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Alliance of Capital One and GE Healthcare Offers Greater Breadth of Product Offerings

An Interview with Veteran Banker James Seymour

In one of the most notable transactions of 2015, Capital One purchased GE’s healthcare-related loans worth about $8.5 billion along with GE’s Healthcare Financial Services business. The transaction closed last December, joining two important debt providers for the seniors housing and care market.

James Seymour, senior managing director of the newly combined entity, Capital One Healthcare Real Estate, and NIC Board Secretary, recently spoke with NIC about the integration of the operations, and where the market is headed.

NIC: How is the integration of the companies progressing?

Seymour: It’s progressing well. We combined two very strong businesses in the health care real estate sector. Combining the back office systems and our regulatory approaches will take the better part of a year, and we are halfway through that process now. The front end of the business integration, from the customer’s perspective, has gone very well; they like the synergy of our products.

NIC: What does the company’s footprint look like now?

Seymour: One of the best things about the sale process—besides the fact that Capital One is a great bank—was that it included the whole GE healthcare business. They acquired the portfolio, the leadership team, the pipeline and every employee. We really have a business today that is the combination of the GE Capital’s healthcare business and Capital One’s healthcare business. We both had offices in Chicago, Washington, D.C., and New York. So from a rooftop standpoint, it’s been easy to combine offices.

NIC: Where is the company headquartered?

Seymour: Capital One's healthcare real estate business has been headquartered in Bethesda for years. I’m based in Chicago, and the combined healthcare real estate business reports to me. About three-quarters of the real estate team is here in Chicago, where we’ll stay.

NIC: What are the most significant changes?
**Seymour:** We have nice cooperation and a greater breadth of product than either of us had individually. Our underwriting philosophies and procedures are very similar. GE Capital was a steady lender in the space, but based on our cost of funds in order to compete, we had to play at the higher end of the bank market loan to value spectrum. Now that we’re a bank, enjoying a bank cost of funds, we can also offer lower loan to value loans at risk adjusted pricing. That’s probably the biggest difference.

At GE Capital, we never really had bank products to offer and now we have a full suite of products such as treasury management services, a limited construction lending product, and other offerings. Capital One also has an agency lending platform, providing synergy between balance sheet and agency lending. We can take advantage of the national relationships we’ve built over the last 15 years with a broader product line. Customers are very enthusiastic about that.

**NIC:** Has your mix of business changed?

**Seymour:** We still have two separate originations teams: one for medial office; and one for seniors housing and care. Medical office is about one-third of our business and seniors housing and care is two-thirds of our business.

**NIC:** What opportunities lie ahead for seniors housing?

**Seymour:** This is a little bit of a mixed year for the industry. The large public companies and big REITs expect slower NOI growth than in past years, but that’s still growth. This is not a sector under stress. In the early part of the year, there were concerns about the health of the economy, which can affect the less acute side of the seniors housing sector, but those concerns are moderating now.

There’s been overbuilding in some areas that has to get absorbed. That could be good for the industry in the medium term by putting a damper on new construction, allowing the market to reach equilibrium.

But national market statistics are only so useful. You don’t make loans on a national level, but on a market-by-market level. We look at individual markets very carefully. We’re very bullish on the sector over medium to long term. The demographics are overwhelming; the first boomer hasn’t turned 80 yet. We expect a fairly attractive growth rate in the market for many years to come.

**NIC:** What’s your outlook for valuations and cap rates?
Seymour: Like many real estate sectors, valuations in the seniors housing market remain at the high end of historical trading ranges, which is reflective of our low interest rate environment, as well as strong long term fundamentals. Many have predicted a rise in rates for the last five years, and they haven’t gone up yet. I can’t predict when they will.

But it doesn’t matter if interest rates go up gradually over time. The real risk is if they go up sharply overnight, but no one is predicting that over the short term. Large REITs are becoming net sellers of properties, which is easing pressure on cap rates and valuations. That creates buying opportunities for our customers, such as private equity firms.

NIC: How would you summarize the current landscape for borrowers?

Seymour: Relatively speaking, the capital markets are in good shape. Debt is available from both private and public sources. At Capital One, we're positioned to be competitive across the spectrum of seniors housing and care products for a variety of loan types. We're excited about the future.

Aging, Retirement, and the U.S. Economy

The U.S. population is aging. In 2016, 15% of the population (49 million people) was age 65 and older, and by 2030, 21% of the population (74 million people) will be past retirement age. By comparison, in 1936, when Social Security was established, 6.2% of the U.S. population was over 65 (8 million people). The swelling of the post-retirement cohort stems from the post-Great Depression acceleration in births that began in 1934 as well as from improved longevity associated with medical advances and healthier lifestyle choices in the last several decades.

The aging of the U.S. population has many implications. Touching upon them all would require several articles. For now, this article will briefly highlight three of them: the potential negative effects on the labor force and the growth of the economy; the fiscal impact on the federal government’s entitlement programs; and the impact on housing and care provisions for seniors.

U.S. Births

Before discussing these implications, let’s look at the following chart, which at least partly shows how we got here. It provides a detailed look at the number of live births per year in the U.S., from 1909 to today. A few notable things stand out. First, the slowdown in births seen most recently after 2007 reflects the effects of the Great Recession of 2007. As the economy weakened, fewer couples felt comfortable having children. This pattern is also evident in the period following 1924 after the Great Depression, as fewer children were born in the years following this period of
economic contraction.

Second, the opposite effect can be seen in the years following World War II, when there was a surge of births in a period of perceived relative prosperity and optimism. This gave way to the abundance of children born in the 1946 to 1964 period, referred to as the baby boomers. Presently, those born prior to 1951 are 65 years of age or older, and are the topic of this article. Going forward, however, the impact of higher birth rates in the 1940s, 1950s, and 1960s will be felt further as the aging baby boomers continue to add to the ranks of post-65 year olds through 2030.
Labor Force and Economic Growth

Speculation about the effects the swelling ranks of retired baby boomers will have has ranged from serious academic research among scholars and well-intentioned, planned strategies for policy makers to sometimes bizarre but entertaining theories of lifestyles and choices. Amid the speculation, however, are some likely outcomes, starting with the probability of a smaller and potentially less productive labor force, which in turn will slow the overall economy’s potential growth. In its most recent Annual Report, the Atlanta Federal Reserve Bank highlighted these effects in a series of articles titled “The Graying of the American Economy.” The author, Charles Davidson, explains the impact of a shrinking labor force on economic growth:

“...the size of the labor force is a key ingredient in the economy's growth potential. Put in the simplest terms, the economy's long-term growth rate is the sum of the growth rate of labor employed plus the growth rate of the productivity of that labor...[and] the demographic erosion of the labor force from an aging population...appears unstoppable, absent a significant change such as a large influx of immigrants or a steep decline in the rate of retirement.”

Several organizations, including the U.S. Bureau of Labor Statistics (BLS) and the Congressional Budget Office (CBO), predict the labor force will expand by only 0.5% to 0.6% per year on average between now and 2050. That is one-third the pace of 1.7% experienced between 1970 and 2007. This, in turn, will slow the overall potential growth of the U.S. economy, barring an exceptional advance in labor productivity (or output per worker) that could more than offset a smaller labor pool. As a result of these conditions, prognosticators project inflation-adjusted GDP growth slipping—from the more than 3% per year on average we saw in the 1980s to early 2000s down to 2.1% or less for the next ten years.

That said, there is evidence that many prospective retirees are delaying their retirement dates, parties, and celebrations because they need to continue earning money, or because they want to remain in the workforce and stay productive for either personal reasons or to contribute to the “greater good.” This suggests that current estimates regarding the magnitude of the declines in the labor force participation rates and labor force growth may be a bit overstated.

Fiscal Impact

In addition to a shrinking pool of workers, a decline in the number of older workers would likely cause tax revenues to weaken, which could simultaneously reduce funding for publically-funded older-age support systems (such as Social Security and Medicare) and increase the number of
An aging population directly affects the so-called dependency ratio (the number of working-aged persons in the U.S. for every retiree).

In 2010, there were 4.8 workers for each retiree in the U.S. According to projections by the U.S. Census Bureau and reported by the Atlanta Fed; this ratio will decline to 2.7 by 2040. This change will impact the sustainability of Social Security and Medicare—the two largest government-sponsored support programs for seniors—because benefits to current retirees are largely financed by payroll taxes paid by current workers. In 2014, Social Security outlays totaled about 5% of gross domestic product (GDP), and Medicare spending equaled about 3.5% of GDP. The Social Security Administration projects that by 2034 Social Security expenditures will rise to 6% of GDP and that Medicare costs will increase to 5.4% of GDP. If benefits are maintained at their current levels, the projected changes in the dependency ratio will dramatically affect take-home pay for the nation’s younger cohorts, who will be paying larger portions of their paychecks in taxes to support entitlement programs. Alternatively, benefit offerings will have to be pared back or modified. It is likely that both outcomes to some degree will occur.

**Seniors Housing**

In addition to the dependency ratio discussed previously, the nation’s current demographic mix will result in fewer family caregivers for every senior. In 2016, there were seven persons aged 45-64 (adult children of the seniors) for every senior. By 2030, according to projections by the U.S. Census Bureau, this ratio will drop back to 4:1 and, by 2050, to 3:1. This largely reflects the lower birth rates for today’s adult children compared with today’s seniors. As this happens, alternative housing and care options will need to be expanded and created.

Today, there exists three million institutional-grade seniors housing and care units (including skilled nursing properties), as tracked by NIC. This includes only market-rate units in properties with more than 25 units. Age-restricted housing communities, as well as board and care and other smaller property options, are also available, pushing the number of available congregate living housing choices even higher. However, relative to the number of persons who are older than 65, the penetration rate for today’s housing options for seniors (65+) is limited (6% for NIC’s inventory). This suggests that, as this population ages, today’s seniors housing inventory will need to be expanded significantly from today's rate of growth of roughly 22,000 units per year to a number significantly more than that. It also suggests that new community-based housing options will emerge. These might include alternative housing options such as naturally occurring retirement communities (NORCs), which occur without planning; communes, such as those lived in by many of today’s retirees in their 20s and 30s; he villages model, where neighbors volunteer and share services and resources; and properties purchased by groups of long-time friends. Home-based options with
services brought in will also grow in importance.

As is often said, the baby boomer generation never does things the way their parents did things, and they always change conventional wisdom about behaviors and norms. For the next 13 years through 2029, baby boomers will be reaching age 65, and as this massive wave of individuals approach retirement, the economy, social structures, and housing and care services will forever be altered.

Connecting One-to-One and One-to-Many

2016 NIC Fall Conference to Feature Multiple Networking Opportunities

Registration for the 2016 NIC Fall Conference (formerly the National Conference) is well underway, with a significant number of capital seekers and providers having registered already. And the conference's myriad networking opportunities continue to be a primary draw for attendees to register early.

“Time and time again, we hear that attendees come to make new connections and hear about what's happening in the industry,” said Brian Jurutka, president of NIC. “The conference is the perfect mix of networking and education, giving critical insight into near- and long-term industry trends as well as space and time for people to make new business contacts that could become partners down the road.”

The conference offers a host of opportunities designed to meet each attendee's networking goals—from lounges and a 5k for more informal conversations, to large receptions ideal for making a lot of new contacts in a short amount of time.

Intimate Settings and Hosted Receptions

The conference will feature two networking lounges that are designed to provide space for one-on-one and small group conversations. Both lounges will be open all three days of the conference. Also on offer will be the 5k Fun Run/Walk, which will be held at 6:00 AM on Thursday at the conference. It will give attendees a more relaxed, fun networking opportunity in an informal setting.

In addition, receptions will be held on Wednesday and Thursday, providing attendees the opportunity to network on a larger scale:
• **First-Time Attendee Mixer**, an invitation-only reception on Wednesday from 4:30 PM to 5:30 PM for those attending their first NIC Fall Conference

• **Welcome Reception**, Wednesday from 5:30 PM to 7:00 PM

• **Networking Reception**, Thursday from 5:15 PM to 6:45 PM

### Networking Before and After the Conference

For those who want to get a head start on networking before they arrive in D.C., NIC gives registered attendees access to the Conference Online Community, which provides a convenient way to:

- View messages and pending meeting requests
- Engage in community posts with fellow attendees
- Download the attendee list and speaker presentations
- Build an onsite schedule
- Access the full program schedule

The Conference Online Community launches a few weeks before the conference begins. Registered attendees will receive an email inviting them to register for access.

### See Who Is Attending

A list of attending companies is now available for [download here](#).

Discounts are available for early registrants and small operators. Review the [registration site](#) for more information.
Seniors Housing & Care Industry Calendar

**June 2016:**
- 6-8 2016 CALA Spring Conference & Trade Show, Sacramento, CA
- 7-9 REITWeek®: NAREIT’s Investor Forum, New York, NY
- 16-17 ASHA Mid-Year Meeting, Denver, CO

**July 2016:**
- 17-20 CAHF/QCHF Institute & Summer Conference, Newport Beach, CA

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