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The Lending Outlook Put in Perspective: A Conversation with Capital Funding's Erik Howard

Erik Howard

Capital partners that take the long view are a plus for the sector, especially today. They've experienced the ups and downs but recognize the aging population's underlying need for decent housing and care.

Industry veteran Erik Howard takes the long view. He is executive managing director at Capital Funding Group, a long-time, one-stop healthcare lender.

NIC senior principal Bill Kauffman recently spoke with Howard about today's lending environment, how operators are coping, and the sector's promising future. Here is a recap of their conversation.

Kauffman: Tell us about your professional career.

Howard: I started out as an equity analyst at a regional investment bank in Maryland and then moved into a role in corporate finance. I left Maryland and worked in New Jersey for the economic development authority there and ran one of the largest procurement groups for a public works project in the country—an $8.6 billion school construction initiative. I went back to Maryland and had previously been introduced to Jack Dwyer, chairman of the Capital Funding Group. I joined the company in 2004. I worked with clients on originations and developed knowledge of the HUD lending program and the bridge-to-HUD platform that Jack launched in the late 1990s. My role increased as the company expanded, and I became managing director of the real estate finance group in 2016. Since then, I have been helping to expand the business as we look to add complementary facets to our financing capabilities, and I was named executive managing director at Capital Funding Group.

Kauffman: Can you provide an overview of Capital Funding's lending focus for private pay seniors housing and skilled nursing?

Howard: Since the company's inception, Jack Dwyer has been successful in building the original one-stop shop for healthcare financing. His vision going back more than 30 years was to create a finance company where clients can get everything they need, so they don't have to cobble together a capital structure. We provide all types of capital for seniors housing and long-term care. We offer bridge loans for acquisitions, refinancing of existing debt, recapitalizations to cash out embedded equity, new construction loans, and accounts receivable financing for skilled nursing providers. We offer permanent financing through HUD's section 232 program, mezzanine debt, and subordinated debt. We can also provide 100 percent financing through a number of different affiliate companies. All we do is healthcare financing, and that's all we've ever done. We are experts and have longevity in the field.

We've been extremely active this year. The landscape of lenders has changed in the last eight months. A number of key capital providers are out of the market or waiting to see how the situation evolves. But we have been here, a pillar in the healthcare finance community for the last 30 years. We've been through a number of cycles, and we continue to support the industry and our borrowing clients.

Kauffman: How big is Capital Funding's current portfolio of seniors housing and skilled nursing? How much capital is allocated for each segment?

Howard: In our existing portfolio, we have three main platforms under the traditional finance company. We have a HUD portfolio, now totaling close to $3.3 billion. We have a bridge loan portfolio. We are probably one of the largest and most active bridge lenders in the space with about $1.5 billion on the books. We will close more than $400

million in the next several weeks, adding to that number. Then we have our accounts receivables lines of credit. Our total loan portfolio for seniors housing and care is more than $5 billion. We don't really allocate a certain amount to each segment. We're looking for good opportunities that make sense for us from a capital deployment perspective with good sponsors.

Kauffman: What are the current growth plans for your lending platform? Where do you see opportunities?

Howard: One of the particularly important things we did 11 years ago during the financial crisis was to buy a bank. Before that, we were a mortgage bank with lines of credit with large money centers and multi-national banks. The credit crisis in 2009 changed the dynamics of lender relations. We didn't want to be in a position where access to capital was a challenge. So, we bought a small bank in Maryland and merged our existing finance companies into what is now CFG Bank. We have grown that bank 14 times over in the last 10 years. It had $100 million in assets when we bought it, and now it has assets of more than $1.5 billion. Much of the growth is a function of the healthcare lending we've done.

When the pandemic hit, we looked at this as an opportunity to support a sector that has been so important to us over the last 30 years. Borrowers were getting stuck with existing loans or had unhelpful lenders. We took that as an opportunity to further our growth in bridge and HUD lending. We've had probably one of the biggest years in our company's history as a result. Another initiative we implemented was to create an off-balance debt fund to supplement our traditional bank lending platform CFG Credit Partners. That provides us even greater capabilities to provide capital to the seniors housing and long-term care space. Any time a sector experiences dislocation, there's fear. But there are also opportunities. We think buyers may have some opportunities to buy assets at below market values. We see that as a tremendous opportunity to expand our lending and banking relationships to support good borrowers and operators.

Kauffman: How has your business changed given the COVID-19 pandemic?

Howard: Interestingly, it has changed. But it is part of a very simple recipe which is one of the reasons we've been successful for so long in the industry. Do business with good sponsors and operators that are going to pay you back, and partner with them through thick and thin. We've been fortunate to have that kind of experience over the last 30 years. That became even more clear when the pandemic started. We wanted to ensure that our borrowers were in it for the long haul and had their eyes wide open about the situation. We wanted to know they could weather the storm and were ready to roll up their sleeves and get through this. And we think we will. Obviously, there's a question about the duration of the stabilization period, but we remain bullish on the sector and its long-term prospects. Seniors housing and nursing care are both so integral to the overall healthcare landscape.

Kauffman: Has your underwriting process or criteria changed?

Howard: It's extremely hard to value an asset in the middle of a crisis. One thing we have tried to focus on, similar to the way we approach business and especially in the last six months, is to look at valuations from a holistic perspective. What did an asset look like pre-COVID? Will we achieve those levels once we get through this? On a near-term basis, we have shifted the focus to cash flow. We look at the liquidity and overall viability of an enterprise. A single asset may not be doing well, but the sponsor may have a number of assets and business lines that provide a diversified income stream.

Kauffman: What are the main differences you see right now between an operator addressing the current challenges successfully as compared to an operator that isn't?

Howard: First and foremost, success depends on capital and access to capital.

Successful operators are doing everything they can to control COVID-19. They conduct regular testing. They have access to sufficient supplies of personal protective equipment, and they have appropriate staffing. We expect every facility to have challenges on the expense side and some level of margin compression.

Kauffman: What other opportunities do you see coming out of this crisis?

Howard: This industry historically has had staffing shortages. This gives us an opportunity to reassess the model and figure out how to do things better and more efficiently. It almost necessitates it. We are thinking through that and how to promote nursing careers in states where we are active. Hopefully, a byproduct of the crisis will be to educate people around the country about what we do and attract more workers.

Kauffman: How liquid are the capital markets for both private pay seniors housing and skilled nursing?

Howard: Borrowers and those needing capital were in a good spot coming into 2020. The long-term care industry had experienced the onset of a new reimbursement methodology for Medicare with the Patient Driven Payment Model (PDPM). That really saved a lot of facilities with a supplement to cash flow. The strong underlying economy was good for the reimbursement climate. But the situation has changed. There are fewer capital providers in the market, and deal volume is down. Large transactions are taking more time to complete. Fannie Mae and Freddie Mac were initially not looking at new financings at the onset of the pandemic if there was COVID-19 in the facility. HUD has been a great partner during the pandemic, working with lenders and borrowers to come up with solutions to provide borrowers access to capital. HUD has financed close to $2 billion since March 1. They've done everything they can to help the sector.

Kauffman: What do you see as the greatest opportunity and greatest risk for the skilled nursing and private pay seniors housing sectors in the next 10 years?

Howard: In the short term, there's the risk of a second wave of the virus. We have to be prepared. Seniors housing and long-term care operators are great at what they do. They find ways to innovate and deal with challenges. They have stepped up in a time of crisis. There is always risk around government reimbursement rates. But to its credit, the government has been immensely helpful to long-term care during the crisis. It shows how integral the sector is to the healthcare space. Another risk revolves around signs that seniors may feel safer in their homes, opting for home health and telemedicine.

But we are optimistic about the sector. We've all been talking about aging baby boomers for 20 years, and they are finally here. We think overwhelming demand will work its way through the system. There may be some underlying changes to how we provide care in different settings, but there is tremendous opportunity on a go-forward basis. Clearly, technology will be an opportunity to provide better care and safety to residents. We expect to see some consolidation, but the industry will get through this and come out stronger on the other side.

NIC Conference Keynote on Policy Offers Candor and Optimism

Seniors Housing and Government Can Work Together for a Bright Future

One of the attractions of any NIC Conference is the caliber of thought leadership and insight provided in main stage keynote sessions. Typical keynotes, held in large ballrooms, hardly feel intimate. In contrast, much of the 2020 NIC Fall Conference, hosted on a virtual platform that put every speaker and attendee on a face-to-face basis, felt close, personal, and disarmingly genuine. This dynamic was on display for one of the most anticipated keynote discussions of the nation's most important seniors housing and care event.

Award-winning journalist Soledad O'Brien adeptly moderated a discussion with Mark Parkinson, president and CEO, American Health Care Association (AHCA) and National Center for Assisted Living (NCAL), and Andy Slavitt, senior advisor for the Bipartisan Policy Center and former Acting Administrator of the Centers for Medicare & Medicaid Services (CMS). Both leaders were frank and forthcoming regarding the impact of COVID-19 on seniors housing and care. Despite coming from the often opposing viewpoints of industry leader and policymaker, the discussion demonstrated that, for seniors housing and care, the pandemic promises to teach industry leaders a great deal – and has created opportunities to work with government to craft a bright future, while delivering better outcomes for America's frail elders.

Trump and COVID

O'Brien's first question was for reactions to the news which had just broken, that President Trump and the first lady had tested positive for COVID-19. Parkinson took the opportunity to express his hope that, "As bad as the news is, maybe it will be a wakeup call some people needed, that you've got to take this stuff seriously. You have got to wear a mask because anybody, under any circumstance, can get this virus."

Slavitt pointed out that, in addition to the President, "43,000 other people were diagnosed with COVID yesterday." He agreed that while we shouldn't be politicizing the President's health, the country might learn two lessons from the news. "One is, a thin piece of cloth would have prevented this from happening…the second lesson is simple consideration. Trump and his staff and his family entered a room, sat around Chris Wallace, were feet away from Joe Biden. None of us know whether we have COVID-19 or not…that's why we wear masks." He hoped that, like (UK Prime Minister) Boris Johnson, who fell seriously ill with the virus, Trump would take this more seriously, wear a mask, and encourage others to do so.

The Second Wave

Asked whether the seniors housing and care industry is prepared for a second wave, Parkinson was optimistic. "We are. We were completely unprepared for the first wave." He explained that the virus' ability to spread via asymptomatic carriers wasn't understood at first. That, and the lack of masks and appropriate PPE, "really caused it to spread like wildfire in nursing homes and assisted living facilities across the country…the other thing we needed was testing, and we didn't have that either." He pointed to "horrendous policy mistakes made at multiple levels, that created the challenges we had."

Parkinson continued, "For phase two we're in better shape. The policymakers have not done great, but the scientists have. The testing we now have…as well as a little better position on PPE, I think we're in a much better position. Clinically, we also know a heck of a lot more about how to take care of people, so the mortality rate is down." Nevertheless, he echoed Slavitt's frustration with America's failure to enact simple preventive measures. He said, "We don't have to have a second wave. What's so damned frustrating about

this is that if everyone would just wear a mask, just that simple, considerate thing, if we would just make a decision as a country that everywhere we go we wear a mask and socially distance, we wouldn't eliminate this in two weeks – but we would grind it to very low numbers."

Slavitt raised community spread as another key factor impacting nursing homes. He said, "It is very, very difficult, once there is community spread, to prevent that spread from getting into the nooks and crannies where everybody lives." While agreeing that the industry today is better prepared to protect frail elders, he appealed to everyone, politics aside, to be considerate of others and help to contain the spread of the virus.

"A Business Disaster"

The discussion turned to the state of the industry, which has seen a fall in occupancy rates and a simultaneous rise in costs associated with fighting the pandemic. Parkinson said that, "My overriding message to the folks who are watching this, who are primarily investors in long-term care, is that we're going to get through this, and this is going to continue to be a good space to invest in and that's not just hollow cheerleading. I believe there's good data and good reason to believe that." He went on, however, to outline how the pandemic has caused a "clinical nightmare and a business disaster."

Parkinson offered a litany of dismal facts, including over 50,000 deaths in nursing homes, and tens of thousands in assisted living facilities. He pointed to census data that dropped from 85% to 75% in just a "month or two," and half that in assisted living. He pointed to major increases in expenses, as operators scrambled to acquire PPE, often at "ten times the normal rate" on the black market, while paying 'hero pay' to staff and incurring other related expenses.

Asked how he can be optimistic in the wake of such grim realities, Parkinson said, "The good news is the government recognizes that we are an essential service, and thank god for the CARES Act funds, that have now provided nursing homes a combined, probably, almost 20 billion dollars." He also pointed to long-term demographic advantages, saying, "people need our services. We have a growing demographic, really exploding in the age group that we take care of, and as reluctant as people will be for a while to move into our buildings, which I completely understand, people don't move into our buildings because they want to, they move into our buildings because they have to. They just can't be taken care of safely at home anymore. It will be bumpy, and it will take some time, but the demographics are compelling. We will win the public's confidence back, and I think this will be a good space to be in, eventually."

The Opportunity to Improve

In agreement with Parkinson, Slavitt said, "industries through time emerge stronger from crises, often, if they do some self-examination, like Mark's talking about, if they really, genuinely look at what they're doing and say, 'here are four or five things that can help us.'" He added, "This is an industry that everybody cares about, every congress person, every senator, every presidential candidate needs this community to be successful. It's not too big to fail, it's too important to fail." He said, "I love the fact that the industry is opening dialogue, that the industry is talking to the White House and HHS every day, that we're figuring this out together."

Parkinson warned industry decision makers not to miss this opportunity to improve. "The knee-jerk reaction for some might be, 'Hey, let's just get this behind us and try to move on with business as usual.' That would be a huge mistake. You cannot ignore the fact that close to 100,000 people have died in long-term care facilities. If we don't use that as a moment of reflection, to not just look at what caused this, outside of our control, but look in the mirror and figure out those things that were within our control that could have slowed some of this down, and what could we do to be better in the future, then we're missing an enormous opportunity."

Regulatory Reform

Both panelists agreed in other areas, as well. On the burden of regulations, Parkinson pointed out that skilled nursing is more heavily regulated than "virtually all other healthcare providers," and stated the "amazing statistic" that "80% of the enforcement budget at CMS is spent on nursing facilities." He suggested that CMS focus regulations on "things that really matter," such as infection control, person-centered planning and activities, and other areas where nursing homes can improve care for their residents.

"Mark's right. You can't regulate culture," Slavitt responded, then advocated for "what works best," which he described as an industry that recognizes what it needs to improve and asks for investment from the taxpayer to get there, as well as the accompanying regulations, which, "would make everybody comfortable, and provide assurances." He added, "If the industry is able to move itself to that point, I think the industry will find a very ready and willing partner in the government, no matter which government…"

Workforce

On workforce issues, Parkinson said, "We don't pay our healthcare workers enough, particularly the frontline workers in long-term care." He asked the question, "What do we do to make sure that we not only have enough people to work in our facilities, but that they can do so and take care of their own lives?" He linked the answer to the need for funding, as well as immigration reform. In response, Slavitt again offered some agreement, saying, "Right now, people who spend their day caring for the rest of us, if they somehow don't have enough money to make ends meet, that is a litmus test that we should address…there's plenty of resources in this country to do that."

On immigration, Parkinson advocated for resolving the "dreamer problem," as well as reviving programs that bring nurses in from foreign countries. "The challenge that economies will face in the 21st century, is where they will get the workers that are needed. The demographics of a declining workforce are very bad across all of the developed world."

Addressing the politics of immigration, and acknowledging the need for workers, Slavitt said that "there actually is a center point of agreement on a number of these topics." He explained that while they may not make everyone happy, they offer solutions to "add fairness" and move the country forward. "Sometimes it takes an event, sometimes it takes a new Congress, sometimes it takes a new way of looking at things, but one day, hopefully soon, we can resolve some of these issues."

Medicare and Medicaid

Another issue that both experts addressed was Medicare and Medicaid. On Medicare, Parkinson acknowledged that the new payment plan, PDPM, initiated under Slavitt's administration and recently put in place, is working well. He views Medicaid, on the other hand, as a politicized program that is now underfunding care in many states. "We're going to have to figure out what our priorities are. Instead of just talking about these workers, these heroes, and the greatest generation, are we really willing to put some resources behind that, to give them the kind of care, and the kind of jobs, that they deserve?"

Slavitt responded, "In some point of time, whether it's before or after the election, we're going to have to do that [fund Medicaid], or many people who are on Medicaid today are going to face challenges, and payments are going to get even lower." He pointed to a recent actuarial report that indicated, "Over the last year, Medicare lost two years of the life of its trust fund, and is now projected to turn insolvent in 2024." What worries him, he said, is that during the next presidential term, the program will become underfunded. He explained that the next President may be in a position either to fund the program or cut benefits and payments under the program.

Towards the close of the discussion, addressing national priorities, Slavitt said, "What we need is some radical introspection, as a country, into what kind of country we want to be. Part and parcel of this is the question of how we take care of people who need our help; they're no longer at the stage where they can care for themselves, whether it's because they have a disability, whether it's because they're aged, whether it's because they're low income, whether it's because they're sick. I think that is an enormous part of our national debate."

Debt and Equity in the Age of COVID-19

Capital sources are rethinking their positions in the wake of the COVID-19 virus outbreak. Debt and equity providers alike are adjusting their strategies for seniors housing and skilled nursing properties. Occupancies are down. Expenses are up. Underwriting criteria are being retooled. The uncertain course of the virus has complicated the investment case for the sector, even as the industry's long-term forecast continues to show promise.

Two educational sessions at the 2020 NIC Fall Conference addressed the capital outlook for the sector. One session focused on seniors housing; the other on skilled nursing. Though both property types face many of the same challenges, the specific dynamics impacting capital flows of each were discussed.

"Debt & Equity in Seniors Housing in the Age of COVID-19" was moderated by Steven Schmidt, national director, Seniors Housing Group, Freddie Mac. Participants included Sarah Anderson, managing director, Newmark Knight Frank; Mark Cotsakis, executive vice president, head of Seniors Housing Finance, Wells Fargo: Multifamily Capital; and Talya Nevo-Hacohen, CIO, Sabra Health Care REIT.

Schmidt opened the discussion with a review of statistics, underscoring the sector's dramatic disruption. The healthcare REITs have experienced an occupancy drop of 4 to 6 percentage points as of July. Net operating income is down 25 to 40 percent. Assisted living occupancy is at its lowest recorded level at about 79 percent.

Healthcare REITs have seen their stock prices decline causing a rise in the cost of capital. "Investors are looking for a bottom on occupancy," said Sabra's Nevo-Hacohen. She thinks REIT stock prices will start to recover when pent-up demand improves the rate of resident move-ins.

Asset pricing consists of "a little guesswork," she said. Occupancy pressures and added expenses are impacting underwriting. One factor is how successful the operator has been in navigating the COVID-19 crisis.

An influx of capital from private equity firms had flowed into seniors housing over the last several years. These funds are not completely sidelined, but are very selective, according to Anderson at Newmark Knight Frank. "Private equity funds need returns," she said.

Private equity investors are waiting to scoop up distressed properties. But Anderson hasn't seen widespread hardship yet. In fact, residents are still paying their rent. "It's a testament to the operators," she said.

An investor's goal is to mitigate risk. Some sellers are willing to offer guarantees of net operating income for up to two years as the virus situation resolves.

Banks are skittish about lending despite low interest rates, according to Wells Fargo's Cotsakis. "There's no roadmap for a pandemic."

National banks are on the sidelines when it comes to new construction. Debt funds and regional banks are picking up some of the slack, but only the best sponsors are securing funds.

Borrower terms are less favorable now. Repayment recourse is often required. Travel restrictions and lack of access to properties has slowed due diligence requirements and the loan process.

Lenders and borrowers are adjusting, however, according to Anderson. "Transaction flow is increasing," she said.

What's the outlook? The impact of COVID-19 going forward will not be uniform, according to Sabra's Nevo-Hacohen. Property performance will vary across the country, depending on local infection rates. The availability of rapid testing for COVID-19 will help control risk, she said. "Seniors housing will recover."

Investor sentiment will improve, the panelists agreed. Seniors housing has two factors in its favor: a surging population of older adults and a construction slowdown that will help boost occupancies at existing properties. "It's a good sign for the industry," said Schmidt.

Debt and Equity in Skilled Nursing

The session "Debt & Equity in Skilled Nursing in the Age of COVID-19" addressed the capital environment for nursing care properties. Panelists agreed that capital is still available, but debt and equity sources are being very cautious. Concerns revolve around low occupancy rates, worries about the spread of COVID-19, and added expenses.

Session moderator Vikas Gupta kicked off the session asking, "Is skilled nursing still a good investment?" Gupta is senior vice president, Acquisitions and Development, Omega Healthcare Investors. He remarked that the healthcare REIT supports its operators, but new acquisitions are generally not being made at this time.

Gupta was joined on the panel by Kevin Giusti, managing director, Real Estate Finance, Walker & Dunlop; and Elliott Mandelbaum, managing partner, BM Eagle Holdings.

Large transactions are on hold, but single deals are getting done though slowly, said Gupta. Due diligence is harder to conduct because of restrictions around in-person visits to facilities and inspections.

HUD loans are available, though questions remain on how to account for the added expenses related to virus control and census declines. Credit standards have tightened. "It's a case-by-case basis with HUD," said Giusti.

Some small banks are lending. They view the pullback by the large banks as an opportunity to grow their healthcare business, said Giusti.

The panelists predict a bumpy year ahead. Government stimulus money has helped keep skilled nursing properties afloat for now, but owners and operators can expect decreased revenues and increased expenses in the upcoming months. The industry will experience consolidation and volatility. "There will be pain," said Mandelbaum.

The long-term forecast looks brighter, especially with the introduction of an effective vaccine. "We are not planning to sell our skilled nursing positions," said Mandelbaum. "We are believers."

The COVID-19 crisis has a silver lining. Resources have been poured into workforce training and development. The core competencies of the staff have been raised which will allow skilled facilities to care for patients with higher acuities. "It's a huge benefit," said Mandelbaum.

On pricing, Guisti thinks cap rates could decline over time to 10 to 11 percent from their traditional level of 12 to 13 percent. He said that compared to other commercial asset classes, skilled nursing could be less risky. For example, retail properties have been hit hard by a shift in shopping behaviors, and office space may not be in demand if people continue to work from home. "Healthcare looks like the best (investment) option," said Mandelbaum.

Thoughts from NIC's Chief Economist

By Beth Burnham Mace

Beth Burnham Mace

It is hard to believe that we are now in the eighth month of the pandemic. Hopes that there would be a quick fix to the coronavirus crisis have evaporated as we approach what some experts now predict will be a difficult and challenging winter with rising counts of infection. As of mid-October, Johns Hopkins reported 40 million cases across the globe, with indications that daily infection counts around the world are accelerating once again. Through this darkness, there is a beacon of light, however, as the passage of time has delivered knowledge and understanding about COVID-19, and the death count has slowed. COVID patients have a better chance of survival now than earlier in the pandemic. We now know more about how to care for those who are ill, and, importantly, we are learning how to slow the mortality rate as treatment plans improve. Remdesivir is helping some, and the steroid dexamethasone is preventing deaths among the severely ill.

For example based on CMS data, the fatality rates for skilled nursing properties have fallen. Indeed, on May 31, 2020, skilled nursing properties across the nation reported 8,596 new COVID-19 confirmed cases, with a 0.28% fatality rate as a share of total residents or a 35.25% fatality rate as a share of new confirmed cases. However, despite the rise in the number of cases reported between June 28 and late July (9,677 confirmed cases in week of July 26), the death rate fell to 0.15% as a share of residents and 16.86% as a share of confirmed cases. And as of October 4, the number of confirmed cases had slipped back to 5,697, with a fatality rate of 0.09% as a share of residents and 16.7% as a share of confirmed cases. For more information on COVID incidence rates among skilled nursing properties, visit the NIC Skilled Nursing COVID-19 Tracker.

COVID Incidence and Fatality Rates Among U.S. Skilled Nursing Properties

	New COVID-19 Confirmed Cases	Fatality % of residents	Fatality % of new confirmed cases
Week of May 31, 2020	8,596	0.28%	35.25%
Week of July 19, 2020	8,510	0.12%	15.76%
Week of July 26, 2020	9,677	0.15%	16.86%
Week of Sep 13, 2020	5,864	0.09%	17.22%
Week of Oct 04, 2020	5,697	0.09%	16.71%

Source: CMS and NIC Skilled Nursing COVID-19 Tracker

Eventually an effective vaccine will be developed which will provide a further brake to the spread of the virus, and, once this happens, the federal government is expected to implement a recently announced a plan that will prioritize distribution of a free vaccine to nursing homes. Under the voluntary program, trained staff from CVS Health and Walgreens will deliver vaccines to individual nursing homes (CDC tracks 16,000 facilities) and administer shots to both residents and staff. Assisted living properties and residential group homes for the disabled also will be able to participate.

Nevertheless, and while this is all good, there is still the very real physical symptoms and psychological toll of being ill with the virus. Indeed, COVID-19 can cause significant harm to those who survive—organ damage might be lasting while extended time in a hospital or on a ventilator can weaken people for a long time. Further, of the 40 million global confirmed cases, more than 8.2 million of them are Americans; that's 20% versus

the 4% U.S. share of the global population. If you assume that each infected person has at least 10 friends, family members, or caregivers providing care or expressing concerns and worries, the number of people directly affected by the disease exceeds 80 million, or one in every four Americans.

And then, of course, there is the additional and very direct effect of COVID-19 on the economy, the 22 million people who had at one time lost their jobs (while 11 million of these have been recovered), and the 25.3 million who continue to claim unemployment insurance due to the loss of their jobs. Moody's Analytics has statistically shown that there is a direct relationship between the rate of infections and the economy. For example, an increase in infections in August results in an increase in unemployment in September. Further, if daily infections double from 40,000 (i.e., the average over the past few months) to 80,000, where the infection peaked in the summer, then the national unemployment rate would ultimately increase by 2 percentage points, pushing it back toward double-digit levels; the unemployment rate in October was 7.9%, down from a peak of 14.7% in April 2020.

In its base case projections, Moody's Analytics expects it will take until the fourth quarter of 2021 for the economy to fully recover. The economy lost $2 trillion in output as measured by GDP; GDP is not expected to recover to its pre-pandemic fourth quarter 2019 level of $19.3 trillion until late 2021. Notably, this relatively quick recovery assumes that a significant second wave of the virus does not seriously disrupt businesses again and that a vaccine will be widely distributed globally and adopted by spring 2021. However, Moody's Analytics notes that, given the extraordinary degree of uncertainty around their epidemiological assumptions, it is important to consider alternative scenarios. The latter point further emphasizes recent comments in other NIC Insider articles for operators, developers, and capital partners to consider scenario planning as they construct their business plans for 2021.

The impact of the coronavirus on the seniors housing industry has been significant. A loss in revenue associated with a sharp slowdown in move-ins and slipping occupancy rates have combined with rising expense levels associated with staffing, PPE, and testing protocols to put extreme pressure on the bottom line NOI for many operators and their capital partners.

That said, operators have responded aggressively and proactively to turn the tides by implementing extensive and thorough sanitation, contagion prevention, infection control, health screenings, and testing protocols to assure and protect staff, residents, and family members. Touchless technology, telehealth, building ventilation improvements, the creation of isolation wings, and the development of neighborhoods and pods among staff and residents have also been implemented. And, importantly, the importance of social engagement among residents within a property and between residents and family members has been addressed with the creation and deployment of widespread plans that combat loneliness and social isolation and encourage interactions. Perhaps as a reflection of these actions, one-quarter of the C-suite operators and executives responding to Wave 14 of NIC's Executive Survey indicated that their organizations had a backlog of residents to move into their communities.

Looking ahead with any certainty is difficult and depends upon the path of the virus and the discovery of a reliable and replicable vaccine that can be widely distributed across the globe. The path ahead indeed may be choppy, but the industry will recover if for no other reason than the fact that the industry's value proposition and product offerings are vital. The general investment thesis for investing in seniors housing remains. This includes the basic need for congregate living settings associated with an aging population, including middle income seniors. Other considerations include the sector's attractive investment returns and portfolio diversification benefits. Additionally, the sector offers compelling and emerging opportunities in both healthcare collaboration and population health management, critical elements to stave off staggering societal healthcare costs.

And lastly, there is a better understanding of the sector by institutional capital providers who hold significant amounts of investable and targeted capital.

The bottom line is that seniors housing continues to offer a powerful value proposition for its residents of socialization, efficiency, healthcare, diet, exercise, medical care plan adherence, home care, hospitality, safety, educational opportunities, and generally a healthy and engaging lifestyle.

On a separate note and in closing, thanks to all of you who attended the 2020 NIC Fall Conference. While different than our traditional in-person event, it was time well spent and provided deep insights and powerful commentary provided by our industry's leaders. The peer-to-peer discussion groups and braindates which followed in the second week of the Conference provided an opportunity for even greater interpersonal interactions. I, for one, found the six half-day experiences to be of unrivaled value. I hope you did as well! Summaries of many of the sessions will be provided over the next several weeks in NIC Notes and here in the NIC Insider.

And lastly, as always, I appreciate and welcome your comments, thoughts, and feedback.

NIC Internship Program Connects Companies with Students from Top Universities

By Tom Mathisen, Vice President / Director – Investments, LCS Real Estate

Tom Mathisen

Now in its tenth year, the NIC Internship Program pairs students from highly regarded programs at top-tier universities with leading firms in the seniors housing and care sector for real-world experience exploring careers in the industry.

The program aims to attract and develop talented students at the graduate and undergraduate levels, increase the awareness within the academic community of the unique dynamics, challenges, and opportunities within the seniors housing and care industry, and provide value to participating companies, interns, and universities alike.

An initiative of NIC's Future Leaders Council, the Internship Program creates visibility for the sector at leading universities, and among students pursuing a diverse range of degrees. Internship opportunities may include roles in finance, real estate, hospitality, human resources, asset management, community operations, and even technology. Companies offering internships in the past have included REITs, large banks, national and regional operators, private equity firms, and consulting firms.

"Our industry has grown tremendously over the years," said Dana Scheppmann, chair of the Future Leaders Council. "A significant opportunity exists to connect graduate and undergraduate students with highly influential organizations within our industry to continue to build for the future."

Future Leaders Council members work with universities to promote the opportunities among students. Campus recruitment and promotions drive students to the NIC website where they can search for jobs. All applications are submitted to hiring companies directly.

More than twenty universities are included in NIC Internship Program outreach, offering access to top students nationwide. Schools include Cornell University, the University of Wisconsin, Washington State University, the University of Southern California (USC), University of Maryland, Baltimore County (UMBC), the University of North Carolina at Chapel Hill, the University of Texas, Ohio State University, and the University of Florida. The full list can be found on our website.

To have your company's internships posted as part of the NIC Internship Program, please email us at internship@nic.org by November 21. Include a copy of the job description(s), your company logo (JPEG format), as well as student application instructions (website link, contact email address, etc.). Internship opportunities will be posted on nic.org.

Seniors Housing & Care Industry Calendar

11/10-11/12.....LeadingAge Annual Meeting Part One (Virtual)
11/17-11/19.....LeadingAge Annual Meeting Part Two (Virtual)
11/17-11/20.....NAREIT World Conference (Virtual)
11/19.....ASHA 2020 Chairman's Circle Event (Virtual)
11/19.....NYS Health Facilities Association 25th Annual Fall Education Conference (Virtual)

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