CONFERENCE RECAP

The 17th Annual HJ Sims

Late Winter Conference

InterContinental San Diego

San Diego, CA

Tuesday, February 25 – Thursday, February 27, 2020

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Please note that our conference took place a week before COVID-19. Viewpoints stated do not take into account the impact of the subsequent outbreak.

2020 Conference Review

During the past seventeen years, HJ Sims has hosted our Annual Late Winter Conference as a forum to gather experts from across the senior living industry. We were pleased to host more than 250 senior living operators and professionals from February 25-27 at the newly opened and luxurious **InterContinental San Diego** in sunny California, for sharing experiences, strategies and operations. Throughout the conference, attendees explored recurring themes, such as the evolution of acute and post-acute care, the market opportunity of middle-income seniors, the emerging landscape of medical and recreational cannabis in our industry, and a myriad of strategies to ensure our industry is well-positioned for the future.

"As HJ Sims celebrates our 85th anniversary, I am honored to deliver a conference with colleagues and partners that provides attendees from the non-profit and for-profit sectors of the senior living industry with the opportunity to share and discuss their recipes for success in a professional and relaxed environment," said Bill Sims, Managing Principal. "With the beautiful backdrop of the cityscape of San Diego, and the USS Midway on the San Diego Harbor, our participants made this year a truly exceptional conference."

Program highlights included:

- *Keynote speakers from outside the senior living industry who shared valuable ideas from fields like* ***Canyon Ranch®*** *– the luxury health and wellness experience introduced a potential new concept for senior living communities;* ***Dr. Matthew Lieberman****, a dedicated researcher on cognitive social neuroscience where we explored research indicating that we need to be connected socially to be physically and psychologically healthy; and* ***Dr. Robert Genetski****, an economist who led a discussion of the current financial markets where we explored principles vital to economic and political freedom.*
- *Informal and memorable activities to bolster connection and conversation, included a glorious morning on the waters of* ***San Diego Harbor*** *for sailors and fishing enthusiasts;* ***golfing*** *at the world-renowned Torrey Pines; tasting a sample of San Diego's best* ***brewery*** *and distillery products; and sharing an incredible evening with friends and a few new animal pals at the famed* ***San Diego Zoo****.*
- ***Educational sessions*** *that covered topics such as: acute and post-acute care, medical and recreational cannabis, serving middle-income seniors, strategies to avoid moving from a stressed to distressed financial or operational situation, and a new approach to incorporating wellness in senior living.*

The following pages provide comprehensive coverage of the many sessions at the 2020 Sims Late Winter Conference.

Be sure to subscribe to our HJ Sims marketing list for information on forthcoming conferences.

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HJ Sims CFO Networking Breakfast Synopsis

This year's CFO breakfast featured CFOs from three senior living organizations focusing on emerging challenges and opportunities within the senior living industry. The panel included **Steven Ailey** from Forefront Living, **Jordan Lovelady** from Morningside Ministries and **Jacob Schaefer** from Santé Partners.

Key takeaways included:

Evaluation of Growth Opportunities

Each organization cited local and national issues affecting their growth plans, and identified their evaluation methods for growth opportunities. Santé Partners looks at the entire market for gaps between market demand and quality service, and identifies areas in which they provide services. They believe in employee empowerment, having high-quality operations, and creating a workplace culture focused on improving people's lives.

Morningside Ministries is one of many well-established senior living organizations in the greater San Antonio, Texas metropolitan area. With constant analysis of their local market, Morningside's approach involves a yearly market comparison on their existing communities, and an analysis of opportunities as they are presented.

Forefront Senior Living strives to be a people-driven company, and believes a strong culture bolsters growth opportunities. They are very particular with their hiring method and utilize a behavioral model for the interview process. By focusing on value-based program and culture, Forefront aims to serve its residents with the highest quality service.

How did you reach the decision to sell/not sell an asset?

As communities evolve and adapt to changing markets, they may face decisions to sell all, or portions, of their campus. Forefront Senior Living and Morningside Ministries each faced their own circumstances of whether to sell–or not sell a community–and arrived at different conclusions. Forefront Senior Living hired a consultant for board education, and explained market dynamics to the board. The consultants identified weakening local market conditions and operating challenges, and Forefront management reviewed the decision closely with each board member. Forefront decided to sell their legacy campus, founded in 1962, as they realized their mission did not match the margins, and losses continued to mount year-over-year. Forefront was given a much higher valuation than they expected, and went from the decision to sell to close within 84 days.

Morningside Ministries experienced different challenges, and ultimately decided not to sell their campus. Morningside identified that one of their campuses had the wrong unit mix and was landlocked, and they entered into a year-long process of a potential sale that did not work. They decided not to sell as they had some capacity to reassign staff and residents at their legacy campus. Morningside concluded the process opened their eyes on what worked for this campus, and they consequently see the ability to navigate as a middle market option.

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Litigation Threats

Operating a senior living community is a complex endeavor and not without risk; operators face risks that may be subject to litigation. Each marketplace faces its own challenges and some states have more litigious environments than others. Communities create careful plans to manage risks and defend themselves from litigation. Each panelist provided insights into their risk management efforts and addressed litigation including:

- *Engage counsel early.*
- *Establish clear channels of communications with plaintiffs and their Counsel from the outset.*
- *Focus operations on hospitality, and educating staff to understand operating risk factors.*

Marketing Challenges

Morningside and Forefront shared significant marketing challenges, and the ways in which they educate potential residents about the benefits of a life plan community.

Morningside Ministries sees San Antonio, its primary market, as a tough marketplace given current economic conditions. There is a great deal of competition, and their campus is a legacy campus – older than competitors' newer products. However, Morningside has achieved a strong brand identity in the market, as supported by quality metrics. Their current marketing plan heavily involves social media, as it proves to be a low-cost and high-performance medium for them. They use social media to highlight community events and culture on a daily basis to emphasize the quality and feel of the environment at Morningside.

Forefront Senior Living is experiencing market saturation in its home market in Dallas, Texas, especially with health care. They are not chasing market share on the healthcare side, but are creating resident value as compared to competitors by offering a mix of new contracts. Their goal is to determine ways to best meet resident demands with their current offered services.

Expanding services outside of the typical community setting

Demand for services has changed through the years with opportunities arising beyond the typical life plan community setting. Santé Partners has started to partner with other senior living communities in the market to offer more services; services that have allowed other communities to remain established for a longer time.

For example, Morningside Ministries started a home health company in 2017, and is devoting many resources to expand this part of their business. Morningside has seen tremendous growth in their home health company, which has become a growing profit center toward their bottom line.

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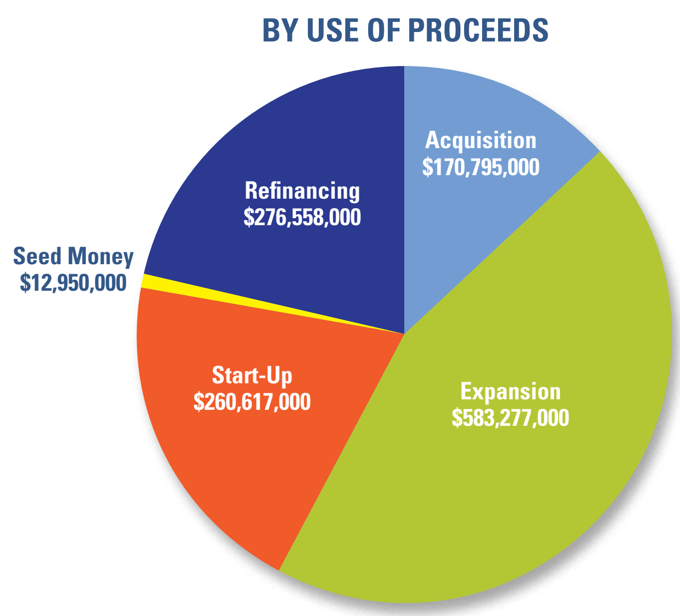
The Senior Living Industry and Capital Markets Today and Tomorrow

Each year, we begin the HJ Sims Conference with an overview of the senior living industry and capital market trends, as well as an update on the latest from HJ Sims. In addition to financing more than $1.3B in 40 deals across 23 states, HJ Sims has added five investment bankers and ten sales professionals to our company. We also built on the progress of last year's launch of our Corporate Social Responsibility (CSR) program, as we continue to partner with Gift of Life, who joined us onsite to educate attendees about their work to cure blood cancer through marrow and stem cell donation.

Bill Sims, HJ Sims Managing Principal, highlighted current capital markets and senior living industry trends and implications for providers. In the wake of the Tax Cuts and Jobs Act of 2017 and the ensuing prohibition of tax-exempt advanced refundings, the municipal bond market has seen a material increase in taxable bond issuance. Taxable bonds can be used to refinance tax-exempt bonds well ahead of the call date, which has become economically viable in more instances due to exceptionally low global interest rates. Innovative financing structures pioneered by our firm for the benefit of our clients include the first 40 year tax-exempt maturity (of which we are aware) on a large, non-profit, greenfield life plan community, among others. Turning to senior living, a few trends include developers' recent proclivity for tertiary markets for new projects; urban developments are on the rise; competition is limited despite elevated costs; and programming can be outsourced to the surrounding neighborhood. The rise of "multi-brand portfolios," where operators are following the lead of other industries (e.g., Marriott, Fairfield Inn, Courtyard in the hotel sector) to create multiple brands targeted at different segments of the market.

Gayl Mileszko, Senior Vice President and Director of Analytical Services, donned her futurist hat, examining some of the recent trends in the financial markets to extrapolate what we might expect going forward. The emergence of "negative interest rates" in foreign economies, the pervasively low rates in the U.S., and a likelihood of maintaining the governmental status quo of a Republican, Republican/Democrat composition of the White House, Senate and House, respectively. The presence of the "Jason Bourne Economy," dubbed as such because it is akin to the super-human government asset who enters a room and looks for an exit, just in case…so too do investors. Whereas the financial industry as a whole increasingly relies on technology and algorithms, with investment bankers and portfolio managers working alongside algorithms, the high yield space (of which many senior living companies are a component) continues to be a person-centered business.



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Aaron Rulnick, Managing Principal and Co-Head of Investment Banking, highlighted the Financed Right® mantra that guides our approach to business – Partnered Right®, Structured Right®, and Executed Right®. HJ Sims continues to distinguish itself in the market with unrivaled creativity. Similar to 2018, 2019 saw a number of high-profile start-ups, expansions and repositionings, with refunding volume still suppressed following tax reform. Most notably, HJ Sims executed a complex financing on an accelerated timeframe to secure financing for the replacement facility of a well-known multi-site provider after a fire burned down a portion of an affiliate's campus. The structure was complex, with multiple swaps and several sources of funds, including equity, insurance proceeds and draw-down bank financing. HJ Sims also closed on a large greenfield life plan community, which included traditional bond debt as well as bank debt--uncommon for start-ups. The deal also utilized several distinct support agreements, and incorporated a 40-year maturity, which had not been done before. HJ Sims led a notable refinancing transaction involving the use of forward-delivery bonds, which allowed the client to benefit from current ultra-low rates while navigating the prohibition on advance refundings.

Jeff Sands, Managing Principal and Co-head of Investment Banking, discussed the continued growth of the HJ Sims Investments ("HJSI") platform. HJSI currently holds more than $325 million in direct investments to a variety of asset classes across the senior spectrum (senior housing, skilled nursing, etc.), having invested over $75 million in 2019. Jeff also noted the collaboration between the non-profit and for-profit segments of senior living in the marketplace, as well as at HJ Sims. Bankers from the non-profit and HJSI teams worked jointly with the owners of a for-profit multi-site to sell three properties to a non-profit organization while continuing to manage the operations, using tax-exempt bonds to finance the purchase. Sands also highlighted trends in the for-profit segment, noting margin compression in for-profit senior housing and reimbursement issues in for-profit skilled nursing.

Rounding out our executive panel, **Anthony Luzzi,** President of Sims Mortgage Funding (SMF), noted that HUD was unique in its ability to generate bipartisan support for its programs, a breath of fresh air in today's polarized political climate. In 2019, SMF was engaged on financings from the northeast U.S. all the way to Hawaii, spanning from multi-family refinancings to skilled nursing acquisitions. HUD's LEAN program for skilled nursing facilities was up in 2019, and was comprised mostly of refinancings. HUD's multi-family MAP program had a lower volume than 2018, however affordable housing still accounted for over 40% of HUD's mortgage insurance commitments since 2017. Anthony also spoke to the future, including that the pending repeal of the three-year rule will allow multi-family developers to refinance sooner. Additionally, Section 202 may be re-emerging and RAD for PRAC continues to move (slowly) forward. The SMF team established new and expanded partnerships with bridge lenders and expanded its financial advisory practice throughout the year.

For more information on this session, please contact Kerry Moynihan.

Gift of Life: Recap from 17th Annual Late Winter Conference

Gift of Life (GOL) joined our annual conference represented by Alicia Lorio, a leader of their Young Professionals Committee in Orange County, along with GOL blood stem cell donor, Alec Nadelle. Lorio shared GOL's history and passionately spoke about the importance of growing the GOL stem cell registry to help those afflicted by blood and bone cancer. Before introducing Nadelle to share his story, Lorio discussed how individuals can get involved with GOL to increase the number of potential donors within the registry by encouraging individuals to swab within their community and at their workplace.

Nadelle talked about his donor experience with GOL – donating blood stem cells in November 2012 to a (then 71-year-old) woman battling a fast-moving form of Leukemia. The presentation left attendees feeling truly moved and inspired.

The GOL team was thrilled to provide an update about the strong partnership between HJ Sims and GOL during the last two years, which has helped to promote the registry and subsequently add new donors, as well as supported numerous efforts to advance the GOL mission. From fundraising drives to sponsoring the Steps for Life 5k events to helping underwrite equipment for a new state-of-the-art Stem Cell Collection Center located in Florida, HJ Sims continues to be honored to support GOL and their mission to cure blood cancer through marrow and stem cell donations. GOL has facilitated nearly 3,600 transplants since its inception.

For more information on the HJ Sims and Gift of Life partnership, please contact Tara Perkins.

Wired with the Need to Connect

Matthew Lieberman, PhD Professor and Social Cognitive Neuroscience Lab Director, UCLA Department of Psychology, Psychiatry and Behavioral Sciences

Conference attendees enjoyed a General Session conducted by UCLA Professor and Director of the university's Social Cognitive Neuroscience Lab, Dr. Matthew Lieberman. Widely considered one of the founders of the field of social neuroscience, Dr. Lieberman is a best-selling author and winner of numerous awards in the field of psychology.

> *"Man owes his strength in the struggle for existence to the fact that he is a social animal."*
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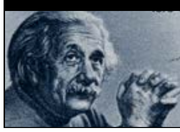
> 
>
> Albert Einstein
> *On Education*

The topic surrounding our inherent need to connect with others is foundational for the success of most senior living communities. Bringing people of similar age and interests together, and breaking the unfortunate isolation many seniors feel after family has moved away and neighborhoods change translates into high residency satisfaction and consumer demand.

Contrary to the popular view that human actions are generally guided by self-interest, a core premise of Dr. Lieberman's research is that we need to be connected socially to also be physically and psychologically healthy. Studies prove that being socially disconnected is worse for your health and longevity than smoking 15 cigarettes per day, yet more attention and funds are spent on tobacco-related health issues than social isolation-related health concerns. We use physical pain language to describe social pain: "You broke my heart," "You hurt my feelings."

This reality has an impact on the workplace as well. People who have friends at and through work are generally more productive and tend to remain at one job longer versus frequently switching jobs. Dr. Lieberman believes companies should encourage rather than discourage "water cooler talk" since it reinforces these social ties. Research shows that people are more effective when they know the work they are doing is "for the common good" or helping others. Designed to assist younger workers, mentoring programs in fact help mentor and mentee.

Dr. Lieberman also discussed the concept of "generativity" as it relates to older adults. Coined in the 1950s, generativity is characterized as the concern for establishing and guiding the next generation. Traditionally, the focus of generativity was people in the latter stages of their working career rather than those who are no longer in the workforce. In his view, the way we feel about contributing to the future and future generations physically changes our DNA, and our ability to fight infections and inflammation. Encouraging seniors' generativity through activities, writing, teaching and inter-generational experiences has a direct positive impact on life expectancy and overall health.

For more information on this session, please contact Andrew Nesi.

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It’s High Time: The Emerging Medical and Recreational Cannabis/ CBD Market and Treatment Benefits for Seniors

Leading experts in academia, healthcare and senior living provided their perspectives on cannabis and its growing applications in the healthcare and senior living industries. The panel included **Cari Levy,** MD, PhD, CMD, Associate Director of Innovation at the Denver Veterans Affairs Medical Center; **Pamela Kauffman**, Esq., Partner at Hanson Bridgett, LLP and **Mary Ellen Bloodgood,** CEO at Menorah Park.

Uses of Medical and Recreational Cannabis in the Senor Living Space

The driving question behind medical and recreational cannabis is how can the drug be used in a senior living setting? Dr. Cari Levy detailed her industry observations and paired them with her research.

Cannabis has long been considered a taboo form of alternative medicine. Evolving from the use of hemp in the eighteenth century to its widespread use during the counter-culture era, cannabis has remained prevalent in American society throughout history. Despite its prevalence in the United States, until recently, relatively little research had been conducted on the drug’s neurological effects, its specific side effects (aside from the “giggles” and increased appetite), and its particular prognosis on long-term users. Now, a plethora of information is readily available regarding the potential benefits of the drug. From depression to pain management treatment, scientists and healthcare providers, alike, have found cannabis useful in a medical setting.

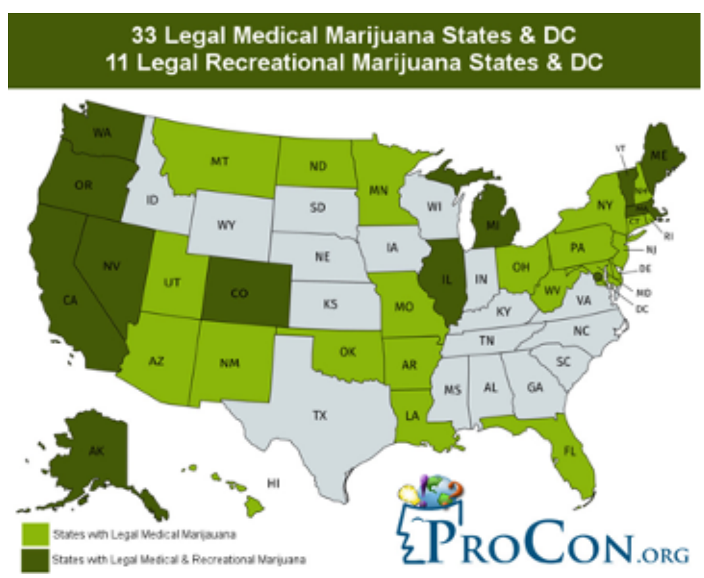
Senior living providers have begun to utilize cannabis to reap the benefits that the greater healthcare industry has already discovered. The drug has a multitude of uses in the senior-living space, some of which include:

- *A non-addictive opiate substitute that can be used in a controlled setting for pain management.*
- *A useful alternative medicine to increase appetite and reduce nausea in ailing patients.*
- *A drug that helps fight depression and mood swings via its euphoric compounds.*

Although cannabis has applicability in the senior living industry, as with any drug, providers and communities need to consider the risks to the patient. Despite the amount of research that has been conducted, questions still remain regarding the use of cannabis in a senior-living setting. Before prescribing the medication to a patient, consider how the drug may react with existing medications. In addition, cannabis can cause a high heart rate and low blood pressure, which could prove problematic in aging adults. Benefits and risks must be weighed by any practitioner.

How do we bring this to our community?

Thirty-three states permit the use of medical marijuana and eleven states permit the recreational use of marijuana; however, the Food and Drug Administration has been reluctant to provide a definitive stance on the use of the drug. At the federal level, cannabis remains a schedule- one substance, which places providers in a precarious situation.



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Despite an opaque regulatory environment, communities have decided to implement the use of cannabis on their campus. Menorah Park, a faith-based senior living provider in New York, is one of those pioneer communities.

In New York, the use of medical marijuana was subsequently permitted after ratification of the New York Compassionate Care Act. Senior living providers, as caretakers, were placed in an indistinguishable setting for prescribing the drug to their residents. Cannabis could be prescribed, but how would a community control the operational and potential regulatory risks associated with distribution and storage? Menorah Park took a simple approach, treat the drug just like any other controlled pharmaceutical. Despite this simple philosophy, a significant amount of work was conducted before the drug was prescribed at the community.

"You have to take an interdisciplinary approach" **Mary Ellen Bloodgood**, CEO of Menorah Park, stated. "Involve your entire team, not just your nursing staff".

Bloodgood, the Menorah Park board of directors, and her staff at Menorah Park drafted procedures, spoke with on-site providers, and updated facilities to accommodate cannabis on their campus. The drug remains locked in closely monitored storage facilities and is subject to regular inventory checks. Nurses and providers have written protocols for dosing and have guidelines to administer cannabis safely. With the foundation paved, Menorah Park deemed their community ready to accommodate medical cannabis patients in a controlled environment.

Regulatory Environment and Litigation

Operating a senior living community is a complex endeavor not without risk, and operators face daily risks subject to litigation. Medical cannabis poses legal ramifications that a community needs to mitigate prior to implementing the use of the drug at their facility. **Pamela Kaufman,** Esq., a partner at Hanson Bridgett, explained that conducting due diligence is a necessary first step in the process.

Consulting law firms, hospitals and even other senior living communities is a place to start. Each marketplace faces its own challenges and the laws on medical cannabis vary from state to state. Furthermore, the legalization of the drug for recreational purposes poses potential risks in a community setting. In these cases, residents are now legally able to use a substance that could have adverse effects when combined with other medication, existing health conditions, etc. Ms. Kauffman elaborated on the initial steps for a community:

- ➜ *Engage counsel from an early stage.*
- ➜ *Involve staff and employees from all facets of the community (healthcare providers, board of directors, etc.).*
- ➜ *Ensure that the community is following established policies and procedures.*

For more information on this session, please contact Melissa Messina.

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Continuing Evolution in Acute and Post-acute Healthcare

This session offered owners and operators insight into the success of two different senior living facilities and focused on how they are modifying their business practices to address the continuing evolution of acute and post-acute healthcare.

The first panelist, **Toby Tilford,** is co-founder and CEO of Links Healthcare Group, which currently operates nine skilled nursing facilities and one assisted living facility in California. Links focuses on acquiring and then improving the results of underperforming skilled nursing facilities through their leadership program. Tilford attributes much of his group's success to their authored operational curriculum and 18% ownership model for facility administrators to attract and retain tier-1 leadership. He emphasized the importance of treating administrators like partners and hiring leaders who are willing to self-correct when mistakes are made. After attracting high-caliber talent, Links shifts focus to leadership development. Their administrators receive the highest quality operational training based upon curriculum from the Arbinger Institute. Once training is complete, Links concentrates on retention and believes in a higher purpose of creating a "life-changing experience for all who come to a Links facility." Tilford noted that this higher purpose helps inspire the best from all Links people.

Tilford then turned the discussion to how Medicaid and Medicare, labor shortages, and other key industry factors will determine whether nursing homes will win or lose over the next five years. He shared his belief that there is "no Medicaid threat on the Hill," the CMS block grant threat is manageable, but the proposed Medicaid Fiscal Accountability Regulation (MFAR) threat is real. MFAR will be a major challenge, impacting state provider tax programs and inter-governmental transfer programs. With the inter-governmental transfer program, Tilford believes the White House will wait until after the upcoming presidential election before making any decisions. In regards to Medicare, the news according to Tilford is positive. There is a 2.4% increase in 2020 with a projected market-based increase in 2021, plus the PDPM rollout is going well. CMS will not slash reimbursements, despite being over budget and will focus more on managing PDPM.

As direct care labor cost per diem grows, Links is applying a few different solutions to alleviate the labor shortages within the industry. Utilizing federal grant funds for Nursing Assistant Programs, there are 61 new nursing assistant schools starting in California. There has been an increase in the utilization of staffing waivers, RN international petitions, and focus on employee retention and satisfaction.

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Tilford then talked about the continuing battle between demographics and utilization. Though managed care penetration is currently at 35%, it continues to increase, growing 1% every year. Combined with accountable care organizations penetration, these two demographics now comprise more than 50% of the market. While the length of stay has a devastating impact, the demographics are finally starting to help. The population aged 75 and older is dramatically increasing over the next decade and will help counteract the growth in managed care penetration.

Over the past few years, more providers are assuming risk. More providers are moving towards full capitation with Medicare Advantage/Special Needs Plans and population-based payment, rather than charging fees for services with no link to the quality or value. Given this shift, providers are being rewarded for quality as five-star facilities have had higher operating margins since 2014 compared to lower quality facilities. With the focus on quality, nursing homes could lose up to 2% of their Medicare rate, if their rehospitalization rate is high, but could gain up to 3% in the instance of a low rate. Tilford believes that nursing homes will win over the next five years. While labor shortages will continue to be a challenge, many small regional operators will continue to thrive, quality will be rewarded more than ever, Medicare will continue to be a strength and Medicaid will be mixed, depending on the state, and demographics will help by providing a larger market.

Our next panelist, **Stuart B. Almer,** is President and CEO of Gurwin Healthcare System, a not-for-profit campus in New York that provides many types of care, ranging from post-acute care to assisted living. Almer stated that the number of Americans with Alzheimer's disease will double by 2060 and that memory care is becoming necessary at assisted living facilities. Even though the state of New York has lost 45 non-profit facilities over the past six years, a non-profit facility can be sustainable when executed properly.

Gurwin has responded to the non-profit decline through technology. For example, Gurwin built an advanced care unit where patients wear bracelets that transmit their vitals to Gurwin 24/7, which helps them cater to hospitals by being able to treat the hospital's less-stable patients while lowering their own hospitalization rate. Gurwin has also added a new service by constructing an infusion center with IV administration enabling them to admit patients from surrounding communities. Adding in-house lab testing saves hospital admission costs and brings more people into the facility rather than outsourced testing. Lastly, Gurwin has added VOCSN ventilators to make more patients comfortable and mobile. Outside of technology, Gurwin has implemented a few other initiatives to make themselves more attractive and reach new markets. They added homecare expansion and adult day care, developed partnerships with preferred provider networks, and utilized grass roots marketing and branding.

Looking ahead, Gurwin plans to add more facilities and expand their reach. Almer accentuated the need for providers to continuously change and adapt to current market demand in order to avoid becoming outdated while staying close to their mission.

The panelists were then asked if capitation as a fundamental concept will be embraced. Almer responded positively saying that non-profit providers should embrace any opportunity depending on the rate. He elaborated that any rate can be negotiated such that a facility can still be successful. Under capitation, a community can add more services, which ultimately makes it a more attractive partner to managed care plans and even hospitals. Tilford agreed and said that he expects full managed care penetration. Links will embrace it and treat patients immediately to get them home quicker and lower their own hospitalization rates.

For more information on this session, please contact Jeffrey Sands.

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Developing and Operating Communities to Serve Middle-income Seniors

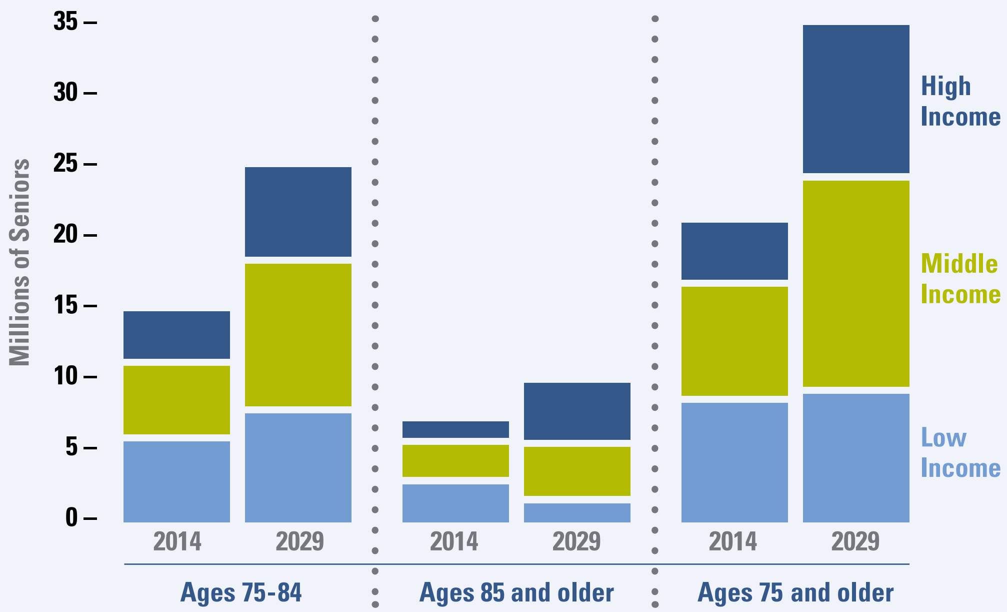
Developing and operating communities for middle-income seniors is one of the hottest topics in the seniors housing industry. Providers across the nation have been incredibly focused on creating new models to provide senior care services at a more affordable price point. The focus of this session was to share insights from three industry experts and how they have modified their business practices throughout the last few years to serve middle-income seniors.

With the number of middle-income seniors expected to increase more than 80% from 2014 to 2029, the size of the middle income market is rapidly growing. Some challenges highlighted during this session include:

- *The lack of resources to pay for senior living at today's average market rates*
- *The importance of operating costs, particularly labor, and how these play into being able to offer affordable rent*
- *How high current development costs require annual rents outside of the middle-income affordability*

While definitions of middle-income seniors vary between organizations, generally they are defined as seniors whose financial resources are too high to qualify for public means-tested programs, but insufficient to pay for the majority of available private pay care options. Panelists **Kevin Anderson,** President/CEO of Wesley Homes; **Bill Pettit,** President of R.D. Merrill Company; and **Jon Fletcher,** Vice President of Presbyterian Homes & Services and Senior Housing Partners, provided insight into how their organizations are addressing this market.

Exhibit 1: Sizes of the senior population, by age and income in 2014 and 2029



SOURCE: Authors' analysis of data from the Health and Retirement Study for 1994, 1998, and 2014.
NOTES: For people ages 75-84 in 2029, middle income corresponds to annuitized financial resources of $25,001 - $74,298 (in 2014 dollars). For those ages 85 and older, middle income is $24,450 - $95,051. Appendix A shows the thresholds for low, middle, and high incomes.

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The panelists discussed how developing communities to serve middle-income seniors is challenging in the current environment. With development costs exceeding $250,000 per unit on average, Wesley Homes focuses on a value engineering approach to keep project costs at a level that ensures the units can be rented at an affordable market rate for the middle-income demographic. Pettit agreed and explained with minimum wage increases, development costs have increased to $300,000-$400,000 per unit for the markets in which Merrill operates. Fletcher added that he did not believe it was possible to develop new buildings with rents that are affordable to the middle-income population utilizing a typical financing structure. Providers should instead look to offset operating costs by looking for subsidies, grants, TIFs, PILOTs and other forms of local and state assistance to offset development costs. This should be combined with design changes that reduce overall development costs such as buildings that maximize common and amenity spaces, and have smaller rooms relative to high-end private pay communities.

The key to offering affordable rents is being able to reduce operating costs, particularly staffing, was a common refrain from all panelists. Reducing operating expenses involves the need for providers to re-envision core services. Providers must offer a non-full-service model that can incorporate more a la carte services, a dining plan that does not offer three meals a day, etc. Moreover, certain staffing positions needed to be combined in such a model and operators must watch for staffing creep to keep rents low. Buildings should also be designed to reduce operating costs. For example, incorporating more independent living units into a building is a potential way to reduce staffing costs.

Technology can be leveraged to help drive these operating cost efficiencies, but it can only be so useful in lowering operating costs. Technology gives management more data (e.g., monitoring of resident conditions) but it cannot replace people. For example, technology can help with medicine management, but staff is still needed to administer. One of the important benefits of senior living communities is that they promote socialization, which improves the well-being of residents. Seniors cannot be expected to engage with robots and replace the human engagement that staffing provides.

Sources of financing and different capital structures can help solve the middle-income market gap. Debt service is around 12%-15% of operating costs at Merrill properties, so putting a few million dollars of CapEx into an older building can generate a higher internal rate of return than a Class A development that requires significantly more capital. A middle-market product has lower risk due to the strong, unmet demand, which may lead to lower cost of capital. Getting creative with capital will help drive down costs, such as negotiating to decrease costs or putting interest savings from a refinancing into a fund to be used for mission expansions and other investments.

What market should providers target when determining whether a community is viable to serve the middle-income community? Working with local municipalities is one option. Finding markets that are slightly off the beaten path in terms of location such as second- and third-ring suburbs, up-and-coming areas and locations with lower median home values are other possibilities, so long as the cost per unit is less than the median home value keeping rents affordable.

For more information on this session, please contact Curtis King.

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Strategies to Avoid Going from a Stressed to Distressed Provider

This session featured leaders from four distinct senior living organizations, in a roundtable format, sharing unique experiences addressing significant operating, financial and organizational challenges and lessons learned therein. The panel included:

- *Marvell Adams, COO of the Kendal Corporation and formerly, Executive Director of Collington, a Kendal affiliate*
- *Jonathan Cook, President and CEO of LifeSpire of Virginia*
- *Jason Dupont, CFO of Civitas Senior Living*
- *Larry Pino, CEO and Founder of Tuscan Gardens Senior Living*

Background and Sources of Stress

The organizations represented are diverse in various ways, including service lines, bed/unit complement, geographic location, composition with single or multiple facilities and ownership status (non-profit and for-profit).

Founded in 1982, Collington is a Maryland-based, non-profit single campus affiliate (one of 13) of the Kendal Corporation ("Kendal"). LifeSpire of Virginia ("LifeSpire"), formerly known as Virginia Baptist Homes, is a 70-year-old non-profit with four life plan communities in Virginia. Civitas Senior Living ("Civitas"), established in 2012, is a for-profit operator of over 40 communities located primarily in Texas. Tuscan Gardens, established in 2016, is a for-profit ownership group with three current communities in central Florida.

Prior to joining Kendal as COO, **Marvell Adams** served as Executive Director at Collington. For many years, following its founding, Collington enjoyed an excellent reputation, relatively modern facilities and a full offering of amenities, in a market with limited competition. It was described as "...one of the best kept secrets..." in the metropolitan Washington-Baltimore market. However, with the passage of time, its facilities became increasingly outdated, which was further exacerbated with the emergence of increased competition. As a result, by 2011, Collington faced significant declines in occupancy, particularly in independent living, and was struggling financially.

Jonathan Cook arrived at LifeSpire in 2015 with the organization in a condition from which "...the only place to go was up," having lost close to $80 million cumulatively since 1999.

Ironically, at Civitas, **Jason Dupont,** CFO of Civitas Senior Living, shared that the problems stemmed from rapid and substantial growth. Within seven years, the firm had grown to 25 facilities ([owned and/or] under management). This rapid increase in scale presented an additional challenge in pinpointing the root cause of problems. Further, there was uneven performance between legacy properties and newly opened properties. Additional pressure existed in the form of heightened performance expectations from Civitas' investment partners who funded the growth strategy.

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For Tuscan Gardens, **Larry Pino,** CEO and Founder, attributes the entry into the senior living sector in 2016 to new campus development via issuance of 142(d) (tax-exempt) bonds. While this form of financing provided foundational senior debt capital for construction and opening of new communities, it carried a high cost and represented a significant debt load, including various required financing reserves. Further, while the ownership group wanted to operate the communities from the onset; bond investors required use of a third-party manager.

Particular Challenges

For Collington, the principal challenge resulted from an antiquated product in their independent living units, limited existing financing capacity, and limited access to capital.

In the case of LifeSpire, there was a "cultural malaise" amongst leadership. Operations were inefficient and overly "siloed" across its four communities, and predecessor management had placed limited importance and focus on financial performance or accountability.

Civitas had a cadre of passionate, experienced executives, who were trying to do too much in their respective roles. Group interactions were characterized as an "...echo chamber" where nothing was getting done. Additionally, at the individual facility level, there were 10-20 executive directors coming on staff per year and there were new initiatives being thrust upon them daily.

For Tuscan Gardens, challenges included working through the launch of initial operations, while interfacing with their outside third-party manager, with the facilities performing under-budget. This was further amplified by the heavy debt load and high cost of capital.

Solutions

For Collington, the solution meant undertaking substantial renovation, entailing almost wholesale renovation/reconfiguration of each unit along with the recruitment of new marketing and sales leadership, coupled with new financial leadership. Further, prospective residents had the opportunity to design their own unit. The affiliation with Kendal was the "saving grace" enabling an "all-hands-on-deck" approach to correcting course. While Collington engaged various consultants along the way, the Collington/Kendal team came to realize that they, as owners/sponsors, were ultimately responsible for selecting the proper course of action and taking ownership of the process. Finally, from a governance perspective, they were very intentional about looking for board members with specific experience and expertise. This was complemented with the continuing participation of resident board members, with three residents as voting board members and one as non-voting resident chair. The majority of the board recommendations came from the residents as evidence of true buy-in.

At LifeSpire, change was affected through an overhaul in the makeup and demographics of its board members, emphasizing experience in business, law, finance and hospitality. Historically, the board was dominated by members of the Baptist ministry. Further, specific expectations were established for the board members, along with the process for interface with senior level management. Broadly, the board needed to better balance “mission with margin” in order to be good fiscal stewards of resident resources with which they were trusted. Organization-wide, for LifeSpire, the key was changing the culture and organizational behavior and teaching people that they were making an impact using data and benchmarks.

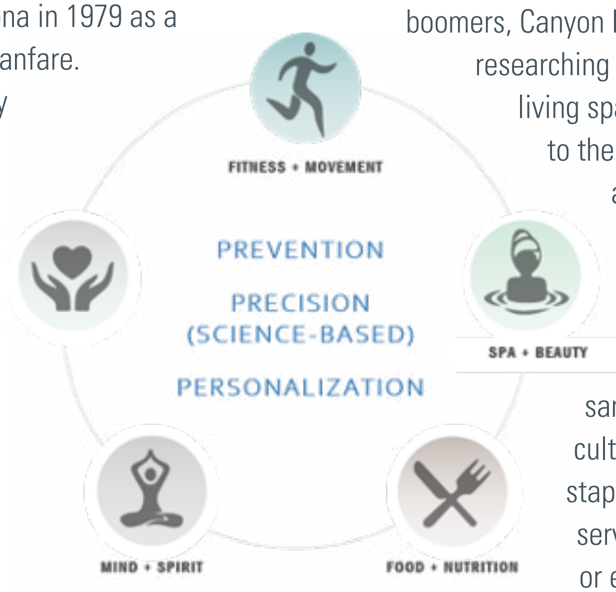
For Civitas, a path to fundamental change arose when the senior management team secluded themselves at an executive retreat with the participation of a professional consultant specializing in corporate communication. In this setting, they discussed their various challenges, including improving communications. This was accomplished by a change in philosophy as well as through the use of other tools, including the incorporation of SmartSheet, allowing better tracking and management of key matters. Doom, another incorporated program, which automates the flow of information. Further, they sought to broaden areas of focus and communication to be less centered on financials and metrics. To illustrate, senior management team now sets aside one day per month to talk about what is happening at the company while avoiding financials and KPIs.

For Tuscan Gardens, managing their debt load includes innovation in subsequent 142(d) financing and incorporating the use of stepped coupons and other financial mechanisms to provide greater economy and flexibility. Additionally, Tuscan Gardens has assumed responsibility of operations and now serves as owner-operator. This has allowed a number of significant changes, including confirming corporate strategy, reshuffling components of the organization to reflect the refined corporate strategy, creation of an onboarding and orientation program for new employees and centralization of all systems. On the systems side, this includes accessibility of more granular data and metrics. On a business level, Tuscan Gardens, considered changes to business/operating tactics – this included the realization that they were competing on product offering (versus price) and a continued emphasis on the state of their facilities, amenities and level of service.

For more information on this session, please contact [Jim Bodine]() or [Tom Bowden]().

Canyon Ranch Senior Living Communities: An Approach to Wellness

As the senior living industry continues to expand to meet the growing needs of aging baby boomers, organizations within adjacent industries are exploring how their experience and knowledge may appeal to different subsets of the "silver tsunami." One such organization is Canyon Ranch, a pioneer in the luxury real estate wellness space. When Canyon Ranch first opened in Tucson, Arizona in 1979 as a health spa, it was to hardly much fanfare. By 1983, amid high-profile celebrity endorsement and media coverage, Canyon Ranch exploded into a household name. Shortly thereafter, renowned integrative medicine pioneer, Dr. Andrew Weill arrived at the University of Arizona and the organization's focus on wellness blossomed.



Today, at a time when the health care model is shifting from a historically treatment-based model to a more preventative, wellness-based model, established wellness brands like Canyon Ranch recognize an opportunity to partner with senior living organizations and bring a more robust wellness platform to seniors. **Gary Milner,** Executive Vice President of Development for Canyon Ranch, shared with the audience Canyon Ranch's approach to wellness and the research they have been conducting in recent years.

Milner began by discussing what wellness is, and also what it is not. "Wellness" has become quite the buzz word, with Milner noting "my bank sends me updates about my 'financial wellness' and there is now 'wellness dog food' for sale." According to Canyon Ranch's philosophy of wellness, true 360-degree wellness encompasses the five pillars featured in the graphic below. Ultimately, authenticity via branding, empirical data and credentialing will be key if organizations are to differentiate over the long term.

Distinguishing their brand recognition among affluent baby boomers, Canyon Ranch has spent the past few years researching their brand's potential in the senior living space. Their findings, especially in regard to the importance of community services at a senior community, are universally informative for providers. Over 90% of those surveyed indicated that group fitness and exercise classes are either desirable or essential. The same can be said for educational and cultural opportunities. Interestingly, amenity staples, such as dining plans and linen services, were only found to be desirable or essential with about 60% of survey respondents.

While Canyon Ranch has not yet officially launched into the senior living industry, it is actively evaluating opportunities in different markets. As baby boomers have more resources to choose and an expectation for a robust wellness offering, Milner believes that senior living organizations that do not have a strategy around wellness will become a small segment of the market. The care model will always exist, and be necessary to treat those in need, but the majority of staffing and capital resources of the future will be invested in the wellness model.

For more information on this session, please contact Kerry Moynihan.

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Let's Hear from the Leaders

We were thrilled to welcome three industry leaders, from diverse disciplines, to a panel discussion for attendees of the 2020 HJ Sims Late Winter Conference.

Rosemary Jordan, MPH, MPP, Vice President, Business Development and Strategy of Elder Care Alliance (ECA) discussed how ECA decided to implement their innovative ECA Green 2030 initiative. Core to this initiative was creating a culture of climate responsibility. ECA has adopted the view that climate change is a threat to their core mission and are taking action to become a net neutral community, a viewpoint that is popular with residents.

The ECA measures included the reduction in the use of animal protein in dining services, while at the same time, increasing the quality of the animal protein offered, reducing waste, responsible recycling of technology and computer equipment, eliminating the incineration of medical waste, and the use of plant-based cleaning products. They have also reduced meal portion sizes in an effort to reduce food waste. Also included in this effort is a need to balance traditional menu items that use more resources with modern cooking techniques which are more efficient (1,000 gallons of water to make sausages). ECA has also replaced toilets, which have been effective in reducing related water usage by 20%, resulting, not just in reduced environmental impact, but also cost savings.

Bryan Starnes, CPA, Chief Financial Officer of Affinity Living Group (Affinity), discussed Medicare Advantage and operating in a highly regulated state such as North Carolina. Mr. Starnes raised discussion around CMS Special Needs Plans (SNPs), and its goal of educating SNF of the importance of learning the specific health needs for patients in the program. Mr. Starnes has been finding capital providers and third-party administrators to help implement these SNPs. Further, he commented that CMS would like 85% of the patient population in Medicare Advantage plans by 2022, but he anticipates that expectation will be extended. Affinity Living Group is staying ahead of the curve regarding state and federal guidelines surrounding tracking of medication.

Meredith Boyle, Senior Vice President of Mather LifeWays, discussed, among other things, their start-up community in Tyson's Corner, Virginia, their wellness programs, as well as new ways to attract and retain employees and residents. In developing their two-tower, 186-apartment, Tyson's Corner campus, Mather utilized eye-catching marketing, including comically dressed canine friends, in both direct mail pieces and road-side billboards. Mather found this marketing campaign very successful, attracting residents who loved the ads, but even bringing in residents who said "I hated those ads, but I had to see the place and I loved it." These residents were surely attracted to the abundant natural light, floor-to-ceiling windows, high-end appliances and open floor plans available, making the apartments a more comfortable move from people's long-term homes.

Mather is also addressing the changing competitive landscape. Condominium communities and Active Adult Communities, without a continuum of service, have emerged as competitors, however Mather has found success in partnering with these entities.

Ms. Boyle also spoke about Mather's Age Well Survey, the results of which can be found on their website.

For more information about this session please contact Aaron Rulnick or Siamac Afshar.

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The Financial Markets in Today's Economic and Political Landscapes

Robert Genetski, PhD, a renowned economic and financial advisor, and one of the nation's foremost promoters of classical economic and investment principals, spoke in detail about his research and predictions for the economic markets.

Early Key Takeaways

Dr. Genetski sees himself as a scholar of nations. Building on this passion, his recent research seeks to understand why some nations prosper while so many others fail. With this framework introduced, he began with an overview of seven key takeaways or general predictions of the future performance of the financial markets. Those takeaways were:

Prepare for a strong U.S. economy in 2020 and beyond.

- *Look for record-high stock prices.*
- *Bet on the U.S. to win the battle with China over key technologies.*
- *Be wary of business and investments in China.*
- *Prepare for a decade of surprises (lease – do not buy).*
- *Expect the implications of living longer, healthier lives.*
- *Enjoy the future!*

He rounded out this introductory discussion by explaining he did not study economics because he thought it would make him a bunch of money, but instead he desired to help people. According to Dr. Genetski, he focuses on getting the economics right that many forecasters wrongly predict.

Economic Freedom

Dr. Genetski's research points to the necessity of economic freedom and he has identified five principals that he argues are vital to the economic freedom of countries:

- *Rule of law*
- *Low tax rates*
- *Limits on government*
- *Free markets*
- *Stable money*

Tracking back through the last hundred years of history, Dr. Genetski has found that a combination of these five factors is essential to the growth of a country. According to his research, countries falter when they veer from these principles.

Threats

Despite a generally positive view of the current application of these principals and the general market, Dr. Genetski provided some general thoughts on recent threats to the economy. He noted the continued threat of China, specifically, China's goal of achieving international dominance via the demise of the West.

Another threat is the fiscal and monetary policy of the United States. On the fiscal side, he is concerned about the effect ballooning federal debt has on the size of government spending. Monetarily, the amount of securities held by the Federal Reserve troubles Dr. Genetski. He argues this artificially props up the entire economy. This is similar, in his argument, to the Fed policies that caused the Great Recession (note: This is a view not held by many economists).

Outlook: Putting It All together

The conversation with Dr. Genetski culminated in a number of economic forecasts shown below.

For more information on this session, please contact Jimmy Rester.

	2019	2020	Beyond
ECONOMIC OUTLOOK			
GDP (total spending)	**4.1%**	**5%**	**5%**
Real growth	**2.3%**	**3%**	**3%**
Inflation	**1.8%**	**2%**	**2%**
FINANCIAL OUTLOOK			
GDP (total spending)			
Short-term interest rates	**4%**	**5%**	**5%**
Long-term interest rates	**2%**	**1.5%**	**3%**
S&P 500	**2%**	**1.5% - 2%**	**5%**
	6%	**6% - 7%**	**6% - 7%**

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Tour: La Vida Real

Senior Living Community Tour

At the close of the 2020 conference, Bill Sims and a group of attendees visited **La Vida Real,** an SRG Senior Living community. The community's Executive Director, Rudy Littlefield, and Tim Fox, Executive Vice President of SRG, joined the tour. La Vida Real is a beautiful campus offering independent living, assisted living and memory care. The community maintains a very high occupancy rate and provides a wide variety of amenities including a full-size swimming pool, multiple venue dining available for 12 hours per day and landscaped courtyards, walking paths, gardening areas and outdoor covered seating areas among many other facilities. The Community provided its own, delicious, homemade cookies for the group to indulge in during their return trip to the hotel.

For more information on this tour, please contact Bill Sims.

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Recreational Activities

We invite you to view photos from the 2020 Late Winter Conference.

Shown below are highlights from our recreational activities:

Golf tournament at Torrey Pines, catamaran sailing on the San Diego Bay, fishing, trolley riding and tour of a couple of local breweries and a distillery, plus a walking tour the naval museum aboard the USS Midway Museum.

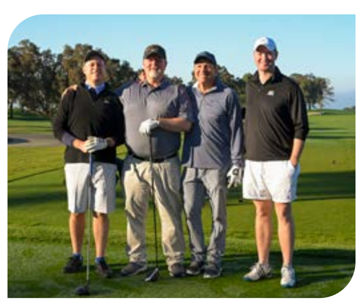
For a full look at all the conference photos, please visit www.hjsims.com/2020lwcrecap







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See you in Sarasota in 2021

February 23 – February 25, 2021

SAVE THE DATES

The 18th Annual HJ Sims
Late Winter Conference on
Financing Methods & Operating
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Hyatt Regency Sarasota
Sarasota, FL

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