Beth Mase: Good afternoon. Welcome. Thank you everyone for coming. My name is Beth Mace, and I'm the Chief Economist and Director of Outreach at NIC and I'm joined today by my colleague Lana Peck, who is Senior Principal in the research care of NIC as well.

So we're very excited that you're here. Thank you. And I'd like to, again, welcome and thank you for attending today's session. And before we really delve into the discussion, I'd like to give you a few housekeeping [00:00:30] remarks. We would like to engage you today in the discussion, so we'll be using a polling feature in the mobile app, to capture real time responses to questions based on topics we'll be covering. So please make sure you have a device handy. The aggregated responses will then be projected on the screen.

And secondly, I'd like you to please complete a brief evaluation at the end of today's session. NIC uses your feedback [00:01:00] to ensure the discussion and topics were variable and relevant to your business needs. And you can view the available session presentations today in your mobile app, and shortly after the conference complimentary access to audio recordings synced with the presentations from most of the sessions will be available. With that I'd like to start the session.

So today's session is entitled Local Markets Performance in Seniors Housing and Care. And we're going to start with short of a big picture of what's going on at [00:01:30] the national level. And then drill it down into specific locations, to give you a taste of sort of the breadth, the depth of the data that you can get through the NIC data services.

Maybe.

So initially the presentation is going to start with factors that are really affecting supply and demand. And I'm going to do a brief discussion of labor markets, demographics and then an overview [00:02:00] of some supply and demand conditions that we're seeing. Then Lana's going to do a deep dive into three areas. One in California, and she's going to talk about San Francisco in particular. And she's going to discuss some of the inventory shifts that we see in the data there. Then we're going to talk about Texas and look specifically at the Houston market, and look at some of the data that NIC has on the SSRC and life-planning communities by profit status. And then lastly, we're going [00:02:30] to look within the southeast part of the country, and look specifically at Atlanta, where you can see [inaudible 00:02:36] level data that we have.

After that, we're going to do even a deeper dive, and show you some of the desktop analysis that we have through some of the tool we have in NIC MAP to be a below the metropolitan area down to, like, a primary market area. We're going to showcase some of the NIC MAP tools in doing that.

So, first before we start, let me get a sense ... we're going to try out our polling [00:03:00] apps. And the first question is: Please identify your professional category. So the first category would be as an owner/operator/developer of either senior housing or skilled nursing. The second is a private or public equity or debt provider group. The third

would be a non-real estate based care or service provider. And the last would be a health system or insurer.

So hopefully [00:03:30] you have your mobile apps open, and you're making your votes right now.

Speaker 2: Can you tell us where that is?

Beth Mase: The mobile apps should be ... Do you have your mobile app on your phone? There should be a ... You have it?

Speaker 10: Yeah, yeah, where is it, where is it?

Speaker 3: Where's the [crosstalk 00:03:47]?

Speaker 2: There should be ... under evaluations of site?

Bob: Should you go into education sessions and then go from education sessions to the poll.

Beth Mase: So go from your mobile app to educational sessions, and then educational sessions [00:04:00] to the poll. Thank you Bob. Does everyone see it? Does anyone need help? We have one vote. Come on. I need [00:04:30] more than one vote.

Female 1: Quite an example.

Beth Mase: If you voted, raise your hand.

We have two votes.

Lana Peck: Break in the polling app. We get to break in the polling app.

Beth Mase: [00:05:00] Jessica? Is this working?

Jessica: I think it's working.

Beth Mase: Oh, there you go. Okay.

Wait, that's the wrong question. The first question [00:05:30] is the audience ... which professional category you're in.

Speaker 8: Are we going to go through all five questions? Because this ... I was going to go back to the notes after I answered the first one. It says "cancel out", then it says "do you not want to post it [inaudible 00:05:44] post it."

Beth Mase: We're going to go through all five questions over the course of the-

Speaker 8: Yeah, that's what I thought.

Beth Mase: All right, so we have ... there's more of you out there than are showing up here, but so far we have more people that are in [00:06:00] the debt and the equity group. And we have a number of operators as well. But some of you aren't really filling in that poll, I think.

All right. So we'll try the second question. And the second question is: [00:06:30] For 2018 ... we lost connection here, sorry ... the next question? All right, we'll skip the polling ... oh there it is. For 2018 what is your greatest concern when you look at seniors housing and care? Is it new supply and competition? Labor shortages? A slowing economy [00:07:00] and rising interest rates? Or, something else?

And we'll see if we can get this to work smoothly this time. And more than 11 people need to vote.

Great, okay. Well, we got 38, that's good. Okay, so out of the 38 people that have voted, labor shortages seem to be the greatest concern, followed by [00:07:30] new supply and competition. So Lana and I are going to talk about these and at the end, we're going to ask you some of these same questions, and we're going to see if you've changed your responses. So I'm just going to write that down, one second. Okay.

So let's get into a little bit about factors that drive ... This is seniors housing market performance, but this really determines how well [00:08:00] you do if you're in the home care business. if you provide home care services, or if you're in the skilled nursing area as well. These are the major metropolitan area drivers. I'm trained as a regional economist, and I've been involved in the investing area for over 20 years, and really any investment in my view, you need to step back and look at the big picture and really look at the economic factors that are driving metropolitan area performance.

So one of those factors is sort of just the viability and the vitality of the metropolitan area itself. [00:08:30] What's the desirability of being in a metropolitan area? What's the climate? What's the geographic area? What's the opportunity to be there? What's drawing people in there? And what's drawing businesses into the area. What's the labor force availability? Clearly this is a big factor for us right now, in an environment where the unemployment rate nationally is 4.1%. In markets like Denver the unemployment rate is 2.1%.

So how do we deal with that, not just in our sector but this is happening in all industry sectors. If you look at Atlanta [00:09:00] metropolitan area, there's a real problem right now with development activity because there's any labor for the construction fields. So that lack of labor is affecting seniors housing and care and healthcare professions because we can't hire people, we can't hire qualified individuals without having other people ... there's a lot of competition for that labor, so if I hire a really strong executive director of my property, and there's a new operator that's developing across the street, they may might come and try to pilfer that executive director.

So, increasingly I'm hearing [00:09:30] operators and investors talk about what it is that we can do maintain loyalty to our individual companies, or what we can do to try to

draw labor from other industries, into our sector. Certainly talking about the care component that we supply to the overall experience of working, so it's not just that we compete on wages, but there's a competing competition that we have related to the actual care of the services that we provide to labor, to our workers as well.

The industry mix makes a big difference, when [00:10:00] you look at the economic vitality of a geography over a metropolitan area. And we'll be talking today about Houston, San Francisco and Atlanta. And they have different economic drivers. And depending on what the concentration of labor and the mix of industries are in each of those metropolitan areas, will help determine the overall economic performance of that geography, and in turn will help to determine the overall ability for us to fill our properties, in terms of residence and occupancy.

So I think it's important to take a look at that information. [00:10:30] You can get economic information from, there's a lot of private consultancy groups out there, such as economy.com, or you can get on the ... go on different individual communities websites and look at their Chamber of Commerce. But I think when you're doing investment in an area, it's really important to look at the broader economic picture of what's going on.

Local infrastructure is very important as well. That includes roads, the utilities, the public transportation. Increasingly in seniors housing and care, [00:11:00] we see that there's an intention or an interest, operators and residents, to move into areas that are 24/7 areas. Areas that have high walkability scores. We're seeing that with new independent living properties are been built much more in urban areas, so that people can get out and be part of the greater social element that's around them.

Certainly tax laws make a big difference, in terms of the cost of living and the cost of doing businesses. And these tax laws also have a big impact on the [00:11:30] overall vitality of a geography.

Other factors to consider would be barriers to entry. And barriers to entry could be physical barriers to entry. So, let's say in Miami you have the Everglades, you can only build so far ... or you might have a river, if you're by the Mississippi River that's preventing you, or an ocean, or a mountain. So a physical barrier to entry, a regulatory barrier to entry, or anytime a business barrier to entry.

And you hear this a lot from investors and developers when [00:12:00] they go into a market. It's a common thing, it's like, "Well, I'll only invest in barrier to entry markets." So what does that mean, and how true is that in fact, that there is a barrier to entry market?

The idea would be if there's a barrier to entry, new supply would be more difficult to come in, so you could maintain your market for a longer period of time, without having competitive pressures. And it's hard to maintain a barrier to entry, but you see some operators and investors would go into a market, we'll say in San Jose, California, where it's very difficult to get land entitled, [00:12:30] or land zoned, or to have land be the

highest and best use for seniors housing. So, if you can get into a market in San Jose today, and it might have taken you four or five years to get that entitlement there, chances are you're going to be able to maintain market share for a very long time, because it's that much more difficult to get land entitled as you go forward. So there is a lot to consider when you go into a market in terms of the barrier to entry.

Another factor affecting the supply of market performance would be existing [00:13:00] competition and recent development activity. If you go into a market, are you a price-taker? Or are you a price-maker? Do you have ... is there a lot of competition against you, or is it just a little bit of competition. And we know, we're going to show you that the supply of new product coming into the seniors housing market has increased significantly in the last few years. So that's having an impact on your ability to raise rents, to maintain occupancy and, increasingly, to maintain your labor force, because as I was indicating earlier, [00:13:30] there is competition for labor significantly in many markets now.

What are the demographic drivers of demand and labor supply? Well, I've been involved in this sector for over 20 years, and we used to only look at the seniors that were actually in the geography as a demand driver for seniors housing. Now we look at the adult children as well, because we realize that it's the adult child, and often it's the adult daughter, that is the decision maker for where those parents move as they get to a certain level where they would need some type of activity of daily assistance. [00:14:00] In ADL, with assisted living.

So looking at the concentration of adult children is really important as well. And lastly, the demographic factors increasingly are what's causing labor demand. To have a really good sense of what's happening in your labor market, is a function of the demographics in that area. Is it a market that's able to retain a working age population, or does that working age population move elsewhere for opportunities. [00:14:30] So feasibility studies today ... excuse me ... include not just looking at the seniors in the market, or the adult children in the market, but increasingly the workforce in the market. And I've had a number of investors and operators tell me in the last few years, that they've actively chosen not to go into a market, because when they look at the conditions of that market, they realize that they can't get the labor force that they're going to need there.

So let's look at labor market [00:15:00] conditions. This is a chart that looks at the national unemployment rate from 1948 until most recently the last part of 2017. In January, the unemployment rate was 4.1% nationally. That's a 17 year low. And I've highlighted here ... oops ... where the unemployment rate has also been lower since 1948. [00:15:30] It occurred in the fourth quarter 2000, the first quarter 1969 and the second quarter of 1963, where we had lower unemployment rates. So this is a big deal, because the labor markets are so tight, not again, just for our sector but all sectors that are out there. And it's going to be very difficult to get the workforce that we need.

The U.S economy is in a really strong spot right now. We have had over 88 months of positive job growth. [00:16:00] We have had seven years that we've generated more

than 2 million jobs every single year since the recovery. And as it's happened, it's now translating into higher wage pressure, and the expectation is that that will continue as we go forward.

So let's look at that ... oh let's look actually at metropolitan area jobless rates. Starting on the left is Portland, Maine that has an unemployment of 1.8%. And then moving left [00:16:30] to right, Nashville 2.4%, Milwaukee 2.7%, Austin 2.7%, San Francisco 2.7%, Boston 2.8%, Denver 2.9%, Atlanta 4.1%, Seattle 4.1%. And then at the other end would be Ocean City, New Jersey, was like 12%.

But in general, their unemployment rates are really tight, and you can see that a number of these places it's going to be even more difficult to try to grow your labor forces.

Speaker 9: Is there something specific to that last one?

Beth Mase: Ocean [00:17:00] City? No, I just put it in there to give you a sense that there are some areas that don't have the same condition.

Speaker 10: Ocean City's outside of Atlantic City, totally dependent on the casinos.

Beth Mase: Oh I ... Did you hear that?

Speaker 10: Yes.

Beth Mase: So, Ocean City's dependent on Atlantic City and the casinos. Thank you. Takes a village. All right.

So that's translated now into higher wage pressures. And this chart is looking at the growth and wages on an average hourly earning [00:17:30] basis from year-over-year, through the January of 2018. The top line there is the average hourly earnings for assisted living. That's the sort of gray bar here. The blue is the all sectors, so across all industry types. And then the red would be specifically for skilled nursing.

So as of the fourth quarter, the average hourly earnings for assisted living was at a rate of 5. [00:18:00] 3%. So, I'm just curious here, let's take a hand poll. For those who are involved in operations and if you're in assisted living, are you seeing wage rate growth of over 5% on a year-over-year basis? Raise your hands if you are. And how about if you're significantly less than 5%? Okay, so a number of people raise their hands that they're seeing more than 5%, and talking to a number of operators I've heard that as well. But I think [00:18:30] it's pretty geographic-specific. Some parts of the country are not seeing that type of wage growth but many, especially on the coastal areas, are in fact seeing that type of wage growth. And that 5.3% exceeds what we're seeing for the overall employees, of about 2.5%. It's almost twice the wage pressure that we're seeing in assisted living now that we're seeing in the overall economy.

And that specifically ... [00:19:00] I compared that wage growth that I just described against the rent growth that we're seeing. So we don't have specific numbers on overall revenue and expenses that we have on a compatible basis for all operators. So we can kind of gauge what the NOI pressure is by looking at the growth in asking rents versus the growth that we're seeing in average hourly earnings. And as this chart shows is that [00:19:30] assisted living, average hourly earnings rate of about 5.3%. And the other two lines are looking at the rent growth that we've seen both in assisted living and independent living. And you can see there's a big difference in those growth rates.

So we're seeing a lot of upper pressure in wage rates, and keep in mind that wage expenses account for about two thirds of the overall expense load for most kinds of operators in seniors housing. And it's growing at twice the pace that we're seeing rent growth. So it's [00:20:00] obviously going to put a squeeze on your NOI, and we're starting to see that. So as an operator ... and then trying to grow rents is getting squeezed because of the increased competition that's in the market. So, it's harder to grow your NOI today than it was.

Now if you layer on top of this ... this is just a quick little diversion, but if you layer on top of that the fact that we have rising interest rates, which are likely to put upward pressure on cap rates, the only way you can [00:20:30] keep your evaluations without getting hurt by rising interest rates, is to grow your NOI. And what this is suggesting is that it's going to be more and more difficult to grow your NOI as we go forward because of this upward pressure in wage rates, and competitive pressure that we're having exerted downward pressure on rents.

So, to try address this wage [00:21:00] issue NIC last year put out a series of reports based on data that we get from the Bureau of Labor statistics. And it looks specifically at wage rates by industry sector by occupation. So it allows us to do things like this. On the left we're looking specifically in this case at the ... for nursing assistance, what the age rates were [00:21:30] in different metropolitan areas within California. And this is looking at all different industry classifications.

So you can see that gray one ... this is on the left-hand side, on that gray line, that's showing that the national average wage for nursing assistant in 2016 was about $27,000. The parallel line above that, the red line, is looking at the average rate for California, which is $32,700. So already California's higher than the national, that's one takeaway [00:22:00] for looking at what the wage rates are for nursing assistants.

The blue bars represent different metropolitan areas within the state of California. So if you look at the highest bar there, you can't read that in the back but that's actually San Francisco. And San Francisco's mean wage is $45,000 for a nursing assistant. So San Francisco is not only just above California, so $45,000 versus the $32,000 at California, but it's almost twice as much ... no, it's not ... it's well above [00:22:30] the $27,000 that we have at the national level as well.

So if I'm a business operating in California and then specifically operating in San Francisco, this is important information to realize that this isn't the same thing as

operating a business in Kansas City. Okay? The wages are much higher in San Francisco, within the state of California, and in California relative to the nation.

And then the chart to the right takes that same California nursing assistance, and looks at it by occupation. So if I'm a nursing [00:23:00] assistant I could work in a hospital, I could work private pay or I could work in assisted living or I could work in a CCRC property. And when it says NAICS Codes up there, that's the specific industry that I'm in. And we have that detail information on this BLS report to show me that a nursing assistant makes less in the skilled nursing or the CCRC property than they do in the sector in general.

So when I put those two pieces together what it [00:23:30] tells me is that if I'm in San Francisco, I'm going to pay the highest wages for nursing assistant. But if I'm in a CCRC in San Francisco, I'm still going to pay a lot but I'm not paying as much as what a nursing assistant might be getting in any other industry sector, other than skilled nursing of CCRCs. So it's a bit of a puzzle to put it together but what we see is that operators and investors are using this both for business plans and for underwriting, to get a sense of the relative cost structures [00:24:00] of investing in different parts of the country. So you can get this on our website. So I suggest that you check that out.

Now I'm going to switch over to demographics. Maybe ... okay. So this is a chart, some of you have probably seen this before. It's looking at the number of births since 1909 through today, [00:24:30] and it shows ... live births. So starting on the left, on the blue bar, is the number of people that were born in 1909, and it's about two and a half million people. And then follow if you will as I'm talking, from left to right, as you go left to right, you can see that after the, left, where it says "greatest generation", when it switches from blue to orange, we switch it to the silent generation. And notice how that dips. And that dip represents a drop that we saw in births after the great depression. And [00:25:00] it is true, if you were to put on this chart periods that the economy has contracted that the births actually go down, because people don't feel that they can have as many children when the economy is bad. And you can even see that on the far right, that dip reflects the state of the economy.

Then following from left to right, from the orange to the gray, is the baby boomers. And they were that group that were born from 1946 to 1964. And then it goes generation x, millennials and post-millennials. But we're going to focus on the orange and the gray parts.

[00:25:30] So I have an arrow down there that says today 82 year old resident was born in 1936 and is of the silent generation. So, that's at that lowest point. So I'm saying 82 in this case because it's 82 years old that we think, on average, is more or less the age of a resident in assisted living. For skilled nursing, it'd probably be more 87. If a home care, it'd probably be from 82, well maybe even 75 and higher. [00:26:00] So that resident, if you look at the dip, for the assisted living resident, that 82 year old resident, we're past that low point. So we're coming up. But what we hear so much about is the demographic boom and the demographic wave. That doesn't really hit for another several years, until we get more into that gray piece.

Now, if you're someone who operates skilled nursing, and let's say if your average age is 87 for a resident, the first baby boomer doesn't turn 87 [00:26:30] until 2033. So if you're counting on that baby boomer as your demand source for skilled nursing, you're not there right now. Now if you're counting for skilled nursing, they do a lot of post-acute care too, for people that are going in for, we'll say repair after a hip or something like that, that we probably are in that age cohort, because today's baby boomer ... again, 1946 to 1964 ... today's baby boomer is 72 years old. So that's the age that people are starting to get new hips, new eyes, [00:27:00] new this, new that. And that's the age that people would start to go in to some of the post-acute care that you would see in skilled nursing. So there is a strong demand opportunity for that. But if you're waiting just on demographics alone for skilled nursing, it's still a long ways out. And if you're waiting on demand for seniors housing, and if you assume your resident is 82, you are starting to move in that direction because we're past that low point.

Mm-hmm (affirmative)?

Speaker 11: So on the poster [inaudible 00:27:24], where's the sweet spot for those 72 year old boomers, we know roughly what stat. If it's 2035, or [00:27:30] '33 for long-term care-

Beth Mase: Well, so today's baby boomer is 72, so if you're thinking 75 it'd be another few years out.

Speaker 11: Another three or four years, sweet spot. Perfect.

Beth Mase: Depending on your, you know, if that's your ... You know, you can craft or look at this anyway you want depending on what your age cohort is. So, if you serve a group that's 65 plus, you're there. If you serve a group that's 87 plus, you're not there yet. And this is just for perspective, because we hear so much about the demographics and the births.

This isn't everything [00:28:00] because you also have to look at the life expectancy. And this shows that life expectancy has been increasing. So this is a pretty interesting chart. On the left is 1900. And in 1900, your life expectancy was about 48 years old. Now shift to the right, and you go up to about 2005, your life expectancy is almost 80. So in a 100 years, from 1900 to 2005, [00:28:30] you've gained 30 years of life, over that period. Which is pretty remarkable, right?

Now, the bad news is that unfortunately that life expectancy has recently been coming down. In large part because the opiod crisis. So we're not seeing that same type of growth that you had in longevity. But if you back to that prior slide, in the combination with this, you see there's a wave of people that are living longer, and as they live longer they're going to be living, in some cases, healthier, but in some cases [00:29:00] with more comorbidities. So as we start to look forward and project demands as we go forward, I think it's important to look, not just at the demographics but also what the care needs are for the individuals that are in your properties as well. Because there is a lot of comorbidities that are coming, so people are living longer but not necessarily healthier. So you might get a wave of people who are coming through whose care needs are quite significant compared to what they've been in the past.

[00:29:30] So, when you put all of this together ... some of you I know, if you've been to presentations before you've seen this, but I think this is a really important slide so I keep bringing it up. So when I look at the demographics that I just showed you, I can put it together ... there's a summary in this slide here. That the ratio of care givers, and in this case care givers I'm defining as the 45 to 64 year olds, so the adult children, to those over 80, so the adult children of those seniors. It's going to shrink from seven to one [00:30:00] today, to four to one in the year 2030.

And that's because of a couple of things. It's because baby boomers have fewer children. So, I come from a family of six children, and there were six of us taking my parents. I had two, so I think I'm pretty common to the demographic, that they're bigger families for the baby boomer generation and then we're having fewer children. So there's fewer people to take of the older, and then the baby boomers themselves and shifting from being the caregivers to being the receivers of care. So we go [00:30:30] from seven to one, to four to one, to three to one. So the takeaway for this really, for me, is that we really need institutional care, or we need to figure out how to make labor more productive to take care of these ... the fact that there's going to be fewer children to take care of their aging parents.

So, you know, solutions are could be institutional settings like skilled nursing, or it could be institutional settings like seniors housing. There's going to be more home healthcare. There's such a wave of people coming that there'll be opportunities I think for a lot of different types of businesses [00:31:00] to take advantage of this fact right here.

All right, so now let's talk about seniors housing market conditions. And we're going try that polling again. This is question number three. So as I said, Lana is going to talking specifically about San Francisco, Houston and Atlanta. So our polling question for you now is: Which market would you prefer to do business? And at the end, we're going to poll you again [00:31:30] and see if we've switched your minds. So, San Francisco, Houston and Atlanta.

[00:32:00] Results are been tabulated.

19, [00:32:30] 22 and 14. So a little bit split but more people would prefer to do business in Houston than in San Francisco than in Atlanta. Keep that in mind, see if we can change your minds by the end, or keep you the same. Thank you.

So let's go back to the big picture. [00:33:00] And this is looking at the occupancy rate, and the supply and demand conditions for seniors housing starting on the left, from 2006 through today 2017. The blue bars here represent the amount of inventory that's been generated each year since 2006. The orange looks at the amount of demand, and we measure demand here by, like, the change in occupied stock, also called absorption. [00:33:30] The green line here is the occupancy rate. And the occupancy rates here are year-end figures. So at year-end 2017, the occupancy rate for seniors housing was 88.8%. And as you can see that's below where it had been in the prior several years. And that's a result of the fact that there's been more inventory that's been developed in seniors housing than has been in terms of demand. And seniors housing [00:34:00] here

is assisted living and independent living. And this is for the 31 largest markets that NIC calls the primary markets.

So in 2017 we had 18,500 units of new supply brought into the market, which out surpassed the demand, which is 12,000 units, so as a result you see that there has been a tilt down in the occupancy level. And you can see in 2016 and in 2015, we also had periods where supply outpaced demand, [00:34:30] given the height of the blue bars. But notice that back in the period during the recession in 2008 and ... excuse me, in ... let me start all over. Back in the period prior to the [inaudible 00:34:43] in development, so in 2011 and 2012, those blue bars are pretty short, because there wasn't very much development, there wasn't much capital. And any development for any property type that can be seen as a [inaudible 00:34:55], you have to have capital, you have to have debt capital available. And after the recession, [00:35:00] capital was really difficult to come by.

So as we move past that in 2010 and 2011 and you see that spurt that we had in development. And some of it is just a natural cycle that you would expect, that there had been so low amount of development that some of it was just a natural bounce back from that. The other thing to notice is that there's a real cycle that you can see in this, because now NIC has 11 years of data that we can actually see cycles, so this is exciting because we have been working on this data since when it was first an idea so to actually see this amount of data is cool.

[00:35:30] And you notice back in 2008, that red bar, the absorption, got very weak, which you would expect because you would see that would have happened in an economic cycle when things were tight. If I were to break this down you'd see that there was a much greater decline in independent living than there was in assisted living. And that's because there was a need based component to assisted living, so even in a time of economic stress, people still needed assisted living when they needed assisted living because it's demand driven. [00:36:00] In the case of independent living it wasn't as demand driven so we saw greater reduction in demand in that period of time.

If I look specifically by market, I know this is hard to see in the back of the room so I'll just give you a big picture here. This is really, I think this is another really important takeaway. So, one was a child support ratio, which would be an important takeaway at seven-to-one and four-to-one. And this is another big takeaway, that you need to look ... I told you that [00:36:30] the overall occupancy rate was 88.8% and that was for seniors housing, so that was independent living and assisted living combined. But there's a lot of differences by market. And this chart tries to demonstrate that by looking at the occupancy rate by geography of over time.

And starting on the left, that's the market that has the highest occupancy rate in the fourth quarter 2017. And you can't read it probably in the back, but it says "SJ", and that's San Jose. That had an occupancy rate of 95.3% [00:37:00] in the fourth quarter of 2017. The length of that bar is showing you the all-time high and the all-time low of the occupancy rate in San Jose since 2005 to today, so the time period that NIC's been

collecting data. So, not only does San Jose have the highest occupancy rate of any geography, it's also near its all-time high.

Now, switch to the right side of the slide and you'll see "SA", San Antonio. [00:37:30] So we have San Jose and then San Antonio. They both begin with San but that's the only similarity that they have, because San Antonio has the lowest occupancy rate of any of the markets, at 78%. And it's also at an all-time low. So there's a lot of variation in those markets, and it's important to not just paint a broad brush when you look at, let's say the whole sector of seniors housing, or you look at the skilled nursing sector, or the home healthcare [00:38:00] sector, it's important that you really look, drill down and roll up your sleeves and look at the individual markets because there's a lot of differences in what's happening there.

And the reason for that is because they have different supply and demand dynamics. And again, you can't see this in the back but it illustrates the point. On the left-hand axis here is the inventory growth, for the last three years. And on the bottom axis is demand growth for the last three years. And if you're at the top, you've seen the most inventory growth. And if you're at the right, you've seen the most demand growth.

So [00:38:30] the markets on the top right include Dallas, Atlanta, Houston, Minneapolis. And those were all markets, the color red there is because they've seen strong demand but demand hasn't been strong enough to take into account all that supply that's in the market. So those circles are red because the occupancy rate has actually gone down.

If you look below, you'll see some markets that are actually green. And that would include Seattle and Salt Lake City [00:39:00] and Riverside. Those markets have seen an improvement in the occupancy rate since three years ago. So, this illustrates the fact that each market has its own unique characteristics, which goes back to that very first line I said, because why does development happen in some markets but not in other markets? Again, it has to do with the basic, the overall economic vitality of the area. It has to do with the barriers to entry in the market. It has to do with the industry mix in the market. It has to do with the demographics in the market. So there's a lot of factors that feed into ... [00:39:30] behind the scenes, for this demand and the supply, which ultimately lead to the performance of your property because it's based on the overall performance of the market in general. And Lana's going to talk more about that.

And then pictorially, this is the same information, this is just looking at inventory. And it's a map for where you can see there is activity happening. The larger the circle, the more the activity for the last three years. So for the last three years, for seniors housing, for the 99 markets that NIC tracks, [00:40:00] we have seen about 80,000 units that have come on market. About a third of that happened in eight metros. And again, those are the size of the circles. So it's a little test of geography, if you know where your markets are. So Dallas, big circle. Minneapolis, Chicago, Atlanta, Houston, Boston, Phoenix and New York.

Now the color of the circles, again it's hard to see, but the color of the circle, the darker the purple the more extensive has [00:40:30] been the inventory growth relative to the base of inventory that's there. So, you know, if I build 100 units, 100 units has more of an impact on a market that only has 1,000 units than 100 units does in a market that has 10,000. So this is trying to capture that. That certain markets are going to be more susceptible to inventory growth, if it represents a big share of their stock in the first place. And so there are 11 markets, so over 20% increase in inventory, in the last three years. Again, those are the darkest purple, and that includes Austin [00:41:00] and Atlanta, Baton Rouge, Salt Lake City and San Antonio.

So, another way to look at the impact of supply. And then all of that combination of the supply and the demand and the occupancy rate, it's not a direct correlation but there is a correspondence between that and what kind of rent growth you can get in your properties. And this chart is showing us the highest and lowest rent in seniors housing on a year-over-year basis. The highest was Charleston, South [00:41:30] Carolina in the fourth quarter at 8%. Then San Jose, the strongest occupied market at 6%. And then the right-hand side, are markets that actually saw negative or weak rent growth. And the weakest growth was really Salt Lake City and Colorado Springs in Colorado.

Briefly, I wanted to talk about independent living. And this is a chart that's the same idea. So the blue bars here represent inventory growth, the red represents [00:42:00] absorption. And you can see that the pattern of the scales are the same, so one takeaway on this is that the occupancy level is higher than what we saw for the overall seniors housing combined. The occupancy level in the fourth quarter, the green line there, was 90.6%. If you notice the size of those blue bars there's not as much, there hasn't been nearly as much inventory growth in independent living as it has been in assisted living.

This chart shows the same thing. So notice the differences here. Independent living, [00:42:30] assisted living. And the occupancy level for assisted living here is 86.5%. So, 88.8% for the overall sector together. 90.6% for independent living, and then for assisted living we're down to 86.5%. And you can see the pattern of the blue bars, much more significant. And then if you go over to 2008, which is the third point from the left, remember I talked about how weak the demand had been, you can see that that pattern shows [00:43:00] through in here. And the same chart that I just talked to you about a moment ago in terms of seniors housing, and the markets ... this is for specifically assisted living. And San Jose continues to be number one on here. And for assisted living, then you're followed by Portland, New York, Seattle and San Francisco. The far end, you see San Antonio, still weak for assisted living. And then, this is specifically looking at independent living. [00:43:30] Same thing, San Jose is strongest, San Antonio weakest. So that gives you a big picture of what's happening in those markets.

All right, another polling question. So, what would cause you more concern ... again, we're going to do this question now and then afterwards see how you feel. Would you be more concerned about a market if it had just a few adult children, relatively few? Or a market that had a lot of competition? [00:44:00] Or a market that had a low

penetration rate? So, few adult children, significant competition, or low penetration rates.

Okay, significant new competition more than the other ... that's out of 10. Thank you.

[00:44:30] Okay, now we're going to go into some of the ... we call this session deep dive, now we're going to go deep. Strap on. All right. So, key takeaways for California. So as I said NIC tracks closely 99 markets, we actually do 140 but we had the longest time series on those 99. 11 of those 99 markets are situated [00:45:00] in California, so we have good coverage in California. Three of the top 11 highest occupied markets are in California. As I showed you, that would include San Jose, as number one. Modesto, number eight out of the 99. And Sacramento, number 11. All 11 California markets except for Bakersfield, Fresno and Riverside, had occupancy rates higher than the average of 88.8%.

So we have fairly ... I'm going to show you this in a chart in a second. We have fairly [00:45:30] limited construction in most California markets with the exception, really, of Riverside or Sacramento. The penetration rate, and for penetration rate NIC defines that as the share of 75 plus households that are served by seniors housing. So the penetration rates are similar to the nation, except for Stockton and San Diego, which have high penetration rates. And then Bakersfield, and Riverside and L.A have low penetration rates. And I'm going to show you that the penetration rates and occupancy [00:46:00] rates do not really correlate very much.

So, I don't know how well you guys can see this but ... you guys, you have all these slides in your online app so you can look at this. But this is kind of interesting. In each of these slides I try to showcase a couple of features that are kind of different and interesting. So, in this slide I'm looking at from left to right, I have the regions I'm looking at are ... and first it looks at the NIP MAP primary and secondary markets. We're looking at the number of units, [00:46:30] the occupancy, the median occupancy, annual inventory growth, construction versus inventory, construction of units, and ranked growth in the penetration rates.

And then coming down from top to bottom we need at the primary, secondary markets as a benchmark. The pacific region, again as a benchmark against for each of the metro areas. Then Bakersfield, Fresno, L.A, Modesto, Riverside, Sacramento, San Diego, San Francisco and San Jose.

So, when I'm looking at this, [00:47:00] I think a couple things to look at. I have the median occupancy here and the occupancy rate. I did that specifically because a lot of people use median occupancy in looking at a market. Especially for a high-end, institutional quality properties, median occupancy is often used because the average pulls the number down because there are a lot of poorer performing properties that are pulling down the average. So, in prior positions I've had, we used to benchmark and compare against the median, so just putting that out there for you guys to look at that.

[00:47:30] The construction versus inventory, versus the annual inventory growth, I think both are important to look at when you're trying to get a sense of construction activity. The annual inventory growth, obviously this is showing you what's happened in the last 12 months. And as I look at that, and I scroll down that line for California, the national average is 3.4%, the pacific is 1.8%. And then as I go through that series, you'll see that there are many markets in California that have very low, and under amounts of annual inventory [00:48:00] growth. And that's going back, again, to one of those first comments I made, that it's very difficult to develop in California. And that's a result of that. You can see that that's showing up. And that would be the case, not just for seniors housing, but also for the other property types as well. It's hard to develop there.

Construction versus inventory is a good gauge of construction activity because you're looking at construction versus inventory. Construction is from start all the way completions. So it can take, that can be a, you can [00:48:30] be in that category, under construction, for 18 months or 36 months, depending on how long it takes you to get a project from breaking ground to completion. And what we've been hearing is that the ability to get a job from start to completion has been delayed, and slower than it had been. In part, because of construction labor markets, because it's tight labor markets. And there aren't the ability to get jobs ... I hear a lot of people saying that they're site stands, you know, it's all ready to go but they [00:49:00] can't get anyone to put their windows in, or it's all ready to go but they can't get the concrete poured, or those kinds of things. So there's delays, that are been put into that construction number.

The construction of actual number of units, that was just for perspective. So, in the case of Los Angeles, they had 1605 units built in the entire county. And I went to look that up this morning, and in this case L.A, when we say L.A this includes L.A and Orange County, because we're [00:49:30] looking at the [CVSA 00:49:30]. And just for perspective, that combined area is 56,000 square miles. That's a lot of space. 56,000 square miles and there's 1600 units that are built.

So, from perspective, and if you compare this to, like, multi-family, this is really small. So, some of the ... you know, we talk about supply, but some of it is that we need to get our market penetration rates up. Because there's not very many units for 56,000 square miles, of 1600 units. [00:50:00] So if you look at the penetration rate for L.A that's 7.9%. So there must be a ... if you can grow that penetration rate just a little bit you can get that occupancy rate up pretty quickly, when you only have 1600 units that came into that market.

Uh-huh?

Speaker 12: Would you repeat how you define penetration rate?

Beth Mase: Yeah, so penetration rate by NIC's definition is looking at the share of 75 plus households that are in seniors housing.

Speaker 12: Okay.

Beth Mase: And seniors housing is independent living and assisted living in this case. There [00:50:30] are various ways to measure penetration rate. Some people do occupied penetration rate. So this is over the entire base of inventory in the market. You could just look at the occupied stock. Or there's different ways you can slice and dice it. You don't have to use household, you could use individuals, or you could income qualify it. A lot of feasibility studies put income qualifier-

Speaker 13: [inaudible 00:50:48] use the number of beds divided by that age cohort?

Beth Mase: Yeah.

Speaker 13: So regardless of lack of [inaudible 00:50:53], it's just number of beds, right?

Beth Mase: It doesn't include occupied, yeah. But there are ... that's one way. There are many ways to do it.

Speaker 13: Okay.

Speaker 14: Did you also [00:51:00] just say that you only include independent and assisted in those numbers?

Beth Mase: Yep.

Speaker 14: No skilled, no-

Beth Mase: Skilled ... we have another ... This is not included in this. But we have another database that we can look at penetration rate for seniors housing, which would include independent living and assisted living and skilled. This just includes seniors housing.

Uh-huh?

Speaker 15: What about memory care?.

Beth Mase: Memory care would be included in this, because we include that as part of our assisted living.

Let's see, what else? So ... [00:51:30] And then just for perspective, when I look at ... Lana's going to do a deep dive, as I said, into San Francisco, and when I look at San Francisco there's a group that we subscribe to it, and I see the economy.com or Moody's analytics ... and they look at geographies in general in terms of their vitality, in terms of their job growth, in terms of the industry drivers, and they give San Francisco a high score of a seven for vitality. So that's going to have some bearing into what Lana's going to talk about. And their job growth most recently was [00:52:00] 2.1%. And as you know, San Francisco is based on high-tech, financial services and medical services.

Okay, so keep that in mind because that's going to give some background in a minute, for Lana's discussion.

Lana Peck: Thank you.

All right. Good afternoon everybody. Can you hear me all right? [00:52:30] Okay great.

Thanks Beth, for setting me up with California, to do an even deeper dive into the San Francisco metro market area. As Beth had mentioned, first let me just start out and give you an orientation into how I'm going to talk through these metro markets, and doing an even deeper dive.

So, for each metro market I'm going to tell you a story around market fundamentals, and then I'm going to scratch a little bit deeper and look at a couple of areas [00:53:00] that look to be particularly interesting, or some places where I thought might be, you know, able to pique your interest.

So, starting off here I want to orient you to the market fundamentals chart, because we're going to be seeing this a few times. The inventory growth is show by those blue bars, and that's quarterly net inventory growth. The absorption rates on a quarterly net basis are orange, if you can see that [00:53:30] orange bar. The all occupancy rates, which include properties that just opened all the way to, you know, being operational for a long period of time, those are included in the green bar. And then we have the stabilized occupancy rate, which is the yellow bar ... or line, I should say, the trendline. And that includes properties that are at least two years old, or have at least reached 95% occupancy. So, that's orienting [00:54:00] you to these market fundamentals charts you'll see a couple of times.

So, and as Beth mentioned, the San Francisco metro area has experienced relatively weak inventory growth relative to other areas in California, for reasons that include high barriers to entry. So, I'm going to compare and contrast occupancy and supply and demand patterns for the two seniors housing property types that we're talking about ... and those being independent living and assisted living for the San Francisco [00:54:30] market.

By the first quarter ... well, with regard to occupancy, we're going to start out with occupancy and we're going to see that the all and stabilized occupancy trends dropped, leading up to and during the recession. And then we see them start to recover slightly in subsequent years as they kind of struggled against weekly positive demand, mid 2009 to mid 2011. [00:55:00] And then by the first quarter of 2011, occupancy ramped up quickly.

By the third quarter of that year, the all and stabilized occupancy diverged and remained apart for seven quarters, with the spread ranging from about 5.6% at the high, to 4.0% at the low end of the range. And that's as new inventory growth was kind of struggling to [inaudible 00:55:23] up. So by the third quarter of 2013, the all and stabilized occupancy rates had converged, [00:55:30] trending upward together for about 10 quarters.

So since then there were some quarters that had relatively greater negative and positive inventory growth and absorption, but it really balances out on a net basis. And there's been little overall inventory growth in independent living in San Francisco, and that's allowed occupancy rates to stay high. Generally, about the 90%. In the mid 2013 to the mid 2017, occupancy dropped [00:56:00] to 88.7%, and then came to rest at 89.4%.

So one other thing I want to point out here is that inventory growth and absorption, they register the lowest in the second quarter of 2016, with inventory down a negative 338 units, and absorption down around 360. But the greatest level of positive inventory growth and absorption registered in the fourth quarter of 2016, with [00:56:30] around 450 units of inventory added, and about the same number of units that were absorbed.

Okay.

Now moving on, the story for San Francisco assisted living market shows a different pattern than its independent living counterpart. So, first of all I want you to note the steady ramp up of the all and stabilized occupancy rate for assisted [00:57:00] living since the recession. These are 14 quarters coming out of the recession, which had weak or negative inventory growth and absorption, netting out while occupancy continued to rise, until it peaked at about 92% in the third quarter of 2014.

Beth Mase: There's a question.

Speaker 2: So, would negative inventory [inaudible 00:57:21], does that mean that some units were taken off market, obsolete or something?

Lana Peck: There's a few ways that we can think about negative inventory growth, and [00:57:30] I'm glad you brought that question up. So, negative inventory growth for community types, which is what we're talking about here, can mean a few different things.

One, it could mean that there's a conversion of smaller units into larger units. It could mean that units were taken offline temporarily for renovation. It could also mean that units were taken offline permanently, and in some cases it could mean a total property closure.

On the flip side [00:58:00] of that coin, talk about negative absorption. As Beth mentioned, absorption is the change in the number of occupied units. So negative absorption could be as a result of a couple of things. One being negative inventory growth. Another being move outs. And yet another being kind of a combination of the two.

So, when we're thinking about negative inventory growth and negative absorption, we need to remember that [00:58:30] absorption and inventory growth are both net metrics. And, so the patterns and multiple properties contribute to them. Does that help?

Speaker 2: Yes, thanks.

Lana Peck: Okay. So, as I mentioned, you know, 14-

Beth Mase: Just one ... can you back up one slide?

On the independent living one as well.

Lana Peck: Yep.

Beth Mase: Notice that in 2016 there was drop and then it came back in 2017? So that could have been a property that came offline for a bit, for renovation [00:59:00] and innovation, and then came back on the following quarter.

Lana Peck: Yep, so that's independent living. And here we are with assisted living. So as I mentioned, we had 14 quarters coming out of the recession that showed weak or negative inventory growth and absorption, netting out while occupancy continued to rise, until it peaked at 92% in the third quarter of 2014. And since the second quarter of 2015, the all and stabilized occupancy rates diverged. [00:59:30] And absorption on a net basis lagged slightly behind inventory growth.

And I want to point out here kind of the larger bars that we saw kind of corresponding in the independent living slide. Inventory growth and absorption peaked in the second quarter of 2016, with around 340 units of inventory added, and 334 units absorbed. The greatest level of negative inventory growth and absorption registered [01:00:00] in the four quarter of 2016, with quarterly net down about 290 units and down about 427 units that were absorbed. So, little inventory growth in the early quarters of 2017 pushed the occupancy rate lower. But both the all and stabilized occupancy rates are trending higher as on the end-of-the-year [inaudible 01:00:27] a strong final quarter of absorption.

[01:00:30] And just a couple of more points to make, a few more facts to end this story that I'm telling about San Francisco. As of the fourth quarter the stabilized occupancy was at 91.6%. The all occupancy was a whole percentage point below the stabilized occupancy. Inventory growth was negligible, at about 3 units. But absorption had increased by about 173 units. And as you can see, the occupancy rates did [01:01:00] take an upward trend towards the end there, end of the year.

All right.

Beth Mase: Okay, so that was to sort of give a big picture of one way to look at a market. And that was a deep dive into San Francisco, and you can see the different [01:01:30] rates of absorption and inventory and how that changed. Now we're going to do, we're going to ... and Lana will talk a little bit more of a different concept when you get into the next market area.

But to start us were going to talk about Texas, and what are some key takeaways on Texas? Well, you probably already know that, in this case again we combined Dallas and Fort Worth as one geography because of the way the government defines the CVSA. So,

Dallas/Fort Worth and combined Houston, they make the fourth and fifth largest CVSA, or metropolitan [01:02:00] areas in the nation. And they each have almost seven million residents.

We tracked six markets in Texas, that'd be Austin, Dallas/Fort Worth, El Paso, Houston, McAllen and San Antonio. And you're going to see a different story here than we saw in California because you're going to have a lot more population and employment growth in Texas. Much more positive pro-growth attitudes. Weaker regulations as it has to do with entitlement and development. Much more land availability. And [01:02:30] relatively affordable costs of living and doing business. And all of that helps to stoke development there.

And you can see that because the six Texas market areas, they account for about 8.9% of all the 99 market inventory. But they accounted for 14$ of all the absorption and almost 12% of all the inventory growth since late 2016. So they're getting a greater share than they have with their inventory there. And, you know, I was going to talk about San Antonio. San Antonio you're going to see the greatest mismatch between [01:03:00] supply and demand, which has caused the lowest occupancy rates.

So, same concept I had before with the tables here. Except I have different concepts along the top here. So again, just as a benchmark against the NIC MAP prime and secondary markets, in the southwest markets and then the metro areas I talked about, Austin, Dallas, El Paso, Houston, McEllen, and San Antonio. Along the top we have occupancy, stable occupancy and [01:03:30] then the difference between stabilized occupancy versus total occupancy. And I specifically am highlighting that because it's an important indicator, especially in this time of development right now.

So if I look at Austin, we have a total occupancy rate of 85.9%. But the stabilized occupancy is 89.7%. So what that means, if I look at the difference there, that's a 380 basis points difference, there's a lot of product that's in Austin, that's been developed and opened but [01:04:00] hasn't yet been leased. So when I look at the competitive landscape for Austin, I need to look not just at the inventory growth of the past year, which is 11.1%. But on top of that inventory growth that's come into the market, a lot of those units haven't been leased up yet. So a way to gauge that, again, is to look at the different between the total occupancy rate and the stabilized occupancy rate. And you can see that on that chart that Lana showed as well with San Francisco.

So, if we were to put Austin on a map, I mean on a chart, you'd see that [01:04:30] that gap between those lines is quite wide. So I bring that up because, as I said, I think it's a really important indicator to look at in terms of the overall strength of the market. Not just the occupancy rate, and not just the amount of new construction underway, but look at how well those units that have been developed professionally leased up. And you can gauge that by looking at the difference between stabilized occupancy and total occupancy.

As we go along, let's keep with Austin, for a second. They had a lot of inventory growth, at 11.1%. But they also had a lot of [01:05:00] absorption. They had a 13.5% increase in

absorption in the past year. And that's a pretty strong absorption, right? And then in the far right, some of that new supply that's come into the market has caused that penetration rate in Austin to be 16.5%. In fact, because of the development activity that's gone on in Austin, and in Texas, those penetration rates are relatively high in most of those Texas markets. The U.S average is 11%. The southwest markets are 12% too, [01:05:30] and then if you look down that list, we have Austin at 16.5%, Dallas is 16.7%, Houston at 11.5% and San Antonio 12.3%. So that's not surprising because the amount of supply that's come into those markets has outpaced the population development, the population growth. And as a result of that those penetration rates are high.

So, you could say, "Well, is that a good thing or a bad ting for penetration rates?" Do you want a high penetration rate, or you want a low penetration rate? And I'm an economist, I'm going to say, "Well, [01:06:00] it depends on which end."

So on one hand, a high penetration rate could be a good thing, because it means that the market, the population really understands seniors housing. And so it's ... you're not going to have to spend a lot of dollars on marketing and then selling, because people will understand it. 15 years ago, when you went into a market, no one knew even what the word seniors housing was, or maybe 20 years ago. And so, if you were an operator, you had to spend a lot of time and PR and going out and telling people what it is you meant when you said "seniors housing".

That's not really the case anymore. So if I develop something in Austin [01:06:30] with a 16.5 penetration rate, people are going to know what I'm talking about. If you up to the northwest part of the U.S, in the Portland and Seattle areas, the penetration rate is high there as well. It's because they've been around for a long time. Minneapolis has a really high penetration rate, almost 19%. Some of that is because of a lot of not-for-profits in the Minneapolis area, and CCRP, and people ... it's part of, sort of a life cycle that they go through, that they move into, you know, they retire and then go [01:07:00] into seniors housing. Is part of just the life cycle landscape.

In some markets that's not the case. As you can see, like, down there in McEllen, Texas, 3.4%. Or in El Paso, 4.6%. So that penetration rate isn't as high in those markets. And let's look at Houston for a second, because Houston's going to be what we're going to focus in on for a second. And Houston, as we go across that line, we have an 83.4% [01:07:30] occupancy rate, which is well below the stabilized occupancy rate. So that would suggest in Houston there's a lot of properties there that have been developed but are not yet leased up. And Houston also has a penetration rate that's a little higher than the national average. And they've had a moderate amount of development that's come into that market.

In terms of the economy, economy.com gives Houston a 10 for vitality score ... this is out of 402 markets. So Houston [01:08:00] has high vitality, so that would mean again, that it has ... the drivers for economic growth that would be considered positive to go forward. So it's the industry mix, it's the climate, it's the cost of doing business, the cost of regulation, a whole host of things goes into that vitality measure. And they're driven by energy and resources and manufacturing and logistics, and that's propelling them

forward. There is some aftermath that they're going through, of course with Hurricane Harvey, that they're still rebuilding [01:08:30] and doing some efforts from that. But in general, they get a pretty high score. And that reflects the population growth and the development that we see in that market, for both seniors housing and for other property types as well.

And with that, I'll give it over to Lana, and she's going to give you more of a deep dive.

Lana Peck: Thanks Beth.

All right, so for this [01:09:00] example, I've pulled out the Houston metro area. And as you know NIC MAP tracks CCRCs. And Houston caught my interest because the data indicates Houston CCRCs have lower occupancy rates than the primary markets overall. It's one thing I noticed. So having watched CCRCs over the years, occupancy has consistently been about five to six percentage points higher for the non-profits, versus the for-profits, since about early 2011.

[01:09:30] As so, in this example I'm kind of wondering what the occupancy performance is for Houston CCRCs by profit status. Because I'm trying to get a feel for how Houston stacks up against the primary markets, and how for-profits and not-for-profits contribute to the overall occupancy rates in Houston. So, just to give you some context before we dig in, as of the fourth quarter of 2017, the Houston metro has [01:10:00] 11 not-for-profit CCRC communities and five for-profit CCRCs.

Okay, starting off as usual with a story. So, what is Houston's story? Well, positive and negative quarterly inventory growth and absorption kind of netted out between the middle of 2010 and the middle of 2015. So a long period there. Although it was punctuated by [01:10:30] quarterly variations in keeping the occupancy trend relatively flat for that long time frame. And occupancy stayed relatively flat between the end of the recession and the end of 2012, but it dropped in 2013 at 85.4% and then trended upward, reaching 91% in early 2016, before beginning another decline that would accelerate in 2017, which is a drop of four percentage points, [01:11:00] down to 85.9% due to weak negative absorption in the first three quarters, registering until new inventory growth appeared again in the fourth quarter, which is basically an increase of about 185 new units, with about 145 of those units absorbed.

Okay, so how does Houston's occupancy break out by profit status, and how do they compare [01:11:30] with the primary markets? So, let me orient you to this chart, before we dig in. The gray area kind of in the background is the benchmark. It's the primary markets, CCRCs, LPCs, all profits statuses, occupancy rates, just as a background feature, kind of a benchmark. The light blue line is the Houston CCRCs being not-for-profits, and the orange line is the Houston CCRCs being the for-profits.

So, what's the story here? [01:12:00] Well, as previously noted, I mentioned that CCRC occupancy in Houston, you know, had registered consistently lower than the primary markets ... you know, the primary markets all profit status, you can see that there behind, with the gray line ... since the recession basically. So both for-profits and not-

for-profits had two periods of decline, but the experience of the for-profits was both [01:12:30] sharper and deeper.

So, while the for-profits showed a significant rise in occupancy in the first three quarters of 2008, topping off at 95.6%, and then falling about 12 percentage points over the next four quarters. The not-for-profit occupancy declined, bottomed out a little bit later, at 87% in 2010, and then again in the first quarter of 2013. So those are the two drops that I mentioned. [01:13:00] And note that we see another large occupancy decline of the for-profits, beginning in the third quarter of 2016, running to the end of 2017. And that's also a pretty large drop, it was a drop of 10.7%, which is large, not quite as large as what we saw during the recession however.

So one thing that I want to make note of is, you know, the small sample size that we're talking about with regard to the Houston CCRCs that are for-profits. [01:13:30] And as I mentioned, the for-profits represent about 5 CCRCs and the not-for-profits represent about 11. So that can explain away some of the volatility that we're seeing in these trendlines for the for-profits. But overall the for-profits occupancy was lower than the not-for-profits, climbing out of the recession, and it's trended slightly higher than the not-for-profits since 2013, which stayed relatively flat.

[01:14:00] However, both profit statuses have seen recent declines in occupancy, and the for-profits have fallen further, registering in the fourth quarter of 2017 an occupancy rate of 82%, versus 87% for the not-for-profits. So that shows me that the for-profits have been dragging down the overall CCRC occupancy rate in the Houston area.

[01:14:30] So I'm also curious to see what those occupancy rates have done to Houston CCRCs annual rent growth by profit status as well. Here we're looking at Houston, same story, CCRC average rent growth by profit status, and for the most part the not-for-profit rent growth has gibbed pretty well with the primary markets, that area in the gray back [01:15:00] there, the benchmark. But for-profit rent growth has had much more variability than not-for-profit over time, as you can see.

So let's go ahead and focus on the most prominent for-profit rent growth spike right there, in the first three quarters of 2011, which occurred as about 433 units came online, which were largely leased out by the fourth quarter of 2011. Then rent growth for the for-profit CCRCs took a pretty significant [01:15:30] dive in the third quarter of 2011, where it hit its peak. And it came in at about 7.9% annual rent growth, which is pretty high. And then, by the first quarter of '12, it hit its trough, and that was a negative 3.3%. So it was a pretty wide spring for the for-profits there.

Again, I have to caveat that with the fact that we've got a smaller sample size for the for-profits and that can explain some of the variability, but that's [01:16:00] a pretty large swing, and perhaps not all of it.

Speaker 16: [inaudible 01:16:04] your primary markets comprised. It's obviously not a combination of Houston and [inaudible 01:16:10].

Lana Peck: No, the benchmark is the primary markets, which Houston is one of, but it's nationwide and it's not broken out by a profit status, it's just showing a straight, all profit statuses as the benchmark.

Okay, so more recently, since the middle of 2014, [01:16:30] the annual average rent growth has been showing less volatility, as you can see there. And as of the first quarter of 2015, when rent growth [inaudible 01:16:39] by profit status meet and began to diverge, for the longest period of time in the time series, not-for-profit CCRCs maintained a pretty steady upward trend in occupancy and annual rent growth, while the for-profits generally trended lower, reflecting the notable recent decline [01:17:00] in occupancy that we showed in the previous story.

To wrap up Houston, I just want to leave you with the fourth quarter statistics. So, currently as of the fourth quarter of 2017, the annual average rent growth is near zero for the for-profits. It's at 3.8% for the not-for-profits, and it's at 3.4% for the benchmark that I'm showing there, the primary market CCRCs with all profit statuses.

[01:17:30] And turn it back over to Beth.

Speaker 17: [inaudible 01:17:34]

Lana Peck: Sure.

Speaker 17: Did you have [inaudible 01:17:37] CCRCs and [inaudible 01:17:44], assisted living?

Lana Peck: I do not have those in this data set, but we'll be looking into that in the future, and hoping to be putting some blog posts together on that in the very near future as well. We'll be looking at those breakouts.

Speaker 17: [01:18:00] Thank you.

Lana Peck: Mm-hmm (affirmative).

Speaker 18: One question, one [inaudible 01:18:01] question.

Lana Peck: Sure.

Speaker 18: What did you call [inaudible 01:18:02] geographic. I know Houston fairly well, I'm just interested in how far out you reached from the city limits.

Lana Peck: Well, one [inaudible 01:18:14] is Houston CVSA, and that's the typical measure that NIC uses to track the metro market areas. So I don't have the actual mileage from the city center, but it is the statistical figure that the census uses.

Speaker 18: Somebody maybe at the NIC counter would have the definition of [crosstalk 01:18:31].

Beth Mase: [01:18:30] Yeah, we have that definition. It's the same definition the OMB has, the Office of Management Budget, which is what census uses, the CVSA uses ... It's big. It's several counties.

Speaker 18: Thank you.

Beth Mase: Several counties. And if you want afterwards, I have it on my laptop I can show you which counties it is.

Speaker 18: Thank you.

Lana Peck: Thank you.

Beth Mase: So the gist of really getting into these markets is not so much that necessarily you have an interest Houston or you have an interest in Atlanta, but it's to show you the depth of the data and [01:19:00] how you can slice and dice the information. So we can do the same analysis for any market. So if you are an operator of a CCRC or, if you are in the Houston area, if you're an operator you want to see what's going on in IL and AL trends in San Francisco, the idea is that we can peel back the data significantly. And in a few minutes we're going to show you, if you want to get below that metro area level, and you want to really dig in deeper to some kind of a primary market area, that you yourself can define, it's fairly easy for us to do that. So, this is to try and [01:19:30] take it from the top and all the way down to give us a sense of the breadth and the depth of the data that we have.

So the last market, or the deep dive that we're going to do right now, is for the southeast. And the southeast is a very rapidly growing part of the country, with very strong population and very strong employment growth. And it's defined here as Florida, Georgia, Mississippi, Alabama, and Tennessee. And of the 99 markets that NIC tracks, 17 are located [01:20:00] in the southeast region, which would be about 14% of all the inventory in the southeast. And a couple of the takeaways here is that stabilized occupancy is higher than total occupancy. Again, showing the impact of new properties that are still in lease-up.

So the story of the southeast is going to be similar to what we saw in Texas because there's a lot of development activity that's happened in the southeast, as compared to what we talked about in California a minute ago. And we've seen a lot of inventory growth in Fort [01:20:30] Myers, Atlanta and Nashville. And demand exceeds new supply a lot in Sarasota and Memphis, in the past year. And as a retirement mecca, penetration rates tend to be higher in the southeast that in many of the other markets.

So the markets are listed on the left and then go right across the top, again, I have the concepts of occupancy, stabilized occupancy, absorption, annual inventory growth and the penetration rates. So a couple of things to takeaway is to look [01:21:00] at the difference, again, between the stabilized occupancy and the occupancy, and where that number is bigger, that difference is bigger, would be the markets that are seeing the most struggle in terms of leasing-up activity.

You can see that the lowest occupancy rate here are these markets, is Atlanta, which is highlighted as 87.3%. That's had a lot of inventory growth in the past year, almost 8% in the past year. And other market that's seen a lot of [01:21:30] inventory growth, as you can see highlighted in red there, is Fort Myers at 14%. The lowest occupancy rate also happens to be in Fort Myers, which had the most inventory growth of 14.1%, that occupancy rate is 83.4%.

A lot of this kind of data is pretty easy to generate and I think if you're looking to target a market or to get a review of an overall region, this is really helpful to put it together, to give some of the big picture of what's going on in the market. But [01:22:00] as Lana's going to talk about in a minute, it's important I think to also do a deeper dive into the area to really see what's happening. Before Lana does that, she's going to talk a little bit more about Atlanta, and she's going to bring this down to the county level.

And just for perspective, looking at the overall Atlanta market ... the other markets we talked about, San Francisco and Houston, had "vitality" scores that were better than 10. In the case of Atlanta, it ranks 32 out of 402 from economy.com. [01:22:30] It's real strong features for Atlanta were to conclude, in terms of industry mix, logistics and high-tech. It's got a relatively good cost of doing business and cost of living compared to other parts of the country. And it's got very positive demographics. So again, all of that feeds into the decisions of developers and operators and investors to go into these various markets.

And with that, I'll pass it over to Lana.

Lana Peck: [01:23:00] Okay, thanks Beth.

So looking specifically at assisted living in Atlanta ... The supply and demand patterns, you know, as Beth mentioned, and as you can see here, suggest, you know, pretty robust, generally sustained development since the recession. And, indeed, sustained quarterly net [01:23:30] inventory growth is a striking detail in this chart.

So between 2006 when NIC started to collet the data and the second quarter of 2009, the all occupancy rate fell 10 percentage points to its lowest level recorded, which was about 82%, as quarterly inventory surpassed demand going through the recession. Now, as the recession lifted, in the middle of 2009 [01:24:00] development picked up and absorption started to fill in the new inventory growth, producing a long although uneven increase in the all occupancy rate, which rose about 7.5% over 23 quarters before turning lower again in 2015, and then continuing the downward trend into the fourth quarter of '17, where it rested at 83.1%.

So while development has been [01:24:30] pretty well sustained since the recession, there appear to be three distinct cycles here. It's kind of hard to see with all this development going on but what I see is a development cycle between mid 2009 and mid 2013 coming out of the recession, late 2013 to the beginning of 2015 and then again beginning in the later half of 2016, and where that goes we don't know yet. [01:25:00] But what's interesting to me about this is that the occupancy increase in all but the most

recent building cycle, suggesting that market in general is starting to struggle against saturation.

So, inventory growth also exceeded net absorption in five of the last six quarters. And you can really see that when you look at the occupancy trends towards the end of the year. They're really starting to decline pretty significantly. And the [01:25:30] all and stabilized occupancy converged in the latter part of 2015, and early 2016 with a break in inventory growth, so you see that space there, that's pretty blank. And before diverging sharply with a little over 1000 new units coming online in the last six quarters.

So, as Beth promised, I was going to get into a little bit of the county level analysis. I want to look specifically at three counties. [01:26:00] And these were chosen, these three out of 29 counties in the Atlanta metro, because they have the highest senior population, and they also have the highest number of seniors housing properties. So I focus specifically on Gwinnett county, Fulton county and Cobb county. Gwinnett is the best performing county, in terms of the top three. It has the fewest properties and it has the strongest occupancy and rent growth. Fulton county has the most properties and the weakest rent growth, which is suggesting [01:26:30] strong competition.

But Cobb county to me, kind of piqued my interest, seemed a little bit more interesting. It has the lowest occupancy, just coming in at 76.7% and the widest all occupancy and stabilized occupancy spread, which you see is about five and a half percentage points, which suggests that we're looking at a bit more of a challenging lease-up environment than perhaps the other counties, and perhaps Atlanta metro as a whole. [01:27:00] But interestingly, this data is of fourth quarter. What I find interesting is that Cobb county reported really high levels of annual inventory growth, matched by equally high levels of absorption. That came in around 15% for both. So that makes me want to dig in a little deeper to see what's going on with the rest of the story.

So, I'm going to orient you to this chart very briefly. You're quite familiar with the concepts that I've been showing, with the net [01:27:30] inventory growth on a quarterly basis, the net absorption. But they kind of ... right here, it looks kind of grayish or greenish, it's supposed to be a yellow line that's representing the construction as a share of inventory. So I wanted to plot construction as a share of inventory against the inventory growth and absorption.

Zooming in since the recession, I'm starting in here about 2013, a little bit past the end of the recession. The chart shows very high levels of construction [01:28:00] as a share of inventory in Cobb county, specifically occurring late 2015 to early 2017. And it actually topped out at about 25.6% in the second quarter of 2016. It's pretty high. And as new communities came online, from the middle of 2016 to the middle of 2017, inventory growth exceeded absorption. But we saw construction in this building cycle start to taper off, [01:28:30] this cycle in early 2017. And by the third of the fourth quarter, construction versus inventory got down to about 6.4%, which was equivalent to what we saw in the Atlanta metro as a whole. So absorption had caught up with inventory growth, and that was both coming in at around 15%.

So, kind of talking about the end of the story here, should this trend hold, and this is just my speculation, [01:29:00] one interpretation could be that Cobb county, you know, we could start to see the all occupancy rate rebound, as units continue to lease-up and, you know, that's a big if. I mean, the indicators are there with regard to the inventory growth and absorption in the last two quarters of '17. But, you know, it's just ... who knows? We're just going to have to wait and see when the next data release comes back through.

[01:29:30] Okay so-

Beth Mase: Excuse me one sec.

Lana Peck: Yeah.

Beth Mase: So before we ... so Lana's going to get into, like, the deep dive, like what you could do on a desktop, [inaudible 01:29:39] deep dive into markets. So this is going to get more specific into, like, a primary market area, and choosing a primary market area. So before we get into that, are there any questions that anyone has up to this point, related to ... you know, we talked about a lot of stuff today. We talked about what supports and what drives economic development. We've talked about what ...[inaudible 01:30:00] [01:30:00] is doing that ...

We talked about the big picture, what's going on in terms of supply and demand at the national level. We've talked about individual performance by metro area, seeing that San Antonio is at the bottom for both IL and AL. And that San Jose is at the top in terms of IL and AL occupancy. Then we got into deep markets, we spent a lot of time looking at the differences between stabilized and total occupancy as a sense of how strong that market is, in addition to looking at construction that's coming into that market. [01:30:30] And then we've tried to give you examples of how you can do your own analysis on looking at the county level or looking at CCRCs or not-for-profit performance. Looking at their rent performance, looking at the occupancy performance.

So there's been a whole lot of stuff thrown at you and this has been a long session. So before we get into this next piece, just as a break point, do you have any questions?

Uh-huh, yep?

[01:30:51]

Speaker 19: Me?

Beth Mase: Yeah sure.

Speaker 19: My firm buys a lot of multi-family, so we know that industry very well. [01:31:00] And so you mentioned at the ... I think earlier, that you thought one of the risks is that cap rates might start to move up because of interest rates. We're not seeing it in multi-family at all. It's like a crazy market right now. I mean, there's more capital chasing multi-family

than I've ever seen before, and it's keeping cap rates very low despite rising interest rates. Is there something ... could that happen with this space, or do you see less capital pressure on [crosstalk 01:31:31]?

Beth Mase: [01:31:30] No. So, the question is basically what will happen in cap rates for a seniors housing? So, I just actually gave presentation earlier today looking at the ... using NCREIF data, which is the National Council of Real Estate Investment Fiduciaries, and looking at the cap rates and then the spreads. And we've seen the cap rate ... so the spread between a cap rate and the Treasury rate would be called the risk premium, for investing in either multi-family or a seniors housing. Both have compressed, that risk premium has compressed [01:32:00] from where it was three or four years ago, for seniors housing and for multi-family.

So, the question is now that we're in an interest rate environment that is clearly heading up, if as the 10 year Treasury goes up, it's already up to almost 3%, it's up almost 100 full percentage point in the last year, will that cause cap rates to increase as well? Or, will cap rates for seniors housing stay low because the risk premium itself could get smaller?

So there's an argument for both, [01:32:30] of course. We have seen the risk premium for seniors housing decrease considerably in the last five years. And as a lot of capital comes into the sector, there's equal amounts of capital coming into seniors housing as there is for multi-family. There's a lot of capital on the sidelines in seniors housing as for multi-family, investors waiting to find the best opportunities to come and invest. So that a flow of capital coming into the sector could in fact cause that spread to continue to narrow. So it's a question of whether there's more capital ... [01:33:00] which will out-win? Will higher interest rates cause that spread to come back up, because cap rates and interest rates are so closely tied. Or will the capital coming into the sector allow that spread to stay the same? Or reduce?

So, my guess would be that cap rates will go up but not as much as the Treasury rate will go up in the near term. And the expectation is that the 10 year Treasury, which is what this is bound to, is usually ... if it's up a percentage point, the expectation is ... at least most forecasters that I'm seeing, is that the Treasury rates [01:33:30] at 3 today, it'll probably be close to 4? Or, a little bit higher within a year, or sooner. So that you might see that kind of thing ... But keep in mind, real estate doesn't move that fast either. So there's an inherent lag in the time that that transaction would actually occur.

Yeah, more questions?

Speaker 20: What age [inaudible 01:33:51]?

Beth Mase: Usually we look at the 75 plus households, when we do our analysis.

Speaker 20: And is there any correlation or study done separating [01:34:00] the counts or the ages going into independent versus assisted living?

Beth Mase: What we've seen since we've come out of the recession, the age of residents in both assisted living and independent living has increased. The acuity levels have increased in both independent living and assisted living. And the age is probably almost the same for independent living as it is for assisted living right now in the 83 plus range.

Speaker 20: And then have you found any correlation of your [01:34:30] penetration rates to housing inventory? Other housing inventory.

Beth Mase: I don't know. I haven't looked at that one.

Speaker 20: Meaning, where there's high home sales, high prices, folks making a decision "I'm going to move to independent living."

Beth Mase: Yeah, so we've actually tried to do some statistical analysis to look at the relationship of seniors housing occupancy rates or rent growth to major [01:35:00] broad macroeconomic drivers, such as GDP or the unemployment rate or home prices or homes velocity sales. And it can't find the exact statistical relationship, but anecdotally, we would definitely agree that in a time when home prices are accelerating, and when consumer confidence is strong, when the stock market's strong, and there's a level more of confidence in the economy, that the velocity of sales in purchases and move-in's decisions for seniors housing does seem to improve. With the exception that, and in the case of assisted living, that is more need- [01:35:30] based. So that the economy has some impact on it, but equally important are the fact that something ... you know, if your mom falls and she has to go somewhere, or she's having problems.

Lana Peck: Yeah, and I'd just like to add, you know, there are ... during the recession we saw, you know, folks having a pretty hard time getting their homes sold, which really kind of slowed the movement into and the occupancy into independent living. Because that was one of those segments that was more [01:36:00] disposable income-driven, to some extent more so than the assisted living segment, which as Beth had previously noted was more demand-driven. So, the home sales price and velocity back during the recession did have an impact on occupancy, so we saw. And that's something that a lot of market feasibility consultants will want to take a look at when they do market studies, and that's that one piece where, if you're looking at the velocity of home [01:36:30] sales and their home sale prices. Because, you know, typically folks are using that asset of the home sale at some point. They may be holding onto it for a while, or they may be using it immediately to move into perhaps an entrance fee CCRC. So that's a critical component to keep an eye on.

Beth Mase: More questions? Up here.

Speaker 21: You had mentioned one of the factors that drives your [inaudible 01:36:58] is the adult children? [01:37:00] I didn't see a chart that correlates the adult children to occupancy rates and markets. Is that ... do we have any of those ... ?

Lana Peck: Well, you know, we don't track that correlation of adult children to occupancy and markets, but I will say that it's somewhat hard to quantify the impact of the adult child

in a market study, because we know the cohorts, the typical [01:37:30] age is about 45-64, but we don't know if they have parents in the market area. And we don't know if they have parents outside of the market area, you know, if they've got other children who may be taking them towards them as opposed to the particular market area that we're looking at. So, you know, a lot of studies look specifically at the adult children when they're putting together their market analysis and underwriting. My particular opinion on that is that it's a strong indicator, [01:38:00] the adult child is a strong indicator, it's an influencer. But it really does depend also on your segment that you're looking at. Independent living residents, CCRC residents, those adult children will be more of the influencer type, as opposed to the adult child of the higher levels of acuity that is actually making the decision.

Beth Mase: Yeah, I would agree with that, the decision-makers ... the higher the level of acuity, of need for a resident, the more likely the adult child will have the influence. And the lower the level of acuity, the less likely [01:38:30] is an adult child to be the decision-maker, but would be an influencer in that. In my career, when I've done analyses on this, I've used both looking at the adult children and the seniors population themselves. But I know that some operators have actually just used the adult child because they felt that was such a strong determinant of what it is. And I think it's probably somewhat geographic-specific too, in terms of the climate and in terms of, again, where the centers of economic activity and strength are. So if you're in a market like San Francisco [01:39:00] where incomes are high, the adult child might have a greater influence because they have more the means or support to help those parents when they come into those areas.

More questions? Okay, then we're going to go into then a little bit sort of the desktop analysis. And this is really drilling down deep and give you a sense of what the tools are that we have and that we've created over time to sort of help people do a desktop analysis. And we've created these tools [01:39:30] really with feedback from our client base at NIC on, you know, we want to do this. How do we go about doing it? So we would appreciate, you know, any comments you have on this because we're constantly trying to figure out the best way to help you all do your jobs effectively, so [crosstalk 01:39:44].

Lana Peck: Okay. Thanks Beth for that set-up.

Okay, here we go. So in even deeper dive with NIC MAP tools. Okay so, in this desktop deeper dive we're going to be determining a primary market area using [01:40:00] a hypothetical site in Austin, Texas. Looking at demand from seniors and their adult children, quantifying supply and competition using NIC MAP tools to consider sensitivities.

So we're going to start this discussion off with an audience polling question. And I want to know you all what you think the ideal size of a primary market should be. Should it be a 10 minute drive time? Should it [01:40:30] be a five mile ring? A 10 mile ring? Or is the answer, it depends.

Okay, is this the final answers?

Beth Mase: It depends wins.

Lana Peck: Depends wins, yes.

Beth Mase: That's a wimpy answer.

Lana Peck: Yeah, [01:41:00] that's 38%. No, that's actually the answer that I was going to give. I was going to explain that out a little bit.

Okay, so let's talk about the answer it depends. I'm going to leave that there for a few minutes. Well, it depends by segment type. Certainly with independent living and CCRC/life plan communities, they're typically able to draw residents for a little bit further out, a [01:41:30] little bit further wider distances. And then the assisted living, memory care, nursing care type communities, for which analyses of demand for higher acuity units like those, are really sensitive to market sizing. And even then, the less densely populated areas are able to draw from further away some of those areas that have less competition are able to drop further away as well, so it depends. That's the answer there.

[01:42:00] Also, the geographical and psychographical, psychological features such as mountains, rivers, the other side of the tracks, these are all things that are able to really alter the ability of a radius ring to adequately define a market area, causing one to overstate or understate the competitive intensity in a market. So again, it depends.

And it also depends on [01:42:30] where the adult children of prospective residents, and I kind of touched on that a few minutes ago. And just as importantly where they work. So, you know, if you have a particular site or property in mind that that's well-located in proximity to the highest densities of senior target market households, or even well-located in proximity to where the adult children live, or [01:43:00] maybe not so well-located, that community can still be successful if it's located in proximity to major commuter routes that the adult children cohort tends to travel to and from work. And also areas that the adult children frequent. So again, it depends.

All right. So, the objective of market analysis is to determine the size and type of seniors housing property [01:43:30] that can realistically be supported in the market area. The first step is in estimating the numbers of qualified potential residents. Specifically determining how many seniors in the market area there are, and if that population is either receding or growing.

The next step is in identifying the presence of adult children influencers, those qualified folks, age qualified of 45-64 that represents that typical age of folks who may be the areas of the seniors areas [01:44:00] adult children and may have the capacity to bring those seniors other places to the market area. So, again, I mentioned they're a very important indicator of strength in the marketplace.

And then exploring the competitive environment, which means identifying the comparative properties and the competitive units, and eventually establishing the inputs for analyses of demand. Those hard numbers that we need in order to kind of determine whether or not the project [01:44:30] is worthy of going forward.

So I'm going to quickly show you a couple of tools that are good to start out with. First one is the Metro Report, which gives you a pretty good background overview, especially that key influencers table. Talks a lot about the key metrics that I talked a lot about in my deep dive, stabilized occupancy and rent growth, quarterly absorption, construction versus inventory, and then the penetration rate, which as we've mentioned is [01:45:00] defined as those total number of folks that are age 75 and older divided by the total inventory.

And all of these factors do shed a lot of light on the market conditions and should be really helpful in determining your goals as an investor/developer. This is a good baseline.

I'm going to move past the next page but I do want to point out there are some interesting features on the second page of that report. Including [01:45:30] an overview of the number of properties, the splits by profit status, median age of stock is another good one. Again, it's got average monthly rents, so some of the things we've talked about before. And I like this because it even has the percentage of properties that are in need of upgrade. So that's kind of helpful information.

So now moving on, we're going to talk about this tool called Trends in the website. And incidentally this is the source of [01:46:00] all of the data that I produced, my deep dive tracks for the metro area. So if you want to go ahead and scratch the surface like I did, you could use this Trends tool.

So what's important about this and really helpful is that it's interactive. And it allows you to really fine-tune the details. It's a lot like the Metro Report but it gives you the ability to gain more specificity. And [01:46:30] really importantly, being able to download the Excel data into a file that you can manipulate yourself.

So in this case I'm going to keep with Austin, which is going to be the subject metro area in our example. I could choose to look specifically at the independent living segment, but I could also choose to view majority assisted living and majority nursing care or memory care or CCRCs. And you can see that along the top, the property search details, the search areas.

Again, I could also choose [01:47:00] all-campus types if I wanted to, but I could alternately choose only the combined or only the freestanding properties. And you notice I can also make choices by geography, all the way down to the county level, like I showed you in the Atlanta example.

Hitting that button where it says "display data" in the upper right creates the chart in an interactive fashion. And you can view those in the browser or you can download all the data and the charts into an Excel file.

[01:47:30] This next page is just another set of graphs and charts that comes with the Trends tool, that can be downloaded. So if you download these into Excel they'll populate there and you can make changes to those charts as need be.

And those are just the basic fundamentals that we've discussed a few times.

Beth Mase: So I'll just add that if you're doing a quick assessment of markets, this is an instant way to do a quick review on a market because it supplies the information to [01:48:00] you instantly, so you can look at occupancy trends. The chart on the top right is looking at construction. So in the case of Austin here you can see that construction as a share of inventory and construction in general is starting to decline from where it was. And, you know, that alone is a really valuable input into looking at a market for ... excuse me ... when you're doing a market assessment, or for market development.

Lana Peck: And it's great because they're all shown in one area, too. So you can see the relationship between construction versus inventory and rent [01:48:30] growth rate, for instance.

Speaker 22: Does-

Lana Peck: Yeah?

Speaker 22: Does NIC track proposed pipeline of construction? And do you also look at any forecasting of rent growth? Or is it only looking backwards?

Lana Peck: Well, we do track construction starts, and construction ends. And those are reported quarterly. There's also a feature in the website, which is the Dodge Data that comes from Dodge [crosstalk 01:48:58].

Beth Mase: McGraw-Hill.

Lana Peck: And that's a [01:49:00] little bit different. That's just a tool that you can access and kind of take a look at on your own.

Beth Mase: The construction data from Dodge is not cleaned by NIC. So, I used to McGraw-Hill so I can speak to this data. It's really good, it's good data but it gives you the stuff that's in there in construction pipelines. It doesn't clean it, it doesn't verify it, it doesn't confirm it. So you have to do your own homework on it. So it's a good first pass to look at things, but you need to really scrub it and clean it up. And by the time it comes ... what NIC does is anything that breaks [01:49:30] ground as a start, that's when we track it, and then we track it all the way through to completions. But we don't track the stuff that's just, you know, an idea or that's in pre-planning. But the Dodge has a listing of pre-planning pre-starts. It does it for all property types, and a seniors housing is one of them.

Lana Peck: And we also [inaudible 01:49:46] testing in our earlier reporting, regarding construction.

Beth Mase: [01:50:00] Yeah?

Speaker 23: [inaudible 01:50:03] question. [inaudible 01:50:03]

Lana Peck: Yes that is correct.

Speaker 23: Where is that [inaudible 01:50:04]?

Lana Peck: Is is the first ... ?

Beth Mase: I can't read that far.

Speaker 2: How is that determined?

Speaker 24: [inaudible 01:50:16].

Lana Peck: Thank you. [inaudible 01:50:17] the second table. Needed my binoculars for that.

Yeah?

Speaker 23: How do you [inaudible 01:50:29]?

Lana Peck: It's based on survey [01:50:30] work. Every day, every month, every quarter, we have folks calling all of our communities in our database and so, that's one of the questions that's asked on the survey.

Okay so, let me show you the stuff that I get really excited about, and that is defining the geography of the primary market area. And in this case we're going to use a Local Property Search tool. [01:51:00] Again, we're going to keep our example as Austin. And the local search can be done using an address, a retirement community name, a place name, basically all of the general ways that you're able to search using an Internet map. But in this case, I'm going to use a geocode to pinpoint that hypothetical area that we're going to use as our site example.

All right, so allowing the tool to run the search brings up a visual map [01:51:30] listing of all the properties in the search window, as you can see there. The criteria can be fine-tuned to the segment, which is independent living, assisted living, memory care, nursing care, by property statuses such as open, under expansion, or new construction. And even further to find using the advanced search tool, which allows searching by operator, by property age, by profit status, and then you can also do a transactions only search, by sales price, [01:52:00] price per unit or sales transaction date. So there's a lot of different ways that you can slice and dice this data but in this example we're going to look specifically at majority independent living properties surrounding the specific geocode that I've designated in the Austin area.

Okay so, let's see. There's various methodologies, as Beth mentioned before, for determining market geography. And the Local Property Search tool is really great [01:52:30] because it allows for flexibility. The radius searches, custom polygons and drive time feature that's new to NIC. So in this case I'm going to show a simple radius that can be drawn at intervals, ranging from one to 30 miles in a custom number, which allows also for you to plot more than one radius at a time, it allows for analysis of sensitivity.

And in this example I want to show that we're looking only at the currently open independent living properties around my geocode within a 10 minute ring. [01:53:00] Which brings up this visual map and property listing of 11 open independent living properties in a 10 mile radius.

So I can also choose to plot the locations of the hospital on this map, and you can see those pinned by the blue map pins there. And I've used the radius method in the past when I need to make a pretty quick evaluation of a market are. And this is pretty useful. But in the next few slides I'm going to show you how we can describe the market area in greater detail, [01:53:30] and how the tool can improve the precision of your market analysis.

So, let's see here. Yeah. NIC MAP recently rolled out capabilities that define drive times and minutes, which can also be fine-tuned by traffic flow, either low, medium or high, depending on the time of the day. How far a community may be from areas that residents are most familiar with. You know, areas such as doctors, places of worship, different types [01:54:00] of shopping. And equally important how much time it takes for the adult children of the residents to get to the community. And also importantly, how long it takes for staff to get to the community, because we know it's really important to be able to track staff. Distances are an important consideration.

So I'm going to demonstrate now the results of using a drive time instead of a radius to find a market area. So going back to the Trade Area tab, [01:54:30] I'm going to choose drive time search, and I could choose to plot one or two drive time radiuses, but I'm going to choose one for this example. And I'm going to draw a 10 mile radius to correlate with the 10 minute drive. Okay, so what do we see happens? The area becomes smaller and thus the competitive site gets much smaller, and more precise. So I'm going to toggle [01:55:00] back to the example with the 10 mile radius, so you can see the difference.

All right. So, you know, what made this difference? So basically, you know, one thing is things that I've talked about before, which is the geographical areas, the radius can't take into account varieties in geography like the drive time can. In this example, [01:55:30] in Austin, the Colorado River itself was taken into consideration of the drive time. And, you know, it had a major impact on determining the market area because you can only have so many places where you can cross that river. So taking the Colorado River into account brought our competitive set from 11 to six, and had a really significant impact on considering the competitive set. [01:56:00] So, in essence, looking at drive time versus the radius, the radius analysis overstated the competition.

So, in summary the Drive Time tool provides really, you know, a lot of greater precision than a radius does in understanding a market area. The tools can help you determine where hospitals are in relation to the specific location, whether it's five, 10, 15 minutes. It can also help identify a competitor's [01:56:30] trade area, which is important, and see where the overlap exists with your site. And it can also help you market to specific drive times. So I think you'll agree that this was a pretty useful addition to the NIC MAP family of tools.

And just to, because we're running out of time, I want to mention that there is the ability to download this data into an Excel file [01:57:00] by using the Property Advisor Report. Those are some pretty neat things that go in here, and I encourage you to take a look at it on your own, but you can get basically an entire report that gives you the information you need just about your competitive set. So it'll talk about how many operators are in the area, which ones they are, what their market share is, the age of properties, and a lot of other things [01:57:30] that you need to know when you're doing a demand analyses, such as the breakdown of units by segment type. Also, the segment occupancy trends that are benchmarked for your competitive set against the metro area. And also, just wanted to round it out by showing you the data that can be downloaded, and again, this is the hard data that you need at the property level, such as how many one bedrooms, how many two bedrooms, three bedrooms, independent [01:58:00] living or the competitor's site.

So, I think with that we'll see if you have any other questions. I'm sorry I had to kind of rush through that kind of quickly because we got towards the end, but this is a pretty exciting tool, it's a pretty interesting thing to play with and it's really helpful and it has helped me in the past be able to really quickly and accurately define a market area.

Beth Mase: Okay, so let's see if you have any questions, and I think [01:58:30] we've lost some of the crowd so I don't know if we're going to do the polling question again. So let's just see ... we'll do one last polling ... The last polling question here. So what were your greatest concerns about seniors housing in 2018? If you can answer number six in your questions, we'll see how that compares to what we initially said.

Okay, [01:59:00] the majority is still ... labor is still an issue. And I have to say, if I had to choose one I'd think I would say labor as well, and I think that's an intractable problem that we're going to have for a long time.

[01:59:30] So I would encourage you during this conference to talk amongst yourselves and to go to sessions and hear what people are saying and addressing about labor. We see a lot of operators that are coming up with innovative plans in terms of strategies to retain employees, strategies to entice employees in. Some operators are going through the same process that they go through when they bring in a new resident, in terms of they look at how many leads are coming in, and how many leads get turned over into a sale, the same type of thing they've now applied to new staffing [02:00:00] positions. You see a lot of operators that are creating programs to try align interests, or to get them some type of an incentive, at all levels of staff within the organization. So there's lots of really neat ideas that are going on. But I think it's really important at this event,

as well as others, to really start to talk about labor and what we can do collectively because this is an issue in my mind that's only going to get more difficult as we go through.

So with that, if there's any few questions, any more questions we'd be happy to take those, and thank you very much. This was a long [02:00:30] session I know, two hours. So we than you for your attentiveness in time, and paying attention. And we're here if you want to ask some questions or you can raise your hand now and we'll be happy to answer, too.

Thank you very much for being here.