



2017  
**NIC Fall  
Conference**  
Investing in Seniors Housing & Care Properties

**CONFERENCE RECAP**





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# Annual NIC Conference Draws Record Attendance

## Industry Meets to Connect & Learn

More than 3,000 leaders and stakeholders from the seniors housing and care industry gathered at the Sheraton Grand Chicago, Sept. 26-28, for the 2017 NIC Fall Conference.

The three-day conference provided opportunities for attendees to network and gain insights into the trends shaping the industry. The conference theme focused on how best to navigate current market conditions and anticipate future innovations.

Educational sessions addressed immediate pressure points, such as labor challenges, healthcare policy uncertainties, and the impact of new development. Emerging issues were also explored, including the future demand for Alzheimer's care, the longevity economy, and senior living innovations around the globe.



"It's important to think strategically about how we approach aging and aging services," said

Bob Kramer, NIC founder, who led the organization for 27 years as president and CEO. Kramer was honored at the conference luncheon and has transitioned to his new position as NIC's strategic advisor.

Kramer noted that seniors housing and care has come a long way in terms of transparency and data collection, but has more work to do. "We want the industry to think about how it will reinvent itself because it will have to," he said.



Here are some program highlights:

- The opening general session featured a debate between former U.S. House Speaker Newt Gingrich and former Treasury Secretary Lawrence Summers. Moderated by Silver Lake Partners founder, Glenn Hutchins, the session highlighted hot button topics such as healthcare policy, tax reform, immigration, and partisan politics.
- The keynote address was given by Paul Irving, chairman of the Milken Institute Center for the Future of Aging. He focused on the industry challenge to reinvent seniors housing to appeal to the industry's next customers—the Baby Boomers.
- NIC Talks, the provocative speaker series, returned for the third year. Nine thought leaders answered the question, "Tell Me Something I Don't Know About Aging."
- Educational sessions covered new construction, operations, the evolving skilled nursing sector, redevelopment, and how to successfully scale up, among other topics.

This publication provides detailed coverage of many sessions at the 2017 NIC Fall Conference. Be sure to subscribe to NIC's blog for additional conference coverage.

For more information, or to view videos and listen to session recordings, visit NIC's website. ■

**"It's important to think strategically about how we approach aging and aging services... We want the industry to think about how it will reinvent itself because it will have to.."**

**-Bob Kramer, NIC Founder**



## How Does New Supply Influence Market Share?

### A nuanced analysis based on robust data can lead to better decisions

As seniors housing projects continue to open across the country, owners and investors want to know how new supply will impact their decisions.

Will a new project “take share” away from existing ones? Or will a new project “make share” and increase the overall size of the market? How long will a new project take to lease up?

Investor Kurt Read and researcher Larry Rouvelas addressed these questions, among others, during a conference session titled, “Influence of New Supply on Market Share.” They presented an analysis of factors that impact absorption based on NIC MAP data of lease-ups from 2011-2016, and considered the effect of new construction on occupancy and nearby competitors.

“We’ve learned a lot from the data that can inform our decisions,” said Kurt Read, principal, RSF Partners, Dallas, adding that many common assumptions about market dynamics may not always be correct.

The first step in the project development process is typically a feasibility study to establish the demand for seniors housing in a market. Certain measures are used to determine a penetration

rate, or the percentage of the older population that can be expected to move into seniors housing. Though this number has traditionally been pegged at about 3-5 percent, it can vary widely by market reaching 10 percent or more in some places.

It might seem that markets with high penetration rates might not be the best places to build because of competition, but that’s not necessarily the case. “There are plenty of markets with high penetration and high occupancy rates,” said Rouvelas, principal, Senior Housing Analytics, Washington, D.C. Some examples include Portland, Seattle and Minneapolis. These markets have relatively high penetration rates because consumers are familiar with the seniors housing product and more inclined to become customers than those who live in places without a lot of seniors housing.

Sub-segments of seniors housing have their own dynamics.

Take memory care for example. Based on memory care data from the last five years, Rouvelas said growth in the demand for memory care came primarily from a propensity for consumers to buy the product, not from robust demographic growth.

## How Does New Supply Influence Market Share? (CONT.)

Local markets differ in their absorption rates of new product, however. Phoenix and Denver were used as examples. And the data suggested that, to some degree, new supply does stimulate new demand.

The words “to some degree” were worrisome to investor Read. “How much is too much supply in the market?” he asked. “How can you forecast this?”

Again, analyzing memory care, the data suggested that once a market passes a supply growth of 50 percent, over five years, absorption starts to trail off. For assisted living, 30 percent growth, over five years, is the threshold for oversupply.

Nationwide, 18,000 memory care units are vacant and 11,300 are still under construction. “As an investor who likes returns, that looks like a big number,” said Read. Rouvelas noted that it could take three years to fill those units.

Assisted living properties have 45,000 empty units and another 20,000 underway, translating into an absorption process that could take as long as five years.

### “Take” or “make” share

The session turned to the question of whether a new competitor in a market tends to “take share” or “make share.” Two case studies were presented, highlighting the differences in individual markets.

The case for “make share” was strong in Dallas where the senior population grew by 13 percent, and the number of occupied assisted living units grew by 25 percent. Data from San Antonio showed it’s possible for occupancy at newer buildings to plateau if more new projects are on the way.

The audience was polled for their opinion several times during the session using a new phone app designed for the conference. Participants were asked to evaluate risk for a new project, and Rouvelas pointed out that data from the NIC MAP local service can be used to analyze markets.

Forecasting occupancy involves a cone of uncertainty, not unlike trying to forecast where exactly a hurricane will make landfall, said Rouvelas. He cautioned investors to underwrite projects based on the mean time it takes to lease a building, instead of the median time which can underestimate the lease-up duration, and the risk. “You need to stress test your pro forma for the range of performances,” said Rouvelas.

What’s the best market for new development? The answer could be explained by what’s called, “The Three Bears Theory,” or a market that’s not too hot or too cold, but right in the middle. These markets are educated about seniors housing, but not overwhelmed by new product. The theory holds true for memory care as well as assisted living, and for markets with a growing population of adult children, such as Dallas, and markets with lots of seniors, such as Florida.

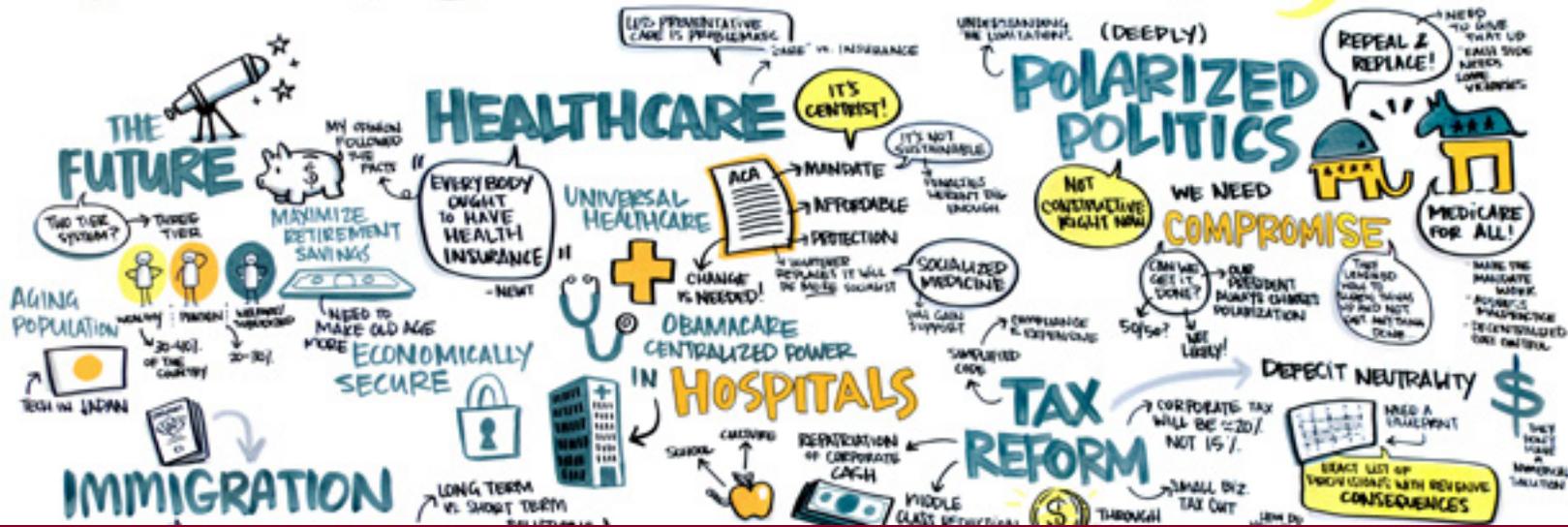
**“It’s a key issue for operators and investors to understand the level of discounting... the only way to make that happen is for all of us to work together.”**

“We’re able to debunk these myths because of the data provided by NIC Map,” said Read. He added that it’s important for providers to participate in NIC’s initiative to collect pricing data in order to improve transparency. “It’s a key issue for operators and investors to understand the level of discounting,” said Read. “The only way to make that happen is for all of us to work together.”

The session concluded with three key takeaways:

- Estimating “net need” in a market is too simplistic a measure.
- Most new buildings “make share” instead of “take share,” but only up to a point.
- Half of new projects reach 92 percent occupancy in two years, but there is a sizable cone of uncertainty. A quarter of assisted living and memory care properties are below 85 percent occupancy after three years. Bottom line: Forecast carefully. ■

# THE IMPACT OF THE TRUMP ADMINISTRATION'S POLICIES ON ECONOMIC GROWTH: A DEBATE



## High-Profile Leaders Debate Government Policies at Opening Session

A lively debate on the impact of the Trump administration's policies took center stage at the opening session of the 2017 NIC Fall Conference. Former Treasury Secretary Lawrence H. Summers and former Speaker of the U.S. House of Representatives squared off for a wide-ranging policy discussion on healthcare, tax reform, immigration, areas of potential agreement in a polarized political environment, and the role of the senior living industry in an aging society.

The debate was moderated by Glenn H. Hutchins, chair of North Island, a family office, and co-founder of private equity giant, Silver Lake Partners.

**"No society in history has tried to cope with populations that live beyond age 100."**

Gingrich started the debate by observing, "No society in history has tried to cope with populations that live beyond age 100." He foresees three tiers of elders emerging as the nation grapples with its aging population amid a number of societal headwinds such as the collapse of the private pension system. About 30 percent of elders, or their children, will probably have enough funds to pay for their own care. Another 20 percent, those with some savings, will eventually need help from

the government as they spend down their assets. But there will also be a large population of people who will require the government to provide for their long-term care. "Policies really matter," said Gingrich.

The debate turned to healthcare reform. Summers noted that the most conservative way to provide universal coverage is to have a system like the current Obamacare law, or Affordable Care Act (ACA). He added that the law needs a set of changes to make it work more effectively.

Gingrich argued that the universal mandate in the ACA is not sustainable because younger Americans refuse to buy insurance, and the current penalties are not big enough to impact behavior. "There are a lot of ways to organize 100 percent access to care rather than 100 percent access to insurance," said Gingrich, emphasizing the need to decentralize the healthcare system and payments.

Summers countered that solutions are difficult to find because the two political parties are so polarized. "Decentralization can be a prescription for a race to the bottom with Medicaid," said Summers, referring to the Republican proposal to turn Medicaid into a block grant system administered by the states.

## HIGH PROFILE LEADERS DEBATE GOVERNMENT POLICIES (CONT.)

Both Gingrich and Summers thought there might be some room for compromise on a variety of issues between the political parties, but that it would be difficult to find true consensus. “We have a president who chooses conflict,” said Summers. “We see that pattern repeated again and again.”

After the failure of Congress to enact healthcare reform, Gingrich felt it was imperative to focus on passing tax reform. He envisioned a simpler tax code that cuts rates for the middle class and for business. “We’re in a period where the sides are very far apart,” said Gingrich. He put the odds at passing tax reform at about 80 percent before the Christmas holiday break.

**“We’re in a period where the sides are very far apart.”**

Summers was skeptical that a tax reform bill could be designed that would stimulate growth among small businesses without giving the top 1% of earners a big tax cut. He put the chances of tax reform passage at about one in three.

### Labor issues

Turning to immigration, Summers said it was in our country’s interest, when the native population is not growing, to welcome immigrants who can help support our aging population and carry on our country’s tradition as an immigrant nation. “America is a melting pot,” he said.

Gingrich didn’t think bringing more immigrants into the country is a solution. He suggested instead that the senior living industry look toward

automation and online learning to improve the prospects of frontline workers to reduce employee turnover.

Several points of agreement were discussed. Both said it was important to rebuild the country’s infrastructure and streamline regulations.

They also agreed that one of the biggest problems facing the country is the educational system. Gingrich said only 13 percent of eighth graders in Baltimore pass the math and science assessment exams. “If we don’t fix the education system, we will have a genuine crisis in our ability to function,” he said.

Summers noted that if every 17-year-old student took the SAT exam, half would score below the average. “That’s telling you something,” he said.

**“We need to think about whether we want to be one country, rather than two... Societies cannot warehouse large portions of their population and succeed. And that’s the risk we face.”**

Other factors are at play, noted Summers. In the 1960s, one out of 20 men age 25-54 was not working. Today, three out of 20 men in that age group are not working and it’s not unreasonable to think that number could rise to a third of that group by the year 2050. “We need to think about whether we want to be one country, rather than two,” he added. “Societies cannot warehouse large portions of their population and succeed. And that’s the risk we face.” ■





## THE UPSIDE OF AGING (CONT.)

“The senior living industry has a high concentration of wealth in the communities they serve which bolsters the opportunity to provide a high level of services,” said Irving.



While demographics make a strong case that the industry need only sit back and wait for the flood of customers, Irving argues that senior living providers face a number of challenges that if left unmet could sideline the sector.

**“The senior living industry has a high concentration of wealth in the communities they serve which bolsters the opportunity to provide a high level of services,”**

“Home is the biggest competitor,” said Irving. Baby boomers—the industry’s future customers—want and need to continue working. They seek purpose in their lives. The traditional notion of retirement is fading, said Irving. Boomers don’t expect to move, anytime soon, to a senior living property.

The coming generation of elders is also much more diverse than that of the current older U.S. population. And culturally, diverse groups are more likely to live with their families than in communal settings.

Financial security is another big industry challenge. With the move away from defined pension plans, seniors in the U.S. are not in terrific shape, said Irving. Homeowners are more likely to be able to afford seniors housing, but renters are not. “A huge portion of the population is financially challenged,” said Irving.

Labor shortages are likely to continue. “Talent defines the success of every industry,” said Irving.

**The industry needs to create meaningful lives for its employees in order to instill trust in its customers.**

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### **Connect & Engage**

Technology represents an opportunity and a challenge, noted Irving. Home-based solutions, such as carebots (robots that provide care), tele-health and voice-activated technologies, will make it easier for seniors to stay in their longtime residences. Self-driving cars will help seniors get around. Transportation may not be an issue for seniors who today must rely on cars and might otherwise be forced to move.

Irving warned that disruption, in the form of new technologies, can lead to rapid change. He cited the emergence of online shopping and how it has depressed the retail real estate markets.

**Technology can be an opportunity for senior living providers to offer enhanced care at a reduced cost.**

## THE UPSIDE OF AGING (CONT.)



At the same time, technology can be an opportunity for senior living providers to offer enhanced care at a reduced cost.

“The thing to capitalize on is not trying to beat technology, but by doing something machines cannot provide: connection, empathy and engage-

**“The thing to capitalize on is not trying to beat technology, but by doing something machines cannot provide: connection, empathy and engagement,”**

ment,” said Irving. He discussed the problem of social isolation, especially among women who live longer than men.

Irving challenged the audience to recognize that they have the communities and campuses needed to provide purpose and a meaningful life, and to provide a positive self image of aging to older adults. “Having that physical place to live is powerful,” he said.

How do we get older people to leave their long-time residences?

By offering an attractive alternative, said Irving. He then presented several examples of communities that provide residents with a meaningful life. Judson Manor in Cleveland offers intergenerational living with young musicians and artists. Lasell Village in Massachusetts requires its residents to

attend college, homework included.

“The future is about connections,” said Irving. “Vibrancy of the community matters.”

Branding matters too, said Irving. He eschews the word “seniors,” noting that older people hate the

**The traditional notion of retirement is fading.**

word and the coming generations hate it even more. “Redefine and reimagine your business,” said Irving. He suggested that senior living providers present potential customers with a better life, and a new chapter just as interesting as all the previous ones.

Diversity will play a role. Older adults are not one homogenous group, but many different types of people. “The same variations need to exist in housing options,” said Irving.

Irving concluded his remarks by noting that senior living providers understand their customers and therefore have the opportunity to extend their brand into the wider community and population of seniors. “It’s a challenging future, but a bright one,” he said. ■



## NIC Talks:

### Attendees Challenged to Examine Attitudes on Aging

For the third consecutive year, NIC Talks, the popular speaker’s forum, returned to the 2017 NIC Fall Conference. Inspired by the TED Talks format, the fast-moving presentations offered provocative ideas on aging from global and national thought leaders.

The theme this year was, “Tell Me Something I Don’t Already Know About Aging.” Nine speakers from outside the industry were featured in two separate sessions, covering topics such as ageism, technology, longevity and caregiving.



“We hope to challenge you by touching on the trends and research, and the areas of innovation and collaboration from these experts on aging,” said Bob Kramer, founder and strategic advisor at NIC. “Our industry will be caring for the Baby Boomers and there will be tremendous change in

this space. These speakers will inspire new ideas and motivate you to action.”



#### Ashton Applewhite

Activist, Author of *This Chair Rocks: A Manifesto Against Ageism*

Using a highly personal style, Applewhite began her talk by saying, “The only thing worse than being old, was being dead. I used to think that.” She followed that provocative statement with some little talked about facts. The rate of Alzheimer’s disease is dropping. People are less depressed as they age. Most older people function quite well in the world.

Taking direct aim at ageism, Applewhite noted the prejudices against older people and the aging process. Wrinkles are ugly. Old people are

## NIC TALKS (CONT.)

incompetent. Ageism is really a prejudice against our future selves. And ageism is the last socially sanctioned prejudice.

**“The only thing worse than being old, was being dead. I used to think that.”**

We all have to take some of the blame for the prejudice, she said. When we lie about our age, we reinforce ageism.

People need to confront ageism because it pits old vs. young and diminishes all of our prospects. As an old person in training, Applewhite noted that elders contribute to society in countless ways.

“We need to mobilize on the basis of age equity,” she said. “Longevity is here to stay.”



**Laura L. Carstensen, Ph.D.**  
Director, Stanford Center on Longevity & Fairleigh S. Dickinson Jr. Professor in Public Policy, Stanford University

The benefits of a long life are becoming more and more apparent, even though there is a lot of worry among policymakers about the impact of an aging population, noted Carstensen, an expert on longevity. Every generation has been healthier than the one before it. In recent years, we have exaggerated cognitive decline. Dementia rates are actually falling. There are lower rates of mental health disorders in older people, and they are among the most satisfied with their lives.

How can this be?

**And having a society with people who care about making a difference is a tremendous asset.**

“As our time horizons grow shorter, we focus more on the present,” said Carstensen. We engage in activities that really matter to us and deepen relationships and savor life. Life feels better. Marriages often improve. The limited amount of time we have helps us to focus and makes us less concerned about the future.

We learn there are good times, and bad times. We are more likely to forgive. And having a society with people who care about making a difference is a tremendous asset.



**Kim Campbell**  
Founder, Careliving.org

Kim Campbell faced a crisis when her well-known husband, singer Glen Campbell was diagnosed with Alzheimer’s disease. While she understood the damage the disease would do to her husband, she only learned through hard experience the damage the disease does to caregivers. “The mental and physical burden can take 10 years off of their own lives,” said Kim, who runs a foundation dedicated to improving the quality of life of caregivers through hope and education.

Speaking at NIC Talks just seven weeks after the death of her husband, Kim spoke of her own personal journey as a caregiver. She kept Glen at home despite his need for around-the-clock care which required a team of helpers. As the disease progressed, Glen became more and more agitated and difficult to manage. He was losing his ability to communicate. At one point, the doctor asked how she was doing, and she had to admit to herself that she was exhausted.

So she investigated memory care communities. Glen first started out in a day care program. He began to smile again, but he was still difficult when he was at home. “We couldn’t give Glen the care

## NIC TALKS (CONT.)

he needed at home anymore,” said Kim.

Glen was moved to the memory care community permanently. “I didn’t cease being a caregiver but had the help of professionals,” said Kim. She also met other families dealing with the same issues. She started a blog on caregiving to share her experiences and the response has been powerful. The blog now has 25,000 readers. “We hope to correct the misinformation and stigma surrounding long-term care,” said Kim.



### David Nash, MD

Dean, Jefferson College of Population Health,  
Thomas Jefferson University

As an expert in population health, David Nash has a goal to improve health behavior. The need is critical. He noted that 18% of the country’s gross domestic product is spent on healthcare, and the cost is rising. Twenty-five percent of the population has some kind of mental health disorder and 33% have a chronic illness.

About 88% of the healthcare budget is spent on medical services, and only 4% on healthy behaviors. “We have it backwards,” said Nash. “We need to change the system.”

**“Our own behavior is what makes us healthy.”**

Nash noted that our health depends in part on our environment, genetics and access to care. But, he added, “Our own behavior is what makes us healthy.”

A big way to improve the health behavior of older people is to treat depression, loneliness and isolation. One out of 22 older Americans has clinical depression. Chronic illness can exacerbate depression.

But there’s hope, said Nash. For example, a clinical trial is underway in New Orleans to treat depression using a digital platform and a phone consultation with a therapist.

Fifteen percent of elders report severe loneliness and isolation, which can contribute to other illnesses and doubles the risk of Alzheimer’s disease. He said that we must measure social isolation, connect seniors with care managers, and provide therapy and companionship.



### Dan Buettner

National Geographic Fellow and Author,  
*The Blue Zones*

In his best-selling book *The Blue Zones*, Buettner identifies the places in the world where people live the longest. What is their secret? What can we learn from them?

**“...their language has no word for retirement.”**

Buettner told the NIC audience about the behaviors shared by the people in these locations. Some of their healthy behaviors include sleeping 7-1/2 hours a day, exercising for 30 minutes a day, eating three servings of vegetables a day, and having at least three friends.

There are five Blue Zone areas where people are often reaching the age of 100. Sardinia has a culture that celebrates older people. Okinawa residents have a plant-based diet and their language has no word for retirement.

Loma Linda, Calif., is home to many Seventh Day Adventists, many of whom are vegetarians and focus on family and nature. Residents of Costa Rica have the best chance of reaching a healthy age of 92. Their diet consists of beans, squash

## NIC TALKS (CONT.)

and tortillas. The country also has one of the best health programs in the world.

The last Blue Zone is in Greece which has a strict Mediterranean diet. Residents drink herbal teas which have anti-inflammatory properties.

The Blue Zones are places where people can walk and move about easily. Residents eat very little meat, no dairy and limit the amount of food they eat. "Those good habits are nurtured by relationships and a sense of purpose," said Buettner. "Longevity happens to you."



### Robert Hillis

President & CEO, Direct Supply

A shortage of caregivers is expected as the aging population swells, but technology will play a role in how we care for elders in the years ahead. Robert Hillis, who runs Direct Supply, a provider of equipment and services to senior living, discussed four megatrends that will make senior buildings come alive.

1. By 2020 there will be 1.3 mobile devices for every person.
2. Artificial intelligence will change the way we live.
3. Voice activation will allow the large population that can't read or write to participate in the digital revolution.
4. The internet of things will enable our buildings to become caregivers.

For example, a smart chandelier will be able to change lighting levels to impact the moods of people with dementia.

Smart floor tiles will be able to measure a person's gait to help prevent falls and monitor weight to

catch a rapid gain that could indicate a worsening of a resident's congestive heart failure. The tiles are "safe barriers" and act like a pad to cushion falls.

**"The thing to capitalize on is not trying to beat technology, but by doing something machines cannot provide: connection, empathy and engagement,"**

If we could prevent damaging falls and monitor a person's health with one product, Hillis said we could prevent many hospitalizations and change the cost structure of healthcare.

As the number of caregivers decline, we will also need smart buildings that can fill in the care gaps. "Buildings as caregivers will be enabled by these giant megatrends to produce a smart building," he said.



### Susann Keohane

Global Research Leader for the Aging Initiative, IBM

"Every room tells a story about the senior's life," said Keohane, who researches technology to monitor the health and well being of seniors and reduce the cost of care. Technology can monitor the activities of daily living which includes toileting behaviors, said Keohane, which is fundamental to health and survival.

Urinary tract infections (UTIs) are a big problem with seniors, noted Keohane. Dehydration can lead to a UTI which costs the medical system about \$1.1 billion annually. Toileting every 2-3 hours and bathing once a day can reduce UTIs.

Data can be collected by sensors in the bathroom to make conclusions about the daily life of the

## NIC TALKS (CONT.)

senior. This information can be used to determine if the senior's patterns are normal or not.

**"We can make the connection between behavior and illness."**

Several different technologies designed to monitor bathroom behavior were discussed by Keohane. Patterns forming over time can alert caregivers to a developing UTI before it becomes a crisis. "We can make the connection between behavior and illness," said Keohane.

Keohane also addressed concerns about privacy and the importance of education so the elder and provider can see the benefit of the technology. "Using the internet of things, we can understand the individual and dole out a personalized solution to help an elder thrive in place," she said.



### **Ted Fischer**

Vice President of Business Development,  
Hasbro, Inc.

Can a traditional toy maker transform itself to develop a product for the senior market? Ted Fischer discussed how he did that at the toy company Hasbro by creating a new division in the company to make animatronic pets for seniors.

The idea came about from consumers in the comment section of the company's website. They were buying animatronic toys intended for children for their aging parents to act as companions.

Prototypes were developed for seniors and tested in the company's "fun lab." Seniors were brought in to evaluate the animatronic pets which have life-like moves and sounds, and are interactive.

The company started a new division called "Joy

for All." Its first product was an animatronic cat. A dog was successfully introduced a year later.

Fischer also discussed how to launch a new disruptive product line in an established organization, a goal of many senior living providers. "If you ask creative people to think outside the box, they will," said Fischer.



### **Joon Yun, MD**

Managing Partner and President,  
Palo Alto Investors, LLC

Challenging our conceptions of aging, Dr. Yun detailed his initiative to view aging as a decline in homeostatic capacity. He defined this as the body's ability to re-center itself after injury, an illness or some type of stress. For example, in young people, homeostatic capacity returns the blood sugar levels to normal after eating sweets. Older people have less capacity for the transition. The same holds true for recovery after an exercise session.

**"Stretch your range. It might be fun, and make you healthier."**

Yun's radical idea is to return capacity to older people so they are less reliant on medications and medical interventions. What can we do to improve our homeostatic capacity?

Yun had several suggestions around the concept of increasing one's dynamic range, or stretching your limits to improve capacity. Participate in exhilarating activities to strengthen muscles. Instead of doing the same exercise at the same time everyday, do a different exercise at a different time. Travel different places. Have a wide range of experiences. Laugh more. "Stretch your range. It might be fun, and make you healthier," he said. ■



## Scaling Up: How to Successfully Grow Operations

**“The industry is getting ready to scale up... We are within five years of the age wave hitting.”**

Scaling up a seniors housing and care operation takes strategic vision, resources, the right business climate, and, of course, a little bit of luck. In an effort to address the challenges of growth, panelists at a session of the 2017 NIC Fall Conference detailed the pros and cons of expansion, how to maintain a company’s culture, and which operational processes can be scaled up and which cannot.

“The industry is getting ready to scale up,” said panelist John Moore, chairman and CEO of Atria Senior Living. “We are within five years of the age wave hitting.”

The session, titled: “Scaling Up Your Operations for Success” was moderated by Kai Hsiao, former executive vice president at HCP and CEO of Holiday Retirement. Joining Atria’s Moore on the panel were Paul Dendy, CEO, Milestone Retirement Communities, and Gregory Miller, CEO, Greg Miller & Associates.

Opening the discussion, Hsiao noted that the industry is quite fragmented. Small operators control about 56% of the seniors housing stock. The panelists noted that the industry was started by mom-and-pop type operators uncomfortable with expansion. Seniors housing and care is also a very local business where reputation matters, and operations have historically been ancillary to development.



The panelists shared their thoughts on the best way to scale up a business.

Atria’s growth was the result of a focus on operations, instead of ownership. The company sold off

## SCALING UP (CONT.)

its real estate in 2001, and now generates revenue from development fees and management contracts. It currently has contracts with 12 different owners, including the big healthcare REIT Ventas, and manages a total of 200 communities in 27 states.

Atria operates three distinct brands: Atria Senior Living, a social model of assisted living and memory care; Atria Park, higher acuity assisted living and memory care; and Atria Retirement Canada, independent living. The three brands are important as the company grows in order to perform across the price spectrum, said Moore. "This is the future."

**"Its all about the things you need to be able to be a better operator."**

Moore emphasized the importance of technology to manage a big company. Atria uses tools such as a customer relationship management system and 12 different iOS Apple mobile apps. "It's all about the things you need to be able to do to be a better operator," he said.

Milestone opened in 2008 with three founders and six communities. "We always looked at growth as a way to become a better operator," said Dendy. The company now manages 86 communities in 18 states. A key to success is the company's centralized IT department which has proved to be a better approach than each community running its own computer systems. Though Milestone has not taken a branding approach, it relies on scale to purchase everything in bulk from insurance to food.

**"Scale is natural. Doing too much, too soon is a problem."**

### How big is too big?

The evolution of the hospitality industry provided an apt comparison to seniors housing and care. With 26 years in the hospitality business, Miller noted that the hotel business originally combined

ownership, development and management, but gradually split into three parts as the industry grew and matured. "Scale is natural," he said, adding that maintaining a culture has to be intentional. "Doing too much, too soon is a problem," he said.

Dendy agreed that it's easy to get ahead of the growth process and lose control. Another issue is that big companies are more visible and more likely to be called by the media when contentious issues arise. "We see it as an education opportunity, but there is risk in that," he said.

Moderator Hsiao asked the panel about the natural breakpoints in scale. What is the optimum size?

Some points were more challenging than others, said Dendy of Milestone. Fifteen communities was a good number and easy to manage. But 26 communities required new resources. Oddly, he noted, the management of 40 to 80 communities was not that challenging. But with 84 properties, six underway, and eight in the pipeline, Dendy said he had "no clue" what level would be the most advantageous.

**There comes a point where systems are necessary to scale a business...**

**"Its important to create a system where people can be successful."**

Atria's Moore said 20 properties are manageable for one entrepreneur. Any more than that, however, and the business is not sustainable. The key to success is to have the right support and training, and tools in place to allow the executive director of the property to succeed.

There comes a point where systems are necessary to scale a business, noted Miller. "It's important to create a system where people can be successful," he said. Miller added that break points come for executives and not just companies. It can be very difficult for a manager of a single property

## SCALING UP (CONT.)

to move to the management of multiple projects. "It's like nothing they have done before," he said. His advice is to find someone with multi-building experience.

Scaling up doesn't necessarily mean that new fees will flow directly to the bottom line. It takes time to cover the fixed costs when ramping up from six to 10 properties, said Atria's Moore. The same is true at Milestone. It is considering the management of a six-property portfolio in a state where the company does not operate. The expansion will include the cost to put together a new region involving a variety of added expenses and hires. While it's easy to think a new management contract of \$10,000 to \$20,000 a month will go to the bottom line, it won't, said Dendy.

**Scaling up doesn't necessarily mean that new fees will flow directly to the bottom line.**

### Culture Continuity

Culture is a big issue for growing companies. "We debated culture for hours," said Dendy, referring to the time when the company doubled in size. The approach was to take it slow and undertake the cultural groundwork of training. Milestone University, an internal program, helps acclimate employees to the goals of the organization.

While culture is intangible, Moore thinks it's more about actions than words. "A culture of accountability is important," he said. Managers who don't fit the culture must be asked to move on, which in turn earns the respect of other employees.

Hsiao asked, how big can a company get before it gets "bad"?

**The real question should be whether the company can still do a good job if it takes on more communities.**

"You can be bad at any number of communities," said Dendy. The real question should be whether the company can still do a good job if it takes on more communities. "Size is not a measure of success," he said. "It's how well you do at delivering services to residents."

**"Size is not a measure of success... It's how well you do at delivering services to residents."**

Atria's Moore countered that the business is about selling rooms. It's wonderful to have a good product, but nothing starts unless someone rents a room. "Operators have lost sight of the fact that they have a responsibility to the capital providers," he said.

Miller doesn't see a theoretical limit to the number of communities that can be managed effectively, but the operators still have to do things well consistently. "You have to start with passion," he said.

The panelists all agreed that an effective organization requires teamwork, as well as robust staff training and incentives. "That's leadership," said Dendy. ■



## MARKET SPOTLIGHT (CONT.)

different Bureau of Labor Statistics reports. “This allows operators to benchmark their performance against national and regional numbers,” said Mace.

For example, nursing assistants in California are paid an average of \$32,000 annually. But those in assisted living are paid \$29,000. “It gives operators a sense of why they might need to raise their wages,” said Mace.

**“If you are looking at business plans, the cost of capital will go up with interest rates which will impact valuations,”**

The report drills down to different locales. San Francisco has the highest wage rate in the state at \$45,000, compared to the city of Merced which sits below the national average. The report allows owners with properties, for instance, in Ohio and California have a way to measure wages.

The Federal Reserve has a dual mandate for full employment and low inflation. While interest rates have been kept low in the wake of the deep recession, Mace noted that rates are now being adjusted upwards. There have been four rate increases in the last 18 months, and additional hikes are expected in the coming year. “If you are looking at business plans, the cost of capital will go up with interest rates which will impact valuations,” said Mace. “It’s an important indicator to track.”

**By 2050, the ratio of adult children to seniors will be three to one.**

Mace turned to a discussion of demographics. She noted that the current residents in senior living are about age 82 and were born during the Great Depression when birth rates were historically low. “Everyone is waiting for the Baby Boomers,” said Mace, referring to the huge generation just beginning to turn age 70.

Demand is expected to increase for senior living services as the Boomers get older. Another factor

is the diminishing number of family caregivers available to help elders. By 2050, the ratio of adult children to seniors will be three to one. “There will be huge demand as we move forward because there won’t be enough people to take care of the seniors,” said Mace.

### Transactions and skilled nursing

Market activity, as measured by transactions, has slowed since 2015, said NIC’s Kauffman. Second quarter transaction volume totaled only \$1.4 billion, though he expected sales to pick up in the latter part of the year.

The types of buyers purchasing the most properties have shifted. The healthcare REITs had been the primary buyers of senior living properties until about two years ago. REITs bought \$21 billion of properties in 2015, and just \$6.6 billion through the second quarter of 2017. Institutional and private entities now account for the highest volume of transactions.

**Skilled nursing occupancy has hit its lowest level in five years...**

Property pricing has remained relatively steady. Seniors housing, which includes independent and assisted living, is currently priced at about \$175,000 per unit. Skilled nursing prices have increased somewhat over the last several years and currently sit at about \$97,000 per bed.

Kauffman provided a look at the most recent NIC report on skilled nursing data. The report is based on data updated every month from 1,500 properties across the nation. Skilled nursing occupancy has hit its lowest level in five years and currently stands at 81.7 percent. That represents a year-over-year decrease of 150 basis points. The drop is likely due to competition from home health services and pressures by Medicare to shorten the length of stay after an illness or surgery.

Managed Medicare represents about 6.3% of patient day mix and should continue to grow, said

## MARKET SPOTLIGHT (CONT.)

Kauffman, though it will not be a huge driver of business.

**Medicaid represents a little more than half of skilled nursing revenues.**

Medicaid has become an important, and growing, revenue source for skilled nursing operators. In fact, Medicaid represents a little more than half of skilled nursing revenues. Also, Medicaid revenue per patient day has grown 1.4% in the last year, though this figure is being outpaced by wage growth. "It makes for a challenging environment," said Kauffman.

### Market fundamentals

A detailed look at the seniors housing market (independent and assisted living) was provided by NIC's Peck. She outlined the trends shaping decisions around new development and how to address more competition. Occupancy stood at 88.8% in the second quarter, down 50 basis points from the first quarter. By comparison, the cyclical low for occupancy was reached in the first quarter of 2010 at 86.9%. The most recent high mark was 90.2% in the fourth quarter of 2014.

**Assisted living inventory has been ramping up since the recession, hitting its highest level since NIC started to track the data.**

About 22,000 units were added in the second quarter, and 15,000 units were absorbed.

It's important to note the difference between total occupancy and stabilized occupancy, said Peck. The gap is currently 160 basis points, the widest difference since mid-2009 and representative of the large numbers of properties in lease up.

The pace of inventory growth and absorption of independent living was flat from 2011-14, but since 2015 the pace of both measures has picked up.

Assisted living inventory has been ramping up since the recession, hitting its highest level since

NIC started to track the data. New construction currently represents 8.2% of the current inventory. Also, annual absorption of assisted living is accelerating and stands at 3.4%. "We have the highest inventory growth and also the highest absorption we have ever seen," said Peck.

About 35,000 units of seniors housing were added in the top 99 markets in the last four quarters. Thirty percent of the growth took place in the markets of Dallas, Atlanta, Minneapolis, Boston, Chicago, Houston and Miami. Looking ahead, the number of units underway represents about 4% of the current inventory.

**"We have the highest inventory growth and also the highest absorption we have ever seen."**

Peck continued her analysis showing that activity has been concentrated in certain markets which has kept fears of overbuilding in check. She then discussed NIC's rental rate report based on 250,000 units at more than 2,500 properties. Average initial rental rates are below asking rents for both independent and assisted living, though the spread was larger for assisted living properties. In June 2017, average initial rates were 8.8% below average asking rates with a discount equivalent of 1.1 months of rent.

The session concluded with comments from NIC's Harry on the importance of the 12-year time series data compiled by NIC which puts the sector in perspective. Coming out of the recession, data showed that seniors housing was a resilient segment with a needs-driven product which helped to attract more institutional investors. "We can't imagine operating the sector without the data we have now," said Harry. "And we will continue to improve the metrics." ■



## ALZHEIMER'S CARE (CONT.)

**...the actual incidence of Alzheimer's has slowed and is beginning to decrease slightly.**

billion by 2050. The financial costs, however, don't account for the human toll of the disease—the loss of a healthy brain and the ability to enjoy family and friends.

To frame the conversation, Callison noted that there are currently 120,000 memory care units nationwide, about double the number in 2008. About 5.4 million Americans have the disease, a number that has grown by 500,000 over each of the past few decades. The number of those afflicted will continue to swell unless new treatments or a cure is found. "The growth is staggering," said Callison.

Carrillo offered a deep dive into the status of the research, ending on some positive notes about



recent progress. Pharmaceutical companies spend about \$500 million a year on research to find drugs to slow the progress of the disease and treat its symptoms. There is a pipeline of new drugs, she said, though the number is small compared to those in development to treat cancers. "We have to do better," she said.

In a hopeful sign, the amount of money devoted to research has grown over the last three years to about \$1.8 billion annually. "That should change the trajectory of new developments," said Carrillo, adding that there is real potential to delay

the course of the disease which could save \$500 million a year, not to mention a great burden for families.

Though there is a concerning rise in the number of people with the disease, Cohen noted that the actual incidence of Alzheimer's has slowed and is beginning to decrease slightly. "There is some good news here," he said.

**...the scientific community has a much better understanding of the risk factors that contribute to the disease...**

The trend is most likely the result of a population that is more health conscious, exercising regularly and watching their diets. At the same time, the scientific community has a much better understanding of the risk factors that contribute to the disease which fall into three categories: genetic, environmental, and those related to lifestyle. For example, there are 31 gene variations that have been identified that increase the risk of the disease.

**Physical Activity can reduce risk for dementia by improving vascular health.**

### The Lifestyle Difference

The idea of prevention is growing in importance, said Carrillo. Physical activity can reduce risk for dementia by improving vascular health. "A healthy lifestyle will make a difference," she said.

Session moderator Callison asked how a seniors housing operator should think about this new information. If people adopt healthy habits and delay the disease, what does it mean for the industry?

Under the best case scenario, the number of Alzheimer's cases could be cut in half over time if everyone in the country had a healthy vegetarian diet and exercised an hour a day, according to

## ALZHEIMER'S CARE (CONT.)

Cohen. But even under these ideal circumstances, he noted that there would still be twice as many people afflicted with the disease as there are today because of the growing older population.

The conversation shifted to caregiving and the need for more caregivers. Carrillo told a personal story about her own mother-in-law who had Alzheimer's disease and needed eight caregivers for the last three years of her life. It was a stressful situation that many families face, she said.

**... there would still be twice as many people afflicted with the disease as there are today because of the growing older population.**

As an operator, Makesh shared his approach for the care of those with memory loss who live in the Lantern Group's buildings. Residents are assessed and then a treatment plan is developed with an emphasis on cognitive training and task repetition. Caregivers undergo three weeks of training in order to ensure the program is implemented correctly.



Building design figures in the treatment plan as well with features that recall previous eras and lighting schemes that mimic sunrise and sunset. "We are using the design to minimize behaviors

**"We are using the design to minimize behaviors that might be a problem."**

that might be a problem," said Makesh.

The approach is showing signs of success. Cognitive training has helped to increase the residents' attention span from two minutes to as much as 28 minutes. Elopements have been minimized too, along with the use of medications.

Callison wrapped up the session by asking the panelists how capital should be deployed to address the growing problem of memory loss in an aging population.

Cohen wondered whether society will be willing to pay for the development of effective new drugs when the cost of care is rising so rapidly. "Politics and social awareness is where more thought has to be placed," he said.

**"Politics and social awareness is where more thought has to be placed."**

Carrillo thought it was possible to turn the disease into a chronic condition that could be managed with a combination of drugs, cognitive training and a healthy lifestyle. Cohen agreed, emphasizing the critical value of physical activity, diet and clean air since there may be a link between air pollution and Alzheimer's disease.

Over the next five to 10 years, Makesh expects to see an increase in the need for Alzheimer's care. "It's not a pure real estate play," he said. "You need a good care program." ■



## HEARD AT THE CONFERENCE: MAKING THE CASE FOR INVESTMENTS (CONT.)

arduous administrative work. Patients, too, benefit from this investment, as clinicians can spend more time at the bedside and less time behind a computer.

**“Operations are key. You can have a beautiful building, well equipped... but if you don’t have the operating talent... that building isn’t going to prosper.”**

In the same session, Michael Schonbrun of Balfour Senior Living echoed Mastros’ sentiment, noting, “Operations are key. You can have a beautiful building, well equipped... but if you don’t have the operating talent... that building isn’t going to prosper.” He recommended that training be a key component of the operating budget to drive quality in service delivery. He added that however strong the corporate headquarters, the seniors housing and care industry is a decentralized business and the judgement of leaders within the buildings is critical.

One benefit of consistent training and strong facility-level leadership is that operators can make front line decisions. Another panelist on Kauffman’s session, Anne Stuart, of Avalon Health Care, agreed with Matros and Schonbrun that the best operators can work well in their own local markets. While scale has its benefits, she argued that

corporate expansion should not interfere with the individual operators’ ability to maintain their local culture. Matros agreed that the most sophisticated operators are those regional operators who know their markets very well and can adapt to local changes. Speaking on the panel Making the Case for Investments in Operations, KeyBank’s Brian Heagler also noted the importance of training and culture, saying these are factors lenders now take into consideration.

Another consideration that came up in both sessions was the ability of data to influence the quality of operations. Jacquelyn Kung suggested that operators and investors look at data comparing quality outcomes at the property level to operating costs to identify those buildings that are performing efficiently and those that are not. Stuart added that in markets where managed Medicare is prominent, data to demonstrate outcomes to those referral sources becomes very important to successful operations.

**As the skilled nursing and seniors housing industries continue to evolve and prepare for the wave of Baby Boomers expected in the coming years, good operations are clearly vital to the performance of these properties.**

As the skilled nursing and seniors housing industries continue to evolve and prepare for the wave of Baby Boomers expected in the coming years, good operations are clearly vital to the performance of these properties. Finding ways to deliver efficient, quality care while being able to adapt to local market needs will be critical for operators. Investors are also considering these aspects of operations more closely and may be poised to partner with their operators to provide support to ramp up efficiency and adaptability. Those investments will surely be influenced by data, which continues to drive innovation in the sector. ■



# SAVE THE DATES

## 2018 NIC Spring Investment Forum

March 7-9

Dallas, TX

## 2018 NIC Fall Conference

*Featuring the Pre-Conference Workshop: Seniors Housing Bootcamp*

October 17-19

Chicago, IL

