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The Next Frontier: A conversation with Frontier Management's Greg Roderick

Greg Roderick,

Senior living may be a relatively young industry, but Frontier Management is already on its fourth generation of family dedicated to the sector. The Portland, Oregon-based company is headed by President and Chief Executive Officer Greg Roderick, whose grandfather and father owned and invested in senior living properties with some of the industry's founders. Roderick has carried on the family tradition, creating one of the largest operators of senior housing in the country. NIC's Chief Economist, Beth Mace, recently talked with Roderick about the company's evolution, its commitment to senior living and what's next at Frontier.

Mace: Greg, you serve as the President and Chief Executive Officer at Frontier Management, one of the largest senior housing operators in the country. Can you tell our readership more about Frontier?

Roderick: We have 130 locations nationwide, operating from Florida to Oregon. We are growing and have new buildings under construction. We have a great clientele of REITs, family offices, and financial groups. I own some of the buildings that we operate. Because neighborhood recognition is more important than our corporate name, each building has its own name and "Frontier" is not in our property names. Frontier is the management company.

Mace: You represent the third generation of Rodericks in this business. What advantages do you have from having this business in your blood, literally and figuratively? And of course, I have to ask if there is there a fourth generation of Rodericks on the way?

Roderick: My grandfather started in the nursing home business with Carl Campbell who later helped, my father, Ron, and his friend Bill Colson start a nursing and retirement home company. My father passed away when I was 20, and I went to work for Bill Colson, who had gone on to create Holiday Retirement. I learned the business as I worked my way up through the ranks. It was a great opportunity, and Bill was a big inspiration to me. I was later hired by Carl Campbell to manage 10 communities. He gave me a chance to start Frontier Management in 2000 by leasing, managing, and acquiring buildings from him. My son, Josh, the fourth generation, starts here in January in finance. We're a tight knit group with the same management team for 21 years.

Mace: Your mission is to provide an enriched and meaningful experience to your residents, team members, and community partners. Why is each word in that mission statement important?

Roderick: Our residents are our driving force. We want our residents to be excited, happy, and engaged. Our Spark memory care program is 100% based on Montessori methods of daily activities and life-long learning. For team members, we're rolling out a comprehensive rewards program. We are engaged in breaking the cycle of hiring

people who need two to three jobs to make ends meet. Our program will include cash rewards, tuition reimbursement, and training for those who want to move up in the organization. We're investing $6 million in the program in 2022. This is over and above pay raises, regular bonuses, and benefits. We want our employees and residents to be happy.

Mace: I've heard you describe other senior housing properties in any one market area as "friendly competition." What do you mean by that?

Roderick: I often go to an ASHA or NIC event and say this is my family reunion. I like to spend time with competitors. I use the words "friendly competitors" because they're like my extended family. We answer each other's calls about how to handle certain situations. I love the camaraderie.

Mace: Our readership includes operators, developers, and capital providers—both debt and equity. You have more than one capital partnership. What do you look for in a good capital partnership?

Roderick: I look for partners who really understand the business, which has its ups and downs, and cycles. There are periods of high interest rates, low interest rates, recessions. The pandemic has been really tough. Capital partners became more important than ever—less capital and more partner. We all pulled together. Our capital partners stepped up. They appreciate and understand the industry and its cycles.

Mace: What is the value of having multiple capital partners?

Roderick: I think having multiple partners fills in the gaps. No capital partner would only lend to one group. You need a blend. It makes for a healthy company.

Mace: Do you shop deals around?

Roderick: We ask our capital partners what kind of properties they are in the market for. If I see a portfolio or certain type of property come to market, I can generally tell which client is looking for that kind of asset.

Mace: You view your client as the capital partner?

Roderick: Yes.

Mace: What about your operating partners?

Roderick: Frontier is the operating partner. I have 13 vice presidents of operations for 13 different regions. When I look at a portfolio or a property, I bring in my team—accounting, nursing, marketing—and quickly begin work on a pro forma forecast. We punch out a budget in one to two days, review it as a group, and bring it to a capital partner. We jump on opportunities. If it's not going to work, we want to know right away so we can go on to the next opportunity.

Mace: What is your development pipeline today? How do you choose markets? How was development affected by COVID? And today, how are supply chain shortages impacting development?

Roderick: We look at development carefully. We opened a few buildings during COVID, and it's been challenging. Building during the pandemic has not been easy in terms of getting materials. But we are pretty scrappy. We have architects and general contractors we use consistently. We put everything out to bid and manage

every dollar. We have come in on time and on budget, even during COVID. Lease-up has been slower. We tapered our pro formas and are meeting those numbers. We are pushing for a net of three to four new occupants a month. We increased our reserves, so we're generally in good shape. We're opening buildings in Florida and Mississippi early in 2022, and more are on the horizon.

Mace: How do you choose markets?

Roderick: We look at population trends. We have good market study specialists who help guide us. We usually partner with local or regional developers. We anticipate a steady pipeline of two to five projects a year for the next four to five years.

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

Roderick: On the development side, we're doing more traditional retirement living communities with meals, activities, transportation, utilities, and housekeeping. We're not developing projects without services. Our communities mostly consist of apartments, but we are adding more cottages. They create a more attractive and active community. We recently opened a project in Spring, Texas and will add cottages there. We are developing a 30-acre campus in Garland, Texas, with 120 units of retirement living, assisted living, and memory care, and over time we will have 100 cottages on that property. It will have a town square and outdoor music venue. We're also planning a community in Antioch, Tennessee, southeast of Nashville.

Mace: How do you define what you call a retirement living community?

Roderick: Traditional retirement living includes all the services, except care. We are not pursuing the active adult or 55-plus market.

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

Roderick: Holiday Retirement focused on the huge middle market, and it makes sense. We have mid-priced properties in specific markets, such as Oregon, Washington, and Idaho. In the Northwest, about 30% of our assisted living and memory care residents are subsidized by Medicaid. Our retirement living is all private pay.

Mace: Now, let's switch to operations and the pandemic. How are you turning the page of COVID-19? What lessons have been learned, and what will you carry forward into future day-to-day operations?

Roderick: We haven't felt the effects of the omicron variant. Senior living communities have gotten good at infection control. We are screening people, washing hands, and using other effective protocols. Our resident population is 99% percent vaccinated. Boosters and flu shots are under way. More than 90% of our staff is vaccinated. We're all tired of the situation, but that's where we are. I do think we could see more flu this year.

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

Roderick: Occupancy is up from our low. We have room to climb. Our occupancy is 6% lower overall than we were pre-COVID. We went down by 10%, and we've gone up by 4%. So, we still have to regain 6% of our occupancy to get back to where we were. The challenge is that all the senior living communities had a drop

in occupancy. And now, we're all trying to lease back up at the same time.

Mace: We commissioned a study with NORC at the University of Chicago and it found that the mortality rate in independent living was the same as the general population. What did you find?

Roderick: We had so few cases in retirement living, and no one passed away. In assisted living, we saw plenty of cases and a few deaths. But in memory care, there were a large number of cases and deaths because the population is more challenging to manage in terms of social distancing. The good news is that the communities are leasing up. Last week, we had 700 leads. Earlier, we had as few as 300 a week. Social media has been fantastic, and SEO marketing works. Before COVID, 40% of tours led to a move-in. Now we are at 42%. Technology has helped so much. We use a company called OneDay to send short follow-up videos to prospects. We use it for recruiting too. I can send a quick message to 100 applicants in a minute. We are using K4Connect to provide technology solutions in the apartments, including a TV station and voice assistance from Amazon Alexa.

Mace: Are you considering or implementing more healthcare into your value proposition for residents?

Roderick: We have not been financially partnering with providers, but we have community healthcare partners coming into our buildings for rehabilitation and diagnostic services. We are in talks with groups to conduct gene testing of residents to evaluate their response to medications. We are also talking to a hospice company and teaming up with Medicare Advantage groups so our residents can get dental care, telehealth, and routine services. We are trying to take a proactive case management approach to keep our residents safer and healthier.

Mace: Now, with the elephant in the room fully visible, what are you doing to address labor force challenges?

Roderick: Labor is not like it used to be. We are in a generational shift. I know in my generation, when we got a job, we were happy to get it. Now there are gobs of jobs, so many options, and so many fields. Pay is way up. We have adjusted our pay rates and benefits. We're launching the rewards program. We have a big orientation and training program. We teamed with Pineapple Academy for video training of the dietary, housekeeping, and maintenance staff. We use the company Kare to match available labor with communities. We also have a growing accounting staff in Mexico to complement our team in Oregon.

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 operators withstanding these pressures? How are investors responding to these trends?

Roderick: Property insurance is up 60% percent—the biggest hike we've seen. Food prices are up 20%, and wages are up 25%. Everything is going up. That's what caused our largest increase in rental rates in our history. Competitors are raising rates too. I suspect we will not have as big an increase next year and the year after, but we will see higher than customary increases over next couple years. I don't think wages are going to come back down. That doesn't happen.

Mace: I know you are a technology enthusiast. What makes you most excited today, and how does that affect your operations and your expenses?

Roderick: I am super excited about today's technology. There are group purchasing organizations and referral programs with new technology to help us save money on multiple fronts. It'll be interesting to see where robotics fit into senior housing. Robots could be flipping hamburgers or managing the kiosk at the front desk. We're dabbling in virtual reality. Residents can travel to Rome virtually and then enjoy an Italian meal afterwards. Prospects could tour the building with virtual reality. New technologies will help us better connect with residents and staff.

Mace: In wrapping up, what's next, and how are you positioning yourself for growth in the 2020s?

Roderick: I continue to be encouraged by the industry. We're elevating our game. As a community, the senior living profession has stepped up in a positive way during COVID to band together and come up with solutions. The next chapter for the industry and Frontier looks truly exciting.

Industry Leaders Tackle Big Policy Issues

A bright spot in the pandemic has been the industry's response to the crisis. Senior living associations joined together to advocate for help from the government. The effort with lawmakers and government agencies also helped to raise the industry's profile as a key part of the healthcare continuum.

To highlight the impact of public policies on today's top issues, industry association leaders participated in a panel discussion at the 2021 NIC Fall Conference in Houston. The session was moderated by Brian Jurutka, NIC president & CEO. He was joined by James Balda, president & CEO at Argentum; Mark Parkinson, president & CEO at AHCA/NCAL; and David Schless, president at ASHA.

Jurutka kicked off the discussion by asking about the industry's number one concern: labor. While all industries are struggling with a worker shortage, Jurutka noted that the caregiver support ratio, the number of caregivers available for elders who need help, is rapidly declining.

"The single biggest challenge for providers is labor," said Parkinson. To help address the problem, his organization put together a Temporary Nurse Aide program with the Centers for Medicare & Medicaid Services (CMS). About 250,000 individuals enrolled in the training program, and 200,000 of the participants took jobs at senior living buildings. "We want to extend that program," said Parkinson, explaining that the subsidy for the program is currently tied to funds for the public health emergency.

Argentum launched a Healthcare Apprenticeship Expansion Program with a $6 million grant from the Department of Labor. It resulted in 1,500 apprenticeships, working with employee partners. The retention rate of those participating in the program is 85%, said Balda. He wants to expand the program to create 7,200 apprenticeships. He added that Argentum will advocate for assisted living to receive grants if new workforce development legislation is proposed. Jurutka noted that the industry's Vision 2025 initiative is working to create senior living programs at universities in partnership with companies.

The executives said that more favorable immigration policies would help improve the worker shortage, though they agreed that the political divide was too wide now for

lawmakers to reach any kind of consensus.

Investors should be aware of the differences among operators on employee retention. According to Parkinson, operators with good employee engagement programs have a much lower annual turnover rate (i.e., 30% to 40%) versus operators that struggle (i.e., 100% to 150%).

The association executives praised the cooperation of the industry throughout the pandemic to advocate for the sector. Regular conference calls to strategize a coordinated approach included the leaders of the associations on the panel as well as LeadingAge President and CEO, Katie Smith Sloan.

The efforts helped to secure financial aid from the government.

"Nursing homes were saved by the federal government in 2020," said Parkinson. But, he added, the emphasis has now shifted to the states which have access to unused recovery funds. "I think we will get more money but mostly from the states," said Parkinson. The goal is to support skilled nursing and assisted living operators until they can survive on their own as occupancy recovers.

Changing Perceptions

Since rescue funds were allocated to assisted living, Jurutka asked whether the communities are now considered to be part of the healthcare continuum.

"Policymakers are increasingly aware of assisted living's role in healthcare, especially in terms of caring for frail elders," said Schless. Assisted living operators are expected to receive additional allocations from the federal government's Provider Relief Fund starting in December. However, the fact that assisted living is mostly a private pay model explains why the government is less likely to provide it with additional rescue funds, the panelists agreed. "We need to keep pushing so that legislators understand our role," said Balda.

Does accepting money from the government increase the likelihood of more regulation?

"Self-regulation is a great way to preempt that on the state and federal level," said Argentum's Balda. The other panelists agreed and said a good place to start is by

implementing standards for infection prevention and control. Third-party accreditation could be another model for self-regulation. Organizations such as CARF or The Joint Commission have worked successfully to advance standards of care in other healthcare settings.

Parkinson doesn't expect the federal government to regulate assisted living. No Congressional hearings—a telltale sign of possible regulation—were held on the assisted living response to COVID-19. The panelists agreed that the goal is to keep the regulation of assisted living at the state level. ASHA's Schless said that the time is right to be proactive at the state level and modernize the way the industry is regulated to reflect the higher acuity levels of residents.

Policymakers need more education on the industry. There's confusion about the difference between assisted living and skilled nursing. Lawmakers often don't know that the typical assisted living resident is over age 80 with multiple chronic health conditions. Parkinson advised that the best approach is to invite state legislators and members of Congress on tours not only to see the spectacular buildings but also to see the advanced age and frailty of the residents.

Education applies to consumers too. ASHA hosts a website, "Where You live Matters," to help seniors and their families understand their options. The website has logged 35 million visitors. Last summer, ASHA conducted research on the consumer reaction to COVID that showed it had little impact on plans to move into senior living.

Looking ahead, the industry leaders were hopeful that the coordination, communication, and mobilization among the associations over the last 18 months would continue. "The industry should feel good about these impressive efforts," said Schless.

Thoughts from NIC's Chief Economist—Hello Inflation, A Pivot for the Fed, and Labor Markets Tighten Further

Beth Mace

It's an exciting time to be an economist. Lots of textbook examples of macroeconomic policies are playing out in real-time life. Fed policy, fiscal policy, federal government spending limits, infrastructure spending, government deficits, interest rates, full employment, labor markets, and inflation. Yet, real life consequences outweigh textbook theory as reality sets in amid a quickly changing macroeconomic environment in which to do business and conduct day-to-day operations for senior housing operators and their capital partners.

Labor

There is not a business that is not being affected by labor challenges. In one word, the labor market can be characterized as "tight." In two words, it can be characterized as "hair-pulling angst." Well, technically, maybe that's three words.

The Bureau of Labor Statistics reported a drop in the unemployment rate to 4.2% in November, down 0.4 percentage points from October and only shy of the pre-pandemic low of 3.5% by 0.7 percentage points (and down from 14.7% in the immediate aftermath of the pandemic). The larger-than-normal one-month decline was amplified by nearly 600,000 people re-entering the labor force, while jobs increased by more than 1.1 million positions. Despite this and separately, data from the BLS JOLTS survey showed job openings at a near all-time high of 10.4 million positions and the quit rate at a record high of 3.0% in the month of October.

It surely is the "time of the worker." Wage rates are being pressured higher as the demand for workers exceeds the available supply. Indeed, average hourly earnings for all employees on private nonfarm payrolls rose by $0.08 in October to $31.03, a gain of 4.8% from a year earlier, marking the fifth consecutive month of 4%-plus gains. Further, the employment cost index (ECI) for private industry rose at a rate of 4.1% in the third quarter of 2021, the highest pace since at least 2003. And, for the nursing and residential care sector, the annual increase was even larger at 4.9%, marking its largest increase in more than 19 years.

Labor Force Participation

With rising wage rates and workers having the upper hand in the supply/demand worker balance, the question becomes why the labor force participation rate is stubbornly low at 61.8% in November, up from its low point of 60.2% in April 2020, but below the 63.4% rate enjoyed prior to the pandemic. Analysis by Goldman Sachs suggests that two-thirds of the 5.0 million persons who have left the labor force since the start of the pandemic are over age 55 (totaling 3.4 million), with 2.5 million of that group early or natural retirees. The prospects of re-entering the labor force are more promising for the 1.7 million persons between the ages of 25 and 54, the so-called prime age workforce. This group is still being hamstrung by limited childcare options, fears of COVID, lifestyle preferences, and expiring federal government support payments; as these influences

wane, however, this cohort of workers is likely to rejoin the workforce. The authors of the analysis project that once the dust settles, the labor force participation rate will have a lower set point, closer to 62.1% by year-end 2022.. This suggests that the conundrum of labor shortages will at least partly remain for the foreseeable future, and, therefore, staffing challenges need to be addressed in other innovative ways such as the use of strong hiring practices, education and training programs, technology, incentives, company culture, and more.

Inflation

Classic textbook macroeconomics, aka Milton Friedman, define inflation as "too much money chasing after too few goods." In this view, inflation is always a monetary phenomenon, with its root causes traced to be excessive money supply, and its results triggering a loss in the purchasing power of money. During the pandemic, the Federal Reserve pumped up the US money supply significantly through its Quantitative Easing (QE) program and its policy of low interest rates, which supercharged the nation's money supply (M2) which grew by more than 30% in the 2020 to 2021 period. Separately, fiscal policy was extraordinarily accommodative and put cash into people's pockets to provide support in a time of unprecedented pandemic-related losses in jobs, wages, and incomes. With lockdowns in place and fewer places to spend money, demand for goods soared (as opposed to services, such as dining out, which suffered from temporary closures), leading to situations where demand for "widgets" exceeded the ability to supply and deliver them. Capacity constraints, supply chain bottlenecks, and infrastructure limitations have led to shortages, and rapidly rising prices have been the result. These "demand-pull" and "cost-push" effects have contributed to rising inflation, as measured by the CPI, which jumped to a nearly 40-year high of almost 7% in November on a year-over-year basis.

Fed Pivot

A fierce debate has ensued on whether this rise in inflation is "transitory" or permanent, with the Federal Reserve and others contending until very recently that it was transitory and related to pandemic-induced supply chain issues. However, at its most recent and final meeting of the year in December, the Fed changed course sharply as it shifted away from dovish policies of low interest rates and QE to support overall growth to one that is more hawkish to deliberately fight inflation by slowing its monthly bond buying program and raising interest rates. Reflecting its new tone, it is likely that the Fed will raise short-term interest rates in 2022—possibly three times—and further in 2023. The Fed's bond buying program will also "taper" much more quickly than initially announced, meaning that purchases could now end in February 2022, thereby doing less to stimulate the economy which would theoretically and eventually slow price gains as demand wanes. The exact timing depends upon when officials judge the labor market is back at "maximum employment," with Fed Chair Jerome Powell arguing that the economy has made "rapid progress" towards that goal. Indeed, the accompanying updated economic projections from the Fed showed that the unemployment rate is now expected to fall to 3.5% by the end of 2022, rather than year-end 2023, while real GDP will slow from a very fast pace of more than 4.3% in

2021 to mid-3% range in 2022. The Fed funds rate is projected to rise to 2.1% by year-end 2024 from near-zero today.

The change in course by the Fed is an effort to prevent inflation expectations from becoming embedded in the minds of consumers and businesses. Once a self-reinforcing wage-price inflation spiral cycle occurs, inflation becomes entrenched and difficult to unwind. This is when workers demand higher wages to keep up with rising living costs which in turn causes businesses to raise their prices to offset their rising wage costs.

Of course, there are a host of other risks to navigating the economy, including the ongoing global and national spread of the COVID-19 omicron variant virus, the emergence of new and yet unknown variants, rising energy prices, potentially overvalued asset markets, and the aforementioned labor market challenges.

For seniors housing operators and capital providers, all these macroeconomic factors will lead to another year where agility, forbearance, and savvy will be critical.

In wrapping up and as always, I appreciate and welcome your comments, thoughts, and feedback.

Highlights, Surprises, and Trends: A Recap of 2021 and a Look Ahead

The COVID-19 pandemic was an unwelcome surprise that no one was really prepared for. But the senior housing and care industry pivoted quickly to provide creative solutions and help keep residents safe over the last 18 months.

What were the surprises along the way? What has the industry learned? Where is it now? What's ahead?

A panel of NIC's Research & Analytics staff recently discussed the highlights, surprises, and trends of the last year and what to expect in 2022. NIC Research Statistician Anne Standish moderated and participated in the panel. She was joined by NIC Data Analyst, Omar Zahraoui; NIC Senior Principal, Bill Kauffman; NIC Senior Principal, Ryan Brooks; NIC Senior Principal, Lana Peck; and NIC Chief Economist Beth Mace.

What follows is a recap of their observations and predictions.

Q: What has surprised you the most in 2021, and what data trends have been the most unexpected or interesting?

Kauffman: The staffing challenge is somewhat of a surprise in terms of its severity. Going into 2021, there was some cautious optimism that skilled nursing occupancy would recover to around the 80% range. While the surge of the delta COVID variant might seem to have dampened demand, the larger issue is staffing. There's not enough staff to admit new residents in many areas of the country. Another surprise was the increase in asset prices. According to data from NIC MAP Vision and Real Capital Analytics, the skilled nursing price per bed increased from $84,000 at the end of 2020 to $94,000 as of third quarter 2021. This price is off a pandemic low of $75,400 one year earlier in third quarter 2020. The data show an increase in price per unit as well for private pay senior housing. The fact that some buyers are paying high prices for skilled nursing facilities may not be so surprising when you factor in low interest rates and the enormous amount of capital that has been pumped into the markets.

Zahraoui: Several data trends are worth noting. COVID-19 has not yet turned the corner, but skilled nursing facilities are in a better, and safer place than one year ago. NIC's Skilled Nursing COVID-19 Tracker shows that as of November 2021, 86.7% of SNF residents and 78.8% of SNF healthcare workers are fully vaccinated—well above the rate of roughly 60% for the U.S. population. In 2021, vaccinations made a huge contribution to mitigate the spread of COVID-19, severe illness, and fatalities among skilled nursing residents. Since the vaccine rollout in December 2020, weekly infections among nursing residents have fallen by at least 80%. Case counts relative to those in the general population have remained low compared with levels seen prior to the vaccine rollout, and even during the delta variant surge in recent months.

Looking at fatalities among SNF residents in the month of December 2020 compared to September 2021 (CDC data compiled by NIC Analytics), skilled nursing residents accounted for 26% of nationwide fatalities in December 2020 (Fall 2020 peak) before

vaccines were available. In September 2021 (delta variant peak) after vaccines were available, skilled nursing residents accounted for 3.8% of all U.S. fatalities. That's huge progress. From December 2020 to September 2021, fatalities outside of skilled nursing settings dropped by 10%, while fatalities among skilled nursing residents dropped by 90%. We can see the vaccine's effectiveness.

Senior Housing Demand. The senior housing market has gone through three phases since the onset of the pandemic:

1. Demand loss (from March 2020 to March 2021): demand through this phase, as measured by occupied units of senior housing properties for the NIC MAP Primary Markets fell 7.5%, or by 42,344 units.
2. Stabilization (from March 2021 to June 2021): During this time period as the vaccine rollout was nearly completed for most residents in senior housing properties, demand began to stabilize and showed signs of cautious optimism. In fact, demand improved by 0.6% or 3,364 units.
3. Road to recovery: Since June 2021, we've seen the strongest increase in occupied units since NIC MAP started reporting data in 2005. Demand increased 2.3%, or by 12,318 units in one quarter (3Q21). The sector has clearly demonstrated its resilience and ability to bounce back. It will be interesting to see if the recovery will continue to expand or slow down in the next quarters.

Peck: Three things stood out for me from the 35 waves of NIC's Executive Survey Insights (ESI) data that started in March 2020 near the beginning of the pandemic. One was how closely the pace of seniors housing and care move-ins corresponded with the broad incidence of COVID-19 cases in the United States and how various events, such as the distribution of the vaccine and the rise of the delta variant, for example, are also reflected in the ESI market fundamentals data. The second is the comparative nuances in how the different care segments have performed at certain times. And finally, is how dedicated senior housing and care operators have been to participate in the survey running continuously for more than 20 months. Their commitment to sharing their experiences has provided a platform for real transparency in an environment of often media sensationalism and uncertainty.

Mace: A happy surprise was the strong demand for senior housing in the third quarter, as seen by a jump in net absorption. Also, while inventory continues to grow, the pace of inventory growth has slowed. We have a window of slower inventory growth which may help supercharge the occupancy rate recovery in 2022 if demand holds up.

As an economist, one of the biggest surprises was the Federal Reserve's pivot to focus on inflation instead of economic growth at its December FOMC meeting. Chairman Powell has now retired the word "transitory" to describe inflation and has announced a full out effort to focus on inflation by reducing its monthly bond-buying program and nudging interest rates higher in the new year. Wage pressures and supply chain issues are pushing prices up. The Consumer Price Index (CPI) was up 6.8% in November, the largest year-over-year increase in 39 years. By comparison, the CPI was 1.2% a year ago. The Employment Cost Index, a 12-month measure of the change in the cost of labor, increased 3.7% in the third quarter. The risk is that

consumer expectations for inflation will spur higher wages, creating a self-reinforcing spiral leading to more price hikes.

Standish: It's been a relief to see multiple signs of recovery. I analyze the data for the NIC Lending Trends Report, and one of the interesting trends from the last report is around new construction. A big question was whether we would see renewed interest in new construction because investors and developers were worried about the future of senior housing. Data from the NIC Lending Trends Report show a notable spike in new construction loan volume for senior housing, jumping to $395 million closed in the second quarter of 2021 from $153 million in the first quarter of 2021. That's a 46.7% increase quarter over quarter. Also, delinquencies for senior housing dropped from 3.8% in the third quarter of 2020 to 1.2% in the second quarter of 2021. A caveat about the delinquency data is that some contributors include loans that are in forbearance in reporting delinquent loans and other contributors do not. It will be interesting to see what happens with delinquencies when the third quarter 2021 data are published in February 2022.

Q: What trends from 2021 will be important in 2022?

Kauffman: We have to pay attention to the staffing crisis and wage increases. Inflation is not just impacting wages, but also line-item expenses such as food and equipment. Inflation pressures will continue.

Zahraoui: Broadly speaking, the relationship between labor and demand will remain critical. In some instances, if you can't find labor, you can't admit new residents. Although the U.S. Senate has recently dropped the implementation of new staffing mandates within SNFs, labor continues to be a scarce resource, and with fiercer-than-ever labor competition, finding and retaining staff in states where labor is tight remains challenging.

Labor force participation rate will be a critical measure for the trajectory of the labor trends. The uncertainty band remains wide in terms of when or if labor force participation rate will return to pre-pandemic levels. But it's important to note that a higher labor participation rate is key to restoring the labor pool and alleviating some of the pressure on both short staffing and wages.

Another trend we're watching is that while all properties experienced pandemic-related challenges, some properties and markets performed better than others. Properties that sustained a reasonable occupancy rate have more cash flow to cover staffing costs and can attract more residents. Properties that performed better in 2020 and the first half of 2021 may gain some market share in the short-term and recover faster. In fact, recent analysis by NIC Analytics looked at the share of same-store properties within individual metropolitan markets that had reached their pre-pandemic occupied unit levels and found that the demand recovery paths and timelines for properties varied significantly. If we were to graph this recovery, we would get a shape that resembles a "K," with an increase in the share of occupied stock across properties that have already achieved or surpassed pre-pandemic occupied unit levels, and a decrease in the share of occupied stock across properties where demand remains below pre-pandemic levels.

Peck: I'll stay on the labor bandwagon with my colleagues, Bill and Omar, as staffing

is far and away the biggest challenge facing operators today and has been since before the pandemic started. Speaking in terms of the ESI survey data, as recently as this summer as the COVID-19 delta variant spread across the country, all operators responding to the ESI reported that their organizations were experiencing staffing shortages. Additionally, all respondents were paying staff overtime hours, and four out of five organizations were tapping expensive agency/temp staff to fill gaps in schedules and replace workers who left the labor force during the pandemic. In the most recent survey, Wave 35 conducted November 8 to December 5, it was discouraging to see that staff turnover has increased considerably since early summer. Reasons for this could include burnout from the pandemic, vaccine mandates for healthcare workers, and flight to higher paying jobs, even though the majority of survey respondents have indicated that paying staff higher wages has been the best way they've found to attract community and caregiving staff.

Standish: Another interesting area to watch in 2022 is rental rates. NIC MAP Vision's Actual Rates Initiative provides data on leasing activity and real monthly rental rates compared to asking rates. The last seven months have shown consecutive improvement with move-ins outpacing move-outs. We've seen some rental rate hikes. But will pent-up demand continue? What will discounts look like in 2022? Will residents be willing to pay more for rent and will that translate into higher wages for employees? Another trend to watch is new construction. Starts are up from 2020, but the cost of construction is rising, and the labor market is tight.

Q: What are the notable lessons we've learned in 2021? What are the areas of opportunity?

Brooks: I think the pandemic settled the debate on whether senior housing is a hospitality or healthcare product. Senior housing is a healthcare product focused on maintaining the health and safety of residents. We have tools to fight the pandemic that we did not have in 2020, vaccines being the first and foremost defense – and data from NIC's Skilled Nursing COVID-19 Tracker showed that these tools made a big difference in saving lives.

Despite these advances, a key lesson learned in 2021 was that operators cannot rely solely on third-party referrals to increase their occupancy rates. Hospitals did not experience the rebound in deferred care as anticipated – admissions were 90% of what would have been expected without the pandemic. As a result, operators have had to invest more in sales and marketing, including virtual tours, social media campaigns, and online advertising.

Zahraoui: Over the last 18 months. senior housing has shown strong resiliency, innovative approaches, and the adoption of new technology. Pressured with higher costs and lower occupancy, the sector still found its way. If the past 18 months have taught us a lesson, it's that both residents and staff are part of the success equation. The staff-resident relationship within the sector is unparalleled and could serve as a competitive edge to retain workers. Prior to the pandemic, most strategies were built around demand because there was a relatively larger labor pool that was taken for granted. Now, operators look at where labor is and then think about demand. It will be interesting to see how the sector handles wage pressure in 2022 and find

ways to keep labor shortages and attrition from getting entrenched.

Mace: A lot of great new ideas have been generated on how to address the labor situation. NIC's Executive Survey Insights poll of operators showed that 67% of operators thought increased wages were an effective way to attract staff. There are other ways besides financial incentives too. It's important to keep in mind that senior housing is a "mission of the heart". It's different from working at a department store or a restaurant. Senior housing employees are working with people and building relationships. Residents can be viewed as wisdom keepers, and if positioned that way, the community can be made a more attractive place to work. Corporate culture is important too. Operators need to communicate with their staff on a high frequency basis and share ideas. Burnout is also a problem since most staff have been at full throttle since March 2020. Some operators are creating customized solutions for each employee to address burnout too; this may include flexible working hours, a vacation, or access to dollars to undergo training that can expand their career path.

Q: What are the major challenges in 2022? What are we not paying enough attention to?

Mace: It's increasingly important to consider who is in the labor force. The makeup of the current US workforce is 25% baby boomers, 33% Gen X, and 35% millennials. Each group has different viewpoints, expectations, and priorities. To address the labor shortage, we need to look at who is working for us and what motivates them. For example, millennials want flexibility on work assignments and continual feedback. They are interested in a work/life balance. Baby boomers are motivated differently and are often workaholics. Based on these differences, we can create customized solutions for individual staff members to meet their career and work needs.

Kauffman: Staffing, staffing, staffing. Chances are that the staffing issues are not going away soon. How can skilled nursing properties compete? Where do the funds come from to pay more in wages when most dollars come from government reimbursement? How will the sector create an attractive culture and address the future growth of employees to improve retention? Technology can help handle mundane tasks to free up workers for duties where they can add more value. Another trend in the background these days is the growth of managed care. Our data shows the differential between managed Medicare revenue per patient day and Medicare fee-for-service has been quietly expanding. In September 2021, the differential with Medicare fee-for-service was $116 per day. The topic deserves attention in 2022. Also, short-term debt costs could be an issue. The Federal Reserve may increase rates in 2022 more rapidly than expected because of inflation. That could pose a challenge to borrowers with variable rate loans.

Peck: I think it is important to consider expense growth in terms of what operators are facing with higher costs across the board from labor to insurance to food. Half of the recent ESI respondents believe their organizations' operating margins will increase in the next six months. How will they do it? Depending on individual market conditions, raising rents may be a solution in certain markets, while in others, it may be necessary to employ rent discounts to drive occupancy, especially in markets that had seen new competition coming online just prior to and during the pandemic.

Each operator will need to consider whether local market conditions will support rent increases to counter expense growth, and at times, they may walk a delicate line to improve NOI while trying to improve occupancy.

Brooks: Another issue that deserves attention is the expiration of the CMS three-day-stay waiver on January 16, 2022. The waiver allows any Medicare beneficiary to receive coverage at a skilled nursing facility without a three-day inpatient hospital stay. That means potential residents can be admitted after an inpatient stay of less than three days, from the emergency room, from a doctor's office, or even directly from the community. The expiration of this waiver could challenge skilled nursing facilities because they will no longer be able to accept residents directly from these other sources which could prolong the industry's recovery. Additionally, the push by the government for more home-and-community-based services is likely to exacerbate that challenge.

Standish: It's fantastic that we have vaccines and treatments for COVID-19, but the industry still faces a lot of questions going into 2022. Will we continue to see recovery in occupancy? Will residents be able to pay higher rates if we see increases? Will the labor market improve? We also hear anecdotally that residents expect more and more for their experience. Senior housing has offered creative solutions during the pandemic. It will be interesting to see how the sector responds when being asked to do more and provide more interesting new things for residents.

Mace: While the worst of the pandemic is hopefully behind us, operators still face a number of challenges. Occupancy rates remain relatively low. There is pressure on expenses with the rising cost of goods, materials, and insurance. Operators may not be able to grow rates which will stress margins especially for operators with low occupancy rates. It's something to pay attention to in 2022. Also, some operators have embraced the middle market, but the opportunity has gotten bigger and needs significantly more attention.

Standish: We're excited to see new data from NIC MAP Vision in 2022 and to dig in utilizing more analytics. For example, we've been working on an analysis of Medicare dementia and Alzheimer's beneficiaries' data which is available at the local level in the Vision LTC platform. It gives Vision LTC subscribers the ability when planning a new product to evaluate demand by looking at the number of Medicare beneficiaries in an area with dementia-related claims. We expect NIC MAP Vision to incorporate more data sets in the year ahead which will help guide decision making for both investors and operators alike.

PACE® Opportunities for Senior Housing Providers?

The PACE® model of care (Program of All-Inclusive Care for the Elderly) has been around since the early 1970s. Typically PACE® programs are operated out of PACE® centers in cities and towns (service areas) with the backing of other providers of home and community-based services (HCBS), hospital systems, area agencies on aging, hospice organizations, and federally qualified health centers (FQHCs). Until recently, PACE® has been largely off the radar of many private-pay seniors housing operators.

Dubbed a "community option," PACE® is an integrated care program for nursing-home eligible, Medicare/Medicaid qualified individuals (dual eligible). The program has struggled to scale due in part to the high cost of building and regulating PACE® centers. However, attention to the model has recently been magnified because it showed that it could be a successful alternative to skilled nursing care during the pandemic, which has sparked the interest of policymakers.

PACE® Programs are referred to as LIFE Programs (Living Independence for the Elderly) in some states. To be eligible for PACE® or LIFE Programs, an individual must be age 55 or older, living within a PACE® service area, and need a nursing home-level of care while living safely in the broader community.

What Are Some Compelling Reasons for Seniors Housing Operators, Developers, and Investors to Become Familiar with the PACE® Program?

- **PACE® addresses social determinants of health for enrollees.** Under value-based care agreements, health care providers are compensated with incentive payments for helping frail older adults improve their health, reduce the effects and incidence of chronic disease, live healthier lives, and reduce the need for acute care and institutionalized long-term care. Evidence-based, the many benefits include improved quality outcomes, reduced medical errors, increased patient satisfaction, and lowered care costs. In fact, according to a recent analysis by the National PACE® Association, PACE® programs saved Medicaid an average of 15% relative to the costs the state would have experienced otherwise.
- **PACE® is a fully capitated program.** The program receives capitated reimbursements on a monthly basis from Medicare and Medicaid for each participant the program serves. According to the National PACE® Association, states calculate Upper Payment Limits (UPLs)—monthly per capita expenses based on their expenses for fee-for-service populations comparable to PACE® (typically nursing home-eligible cohorts comprised of nursing home residents and individuals with home and community-based waiver). Some states set the PACE® rate as a percentage of the UPL, but other times, the rate is based on what other PACE® organizations have benchmarked. PACE® programs may see financial gains at times since unused funds can be reserved or used in the future. (On the flip side, participants with highly expensive care needs may exceed reimbursement funds.)

- **With PACE®, there is significant room for growth in serving seniors where they live.** According to the National PACE® Association, in October 2021, PACE® served nearly 58,000 frail seniors who on average had more than seven chronic conditions. Potentially, however, an estimated figure of at least another 2 million people could qualify for the program.
- **PACE® is flexible.** Aided by supportive care technologies, especially telehealth, the program proved it could efficiently and effectively bring services directly to individuals during the pandemic. PACE® providers pivoted from providing care in PACE® centers into people's homes treating enrollees in place.
- **Interest in the PACE® program is at an all-time high.** A growing interest in PACE® from states and the federal government has occurred since the pandemic because in some instances seniors and their adult children have readjusted their views on nursing homes. Both not-for-profit and for-profit senior housing operators are interested in PACE® or relationships with PACE® programs because they may provide additional revenue streams through contracted space in senior living buildings, transportation in senior living vans, partnerships for providing meals from senior living kitchens, and expanding to therapies and non-medical services that senior living operators already offer to their residents.
- **New legislation could grant additional capital to open and operative centers**. Meeting demand through scale has been a challenge for PACE®, but that could change. On April 15, 2021, the U.S. Senate Special Committee on Aging, sponsored by Senator Bob Casey, introduced the PACE® Plus Act to help increase older Americans' access to PACE®.

Why PACE®?

PACE® may be an option for families that can provide some level of care to keep Medicare/Medicaid dual-eligible seniors in their homes in PACE® service areas, preventing unwarranted admissions to nursing homes. PACE® services can be provided in a PACE® center and the patient's home, in a hospital, and in alternative settings.

PACE® programs must include all Medicare/Medicaid covered services, including but not limited to transportation, meals, adult day services, emergency services, primary care from medical professionals, occupational and physical therapy and more. Program administrators manage services delivered by contract providers such as hospital and nursing facilities and home-based care providers.

PACE® uses Medicare and Medicaid funds to cover all an individual's medically necessary care and services. An enrollee must have either Medicare or Medicaid (or in some states Medicaid) to join PACE®, but there are options for those who do not have Medicaid. While the fees fluctuate state-to-state, there is a monthly private-pay portion for PACE®'s long-term care Medicaid benefit and prescription drugs under Medicare Part D. On average, according to the American Council on Aging, a private pay option is generally $4,000 – $5,000/month.

If it is determined that an enrolled individual can no longer participate in their PACE® program safely living in a non-institutionalized setting, the program will pay for care in a skilled nursing facility. However, while PACE® covers nursing home care, only about five percent live in nursing care communities according to the National PACE® Association.

As of October 2021, 141 PACE® programs were operating in 30 states. View a list of programs by city and state, including program start date and monthly enrollment. The states without a PACE® program include Alaska, Arizona, Connecticut, the District of Columbia, Georgia, Hawaii, Idaho, Illinois, Kentucky, Maine, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, South Dakota, Utah, Vermont, West Virginia, and Wyoming. View an interactive map of 272 PACE® centers across the United States.

How Will New Legislation, If Passed, Expand PACE®?

The PACE® Plus Act would provide federal grants to create new and expand current PACE® programs across the country. The legislation provides 30 grants with up to $1 million for establishing or delivering PACE® program services in rural or underserved urban areas. Furthermore, states without active PACE® programs can apply for grants of up to $100,000 to aid in establishing a PACE® provider in their state.

New legislation may also improve access to and affordability of PACE® programs for Medicare beneficiaries. For example, the State of New York is piloting a program with the backing of Senator Chuck Schumer and the New York State Health Department to allow Medicare beneficiaries to buy into PACE® at a graduated rate.

Successful outcomes of such pilot programs may encourage more states also to begin testing expanded PACE® eligibility for high-need and high-cost populations that are not otherwise qualified to participate in a PACE® program, potentially serving the forgotten middle-income cohort of seniors that is not wealthy enough to afford seniors housing and care without spending down and are too wealthy to be eligible for Medicaid, which pays for PACE® services in full.

In addition to expanding the number of seniors and people with disabilities eligible to receive PACE®, other applications for the use of grant funds that may advance interest in developing or participating with a PACE® program include but are not limited to: purchase or lease of a building, modifications to an existing structure, and establishment of a working capital fund to maintain program operations until the provider reaches a stable, target enrollment size.

What Are Some Challenges with the PACE® Model?

Despite many positive benefits to running or partnering to provide PACE® services, historically, the model has been challenged with competition for Medicaid dollars and the inability to grow. Specifically, PACE® providers need to hire a stable workforce with various skills and qualifications, a particularly ambitious endeavor due to the tight labor market. They need to have a large enough patient population to be financially feasible. And they must serve all beneficiaries in the service area who choose to enroll.

In Summary

Should the PACE® Plus Act pass, it would increase the number of PACE® programs across the country by making it less complicated for states to implement PACE® as a model of care. PACE® programming could potentially be offered in senior living settings for individuals with complex care needs.

Some PACE® organizations depend on cooperation among several different businesses, and some operate as stand-alone programs. Partnerships with non-PACE® providers,

including independent living and assisted living properties, local hospitals, and non-hospital providers such as physicians, behavioral health providers, and other community-based organizations, can help effectively reach a growing eligible population in need.

New revenue streams may be possible for operators that offer a wide range of services to a new pool of potential residents. Collaborating with partners that support aging at home with services in the PACE® catchment area (including existing entities with real estate, which could allow PACE® providers to avoid costs of developing individual centers) should be regarded as serving a vital part of the continuum of care and housing for seniors.

At the 2022 NIC Spring Conference, PACE® will be discussed during a session on ways to enhance NOI, among other topics.

Online Sources:

https://www.npaonline.org/sites/default/files/PDFs/Medicare and Medicaid Payment to PACE® Organizations.pdf

PACE® FAQs

https://www.cms.gov/Outreach-and-Education/American-Indian-Alaska-Native/AIAN/LTSS-TA-Center/info/PACE

Medicaid / Medicare PACE® / LIFE Programs: Eligibility, Benefits & Locations

PACE® | CMS

Senior Housing & Care Industry Calendar for January 2022

1/23 - 1/26	Lutheran Services in America CEO Summit 2022 (Tampa, FL)
1/24 - 1/26	IREI VIP Americas (Carlsbad, CA)
1/24 - 1/26	ASHA Annual Meeting (Phoenix, AZ)

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