Speaker 1: You are in A1, very important topic, it's called Solving the Industry's Next Great Challenge: Building and Operating Middle Income Seniors Housing. The moderator for this panel is somebody I imagine most of you know already. She's been in the seniors housing industry for 25 years and she's overseen over 230 million dollars in new construction totaling 1400 units in just the last five years. From Plante Moran Senior Living, they're a practice leader for senior living, sorry, Plante Moran Living Forward, she's the practice leader for senior living, Dana Wollschlager.

Dana Wollschlager: Thank you very, very much. Well, good afternoon everybody. I'm glad you picked the right session to be in. We've got a great panel of speakers and we're excited to talk about something that everybody appears really passionate about and that's developing senior living specifically for that middle income market and before we kick off I'd like to have everybody introduce themselves and then we'll launch into our presentation and panel discussion.

Soo Im: Hi, my name's Soo Im and I'm an architect with KTTY and I head up our senior living practice. We have a 25 year experience history with offices across the country, six different locations in fact with Chicago office right down the street. We have a full spectrum of services and including senior living we actually go from age qualified housing all the way up to senior skilled nursing.

Rick Banas: Rick Banas with Garden Management Solutions. We help develop and we manage primarily assisted living communities as well as memory care. We have 45 communities that we currently operate, 4400 apartments. We have another 11 that are under construction and about 10 that are in the development pipeline. Our communities are primarily affordable assisted living communities that serve a combination of private pay residents and residents who are living in the community on a Medicaid elderly waver.

Ward Isaacson: I'm Ward Isaacson, I'm with Hope Architects. We are a 70 person architectural and interior design firm based out of St. Paul, Minnesota. I am president of the company, I am also head of our senior housing practice, we have a healthcare practice, we have a commercial practice. Senior housing in large part has been a focus of ours and has kind of dominated our office for the last five to eight years. It's what I'd done my entire career, it's what I'm passionate about. Nice to be here and I appreciate it.

Everyone's looking at my foot. The elephant in the room. People have been really nice coming up to the booth. I tore my Achilles tendon playing softball so we'll just get that out of the way. I figure based on every-

Jamie Timoteo: I thought [crosstalk 00:07:50] project.

Ward Isaacson: Project slay. Tripped over a beam. I may not have your attention today but I think I have your sympathy that may go away.

Dina Meyer: I'm Dina Meyer, I'm the senior director of business development with Acumen. We are a non-profit organization that is an owner operator based on [inaudible 00:08:13] Minnesota. We've been around for about 115 years serving seniors and our portfolio consists of everything from skilled nursing, TCU, independent living, assisted living, memory care as well as our service in home care, hospice as well as durable goods store. I'm happy to be here today.

Jamie Timoteo: Hello everyone, I'm Jamie Timoteo, I'm a vice-president with Plante Moran Living Forward's group here in Chicago land. I have the great pleasure to work with Dana on a daily basis.

Dana Wollschlager: That didn't sound very sincere.

Jamie Timoteo: Right. The topic we'll be talking about is something that here and I have really been talking a lot about over the last year so really excited to kind of kick this conversation off and obviously as we're going I think we can have interactive so if you guys have questions as we're going, feel free to just toss your hand up.

Dana Wollschlager: Right. First of all I'd like to wish Jamie a very happy birthday. Today is his birthday so, yeah, all of, well, we won't talk about age because then we start to get into this stuff. I'm going to kick this off. As I said, we've got some great panelists, we've got some great questions that we really want to cover and before I turn it over to Jamie, this is how this is going to work.

I'm going to kind of set the stage a little bit. Jamie's going to take the baton and really set the stage by sharing some information and demographics about this middle income group that's coming down the pipe and it's been interesting because if you've been listening to everybody talk to day, we've been talking about a lot of high end product, we've been talking about how expensive it is to care for older adults, we've been talking about baby boomer expectations and they're going to want everything and I think not that we want to be the skunk in the party but I do think that Jamie's going to share some really interesting information with the group before we launch into our questions, that really kind of tells an entirely different picture if you will.

Before I turn it over to him, I'd really like to sort of set the stage on who we're talking about, this middle income older adult quite honestly is my mom. My mother is 71 years old, she worked her whole life, she is widowed and retired. Her and my dad have a bit of a nest egg but not a ton and my mom worries every day about how much it's going to cost. I'll tell, she's also a licensed nursing home administrator so she knows how much this costs and she's worried about the fact that she may not have enough money.

Now, when we talk about middle income and oftentimes we will use the word affordable interchangeably, we're not talking about low income housing, we're not even really talking about tax credit housing which typically the income limits are set somewhere between 50% and 60% of area median income.

The older adult that we're talking about is that individual that has just like $2000 too much to qualify for a tax credit community and not enough to put a half a million dollars down and move into the claire. How are we going to serve this population which is really on our doorstep right now? That's really what we want to focus on today, so Jaime, I'll turn it over to you with the really good news information.

Jamie Timoteo: Well, I'll start with a good piece of news because I do think people always think I'm the bearer of bad news when we give a lot of these demographic and some information on the savings that has been occurring in a lot of our baby boomer generation or the next wave of seniors. The first piece of good information we'll share is-

Dana Wollschlager: Hey, Jamie, that card is on the table, right?

Jamie Timoteo: Oh, yeah, so I'm just going to give you some stats off of this card. I think we passed them all on your table here so feel free to read along. But the first piece is if you look at the amount of seniors over the age of 85 across the United States, currently we're at about six million people and that number's expected to triple by the year 2040 so that number is going to grow to 14.6 million people, really kind of moving into our pipeline and we're looking at our 85+ demographic because if you think about, we've had several people up here on the panel today talk about what's the average age of their senior when they're in their community and it's around that 82, 83, 84 age range.

Just at the 85+, and by 2040, we've about 14.6 million. A lot of people, all going to need probably a lot of services. The thing is though if we looked at the average rent across the United States, was reported by Nick, in the first quarter of 2017, independent living was just a tad bit above $3000 a month and our average assisted living rent was just around $4500 a month, and if you took that number and applied it not only to this cost for a senior to pay for their housing and the care that they're receiving but also some additional expenditures that they might have with their disposable income.

An average independent living senior spends around $61,000 a year or is probably going to spend about $61,000 a year on their housing, their care and potentially any other disposable income like clothing et cetera that they might want to purchase. The average assisted living resident spends about $63,000 a year. They're spending a good chunk of money annually with us as well as some other items. The two biggest categories, the only two categories that a senior when they move from the ages of 65 to 74, and then the 75+ age range, the only two categories on the spending side that a senior sees increase as they age is housing and healthcare. Everything else in their life, cost of entertainment, clothing, gifts that they buy their family members, all of that they see shrink but as they age, their housing costs increase and their healthcare costs increase.

If we think about, okay, so they're spending about $60, $65,000 a year, potentially depending on what they're living in, do they have the assets to pay for it? Assuming they retire around the age of 65 and they live to 85 or 90 years old. If you look across the United States, people over the age of 62, if you look at the amount of financial assets they currently have available to them, 40% of them have less than $25,000 available for them to spend, on average, for anything during their retirement years.

Between the ages of 62 and 69 the average savings for folks who have a retirement account with Blackrock, who's a very large organization who manages a lot of retirement homes for folks, the average savings for them is about $105,000 so there's not a lot of savings that these seniors have available to them. The whole purpose of us having this conversation up here and what we want to talk about is if we can figure out a way to develop a project, acquire a property and find out a way to reduce our monthly rent possibly by $600 or $500 a month, when you compare yourself to your other competitors in the market, what that allows us to do is to extend that length of stay for our seniors by anywhere from two to three years, so the average length of stay may be about three years. If we can reduce that monthly rent by 500, 600 bucks a months, that person can then live with us for another two or three years which really can add a lot of value to that senior's life as they live with us. That's really kind of what we're trying to focus on, how do we deliver that to our seniors as they age?

Dana Wollschlager: Right. We've got two operators up here, not for profit, for profit, we've got two architects and Jamie and I will chime in as necessary but we got a good list of questions that we really want to try and tackle and of course you may have some other questions for the group so, Rick, I'd like to start with you and Ward actually but, Rick, you can go first. Our biggest challenge here today is going to be keeping everybody brief. We all love to really talk. Briefly, if you can speak to this idea of what do you believe, from an operations perspective and Ward, of course, from a design perspective, are the biggest obstacles facing us as we look to develop and operate a middle income market product.

Rick Banas: I would say from the standpoint of developing the obstacles to the middle income market, the biggest one is overbuilding, the tendency to overbuild from the standpoint of services, amenities, apartment sizes, everything that is being provided to or that we feel needs to be provided to the resident. Had an interesting experience about 14 years ago. We were opening a community in one of the Chicago suburbs and we had a number of residents that were moving into the community, affordable assisted living, from a community that was upscale market rate. And after they had lived there for a period of time we were curious, so we asked them, "Now that you have been here and can experience what we provide versus what you had been receiving at the more upscale community down the street, what do you see as the biggest differences?"

Their response was three things. "One is that you don't have fresh flowers on the dining room table every day. You tend to use placemats as opposed to tablecloths and in today's dollars you're about $900 cheaper a month in terms of rent, in terms of the monthly fee. To us, placemats, tablecloths, to us fresh flowers on the table are not worth $900 a month." When you take a look, oftentimes what we see, the tendency is to say, "Let's build larger apartments, swimming pools, let's take a look at dining options." For those communities that are serving the upscale market, having a wide variety of dining options, being able to have meal service 24 hours a day, for the person that can afford it, I work with Classic Residence by Hyatt for a period of time, for the person that can afford it, it's necessary but for the individual where we have to focus much more on their needs than their wants, if they can't afford the wants, we at least need to be able to meet their needs.

The hotel industry has figured it out. When you take a look at Holiday Inn they have the Intercontinental in the chain, they have the Holiday Inns, they have Holiday Inn Expresses. When you look at Marriott, you have the Marriott Hotels and Suites, you have Resident Inn, Courtyard Inn, Fairfield Inn, all appealing to a different target group of individuals.

Dana Wollschlager: All you, Ward. From a design perspective.

Ward Isaacson: Yeah, well, obviously, and we'll talk about it more, it's overbuilding is the biggest obstacle. I'm sure we'll touch on that further but there are some obstacles and some factors. We're trying to control cost here obviously in every aspect of a building project and there are some obstacles kind of moving us in the wrong direction that are a real problem and that's site selection. We all want the great sites, we all want to be close to amenities, close to transportation. Those sites cost more and I don't think we're doing seniors any justice by saying, "You're more moderate income so you have to move out to a third ring suburb in order to afford living in a senior project." We still need to focus on finding great sites but those sites are getting hard to find and very expensive.

Construction costs aren't helping us at all. They continue to go up. We were building projects post-recession for 30% less than what we're building them now and that makes it hard to make a proforma work. That number has to come out of somewhere because the rents can't move.

Then I would say the other obstacle that we're dealing with when we work nationally are regulations and especially on assisted living states are starting to look at assisted living as more healthcare-related than they are housing-related and that's a problem because from a code standpoint they start to put us into inoccupancy which doesn't allow us to build it out of wood if we go multi-stories. That increase cost tremendously and really takes the project right out of the realm of what we consider a middle income proforma.

Jamie Timoteo: Just add kind of to what Ward touched on would be making sure that we as the architects are working with the owners and as we're working with them out of a development consulting standpoint, having a conversation with the owners, operators at the table to make sure when they're designing this new building or designing this expansion that the space as they're adding in there is programmed appropriately because overbuilding it could be, you know, it's great to maybe have two rooms for activities, or multi-purpose rooms but let's make sure that room is programmed the entire day through and the folks operating the building actually have a plan to use the space that they're building so they're not just adding a bunch of extra square footage which obviously is going to drive up your project cost.

Rick Banas: So often what I see is that the developer, the owner is taking a look at what they feel is going to be appealing to them or to their parents. The owner developer typically is not in the middle income target market.

Dana Wollschlager: Mm-hmm (affirmative). Yeah, I would say just from the perspective of consulting on so many developments, I would say that the key to developing a middle income market product, there's one word, it's called discipline and our industry sometimes tends to lack this, both from an operations perspective and a development perspective. It's really easy to solve issues if I can throw another nurse at it, it's really easy to deal with a marketing problem if I've got the latest and greatest shiny gadget or maybe a water feature in the front lobby.

Again, we have to go back and we need to define what the number is that we're going to design to. We need to then build to that number and we cannot get distracted by the latest and greatest shiny thing. We must be disciplined and build to that number in order for it to work.

Rick Banas: Yeah, I would say, as an architect, and Soo, you can say it, restraint is not usually our strong suit, right?

Soo Im: Right.

Rick Banas: We all love to design, we all love to do unbelievable, fabulous things but it is, it's restraint, it's sticking to the budget that you set forth at the beginning of the project, that's not always easy.

Dana Wollschlager: You need a tough developer to say no. They call me Doctor No. "Dana said no, you can't have that."

Rick Banas: I know one of those.

Dana Wollschlager: Dina, talk a little bit about from an operations perspective and you guys are spread all over now which is fantastic. Talk about some of the key barriers to entry that really are driving or could be dealbreakers in defining a middle income market and whether you have the ability to go in and manage appropriately.

Dina Meyer: Sure, Dana. Well, you have the usual suspects that Ward already talked about of course, the site selection, doing your due diligence on the market, home values in a certain market all come into play when you are doing that due diligence but really what we found across our span of managing our portfolio throughout the country is this thread that I think we've heard a little bit about today and that is the workforce.

You can watch construction costs, you can put restraint onto the architect and keep all of your upfront capital costs at bay but if you're not working with an operator and having an operator at the table making sure we're doing wage studies, making sure that we have a healthy environment for LPNs, RNs, your front line staff. Are you building in an area that is a little bit more green feel than in feel? Where is your staff going to come from? Not only is it important on the capital side but even more so important when we're up and operational and stabilized. We need to be able to operate it with people.

Dana Wollschlager: Rick, you had given an example of a wage change I think here in the Chicago market that you were working in.

Rick Banas: It was outside of the Chicago market. It was up in the Twin Cities. St. Paul, they were going to provide some financial support for the development of the community but in return the employees of the community would have to meet not minimum wage requirements but living wage requirements which meant just doing a very rough analysis to bring CNAs, QMAs up to a level that would meet the living wage requirements and this is without going through and bumping up any other wages or salaries in consideration would've increased the cost for a 150 unit community by $600,000. It would've meant about a $350 a month increase in revenue that would be necessary just to accommodate that.

Dina Meyer: Yeah. And I think too, Dana, you know, in Minneapolis we just built an open and urban community and the city of Minneapolis right now is looking at proposing a mandated $15 an hour minimum wage which is really going to cause problems with our front line staff, our caregivers that we're paying $12.13 an hour when we have to go up to that $15 an hour. That is a good point and thanks for bringing that up.

Dana Wollschlager: Yeah. Depressing. From a design standpoint though, Soo, can you speak to some of the barriers to entry from a design standpoint?

Soo Im: Sure, and in really from a physical plan perspective I think I want to come back to site selection first but a little bit differently. Let's say we've done all our homework, locate the demographics and construction costs and the needs and all that but site selection becomes important in that since there aren't as many sites available that are perfect conditions, making sure that there are no unexpected surprises with [inaudible 00:27:22] issues that that site is in fact developable to the effect.

I think what's really important is that for instance because we're targeting the middle income market we can't really afford to deal with some of the challenges that we may be able to do with higher income. In that sense we want to make sure that site doesn't provide those unexpected challenges but on the other side, some of those other sides in urban setting particularly around public transportations and urban settings, sometimes you can actually turn that around and then make that your advantage because with a senior living market you can get additional parking incentives that can potentially increase your buildable area and so then that can work for you. Those are both things that you can look for.

The second thing is the proximity. Because we are talking about middle income market, again, we want to focus on the needs, not the wants. What that means is that we really need to reach out and partner up with the community outside and that goes anywhere from recreation all the way up to healthcare, so not only they will want to know where the theaters are, the restaurants are but where's your nearest hospital and I'm sure these are some things that you are always constantly thinking about but sometimes as you're driven to create certain site selection within certain areas sometimes overlooked.

Dana Wollschlager: Right. I would say that nothing you're going to hear up on the panel today is a silver bullet that's going to drive immediate change or come up with solutions that can be implemented immediately but I would say that I think everyone in the room here has a responsibility to continue this conversation and this conversation needs to happen at the federal level, at the local level, at the state level and we really need to be looking at changing policy. These are some of the things that are driving the cost.

We need to improve reimbursements. I don't need to tell anybody in the state of Illinois about that. We need to improve government communication between agencies. If we had greater communication between the Department of Health, the IRS and the Department of Housing and Development, I find it hard to believe that between those three agencies we couldn't create a solution that could serve this middle income market.

We need to improve the regulatory environment. The regulatory environment and Dina and Rick, you guys can speak to this as well as I can. We've gone into states all across the country and it is remarkable to me that most of them have taken a skilled nursing regulations book, put it on a table and slapped the word assisted living on it and by and large it's skilled nursing.

The problem with that, and I think one of the ladies in the room on the other session spoke to this and said, "Those baby boomers are not going to stand for ... They may drive and have conversations about value but you're not going to tell them how to live their lives." When we opened the community in Sandpoint, Idaho when I was at Acumen we had the state come in and do our repeat survey and the state surveyor was interviewing residents and the resident was saying, "Well, no, I don't want to have breakfast." But the regulations say you have to have breakfast, lunch and dinner and she said, "I don't care what those regulations say. I ain't ever eaten breakfast, I'm not going to start eating breakfast and oh by the way, I ain't paying for breakfast so you can write up whoever you want but I'm not eating breakfast."

We need to have a national dialogue about changing this because all of these things, from a regulatory, a reimbursement, a policy, code drives cost. We need to talk through that. So, Dina, to that end, and I'm going to throw you a curveball because this wasn't on our list of questions but what are you seeing as your opening and looking at different communities, are the biggest challenges tied to the regulatory environment, the reimbursement environment, code, life safety code? What are some of the biggest challenges you guys are seeing?

Dina Meyer: Yes. All right. No, I think the reality is when you kind of look at it from a global perspective or a national perspective when there is a tight regulatory environment, it is difficult in your pre-planning, particularly when you are at the helm of the government to come out and issue your license. You've gone through your due diligence, you've gotten your CO, you've gotten your first safety all approved and you're ready to open the community yet the licenser, the state is not able to come out for 45 days, well, maybe another 30 more days, and that really impacts the bottom line of our proforma and our operations.

And there are some states where you can move in, for example, two residents in AO and then they'll come out whenever they're ready. The reality is you're still staffing for those two individuals. I would say that that really has impact our bottom line and our staffing and kind of throws us off for particularly when we have an IL, AL and memory care community. Of course we can open our IL once we receive our certificate of occupancy but our AL and memory care, it does prove to be a bit of a challenge with that licenser issuance.

Dana Wollschlager: Sure. How about you, Rick?

Rick Banas: What we find is that political advocacy when it comes to regulations can work. We just had a situation with the state of Indiana where the assisted living license for medication delivery was very ... it was nursing home policy. It was you have to have a med room with med carts and that med room had to have a certain lighting level which was much more expensive than the system that we have used in place here in Illinois for years. And that was, here in Illinois, we have a lock cabinet in the resident's apartment. The medications come in a 14-day packet on a roll. Packet is stamped with the resident's name, the medications, where the medications are supposed to be delivered.

It took a period of time but we finally got the regulators in Indiana to come to one of our communities, see how we do medication delivery, medication management administration in person and they took a look and said, "Well, this makes all the sense in the world." One, it's better patient privacy. You don't have a med cart stopping in front of a resident's apartment three or four times a day, you reduce the possibility of medication errors because, again, you're not bringing medications up to the resident's apartment three or four times a day, it's once every 14 days but it takes an effort but you can get regulators to change the way they do things.

Soo Im: I'd like to add to this [crosstalk 00:34:28].

Dana Wollschlager: Sure, yeah.

Soo Im: I'm currently practicing out of our Southern California office and California has done something really interesting a few years back. There is a great [inaudible 00:34:37] group that really went in and argued that assisted living and memory care should be within residential environment.

California has adopted a new occupancy type called R2.1. Where R2 would be multi-family and including student housing and R2.1 then takes the typically what you would consider I1 occupancy which is the less clinical aspect of the assisted living and memory care. Then what we're seeing is more increase approaches that a lot of the newer communities licensed their entire community all the way from independent through assisted as one license under RTFL which is equaling to assisted living.

What that means is that they're given the freedom to have residents be in independent living environment without that segmentation to assisted living provide care for those who need and not really create that segmentation early on. Then whereas on the other side then we're seeing a lot more active development on the age qualified housing with more increase amenities without necessarily the full dining venues so there's some models out there we're started to call independent living light model.

This is outside the licensing altogether but yeah, providing that social aspect of the living community, the community quality that we're looking for and the help as they need it, the service they need and really allowing to advocate that, to lay in process getting into the licensed facilities later on.

Dana Wollschlager: Right. Well, and I think that's really interesting and I would say that owners, operators, developers, investors really need to take a look at some of those best practice models across the country. That is an interesting concept that I have not heard about. Similar to that but a little different is how Minnesota operates and Minnesota does not license buildings, they license services. They don't have an assisted living license in a building. You go in, you register your building as housing with service which allows that resident to choose where they want to live, they can move into independent living and if you have a home care license, you can deliver services to that resident in that apartment. We're not moving from independent to assisted living and then assisted living to memory care unless it really is warranted for safety reasons but it really is a fantastic model that allows for a less regulated environment, a more consumer-driven product and services in that state. I think we need to look at other states.

To that end, I guess, Dina, as an industry, what do you think we need to be doing locally, regionally, nationally to ensure that this market segment isn't overlooked? Because it's really fun and sexy to do the high-end stuff and it's pretty easy to operate but this is not as easy and I think that's why most of the investors haven't gravitated towards it.

Dina Meyer: Well, I think we're going to see and I think we already are seeing that we're not going to have an option to ignore this market. I think, you know, particularly some of the clients that we do third party management, development and marketing for are thinking that they are building the middle market by creating large independent living homes with full complete kitchens, state-of-the-art and large common areas.

The reality is it's upper market and I think we need to have a paradigm shift and really focus on that middle market and not everybody who, and we'll talk about the baby boomers here in a little bit but not everyone who is a senior who moves into an independent living community that generally also has assisted living and memory care attached to it. They might not live together, it might be separate but the reality is, those people, from a regulatory standpoint or just from an operational and performance standpoint, we might be including one meal a day in their rent. We might be including housekeeping.

The three ADLs were generally including in the independent living. How many people really need those services when they move in? That truly is, in my opinion, our middle market. They want a place to have the ability to be secure, to have a lifestyle, to have others around them that are like-minded and we need to be able to have the ability to bring services to them should we need that. Let's take and paradigm shift and say, "Oh, maybe we just build an independent living building without a commercial kitchen and collaborate in an in-feel with other restaurants et cetera." And bring in services in a different way.

I just think there needs to be a major paradigm shift in really addressing our true middle market and on top of that is a boomer conversation that I'll get into in another question that really kind of expands the answer to that.

Rick Banas: I think too from the standpoint of what Lynn talked about in the keynote address this morning, and that is to take a look at how we are the solution for Medicaid, Medicare, for managed care organizations, for Medicare Advantage programs, for employers that are employing the individual [inaudible 00:40:22] in the sandwich generation that's caught between caring for a older adult, having to balance work and having to balance taking care of the children or grandchildren and we have so much to be able to offer.

From a healthcare cost perspective, we have the ability to provide some qualitative benefits. There's more and more research showing the importance of social connectivity and not just social connectivity from the standpoint of a older adult having a short conversation with someone who's delivering Meals on Wheels or Facebook or Skype types of conversations with family members and friends but true social connectivity.

The value of visually seeing a resident every day, seven days a week. Just like a son or daughter comes down for breakfast, you look in their eyes and you could tell something's not right? Same thing holds true with our staff visually seeing residents. They can take a look and be proactive if they see something that is different, someone who normally comes to an activity. Their CNA is giving medication to a resident and they see the resident's attitude is completely different today than it normally is, or they're picking at their food in the dining room.

And then from the standpoint of the quantitative side, to really be able to measure data, keep track of it, have alerts if there are changes to things such as blood pressure, temperature, sleeping patterns, movement, number of falls and then with that alert, again, be proactive in terms of being able to hopefully take a problem at the early stages that's developing before it becomes a major issue but we'll need political advocacy, we'll need consumer advocacy and the focus needs to be on the value that we provide in terms of overall healthcare cost.

Dana Wollschlager: Right. We know there have been studies done and we know that independent living residents spend up to 70%, a little more than 70% of their time in their apartment. The question that I have for you, Ward and Soo, is what are, if our residents are spending 70% of their time in their apartment, why are we spending all of this money on these community spaces, and what are, from your perspective, the fundamental must-haves for our common spaces, specifically for that middle income market?

Soo Im: Do you want to go first?

Ward Isaacson: Yeah, I'll get started.

Soo Im: Sure.

Ward Isaacson: Well, that takes some research. I mean seriously, and we've been trying to be more deliberate at talking to residents about what spaces are important and doing post-occupancy reviews of the projects that have been most successful in this market and it kind of varies community by community. You need communal spaces but they need to be flexible spaces. They can double as community rooms, they can double as chapels, they can spill over into dining, they can be your theater room. It's all about getting people together.

You don't need 12 different spaces to do that and in the post-occupancy reviews that we've done where we talked to residents, it's kind of like what Rick said, it's the tablecloth and the flowers. They're worried about they don't have enough storage in their unit or they don't have enough counter space but they rarely have a whole lot to say about community amenities. It's not as important. You got to have them, you got to have the wellness space, you got to have the communal space, you need people to be able to get together but you might not need a dedicated chapel, you might not need a dedicated wellness room. I think it's different community by community but the idea is you're right, they're spending a lot of time in their unit.

Soo Im: Dana, if I can just jump in on that from an operator's perspective, I think that one thing is that the operators need to step up and really program that space and go into the initial design meeting saying, "This is how we are going to program that space" and when that community opens, you actually follow through on implementing and programming that space because, you know what? If you did that, if we all did that, I guarantee you that 70% of those independent living residents that are sitting in their home, they would be down in that community space, enjoying it, whether it was called a library or guitar lesson room or piano room, it's what's happening inside and what we as operators are doing to provide those types of activities.

Ward Isaacson: And you got to know your competition obviously. But you don't have to be victim to the competition either. Just because so and so has a pool doesn't mean you need to design a pool to get the residents in if you've got the level and quality of care and you got the right story to market your building.

Soo Im: If we look at how this whole prototype started maybe about 15 years ago, and that's when I came into the market, is that this really started with targeting that upper income market with this notion as like you want to be in our community, you want to buy into our CCRC concept and that we're going to provide you with this lifestyle that's resort-like, hospitality-based and you're going to be on a cruise ship 24/7/365 days a year but the reality is that most of us don't want that and we want to actually live our lives. I think you need to really break it down. Senior living's not all equal. There are multiple levels of care and multiple levels of need.

When we start to look at our senior population, we're talking about 20 to 30 years of spectrum so to say they're all the same is not fair, right? Unfortunately it is a marketing strategy so we have to think about what is that impact. As you walk into our community, what is that first impression you're providing to your decision makers who may be the residents themselves or their family members. I think that is still out there and that that's important but beyond that how are the real users actually using these spaces. Independent living residents are very vital. Today they are still working, part-time if not full-time, and they don't want to be in a community where they're aging with a bunch of other people. They want to be outside, so then why are we providing all these extra amenity spaces in the independent living.

Versus assisted living and memory care are sort of getting [inaudible 00:46:45] they're not able to move as readily so then they do have that specific need that we need to provide for. Then once you start to think about that, I think it's not space science that where the money should go or where their spaces should go and then if we're really thinking about what is marketing-targeted versus actual need.

Dana Wollschlager: Yeah. I have two other really important questions I want to ask and in the interest of time because I want to make sure we give you guys time to ask some questions but I want to talk, one, about the baby boomers and, Dina, you brought that up, and then number two, I want to talk about roughly cost per square foot, I'm going to put the architects on the hot seat here.

Jaime, your team spends a ton of time focusing on demographics and really digging into that. What impact do you see the baby boomers having on this middle income market and what are the key things you believe based on our research that they're going to be focusing on?

Jamie Timoteo: I think a couple of things that they have ... baby boomers have done differently from what our current seniors are doing is if you look at how they have purchased homes over the last decade, two decades or so. The traditional senior who's in our communities now may have been somebody who purchased a home, lived in it for years and years and years, paid off their mortgage, sold it when they moved into a senior living facility and used those funds to pay throughout their remaining years of their life.

Dana Wollschlager: I call that sitting on your assets.

Jamie Timoteo: Exactly. Very nice. What has happened a lot with our baby boomers though is we are seeing them move into homes, move to their career, get paid more, buy a better home, get another mortgage, do a little bit better in their career, buy another home and add that mortgage on. If you look at the percentage of people who carry mortgages on their home, when they reach the retirement age, in 2000 it was 12% of the population, it has now shot up to 37% of that population at the year they retire.

The amount of people carrying debt on their homes that they used to use as a large piece of their retirement assets for the remaining years of their life has a large chunk of debt they have to pay off and we don't even want to maybe take into consideration credit card debt that they're carrying and other debt forms that they might have. That's one concern.

One of the things that we look at is when we're doing market analysis, for example, look at that area's net worth that a particular market area might have and then compare that to the average home values and we're kind of looking at that spreader, that margin in between what's the average price for a home and what's the average net worth for individuals in that market area and as you see that spread get pinched smaller and smaller that's a very big indicator that folks really probably do not have a lot of ... one, they probably have a lot of debt and they don't have a lot of assets within their homes so that there's more concern to say, "Is that market something that can be ... Can they pay for senior living or other things in their life in that area?"

Dana Wollschlager: Right.

Rick Banas: The opportunity is that they're not going to be as attached to their home as their parents are.

Dina Meyer: And I think baby boomers are having a hugely profound impact on how we develop housing going forward. I don't think we necessarily sitting here today quite know what the baby boomers are going to instruct and require us to develop because I can guarantee you they're not going to move into our current independent living, assisted living and memory care communities. It's going to force us to be innovative and create new housing options that are affordable, they may be smaller units.

Some of those baby boomers, they might be okay with smaller because they're going to charge their trip and use their credit card to go to Europe for a couple of months. As long as we've got some common space and some collaboration for other types of services, I think that's okay. I think one thing that's really interesting with the baby boomers is 10 years ago the baby boomers, they were 50 years old let's say, now they're 60. What happened with their assets in the downturn of the economy? It's gone.

There is a huge population that we need to find and develop this niche housing. Acumen this past year added on a new partnership with our organization in that not only are we a rental market and have skilled nursing and AL, memory care and IL, we now have ownership opportunity for those people 62 and better to buy into a community. Getting them introduced to Acumen and our services and our portfolio and gaining faith in us sooner in life so they can stay within our portfolio throughout their whole rest of their life basically.

Dana Wollschlager: Ward, just very quickly and then I want to open it up to questions, and Soo, any thoughts on cost per square foot? I love putting you on the spot with that [crosstalk 00:52:11].

Ward Isaacson: Yeah, we're the contractors out there. That's why it's dangerous to say anything. Well, obviously there's a million factors that go into it but we're seeing some, it's Minnesota, right? I'm not talking Chicago, I understand that but we're seeing some projects where we're trying to reach this threshold down towards the low 100s, 110, 115, that's square foot. Again, a million things go into that. Do you have underground parking? The veneers down to the type of hardware you have but that seems to be extremely competitive.

Moving up from there, when you get into some of these higher end properties, it gets up 180, 200 bucks a square foot so, again, a lot of different factors but we like to look at different metrics to kind of qualify that and one of them is your overall building square footage per unit is important and CCRC are probably over 2000 and the product we're talking about maybe we're getting it down to 1200 in an independent living building per unit. That's an important factor because unit sizes drive a lot of this.

And then just efficiency. What's your rentable versus non-rentable factor. Some of the really nice properties are 50% maybe sometimes even less than 50% rentable if you've got huge wellness areas and huge common areas. They're beautiful but you can't build the product we're talking about for that. We try and squeeze it down closer to ... a 60% building is extremely efficient but we try and push that limit down into the near 70, 60s.

Dana Wollschlager: Mm-hmm (affirmative).

Soo Im: That's actually a lot more aggressive than some of the numbers I've seen.

Ward Isaacson: Yeah, I don't practice in California.

Soo Im: Most of my projects unfortunately that's in the Western hemisphere. Even in certain markets like Colorado and Vegas that used to be a lot more affordable, they're not anymore so we're in a very, very competitive market so even a skilled nursing market that we're right now, we just are wrapping up CT and getting into BD and we're looking at almost $300 a square foot for a single story with construction.

I mean granted this one has a state of the art therapy space and all that but even then our rooms are ... It's very efficient. One of the challenges that we're dealing with is if your cost per square footage is going up and your net rentable is limited then how do we do that without eliminating some of the amenity spaces. And then one of the concept is then to bring in more services. We talked about partnering up with outside communities so someone mentioned earlier there was a question about mixed use development. That's actually on the hot seat at least in the West Coast market so we are actually currently developing a couple of projects that are mixed use and in fact one actually going into a shopping center and one that's developing with the market in place.

Those are things that we're really starting to look at. Some of those amenities can be taken out of the property. The second thing is then bringing additional revenue, making amenities like in the restaurants we talked about things like that but also looking into adult day care so that brings on other population into the community that can share the facilities during the day time but they don't necessarily need that bedroom space, right?

There is actually a really remarkable community out in Boston area and it's about 250 unit and it's affordable senior housing and their average age actually exceeds 85+ because the way they were able to do this is that it's an affordable housing community and yet they're bringing services as needed. They build an area for adult day care, for when the residents started having more cognitive issues. They brought home care team in as the needs arise. A few years ago we added a community center for about 1.5 million dollars and then with these services they're really able to thrive without having all these built-in costs into the facility.

Rick Banas: [crosstalk 00:56:27] we get two communities that we recently opened up. You take a look at overall development cost, not construction cost per square foot because a lot of times there is the kitchen equipment included, is the emergency alert system included but we're at, for communities that are 100 to 120 apartments, about 185,000 to 189,000 per apartment.

Ward Isaacson: Yeah, that's about right.

Dana Wollschlager: Yeah. I think we're out of time. Do we have any time for questions?

Dina Meyer: Dana, can I just say one thing?

Dana Wollschlager: Sure.

Dina Meyer: I think that before we wrap up I think it's really important one thing that we didn't touch on today that really will help the middle market is technology. Embracing and investing in technology to help supplement your front line staff on a daily basis.

Dana Wollschlager: Absolutely.

Dina Meyer: I think that is a huge thing and I just wanted to get that in there.

Dana Wollschlager: No, I think that's critical.

Speaker 8: [inaudible 00:57:23] one question?

Dana Wollschlager: Sure. Any questions? All right, oh, we do.

Speaker 9: On your per square foot, does that include ramp up costs?

Dana Wollschlager: That's a straight up construction, right?

Rick Banas: That's just straight construction cost.

Speaker 9: Including land?

Rick Banas: No, not including land. That's just pure construction cost. Just hard cost.

Jamie Timoteo: I have one question for the audience.

Dana Wollschlager: Oh, go.

Jamie Timoteo: I don't know if anyone noticed some of the note passing that was going on up here for all our presentation, if anyone can define the word pulchritude I'll buy you a drink after this. Anyone?

Dana Wollschlager: You can come up to the group and [crosstalk 00:58:18].

Jamie Timoteo: The reason I'm asking is they gave me a word to say during this presentation and the word was pulchritude. Apparently it's the top 300 hardest word on the SATs.

Ward Isaacson: That doesn't count.

Jamie Timoteo: Certainly.

Dana Wollschlager: You're welcome, thank you very much.

Dina Meyer: Thank you.

Speaker 1: Thank you, Dana, thank you, panelists. We're going to take a very short break and we're going to start at 3:00 PM sharp for the capital markets update. We've got some great lenders.