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CONFERENCE RECAP

The 16th Annual HJ Sims

Late Winter Conference

Sheraton Sand Key Resort

Clearwater Beach, FL

Tuesday, February 26 – Thursday, February 28, 2019

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2019 Conference Review

During the past sixteen years, HJ Sims has hosted its Annual Late Winter Conference as a forum to gather experts from across the Senior Living industry. This year, more than 300 operators and other professionals convened at the Sheraton Sand Key Resort in beautiful Clearwater Beach, FL for a discussion of thoughts, experiences, and concerns from February 26 to February 28. Throughout the conference, attendees explored recurring themes like the changing landscape of workforce engagement, unique opportunities for revenue and mission advancement, and continued development of the new payer model.

"Amidst upheaval in the nursing home industry, and potential overbuilding of independent and assisted living and memory care communities, our conference provided attendees from the non-profit and proprietary sectors of the senior living industry with an environment to share their recipes for success," said Bill Sims, Managing Principal. "With the backdrop of one of the best beaches in the U.S., conference participants greatly contributed to making this one of the best programs we have ever hosted."

Program highlights included:

- Researchers from outside the senior living industry who shared valuable ideas from fields like block-chain technology, revenue management, and financial markets. These speakers pressed attendees to consider how recent innovations and approaches may be applicable to their organizations.
- Informal events to bolster connection and conversation, including a session about how our palate for wine evolves as we age.
- Educational sessions that covered topics, such as: workforce trends, partnerships in mixed-use development, new ways of looking at growth and development, and the future of the continuum of care.

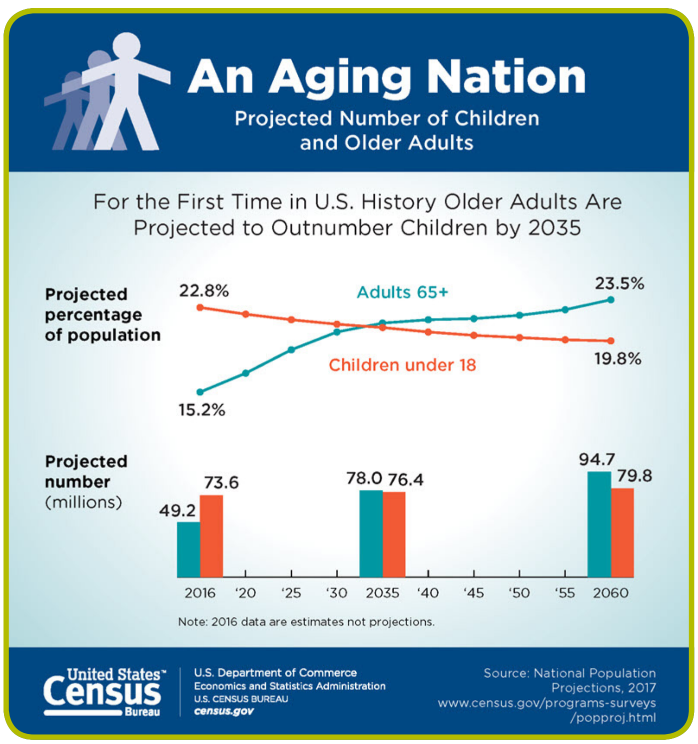
The following pages provide comprehensive coverage of the many sessions at the 2019 Sims Late Winter Conference. Be sure to **subscribe** to our HJ Sims mailing list for information on forthcoming conferences.

CFO Breakfast

This year's CFO breakfast featured an overview of change within the senior living Industry. **Gail Miller, of CliftonLarsonAllen**, provided insight on some of the major trends she is witnessing across the industry. Key takeaways included:

Demographic Growth

The 2030s are projected to be a transformative decade. By 2030, all Baby Boomers will be older than age 65, and one in every five residents in the U.S. will be retirement age. The population in the U.S. is projected to grow at a slower pace and age considerably, which will result in seniors outnumbering children for the first time in U.S. history. Additionally, the 2030s will see declining caregiver ratios. In 2010, the caregiver support ratio was more than seven potential caregivers for every person in the high-risk age years of age 80-plus. In 2030, the ratio is projected to decline to four to one and is expected to fall further to less than three to one in 2050.



Senior Living Options

As we look toward the coming "Silver Tsunami," Boomers are expected to demand customization, flexibility and choices. Aging-in-place is a trend that is becoming increasingly important to seniors. A research study conducted by CliftonLarsonAllen found that a vast majority of surveyed seniors would prefer to stay in their residence (80%), while only 3% indicated they would prefer to move to a retirement community. Aging-in-place is becoming increasingly viable due to affordable technology, Internet access, transportation alternatives, delayed transition through the continuum, and expanded offerings. Other trends include senior living options without nursing living care, assisted living serving higher acuity, and a preference to maintain one's current environment.

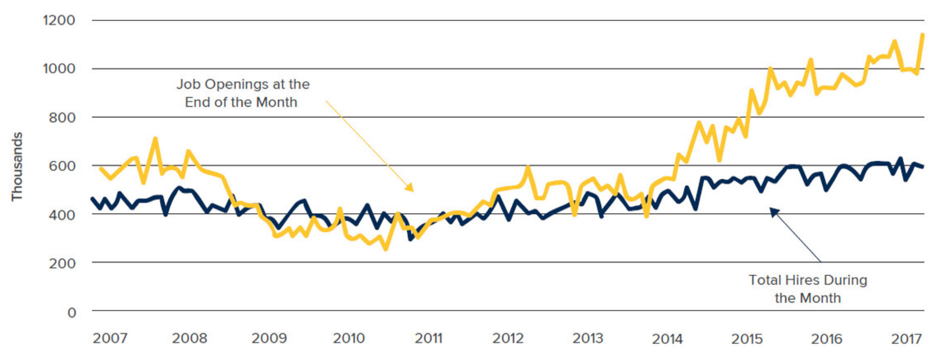
Occupancy and Construction Trends

Independent living occupancy as of 4Q 2018 was 90.2% with 2018 showing moderate inventory growth and absorption. Assisted living occupancy as of 4Q 2018 was 85.4% with net inventory growth and absorption reaching the highest level on record. The skilled nursing sector continues to see reduced occupancy in all regions of the U.S., and the overall occupancy median is now 83.9%. The industry also saw construction starts trending lower, suggesting the construction pipeline may be slowing.

Workforce Pressures

Workforce trends in the senior living industry include a required focus on recruitment and retention as demand for talent continues to increase as well as an evolution in workforce demographics. It is no surprise that the senior living market is growing and senior living job growth outpaced the private sector between 2006 and 2016.

Monthly Hires* and Job Openings** in the Health Care and Social Assistance Sector



Source: Bureau of Labor Statistics; figures are seasonally adjusted
**The 'hires' figures represent the total number of additions to the payroll during the month. Net job growth – which for the health care and social assistance sector is generally in the +50,000 to -50,000 range during a typical month – is the difference between total hires and total separations during the month.*
***Job openings represent vacancies on the last business day of the month*

Job openings in health care and social assistance continue to rise, topping 1.1 million in June 2017. The senior living industry will need to recruit and retain 300,000 more employees in the next ten years, while the labor force that is comprised of 16-24 year olds will see a 2.8 million decline.

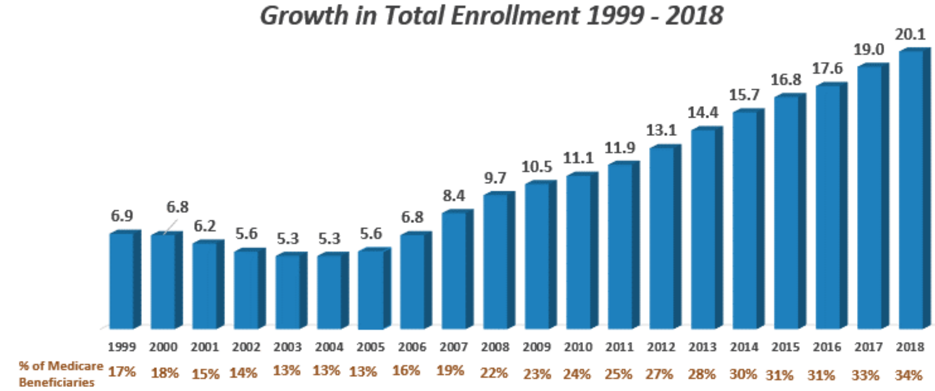
Medicare Advantage

Medicare Advantage (MA) enrollment has grown by more than 70% since the passage of the Affordable Care Act (ACA) to just over 20 million beneficiaries, or 34% of total Medicare enrollment. The transition of Baby Boomers, coupled with enhanced benefits, at lower overall costs to beneficiaries, has made MA attractive to this generation. For context purposes, Accountable Care Organizations, which are Medicare's #1 value-based purchasing (VBP) model have 10 million beneficiaries participating in all versions, including non-risk bearing. This equates to 17% of all Medicare beneficiaries. Compared to the 20+ million Medicare beneficiaries enrolled in MA plans, it is double that of Centers for Medicare & Medicaid Services' (CMS) largest VBP initiative. It is worth noting that four in five MA enrollees are in plans that require some form of pre-authorization. Most enrollees are required to receive pre-authorization for high- cost services (like Skilled Nursing). According to a 2018 study by the Kaiser Family Foundation, 71% require pre-authorization for a Skilled Nursing Facility stay, compared to 62% for Home Health services, and 12% for preventative services. The narrowing health networks will result in "haves" and "have nots." This means the liaison role is critical in navigating Medicare Advantage relationships and the ability to "tell your story" will be key as referrals move to high quality, low cost providers.

For more information on this session, please contact [Christina Rappl](#).

Medicare Advantage Enrollment*

Growth in Total Enrollment 1999 - 2018



** Source: Kaiser Family Foundation "Medicare Advantage 2017 Spotlight: Enrollment Market Update" issued June 2017, updated from CMS Medicare Enrollment Data through September 2018.*

The Senior Living Industry and Capital Markets: Today and Tomorrow

Each year, we begin the HJ Sims Conference with an overview of senior living industry and capital market trends, as well as an update on the latest from HJ Sims. In addition to financing more than $1B in 2018, adding 20 new employees, and welcoming baby Lucas Rappl to the investment banking family, we also launched our Corporate Social Responsibility (CSR) program. For CSR's inception year, our organization was honored to partner with Gift of Life, who was on site to educate attendees about their work to cure blood cancer through marrow and stem cell donation. More than 30 attendees chose to enter the registry with a swab of the cheek.

Bill Sims, HJ Sims Managing Principal, highlighted current senior living industry trends and implications for providers. Firstly, increased research on loneliness (not to mention the first UK Minister of Loneliness) could lead to increased market penetration as the benefits of community become more known. With continued revolution of the nursing home sub-sector, opportunities are present for providers with sufficient infrastructure and scale.

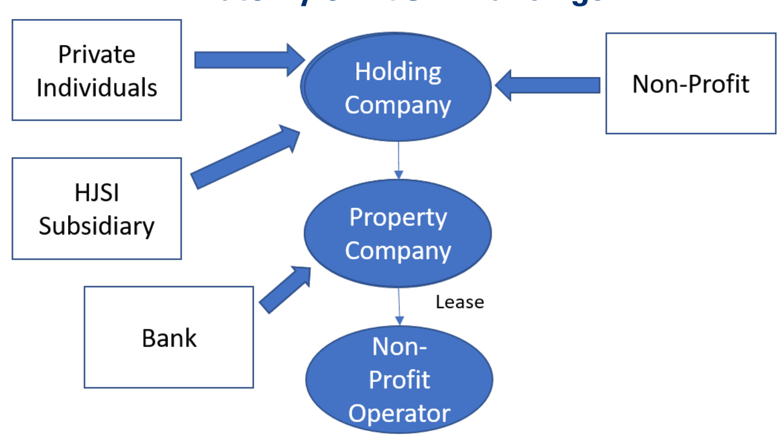
Turning to capital markets, Bill, who last year believed "everything points to higher interest rates," noted that with the results of the mid-term elections and expectations of economic growth, interest rates have actually fallen since last year's conference. Bill was hardly alone in his assumptions; of hundreds of predictions from our 2018 conference, the closest to actual was just the third lowest interest rate.

Aaron Rulnick, Managing Principal and Co-head of Investment Banking, highlighted a number of unique non-profit financings that HJ Sims was proud to complete in 2018. As expansion and new developments predominated capital needs in the wake of tax reform and the elimination of advanced refundings, HJ Sims crafted a number of innovative short-term debt structures and secured shorter call periods. Most notably, these innovative structures included the utilization of subordinate entrance fee bonds to maximize the ability to deleverage, while meeting loan to value requirements. Another inventive structure helped clients to preserve future entrance fees in order to pay down outstanding debt, instead of the new related debt, as the older outstanding debt carried a higher coupon.

In instances of refinancing and expansion alike, we saw an increase in the utilization of taxable bank debt. With the benefit of declining tax-exempt bank rates (owing to the lower corporate tax rate), the ability to quickly secure a taxable loan was appealing, especially in instances of short-term capital needs.

Jeff Sands, Managing Principal and Co-head of Investment Banking, explained the anatomy of our HJ Sims Investment (HJSI) deals, highlighting how the structure is typically used by proprietary senior living providers relevant to non-profit borrowers in a variety of situations. Please email [Rebecca Brady] for a copy of our forthcoming white paper.

Anatomy of HJSI Financings



In the context of some of the key financings and transactions HJ Sims completed this past year, Jeff shared ongoing trends in the industry and how some operator and capital providers are responding. These included: nursing home consolidation and divestiture by REITS, more affordable communities with 25% Medicaid waiver, and increased participation by private equity funds.

Rounding out our executive panel, **Anthony Luzzi, President of Sims Mortgage Funding (SMF)**, updated the audience on the HUD happenings of the past year. While 2018 multi-family and health care loan production was generally in line with that of 2017, the recent partial Federal government shutdown temporarily slowed down the review and closing of applications.

In 2018, SMF) closed loans across all three HUD mortgage insurance platforms: LEAN for Healthcare, Multi-family Accelerated Processing, and Office of Hospital Facilities. 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].

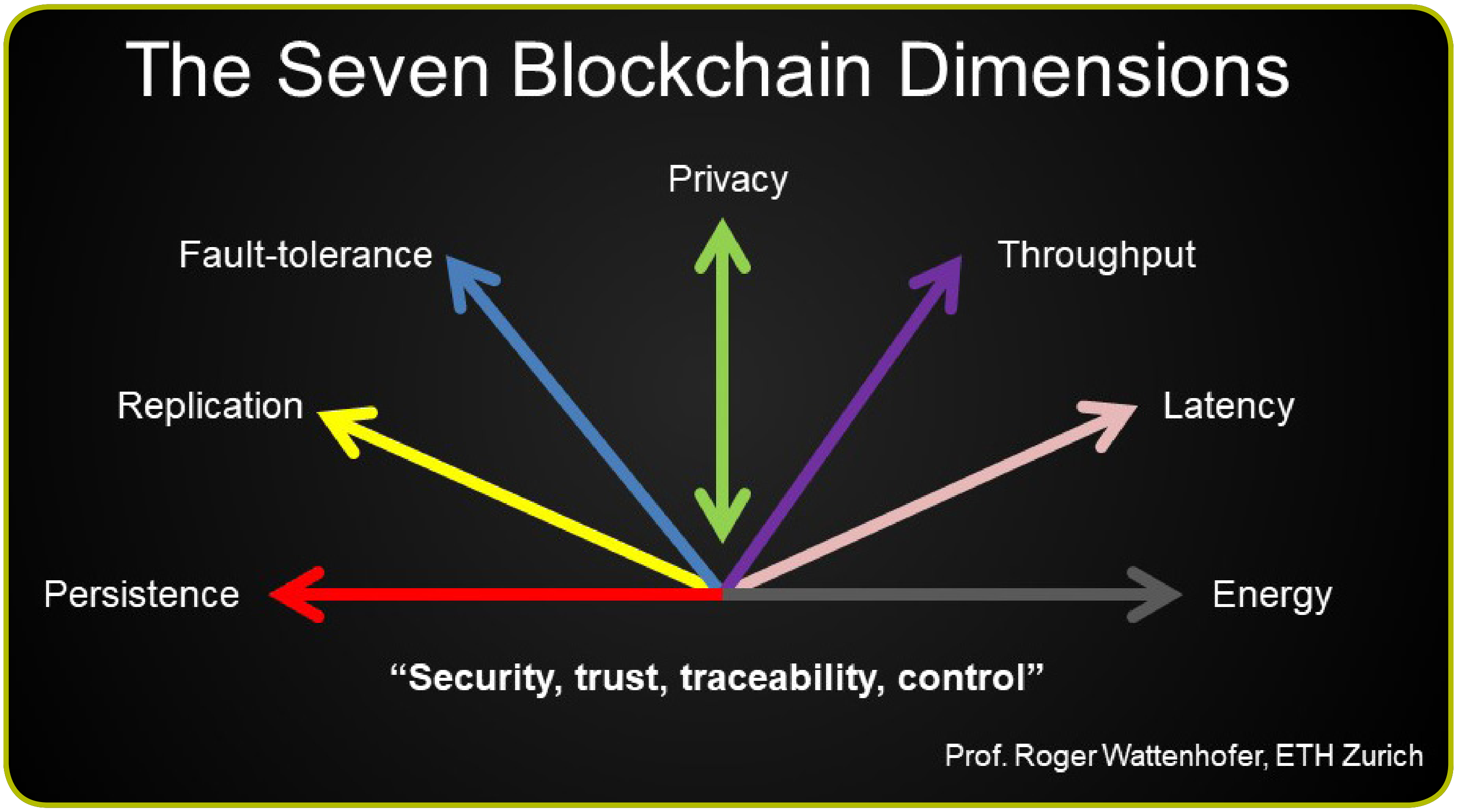
The Latest Digital Asset: Blockchain Technology

This year's conference featured keynote speaker, **Manual Stagars**. Stagars, who resides in Zurich, Switzerland, spoke about the latest digital asset, blockchain technology. An award-winning documentary filmmaker and an expert in blockchain technology, artificial intelligence, and Fintech, Stagars also serves as host of a blockchain podcast. Stagars has authored numerous books about entrepreneurship, financial innovation, Open Data, and impact investment. Stagars speaks frequently, around the globe, illuminating audiences about blockchain technology.

What is blockchain technology (blockchain)? In a nutshell, a blockchain is a distributed digital ledger with transactions in sequence. Blockchain is a growing list of records or blocks, which are linked using cryptography. By design, a blockchain is resistant to modification of the data it contains. It is an open, distributed ledger that efficiently records transactions between two parties in a verifiable and permanent manner.

A blockchain is typically managed by a peer-to-peer network, whom collectively adhere to a protocol for inter-node communication and validation of new blocks. Once recorded, the data in any given block cannot be altered retroactively without modification of all subsequent blocks, which requires consensus of the network majority. Although blockchain records are not unalterable, blockchains are considered secure by design. The most well-known use of blockchain technology is by the crypto currency Bitcoin.

Where is current research occurring? Below is a classification of seven blockchain dimensions by researcher Roger Wattenhofer:



These are the dimensions that blockchains enable and on which research is happening. The farther out one travels down each arrow, the more advanced a system becomes. According to Stagars, most companies do not follow this example; rather, they focus on a few dimensions and neglect the remainder; thus, compromising the integrity of the blockchain.

In closing, Stagars offered the following advice to those considering the utilization of blockchain technology:

- It takes time to understand this technology; take several months to read and research.
- There is a great deal of "hot air" surrounding this technology; learn to ask the right questions.
- When you decide to try the technology, be mindful of controlling risk. As the technology is still in the inception phase, even experts are in a constant learning cycle.

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

Workforce Trends, Retention Strategies & the Millennial Factor

Recent surveys of senior living executives have confirmed that labor issues continue to be a dominant challenge in the senior living industry. Industry experts **Yvonne Rickert, Senior Director of Human Resources at Life Care Services (LCS)**, and **Molly Forrest, CEO and President of the Los Angeles Jewish Home (LAJH)**, discussed the unique approaches their organizations employ to compete for and retain talent in a tight labor market, including how these approaches have changed throughout the last few years.

While turnover levels can vary by employee type, both panelists discussed the high levels of turnover at the caregiver and front-line positions, which can be 50%-75% for for-profit companies, and 30%-35% for non-profit organizations. Ms. Forrest explained how the Jewish Home has been able to maintain an 11% turnover rate through a combination of creative solutions. One example included offering Certified Nursing Assistant (CNA) classes to the public through LAJH's Annenberg School of Nursing (ASN) for $1,000 tuition. For community students, the tuition can be funded with no-interest loans provided by a local agency, Jewish Free Loans. For LAJH staff members who seek ASN admission, if after certification/licensure they choose to work at the LAJH, 25% of the loan is forgiven for every six months they stay with the organization. Another proven retention method for the LAJH is a training program focused on teaching front-line staff members the skills needed to advance in the workplace, particularly employees with language and/or math challenges. Specifically, the LAJH created a program through which an employee can complete English and/or math classes (or earn a GED) via a local adult educational program. For every six hours of LAJH University classes (above the federal/state minimum requirement of 12 annual hours), the LAJH employee receives a twenty-five cent increase in pay (to be applied the year following the annual evaluation).

Given the caregiver labor shortage, recruiting employees is just as challenging as retaining employees. Ms. Rickert discussed the use of technology for recruiting efforts. Rickert highlighted the benefits of leveraging digital job listings and social media presence (LinkedIn), including an increase in the quantity and quality of applications and total outreach, especially candidates whom rely on the Internet for their job search. Rickert talked about the way in which data gathered from those sites can improve employee recruitment.

Rickert addressed the key factors LCS focuses on when hiring employees: personality, intelligence, experience and heart (the latter being, particularly important for caregivers). She explained that the facility tour is important in evaluating these factors; much can be gleaned from observing how a candidate interacts with residents and staff members. For example, does the candidate smile at a resident when they meet? In LCS'

experience, these characteristics cannot be accurately measured by personality assessments; the tests did not draw a correlation between scores and success. Instead, Rickert recommends involving the best employees in the recruitment process in order to hire others with similar characteristics.

Both panelists noted that with four to five generations working in communities, there is not a single formula to retaining top talent as people from different age groups tend to stay in a position for different reasons. A community's ability to adapt to their workers and provide multiple avenues for retention is key to reducing turnover. For example, Rickert noted that 75% of Generation Z believes they can be entrepreneurs and when deciding where to stay long term, they may value career advancement over other factors that might be more important to other age groups.

With that said, regardless of age, both panelists agree that money is not the most important factor and employee engagement is key. Wage compensation is generally a short-term satisfier, though paying a sufficient living wage is important. Employees may leave for a wage increase or an advancement, but if a workplace boasts a positive culture, that employee may return, if you leave the door open for them.

With employee engagement a key to success, Forrest revealed that LAJH engages employees through the Chai-way to Health wellness program. The program provides a way for employees to publicly recognize the good acts of their colleagues, and empower staff to help improve the organization by seeking their advice in key decisions like the selection of a health care plan.

Both Rickert and Forrest agree that the industry faces a long-term challenge of attracting the highly skilled workers whom are needed to take care of an ever-increasing senior population. Rickert expounded about the ways in which the LCS Foundation is discovering a solution to this challenge by providing opportunities to high school and college students, including partnering with educational institutions to provide students with direct, real-world experience, as well as financial assistance and scholarships for college students to pursue studies that prepare them for a career in senior living.

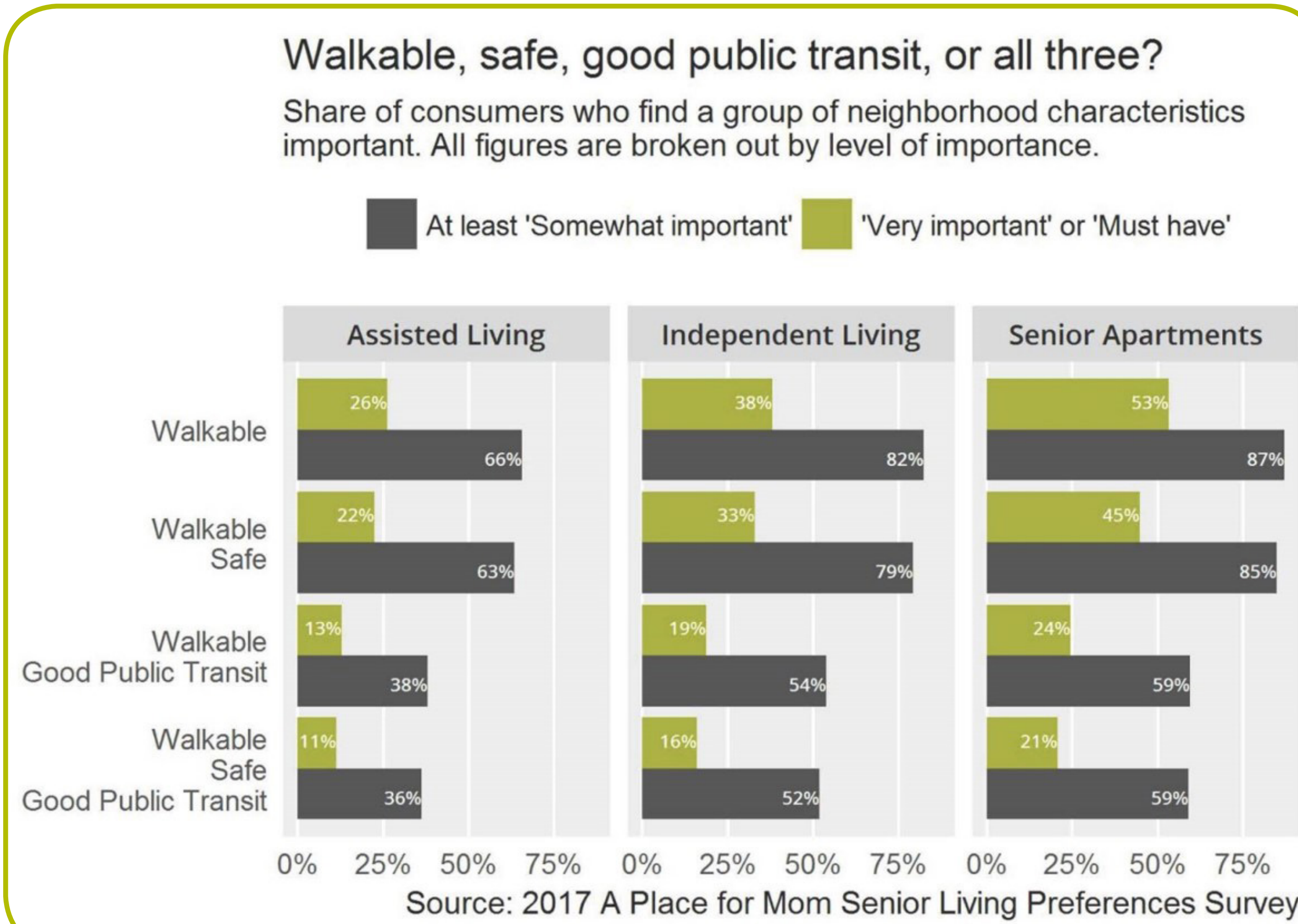
Forrest provided insight on the ways in which LAJH is partnering with local universities to develop the next generation of senior living leaders. She also highlighted the success of their Annerberg School of Nursing, which educates and trains students to become qualified health care practitioners, whom will, in the course of their careers, meet the needs of a culturally diverse society in its continuum of illness-wellness.

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

Partnerships in Mixed Use Development

The focus of this session was to provide different perspectives on the intersection of mixed use development and senior living communities. Following on the 2018 HJ Sims Conference theme of growth in demand by the Baby Boomer generation for downtown communities, this session gathered leaders from the for-profit and non-profit senior living communities, as well as a well-known mixed-use developer evaluating the inclusion of senior living communities in its developments.

William (Bill) Pettit, Jr., President and Chief Operating Officer of Merrill Gardens kicked off the discussion by highlighting his organization's experience in driving successful mixed use developments. In reviewing a survey conducted by A Place for Mom, 85% of independent living consumers, and 66% of assisted living consumers, place importance on being within walking distance of at least one major neighborhood amenity, with a significant percentage of each demographic indicating that this was a "must have" in making their decision on where to live.



The first community presented by Mr. Pettit was University Village, located in downtown Seattle. The community sits upon a 2.5 acre site that is comprised of 123 dually-licensed independent living/assisted living apartments and 103 market-rate apartments with 22,500 square feet of retail space. The total development cost was $70 million with $55 million financed with tax-exempt financing. The senior living apartments frame one side of the site, while the retail space and market-rate apartments are on the other side of the site; a common courtyard is positioned between the buildings. Mr. Pettit mentioned that the mixture of senior living and market-rate apartments encourages intergenerational interaction – including students of the nearby University of Washington either visiting grandparents or creating friendships with residents of the Merrill Gardens community. Residents and students share meals, and the happy hour at Merrill Gardens was frequented by residents of the market-rate apartment buildings.

Another highlighted project was Merrill Gardens at Burien, a bustling, growing town that boasts a number of prominent companies with national headquarters within 10 to 15 minutes of the community (including Starbucks Coffee, The Port of Seattle, Sea-Tac Airport, Alaska Airlines, REI, Weyerhaeuser, Amazon, Russell Investments, and Nordstrom). An undeveloped two-block area was situated in the town center of Burien, and was a prime location for a mixed-use project located near a town square park, transit center, farmers market and library—all within one block. Merrill Gardens developed Merrill Gardens at Burien for $41 million, including 126 units with a 15-unit memory care wing. At the opening, Merrill Gardens collected 100 deposits and within six months, saw 94% occupancy, which drove more than $2 million in revenue.

Merrill Gardens has repeated these town center successes elsewhere in Washington and California, creating senior living communities adjacent to town amenities, allowing their residents to be within walking distance of at least one major neighborhood amenity. As a result, they have achieved rapid fill-up of new projects and stabilized occupancy earlier than may otherwise have been achievable. They believe that town center development represents an important new opportunity for senior housing. Though it can take more time and potentially increase costs, there are a limited number of opportunities in a particular town creating natural barriers to entry. The popularity of these communities reflect the shifting preferences of today's seniors who seek to be more connected to their surroundings.

Bill Hagstrom, Vice President of Senior Housing Partners, the development arm of Presbyterian Homes & Services, walked through a case study of their Folkestone Community, located on the shores of Lake Minnetonka in Wayzata, MN. While Senior Housing Partners has developed a number of projects—from strategic planning and product positioning to site selection and zoning and regulatory compliance—the Folkestone project was highlighted in our session to illustrate the nuances of combining a local government's vision for a particular site and the developer/end user's vision for the site. The master plan for Folkestone includes 80 condominiums, 36 market-rate apartments, a 115-room boutique motel, 109,000 square feet of retail space and a senior living community that is sponsored by Presbyterian Homes & Services, including a 30-unit care center, a 58-unit assisted living community, enhanced assisted living options, a 17-unit memory care neighborhood, and 148 independent living units.

Residents of Wayzata felt strongly that a significant portion of the development should contain retail space. Initial hopes were that leading big-box retailers would lease the space; however, when that did not come to fruition, the retail targeting strategy shifted to smaller units. Now, the community includes a barber, hair salon, several restaurants, Sotheby's International Realty, high-end boutiques, a running store, Anthropologie, and a Pilates studio. Additional requirements of the city were that there be sufficient parking to accommodate the mix of residents, retail customers and hotel patrons; thus, the need to develop 250 underground parking stalls. The community also needed to be walkable, even in the harsh MN winters; therefore, a geothermal energy system was implemented to heat and cool the campus. Additionally, the sidewalks and streets are heated in the winter.

The senior living community at Folkestone is vibrant and well-occupied with occupancy rates for its care center running at more than 92% since its opening in 2015. The assisted living occupancy touts an average

occupancy in excess of 96% since opening. Memory care is at 97% occupancy and independent living averages 99% occupancy since opening. Among the lessons learned with the Folkestone community were the need to be careful in making commitments to local jurisdictions, reinforce the focus on the benefits for the community residents, consider service retail over product retail, expect that there will be smaller retail units, plan for parking and, depending on the size of the retail commitment, engage a retail management company.

Our final presenter was **Mauricio Diaz, the Director of Strategic Initiatives from The Howard Hughes Corporation**, a large mixed use developer in NY, MD, TX, NV and HI, among others. Though Howard Hughes does not presently incorporate senior living in its developments, it has been evaluating the addition of senior living as part of the offerings of its mixed use developments and is eager to offer its perspective on how a large mixed use development can evolve. Diaz provided information regarding its present development, Downtown Columbia in Columbia, Maryland, conveniently located between Baltimore, MD, and Washington, D.C.

Once complete, the new Downtown Columbia will include 4.3 million square feet of office space, 6,250 residential units, 640 hotel rooms and more than 1.25 million square feet of retail space. While there is no senior living community presently contemplated, a community like this would incorporate the walkability requirements for seniors and have a third-party managing the retail space and other development aspects. In developing Downtown Columbia, Howard County maintained significant requirements of Howard Hughes, including incorporating affordable housing, open space and parks, upgraded public infrastructure and structured parking to accommodate a “park-once” approach, allowing visitors to the area to park once and walk within the town center.

Important wins for this development included securing Tenable, a publicly traded cybersecurity company, as a flagship tenant that is establishing its world office headquarters at the development, and securing tax increment financing in the amount of more than $48 million to support the costs of the public infrastructure. Through tax-exempt financing, the Maryland Economic Development Corporation issued bonds, the proceeds of which were used to pay for public infrastructure within the development and the debt service of which will be paid from the increased tax revenue received by Howard County. This form of tax-exempt financing is available in nearly all states and should be a consideration in a mixed use development, specifically in areas where significant additional property tax revenue will be generated, public infrastructure is a meaningful part of the development plan, and the development would not otherwise be completed or provide the same level of services and amenities.

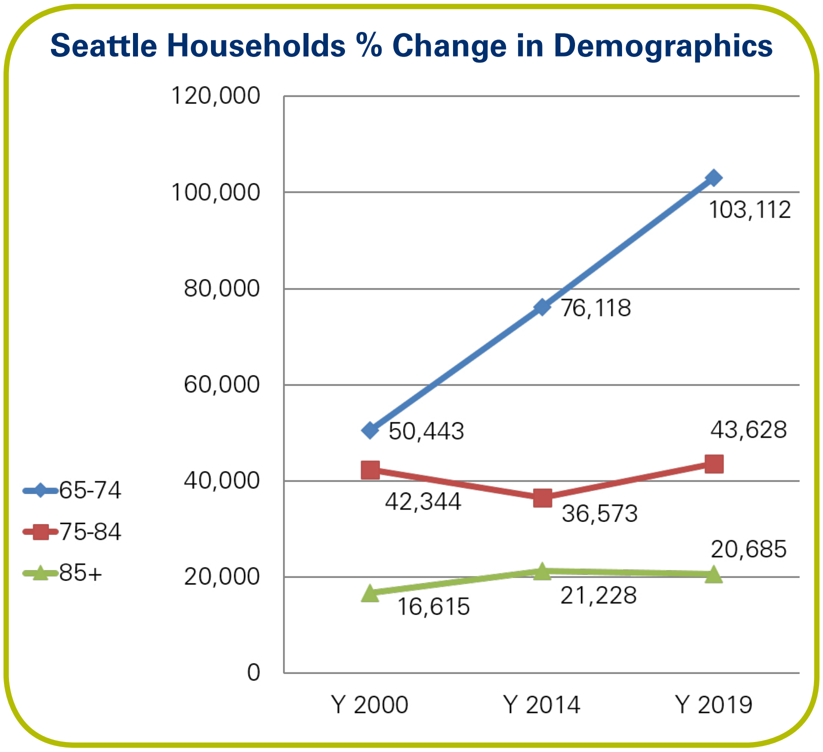
For more information on this session, please contact **Melissa Messina**.

New Ways at Looking at Growth and Redevelopment

Aging physical plants that are difficult to maintain and market to new residents, land use restrictions, local community opposition, and rising construction costs are just a few of the challenges senior living providers face today in their efforts to improve and succeed. The focus of "New Ways at Looking at Growth and Redevelopment" was to examine the strategies three leading organizations employed to overcome these challenges and deliver positive results.

Paul Aigner, Vice President, Transforming Age, shared his organization's experience in redeveloping Parkshore, a community in downtown Seattle on the shore of Lake Washington. Parkshore opened in 1963 and residents in its 113 independent living apartments enjoyed sweeping views of Lake Washington throughout the 15-story building. However, over time, the building became "stuck" in the past and was not as relevant as it once had been in this competitive market area. More than half of the apartments were less than 750 square feet, none had in-unit washers and dryers, and there was a no-pet policy. Occupancy had declined to 82%, while the average resident age increased to 87.

Market research yielded anticipated themes: Existing residents liked the sense of community, the current amenities and were not looking to change, while prospective residents demanded larger units, modern technology and opportunities for more social engagement. The demographics were encouraging: The 65-74 age group was expected to grow by almost 40% throughout a five-year period.



Transforming Age embarked on a comprehensive master planning exercise for Parkshore in 2014. Based on their analysis, they arrived on a capital budget of $30 million to "reinvent" Parkshore. Units were combined, in-unit washers and dryers were installed, and studio apartments were no longer on the menu. Changes to the resident experience were implemented: Modern dining venues were created, common areas like an updated multi-purpose room, theater/lecture room and a Sky Lounge that took advantage of the views of Lake Washington were created. Operationally, the prior three-meals-per- day plan was eliminated in favor of a more desired one-meal plan, and the community is now pet-friendly.

In order to maximize the return on investment, the entrance fee and monthly service fee for each apartment were analyzed, and premium pricing applied for the higher and larger apartments.

The master plan was a tremendous success. Occupancy has increased, there is now a 300-person wait list and the average resident age has decreased to 82.

David Latina, Vice President of Development for Sequoia Living (until recently, Northern California Presbyterian Homes & Services), described the development process for one of its newest communities, Viamonte at Walnut Creek. Walnut Creek is 24 miles east of San Francisco, and about 12 miles east of Berkeley, CA. The real-estate boom in Northern CA is well documented with institutional capital flooding the market and new condo and rental housing development. Although this was a target market for Sequoia, management realized they could not compete alone in order to secure land. Furthermore assume the entitlement and resource risk that would accompany going it alone.

Sequoia entered into agreements with Safeway, one of the largest supermarket chains in the country, for the redevelopment of a 25-acre former office park. Safeway's initial plans called for a mixed use development with shopping, dining, entertainment and office venues, but after local opposition forced Safeway to carve out a four-acre parcel for other uses, Sequoia signed on to develop a senior living community. This relationship achieved Sequoia's primary objective of avoiding the potentially costly and time consuming process of obtaining the required land entitlements.

The mixed use community surrounding *The Orchids at Walnut Creek*

Management also recognized the human resources required for a new community development and opted to engage one of the leading firms in the field, Greenbrier Development, to serve as development consultant for Viamonte.

Sequoia determined Viamonte would be a "dynamic senior living" community and adopted a home-for-life model. This entrance fee community would offer residents 174 independent living apartments, assisted living and memory care on campus with skilled nursing services provided by three local facilities from whom residents could choose.

The hard work by Sequoia and Greenbrier has paid off so far. The sales goal of deposits on 75% of the independent living apartments was achieved in just 12 months, which, according to management, is tied for the second fastest in the country. After closing on a $187.2 million Cal Mortgage bond financing in May 2018 ($142 million to be repaid with entrance fees), construction is underway with initial occupancy scheduled for mid-2020.

Severine Petras, CEO and Co-Founder, Priority Life Care Management, provided her unique experience in converting a former hotel in downtown Fort Wayne, IN, into a senior living community. A project such as this has many challenges on several fronts: design, age of physical plant, operations, and revenue management—to name a few.

The Lamplight Inn is a 14-story community that began its life as a Holiday Inn in 1968. Centrally located in downtown Fort Wayne, it was at one time well known as the destination for many social events in the city. Priority Life Care purchased the building in 2010 for $4.4 million and invested approximately $2.0 million in renovations that included a new roof, modernization of the elevators and conversion of the hotel rooms to care rooms. Supplementing its own investment were grants from Fort Wayne as part of the city's downtown revitalization program. This conversion is credited with jumpstarting a broad revitalization of the city and the surrounding neighborhoods that has surpassed $426 million in completed projects (or project under construction or consideration).

Today, the community consistently enjoys occupancy at or above 90% and generates healthy cash flow. Adding to its unique attributes is that the Lamplight Inn is the largest Medicaid waiver community in the state of IN, expanding the care provided to more area seniors.

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

The Future of the Continuum of Care

Skilled nursing and the care aspect of retirement communities is in the midst of a transformation and providers are continuing to face challenges of delivering the full continuum of care while operating an efficient business for their residents. This session provided three perspectives on navigating the future of skilled nursing as organizations and communities try to grow and reposition in the current environment. Also illuminated in the session was the ways in which senior living providers will either embrace or de-emphasize skilled nursing care as part of the continuum of care.

Warren Slavin, CEO Emeritus of Charles E. Smith Life Communities, shared the perspective of a not-profit executive who is running a single campus organization with a spectrum of care. Their campus provides the continuum of care with skilled nursing, assisted living, memory care and supportive independent living, but each component is operated independently. Notably, the skilled nursing facility consists of 550 beds, which is a large operation for a stand-alone facility. Slavin provided his viewpoint on the trends, challenges, and stressors that are effecting the changes in providing skilled nursing care. He envisions facilities remaining smaller in size, but adopting a hospitality approach to environment and customer service. Certain skilled nursing facilities may seek to repurpose portions of their assets to add additional care, such as assisted living, mental health, specialized units and reinvestment in post-acute. Slavin discussed how the new vision of the continuum of care will contain more overlaps within the various components as compared to the current silo model.

James Freehling, CEO and President of Brookhaven at Lexington, provided the story of the evolution of a mid-size single-site CCRC located in Lexington, MA, for more than 30 years. Because in the early 1990s there was no assisted living in MA and skilled nursing was typically added to meet internal life care resident needs, Brookhaven operated with only independent living and skilled nursing care. Once assisted living was regulated in 1994, it was provided as a social model and the nursing home industry preferred to keep this new care type as non-medical. If a CCRC were to add assisted living to its campus, the community was only permitted to provide services to existing residents and was not allowed to admit from outside of the community. Brookhaven continued to operate with only nine assisted living units until 2005, when the internal demand was growing with a wait list. The organization then sought to expand its independent living with an additional 40 units and assisted living to 20 total units to meet internal and external needs, while creating more private rooms in its skilled nursing with private showers. Following these changes, Freehling formed a health care task force to assess the shifting needs of Brookhaven. The task force implemented change on the campus of Brookhaven in the form of de-emphasizing skilled nursing and reducing the number of beds. As well, they added assisted living units and built 49 independent living units on adjacent land.

Richard Ackerman, Chairman and Senior Managing Principal of Big Rock Seniors Housing provided insight on the development of new class “A” senior housing and how its organization was addressing the needs of today’s senior population, which is continuing to change with Baby Boomers nearing retirement age. Ackerman emphasized that residential design that is based on accessibility and amenity offerings is vital to new independent living residents. Big Rock communities are implementing an operational strategy via “three pillars” (technology, wellness, and entertainment). The technology pillar provides “smart” technology with seamless voice recognition and on-site IT; these services and products are expected to assist residents and provide fully integrated technology into the physical infrastructure, while accommodating future advancement. The wellness pillar delivers all aspects of fitness, including: exercise studios, aquatic centers, aerobics rooms, on-site trainers, physical therapists, and nutrition experts, helping to promote well-being for every resident in the community.

The third pillar of entertainment offers premier dining rooms and bars, movie theaters with cinema quality screens and sound systems, large auditoriums for professional and education programming, and ample indoor and outdoor lounge areas, helping residents to enjoy a sense of community. Big Rock communities are designed and operated with an emphasis on hospitality and well-being, but provide no skilled nursing care—based on the view that retirement communities are focused on the consumer and skilled care is shifting toward rehabilitation and short-term stays. Hence, residents are provided wellness services, within a residential assisted living or memory support environment, versus skilled care. This allows the community to have little to no reliance on non-private pay revenue sources to eliminate financial uncertainties that accompany the Medicare and Medicaid reimbursement programs that are associated with skilled nursing.

The speakers described ways in which non-profit and for-profit organizations are evaluating the ever-changing care component need of the continuum, along with transforming residential consumer needs. Each organization advocates for less reliance in the future on traditional skilled nursing care in the senior living environment.

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

The Science of Revenue Management and How It Can be Applied To Senior Living

Highlighting research from the travel and hospitality sectors, including airlines and hotels, **Professor Christopher Anderson** presented a thought-provoking session, offering insights on the evolution of revenue management in these sectors, and drew parallels to the senior living sector.

Central to the effective and profitable use of revenue management is the existence of what is a "perishable" service – in other words, the service is available for consumption by a customer only for a limited amount of time. Examples in the travel realm include airline seats, cruise vacations and hotel rooms, among others, with similar applicability for senior living room/service capacity.

Using fundamental economic principles of supply-demand, Professor Anderson described the genesis of revenue management strategies, beginning with airlines in the 1970s, and their subsequent evolution within the industry, as well as other hospitality and travel sectors, in the following decades. He cited strategies in the airline sector that are aimed at attracting more travelers – these included the use of differentiated fares, underpinned by multiple classes of service (economy, business class, first class), varied amenities (seating location, amount of legroom, checked baggage with/without fees, cancellation/change options, etc.) along with the amount of lead time a seat is booked prior to departure date.

Further, Professor Anderson highlighted the common tendency for airlines, as well as companies across the hospitality sectors, to compete based on price, which frequently escalate into "price wars" and, rather than driving favorable financial performance, result in declines in profitability.

Beyond the airlines, Professor Anderson highlighted the dramatic transformation and developments within the past few decades in the hotel sector. In this realm, he discussed the growth of the Internet and the emergence of commission-based travel intermediaries who provide customers with transparency on room rates and availability from multiple hoteliers across the world. Most recently, with the proliferation of mobile device functionality and utilization, and continued growth in low-cost bandwidth, this evolution has further advanced as customers have access to this information at any time—literally at their fingertips.

Building on his review of the airline and hotel industries, Professor Anderson discussed sales and marketing in the senior living sector as well as the implications and opportunities for the use of revenue management.

Relating to marketing and sales, Professor Anderson discussed the impact of the Internet and advancements in its use in senior living marketing and sales. This includes the evolution of digital marketing in the senior living sector, evolving from primarily passive banner/display advertising to more active "per-click" advertising. As further illustration, he provided an example of the variability in the "per-click" cost of advertising among multiple senior living communities as well as commission-based senior living community intermediaries, such as a Place for Mom and Care.com, located within a common geographic market.

Relating to revenue management opportunities in the senior living sector, Professor Anderson noted similarities between senior living and the airline and hotel sectors, as well as the cruise ship and casino sectors. Interestingly, relating the cruise ship sector to senior living, he noted opportunities for additional revenue generation, beyond revenue from room occupancy, resulting from resident demand for additional services and amenities; for the casino sector in relation to senior living, he noted the opportunity for "customization" of services catering to the required and discretionary needs of residents.

Further, Professor Anderson discussed the concept of "lifetime customer value," centered on the duration of a customer relationship and the total amount of potential revenue that may be generated. He noted that consideration of lifetime value should inform pricing levels and the extent of any discounting in price. For example, for short-term stays, it may be advisable to offer significant price discounting to fill unused capacity; on the other hand, for longer-term stays, careful consideration should be given to the magnitude and duration of discounting as it will have a more sustained financial impact on the service provider.

Professor Anderson observed that senior living services, varying across the continuum of care and even within each care/service component, lend themselves well to the use of revenue management strategies. This is further supported by their delivery in a facility/campus-based setting with varied unit types, sizes and locations as well as physical and service amenities. With this said, in response to sentiments expressed by Conference attendees, he acknowledged the uniqueness of senior living services, including the provision of high levels of care and custodianship of older adults in the latter stages of life – this is a significant difference compared to travel and hospitality services which, while being high value from a leisure/lifestyle perspective, are less personalized or sensitive in nature and complexity and do not typically impact life and death.

The session prompted interesting discussion and thinking about the current and potential strategies for revenue management. Further questions for additional consideration include:

- The applicability of specific revenue management strategies across the continuum of care from independent living to assisted living/personal care to memory care and skilled nursing, and home and community-based services, each of which have differing demand features and sources of payment/reimbursement and
- The extent of further growth of commission-based intermediaries, like a Place for Mom and Care.com, and the impact on the demand for and pricing of senior living services.

For more information on this session, please contact **Jim Bodine**.

Let's Hear from the Leaders

We were fortunate to have three industry leaders address the 2019 HJ Sims Late Winter Conference attendees.

Ron Jennette, President and CEO of Methodist Retirement Communities (MRC), shared the story of the transition of his non-profit organization from "Mission Driven" (but financially challenged), to what is today a growing and financially secure provider. When a new CEO was hired in 2008, the organization inherited a company with multiple boards, a decentralized leadership structure and no plan for growth.

As Jennette put it, the key to success was to first create an organization that was focused and fully dedicated to a growth plan.

The Board was centralized and reduced from 75 to 17 members. The Board focused on short-term stability and long- term growth. Once structural changes were accomplished, the Board turned to instituting a new strategic growth and initiative plan.

The first step was difficult–the organization needed to shed itself of unprofitable assets. After that, it decided to embark on a measured growth plan that incorporated three areas of development. First focus: entry-fee developments that serve middle/upper markets and generate financial resources for the organization. Second focus: more middle-level rental communities. Third focus: restricted income HUD senior housing, using charitable donations to add services.

This strategy has successfully transformed MRC into a well-balanced and financially secure organization that has "evolved to serve."

Our next speaker was **Wayne Powell, CEO of Civatas Senior Living**, a for-profit senior living provider. Powell spoke about "Succession Planning for Growth." He talked about the journey from an entrepreneurial enterprise to a sustainable company. He discussed the growth of Civitas, which evolved from a company with limited assets in 2012, to a company that today manages 35 communities with 24 more under construction.

In order to create a sustainable platform, Powell emphasized three needs: identify leaders in your organization early and dedicate resources to develop their leadership talent; develop systems that can grow with the organization; and allow for leadership transition.

Powell challenged leaders to continually evaluate the “exit plan.” As he put it, an organization should strive to be in a position that, if there was a sudden exit of the top leaders in the organization, others should be prepared and trained to seamlessly “pick up the ball and run with it.” Only by having a strong bench and systems that ensure sustainability can an organization succeed.

Our final speaker was **Sean Kelly, President and CEO of The Kendal Corporation**. Kelly gave an aspirational talk about Kendal in “A Changing World of Senior Living.” He discussed success factors “across the field of aging.” These included:

- A total focus on creating an inclusive, caring and loving “culture” which permeates your organization, your staff and envelopes your residents;
- Attention to scale–adopting efficient systems that can bring more programming at better pricing to residents and leveraging off community resources to augment services;
- A recognition that cost matters and a commitment to understanding how people perceive value and how to deliver it throughout the organization; and
- The need to customize and personalize the delivery of care by giving residents choices and empowering staff to meet resident choice.

Kelly painted a picture of the future where residents and caregivers interact both within and outside communities with attention to personal preferences and a dedication to ensuring each person lives the life they seek to the fullest extent possible.

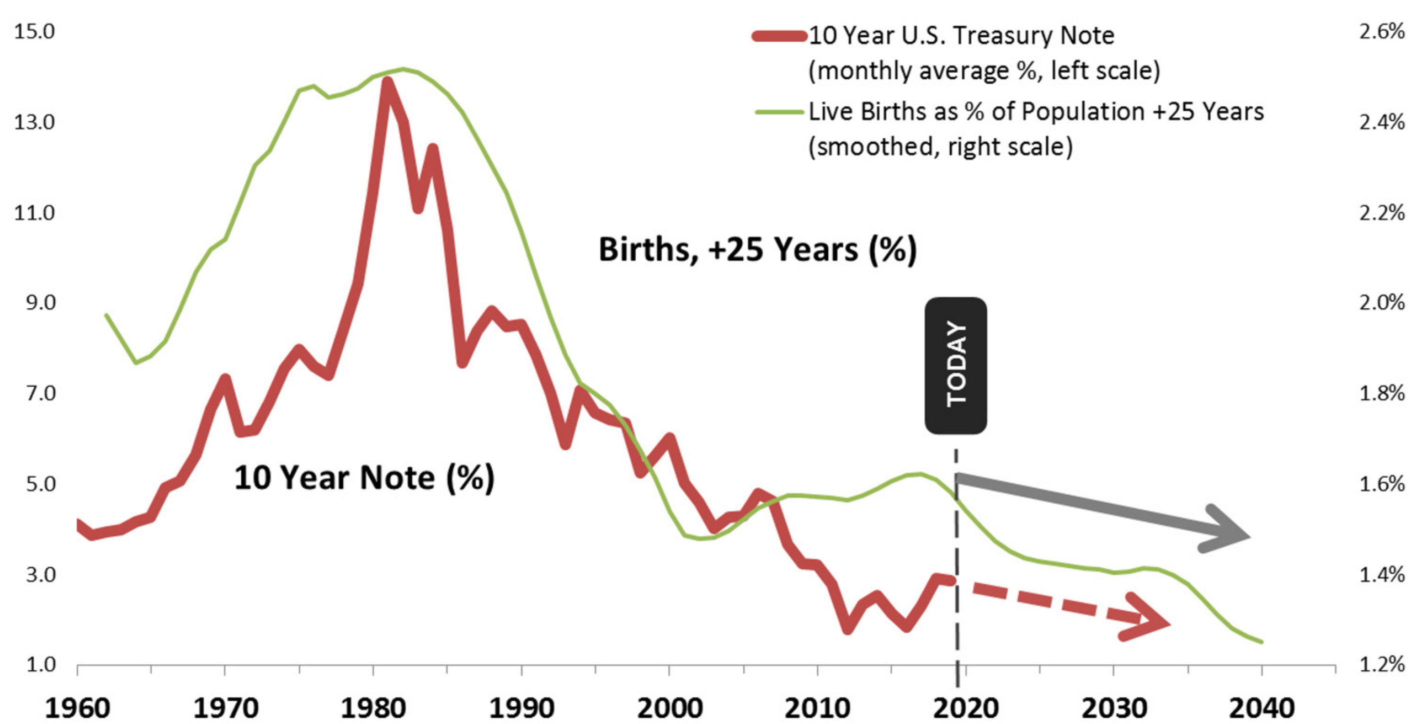
For more information on this session, please contact **Jeffrey Sands**.

Insights into Today's Financial Markets

Matthew Forester, Chief Investment Officer and Director of Investments for BNY Mellon | Lockwood, provided keen insights into the impact of tightening monetary policies and the many changes we are seeing in our geopolitical and political environments. Of the many "take away" points in Forester's presentation, several are of significant interest to the fixed income marketplace and Senior Living Providers. The performance of the S&P 500, after a rather significant fall in January of 2019, appears to have discounted a great deal of near term pessimism, resulting in a rebound to the levels of the fall of 2018.

However, capital markets are sensitive to economic growth and economic growth is sensitive to population growth, and to a lesser extent, improvements in productivity. Historically, real domestic product growth in the U.S. has closely followed population growth, and population growth has steadily declined. GDP and population growth has similarly declined in Germany, Japan and the European Union.

Also, the correlation between the decline in birth rates for these countries and decline in the 10-year interest rate for respective sovereign debt is dramatic. If these correlations hold true in the future, interest rates are not likely to increase significantly in the near to intermediate term. This analysis suggests that those who believe interest rates are on the verge of substantial increases will be disappointed. The impact on savings returns for seniors and pension funds is significant.

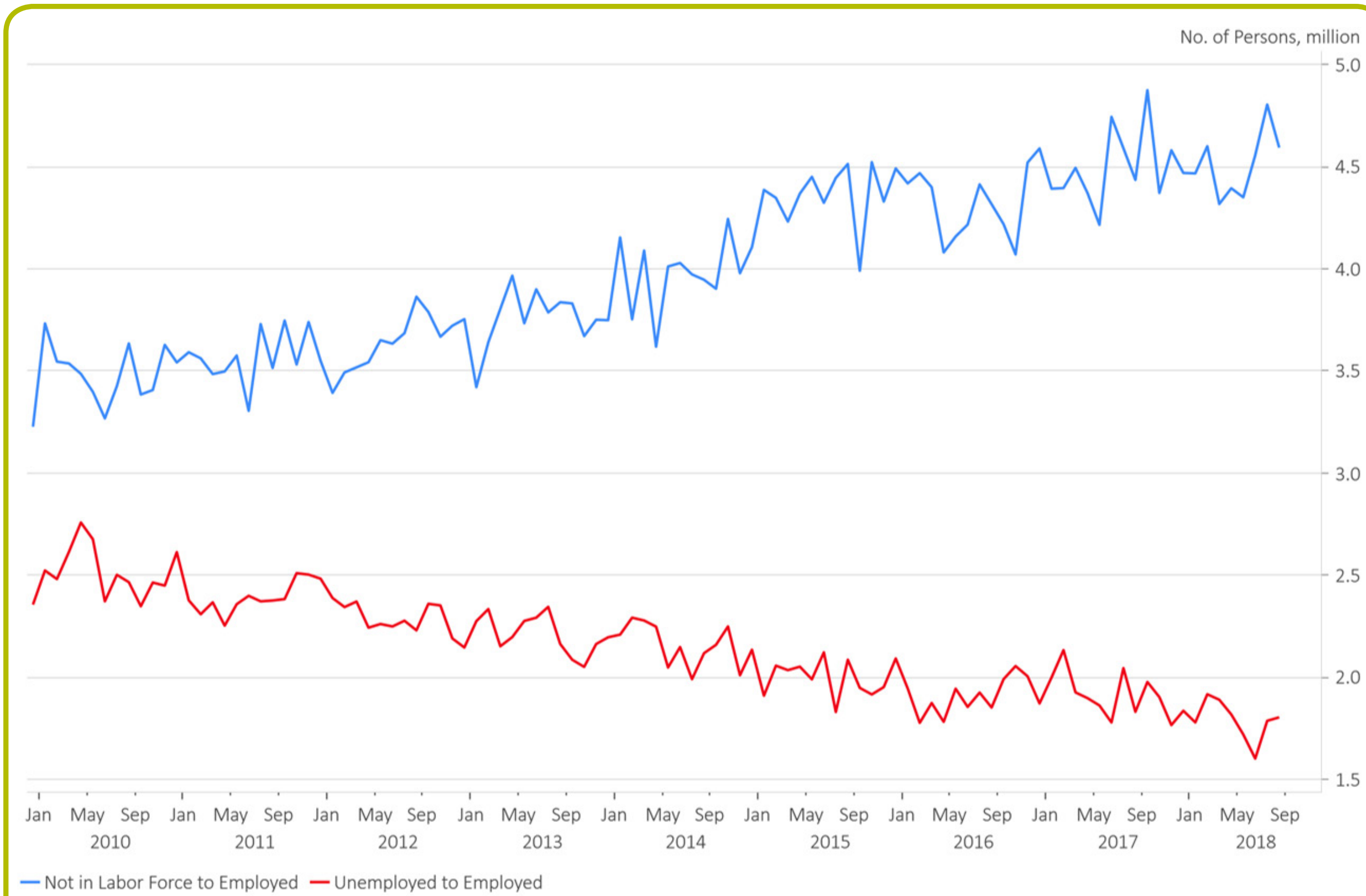


Source: OECD, St. Louis Federal Reserve, Visual created by Lockwood Advisors, Inc. Data shown implies correlation, but not necessarily causation. Past performance does not guarantee future results.

Forester also discussed the tight labor market in the U.S. The number of job openings had declined sharply, and job openings now equal or exceed workers unemployed. This is a significant change in this ratio brought on by the recent strong economy. Somewhat surprisingly, the worker shortage has been relatively mitigated by people who were once considered out of the workforce and are now returning to the workforce. The presentation referred to these workers as "coming from sidelines."

In summary, the economic indicators Lockwood is watching include: upside indicators like labor market momentum, deregulation and tax reform environment, and strong consumer sentiment; ambiguous indicators like "neutral" interest rate level, currency risk and trade rhetoric; and downside indicators such as late stage economic cycle risks, weak global date and demographic constraints.

For more information on this session, please contact **Mark Landreville**.



Source: Bureau of Labor Statistics. Data through September, 2018. Visual created by Lockwood Advisors, Inc.

Event & Recreational Activities

We invite you to view photos from the 2019 Late Winter Conference. Shown below are highlights from our recreational activities: Golf Tournament at Innisbrook, Chocolate Making & Tasting at William Dean Chocolates, Sailing on the Kai Lani Catamaran and the Schooner Clearwater, Fishing at Hubbard's Marina and Biking through Dunedin.

While the weather may not have cooperated, we all managed to have a fun time!

For a full look at all the conference photos, please visit **www.hjsims.com/2019lwc**.











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