NIC

NIC INSIDER
Newsletter

July 2021

THIS ISSUE IS BROUGHT TO YOU BY:

Inside the July Issue

Brightview Culture Puts Associates First: A Conversation with CEO Marilynn Duker and President Doug Dollenberg

Marilynn Duker

It may not have come as much of a surprise when Brightview Senior Living landed a spot on Fortune's list of 100 Best Companies to Work For® and was named the number one best workplace in aging services. After all, the core values of Baltimore-based Brightview focus on being a great place to work, so its communities are a great place to live.

NIC Chief Economist Beth Mace recently talked with Brightview CEO Marilynn Duker and President Doug Dollenberg. They discussed how Brightview's "associates-first" approach helped them successfully navigate the pandemic while continuing to expand the brand. Here is a recap of their conversation.

Mace: Marilynn, you serve as the CEO at Brightview Senior Living, a premiere developer, owner, and operator of senior living communities throughout the Mid-Atlantic and Northeast. Doug, you serve as President and have done so for the past four years. Can you tell us about yourselves and more broadly Brightview?

Doug Dollenberg

Duker: I joined The Shelter Group, a company that owned and operated multi-family and affordable housing projects, in 1982, as its first employee. When our partner, Arnie Richman (Chairman) joined us in 1995, he led the creation of Brightview Senior Living. In 2017, we sold our multi-family, affordable business to concentrate on seniors housing. And that's what we have done 100 percent since then. Brightview has 42 open communities in eight states from Virginia to Massachusetts. We are opening three new communities this summer. Brightview predominantly offers a rental continuum with independent and assisted living, and memory care, with a range of 130 to 200 apartments. We also have some standalone assisted living and memory care communities that are around 100 apartments each. Our company has about 4,800 associates. A hallmark of our business is our long-term focus, and our capital structure is positioned for long-term ownership. We are privately held so we can make decisions in the best long-term interest of the company, our associates, and residents.

Dollenberg: I've been with Brightview for four years. My background is in general management, including engineering, strategy consulting, and wireless technology. Marilynn and many others at the company taught me the seniors housing industry, but we were always aligned on core values and our approach to business decision making. We put people first. We take pride in the fact that we develop, own, and operate our properties for the long-term. I'm thrilled that I found the industry and Brightview.

Mace: Let me continue by saying congratulations! I was so pleased to see that Brightview is among Fortune's 100 Best Companies to Work For® and named number one in aging services. That is simply wonderful! What do you attribute this honor to?

Duker: Being named number one in aging services for two years in a row is very gratifying. The award is based on a survey of our associates. We had an 84 percent response rate which is statistically significant. The award shows that our associates trust us, and they're highly engaged. It all starts with our top priority of making Brightview a great place to work.

Dollenberg: We are so honored and proud of the recognition as one of the top 100 companies in the country, across all industries. We attribute the honor to our culture. We firmly believe it takes all 4,800 associates on our team to make our culture a success and Brightview a great place to work. We are in the people business. Our fundamental belief is that we first must be a great place to work in order to be a great place to live for our residents. Good financial results and a successful business will flow from that.

Duker: We listen to our team. That's how we generate many of the ideas we implement. This approach was very effective during the pandemic with some of the best ideas coming from our executive directors, department heads, and frontline staff.

Mace: Staffing is top of mind for our entire industry. What programs, policies, and/or strategies do you have in place that have helped Brightview, even before the pandemic? And now, "post-pandemic," if I dare use that phrase?

Duker: The biggest challenge now is to find frontline staff. We are starting to see applications tick back up as childcare issues get resolved and vaccinations get us back to normal. But there's no question the industry is heading into a tough time because the older population who needs our services is growing, while the segment of the population that is still working is shrinking.

Mace: What programs do you have in place to help with recruitment?

Duker: For us, it starts with a group interview. We use a lot of social media outreach to drive people to our group interviews, both online and in-person. We quickly narrow the pool to candidates that we think will be a good cultural fit. We use a variety of assessment tools along with robust onboarding programs and peer mentoring to make sure people get off to a great start. The highest turnover is in the first year, and our turnover rate is lower than the industry average. If you can keep people for a year, odds are that they will be with you longer-term. We have a robust internal individual development program that any associate—frontline or managerial—can apply for which helps them advance towards their career goals. About 40 percent of our managerial positions are filled internally. We're proud of that. We have great benefits, and we are very proud that we have been able to proactively manage our healthcare costs. While the national trend for healthcare costs has been an annualized increase of 5-6% percent over last 5 years, our costs have declined over the same period. We haven't accomplished this by reducing our benefits. In fact, almost every year we've added new benefits to our healthcare plan. For the last three years, we've waived our associates' share of the premiums for the month of December. And for 2021, we actually reduced associate premiums by 6%. We have a full-time wellness manager, and we really focus on associate wellness as part of our associate-first strategy. It has paid off in managing healthcare costs. We all have a role in managing our own healthcare, and we've devoted a lot of attention to helping our associates understand the role they can play in controlling healthcare costs.

Mace: Is the reduced cost of healthcare because you have a healthier staff?

Duker: Well, we know that we have much higher usage of preventive care than the country at large. Everyone is required to get an annual physical and know the results of their biometric screening for key health measures. Our care management company keeps those numbers and can call those at risk and encourage them to seek care. A lot of research shows that, if you have a relationship with a primary care provider, you are less likely to go to the emergency room for care. Also, a primary care provider can help control chronic conditions that account for a lot of healthcare spending. We are not big brother, but we're trying to help associates understand and educate them about what they can do to help control costs. It's been a ten-year effort, and now we are seeing the financial benefit to both our associates and us. Our wellness manager is currently focusing on the mental health of our associates coming out of the pandemic. This effort has been well received and appreciated by our associates.

Dollenberg: We have acknowledged mental health and wellness as a critical issue as we emerge from the pandemic. We encourage associates to talk about challenges with a colleague or professional, and focus on their own self-care, whether it's taking time off, practicing gratitude or meditation, or something as simple as going for a walk.

Duker: We have an experienced former executive director who fills in for executive directors so they can take an email-free vacation to recharge after a very stressful pandemic year. We have also adjusted our frontline wages three times in the last 13 months. There's no question, looking ahead over the next several years, that wages in our industry will rise, and margins will shrink. Our corporate office is also assuming some of the administrative tasks related to recruitment to speed up hiring.

Mace: Despite the pandemic, Brightview continued to open a number of properties. How did that go? How did it compare to pre-pandemic experience?

Dollenberg: We opened five communities in the year before the pandemic, and one opened in 2020 during the pandemic. The communities in lease-up performed differently than the stabilized communities. The communities in lease-up didn't drop in occupancy but stalled for 6 to 12 months and then gradually ramped up. With the vaccine, move-ins are back to a normal pace. We have six communities in lease-up now, and we feel good about where they are. In terms of development, there were huge operational challenges during the pandemic, but we are confident about the long-term prospects for the industry and Brightview. So, we kept moving forward with our development pipeline and construction projects. We've started a couple new projects and have a couple more planned this year.

Mace: Do you have a secret formula for the building design?

Dollenberg: We have design standards as a starting point, but the layout and architectural look and feel is different for each community. We go after sites that are difficult to entitle and high barrier-to-entry markets as the starting point. We use our design standards to fit the site and blend in with the local community.

Duker: We meet with our internal and external design and construction teams on a regular basis and to review our design standards. We also hold focus groups after a new community opens to get feedback from the operations team and residents.

So, we learn from each project what works and how the market responds to certain amenities and continuously adapt our standards based on what we've learned.

Mace: Did you have construction delays?

Dollenberg: Pre-COVID, we had five projects in construction, and those proceeded on time and on budget. It wasn't easy. There were plenty of construction challenges like our operational challenges, but we were able to navigate those in close partnership with our general contractors.

Mace: What "lessons learned" during the pandemic will Brightview continue to keep in place?

Dollenberg: As challenging as it was, we saw our entire organization come together over the last 15 months. The home office team, regional team, and everyone in each community came together to support residents and families. We saw job descriptions thrown out the window. Everyone did whatever it took to get through the challenges. We've always been focused on cross-functional teams, but that model really excelled during the pandemic. We talk a lot internally about "One Brightview," and our team really brought it to life over the last year.

Duker: A good lesson we learned is that you can move faster and make decisions more rapidly. We also pushed decision making down the organizational chart, which is a good thing and something that will last.

Dollenberg: We communicated all the time. At the beginning of the pandemic, we communicated daily with all directors, department heads, and home office associates, sharing information and best practices. Now, we have a twice-weekly update. We also launched a mobile app to communicate quickly with all 4,800 associates. And we really increased the frequency of communication with our residents and families and that helped them stay connected and informed.

Duker: We started a bi-weekly leadership townhall for executive and associate executive directors. At first, we shared protocols and answered questions. Now we focus on sales successes, sharing best practices, or the topic of the day. Peer interaction is so important, and we hear what's on their minds and get feedback. It's been fabulous.

Dollenberg: We also learned that our approach of focusing on our associates was validated. In such a challenging time, we supported and concentrated on our team, and we found that they had trust in us to fight through this challenge and serve our residents.

Mace: Has the vaccination rollout improved leads, move-ins, and occupancy? When do you anticipate that you will be back at pre-pandemic occupancy levels?

Duker: Some communities are already back at pre-pandemic occupancy levels. Others have a longer way to go, but we expect the majority to be back on track over the next year.

Mace: Our readership includes operators, developers, and capital providers—both debt and equity. What is the relationship between Brightview and Harrison Street? What do you look for in a good partnership? Do you have other capital partners? How did those relationships help or hinder your company during the pandemic?

Dollenberg: We have two main capital relationships. Harrison Street, is our only

current institutional partner. Our other major capital source is our own high-net-worth equity partners. About half of our portfolio is with Harrison Street and the other half is with our own funds, which we raise ourselves. All our partners have been very supportive of our associate-first culture and been in lockstep with us throughout the pandemic.

Duker: Most of our new development is done with our high-net-worth equity funds. But we've also had long and good relationships with institutional capital, including PGIM which recently sold its Brightview communities to Harrison Street. One of the things we look for in an institutional partner is to replicate that long-term focus that we have with our high-net-worth equity funds. We have no obligation to sell the assets in our funds. Most of the private equity in the seniors housing sector has a shorter hold period. We want to operate our assets for the long term. The Harrison Street holdings are in a core fund which has a long investment horizon, so they've been a good fit for us.

Dollenberg: We are also looking for alignment with our core values. A people-first mindset, investments in capex, and a deep understanding of the senior living sector. Harrison Street has proven to be a great and highly aligned partner.

Mace: Now let me switch topics for a bit. Marilynn, you are a role model for many women in this industry. Can you tell our readership about the challenges and successes you have seen in your career as a woman? What would you tell a young woman entering the industry today?

Duker: This is such an interesting industry. Our employees are overwhelmingly women, and our customers are overwhelmingly women and yet, we don't have enough women in leadership positions. But we have made progress. In 2019, Brookdale CEO, Cindy Baier, organized a breakfast at the NIC Conference for women in senior leadership. After that, we set up an email group which has been an enormously helpful way to share ideas and help one another throughout pandemic. When we help each other, we help the entire industry. I would tell a young woman that this is a phenomenal business with tremendous opportunity ahead.

Mace: Diversity, equity, and inclusion (DEI) is increasingly important in today's workplace. What are some ways businesses can incorporate DEI into their structures, and what are some practical near-term goals that can be set?

Duker: The industry definitely needs more racial diversity in leadership, and we are focused on that internally as well. Last July, we created a DEI Task Force with associates from all organizational levels and regions of the company. They came up with recommendations and, based on their work, we decided to focus on three areas: 1) increasing promotional opportunities for associates of color; 2) increasing representation of people of color in leaderships roles; and 3) identifying and implementing strategies to understand and respect perspectives different from our own. We are working on a lot of tactics and initiatives for each of these goals and drawing in other associates to work on the program elements. People pay attention to what you measure, so we are also building a baseline database to accurately track our progress on these goals. I believe our people feel they have been heard and that we are really taking action, but we know we have work to do in this area, as does the industry at large.

Mace: Doug, you have been involved with the seniors housing industry as President of Brightview since 2017. What are some observations you've made about this sector or key lessons learned?

Dollenberg: First, there's such tremendous purpose in what we do by taking care of residents and supporting families. We bring joy and possibilities to residents. Also, we have a great group of individuals in this industry. We build real relationships. The collaboration is different from that of other sectors. People are willing to share and help each other out. Hopefully, that brings visibility to the industry as a great place to work. The industry has a diversity of roles in operations, real estate development, and financing. There is so much exciting opportunity as the nation's population ages.

Mace: Marilynn, for many years you've been a part of NIC's Operator Advisory Board (OAB). On behalf of NIC and the industry, thank you. What are some observations you have made about being in leadership roles such as this?

Duker: There is so much benefit from being able to have opportunities to get together with peers and share best practices and ideas. The OAB is a good example of where we can have open conversations about issues we face and discuss important initiatives. The OAB was the pilot group for NIC's Actual Rates Initiative. NIC has made great advances in the quality and quantity of data available to operators and capital in the sector. That said, there is still more data available for other real estate asset classes than there is for seniors housing, and the OAB can help push for greater transparency in the industry.

Mace: Will we see transparency on the internet for rates and occupancies like we see with hotels and multifamily properties?

Duker: I hope we see more data on occupancy. Rates are complicated. Pricing can differ based on what is included and how care is handled. The consumer is more educated than they were even five years ago. They expect to find a lot of information online. Consumers want rate information and I think that is coming. But it's a complex conversation about pricing and the value proposition.

Facilitating Real Connections at 'The NIC'

In-person, face-to-face networking is making its return to the senior housing and care industry this fall, at the first large-scale national gathering of the sector's leaders since the beginning of the COVID-19 pandemic. For the first time since March of 2020, executives and decision-makers will be able to dust off their best business attire, remove their masks, and prepare to build and grow the relationships, old and new, that their success so often relies upon. With registration well underway, leaders are already gearing up for three days of efficient, effective networking, deal-making, and relationship-building–all under one roof in Houston, Texas.

"Avista has benefited greatly from 'the NIC' over the years. We wouldn't miss this event."

- **Kris Woolley**, Founder & CEO, Avista Senior Living

Of course, NIC is implementing numerous safety measures at the 2021 NIC Fall Conference, including making proof of vaccination a requirement for in-person attendance. For many business leaders, however, the upcoming event represents a major step towards returning to a sense of normalcy and 'business as usual.' Across the entire spectrum of the senior living industry, leaders are looking to the future, and looking for business opportunities, which will be plentiful at 'the NIC.'

"It's where capital meets operator developers; you're all in one place at one time."

– **Rudy Trebels**, Wedgewood Investment Group, LLC

Over the years, NIC has heard from many attendees that one of the chief attractions of the event is that they are able to sit down and meet with their top prospects all onsite during the conference. Many executive teams are able to fit in more high-value meetings in a single trip than they would otherwise manage to achieve in several months otherwise. This is simply because many of their prospects will be in attendance and available to meet throughout the event.

"My team and I look forward to collaborating with other industry participants on innovative ideas and new best practices to strengthen business operations."

- **Cindy Baier**, CEO & President, Brookdale Senior Living

NIC offers partners and sponsors of the conference access to onsite meeting rooms, making the scheduling of comfortable and private meetings even more easy and efficient. Attendees can also secure 'huddle spaces' that achieve a similar level of efficiency, and a home-base for their onsite teams. All attendees will have access to the event's highly-amenitized networking areas. For many, the resulting pace of business makes the event an extremely busy, but productive, three days. As one attendee quipped, "It's business all day. We call it the NIC marathon; it's not a sprint."

"The NIC Conference is central to our business development for the year"

– **Ben Firestone**, Executive Managing Director and Co-Founder, Blueprint

Another executive, speaking to NIC at a previous conference, said, "We usually find at least one deal here." Often, capital providers and seekers connect at the NIC, along with buyers and sellers, new partners, developers, architects, and many other participants in the industry. In fact, improving capital flows into the sector was an original goal for the event, and remains a key facet of the event's design and intention, in accordance with NIC's mission to improve access and choice for America's elders. Putting these parties together and making it easy for them to sit down and do business, all in one place, has proven highly effective. Since the event's founding, and concurrent with NIC's focus on improving transparency with data and analysis, the sector has seen phenomenal growth in investment, helping drive many advances in innovation and the continuing evolution of available models and services.

"It's a good balance of work and fun as well. It's just a good time to catch up with everybody."

– **Kathleen McCormick**, Fannie Mae

While the vast majority of attendees look forward to the event for its business value, many also acknowledge that the event is fun too. The modern and luxurious Marriott Marquis Houston is just the latest premier hotel to host the event. Attendees will enjoy the spacious, light-filled property, offering guests plenty of comfortable networking areas throughout, with an abundance of opportunities to break away for private discussions. But, the event, as always will also feature a host of fun and relaxing features as well, including a head shot lounge, specialty coffee bar, shoeshine area, and LinkedIn Corner. The hotel's bars and restaurants offer convenient settings for meetups and gatherings, as do the property's extensive outdoor areas. NIC is also hosting special social hour events for a more relaxed, social atmosphere at the end of the day, Monday and Tuesday.

"NIC has helped me develop new ideas and relationships and helped me establish truths and assumptions about my business and the seniors housing sector."

- **Michael K. Schonbrun**, Founder & CEO, Balfour Senior Living

At the end of the day, those attending the 2021 NIC Fall Conference do so to meet valuable decision-makers, in-person and face-to-face, for the first time in over a year.

"The NIC Fall Conference continues to offer our leadership team powerful opportunities to connect with other leaders in seniors housing and care."

– **Kai Hsiao**, CEO, Eclipse Senior Living

This year, given the new safety protocols, attendees must register by Thursday, October 28. As an increased safety measure, onsite registrations will not be accepted for the 2021 NIC Fall Conference. Currently, NIC is offering Early Bird incentives, with significant discounts on rates that will increase August 16. Don't miss the most important in-person networking event of 2021.

Register you and your associates today.

Thoughts from NIC's Chief Economist—Ideas to Address Staffing Challenges

By Beth Burnham Mace

Beth Burnham Mace

As we all breathe a bit easier with the worst of the pandemic seemingly behind us (at least in the U.S.), an old challenge is re-surfacing—labor. Once again, workers and the difficulty of recruiting and retaining staff as the nation's economy opens at warp speed is top of mind for virtually all business managers. And nowhere is this more apparent than in the seniors housing and care industry. While staffing was an issue in the years prior to the pandemic, it's emerging to be the latest and largest challenge facing our industry in the immediate aftermath of the COVID-19 crisis.

The recently released Bureau of Labor Statistics (BLS) Job Openings and Labor Turnover Survey (JOLTS) April report showed that the number of vacant positions in the US increased to an unprecedented 9.3 million. There is now one job opening for every unemployed worker. Further, in response to the large number of job openings, workers are more likely to leave their jobs today than they were during the long expansion of the 2010s. Separately, Federal Reserve officials recently updated their predictions on the path of the unemployment rate and now project that the jobless rate will fall to 3.5% by the end of 2023, matching its pre-pandemic low of February 2020. The official unemployment rate in May 2021 was 5.8%, down from a pandemic peak of 14.7% in April 2020. For perspective, the lowest post-war recorded jobless rates prior to February 2020 were 2.6% in 1953, 3.4% in 1969, and 3.9% in 2000.

Unfortunately, a smaller pool of available workers is likely to keep labor market conditions a challenge for the foreseeable future. The working age population is simply not keeping pace with growth in older Americans, causing the "dependency ratio" to increase significantly. Indeed, recently released and updated analyses from the Census Bureau showed that the nonworking age population grew by 12.9% between 2010 and 2019 (13.1 million persons), while the working age population increased by a more modest 6.4 million or 3.1%, causing the dependency ratio to rise to 53.7 in 2019 from 49.0 in 2010.

What Are Some Solutions? While good for employees, low jobless rates present challenges to employers who must staff their businesses. This is true for nearly all industry sectors. The specific challenge for the seniors housing and care sector is recruiting and retaining appropriately trained and skilled staff for all positions, from the frontline to the executive director and management level. And, as new properties start to come on-line in the coming months, new competitors are likely to recruit existing staff from incumbent properties.

So, what are some strategies that can be used to mitigate today's labor market challenges? Below are some ideas that may open discussion on this topic. They fall into three general categories: work environment; recruitment; and collaboration with educational institutions.

Work Environment

1. **Improve employee retention** by providing a culture and work environment that makes staff want to stay in place. The added benefit of course is that it will also enhance long-lasting relationships with residents. Steady, consistent, and predictable staffing improves quality of life for residents.
2. **Reduce turnover and create long-term commitment from staff** by providing a benefits package, competitive pay, financial incentives, and a work environment that encourages employees to stay for elongated periods. This applies to frontline caregivers, middle managers, and senior executives. Provide healthcare to staff. Create and encourage wellness programs for all staff. This has the added potential benefit to reduce health premiums. Communicate with your staff—keep them informed about the organization. The benefit of this was exemplified during the pandemic as steady and consistent written emails and virtual meetings became the norm. Invest in staff by offering training and educational programs. Provide scholarships to staff family members. As Richard Branson, founder of the Virgin Group, has said, "Train people well enough so they can leave, treat them well enough so they don't want to."
3. **Create an environment** that encourages opportunity for community-based involvement, including programs for staff with young adults and children. Generate a family-oriented environment for staff where family members periodically come to work. Offer complimentary meals to staff (commonly done during the pandemic) and consider offering childcare services.
4. **Take away any stigma** associated with working in the seniors care and housing sectors. Improve the narrative about working in the sector. Emphasize the "care" component of the industry and the sense of purpose that comes from doing work that enhances the lives of others. Emphasize the notion of doing well by doing good.
5. **Employ technology to improve work** efficiencies so staff can spend more time with residents to improve quality and quantity of care. This may help allow staff to live up to their licensed potential.
6. **Create teams of excellence** composed of staff members that work well with each other, share experiences, and become professional colleagues. Use these teams as role models throughout the organization. Create programs where employees nominate each other for awards and recognition.
7. **Listen to your staff** Understand what motivates them. Engage with staff. Incorporate staff suggestions into operational protocols. Find out why employees leave.
8. **Generate a flexible scheduling process** for staff and guarantee a standard set of work hours for proven employees. Create higher frequency pay days. Offer options to get advances in pay.
9. **Offer stay incentives for staff** who remain for extended periods of time.

Recruitment

10. **Think marketing** Create a job recruitment program that is comparable in marketing scale to new-resident sales recruitment.
11. **Create a corporate brand and reputation** that makes staff proud and braggadocious. Provide a bonus to existing staff for recruitment of new staff and create an employee referral network.
12. **Train senior management** on talent management and recruitment of appropriate candidates in terms of corporate culture, requisite skills, and personalities. Consider industries in the retail and hospitality sectors as well as other industry groups as competition in your staff recruiting and retention challenges. Foster employee loyalty with an effective on-boarding program.
13. **Consider demographics** and where the future workforce is coming from. Recruit older workers and create an environment where the old take care of the older and the older take care of the oldest.
14. **Recruit family and community members to volunteer their time** to free up paid staff for other tasks. Emphasize the privilege and honor of working with today's older adults who hold wisdom, lessons to be shared, experience, living history, and guidance.
15. **Encourage residents** to create programming, help one another, and become actively involved in their home and place of residence.
16. **Create succession planning models and redundancy plans for key staff positions** Implement systems that can mitigate a single source of failure in the operation. The creation of assistant executive director programs, for example, is one solution being implemented to help protect the operation from the loss of an experienced and well-regarded executive director, a position often viewed as an operator's single most important and critical resource for a property's success.
17. **Optimize social media opportunities for staff recruitment** Use the latest search engines and job websites to generate applicant flow.
18. **Augment recruitment programs** with assessment tools, predictive analytics, and pre-testing.
19. **Expand the geographic radius** from which to draw staff and consider helping staff get to work with ride-sharing services such as Uber or Lyft.

Collaboration with Educational Institutions

20. **Identify and advertise specific career tracks** for the sector and within organization structures. Debunk negative myths about the sector. Re-shape the narrative of working in seniors housing and care as being a promising and exciting field with myriad career paths.
21. **Continue to create awareness campaigns** through group initiatives such as LeadingAge's Center for Workforce Solutions and Argentum's Workforce Development Initiative.

22. **Collaborate with universities** to create and expand undergraduate and graduate educational tracks and degrees for operations and management in the seniors care and housing sectors. A number of these programs exist today, but more are needed. Vision 2025 brings senior living industry leaders and higher education professionals together to improve the future of senior care administration and to help develop the next generation of senior living leaders.
23. **Reach out to high schools** to create training and hiring programs for students, as well as internship opportunities. Create programs where graduating students who have worked in seniors housing and care can nominate an aspiring undergraduate high school student as their successor.

A change in immigration policy that would welcome workers in the caregiving and healthcare professions could also help alleviate the sector's growing hiring challenges.

While this list is far from extensive, I hope it stimulates conversation and dialogue about a challenge that is not going away. Collectively, let's keep adding to this list and generate additional ideas about practical and implementable solutions to the ever-growing challenge of today's labor markets.

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

Beth

What's to Come with New Supply? An Update on Construction and Inventory Growth

By Anne Standish, Research Statistician, and Beth Mace, Chief Economist

Seniors housing construction is always a topic of interest, and this remains the case sixteen months into the pandemic. This analysis delves into this topic and uses NIC MAP® data, powered by NIC MAP Vision, to examine construction and inventory growth during the pandemic. For context, we also look at the relationship between construction and inventory growth as well as the differences between units under construction and construction starts.

What are the differences between starts, units under construction, and inventory growth? Understanding the difference between construction starts, units under construction, and inventory growth is crucial to understanding seniors housing supply dynamics. When units first break ground in a specific quarter, those newly started units comprise **construction starts**. Construction starts can be either at a property that has recently broken ground, part of a phased construction project or an expansion at a property that already has open units. **Units under construction** includes all units that are currently under construction. These units could be under construction for any amount of time, and these units include construction starts. Once units are available for rent having received their respective certificates of occupancy, these newly open units count towards the **inventory growth** for the quarter in which they came online. Inventory growth can also result from reconfigurations to a property, such as splitting a two-bedroom unit into two studios. Negative inventory growth occurs when units are taken offline for renovations or from permanent closure. Negative inventory growth can also happen from reconfigurations at a property, such as the reverse scenario from above where multiple studios are combined to create a single larger unit. **Construction as a share of inventory** is another concept that can be useful when considering supply dynamics and is calculated as the sum of units under construction divided by open inventory.

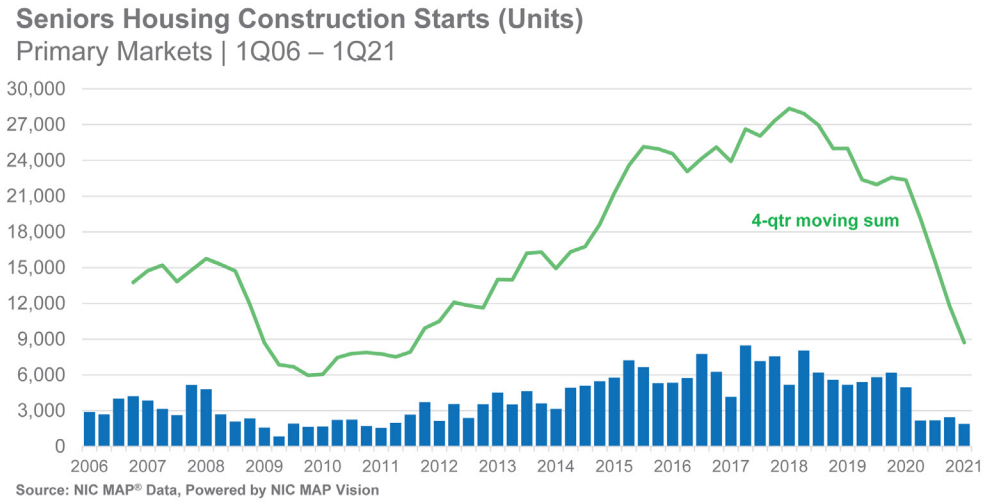
A brief caveat. Due to the nature of construction activity, data is often revised—either up or down. Construction starts can be particularly difficult to capture in any specific quarter. Occasionally, it's found that a project has broken ground after it has already done so or that a property indicated ground-breaking pre-maturely. Part way through a project, a developer may adjust their plans for unit mix based on pre-leasing patterns, unforeseen challenges, or other factors. These changes to unit mix can also mean changes to a property's majority property type designation, such as majority independent living to majority assisted living.

Background and context. This article uses majority property type. Majority property type is the industry's traditional categorization where each property is classified by its plurality care segment (referenced as majority) and where memory care is considered a subset of assisted living. Seniors housing is defined as the aggregate of majority independent living and majority assisted living.

In the late 2010s, many stakeholders had concerns about overbuilding of seniors housing due to heightened levels of construction activity. For the 31 NIC MAP Primary Markets, the cyclical peak level of seniors housing units under construction

recorded was 47,000 units in the fourth quarter of 2019. This figure represented a level of 7.3% for construction as a share of existing inventory.

Construction levels have lowered from recent peaks. Since the recorded peak for units under construction in late 2019, construction activity has slowed. As of the first quarter of 2021, there were roughly 32,800 seniors housing units under construction for the NIC MAP Primary Markets, representing a level of 4.9% for construction as a share of inventory. Although construction levels have declined, new inventory continued to come online since the beginning of the pandemic in March 2020. As some of our prior analyses have previously highlighted, the new inventory that came online during the pandemic put further pressure on occupancy in addition to the impact of the virus on move-ins.

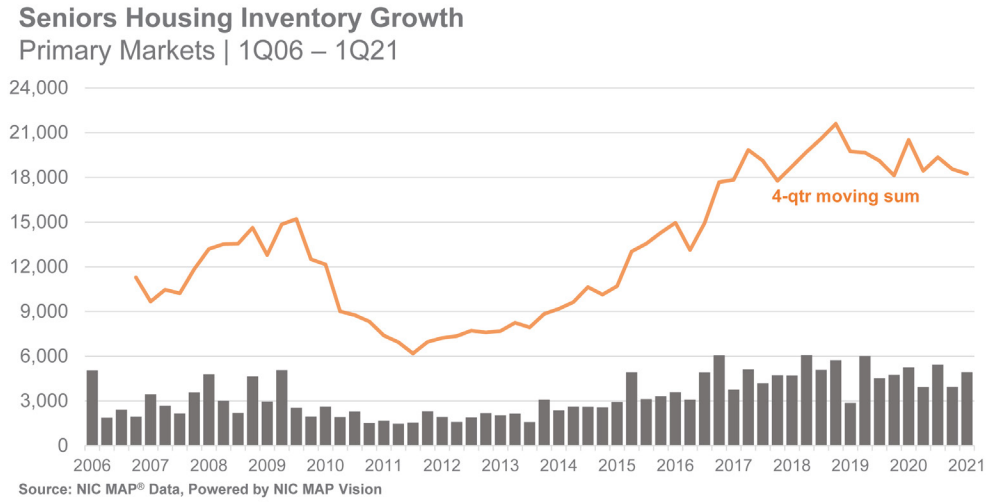


Construction starts have slowed. Construction starts have also slowed from recent peaks. One way to visualize the slowdown in starts is to look at the rolling four-quarter-sum of construction starts. For the NIC MAP Primary Markets, the highest point ever recorded in rolling four-quarter-sum of construction starts was in 1Q 2018 when over 28,000 seniors housing units broke ground during that four-quarter period. Since that peak, starts have slowed down, and by 1Q 2021, the rolling four-quarter-sum was roughly 8,700 units, less than a third of the value at the peak. The rolling four-quarter-sum of seniors housing construction starts for the NIC MAP Primary Markets has not been this low since 3Q 2011 when we were in the recovery from the Great Financial Crisis (GFC).

The slowdown in starts was evident prior to the beginning of the pandemic in March 2020, especially for assisted living as developers responded to weakening occupancy rates in many metropolitan markets across the nation. Since the pandemic and until recently, lenders have been cautious and, in many instances, largely stopped providing proceeds for development of seniors housing without relatively restrictive loan terms. Simply stated, without debt capital, starts activity waned.

As of this writing, many projects that were temporarily delayed are finding renewed interest as the widespread distribution of vaccines has allowed the country to largely re-open. Indeed, lenders have indicated that there is a renewed and heightened interest in new development activity as the pandemic hopefully comes to an end. Many developers are also looking toward the future as the long-awaited demographic

boom approaches yet closer than in the past. The baby boomers, born between 1946 and 1964, are now as old as 74 years and are quickly approaching the age of 82 (in the year 2028), the age when people often move into seniors housing.



New inventory has continued to come online during the pandemic. During 2020, over 18,500 net new units of seniors housing came online in the NIC MAP Primary Markets, with an additional 4,900 units having come online in 1Q 2021. The slowdown in construction that started in 2020 will take some time to translate into a slower pace of inventory growth. Exactly when that slowdown will happen is an interesting question, however.

While, in general, construction starts eventually become inventory growth as development projects complete, it isn't a direct one-to-one relationship between starts and inventory growth. Some properties occasionally construct a new building to replace an old one and will close the older stock when the newly built structure is ready to be occupied, so there is some variation between the two concepts. The same pattern of closing older units can also be happen for expansions. On rare occasions, a construction project will be abandoned part way through, or the purpose of the project will shift, and it will be developed into something other than its original intent.

More common are projects running into unforeseen delays that lengthen the time from the original schedules that a project is under construction. Some examples include labor issues, material shortages, weather-related factors, and delays in licensing. This especially has been the case in recent months as supply disruptions associated with the pandemic have lengthened delivery times of materials as well as having caused prices of materials to surge. Lumber prices alone were up 63% in the year ending in March 2021, according to the Producer Price Index (PPI).

There is also variation between projects in the amount of time it takes to complete construction. Some projects can be completed in just a few quarters while others take years. Some expansions actually can complete construction in a single quarter. Previous research that we published prior to the pandemic indicated that time from ground break to grand opening for new properties was taking longer to complete than in the past. Future research could investigate if that trend has changed.

What's to come? While construction levels are down from recent peaks, there's still a lot of construction underway that will come online as new inventory in the next three to twenty-four months (or longer). The slowdown seen in recent starts, however, may pave the way for occupancy to recover if demand improves as the pandemic and its effects wane. As mentioned, at current market penetration rates, demographics are favorable for future seniors housing demand with the aging of the U.S. population. Improved penetration rates would be even more favorable. The challenge will be creating the product that baby boomer consumers of seniors housing will desire.

We are also seeing multiple indicators that we may have reached the cyclical low point in occupancy resulting from the pandemic. Not only are vaccines proving to be effective and COVID cases are declining nationally, but several indicators from NIC MAP and NIC data are also suggesting that declines in the general market fundamentals may be behind us. The recently released 1Q 2021 NIC MAP Seniors Housing Actual Rates Report showed that move-ins outpaced move-outs for both majority independent living and majority assisted living for the first time since the onset of the pandemic. Additionally, the recently released NIC MAP Intra-Quarterly Snapshot reported a small uptick in occupancy for seniors housing for the NIC MAP Primary Markets of 0.1 percentage point to 79.0% in the May 2021 three-month rolling reporting period. This was 0.3 percentage point above the recorded low in the March 2021 reporting period. Wave 28 of NIC's Executive Survey Insights also reported lead volumes increasing and move-ins accelerating for some survey respondents, resulting in gains in occupancy for some respondents. Overall: although there may be added pressure on occupancy from further inventory growth in the coming quarters, we feel that the data seem to call for cautious optimism regarding forthcoming improving occupancy rates.

Subscribe to The NIC Notes Blog

Learn more about NIC Map Vision

Capital Improvement Post Pandemic

By Dennis Murphy, Vice President, Asset Management, Benchmark Senior Living

Dennis Murphy

The recent impacts of COVID-19 have caused enormous supply chain issues, leading directly to increased pricing pressure on the cost of goods. As a result, the cost of capital improvements has risen exponentially, drastically limiting the purchasing power of operators with plans to upgrade and enhance their communities. Beyond the issues associated with the supply chain, a significant number of capital improvements, as well as major construction projects in all real estate sectors, were put on hold during the earlier part of the pandemic, when strict COVID restrictions prevented such work. With increased new competition in most markets, operators are faced with decisions around how much capital investment to put into older, aging buildings in order to remain competitive with newer, modern senior housing assets. While smart decisions around utilization of capital expenditure (capex) dollars have always been important, these pricing, occupancy, and competitive pressures combine to make decisions around utilization of capex dollars even more critical.

Many operators have laid out multi-year capex strategies to improve customer facing areas and keep back-of-the-house mechanicals up to energy efficient standards. Back-of-the-house improvements that yield attractive ROIs through energy efficiency benefits remain an easier sell to most capital partners, despite potentially requiring a longer period of time to realize such returns. LED retrofits, energy efficient HVAC, and similar projects have become a common focus for many operators as returns are very attractive. Additionally, several utility providers are offering favorable rebates that may not exist in the future, so taking advantage of such benefits now would provide returns that may not be accessible down the road.

COVID has also placed an increased focus on air quality and ventilation systems to avoid the spread of airborne viruses. Although the high cost of replacing existing HVAC and ventilation systems has historically been prohibitive, more affordable rental options have emerged that can purify air while avoiding the large capital improvement dollars typically associated with such systems. As widespread vaccine distribution helps to alleviate the immediate need for air circulation improvements, it may not be worth pursing such enhancements unless you are building ground up development, as it is unclear how much consumers actually appreciate them.

As the industry faces historically low occupancy coming out of the pandemic, front-of-the-house capital improvements will most directly assist in sales and occupancy improvement. The supply chain issues associated with COVID have most directly impacted common front-of-the-house improvements due to order delays on items such as interior furniture or new vehicles. Recent interior furniture quotes can be as long as 20-plus weeks from the date of order. In addition, the recent increases in both materials and labor costs associated with unit upgrades of kitchens and baths have made such improvements a riskier proposition requiring higher rent and faster occupancy growth to make a reasonable ROI on such projects. Occupancy improvement is the primary focus for most operators and typically the quickest

way to right size their financials in the short term. The delays and high costs of customer facing projects are making it difficult to quickly execute these strategies that historically would have been the best solution to regain occupancy within competitive markets.

When evaluating capex enhancements on a budget to achieve the greatest impact possible, it is critical to consider how long it will take to execute your plan. Furniture, fixtures, and equipment (FF&E), paint and flooring refreshes of common areas can make older buildings far more competitive even on a limited budget. However, the time to plan, design and execute these larger refresh strategies can easily take months to complete, particularly in this COVID procurement environment. Partnering with effective and reliable procurement companies to assist in this process is essential. Some companies will assist in the design process but will charge additional fees to do so. If you are doing enough projects, it may be preferable and more cost effective to hire your own interior designer to avoid paying these fees. Prioritizing capital improvements that can quickly improve the customer experience is clearly more beneficial than those that may not be as valued by potential new residents. Relatively inexpensive purchases such as landscape improvements including new patios and/or exterior furniture can have a big impact quickly on both resident satisfaction and prospect visits.

One additional option worth considering when allocating capex dollars is product repositioning. COVID and new competition may have shifted the needs within a specific market, thus providing an opportunity to shift units between independent living, assisted living, and memory care. Recently, in the Northeast, we have seen a far greater occupancy rebound in memory care, perhaps because the need-based nature of the product led to high post-COVID demand. However, keep in mind that pursuing these shifts can take time depending on state licensure requirements as well as a building's overall unit configuration. When weighing these options, it is worth spending time analyzing the market as well as the costs associated with such shifts before pursuing this strategy, but the payoff could potentially be significant.

Finally, unit renovations are a great way to enhance the resident experience, but updating units only improves the experience one individual or couple at a time and can run north of $15,000 per unit for assisted living and considerably more for independent living, given the square footage and full kitchens within such units. Decisions around the scope of unit upgrades should be based upon a competitive analysis that can help determine whether such upgrades may only be sufficient to fill vacant units versus providing a means to raise rent to pay for them. If you are not able to sell at enough of a premium to provide a 10% return on cost, you may choose to forego such upgrades. However, sometimes these unit renovations are simply defensive and necessary to fill the unit, even if a higher rate is likely not achievable. Defensive capital improvements are the most difficult pitch to any capital partner, but making this case is sometimes necessary to avoid occupancy and rate degradation.

Many operators are utilizing capex dollars wisely on projects that can be completed quickly and at relatively lower cost to improve occupancy. These types of short turnaround enhancements may not be as comprehensive as operators initially wanted but can go a long way to help improve occupancy and better position operators to thoughtfully plan longer-term major renovations. COVID has left many aging

buildings starved without improvements over the last 16 months, but now that vaccination rates are increasing and COVID case numbers are way down, operators have an opportunity to get back into buildings and assess what the future needs may be. It is well worth the time and effort required to perform site visits in order to best utilize capital budgets based on feedback from the executive directors, department head teams, and residents. Projects that most appeal to your customer base are always the best use of capital dollars.

Seniors Housing & Care Industry Calendar

7/13-7/15.....California Association of Health Facilities (CAHF) Summer Conference (Virtual)

7/14.....NIC Leadership Huddle: Illustrating the Value Proposition of the Physician in Senior Living

7/19-7/20.....Population Health Management Forum for Payers & Providers (San Diego, CA)

7/22.....Aging 2.0's Aging 2-Pint-0 Networking Event (Waltham, MA)

7/25-7/29.....AHCA/NCAL Florida Health Care Association Annual Conference (Orlando, FL)

7/26-7/27.....ASHA Mid-Year Meeting (Incline Village, NV)

7/31-8/2.....Post Acute 360 (Washington, D.C.)

8/4.....Seniors Housing Business Interface Active Adult Conference (Dallas, TX)

NIC Partners

We gratefully acknowledge our partners:

Premier Partners

Official Partners