The Latest Occupancy and Rate Data and What it Means for the Future

AHCA/NCAL - Fall Conference for Multifacility CEOs and Senior Executive Leaders
November 18, 2016
Laguna Beach, California
Robert G. Kramer, CEO
National Investment Center for Seniors Housing & Care

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• Disruption in the Senior Care Space
• Short-Term Survival/ Long-Term Positioning
  • Skilled Nursing Occupancy, Rate Data
  • Private Pay and Skilled Nursing Transactions, Pricing Data
  • What investors are saying about Private Pay
• Convergence in the Sector
• Questions You Should Be Asking
• Q&A
Disruption

Labor, policy initiatives, demographics, technology are all points of disruption in the seniors housing and care continuum.
Annual Asking Rent Growth / Employee Wages*
All Markets | 4Q06 – 3Q16

*Wage data as of 09/08/2016
• Ratio of Caregivers (45-64 year olds) To Those Over 80 Will Shrink From 7:1 in 2010 to 4:1 in 2030

• Declining Fertility Rates Among Baby Boomer Women

• Baby Boomers Shift from Being the Caregivers to being the Receivers of Care
Demographics Favor “Younger-Old”

Population Growth, Selected Cohorts
2015 – 2030’F | U.S.

Source: U.S. Census Bureau

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Policy Initiatives Aim to Disrupt the Status Quo of Reimbursement
Disruption Impacts

• Challenge to status quo and current business models in healthcare and senior care

• Diaspora of healthcare

• “Uberization” of senior care

• Demand for full service, retail “life management,” health, wellness, and aging services solutions
Short-Term Survival Strategy/
Long-Term Positioning Strategy

Skilled nursing providers must pursue short-term AND long-term strategies simultaneously.
Low Occupancy May Be Caused by More Than Seasonality

June 2016 Occupancy of 82.2% Is Lowest Occupancy Rate in this Five-Year Series

Occupancy
October 2011 to June 2016

Source: NIC Skilled Nursing Data Initiative

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Quality and Skilled Mix Decline in 2Q2016

Quality Mix and Skilled Mix
October 2011 through June 2016

Quality Mix  Skilled Mix

Source: NIC Skilled Nursing Data Initiative

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Steep Decline in Managed Medicare RPPD May Be Abating

Managed Medicare (Managed Care) RPPD
October 2011 through June 2016

October 2011 to June 2016:
-2.5% compound annual growth rate

Source: NIC Skilled Nursing Data Initiative
RPPD = Revenue per Patient Day

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Medicaid RPPD Climbing (Slowly) to Five-Year High

Medicaid RPPD
October 2011 through June 2016

Source: NIC Skilled Nursing Data Initiative

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Medicaid Patient Day Mix Remains Strong

**Medicaid Patient Day Mix**

MedicaidMix

Linear (MedicaidMix)

**Patient Day Mix 2Q2016**

- Medicaid: 66%
- Medicare: 13%
- Managed Care: 6%
- Private: 10%
- Other: 5%

Source: NIC Skilled Nursing Data Initiative

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Public Companies Reporting Similar Trends in 3Q2016

- Reporting increases in Medicaid, and Private RPPD increased.
- Inconclusive reporting on managed care revenue per patient day as the definition is murky among providers; some show decreasing rates, others increasing.
- Reporting stability in Medicare LOS, RPPD, but declines in skilled mix.
- Attributing some census declines and revenue losses to properties in specific markets.
- M&A activity expected to impact 4Q2016 reporting.

<table>
<thead>
<tr>
<th>Public Company</th>
<th>3 Months Ended September 30</th>
<th>YoY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>Ensign</td>
<td>15.0%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Kindred*</td>
<td>11.1%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Genesis</td>
<td>10.6%</td>
<td>10.7%</td>
</tr>
<tr>
<td>NHC**</td>
<td>9.1%</td>
<td>8.9%</td>
</tr>
<tr>
<td><strong>Average Change YOY</strong></td>
<td></td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

* Nursing Centers Only
** Estimated

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Excerpt of Complimentary Benchmarking Data for Contributors

Skilled Nursing Trends

*Solid line is National Sample
**Dotted line is Company

Quality Mix
Skilled Mix

Patient Day Mix
Medicaid

Revenue Per Patient Day

Occupancy

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

3. Current month includes all contributors’ data to date. Historical data is deflated using same store month-month changes.
Closed Seniors Housing & Care Dollar Volume: $2Bn for 3Q16

Seniors Housing & Care Transactions Volume¹
U.S. | 1Q08 – 3Q16

Source: NIC MAP® Data Service
¹Preliminary Data

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Seniors Housing & Care Transactions Rolling 4-Quarter Price Per Unit\(^1\)
U.S. | 1Q08 – 3Q16

Source: NIC MAP® Data Service
\(^1\)Preliminary Data

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## Total Number of Deals

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Seniors Housing Count</th>
<th>Skilled Nursing Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016Q1</td>
<td>82</td>
<td>69</td>
</tr>
<tr>
<td>2016Q2</td>
<td>72</td>
<td>55</td>
</tr>
<tr>
<td>2016Q3</td>
<td>67</td>
<td>52</td>
</tr>
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</table>

## PPU Summary – Seniors Housing

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Average</th>
<th>Lower Decile</th>
<th>Lower Quartile</th>
<th>Median</th>
<th>Upper Quartile</th>
<th>Upper Decile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016Q1</td>
<td>$141,387</td>
<td>$47,204</td>
<td>$69,191</td>
<td>$100,000</td>
<td>$197,571</td>
<td>$260,523</td>
</tr>
<tr>
<td>2016Q2</td>
<td>$173,606</td>
<td>$57,929</td>
<td>$81,240</td>
<td>$155,564</td>
<td>$236,607</td>
<td>$321,435</td>
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<tr>
<td>2016Q3</td>
<td>$155,343</td>
<td>$47,939</td>
<td>$67,743</td>
<td>$120,975</td>
<td>$221,206</td>
<td>$315,350</td>
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</tbody>
</table>

## PPU Summary – Skilled Nursing

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Average</th>
<th>Lower Decile</th>
<th>Lower Quartile</th>
<th>Median</th>
<th>Upper Quartile</th>
<th>Upper Decile</th>
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</thead>
<tbody>
<tr>
<td>2016Q1</td>
<td>$90,279</td>
<td>$36,480</td>
<td>$58,475</td>
<td>$69,698</td>
<td>$111,055</td>
<td>$135,843</td>
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<tr>
<td>2016Q2</td>
<td>$94,777</td>
<td>$34,301</td>
<td>$45,934</td>
<td>$68,015</td>
<td>$98,757</td>
<td>$202,972</td>
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<tr>
<td>2016Q3</td>
<td>$78,743</td>
<td>$27,808</td>
<td>$43,435</td>
<td>$62,750</td>
<td>$89,893</td>
<td>$134,470</td>
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</tbody>
</table>
AL Pace of Supply and Demand Growth Slips

Assisted Living (AL) Supply-Demand
Primary Markets | 4Q06 – 3Q16

Inventory Growth Rate
(Rolling 4-Qtr)

Absorption Rate
(Rolling 4-Qtr)

Source: NIC MAP® Data Service

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25% of AL Construction Is Concentrated in 5 Markets

Majority AL Construction
Primary & Secondary Markets | As of 3Q16

- Chicago
- Dallas
- Minneapolis
- Detroit
- Phoenix

Source: NIC MAP® Data Service
Primary And Secondary Markets’ Occupancies Cross

Seniors Housing Occupancy
Primary & Secondary Markets | 4Q05 – 3Q16

Source: NIC MAP® Data Service

Copyright 2016. National Investment Center for Seniors Housing & Care (NIC)
Seniors Housing Occupancy Continues to Oscillate

Seniors Housing Fundamentals
Primary Markets | 1Q06-3Q16

Source: NIC MAP® Data Service

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Flat Assisted Living Occupancy Rate Projected

Assisted Living Supply-Demand Forecast
Primary Markets | 1Q06 – 3Q17’F

Source: NIC MAP® Data Service

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Construction Starts Continued to Slow in 3Q16

Construction Starts (Units)
Primary Markets | 1Q06-3Q16

Source: NIC MAP® Data Service
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Assisted Living Actual Rates through June 2016

**Distribution of Current Month’s Rates**

- **In-Place Rate**
- **Asking Rate**
- **Initial Rate**

Source: NIC Actual Rates Initiative

**Contributor Concentrations**

**Current Quarter Summary**

<table>
<thead>
<tr>
<th></th>
<th>April 2016</th>
<th>May 2016</th>
<th>June 2016</th>
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</thead>
<tbody>
<tr>
<td>In-Place Rate</td>
<td>$5,065</td>
<td>$5,068</td>
<td>$5,072</td>
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<tr>
<td>Asking Rate</td>
<td>$5,196</td>
<td>$5,191</td>
<td>$5,204</td>
</tr>
<tr>
<td>Initial Rate</td>
<td>$4,805</td>
<td>$4,729</td>
<td>$4,797</td>
</tr>
<tr>
<td>Move-Ins</td>
<td>3.6%</td>
<td>3.3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Move-Outs</td>
<td>3.6%</td>
<td>3.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>86.9%</td>
<td>87.1%</td>
<td>87.4%</td>
</tr>
</tbody>
</table>

Source: NIC Actual Rates Initiative
Recent Survey Shows Investor Preference for Seniors Housing

How Do You Rate the Attractiveness of Investing in Each Property?
Mean Score, Scale 1 (Extremely Unattractive) to 10 (Extremely Attractive)


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Investor Returns Have Been Strong

NCREIF Annualized Total Investment Returns
1, 3, 5, 10-Year Periods | as of 4Q2015

Source: NCREIF, NIC MAP® Data Service

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Convergence

The lines between private pay seniors housing and skilled nursing are blurring.
Two Points of Convergence

• Housing and Health Care
• Senior Living and Skilled Nursing
• If you are serious about delivering better health outcomes and controlling costs—
  • housing/setting matters!

• What physicians and health systems do poorly—
  • is the strength of senior living providers

• Sweet spot for assisted living/memory care, and potentially for skilled nursing
Demand Pull/ Cost Push Pressures Favor Seniors Housing

- Aging, Demographics, Acuity Levels and Disabilities
- Rising Penetration Rates
- Fewer Family Caregivers
- Social Engagement, Support and Emotional Well-Being

Source: NIC

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Significant Convergence

• Convergence of housing and healthcare linked/connected by technology

• Opportunity to be the preferred setting/integrated platform for wellness/care management

• PAC quarterback
  • subcontractor on risk
  • strategic aggregator

• Skills/tools needed to play this role
  • Scale
  • Cost Efficiencies
  • Demonstrated quality outcomes
  • Shareable Data
  • Ability to take on risk while embracing change

• Convergence also driven by short-term economic realities—as well as longer term shift/opportunity
Questions you should be asking yourself now to position your business to handle the rapidly evolving environment, driven by major disruption and leading to significant convergence:

• What part of the healthcare/aging services solution do you provide? What is your value proposition to payers, partners, risk takers, and the consumer? What are you really good at?

• Do you know your data—better than anybody else? Does it confirm your value?

• Do you know your local market? Who controls/owns your customer/patient? What is their strategy?
Managing Short-Term and Long-Term Disruption

Questions you should be asking yourself now to position your business to handle the rapidly evolving environment, driven by major disruption and leading to significant convergence:

• What is your short-term strategy to survive the squeeze from bundlers, ACOs, MCOs, and other payers who do not yet value your contributions?

• Are you prepared to move upstream and/or downstream and begin to take risk? What investments will you need to make to successfully manage risk?

• Where will you get the capital to invest in the technology, data systems, specialized staffing, and transitions management capabilities necessary to succeed in pay-for-value?
Questions?
If you want to contribute data and get our skilled nursing reports, contact Bill Kauffman:

bkauffman@nic.org

For more information about NIC MAP, contact Amber Jacobs:

ajacobs@nic.org