



**National Investment Center
for Seniors Housing & Care**

2015

INSIDER

NEWSLETTER

May Issue



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Brookdale's Andy Smith Discusses the Nation's Largest Senior Living Provider and the Effort to Cultivate Quality



Approaching the first anniversary of the \$2.8 billion mega-merger that created a truly national senior living provider, **Brookdale CEO Andy Smith** views the integration process as a huge undertaking that's finally nearing completion. Smith became Brookdale's chief executive officer in February 2013. Prior to that, he served as Brookdale's executive vice president, general counsel and secretary since 2006. He led the 2014

merger with Seattle-based Emeritus Corp., bringing Brookdale's footprint to 1,150 communities in 47 states serving about 111,000 residents.

Smith recently spoke with NIC about the merger, and what lies ahead for Brookdale and the senior living industry.

NIC: The July 2014 merger with Emeritus made Brookdale the country's largest seniors housing provider. What is the status of the integration of the two companies?

Smith: The Emeritus merger is a monumental task adding 50,000 units and 30,000 associates to our platform. But it's going well and we're pleased with our progress. The integration of the infrastructure systems has four technical phases. We've finished three phases and we're expecting to complete the last phase by late summer. Once we've completed that fourth phase, we'll have the entire company on one common platform.

NIC: Are you realizing any synergies yet?

Smith: We haven't quantified the numbers, but we are just beginning to realize synergies. There are two ways to think about synergies: revenue and costs. On the revenue side, we are rolling out our ancillary services to the Emeritus communities and we're making good progress on that front. In fact, we're a little ahead of our plan. On the cost side, redundant positions are being eliminated, and general and administrative expenses are being reduced. Because of the size and scale of the company, we're able to purchase items for less and we're seeing those synergies come into line.

NIC: Is the process of rolling out ancillary services to the Emeritus buildings complete?

Smith: It will take a couple years to export the ancillary services to all the Emeritus communities. We currently provide ancillary services to about 8,000 to 9,000 Emeritus units, but it takes time to mature the business once it opens in a particular community. We think we'll be fully operational in the next couple years.

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NIC: What are the top two ancillary services?

Smith: Home health and outpatient therapy are the top ones. Ancillary services are reimbursed by Medicare or are private pay. In the first quarter of 2015, ancillary services generated about \$115 million out of total revenue of \$1.2 billion.

NIC: You've mentioned before that the Emeritus properties are being refreshed. Where does that process stand?

Smith: Our game plan is to invest heavily in the Emeritus communities, both the buildings and the information technology systems. It will take three years to refresh and refurbish the Emeritus buildings. This year, we expect to finish 150 of 500 Emeritus communities.

NIC: Are you repositioning communities?

Smith: We have a large development initiative called "Program Max" to reposition communities to better fit consumers' needs. This goes beyond refreshing a community to improve the common areas. "Program Max" is about repositioning a community by expanding it with new units or additional levels of care. For example, we might add memory care if it doesn't exist at a property. We are big believers in having a continuum of care on a campus. It's a better product for families and residents.

NIC: Will "Program Max" include the Emeritus buildings?

Smith: We've just begun that process and we expect a number of Emeritus properties to be repositioned. We are developing a strategy for those opportunities.

NIC: In the first quarter, NIC reported slipping occupancies due to weaker absorption. What factors are influencing occupancies?

Smith: The NIC numbers are consistent with Brookdale's numbers. The first quarter is always subject to seasonality which is manifested by lower move-ins and higher move-outs. Those numbers were exaggerated by the flu which was more virulent this year, restricting move-ins and increasing move-outs because of higher mortality rates. The bad winter weather hurt too in certain places.

NIC: Are there a lot of regional differences in performance?

Smith: We're in virtually every market, and we're not seeing any great regional differences across the country. The demand for services and product is strong.

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NIC: Brookdale and HCP recently announced plans to acquire an \$849 million portfolio in a RIDEA structure. Are more acquisitions in the works?

Smith: The HCP deal is consistent with our strategy. If we can buy assets because we already manage or lease them, then that's something we would try to do because the process doesn't include systems integration. We're also exploring other acquisition opportunities, both on our own and with our REIT partners.

For us, the number one priority is to complete the integration of the Emeritus platform which is monumental. An acquisition must be very attractive for us to pursue it now. We don't want to take our eye off the ball at Emeritus.

NIC: Press reports say investors are seeking to unlock the value in Brookdale's real estate, perhaps by spinning it off into a REIT. Can you comment?

Smith: There's a limit to what I can say, but I will underscore what I've said before. It's the job of our management team and board of directors to constantly assess our capital structure to make sure we are organized in a way to maximize value for stakeholders. Any change would have to create additional and enduring value for shareholders. Enduring is an important word, and there are a number of alternatives we need to assess. Most importantly, no matter how the company is organized around its real estate it's important that we operate our business consistent with our mission and our culture. First and foremost, we have to make sure we deliver quality for our residents.

NIC: Do you track quality, or have quality initiatives?

Smith: We have a number of quality initiatives. Our industry has a real opportunity to develop better quality metrics. At Brookdale, we are developing more sophisticated quality measures. One particular initiative I'm excited about is our "BEST" program. It's a technology tool that we spent several years designing to operationalize our standards, policies and protocols. It's a very sophisticated checklist tied back to policies and procedures that makes it easier to operate a community. There are literally hundreds of items on the check list tied to policies. For example, it demonstrates how to properly do a two-person lift. It's a cool tool.

The real key to our business, and our most important asset, is our people. Our goal is to simplify and standardize what our people do, so they are free to be on floor to interact with residents and families. That's really why they came into this business and it's a key way for us to provide top quality services.

We also have an outside auditing process tied to the program, a third-party expert who reviews

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our results so we know how we're doing. The results of the audit highlight places where we might need to improve. We want to know what the data is showing us and use it to improve our services.

This is year one of implementation of the "BEST" program. But we're rolling it out to every community.

NIC: What is the next generation of seniors looking for?

Smith: It's a big question. Demographics will drive our business and there will be a need for our services. The consumers we're going to serve will look more and more for connected and seamlessly integrated services to provide them with more coordinated care. Just as you see in health care generally, we are seeing initiatives to improve quality and one way to do that is through coordinated care. That will be a driving trend in seniors housing as we move forward. People want a single provider with solutions for a variety of needs.

First Quarter Market Spotlight

Chris McGraw, Senior Research Analyst, NIC

According to the NIC MAP® Data Service, the first quarter was highlighted by weak absorption and falling occupancy for seniors housing properties, however, some markets shrugged were able to shrug off winter blues. In some markets the story was just the opposite, with strong absorption and rising occupancy characterizing their performance during the first quarter of 2015.

Minneapolis had the fastest rate of absorption, with absorption of 1.4% during the quarter according to NIC MAP data. While its inventory grew at the fourth fastest rate within the primary markets, solid absorption propelled occupancy upward by 40 basis points from the prior quarter. Boston had a similar dynamic, as its absorption also outstripped a healthy rate inventory growth, causing occupancy to rise 20 basis points during the quarter.

Phoenix and Sacramento had absorption rates on par with Boston and Minneapolis, but additionally benefited from a lack of inventory growth, allowing for stronger gains in occupancy. According to NIC MAP, Phoenix experienced the largest occupancy increase within the primary markets at 140 basis points, driving it to its highest rate since the first quarter of 2008. Sacramento had the second strongest occupancy gains, as occupancy rose 100 basis points during the quarter, which accounted for most of the occupancy it lost during 2014.

Where there are outperformers there will inevitably be underperformers. Noteworthy markets with this dubious distinction included Houston, Denver, Las Vegas, and San Francisco. Inventory

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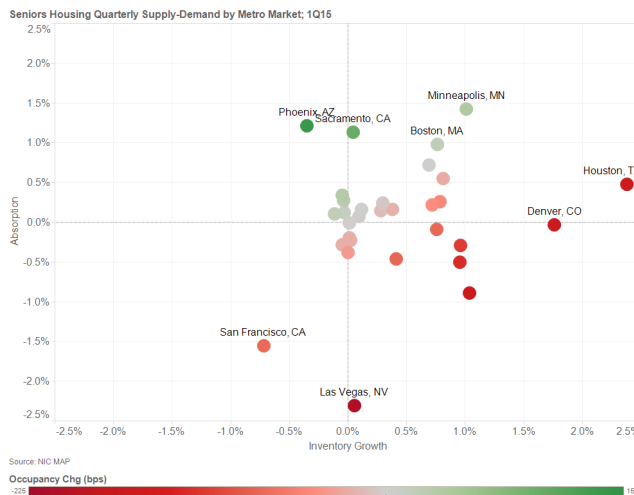
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growth was the primary culprit behind occupancy declines in Houston and Denver, while negative absorption was the engine behind declines in Las Vegas and San Francisco.

Despite a healthy rate of absorption in Houston, inventory grew by 2.4%, leading occupancy to a 160 basis point decline according to NIC MAP's first quarter data. Denver experienced a similar decline in occupancy although arriving from a different route. Denver's inventory grew 1.8% during the quarter, a slower rate when compared to Houston, but with no absorption the algebra arrived at the same 160 basis point decline for occupancy.

The other weak cluster, highlighted by exceptionally weak absorption, included Las Vegas and San Francisco. The drop in absorption for San Francisco may be a blip, as it has traditionally been a one of the more robust markets. San Francisco did shed 1.6% of its occupied units during the quarter, its occupancy rate, while declining 80 basis points during the quarter, was still on par with year ago levels and significantly above its cyclical low. Las Vegas had a similar story, with a large drop in absorption that came on the heels of positive momentum during the last few years. In spite of the hiccup, Las Vegas's occupancy was still 1,000 basis points above its cyclical low.



Kevin Donahue, vice president, financial planning & analysis at Benchmark Senior Living and FLC member, was asked to facilitate one of the first roundtable discussions at the National Conference in October 2014. The purpose was to continue the conversation from the panel session, "Diversification of Alternative Business Models." "Being that this was the first peer-to-peer discussion of its kind, all involved were unsure of exactly how well it would be attended or how the conversation might flow," Donahue said. The discussion drew 24 participants—more than anticipated. "There was a good cross section among the attendees from operators, capital sources, vendors, and lenders," Donahue said. "The conversation and discussion flowed very easily."

According to Donahue, the group had an in-depth conversation on the panel presentation as well as a host of other related topics. Attendees of the peer-to-peer discussion appreciated being able to meet in a small group, in a less formal setting. "It seemed to be a very engaging hour for those in attendance," Donahue said. Several participants stayed after the session concluded to further exchange ideas and business cards.

The post-panel peer-to-peer discussions were also held at the Capital & Business Strategies Forum in April 2015. Eric Mendelsohn, executive vice president, corporate finance, at National Health Investors REIT and FLC chair attended the peer-to-peer discussion after the session, "Rising Acuity and the Impact on Seniors Housing Business Models." The session was facilitated by Sophia Lukas, executive director at be.group and FLC member and Ryan Novaczyk, president and chief financial officer at New Perspective Senior Living, both experts on a critical issue affecting the industry.

"The peer-to-peer talks were helpful in that they allowed curious session attendees direct access to experts," Mendelsohn said. "There was a good conversation happening; comments and questions bounced back and forth between participants and presenters, which led to meaningful thoughts and conclusions." According to Mendelsohn, there were several "war stories" and possible solutions shared among participants.

Mike Goldberg, director, senior investment officer at Care Investment Trust and FLC member also facilitated a peer-to-peer discussion at the Capital & Business Strategies Forum. This discussion followed the session, "Integrating Your Seniors Housing Acquisition." "The smaller discussion format allowed participants to engage in conversational dialogue that would not have been possible in the larger setting of the session," Goldberg said. "The dialogue was enhanced by the fact that the peer-to-peer attendees came from diverse professional backgrounds, including financiers, insurance representatives, operators, and those new to the seniors housing industry."

Along with positive feedback from attendees of the peer-to-peer exchanges, another indicator of success was the large number of participants, ranging from a dozen to more than 30. Under the leadership of FLC members and other industry experts, these facilitated peer-to-peer discussions will surely continue to be a vital element of future NIC conferences and forums.

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With Change Comes OPPORTUNITY

CONNECT

 Meet with more industry decision makers than you'd be able to visit all year!

NETWORK

 Best place to network with existing clients and develop new business opportunities.

EXPLORE

 As the customer changes, what does that mean for the product - housing, services, and care?

6 KEY TRENDS

- 1 New & Demanding Customer
- 2 Demonstrating Quality Outcomes
- 3 Opportunity of Technology
- 4 The Changing Payor Landscape
- 5 Supply and Demand
- 6 Demand for Transparency

Who Attends?
SENIOR-LEVEL EXECUTIVES

The senior-level executives attending the conference represent operating companies that collectively own 6,000+ seniors housing and skilled nursing properties with well over half a million residents.

45%
Capital Providers
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15%
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Intensive 2.5 hour workshop simulation designed for analysts, underwriters, institutional investors and developers new (1-3 yrs) to seniors housing and care.

NIC TALKS
Hear from industry luminaries and outside disruptors about the future of seniors housing and care.

INNOVATION CHALLENGE
Featuring up-and-coming tech start-ups. Judges will assess whether innovations are practical, relevant and scalable.

DON'T MISS THE OPPORTUNITY

- ✓ Gain insight into the direction the industry headed.
- ✓ Understand how consumer preferences and finances may affect short- and long-term supply.
- ✓ Learn how to demonstrate quality outcomes and measure quality care to attract capital.
- ✓ Learn how to manage overall health care spend, not just room and board.
- ✓ Anticipate the operating changes you will need to stay competitive.

Notable Quotes

"I keep coming back to the conference because there's always an influx of new possible partnerships."

"The NIC conferences are always an unparalleled opportunity to interface with some of the leaders in the industry."

"It is the premier seniors housing event. The level of attendees, the level of content is outstanding."

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9-11 REIT Week, New York, NY

July 2015:

19-22 CAHF/QCHF Institute & Summer Conference, Omni La Costa, Carlsbad

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