Beth B. Mace: 00:00:00 Welcome to NIC Fall Conference 2018. We're really excited that you're here. This is the first day of our conference and we're starting it off with this really great panel. We're talking about Supply and Demand in the Dawn of the Silver Tsunami.

Before I get started though, I do have some things I have to read off this piece of paper, so bear with me. I want to remind you to complete a brief survey at the end of this session. You can complete the survey by either clicking on the session evaluations icon, which is on the home page of your mobile app, or there's paper in the back that you can fill out for evaluation as well. If you have any questions, we're taking questions at the end, raise your hand and we have room moderators in here who will be sharing with us a microphone so that we can all hear the questions.

Supply and Demand in the Dawn of the Silver Tsunami. We have great panelists here. We're going to let them introduce themselves a little bit. Let's start with the order around here, Bre, can you tell us a little about you?

Bre Grubbs: 00:01:13 Yes. Good afternoon. My name is Bre Grubbs. I'm the SVP of New Business for Leisure Care. We are a Seattle-based operator. We have about 42 properties, independent assisted living and memory care based in Seattle. I oversee our market research, all of our acquisitions and new development.

Beth B. Mace: 00:01:32 Okay. Then, Dan?

Dan Lindh: 00:01:33 I'm Dan Lindh, President of Presbyterian Homes and Services. We're a non-profit, headquartered in the Twin Cities. We have 46 communities and an array of home and community-based services that are predominantly in the Twin Cities, Milwaukee area, and Central Iowa.

Beth B. Mace: 00:01:50 Susannah.

Susannah M.: 00:01:51 Last, but not least, I'm Susannah Myerson. I'm with Wells Fargo Bank in a senior housing group. I am on the underwriting and analytics team. We finance new construction and acquisition throughout the country. I'm based in Arizona, but, as I said, our team is all over the place.

Beth B. Mace: 00:02:09 The name of today's presentation is Supply and Demand in the Dawn of the Silver Tsunami. We're going to spend a lot of time talking about penetration rates. What they are, how you grow

them, and how do you even interpret them, and especially looking at the relationship of those penetration rates to occupancy rates in the age of the dawn of the silver tsunami. Or, preferably, the dawn of the silver wave as opposed to the tsunami, because we don't view it as a bad thing that people are getting older. I see us getting rid of that "tsunami" word, we're shifting it into "wave."

As I said, we have perspectives, really great prospective from some operators and from some long-time feasibility analysts and investors, and debt providers, which is Susannah, and then operators here, Dan and Bre.

I'd like to do a special call out. Please stand up. Please raise your hand. This is Anne Standish. She and I worked together at NIC. Anne is our Research Statistician on the Outreach Team. She helped create a lot of the analysis that we're going to be seeing today on the penetration rates. Thank you, Anne.

We're going to do the session. I'm just going to give a little bit of background in terms of market fundamentals, just to give us some perspective on where we are in terms of supply and demand and occupancy rates, looking at demographics and the silver wave. What do you look at in sizing up a market? What determines a penetration rate? Penetration rates and occupancy trends. Then, we're going to do a little bit of a deep dive with each of our panelists talking about three markets: Minneapolis, Phoenix, and Seattle.

Actually, this was written up recently in an issue of senior housing news by Tim Mullaney, I don't know if he's in here. It was called Senior Housing Penetration Rates Show Puzzling Variations Across Different Markets. That's the punchline here, I guess, when we're coming up to that point. It was on the October 7th issue, if you want to read more a little bit about that.

Market fundamentals. We have data as of last week to the third quarter of 2018 on senior housing market fundamentals. We have data for seniors housing, independent living, and assisted living. The senior housing line, right here, the occupancy rate was 87.9%. 87.9 in the third quarter of 2018, which was unchanged from the prior quarter. Notice that we have seen a pretty significant decline in the occupancy rate since 2014. Assisted living, down here, has actually an all-time low occupancy rate of 85.3%, 85.3 all-time low. Independent living is

down from its most recent peak, but still above 90%. There's a lot of variation by property type and also by geography. I know you can't really see this in the back, so I'm just going to talk to this chart. This is looking at what drives occupancy, its inventory growth, which is measured on this side; and absorption, which is measured along the horizontal access.

We have seen markets, this is the last three years, we've seen markets, like Atlanta up here, have an increase in its inventory of 24% in the last three years. That's a lot. We've seen demand increase in that same market of about 15%. So, 15% increase in demand is really good.

The circles are red here, because of that occupancy rate has actually declined in the last three years, because even though demand was good, it wasn't good enough to keep up with that kind of new supply. Any circle here that's red, these are looking at the 31 largest markets in the U.S, you can see a lot of red circles here, meaning that conditions have deteriorated in the last three years in terms of occupancy.

But there are some markets, down here along the bottom, that have actually seen improvements in occupancies and those are defined by the green shapes. By the way, all these slides are in your app. If you go to your app and you look in the presentations. I can see head shakes, so yeah, you can see them. You can see more details on that. When you look at the slides in the app, you'll see there's a lot of variations in those occupancy rates, ranging from San Jose which has an occupancy rate of 95% to market like Houston which has an occupancy of about 80%.

Silver wave: not for a while. This is just to put in perspective because we always hear about the baby boomers and the baby boomers are the current demand. Well, in fact, they're not really the current demand. If you assume that a resident in senior housing is, let's say, 82, an 82-year-old was born in 1936. This chart is looking at the number of people that were born in every year since 1909 with about 2.5 million people born in 1909. Then, you can see it was sort of steady and then dropped. This drop right here was associated with the Great Depression. When economy was really rough people don't have as many children. You can actually see that actually in the data, that you see these drops in these other intervals as well. That's usually related to some type of recession because people choose not to have as many children.

If we look at today's residents, there were born in this period here. You can see that there's a slight increase now in the number of births that happen after that 1936 period. If we look at the growth for seniors, we'll start to see some improvement in the growth pattern for seniors today because of that improvement that we're seeing here.

But the baby boomers, they don't show up for a while. Baby boomers were born from 1946 to 1964. Today, in 2018, that baby boomer is 72. If we're waiting for that 72-year-old to get to 82, that's another 10 years out, and this chart shows that. This is where we are today. So, we have these years until we get to that rush, that big rush that everybody is counting on. That said, there is growth that's happening right now and that's the growth that we're going to be seeing in our properties in the near term.

This chart takes that information and then translates it over here. This is looking at the growth in these population cohorts between 2017 and 2040. I've broken that up into three group: 75 to 82, 83 to 87, and 88 plus. The young old, the 75 to 82, the blue bar, you can see these have the greatest growth factors right here. The 83 to 87, that's the orange bar, and you can see it starts to pick up but not really until 2027. Then, the 88 plus is sort of steady and then declines and then picks up. I wanted to put that out there just as context for what the background is as we start talking about penetration rates and occupancy rates.

If you're looking at a market, you say, "Well, what do you do assess the potential of a market?" Well, nationally, we just look at the demographics. You look at demographic profile. Most of us look at the income profile of the resident. In the times since I've been doing seniors housing, it's not just the resident profile you'll look at, you'll also look at the adult child. Because we now learned that the adult children are very significant decision makers in the overall decision of where someone resides.

You look at competition, existing competition, as well as new, future supply. You should be looking at the economic profile of an area. I'm an economist, so I would have to say that as a point for economics. But you should look at the economic of an area, what the job drivers are. Is it an area that's in sustained growth? Or is it an area that has economic drivers, industry mix that is not growing?

What's the climate and the attractiveness of an area? You'll find that people are still attracted to warmer climates and have less snow and are less cold. Increasingly, we're looking at sustainability and environmental considerations when people do site selection and when people decide where to do development. Above looking at the potential of a market, of course, I also look at occupancy and penetration rates.

Factors that are supporting a resident's demand for seniors housing. The lifestyle choice for family and resident. There's a NIC talk that you're going to be hearing, if you look in your brochures, about isolation and the impact of isolation on a resident's well-being. We know that isolation, potential isolation versus the benefits of social interactions, friendships, culture, hospitality, and fewer responsibilities for home and garden, that's an important consideration when people are deciding moving to seniors housing.

Care and support. Wellness, physical activity, nutrition, mental stimulation. Generally, all those factors translate into higher quality of life.

Increasingly, a word that you're hearing about is population health management and the future of care that's going to be home-centered. I see Bob Cramer over here, this is his thesis, so he can talk to you about in terms of your care happening in your home and your home is your senior housing property as well as your property that you might have lived in and raised your family. Increasingly, as we see this demographic shift happening, we see people wanting to live more with purpose and with more purpose in getting more engaged where they live. Penetration rates take all that into account. We're looking at growth in population, growth in households, growth in inventory or supply, cultural influences. We're going to be talking about these in our panel. Does a cultural influence in an area have an impact on penetration rates? Well, the answer is yes. We don't have all the hard science to prove that, but the answer is definitely yes.

Operator reputation affects penetration rates. How familiar are you with the product? If you're in a market that hasn't seen a lot of seniors housing, when you open up a product, you have to go out and do a lot of marketing and advertising to explain to people what seniors housing is actually all about, as opposed to a market where people are more familiar with it, then you don't

have to spend as many dollars in doing the marketing aspects of it.

How long has the product been in the market? We know that in the Northwest, in the parts of Pennsylvania, where it's been around for a long time, the penetration rates are much higher. How did those penetration rates relate to occupancy rates? Do they correlate or not? This is the work that Anne's been working on.

Again, you can't see in the back, but I'm going to give you a few takeaways here. This is looking at assisted living occupancy and penetration rates. I don't know if it'd be surprising or not, but in fact, they don't correlate. In this axis, penetration rates, the higher the penetration rate the lower it is on this scale, and the occupancy is over here, the higher the occupancy over here.

Here, for example, we have Portland, Oregon, which has a very high penetration rate and a very high occupancy rate. Here, we have Minneapolis, it has a pretty high penetration rate and a mediocre occupancy rate, relative to its peer group. We see that rather than occupancy and penetration correlated one for one, which, if they did they'd be on that line, they're actually scattered all over the place. Over here is Dallas, which has a low occupancy rate and a high penetration rate. Up here is San Jose, which has a low penetration rate and a high occupancy rate.

The takeaway from this really is, and we were sort of surprised because I would have thought there was more of a relationship, in fact, there isn't that relationship that we had thought.

For independent living, you'll see the same thing. If there was a direct correlation, you'd expect all the markets to be on this axis, on this line rather, and yet you don't see that. Here's Minneapolis where, in fact, its occupancy rate and its penetration rate are fairly similar. But up here is Los Angeles. Over here is Kansas City.

We also did an analysis ... The takeaway on those two slides is that there is not much relationship between occupancy rate and the penetration rate that we might have thought.

This slide is looking at a time series of the penetration rates by metro areas from 2006 to 2016. We had to stop at '16 because that's the latest data we have for households. What we see is, here's Minneapolis, this is for assisted living. We see that the

penetration rate in Minneapolis, right here, increased three full percentage points for assisted living. Over here, Atlanta, it actually declined. Here's Seattle, that's for assisted living, it declined. Susannah's going to be talking about Phoenix. Phoenix, we see it wasn't changed very much.

For independent living, interestingly, we have here Minneapolis where it increased, here's Seattle where it increased, and then over here in Phoenix, it had declined. What we've seen is that there isn't necessarily even the relationship between independent living and assisted living in terms of the relationships over time of penetration rates. In some cases, they've increased, in some cases they've decreased.

That's all preamble to get to this discussion, which is, what is the average rate and what is the range of penetration rates? How do penetration rates relate to occupancy? What's an achievable penetration rate? Does a saturation point exist? In the three markets we're going to talk about, Seattle, Minneapolis and Phoenix, we're going to see that in the case of Phoenix, the penetration rates declined while occupancy has declined; in the case of Minneapolis, the penetration rates increased while the occupancy rate has declined but it's still quite high; then in Seattle, the penetration rate is increased, but the occupancy rate is low. So, there's different patterns that are happening.

In your slide deck ... I'm not going to go through this right now because I want to get into the conversation. But in the slide deck, you'll see we have charts that show for each of these geographies what happened for perspectives. I'll just do Minneapolis for a second.

For each market, we show households, we show in this case, Minneapolis that between 2006 and 2016, there was almost 20% increase in the number of households over 75 in those markets. But look at independent living, we have two penetration rates, I'm talking about the total penetration rate for right now. It went from 8.3 to 9.5. It increased 1.2% over that same period, so the penetration rate is up. Household growth is up. Inventory growth increased a whole lot for independent living. That would explain that the penetration rate has gone up because there's more units per population, the inventory has grown faster than the population.

In the slide deck, we do that also for assisted living, and then we do it for the other markets as well. I'm going to switch this around just a little bit. I just want to show the case of Seattle. We see almost 28% increase in households, a little bit of increase in the penetration rate, which almost matched what we saw at inventory growth. In the case Phoenix, we saw that go down and that was as population increased faster than the actual inventory.

With that in mind, I'm going to break down and let my panelists talk. We have some slides that we're going to talk about, like what happened in Minneapolis versus Phoenix versus Seattle. What don't I just stop right there for a minute? Dan, tell us a little bit about your experience in penetration rates and what you think are factors that influence that?

Dan Lindh: 00:18:01 Thank you, Beth. We've seen in the Twin Cities a growth of supply that's far exceeded the absorption rates for a long time, supply kept coming in at a fast rate. You can see almost 80% versus 20%. Some thing's got to give over time. Penetration rates for all senior product combined grew, probably more than doubled. We were all kind of amazed at how we continue to absorb it. In the last couple of years, we've seen it kind of we think market saturation. Well, do we have market saturation? We think the answer is yes.

The correlation that we see between the kind of way we measure penetration here and occupancy is there, but it's muted. What we've done over time is sort of changed how we think about penetration and have a little bit more dynamic around it, those kinds of things that influence. So, it's kind of penetration rates around these classic demographics, plus a few other things.

For example, we study very carefully, you know, you can have a broad market study like that, but we kind of pay a lot of attention to the micro markets where the penetration rates are in play. We purchased a regional research company Maxwell Research, and we have another relationship with EDI, and we have kind of people who more or less dedicate themselves to studying very carefully ebbs and flows in the market and identifying what we call seams, four-year seams for future growth for senior product and also where there's availability of employees. We spot those, we try to execute very quickly. There were probably about a dozen or 15 that are, we think,

ripe for development right now in the Twin Cities, but broadly speaking, you got to be really careful because you can get hurt.

Another thing we measure is, in addition to straight up penetration rates, is customer engagement and employee engagement, and how effective some of our peers are in getting a high net promoter scores, and how effective they are in engaging customers around, we call them Maslow's hierarchy of helping people live their purpose. Then, the earlier discussion we had in this room today is how engaged employees are. If we think we spot competitors who are not really good at that, either one of those, we will move into that space and we don't really, we factor in a little bit, the penetration rates, but we're happy to go head-to-head in that environment. We actually think it's in advantage to us.

We do a lot of internal measuring about that and we work with Gallup, a guy named John Timmerman, who's their chief cultural officer. We did a lot of work and he did a lot of work with us, and if you can get the employee engaged in up 70% he can get the customer engaged in up 70%, the combined attributes between those two will be about 240% boost. That has a direct tie to how you look at penetration rates.

Beth B. Mace: 00:20:49 Let me interrupt for a second. It's really interesting because there's addition research coming out now that shows actually employee satisfaction or staff satisfaction has a direct impact on occupancy which has a direct impact on your NOI, your bottom line.

Dan Lindh: 00:20:49 Right.

Beth B. Mace: 00:21:05 One of the NIC talks is actually talking about that, for great places to work. So, keep that in mind as something that you might want to go and check out.

Dan Lindh: 00:21:12 It's a multiplayer kind of effect. We found it to be that in our case. The other thing we do, which is sort of a counterintuitive, is when we are in highly-penetrated markets we try to cluster a lot of product. We try to do it in about six miles sort of radius with the demand-supply characteristics of that micro market overlapping. Basically, we call it shadow marketing. We increased the contact we have with employees who, hopefully, are engaged fully and that connection between them allows us to work with a higher penetrated kind of market, because we

have different kinds of ways of looking at brand and it starts to show up in terms of how customers come at us.

It seemed odd to us to try to have that kind of approach, but it's proven to be very effective. We try to shoot for at least 15% market share in those micro markets as we start to cluster. We're not afraid to take on higher penetration rates as well as look for really long-term positive attributes for demand. That could be seven to 10 years out and we're comfortable in that kind of zone plan long ball.

Beth B. Mace: 00:22:19 Let me interrupt for a second. Bre and Susannah, do you see that or do you do that? Do you look at the markets that you see overlapping competition between your products?

Bre Grubbs: 00:22:27 We have a mix of both and we have some markets where they do overlap. That's not a strategy that we have pursued to overlap markets like that. I don't know if you have?

Susannah M.: 00:22:37 Yeah. I mean, I would say we have project that we're lending on that are within the same metro area, but if it's a strong metro area and we can definitely have two or three projects within that metro area.

Beth B. Mace: 00:22:51 Dan, when we were talking, when we were preparing for this session, we were talking about what are some of the factors that are affecting penetration rates in Minneapolis that really are non-seniors related, and this were some of the points that you brought up. Do you want to talk about any of those, like a high concentration on not-for-profits, does that affect you in a positive way?

Dan Lindh: 00:23:09 We think it affects us in the positive way. We think that when we try to measure that there's a trust level that you get some attribute. It doesn't take you long ways down the road, but there are some positive elements there. I think the other part of the non-profit, and there's a different way again of looking at the penetration rate, is we found in the population housing. which you mentioned earlier, we're investing in that significantly and that seems to be paying off in terms of highly competitive markets.

How that works is we invest in primary care, care navigation. We have about 50-50 JV. We did that on our own as far as we could where we have about 5,500 lives or so that are under some kind of value stream proposition and they show up in our

communities. Now everybody kind of knows this, but in independent living and assisted living, for Medicare only, Medicare is paying about $1,500 a month, can get into that capitation stream and for dual- eligible in the care center that prioritizes up to about $3,500 a month.

Now in terms of penetration rates, not only the supply and demand in the market, but in what kind of insurance product, and how can you get the virtual cycle of reinvesting in that part of it that normally isn't part of our capture rate to get more wellness and more other positive attributes on the ground that customers really liked to be more competitive in classic marketing around penetration rates.

Beth B. Mace: 00:24:28 For those who were at, last year's panel, Larry Rouvelas, we talked about Minneapolis as a market because we saw that Minneapolis maintained a pretty high occupancy rate and a high penetration rate despite a lot of supply coming into that market. It's one of our most intriguing markets that we really paid attention to. So were talking about, well, maybe it's because there's a high concentration in not-for-profits there, or maybe it's the colder weather and people don't want to be in their own homes because they don't want to have to shovel, they don't want to have to deal with all the cold weather. It's also been established for a long time as a product in Minneapolis in a large part because of the not-for-profits.

I think you also do a little bit more focus on middle market in Minneapolis.

Dan Lindh: 00:25:08 Our organizational strategy is 20% low income, 20% high, 60% middle. We're doing that and starting to bifurcate a little bit. But we really try to focus on affordability aspect because then we think that the penetration rate is going to be higher and effectively play a long ball because of the leverage in the field and being able to aggregate services from multidimensional kind of thing. For us, it's worked really well and I think the non-profit community invests that some way.

Beth B. Mace: 00:25:37 Okay. Bre, let's talk a little bit about Seattle. Again, we've talked about the case of Seattle, we've seen an occupancy rate that's increased a little bit, not great but a little bit, and largely supply inventory has kept up with the pace of growth in households. When we talk about it, we had some non-seniors housing effects that might factor to that too. Can you comment on that?

Bre Grubbs: 00:25:58 Absolutely. Seattle is a very interesting place right now because of Amazon and because of what we call the Amazon effect. Seattle has been the fastest growing city this decade, 18.7% since 2010. What that has brought to our city and its suburbs are a lot young folks, for one, so a lot of millennials, but also a lot of high-level executives who are white collar, work a lot of hours and dual income where both the son and the daughter or the son- and daughter-in-law, or vice versa, are working.

When we look at penetration rates, that's one of the things that we think about. Again, there's not a lot of hard science to some of the things, the anecdotes that we discuss internally and that when Susannah and I hang out, we'd talk about, because we love this stuff, nut that's one of those things, is the adult daughter, especially the eldest adult daughter has traditionally been the caregiver or the first line caregiver when their parent needs something.

So, as we've shifted and that person is working and they're working a lot of hours and raising children, does that influence in areas where that's happening more often the penetration rate? That's one of the things that we consider in Seattle and, quite honestly, in other markets that have very high penetration rates that we operate in, Portland is one, Denver is one.

When you look at the dynamics of those markets, we see some similarities, which is a lot of in migration from outside of the area for people who are working and that translates to: one, people looking for care because having their parent in their homes is less of an option; and two, higher levels of in migration of seniors because they want to be close to their adult children. So, if their adult children settle there, then when mom or dad is considering an option, they're looking at where they've lived their whole life, but they're also looking at where their children are and wanting to be close to their children and grandchildren. We see more people moving from out of market than just your typical old-school five-mile ring. The other thing that has happened along with this is a housing boom, at least as far as prices go. There was an article that got passed around several months ago that said, "if you work in Seattle your house is probably making more per hour than you are."

Beth B. Mace: 00:28:50 Oh, God.

Bre Grubbs: 00:28:52 Because the average home in Seattle gained $54.24 in value per working hour in 2018. We've seen that level off a little bit the last couple of months.

Beth B. Mace: 00:29:06 Will this thing stop?

Bre Grubbs: 00:29:07 Right. Yes. So, that gives you a really interesting perspective on the sort of environment that we're operating in. Also, for seniors, when you're looking at that type of wealth creation, when there is little or no mortgage and the ability to then afford retirement options, it's a very different perspective. I look at it and go, "Well, there goes my property taxes," whereas our residents may look at it and go, "Wow. I have a whole lot more wealth if I sell my home right now." So, there's a lot of different ways to look at that piece of it.

As far as general construction goes, we've had a fair amount of senior housing construction in our market, but we have had more office, condo, and multi-family construction. In fact, last year, there were 74% construction projects underway in the city of Seattle, everywhere you look there is a crane. So, it creates an environment of vibrancy and life in the city, but then it's also stretched out to the suburbs.

What I think is the most important about all of the conversations that we're having and, Dan, you alluded to this, is that the MSA is not your market. Because within the Seattle MSA there are three counties. I'm going to refer to my notes because there's numbers involved and I want to get them right. The counties performed very differently. The counties within the Seattle MSA have very different dynamics. They have very different supply offerings. They have very different household structures. I think that is what you alluded to earlier when you said there's cultural factors and a ton of different factors that go into achievable penetration rate.

For example, there's King, Pierce, and Snohomish County within Seattle. In King County that is Seattle-proper and closest suburbs, so the average home price in King County is $700,000. In both Pierce and Snohomish Counties, it's about half of that, people community into work, there's a broader mix in the outline suburbs, blue and white collar professions, service professions, things like that, people are making decisions.

When we look at penetration rate, the IL penetration rate in King County is 11.5%, just independent living, with an

occupancy rate of 94%. Independent living in King County is thriving. There's not been a ton of construction, it's stable, good offerings, but crushing it really.

Whereas Pierce and Snohomish County are about half that. Still strong occupancy rates, but half of the penetration rate. So, when we look at that, the question becomes is there a cultural factor, something that leads to that only being the potential? Or if there were more supply, could we double penetration?

Beth B. Mace: 00:32:37 What do you think?

Bre Grubbs: 00:32:39 That is the crux of the whole thing because then when you layer in assisted living, it's kind of the opposite-, not quite the opposite, but Snohomish County, which has a 4.9% penetration rate for independent living, has a 10.3% penetration rate for assisted living, and occupancy just above and just below 90%.

What we do, for market studies and stuff, we have a lot of math. Susannah and I talked about sort of the math of supply and demand, and for banking purposes that's very important. But when it comes down to figuring out, is it going to work if you build independent living? You put the math together and then you go look at the market, and then you look at the people who are in the market, you look at the supply that's already there. You figure out, what does that population who's aging into 82, and what do their adult children, what's important to them, what's valuable to them, what do they need, and what are the decisions they are making? Is it because their home proceeds are going to be half that they're waiting and not choosing independent living or not considering independent living, they're saving that until they need care.

That's a theory. I'm sure we could probably come up with data that might prove or disprove that. But that is a consideration. We layer those factors with the math, with more than just the demographics, but the thought process with the cultural decisions and then add a lot of gut into it, quite honestly. You go into market and you need enough math to convince the bank that it's a good idea and enough belief in your heart and your gut in your product to feel like your building is going to fill when you open it.

Beth B. Mace: 00:34:57 So, you wouldn't walk away from a market that had a high penetration rate and a high occupancy, or a high penetration rate and a low occupancy?

Bre Grubbs:	00:35:04	High penetration rate, low occupancy is definitely more of a concern. That's when we spend a lot of time in the competition and say, "Does the product there not aligned with the values of the prospect?" If that's the case, then we have gone and proceeded with development or acquisitions in those markets. However, in high penetration, high occupancy markets, we have seen our highest, our fastest lease up. Portland, Denver, Seattle have leased up far more quickly than sort of more traditional or moderate penetration rate environments-
Beth B. Mace:	00:35:47	How about a high penetration rate but a low occupancy rate?
Bre Grubbs:	00:35:50	We ... I can't think of a recent example where we have opened in an environment like that, but we have certainly had success-
Beth B. Mace:	00:36:00	I meant to say low penetration rate and but high occupancy rate.
Bre Grubbs:	00:36:03	Well, I think that's interesting too. You look at New York City, which has 4.9% overall penetration rate. The assumption there, I think that a lot of people have, is, well, it's just hard to build product. So, if there were more buildings, more options, people would move in. But the question is: is that true? Because people get the services that they need in their environment already. To me, that's a bigger question mark than a high penetration rate proven product because you're not introducing something there.
Beth B. Mace:	00:36:40	Also because there's a number of projects being built in New York.
Bre Grubbs:	00:36:43	Yes, there are. I think they're going to be fine.
Beth B. Mace:	00:36:45	Let's go over to Phoenix for a second. Susannah?
Susannah M.:	00:36:48	Yes.
Beth B. Mace:	00:36:48	You've seen household growth. Actually, the strongest household growth over the three geographies that I'm talking about has been in Phoenix. When I look at that and compare that to inventory growth for at least independent living that hasn't kept up and as a result the penetration rate has gone down.
Susannah M.:	00:37:02	Right.

Beth B. Mace: 00:37:03 In the case of assisted living, you've seen more growth in inventory and the penetration rate has stayed about even. When we were talking we had thought about some other factors that are affecting the penetration rate. Tell us a little bit about Phoenix.

Susannah M.: 00:37:16 Yeah. You were asking Bre about what if you have low occupancy and a high penetration, I was going to say Phoenix is the poster child for both low occupancy and low penetration. So, I don't think you have any properties in Phoenix.

Bre Grubbs: 00:37:33 Not anymore.

Susannah M.: 00:37:33 Exactly. Phoenix is an interesting market. It is low penetration and low occupancy, historically. I think one of the things, I mean, penetration rate and all throughout our controversial statement, I'm not a huge fan of penetration rates, I think that you can argue that the alternative way to describe a penetration rate is market acceptance rate. You can say that, yes, Phoenix has probably a lower market acceptance than, say, Minneapolis.

I think one of the big reasons for that is that so many people come to Phoenix as snowbirds, as retirees. They've already essentially retired once. They're no longer in their house that they raised their children in and lived in for 30 years. They've already moved to the Sun City. My in-laws live in Sun City. They've already moved to Sun City in the Del Webb communities and kind of they're early retirees. They're not still living in their 30-year home that they've lived in, in Seattle or Minneapolis.

I think there is maybe a little bit less product acceptance because they're in a Sun City where you've already got your two-car garage plus your little golf cart garage and you've taken your golf cart around and go to all the amenities within Sun City.

This time of year, especially, we are inundated, literally inundated, with I will see more Minnesota license plates probably in the next two weeks than I will all year because October is the prime time of the year when all the snowbirds come back, all the Wisconsin, Michigan, Minnesota people come back to Arizona. They live in Arizona, they live with us from November till about March. As locals, love it when everybody goes home in March and April and then we have the hot summer all to ourselves.

The slide that you have here, the Non-Senior Housing Influences on Phoenix, I think Phoenix is changing. It's, like Seattle, been one of the fasting growing cities in the past 10 years. People come there because we have, no kidding, we have 330 days of sunshine a year and it's a pretty low cost of living. People like to kind of flock to Phoenix in terms of low cost of living, good quality of life.

The point I put on here about the economy is interesting and I think that might start to influence the penetration rate in Phoenix. Hopefully, maybe drive it a little higher, get the product to be more accepted in Phoenix. Phoenix, 10, 20 years ago was a very tourist-heavy industry and a lot of your employment bases were hourly employees working in the big resorts in Scottsdale in Phoenix or the golf courses in Scottsdale in Phoenix.

Now Phoenix has becoming much more white collar, much more tech-heavy, much more healthcare-heavy. I think you're getting two-earner, like Bre was saying, you're getting two-earner households, you're getting the adult children who are both in high power jobs, both needing to basically have time to maybe help mom or dad move into an assisted living facility. I think the kind of shift the economy in Phoenix will also shift some of the penetration rates in Phoenix.

Beth B. Mace: 00:41:05 Okay. That's interesting because if you look nationality at the penetration rates, as Bre pointed out, you can see there is as low as 5%, like New York, and then they go as high as 90%, like a place like Minneapolis. What do we do to, you were saying in Phoenix, maybe in terms of the economy, a little bit that would shift it might change penetration rates. Bre, you talked about in the higher income areas within Seattle, you can see higher penetration rates. What else could we do to grow penetration rates?

What I showed you in the data was that the occupancy rate has fallen into an all-time low in assisted living. That's because supply has grown faster than demand. But I also assumed that demand is growing, it's just hasn't grown fast enough. If we could increase penetration rate, or the acceptance of the product, we could in a minute increase that occupancy rate.

Let's start with you, Dan. What can we do to try to get that occupancy rate up through penetration?

Dan Lindh: 00:41:58 I think a couple of points were made. One is really getting to know the market that you're in, the micro market that you know really well. For example, we try to measure how many Minnesotans who have moved to, the sunbirds, basically to Arizona or Florida, and we try to measure how many of those have relationship with a daughter, usually the eldest daughter, or they have a good relationship with their daughter-in-law, or oldest son.

Then, from that, we can do predictives about how many people are likely to return. I don't know how common that is in other markets but we factor about 25 to 30% of occupancy in new communities in Minnesota and we have that single attribute. It relates to the suburban area that they come from and that sort of thing. Every community is going to have some kind of unique attributes like that. For us, that's really an important one.

Beth B. Mace: 00:42:50 Bre.

Bre Grubbs: 00:42:52 For us, we're really looking at two things and I think these are not unique to conversations that are happening in most companies which is affordability. There are a lot of people that would love to live in what we do and cannot afford it. They do not have the financial resources to do that. I think that's one, and then, as we look at the silver wave, diversification of product type.

So, there are a lot of people out there who need what we do and don't like the options that there are. So, how do we continue to evolve the services, the offering, the look, the package of what we have to offer in a way that is going to better meet, not just the needs of our customers, but what their desire and the life that they want to continue to live.

Beth B. Mace: 00:43:49 That's a good point.

Dan Lindh: 00:43:51 If I could pick up on the continuum care aspect, we think that's important too. Part of this, as providers, is how we build our continuums of care, what kind of product we put on the ground, and how thoughtful we are about that. We're struggling to learn that like everybody else. So, we have internally we call a book of knowledge where we try to study each project and what we think the trends are in each community. So, we've been over-waiting independent living and we've been under-waiting assisted living. Our occupancies are holding up okay. We're

holding in about 97% stabilized in IL and about 96 in AL. But the way we get there-

Beth B. Mace: 00:43:51 That's okay.

Dan Lindh: 00:44:26 Yeah. I mean, it's down. We had downward pressure and we're trying to fight it off, but we're, like everybody else, we're kind of struggling to maintain that. But what we do is we look very carefully, not only the penetration rate to broader community, but the penetration rates of the people who live in our own independent living, what do they need? What kind of daily living and things that they're experiencing, how are our staff connecting with them, how trusted are our staff in advising them about when it's time to move to a different value stream? There, again, is penetration rates out there, penetration rates knowing the community like sunbirds and then inside the community.

Then, what we're trying to do now is, it's just sort of tricky, but we're working on how do you do predictives around that. You can see in 2018 and '19, based on independent living people we have with the insurance product a year, whatever, how many people are likely to need that next product and next kind of service level, and then how are we building that in advance so that when that demand comes at us, which is sort of another version of what Bre was saying too.

Beth B. Mace: 00:45:25 Right. Susannah.

Susannah M.: 00:45:27 I was going to say that I think penetration rates need to be looked at locally. I think it's kind of interesting to compare Phoenix to Seattle to Minneapolis, but to a certain extent, it's not that useful. It's almost like I'm comparing a home price what I could buy in Phoenix with $350,000. I'm sure it's a shack in Seattle and something else in Minneapolis.

To me, I mean, penetration rates are local. I don't think the penetration rate in Phoenix I'm not sure will ever be the penetration rate in Minneapolis. But I think if we can look locally and if you're taking a huge market like Phoenix and looking at the penetration rate, and then you have a site that you've identified, let's say, in Scottsdale, and then you wanted to kind of look in the five-mile or 10-mile PMA and compare that penetration rate to the overall Phoenix metro penetration rate, I think is a valuable comparison.

But to compare it to Minneapolis, to me, it's interesting, but it's not necessarily that useful because it's the same thing as if I were comparing the price of a house. I probably call it Diet Coke or soda and the people in Minneapolis probably call it a Pop. They're different markets and to try to compare penetration rates across markets I think is a little dicey.

Beth B. Mace: 00:46:56 All right. Let me switch to the last question on here, does a saturation point exist? That comes up a lot to questions that I get asked. I'd like to hear our panelists answer that. I mean, there's a lot of supply that's been coming into a lot of markets. Is there a point that you just can't build anything else because you've already satisfied all the demand and the capacity being in that market? Or is there ability to extract more demand by creating a new design, a new product?

The penetration rate nationally is about 11%. That's not a particularly high penetration rate. You would think that you could grow that more and, as I said, that ranges by metro area. But is there a point when you hit market saturation and the market can't take anymore supply. Let's start with you, Susannah.

Susannah M.: 00:47:37 Oh, man, start with me on this one? I mean, I think there is. As you're asking that question, I think certainly there comes a point where you've kind of met the need for everyone. I mean, if the penetration rate was suddenly, what, 80% or something, you would say there's no need for anything else.

But I don't know because I think about other products where, you know, cellphones or iPhones, I mean, the market is saturated with iPhones that they can sell the iPhone X even though everyone already has an iPhone. If there are new and distinct features of senior housing, then perhaps ... I don't know. Maybe there is no.

Beth B. Mace: 00:48:20 That gets into another question and in terms of are we building the right product today? If the general penetration rate is 11%, why can't we get it to 15%? Are we designing the right buildings? are we offering the right features? Do we have to have a saturation point? Bre.

Bre Grubbs: 00:48:40 I ask myself every time we build something in Oregon or Colorado: is this going to be the one that breaks it? I think there's a certain point where some product will suffer. So, it may not be my new, shiny, amazing building, there may be

plenty of room for that, but there may be a point where today there's not enough demand for all of the units. So, is the older product or is the product that's not being operated as well, is that going to suffer and overall market occupancy is going to appear lower? I think that's one piece of it.

As we look at the future and how do we continue to improve penetration rate to, nationally, maybe 15% or look at markets where there's something more achievable, where we spend most of our time is in figuring out what to build where. Because certain markets do want more assisted living, certain markets are more accepting of that product, certain markets where the adult daughter especially is making that choice, the finish in the kitchen matters and the apartment style matters, not necessarily because it matters to the resident.

The first retirement community I worked in had an avocado green appliances and I'm not quite so old that those were new then. My first thought was, "Oh my gosh, what are we doing? This is not marketable." The resident didn't care in that market because it was what was in, you know, 10 years ago, that was still what was in their house. That was 40 years old and still working, so why replace it?

Really it's understanding the customer because the adult daughter was like, "It's old." The resident didn't care. So, who are you marketing to, what is of value to them, what is important to them, and then, are you building the unit mix, the amenities, and putting the services in that, one, are desirable to them, and two, match the price point that they can or want to afford?

Beth B. Mace: 00:50:51 Of course, care is a big part of that formula too, it's not just the physical plan to assisted living-

Bre Grubbs: 00:50:55 Absolutely.

Beth B. Mace: 00:50:57 Dan.

Dan Lindh: 00:50:58 I think there is a penetration rate that probably is near the top, in saturation. What is important to remember is that the market is always moving and price points for accessibility are in a wide range. As we are studying some stuff with NIC, you'd think about the more affordable product just in the Twin Cities this would be like a tiered down from middle-high income. We did the study on that, over the next 20 years, we think there needs

to be another 150,000 doors built in those 20 years and that little more moderate price range and there's growth along all of them.

As we open up new vehicles and stuff that's currently placed it gets older, it becomes more affordable, that opens up new windows of opportunity too. So, I look for over time penetration rates to go up, but how we think about how we access them and who they are and what the attributes and why they are coming to us are likely to change.

Beth B. Mace: 00:51:55 Okay. Thank you very much. I have other questions, but I want to give a chance for the audience to ask questions. We have folks walking around that have microphones, if you have a question, raise your hand and we'll bring you up a mic.

Audience: 00:52:08 I thought that it was interesting that we're talking about just the home values in Seattle with this rapid growth there, and then, we're seeing almost identical growth in households in Phoenix, but we didn't talk about the increased prices in Phoenix. I think that that kind of paints the dynamic that we're not addressing here, which might actually be part of I think super relevant, which is when you ask a question, can we increase penetration rates in order to increase our kind of absorption or fill up rates? Probably only in markets where there's constraints to development. Because in Phoenix, they can keep building houses out in the desert as long as there's flat land and the local municipalities don't seem to have any reason to want to slow that down. So, $350,000 house is going to be $350,000 until they run out of desert. Wherein, Seattle, you're bumping up in this constrained space and so it spikes.

If we're in markets where there's always going to be a new assisted living place laid out and the money wants to invest in senior housing right now, then even if we see penetration rates go from 11 to 15%, you're probably just going to see capacity increase by the same percentage, staying just in front of full occupancy where some of these other markets, to your point, Susannah, I mean, I don't know, it's really a market by market situation because if we can keep building capacity then no matter what we do with occupancy.

Beth B. Mace: 00:53:33 Right.

Audience: 00:53:34 I mean, I don't know if that's a question, it was more of ... I'm sitting here looking at this, I'm trying to pull out trends, but it

seems like on a market by market basis, we can't apply a lot of it.

Susannah M.: 00:53:47 I agree. Phoenix is not Minneapolis. I mean, don't own a winter coat. It's not Minneapolis and we can keep building. We can keep building encroaching on a desert and kind of keep building out and out and out, and that's point A. Point B, seniors keep flocking to Phoenix. Your inventory is going up and your number of seniors are going up. So, your penetration rate, Beth had a slide, the penetration rate in Phoenix has kind of stayed the same because the numerator is going up and the denominator is going up. I don't think it will ever approach the penetration rate of Minneapolis.

Bre Grubbs: 00:54:30 Sort of like Susannah mentioned earlier, she looks at things on a micro market, when we're expanding into markets, you're right, it's hard to do trending. But what we look for is similar dynamics from one market to another. For example, Seattle, Portland, Denver have some of the similar growth trends and the types of jobs, similar economy, similar feeling on marijuana legalization, all sorts of similarities.

Can we expect those markets to act similarly from a penetration rate standpoint? They are on paper. So, when we're going into markets in the Northeast or the Midwest, we're looking for similarities there and our experience in one market to extrapolate to another market and, say, "Okay, we can reasonably expect that because Tulsa acted this way that Oklahoma City may act this way, or parts of Nebraska may act the same way." So, it's not a broad brush, but really finding those similarities and making those comparisons to get you comfortable.

Susannah M.: 00:55:37 Right.

Dan Lindh: 00:55:37 In our case, when we pick a market we will dedicate to a number of projects in that market, typically. Milwaukee right now is one and we are up to five communities, we're going to build before it stops. So, we try to be thoughtful about where we are and we try to have enough density because our management system requires it to be effective.

To answer your question that way, we look at penetration rate as maybe about 15 to 20% of the total assessment. Then, we try to do is get people on the ground and friends in the communities get a deeper understanding of that geography,

that region as we can. Now we make that checks along with the penetration rate, study providers, age and stack, velocity and new staff, et cetera, employee potential, or other kinds of attributes like engagement and insurance product, and that sort of thing.

When we get to know it as best we can and it's always going to be limited, then, as Bre said earlier, it's got check time, you just say, "Now we're going to invest and we pick the micro markets where we're going to invest and the tactics went along with it." Once we commit then we like to stay in it for the long term. Because long term I think we're all going to win, there's just so much volume coming, it's just a matter of when probably. That's how we look at it.

Beth B. Mace: 00:56:55 Other question? Bob Cramer.

Bob Cramer: 00:57:01 I've been addressing comments from the panel about one additional factor that maybe has some influence on penetration rate, and that's policy. Specifically, it offers an illustration the difference between the state of Oregon and state of New York towards private pay seniors housing. One, it seems to me really encouraged that the others state put every barrier in the world. I would even offer a thesis that if you look at the states that had combined associations where the private pay and skilled have worked hand in hand, there seemed to be states that have much higher penetration rates than states where it's been the opposite and it's been a dog fight that's continued for years between skilled operators and private pay operators.

I'd be interested in any comments on that. I mean, obviously, there are other factors in a state like New York, just the varied entry, the cost of land in New York City, and so on. But just the interest and observations on the impact to policy because the states begin to confront the realities of their aging populations, the impact on their Medicaid budget and so forth, I wonder how policy may come back in as a major factor again in this in the future.

Beth B. Mace: 00:58:18 I will say I wish every state was like Washington from a regulatory perspective; they provide a lot of flexibility. That is one caveat that I should have mentioned about Seattle as a market. Washington state provides a more flexible, although we don't call it flex licensing structure where you can build a unit, an apartment to be licensable. Someone can move into it without the license structure around it and when need for

service arises that individual apartment can be licensed. So, it provides a lot of flexibility within a retirement community that's maybe 150 units of independent and assisted living to say, "When you start 90 or 100 of them are independent and over time you have capacity for all 150 to be assisted." I think that it provides so much flexibility there.

Oregon and Colorado are also friendlier places to be. So when we look at California or Florida or New York and we look at developing there, it is a totally different level of box that you check. Luckily, in a lot of those places, it's worth sort of the brain damage to try and get there, but it is a much slower process, it is a much more arduous when you think, "Okay. I'm going to build in New York, I'm going to build in Houston." There's a ton of land and it's inexpensive and it's easy to do and you have much more flexibility on the operating side. So, definitely, I think as we've looked at where the new supply has happened since the recession, some of it absolutely has been driven by policy.

Dan Lindh: 01:00:16 I think that state policy varies a lot. I was an example of what they call at the nursing home as oligapy, helping promulgate rules that you can't really provide any service in assisted living. Minnesota, you can go up to five, six hours a day of care in assisted living. Iowa, you're kind of tapped all around two or something. That's a huge difference in terms of how you deploy.

On international stage, and I think you're raising an interesting point, I think international models or countries are so much older than U.S. have had massive paradigm changes on how the funding works and the policy works. It's impacted our field enormously. A couple of examples, one, Germany bought maybe 10, 12 years ago, I'm not sure, a long-term care insurance where when you're at your third ADL the money flows to the consumer, not to the provider. The regulation start to come around the effectiveness of meeting a need. It revolutionized everything overnight.

Stroke of a pen at the federal level could have a massive impact. I don't think you see our current models thinking about that too much. Scandinavia, they started with changing the workforce because they couldn't find it and so their whole model disrupted the entire field. So I look for major disruptions to happen to us in this country. When we get a little older I think the common theme seems to be 18 to 20%, 17 to 20%, or the age of 65 and it's actually the women that tend to drive and

who are children of the older adult. We're not there yet. We won't see that kind of demographic kind of confluence, I'll say, for probably another seven, eight years. But I do think that models are going to change and I think policies are going to have a great impact than what it looks like in the future.

Beth B. Mace: 01:02:00 Okay. We're running a little over, but there's one question here.

Audience: 01:02:00 Sorry. I'll keep it quick. Another factor I'd like to ask you guys about is awareness of senior living, because I believe that part of the challenge is that either by not knowing exactly what senior living is and how much it really costs there may be resistance from both prospective residents as well as adult children. I just like to hear perspective on, by providing or by increasing awareness of the product, is there a possibility to increase penetration?

Bre Grubbs: 01:02:31 I think so, for sure. I mean, I would be a proponent of, you guys, remember the Got Milk campaign, right? Where the milk producers, the dairy producers all got together and kind of encouraged everyone to drink more milk. I mean, I would be-

Beth B. Mace: 01:02:45 That is actually happening. One of the trade associations is working on that.

Susannah M.: 01:02:49 Yeah. I mean, I think senior housing industry is ripe for that, for operators, developers, lenders, everybody involved, basically everyone here at NIC, to kind of create a Got Senior Housing campaign. The more you educate people about senior housing, I mean, I'm part of a work group right now that's trying to educate college students about senior housing and about careers in senior housing, because that's another topic for a whole nother time is labor shortage. We're very active in educating college students about careers in senior housing. I think you're absolutely right, we can also do probably a better job at just educating the general public about what senior housing is.

Beth B. Mace: 01:03:33 Okay. Just to wrap up, I want to give each of you one more second. Anything you want to share with the audience on relationship of penetration and occupancy that we haven't talked about yet, in one minute or less? Or maybe you've said it all?

Susannah M.: 01:03:45 They don't correlate at all. I mean, the penetration rates and occupancy rate rates don't correlate.

Bre Grubbs:	01:03:53	Yeah. It takes more than a penetration rate to make a decision on whether to buy or build.
Bre Grubbs:	01:03:57	Right.
Dan Lindh:	01:03:58	I agree with that.
Beth B. Mace:	01:04:00	I agree with that. All right. Thank you very much. Let's thank our panel.
Dan Lindh:	01:04:01	Yeah.