NIC

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Inside the August Issue

Strategy Matters: A Conversation with IntegraCare's Larry Rouvelas

Larry Rouvelas

With a background in operations and analytics, it's no surprise that Larry Rouvelas is a strategic thinker. As the CEO of IntegraCare, he can quickly recite three-point action plans designed to make the company the best senior living operator in the Mid-Atlantic.

NIC Chief Economist Beth Mace recently talked with Rouvelas about his thoughtful approach and his strategy for success. Here is a recap of their conversation.

Mace: Can you please tell our readers about IntegraCare and your role as Chief Executive Officer?

Rouvelas: IntegraCare has been in business for 22 years. We have 17 communities in Pennsylvania, Virginia, and Maryland. We offer independent and assisted living, and memory care. We have 1,300 units and 900 team members.

Mace: Your mission statement is to improve the quality of life for your team members, residents and family, and you do this through your three-dimensional focus. Can you please explain this to our readers?

Rouvelas: Most people want to work for mission-oriented organizations. The nice thing about senior living is that we already have an important mission. IntegraCare defines our mission as serving three groups: residents, families, and team members. For team members, we seek to create engagement. For families, we want to provide peace of mind. And for residents, we want to give them respect. Nice words, but how do we operationalize them? In a number of ways.

For team members, we've created career paths for both hourly and leadership. We reward good work: for example, we celebrate reliable team members—the ones that don't call off shifts. Each pay period, when a team member has perfect attendance, they earn a ticket towards a prize drawing. At the end of the year, the grand prize winner across IntegraCare wins a new car, plus many other prizes are given like TVs and AirPods. The car parties are a lot of fun. As the saying goes, a culture gets what it celebrates.

For residents and families, an example of how we operationalize our mission is to make sure we answer call bells in a timely way. Call bells are a shorthand for why people move into assisted living. They want to live in a beautiful place, but they want to know when they need help, they can get it. There's no more tangible manifestation of that than when you push your pendant for help and somebody responds in a timely way. It shows respect to the resident and gives peace-of-mind to the family.

Mace: How do you manage call bell response?

Rouvelas: By tracking responses daily and driving process improvements. For example, in one community, we saw a lot of delayed responses to call bells after meals. When a resident was done eating and wanted to be wheeled back to their room, they would wave their arm and push their pendant to get a caregiver's attention. We put a new process in place. When a resident is ready to go back

to their room, they tell a server who writes their name on a small whiteboard. Caregivers then help each resident in the order listed on the whiteboard. It's an orderly process by which residents know they will be treated fairly and with respect. Caregivers aren't put in the awkward position of publicly picking who's next. Call bell volume dropped significantly and average response times for the remaining lunch-hour calls improved.

Mace: What else distinguishes IntegraCare from other senior housing operators and organizations?

Rouvelas: Beyond the most important factor—attracting and retaining great people—three elements distinguish IntegraCare. We have a disciplined strategy, we are a stand-alone management company, and we have a strong emphasis on process improvement in sales and operations.

We have strategic discipline in geography, product, and growth. We operate in three states: Pennsylvania, Virginia, and Maryland. That's where we are going to stay, so we can be great in those states and assemble clusters of communities near each other. We offer independent living, assisted living, and memory care. We do not offer skilled nursing, and we are not going to do active adult. From a growth perspective, we want to grow by two-to-three properties per year over next five years. That's enough growth to keep things interesting, but not so much that it dislocates the organization.

The second element is that organizationally we are a stand-alone management company and not tied to an investment or development company. We don't want another company driving where we go. The cluster strategy means that each additional community should make the rest of our network stronger

Thirdly, we focus on process improvement, things like six-sigma, continuous improvement, smoothing flow. Senior housing can learn a lot from other industries about quality.

Mace: Who is your capital provider?

Rouvelas: We have multiple partners. We know investors have different exit points, and we need diversification in our revenue base to make sure any particular investor exit does not disrupt what we do.

Mace: How are your management agreements structured?

Rouvelas: Most agreements are within joint ventures. We have a few straight management contracts and one lease.

Mace: Acuity by care setting has generally been increasing across the industry. Are you seeing the same at your properties?

Rouvelas: We see increasing acuity, but with a difference. Length of stay has dropped a bit and is more dramatic at the short end of the distribution curve, an increase in residents staying less than 90 days before moving usually to skilled nursing. That creates challenging questions. Senior housing has traditionally been focused on a longer length of stay. How do you create a compelling short stay experience different from those staying a long time? What role does A Place for Mom have with that market segment?

Mace: You have been at IntegraCare since 2020, just as the pandemic was beginning. How did that work out?

Rouvelas: It's been tough, particularly with COVID and staffing. I've been in the industry since 2003 and worked at Sunrise Senior Living in different roles at communities and headquarters, and then co-founded Senior Housing Analytics. In 2014, I got to know the founders of IntegraCare, Rick Irwin and Loriann Putzier. Over the years, I was introduced to their team as a future leader and moved over to IntegraCare full time in February 2020. Smart timing, I know. The founders were deliberate in their succession plan and implemented it very well.

Mace: Industry leaders are concerned about succession planning. How did it work at IntegraCare?

Rouvelas: Amazingly well. There were two key elements. The founders communicated early and often with the team before the change happened. So, by the time I took over, I was a known entity. Second, once they handed the baton to me, they never once back-channeled an attempt to steer the company. I set up a weekly meeting with the founders to get private feedback and advice. I welcomed their advice, and they kept it within the room.

Mace: Let's dig a little bit into operations and the pandemic. How did you fare during the worst of the pandemic? And how is COVID affecting your residents, staff, and overall census today? What lessons have been learned, and what will you carry forward into future day-to-day operations?

Rouvelas: We have amazing team members who worked tirelessly to make sure residents were taken care of. As if we needed a reminder, COVID highlighted those team members that really pull the rope through these challenges. Though COVID is not going away, the vaccines and regulatory changes to normalize operations have made a difference. We are not shutting communities down nor restricting visitors. There's still a question of when workers can take off their masks. The greatest joy of working in senior housing is human connection, and the mask is a barrier to that. A mask telegraphs that we could be a threat to each other, plus it's just uncomfortable. As we figure out how to live with COVID, we need to solve the mask problem

Mace: How is your current occupancy? Lead generation? Tours?

Rouvelas: In our lease-up communities, we have done remarkably well in most parts of most buildings. In our older communities, we're bouncing back, about two-thirds back to pre-pandemic occupancy levels. Leads and tours are up. June was a monster month for move-ins. But it's still a climb back.

Mace: What about move outs?

Rouvelas: Since the vaccine came on the scene, we haven't seen a significant increase in move outs.

Mace: Expenses across many line items are going up—insurance, labor and staffing, material costs, and more. All of these factors are squeezing margins. How are you withstanding these pressures?

Rouvelas: The ability to maintain pre-pandemic margins is hard. Labor costs are up, and it remains to be seen if we can make it up in rent. On cost reduction, we're using more group purchasing organizations. A source of waste is employee turnover.

It's a waste to spend money to recruit and train someone and then have them leave. Reducing turnover will save dollars in a meaningful way. We're making progress on that. Our turnover is down 15% from where it was at this time last year.

Mace: What else are you doing to address labor force challenges?

Rouvelas: One of our company-wide goals for 2022 is to reduce the impact of job vacancies. Not just "vacancies," but the impact of job vacancies goes further.

There are four ways to lessen the impact.

1. Reduce turnover. Approaches include wage hikes, engagement programs, and providing career paths.
2. When there is a vacancy, have a plan B in place. We know who will fill the role should a vacancy occur, or how the duties will be handled by multiple employees.
3. Fill empty jobs more quickly. We have recruiters who work to keep managerial vacancies down. For hourly staff, we are compressing the hiring cycle.
4. Train new team members differently so they are productive more quickly.

We're changing our approach to education. Instead of half-day trainings we're implementing shorter, more frequent training sessions. Over the coming year, we are de-centralizing curriculum so that a team member gets 30 minutes of training on a specific topic and then goes on with the rest of their day.

Mace: What about flexible scheduling?

Rouvelas: We're just starting to explore that now. There is a labor pool that only wants a four-hour shift. That actually works pretty well in senior housing because the workload ebbs and flows. For example, lots of residents want care before breakfast, then it's quiet afterward. But many shifts traditionally run a straight 8-hours. Why? We're working to smooth out the supply and demand imbalances.

Mace: Prior to IntegraCare, you were a principal at Senior Housing Analytics where you did a lot of research as well as market feasibility studies. How has that influenced your view and vision for IntegraCare?

Rouvelas: It's been hugely helpful. When your strategy is to grow by two-to-three properties per year, you have to pick your spots wisely. That market feasibility experience has given me the confidence to move into some overlooked markets and the confidence to say "no" to some glamourous zip codes if the data suggest those markets are being overbuilt.

Mace: Do you currently have a development pipeline? How do you choose markets? Has development been affected by COVID and by today's higher interest rates?

Rouvelas: We would like to grow half through development and half through acquisitions. We opened two projects last year, one this year, and will open one development next year. Higher construction costs, interest rate increases, and margin compression have had the effect of taking projects that were terrific and making them marginal. If I am only doing two to three developments and acquisitions a year, I cannot do marginal projects. I have to do good ones.

Mace: Now let's switch topics a bit. Who are your capital partners? What do you look for in a good capital partner? How have your capital partners responded to your needs during the pandemic?

Rouvelas: We've been blessed through COVID with good capital partners. They gave us the resources we needed and, while they were tough on us about census, they never balked at spending money needed to keep residents and team members safe. Going forward, a good capital partner has three features: a long-term view of the asset; a management fee structure that rewards superior performance; and treating people with honesty and respect. A long-term view means reinvesting in the property and creating a good reputation to build occupancy. On the management fee, capital providers often talk about importance of the operator, but then they price management fees like a commodity at 5% across the board, maybe with a backend share of profits at sale time. That creates years of famine that ends, if the property sells well, in a big feast. I'm willing to give up some of that back-end upside in order to re-invest more year-over-year in my people and systems. A better product should command a higher price. The good news is my partners understand that, so in most cases we get a base fee plus additional service fees plus an annual bonus if we exceed certain thresholds. That way, if the properties generate good NOI in a year, my team can earn bonuses shortly afterwards.

Mace: Are you looking to address the care and housing needs of what NIC calls the "Forgotten Middle?"

Rouvelas: To have geographic discipline, to generate the operational benefits of our cluster strategy, IntegraCare must serve multiple price points. We have high end and middle-market products, but we are not explicitly pursuing a middle market. The consensus seems to be that the middle market will be served by 25-year-old communities because they have a lower cost basis. If they sit in IntegraCare country, we will run them effectively.

Mace: What is your vision for the future for IntegraCare?

Rouvelas: I want us to be the best in the Mid-Atlantic: the best employer, the best at delivering a high quality of life for residents and peace of mind for families, and the best at delivering expected returns to our capital partners. How do you become the best? We do that by attracting and retaining great people, by sticking to our knitting strategically, and by having a commitment to process improvement in operations and sales.

Mace: Lastly, is there anything else you would like our readers to know?

Rouvelas: I'd like to thank NIC and NIC MAP Vision for helping to keep an orderly allocation of capital into the industry. Without that, dumb capital would be chasing baby boomers, and we'd have overbuilding. NIC and NIC MAP Vision allow everyone to see clearly what's ahead. That keeps markets healthy.

Moving Forward, Together: The Best Marathon You'll Ever Participate In

If you've ever attended a NIC Conference, you know these marquee industry events are practically overflowing with networking opportunities, educational sessions, and social events that they can almost feel like a marathon. But the good news is: it's a marathon that won't make you break a sweat. On the contrary, you'll be energized from all the exciting opportunities to network with fellow industry leaders, and you can use the educational sessions to slow down, sit back, and absorb all the expertly curated information and insights.

As the senior housing and care industry moves ***Forward Together***—the theme of the 2022 NIC Fall Conference—to adapt to an eventual post-pandemic world, connections and shared insights are more important than ever. The NIC Fall Conference is one of the most important dates on sector leaders' professional calendars. While the biggest senior living conference of the year doesn't require any advanced training, it can be helpful to know what to expect so you can plan your time effectively.

"I'm here for both the education and the networking…I have a great appreciation for the education sessions."

– Ajay Bajaj, Summit Investment Management

The Fall Conference Program Committee assessed the most significant challenges and opportunities facing senior housing and skilled nursing leaders to assemble a timely program of 10 dynamic and insightful educational sessions. Designed to give executives the resources and information they need to help their organizations excel in today's and tomorrow's market, here's what's in store during the not-to-be-missed 2022 NIC Fall Conference.

Taking Off from the Starting Gate

Line up with your fellow senior living professionals to start the conference with a bang. The conference sessions kick off on Wednesday with a discussion about why now is a good time to invest in senior housing despite relatively low average occupancy and increased operating expense pressures. The debate-style session will feature varying perspectives on development, value add, and stable cash flow

as well as how to get better quality at lower costs.

Next, keep up the pace with a candid discussion on one of the most rapidly growing segments: active adult. In this session, learn from those who are already investing in these properties as they candidly discuss what is driving interest, deal structures, debt terms, and how operations are different in an active adult properties. Using NIC MAP Vision data on active adult, this session will provide a comparative analysis to independent living.

Thursday Marathon

After all the exciting first day sessions, be sure to fuel up for an equally exciting day two by visiting our specialty coffee bar. You can re-fuel throughout the day as we continue moving forward together.

The Thursday education sessions marathon will kick off with the "Economic and Financial Outlook" keynote session, featuring leading financial futurist Jason Schenker, who is chairman of The Futurist Institute and president of Prestige Economics. Schenker will share several themes and lessons on the future of healthcare, including his perspectives on new and emerging technologies and how improvements in data collection can be used to push innovation and improve outcomes.

Market maturation and the pandemic have left many senior housing operators dealing with occupancy issues, questioning where new demand will come from and searching for their new "fit." In the session, "Rediscovering Our Identity: Repositioning and Making the Most of Senior Housing Properties," learn what operators should consider when making the decision to reposition properties, such as rebranding and how to assess the current market landscape.

Next, gear up for a panel of prominent operator CEOs who will share their perspectives for success going forward during this period of expected rapid and transformational change. Join us as we hear industry leaders, representing a cross-section of the senior housing industry, discuss a wide range of topics from customer preferences, new workforce dynamics, evolving service models, and essential partnerships.

In another Thursday session, entrepreneurs will share their perspectives on how to scale your business amid constant industry change. They'll offer insights on the challenges and rewards of scaling and share case studies on how to capitalize a business through optimization and revenue innovations.

No slowing down now! If you've been wondering what Environmental Social and Governance (ESG) is and what it means for your company, this Thursday session is for you. It will explain why ESG is suddenly so important to institutional capital providers and how that can benefit industry stakeholders.

For the last push of the day, the final Thursday session will touch on a cohort that has been top of mind for everyone in the senior housing sector: baby boomers. What do you need to know about this generation, and what differences exist between them and the silent generation? NIC MAP Vision data will show the demographic patterns of this consumer base, and panelists will identify how to attract and appeal to them.

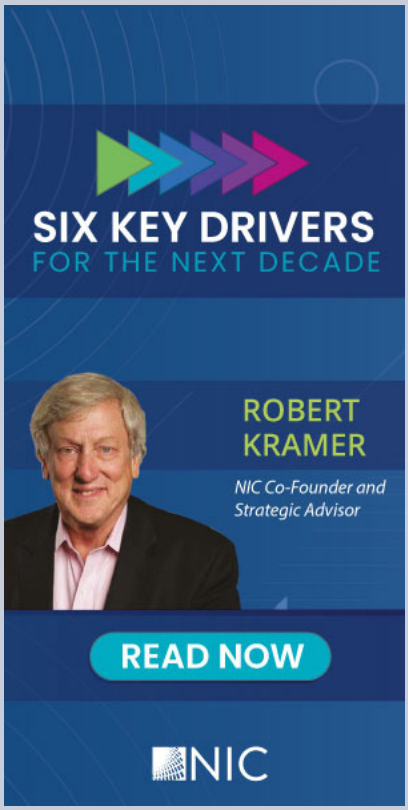
The Final Sprint

Give it all you've got for the last sessions of the 2022 NIC Fall Conference – which you won't want to breeze past. In a new "Deal or No Deal" style panel, debt, equity, operator/developer, and broker experts will decide whether or not to pursue a deal based on a case study that highlights current trends in senior housing. Attendees will hear how panelists address their investment decisions while gaining insight on current market conditions.

Closing out this marathon day is a fan-favorite: an interactive session focused on valuing skilled nursing properties and sourcing capital in a turbulent market. Hear from seasoned valuations experts representing a public REIT, operating companies, and brokers about the latest trends, emerging factors for consideration, views on operational management, and short- and long-term outlook for valuations.

The senior living industry is facing a turning point, a moment when we need our collective ideas, energy, and momentum to propel us forward, together. The Fall Conference Program Committee is delighted to present this valuable educational program for today's executive during the conference. NIC is excited to welcome you to the Marriott Marquis in Washington, D.C. for the most anticipated event of the year.

REGISTER NOW



NIC MAP Data Release Webinar 2Q22 Key Takeaways: Senior Housing Occupancy Continued to Recover

by Beth Mace, Chief Economist, NIC

NIC MAP Vision clients, with access to NIC MAP® data, attended a webinar in mid-July on key seniors housing data trends during the second quarter of 2022. Findings were presented by the NIC Analytics research team. Here are key takeaways from the data release.

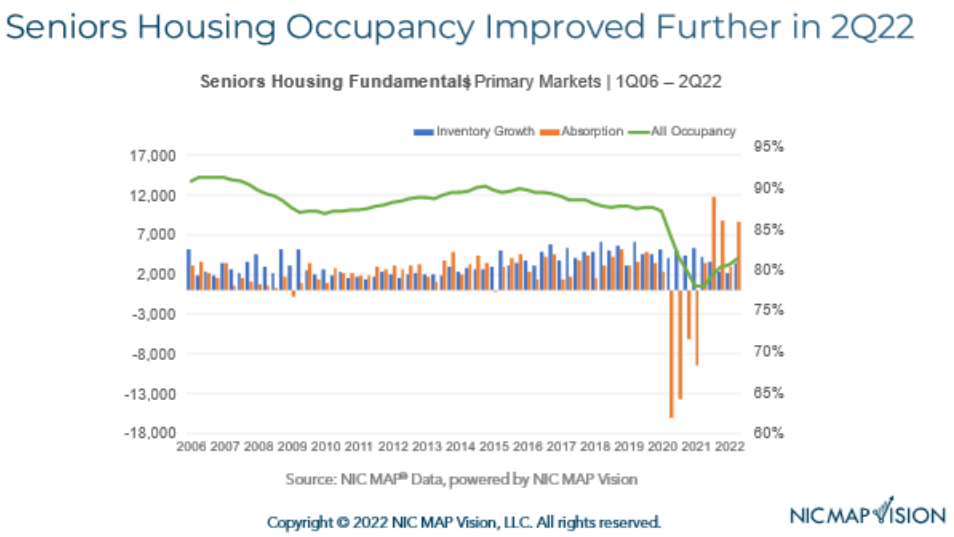
2Q 2022 Key Themes

Key trends during the second quarter of 2022 for the seniors housing market include:

- Senior housing occupancy increased 0.9 percentage point to 81.4%.
- The number of senior housing units under construction across the 31 NIC MAP Primary Markets was the fewest since 2015.
- Assisted living's occupancy is recovering faster than that of independent living, but both property types still require significant occupancy gains to fully recover to their respective pre-pandemic levels.
- Reflective of its faster recovery, the average asking rent for assisted living grew by 4.6% from year-earlier levels. This represents its largest annual increase since NIC MAP began reporting the data in 2005.
- The preliminary data shows the dollar volume of seniors housing and care property sales transactions during the second quarter totaled $2.0 billion.

Takeaway #1: Senior Housing Occupancy Improved Further in 2Q 2022

- The occupancy rate for seniors housing—where seniors housing is defined as the combination of the majority independent living and assisted living property types—rose 0.9 percentage point during the second quarter of 2022 to 81.4% for the 31 NIC MAP Primary Markets. This marked the fifth consecutive quarter where occupancy did not decline. At 81.4% in the second quarter, occupancy was 3.4 percentage point above its pandemic-related low of 78.0% recorded in the second quarter of 2021 but was still 5.8 percentage points below its pre-pandemic level of 87.2% in the first quarter of 2020.
- Demand as measured by the change in occupied inventory or net absorption was strong in the second quarter, increasing by more than 8,609 units in the Primary Markets. This was the strongest demand ever recorded by NIC MAP except for the post-pandemic boost in demand we saw during the last half of 2021.
- Since the recovery began in second quarter 2021, 35,544 units of the 45,525 units placed back on the market have been re-occupied, or 78% of those units.
- These improved supply and demand dynamics at midyear offer a positive outlook for 2022.



Takeaway #2: Units Under Construction Fewest Since 2015

- In the second quarter of 2022, the number of seniors housing units under construction in the 31 NIC MAP Primary Markets was the least since 2015.
- For assisted living, there were 19,162 units under construction, down about 1,000 units from the first quarter. Notably, this was the fewest units under construction since early 2015. As a share of inventory, this amounted to 5.7% but below its peak of 10.1% in late 2017.
- For independent living, there were 15,882 units under construction in the second quarter, equal to 4.5% of the stock of independent living, as compared to 6.7% in 1Q 2020.

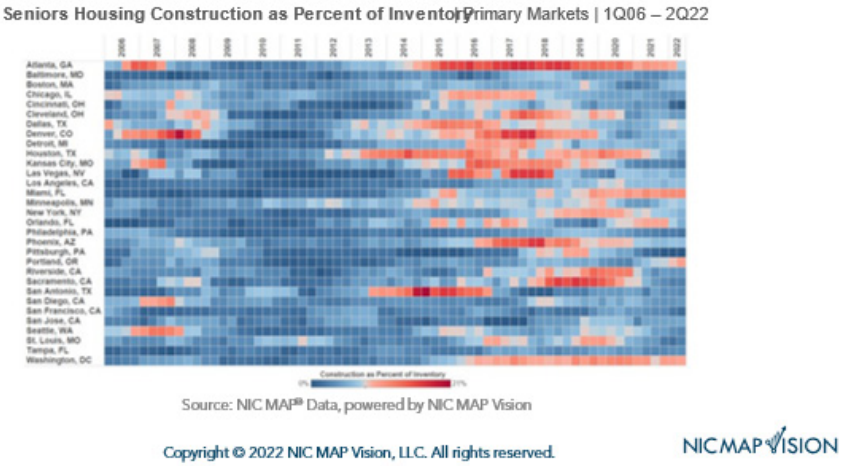
Takeaway #3: Construction Activity Still Slow in Most Markets

- This heat map shows which metropolitan markets are experiencing the most construction activity. First, notice the generally blue tones on the right side of the chart indicating that construction activity is relatively "cool" in many markets.
- Looking at the right-hand part of the grid, those markets that are shaded brighter red are seeing the most construction as a share of inventory. This includes Miami where construction as a share of inventory amounted to 11.2% in the second quarter (2,885 units in 18 properties). This was the market's second most ever (first was 2Q 2021 at 11.3%). And, at 9.8% of inventory, Portland, Oregon's construction was at an all-time high at 2,093 units in 15 properties. Washington, D.C. (10%) was also high as seen by the red shadings.
- Atlanta stands out on this heat map, with its red shades, but construction as a share of inventory in Atlanta was relatively low for Atlanta in the second quarter at 7.3% (16 building and 1,876 units). This

is well below the 17.4% share seen in Atlanta in mid-2017, when there were 31 buildings under construction (over 3,333 units). Since that time, the inventory of senior housing in Atlanta has increased by 33% (more than 6,300 units).

- On the other extreme is Pittsburgh where construction as a share of inventory was virtually zero in 2Q 2022. This is a dramatic shift from a share of 10% in 2019.
- For perspective, for senior housing, the 2Q 2022 construction level equals 5.1% of inventory for the Primary Markets, and it peaked at 7.7% in late 2017 and more recently at 7.7% in the pre-pandemic 1Q 2020.

Construction Activity Still Slow in Most Markets



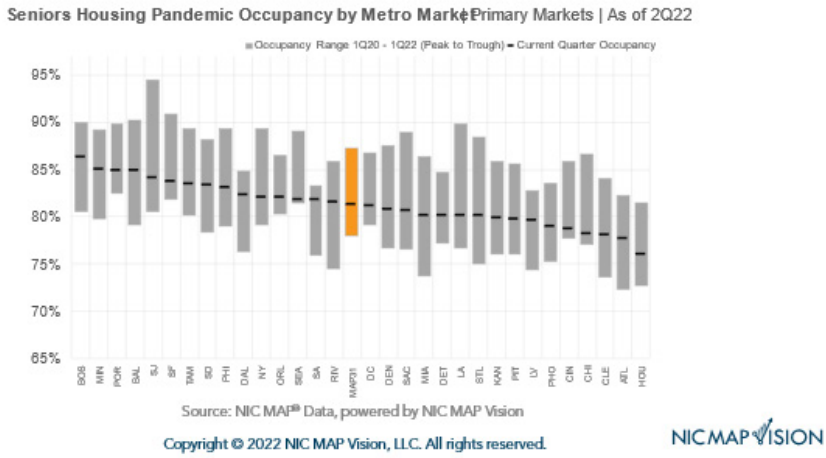
Takeaway #4: Senior Housing Occupancy Up from Pandemic Low in All Markets

- The chart below provides more detail on market recovery patterns from the pandemic low by metropolitan market. The dash line shows the occupancy rate in 2Q 2022, and the top of the grey bar shows the 1Q 2020 occupancy rate and the bottom of the grey bar shows the pandemic-related low point which was 1Q 2021 for many markets, but some did not reach that point until later in 2021.
- Of note on the chart, all markets are above their pandemic-related low points. The market with the highest first quarter senior housing occupancy rate was Boston at 86.3%, followed by Minneapolis (85.1%), Portland, and Baltimore. San Jose fell from its second-rate position in the first quarter and its first-place position prior to that. The lowest were Houston (76.1%), Atlanta, and Cleveland.
- There is a 10.2 percentage point wide gap between the best and worst performing markets.
- Based on the length of the grey bar in the chart, you can see that San Jose, St. Louis, Los Angeles, Miami, and Sacramento saw the deepest drops in occupancy, all more than 12 percentage points. In contrast, Orlando, Portland, San Antonio, Detroit, Seattle, and D.C. all saw

peak-to-trough losses of less than 8 percentage points.

- Regarding improvements from their respective low points, Riverside saw a jump of 7.1 percentage points from its low point to 81.6%, but its low point was very low at 74.5%. Miami saw a gain of 6.4 percentage points, an improvement from a low of 73.8% up to 80.2%. The smallest improvements occurred in Cincinnati, Seattle, and Chicago.
- For perspective, the aggregate Primary Markets' occupancy rate was 81.4%, and it saw a 3.4 percentage point improvement from its low point.

SH Occupancy Up from Pandemic Low in All Markets



Key Takeaway #5: Preliminary Closed Seniors Housing & Care Dollar Volume: $2.0 Billion for 2Q 2022

- According to the preliminary data, the number of closed deals and the dollar volume closed in the second quarter increased from the first quarter. The second quarter ended with $2.0 billion in closed transaction volume. If that figure were to hold, volume would be up 22% from the relatively weak first quarter as volume closed registered only $1.7 billion in 1Q2022.
- The number of transactions closed, a different measure in activity than dollar amount, increased from 68 deals closed in the first quarter to 80 deals in the second quarter, according to the preliminary figures.
- Of the $2.0 billion closed, the private buyers represented $1.5 million of that, or in other words, represented 73% of the closed volume in the second quarter. The private buyer category is comprised of companies that are not publicly traded—for example, a private REIT, single owner or partnership, family offices, etc. Private partnerships and family regional owner/operators have been a steady source of liquidity. However, we are now coming into a different paradigm in terms of the real estate investment markets as interest rates and inflation continue to pressure overall liquidity.

- Note that the transactions data discussed in this key takeaway include only the closed property sales transactions throughout the United States. It does not include deals that have been announced in the quarter and not yet closed. It is also important to remember that this data is preliminary for the second quarter of 2022, as data points could be updated with other deals being captured as we learn about their closings. These updates typically occur as public records become available and given slower recordings within public records it is possible this data is updated more so than usual, especially when it comes to single property transactions that are often under the radar from public announcement and reporting.

Interested in learning more?

To learn more about NIC MAP data, powered by NIC MAP Vision, an affiliate of NIC, and accessing the data featured in this article, **schedule a meeting** with a product expert today.

The Art of a Deal: Senior Housing Boot Camp

Back by popular demand, the latest Senior Housing Boot Camp: The Art of Assessing a Deal took place in Denver in June 2022. It was the first in-person Senior Housing Boot Camp since before the pandemic began. This course, designed both for those new to the industry and for those new to accessing potential property transactions, provided an exclusive opportunity to learn the nuances of complex acquisition and investment decisions.

Hands-On Learning

The day-long interactive course kicked off with an analysis of the senior housing industry using the latest quarterly NIC MAP Vision data. Participants learned the most recent trends in the senior housing industry and received an in-depth look at current market trends in Cleveland (the site of the case study deal used in this Boot Camp). Focusing on fundamentals such as the assisted living market recovery through the first quarter of 2022 and construction trends for both independent and assisted living properties in Cleveland, participants learned the factors that could influence their decision to develop an appropriate bid for acquiring the case study's senior housing property.

Through the day, attendees heard from industry practitioners and respective subject matter experts who provided industry best practices and discussed both upside and downside considerations, market trends, as well as metrics pertaining to operational performance and financial projections.

New to the course curriculum was the impact of COVID-19 on senior housing real estate investment opportunities. "Believeland Senior Living"—a fictitious facility located in Cleveland, OH—was the basis of participants' case study. Each participant received an offering memorandum that provided an understanding of the property's performance and highlighted several considerations—opportunities and challenges—for the Boot Camp participants to navigate.

Current and former members of the NIC Future Leaders Council (FLC) explained how investors assess a prospective property acquisition. Boot Camp attendees were given tools to gain a better understand of the product type, occupancy trends, and financial performance when reviewing the case study investment.

An Art and a Science

As there is both art and science to analyzing and evaluating a market, subject matter experts explained the drivers of demand and supply and the importance of researching those metrics—especially within the primary market area of your subject property. Data from NIC MAP Vision highlighted Cleveland market trends and inventory construction data to help participants understand the importance of supply and demand and how to apply those findings to assist in their decision-making. Capital market trends were also addressed to highlight for participants debt capital opportunities and debt considerations.

Once course attendees were equipped with practical knowledge and tools for analyzing a prospective real-life senior housing property acquisition, participants heard from a panel of fictitious operators: a local operator familiar with the area and community needs, a small boutique operator with 10 communities in another state, and a large operator with over 500 properties in over 40 states. These faux operating companies vied for participants to choose their respective company as the operator of their to-be-acquired property when making their bids.

The course also helped participants understand the keys to sales and marketing by developing advertising and marketing strategies and implementing market pricing evaluations.

The highlight of the course for many participants was the ability to work collaboratively in small groups to submit a bid offer. Groups used a bidder matrix model to calculate their pro forma assumptions before submitting their bid. All 10 small groups submitted competitive bids, with one table declared the "winner" by coming closest to the actual real-market price that was the winning bid in the case study example.

Making Connections

To cap off the great day of learning, industry icon Chris Taylor, Managing Director of Capital One's Healthcare Real Estate team, shared his insights into the trends impacting the industry and major drivers shaping the future of senior housing real estate.

The event closed out with a networking reception that provided the Boot Camp participants an opportunity to meet and network with fellow attendees and industry experts.

Next month, and again in March 2023, NIC will host the Skilled Nursing Boot Camp: Evaluating the Investment Landscape. Similar to the Senior Housing Boot Camp, the Skilled Nursing Boot Camp will be jammed-packed with the latest trends in skilled nursing, including a case study to drive home important factors that should be considered when acquiring a skilled nursing property. To learn more about the upcoming courses, visit our **website.**

"It's been phenomenal. There is no work-life separation. This is our lives."

Family Business: Conversation with Jason Reyes, CEO of Calson Management

by Emma Rosen, RSF Partners

Jason Reyes is the CEO of Calson Management, a senior housing operating company owned by the Reyes family. Calson currently operates eight communities in their home state of California and has another three properties under construction. By prioritizing a family culture and direct communication with employees and residents, Calson has maintained high occupancy and strong margins. Jason is optimistic about the future of senior living, particularly as the public's view of the product has become more positive over time. In this interview, Jason shares his experience and insights with Emma Rosen of RSF Partners and member of the NIC Future Leaders Council.

Rosen: Jason, your family has been in the senior living industry for decades, and now you're a second-generation operator with an impressive track record and reputation. What was your path here?

Reyes: I've grown up in the industry. I'm also an only child and had a mom who wouldn't let me out of her sight. She was an ED who ran an assisted living building. So instead of going to daycare or camps, I spent summers doing puzzles and playing bingo with residents in my mom's community. I spent all my free time there as a kid and then for summer jobs and later as a college intern. But one day, when I was in my senior year at Cal Poly - San Luis Obispo, my mom called me crying. Her building had just been sold. She'd been at this community for 10 years, and the family owner/operator had decided to sell to a large corporation, and this corporation started making changes my mom didn't agree with. I was 22 years old and vowed to build her a building she could own and operate. I saved vigilantly over the next five years, built a business plan, and raised money. I was 28 when I had raised $4 million and was able to secure a $10 million construction loan. And with that, we built our first assisted living building with 107 units.

> ***Instead of going to daycare or preschool, I spent summers doing puzzles in my mom's community***

Rosen: Congratulations. I trust you learned a lot from your mother but that your partnership has evolved since you were her intern. What is it like owning and operating your own family business?

Reyes: Family businesses are always one of two stories. With one, it's the drama, the constant hierarchy battle.

With the other, it's the most amazing thing in the world. And for me, it's the most amazing thing in the world. The first two years were difficult. We were establishing hierarchies and the difference between being at home and being in the community. But since those first couple years, it's been phenomenal. There is no work-life separation. This is our lives. When we hang out on weekends and we do dinner during the week, we talk about work. It's not frowned upon, and it's not work. It's what we deal with all the time, 24 hours per day. Especially in this industry, things happen on weekends and at night, and so you are committed to it entirely.

Jason Reyes and his mother, Alana Reyes (Regional Administrator at Calson), outside Calson's assisted living community in Vallejo, California

Rosen: Of course. I imagine you have some comfort in knowing your key staff or colleagues are your family members. But you only have so many aunts, right? How have you maintained your family culture and grown the business with people who are equally committed?

Reyes: It's hard for parents to tell their children "I'll let you make the decision and advise, and we'll follow your plan" and then actually follow it wholly. But with my family, the baton has been passed to me, and my family has never tried to side-step the plan – they've 100% bought in, and we've executed on the plan. This complete commitment is a big success factor. With respect to our growth, because we have a portfolio that's all in California, and because my family and I are still here, we talk to everyone daily. The Executive Directors see the family involved and the values we bring, and that translates to the employees. They see we support each other, and we support them. The employees feel part of the culture and part of the family

Complete commitment is a big success factor

Rosen: With employee retention being one of the bigger challenges for our industry, how do you approach hiring? Why do you think you have so many employees that have been with you for a long time?

Reyes: Across all the management positions, even if we have turnover, the entire family is involved in hiring, and it makes a big difference. A big part of success is in the building's management team, so the team has to be right and feel right to everyone. While part of the challenge around hiring is systemic, and we have to deal with that the best we can, the other part of the challenge is in our control. We try to

do what we can to improve the lives of employees. We pay for 50% of the benefits of our line staff, and we give every employee their birthday as a paid day off. We give Christmas bonuses to every single employee every year based on the number of years they've been with us. We reward loyalty. We celebrate and throw Christmas parties. We try to bring the family dynamic to every community.

Rosen: And can you tell us about the nonprofit you founded that's focused on supporting employees?

Reyes: We created Heroes Helping Heroes, which is Calson's 501(c)(3) dedicated to supporting employees who work in senior living communities. Caregivers are often unappreciated for the work they do, and they're often underpaid. Yet they're the core of our business. With Heroes Helping Heroes, any employee of a community can apply for financial assistance if they find themselves in any financial struggle. Caregivers, housekeepers, cooks, anyone – if something happens, they can submit an application through our website, and then the committee will review the application and grant cash assistance. We're trying to create an environment where people can ask for help. We are funding it out of our own pockets right now, but over the next few years we want to raise money and grow this nationally to help more employees in our industry.

Rosen: That's terrific. Thank you for starting this organization. While your culture and benefits are helping to retain staff, how are you also maintaining strong and consistent margins?

Reyes: When you look at how to improve margins, there are only a few levers you can pull. One of the reasons why I think we run at the margins we do is because we place a lot of responsibility on our top managers. As an example, we don't have a "Business Office Director." Instead, we divide the work of this common role between two existing roles and eliminate the additional position. To us, this makes sense. Our Marketing Directors handle the accounts receivable – they check everything with care coordinators, make sure care fees are still right, send invoices to collect payments, etc. On the other side of the ledger, the EDs handle accounts payable at their specific community. This is important because the ED steers the ship and needs to pay attention to the budget. By seeing all the bills coming in for every department and being the person who cuts the checks, they can cross-check the budget with actual payments. In real-time, if an Activities Director spends a big part of the budget in the first week, the ED knows this and can go to that person and tell them how much money is left in the budget. This prevents overages and holds people accountable. With this, EDs also don't need to go through corporate to exchange mail and checks, so everything is more efficient. At the end of the month, everything of course gets wrapped up and sent to corporate, and we do the official closings and log all the files. But we've basically become more efficient while also further aligning two people to the building operations.

Rosen: Very interesting. I like finding ways to align people's interests and am encouraged that this is working for you all. Switching from employees to residents, how do you think the resident profile has been changing and will continue to change over the next 10 years?

Reyes: The expectations of the residents and their families is actually what I think

has changed most since I've been in the industry. And it will continue to change. Ten years ago, or even forty years ago when my mom started, expectations were low. Assisted living was not seen as a grandiose living experience. Now, years later, those expectations are vastly different. Family members and residents want luxury and top-of-the-line service. They are paying a good amount, and they want the best in return.

Rosen: Yes, naturally. Do you think it's helpful to the industry, though, to have the families so involved and getting into the weeds of what communities offer?

Reyes: Absolutely. I think there's been a negative stigma around senior housing, but that this is changing. Residents and their families read about and tour nice communities with great amenities, food, services, and people. As adult children who move their parents into communities get older themselves, they might be more inclined to move into a building one day because they know that seniors housing is not all old nursing homes. It's a pleasant environment that caters to your needs.

Rosen: Definitely. Many of the properties that have been built over the last few years are really a pleasure to be in. I know your communities serve a range of residents from middle income to upper middle and a bit higher. When you think about your development projects and building for your market, where do you think dollars go far, and where do you think some groups may misspend?

Reyes: There are a few properties across the country where developers are targeting the most high-end residents. It'll be interesting to see what happens in those ultra-luxury communities because there is a point where private care is realistic and people might prefer that option to being in a community. At Calson, we believe in building for the masses not the classes. We believe in building for as many people as we can and for whoever needs help. You can build buildings that are very nice and complete. Some buildings though have expensive amenities like driving ranges and large indoor swimming pools, and they have a lot of other different spaces like a separate arts studio or full-sized gyms. But you're losing margin and operational efficiency there. I get the attraction and it looks nice in pictures, but the reality is that a lot of this space is not used by the target demographic, an 82-year-old woman. If your construction costs include these amenities, it can become a drag on the returns. It can become a particularly large drag If you end up in a position where you're not getting the budgeted rents, and discounting won't be an easy option to cover your costs.

Rosen: Those amenities do present well, but yes, we see they're perhaps not always necessary, and they're expensive. Are your amenities part of your sales effort? How do you attract prospective residents – what's the pitch?

Reyes: We're family-owned and operated. We lead with that, it's our biggest asset. We're intimately involved in every single community, and everyone has the ability to reach out directly to the owner. My email and cell phone are readily available to our employees and residents' families every day. That makes a big difference to families visiting. We're also clear with people, and we tell them we're not perfect. We're not a hospital, and we are here to do a very specific job.

> ***We´re family-owned and operated. It´s our biggest asset.***

We explain what we do and, just as importantly, what we don't do. If there's a medical emergency, we call 9-1-1. Our job is to help with activities of daily living, provide great food, do your housekeeping, wash and fold your laundry, and provide active socialization.

Rosen: I think it's helpful to have that clarity, especially for the adult children. And for the residents' families to have direct access to you also goes a long way, more so than a fancy real estate amenity, yes?

Reyes: That's the part people often don't realize – how much of a benefit assisted living is for the adult daughters and sons, not just the seniors. Family members torment themselves over this process. Adult children have been hesitant to move-in mom because of the old stigmas. Mom is at home and needs help, yet mom doesn't want to leave home. Kids feel like there's no good outcome: let mom stay home and something happens, or move mom into a community and mom hates them. Ultimately, kids move mom into a community. And then their perspective changes. In six to eight weeks, mom becomes acclimated and meets new friends. Back in her old home, mom didn't have a social life because neither she nor her friends could drive. But after a few weeks in a community, she's made a friend over dinner in the dining room or over a game of backgammon in the activities room. Everything falls into place. Her life changes for the better and her kids see that. We see families crying in relief that the anxiety is lifted – mom's not just being taken care of, she's thriving.

The Lodge at Glen Cove, Calson's community in Vallejo, CA

Senior Housing & Care Industry Calendar for August 2022

8/2/22	ASHA Regional Roundtable (Costa Mesa, CA)
8/3/22	ASHA Regional Roundtable (Seattle, WA)
8/28–8/30/22	VIP Ignite Experience (Nashville, TN)
9/1/22	Skilled Nursing News RETHINK (Chicago, IL)
9/14-9/16/22	2022 NIC Fall Conference (Washington, DC)

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