Equity and Debt Financing in Private Pay Seniors Housing & Skilled Nursing

Anne O'Shaughnessy:

Welcome to this afternoon's panel presentation, Equity and Debt Financing in Private Pay Seniors Housing and Skilled Nursing. Today, we're going to talk about the fact that operators and developers are always looking for way that they can partner with folks whether it be equity, debt to help them with their financing needs.

Anne O'Shaughnessy:

We have a terrific panel of operators, equity providers. We'll share some of the real-life stories of what they've done together and how they were able to move it from conversation phase to actually getting the deal done. Key takeaways include assessing sources of capital, structuring debt and equity and finally, getting the deal done.

Anne O'Shaughnessy:

Before we begin with today's presentation, I would just like to remind you that on the chairs, and I believe at the back of the room, there are surveys that we ask that you please complete. You can also do this online. It not only allows us to get better feedback on the presentation we've done today, but it also helps the NIC as they continue to plan programming for future NICs.

Anne O'Shaughnessy:

So my name is Ann O'Shaughnessy. I'm a managing director with CIBC Bank. We are a middle market bank, or now we're a large bank, that focuses balance sheet lending to the seniors housing and health care and skilled nursing markets. We're headquartered in Chicago but have a global platform with our parent CIBC, but really focus our lending on the United States. And we currently have financing opportunities or clients rather in the 42 of the 50 states.

Anne O'Shaughnessy:

So I'd like to introduce our terrific panel today, allow them to briefly speak to themselves and what their companies do. And then we'll get the panel presentation started. Kathy, I'm going to start with you.

Kathy Sweeney:

Sure. So my name is Kathy Sweeney and probably no surprise, they put the Irish ladies at the same end of the panel. But I am a managing partner, co-founder of a private equity firm based in Boston Massachusetts called Blue Moon Capital Partners and we are exclusively focused on the seniors housing sector.

Michael Damone:

And I'm Michael Damone, I'm president and founder of Cedarbrook Senior Living. We're based in Detroit and we have, at this point, three large buildings, this is my third company and we are partners with Kathy and happy to be here today.

Brandon Taseff:

My name's Brandon Taseff. I'm with KeyBank Real Estate Capital's health care group. We're headquartered in Cleveland, although we're a national platform. And we provide capital from equity to debt to the seniors housing and skilled nursing space.

Johnathan Slusher:

My name's Johnathan Slusher. I run the health care practice at Northwind. We are a real estate private equity investor, really serving as the real estate and health care asset allocation arm for each of our partners, so we act much more like a family office. We own about at $2 billion portfolio of real estate in Manhattan and then a seniors housing portfolio. We are both an owner and a lender in the space.

Anne O'Shaughnessy:

So to give the panel an idea of who all is in the audience, I'd like to ask you just a couple quick questions and by show of the hands, if you can just raise them, who's the owner or developer of AL/ IL or Memory Care? Thank you. Anyone in here with skilled nursing? How many are currently looking for debt partners/financing? And how many for equity partners? A really nice balance on the group. Terrific.

Anne O'Shaughnessy:

So I apologize, something got stuck. So Jonathan and Brandon, tell us a little bit about how the two of you first met, how long it was before you did your first transaction together. And we'll start with you both.

Jonathan Slusher:

So Brandon and I met about 10 years ago. I began my career at KeyBank and was part of the Institution and Real Estate Group for five and then part of the healthcare for five. The past five, I sat right next to Brandon. I transitioned over to Northwind about a year ago and my portfolio today, KeyBank is actually the lender of our skilled nursing portfolio and our assisted living building in Manhattan. So I basically went from one side of the desk to the other.

Jonathan Slusher:

So when I joined Northwind, we made a conscious effort to look to just to lend in the space versus just being an owner. Idea being to find good operators, allocate capital to good opportunities. I knew KeyBank is obviously active in the space because I spent a good amount of time there. And our first transaction that we did together made a ton of sense culturally. We like each other and so very unique relationship relative to most owner and lender relationships.

Anne O'Shaughnessy:

Anything to add?

Brandon Taseff:

No, I think he summed it up pretty well.

Anne O'Shaughnessy:

Okay. So tell us about this first transaction that we have up here on our screen.

Brandon Taseff:

Yeah, so the transaction he mentioned was the deal you got behind you called Peace Capital. So this was a really interesting deal. The buyer was Peace Capital who operates under the name Complete Care. It's founded and owned by Sam Stein, I'm sure many of you know. And he bought a portfolio of five seniors housing properties in Ocean County New Jersey. Total purchase price was $170 million. What made the

deal really interesting from our perspective was that Sam already had a really nice regional footprint in that county and by buying this portfolio, he would become the largest, most dominant player in the space.

Brandon Taseff:

So while the portfolio was a good portfolio, he had the ability to really make some unique enhancements that other buyers wouldn't be able to do. So that was a really interesting part of the transaction from our perspective.

Brandon Taseff:

Some of the key hot points for the buyer was that he needed financing that was certainty of execution. It was a large transaction, he needed lending partners that could write a check at the end of the day and get a deal closed. And it also, as I mentioned earlier, there was a lot of enhancements to the portfolio, so he needed to align himself with lenders that are comfortable underwriting value creation in portfolios and look at a value-add deal, and that's something that KeyBank and Northwind are very comfortable doing. And then I think you want to talk about structure a little bit?

Jonathan Slusher:

Yeah. So what made this transaction unique is that Sam Stein is developing a pretty significant operating portfolio and a management team and he's very much a long-term owner and operator. And the type of capital that he was looking to structure for this acquisition was somewhat unique in that KeyBank plus the other syndication, the syndicate lenders came in and did a typical mortgage secured acquisition financing. And we came in, initially pitched Sam to be his equity partner. He's backed by a very wealthy family, so he did not need that capital from us. But we then decided to rotate down into mezzanine position.

Jonathan Slusher:

And what makes us unique is we don't share in the mortgage, we sit at the holdco level, so we look more like preferred equity, and our capital exists for 10 years. Has very light convenance, we act way more like an equity partner to Sam which is good for him, but it's also good for the bankswho to tend to underwrite and risk right to their last dollar risk. Which if we share in a mortgage, would be tougher for that deal to get done. So we look like equity, but from Sam's point of view, we're simply a lender and he gets to control the upside to the transaction. Which is very important because of the value creation that this portfolio has.

Brandon Taseff:

And then given that fact that we view him more as equity than actual competing debt or debt above us in the stack, we're able to offer better economics so the all lend cost of capital that Sam and his team was a lot more creative at the end of the day.

Anne O'Shaughnessy:

So was there anything unusual that came up during the transaction that you hadn't anticipated and had to pivot to address?

Brandon Taseff:

Yeah, I wouldn't say we didn't anticipate it, but I would say that one of the more interesting parts of the deal that we don't run into very often is that it's a mixed portfolio. So it had an independent living building, it had an assisted living building, it had three skilled nursing facilities. And anybody that knows those spaces very well, they're very different business models. And each one of those properties had a new business plan that we had to get comfortable with. So from a lenders perspective, it was just a much more heavy underwrite because you couldn't just cover off on a couple different things, you had to kind of dig into each specific property. So different in that sense of the word, but not something that we didn't expect.

Johnathan Slusher:

One thing I'll mention too, obviously independent living and assisted are different permanent financing sources than skilled nursing. Because of where we sit in the capital stack as preferred equity, that leaves Sam a ton of flexibility to go to HUD to go to Fannie/Freddie, to go to another bank, whatever it may be and our capital survives at execution. That's very important for the senior lender because they're last dollar risk is simply his last dollar risk. Instead of your typical transaction and AB structure where the entire stack has to get repaid when you go to the permanent financing markets. We're tenured money so we survive wherever that capital stack may go and we're way more focused on our capital just being allocated to Sam and this portfolio and backing him as a good operator.

Brandon Taseff:

Yeah, and I'd add to that, that the senior debt then had to be specifically structured to allow for different timed releases to different repayment sources and how that could ripple through the releasing assets. So it was very good that we partnered with a Northwind who could survive HUD or Fannie/Freddie and that gave our borrower a lot more flexibility and timing of refinances if the assets got to the point of stabilization, they could go right away, we didn't have to worry about total cashflow at that time. And then our loan, the senior loan, provided those kind of structured releases to kind of maximize flexibility in repayment.

Anne O'Shaughnessy:

And in hindsight, now that the transactions closed, would you do anything different?

Brandon Taseff:

No, not at the moment. It's early, it's a pretty fresh deal. But yeah, no, I think it's structured right. Sam's the right guy for the job.

Anne O'Shaughnessy:

Terrific. Jonathan, anything?

Jonathan Slusher:

No, same comment. What I would add is this type of transaction is definitely unique in that it spans across a continuum and it's obviously a higher leveraged transaction. So the asset management day-to-day, weekly, really understanding what's going on and being very integrated with Sam and his team, it's extremely important because there will be volatility, there will be issues. And we as a team, senior lender plus the mezz lender, are highly integrated in those conversations, which is very important. And Sam does not look at us as two different parties. He looks at us as just his group of lenders, which is very important for this type of transaction.

Anne O'Shaughnessy:

Thank you. Here's another picture of just the campus and the community. Kathy and Mike, tell us how long did you know each other before you had the opportunity to actually work together.

Kathy Sweeney:

You want me to... I'll start.

Michael Damone:

You can start.

Kathy Sweeney:

So Mike and I, and this hopefully wouldn't apply to people in this room, but we've actually known each other for 30 years. So I'm not saying you need to know your capital for 30 years before you do a transaction.

Michael Damone:

It was a tough negotiation.

Kathy Sweeney:

It was a tough negotiation, yeah. Yeah, so most mortgages are paid off in 30 years. But really, Mike and I first met when neither one of us was in the seniors housing industry. We were in commercial real estate. I actually knew Mike’s dad who was a partner in a firm that I was with in Boston back at that time in the early 90s. But what that did was it developed a very enduring, long-standing relationship so that when Mike's career pivoted to senior housing, and my career pivoted, really separately from one another and then we came back together once we were both entrenched in the seniors housing sector.

Kathy Sweeney:

So once we both found each other again, we continued to stay in touch and maintain that relationship and just as personal and professional friends and colleagues to compare notes, talk about what each other was doing. And just generally stay pretty connected. And then, I won't tell all the story, but from there, when there was an opportunity, we sort of recognized it instantly and we were able to kind of pick the ball and up and get a transaction over the goal line pretty seamlessly.

Michael Damone:

Yeah, the timing worked really well because Kathy was in the process of raising her first fund and trying to find some seed deals. We had been in a situation with our Northville Michigan property where... Actually, our original equity partner we made the commitment to got sold and they decided that they weren't going to do our transaction. And that really opened the door for us to work together. And we were able to tap the breaks to give Kathy enough time to get the fund closed. And then, from there, we were the first deal in the new fund.

Kathy Sweeney:

Yeah.

Anne O'Shaughnessy:

And so tell us, initially, the Bloomfield project, which is up on the screen, wasn't organically financed with Blue Moon. It was with someone else?

Michael Damone:

Yeah, it was. So our Bloomfield Hills project, that was a long hard project to get done. It was a six year entitlement process. We went through the great recession and really a depression in Detroit. And as we were starting to come out of it in '12, and it was time to close on the land and try to get the project moving forward, we were introduced to one of our local Taft-Hartley funds. Because they were local, they understood the uniqueness of the site that it's on. They stepped up and did the equity, plus they had the benefit that they're goal is to create construction jobs, build projects and they're somewhat agnostic ins terms of whether they want to hold it or sell it and recycle their capital.

Michael Damone:

And the timing happened to be working for us in that Bloomfield leased very, very quickly. And we were getting ready to do our third project in Rochester, and they wanted to do that. So we were able to take the capital out of Bloomfield. Kathy came in, took them out and then we moved their capital onto Rochester. So it's just a matter of aligning capital with the particular need that you have at that time.

Kathy Sweeney:

And I'll just dovetail off that, if that's okay?

Anne O'Shaughnessy:

Of course.

Kathy Sweeney:

And talk about the fact that when Mike was getting ready to do that... Well, we'll talk about the logistics of that discussion. But it just dovetailed well with where we were with Blue Moon Capital where we had a co-mingled fund to start looking for more, call it higher risk strategy such as ground up development or acquisitions that had some story behind it or value add opportunity. But we also had an investor in that fund that recognized our ability to access the market for more core long-term holds, stable acquisitions just really straight down the fairway acquisitions.

Kathy Sweeney:

So it was a perfect alignment of our being an investor with Mike already and the Northville, Michigan development at the same time that Bloomfield leased up and stabilized. I mean, really, you have to toot your horn. Bloomfield Hills stabilized in a year, and in fact, Mike never actually had to dip into operating deficits. So just an amazing story. Benefit of being six years in the entitlement effort, you get a lot of free press in the local community.

Michael Damone:

Lot of marketing time.

Kathy Sweeney:

Yeah, of course. So in any event, just sort of a confluence of circumstances that led to a unique opportunity.

Anne O'Shaughnessy:

Well another unique aspect of the transaction is at a NIC conference, I think-

Kathy Sweeney:

[ASHA 00:18:08].

Anne O'Shaughnessy:

Oh, it was ASHA.

Kathy Sweeney:

That's okay.

Anne O'Shaughnessy:

Excuse me. But the two of you sat down and kind of sketched out on paper what you though that you could do.

Kathy Sweeney:

This was our underwriting. This was the package.

Michael Damone:

Yeah, it was the underwriting, it was the OI, it was-

Kathy Sweeney:

It was the package, yeah.

Michael Damone:

It was the whole package, right there.

Kathy Sweeney:

We were supposed to be paying attention to a panel.

Michael Damone:

Yeah. For all of you in the back taking notes, we understand.

Kathy Sweeney:

And the other thing I just want to say about this, it just shows you the value of being a sponsor, sponsoring the notepads, because Capital One has nothing to do with this transaction. But Mike, that photograph is actually framed in my office, so every time I look at the transaction evolution, I'm looking at Capital One. So anybody from Capital One here, you can take credit for that.

Michael Damone:

We actually did that in January of '17-

Kathy Sweeney:

ASHA.

Michael Damone:

At ASHA in Phoenix, and I carried that around in my briefcase for a year and a half until we closed the transaction and then had it framed and sent Kathy the original. So very, very unique deal and it speaks to the relationship and the trust that she and I have with each other.

Kathy Sweeney:

I don't know if you can read it, but basically it says, it starts with, "You interested?" And of course the answer is, depends and then some rough numbers and then how we would look at it. And then what kind of timing we needed, what kind of terms he needed and what we would could do and what the timing would be and all that on three pieces of paper.

Michael Damone:

Yeah, in about 45 minutes.

Kathy Sweeney:

In about 45 minutes, yeah. And the interesting thing is that was the beginning. But then, of course, what has to happen is you got to do underwriting, you've got to do Excel models, you've got to engage other people in the office. You've got to go out and see the asset, which we had but we hadn't seen since it stabilized. We had to get all the professionals scouring all over it and all that kind of thing. But the end of the day, that's the deal we did.

Anne O'Shaughnessy:

Was there anything else unique about how you got together and structured this? Anything that needed to be overcome that you didn't envision at the pen and paper?

Kathy Sweeney:

I don't know if there were anything. I'd say the final where we landed to where we talked, was about a 2%, you said, delta…

Michael Damone:

Yeah, less than 2%.

Kathy Sweeney:

Less than 2%. We knew Mike so well and while we were evaluating investing in Northville, we had scoured through Bloomfield Hills continuously. And really, even going back before that, while Blue Moon was raising its first fund, there was a period of time where we thought we might have the fund organized in time to be Mike's equity on Bloomfield Hills. So it wasn't as if that ASHA meeting was really and truly the first time we had ever heard of Bloomfield Hills, we had worked with Mike on all of his underwriting during the development phase before it even broke ground and looking at it critically at that time as a potential equity provider. So we did have that sort of background and roots, which I would say was pretty unique.

Michael Damone:

Yeah.

Kathy Sweeney:

And then this is Northville.

Anne O'Shaughnessy:

And then we have Rochester, another community that's Cedarbrook.

Michael Damone:

That's the one I mentioned with our other Taft-Hartley fund. We finished that and opened that in October.

Anne O'Shaughnessy:

And what I do want to say is that at the end of this session, we'll leave about 10 minutes so that you can ask questions of the panelists. But moving forward with questions, I guess Kathy, we'll start with you. What criteria do you use, two or three things that help you decide whether this is the right opportunity for your firm?

Kathy Sweeney:

Sure. So we have what we call our filters and there are three printed filters that we all have ingrained in our heads and we're always looking at in all of our materials, they have them on the top of each page, but there's really one that's important, people, product, market. But really, it's people, it really comes down to the people.

Anne O'Shaughnessy:

Mike?

Michael Damone:

Yeah, so for us, I've talked about aligning capital with the whatever it is that you're doing. So in our case, a development deal that Taft-Hartley fund made a lot of sense for Bloomfield and that transaction. We were looking for a 10 year hold at a minimum. And so that fit that transaction. I echo Kathy's comment though, at the end of the day, it all comes down to people. Who do you trust, who really understands the market? This is my third cycle in senior housing and we've seen a lot of people come and go from the industry over that period of time. And, at least in our judgment, we want to work with people with a long track record in the industry. And we know that during the next recession or the next downturn in our industry, that that capital's still going to be there because that's when get some really good opportunities.

Anne O'Shaughnessy:

Brandon?

Brandon Taseff:

Yeah, I probably echo the group here. But sponsorship and the operator is foremost important to us. I think folks tend to underestimate the amount of operating leverage there is in this business and just little hiccups and flu seasons or staffing issues can cause a big change in cashflow. So we like to align ourselves with folks that know the space, have been through the cycles, can be nimble and adjust on the fly and that's served us well so far.

Anne O'Shaughnessy:

Jonathan.

Jonathan Slusher:

Same comments. Operator always first, expertise in their markets, but also their character because it's people you deal with on a daily basis that you want to enjoy working with. But what I will say is that the best operator cannot fix a bad market so fundamentals do come back to market in real estate always. But you need a very good operator to make the business work.

Anne O'Shaughnessy:

So there are a number of investment strategies up on the screen now. Johnathan, we'll start with you. Private equity can be nimble. Help us understand I guess how you look at things and why should somebody choose that route versus another route going with a REIT or something else?

Jonathan Slusher:

Yeah, so private equity in itself is pretty diverse from your typical kind of large open-ended funds that focus mostly on private pay seniors housing, all the way to folks that look like Northwind, which is really us investing our partners and our risk cap on the transactions. The way that we function is we have a broad thesis on healthcare, the continuum is important, whether it's seniors, whether it's skilled, whether it's real estate, whether it's owning an operator. And it's very important to view the space in that way. A lot of people like to think that we're buying real estate or lending to real estate assets, but we're all just taking some level of operating risk, so everyone's valuing EBIDAR and its really important. Because of that, we focus more as traditional private equity.

Jonathan Slusher:

So really, if you look across private equity, this is one of the single industries that most private equity firms don't own an operator. Traditional private equity is integrating all of the operating expertise, also buying hard assets and really looking to develop long-term value creation, so that's kind of where we're focused. And whether we're a lender, whether we're an owner, whether it's a lease, whether it's a joint venture, really doesn't matter. It's whatever makes sense for that asset and that partner in that point in the cycle.

Jonathan Slusher:

So private equity is definitely nimble because most private equity firms really don't have a box. They're not public, they don't have analysts to explain what they're doing. And it's just a very different type of vehicle. With that said, private equities also very wide-ranged. So we could kind of talk about this subject forever. But that's why Northwind is unique in the space as we view transactions way more of a traditional private equity investor and not just a real estate investor.

Anne O'Shaughnessy:

Thank you. Kathy, switching a little bit, if there are different investment strategies that work for someone, how do they choose the right path?

Kathy Sweeney:

That's a good question. I think what Jonathan talked about was great and I'll just talk about what we do as a comparison. And then that way you can sort of... Everybody here on the panel is private, so we're probably not going to sit here and talk about how you should go with the public's capital source, but we can talk about the differences.

Kathy Sweeney:

From a Blue Moon Capital perspective, everything we do is in that private equity quadrant, lower left from where you guys are sitting. We are the third bullet down, which is joint venture with operators. And we like that joint venture structure because we feel like we are shoulder to shoulder, side by side in everything that goes on in that business. So be it a capital event, an operational event or what have you, we are in it together.

Kathy Sweeney:

Now, the day to day control resides with the operator, of course. It has to, they have to be able to make decisions about their business on a day to basis. And we spend a lot of time underwriting and evaluating the operator for that reason, because they have day to day discretion. That said, the major tool that's used to get capital comfortable with that kind of autonomy is the annual budget and business plan process. So really, that time of year when both parties are sitting down and saying, "Here are the strengths, the weaknesses, opportunities, threats, what have you, risks, mitigants in the business. And here's how we want to be positioned for the year going forward. Here's what it should look like, here are the tactics we're going to use. And then these are the sort of the financial projections that we anticipate will be produced as a result of all that thought and effort." And so the operator has the ability to go forth and operate on that basis.

Kathy Sweeney:

With regard to what you should look for, I agree Jonathan, I think it's a great alignment with an operating business to be on the private side. And I absolutely admit my bias because that's the side I've been in. I have worked with public equity, I've been an employee at a public equity shop in the crisis. And that's just a really tough place to be relative to that quarter to quarter. Somebody said the other day, it's a long-term business and when in you're the public realm with 90 day result expectation. So that's a tough place to be.

Kathy Sweeney:

So I think you have to decide what would be a best fit for the size of your organization, where you are in maturity cycle of your organization. You want an active capital partner or passive capital partner. Additionally, there are capital partners that will only go so far up the capital stacks. So you might want a capital partner that provides, if you're on the equity side, that might be comfortable with a 80% loan to value and then they're part of that 20% of the capital stack. And other equity is going to want to be well lower levered in take more of the capital stack. Cost to capital is, I'm sure for all of you who are in the capital demanding side of the business, of keen interest. So wanting to go places where you can have the most efficient access to the cheapest cost to capital that will let you run your business on a day to day basis is probably all comes down to.

Anne O'Shaughnessy:

Thank you. Brandon, Key Bank, you provide senior debt, do you also provide other vehicles that folks in the audience could maybe consider when considering different investment strategies?

Brandon Taseff:

Yeah. So well KeyBank's have been in the senior housing lending space for 30 plus years, and over that time, we've built out a pretty robust platform. We've got a capital markets team that raises equity for the public, raises public bonds for the public REITs. We have a self-side advisory service that we sell a lot of our large institutional clients portfolios. So we do have the equity in public side covered.

Brandon Taseff:

And then with respect to the balance sheet and senior lending, we do both on and off balance sheet. So with respect to unbalance sheet financing, we do large bridge loans to help folks close acquisitions quickly. We'll do interim loans where you may need some seasoning, some value add, transactions where you need some just time to get stabilized before you execute on your permanent takeout. And then we're also a pretty large corporate revolver of secured and unsecured to both public and private REITs on funds. So we kind of cover the full gamut there on the on balance sheet side.

Brandon Taseff:

And then with respect to off balance sheet, we've got the Fannie May platform, we've got a Freddie Mac platform, we've got a HUD platform, we've got CMBS, life company executions for the different property types. With respect to mezz, we don't typically provide mezz ourself, but we partner with a lot of mezz players, such as Northwind and others. So to the extent of transaction needs, a slice of mezz for higher leverage or for other reasons, we can bring those players to the transaction and we work well with them. In certain instances on the fund or larger REIT space, we're comfortable providing structurally subordinate financing, something that might not be first mortgage secured. Might be secured by a pledge of equity above a mortgage that provides just additional leverage to different type of capital and a little bit more leverage to certain funds and REITs.

Anne O'Shaughnessy:

Thank you. Mike is the only operator up here. Have you looked at any of these other investment strategies as you've continued to grow your organization? And if you don't mind sharing just some of your thoughts for what was best for you and the organization, the path you chose.

Michael Damone:

So over time, both myself and my partner Bob [Merser 00:33:50], because we're a small company, we have to really define what we want to be and how we're going to operate, right? We can't be all things to all people. And the one thing that I sort of come back to time and time again is, I like low leverage because things go wrong and I like to be able to sleep at night and make sure we have enough cashflow to pay our debt service and I like owning the real estate because it gives us a lot of flexibility if we need it.

Michael Damone:

And so we have looked at higher leverage. We looked at mezz debt, we've looked at REITs. But for how we want to run our business in how we view the world, it just hasn't been a good fit. It's not that there

are not great people out there. And for your businesses, it may very well work extraordinarily well, there's a lot of good people out there. But for how we want to run it, kind of plain vanilla, 90/10, 95/5 deals, 60% that is kind of right were we want to be.

Anne O'Shaughnessy:

Thank you. So now moving into the labor markets, construction. Some things seem to be I guess top of the mind today with what's happening. And Mike, specifically for you again as an operator, looking both I guess first at the labor markets, how has that been for operating within your communities and how have you dealt with some of those challenges?

Michael Damone:

Well, you mentioned construction. So one of the things, we are fully integrated. So we have a development arm, a construction arm and we have the Cedarbrook operating arm. So in terms of labor across all those platforms, it's really hard. I mean for the operators in here, I'm not going to say anything that's unusual or that you haven't dealt with yourself. But labor markets are so tight right now, we are spending lots and lots of time focused on employee retention and making sure that the good people we have stay with us. Because finding good people to replace people that leave is really, really hard.

Michael Damone:

We found that our labor rates have been somewhat fluid. Not as much lately, they seem to have stabilized a little bit. But the second half of '18, into the first quarter of '19, we had some really big jumps on our labor costs. Generally speaking, we estimated it was somewhere around $3 an hour across the board. And when you think for you guys that were operating big properties, so you're talking hundreds of thousands of hours. So that has been, without a doubt, our single biggest challenge. Leasing hasn't been a problem. I know others have experienced that. But for us, it's always been just retaining the right people.

Anne O'Shaughnessy:

Kathy and Johnathan, I guess from your perspectives, how does the challenge within the labor market and construction markets in certain areas effect your underwriting and how you look at a project?

Kathy Sweeney:

I'll start. Yeah, no, I mean its sort of topic number one across the board, construction and operating. So on construction, it's tough as well. Getting labor on the construction side, having contractors working right alongside you during the plans and specs phase, during the drawing phase and doing continuous bidding and things like that. It's just essential to have your contractor right alongside you. But even still, just expect some surprises. Put some healthy contingency in there for labor, and of course now, materials disruption. So I'm glad I'm sort of past a lot of that right now.

Kathy Sweeney:

And really cost for a lot things. So materials cost, labor costs and then cost of debt. I think back, Mike, to the Northville development that we did and your construction is floating rate based on Libor right now. And back when we first broke ground on Northville, Libor was 18 basis points. Fast forward to today and whether you're Libor or SOFR, but Libor is about 150 and change. So just the interest cost on your

budget has increased dramatically. And let's face it, with supply in the marketplace, you've got to make sure you're being very rational about your lease up. So you're offering deficits and things like that.

Kathy Sweeney:

So as a result, we are not underwriting the same return on cost today as we underwrote four years ago when we started Northville. They've come down for sure. And returns overall have come down. Now, alongside with that, so have cap rates come down. Particularly for well operated, high quality, well run, highly stabilized property. So we've sort of balanced that out.

Kathy Sweeney:

And then on the labor side, everything that we're underwriting, we're going through all the positions, all the shifts and we're looking at all the wage rates. We're in a lot of markets now, so we're contrasting that with our actual experience where we are. And where we see outliers, we're definitely raising those conversations, bringing that to the fore. And we are doing transactions with highly experienced operators who have demonstrated the ability to attract talent, train talent, retain high retention policies and practices and track record on the labor side. So it's definitely changed things.

Anne O'Shaughnessy:

Jonathan, do you have anything to add?

Jonathan Slusher:

Yeah. Not easy topics. The way that we mitigate the uncertainty is we invest across the spectrums, so we're all the way from independent assisted memory care to skilled nursing. And the new seniors housing transactions that we look at, including acquisition and new development, we typically like to find opportunities that are near our existing skilled nursing assets or near markets we know where there's a good skilled nursing market. Our primary operator that we partner with is mostly a skilled nursing operator, he's been in the market for a very long time. They know staffing and if they can staff a skilled nursing building well, they can staff an AL building fairly well. So that's how we mitigate that risk a bit.

Jonathan Slusher:

On the construction side, if you pick the right market and you're on the right corner, there's so much value creation for where a not even close to stabilized brand new building will trade, that construction costs can still be able to run and the economics still make sense.

Anne O'Shaughnessy:

Thank you. How does KeyBank look at these things Brandon?

Brandon Taseff:

I think it changes over time as new hot buttons come up and labor and over supply have been issues foremost in our minds as well. I think, gosh, I feel like three years ago, we were all underwriting to 18 month fills and I think that's probably 36 months in some markets. And so just making sure, when you're looking at deals, that you're being reasonable and rational about the expectations. And while we would all love for the buildings to fill in 18 months or less, making sure that there're enough reserves, there's enough capital in the deal to get through 36 months if it's one of those.

Brandon Taseff:

Labor, folks didn't use to underwrite a lot of labor increases. So when we get sets of pro formas now, if there's not a real good thought about how you're going to handle labor costs in the future, it should be a red flag. So we have those conversations.

Brandon Taseff:

And also point out that really important, and I'm sure Mike can say this as well, is who are the administrators at the buildings, who's the EDs? We spend a lot of time meeting with EDs and administrators as a lender because we know that that drives performance. And if there's a lot of turnover at those facility level management positions, that the properties tend to underperform. So as much as you're trying to kind of stay up in the macro, looking at just the financials on Excel, asking those key questions about competition in the market, are you retaining your EDs, your directors of nursing if you're in skilled nursing, your marketing managers, tenure at the buildings? Those are all really important underwriting questions that we consider when we look at new deals.

Michael Damone:

Can I piggyback on that?

Kathy Sweeney:

Yeah, and then I might want to piggyback on you.

Michael Damone:

Okay, you want to go first?

Kathy Sweeney:

No, no, go ahead.

Michael Damone:

So you mentioned EDs, big, big issue. You saw the picture of our Rochester project, probably one of the best buildings in the market. We've been looking for an ED for six months. We can't find one who has the skillset and fits our corporate culture to our satisfaction. We knew this day was coming and we've been planning for it for somewhere around a year and a half. But we've come to the conclusion that we've got to grow our own.

Michael Damone:

And so we identified some high potential individuals within the organization from a lot of different positions. And we tapped them on the shoulder and said, "We think you have potential to grow." And then we started training them. Started sending them to various classes, giving them credentials, giving them exposure to the whole organization and trying to give them the tools to see if they could ultimately grow into an ED.

Michael Damone:

Because at the end of the day, at least in one of our buildings, they're running a 12 to $14 million a year business. You don't want to juat turn that over to anybody. And so we have now taken the approach, for the

most part, we're growing our own internally. And then we're going to provide them, as we promote people up, we're going to try and provide them as much as the support we can to be successful.

Kathy Sweeney:

Yeah, and I just want to dovetail on this whole topic because it's so critical that the labor piece and the talent piece. I said earlier, people, product, market are what we look at. But really, it's about people. And there's another presentation I did not too long ago where I really said, "It's really culture, culture, culture." And so that's the part that comes from the people. And you were touching upon this and I wanted to amplify that because walking into that building, you really get a sense of... Well first, you want to know corporately what's the culture at the top? And then go out into the field and make sure you see that culture in action. And you can tell when you walk into a building if that leader of the building gets it and really runs that business with that culture first and foremost.

Kathy Sweeney:

So that was one point I wanted to amplify on that. And the other is, it's not just about wages for the labor. It's about culture, environment, do you care about me? And part of do you care about me is reflected in benefits. So it can be anywhere from health and wellness benefits to paid time off and some flexibility. And even now, down to the point where there are apps that are being used in some of the labor management tools that allow some of your hourly workers to be paid that day, have money deposited in their account that day. And those are things that are really looking at the employee and what their stresses and strains are. Because you have a culture of caring and wanting to see that kind of translated all the way through labor and the organization.

Anne O'Shaughnessy:

Thank you, thank you all. Moving onto geography, we'll start with the debt and equity providers on the panel. Do you have geographic limitations of what you will do? Are there buckets that you'll say, "We've invested so much in this geographic area, we're not going to do anything more until something else happens?" Can you give us... Kathy, I guess we'll start with you, your thoughts on that.

Kathy Sweeney:

Sure. So we focus on the primary markets. We oftentimes call it the [NIC 00:46:28] top 50 markets. And for a number of reasons, we do tend to have investments and ground up development and some stabilized acquisitions that are fairly pricey. And so we need to be in places that have strong employment market, strong because the adult child contributes. We also have to be where the housing markets are strong. And those do tend to be... And there are some barriers to entry. So the primary markets tend to have those attributes.

Kathy Sweeney:

As a result, we are heavily invested on the Coast and then with select markets in between. Upper Midwest has been a very good locale for us between Chicago and Detroit. Detroit was Mike, and Chicago was Senior Lifestyles and then we're in Denver. Very heavy in Denver, which we have a lot of great attributes.

Jonathan Slusher:

So I'm in Cleveland and our primary office is in Manhattan. So doing deals on the West Coast, just a long couple days to fly out here, so generally don't come to the West Coast primarily because we don't want

to be just a passive owner of a building. We want to be able to, in some way, create some value, be close to the people who are there on a daily basis and really be part of the process of what we own.

Jonathan Slusher:

So we're way more focused on not necessarily geography, but operators and portfolios that have some level of concentration to both ensure that they know that market extremely well, they can staff the buildings really well. And usually when there's concentration, that team has been there for quite some time. And it's not an aggregation of assets across the East Coast. It's like our portfolio in Cincinnati, Northern Kentucky, the CEO or operator can drive to all eight buildings in a day, and he does, often, and we find that very important.

Jonathan Slusher:

So our focus on, we don't necessarily have a said geography, we focus more on finding operators and portfolios that have created some level of concentration and scale in wherever they may be.

Anne O'Shaughnessy:

Brandon?

Brandon Taseff:

Yeah. No, we don't have any restrictions or buckets. Obviously we watch everything globally to make sure we don't get too long in one sport or the other. But generally speaking, we try to align ourselves with some of the best in class owners and operators in the space. And we'll tend to follow them where they go because we trust that they know their markets, and they know the right places to be investing and the right places to be growing their business. Another piece that somewhat is a mitigant for us is that we tend to do larger deals, larger portfolio deals which have some built in diversification from a markets perspective. So we don't usually have a lot of single asset sites that are just out in tertiary markets where you might have some market risk.

Brandon Taseff:

But yeah, generally speaking, it's going back to criteria. Who's the sponsor, who's the operator? And the market, although important from a real estate 101 perspective, the owner-operators tend to outweigh that and we trust that.

Anne O'Shaughnessy:

And Mike, from an operator perspective, how does geography and where you're deciding to develop and build your business come into play? You have three communities in Michigan?

Michael Damone:

Right.

Anne O'Shaughnessy:

Can you give some insight just on that thought process?

Michael Damone:

Yes, so what I guess I've witnessed after being in this business for 30 years, almost 30 years now is that the operators who, and this is a generality, right, others have been successful. But as a general rule, the operators that focus on one, two, three markets and really understand those markets, tend to be the most successful operators.

Michael Damone:

So for us, as a three building operator in Detroit, would we go to Columbus or somewhere else? If we could get economy as a scale, yeah, probably we've reached the point where we have the infrastructure and the management team that would allow us to do that. Would I go to Columbus to run one 80 bed building? No, we would not do that. You can't be successful, in our minds anyway. And the way we operate our businesses with just one small building in a distant market that you have to travel to. So for us, it's about economy as a scale. Because from that comes efficiency in recruiting, efficiency in HR, knowing the surveyors. I mean there's so many benefits to really understanding your market that helps make you successful. That's what we're looking for.

Anne O'Shaughnessy:

Terrific. I'd like to open this up to all four of you. What are you seeing in the marketplace today that you didn't see three or five years ago?

Kathy Sweeney:

I'd say maybe more technology. More technology and more talk about technology. So I don't know if the panel before this was the telehealth one, but there was one about telehealth here. And I should also say technology, but more integration with the healthcare system, definitely. We're hearing about Medicare Advantage, but more relationship building, more than just the head of sales and marketing having a friend who works at a hospital or a great referral network going back and forth. But really looking at measuring outcomes and being known in that hospital system as a community that provides great care. And there can be a lot of synergy and a symbiotic relationship because that's a great community to refer to. And looking at ways that both sides of the equation can be successful. So I would say that.

Anne O'Shaughnessy:

Mike, do you have...

Michael Damone:

Yeah, I think mine goes to labor over the next five years. Because if you think about the demographics of the baby boomers basically aging out over the next five to seven years of the kind of the caregiver and even upper management levels, how are we going to deal with the fact that there are just not enough people coming behind them to be caregivers. And the technology may be part of the answer, but at the end of the day, it's still a hands-on business. So that's what we're kind focused on, how we're going to deal with that.

Brandon Taseff:

I would say, I'll break it into two, I'll do seniors housing and I'll do skilled nursing. Seniors housing, I think one of the things we've noticed is just generally acuity creep at assisted living and independent living, frailer people are moving in, staying less time. Turnovers more, so just generally length of stays are going down both in skilled and seniors. But in seniors, you're just noticing it a lot more. So just

understanding that you're just running a lot faster on the wheel to maintain a certain level of occupancy that you didn't have to necessarily three to five years ago, at least that's what we're seeing.

Brandon Taseff:

And then on the skilled nursing front, bring up the infamous star ratings. Which, I believe in client conversations we had five years ago, it was, "Ah, they're nothing. They don't mean anything, don't worry about it." And slowly but surely they have become a very important measuring device. Not just only for potential residents, but now for insurance carriers. And now we're hearing managed Medicare tying some of their contracts to your star rating. The permit market now looks to star ratings and it really impacts your ability to get HUD financing. So just seeing the change in that one metric and how that impacts skilled nursing and the availability of financing and how we look at deals, has changed dramatically over the last three to five years.

Jonathan Slusher:

So five years ago is when I, actually six years ago is when I started focusing on healthcare. Then to now, capital markets are completely different. So local rates are, look where cap rates have gone. And think about old assisted living that used to trade at a nine cap, now it's six and a half, seven. No one really cares about age.

Jonathan Slusher:

What's interesting, all of what's happening is the amount of both equity capital and debt capital that's now in the space, they're completely different a year ago. Where you see debt funds who traditionally needed to get 15 plus percent returns are now lending on seniors housing assets at L plus 3%. And then taking that paper and going to the capital markets, syndicating an A Note and getting into their tent. That wasn't going on a year ago. It's in a very unique form right now. So anyone that's a buyer or a developer, or an operator that's in search of capital, there’s probably not been a better time for the amount of options and how cheap those options are and are continue to going to become. So very different.

Anne O'Shaughnessy:

So if I'm a new operator and I'm coming looking for debt or an equity partner, what do you need to see from me? Do you need a track record? Help us understand, I guess, what you look for and how that initial inquiry can turn into a relationship.

Kathy Sweeney:

Yeah, definitely need a track record. And hopefully you have that track record with the group that you've assembled, who you are now and not someplace else. That said, I have done it a couple of times where I've backed projects with operators who are newly assembled, it's just not our main bread and butter. So having a track record, making a commitment, being all-in, being willing to be held accountable to what we've mutually agreed the performance will be, obviously subject to all the things that happen in the business. But really being skilled and having great relationships in your local market all the way through between caregivers, all the caregivers, department heads, healthcare systems, the state agencies.

Kathy Sweeney:

I mean you really can't have had a great idea to get into this business in the last year, put a team together and then get capital from us. There might be other places to go, but we really want to see a deep, deep entrenchment in the space in that particular market that we're talking about.

Anne O'Shaughnessy:

Brandon, Jonathan?

Brandon Taseff:

Yeah, I agree with Kathy. Track record's pretty important to us as well. I mean as I mentioned earlier, it's not an easy business. It doesn't have to be extensive, but we've got to know that you've been in it, you've got properties you've been through. You've been through some hard times, you know how to handle it is a pretty key underwriting consideration for us.

Jonathan Slusher:

One thing that's really important for us, and this is really more prevalent in skilled nursing, your primary owner-operator tends to be older and many of them have not built the bench to continue to run that business. And you're starting to see a good amount of, just like the Boomers, you're seeing owner- operators of skilled nursing looking to sell their businesses.

Jonathan Slusher:

We find that when you think about track record, the ones that have built a really good bench of the next CEO, that may have been an administrator, that's now in their early 40s and is going to be in the business for the next 20 years, it's really important, especially when entering a new market and acquiring that portfolio. So not a lot of guys are doing it, not a lot of operators are really focused on that. I think seniors housing much more. But skilled nursing, it's lacking in a meaningful way.

Anne O'Shaughnessy:

So we talked about some concerns as it relates to labor and construction. Help us understand, are there any industry concerns that you see that maybe we haven't addressed here. And then Mike, specifically would like to have you address the coronavirus and how you as an operator are dealing with that and some of the in-depth analysis you've started to do with your team.

Kathy Sweeney:

So that's more interesting than what I'll say about what concerns me. So real quick, just what concerns me is the new capital that's coming into the space without a lot of experience, and just how disruptive that can be.

Brandon Taseff:

Yeah, I would kind agree with Kathy there. That was one of my topics too, was a lot of new lenders, a lot of new capital provider. Not all of them have been through the cycle. So just know who you're partnering with because it's been a nice ride for the last 10 years. But things could go bump in the night here soon and you just don't know the last cycle a lot folks exited and left a lot of operators with their hands up saying, "I had a banker and he disappeared." Well, they didn't know the space and they got bad and then they exited. So make sure that your capital partner has seen it and is comfortable riding the waves with you.

Jonathan Slusher:

Agree with all of those points. I think probably over the past three years, really the past two, you've seen a good amount of new inventory come online. The amount of capital that is willing to buy those assets and assume they can stabilize them has fixed a lot of problems. That'll probably continue for the next two or three years, but it'll catch up. And that building that probably shouldn't have gotten built next to the other two will struggle, probably not anytime soon because there's just so much buy-side capital out there. But three, four, five years you'll probably see some assets coming to market that are distressed and actually are price reflex because some of the capital that came in two years ago and now, decided I really don't like this space, I'm going to go back to buying apartments.

Kathy Sweeney:

Coronavirus.

Anne O'Shaughnessy:

Coronavirus.

Michael Damone:

Coronavirus. Well, I've got my glasses on so you can't see the bags under my eyes from the last two weeks of work we've been going through. So we first started thinking about Coronavirus back the first week in February. And it was sort of an innocuous conversation between me and the senior management teams saying, "You know?" We're watching what was going on in China, really hadn't spread anywhere else yet. Though, "If it gets here, what are we going to do?" And so check the supplies, check from gowns and gloves to food, and then we kind of went away from it for a couple of weeks.

Michael Damone:

And then weekend before last, I was watching the press and it was clear that things were changing rapidly, and frankly, they will every day here probably for a while. And Monday morning I got up and I said, "We got to be much more proactive." So I called Bob, I called my senior management team together and said, "We're going to meet Tuesday afternoon and we're going to go through this." And we brought in our medical director and we sat in our conference room for about three hours just trying to kind of imagine sort of the scale of things that could occur to us and what do we need to do to address each of them.

Michael Damone:

So we went from anywhere from somebody gets the sniffles to full-blown pandemic. And what we basically agree is we hope we never get to the right side of that scale because it would just be horrible for everybody. And so what we started doing is we immediately, I had called Kathy on Monday, called Dave Slesh at ASHA on Monday and said, "Guys, we need to be thinking about this." So my job was look at it from a financial perspective. Do we have the fortress balance sheet, do we have the cash that we need should we have to weather the storm. And that was my call to Kathy and my other partners. Called David to say, "Hey, ASHA's got to be on this because it's coming." And within 10 days look at how much things have changed in 10 days.

Michael Damone:

We immediately gave the approval for our purchasing individual to go out and start buying gowns and things. They reported back to me this morning, we got all the supplies we need for probably about two weeks and it's about all we can get our hands on. We can't get any masks so that's a bit of a hole in our strategy. And our thought is, if it does get into our building, our hope is CDC is going to... our first call is to CDC and hopefully they can help us and provide support for us. But there's a lot of unknowns.

Michael Damone:

If you sort of bifurcate what we're working on it really comes down to two things, one, can we control the virus. We deal with the flu every day, we're always afraid of Norovirus and all these contagious things. So we've got those systems in place. But what we don't know here, what we keep talking about, is the unknowns and what it does to the human animal, right? The fear factor. And that's what none of us can predict right now. You see today, you see articles about shortages of toilet paper, paper towels, hand sanitizer. What happens if it really gets bad. Because right now, for most of us, if you're not in Seattle, it's not too bad. But I think it's sort of inevitable that it starts to spread around the country.

Michael Damone:

So that's our biggest fear, will our employees show up, how will our families react? And so what we ended up doing is setting up a separate website, we call it CSL Alert. And we have a system, for you operators in here, if you don't have it, it's a great system, where we have everybody's email address, cell phone numbers. And through this system, we're able to send out a group text, phone call and email so everybody gets all the same information all at the same time.

Michael Damone:

So we activated that for the first time on Monday. And the families were very, very appreciative of that. So even though we don't have anything really to report other than we're following CDC recommendations, at least they know we're working on it. And if something should happen in one of our buildings, we'll be able to keep them all apprised of that all at the same time.

Anne O'Shaughnessy:

Thank you. Thank you all for answering and being so very forthright with your transactions, what you look for. What I think the audience would like is the opportunity to ask a few questions. And we have a few minutes that our panel is willing to answer any questions that you may have. Yes sir.

Audience:

How do you structure the private equity [inaudible 01:05:46] promotes to structure, the incentives for the operators to align with the [inaudible 01:05:51] structure. How does that [inaudible 01:05:53] or are you doing other structures?

Kathy Sweeney:

Our transactions are all done through straight up joint ventures, we're pari passu alongside and on everything with the waterfall, different hurdles in a waterfall structure such that the higher the return, the better the results than our operating partners getting rewarded disproportionally to the equity that they have contributed. So there's really opportunity to hit some great net worth creation through executing very, very well. But it's a simple structure. We don't do opco propco, it's just all straight up joint venture structure.

Kathy Sweeney:

So that's it and that, of course, would be paid when you exit the investment. And then during that time period, they get a management fee with an incentive to perform. That's an annual out of cashflow.

Anne O'Shaughnessy:

Any other questions for our panel?

Audience:

On a private equity deal, how do you structure your operating capital and who puts up the operating capital and structure, that sort of thing?

Kathy Sweeney:

So are you talking for the operating business for the operator like working capital and that kind thing?

Audience:

Yeah.

Kathy Sweeney:

We're real estate investors so we're not getting involved in the operator's financing and how they may do that. Now, you may do that, but we don't get involved in that. Everything we do is straight through the real estate. If there's a new construction that we're looking at, we will support, obviously the deficits during the lease up period that are all produced because of the operations, they're not stabilized yet. But we don't provide that.

Audience:

I'm a skilled nursing home operator, obviously takes a lot of operating capital. I was just wondering [crosstalk 01:08:00]-

Kathy Sweeney:

Maybe better.

Audience:

... how one would structure something like that.

Brandon Taseff:

Yeah, there's a number of ways to do it for sure. It depends on if you're acquiring something, if it's an existing asset, you're doing a renovation, portfolio. The AR financing marketing is pretty significant. And just like my comment earlier, we've seen a lot of finance and debt shops come into that market also. So AR financing is readily available. If it's a single [inaudible 01:08:27] portfolio and that transaction's getting done with someone like us, then we would kind of put our heads together in a joint venture type structure. And if there's $2 million of working capital needed, then that gets capitalized into the transaction. And make sure that your business plan can be accomplished. So there's a lot of ways to finance on the skilled side.

Audience:

And what kind of return on the equity portion, on the private equity, do you like to have all this done... I've been in the business for 45 years but everything I've done is conventionally through a bank and I was in partnership with my brothers until two years ago. And so we've done everything the old fashioned way and I've never dealt with private equity. How do you structure that and what kind of return should you expect to pay to private equity [inaudible 01:09:24].

Brandon Taseff:

All depends again if it's a lease with stabilized asset or if it's more in joint venture for something, it's value add. We're going to be pari passu, similar.

Audience:

Well let's say I'm an existing operator, not something that you're going to have to lease up, but something that's already [crosstalk 01:09:36]-

Brandon Taseff:

Yeah, if it's a sale lease back, if you're selling the real estate, then it's going to kind of fall at a market rent coverage. Depending on how old, where the asset is, call it a nine cap on lease kind of the]typical sizing. And you pay that lease payment, the debt would be on the real estate side. If you're doing a sale lease back and you don't want to sell all of the real estate, you want to maintain some ownership, that's doable with private equities and sponsors where you can hold some of the real estate, but then also control the opco side, which from a tax point of view is really important for a skilled operator. So there's a million different ways to finance a good skilled nursing transaction.

Anne O'Shaughnessy:

We probably have time for one more question. Anyone else?

Audience:

You guys mentioned strength of team, other than the operator, is there anybody else, say on a new development deal, that you guys look at in terms of their experience in the market?

Kathy Sweeney:

We definitely look at the architect and the contractor. A lot of things can go wrong in the design and in the build. So when we're doing ground up development, we're looking at those professionals as well. And on both, it's critical that they have experience in senior living. As much as the operator and we may be reviewing over your shoulder, the designs and so forth, there would be things that we would, we're capital people, we would miss and the operator may or may not miss. It's really important that they have experience in the space. And then the contractor as well needs to have experience because in the assisted and memory care, the licensed part of the space, it's regulated. So you need to make sure that they're very familiar with the building codes and on licensure, what's required. So really, that's a good question.

Anne O'Shaughnessy:

Well on behalf of the panel, we'd like to thank you all for taking time this afternoon. We hope you found it of interest and enjoy the rest of the conference. Thank you.