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Leisure Care's Formula for Success: A Conversation with Judy Marczewski

Judy Marczewski has a pretty straightforward formula for success: Create a great community environment that attracts like-minded people to build a thriving business to generate great returns. But how?

NIC Chief Economist Beth Mace recently talked with Marczewski to get the details. Marczewski discussed Leisure Care’s strategy and how the company turns its vision into action. They also covered today’s big questions on the workforce, rising costs, and the pandemic’s tailwinds. What follows is a recap of their conversation.

Mace: Can you please tell our readership about Leisure Care and your role as a Partner and CFO?

Marczewski: Leisure Care was founded in 1976 and manages over 50 communities primarily on East and West Coasts. Our portfolio includes independent living, assisted living, and memory care in a variety of combinations. We have independent living only buildings, but no stand-alone memory care or skilled nursing facilities. We manage portfolios for developers, family businesses, and private equity. As CFO and Partner, my role includes financing strategy and planning for Leisure Care and our parent company, One Eighty.

Mace: What is the relationship of Leisure Care to One Eighty?

Marczewski: Leisure Care is the operating entity of our senior living communities. One Eighty is a diversified hospitality company. In addition to Leisure Care, One Eighty operates other companies, including those in development, investment, travel, and a few other sectors.

Mace: I believe the goal for Leisure Care is “to create happy residents, families, employees and partners.” Can you explain this?

Marczewski: We are a people first company. We believe in treating all people with respect, and we strive to make a positive impact on everyone we meet every day. So, we create communities focused on helping those we work with to find their joy and purpose. Our employees pay attention to and appreciate the small moments that spark joy throughout a resident’s day. Our signature programs, activities, and so much of what we do in our communities is designed to spark that joy but also help people continue to feel purposeful, relevant, and engaged. Joy and purpose lead to a life of fulfillment. And we strive for that for our residents and our employees. Ultimately, it’s really about building relationships in a meaningful way. We also encourage our residents and employees to have fun together, enjoy each other, and do the unexpected.

Mace: How do you help people find purpose? It’s a big question these days.

Marczewski: It’s important. As a person, I don’t want just to be entertained. I want to be engaged, make a difference, and be valued. That’s true of our residents as well. One way we do that is through the One Eighty Foundation. It’s focused on finding ways to engage employees and residents in service to others. We created

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the Foundation to raise funds, but more importantly, it creates opportunities and facilitates philanthropic activities which are executed at the community level and at the home office.

**Mace:** Can you give an example?

**Marczewski:** Our most prestigious honor at our annual conference is the philanthropic award. Communities work with the foundation to create opportunities to truly engage residents. One Colorado property, for their philanthropic activity, has adopted an underprivileged school. Our community provides support for the students. We also hold fundraisers to purchase backpacks and school supplies for students. Residents are engaged at all levels, from donating supplies or money for supplies to filling the backpacks with those supplies and preparing them for the students. Our community is like the school’s guardian angel. Another example is our work with Treehouse, an organization near to my heart that supports foster kids. Many of our communities conduct drives to collect pajamas, books, clothes, and whatever else the kids need.

**Mace:** How long have you have worked at Leisure Care? What are the most significant changes that you’ve seen?

**Marczewski:** I’ve been here 24 years. The industry has been fascinating to watch grow and evolve. It occurred to me at the NIC Fall Conference that many more women are represented in attendance than when I started. That’s a huge change. We have more women in our company too, more closely matching our resident population. But I don’t think any of the changes are as dramatic as what we’ll see looking back on these last couple years. We turned everything upside down in the pandemic. We rewrote almost every policy and HR process. So much was redone and has evolved. I think right now is the greatest time of change, and how that will play out will take some time. It’s pretty dramatic.

**Mace:** How do you measure success?

**Marczewski:** Broadly, we measure success by the quality of the life of our residents and employees. When you get back to the basics, success is about creating a great environment in a community to draw like-minded people. That creates a thriving business and that creates great returns.

**Mace:** 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?

**Marczewski:** We have several different partners: families, private equity investors, and developers. What we look for is all the same. We look for like-minded people who we want to work with. We call it the law of attraction. We want partners that have a shared respect and shared vision not only for the specific building but also of how we are going to achieve success together.

**Mace:** When you say like-minded, is that similar to an alignment of interests?

**Marczewski:** We always want to have an alignment of interests. But not just financial. We want a philosophical alignment of how we do business.

**Mace:** With regard to the operations portion of the company, what distinguishes Leisure Care from other senior housing operators?
Marczewski: It’s the people. We have amazing leadership at the home office and at our communities. That’s where it starts. Our focus has always been to see people as people. You hear so many people talk about what older Americans want, and it’s the same as what we all want, to live a meaningful life and be respected as an individual. That’s where we work with our communities to provide programs and services that engage residents.

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

Marczewski: Acuity is increasing. Like other operators, we’ve seen people who could put off a decision to move. And people who required high acuity care moved in later. Those who were truly independent didn’t want to move into a community during a pandemic. We can say the pandemic is over, but we can still have an outbreak and face restrictions. There is a certain level of economic uncertainty.

Mace: How does Leisure Care fit into the healthcare continuum for older adults? Do you work with any Medicare Advantage programs?

Marczewski: We do not have any direct relationships with Medicare Advantage providers. But I’m not saying we won’t in the future. Healthcare and its delivery involve so much complexity. There’s no doubt we are a part of the healthcare continuum, but I’m not sure how that will evolve and impact our business.

Mace: Now, let’s come back to more recent experience and 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?

Marczewski: We had a strong culture going into COVID and an experienced management team which was key to our ability to react quickly to events. I look back to March and April of 2020, and I think about how much we accomplished and the lives we saved. It was truly impressive. Our ability to decisively lead our committed teams to take action really impacted how we have fared through this. The toll on our staff and residents has been huge, and it isn’t over yet. Our residents are happy to have normal times return and enjoy socialization and activities again. Some markets are thriving, and some continue to struggle. Other operators echo that experience. We learned some lessons from COVID that we will carry forward. The next level of leadership in our succession planning became much clearer. People really stepped up and not just at the executive level. Another lesson: We had to change our policies, some were driven by regulations, and others were just the right thing to do. We added paid sick leave for employees full or part time regardless of position. Sick employees should not be in the buildings during a pandemic or at any other time. This is a passion for me, to help people who are not feeling well to stay home.

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

Marczewski: We have two portfolios: Our stabilized portfolio; and our lease-up portfolio. We opened eight communities during the pandemic. On the stabilized portfolio, our percentage of occupancy, in aggregate, is in the high 80s. We have
some properties in 90s, and some in the 70s. But we’ve made strides. Year-over-year, the numbers have moved dramatically. We’ve had continual months of net move-ins. Move-outs have stabilized. And move-ins continue to improve. Inquiries and tours are strong, but not record breaking. If we have bad economic news one month, inquiries in urban areas tend to drop. It’s very market specific. But looking big picture, we continue to make strides every month.

**Mace:** How has new construction impacted your ability to lease up existing product?

**Marczewski:** We’ve opened a lot of buildings, so we’ve experienced both sides. Move-ins at new buildings depend on the market and the product. We have buildings that filled completely during COVID if they were the right product in the right place. Some buildings struggle if the unit mix is wrong for the market. Some markets are also overbuilt.

**Mace:** How do you define the right mix?

**Marczewski:** You have to build the right product in the right market. Every market is different. If you are competing with similarly priced apartments, the age of building is less relevant. We have some 30-year-old buildings that are perfectly maintained and gorgeous and compete with new product. I don’t look at age as much as the status of the property. Has it maintained its quality? But if you have an inventory of small, shared memory care units competing with nicer memory care units at the same price, people will go for that. A large memory care mix is hard to keep full because of the turnover.

**Mace:** Any lesson learned on how to think of a market and unit mix?

**Marczewski:** My advice for the developer is to work with your operator to understand the right unit mix in that market. One size does not fit all.

**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?

**Marczewski:** It’s different in different places. We work with our partners and operations team to look at each individual building and work on the expense control side as well as on pricing. In some cases, prices can be raised quickly, and in other cases they can’t. You have to know your market, understand the supply and demand in the market, and customize the solution. Ultimately, revenue needs to go up not just on rent but on services. The cost of providing assisted living and memory care services has really grown, and we need to price our services and capture that correctly. It’s easier said than done in some cases. It’s going to take time. When you have these big market shifts, expenses and revenue don’t change at the same time.

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

**Marczewski:** The key is to be a good employer. Lowering turnover decreases the number of people you need to hire. Being a good employer involves looking at your hiring practices, benefits, and wages. We have adjusted all of those. But we need to continue to look at what we provide our employees to make sure it is
the right mix in a particular market. I am passionate about benefits. I believe the industry overall does not do a great job with benefits. But the benefits provide value. Our turnover rate peaked in the fourth quarter of 2021 and has been improving. We have looked at everything from the way we hire to shortening our response time to applicants. But if you want employees, you first and foremost have to be a good employer.

Mace: What is your development pipeline today? How do you choose markets? How was development affected by COVID?

Mareczewski: We have five projects opening next year and another four that are entitled and in the early stages of development. Every project that was under way was slowed by COVID. You couldn’t get materials, or workers. Openings continue to be delayed which impacts costs, hiring, and everything else. The number of projects our partners are looking at definitely has slowed. We all know this will take some time to work through. And with the uncertainty around interest rates, it is just more expensive to build, so we are not adding a lot to our pipeline. What is under consideration will be pondered longer.

Mace: With the oldest baby boomers now 75, is Leisure Care looking at investing in active adult?

Mareczewski: We have some active adult in our portfolio but that is not an area where we are going to focus. It would have to be part of a larger campus. I believe active adult is the next segment to be overbuilt, if it is not already.

Mace: You and I were involved in NIC’s 2019 “Forgotten Middle” study. Are you looking to address the care and housing needs of this cohort?

Mareczewski: We have developed three middle market buildings. We have proved out our thesis that if you design communities with operational efficiencies built into the product and services, you can operate at a lower price point. The buildings operate efficiently, which is so important with staffing issues. For example, a thoughtful kitchen design improves efficiency. Placing too many common areas all over the building make those spaces hard to clean and program. If you locate those centrally, you can do more with less staff. We’re not looking to build more middle market product right now though. Construction prices and interest rates make the costs too high. But when things settle down, we’ll come back to the middle market. We know it works and there is a way to do it.

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

Mareczewski: We are privately held, so we don’t have specific growth goals for buildings or units. We can be more opportunistic. Right now, our main focus is census and NOI growth in our current buildings and those under development. We have a lot of units to fill. We don’t need to build more now. When this cycle turns, we need to be positioned for what’s ahead.

Mace: Our readership includes younger professionals starting off in their careers. What advice can you provide to them?
Marczewski: My advice to younger professionals is that this too shall pass. Every cycle is a little different, but this is a cycle. At the NIC Conference, I talked to young people, and this is the first big economic cycle they’ve been through. They’ve never seen interest rates go up in their professional lives. So, they’re stunned. I start by pulling up a 50-year chart of the Treasury’s Federal Funds Effective Rate to show how things change. We can learn through this. When I started my career, we had double-digit inflation. I’ve carried those lessons I learned then through my career. That’s really how you influence your career more than what happens in easy times. So, I hope young professionals pay attention to not only what is going on now but also to what happens next. And better times will come back. We will be smiling again.

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

Marczewski: Operators, developers, as well as debt and equity providers are all facing challenges. We can point fingers at each other to assign blame, or we can join forces and figure out how to move forward. This is a time when business is hard. It’s a time when you can figure out who you want to do business with on the other side. But we can have a better outcome if we have respectful and strategic conversations about how to get through this together.
2022 NIC Fall Conference Brings the Energy
Senior housing and care’s premier event delivers three days of connections, learning, and engagement.

Bringing together more than 2,800 industry participants, the 2022 NIC Fall Conference surpassed turnout expectations as attendees explored the near-term challenges of the senior housing and care sector, and the long-term opportunities as a demographic wave of older adults begins to arrive.

The Conference was held September 14-16 at the Marriott Marquis in downtown Washington, D.C. Highlights included:

- A detailed economic and industry specific outlook.
- The inaugural Women’s Networking Meetup.
- Insightful educational sessions.
- A NIC white paper defining the emerging active adult segment.
- New research underscoring the integration of healthcare and housing.
- Multiple daily, formal and informal, networking opportunities.

More than 70% of all those at the event were executives at the C-suite or managing director levels. Attendees also represented a good balance of both senior living operators and capital providers. Notably, the Conference drew 637 first-time attendees.

In opening remarks, NIC Board Chair Kurt Read, managing director at RSF Partners, noted that NIC is much more than a conference. Rather, he said, “NIC is the collective expression of the passionate commitment to create better environments now and in the future for our nation’s elders and those who serve them.”

The Fall Conference theme—“Forward Together”—highlighted the resilience and perseverance of the industry and the importance of building effective partnerships among operators, healthcare providers, investors, and other capital sources.

“The pace of change is frantic,” said NIC President and CEO Brian Jurutka, who listed the big industry challenges of rising expenses, a workforce shortage, ongoing pandemic-related issues, and the needs of a growing elderly population. “NIC is a platform and resource to help the industry move forward together,” he said.

Timely Connections
Attendees were welcomed by video to Washington, D.C. by Senator Susan Collins (R-Maine). As former chair of the Senate Special Committee on Aging, Collins credited the industry for its commitment to choice, independence, quality
of life, and dignity for older Americans. She also thanked the industry for helping to keep seniors safe during the pandemic and acknowledged the need for reasonable immigration reform to address the shortage of workers.

Video welcomes were also provided by two additional members of Congress: Rep. Annie McLane Kuster (D-NH); and Rep. Bryan Steil (R-WI). They recently announced the creation of the 21st Century Long-Term Care Caucus, a bipartisan group to identify and address long-term care solutions.

As the premiere industry event, the 2022 NIC Fall Conference engaged attendees in three days of results-oriented networking, information sharing, and timely educational sessions. Industry leaders shared their perspectives and insights on a wide range of topics including the emerging active adult segment, the new consumer, capital market trends, and how to successfully scale operations, among other issues.

In planning for nearly a year, the Conference was designed for attendees to leverage their time and take away actionable strategies. Participants gained access to multiple networking lounges, a large café with comfortable seating arrangements, and convenient huddle spaces.

The luncheon food trucks were a big hit, serving up favorite, grab-and-go dishes. The popular NIC Café, a fresh market concept launched during Conference hours, served breakfast, lunch, and snacks.

The Conference featured several well-attended receptions, including a first-time attendee gathering. NIC Chief Economist Beth Mace was the featured speaker at the inaugural Women’s Networking Meetup, where nearly two hundred women executives exchanged ideas and made connections. Mace offered her insights and advice on the changing role of women in the industry. One tip: Be open to change.

First-time attendees enjoyed a pre-Conference webinar to help them best manage their time in Washington, D.C. First-timers also had their own meet-up spots on site as well as a special reception.

NIC’s Skilled Nursing Boot Camp was held on site just prior to the opening of the Conference. Participants engaged in the analysis of a case study on whether to buy, sell, or hold a skilled nursing property.
Actionable Content

The Conference offered 10 stand-alone educational sessions. (High quality videos of all educational sessions are available to attendees in the Conference mobile app.)


“More people are working than ever before,” said Schenker, president of Prestige Economics and chairman of The Futurist Institute. But wages are rising, and inflation is up 8.3% annually, the highest rate since 1981.

Demographics are a big plus for senior living. “We will have a steady stream of residents,” he said. The healthcare needs of an aging population will greatly impact the workforce. In fact, he noted that 5 of the top 10 areas for job growth are in health-related occupations.

“The next 2-3 years will be tough,” predicted Schenker, citing expense pressures, rising interest rates, and worker shortages. But he was generally optimistic about conditions 24-36 months from now. His advice to attendees: “Plan for long-term upside opportunities.”

Several sessions addressed the new consumer and the growing active adult segment. NIC presented a white paper defining the property type. Key components include age-eligibility, majority market rate, rental, and lifestyle focused.

A panel of experts discussed the investment case for active adult in the aptly titled session: “Rational Exuberance.” Investors like the demographic profile of residents and their extended length of stay.

The panelists parsed the differences between active adult, senior housing, and multifamily properties. The operation of active adult properties is more like that of multifamily projects. But the sales cycle is more akin to that of senior living. “We’re very bullish on the sector,” said panelist Joseph Fox, co-founder and co-CEO, Livingston Street Capital.
Separately, a panel of industry leaders analyzed the new customer—a group much different from the population the industry has been serving. Baby boomers are harder to please than their predecessors. The panelists agreed that baby boomers are seeking an experience, not just a place to live.

“We are too wrapped up in the real estate,” said William Swearingen, senior vice president, marketing and sales, Spectrum Retirement Communities. It’s important to showcase the active lifestyle and the cultural reference points that baby boomers understand, he advised, “Take a chance.”

A CEO roundtable provided a big picture perspective on operations, the new customer, and workforce issues. In a separate panel discussion on repositioning, Tana Gall, president, Merrill Gardens, detailed how the company refashioned a portfolio for the middle market, now named Truewood by Merrill. Other speakers shared strategies on unit mix, tapping untapped workers, and how to reconfigure floor plans to boost staff efficiency.

The session, “Effectively Scaling and Growing Your NOI,” mapped out successful approaches. Experts explored the pluses and minuses of acquisitions, new developments, and management assignments. “You need a plan to scale and grow,” noted panel moderator Bryan Starnes, CFO, ALG Senior.

New research, funded by NIC, was introduced at the Conference. It shows that senior housing residents average more than a dozen chronic conditions. The research was conducted by NORC at the University of Chicago. The study also highlights the opportunities to integrate healthcare and housing to improve health and cut costs.

A number of speakers at the Conference emphasized that the pandemic has secured a place for senior living in the healthcare continuum. Partnerships, in various forms, are growing quickly between senior living providers and healthcare systems.

The investment-focused sessions were well-attended. A panel discussion on environmental, social, and governance (ESG) strategies highlighted its growing role among institutional investors. Speakers also discussed the push for diversity, equity, and inclusion (DEI) initiatives.

Other popular sessions detailed the state of the capital markets and deal-making as operators rebuild occupancy. The consensus was that capital is available for the right product in the right place. Echoing much of the buzz at the Conference, speaker Julie Ferguson, executive vice president at Ryan Co. said, “We believe in the long-term value of senior living.”
Thoughts from NIC’s Chief Economist—Fed Policy, Moderating Development Pipelines, and NIC’s Fall Conference
by Beth Burnham Mace, NIC Chief Economist

All eyes on the Fed and its actions. For the fifth time in seven months, at its September 21st Federal Open Market Committee meeting (FOMC), the Federal Reserve increased interest rates yet again. This time, the hike was 75 basis points, bringing the federal funds rate to a target range of 3% to 3.25%, its highest level since early 2008. Further, a majority of the FOMC members (12) see the fed funds rate reaching a level of between 4.5% and 5.0% in 2023, with the reality of two more rate hikes virtually certain in the remaining two FOMC meetings in 2022.

The Fed has made it quite clear that its fight against inflation is paramount. Preventing accelerating inflation is part of the Fed’s dual mandate of maximum employment and stable prices. Further, inflation is effectively a tax on everyone and is particularly regressive in its nature.

Projections of inflation in the Fed’s so-called dot plot at its September meeting show that members of the FOMC see the personal consumption expenditure (PCE) inflation measure, the Fed’s preferred measure of inflation, coming in at 5.4% in 2022, before decelerating to 2.8% in 2023. The more commonly recognized measure of inflation, the consumer price index (CPI) has been higher than that and rose 8.3% in August from year-earlier levels, down slightly from July (which was up 8.5%), but still extremely high. One bright spot in the August report was a decline in the cost of gasoline.

Rising interest rates are aimed at slowing overall economic growth, and the Fed’s projections of overall growth, as measured by real GDP, are now anticipated to be a mere 0.2% in 2022 before inching up to 1.2% in 2023 and 1.7% in 2024, while the FOMC dot-plot shows the unemployment rate at 3.8% for 2022 and 4.4% in 2023. While slightly positive, the 2022 annual estimate for GDP growth is very close to zero or negative—recession territory. Already, real GDP growth was negative in the first and second quarters of 2022.

For consumers and business, inflation, rising interest rates, a slowing economy, and projected job cuts will make the remaining months of 2022 and most of 2023 difficult. The broad macroeconomic environment provides the baseline foundation for spending and investment patterns and is the key ingredient for business and consumer confidence. For this year and next, shaky consumer and business confidence will undermine overall growth, while the real cost of goods and services and rising costs of debt will limit the ability to grow.

At the press release on September 21st, Fed Chair Jerome Powell said “We have got to get inflation behind us. I wish there were a painless way to do that. There
isn’t. …Higher interest rates, slower growth and a softening labor market are all painful for the public that we serve. But they’re not as painful as failing to restore price stability and having to come back and do it down the road again.”

**The 2022 NIC Fall Conference.** Evidence of pain is already apparent in the senior housing sector. While the mood at NIC’s well-attended Fall Conference was generally positive, there was a lot of discussion about the availability of debt capital and its impact on transaction deal volume, as well as the ability to secure new debt and service existing loans.

Indeed, there has been a slowdown in transaction activity in recent months, as the rate hikes implemented by the Fed have taken hold and the cost of capital has shifted significantly higher. Preliminary data from MSCI Real Capital Analytics (RCA) shows deal activity for senior housing was down 33% year-to-date in August from year-earlier levels. Further, their data indicate that the coupon rate on the average 7/10-year fixed rate commercial mortgage was up 190 basis points in August from a record low of 3.5% in 2021.

A disconnect between buyers and sellers regarding pricing exists, which is one factor that is limiting deal activity. Potential buyers are finding it difficult to stretch on deals due to overall market uncertainty as well as rising financing costs, more stringent covenants, and lower loan-to-volume (LTV) proceeds. Meanwhile, sellers are looking at improved trailing rate data and projecting continued performance improvement going forward. These expectations are not always jiving with buyers’ views.

Meanwhile, cap rates for many properties do not seem to be moving in tandem with higher mortgage rates, and this is leading to negative leverage in some instances. This is where cap rates are lower than mortgage rates, an untenable and ultimately unsustainable situation that may ultimately require higher cap rates or an adjustment of lower overall return expectations.

**Construction Activity Down, but Not Gone.** Against this background, however, are generally supportive market fundamentals, with occupancy rates rising in most markets and the number of occupied units beginning to approach pre-pandemic levels. That said, there is still significant room for further recovery.

At the NIC Fall Conference, there was also a lot of discussion about the pace of the development pipeline. Senior housing construction starts are generally at moderate levels and below their peaks seen in the 2016 – 2018 period. Nevertheless, ground-breaking does continue, and starts are indeed up from their low points seen during the pandemic. As a share of existing inventory and on a four-quarter unit basis, senior housing starts in the 31 NIC MAP Primary Markets stood at 2.5% in the second quarter of 2022 (the equivalent of 17,000 starts), down from 4.0% just before the pandemic began in early 2020 and down from their record high point of 4.7% in late 2017 (at 28,000 units).

Meanwhile, 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 perspective, for senior housing, this equals 5.1% of existing inventory for the Primary Markets, and it peaked at 7.7% in late 2017 and more recently at 7.7% in the pre-pandemic first quarter of 2020.

As always is the case, not all markets have the same conditions. In Miami, construction as a share of existing inventory amounted to 11.2% in the second quarter (2,885 units in 18 properties). This was the second most ever (first was 2Q 2021 at 11.3%). And at 9.8% of existing inventory, Portland, Oregon construction was at an all-time high at 2,093 units within 15 properties. Washington, D.C. (10%) was also high. The flip side is Pittsburgh where construction as a share of inventory was virtually zero in second quarter 2022. This was a dramatic shift from a share of 10% in 2019.

Wrapping Up. Looking ahead, as the worst parts of the pandemic fade, our industry is faced with yet another set of challenges related to the broader macroeconomic environment. Inflation will be present for a while, expenses will continue to increase, margins remain squeezed, interest rates are back to 2010 levels and are expected to continue to go higher. And the economy is slowing sharply. The good news, however, is that senior housing is somewhat isolated from the business cycle due to its need-based characteristics. And, with the population aging every day and new product offerings being developed and offered, operators and capital providers have much to be cheered by. The silver lining in costs for development capital is that moderating supply pipelines will allow occupancy rates to improve at a faster clip than they may have done otherwise.

In wrapping up and as always, I appreciate and welcome your comments, thoughts, and feedback.
Memory Care Sector – Characteristics, Macro, and Micro Fundamentals
by Omar Zahraoui, Senior Data Analyst, NIC

As the world transitions slowly from a COVID-19 pandemic and adapts to a more manageable COVID-19 disease (acknowledging that it remains an infectious and sometimes fatal illness, especially taking age and health conditions into account), dementia has, and continues to, loom as a global scourge, affecting a significant number of older adults worldwide. According to 2021 estimates from the World Health Organization (WHO), the number of individuals with dementia worldwide was more than 55 million; this number is expected to reach 78 million by 2030, leading to a sizeable growth in memory care needs over the next eight years.

Dementia is, by definition, a syndrome – usually of a chronic or progressive nature – that leads to deterioration in cognitive function (i.e., the ability to process thought) and results from a variety of diseases and injuries that primarily or secondarily affect the brain, namely Alzheimer’s, which is considered the most common form of dementia and may account for 60-70% of all dementia cases. In 2021, Dementia was the seventh leading cause of fatalities among all diseases and one of the major causes of disability and dependency among older people globally, according to the WHO.

This article explores the memory care sector – a senior housing segment that is specifically designed for residents with Alzheimer’s or other forms of dementia – in terms of its macro fundamentals across the U.S. and within the combined 99 NIC MAP® Primary and Secondary Markets. It provides an overview of the characteristics and micro fundamentals of the memory care segment across the 99 Primary and Secondary Markets, including supply and demand dynamics both before and during the pandemic, occupancy recovery, as well as actual rates growth, compared with other senior housing segments (i.e., independent living and assisted living segments).

Macro Fundamentals of the Memory Care Sector

Prevalence Ratios of Alzheimer’s and Other Dementias by Age Cohort – U.S. National

In the U.S. alone, the prevalence rate of Alzheimer’s and other dementias among Americans aged 65 and older stood at about 11% in 2022. Said differently, approximately 1 in 9 people in this age group has Alzheimer’s or other dementias, an estimated total of 6.5 million people, according to the 2022 Alzheimer’s Association Report.

Drilling down by age cohort. Approximately 1.75 million Americans aged 65 to 74 are living with Alzheimer’s or other dementias, accounting for 27% of the estimated total (6.5 million), 2.41 million Americans aged 75 to 84 (37%), and 2.31 million Americans aged 85 and older (about 36%).
Normalizing by total population for each age cohort, the 65 to 74 age cohort had a ratio equivalent to 1:19 based on the 2022 total (65-74) population in the U.S. That is 1 in 19 Americans aged 65 to 74 or older has Alzheimer’s or other dementias.

The 75-84 age cohort had a higher ratio equivalent to 1:8 based on the 2022 total (75-84) population in the U.S., indicating that 1 in 8 Americans aged 75 to 84 is living with Alzheimer’s or other dementias.

The 85+ age cohort had the highest ratio of 1:3 based on the 2022 total 85+ population in the U.S. That is 1 in 3 Americans aged 85 or older is living with Alzheimer’s or other dementias.

These statistics show that the prevalence of Alzheimer’s and other forms of dementia among older adults aged 65+ increases substantially with age.

**Prevalence Estimates of Alzheimer’s and Other Dementias by Age Cohort – U.S. National**

As the number and proportion of adults aged 65 and older continue to grow, the prevalence of Alzheimer’s or other forms of dementia is likely to grow in parallel.

According to the U.S. Census Bureau, the 2022 total number of Americans aged 65 and older is 59.7 million; this is expected to rise to 73.1 million by 2030. To put this into perspective, assuming the 1-to-9 ratio for the 65+ age cohort discussed above remains unchanged, and no substantial improvements made towards mitigating Alzheimer’s controllable risk factors, an estimated 8.2 million Americans are likely to have Alzheimer’s or other forms of dementia by 2030.

Drilling down by age cohort. For the 65-74 age cohort, the 2022 total population is 34.5 million and is expected to rise to 38.7 million by 2030. Based on the 1-to-19 ratio for the 65 to 74 age cohort discussed above, an estimated 2.0 million Americans aged 65 to 74 are likely to have Alzheimer’s or other forms of dementia by 2030.

Using the same methodology for the 75-84 age cohort (1:8 ratio) and 85+ (1:3 ratio), an estimated total of 3.2 million Americans aged 75 to 84 and 3.0 million aged 85 and older are likely to have Alzheimer’s or other forms of dementia by 2030. As background, recent studies have even shown increased risk of Alzheimer’s among older adults who previously had COVID, with the highest risk in people age 85+ and in women.

These eight-year outlook estimates reflect that a sizable number of persons with dementia will need intensive and specialized memory care services as the severity level of dementia advances over time, and as challenges arise for those with dementia as well as for their family members.
Did You Know? In the 99 Primary and Secondary Markets as of 2022, there are 3.9 million Medicare beneficiaries with a diagnosis of Alzheimer’s or other dementias, according to NIC MAP Vision data. By metropolitan market, New York leads with the largest number of Medicare beneficiaries diagnosed with Alzheimer’s or other dementias (436,105), followed by Los Angeles (266,457), Miami (202,069), Chicago (164,917), and Philadelphia (113,918). These five metropolitan markets totaled nearly 1.2 million and accounted for 30.4% of the total number of Medicare beneficiaries with a diagnosis of Alzheimer’s or dementias in the 99 Primary and Secondary Markets.

Looking Ahead. According to NIC MAP Vision data, the total number of Americans aged 65 and older within the 99 Primary and Secondary Markets is currently about 36.9 million, this figure is expected to rise to 43.0 million by 2027. For the sake of this analysis, assuming that the 1 to 9 ratio discussed above remains unchanged, an estimated prevalence of 4.8 million individuals aged 65 and older are likely to have Alzheimer’s or other forms of dementia by 2027 within the 99 Primary and Secondary Markets.

The infographic below provides additional dementia measures across select NIC MAP Primary and Secondary Markets, including (1) The number of Medicare beneficiaries who have been prescribed dementia medication per memory care bed – a measure that captures the number of Medicare beneficiaries who are taking one of the top six medications that treat dementia, per total memory care beds in a metropolitan market, and (2) Cognitive impairment rate – a measure that captures the percentage of individuals aged 75 and older who are afflicted by a “cognitive difficulty” in the current year. “Cognitive difficulty” includes individuals who have difficulty concentrating, remembering, or making decisions. Cognitive impairment can also be described as early-stage Alzheimer’s disease or other forms of dementia.
These measures vary greatly by metropolitan market and reflect that, while demand growth is underway, markets’ needs and care plans may also vary.

Understanding demand is essential in planning a new senior housing development project. The aging of the U.S. population and the growing incidence of dementia make understanding the location prevalence of this disease more important than ever. A 2021 white paper published by NIC Analytics provides more information on dementia and how to utilize CMS Medicare data and NIC MAP Vision supply data when evaluating local conditions.

Characteristics of the Memory Care Segment – 99 NIC MAP Primary & Secondary Markets

Memory care is a senior housing segment that is specifically designed for residents with Alzheimer’s or other forms of dementia. Properties where memory care is offered may have a secured/locked environment, design features that highlight sunlight, staff that has specialized training in dementia, spaces where residents can move about safely, and interactive activity stations for residents, among other features. Memory care in this article uses the segment type designation from NIC MAP, meaning that the data used in this analysis are memory care units that can be located at any type of property.
In the second quarter of 2022, there were about 5,400 properties within the 99 combined NIC MAP Primary and Secondary Markets offering memory care services. Among these properties, 16% were freestanding – (i.e., offering memory care as the singular level of care), 73% were combined properties offering at least two types of service, except where independent living and nursing care are jointly offered, which comprised the remaining 11% that were continuing care retirement communities (CCRCs) offering at least independent living and nursing care and may include a full continuum of care including assisted living, memory care, and other supportive services to residents all on one campus. Across these 5,400 properties in the 99 Primary and Secondary Markets, approximately 85% are for-profit and 15% are not-for-profit properties.

As these statistics show, memory care is frequently offered in combined properties. Generally, these properties’ main concentration is the assisted living care segment, with a dedicated secured wing or floor for memory care. While the freestanding memory care model had seen significant increase in inventory prior to 2020, this trend has since shifted.

Notably, over the five-year period from first quarter of 2015 to first quarter of 2020, the memory care sector added 175 new freestanding memory care properties, averaging about 35 newly opened properties every year. Since then, the freestanding memory care model has experienced a notable slowdown in development, with the addition of just seven properties during the pandemic, over the period from first quarter 2020 to second quarter 2022.

Micro Fundamentals of the Memory Care Segment – 99 NIC MAP Primary & Secondary Markets

Supply dynamics. Historically, memory care segments had reported higher rates of inventory growth compared with independent living and assisted living segments. Notably, over the period from first quarter of 2015 to first quarter of 2020, the five-year period prior to the pandemic, inventory for memory care segments in the 99 Primary and Secondary Markets increased by nearly 46%, averaging 1.9% growth on a quarterly basis. As of the first quarter of 2020, roughly one in three existing memory care units had been developed over the span of five years. By comparison and over the same five-year period, inventory for independent living and assisted living segments grew by 10.8% and 17.8%, respectively.

Although at a slightly slower pace, supply dynamics for memory care segments during the pandemic remained strong and elevated compared with independent living and assisted living segments. Inventory for memory care segments in the Primary and Secondary Markets grew by 9.4%, from 143,502 units in the first quarter 2020 to 157,014 in the second quarter 2022, averaging 1.0% growth on a quarterly basis, while the inventory of both the independent living and assisted living segments have grown by 4.8% over the same period, averaging 0.5% growth quarter-over-quarter (i.e., half that of memory care segments)
**Demand dynamics.** Similarly, memory care segments in the 99 Primary and Secondary Markets had experienced notable demand growth ahead of the pandemic. In fact, over the five-year period prior to the pandemic, occupied stock for memory care segment increased by nearly 40% (from first quarter 2015 to first quarter 2020), the pace of demand growth has far exceeded that of independent living segments (9.6%) and assisted living segments (about 17.8%) over that same five-year period.

During the first year of the pandemic, occupied stock across memory care segments in the 99 Primary and Secondary Markets fell by 6.7% as more than 8,000 units on net were placed back on the market from first quarter of 2020 to first quarter of 2021. On a relative scale and over the same period, this occupied stock decline was larger than across independent living segments (which fell by 5.1%) but not as large as across assisted living segments (which fell 9.7%).

Since then and after five consecutive quarters of strong and relatively consistent demand momentum, occupied stock across memory care segments within the 99 Primary and Secondary markets has fully recovered after having increased by 11.8% from the pandemic lows; that’s equivalent to roughly 13,200 units that have been occupied over the period from the first quarter of 2021 to the second quarter of 2022. Remarkably, so far, memory care is the first and only care segment that has exceeded pre-pandemic occupied stock levels, up 4.3% or 5,148 occupied units over its level during the first quarter of 2020. Comparatively, second quarter 2022 occupied stock for independent living and assisted living segments remained 1.1% and 2.4% below their respective first quarter 2020 levels.

**Occupancy Recovery.** Occupancy for memory care segments within the 99 Primary and Secondary Markets recorded the second largest decline across senior housing segments and fell by 9.3 percentage points following the onset of the pandemic, from 83.3% in the first quarter of 2020 to 74.0% in the first quarter of 2021. Over this same period except for nursing care segments, the largest decline was recorded in the assisted living segments (down 10.4 percentage points to 75.4%), and the smallest decline was registered in independent living segments (down 6.6% to 83.3%).

From the lows in first quarter 2021, occupancy for memory care segments has been recovering relatively quickly and gained 5.4 percentage points to reach 79.4% in the second quarter of 2022, but it’s still 3.9 percentage points below its pre-pandemic level of 83.3%. Occupancy for independent living and assisted living segments recovered 1.6 and 4.5 percentage points, respectively, from their pandemic-related lows, but both segments still have the most room to make up with a gap of 5.0 percentage points from the pre-pandemic level (90.0%) for independent living segments, and a gap of 5.9 percentage points from pre-pandemic level (85.8%) for assisted living segments.

**By Campus Type.** Memory care segments within CCRCs had the highest occupancy (84.0%) in second quarter 2022, followed by memory care segments...
within combined and freestanding properties (79.3% and 77.9%, respectively). Freestanding memory care properties experienced the largest occupancy decline during the height of the pandemic, but in terms of occupancy improvements from pandemic related lows, memory care segments within freestanding and combined properties have been recovering relatively fast.

In conclusion, both macro and micro dynamics of memory care trends suggest strong fundamentals for the sector. However, understanding individual markets’ supply and demand trends, including labor supply and availability, is essential for senior housing stakeholders seeking to provide the best care and support for high acuity residents in memory care settings, optimize asset allocation, improve portfolio’s performance, or plan a new memory care development project.

The data featured in this article is available at the market level. To learn more about NIC MAP Vision data and about accessing the data, schedule a meeting with a product expert.
Finding Success with the Middle Market: A Conversation with Pilar Carvajal of Innovation Senior Living
by Matthew Derrick, Vice President of Development, Confluent Senior Living

The senior housing industry has been trying to solve the middle market dilemma for as long as I can remember. This challenging and critical problem needs a solution quickly, as the number of seniors that are too affluent for government subsidies and the ones that do not have the resources to afford the more luxury product that dominates the market is growing by the day. As this problem continues to steamroll our way, many groups have attempted to provide for the middle market.

One group that I think has a head start on the rest is Innovation Senior Living out of Winter Park, FL. Their dynamic CEO has been working in the space before the middle market was a buzz word at all of the senior living conferences following the Forgotten Middle paper by NORC at the University of Chicago which was sponsored by NIC. My conversation with Pilar Carvajal, CEO and Founder, Innovation Senior Living, was educating and enlightening as we discuss how she is leveraging her almost two decades of experience in serving lower income seniors into a thriving middle market senior housing provider. We discussed topics such as inflation, staffing challenges, diversity, equity and inclusion, as well as social impact fund investors.

Derrick: Pilar, let’s start with a little background on how you got into serving the middle market.

Carvajal: I was a mergers and acquisition consultant for Accenture in New York City, when 9/11 happened. I decided to move back home to Miami Beach. My mother was concluding her tenure as Secretary for Aging and Adult Services for the State of Florida under Governor Lawton Chiles. In her position, she oversaw all nursing homes, assisted living, home health—anything that was licensed in the state that was healthcare oriented. What she saw repeatedly was that, if you were a low-income senior, you would bypass assisted living and end up prematurely institutionalized in a nursing home. In her position, she wrote the Medicaid waiver for the state of Florida. With this, we licensed the very first public housing building. It was essentially multifamily that housed low-income seniors. With this project, we tested the theory that we could keep low-income people at home and serve them in a home environment versus a nursing home. For 15 years, we went across the country, and we repeated this concept for other public housing authorities and subsidized housing providers.

I thought what I was doing was pretty normal for the industry. It wasn’t until I went to my first NIC conference in 2016 that I realized the industry was doing luxury
and private pay. My experience was affordable and government subsidized. I gained a lot of experience on the affordable side. But what was really interesting was how many middle-income seniors my projects would attract. These were people that made too much to qualify for Medicaid but could not afford the more luxurious properties.

In 2016, I departed the family business and created Innovation Senior Living. I picked the word innovation, not because of technology, but innovation around how to care for a large demographic, the middle market, that is largely neglected by our industry. If you are low income, you have Medicaid. If you have resources, you have many options. But if you are middle income, an enormous demographic in this country, you have very few options.

**Derrick:** You bring up a great point, there is a whole other segment of the senior population that many people aren’t accounting for who are unwilling to pay for the luxury product despite the fact that they can afford it. They would rather sacrifice so that they can leave that money to their kids or grandkids. Since 2016, and then the “Forgotten Middle” paper, what has changed, and have you seen any major shifts in the industry?

**Carvajal:** There’s a lot of talk of the middle market, but I don’t know if the industry is ready yet. In general, the debt and equity markets are still targeting the luxury product because it is a tried-and-true model. The middle market model has still to be tested. Our approach is to acquire vintage senior living communities and reposition them for the middle market. Our properties include Medicaid and partnerships with Medicare Advantage plans. We incorporate adult day care in all our communities in order to offer affordable options. We have worked with sophisticated lenders that are interested in what we are doing. They understand we work with Medicaid. The fact that we own and operate helps because the lender sees the operator has got skin in the game. We are working on equity that can help us grow.

**Derrick:** What has changed about your model in this high inflationary period and the associated increased costs of labor?

**Carvajal:** It’s making it much more difficult. We have to find ways to improve our business model efficiencies. We are constantly renegotiating contracts. We use volunteers and partner with third parties to fill in the gaps. We do not hire nurses. If residents need nursing services, unfortunately we’re not able to care for them. We work with home health when we can, but there are restrictions on home health as well and how far they can go. We’re looking to amplify or increase our Medicaid beds in our buildings to help offset some of that cost but not every senior living operator has a lot of experience with Medicaid, and that’s really where the rub is with the middle market.

**Derrick:** The downside of partaking of government subsidies is you are beholden to their policy changes that can have a significant impact on your business.
**Carvajal:** In this case, absolutely. On the other side, government money is very secure. The government, at least to this day, hasn’t run out of money. My Medicaid dollars come into my operating accounts religiously. People run out of money. Once that person runs out of money, what do you do with them? In many scenarios, the government has to step in to help. We keep them in place.

**Derrick:** How are you dealing with staffing challenges, and how are you attracting workers to your communities?

**Carvajal:** Every industry is dealing with staffing issues. Everybody is trying to attract new and retain their current staff. I think a big part of it is our culture. I think that being Latina myself and being able to connect with my staff at that level has been a very powerful way to retain for Innovation. Our executive directors are so instrumental because they are having to make up the difference when staff do not. I do have one property where I have a predominantly Cuban immigrant staff pool, and the care at that building is bar none. We need immigration to bring in a staff pool that wants to do this work and has a passion for it. COVID was really difficult and burned out a lot of people. We need new blood to come in that is going to value this work and have a strong affinity for it.

Innovation does have the universal worker concept, so we have one individual that is capable and willing to execute on various duties, but at the same time, there are some staff that are not willing to do certain tasks such as housekeeping. It takes a lot of work on my executive director’s side to hire the right person. A universal worker gets to know the resident from how they slept, to what they ate and who visited them. It’s a special job that takes a special person. It really is.

**Derrick:** I completely agree. Immigration is the key. Not the only key, obviously, but such an important key to this industry. Not just the middle market, but senior housing in general. I think there are so many problems that reformed immigration policy solves. It brings in people that desperately want to be in this country, they want to work. It gets them in the workforce, it gets them engaged with their community.

**Carvajal:** There are some additional hurdles that staff have to go through. In Florida, staff all have to get level two background screens to work in our communities. Potential workers instead can go to Walmart, where that’s not the case. So there are some additional barriers that we’re going to have to address as well. For example, for low-income seniors, there are more cases of diabetes and there are certain levels of care that only a nurse can provide to residents with diabetes. I think at some point we’re going to have to look at how much can a med tech do? We may have to adjust our requirements on what services a nurse is required for. Can a med tech assist with administration of insulin? Maybe.

**Derrick:** Interesting. It’s an interesting concept. In terms of the middle market, just how has it changed? Are you seeing a lot of new competition?

**Carvajal:** I’m not seeing a lot of direct competition; however, I am seeing some of the high-end operators dipping down into my price point. Those operators...
need to grow occupancy, so they are offering deep concessions. I don’t think it’s necessarily because they want to do middle market, it’s just the stressor of having to keep your beds full. Maybe as a function of doing that, operators are going to find ways to eventually serve the middle market population out of necessity. They are going to be able to say, here’s a population that we can move in that is going to be at a lower price point, but let’s adjust operationally to care for them. Eventually they realize that they are serving the middle market more organically. I don’t know on the development side how you ever make the numbers work. Construction is so expensive. But I do think middle market can have a safe home in conversions. I have done many conversions of buildings into senior living, from multi-family, to hotels, to a trailer park. I think you can really bring down your costs by not licensing the building as well. So active adult and independent living models are other strategies for serving that middle market resident.

**Derrick:** How do you solve for middle market memory care? That seems like the unsolvable riddle.

**Carvajal:** Well, unfortunately, we have a building, and we just took memory care out of it because it was just too costly to run. Especially with the staffing issues right now, it’s made running memory care really difficult, and I am not sure how you solve that issue.

**Derrick:** Do you see the government in the future playing a larger role to help bridge the gap for this middle market so that other players can come into the space? There are so many great minds trying to figure this thing out in the private sector but can’t seem to figure it out. Does it get to a tipping point where the government needs to take a more active role in solving this problem?

**Carvajal:** We are at the tipping point. On the low-income side, there are low-income housing tax credit projects. Why couldn’t we apply tax credits to developers for middle market projects in order to make them financially feasible to construct? Perhaps a reduction in impact fee in return for building a middle market product. I know that the government is getting very involved on the home care model in terms of home health. That’s something we’re going to be looking into investing. Home health can sit right in the middle of being able to serve the community and create a feeder to the assisted living.

**Derrick:** Do you know if there are any groups that are trying to work towards things like the government subsidies for developers to actually make this a more profitable endeavor? Is there anything in the works that you’ve heard of?

**Carvajal:** Leading Age Florida serves two groups, the non-profit CCRCs and affordable housing. They are trying to find some solutions because they have a purview into both of these worlds. I know Argentum has been putting middle market on their lobbying agenda. Florida Assisted Living Association (FALA) represents a lot of the smaller players here in Florida. Everybody’s trying to figure it out. I honestly believe the middle market prototype is going to come more from an affordable angel up than from a luxury product down.
Derrick: That’s a whole other interview.

Carvajal: Let’s get some immigration reform on the table. But seriously, immigration reform is too difficult for the politicians. We need to look at our industry organizations to see how we can partner to resolve this issue on our own in the short term.

Derrick: I know you’re focused heavily in Florida. Any plans for expanding into other markets?

Carvajal: Yes, we’d love to. Georgia makes sense geographically. The problem with Georgia is there’s no Medicaid waiver. We are focused on the Florida market for now.

Derrick: You talked a little bit about financing, and you mentioned there’s some sophisticated groups that you might be working with. Are you also seeing more sophisticated capital coming into the middle market?

Carvajal: Social impact funds could make a real difference here. Money that wants to make a profit but also solve a societal problem.

Derrick: That is very interesting and something I am passionate about as well. I wrote an article last year that touched on that concept of engaging capital for the middle market that is willing to sacrifice a higher yield in return for the knowledge that their investment went to the greater good.

Carvajal: And then you can replicate, right? There are so many opportunities in this social impact realm. You can make a meaningful impact repeatedly, especially with this demographic.
Senior Housing & Care Industry Calendar for October 2022

10/3……………………Senior Housing Business Interface Las Vegas Multifamily (Las Vegas, NV)
10/9-12……………AHCA/NCAL 73rd Annual Convention & Expo (Nashville, TN)
10/16-19…………LeadingAge Annual Meeting & EXPO (Denver, CO)
10/16-19…………AHIP Executive Leadership Summit (Phoenix, AZ)
10/17-18……………2022 Managed Care Summit (Orlando, FL)
10/19-21………….PREA 32nd Annual Institutional Investor Conference (Washington, DC)
10/20……………..Seniors Housing Business Interface Midwest (Chicago, IL)
10/24-26………….SMASH 2022 (Las Vegas, NV)
10/24-27…………ULI Fall Meeting (Dallas, TX)
10/26……………..Skilled Nursing News (SNN) Therapy Summit (Virtual)
11/2-3……………..ASHA Chairman’s Circle (Sarasota, FL)

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