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In the Insider October Issue

One Year Later: An Update on the Welltower-ProMedica Partnership

Welltower's Tom DeRosa discusses how the game-changing deal is taking real estate to the next level.

Tom DeRosa

In July 2018, a groundbreaking partnership provided further evidence of the industry's quickly changing trajectory.

In a $4.4 billion deal, the big healthcare REIT Welltower and ProMedica, a large nonprofit healthcare system, formed an 80/20 partnership for the real estate linked to HCR ManorCare, the nation's second largest post-acute long-term care provider. ProMedica purchased HCR ManorCare's operations in a separate transaction.

The anniversary of the deal represents an opportune time to check in on the partnership's progress. NIC recently spoke with Tom DeRosa, chairman and CEO at Welltower, about the alliance of healthcare and housing, and what that means for the industry going forward.

Here's a recap of the conversation.

NIC: Why was Welltower originally interested in forming a joint venture with nonprofit ProMedica to acquire HCR ManorCare?

DeRosa: The partnership demonstrates how a health system can further vertically integrate across the healthcare continuum. Prior to the joint venture, ProMedica was an acute care system with ambulatory care that also owned a payor, Paramount Health Care. As an insurance company, Paramount offers Medicare Advantage and managed Medicaid plans, and dental and vision plans. The acquisition of HCR ManorCare with Welltower more deeply vertically integrates ProMedica into post-acute care, rehab, skilled nursing, home health, hospice, memory care, and assisted living. ProMedica is one of the best examples of a fully vertically integrated health and wellness delivery ecosystem. Welltower was excited to have a role to demonstrate the viability of our platform to facilitate a landmark healthcare transaction.

NIC: What is the status of the integration of ProMedica and HCR ManorCare?

DeRosa: The integration is multi-leveled and going quite well. One of the things we've seen is that ProMedica has done a very good job of assessing the talent pools at both ProMedica and HCR ManorCare and has chosen the best people to run respective functions. For example, ProMedica's CFO Steve Cavanaugh had been CEO of HCR ManorCare. The acquirer has demonstrated that they will go with the best people. It's not just "my way or the highway" which often derails business combinations.

NIC: Are the business systems integrated?

DeRosa: It's still in process. ProMedica is vertically integrating as their business is evolving. This requires management to be very nimble because so much is changing as we speak. It's hard to put a timeline on that. Welltower is evolving everyday too.

Management has to be able to change direction based on where the market may go in the future.

NIC: Is HCR ManorCare now a nonprofit entity?

DeRosa: Yes, that was the first milestone after the closing. They have achieved a nonprofit status. It's very beneficial to ProMedica from a financial standpoint but also beneficial in that there may be potential opportunities for ProMedica with HCR ManorCare to provide services to other health systems on the post-acute skilled nursing side. In certain cases, the fact that HCR ManorCare is a nonprofit makes them a preferred provider.

NIC: Does HCR ManorCare's nonprofit status impact your ownership structure?

DeRosa: Not at all.

NIC: Are the financial results what you expected so far?

DeRosa: They're on track. This is a long-term investment for us. We have a master lease with ProMedica for the properties.

NIC: Is the partnership driving meaningful integration that leads to better care and outcomes for seniors?

DeRosa: Definitely. I have two observations. ProMedica's protocols from the acute care business are being shared with the post-acute skilled nursing and senior living businesses of HCR ManorCare. Also, ProMedica is probably the first major U.S. health system to have an operating and strategic focus on the social determinants of health. ProMedica CEO Randy Oostra has had a lot of foresight to build resources around that. I think this is a space where other health systems are playing catch up.

Experts say 80 percent of health, especially for seniors, is determined by factors other than healthcare, such as where you live, the broader environment, and socio-economic circumstances. ProMedica is improving outcomes by implementing successful strategies around these factors. Take the area of nutrition. When you're dealing with a population of people being discharged from the hospital to skilled nursing, you're trying to treat them in a lower cost setting to get them back into their home as soon as possible. They don't need to be in a hospital bed, but they need a certain amount of rehabilitative care before their physicians believe they can be living independently again. One of the areas we know is so important to prevent that individual from bouncing back into the acute care system is food. A huge issue is food insecurity. It's not always about having the money to buy food but knowing how to eat well to control various health conditions.

For example, a hospital patient might be a type 2 diabetic, arthritic, and have COPD. If the person is eating a high salt, high fat, high sugar diet, like many people in this country do, the diet is working against whatever benefit he or she may have received from the hospital stay. ProMedica understands this. They've done everything from working with individuals to understand how they can eat better to the fact that they were the first health system to introduce food pharmacies. Physicians can write prescriptions so patients can get fresh fruits and vegetables and higher quality proteins from a food pharmacy. That's a game changer.

NIC: Can you comment on the importance of the physical structure of the building as a way to deliver improved outcomes?

DeRosa: A good example is HCR ManorCare's Arden Courts business, which provides specialized memory care. These buildings are designed for people with memory impairments, and that makes a difference. Research shows people who suffer from dementia are comfortable when they don't run into dead ends, so the facilities are designed on a circular racetrack-type model. We know this helps to soothe an unquiet mind.

People are living longer, so there are more people suffering from memory loss. Hospitals today are unprepared for the influx of older patients with dementia. A health system with a competency in memory care like ProMedica has with HCR ManorCare will be better able to manage this population. It's an example of a how to create a broader ecosystem of care.

NIC: Any lessons learned so far from the partnership?

DeRosa: Bringing three parties together has created an opportunity for innovation. Welltower has a skill set in residential care. We've combined that with ProMedica's acute care system and HCR ManorCare's post-acute, home health, and hospice services to form a collaborative culture. That's exciting. We're looking at new ways to manage the aging population more effectively.

NIC: What is the size of the market opportunity with nonprofits?

DeRosa: There are hundreds of millions of dollars in real estate sitting on the balance sheets of nonprofits that was built under a very different fee-for-service model. The whole profitability structure of the nonprofit health system has changed over the last 10 years. These were double-digit margin businesses, and today they are low single-digit margin businesses. Given all the places nonprofits need to invest in a more competitive market, the question is whether they have the ability to continue to control all that real estate. Some of it needs to be phased out. We have developed a strategy at Welltower around that thesis. The joint venture with ProMedica is a perfect example of how a real estate healthcare infrastructure platform like Welltower can help a nonprofit health system grow, and develop an advantage, in a much more competitive business going forward.

NIC: Will this be a driver for Welltower's growth? If so, what kinds of partners will Welltower be seeking?

DeRosa: There will be many opportunities that come from the integration of residential care concepts and nonprofit healthcare systems. We're very optimistic about how these types of joint ventures actually capture another layer of value for the senior living sector. For so long, values have been based on the real estate alone. But there is a growing recognition of the role real estate plays to drive lower costs and better outcomes in healthcare.

Highlights From the 2019 NIC Fall Conference

With a record attendance of more than 3,300 attendees, most of whom were senior executives and decision-makers, the 2019 NIC Fall Conference succeeded in bringing together the seniors housing and care industry in Chicago. In addition to abundant networking opportunities and meeting spaces, all of which were humming with activity through all three days of the event, "the NIC" featured a highly relevant and thought-provoking program of educational and informational sessions.

Carefully curated to highlight topics relevant to the sector today, as well as in the near future, programming was organized along two tracks to accommodate both the operational and the investment sides of the industry. Below are some highlights from each session, including the high-profile general sessions, innovative formats, and perennial favorites such as the 2019 NIC Talks.

Day 1

The conference kicked off on Wednesday with a First-Time Attendee Power Hour. It drew more than 200 participants who had the opportunity to meet and network with other first-time attendees, meet NIC leadership, and hear tips and tools for how to make the most of their conference experience. Four afternoon educational sessions explored some of the latest high-impact trends.

Skilled Nursing Trends: What is Driving Market Trends and Expectations for the Future?

Skilled Nursing is seeing an uptick in occupancy for the first time in several years, a trend that's likely to continue; PDPM may be a positive for the sector, and more providers are becoming owners of their own managed care programs.

The Forgotten Middle: Understanding A Growing Opportunity

As a Hackathon generated new thinking on meeting the needs of millions of middle market seniors, NIC chief economist Beth Mace summarized findings from the landmark study conducted by NORC at the University of Chicago and funded by NIC. Then, five groups presented their ideas and fielded questions in this initial effort to find real-world solutions to a major challenge—and a huge opportunity.

Innovations That Work!

This fast-paced session offered insights on solutions industry participants are using with success in their operations, from an innovative web-based marketing survey that gets seniors and their families talking, to a tool that lets seniors regain some independence by accessing voice activated information.

Assessing Prospective Investments in Seniors Housing and Skilled Nursing Properties

Panelists evaluated three potential investments. Among the critical questions: What is the local labor pool? How will rising construction costs impact margins?

Day 2

Day 2 at the NIC again spotlighted renowned speakers and thought-provoking sessions. Peer-to-peer exchanges gave attendees the opportunity to brainstorm while experts put their own spin on the future of aging at NIC Talks. Educational sessions gave attendees insights into the capital markets and what's hot—such as the active adult rental market.

Opening General Session: The U.S. and Global Economic Landscape: A Conversation with Dr. Janet Yellen

The first woman to chair the Fed is also an accomplished educator, gripping the attention of NIC attendees as she presented a master class on our current economic landscape. Her discussion with Bloomberg's Kathleen Hays yielded a wealth of insights, touching on the trade war, the global economy and geopolitical impacts, inflation, the inverted yield curve, and many other factors to consider as we look ahead, while appearing to tamp down expectations of a recession.

Actionable Strategies for Workforce Development and Retention

A diversity of perspectives from a leading seniors housing CEO, a chief of HR, and a staff development manager, along with moderator Jacquelyn Kung, CEO of Activated Insights, covered a range of real-world strategies for addressing workforce issues.

Home Health: Should I Own It or Partner?

With the home health and home care sector expected to further consolidate, seniors housing owners and operators should consider how they can best partner with providers to help residents age in place. Panelists explored a range of options, emphasizing that home health and home care are very different businesses from seniors housing.

Wheel of…Valuation

In a fun twist on the TV classic, a panel of valuation experts tackled a wheel's worth of topics, from lease-up to bankruptcy, providing a range of perspectives and insights on valuations today.

Luncheon General Session: Demographics, Consumer Behaviors, and the Longevity Economy

In this entertaining session, Dr. Joseph Coughlin, the Director of MIT's AgeLab, shared his ideas on "disruptive demographics," noting that longevity trends are rising, and our industry owns a third of adult life. With innovators moving into the industry, Coughlin's insights into why the future is female, why retirees are moving to college towns, and why future senior communities may revolve around shared affinities are important to consider.

Activating Consumer Insights: Lessons from Other Industries

Driven by consumer research and blue-sky thinking, product marketing leaders walked through the creative processes that gave us the Swiffer and the Capital One Café, which garnered great discussions on applying these processes to create the next big thing in seniors housing.

Stacking It Up: Capitalization Options and Sources

Capital continues to be readily available on both the debt and equity side. Panelists did not foresee a big change as long as the economy stays relatively strong, though over-saturated markets could cause a lender pullback in some cases.

Sizing It Up: Comparing New and Traditional Debt and Equity Capital

The capital markets are in a tricky spot where equity and debt are plentiful, but the operating environment can be challenging. Capital providers—both new and traditional sources—weighed in on the importance of the operator and how to align financial interests.

Active Adult: The New Independent Living?

What do baby boomers want? Active adult developers may already have the answer. These innovators are building rental communities targeted at the first wave of boomers. The downside: long lease-ups. The upside: average length of stay of about seven years and dependable rent growth.

NIC Talks: How Am I Changing the Future of Aging?

In front of a packed studio audience, four speakers, emceed by Bob Kramer, presented new ideas with passion. David Inns' Best Buy Health is deploying predictive analytics to prevent health issues before they occur. Dr. Patricia Boyle shared her research findings on the impact that a purposeful life has on our health. Marc Freedman discussed the importance of social connection and inter-generational relationships. Tom Grape shared his journey to reinvent and enliven the culture at Benchmark, which is now in the business of "elevating human connection."

Day 3

The NIC 2019 Fall Conference wrapped up on Day 3 with several educational sessions and the second session of NIC Talks.

A Growing Opportunity: Partnerships Working Together for the Forgotten Middle

Inspired by the ideas that came from Wednesday's Hackathon, audience members drove a substantive discussion ranging across every aspect of the senior living industry, focused on delivering a model that will serve the needs of the "Forgotten Middle" while remaining attractive to investors.

Seniors Housing Demand Trends and Evolving Development Cycles

With a wide disparity in market performance, experts separated the facts from fiction. Supply and demand dynamics were analyzed with a look ahead at demographics and how to understand risk-adjusted returns so critical to market selection. Research shows that markets with high occupancy have high rent growth and that the baby boomers are already customers, selecting communities for their parents.

NIC Talks

Four speakers provided insights into the future of aging. Innovations will change the way we live as we age. Tele-health will allow elders to receive medical treatment where they live. Autonomous vehicles with zero-step entries will take seniors where and when they want to go. An age-friendly health system will consider what matters to the elder not just what's the matter. And successful branding of senior living properties will speak to the heart, a metaphor for living that will attract the elder of the future.

Attendees of the conference have access to audio and video recordings of most of the sessions via a password-protected web page. Conference highlight videos, including the entire luncheon general session with Dr. Joseph Coughlin, and all eight NIC Talks presentations are available to the public on NIC’s YouTube channel.

Save the date: the 2020 NIC Spring Conference will take place in San Diego, CA, March 4-6, 2020.

Looking Into the Future: How Much Seniors Housing Will Be Needed?[1]

By Beth Burnham Mace and Anne Standish

A frequent question NIC receives is how much seniors housing will be needed for tomorrow’s aging baby boomers. Using the most recent U.S. Census population projections, NIC has estimated the number of seniors housing units that possibly will be needed through 2040. Since projections are as much art as they are science, we have also created a few scenarios that project needed new supply based on different penetration rates and different household age cohorts.

It is important to note, however, that these projections are based solely on demographics and do not consider consumer preferences. This is particularly important because the emerging cohort for seniors housing is the baby boomers, and they are known as a generation that does not do things the same way as prior generations. Hence, assumptions on future usage and penetration rates may be different than today.

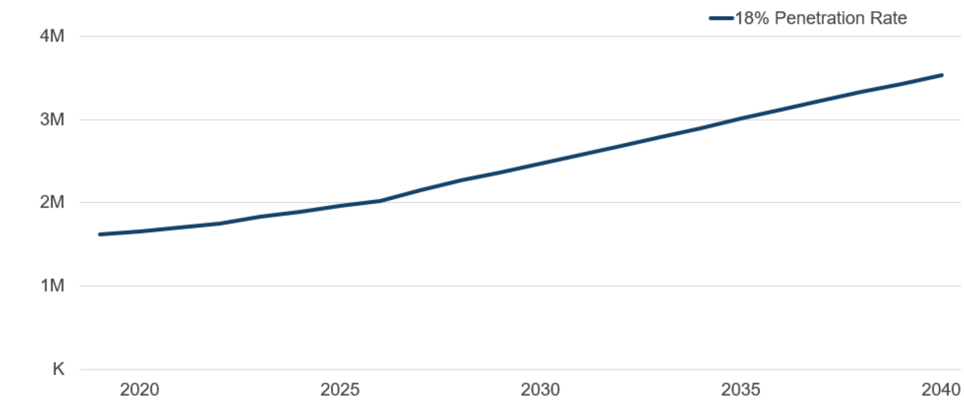
Base Case Results

For the base case analysis, we used the age 80-plus household cohort. Prior analyses have used age 75-plus households. We believe that the age of residents in seniors housing has increased in the last decade, with many observers placing the typical age of a resident higher than 80. Hence, the 80-plus household cohort better represents today’s residents. For purposes of sensitivity analysis, we also conducted scenarios using 75-plus household and 85-plus household projections.

[1] Note that this write-up is a consolidated version of a longer analysis which carefully explains the methodology, assumptions and considerations that need to be understood. It can be found **here**.

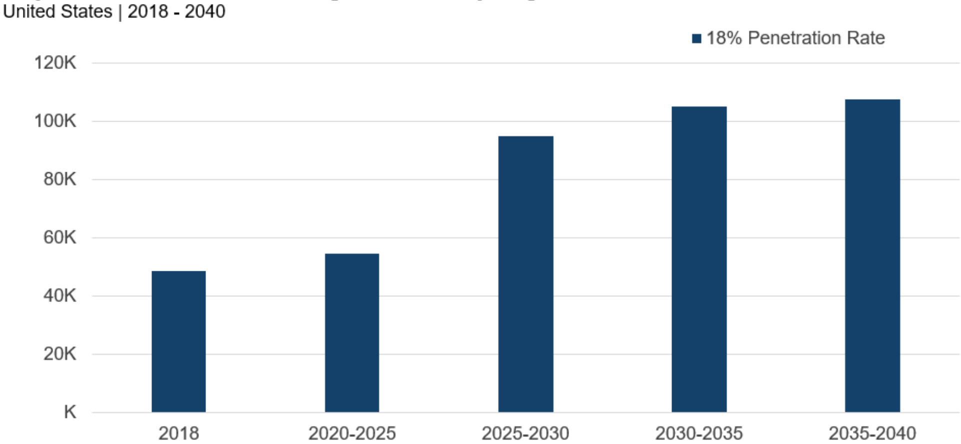
Based on our estimates of existing inventory and 80-plus households, the current penetration rate for the 80-plus household cohort is 18% (1.592 million units / 8.860 million households = 0.18). With this penetration rate and age cohort, there are an estimated 881,000 additional units of seniors housing inventory that would be needed to serve seniors between 2019 and 2030. Due to demographic patterns, the rate of change in demand accelerates further out, with a need for roughly 54,000 units per year required between 2020 and 2025; 95,000 between 2025 and 2030, and 105,000 between 2030 and 2040 (see charts below). In the immediate term, however, 31,000 additional units are needed in 2019; 36,000 in 2020; and 41,000 in 2021—fewer units than were added to inventory in 2018.

Seniors Housing Demand Projections – Units, Age 80+ Households*
United States | 2019 - 2040



*To calculate the number of age 80+ households, a conversion ratio of 1.43 people per household was applied to population estimates.
Source: U.S. Census, NIC Research

Projected Annual Seniors Housing New Inventory – Age 80+ Households*
United States | 2018 - 2040



*To calculate the number of age 80+ households, a conversion ratio of 1.43 people per household was applied to population estimates.
Source: U.S. Census, NIC Research

Scenario Analysis

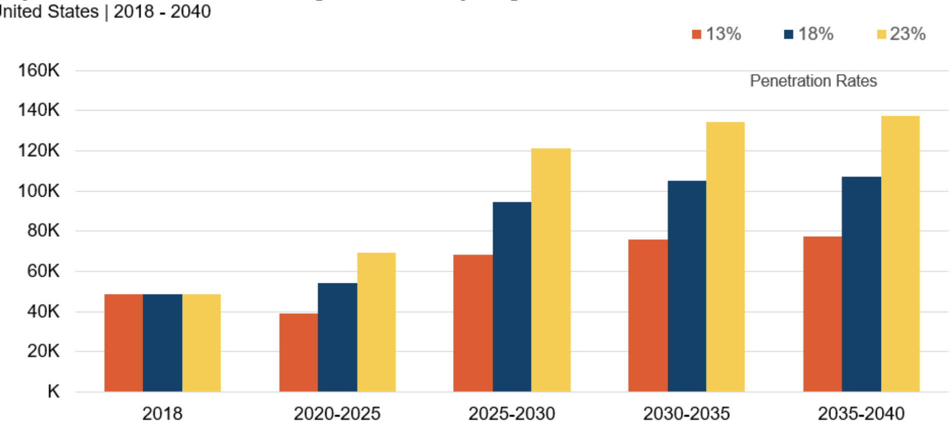
The first set of scenarios looks at different penetration rates for the 80-plus household cohort. If the penetration rate were to increase to 23% from 18%, there would be an additional 247,000 units needed through 2030 compared with an 18% penetration rate (1.1 million units versus 881,000 units). And at a 13% penetration rate, a total of 638,000 units would be needed through 2030 (244,000 fewer than in the base case scenario).

The chart below looks at the annual inventory growth needed for 5-year intervals through 2040 under these three penetration rate scenarios. As the chart indicates, for both the base case (18% penetration rate) and the higher penetration rate scenario (23% penetration rate), the pace of annual inventory growth needs to be higher than the rate recently experienced in the U.S., i.e., more than the estimated 48,000 units that were added to the stock of seniors housing in 2018.

For the 2020-2025 period, nearly 70,000 units per year would need to be added to the stock of seniors housing in the 23% penetration rate scenario. This accelerates to 121,000 in the 2025 to 2030 period.

In the lower 13% penetration rate case, roughly 39,000 units of new inventory per year would be needed between 2020 and 2025, fewer than the recent pace of inventory growth. It is not until 2023 that the demographically-driven demand would require more than today's pace of inventory growth—in that year, nearly 56,000 units of new inventory would be needed.

Projected Annual Seniors Housing New Inventory – Age 80+ Households*
United States | 2018 - 2040



*To calculate the number of age 80+ households, a conversion ratio of 1.43 people per household was applied to population estimates.
For sensitivity analysis, NIC used a lower penetration rate of 13% and a higher penetration rate of 23%.
Source: U.S. Census, NIC Research

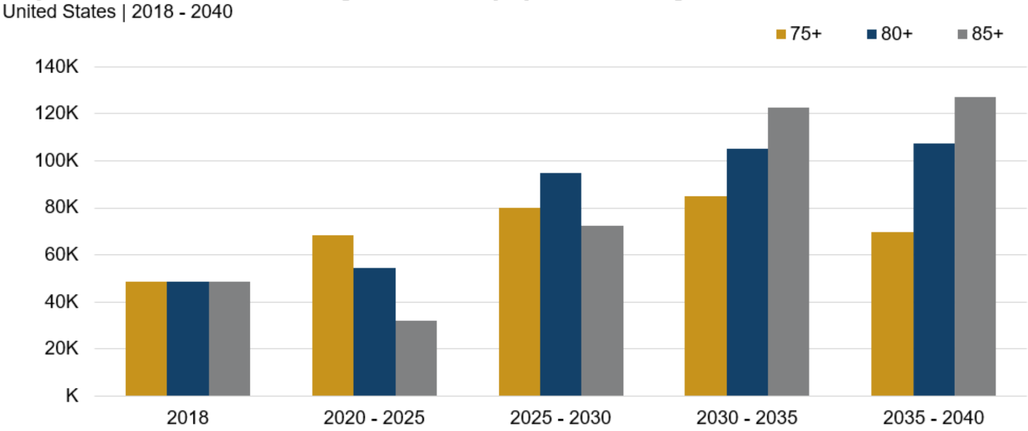
A second set of scenarios center on the age of the residents. If today's inventory was used by only 85-plus households, the penetration rate would climb to 30%. A higher penetration rate and fewer absolute households suggests fewer incremental units would be needed in the near term and more units would be needed in the long term. The chart below depicts this pattern.

In the 2020-2025 period, the 85-plus cohort would need an additional 32,000 units to be built each year to satisfy demand, fewer than were built in 2018. From 2025 to 2030, 73,000 units per year would need to be added and, in the 2030 to 2035 period, this rises to 123,000 units.

For the 75-plus household base case and an 11.4% penetration rate, a total of 874,000 units would need to be built between now and 2030. In five-year intervals, this equates to 68,000 units between 2020 and 2025 and 80,000 between 2025 and 2030.

In the near term, fewer units are required and less inventory theoretically needs to be built for the 85-plus cohort than either the 75-plus or 80-plus cohort would suggest because there are simply fewer 85-plus households, even at a higher penetration rate of 30%. This is the case until the 2030 period when annual incremental demand equals more than 120,000 units.

Projected Annual Seniors Housing New Inventory by Household Age Cohort*
United States | 2018 - 2040



*Based on conversion ratios of 1.63 people per household age 75+, 1.43 people per household age 80+, and 1.23 people per household age 85+.
Penetration rates by age cohort: 11.4% for age 75+, 18% for age 80+, and 30% for 85+.
Source: U.S. Census, NIC Research

Conclusion. This analysis presents several scenarios that project future seniors housing needs at different penetration rates and for different age cohorts. In aggregate, the results show that significantly more housing would be needed for America's aging population if today's penetration rate is maintained or grows over the long term. Moreover, even if the penetration rate were to decline, sheer demographics would support future inventory growth, as the lower 13% penetration rate for the 80-plus household cohort scenario shows.

The timing of when new supply is needed is important to consider, however. Under the base case scenario of a 18% penetration rate for 80-plus households, incremental inventory growth slows to less than 32,000 units in 2019, 36,000 in 2020, and 41,000 in 2021. It is not until 2022 that the demographically-driven demand estimates suggest that the pace of inventory growth needs to exceed the 2018 pace of supply growth. After 2021, the pace of incremental new supply accelerates and peaks at 135,000 units in 2027. If the typical age of entry of a resident of seniors housing is 85 or higher, then the need for additional inventory grows more slowly in the near term and doesn't reach the 2018 pace of new supply growth until 2026.

As stated at the beginning of this article, it is also important to keep in mind that these estimates are solely based on demographic demand and do not consider changing consumer preferences regarding their housing and care needs.

Investigate First, Then Invest

How to assess prospective investments in seniors housing and skilled nursing properties

Key takeaways:

- **Focus on the operator**
- **Watch quickly rising construction costs**
- **Labor availability and retention can impact investment decisions**
- **Study micro-market dynamics**

Deciding whether to invest in a senior living and care property isn't much different from old-fashioned detective work. Both pursuits take a lot of time and legwork.

A number of factors—some obvious and some not—must be investigated. And the ultimate judgment is something closer to an art than a science, relying on experience as much as raw data.

A panel of experts explored the nuances of how to analyze senior living and skilled nursing property investments during a well-attended session at the recent 2019 NIC Fall Conference in Chicago. The panel— "Assessing Prospective Investments in Seniors Housing and Skilled Nursing Properties"—was co-moderated by NIC Senior Principal Bill Kauffman and NIC Senior Principal Lana Peck.

Three case studies were presented for analysis, along with market data to provide context for the decision-making process.

Overall, the seniors housing and care property market has grown substantially, attracting wide investor interest. NIC estimates the total market value of U.S. investment grade properties at $409 billion, as of year-end 2017, noted Peck.

The total supply includes 23,500 properties with about 3 million units. The properties include market-rate assisted living, memory care, and skilled nursing facilities. (The figures do not include affordable or active adult projects.) Skilled nursing accounts for the largest share with 1.5 million beds.

Skilled Nursing Dynamics

The session's first case study considered investment in a new skilled nursing property. Skilled nursing properties can be difficult to evaluate because they face a challenging operating environment.

Occupancy at skilled nursing properties has been in a slump over the last several years, said Kauffman. The growth of Medicare Advantage plans and pressure from the Centers for Medicare & Medicaid Services (CMS) to cut costs reduced the length of stay in nursing homes, putting downward pressure on occupancies. A patient who might have stayed for 30 days in 2015 now stays for 15 days.

On a positive note, Kauffman said occupancy in the skilled nursing sector has begun to stabilize. Overall skilled nursing occupancy now stands at 83.3%.

Wage growth and labor availability also impact potential investments. Nursing home wages grew more than 5% over the last year, according to the Bureau of Labor Statistics. "It impacts underwriting," said Kauffman.

Case study #1: New skilled nursing facility

- A new 100-bed skilled nursing facility designed to focus on short-stay rehab patients, though it would also include some rooms for long-term care residents
- The management team worked together at other skilled care organizations
- The property is located in a secondary market in the Midwest in a certificate-of-need (CON) state
- Existing competitors are 40+ years old with occupancies of 75% to 85%

Panelist Michelle Kelly, senior vice president-investments, National Health Investors, an owner of skilled facilities, noted that skilled nursing presents an opportunity for investors, but the sector is very complex. "You can't dabble in skilled nursing," she said. Investors need to be committed to learning everything about the sector, including details on reimbursements, referral networks, clinical outcomes, and staffing.

Commenting on the case study, Kelly said she liked that the property was in a CON state. (CON states limit new skilled nursing beds, and the developers in the case study had already acquired a CON for the new facility.) She said it made sense to target the market for rehab patients, but she wanted to know whether the new management team had existing relationships with local health systems to facilitate referrals. Other questions included the availability of local labor and construction costs.

Panelist Julie Robinson, senior vice president-investments, Ventas, commented on structures for new development deals. Earn outs that align the interests of the investor and operator are popular, she said.

Seniors Housing Investments

NIC's Peck recapped the second quarter 2019 market fundamentals of the seniors housing market (independent and assisted living). Assisted living occupancies in the Primary 31 Markets are at 85.1%, the lowest level since 2006, mostly due to a wave of new construction which appears to be slowing. Independent living has maintained an occupancy rate above 90% for six years.

Absorption rates have been strong in both assisted and independent living. Annual rent growth in assisted living has been slower (2.5%, 2Q19) in the Primary 31 Markets than in independent living (3.2%, 2Q19).

As of the second quarter, 43,000 units of new seniors housing construction were underway, a drop from a peak of 46,000 units in 2017. “That is encouraging to developers who feel the pinch of high labor and construction costs and to operators who see occupancy rates under pressure,” said Peck.

Case Study #2: New assisted living project

- Located in a rapidly growing suburb of a major city
- The proposed 107-unit project would be located near residential homes, an active adult project, and a retail center on a major road
- About 30% of the units would be dedicated to memory care
- Competitors have high occupancies ranging from 94% to 98%

“I’d want to know how deep the market is,” said panelist Kristen Ahrens, principal, business development, Capitol Seniors Housing. What are the barriers to entry? What else is slated for development?

Panelist Joan Williams, principal & CFO, Watercrest Senior Living, emphasized the importance of analyzing the micro-market: household income, population growth, adult children-to-senior ratio. “Do your homework,” she suggested.

Other factors mentioned included sizing up the local labor market, tallying penetration rates, and figuring out what the competition missed, such as certain amenities or a healthcare package. “The analysis requires more digging,” said Ahrens.

The panel stressed the role of the operator. “A good operator can operate anything,” said Williams, adding that the operator should have input into the design of a new project. “You can lose net operating income if the building has inefficiencies.”

Case Study #3: Repositioning an existing assisted living property

- Located in a secondary market in the Midwest
- Thirty-year-old building needs updating and repairs
- Competitive properties are newer
- Occupancy at 79%
- Operator believes building is overstaffed

“First you have to understand what it is being repositioned,” said Williams. “Why is occupancy at 79%?” Is it the age of the building? Bad leadership? Something else? Will a smaller staff really result in a turnaround? “That’s a red flag,” she added.

Reputational issues were a concern. The panelists agreed that it takes time and a lot of marketing dollars to repair a bad image. Does the operating partner have the expertise to follow through with the repositioning?

Other factors to consider included renovation costs, the length of time needed for a turnaround, whether the building layout is obsolete, and the ceiling on rents.

Finally, the panelists considered whether it would be worthwhile to change operators. A downside is that staff may be loyal to the existing operator. A switch may slow the turnaround, said NHI's Kelly.

The panelists agreed that it was important to have an operator that aligns philosophically with its investment partner. This includes being in sync on rents and concessions. Also, investors should seek operators that have experience in the local market or one with regional expertise.

Ahrens suggested that investors consider operators with whom they have an existing relationship. "It's easier to work with someone you know," she said.

2019 NIC Fall Conference Recap

Operational Efficiencies During Occupancy Headwinds

By Alex Massopust, vice president, Finance & Accounting, New Perspective Senior Living

Alex Massopust

For those of you who were able to attend the NIC 2019 Fall Conference last month in Chicago, hopefully you found time to break free from your jam-packed meetings and networking events to check out some of the great sessions that were on display during the three-day conference.

One of the sessions in particular was the "Seniors Housing Demand Trends" update. While many operators are faced with saturated markets and weakening occupancy, this session provided a robust overview of the macro-history of the seniors housing sector and where we are heading. Much of the data presented at this session also was presented in the [August NIC Insider] by Beth Burnham Mace (NIC's chief economist).

There were two key metrics that I took away from this session: 1) assisted living occupancy has slipped to 85%, which is the lowest level of occupancy recorded by NIC and 2) seniors housing occupancy fell to 88% during the second quarter of 2019. Knowing that typical lease or debt obligations for stabilized communities are usually targeted on an occupancy rate of around 92%, it's no secret why many operators are struggling in this current environment.

While one can hope that we have reached the bottom of this occupancy headwind, we all know hope is not a strategy. These occupancy challenges encourage operators to take a hard look at how they are currently operating their communities and at what sometimes difficult decisions are going to need to be made to keep the ship afloat.

This article will focus on three areas that play a critical role in driving operational efficiencies: revenue optimization, staffing alignment, and non-labor expense controls.

Revenue Optimization

In times of challenging occupancy, where rental revenue is inevitably below budgeted expectations, care revenue becomes that much more important to monitor and track to ensure the community's acuity is in line with projected care revenue and staffing requirements. The clinical team plays a crucial role to ensure assessments are being performed timely and accurately and that updated service agreements are being communicated to billing. The frontline staff should monitor and communicate potential change of conditions for residents they see and care for daily. If clinical is finding that the care time is taking longer than their current service agreement, this could trigger a change in condition and an assessment should be performed. Having sophisticated point of care technology and reporting capabilities are vital to identifying these potential increased needs.

Staffing Alignment

With labor and benefits consuming over 50% of a community's total expenses each month, this area is critical in identifying possible efficiencies and cost savings. For variable frontline team members, staffing calculators should be utilized on a weekly basis to validate whether the current hours on the floor are in line with the current census and acuity of the community. If the team is feeling stretched for hours, there are likely opportunities for reassessments (as mentioned above), to get residents on the correct level of care, which will in turn generate additional hours for the team. Once variable staff has been vetted, it may be necessary to evaluate the departmental team to see whether there are opportunities for consolidation. One area, for example, would be if you have multiple staffing coordinators that oversee their respective neighborhoods. If you have a rockstar coordinator who can oversee and staff for the entire community, you can promote and increase pay for that team member, while still finding cost savings. For smaller communities, you may want to consider hybrid roles, such as having an executive director or sales director take on the business office duties.

Non-Labor Expense Controls

While there are several non-labor expenses that are typically out of the hands of a community (i.e. property taxes, insurance premiums, management fees), there are a few key areas that can help move the needle. The largest non-labor expense on the operations side pertains to raw food. The culinary manager should be monitoring their actual food PPD (price-per-day) and comparing it to their budgeted PPD for the year. Their raw food expenses should be running in line with the actual number of residents that they are serving. Regarding the maintenance department, services that are typically out-sourced (i.e. carpet cleaning, apartment room turns, grounds, window washing) may need to be performed by the Maintenance Director or Maintenance Assistant. Finally, in examining the expense detail of a community and bifurcating the "must have" purchases against the "nice to have" purchases, it will compound into savings over time, assuming the community is good steward of what they are purchasing for the community.

In closing, most operators have a financial obligation, typically in the form of a monthly lease or debt payment that is dependent on the net operations of the community they are serving. Being able to make good on those payments during occupancy headwinds will be based on how effective you are in pulling the necessary levers—to keep the net operating income (NOI) intact for the community. These occupancy challenges are likely going to be around for the next several years, so making some of these difficult changes now may set you up for success down the road as the sector optimistically awaits the Boomer infusion, which is likely to materialize within the next 10 years.

Seniors Housing & Care Industry Calendar

10/3	Senior Housing News Summit	Washington, DC
10/13-16	AHCA/NCAL Convention and Expo	Orlando, FL
10/16-17	Argentum Senior Living Symposium	Naples, FL
10/21-22	World Congress, 3rd Annual Post-Acute Care Integration Track	Arlington, VA
10/25	Aging2.0 Boston Revolutionize Conference	Boston MA
10/27-30	LeadingAge Annual Meeting + Expo	San Diego, CA

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