



2016 Executive Roundtable: The Role of Transparency in the Seniors Housing and Care Sector *Industry leaders discuss the benefits, opportunities, and challenges of transparency*

A panel discussion conducted by Jane Adler

The business world is entering a new age of transparency. Companies are sharing more information with stakeholders so they can make informed decisions. The Internet and social media platforms allow consumers to gather information about a company and its services, and investors have access to financial market information that was once available only to certain proprietary groups.

Like other industries, seniors housing and care is gradually becoming more transparent. Consumers and investors alike want to know how a property operates, what kind of care is being delivered at what cost, and how to compare resident outcomes and satisfaction at different communities. The industry is responding as the demand for transparency grows, but much work lies ahead in order for the seniors housing and care market to become open, efficient, and truly transparent.

In an effort to highlight the benefits, opportunities, and challenges of transparency, *Seniors Housing & Care Journal* brought together a handful of top industry leaders for a panel discussion. Participants included Joseph McCarron, principal and founder, Capital Care Associates, a business and financial advisory firm to the senior living industry based in Bedford, New Hampshire; John Moore, chairman and CEO, Atria Senior Living, which operates 190 seniors housing communities and is based in Louisville, Kentucky; Kurt Read, partner, RSF Partners, a private equity firm that invests in senior living properties and is located in Dallas; and Doug Korey, senior vice president of business development, LTC Properties, a seniors housing and health care real estate investment trust that owns more than 200 properties and is based in the Los Angeles suburb of Westlake Village.

The session was coordinated by Catherine O'Brien, PhD, director of Mather LifeWays Institute on Aging, and managing editor, *Seniors Housing & Care Journal*; and Jennifer Smith, PhD, director of research, Mather LifeWays Institute on Aging. Freelance reporter Jane Adler conducted the May 2016 session via a conference link at the offices of Mather LifeWays in Evanston, Illinois. What follows is an edited transcript of the session.

Q: What is meant by transparency for seniors housing and care?

John Moore, Atria Senior Living: For seniors housing—and all types of business enterprises—transparency is operating to make sure everyone has access to information on changing market conditions. All the information is available to make good decisions. Investors and consumers can base their decisions on facts, and people with information can make better, quicker, more thoughtful decisions going forward.

Joseph McCarron, Capital Care Associates: Transparency is information access for the varied constituents of the industry. That includes financial and operational constituents, and extends to the consumer's need for access to information.

Transparency begins with a clear definition and understanding of seniors housing and care, which is a relatively new asset class. We need to build positive awareness and increase the knowledge base of stakeholders about seniors housing and care. We've seen the evolution of the sector over several decades, from a cottage nursing home industry to one that now extends to a broad spectrum of other property types, including continuing care retirement communities, independent and assisted living/memory care providers, and a growing array of specialized health care facilities. There remains, however, growing confusion about the industry and how it's defined and represented. This speaks to the fact that the industry continues to be highly fragmented, and that breeds confusion instead of promoting transparency for an industry that is evidencing growing convergence and integration.

The fragmentation of the industry also creates a proprietary orientation and resistance to share information. Greater transparency will undoubtedly breed collaboration and displace competition within the sector. The growing integration and consolidation of the industry is a good thing that will help advance transparency. Owners and operators will be more willing to share and adopt more transparent data and metrics if a value proposition is apparent.

Doug Korey, LTC Properties: Transparency can be broken into two segments that overlap, but they're slightly different.

Consumers seeking a living arrangement for a parent can conduct research by visiting websites and touring facilities. They can ask about the various services and size up the differences between various properties. But if the consumer is new to the industry—and a lot of consumers are—they want transparent pricing information. For example, a consumer shopping for a car can compare prices. It's a simple approach; the buyer can select the make and model of the car with certain options and compare prices to that selection. But a consumer with a parent who needs a certain level of care can't get transparent pricing, because there are so many different ways that operators price and package services and/or disclose the way that they price. There's no pricing consistency across the country among operators for the various housing models.

On the investor's side, we've all worked on transparency, and we've made a lot of progress, but we need to make data more clearly available to investors outside our space.

Kurt Read, RSF Partners: There's another lens through which to view transparency. From an investor's perspective, the industry is a combination of enterprises. There's a real estate component, a pure operating business, a health care component, and a hospitality component. The mix of components can vary based on the type of property. Investors, particularly large institutional investors, work best when they can clearly define how to allocate capital, whether it's to an operating business, a health care business, or a real estate business. Seniors housing and care can suffer in its ability to attract capital if it's not clear to investors where they are allocating their capital. That's part of our challenge.

Q: What metrics are important for transparency?

John Moore, Atria Senior Living: We can start with price. The industry is trying to take the next step, but the philosophy of people in the business has been to hold their cards close to the vest in terms of pricing. Few operators show real actionable pricing online. They are more likely to have a website banner that says, "Pricing starting at..." It's a bit of the old school mentality, the idea that you get customers into the building and talk to them before you let them know the cost. That philosophy in the age of the Internet, where it's easy to get real-time information quickly about everything, has been left behind by most industries.

Pricing can be very opaque depending on how the different components are separated for real estate, hospitality, and care. Care pricing might be blended in with the overall pricing. Other operators use a scoring system. Some have bundles of care. There's a growing group of operators who think it would be better to have a good relationship with consumers by creating clarity on price. The National Investment Center for Seniors Housing & Care (NIC) has a big initiative under way to take pricing to the next level. While the NIC MAP data service has historically reported asking rates, now it's collecting more detailed information on pricing. What rates are buildings actually charging at the time of move in? The lack of clarity on pricing has a negative effect on operators and consumers alike. Other metrics are important, but transparency starts with pricing. Access to real-time information makes us more competitive, and that makes all of us smarter about running the business, which is better for everybody.

Joseph McCarron, Capital Care Associates: Conventional financial and operating metrics certainly apply to our industry, but I think the complexities of seniors housing and care make it more challenging. The standard and most relevant metrics are price, cost, and profitability, but many constituents are seeking different metrics, which only amplifies the need to clearly define our sector and provide more education about it. Capital constituents are looking for metrics with respect to capital formation and credit monitoring. Providers are looking for metrics supporting operations management and performance benchmarking. Public policy constituents want metrics pertinent to regulatory and payments matters. And last, but not least, the consumer wants metrics to evaluate quality, price, and product/program options.

Kurt Read, RSF Partners: The senior living industry can look to a number of models in other real estate asset classes that have been successful at improving price transparency. The hotel and leisure industry has gone from a revenue model that was very difficult to understand from an investor's standpoint in the late '80s and early '90s to an industry that has real-time, clear, transparent, and repeatable data that can be analyzed over a long period of time. That has helped attract capital to an industry that went through extraordinary peaks and valleys before it

adopted that level of transparency. That's a good example, which provides some guidance as to where we need to head on pricing.

Q: How would you rank seniors housing in terms of transparency compared to other commercial real estate asset classes?

Kurt Read, RSF Partners: We've made a lot of progress over the years. We've gone from not being transparent at all to the creation of NIC MAP, a database that includes asking rents and has proved very valuable to operators and investors. The next step is to get closer to the level of transparency available in the multifamily and lodging sectors by collecting actual rents.

Joseph McCarron, Capital Care Associates: Seniors housing and care is relatively new compared to other real estate asset sectors, but we are particularly challenged in regards to transparency by the complexity of regulatory and payer influences. Beyond that, we also have the challenge of a lack of uniformity, even with basic accounting and reporting practices. This makes the case for the industry to adopt a uniform chart of accounts. It would create a consistency of practice, policy, and procedure that breeds uniformity and a stronger foundation for transparency.

Kurt Read, RSF Partners: I completely agree. And because of the complexity of the business, it puts an onus on us to clearly define and create a set of metrics that people can understand. A uniform chart of accounts, in my opinion as an investor in this space, is an absolute requirement. That would help dramatically. The definition of various services, and the prices associated with the services, is another thing that will provide great transparency on the revenue side of the business. Because the business is complex, it actually needs more rigor, more analysis, and more consistency than perhaps a simpler business such as multifamily housing.

John Moore, Atria Senior Living: I think the ultimate goal is a uniform chart of accounts. A standard way of doing business would go a long way to drive the cost of capital closer to that of other sectors such as multifamily housing. There's one caveat: Everyone has talked about the

complexity of the business, and you can't skip to the end. We're making material progress, but the establishment of a uniform chart of accounts is a daunting undertaking.

Q: Has increased transparency over the past decade caused the cost of capital to fall?

John Moore, Atria Senior Living: The cost of capital has fallen, but it's not as low as it should be. The industry was able to demonstrate a relatively strong performance during the Great Recession. So I think the cost of capital could come down even more if we share that information, and make our industry clearer to investors and consumers.

Doug Korey, LTC Properties: During the recent low interest rate cycle, the cost of capital for seniors housing and care has been close to the cost of that for other real estate asset types. For now, interest rates are low and bank financing is cheap, but the valuation metrics used to purchase senior living properties takes into account the complexity of the operating business. The risk is still there in the investor's mind, so the cap rates used to value these facilities is relatively high, compared to other real estate assets such as multifamily or office properties. I think a lot of that is due to the lack of transparency.

Kurt Read, RSF Partners: We need more transparency into the sale price of assets. It's a critical component to build investor confidence in the space. A lot of work has been done to improve the transparency on the real estate side of the business, but we need to build a more robust database to explain the sales price and the components of each sale. For example, investors need to know whether the real estate is subject to a lease, or whether property includes the sale of an operating business. Those things are still murky at best.

Q: Has increased transparency resulted in the creation of more housing for America's elders?

John Moore, Atria Senior Living: The availability of NIC MAP data has brought more investors into the industry, resulting in more housing. Real-time rental rate information would help reduce some of the industry's volatility. The industry tends to have an on-off switch in terms of supply and demand. Without more transparency into the status of the industry, it's hard for the market to manage itself. That

can lead to situations where some markets are overbuilt and some are not. The availability of more information would lead to better efficiencies, smarter allocations of capital, a more reliable investment climate, and therefore increasingly sophisticated high-quality investors that would invest and reinvest in the space.

Kurt Read, RSF Partners: There's been a recent uptick in the construction of assisted living and memory care properties. But, more broadly, the array of housing choices for the elderly is still in its infancy. Growth will be driven by the increase in demand from the baby boomer generation.

Joseph McCarron, Capital Care Associates: We're seeing evidence of new product types in the active adult sector and more mixed-use product lines. But this shift is tempered by the evolving home and community based services market, which keeps people at home. New products, unlike traditional assisted and independent living facilities, will continue to evolve.

Q: What's the next step to improve transparency?

Joseph McCarron, Capital Care Associates: We need full-scope operating data to inform the full cycle of revenue realization, expense management, and profitability. Solid operations data would include rent/rate realization per resident, expense metrics, and margin profitability by product/program line. But the disparity and complexities of diverse pricing models and the variability in reporting data is a great challenge.

John Moore, Atria Senior Living: I'd like to see a world where there's some consistency on care pricing. We're experimenting with an online app. The consumer answers a handful of questions and it predicts within 90 percent certainty what the care pricing will be after an assessment. We're headed toward giving the consumer an estimate online of the cost for a room and care pricing. If the industry follows, we'll begin to bridge the gap in the consumer's understanding of what the industry provides. This could also form the foundation of real-time quality information, and become part of the evaluation process of the industry for investors and operators.

Doug Korey, LTC Properties: To a consumer who is unfamiliar with the industry, care pricing is somewhat

like cable television pricing. Cable consumers get a quote from the cable website for the first year of service but then have to figure out what they'll pay after that. In seniors housing, an assessment of the resident determines the pricing, but as the resident ages in place, the price evolves. That's not typically explained clearly on a website or in marketing materials. We need more transparency regarding assessments, including the metrics used and the frequency. Many operators don't always have a clear dialogue with the resident's family. The family may not understand that as their elderly relative ages, he or she will need more care, and the price will go up.

John Moore, Atria Senior Living: The industry's trade associations are moving toward agreed-upon minimum care standards. That's the first step toward clarity on how care is provided and how care charges are assessed. It's a way to unbundle the complexity. The American Seniors Housing Association [ASHA] is considering a customer satisfaction survey, and Argentum, the assisted living trade association, is working on an employee satisfaction survey that could be benchmarked so operators could compare themselves to industry norms. Argentum just adopted minimum standards for a number of things, including training, staffing, and the physical maintenance of buildings. Argentum has also created a third-party organization that will provide a credentialing program for executive directors. There are a lot of things being done to improve quality, transparency, and consistency. This information is valuable from the standpoint of the operator and the investor, but we need to bring it all together.

Q: How can the industry improve transparency on the quality of care?

Doug Korey, LTC Properties: If you go to a restaurant, you can look up reviews and see if people think the food is good. You can get those kinds of assurances from a lot of different reviews on different products. But the quality of care from one facility to another can vary greatly. We need something that allows consumers and investors to identify the good operator and the facility that provides good care. I don't think we're there yet.

Joseph McCarron, Capital Care Associates: I agree. As an extension of that, there's an opportunity to correlate financial data with quality metrics. If we generate consistent

standardized data, we can foster an interdisciplinary way to fully understand the financial implications of the operating practices. Integrating the two areas is clearly the direction that we must, and are, moving towards.

Q: How will regulations figure in the push for transparency?

Joseph McCarron, Capital Care Associates: I applaud the efforts the industry is undertaking to improve transparency. It requires collaboration among the industry associations, owners, and operators, capital providers, and all other constituents. There's an ever-present threat of what added rules and regulations might be imposed by policy makers in all sectors of the business. We should be mindful of that. It happened in the skilled nursing sector, which has been heavily directed by government regulation to a large degree, rather than led by providers to control their destiny. History can harbor some valued lessons learned. I think greater transparency can serve to trump regulatory intervention in the long run, better equipping the industry to represent and govern itself. This rising tide would lift all boats.

John Moore, Atria Senior Living: I think the industry is paying attention and wants to improve transparency rather than having it imposed by regulations. We've learned from what's happened in other health care real estate sectors. There's an urgency to be smart and do something about transparency. It's definitely time.

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