


State of Senior Living and The Senior Living Capital Markets



2011 ANNUAL MEETING AND EDUCATION FORUM

Thursday, January 20, 2011, 8:45am

KEITH ROBERTSON  
Senior Vice President  
Ziegler




---

---

---

---

---

---

---

---

Eleven Elements of Today's Key Trends



2011 ANNUAL MEETING AND EDUCATION FORUM

---

---

---

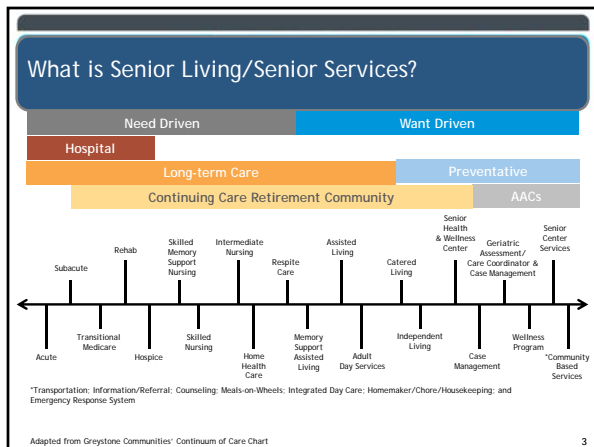
---

---

---

---

---




---

---

---

---

---

---

---

---

## Today's Constituents? A Look at Supply

CCRCs	IL	AL	SNF
1,861	3,840	6,315	10,975
693,000	710,000	420,000	1,320,000
FP: 20% NFP: 80%	FP: 90% NFP: 10%	FP: 90% NFP: 10%	FP: 60% NFP: 40%
Private Pay/ Third Party/ LTC	Private Pay	Private Pay LTC	Medicare/ Medicaid/ LTC/Private Pay

Source: Ziegler National CCRC Listing & Profile, NIC MAP® database & the U.S. Census Bureau

4

---

---

---

---

---

---

---

---

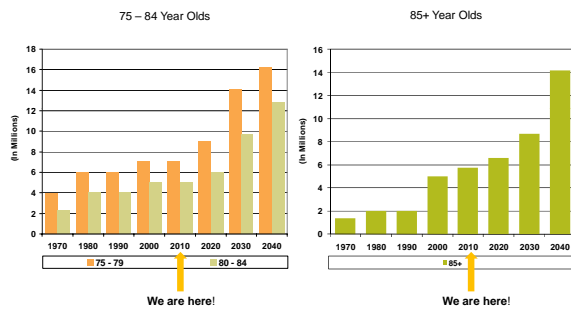
---

---

---

---

## Today's Constituents? A Look at Demand



5

---

---

---

---

---

---

---

---

---

---

---

---

1. Embracing the "New Reality"
2. Focusing on Operational Excellence
3. Adopting resident-centered service and care models
4. Rolling out "Wellness" in all dimensions
5. Reaching beyond the walls
6. Considering the impact of Healthcare/Regulatory Change
7. Repositioning campuses
8. Expanding through new communities
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets
11. Determining whether you have what it takes

6

---

---

---

---

---

---

---

---

---

---

---

---

**1. Embracing the "New Reality"**

2. Focusing on Operational Excellence
3. Adopting resident-centered service and care models
4. Rolling out "Wellness" in all dimensions
5. Reaching beyond the walls
6. Considering the impact of Healthcare/Regulatory Change
7. Repositioning campuses
8. Expanding through new communities
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets
11. Determining whether you have what it takes

7

---

---

---

---

---

---

---

---

---

---


---

---

**Embracing the "New Reality"**

Re-thinking, re-committing and re-tasking their governing boards to better contend with the 'new reality'

- Recruitment, orientation, education and engagement of board members
  - Diversity of talents, backgrounds, commitment a must
- Boards are holding themselves accountable
- Succession Planning an increasing focus of many senior living providers
  - to ensure talent remains at *all* levels of the organization (not just the 'C'-suite)
  - to maintain/bring fresh thinking



8

---

---

---

---

---

---

---

---

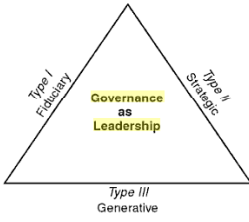
---

---

---

---

**Concept of Governance As Leadership**



*"When trustees work well in all three modes, the board achieves governance as leadership."*

-Chait, Ryan, Taylor

9

---

---

---

---

---

---

---

---

---

---

---

---

1. Embracing the "New Reality"
- 2. Focusing on Operational Excellence**
3. Adopting resident-centered service and care models
4. Rolling out "Wellness" in all dimensions
5. Reaching beyond the walls
6. Considering the impact of Healthcare/Regulatory Change
7. Repositioning campuses
8. Expanding through new communities
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets
11. Determining whether you have what it takes

10

---

---

---

---

---

---

---

---

Focus on Operational Excellence

Attention to Staff

Intense Focus on Continuous Quality Improvement

Relentless Commitment to Operational Excellence

11

---

---

---

---

---

---

---

---

Focus on Operations: Attention to Staff

- Recruitment, continuing education, cross-training must be ongoing, relentless
- Professionalism, understanding of the mission at every level
- Succession planning at all levels of the org
- Everyone is a marketer!

12

---

---

---

---

---

---

---

---

### Focus on Operations: Continuous Quality Improvement

- Quality First initiative
- Accreditation
- **Operational Benchmarking & Outcome measurement** Benchmarking
  - Within the organization (year/year; month/month)
  - With peers



- Resident Satisfaction Measures

13

---

---

---

---

---

---

---

---

### Focus on Operations: Relentless Commitment To Mission Through Bottom Line

- The focus is on **occupancy** (and occupancy, occupancy, occupancy!) at all levels of care, in all properties
  - 'out of the box' thinking employed to support/increase occupancy rates
- The focus is on **revenue**
  - Is pricing right for the **private pay** market?
  - Is the **Medicare** census appropriate? Short-term? Long-term?
  - Is the **Medicaid** census appropriate for mission? For financials?
- Driving to a better bottom line
  - **Fee increases** are implemented (despite resident pressure to the contrary) to more than offset expense increases
  - **Expenses are** examined at every opportunity
  - Periodically conducting **operational reviews**

14

---

---

---

---

---

---

---

---

### Focus on Operations: Relentless Commitment To Mission Through Bottom Line (cont'd)

- Growing affordable product line balanced with need to ensure growth sufficiently supported financially
- Increasing possibility of **resident benevolence** acknowledged and addressed
- Controlling **risk management** (liability insurance) through continued participation in captive insurance products such as CCIC
- Moving to new solutions/new thinking/new strategies



"SRA has saved LEC money, time and increased the quality of a great number of the products and services we use."  
Scott Quinn, President/CEO  
Life Enriching Communities

15

---

---

---

---

---

---

---

---

## Focus on Operations: Relentless Commitment To Mission Through Bottom Line (cont'd)

- **Technology** infrastructures for operations have been reviewed, enhanced and implemented
- Advances encouraging self-sufficiency of seniors
  - Aging in place implications
- Technologies have moved beyond experimental to become efficient business practices



16

---

---

---

---

---

---

---

---

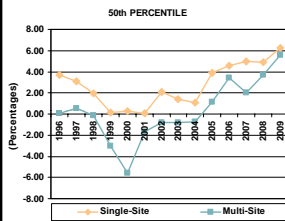
---

---

---

---

## Focus on Operations Evidence



- Median for both provider types improved markedly
  - Highest value in history of study
- As in the past, the operating performance of multi-site providers is generally weaker than the single-site providers
  - BUT the gap narrowed in 2009

Source: Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2010.

17

---

---

---

---

---

---

---

---

---

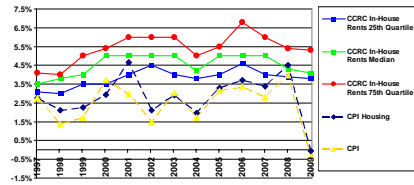
---

---

---

## Focus on Operations Evidence (cont'd)

- Fee increases continue
  - to exceed expense increases
  - to exceed CPI



Sources: Annual Changes in In-House Rents, ASHA State of Senior Housing (1999-2010), and BLS Producer Price Index. Each year reflects change from prior year, e.g., 2009 reflects change from 2008 to 2009.

18

---

---

---

---

---

---

---

---

---

---

---

---





1. Embracing the "New Reality"
2. Focusing on Operational Excellence
3. Adopting resident-centered service and care models
- 4. Rolling out "Wellness" in all dimensions**
5. Reaching beyond the walls
6. Considering the impact of Healthcare/Regulatory Change
7. Repositioning campuses
8. Expanding through new communities
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets
11. Determining whether you have what it takes

25

---

---

---

---

---

---

---

---


---

---

---

### Increasing Focus on Wellness

- Whether in nursing, assisted living or independent living, a increasing focus on programs/services that have measurable wellness goals
- Wellness programs are increasingly:
  - Inclusive of the seven dimensions of wellness (not just physical)
  - Focused on lifelong learning
    - Perhaps through university/ senior living provider relationships
  - Defined by programs that include an ability to measure outcomes
- Branding by organizations
  - FITSIX



**LIFESPACE**

COMMUNITIES

26

---

---

---

---

---

---

---

---

---

---

---

1. Embracing the "New Reality"
2. Focusing on Operational Excellence
3. Adopting resident-centered service and care models
4. Rolling out "Wellness" in all dimensions
- 5. Reaching beyond the walls**
6. Considering the impact of Healthcare/Regulatory Change
7. Repositioning campuses
8. Expanding through new communities
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets
11. Determining whether you have what it takes

27

---

---

---

---

---

---

---

---

---

---

---





1. Embracing the "New Reality"
2. Focusing on Operational Excellence
3. Adopting resident-centered service and care models
4. Rolling out "Wellness" in all dimensions
5. Reaching beyond the walls
6. Considering the impact of Healthcare/Regulatory Change
- 7. Repositioning campuses**
8. Expanding through new communities
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets
11. Determining whether you have what it takes

34

---

---

---

---

---

---

---

---

---

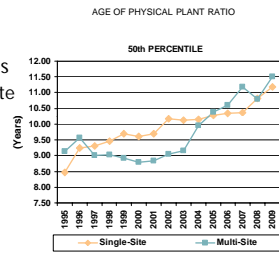
---

---

---

### Repositioning Aging Campuses

- Repositioning is picking up intensity in modernization across *all* areas of the campus
  - Dining, common areas, private rooms, courtyards, etc.
- Repositioning is increasingly affecting culture change
- Repositioning is critical for surviving and thriving
  - if your campus hasn't had a major capital improvement program in the last 7 years, you're an aging campus



Source: Financial Ratios & Trend Analysis of CARF-CCAC Accredited Organizations, 2010.

35

---

---

---

---

---

---

---

---

---

---

---

---

### Repositioning Aging Campuses Evidence

- In the *past* 5 years, did your organization undertake a physical repositioning of its campus(es)?
  - Yes 77%
  - No 23%
- In the *past* 5 years, did your organization plan undertake a cultural repositioning of its campus(es)?
  - Yes 79%
  - No 21%

36

---

---

---

---

---

---

---

---

---

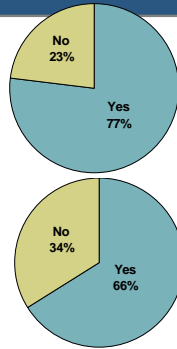
---

---

---

Repositioning Aging Campuses  
Evidence (cont'd)

- In the *next* 5 years, does your organization plan to undertake a physical repositioning of its campus(es)?
- In the *next* 5 years, does your organization plan to undertake a cultural repositioning of its campus(es)?



37

---

---

---

---

---

---

---

---

Repositioning Aging Campuses  
Evidence (cont'd)



St. Joseph's Bluffs

Laclede Groves - The Crossings



38

---

---

---

---

---

---

---

---

1. Embracing the "New Reality"
2. Focusing on Operational Excellence
3. Adopting resident-centered service and care models
4. Rolling out "Wellness" in all dimensions
5. Reaching beyond the walls
6. Considering the impact of Healthcare/Regulatory Change
7. Repositioning campuses
- 8. Expanding through new communities**
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets
11. Determining whether you have what it takes

39

---

---

---

---

---

---

---

---

## New Community Development

- Growth through new campus development continues but with changes
  - Capital committed at **every level of the continuum**, not just ILUs
  - Spreading market risk across multiple geographic sites is typically seen as a strategy for enhancing an organization's financial strength
  - Partnering with experienced, recognized professionals is key for minimizing risk and maximizing likelihood that project will ultimately success
  - Though capital costs are up, construction costs are down
  - Site selection eased but financing purchase challenging
  - Capitalize on not-for-profit competitive advantage

40

---

---

---

---

---

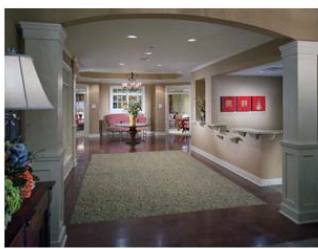
---

---

---

---

---



Green Hill,  
New Jersey



41

---

---

---

---

---

---

---

---

---

---

## New Community Development (cont'd)

- Most large new campuses have utilized fully integrated development firms
- Development (and other) firms, while facing challenges related to today's economy, remain active
  - Greystone, New Life, Spectrum, Greenbrier, CRSA, etc.
  - May begin to see more development partnerships
    - RLS merged with CRSA, CRSA now merged with LCS
  - NFP providers are creating their own consulting/development companies:

2010 AZ 100	HQ State	Provider Name	Consulting/Development
4	MN	Presbyterian Homes & Services (MNI)	Senior Housing Partners
5	IL	Governant Retirement Communities	Governant Solutions
11	CA	American Baptist Homes of the West	Senicity Inc.
12	MD	Asbury Services	The Asbury Group (TAG)
17	OR	PRB (Pacific Retirement Services)	Retirement Services, LLC
23	MN	Ecumen	Ecumen Consulting Services
25	NJ	Springpoint Senior Living (f/k/a PHS)	Princeton Senior Living, LLC
26	MN	Augustana Care Corp.	Augustana Senior Development
31	IL	Providence Life Services	Providence Management & Development
71	MN	Walker Methodist	Walker ElderCare Service
Next 50*	NJ	Radbury Senior Services	Radbury Consulting Services
Single Site	KS	Meadowbrook Hills	Monarch Management and Development

42

---

---

---

---

---

---

---

---

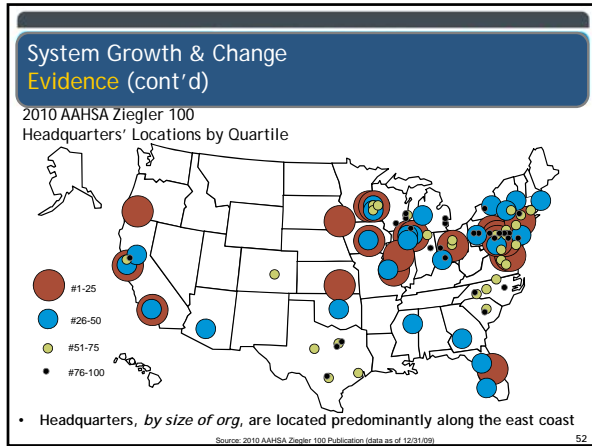
---

---










---

---

---

---

---

---

---

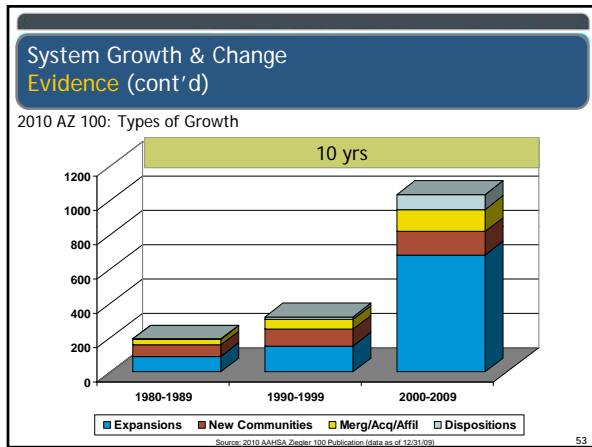
---

---

---

---

---




---

---

---

---

---

---

---

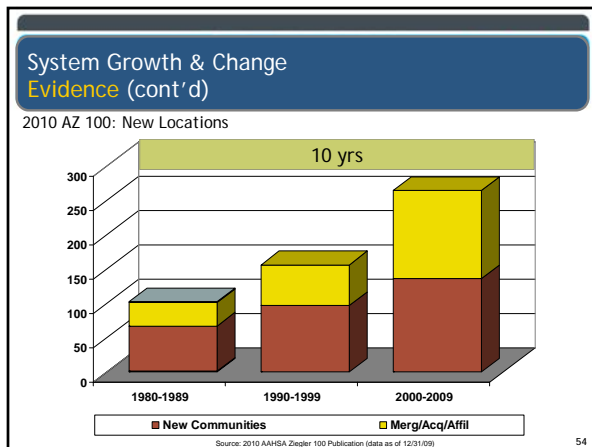
---

---

---

---

---




---

---

---

---

---

---

---

---

---

---

---

---







## State of Senior Living Capital Markets Borrowing Costs & Access to Capital

- Baseline long- and short-term **interest rates remain very low**
- General **easing of credit concerns**
  - long-term borrowing costs for **rated borrowers** back down to historical averages
  - borrowing costs for **non-rated borrowers** have declined significantly
- Increase in **defaults** continues to impact fixed rate and bank lenders
- Obtaining new and renewed **Letters of Credit and renewals** remains challenging
- Increased use of **Bank Qualified debt and consideration of alternative financing methods** (FHA/HUD/FNMA/FHLMC/FHLB Wrap/Floating Rate Notes)
- **Seed Capital** market is under stress from non-performing projects

64

---

---

---

---

---

---

---

---

---

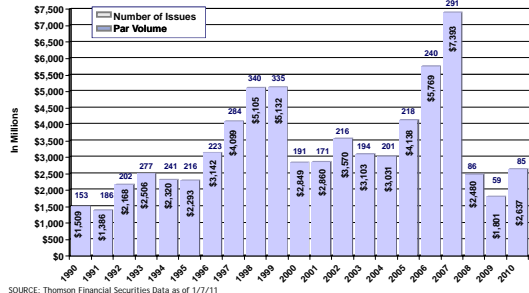
---

---

---

## Not-For-Profit Senior Living Financings Volume

- 2008 & 2009 clearly reflects current economic, housing, banking and financing challenges
- Very few financings completed in the 12 months from July 2008 to July 2009



SOURCE: Thomson Financial Securities Data as of 1/7/11

65

---

---

---

---

---

---

---

---

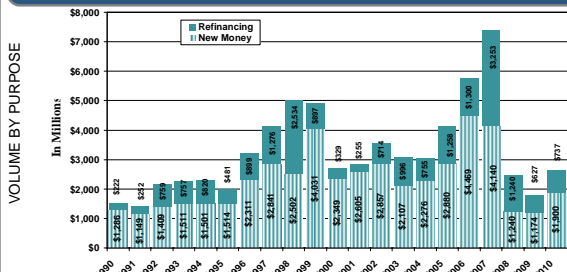
---

---

---

---

## State of Senior Living Capital Markets Not-For-Profit Senior Living Financings



- Trends for refinancings follow borrowing cost movement (ex. 50% of volume in 2007)
- Average new money per year for last five years was approximately \$2.8 billion

SOURCE: Thomson Financial Securities Data as of 1/7/11

66

---

---

---

---

---

---

---

---

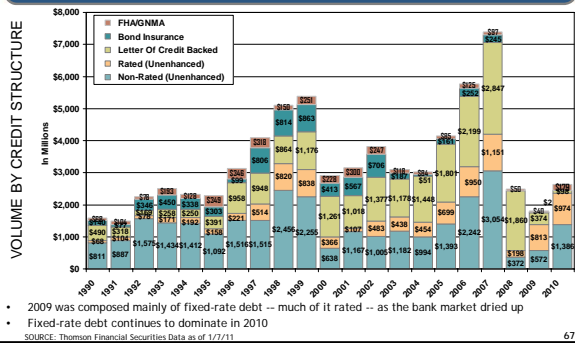
---

---

---

---

## State of Senior Living Capital Markets Not-For-Profit Senior Living Financings



## State of Senior Living Capital Markets The Ratings Environment

- Compared with one year ago, the sector experienced a net loss of one rating; there is also one less organization rated by multiple rating agencies.

**RATED BOND ISSUES THROUGH 12/31/10**

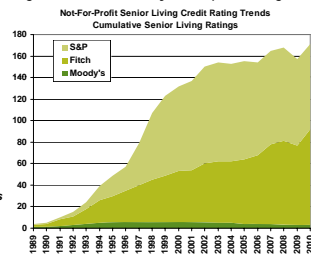
S&P: 79  
 Fitch: 89  
 Moody's: 3  
 171\*

\*21 organizations have debt rated by more than one rating agency. Therefore, there are a total of 151 organizations with rated debt.

- All of these agencies publish guidelines for their ratings

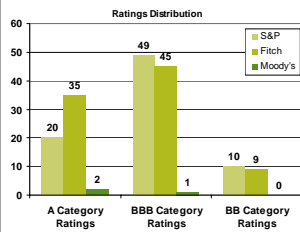
- CCAC, Fitch & S&P publish rating category medians for key ratios
- NOTE: Of the 151 organizations, 4 have some type of unique third party support essential to the rating.

SOURCE: Research from the Senior Living Team of Ziegler as of 12/31/10



## State of Senior Living Capital Markets The Ratings Environment (cont'd)

- Senior living credits predominantly in "BBB" category
- Systems make-up about 40% of the investment grade borrowers



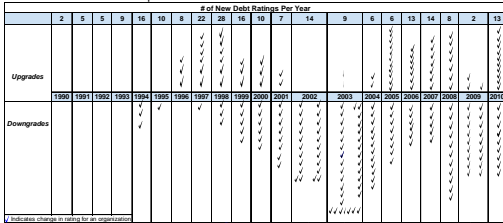
152 Rated "A" & "BBB" Category;  
 19 in "BB" Category;  
 0 in Other Categories; 171 Total

SOURCE: Research from the Senior Living Team of Ziegler as of 12/31/10



## State of Senior Living Capital Markets The Ratings Environment (cont'd)

- Upgrades have lagged strong financial performance of many CCRCs
- Growth with debt has resulted in downgrades or maintenance of a rating that might have been upgraded
- Recent Downgrades
  - Underperformance on new projects
  - Decline in investment performance



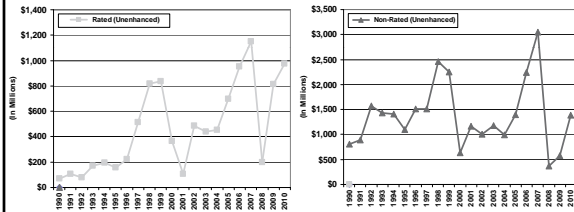
SOURCE: Research from the Senior Living Team of Ziegler as of 12/31/10

70



## State of Senior Living Capital Markets Rated (Unenhanced) vs. Unrated Trends

- Rated volume is projected to rebound sharply from 2008
- Unrated, though not as significant, will also begin strengthening



SOURCE: Thomson Financial Securities Data as of 1/7/11

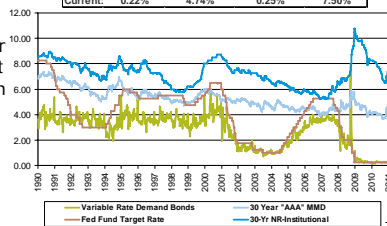
71



## State of Senior Living Capital Markets Short-term vs. Long-term Rates

- Low Fed Funds rate has led to relatively low SIFMA levels for last six years
- Even with fees for bank credit, short term rates remain attractive

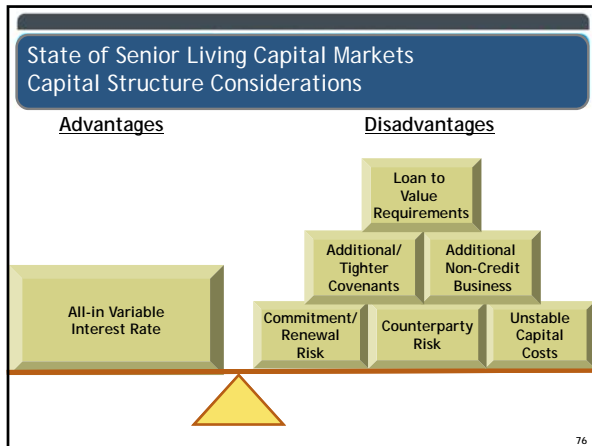
As of 1/7/11				
	30 Yr VRDBs	Fed Fund Target Rate	30-Yr NR Institutional	30-Yr AAA MMD
Min:	0.13%	3.67%	0.25%	5.20%
Max:	8.00%	7.35%	8.25%	10.75%
Avg:	2.80%	5.27%	3.87%	7.26%
Current:	0.22%	4.74%	0.25%	7.50%



72








---

---

---

---

---

---

---

---

- ### State of Senior Living Capital Markets Alternative Financing Options
- FHA/HUD "LEAN", Fannie Mae and Freddie Mac, and Federal Home Loan wrap
  - Floating Rate Notes
  - Temporary Debt Replacement
    - Accelerated Redemption Reset Option Securities (ARROS<sup>SM</sup>)
    - Tax-Exempt Mandatory Paydown Securities (TEMPS<sup>SM</sup>)
- 77

---

---

---

---

---

---

---

---

- ### State of Senior Living Capital Markets Fixed Rate Markets
- REALITY CHECK**
- Housing Market
  - Commercial Real Estate
  - Credit Risk
  - Uncertainty
- 
- 78

---

---

---

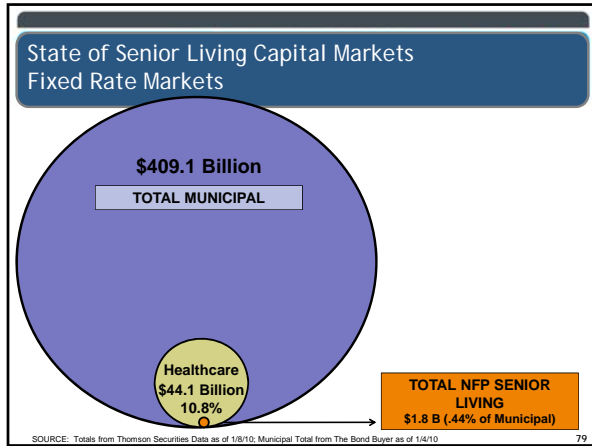
---

---

---

---

---




---

---

---

---

---

---

---

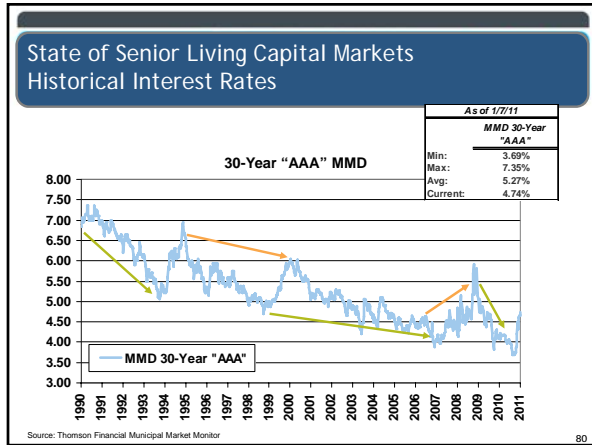
---

---

---

---

---




---

---

---

---

---

---

---

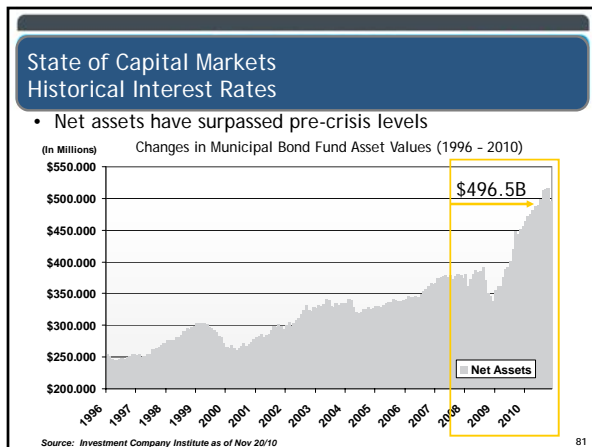
---

---

---

---

---




---

---

---

---

---

---

---

---

---

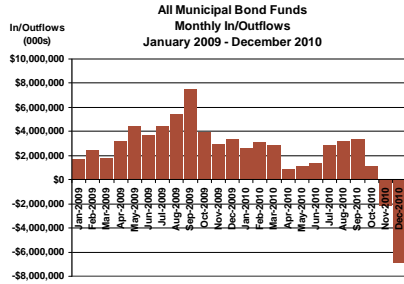
---

---

---

## State of Capital Markets Municipal Bond Funds Flows

- Narrow view of last twenty-four months
- Overall significant positive inflows over the last twenty-four months

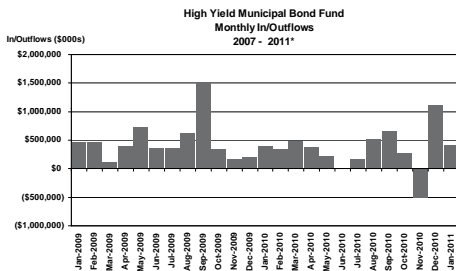


Source: LipperFMI Data Services as of 12/29/10

82



## State of Capital Markets High Yield Municipal Bond Fund Flows



\*Monthly Flows are estimated from reported weekly in/outflows

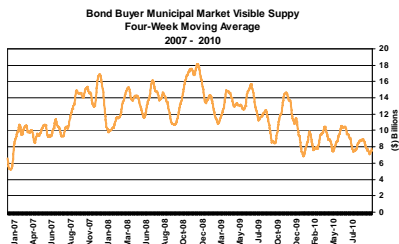
Source: LipperFMI Data Services as of 1/5/11

83



## State of Capital Markets Municipal Market Visible Supply

- Visible supply has declined since 2008
- Build America Bond issuance has reduced the overall supply of general market municipals
- Lower supply helps maintain downward pressure on yields



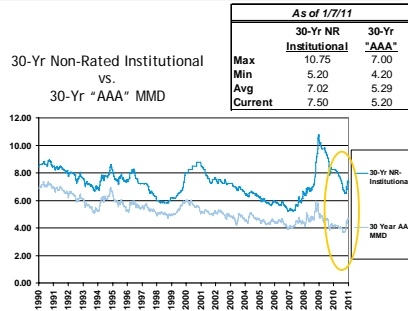
84





## State of Senior Living Capital Markets Historical Interest Rates (cont'd)

- Non-rated yields are following the decline in higher rated yields
- Decline in MMD since January 7, 2011, currently **4.92%** as of 1/13/11



Source: Research from the Senior Living Finance Team of Ziegler

88

## State of Senior Living Capital Markets Current Interest Rates

### Senior Living Interest Rate Ranges Tax-Exempt Revenue Bonds <sup>(1)</sup>

SENIOR LIVING FINANCING STRUCTURES (Issuance Ratings: Fitch/S&P/Moody's)	AVERAGE LONG-TERM INTEREST RATE RANGES (2)	CREDIT ENHANCEMENT	ALL-IN INTEREST COST	AVERAGE RATE SPREAD TO "AAA" MARKET	SPREAD TO REVENUE BOND INDEX
Unrated - Start-Up Communities	8.25% - 8.75%	--	8.25% - 8.75%	+ 351 to + 401	+ 281 to + 331
Unrated - Existing Stable Communities	7.25% - 7.75%	--	7.25% - 7.75%	+ 251 to + 301	+ 181 to + 231
Unrated - Ziegler Retail	7.25% - 7.75%	--	7.25% - 7.75%	+ 251 to + 301	+ 181 to + 231
"BBB" Rated (Fitch, S&P or Moody's)	7.000% - 7.15%	--	7.00% - 7.15%	+ 226 to + 241	+ 156 to + 171
"A" Rated (Fitch, S&P or Moody's)	6.625% - 6.875%	--	6.63% - 6.88%	+ 189 to + 214	+ 119 to + 144
"AA" Rated (FHA)	6.30% - 6.50%	0.50%	6.80% - 7.00%	+ 205 to + 225	+ 135 to + 155
"AA" Rated (Fitch, S&P, Moody's)	5.90% - 6.10%	--	5.90% - 6.10%	+ 116 to + 136	+ 46 to + 66
"AAA" Rated (FHA)	5.35% - 5.65%	0.65%	6.00% - 6.30%	+ 126 to + 156	+ 56 to + 86

- (1) Non-state specific  
(2) Long-term (25-30 Yr), fixed rate

Source: Research from the Senior Living Finance Team of Ziegler as of 1/7/11

89

1. Embracing the "New Reality"
2. Focusing on Operational Excellence
3. Adopting resident-centered service and care models
4. Rolling out "Wellness" in all dimensions
5. Reaching beyond the walls
6. Considering the impact of Healthcare/Regulatory Change
7. Repositioning campuses
8. Expanding through new communities
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets

**11. Determining whether you have what it takes**

90

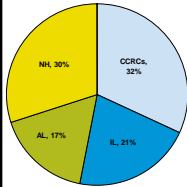


## Organizations are Evaluating Evidence (cont'd)

2010 AZ 100

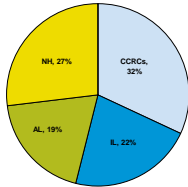
Acquisition Types

2010 AZ 100 Acquisitions  
1980-2009



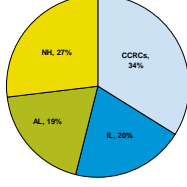
N = 218

2010 AZ 100 Acquisitions  
1990-2009



N = 185

2010 AZ 100 Acquisitions  
2000-2009



N = 128

Source: 2010 AAHSA Ziegler 100 Publication (data as of 12/31/09)

94

---

---

---

---

---

---

---

---

---

---

---

---

## Could You Be/Become a Hand-Raiser?

- Growing operational/financial issues
  - Occupancy declines
  - Expenses out of alignment with revenues
  - Dependence on cash reserves that "dry up" for various reasons
- Leadership turnover anticipated
- Complex redevelopment projects needed
- Challenges emerging in access to capital in an asset-intensive business, with aging physical plants



95

---

---

---

---

---

---

---

---

---

---

---

---

## Could You Be/Become a Consolidator?

- Desire to grow
  - Perhaps without needed capital available
- Desire to add services
  - Already capably provided by another organization
- Desire to grow in a market with high barriers to entry
  - acquisition may be the cheapest admission ticket



96

---

---

---

---

---

---

---

---

---

---

---

---

1. Embracing the "New Reality"
2. Focusing on Operational Excellence
3. Adopting resident-centered service and care models
4. Rolling out "Wellness" in all dimensions
5. Reaching beyond the walls
6. Considering the impact of Healthcare/Regulatory Change
7. Repositioning campuses
8. Expanding through new communities
9. Seeing System Growth
10. Adapting to the realities of the evolving capital markets
11. Determining whether you have what it takes

97

---

---

---

---

---

---

---

---

---

---

---

Questions & Answers



2011 ANNUAL MEETING  
AND EDUCATION FORUM

---

---

---

---

---

---

---

---

---

---

---