2019
annual meeting

AMERICAN SENIORS HOUSING ASSOCIATION
Living Longer Better

highlights

JANUARY 2019 RANCHO PALOS VERDES, CA TERRANEA RESORT

SENIOR LIVING Hall of Fame

2019 Class Inducted into Senior Living Hall of Fame

The American Seniors Housing Association (ASHA) welcomed the 2019 class of inductees in the Senior Living Hall of Fame during the association's annual meeting in Rancho Palos Verdes, CA.

Honorees were Debra Cafaro, Ventas, Inc.; Paul Klaassen, Sunrise Senior Living; and Tony Mullen, National Investment Center for Seniors Housing & Care (NIC).

The Senior Living Hall of Fame recognizes the visionaries who have distinguished themselves through uncommon foresight and ground-breaking innovation. These are industry leaders with an unwavering commitment to community lifestyles that enhance choice, independence, dignity and personalized service.

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Margaret Wylde, Ph.D., ProMatura Group

KEYNOTE PRESENTATION: MARGARET WYLDE, PH.D., PROMATURA GROUP

How marketing messages shape perceptions and impact decisions

Consumers rank best information sources and priorities for learning more

Research on how the general public reacts to senior living communication, advertising, messaging and terminology, and how this impacts opinions and decisions has been underway in a study sponsored by the American Seniors Housing Association (ASHA) and conducted by ProMatura Group.

The full report will be published by ASHA in late 2019.

Margaret Wylde, Ph.D., CEO of ProMatura, reviewed preliminary results from The Messages That Matter research that identifies similarities and differences in various marketing elements and how these affected three respondent groups:

- "Cold" list of households with no relationship to senior living communities purchased from an Internet survey vendor
- Leads from ASHA members who sent a request to participate in a survey to individuals on their lead lists
- Surveys fielded to individuals within the database of a third party referral agency

"We tested a variety of elements that go into communicating with our prospects," she reported. "We went through many, many websites looking at what all the components are that go into these and the requirements for entering contact information, etc.

"From the respondents, we got a lot of information so we could determine how urgent their quest was for a property or who was looking. And then we also measured their familiarity with our product and their perceptions of it," she added.

When asked about their opinion of residential communities with services, the highest ranking at 25 percent in the Very Positive category came from lead list prospects. The lowest ranking at four percent in the Very Positive category came from the online referral, adult child group.

At the other end of the spectrum, 23 percent of online referral, adult child respondents had a Negative opinion, while only five percent of online referral prospects had a Negative opinion. The largest share of Very Negative opinions came from the lead list, adult child category at 10 percent.

Among the respondents who said they were very likely to move from a current residence within the

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2019 Class Inducted into Senior Living Hall of Fame

Three leaders who played a prominent, pioneering role in the industry's early success and subsequent growth were inducted into the 2019 class of the Senior Living Hall of Fame during the American Seniors Housing Association's (ASHA's) annual meeting in Rancho Palos Verdes, CA. The Hall of Fame provides an opportunity to recognize the achievements of those who have done so much to advance the senior living profession.

DEBRA CAFARO
VENTAS, INC.

The trajectory of Debra Cafaro's career is extraordinary. She has excelled by virtually any measure in every step along the way, with her ascent culminating in leading a S&P 500 company with a market capitalization reaching $27 billion.

Seniors housing's dynamic growth and emergence as a highly valued investment during her 20-year tenure as Chief Executive Officer of Ventas, Inc. are due in no small part to Cafaro's vision and leadership. She saw early on that this burgeoning business was ripe for consolidation with the irrefutable, impending swing in demographics promising to power it forward. Investors took notice.

Under her guidance, the real estate investment trust has amassed a portfolio of approximately 1,200 senior living, health care and life science properties spanning North America and the United Kingdom. The upside for Wall Street: A total shareholder return exceeding 23 percent since January 2000.

When Cafaro joined Ventas in 1999 after graduating with honors from Notre Dame, receiving her law degree cum laude from the University of Chicago and practicing real estate, finance and corporate law, the REIT had a market capitalization of only $200 million. Its principal tenant was Vencor, which operated primarily nursing homes and long-term acute care hospitals.

Vencor was under intense financial pressure, eventually declaring bankruptcy and reorganizing later as Kindred Healthcare. But Cafaro deftly led Ventas through the aftermath of its tenant's troubles and pushed ahead to diversity its holdings. She took on the additional role of Chairman of the Board in 2003.

Ventas has made approximately $32 billion in strategic investments since 2004. Today, it owns 727 seniors housing communities, with the remainder of its other health care properties rounding out its approximately 1,200 holdings.

Throughout her tenure at Ventas, Cafaro has drawn widespread recognition and praise for delivering consistent growth and exercising prescient foresight. She was named one of the World's 100 Most Powerful Women by Forbes Magazine; a Top 50 Best-Performing CEOs in the World for five consecutive years by Harvard Business Review; one of the 100 Most Influential People in Healthcare four times by Modern Healthcare; and highlighted in The 70 Elite real estate executives who shaped the industry for the past 70 years by Real Estate Forum.

Additionally, she was named as one of the Bankable 21 CEOs in the book Get Rich Carefully by CNBC Mad Money host Jim Cramer and as one of nine Game-Changers in commercial real estate since 2000 by GlobeSt.com. Cafaro also was honored with the Industry Leadership Award by the National Association of Real Estate Investment Trusts (NAREIT).

She serves as Chair of The Real Estate Roundtable, a public policy organization that brings together leaders of the nation's top real estate ownership, development, lending and management firms

(left to right): **Kyle and Kelly McGrath (daughter of Tony Mullen), Ray Lewis, Debra Cafaro, David Smith, Mark Ordan, Larry Cohen** to address key national policy issues relating to real estate. She also is a member of the Business Council and the Boards of The PNC Financial Services Group, Inc. (NYSE: PNC), the University of Chicago, Chicago Infrastructure Trust, Executives' Club of Chicago, and World Business Chicago; and is on the Board of Trustees for the Chicago Symphony Orchestra. Most recently, Cafaro was named chair of the board of directors of The Economic Club of Chicago for a two-year term beginning July 1, 2019.

Cafaro grew up in Pittsburgh, where she was an avid fan of the city's professional sports. In 2016, she became an owner of the NHL Pittsburgh Penguins and a member of its Management Committee, just in time to celebrate the team's back-to-back Stanley Cup championships in 2016 and 2017.

PAUL KLAASSEN
SUNRISE SENIOR LIVING

It all started in 1981 in an abandoned, former nursing home. This was where Paul and Terry Klaassen's vision for what soon became known as assisted living got its start. Their foresight and incomparable innovation triggered a national movement.

Investors took their cue from the Klaassens' new addition to the senior living continuum, unleashing a flurry of assisted living development that gave seniors a novel approach to receiving care by rejecting institutionalization in favor of a more traditional, home-like setting with support services.

Sunrise Senior Living, with its signature Victorian-style communities, eventually grew under Klaassen's leadership to more than 450 communities in four countries with approximately 50,000 residents and 43,000 employees.

After starting in the suburbs of northern Virginia and opening three communities in three years, Klaassen set his sights on becoming a growth company and achieving scale. This was when the Sunrise Victorian prototype was developed. His criteria: "It had to be built on three acres anywhere in the country. It had to be reproducible. It had to have timeless appeal."

Additional funding for his expansion plans came after private equity in the early 1990s secured a 25 percent interest in the company. Development jumped from two properties a year to 10 annually.

Sunrise went public in 1996 and the development pace accelerated to 20 a year. When Klaassen stepped down as CEO in 2008, 30 properties were under construction.

The inspiration behind Klaassen's assisted living archetype came largely from his childhood experiences in the Netherlands, where elder care communities were called "verzorgingstehuizen."

He watched his grandparents flourish in one of these communities as they aged. They enjoyed the independence and dignity of doing all the things they had always done – shopping, cooking and personal hobbies – but had access to assistance when they needed it.

TONY MULLEN
NATIONAL INVESTMENT CENTER FOR SENIORS HOUSING & CARE (NIC)

Tony Mullen's legacy in senior living stretches far and wide. He was a multi-faceted talent with a supreme grasp of data and analytics who poignantly and persuasively enumerated during the formative years of the industry why its investment returns were equal to and often superior to those of the traditional commercial property types.

He had a deep, intricate understanding of the unique fundamentals, strategies and tactics that are absolutely essential to successfully marketing and selling the merits of a senior living community. By applying his insights, operators across the country saw their market penetration rates surge.

And knowing that the future of senior living is inextricably tied to preparing tomorrow's leaders for the multi-disciplinary demands of the business, he co-founded graduate level seniors housing and care programs at two universities.

Mullen, who at age 61 passed away in 2018, was in the vanguard of identifying, collecting and disseminating the myriad seniors housing metrics that financial institutions and operators rely on to benchmark the industry's performance.

He was a co-founder in 1991 of the National Investment Center for Seniors Housing & Care (NIC) and served as its first research director before chairing NIC's research committee and then becoming a senior fellow. He was instrumental in creating the NIC MAP Data Service, which tracks senior living metrics in the largest metropolitan areas across the country.

The State of Seniors Housing, the annual compendium founded by the American Seniors Housing Association that tracks the industry's financial and operating performance, was another milestone where Mullen played a pivotal role in drilling deeper into communities' data.

His mastery of senior living transcended analytics. In 1996, he founded the annual Advanced Sales and Marketing Summit, where for 21 years he assembled the foremost experts in senior living who shared their best practices in sales conversions. The symposium built a well-earned reputation for challenging the industry's status quo and traditional sales methodologies, while advancing thought-provoking, customer-centric selling skills.

He leaves a lasting heritage that will be passed down to the future generations of senior living management, thanks to his role in co-founding the graduate-level seniors housing and care programs at Johns Hopkins University and the University of Maryland, Baltimore County. ■

Senior Living Hall of Fame Members Class of 2018 Inductees

Granger Cobb
Emeritus Senior Living

Bill Colson
Holiday Retirement Corp.

Bill Kaplan
Senior Lifestyle

Jim Moore
Moore Diversified Services

Bill Sheriff
Brookdale Senior Living

Stan Thurston
Life Care Services

Senior Living Hall of Fame Selection Committee

The Senior Living Hall of Fame Selection Committee is chaired by Larry Cohen, long-time industry executive and former ASHA chairman. Committee members are Lois Bowers of *McKnight's Senior Living*, Steve Monroe of *The Senior Care Investor*, Matt Valley of *Seniors Housing Business*, and John Yedinak of *Senior Housing News*.

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How marketing messages shape perceptions and impact decisions

next five years, 46 percent came from online referral, adult child; 39 percent from online referral prospect; 33 percent from lead list, adult child; 27 percent from lead list prospect; 13 percent from cold list, adult child; and nine percent from cold list prospect.

"We see in the online referral, adult child group that they are probably more urgency-driven and want help now," Wylde commented.

Looking at the top five most beneficial sources of information according to all surveyed groups, community websites topped the list, followed by on-line referral agency, Internet search, word of mouth, and on-site educational and social events.

Breaking out the responses for beneficial sources of information by prospect group, community websites were most popular among lead list, adult child and the online referral prospects. On-line referral agencies scored highest with on-line referral, adult child and on-line referral prospects.

Internet search had the top ranking among on-line referral prospects and cold list, adult child. Word of mouth was favored by lead list prospects, cold list prospects, and cold list, adult child. Lead list prospects by a wide margin said on-site educational and social events were most beneficial.

When those surveyed were categorized by either physical limitation or no limitations,

> Hands down, they want to know the price.

Internet resources and word of mouth scored highest among those with limitations. Word of mouth and community websites were favored by those with no limitations.

"I don't know if it's differences in our content or our approach or how we make people feel, and we'll be looking at that, but we can see that there's a decline in the benefit of our websites as people become more frail. So we need to figure out how we can make websites more beneficial to people," Wylde pointed out

Asked about information that is absolutely necessary on community websites, a resounding 78 percent cited price and financial information. This was followed by 64 percent who want to learn more about services. Other priorities were location of a community, health care services provided, housing/residential information, and photos.

"Hands down, they want to know price," she emphasized. "There were many complaints about not providing enough information about the stuff that matters to them the most, which is what do they get for what they pay. And it's not necessarily the activities or the amenities. It's the services. What are the services they're going to get and how many meals are included?"

The importance of price and financial information was reinforced when those surveyed were asked about missing information that would discontinue their

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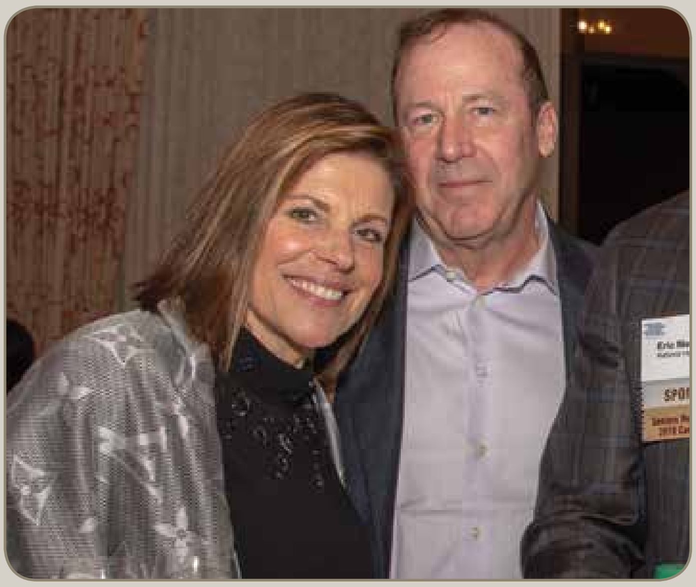
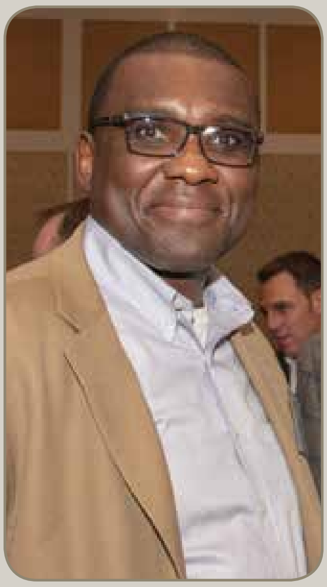


Brenda Thompson **Donald Thompson**
Senior Living Communities

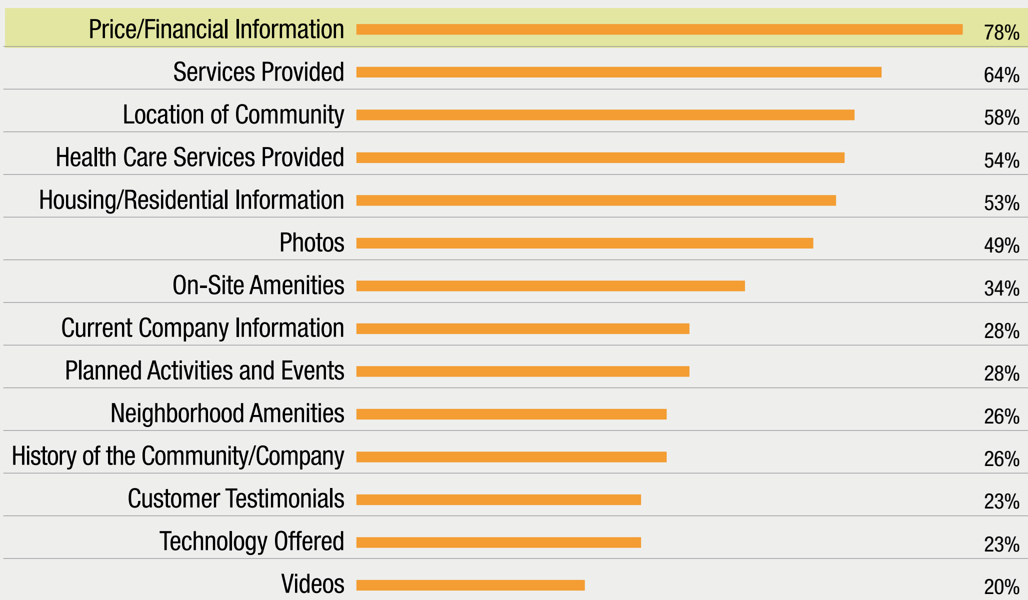


Martin Mbeteni
JLL Multifamily

TOP 5 MOST BENEFICIAL SOURCES OF INFORMATION BY PROSPECT GROUP

	PROSPECT GROUP					
	Online Referral Prospect	Online Referral Adult Child	Lead List Prospect	Lead List Adult Child	Cold List Prospect	Cold List Adult Child
Community Websites	22%	15%	23%	28%	22%	19%
On-Line Referral Agency	21%	36%	5%	13%	2%	11%
Internet Search	21%	12%	6%	12%	14%	21%
Word of Mouth	18%	19%	28%	24%	28%	22%
On-Site Educational Social Events	3%	2%	20%	5%	7%	2%

INFORMATION THAT IS ABSOLUTELY NECESSARY ON COMMUNITY WEBSITE



WHAT IS YOUR BIGGEST PET PEEVE ABOUT MARKETING OF COMMUNITIES?

1. **No Financial Information**
2. **Exaggeration/Misrepresentation**
3. **Aggressive Marketing**
4. **Insufficient Information**

Source: Preliminary Findings – *Messages that Matter*, American Seniors Housing Association.


James Scribner
Hunt Real Estate Capital


Amber Ju
Kithward


Mike Pokora
Willis Towers Watson


Cindy Baier
Brookdale

continued > KEYNOTE PRESENTATION: MARGARET WYLDE, PH.D., PROMATURA GROUP

How marketing messages shape perceptions and impact decisions

interest in a community. Again, pricing was the top concern, followed closely by housing/residential information such as floor plans, square footage, etc. and services provided.

"What happens if you have to give your contact information before we give you any more information, particularly the financial?" Wylde asked. "Very few are very likely to give that information just to get financial information, even though that is the most important element that they need. We get into a stalemate.

"Then what do they do? There's a proportion that move on to another website. Half of the adult children would move on. When we look at what kind of financial information do they need, about half want very detailed financial information. But the other half says a range of pricing is acceptable.

"We don't want to spend time with people who can't afford our product. If they can't afford it in the first place, why do you bring them in? We need to look at some ways that we can give financial information to people, but then say we can work with you to see how it can be accomplished and educate them," she said.

Looking more closely at information about homes/apartments that is absolutely necessary to be on a website, 49 percent want floor plans with total square footage defined; 38 percent said room dimensions; 35 percent laundry room versus washer/dryer in room; 34 percent type of kitchen in private residence; 34 percent type of appliances in kitchen; and 31 percent closet/storage space

> State-of-the-art technology is very important.

As for dining information that is absolutely necessary on websites, the number of meals included in the monthly fee was overwhelmingly cited. Meal scheduling and sample menus were also priorities.

Well over half of those questioned said information on the history of the company/community when considering a residential community with services was very important or important.

"As far as online tools are concerned, Facebook pages don't seem to be too important. The likelihood of using a chat box to get more information is quite low for the 'very likely' category, but almost a fourth of those on the lead list that said they might use a chat box, although it's not the preferred way of getting information. They'd rather the information be on the website in the first place," she commented.

State-of-the-art technology in a community " is very important. We have 39 to 40 percent saying they want state-of-the-art technology in a community, even though the participants or the respondents' rating of their skills with technology is pretty low," she observed.

What aspects of senior living marketing are most objectionable? No financial information topped the list, followed by over-exaggeration/misrepresentation,

Lynn Wallace
Retirement Center Management

David Keaton
Retirement Center Management

Catalina Keaton

aggressive marketing and insufficient information.

Shifting to another ASHA-sponsored study that ProMatura is conducting in conjunction with Sherpa titled The Art and Science of Sales in Age-Qualified Housing, Wylde explained that the data set for this ongoing research to be published in 2019 includes 327,575 prospects from 773 communities owned by 138 companies.

"This is a robust set of data. We've captured the referral source for each of these prospects and then where they are in their sales process and then if they became a resident," she said.

Preliminary results show referral agencies generated 85,845 leads that led to 2,623 move-ins with a three percent conversion rate; other professionals had 6,629 referrals with a nine percent conversion rate for 626 move-ins; and hospitals had 5,846 referrals with a 33 percent conversion rate on 1,908 move-ins.

Skilled nursing facilities had 3,261 referrals with a 20 percent conversion rate on 663 move-ins; other senior living had 2,942 referrals with a 18 percent conversion rate on 540 move-ins; home health had 1,121 referrals with a 16 percent conversion rate on 176 move-ins; and physicians had 802 referrals with a 21 percent conversion rate on 172 move-ins.

After reviewing these and additional referral sources included in the research, "35 percent of the sales came from referral agencies, 65 percent from all other sources," Wylde pointed out. "Time spent was 68 percent with the referral agency leads in comparison to the 32 percent of the time spent on all other sources.

> Success has nothing to do with the number of leads.

"We're wasting time with leads that cannot afford our product or who somehow get cycled to us when really they're not right for our property in the first place," she said. "There's not a good match. What I know already from looking at the Sherpa data, because they do capture time spent, is success has nothing to do with the number of leads you get. It has everything to do with the quality of time that is spent with that individual.

"They don't need another new lead. They need to know the leads they've got, and by getting to know them, they'll know if the product is right for them or not. And if the product's not right for them, they should help them find another product," she added.

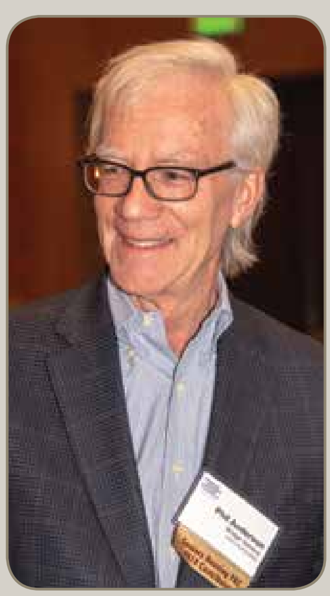
Wylde ended by sharing lessons learned:

- Provide a price range
- Give details about what they will receive, particularly related to services
- Be real, none of us look like models
- Help people more than selling to them
- Help sales counselors understand that they don't need more new leads, they just need to get to know and develop a connections with their existing lead
- Follow-up must have substance and value for the prospect — or it will be seen as aggressive marketing

Dr. Wylde and David Smith of Sherpa will present more information on sales and marketing at the 2019 ASHA Mid-Year Meeting that will take place June 11-12 at the Coeur d' Alene Resort in Coeur d' Alene, ID. ■

Dr. Laverne Joseph
Retirement Housing Foundation

Lindsay Casillas
Sodexo Seniors North America



Phil Anderson
Bridge Seniors

Elizabeth Pagliarini
Summit Healthcare REIT

(left to right): **Michael Grust,** Senior Resource Group; **Joel Nelson,** LCS; **Lynne Katzmann,** Juniper Communities; **Chris Winkle,** Sunrise Senior Living; **Eric Mendelsohn,** National Health Investors; **John Cochrane,** HumanGood

CEO DISCUSSION

Bringing words and deeds together to advance the values of an authentic, purpose-driven culture

Infusion of new talent from outside senior living brings fresh perspectives, novel opportunities

Panelists

MODERATOR: ERIC MENDELSOHN
National Health Investors

JOHN COCHRANE
HumanGood

MICHAEL GRUST
Senior Resource Group

LYNNE KATZMANN
Juniper Communities

JOEL NELSON
LCS

CHRIS WINKLE
Sunrise Senior Living

The complexity of operating senior living communities has never been more daunting. Success today absolutely requires nimble, visionary leadership, along with an engaged, purpose-driven workforce.

The role of a clearly articulated, authentic culture is paramount, as are career paths that improve talent retention. Equally important: Succession planning to ensure a vital future.

CEOs from six senior living organizations delved into these topics, and also took a look at the prospects for creating a more affordable product to serve the middle market. Third-party referral sources were another point of interest.

The participants were John Cochrane, HumanGood; Michael Grust, Senior Resource Group; Lynne Katzmann, Juniper Communities; Joel Nelson, LCS; and Chris Winkle, Sunrise Senior Living. Eric Mendelsohn, National Health Investors, moderated.

MENDELSOHN: If you can develop a workplace that's engaging for your employees and fun, I think that spills over into resident satisfaction. Lynne, I know you have a great culture, and you focus on that. Could you tell us a little bit about how you do it?

KATZMANN: If you think of your company as a car, culture is the engine. It drives everything. It's the reference point. It's the common values. It's the common attitudes and behaviors that define everything. I'm really proud of the culture we've created at Juniper, but it came together after a very long time. Culture just doesn't happen overnight. It happens after you define a number of important things.

One of the most important things in culture is defining your vision and your mission. The core of your vision or your culture is your purpose, and today when we talk about attracting great people and keeping great people, they want to believe they're doing something important. And we are. I hear myself saying the same thing over and over again, but you need to do it. You've got to have a clear and simple message.

But there's a very important additional piece. The programs have to relate. You've got to walk the talk. The words and the deeds have to come together. We decided to develop programs that match that. And that, for us, is what we call our signature programs. They really bring culture to life, and then we talk about that again.

There's one other thing that is really important. You've got to take responsibility for yourself. The people in your culture have to take responsibility for making it work and for following it. If they don't, if people aren't aligned, they're probably not the right people for you to move your company forward.

MENDELSOHN: Chris, you inherited an amazing culture that was established when you got there. How did you keep that in place? Did you consider tinkering with it in any way? And how do you keep it going?

WINKLE: The credit I will take, if any, is not screwing it up. So I give all the credit to Paul Klaassen and Mark Ordan and everything that really Sunrise is all about. Staying mission-driven is the key, because people need a sense of purpose.

We need to work hard to get people that we think are going to stay as part of Sunrise. To give you a glimpse into the numbers, in the four countries where we operate we roughly have 32,000 team members. And that breaks down to 4,800 in the U.K. In North America the breakdown is 25,400 in the U.S. and 1,800 in Canada.

We're typically looking at about 30 percent turnover in full-time, and as high as sometimes 60 to 65 percent turnover in part-time. When you do all of the math, you're basically looking at about 12,000 new hires a year. So to fill 12,000 positions, we're looking at about 360,000 applicants that we screen to get down to 12,000.

What does that mean? The average cost of turnover typically ranges from about $1,250 to $1,500 per team member. At 12,000 new hires, that's anywhere from a $15 million to $18 million spread annually. Those are some pretty large numbers.

If you look at where we are today and where we will be in 10 years, we're just at the starting line before the demographics kick in. That's a great thing for our entire industry, because we're just getting ready for when the Boomers start to age. We're looking at the oversupply challenges of today that will be the undersupply of tomorrow in a nanosecond.

> Signature programs bring culture to life.

But then you still get back to labor. How do we maintain a culture in that kind of a growth environment where the shortages are going to be more severe? We're using a platform called Arena to help us select better. In the first phase of our rollout, we're seeing a 14 percent reduction in turnover. We're also using a scheduling tool, because again these are things that get us more precise.

If you can reduce turnover by 10 percent, for full-time employees that's about 1,900 jobs that we don't have to hire. But when you look at how many hours you're getting on average in your full-time equivalents, 36 is actually a number to strive for. A lot of times we find ourselves oscillating from the 32 to 34 range. But if you increase just two hours on average for your full-time employees, you're going to have a potential to reduce anywhere from about 950 to 1,350 jobs.

MENDELSOHN: I want to cover succession planning and retaining talent. Joel, your company recently had a change at the top. You succeeded Ed Kenny. Can you talk about your process and how your organization dealt with the C-suite transition? And how are you retaining talent out in the field?

NELSON: I look at succession planning, and it's totally evolving, maybe more so today than 10 years ago with the organization. We are an employee-owned company, all the way down to our executive directors who have shares and an ownership interest in the company. We always talk about people, talent and vision. They've been the three top assets for 45-plus years.

We have close to 25,000 employees that we're responsible for. On the CCRC side, we have extremely low turnover, below 30 percent. We have top quartile communities that are even in the single digits. Then we transition to the new rental community product in our space, and we have a much higher turnover. Looking out 10 years, we said we've got to build the organization much deeper beyond the executive director and the regional operations levels. So we committed to a five-year plan

> We have a department coordinator in training program.

At any given year, we'll have 40 individuals in an annual, full-year curriculum of professional development. We outsource that. There is some curriculum that's provided by the LCS executive team, but our facilitator actually covers four modules for those individuals.

Every morning when we get up, we want to make a positive difference for those we serve. How do we do that? We've got to look external, and we've got to look internal. And that starts beyond LCS, with ASHA's Rising Leaders and the future leaders in NIC. We're getting individuals to go outside the company to test what their leadership capabilities really are.

I was named CEO a little over a year ago. The day I started, I had already begun to identify my successors, but hopefully not any time too soon. We probably spend more time on who's ready tomorrow, not who's ready today for that. Thirty years ago, succession planning was about talent, leadership capability, where they fit with the organization, what their personal goals were, etc. But today it's much more complex. What do you want the diversity to be? What is the succession plan in terms of how much internal succession you want to have versus how much external energy that we want to have in the organization?

We for years have had an executive director in training program, but we also supplemented that last year with a department coordinator in training program. We have had great, great results from that. Because again, it's hard to find people that fit our culture, so when you find them, you need to give them a career path and not just focus on the job that they're in today.

While Ed Kenny retired, he's really not retired. In June this summer, Ed is co-chairing with the University of Wisconsin Eau Claire and a couple other industry leaders Vision 2025. Vision 2025 brings predominantly providers, but also others in the space together with 25 universities and institutions. And there's another layer that actually goes down to the high school level. So at any given time, we'll have 15, maybe 20 interns.

But these colleges and universities say they can't find internships. And they do need paid internships. If we're going to make this a more appealing industry—most of us got into this by mistake or default through other avenues and so forth—we have to have a very concentrated focus to go out at that high school level and then certainly at the college level.

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continued > CEO DISCUSSION

Bringing words and deeds together to advance the values of an authentic, purpose-driven culture

KATZMANN: I'm not sure that recruiting from within is going to put us where we need to be as an industry. People see this as a huge growth market. They also see it as a place where there's going to be great change and disruption. That's attractive to innovative, energetic, smart people. I want people who think differently, because that's the only way we're going to pull our industry ahead.

The problem that I'm having is recruitment. We know we need to cast a wider net. We know we need to do it differently, but I know in my organization, we're really stuck. We have the culture, but we're not getting the right people in the right positions to foster the amount of change at the speed at which I believe we need to do that.

NELSON: You talk about culture, and it's got to be authentic. It's got to be organic. And it's got to be purposeful in the sense that we have programs as we onboard people to set them up for success and heighten their awareness of the responsibility we have. We live with our customer 24/7. I can't think of a management model that's remotely close to this.

As we evolve as an industry, I agree with Lynne that we have to pull from outside. This is an exciting industry if you get the opportunity to be exposed to a culture where it's an act of collaboration, and it's an environment where we're trying to make a difference in the lives of the people's we serve. This is a complex industry that isn't ever going to present an easy path. As you meld all these things together, promoting from within isn't something we're wholly focused on. We need to recruit people from across many spaces.

> Some people don't have the heart for it.

COCHRANE: Look at the frontline care manager. How many of them don't come from health care to begin with? In many ways, we are recruiting people who have not "grown up in senior living." It is so hard to get the right fit and train them, because as we all know, some people just don't have the heart for it. It is so, so competitive at that front-level position. We probably don't give ourselves enough credit for bringing people from outside of the sector. If you don't have people pulling you, and you get too locked into the status quo, you're not going to innovate.

NELSON: As an industry we do a terrible job of storytelling about who we are and what we do and why these are exciting opportunities. Lynne, you talked about it. We're in the age of disruption and change and transformation. If we can tell the compelling story of how they can have a positive impact and can have a meaningful career that they can look on with pride and gratitude and understand the respect that comes from the work they do, we have a great story to tell. But we do a mostly terrible job of telling that story.

MENDELSOHN: John, as you think about affordability and housing for the middle-class, and I'm not talking about low income, I'm talking about people who've worked hard their whole life and saved, but don't have a million dollars, what becomes of them?

Leigh Ann Barney
Trilogy Health Services

Bill Shorten
Cascade Living Group

Kristin Kutac Ward
Solutions Advisors

COCHRANE: If you look at our portfolio, we have the CCRCs with a million-dollar entrance fee and $5,000 monthly fee. There's nothing wrong with serving people of means and providing something of value to them. We also have low-income senior housing for people who get a government subsidy. So we serve the top 10 to 15 percent of the demographic, and we serve the bottom 10 to 15 percent.

But there's 70 percent in the middle who don't want or can't afford a CCRC-type product and don't qualify for government subsidy. How do we meet their needs and take what we do so well and reach the middle market? And it's really the $64 billion question. Everyone talks about trying to get into the middle market, which I always find fascinating, because we talk about it as if it's a monolithic market, the middle market.

It should always be a plural. It's the middle markets. There are multiple ways into that marketplace. Some will be technology-based solutions, taking what we do and employing technology so we can deliver solutions to people in their homes. Many of us recognize that being in a community is a life-affirming model that really does inspire the best life for many people, so we need to find a

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eric mendelsohn

National Health Investors

john cochrane

HumanGood

Stephanie Heffernan
The Vinca Group

Doug Dollenberg
Brightview Senior Living

Chris Cain
Berkadia Seniors Housing

Grant Kraus
Spectrum Retirement Communities

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Bringing words and deeds together to advance the values of an authentic, purpose-driven culture

real estate-based solution for the middle market. There are going to be multiple solutions for this. We think about this a lot.

One of the communities that we have in Seattle is called Plaza Roberto Maestas. It was a low-income project, with a mixed use, intergenerational urban transitory unit development. We have ground floor retail where we have the local coffee shop, the local taqueria, the local dry cleaner. We have an early childhood development center in that community. We have second floor office space where our development group has an office. And then we have intergenerational residential above that. Everything is united around a plaza where every evening you get about seven food vendors setting up food carts.

It unites the entire neighborhood. I often look at that and think, in many respects, I would rather live in that community than in some of our market-rate communities, which feel a lot more sequestered and private. It's integrated into the fabric of the community. It's a tremendously complex project with about seven different funding sources to pull this off. But we're looking at taking that model and restructuring it in a way that will attract the capital we need to develop and operate this. It can be a model that will serve the lower quadrant of what I'll call the middle market. Maybe we go from the bottom 15 to 20 percent to the 35th to 50th percentile.

> The middle market is where the opportunity is.

MENDELSOHN: What type of programming and services are offered in that?

COCHRANE: Very limited services. We're not doing food. We've got vendors coming in doing food, running the local restaurants that people can access. This isn't a fully refined product yet, but I anticipate service coordination versus service provision. We will help connect people to services that will support them, but we're not going to do a lot of direct provision of services. The middle market really is where the opportunity is, and it's the market that we're all ignoring. We need to understand it's multiple markets that are going to require different solutions. But we have expertise. We know how to do low-income. We know how to do high-end. We understand the drivers of this marketplace better than anyone else. It's incumbent on us to try some of these solutions and then bring them to scale once we find what works.

MENDELSOHN: Third-party referral sources, for a fee, will refer leads to your building. That's in addition to your organic leads that your marketing people are going to be working on. Third-party referral groups primarily on the Internet will grab leads and assign them out based on your subscribing to their service. It's a controversial service for our industry. Some people love it, others not so much.

GRUST: When the due diligence process begins for an adult daughter, they're overwhelmed; not quite sure exactly how to go about it. An unsuspecting adult daughter can get, as

Tiffany Holznecht Capital One Healthcare — **Kasia Dobrzanska** Capital One Healthcare — **Jeff Fattal** Capital One Healthcare

I call it, "kidnapped" on the Internet and find herself essentially down a rabbit hole that is representing that the referral agencies have done due diligence on your behalf, and that these are the communities that represent the best fit for your mother. At the end of the day, there's no disclosure that there are tremendous fees being paid. As an operator, you can find yourself quickly looking at the cost of sale impact on your bottom line being very, very significant. When you have a need-driven product and pay a commission to a referral agency for a move-in with a length of stay of 24 months, that cost of sale doesn't make sense.

It's disingenuous and fully lacks disclosure. I know from a lot of post-move-in experiences that these advisors are pretty intense when suggesting that you hurry up and deposit. It's already traumatic to begin with, then you have cajoling by these referral agencies to go ahead and deposit at one of their preferred communities. We work too hard to raise the bar to make a difference and deliver on a promise to our customer to have somebody else tell the story for us, pre-empting our ability to tell the story simply

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michael grust

Senior Resource Group

lynne katzmann

Juniper Communities

Mercedes Kerr
Welltower

Chris Kronenberger
Blue Moon Capital Partners

Brad Dubin
Kandu Capital, LLC / Bloom Senior Living

Sebastian Brown
RSF Partners

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Bringing words and deeds together to advance the values of an authentic, purpose-driven culture

because we don't participate in digital referral agencies. It's to the point where you're fighting in this digital warfare where you just want a chance to tell your story and give that adult daughter the information they need to make an informed choice.

MENDELSOHN: How do you in the age of buying Google words get your message out?

GRUST: First of all, we actually have upped the ante in digital media. The amount of money we dedicate to marketing is tremendous. Even though your sales people tell you they need more leads, we feel we've got more than enough leads to convert. We did experiment two years ago working with referral agencies at a couple of our properties, and we saw no difference in terms of the absorption whatsoever.

We've got 32 communities. Not one has a referral agency involved whatsoever. And again, we deal with a lot of hand wringing by our sales people feeling that we can't compete, and we find that not to be the case. Frankly, we work too hard, and we're too passionate about the work we do to have somebody else tell the story.

WINKLE: I have to agree with Michael. I support innovation, and we are getting into a digital world. What I do not like is the lack of transparency. Somebody is paying for this, so I don't like the quote that it's a free service. And what I really don't like is there's no transparency that they're focused on their network. There may be other suitable communities in your target area that they're not going to cover.

> We upped the ante in digital media.

GRUST: To suggest that they've done due diligence on those communities that they're referring to is completely false. When we did that experiment two years ago with referral agencies, we waited patiently for them to come visit or do some due diligence on us, so they would really understand what they were referring to. And again, if you listen to them, these hard-working referral services have done the homework, and they know that this is a place that will deliver on a promise for your mother. That is just so disingenuous and so false.

KATZMANN: I totally agree with everything you're saying. I totally agree with transparency. For us, it's what do you do about it? We still use those agencies. I wish we didn't. I may go back after this and just say we're not doing it anymore.

But the good news is that we've taken our own marketing and our digital marketing to heart. We've implemented marketing automation, which I'm sure all of you have done. We've significantly increased our spend, which we hadn't thought about. We started geofencing, which is really cool. If somebody goes to a competitor, and they look at their phone they'll see an ad from us come up.

The good news is that our leads from agencies have not increased over the last four years, but our organic leads have increased 57 percent. For the close rate on the two, it's 32 percent for the agencies, and it's 35 percent on

Whale Watching Excursion Participants

organic leads. We're doing better on organic leads, but not as well as I'd like us to. And those are decent—those are good close rates. So we're not unhappy, but it'd be great if there was a bigger distinction. Part of that is working with our sales team and getting them out of the habit of relying on those calls from agencies.

WINKLE: We have a huge amount of referrals that come through our own Internet leads. But the one thing we haven't talked about is what we could do to get the non-paid referrals. There's a lot of professional referral development that we can do, to John's point, to tell our story, whether to discharge planners or physicians or other people in the community who really don't understand what we do. And we've seen enormous growth, frankly, more so than we've seen on the Internet, in terms of what we call our business development leads.

KATZMANN: We've looked to Marriott. Marriott has a great online presence that they've developed, both for recruiting employees and for getting people to buy directly from them. We've copied a lot of what they did and built a whole program around some of those ideas. Basically, we give incentives for people buying direct. ■

joel nelson

LCS

chris winkle

Sunrise Senior Living

Dave Schless
ASHA

Michaela Gorham

Dan Gorham
Kensington Senior Living

Tenille Bettenhausen
HPI Architecture

CAPITAL MARKETS

Pressure on operating performance dampens development, while acquisitions demand softens

Competition intensifies to partner with proven managers that deliver consistent results

Seniors housing construction during the last several years has been on a tear, with inventory growth outpacing absorption by a considerable margin.

Transaction volumes, meanwhile, have tapered off a bit with a corresponding dip in acquisition prices.

As the capital markets assess the prospects for 2019, they're weighing how the surge in supply, drag on occupancy, weaker rate increases, and rising labor costs will impact acquisitions and development.

Panelists trading observations and comparing outlooks were Beth Mace, National Investment Center (NIC); Steve Blazejewski, PGIM Real Estate; Judy Marczewski, Leisure Care; Kevin Murray, KeyBank Real Estate Capital; and Matthew Whitlock, CBRE Capital Markets. Kevin McMeen, MidCap Financial Services, served as moderator.

Panelists

MODERATOR: KEVIN MCMEEN
MidCap Financial Services

BETH MACE
National Investment Center (NIC)

STEVE BLAZEJEWSKI
PGIM Real Estate

JUDY MARCZEWSKI
Leisure Care

KEVIN MURRAY
KeyBank Real Estate Capital

MATTHEW WHITLOCK
CBRE Capital Markets

MCMEEN: Beth is going to walk through some data to give us some perspective. But before we get started, I want to make a couple of comments. If you look at our industry, the fundamentals are not so good right now.

Occupancy is around where we were at the very bottom of the great recession. Supply in general is driving that. Occupancy is struggling. Pricing power, in general, is struggling to some extent. Wages continue to go up as unemployment continues to go down. There are various initiatives to raise minimum wages in a meaningful way in different states. All of that is creating pressure on the industry in terms of the bottom line. It's not easy right now being a capital provider in light of all of these different factors.

MACE: Seniors housing occupancy is stable, but low. Net absorption in the fourth quarter of 2018 was as strong as it's ever been for seniors housing, which in this case is independent living and assisted living. The problem is it's not strong enough. So as a result of inventory growth being stronger than net absorption, we've seen a drop in the occupancy rate. In the fourth quarter it was 88 percent, and that was up just a tad from a seven-year low of 87.9 percent in the prior two quarters.

Annual assisted living inventory growth was five percent in the fourth quarter. So inventory growth is as high as it's ever been. As a result of the pressures on assisted living, occupancy dropped to 85.4 percent in the fourth quarter, near the all-time low of two quarters prior to that of 85.2 percent. So very, very low occupancy rates in assisted living.

The reason for that is when we came out of the great recession, there was a perception that assisted living was a need-based product. And it did do better during the recession than independent living. So there was a lot of capital provided to assisted living developers.

Back in 2012, the occupancy rates for independent living and assisted living were, in fact, the same. But they've changed quite dramatically. In the fourth quarter of '18, the occupancy rate for independent living was 90.2 percent. And it's not been below 90 percent since 2013. Whereas for assisted living, it's been way below 90 percent for a very, very long time.

This is largely due to the capital markets' perceptions, developers' perceptions, operators' perceptions of what was going to be more sustainable in terms of the inventory growth. What we've seen is that we've overshot significantly in many markets for assisted living, less so in the case of independent living.

Looking at construction as a share of inventory, as of the fourth quarter of '18 it was six percent. Still high, but less than what it had been a few quarters prior to that where it had peaked at 7.3 percent. If I look at the actual number of units under construction, we're down 15 percent from where we were at the peak back in

2017, when 44,000 units of independent living, assisted living and memory care in 31 markets were under construction. It's down 15 percent, but still high at about 37,000 units.

Preliminary data shows the transaction volumes on a closed basis were worth about $12.3 billion at the end of 2018. That would be down about 23 percent from 2017. There were 461 deals that were closed in 2018, and that was down from about 502. But the composition of those deals has changed. We had a lot more single deals than portfolio deals in 2018. And there were fewer deals that were over $500 million. In fact, there was only one this past year.

MCMEEN: What are your expectations for 12 to 18 months out? What do you anticipate for transaction volume, acquisitions and development?

BLAZEJEWSKI: I would say more of the same. As we look at the environment now, we do see pressure on fundamentals in terms of rate growth and occupancy. But we also see very healthy transaction activity. Deals are priced just as aggressively as they've ever been, particularly for A quality assets and A quality markets. But as an equity group, we're also looking for a little bit of disruption, and that creates opportunity.

MARCZEWSKI: I listen to some of the trends, and then I go back and analyze my portfolio, and we're not seeing in most of our markets what we're seeing nationally. Comparing this year over last year, our occupancy is slightly up. NOI is up. I looked at 30 stabilized buildings, and 24 of them are up in NOI. They're all over the U.S. in different sized metro areas.

Of the six communities that we opened in the past year, five are outperforming expectations, and one is underperforming expectations. It's very spotty in terms of what's happening with operators and product type. We tend to have larger, more independent-based buildings, although our assisted living and memory care are also doing fairly well.

BLAZEJEWSKI: Data is very valuable, but it only gets you so far. Atlanta has had a lot of development, which is where I live, and we have a pretty significant investment portfolio there. That's one of our better performing markets right now. So it can be under pressure, it can have a lot of supply, but if you're with the right partner and the right sites, you're still going to be successful.

MACE: I always say NIC data is a desktop tool. It's a first pass. But if you're going to do any investing or developing or operating, you need to roll up your sleeves and get into that market. And you shouldn't base your investment decisions on some data, because they're all micro markets.

MURRAY: On the balance sheet side, banks are still hungry for earning assets. Some of the banks are backing out of certain sectors or certain geographies, but in general we have ample demand for all the syndicated transactions that we run. On the permanent debt side, we're seeing people shift from the variable rate products that they've been very focused on to the Fannie/Freddie side with more fixed-rate debt. All the banks are open for business and interested in most of the sectors, although the SNF market is a little tighter.

There's still interest in construction. We have a portfolio that we're trying to balance by market, by product type, and also by construction versus cash flow. There's pretty good discipline around that, but construction is not as attractive for banks as fully-funded debt.

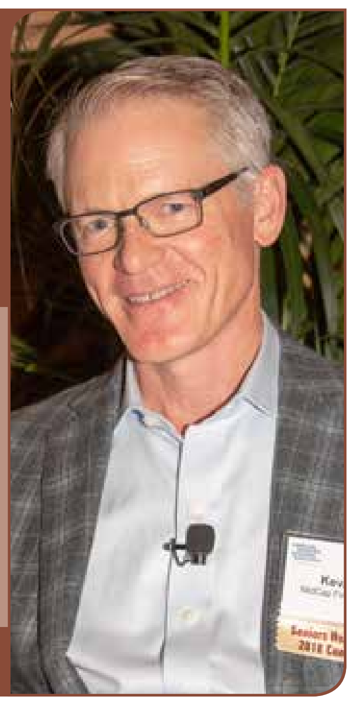
WHITLOCK: For 2019, looking at it as both a broker and a capital provider, we see a couple of different things. We see a tremendous amount of equity capital still on the sidelines, still very intent and very enthusiastic . We see more and more different debt products coming to the fore, and specifically we've seen the growth of bridge lenders. We've seen debt funds come into the marketplace. We've seen high-yielding debt product linking someone from a rapidly maturing loan or lease-up reserve depleted construction loan to what is hopefully permanent debt.

We're seeing acquisition interests growing for what I affectionately refer to as the shiny new penny. These are newly built, big buildings in great markets with a big component of independent living and are under three years old. Institutional capital and private equity funds all want that product, especially to the extent that it's fully stabilized. That's driving cap rates down, and it's driving cost per unit and overall transaction pricing up.

We're also seeing a lot of opportunistic, yield-seeking equity looking to buy the B-class product. There used to be a mosh pit of cap rates somewhere between a five-and-a-half and a seven-and-a-half. What we've noticed in 2018, and we think this will continue in 2019, is there's a cap rate range associated with Class A institutional quality assets that are three years and younger. And then there is a

kevin
mcmeen

MidCap Financial Services



beth
mace

National Investment Center (NIC)

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Pressure on operating performance dampens development, while acquisitions demand softens

cap rate range for however you define B class opportunities, but that's a significantly higher cap rate.

This is going to be a modest year. We don't see anything on the horizon that suggests there are going to be huge transactions. A lot of the public REITs and even some of the larger private equity firms are going to be doing some transactions behind the curtain that are not going to be broker represented and won't be presented to a larger acquisition audience. These will be worked out internally.

The dollar volume for 2019 will probably be close to $10 billion. We've got pressure on our operating fundamentals, and because of that story, that's going to curtail acquisition activity, because the sellers are going to want a higher number.

MCMEEN: You view the market as having a gap between the buyers and sellers. Are we entering an environment where people are starting to think I want to keep my powder dry, because the deal I do today will not be as attractive as the deal I do tomorrow?

WHITLOCK: I don't think the powder's going to the sideline and staying dry. I think the powder is looking at every single deal. For every opportunity that's brought to the marketplace, you are going to have a significant amount of investors that are going to analyze that deal and try and buy it. I don't think they're waiting for worse times.

BLAZEJEWSKI: I strongly believe if you're in this investment space for a period of time, you're agnostic to cycle to some extent. And that's certainly where we are. Our funds are typically 10-year terms, and so as we look at investments, we have to make the numbers work on a five- and seven-year basis with IRR, but we're also asking ourselves do we think this real estate's going to be worth more in eight to 10 years? The general consensus is absolutely. So there will be some volatility along the way, but that's all right.

Between 2011 and '15, you saw some pretty good value-add deals. These were deals that were developed maybe during the global financial crisis, struggled to open, and stalled out. We saw a lot of that and were able to take advantage of that. The market was very healthy for the last three to five years. Everybody did fairly well. That could reverse as you see a lot of the supply wave come on line. You're seeing an erosion in the overall performance. That'll create some opportunity with respect to value-add deals.

MCMEEN: Pru is obviously a fund that has a long-term perspective and is well capitalized. You can weather a downturn much more effectively than your typical LLC or limited partnership that's capitalized and structured for the sole purpose of building a single property. There's a significant amount of development that's taken place over the course of the last five years, where they're experiencing challenges in terms of the margin compression rates on a short-term basis. They

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Anja Rogers
Senior Star

Matt Pyzyk
GCP/True Connection Communities

struggle to fund that. Is that the opportunistic piece of the market?

MARCZEWSKI: That's going to create some opportunity, because this isn't a short-term play. It is a long-term play. If your focus is very defined on the time period, you can't go through the cycles. And we all know the cycles are here, so I do think there will be people looking to get out, because they can't weather the storm.

BLAZEJEWSKI: But I also think the complexity of it is not appreciated by a lot of people. I joined Prudential in 2012. Between '12 and '15, I probably got a call a week from a developer who had 10 different deals they wanted to develop in a year. And that was a very quick no from us. Some of those projects got built, and some of those are going to fail, because they don't appreciate the complexity of it. We still underwrite a development to lease up in 27, 33, 36 months in most cases or longer for a bigger community. For the last couple of years, people have leased up in 18 months, but that's become the expectation.

MACE: If you have someone who comes in and is not familiar with seniors housing, and if they don't do it properly, there's a possibility that it can smear the whole sector. That's a huge risk from developers that aren't familiar with what we're doing.

MCMEEN: We saw this years ago when a lot of the multi-family developers moved into senior housing, thinking it was very similar, but it was a very different business,

WHITLOCK: For the last five years we've talked about different equity sources coming into the space. They like the yield characteristics. Student housing and self-storage were the other two that we heard a lot about for the last seven years. But we're seeing general partner/limited partner relationships with equity sources that we haven't

steve
blazejewski

PGIM
Real Estate

judy
marczewski

Leisure Care

seen before. They've backed a developer.

There are still debt products available. Whether it's a high yielding, hard money lender who is basically providing a stay of execution, or whether it's a bridge lender who knows that it's a well-built, well-located appropriate acuity level community that's got to get to a Fannie or a Freddie take out, those products are still there.

We get calls weekly that say we've got three to five buildings. We're 60 percent occupied. We've done 1.6 net move-ins per month. Can we sell at a stabilized number? And what's the cap rate? Those limited partners are looking to get their money back, and they're looking at declining operating margins. They're looking at wage increases. They're looking at their developer saying we lost another executive director.

So they're exploring the capital markets to see if they can get out early with a buyer that can get them off the hook and pay at a number that they've proformaed so that they can get to their investment return thesis. There's a lot of that going on. I don't see a lot of transactions occurring that are much more than replacement cost in those situations.

MCMEEN: What is equity attracted to right now, whether it's a market, an asset type or an operator?

BLAZEJEWSKI: It's all about a war for operator talent. We're all competing for the same relationships, so it's less about real estate, because it comes down to capacity and bandwidth. They can only take on so many projects. They're also filtering with respect to the people they want to partner with. It's really a flight to quality in terms of operators.

We try different strategies. Sometimes we go into smaller markets. Sometimes we look for little pocket plays where there's a donut around a certain site, and we can still get the demographics that we're looking for. We're just looking harder. So equity's attracted to high-quality operators and niche-type opportunities with respect to geography.

We're shifting more toward newer product and more development. As we look at our current fund and the next funds, we are allocating more to development. That's because the product is evolving, but we're also seeing out-performance on our development compared to stable acquisitions.

MCMEEN: Do you have a limit on the age of the building? Will you turn a building down if it's 15 years old versus seven?

BLAZEJEWSKI: We certainly have a focus on something that's probably five to 10 years. But we bought a building in the San Francisco Bay area recently, and it's one of our best performing assets. It's 20 to 30 years old. We're putting \$30,000 to \$40,000 dollars into every unit, and we're getting rent premiums of \$1,200 – \$1,300 a month per unit. It's in the Bay Area, where it's going to take 17 years to develop a competitor.

MARCZEWSKI: Age is okay, as long as it's well-maintained. I've been in some new buildings that are just terrible. They're falling apart, because they weren't built well, and they haven't been maintained. It's the quality of the building. It's

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what you do with the space that matters, and so if you maintain, if you innovate, if you continue to evaluate your communities based on the competition and what's happening, you can keep them competitive.

BLAZEJEWSKI: We have a building we developed in Sioux Falls, SD, so it's not really an institutional market and is a little bit outside of the box. There's actually a lot of wealth there and a lot of seniors, but I probably wouldn't buy a 30-year-old building there. But in the San Francisco Bay area, we would absolutely invest in that type of project, because you can't build there. We love finding those rehab-type projects, but it's got to be on a case-by-case basis.

MACE: If you have a building that was built 25 years ago with long corridors like multi-family housing, that's not efficient to run in this day and age when labor is so dear. You have to get from one end of the building to the other. That's time that's not being used for care. The layout is more important than ever.

WHITLOCK: A lot of private equity funds are looking for very similar product type and location, but that's putting more pressure on that A market in terms of the cap rate and increasing that value. It's just simple supply and demand. There aren't as many of those out there. There's an opportunity cost for not transacting.

The new shiny penny is attracting a lot of capital, which translates into demand, which translates into compression on cap rate. From a long-term debt perspective, the debt we originate from a Fannie Mae, Freddie Mac perspective is age agnostic. So NOI coming off of a building that's 30-years-old is the same thing as NOI coming off of a building from 2017. If you're paying a notional six cap for the new building and a notional eight cap for the old building, you've got a better return on your equity, because you're paying less relatively on a cap rate basis and your interest rate's the same. An eight cap with a 4.75 handle on it to me is a much better investment from a yield perspective than a six cap and a 4.75 rate.

MURRAY: It also depends on the sustainability, though, of the NOI on that property over the course of the 10 years or however long you're going to finance it. We do a large amount of bridge lending, so we underwrite it, we put it on our own balance sheet, and we own the risk in the interim. How we get around that is by doing business with the best-in-class owners and operators. These folks usually have liquidity that's substantial and leverage that's sustainable through cycles. That's how we formulaically mitigate that risk.

MCMEEN: Do you mitigate that risk in looking at older or lower quality buildings and say we'll do that, but we're going to reduce leverage? Or we'll do it, but we're going to price up for it on the balance sheet?

MURRAY: It always starts with the owner and the operator first. We get calls all the time, and the voice on the other end starts in

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The Weitz Company

Margaret Wylde
ProMatura Group

Paul Gordon
Hanson Bridgett

Mona Lee Wylde

on talking about the property. And the first question I always ask them is who's the owner? Who's the operator? What's the plan? If we do have interest in the transaction, then we dig into the fundamentals of the actual real estate. Real estate just gives you the ability to pay us back, but it's really about doing business with specific people.

MCMEEN:. What are you looking at in terms of mix of services? How do you think about standalone versus the continuum? Will you approach it differently in terms of how you think about the pricing?

MARCZEWSKI: We do not have any standalone memory care, and we have very little standalone assisted. We like to have a range. It just gives more opportunity. We love it when we can build independent and then have the ability to license later. Some states don't allow that. We like to have that flexibility, but you can't always have it.

On the independent side, during the recession the stabilized independent was our strongest portfolio. The independent apartments were filling more slowly, but the buildings that were full stayed full. And they performed really well. Our independent slice has done fairly well over long periods. So has the assisted.

Memory care tends to be more sensitive to what's happening in the market. And with so much coming in as standalone memory care a couple of years ago, in certain markets that's been a challenge. We try to have a large enough memory care component to have some efficiencies in operating, so we have a place for couples and for people to transition, but not a huge piece of it.

BLAZEJEWSKI: Some of our most successful projects have been conversions. As a property ages, the people typically age, and you see higher needs. So we'll convert from IL to AL where the state allows that. And ideally, we try to build that in so you can make a conversion for a couple hundred thousand bucks as opposed to a couple million dollars.

The other thing is we've expanded a lot. We've done, for example, duplex cottages around the perimeter of a property or something like that. That's a very different product, but we see a lot of success there. We don't have very many, but those duplex independent living-type cottages are probably the overall best performing segment of our portfolio. It becomes your natural feeder for your IL building and your AL building and your memory care.

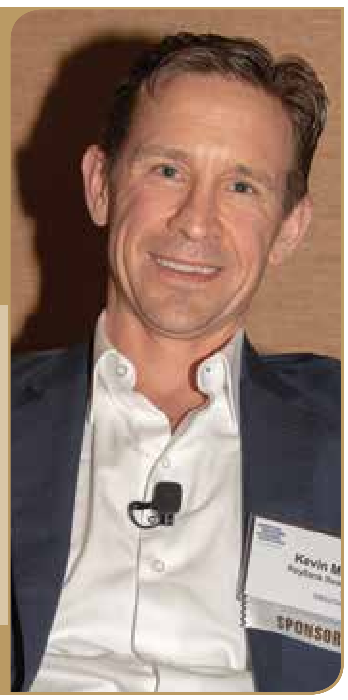
Multiple levels of care provides diversification. As you go into a cycle, if you have some flexibility to go back and forth, when the market's turned, it's nice to have that diversification.

MURRAY: We look at it from a liquidity standpoint. Standalone memory care from a debt perspective is less liquid. There are fewer banks that will finance it. It's really hard to get it through Fannie and Freddie, so it has to be priced and structured accordingly.

We're trying to balance our portfolio in certain ways, and our portfolio will fluctuate from the percentage we have invested in REIT paper, which obviously is some of the more liquid paper, and the amount we have in skilled nursing, the amount we have in AL, IL and memory care. So we try to balance that as well geographically, but as I said earlier, the main point that we focus on is the strength of the owners and operators and their wherewithal to get us through a cycle, because we're trying to build a portfolio that's cycle resistant.

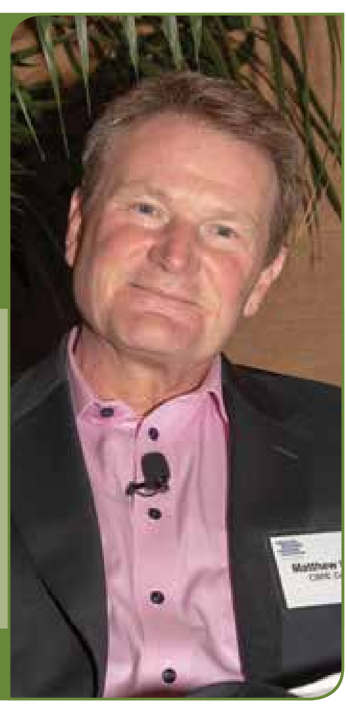
kevin murray

KeyBank Real Estate Capital



matthew whitlock

CBRE Capital Markets



MCMEEN: Baby Boomers aren't going to be moving into seniors housing for some time. What about age-restricted housing?

WHITLOCK: That's a burgeoning sector. That's obviously the hybrid between straight multifamily and seniors housing. The growth of age-restricted apartments has been reasonably pedestrian to date. It's grown out of a multi-family developer's interest in saying, hey, we're looking at this demographic. This will work. Let's build it. And generally speaking, those that were built and were filled are in high demand by private equity.

MACE: They tend to be highly amenitized, so they're for fairly wealthy households.

WHITLOCK: We haven't seen a whole lot of programmatic development. This is a new concept. I'm not saying it won't work, and I'm not saying it won't be infinitely successful, but it's not for everybody. Location is everything. The sales pitch is sell your house and come live with us, and it's carefree living. I know a bunch of people that are of that age, and they're not moving. They'd rather stay in their house.

God forbid the economy turns down and people have issues, where the perception of equity lost from a reduced price of their house will make them hesitate. They want to sell their house before they make that move, and if they feel like they're going to sell it for a hundred thousand dollars less than in 2018, they're probably not going to sell it, because they don't need to. Regardless of how old that person is, that's going to put a lot of cold water on the absorption of that new product. ■

KEYNOTE PRESENTATION: MARCI ROSSELL, PH.D.

Financial hangover from 2018 gets domestic and global economies off to rocky start in 2019

Threats from Brexit, quantitative tightening and trade war with China loom as disruptive forces

As 2019 begins to unfold, a number of disruptive forces looming on the horizon are intensifying economic anxiety and stoking fears of a worldwide financial slowdown.

While the chances of an outright recession seem remote, all signs nevertheless point to a rocky start in 2019 for both the domestic and global economy.

The three primary forces fanning this unease are the contentious Brexit negotiations, the Federal Reserve's shift to quantitative tightening, and the escalating trade war with China.

Economist Marci Rossell, Ph.D., traced how various developments that unfolded in 2018 ultimately shaped the outlook for 2019 and shared her vision for the upcoming year.

She began her career as an economist with the Federal Reserve Bank of Dallas, was corporate economist and investment spokesperson for OppenheimerFunds, and served as chief economist for CNBC and co-host of Squawk Box.

In the 2018 backdrop to 2019, Rossell recalled that "there was a lot of enthusiasm. We were entering the first period of synchronized global growth since the Great Recession. Following the financial crisis of 2008-2009, we had this patchy global growth. But the U.S. passed a package of tax cuts in late 2017, and many people believed those tax cuts would have a stimulating effect on the U.S. economy that would flow over to our trading partners."

As 2018 got underway, however, the enthusiasm for the tax cuts gave way to trepidation over the potential for a full blown trade war with China. The U.S. fired the first shot, imposing tariffs on solar panels and washing machines.

"But then we moved into April," she explained, "and the Chinese retaliated very specifically on some U.S. goods. The U.S. government expanded the tariffs onto more goods and services throughout the summer.

"We moved into August with a 10 percent tariff on roughly half the goods and services that are trading between the U.S. and China with the promise of that tariff going up to 25 percent in March 2019. The two governments are involved in negotiations right now.

> Many people can't understand why the EU is holding together.

"That's where we find ourselves on trade, moving from a lot of enthusiasm around tax cuts at the beginning of last year all the way to a trade war that is weighing somewhat on the U.S. economy, but much more strongly on the Chinese economy," she observed.

Quantitative tightening was another economic wrinkle that emerged in 2018 and has had a significant impact on monetary policy. After the Federal Reserve went all-in on quantitative easing and saw its balance sheet explode from $800 billion to $4.5 trillion during the financial crisis, it reversed course and has been pruning about $50 billion in securities per month.

"Their assets have fallen from $4.5 trillion down to $4 trillion," Rossell said, "so they've made considerable progress in a very short period of time. Quantitative tightening is having effects worldwide, but I don't think those effects are manifesting themselves in U.S. financial markets. The international effects are much more significant."

Turning to the three most disruptive forces buffeting the global economy thus far in 2019, she flagged Brexit as the most obvious source of upheaval.

"What a lot of this boils down to is the British public in general, when they voted to leave the European Union, thought they could have all the benefits of membership—the free movement of goods and services, low tariffs—without the cost of free movement of people and adherence to certain standards," she commented.

The European Union's tough stance on negotiating with Great Britain largely stems from fears that a precedent could be set, whereby if other nations believe the Brexit terms are favorable, they too may elect to leave.

"Why wouldn't the Netherlands just say, 'Well, I would rather have that deal, because that means I can get out of the free movement of people, but keep a lot of the benefits of free trade.' Many people can't understand why the EU is holding together when clearly, economically, it's very difficult for that region to share a single currency," Rossell reported.

She sees three potential Brexit outcomes. Great Britain could mount another referendum, although she believes the chances of this are remote. A more likely alternative is asking for an extension, and Europe grants it. But she questions how a delay would deliver a better result.

"The third possibility is a chaotic Brexit. At this point, I'm putting about a 25 percent probability on that," she said. "The worst-case scenario is that Europe experiences a pretty significant disruption for all of about four weeks.

"I don't even think it'll be that bad, because as we get closer and closer, people can see it coming. The disaster you can see coming is never the one that you should worry that much about. Most of it would be centered in the first quarter and the early second quarter of 2019," Rossell predicted.

marci rossell, Ph.D.

Economist

The second policy-related disruption that she sees looming in 2019 is the ongoing move to quantitative tightening. This is the flip side to quantitative easing, where the Federal Reserve in 2008 and 2009 slashed interest rates and was looking for creative ways to loosen monetary policy in order to keep long-term interest rates low.

"What they came up with was quantitative easing, which was basically a program of sustained, well-telegraphed bond market purchases that would keep long-term interest rates low," she pointed out. "But they had a plan all along to slowly and gradually wind down that balance sheet in the background, whereby with quantitative tightening they stopped rolling over the paper.

"But in the background globally, quantitative tightening was having a great effect outside our borders. One of the consequences of quantitative easing was as you expanded the supply of dollars globally and demand stayed constant, what happened to prices? If you increase supply and increase supply, but you don't have an increase in demand, prices by definition have to go down.

"From 2008 all the way to 2014, that was a time of an extremely weak U.S. dollar. The biggest effect of quantitative easing was that it pushed down the U.S. dollar and gave the U.S. a competitive advantage internationally that helped the overall economy recover, particularly agriculture, by the way," she added.

Quantitative tightening, meanwhile, is lowering the supply of currency worldwide, which means the value of the U.S. dollar over the last six months has increased with regard to every currency worldwide with the exception of the yen. The yen appreciated by approximately one percent, so the dollar is essentially flat against the yen.

"The primary effect of quantitative tightening is not really affecting U.S. interest rates all that much, given the scale of the tightening, but outside of our borders, it's having a dramatic effect," Rossell emphasized. "As long as they continue quantitative tightening, monetary policy is getting tighter and tighter in the background. You've got liquidity conditions that are slowly getting squeezed.

"When the value of the U.S. dollar increases, what does that do for U.S. exports? It makes our exports more expensive on world markets, just when we're trying from a policy perspective to shrink the trade deficit," she noted .

The trade war with China is the third disruptor, with $200 billion worth of exports to the U.S. facing a 10 percent tariff and the Chinese responding with matching tariffs on U.S. imports.

Rossell sees three potential outcomes for this standoff. The least likely is that the U.S. wins the trade war by protecting intellectual property rights and curtailing requirements for technology transfer if U.S. companies conduct business in China.

Under the second alternative, the trade deficit with China would be cut in half.

"But how would we shrink the trade deficit?" she asked. "We would either have to buy less from China, which means we buy more from India or from Vietnam, so we just move our trade deficit to another country, or we start to manufacture some of the things we buy from China in the United States. And by the way, that's a pipe dream, because the unemployment rate in this country is 3.9 percent.

"You're going to have inflation at 2.5 percent by the end of this year if the trade war doesn't get settled. When we get to March 1, tariffs could go up to 25 percent on the goods that are already being affected, so it goes from 10 percent to 25 percent. What's the outcome there? It's actually the same as winning. You shrink the trade deficit and the price of everything goes up. Whether we win or if we keep going like this, it's essentially the same outcome for everyone," she asserted.

In her third scenario, "which is the one that I'm most hopeful for, we cut one of those NAFTA-like deals that allows everybody to save face. It allows everybody to give just a little bit. It allows for the Chinese to go back and say, 'We won,' and it allows the Administration to say, 'We won.' My hope for that diminishes day-in and day-out, but I'm hopeful that that will be the case."

As she considers how the trade war could be resolved, Rossell foresees "a 10 percent probability that we win. There's a 40 percent probability that we just continue to go on like we have been and a 50 percent probability that somewhere between now and March 1, we come up with a resolution where things never go back to normal.

"When China became the world's workshop, it was a tremendous move forward in bringing the most amount of goods to the most amount of people at the lowest possible price. This trade war, even if it gets resolved, will take us a couple of steps back from that," she said. ■

EMPLOYEE ENGAGEMENT

Intensified velocity of change in the battle for talent means adapting to the new normal

Innovation is critical to overcome the churn of the "same faces in different places"

Unrelenting employee turnover, intensified pressure on recruiting, and a far greater emphasis on retaining talent may very well be the new normal for senior living going forward.

In the battle for labor facing virtually every business sector across the country, senior living is responding by regrouping to address the churn of "same faces in different places" as it reaches outside the industry for fresh perspectives and anticipates the increasing velocity of change.

Paul Dendy with Milestone Retirement Communities and Kai Hsiao with Eclipse Senior Living spoke about coming to terms with the new reality of recruiting and retaining talent, and explained how their companies are adapting.

HSIAO: We've all heard about the lack of labor that we're going to face around the corner. Looking outside the existing borders of senior housing is going to be important.

One of my executive directors had been with four different operators in the last two years. Her compensation had increased 25 percent in those two years, which is great news for her. But when you think about it, is she any smarter than she was two years ago? Probably not. You've probably seen this. I call it "the same faces, different places" scenario.

> You have to come to terms with this new world order.

Looking outside the industry is going to be a big component of our future. We need to start looking at folks from hospitality and multifamily. Looking outside and mentoring people into the industry is going to be critical.

DENDY: We have an in-house recruiting department, because of the recruiting challenges. We didn't have that three years ago. It's so difficult to find good people, particularly among executive directors, the health and wellness directors, and the sales and marketing directors. The salaries are going way up. You can't blame people for moving for a lot more money, but money doesn't motivate everybody, so what else can we do to motivate them and keep them with us?

One of our newest hires is a director of not just talent acquisition, but talent retention. We're trying to find perks, educational opportunities, community involvement opportunities, and time-off opportunities for staff that we wouldn't have thought of doing just a few years ago.

HSIAO: You have to come to terms that this is the new world order in seniors housing. The turnover rate that you have today is probably going to be the turnover rate you're going to have in the future. That's not to say

Carrie Coumbs
Kindred at Home

Jim Hardy
Revera

Jennifer Hardy

that you shouldn't work on culture and retention, but you have to know that we've got four different generations working in our communities today, which is very different than it was before. The young up-and-coming generation wants flexibility, they want mobility.

You just have to say in today's world, I'm going to have to spend more. Are your recruiting and learning and development departments actually staffed correctly? Do they have the tools needed to keep up with this new world order of turnover? Is your recruiting and learning/development engine properly resourced to handle this new velocity?

DENDY: You have to use technology, because so many people search for jobs that way. On the training side, we've been using technology for many years, where training can be done online. This doesn't replace the on-the-job shadowing type training, but it gets to the basics. We find people prefer that, because younger people these days are very computer-literate, and they like to work at their own pace.

One of the things we've changed in the last few years is providing time in their schedule on the job to sit down at the computer and get the training. We're building time into the work day for people to train. We've found that it has to be varied and extended out over time, so they're taking it in bits and pieces and then see how it's applied in the community on a day-to-day basis.

The worst thing we can do is after they complete the work in front of the computer or have a couple days shadowing somebody is to say, okay, now you understand it, go do it. You've got to stay in contact with them. The shadowing period needs to be longer. We've all hired caregivers where they know the job description and then they quit after one day and say, I didn't realize I was going to have to change briefs.

HSIAO: We've had great success in hiring salespeople who do student housing sales. It's a very likeminded industry, because in student housing sales, like seniors housing, you're doing what I call the dual sale. You're talking to the end resident, but you're also talking in student housing to the mom or dad. In seniors housing, you're talking to the end

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kai hsiao

Eclipse Senior Living

paul dendy

Milestone Retirement Communities

Stephanie Kolbo NRC Health

Tessa Kurtenbach NRC Health

Mike Damone Cedarbrook Senior Living

Bob Mercer Cedarbrook Senior Living

continued > EMPLOYEE ENGAGEMENT

Intensified velocity of change in the battle for talent means adapting to the new normal

resident and then the son or daughter. So they're used to that dual-sale process.

What I love about salespeople in student housing is they have three months to make the year. You've got to fill that building in three months or your year is shot. The velocity that they run at is great. So I love using that velocity on the seniors housing side.

On the flipside for executive directors, we've looked outside the borders as well for people who used to be managers at daycare centers. Again, a very likeminded industry. They're used to talking not just to the child, but also the parents. In seniors housing, it's the same thing. They're used to having two audiences. We've found stickiness in terms of retention by looking at folks who hadn't really considered seniors housing, but can take what they're doing today and apply it in our industry.

DENDY: We've hired salespeople, even executive directors, with no prior industry experience. That can be a tough sell with an owner. But what we recruit for is people skills, leadership skills, work ethic and culture. We can train them on the business. We try to find the best people and then train if necessary.

We want people who are comfortable making decisions in the field.

There are certain companies we have had candidates from that we find almost never work for us, because they have bad habits, because that company doesn't have a good culture. They haven't had good training. Many executive directors have no freedom, no autonomy to make decisions. There's a difference between the Russian army, where they couldn't do anything without orders from headquarters, versus the American army that can make decisions in the field. We want people who are comfortable making decisions in the field.

HSIAO: It goes back to the same faces, different places. If you're looking for a different result, why would you not try to hire someone who's different? If you hire the same type of person, you're probably going to end up with the same result. So again, having the flexibility to bring people from the outside is something that we always lean toward first.

DENDY: Let's switch to some retention programs and ideas. I'll mention two or three of my favorites. We have something called Perks at Work. This is a group purchasing type of discounting program. But what's cool about it is that there's something new every week. It comes out in an email blast. Every week I get at least one email about some special. Today, it was up to $50 off at Home Depot, just because you're a Milestone employee. They can see some positive, immediate benefits to being employed by us.

We have a fairly new program that we launched,

Lisa Shelton
Insight Senior Living

Roosevelt Davis
Fannie Mae

Joanne Pope
PNC Real Estate

Jeff Binder
Senior Living Investment Brokerage

but I'm hearing some great things about it. We started by calling it Teams That Play Together Stay Together. It was the brainchild of this new talent retention person we have. We empower each community to let their employees be creative in ways that they can give back to the community and do something as a team. We give them some time off to do these things. We give them a budget to do these things.

For example, some people in one of our communities in the Baltimore area braved the polar vortex to go work at a local food bank as a team. It's not for us to get notoriety among the food bank's board or any of that. It provides them an opportunity to step out of their normal environment and help each other accomplish something. That costs very little, and it's only limited by the creativity of the people working on it.

Everybody's got QA and CQI programs. We have committees for safety and outcome analysis and things of that nature. But a lot of times, those committees are staffed only by managers in the community. We had a tremendous success recently where an executive director said, yeah, I'll have some management people, but I want some line people on that committee. We're encouraging the other staff to pay attention to the residents and see what's working for them and not working for them. You have a voice in the company. It's not just punching a time clock and going home after eight hours.

HSIAO: Reward and recognition. All of us seek and want it. The other part of that, too, is mentorship and understanding there are avenues of growth. I could be a caregiver today, then tomorrow I can be a manager and then an executive director. Show them the path of how to do that and highlight the folks who have actually done that. One of the benefits of the scale that we have versus other smaller operators is the fact that there are greater opportunities out there.

DENDY: We formalized that a little bit. Again, this new talent retention person is working on succession planning. We give everybody, down to line staff, the ability to help mentor someone to take over their job, so they can have other opportunities. Everybody in the organization is thinking ahead. We're seeing good results.

AUDIENCE QUESTION: We always talk about millennials in particular needing to feel a sense of purpose. How do you inspire a direct-care worker on the third shift?

DENDY: One of the most effective things I've seen is when one of our leaders unannounced shows up at a community for the third shift and sits down and talks to people and helps in their tasks. Show them that you care. If there's no management there, they think we're just filling space. Show them that what they do is essential, because that's a third of the day. We run 24/7. They've got multimillion-dollar assets that they're responsible for and a lot of resident lives. Take pizza to them at midnight. In some markets, use shift differentials to give them a little extra recognition. That's more prevalent in certain locations, but that's something we very willingly do to get better talent and better consistency of the staff at night.

HSIAO: For the millennial generation, how you speak to them and manage them is very different. We're training our executive directors to first recognize the fact that you've got four different

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Christian Sweetser Silverado | **Michelle Kelly** National Health Investors | **John Cobb** Ventas | **Sheryl Marcet** Formation Capital

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generations or five different generations of people that you're managing in your community and then understand how each one of them likes to be managed.

With millennials, it's about flexibility. I want to work the hours I want to work. Do we have scheduling or a scheduling tool or system that allows us to do that? The more we use technology, the more you can leverage that within what their goals and desires are. From an altruistic standpoint, they love the fact that they're in an industry that actually gives back. But at the end of the day, they also want to be able to work when they want to.

To Paul's point on shift differentials, I know which shifts I need to push a bit more and pay more to make that work. I may pay a little bit less on that one shift that everyone wants. You need to be a more dynamic in terms of how you manage the wages that way.

DENDY: One of the things we found among the line staff is they hate the idea that they don't know, except on a week-by-week basis, what their schedule is going to be. They can't plan their lives. So we're really excited about a new program just being rolled out. It allows people to request shifts. When a person is scheduled and if something comes up, there's a messaging exchange process where they can put out their shift for a bid, in effect. If somebody else fills it, then they come off the calendar

> Shift differentials give extra recognition.

That's an investment worth making, because all indications are that it will make their lives easier and more rewarding, and it makes them feel that they're important, that we're investing in them, so they can have a more satisfying experience with us.

HSIAO: Part of it, too, as an operator is being open-minded. I spoke to some other operators before and they can't believe I've got someone who works for me and for them. That's the next generation. It's okay if someone actually works for Milestone and for us. I'm okay with that. This next generation of folks is going to want that flexibility, because Milestone's got some hours I can use on a Monday. I'll go work for Eclipse on a Tuesday. You're seeing more and more of that.

AUDIENCE QUESTION: Our workday doesn't fall into three equal parts. Are either of you doing anything with two- to four-hour shifts to try to get other workers into the workforce?

We're experimenting with that, similar to what they do in hospitality in terms of having that shorter period. Again, folks are looking for flexibility and working to their schedules. We've taken a page from the hospitality world in that regard.

Tracee DeGrande
Integral Senior Living

Collette Gray
Integral Senior Living

Mickey Gray

DENDY: We use a technology-based assessment system for our residents that feeds into the care plans and task lists. It makes it easier to see when the loads are on the staff. We use that as an assist in scheduling, because you don't have just three eight-hour blocks. You might be really busy from 7:00 to 9:00 am, getting people up and to breakfast, and then have a little bit of a dead period between then and lunch. We have overlapping and weaving shifts that can help when you really need the staff and have to make sure there are enough people there.

AUDIENCE QUESTION: When you acquire new properties that may have been overlooked for a long time, how do you take your culture and implement that in properties without replacing those individuals?

HSIAO: All 100 of our communities are from other operators. Our thesis has always been if we give people better tools, better direction, we get a better result. It's never to clean house, per se. We never go into it with that mindset, because that just causes a lot of noise and turbulence.

We always do a survey before a transition and ask what things are working, what things aren't working. What do you wish you could be doing? What do you want to stop doing? We want to get a sense of what we need to fulfill for them before we go in. We tell them here's what we heard, here's what we're going to work on, and here's how we're going to deliver those things. That goes a long way, because they know that we hear them.

We have an on-boarding team. That's all they do. They go out there and talk to every functional leader and say this is what you did before, here's how we would like you to do it today, and here's the process to get from point A to point B. They understand, one, we heard you, and then two, here's our expectations. There are times when people say, yeah, but that's not for me. That's fine. We're not for everybody.

DENDY: Generally speaking, opening a new development project is simpler in that regard, because you bring in your own team, you train them the way you want to. You instill the culture, you lead by example, you do all those things from the outset.

We've done a lot of acquisitions or management takeovers. Sometimes you can ride in as the white knight, because they've been abused by the prior company, either by not having enough money to even buy supplies, and they're paying for supplies out of their own pockets, or no support whatsoever from the management company. So sometimes you can do no wrong.

But many times, it is a process of getting people to change their thinking, their outlook; and you do it by communicating with them, setting clear expectations. I can only remember one time where we knew that on the day we took over, that executive director would not be there. But most executive directors do not stay after a transition if a property isn't performing well for more than three to six months, because they either can't or won't step up to expectations, or they just don't have the training, the leadership skills, or the desire to work that hard. So we don't go in guns blazing, either.

We've actually had owners ask us in the past, when you take over, what happens? Do you drive up a bus with 50 employees and all our people are gone? No. That's not the goal. Over time it can happen, but you can also save a lot of people, if they want to be saved, in terms of learning the proper approaches.

AUDIENCE QUESTION: What leadership roles do you look for in an executive director?

DENDY: We have an executive director-in-training program. You've got to do that, and you've got to develop people and show them what it's really about. We are making every effort to keep the people we've identified as strong players, interested in staying with us, by giving them new opportunities.

An executive director job description is similar across many companies, but it's not a cookie-cutter, identifiable set of skills and background. That's why we recruit for leadership skills, people skills and communication more than we do for their specific experience.

HSIAO: We view the executive director role a bit differently from other operators. I've heard other operators say that we want

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Robert Ezer
Amica Senior Lifestyles

Dan Hermann
Ziegler Investment Banking

Diane Bridgewater
LCS

Scott Gensler
Erickson Living

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our ED to be the CEO of their community. I will tell you, I don't. If you're going to be the CEO, then you should get paid more than what you do as an ED.

We want our EDs focused on their community and care. If you look at a company P&L today, generally about 70 percent of that P&L is driven by the decisions of that executive director. I think that's too much, because I'm at the whim of that executive director's decision-making. What I prefer is that only 30 percent of the P&L relies on the decision-making of that executive director. The other 70 percent is centralized, meaning that it's a given, fixed staffing model that everyone abides by. We're on procurement systems or procurement contracts that are driven by corporate. Marketing is done by corporate. That's my philosophy.

When you have turnover amongst the executive directors, and if the executive director is in charge of 70 percent of the P&L, that's a lot of movement in your numbers based on one position. That's just too much volatility for me to be comfortable with. So I actually like to centralize more. That's why we invest so much in our infrastructure. We invest a lot in technology, because we want to have dashboards so we can see real time what's going on out there. We can manage and make sure people stay within their lanes.

> I like to centralize more.

AUDIENCE QUESTION: How do you address things like changing acuity in a particular environment?

HSIAO: We have assessment tools. We can see exactly what's going on from a care standpoint in terms of the level of care they're moving to, how they're migrating, how many people are overdue with a 90-day reassessment. That's all driven from our technology package, and we have dashboards that tell us that.

I manage by exception, meaning that if people are going outside the lanes, then they get a phone call. And if they're not, then we leave them alone. I like to say, look, you used to have to worry about 10 things at this company. You just need to worry about three or four things over here. Organizationally, our reporting structure is not horizontal, it's vertical. So the salespeople report up into sales, not to the ED. Dining reports up into our head of dining, not to the ED.

Vertical or horizontal, I don't know why that changes the teamwork function of it. They're still bonused upon what happens at their community level. I prefer the vertical, because when I walk into a community and a salesperson is doing activities, that's a problem. If I walk into a community and clinical is working on something that's not clinical, that is a problem. I like to have those clear delineations out there.

Dana McCaleb

Bryan McCaleb
Sagora Senior Living

Alex Fisher
Sherpa

DENDY: We use the CEO of the community analogy with our executive directors, but it's more to give them a sense of how important their role is and how multifaceted it is, as opposed to having all the authority, because they don't. Kai has these fairly clear lanes that people stay in. Our people sometimes need a little more course correction to remind them of what they can and can't decide on their own.

There's merit in both approaches, and the characteristics of the hire are the same, because it comes down to can you be a leader; can you deal with conflict and with many different people, and can you communicate well.

When we talk about retention programs, we went away from executive director bonuses a couple of years ago, because no matter how perfectly they were designed and explained, people didn't understand them. There were multiple levels and criteria.

But then we also just got nervous, because of litigation in some of the states that we operate in and the notion of profits over people. If an executive director has a bonus program driven by profits, plaintiff's counsel can make points with that. So we got rid of the plans and gave all our executive directors significant salary boosts. We're thinking of going back to the bonus plans, because we need focus. We want the EDs to maintain focus by knowing that part of their job is to drive an income number that makes sense. I'm very focused on those financials when they go out.

AUDIENCE QUESTION: You're right, millennials would rather work for a purpose than a paycheck. And if you get them involved and they feel like they're part of your purpose, they want to be part of it. I found this program called Purpose of Youth. I took my leaders through it. The experience that they had was phenomenal with the tears that happened in the room that day and how they learned about each other. And then they wrote their own purpose and how can they bring their purpose to work, which is the ultimate. We're a very purpose-driven company. But now they all have ownership. They all feel like they're a part of the purpose. It was a great experience for my company.

DENDY: If you don't know what your why is, you can't define your purpose and try to go out and magically meet that purpose. Sometimes it doesn't take a lot of money to really make staff invigorated about what you're doing.

Again, looking at the role of technology and social media, we've all been buffeted by the fact that now we have to have reputation management, and it doesn't always work. Well, we're encouraging our staff to write reviews about their work experiences. To get participation, we had a 65-inch TV up for grabs on a drawing basis. Everybody who wrote a review could participate in that. We shipped that TV to Ohio from Vancouver, WA. We do some editorial checking and fact checking on reviews. We don't want people putting bad information out there, either positively or negatively.

But part of what we're trying to do is encourage people to write about their experiences, and that can be used in recruiting. That can be used in marketing, as well ■

Brian Schneider
Cedarhurst Senior Living

Christy Schneider

Jenny Rupp
Cedarhurst Senior Living

Josh Stevens
Cedarhurst Senior Living

Jeanne McGlynn Delgado, Vice President of Government Affairs for the American Seniors Housing Association

LEGISLATIVE UPDATE

Democrats' majority in the House sets the stage for contentious 116th Congress

Stalemate between Republicans and Democrats dims hopes of collaboration

Republicans held the upper-hand in the 115th Congress by controlling the Senate and House, as well as the White House. That dynamic changed as the 116th Congress got underway, while the Senate remains in Republican control, the Democrats gained the majority in the House (235 – 198).

"Power has shifted. We now have a scenario where the two chambers are poised to battle each other under a Republican president that is and has been under fire. We're bracing for an interesting year," said Jeanne McGlynn Delgado, Vice President of Government Affairs for the American Seniors Housing Association.

Looking ahead, she explained how the most diverse Congress ever in terms of gender, age and ethnicity will sort through the Democrat and Republican agendas, and outlined ASHA's policy priorities for the 116th Congress.

"The House Ways and Means Committee and the Senate Finance Committee has the authority to request the tax records of the president, and this has been one of the ongoing threats from the Democrats. Chairman Neal of the Ways and Means Committee has said publicly he would rather have the tax returns submitted voluntarily. But it's not going to prevent him from eventually subpoenaing them," she commented.

One of the primary objectives of the Republican-controlled Senate is confirming conservative judicial nominees, including Supreme Court picks. "Their goal is to get as many done as they can while they have control," reported McGlynn Delgado.

"They've already seated two new supreme court

TOPPING THE LIST OF DEMOCRAT PRIORITIES ARE:

- Campaign finance reform, ethics in lobbying, voting rights
- Background checks for firearm purchases
- Protect Special Counsel Robert Mueller
- Cut drug prices and fortify Obamacare
- Roll back GOP tax reforms
- Address climate change
- Invest in Infrastructure
- Raise the minimum wage to $15 (up from $7.25)

judges and speculation continues on Justice Ruth Bader Ginsburg's health. However, she has indicated she is not going anywhere. Rumors also suggest another retirement on the horizon and so the president is hopeful to confirm two additional judges during his administration," she said.

For House Republicans, their agenda includes making tax cuts permanent, securing military pay raises, battling the opioid epidemic, and tackling the national debt.

"The only time you'll get anything done during this Congress is if there's bipartisan support," she noted. "There's always been bipartisan support on infrastructure. In fact, a lot of folks in the administration and Congress would have preferred to spend time on infrastructure early in the Trump presidency, rather than pursuing the repeal and replace Obamacare effort.

"But now it will get trickier. While there might be some agreement on infrastructure, it's a big ticket item. The big question is will Democrats be willing to support what could be viewed as a Republican victory? Will Republicans want to give something that looks like a Democratic victory going into a 2020 election cycle? This is unfortunately the world we live in. "The issue of lowering drug prices is a priority for everybody. Also, the tax extenders is something that generally can get support," she added.

"On the federal tax front, we need a fix in the treatment of depreciation with the business interest deduction. It forces older properties to take a longer depreciation schedule. That was an oversight in the writing of the legislation. We've been working with the multi-family industry to get this fixed through legislation or regulation to shorten the depreciation period," she reported.

The medical expense deduction, while the tax bill addressed it, continues to be an important issue. "They only extended the favorable income threshold of 7.5 percent through the end of 2018. Beginning this year, expenses will have to exceed 10 percent in order to be deducted. We're working to maintain the 7.5 percent, at least for seniors 65 and older," she said.

Another interesting program created by the Tax Reform Bill includes opportunity zones. This is a capital gains tax deferral program benefitting low-income, affordable housing. "While you may not choose to build these properties, you can invest capital gains in funds

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ASHA'S POLICY PRIORITIES IN THE 116TH CONGRESS WILL FOCUS ON:

- Tax Cuts and Jobs Act (TCJA)
- Long-term care financing and retirement savings
- Senior living workforce shortage
- Health care delivery in senior living
- Limit federal regulation of seniors housing
- Alzheimer's research funding at NIH

19th Annual ASHA Golf Tournament Winning Foursome

Labinot Avdiu Medication Management Partners | **John Sweeny** Virtus Real Estate Capital | **Ken Jaeger** MorningStar Senior Living | **Ken Jackson** Propel Insurance

continued > LEGISLATIVE UPDATE

Democrats' majority in the House sets the stage for contentious 116th Congress

that will then develop in those areas and receive the benefit," she pointed out.

Turning to long-term care financing and retirement savings, McGlynn Delgado said work is underway on a draft proposal by the Democrats to create a new catastrophic back- end long-term care support and services benefit under Medicare.

There would be a two- year waiting period after you are deemed to require assistance with two or more ADLs. They've thought through some of that, so it doesn't totally bust the bank. But they haven't figured out how they'll pay for it yet.

"The good thing is that attention will be paid to the issue of long-term care financing. It tees up the issue and gives us an opportunity to talk about our industry and the benefits we offer to seniors. If we have any suggestions for improvements we will be heard."

Proposals have also been under review to permit long-term care insurance as an investment option within a retirement plan such as a 401(k).

"There's been a lot of conversation about allowing the withdrawal of money tax-free, so people will be more likely to buy that product. But this is better. It doesn't require you to withdraw from your 401(k), so you don't lose it and you don't create a tax event. But you do pay tax on the backend if your benefits are triggered," she observed.

> Efforts on the work force shortage include immigration reform.

Efforts to address the senior living workforce shortage include work on immigration reform. ASHA is part of the Essential Worker Immigration Coalition, whose goal is to advance immigration reform for essential, low skilled workers.

"Currently there is not a visa category for lesser skilled, essential, non-agricultural and non-seasonal works such as direct care employees. That's where the direct care worker would fit in. Legislation was introduced in the last Congress. We anticipate it will be back in this Congress. It's not going to be the silver bullet solution to the worker shortage, but it will create an opportunity to find additional employees," she said.

Other issues and initiatives that ASHA will be engaged in throughout the year are health care delivery in senior living and the recently expanded supplemental benefits under Medicare Advantage; limiting federal oversight and maintaining the state regulatory framework; funding Alzheimer's research at NIH; and the implications of housing finance reform on the future of Fannie Mae and Freddie Mac. ■

Amber Busch
Clark Nuber PS

Chris McGuffin
Greystar

Danielle Morgan
Clearwater Living

Adam Cohan
Greystar

SENIORS HOUSING PAC AWARDS

Push on Capitol Hill Delivers Win for Industry

The critical role that the Seniors Housing Political Action Committee (SHPAC) plays in building relationships on Capitol Hill and generating bipartisan support for the industry's foremost priorities was never more apparent than in 2018. ASHA sought necessary clarifications on key tax provisions in the recently enacted tax reform legislation that specifically impact seniors housing and they were addressed favorably.

"With respect to the ability to deduct business interest, the question boiled down to whether seniors housing is considered a "real property trade or business". Prior to enactment of the reform bill, ASHA secured a Senate colloquy to affirm the congressional intent in the legislation that seniors housing did in fact meet the definition. The limitation on this deduction was very important and we had to take additional steps to strengthen that interpretation.

We continued our efforts by meeting with legislators, staff as well as Treasury Department officials to encourage a higher visibility for this issue in subsequent rulings and guidance. A key goal was to get a mention of our position in the Blue Book, a product of the Joint Committee on Taxation which is the compilation of major tax bill provisions with explanations. When the Blue Book was released last year, assisted living was included in a footnote explaining the new tax provision. "We got an explicit mention in the Blue Book and I can tell you that wouldn't have happened without ASHA's lobbying efforts."

"The twenty percent deduction for qualified business income was another important provision that required clarification. When the final rules were published, assisted living was mentioned in an example, something ASHA had requested in a comment letter to the Treasury. Again, we got an explicit mention in the new Treasury regs. This wouldn't have happened without the direct involvement of the ASHA lobbying team," he stressed.

In 2018, total contributions to the SHPAC reached $425,605, a slight drop from 2017. There were 426 contributors from 80 Companies, 132 Chairman's Circle contributors and eight Platinum Circle companies.

The eight Platinum Circle companies, where contributors overall were responsible for $10,000 or more in fundraising, were:

- Hanson Bridgett
- Hawthorn Senior Living
- Senior Lifestyle
- Senior Living Investment Brokerage
- Senior Resource Group
- Senior Star
- Ventas
- Watermark Retirement Communities

The Top Employee Participation Award went to Senior Star, while Senior Lifestyle took the Top Company Campaign Award for its employees making the largest contribution to the SHPAC. HealthTrust won the 2018 Horizon Award, which recognizes companies that for the first time complete a Seniors Housing PAC campaign.

"I'm hoping 2019 will be a break-out year for the SHPAC. The money is used to help develop our relationships with key legislators, and so it is important. We hope that everybody will step up and join in," Frumm added. ■

Jerry Frumm, Senior Lifestyle, Current Seniors Housing PAC Chairman

SENIORS HOUSING POLITICAL ACTION COMMITTEE

ASHA 2019 annual meeting

sponsors

Annual Meeting Highlights Newsletter
KeyBank Real Estate Capital

Meeting Invitation
Senior Living Investment Brokerage

Whale Watching Tour
ProMatura Group

Golf Tournament
Capital One Healthcare

Golf Tournament Lunches
Ventas, Inc.

Golf Tournament 1st Place Prizes
Senior Lifestyle

Executive Board Reception
HCP, Inc.

Welcome Reception
New Senior Investment Group

Registration Refreshments
Yardi Systems, Inc.

Hotel Key Cards
Capital One Healthcare

Evening Amenity
Propel Insurance

The Wall Street Journal
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CIT

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Seniors Housing Business

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Refreshment Break
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Keynote Speaker – Marci Rossell, Ph. D.
Ventas, Inc.

Networking Lounge
HealthTrust

Luncheon
Huntington Bank
Hunt Real Estate Capital

Reception
Welltower Inc.
Willis Towers Watson

Fountainview at Gonda Westside Community Tour
Los Angeles Jewish Home

Executive Board Breakfast
MatrixCare

save these dates 2019

MAY 10
Regional Roundtable – Denver, CO

JUNE 11 – 12
Rising Leaders Meeting
Coeur d'Alene Resort, Coeur d'Alene, ID

JUNE 12 – 13
Mid-Year Meeting
Coeur d'Alene Resort, Coeur d'Alene, ID

JULY 23
Regional Roundtable – Chicago, IL

SEPTEMBER 10
ASHA Fall Executive Board Meeting & Reception
Sheraton Chicago, Chicago, IL

SEPTEMBER 11
Rising Leaders Fall Forum
Chicago, IL

NOVEMBER 6 – 7
Chairman's Circle Event
The Ritz-Carlton, New Orleans, LA

2020

JANUARY 22 – 24, 2020
2020 Annual Meeting
JW Marriott Desert Springs, Palm Desert, CA

newsletter sponsor:

KeyBank Real Estate Capital

speakers

SENIOR LIVING HALL OF FAME INDUCTION CEREMONY
Moderated by Larry Cohen

CLASS OF 2019 INDUCTEES
Debra A. Cafaro, **Ventas, Inc.** **(Inducted by Ray Lewis)**
Paul J. Klaassen, **Sunrise Senior Living** **(Inducted by Mark Ordan)**
Anthony J. Mullen, **National Investment Center** **(Inducted by David Smith)**

KEYNOTE PRESENTATION
Marci Rossell, Ph. D.

CEO DISCUSSION
Eric Mendelsohn (Moderator) **National Health Investors**
John Cochrane **HumanGood**
Michael Grust **Senior Resource Group**
Lynne Katzmann, Ph. D. **Juniper Communities**
Joel Nelson **LCS**
Chris Winkle **Sunrise Senior Living**

VALUATION TRENDS ROUNDTABLE
Phil Anderson **Bridge Seniors**
Colleen Blumenthal **HealthTrust**
John Cobb **Ventas, Inc.**
Torey Riso **Blueprint Healthcare Real Estate Advisors**

MARKETING AND SALES ROUNDTABLE
Alexandra Fisher **Sherpa**
Anja Rogers **Senior Star**

CAPITAL MARKETS ROUNDTABLE
Beth Mace **National Investment Center for Seniors Housing & Care**
Steve Blazejewski **PGIM Real Estate Investors**
Judy Marczewski **Leisure Care**
Kevin McMeen **MidCap Financial Services**
Kevin Murray **KeyBank Real Estate Capital**
Matthew Whitlock **CBRE Capital Markets**

SENIOR LIVING PRE- AND POST-ACUTE CARE ROUNDTABLE
Carrie Coumbs **Kindred At Home**
Jerry Frumm **Senior Lifestyle**
Scott Gensler **Erickson Living**
Christian Sweetser **Silverado**

EMPLOYEE ENGAGEMENT ROUNDTABLE
Paul Dendy **Milestone Retirement Communities**
Kai Hsiao **Eclipse Senior Living**

RISK MANAGEMENT ROUNDTABLE
John Atkinson **Willis Towers Watson**
Michael Ferreira **Propel Insurance**

WHERE YOU LIVE MATTERS UPDATE
Lindsay Casillas **Sodexo Seniors North America**

KEYNOTE PRESENTATION
Messages that Matter
Margaret Wylde, Ph. D. **ProMatura Group**

19th annual golf tournament winners

1st
Labinot Avdiu, Medication Management Partners
Ken Jackson, Propel Insurance
Ken Jaeger, Morning Star Senior Living
John Sweeney, Virtus Real Estate Capital

2nd
David Caleca, CS Capital Advisors
Tim Fox, Senior Resource Group
Kevin McMeen, MidCap Financial Services
Brad Razook, CS Capital Advisors

3rd
Phil Hoffman, Ganzhorn Suites
Craig Jones, Lancaster Pollard
Joe Munhall, Lancaster Pollard
David Sharp, MidCap Financial Services

Longest Drive Men:
Josh Simpson, Meridian Capital Group

Longest Drive Women:
Jeanne McGlynn Delgado, American Seniors Housing Association

Closest to the Pin Men:
Brian Beckwith, Formation Capital

Closest to the Pin Women:
Joyce Wehner, Methodist Eldercare Services