rapid changes in the health care landscape, the panel on the future of skilled nursing explored where the sector is headed. Some of the key issues facing skilled nursing include the changing payor system, the increasing importance of quality measures, and the aging stock of buildings.

Data experts from NIC were available during the Forum to answer research questions and demonstrate web-based tools and reports available through the NIC MAP Data Service. Joe McCarron, of Capital Care Associates, noted, “The data provided by NIC is so beneficial. It reinforces the appeal of the sector compared to other asset classes.”

A number of networking opportunities were available during the event. The second Indigo Lounge had a networking area and coffee bar where attendees could meet. The Odyssey Lounge was also open for NIC attendees to connect during the day.



## Day 2 At NIC Forum Highlights Industry Transformation



Transformation was the theme of the second day at the conference. The day was framed by two keynote addresses, by Katy Fike on how technology will transform the industry, and by former HHS Secretary Kathleen Sebelius on the dramatic shift in the payments system from a fee-for-service model to one that rewards quality outcomes.

“Technology will not replace what we do, but will enhance the seniors housing experience, said NIC CEO Bob Kramer, in his introduction of Fike’s presentation. She highlighted a number of consumer trends that have applications to seniors housing. One of those trends is “wearables,” devices, such as Fitbits, that monitor activity and health. Fike anticipated that wearables will play a role in seniors housing with providers using devices to monitor blood pressure, body temperature and heart rate. “Providers can see trends and intervene earlier when there’s a problem,” Fike said.

As a former cabinet member of President Obama’s Administration, Sebelius provided an insider’s view of health care reform. She noted that seniors housing and care providers will be impacted by the change in the payments system and that they should embrace the opportunity to innovate. “There is a new call for transparency and quality,” Sebelius said. “The transformations we make here in the U.S. have global applications.”

Peer-to-peer sessions during the day brought together owners and operators for open discussions on issues facing the industry. One group discussed how to keep an older property competitive. Neil Tantungco, owner of Evergreen Residence, shared his experiences with technology. In particular, his property uses a communication system called GeriJoy, a dog avatar that talks to residents via a tablet.

An evening reception was held for attendees, who looked forward to programs on market trends in seniors housing by NIC chief economist Beth Mace, and sessions on operational risk and how to retool skilled nursing facilities. Thursday’s program concluded with an address on the demand for transparency and quality outcomes by Dr. Bruce Chernof, president and CEO of the SCAN Foundation. His presentation was followed by a panel discussion of industry leaders who shared their perspectives on the issues facing the transformation of the industry.



## Technology, Innovation And You

Technology will not replace what seniors housing and care operators do, but it will enhance the seniors' housing experience. Gerontologist Katy Fike elaborated on that theme in her keynote presentation.

She detailed several macro technology trends that will impact seniors housing. Delivery of personalized services is one of those trends. Drawing from examples in the wider consumer market, Fike discussed how cutting edge providers will offer the kind of care that the individual wants in the context of a scarcity of caregivers.

For instance, home care could be delivered on an as-needed basis in small increments of time. "We have to figure out how to deliver services more efficiently, and how to increase net revenue while decreasing costs," said Fike.



Katy Fike, Ph.D., Gerontologist and Co-Founder Aging2.0



Secretary Sebelius gives insider view of government reforms

## The Future Of Health Care Calls For Transformation Of Business Models

A huge shift is under way in the health care sector that will impact the seniors housing and care business. That was the observation of NIC 2015 Forum keynote speaker Kathleen Sebelius, former secretary of the U.S. Department of Health and Human Services. "One of the major goals of health care reform was to improve the quality of care," said Sebelius, at the conference luncheon. "We are at the forefront of transformation."

Sebelius shared her insights on health care reform as one of the leaders of the implementation of the Affordable Care Act (ACA), which was signed into law about five years ago. Sebelius noted that although providing insurance for those without coverage received a lot of attention, another less publicized goal was to shift the payments system from a fee-for-service model to one that rewards quality outcomes. "It will take a lot of transparency and data to make that change. But the change is under way," Sebelius said.

The challenge for seniors housing and care providers will be to provide the most appropriate care for each resident in the most appropriate setting, Sebelius said. She challenged attendees to re-engineer their business models and embrace innovation. "Technology is interacting with health care," she noted. "Technology will allow providers to deliver more tailored services."

# Future of Skilled Nursing

The skilled nursing sector is changing rapidly amid a major overhaul of health care payments and reimbursements, creating a challenge for building operators as they adjust to new business models. "The future has already started," said Anne Tumlinson, owner of consulting firm Anne Tumlinson Innovations. "There's an enormous opportunity for high-value providers."

A panel of experts, led by Tumlinson, discussed the future of the sector agreeing that skilled nursing operators can no longer rely on old ways of doing business as accountable care and managed care organizations shift to bundled payments based on quality outcomes.

"We will start to see real estate companies look at skilled nursing in a different way," said Arnold Whitman, chairman, Formation Capital.

Skilled nursing facilities will have to create new relationships with accountable care and managed care organizations. At the same time, panelists agreed that skilled nursing operators would be well served to specialize in certain types of care, such as respiratory therapy, dialysis, hospice, or even home care.

"We're looking for operators to grow their businesses and create (good) margins," said Peter Martin, managing director, JMP Securities.



Panel of leading industry investors provided thoughts about the future of the sector, declining occupancy, changing resident and payor mix and how operators can remain competitive.

## NOTABLE QUOTES

*"Do middle market properties mean less service? Instead of less service, it may be a different way of delivering service."*

—**Russ DenBraber, president and CEO, Christian Living Communities.**



*"Managed care is coming your way. In a 2003 Avalere study most of the payments to skilled nursing was fee for service. Now managed care payments make up most of the payments. If we ignore managed care we will be out of business."*

—**Susie Mix, president, Mix Solutions.**



*"It's a whole new ballgame for nursing homes under managed care. It takes longer than it has ever before to get cash in the door and it takes more effort from buildings. This is our new reality. The days of admitting residents and thinking payment will follow is over."*

—**Josh Sadikman, president, LTC Consulting.**



*"Some think if you build an attractive building, they will come. But that's not true. Admissions don't only come from an attractive building, but also from good clinical outcomes."*

— **Peter Martin, JMP Securities.**



*"Managed care plans want the highest quality facilities. This is a positive opportunity. What matters is metrics--readmission rates, infection rates, customer satisfaction numbers."*

—**Mark Johnson, attorney,**



## SNF Payment Models Shift As Managed Care Takes Hold

Though it's been predicted before, managed care is finally becoming a reality at skilled nursing facilities (SNFs)—creating new opportunities and challenges for the sector. “Operators must prepare themselves for managed care,” said attorney Mark Johnson, of Hooper, Lundy & Bookman, and one of the panelists on emerging SNF payment models.



Johnson noted that the old days of referral networks are coming to an end, being replaced by a reliance on metrics: readmissions, infection rates, and customer satisfaction. “Managed care organizations want the most value for their dollar,” said Johnson. “SNF operators have the chance to sell themselves like never before.”

Panelist Susie Mix, president of Mix Solutions, noted that a 2003 study showed the majority of SNF billing was with fee-for-service contracts. By 2013, most billing was done under managed care arrangements. “If we ignore managed care we will be out of business,” she said.

Mix demonstrated how a lack of understanding of the new types of managed care contracts can result in losses for the provider. She compared the billing for the same patient at two SNFs: one ready for managed care; and the other unprepared for the changes. Mix showed that the SNF that understood the contract and how to bill for services was able to generate the expected revenue, while the other SNF showed a loss. She advised providers to use case managers to carefully monitor contracts and billing so the patient gets the needed services and the SNF is properly reimbursed.



Josh Sadikman, president, LTC consulting, which does billing and collections for SNFs, said: “It’s a whole new ballgame for nursing homes under managed care. It takes longer than it has ever before to get cash in the door and it takes more effort from buildings. This is our new reality.” He added: “The days of admitting residents and thinking payment will follow is over.”

Before entering into a managed care contract, providers should ask five key questions:

- ⇒ Who manages the plan?
- ⇒ Who is the payor?
- ⇒ Who authorizes admission?
- ⇒ How does the contract work?
- ⇒ How are services billed?

Panelists agreed that SNFs need the right software to facilitate billing. The software should be able to introduce clean electronic claims into the managed care providers’ system. “It makes a difference to be forward thinking,” said Sadikman.



## Capital Providers and Seekers Meet at Capital Connections

Thirty seven Capital providers “pitched” their financial products to capital seekers at the Forum in San Diego. Three separate sessions were held concurrently with capital providers divided by the finance areas of development and turnaround; mortgage and business loans; and equity, leases and other partnerships.

“Our planning committee carefully selected the capital providers making presentations,” said Bob Kramer, CEO of NIC. “We are focused on providing finance opportunities for small and mid-size operators.”

About 100 people attended the capital connections session on mortgages and business loans. Sixteen capital providers offered a quick recap of their financing products. One audience member described the session as “speed dating” for operators. Another attendee said it was like hearing “elevator pitches” all in one place.

Participating lenders included big and small financing sources alike, from Sunwest Bank, a community bank, to Lancaster Pollard, a large lender to the sector.

Another concurrent session on development and turnaround financing featured 11 lenders, including Matthew Huber of First Niagra. Huber provided a quick recap of their products and overview of the bank’s lending strategy which focuses on properties from Ohio to the East and from Maryland to the North. “We are a relationship bank,” he said, adding that as a regional bank, First Niagara has a flat decision-making structure that responds quickly.

The session on equity, leases and other partnerships featured REITs and other capital providers, including CNL Healthcare Properties, Sabra Healthcare REIT, and Ventas.

The Capital Connections sessions showcased the variety of lenders in the seniors housing and care space, as well as their knowledge of the product category. Many of the executives focus exclusively on either the health care sector or only seniors housing.

Fred Moon, principal of Capital Seniors Housing, described his company as a boutique firm that works with small operators to provide financing for ground-up development. “We can help small companies grow,” said Moon. “And we like to think we are friendly.”



Top: Mortgages and Business Loan Presenters; Left: Development and Turnaround Presenters  
Right: Equity, Lease and Partnership Presenters



## Finding a Middle-Market Housing Model

It's widely understood that the coming wave of retirees from the Baby Boom generation will create a huge uptick in demand for seniors housing and care. But looking deeper into the numbers, it's also apparent that many of the Boomers won't be able to afford the housing product currently being created by the industry.

The session addressed the possibilities to create seniors housing for middle-income elders. "If we want to bring our mission to the average Boomer, we have to change what we are doing," said Russ DenBraber, president and CEO, Christian Living Communities.

Some of the alternatives suggested by panelists included projects similar to workforce housing, developments targeted at affinity groups, and a reliance on technology to change the way services are delivered to residents on an as-needed basis. "We are thinking about what's next," said panel moderator John Stasinos, senior vice president, HCP.



## Making the Right Call on New Technology

Before introducing a new technology, owners and operators should ask themselves three questions: Do I need it? Can I afford it? Is it easy to use?

That's the advice of speaker Donna Kelsey, division president, Revera Living. "We want measurable outcomes," said Kelsey. "We want to know the money was well spent."

While technology selection can be confusing because of the growing number of options, Kelsey chose Linked Senior, a cloud-based dementia and therapy engagement software. "We walk the walk of resident-centered care," said Kelsey. Caregivers use the technology, for example, to display photos that encourage resident engagement. The software has other uses including a kind of tech-enabled Bingo.



The NIC panel was moderated by gerontologist Katy Fike, co-founder of Aging 2.0, an organization designed to accelerate innovation to improve the lives of older adults. Other panelists included building operators and tech start-up entrepreneurs whose products serve the aging industry.



With 20 buildings, Thrive Senior Living uses Breezie, a system that makes the internet easy to access and relevant to older people. Breezie delivers personalized content to residents, including family information. The system can be accessed from multiple devices.



"We love this technology," said Jeramy Ragsdale, CEO at Thrive. "Resident and family reception has been tremendous." He cautions, however, that operators should roll out new platforms in stabilized buildings. Thrive introduced the Breezie system in a new building where a lot of move-ins were taking place. That made it difficult to set up all the processes for the system because new residents and their immediate needs took priority.

Technology expert Fike, said: "That's an important lesson. Operators have to figure out when to introduce new technology and at which buildings."



Beth Burnham Mace, chief economist and director, capital markets outreach, NIC

## Economic Conditions Point To Further Gains For Sector

A complex variety of factors are creating a generally favorable outlook for the seniors housing and care industry, according to Beth Burnham Mace, chief economist and director, capital markets outreach, NIC. Mace gave a detailed analysis of market drivers for the sector at the NIC 2015 Forum in San Diego.

The diminishing number of family caregivers should bode well for seniors housing in the years to come, Mace said. There are currently seven adults age 45-65 for every senior over age 80. But by 2050, the caregiver ratio will be 3:1. "There will be fewer adult children to take care of older parents," said Mace. "That's a huge demand driver going forward."

Another plus is that job creation has been consistent and relatively strong, and consumer confidence levels are improving. "Seniors need that kind of confidence to sell their houses and move into a seniors community," said Mace.

Seniors housing occupancy rates continue to rise, currently averaging about 91 percent, though individual markets vary widely. Mace predicted that occupancies will continue to climb throughout 2015, though some select markets are quickly adding new product. Property prices are now peaking at about \$189,000 per unit.

Economic crosscurrents will also impact performance in the coming months, Mace said. Growth in the minimum wage will put pressure on expenses at seniors housing properties. "We will have to see growth in rents," she said, noting that annual rent growth has historically been about two percent.

Another concern is wealth disparity. Household net worth is at an all time high of \$84 trillion. "But not everyone is enjoying that," Mace noted. "It speaks to the huge need to deliver affordable projects."

Sometimes overlooked, the business cycle is another crucial factor, Mace suggested. The average duration of an expansion is 58 months, and the current upturn has been under way for 68 months. Despite the fact that the economy may be overdue for a correction, Mace expects another year or two of economic growth.

Interest rates are likely to go higher, though Mace wryly noted that experts have been wrongly predicting an interest rate rise for the last five years. But higher interest rates, when they do come, will impact the cost of capital for seniors housing owners and operators. "If you want to maintain the value in a property and cap rates go up five percent, you must grow net operating income," she said. "Operators need to maintain a high-quality product and keep occupancies high."



## How Do You Keep Older Properties Competitive?

While new buildings get a lot of the attention, the vast majority of properties are aging in place just like their residents. But what's the best way to keep older buildings fully occupied and operating at a profit?

A group of developers and operators joined a peer-to-peer discussion on the topic. Donny Edwards, partner at the Covenant Group, facilitated the discussion and began by pointing out the advantages of older buildings. They often have great locations, and sometimes large units. One building bought by Edwards' group had a huge atrium— an expensive feature to include nowadays in new construction. "Owners can leverage the positive things," Edwards said.

But discussion participants also recounted the nagging problems presented by older buildings, including antiquated plumbing and electrical systems, and structures that don't meet modern code and licensing requirements. One executive hoping to convert a building to assisted living discovered the hallways were too narrow for the fire code. He regrouped and modified the type of assisted living he was able to offer, but it was not what he originally intended.

While older buildings may not have all the latest amenities, operators said that superior resident service can be a competitive differentiator. In order to boost service, Neil Tangingco, owner of Evergreen Residence, added a new technology called GeriJoy to interface with residents. The system provides a tablet for the resident who interacts with a dog avatar on the device. The avatar is connected by text to a remote caregiver who can offer help. "We raised the level of care," said Tangingco, whose property has a waiting list. "An older facility is no excuse."





Dr. Bruce Chernof, President and CEO,  
The SCAN Foundation

## Successful Providers Will Be Defined By Transparency And Quality Outcomes

As the health care delivery system undergoes a transformation to achieve better results at lower costs, seniors housing providers are uniquely positioned to act as a true partner in that process. “The new model of care starts with the community,” said Dr. Bruce Chernof, president and CEO at the SCAN Foundation, and former chair of the federal Commission on Long-Term Care. But, he added, housing and care organizations will be called on to provide transparency and quality outcomes.

As a backdrop, Chernof noted that 100 years ago people often died from acute conditions. But now they commonly die from chronic

illnesses, such as heart or lung disease. And the majority of today’s seniors will need some kind of long-term care, with about 20 percent requiring five or more years of support. “This is an enormous cost *not* to manage,” said Chernof, who spoke at the closing general session.

While many seniors end up in expensive emergency rooms for treatment, Chernof argues that better case coordination could result in lower costs for the system and less trauma for the elders. The focus should be on the highest risk population, those who are in transition, say, from the hospital to a nursing home, and those with chronic needs. “When someone faces a challenge at home or in an assisted living or nursing facility, they often just need a little help to maintain themselves,” said Chernof. “But they don’t necessarily need to be seen in a hospital. A lot of the money that is spent at the hospital could be better spent in the community.”

To create a seamless delivery system of care, Chernof said seniors housing and care providers must track functional data on residents and give that information to the medical community. Those measures will become even more important as risks are shared among housing and health care providers. “We are moving toward expecting quality outcomes across a variety of settings, said Chernof. He also believes “site neutral” payments will eventually be established, which could be a positive development for the industry.

In conclusion, Chernof emphasized that the change in the health care delivery system is not a slow motion drift of small refinements toward some ill-defined goal. “This is a shift,” he said. “We are looking at a fundamental change in how large purchasers will buy medical services. And better outcomes will include working across the housing and medical environments.”



## Industry Leaders Reflect on Key Takeaways from NIC Forum



Robert Kramer, CEO, NIC

Person-centered care, innovation and a re-imagined role for housing were several of the themes explored at a wide-ranging discussion by senior level industry leaders during the final wrap-up session of the NIC 2015 Forum in San Diego.

The seniors housing and care sector could have an advantage moving forward, observed NIC CEO Robert Kramer, and facilitator of the panel. The original premise of seniors housing focused on the resident and his or her ability to make choices, Kramer explained. A person-centered approach should be natural for seniors housing operators. “But how are providers taking advantage of this?” Kramer asked. “Personalized care is hard to scale,” observed Kenneth Segarnick, COO, Brandywine Senior Living. “But innovators are coming up with ways to personalize the experience, and we are committed to explore new technologies.”



Doug Korey, President,  
Lancaster Pollard Finance  
Company, LLC

Though new technologies can be difficult to embrace, Doug Korey, president, Lancaster Pollard Finance Co., noted that it’s best to start with a small change—a strategy advocated by gerontologist Katy Fike, who spoke on innovation and technology in the seniors housing sector. “We have to figure out how to get involved,” Korey said.

As seniors housing operators become more responsible for tracking and managing medical outcomes, Kramer asked about a re-imagined role for the sector and how operators can avoid treating residents like patients.



Charles J. Herman, Jr.,  
President, Seniors Housing  
and Post Acute,  
Health Care REIT, Inc.

Increased medicalization is inevitable because of rising resident acuity and the fact that some programs are state-funded, said Chuck Herman, president, seniors housing and post-acute, Health Care REIT. “Everybody has to recognize that we are in the care business at some level.” Solutions will revolve around staffing, systems, and recruiting new leaders for the industry. “We will have to take steps to introduce higher standards,” Herman said.

In conclusion, Kramer asked panelists to identify the keys to success for the audience of small/mid-cap operators.

Health Care REIT’s Herman emphasized the importance of connectivity with other service providers, residents and families. “We have to bring a new light to the business,” he said.



Kenneth Segarnick, Chief  
Corporate Officer,  
Brandywine Senior Living

Patience and persistence will be needed by operators that plan to stay in the industry for the long haul, observed Lancaster Pollard’s Korey. “Operators have to work with other providers in the community to create change.”

Focus on your brand, advised Brandywine’s Segarnick. He foresees a wave of industry consolidation and small and mid-cap operators will have to figure out a way to get a seat at the table with the health systems. “Your brand is an important part of the admission ticket,” he said.

## SAVE THE DATES

### 25th NIC National Conference

Investing in Seniors Housing and Care  
September 30 - October 2, 2015  
Gaylord National, Washington, DC

### NIC 2016 Capital & Business Strategies Forum

A Conference for Small/Mid-Cap Operators in  
Seniors Housing and Post-Acute Care  
March 9-11, 2016  
Omni Dallas Hotel, Dallas, TX

### 26th NIC National Conference

Investing in Seniors Housing and Care  
September 14-16, 2016  
Marriott Marquis Washington, Washington, DC

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