HEALTHCARE INSIGHTS
NEWS AND VIEWS FROM A&M HEALTHCARE INDUSTRY GROUP

Senior Housing: Extension Opportunities Across the Continuum of Care

Senior housing includes a broad range of independent living, assisted living and nursing care properties operated as stand-alone, multi-property and continuing care communities. Occupancy, rental and new construction rates have increased since the end of the Great Recession in 2009 to 2011. Labor costs and turnover rates, especially for low-wage health care aides, remain a concern, though given the private pay nature of senior housing, are subject to pass through rental increases.

Alvarez & Marsal (A&M) estimates an increase in unit demand of 30,000 to 35,000 units per annum in 2015 to 2025. Longer-term demographic trends are favorable. The advent of capitated reimbursement represents a major opportunity for senior housing operators to better engage residents in preventive care, focusing on ambulatory care sensitive conditions (e.g., asthma, chronic pain, chronic obstructive pulmonary disease (COPD), diabetes complications, hypertension, congestive heart failure, pneumonia and urinary tract infections). An additional opportunity exists for senior housing operators to *proactively partner* with hospitals, post-acute care providers and home care agencies to reduce the 30-day re-hospitalization rate, facilitate site-of-care transitions, enhance care coordination, improve quality and increase satisfaction levels.

Senior housing industry is highly profitable (with effective execution)

Senior housing comprises a range of options based on the need for alternative housing, combined with ancillary services such as hospitality, supportive care and medical. The vast majority of senior citizens prefer to age in-place with assistance from family members, nurses and health aides; participation in adult day care center activities; and accessory (boarder) apartment living. Independent living and assisted living is expensive and requires, with exception, out-of-pocket payments from the vast majority of residents.

PROPERTY TYPES BY SERVICE OFFERINGS

Services	Seniors Apartments	Independent Living	Assisted Living*	Nursing Care
Housing				
Hospitality services				
Care Services				
Medical Services				

Type of Service	Description
Housing	Private, semi-private
Hospitality	Recreational activities, housekeeping, laundry, transportation, meals
Care (supportive)	*Activities of Daily Living*: bathing, dressing, toileting, transferring, continence and eating. *Instrumental ADLs*: Using telephone (e.g., find number), shopping for groceries, preparing meals, doing housework, managing medications, performing laundry, managing finances
Medical (direct provider or third-party)	Chronic care, post-acute care including home care, hospice, rehabilitation services (physical, occupational and speech therapy)

*ADLs include bathing, dressing, toileting, transferring, continence and eating. Instrumental ADLs include using

There are 11,425 investment-grade senior housing properties, excluding nursing care facilities, with 1.4 million beds. Independent living beds account for nearly 50 percent of the total, followed by assisted living (39 percent) and memory care (11 percent). Ownership varies by type of institution, with the percentage of for-profit ownership increasing with the level of acuity: independent living (49 percent for-profit, 51 percent non-for-profit); assisted living (14 percent, 86 percent) and memory care (six percent, 94 percent).[1] Nursing care is primarily reimbursed by Medicaid, with out-of-pocket payments required for an asset drawdown; facility ownership is 70 percent for-profit, 25 percent non-for-profit and 25 percent government.[2]

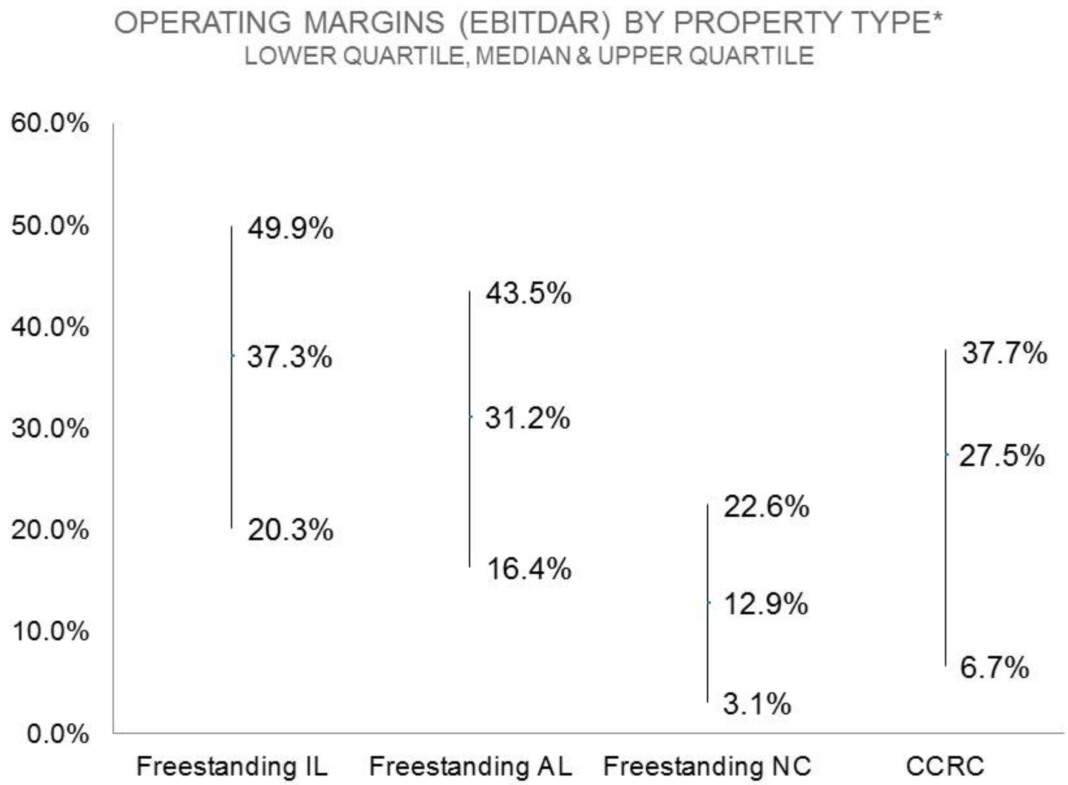
SUPPLY OF INVESTMENT GRADE SENIORS HOUSING & CARE PROPERTIES*

By Property Type	Majority Independent Living	Majority Assisted Living*	Majority Memory Care	Majority Nursing Care
# Properties	4,060	6,305	1,060	11,270
# Units (beds)	883,500	507,500	51,000	1,504,500
IL units	716,000	NA	NA	NA
AL units	145,000	413,500	NA	NA
MC units	NA	94,000	NA	NA
NC units	22,500	NA	NA	NA
Units/property	218	80	48	133
By Care Segment	**Independent Living**	**Assisted Living**	**Memory Care**	**Nursing Care**
# Units (beds)	716,000	558,500	145,000	1,527,000
By Campus Type	**CCRC (IL + AL+ Nursing Care)**	**Combined (2+ types)**	**Freestanding (one type)**	**Total**
# Properties	1,970	5,560	15,165	22,695
# Units (beds)	634,000	684,500	1,628,000	2,946,500
Units/property	322	123	107	130

*>25 units/beds that charge market rates for the housing and services offered. Assisting Living with 50% unit turnover/annum
Source: NIC Investment Guide, Third Edition

A broad range of monthly rents and operating expenses per occupied bed results in institutional-specific operating margins (EBITDAR). The average monthly rent increases with resident acuity and the scope of delivered services, and ranges from $2,765 per month ($33,180) for independent living to $5.732 for memory care ($68,784). The primary drivers of operating expenses include costs related to staffing (mix, number), food and insurance.

Independent living and assisted living appear to be far more profitable than nursing care due to their payer mix. Operating and ground lease payments for nursing care average nine to 11 percent, and are believed to not be far different for independent and assisted living facilities.



Source: NIC. EBITDAR excludes operating lease payments, ground lease payments, debt services, depreciation, amortization, income taxes, partnership expenses, capital expenditures and replacement reserves. FY2012 except for Nursing Care FY2010

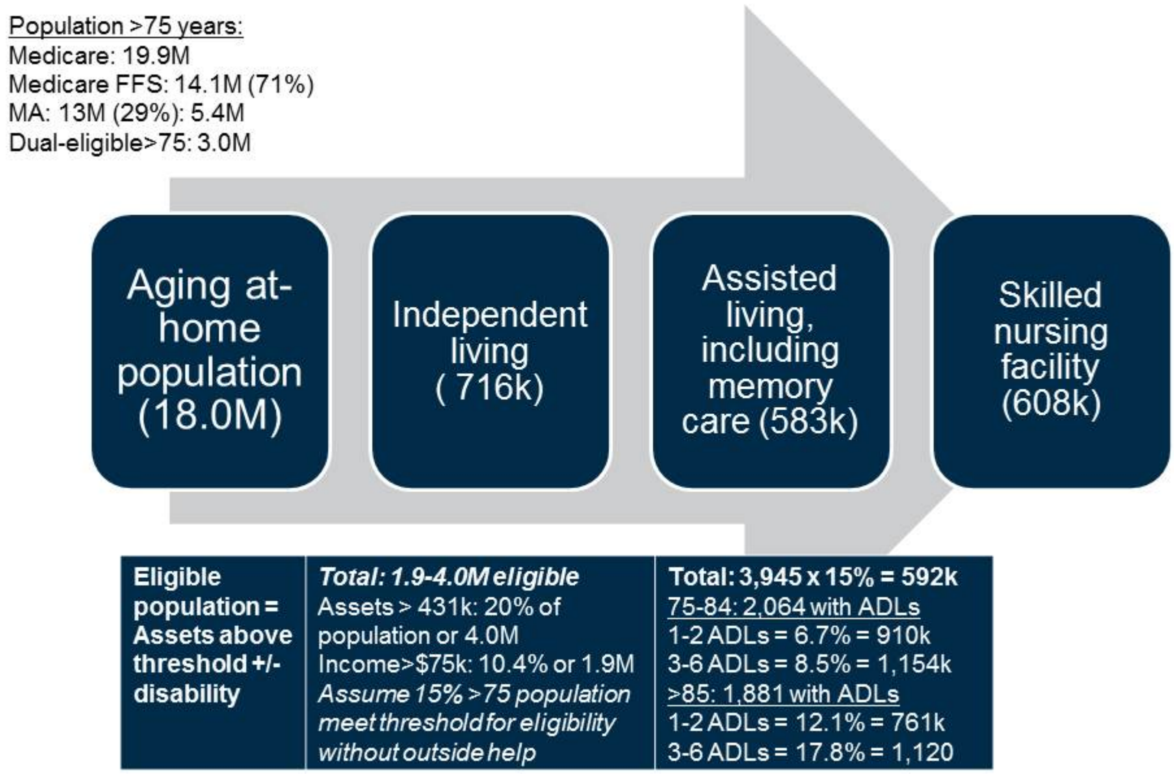
Average Medicare fee-for-service margins, the most profitable component of the total margin in 2013 for post-acute care providers, vary by type of facility: skilled nursing facilities (SNFs) (13.1 percent), home care (12.7 percent), inpatient rehabilitation facility (11.4 percent), hospice (10.1 percent) and long-term acute care hospitals (6.6 percent). All post-acute care sectors have a wide dispersion in operating performance based on location, size, payer mix, patient mix (reimbursement) and costs (direct, indirect).

Consolidation in a still-fragmented industry

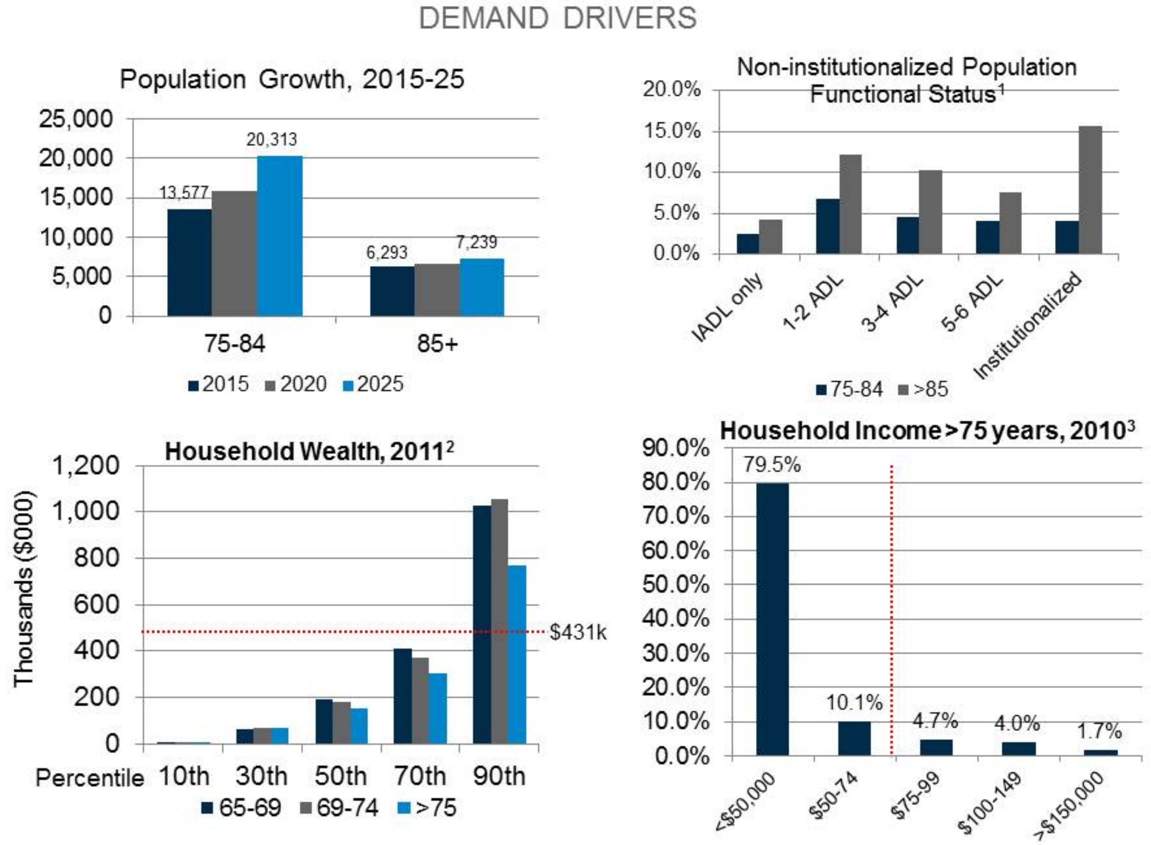
Despite ongoing consolidation, the senior housing industry remains fragmented with the top 100 competitors accounting for approximately 59 percent of independent living and assisted living facilities and, coincidentally, units. According to the National Investor Center (NIC) and other sources, the nine largest operators control 17 to 26 percent of units, implying that the remaining 91 operators control 36 to 43 percent of units.[1] U.S. Brookdale Senior Living, the largest operator, accounts for 111,145 units alone, a multiple in size compared to its competitors.

Favorable demographics to drive unit demand in 2015 to 2025

Aging demographics, combined with an opportunity to either directly or indirectly increase engagement in preventive care, increases the relative attractiveness of the senior housing market segment. There are 19.9 million Americans over the age of 75, 18 million aging at-home (90.5 percent), 700,000 in independent living facilities (3.5 percent), 600,000 in assisted living / memory care facilities (2.9 percent) and 600,000 in SNFs (3.1 percent).



The percentage of residents over the age of 85 in assisted living facilities (51 percent) is comparable to the institutional population in nursing homes. Nearly three-quarters of patients are female. Residents with mild-to-moderate cognitive impairment due to Alzheimer's or other types of dementia account for 30 to 50 percent of assisted living residents. Memory care facilities, reflective of additional cognitive decline, often require a locked unit, nutritional care and hydration, pain management, social engagement and "involvement in meaningful activities," expertise in behavior and communications, and extensive care planning.[3]



[1] *75-84: 78% Non-disabled; >85: 50% with no disabilities.* Manton K. Change in Chronic Disability From 1982 to 2004/5. Volume 103 (48), November 28, 2006
[2]Brookdale Senior Living BOFA investor presentation September 18, 2014 [3] http://www.census.gov/hhes/www/cpstables/032011/hhinc/hinc02_000.htm

Net worth (over $430,000) and annual income requirements (over $75,000) suggest that only 10 to 20 percent (1.9 to four million) of the total population over the age of 75 are able to afford independent living facilities. Approximately 3.9 million people over the age of 75 have limitations to their activities of daily living, implying the need for care services. Assuming 15 percent are able to afford assisted living (AL) implies 600,000 patients or the approximate current number of AL residents; family contribution is highly likely.

A market potential analysis for 2015 to 2025 conducted by A&M suggests an incremental demand for independent living units of 243,000 to 276.000, an increase of 36.3 percent, and for assisted living units of 190,000 to 216,000, an increase of 34.8 percent. The analysis assumes no change in affordability from historical levels, as well as a constant rate of demand. Changing social dynamics, a *potential* driver of senior housing demand, include “smaller dispersed families, more single and childless seniors, a declining ratio of potential caregivers to seniors and increasing awareness and acceptance of senior living solutions.”[4]

Technology as an enabler of preventive care

Technology can potentially serve as an important adjunct for the identification of changes in resident status, as well convenient provider access. Smart home technology, also known as the “internet of things," can monitor activity levels and the environment. Passive and active sensors can monitor physiologic parameters, location and position. Fall prevention is critical to not only residents, but also liability. Remote monitoring of blood pressure, heart rate, respiratory rate, temperature and weight is desirable, especially for patients with more than four to five chronic conditions, the threshold for rising Medicare costs. And lastly, telemedicine represents a convenient and cost-effective method to triage patients.

Conclusion

The age of senior housing residents suggests an opportunity to increase engagement in resident health and wellness. Opportunities exist to reduce the frequency of ambulatory care sensitive hospital admissions (i.e., those amenable to prevention). Elderly residents often have multiple chronic conditions. Given their knowledge of resident medical history and prescription drug use, and their ability to identify changes in physical and mental status, as well as activity levels, senior housing personnel are well positioned to serve as an "early warning" system for other providers to diagnose, manage and treat a variety of chronic conditions subject to acute deterioration. Improved health is likely to prolong life expectancy (i.e., residence time).

It is important to recognize that senior housing is comprised of hundreds, if not thousands, of operators competing in disparate markets with variable execution capabilities. Any investment requires consideration of the local market, as well as the management team. This is evidenced by the range of EBITDAR margins among three publicly traded competitors of 16 to 35 percent.[5]

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[1]NIC Investment Guide: Investing in Seniors Housing & Care Properties, Third Edition

[2] MedPAC Report to Congress, March 2015. Table 8-1

[3]Alzheimer's Association Campaign for Quality Residential Care. Dementia Care Practice Recommendations for Assisted Living Residences and Nursing Homes, 2009. http://www.alz.org/national/documents/brochure_dcprphases1n2.pdf

[4] BofA Global Healthcare Conference presentation; September 1, 2014 file:///C:/Users/dgruber/Downloads/2014%20BofA%20Global%20Healthcare%20Conference%2009-18-14%20(2).pdf

[5] JMP Securities, Company reports