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In the Insider March Issue

Investors Go Granular, and Other Thoughts: A Wide-Ranging Discussion with Cushman & Wakefield's Rick Swartz

Rick Swartz

Investment banking plays a crucial role in the industry, connecting capital seekers and providers. Rick Swartz understands that role.

As vice chair of Cushman & Wakefield and head of the national senior housing capital markets group, Swartz has keen insights into the evolution of the industry and the transition to new and more strategic investment strategies.

NIC chief economist Beth Mace recently talked with Swartz from his office in Boston about the role of capital markets and the outlook for seniors housing. What follows is a recap of their conversation.

Mace: How long have you personally been involved in seniors housing? What changes have your seen throughout your career?

Swartz: We started our group in 2011 when the public REITs had been very active buyers. From 2011 to 2015, the private REITs dominated the market. Big portfolios were king, and value was created by selling in bulk. By 2015, private equity became more dominant, and they're more qualitatively oriented. They've been more granular in their underwriting and focused on operator relationships. This has been a major transition, and private equity has driven a lot of the new development to achieve high yields. Those that adopted this strategy early in the cycle have done well. The situation is more challenging now.

Mace: What services does Cushman & Wakefield offer to capital providers and operators? What product types and geographic areas do you cover?

Swartz: We have a 13-person national senior housing capital markets group. We offer all-inclusive services, including investment sales, debt placement, and equity capital raises, as well as strategic advisory work. In terms of product types, we cover everything from the low end of acuity scale on up, including active adult, independent living, assisted living, memory care, skilled nursing, and CCRCs.

Mace: How would you describe today's capital markets compared to the past? What do you expect in 2020?

Swartz: The investment sale market continues to be strong. A lot of this has resulted from the amount of new development over the past five to six years. Much of the capital behind that product was oriented toward high-yield equity. As that product reaches stabilization, investors must realize the profits created in those developments. The investment market is also being fed by groups with value-added deals in funds with finite lives. These groups must monetize the value that has been created over a four- to seven-year hold period.

Mace: Have you seen any distressed sales?

Swartz: Capital has been seeking these for the last three to four years. We are just starting to see distressed sales, and we expect to see more of them. They are primarily related to new development projects that have not leased up successfully.

Mace: Are distressed sales focused on certain geographies?

Swartz: The oversupply in senior housing is very specific to micro markets. You could have a distressed deal on one side of a metro area and a low cap rate sale on the other side of the market. Distressed sales also relate to the quality of the execution. Projects that are poorly conceived, in a bad location, not designed to meet the market, or built by an inexperienced developer will sell at a distressed price. Buyers will attempt to reposition those properties.

Mace: Are there a lot of multifamily developers jumping into seniors housing and getting surprised by the operational intensity of the business?

Swartz: Some of the projects where the multifamily developer was not working with an operator from the onset are ill-conceived. The number of units, unit mix, or unit size might be wrong. We have seen some of that. But we have seen quite a few successful projects where multifamily developers have partnered with strong operators.

Mace: What are the characteristics of a well-positioned seniors housing project?

Swartz: Strong affluent demographics, a high-profile location near a major artery, and nearby amenities.

Mace: Are you seeing a shift to more urban 24/7 sites?

Swartz: Absolutely. There are projects in Manhattan, downtown Philadelphia, and other high-density urban locations. These sites are more active than suburban locations which dominated the market over the last eight to nine years.

Mace: Why is development moving towards the 24/7 environment? Is the development independent and assisted living?

Swartz: There are a couple factors. The suburban areas were so heavily developed over the last seven years, while urban areas are just starting to evolve. Developers and operators recognize that, if you can execute an infill urban project, there's a higher barrier to entry from new competition and there are urban seniors who want to stay in the community. Also, some adult children have moved back into urban neighborhoods, and they would prefer their parents to live in town rather than having to commute to the suburbs for visits. New urban development covers all product types.

Mace: What will happen to the older suburban projects? Will some get readapted for medical care or middle market seniors housing?

Swartz: A lot of what happens depends on the bones of the building. Buildings in a good location with a good basic design can be upgraded. New finishes and the addition of amenities can revitalize a project and bring it up to contemporary standards. Other projects may not be able to meet the market even with an upgrade. An alternative would be a more middle market affordable type product. The affordability issue in senior housing is huge. The industry is trying to figure out the right combination from an operational and real estate design perspective to meet that middle market. The jury is still out on how that will be executed.

Mace: What groups are the most active investors now?

Swartz: The most investment activity is from private equity funds followed by a few new private REITs. The public REITs strike occasionally and strategically, but are not as active as the other groups.

Mace: Do you expect more private equity groups to form?

Swartz: Probably not at the same pace as of last five years. I think the growth of private equity specialists in senior housing will slow down a bit.

Mace: Do you have any estimates on the amount of funds available from those groups?

Swartz: We follow the fundraising process and track various groups. Our estimate is that about $6 billion of equity is available. We see a steady rise in fundraising for senior housing. So, we're bullish that capital will be available for the deal flow over the next three or four years.

Mace: With limited opportunities for purchases, will there be more pressure on cap rates and prices?

Swartz: Absolutely, there's a "have" and "have not" pricing market. Pricing is very aggressive for projects that check all the boxes for core buyers in terms of demographics, location, building quality, operator, and, most importantly, occupancy. But there's some give on pricing when the product has issues such as a poor location, bad design, or new competition. Far fewer groups bid on those projects, and those bidders are being careful and granular in their underwriting. It's not like six to seven years ago when big capital groups were looking to bulk up and just attached a cap rate to the net operating income.

Mace: It seems like desirable operators are in a nice place today.

Swartz: Yes, the operator is king today. Good operators keep growing because there's more and more new product to manage. The environment is competitive for staffing, and maintaining occupancy can be a day to day struggle. Owners are dealing with varying levels of operator success and may have to make changes. If you have a strong brand as an operator, you will have a lot of capital at your doorstep.

Mace: Are any new types of investors entering the business?

Swartz: We see capital sources broadening to include more pension and sovereign wealth funds.

Mace: What are the biggest challenges for capital providers? Is it the lack of opportunity for deals?

Swartz: I think it's the lack of opportunity of deals that they can easily underwrite. Many deals have some challenging elements, whether it's the operator, census, or upcoming competition. There are not that many easy deals these days. And the few easy ones are bid up in price.

Mace: How has underwriting changed in terms of assumptions?

Swartz: Underwriting is more granular. Every expense line is looked at carefully: taxes, insurance, wage rates. Rental rates are strategically analyzed depending on the individual project's market position.

Mace: On expense side, the Bureau of Labor Statistics shows a 5% year-over-year increase or more in wages. I've heard investors are still using a 3% wage increase in their underwriting. What are you seeing?

Swartz: In general, wage growth rates depend on the local market. Minimum wages are being raised in some places. With more granular underwriting, pressure on wages is considered in underwriting.

Mace: Why are insurance rates going up so quickly?

Swartz: Good question. We've seen multiple deals with significant increases. The buyer may bid on a property based on the insurance rate in place. But when the insurance is priced out during due diligence, the cost is much different. A lot of buyers are trying to preempt that scenario, as they do with taxes, and work with an outside insurance broker or advisor to underwrite the expected cost for future insurance rather than relying on the in-place costs as part of the bidding process.

Mace: Do you think the time to reach stabilization has increased in terms of underwriting?

Swartz: Yes, lease-up periods have slowed. After two to three years, the back door becomes a problem. Not only do you need to lease new units, but existing residents are leaving at a continuous rate. A higher number of units per month must be leased to achieve the same net result. That puts stress on a lot of newer buildings.

Mace: What is the average number of months to stabilization?

Swartz: For a long time, two years was a conservative estimate. Now two years is a strong success, and many projects take three or more years.

Mace: Are buyers paying a premium for portfolio deals?

Swartz: There is a premium for the strategic portfolio. These are typically regional in nature, with a similarly aged product, and a single operator. Investors aren't buying for bulk. The strategic portfolio garners more attention than a one-off deal.

Mace: Is there a pricing difference between stabilized and non-stabilized deals? How are properties trading in markets with low occupancy rates such as Houston? How does this compare to markets with high occupancies like San Jose?

Swartz: The core buyers want to see predictable and steady occupancy in the percent range of the low 90s. A lot of the product coming on the market is pre-stabilized with occupancies of 75-80%. Cap rates for those properties can be significantly higher unless they have shown a strong rate of absorption. There's definitely a delta between slow and quick leasing properties.

Mace: Are unstabilized properties more prevalent in certain markets?

Swartz: We see them all over the country. There are few markets where projects haven't stumbled in performance. But a market might have great performing properties that trade at cap rate percentages in the low 5s, and yet there might be a troubled property only 10 miles away.

Mace: More healthcare services are being introduced at seniors housing properties as part of the solution to take care of frail seniors. Has this trend made deals more complex in terms of underwriting?

Swartz: Most of our business is still straight forward in terms of the range of acuity served. We are not seeing a lot of deals with skilled nursing connected to assisted living and memory care. The buyer list is much shorter for those kinds of properties. If that product type evolves to meet the public need, we will see more groups build those projects. But the capital markets have resisted the idea so far. On the other hand, government agencies and healthcare groups may have a different approach that will provide capital for that type of product.

Mace: Do buyers have any favorite property types or regions?

Swartz: The market likes a continuum with independent and assisted living, and memory care. Once those projects are stabilized, they attract a tremendous amount of interest. Buyers recognize how the higher levels of acuity are fed by independent living.

Mace: What is the range of cap rates?

Swartz: Cap rates must be differentiated on a trailing vs. forward-looking basis. For newer and/or strong performing properties, we use forward-looking cap rates, the forecasted net operating income for the first 12 months of ownership. Excluding Manhattan, which is a different ballgame, California properties lead with cap rate percentages as low as high 4s but more frequently in the low 5s. On a trailing basis, cap rates could be in the low to mid 4s. Newer products in secondary and tertiary markets have cap rates as high as 6.5%.

Mace: What are the expected returns of private equity groups?

Swartz: With leverage of 65%, returns on core-type properties are about 10-11%. Value-add properties are in the 13-14% range. Repositioned properties generate returns of about 15-18%.

Mace: What are the biggest challenges for operators?

Swartz: Staffing. It is so competitive especially at senior levels. Executive directors and sales directors are being poached for new developments. The other big challenge is maintaining census amid new competition.

Mace: Other thoughts?

Swartz: The evolving active adult segment will be a meaningful part of industry.

Demographics indicate a strong wave of residents coming into the sector. Active adult has different forms and strategies. But the jury is still out regarding what works and the sweet spot.

Mace: Is active adult the old independent living without institutional dining?

Swartz: Active adult appeals to those in their early 70s to mid-80s like the original independent living. But active adult is being positioned as a more vibrant community. Buildings are designed like multifamily properties but operated like seniors housing. There are fewer staffers, but they take a high-touch approach. Potential residents still make multiple visits to a property before deciding to move in.

New active adult properties have more sophisticated social areas with bars and demonstration kitchens. There is more emphasis on exercise and wellness to reflect a more vibrant senior.

At the same time, we are seeing middle market apartments with minimal services for independent seniors. The buildings are designed to keep construction costs and rents low. The projects appeal to seniors who maybe have lost a spouse or who don't travel much. Resident-driven activity programs create an in-house social network. These projects are well received and have strong lease-ups.

Got Actual Rates Data?

Scott Brinker, the president and chief investment officer of Healthpeak, the nation's third largest healthcare REIT, recently expressed frustration with the limitations of seniors housing data that fails to provide insights into rate discounting. In Healthpeak's fourth quarter 2019 earnings call, Brinker said, "From where we sit today, occupancy across the sector is generally flat, which is certainly an improvement from where it's been the past three years or four years. But too often, I think that occupancy is coming at the expense of discounting and incentives, and those aren't being picked up by the [National Investment Center for Seniors Housing & Care] (asking rate) data that a lot of people like to focus on."

As oversupply places enormous pressure on occupancy in some markets, causing some operators to "buy" occupancy with discounts and incentives, it has never been more important for investors to have actionable data into what residents are actually paying when they move in, and what is happening with in-place rents. This type of data is currently unavailable, despite its importance to understanding local market dynamics.

During a time in which the market pressures Brinker describes are challenging investors, the meaningful transparency that actual rates data provides could hardly be more important to the sector. Brinker's comments serve to underscore the importance, therefore, of NIC's Seniors Housing Actual Rates Initiative, a program several years in the making, that is now beginning to report out exactly the type of local market data that seniors housing investors now need to develop proformas, underwrite transactions, develop business plans, and monitor portfolios.

For a few years, NIC has been reporting seniors housing actual rates data at the national level, but NIC now has begun to roll out this data at the metropolitan level. NIC MAP® clients and providers of actual rates data can access key data on the actual rates residents are paying for their units, along with move-in and move-out rates, in Atlanta, Philadelphia, and Phoenix. This new data provides investors, owners, operators, developers, and other stakeholders a powerful new metric to benchmark, analyze, and improve property underwriting and assessment within these markets. In Atlanta, for example, a market that has seen extensive new supply coming on line, actual rates data reveals discounting on assisted living units equivalent to two months' rent upon move-in as of December 2019.

The actual rates initiative is part of a long tradition of improving the sector's transparency to inform decision-making. Nearly 30 years ago, NIC was founded to enable access and choice in seniors housing and care for America's seniors. At the time, owners and operators across the country were struggling to finance much-needed improvements and new construction. Due to a lack of transparency, and the fact that the sector wasn't well understood within the capital markets, capital was hard to find – and was costly. NIC understood that to be successful, the sector would have to find ways to improve the transparency of the fragmented and then opaque sector.

At first, NIC focused on convening capital providers and the operators and owners who sought financing. This approach formed the genesis of what has become the industry's most important series of annual events, the NIC Fall Conference and NIC Spring Conference. The gathering of leaders from both the capital side and operations side of the industry to network, build relationships, and explore new business opportunities helped capital providers and seekers connect, and the industry began to experience some growth rooted in those connections. But NIC recognized early on that networking alone would not be enough. Many investors, including highly sought-after institutional investors, remained on the sidelines due to the seniors housing sector's lack of the data they use to analyze and underwrite other commercial real estate property types.

To address the need for data, NIC invested heavily in the development of a data and analysis platform called NIC MAP. Today, that data service covers over 15,000 properties in 140 metropolitan markets in great detail, and regularly updates millions of data points with accuracy and reliability. Among operators, analysts, and investors, NIC MAP is widely considered an indispensable toolkit. Access to NIC MAP data tools has vastly improved transparency and is regularly credited with helping to usher in an abundance of capital sources.

Many investors today recognize the seniors housing sector as worthy of the kind of institutional investment the sector was often challenged to attract just a couple of decades ago. NIC's initiatives have helped the industry expand into new markets, improve models, upgrade its properties, and offer residents of seniors housing and care properties a range of options that simply weren't available before. But seniors housing today still lags behind other major commercial real estate property types in financial transparency, which is keeping some providers of investment capital from allocating funding to the sector. Over the next few decades, America will face a sustained increase in demand for seniors housing and care, while dealing with shifting consumer preferences, new payment models, and other challenges– all of which will likely demand an influx of investment capital.

Brian Connolly, NIC data principal, has been working on the Actual Rates Initiative since coming to NIC over four years ago. In the early days, the effort faced a couple of major challenges. "When we came into this, there was a lot of collaborating with each operator to get their data reported in a standard format so NIC could process it and put it into an aggregate data set for analysis," said Connolly. That wasn't the only potential roadblock. "Asking for the specific rates actually being paid for individual units is sensitive. That was a bit of a challenge to overcome. Knowing that the data contributors are kept confidential and that the data is reported only in the aggregate, however, has alleviated such concerns among the data contributors," he explained.

The first Actual Rates report included data from approximately 15 operators, many of whom had been recruited by NIC Board members and associates. That data provided national benchmarking, but the number of data contributors wasn't yet sufficient to maintain anonymity at the metropolitan market level. Nevertheless, the first release provided actual rates data on approximately 200,000 units. Since then, NIC has continued to recruit operators to contribute their data to this critical initiative. In addition to improving transparency across the sector, data contributors gain access to the quarterly *NIC Seniors Housing Actual Rates Reports* that they are making possible.

To facilitate easier and more efficient participation by operators in contributing their actual rates data, NIC decided to approach software providers in the space for help. "We wanted to work with them, so that they could program, on behalf of their respective clients, the standardized data contributing reports required by NIC. Then, an operator could simply go into a familiar software system they already use, download a report, and hit a button to submit it to NIC," explained Connolly. The certification of Yardi as NIC's first Actual Rates Software Partner, was followed by the additions of Matrix Care Senior Living and Point-Click-Care, and more will follow. "Now, any operator using software from one of our partners can, after an initial configuration, click a button to contribute their actual rates data to NIC. That really makes it easier for NIC to recruit more operators to participate in the initiative."

As more operators participate, more metropolitan markets will meet NIC's threshold for property participation, which ensures confidentiality. Once enough properties in any given metropolitan market are reporting their data, NIC will begin to report on that market. That reality, combined with the relative ease of reporting, will hopefully encourage more operators to participate in this initiative, in order to gain valuable tools and insights where they operate.

NIC's intention is to provide data down to the metropolitan market level. As Connolly sees it, "Our ultimate goal is that this Actual Rates data will be available from nationwide coverage to specific markets, enabling data users to benchmark to market averages and compare trends across markets." With Atlanta, Philadelphia, and Phoenix already reporting metro-level actual rates data, NIC is on its way to achieving that vision, which should encourage investors and capital providers such as Healthpeak's Brinker – and motivate operators to participate.

To learn more about participating in NIC's Actual Rates Initiative, visit www.nic.org/actual-rates or contact bconnolly@nic.org.

Five Healthcare Trends You Need to Know

As the 2020 NIC Spring Conference approaches, many registrants are reviewing the schedule of breakout sessions, and making sure they have time to attend those they find most interesting. NIC puts a great deal of thought and effort into the program, which is divided into three tracks for the upcoming conference: Real Estate Strategies, Healthcare Strategies in Real Estate, and Senior Care Collaboration. Whether you are an operator, investor, lender, developer, one of the growing number of healthcare leaders exploring partnership and collaboration opportunities, or any other stakeholder in the sector, there are sessions and insights of value to your business.

The central thesis on which the entire program was designed, is that healthcare is changing – and will have a significant impact on the seniors housing and care sector. Of course, traditional data and real-estate-based topics are still central to the program, but attendees this year can expect to hear more about the challenges and opportunities associated with value-based care and healthcare's new trajectory, which will increasingly push services to seniors where they live.

The first session in the Senior Care Collaboration track, which will be held Wednesday, March 4 at 2:45 PM, is titled "Five Healthcare Trends You Need to Know." Session panelists will conduct a moderated discussion on the theme that, driven by unsustainable spending and cost growth, providers, payors, regulators, and consumers are energizing a number of trends that will increasingly impact the seniors housing and care industry. As the session description asserts, "Senior executives and investors in healthcare, seniors housing, skilled nursing, and managed care spaces must look outside their respective industries and understand these larger trends in order to develop effective long-term strategies – and remain relevant in the future." Conference attendees with an interest in developing strategies that anticipate and leverage the opportunities around these trends will want to attend this kickoff session.

The session's panelists represent a cross-section of the healthcare landscape – and have direct experience tackling the changes that are already impacting seniors housing and care. They will share the trends that are impacting their industries today. They will discuss underpinning issues, such as unsustainable spending and cost growth, as well as trends in reimbursement and payment models, the shift to home-based care, the impact of consumer-friendly clinics, and the emergence of a new kind of healthcare consumer.

Moderator Andre Maksimow is senior vice president at Kauffman Hall, bringing more than 20 years of experience advising healthcare leaders nationwide. He provides strategic financial advisory services related to mergers, acquisitions, divestitures, joint ventures, minority interest transactions, valuations, and strategic options assessments. Maksimow serves a variety of healthcare organizations, particularly hospitals and post-acute care providers. His previous roles include director in FTI Consulting, Inc.'s healthcare practice, vice president of acquisitions and finance for a private equity firm focused on senior housing communities, and chief financial officer of an affiliated senior housing property management company.

Panelist Grace Chen is the senior vice president of care services at Oak Street Health, a network of primary care centers that delivers value-based care to adults on Medicare. She leads the creation of care delivery models in the home for vulnerable patients. Prior to joining Oak Street Health, Grace was national vice president with DaVita Medical Group, DaVita's former primary care population health business, where she was responsible for operations and care model development and innovation. Grace has spent her career growing, streamlining, and transforming various aspects of healthcare, with other roles including clinical operations within DaVita Kidney Care and service line development for an academic medical center.

Mark Feinberg is CEO of Stay Smart Care. With more than 29 years of experience in healthcare, Mark is a healthcare focused entrepreneur who has worked with major players in the space, including Baxter Healthcare, Allegiance Healthcare, MCI WorldCom, Cardinal Health, Blue Jay Consulting, and Philips Healthcare. Prior to founding Feinberg Health Partners and Stay Smart Care, he was vice president and managing partner of Philips Healthcare Transformation Services serving as the North American market leader, responsible for all consulting offerings to include radiology services, oncology services, cardiology services, design consulting, ambient services, emergency services, patient monitoring/alarm management, analytics, and IT services.

Feinberg and Chen will be joined by Ryan Novaczyk, CEO of New Perspective Senior Living. In an effort to help residents in Living Life on Purpose®, Ryan guides the development and implementation of operational and financial strategies and systems, including planning and forecasting processes, financial analysis, sales and marketing, resident programming, facilities management, acquisitions, and new development projects. Prior to joining New Perspective Senior Living, Ryan served as vice president of equity research for two multibillion-dollar financial services firms located in New York and Minnesota. Previously, Ryan was engaged in equity research, investment banking, and mergers and acquisitions at Piper Jaffray in Minnesota.

In an environment of hospital vulnerability, increasing price transparency, big mergers, and powerful high-tech disruptors, this session, featuring the real-world experiences and insights of its moderator and panelists, promises to deliver actionable insights on the trends you should be considering as you plan for your business' future.

To learn more about this, and other breakout sessions, or to register for the 2020 NIC Spring Conference, visit www.nicevent.org.

NIC Leaders Recognized

In the space of a week last month, two members of NIC's leadership team received recognition for their contributions to the seniors housing and care sector. On February 20, McKnight's announced the second annual class of Hall of Honor inductees in Women of Distinction awards, which includes NIC Chief Economist and Director of Outreach, Beth Burnham Mace. On February 24, McKnight's, as part of its 40th anniversary celebration, profiled NIC Founder and Strategic Advisor, Robert G. Kramer in McKnight's 40 for 40.


Robert Kramer

In his contribution to a book on leadership, Kramer recently wrote, "A leader must inspire others. One person with a vision is limited in what they alone can accomplish. Leadership means connecting people to an idea or an action that gives them meaning, purpose, and reward. The ability to coalesce people around a positive shared vision and motivate them to achieve it–that is leadership."

Perhaps the efficacy of Kramer's concept of leadership is best illustrated by the fact that the organization he led for nearly 30 years is often recognized throughout (and beyond) the seniors housing industry, and the media, for the leadership of the team Kramer put together at NIC. Kramer has helped to ensure, through the establishment of exceptional senior staff, executive team members, and a volunteer Board of Directors, that NIC will remain relevant and effective for years to come. These dedicated professionals demonstrate a sustained passion for moving the seniors housing and care sector forward, as the organization continues to achieve its mission to enable access and choice for America's seniors.

When asked for comment on the 40 for 40 honor, Kramer expressed his belief that his accomplishments were made possible by the talents and efforts of many others. "I was fortunate to work alongside, and to lead, some incredible individuals, such as Tony Mullen, Harvey Singer, Mike Hargrave, Elisa Infante Freeman, Chuck Harry, Beth Mace, Amber Jacobs, Dan Raney, and NIC's current CEO, Brian Jurutka, to name just a few. Together with our volunteer leaders, who always amaze me with the amount of personal time and commitments they make to NIC and its mission, everyone was on board both with an audacious vision to truly change the sector, and a commitment to executing at the highest level."

Penned by John O'Connor, the editorial director, vice president, and associate publisher of McKnight's Senior Living and McKnight's Long-Term Care News, the 40 for 40 profile opens with an acknowledgment of Kramer's greatest career accomplishment. "When people discuss how freely capital now flows in this sector, demographics and a strong economy usually get the credit. Often overlooked is the man perhaps most responsible for opening the spigot: Robert G. Kramer."

Reacting to the award extended to her, Mace said, "I am honored and delighted to be included among such a group of amazing and impactful women. Amongst all of these business leaders, my inclusion, as an economist working for NIC, really speaks to the value of what NIC brings to the industry in terms of transparency, thought-leadership, and vision. NIC is having an impact."

Beth Burnham Mace

As Chief Economist and Director of Outreach at NIC, Mace is responsible for the interpretation and dissemination of NIC's data – and focuses on presenting an unbiased viewpoint on the state of the industry. She came to NIC from a career working on the capital provider side of the equation, at a time when there was very little data available for investors interested in the sector. First as a volunteer board member, then as staff, Mace became involved in the creation and continued development of the NIC MAP® data platform, the industry's first data and analysis platform.

She also spearheaded the development of NCREIF investment returns data for seniors housing, which can be used to compare seniors housing to other property types such as multifamily, retail, office and industrial. Currently, Mace is working toward the goal of providing property-level P&L data for the sector – an advancement that will bring seniors housing even more in line with other commercial real estate property types, which will help draw smart investment capital from institutional investors. Mace believes the effort should result in more seniors housing options, at a lower cost.

In 2019, Mace was the project manager for NIC's seminal "Forgotten Middle" study which provided the first-ever analysis of the demographic profile as well as the size, income and healthcare characteristics of America's middle-income senior population. Published in Health Affairs, the resulting manuscript was the fifth most read story in this prestigious journal in 2019.

NIC's mission can only be achieved with the caliber of vision, dedication, and leadership that these honors acknowledge – and the organization remains committed to applying such talents to the seniors housing and care sector for many years to come.

Thoughts from NIC's Chief Economist

By Beth Burnham Mace

Beth Burnham Mace

Fed policy. Recent employment reports from the Bureau of Labor Statistics have shown that the economy continues to expand at a reasonable pace, with job gains averaging 211,000 for the three months ending in January 2020. This data supports the Fed's "on hold" stance, at least for the time being. In late October, the Federal Reserve lowered interest rates by 25 basis points to a range between 1.50% to 1.75%. This was the third cut in as many months, and none have occurred since. In recent comments, the Chairman has emphasized that the baseline outlook for the economy remains positive, helped by the recent cuts in interest rates. He also has said that the Fed "will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate." This suggests that the Fed will not cut rates any time soon. A new emerging risk exists, however. And, that relates to the full extent of the impacts of the coronavirus on economic growth in China as well as across the globe.

Have assisted living fundamentals turned the corner? In the fourth quarter, the assisted living occupancy rate for the 31 NIC MAP® Primary Markets rose 30 basis points to 85.7%, the highest level since the fourth quarter of 2017 and up 60 basis points from the year-earlier low of 85.1%. In contrast to the improvement in the occupancy rate for assisted living, the occupancy rate for independent living slipped back to its second quarter 2019 level of 90.0%, which was the lowest level since late 2013. The divergence in patterns reflects the differences in supply and demand trends, with inventory growth continuing to ramp up in independent living while slowing in assisted living. Demand continues to remain relatively strong in both property types. In fact, for assisted living, net absorption reached a second record year in a row in 2019, while inventory growth slowed sharply in 2019 compared with 2018 and was roughly two thirds the volume of 2018. Based on this inventory data, it appears that 2018 was the peak year for inventory growth for majority assisted living properties, and 2019 may be remembered as the year of inflection.

Actual Rates data reveal distinct differences among metropolitan markets. Recently released NIC MAP data on asking rate discounting patterns show different discounts are being offered across the country. Of the three metropolitan markets for which NIC has sufficient data to report upon, the largest discounts have occurred in Atlanta. As of December 2019, initial rates for assisted living segments in Atlanta averaged 16.3% below their average asking rate, which equates to an average initial rate discount of 2.0 months on an annualized basis, up from 1.3 months one year earlier. This was higher than for the comparable discount of 1.0 month for the nation and 0.4 month for Philadelphia. Moreover, in Atlanta, the average discount for independent living segments was slightly more than assisted living and equivalent to 2.1 months in December. Higher discounts in Atlanta versus the nation make sense, since that market had the second lowest occupancy rate of the 31 Primary NIC MAP Markets in the fourth quarter of 2019 (i.e., 82.7% versus 88.0% for the Primary Market average), as well as the third highest share of construction versus inventory (i.e., 12.1% versus 6.7% for the Primary Market average).

ESG—what's it all about? Increasingly, the topic of environmental, social, and governance policies—ESG--is being discussed among institutional real estate investors as well as their advisors and investment managers. ESG means an organization is a responsible steward of the environment and operates and governs itself in a responsible way. Environmental factors may include sustainability practices related to energy efficiency, conservation, and attention to an organization's carbon footprint. Social factors may include a company's quality of employment engagement, workforce and labor standards, codes of conduct, transparency, health and safety, a company's supply chain, diversity and equal opportunity, and community involvement. And governance factors may include the board of directors' independence and its ability to carry out its fiduciary responsibility, a company's strategy and practices for compensation across the company, including line workers and the C-suite.

Incorporating ESG practices can directly benefit property performance through cost savings and many investment managers believe that properties focused on ESG appeal to a broader and more attractive investor buyer pool. In Europe and Asia, ESG increasingly is a requirement of investment mandates.

So, how does this relate to seniors housing? I've spent a lot of time thinking about this question in the context of middle market seniors housing. Are pension funds and endowments a potential source of investment dollars for middle income seniors housing? Do returns have to be lower than returns for more traditional seniors housing investing? If returns are lower, does the "S" of ESG take center stage and provide a basis for allowing a lower return for a pension fund that has fiduciary responsibilities to achieve the highest possible returns? If returns do not need to be lower, does that provide further incentive to invest in middle market seniors housing? In my view, providing care and housing options for the very beneficiaries who large state pension plans are supporting is a noble and socially responsible outcome and fits into the "S" of ESG. If this turns out to be the case, equity should soon come flowing into the seniors housing for the "Forgotten Middle."

As always, I welcome your comments and feedback.

Beth

[1] Much of this paragraph is based on commentary provided by Dees Stribling of Bisnow in an article dated May 30, 2019

By the Numbers: California's Seniors Housing Market

By Beth Burnham Mace

Beth Burnham Mace

Of the 99 NIC MAP® Primary and Secondary Markets that the NIC MAP® Data Service reports on across the nation, 11 are in California. Within these metropolitan markets, NIC tracks 937 seniors housing properties with 107,500 units, or nearly 12% of the seniors housing properties within the 99 markets. By coincidence, this share is comparable to California's 12% share of the total U.S. population (39.6 million people live in California versus 327 million in the U.S. as of 2018). Within the state, performance measurements vary considerably across the respective markets.

California Markets - Seniors Housing | 4Q2019

Metropolitan Market	Properties	Units	Occupancy Rate	Construction vs. Inventory	Number of Units Under Construction	Average Monthly Asking Rent	Penetration Rate
Bakersfield, CA	14	1,657	87.3%	0.0%	0	$3,810	7.1%
Fresno, CA	25	2,947	90.9%	0.0%	0	$3,654	10.0%
Los Angeles, CA	312	35,713	88.6%	6.4%	2,284	$4,921	7.9%
Modesto, CA	19	1,827	91.2%	0.0%	0	$3,789	10.4%
Riverside, CA	97	10,744	87.3%	14.1%	1,515	$3,948	7.6%
Sacramento, CA	103	10,497	90.3%	18.3%	1,916	$4,555	11.6%
San Diego, CA	109	14,823	91.0%	5.9%	881	$4,658	12.1%
San Francisco, CA	155	16,845	91.2%	0.5%	80	$5,848	8.7%
San Jose, CA	47	6,054	95.7%	3.3%	200	$5,558	9.1%
Stockton, CA	26	2,926	87.1%	0.0%	0	$3,672	12.8%
Ventura, CA	30	3,476	92.2%	10.2%	354	$5,524	10.8%
Large CA NIC Metro Areas	937	107,509	89.9%	6.7%	7,230	$4,540	9.8%
NIC 99 Markets	7,996	985,865	87.9%	6.2%	60,883	$4,088	11.2%

Source: NIC MAP® Data Service

No Two Metropolitan Markets are the Same. Of the 11 California metropolitan markets in the NIC MAP 99 Markets, 6 ranked in the top 22 best performing markets for occupancy as of the fourth quarter of 2019. These include top-ranking San Jose, with an occupancy rate of 95.7% (the highest in the nation), Ventura at 92.2% (seventh of the 99 Markets), Modesto at 91.2%, and San Francisco, San Diego and Fresno all with occupancy rates above 90%. Three of the 11 had occupancy rates below the national average of 87.9% in the fourth quarter: Bakersfield and Riverside both at 87.3%, and Stockton at 87.1%. Los Angeles and Stockton were in the middle of the pack.

Similarly, there is wide variation among penetration rates within California's largest metropolitan markets. NIC defines the penetration rate as total inventory divided by the number of households older than 75 years of age. On average, the penetration rate among these Californian metropolitan areas is lower than the 99 Primary and Secondary Markets' average: 9.8% versus 11.2%, respectively. Within these 11 metropolitan markets,

[1] Note that NIC MAP also tracks seven additional smaller California markets that are not included here. The data time series for these additional markets is not as long.

Bakersfield, Riverside and Los Angeles had penetration rates below 8% in the fourth quarter of 2019, while Stockton and San Diego exceeded 12%.

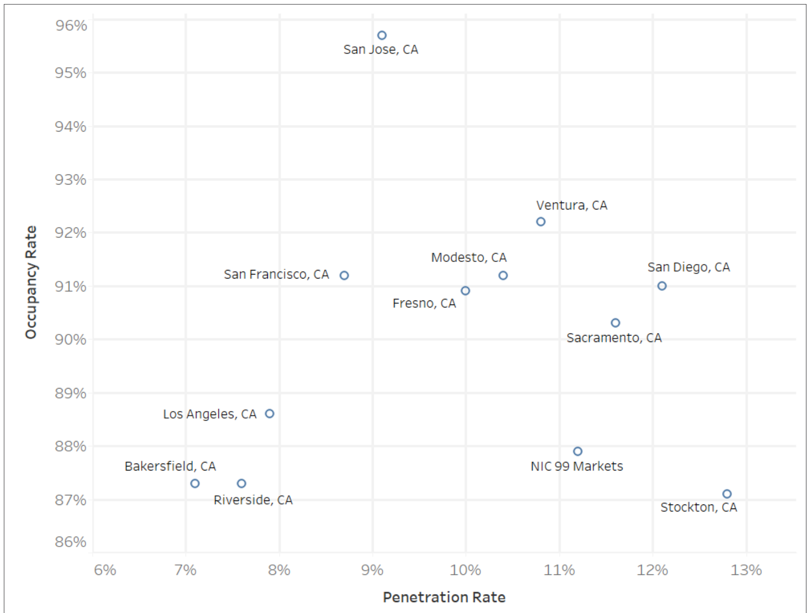
Penetration Rates—High or Low, Good or Bad? High or low penetration rates can be viewed as either positive or negative, depending on one's perspective. In markets with high penetration rates, seniors housing tends to be a popular and well-understood living option for seniors. This often means that less marketing is needed to inform the public about the benefits of seniors housing, such as its care, hospitality and socialization offerings. A high penetration rate may also mean that the market has a relatively more intensive competitive landscape due to the sheer number of units in the marketplace, potentially making increases in occupancy more difficult to achieve.

On the other hand, a low penetration rate could mean that the market has less competition, resulting in relatively easier increases in occupancy. However, if seniors housing is less familiar to the pool of potential residents, more marketing may be needed to educate consumers.

How do Occupancy and Penetration Relate? When examining occupancy and penetration rates for California, it's important to keep a few things in mind. First, board and care properties, which are not tracked by NIC MAP and are not included in this analysis, may directly compete with many of the properties tracked by NIC MAP. Also, note that these properties are not included in the penetration rate analysis cited above. According to the California Registry, there are more than 8,100 of these properties for the elderly in the state. More than 90% of these properties provide non-medical custodial care within a single-family private residential home setting, licensed for six or fewer residents.

In addition, penetration rates do not necessarily correlate with occupancy rates. For example, San Jose has a low penetration rate of 9.1% yet a high occupancy rate of 95.7%, and San Francisco has a relatively low penetration rate of 8.7% yet a relatively high occupancy rate of 91.2%. On the other hand, Bakersfield has a low penetration rate of 7.1% and a low occupancy rate of 87.3%, while San Diego has a high penetration rate of 12.1% and a high occupancy rate of 91.0%, and Stockton has a high penetration rate of 12.8% and a relatively low occupancy rate of 87.1%. Reputation of the incumbent operators in a market and the length of time seniors housing has existed in a market are among the factors that can influence penetration rates.

Chart 1. Occupancy Rates and Penetration Rates Are Not Always in Sync



Source: NIC MAP® Data Service

Construction Ebbs and Flows. Penetration rates also change over time depending upon the dynamics between construction activity, inventory growth, and household growth of seniors. For example, 3 of the 11 Californian markets have relatively a lot of construction underway—Riverside, Sacramento, and Ventura. Construction as a share of inventory stood at 14.1%, 18.3% and 10.2%, respectively, in the fourth quarter, above the 99 Primary and Secondary Markets' level of 6.2%. Unless the population of 75-plus households grows faster than these rates, it's likely that the penetration rates will rise as there is more inventory per capita. Hence, as this construction comes online, the penetration rates in these markets will likely rise from 7.6%, 11.6% and 10.8%, respectively. On the other hand, six of these California markets have virtually no construction underway -- parts of the Central Valley (Bakersfield, Fresno, Modesto and Stockton) and the Bay Area (San Francisco and San Jose). This will put downward pressure on penetration rates, all else equal and assuming there is growth in the seniors' population in these metropolitan markets. Los Angeles and San Diego have 6.4% and 5.9% shares, respectively, of their inventory of under construction as of the fourth quarter of 2019.

Difficult zoning regulations and entitlement rules, and the subsequent barriers to entry imposed on new development, often mean that California's construction activity remains relatively low for many of its metropolitan markets. While this is bad news for those trying to get into the market, it is decidedly good news for incumbents in those markets as well as those developers and operators that currently have projects underway.

And What About Asking Rents? Finally, coastal California's higher cost of living and doing business, as well as higher home prices, means asking rents for seniors housing in these markets (Los Angeles, San Diego, San Francisco, San Jose, and Ventura) were 30% higher, on average, than the 99 Primary and Secondary Markets' average asking rent, with San Francisco a full 43% higher and San Jose 36% higher as of the fourth quarter of 2019. However, except for Sacramento, which was 11% higher, the more centrally located Central Valley metropolitan markets in California (Bakersfield, Fresno, Modesto, Riverside and Stockton) had asking rents that were 8% less than the national average.

What's Ahead? Looking ahead, it's likely that San Jose will retain its title as among the highest occupied markets for some time. Construction as a share of inventory remains low at 3.3% (200 units). While more projects may be in the pipeline at this time, they have not yet broken ground. Given that the time from groundbreaking to opening has lengthened and assuming California's construction cycle is similar to the nation's, it will likely be two years or later for new competition to significantly affect incumbent operators. In addition, San Jose is a high barrier to entry market which will limit the threat of new competition.

In contrast, construction as a share of inventory totaled 18.3% (1,916 units) in Sacramento in the fourth quarter, the highest share in the nation. The completion and opening of these units will put downward pressure on Sacramento's occupancy rate which has already been pushed lower by the completion of more than 1,000 units since 2016. Since then, the occupancy rate has fallen more than three percentage points from an all-time high of 94.0% in the third quarter of 2016 to 90.3% in the fourth quarter of 2019. For perspective, it has taken the market since mid-2012 to absorb on a net basis the equivalent 1,930 units.

In summary, California is a big state. If it were a stand-alone nation, it would rank fifth in the world, with a "GDP" of more than $2.7 trillion. It is a state of multiple dynamics in terms of development and growth opportunities, population and demographic subtleties, and lastly, consumer preferences. This is perhaps nowhere as evident as in the performance of its myriad seniors housing properties.

Maury Regional Hospital & NHC Maury Regional's 'Virtual Warm Handoff'


Cameron Bell


Theresa Harris

Technology advancements continue to impact everyday life at a rapid pace, and the seniors housing and care industry continues to work toward improving quality of life for both the resident and the care giving team. While "disruptive" technology is an attractive and thought-provoking topic, leveraging existing technology to enhance customer service and improve staffing efficiencies is also significant.

Recently, National HealthCare Corporation (NHC) Maury, a skilled nursing facility located in Columbia, Tennessee, and Maury Regional Hospital implemented a new initiative called the 'Virtual Warm Handoff.' This is designed to improve the patient experience during the transition from the hospital stay to a post-acute setting. This initiative utilizes existing technology to enhance the patient experience, while also improving the care staff's efficiencies. It does not require disruptive technology to make a difference in the lives of patients, families, or caregivers.

The following is a conversation conducted by Cameron Bell, vice president, portfolio management at National Health Investors (NHI) and a member of NIC's Future Leaders Council, with NHC Maury's administrator, Edward Moore, and Maury Regional Hospital's Theresa Harris, RN. Some of the answers have been edited for brevity and clarity.


Edward Moore

Bell: Edward, can you describe how the Virtual Warm Handoff program started and give us a little background?

Moore: Sure, this program is really part of a bigger joint venture between NHC and Maury Regional. We have a strong partnership with Maury Regional, and they brought the concept to us. We were completely on board, given the strength of our partnership, and saw an opportunity to enhance it further, while also improving the patient experience. Theresa, would you give the background on this pilot?

Harris: The Virtual Warm Handoff is part of a larger grant project. Maury Regional Health has been awarded $928,878 in Civil Money Penalty funds from the Centers for Medicare and Medicaid Services for a program to enhance the continuum of care and reduce patient readmission rates through its post-acute care network. The grant allowed us to purchase a tablet, a Tryten cart to house the tablet, and also the peripherals that will be used for patient examination, including a digital stethoscope and a patient exam camera wand. We have a post-acute network of those who are participating in the grant project, eight are NHC centers, and we had been discussing internally on best implementation strategies. This is when we came up with the idea of a Virtual Transition of Care Warm Handoff. In conversations with hospital leadership, we were given authority to pilot the Virtual Warm Handoff with two skilled nursing facilities (SNFs) and utilize two of the hospital's floors.

Bell: Before I dive into how the pilot is going, can you describe how the Virtual Warm Handoff works?

Harris: Before the pilot, our hospital nurses would perform a shift report ahead of the discharge to the post-acute setting, which is a fairly clinical process and does not include the patient. There was a lot of paperwork involved, mostly at the nurses' station, and required a few phone calls. With the Virtual Warm Handoff, we interact with the patient, their family, and the SNF's caregiving team all at once via the tablet on our telehealth cart. Maury Regional's nurse prepares a detailed report sheet, which was collaboratively developed by the hospital and SNF nurses, that is faxed over to the SNF. Then, the hospital nurse initiates a live-video conference and we take the telehealth equipped cart, into the patient's room. The hospital's nurses spend a little time communicating and even physically showing the SNF's nurses any ailments or wounds, if necessary. I should clarify that we do utilize a HIPAA compliant live-video conferencing software.

Moore: Yes, and from our experience it has really helped make the admission process at NHC Maury more fluid and efficient. Our staff really benefits from understanding and seeing what the patients' needs are before they even walk through our doors. Then, once they arrive at our facility, the patient is greeted with a warm and familiar face. I think involving the patient, and hopefully reducing any anxiety in the process, is one of the best features with this pilot.

Bell: Yes, I can see how beneficial it is to both the care team and the patient. How involved is the patient in the Virtual Warm Handoff process?

Harris: We are working on moving towards a more patient-centric approach to discharge by including the patient in the process. Having a concise, succinct clinical report sheet sent prior to the call has allowed us to train our team to involve the patient and families during the Virtual Warm Handoff. If the patient is not engaging, then we have trained the team to turn the camera/microphone over to the patient or their family before ending the handoff. The goal is to make the patient feel more included and as part of the overall health care team.

Moore: And, I'd like to add, by including our staff in the handoff, the patient and their family can physically see and interact with their SNF team before leaving the hospital. If we do our job right during this Virtual Warm Handoff, then it improves the customer experience. Our team has seen a difference already with the admissions on this pilot and how they enjoy seeing a friendly and familiar face upon admission.

Bell: This is excellent. While it's improving the patient experience, how has the pilot helped the care staff?

Moore: Well, right off the bat, it drastically improved our efficiencies. The volume of call-backs to the hospital improved, because we were getting more information ahead of time. And, as Theresa mentioned, we receive the report sheet even before the Virtual Warm Handoff occurs, so that we can prep before interacting with the hospital and patient. If there's something we need more information about or would like to see over the telehealth module, it can be done remotely.

Harris: Sometimes there can be a development on a wound that our team wishes to show the SNF team, and then they can be ready before the patient arrives to their unit. We have found that during this pilot, seeing is better than reading a chart. You don't realize how much your eyes take in, and I think that's been the biggest positive for us and NHC, with the pilot so far.

Bell: In any pilot or study, it's always important to track trends. Theresa, how long has the pilot been in place, and how is your team acclimating to the change?

Harris: We are 30 days into the program. In the beginning, there was a lot of hesitation on our end, but as we practice, train, and practice some more, the process is becoming more fluid.

Bell: We've discussed how the virtual handoff is allowing everyone to be more efficient. How long are these Virtual Warm Handoff calls usually?

Harris: They last approximately 6-7 minutes.

Moore: And when you take that and reduce the amount of time our care staff or the hospital spends on finalizing the chart or answering questions during the transfer, it really becomes a more qualitative and timely process.

Bell: And over the last 30 days for this pilot, how many transfers have occurred?

Harris: Well, as I mentioned earlier, we are only utilizing two of the hospital's floors. One is the ortho and the other cardiology floor and combined we've performed over 24 handoffs this month. However, our third floor will generate as much traffic as the two floors we are piloting now.

Moore: Yes, I foresee the pilot needing another tablet or two in the near future. I mean just last year, we had around 900 admissions to this center alone and 750 were from Maury Regional Hospital.

Bell: What does the next phase of the Virtual Warm Handoff look like?

Moore: Apart from expanding the footprint or volume of the program, the ultimate goal is to create a 'Virtual Rapid Response Team'. This should help reduce hospital readmissions.

Harris: Yes, the grant's primary focus is infection prevention, antibiotic stewardship and the deployment of a Rapid Response Team via telehealth equipment. We decided to implement the Virtual Warm Handoff first because it would allow our team and the SNF partners to acclimate to the new equipment and technology in a less intense setting. Once everyone is accustomed to it, then we plan to roll-out the Virtual Rapid Response program, so that, if an incident occurs at the SNF, then they can utilize the telehealth equipment to live video conference the hospital's Rapid Response Team, which are experienced critical care nurses, for an assessment. We will utilize standard operating procedure, or SOP, and antibiotic algorithms as treatment plans. If the assessment shows that the patient needs to be readmitted, that will be our recommendation. We are currently working with all of the SNF medical records on the SOP which will be uniform for all centers.

Bell: Thank you both for your time and input today.

Seniors Housing & Care Industry Calendar

3/4–6..............2020 NIC Spring Conference, San Diego, CA
3/9–13............HIMSS20 Global Health Conference & Exhibition, Orlando, FL
3/25................Home Health Care News Capital & Strategy, Washington, DC
3/30–4/1........Population Health Colloquium, Philadelphia, PA

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