Senior Housing Trends

Demographics, prospect expectations, technology, transportation, nanotechnology and more

2019 Update

LOVE & COMPANY
Always Thinking

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Senior Housing Trends: 2019 Update

With the senior living industry rapidly changing, it's important for your retirement community to anticipate the changes and be prepared for what's to come. This white paper explores several factors and trends of this changing industry, including finances, prospect expectations, technology, health and wellness, partnerships, healthcare, transportation services and much more. This updated edition for 2019 and beyond combines industry insight from a range of experts and provides you with the knowledge you need to proactively adjust to senior living's "age of disruption."

Part I: The Surge & The New Senior Lifestyle

Projecting a surge in senior living

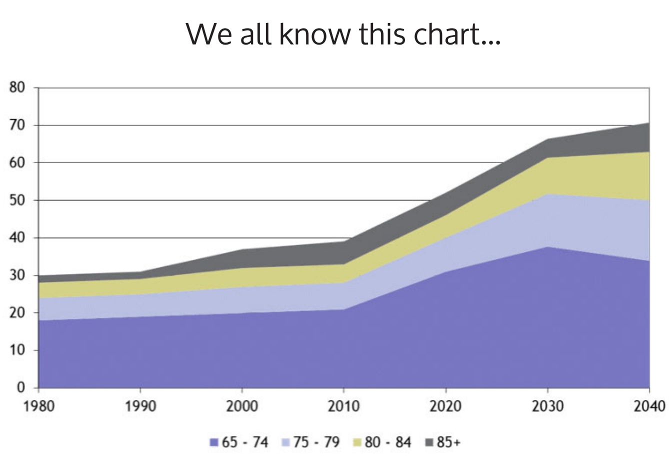


Figure 1: The senior surge. Credit: U.S. Census and Ziegler

. . . more than 76 million baby boomers will start making their post-retirement life choices starting in 2025. The value of reminding us that the wave is almost to our customers' age is to illustrate the growth needed . . . and the change needed!

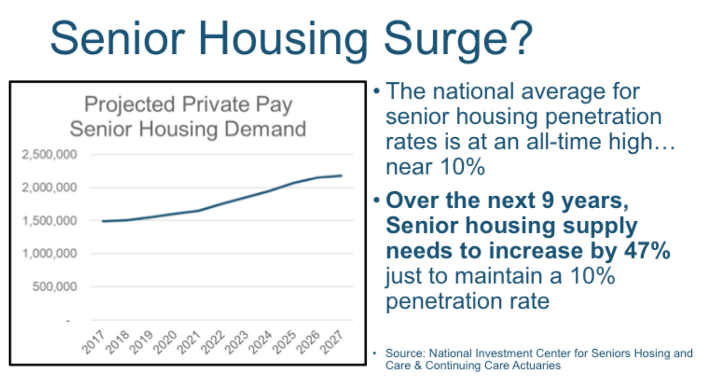
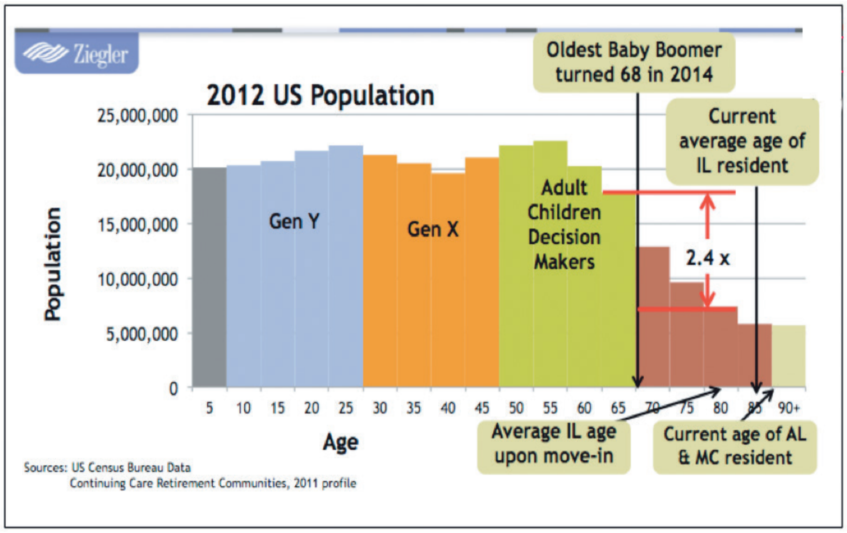


Figure 2: Brad Paulis' chart forecasting future needs for the senior housing industry

This chart, which is from a PowerPoint that Brad Paulis of [Continuing Care Actuaries] shared at [LeadingAge]'s 2017 annual meeting, shows that nationally senior housing is at a 10% penetration rate. Just to keep up with that level of demand as we move forward, we need to increase our inventory by another 47%! So, here's an important question for those of us in the senior housing field:

"Can we add 47% in the next nine years?" Think about this question. According to Perry Aycock of **K4Connect**, currently about 1,961 communities have approximately 600,000 residences. An increase of demand by 47% (just to maintain a penetration rate of 10%) would require adding roughly 282,000 residences. At roughly $250 per square foot, that totals about $67 trillion (or roughly $240,000 per resident). In short, plenty of opportunities abound for senior living providers in the coming years.



▲ *Figure 3: Generational demographics. Credit: Ziegler*

One associated question we frequently hear focuses on Life Plan Communities (also known as Continuing Care Retirement Communities or CCRCs) and whether prospects will be able to afford them in the future. This is an understandable concern given some of the news we are seeing in the media. A recent Fidelity report says that 48% of boomers are not on track to be able to afford basic expenses in retirement, a figure echoed by the Employee Benefit Research Institute (EBRI) that indicated 47% of the oldest boomers were at risk. In addition, we know that only about 7% of age- and income-qualified people nationally move to Life Plan Communities. So, even with these projected numbers, why is Love & Company so surprisingly optimistic about the future of senior housing? Fortunately, there are 2.4 times as many people older than the age of 65 as there are people older than the age of 80.

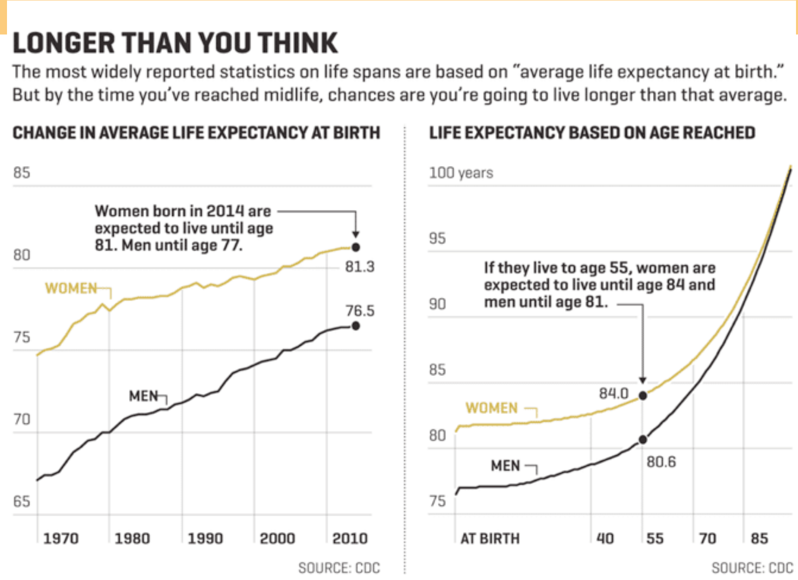
This means that even if the proportion of people that move to Life Plan Communities declines from 7% to 5%, then there will still be a 50% increase in demand for Life Plan Communities in 15 years over what there is today. We are seeing for-profit communities respond to this data with heavy investment, especially with rental senior housing.

Life expectancy and the truth about our future

The most frequently quoted statistics about life expectancy (American men born today can expect to live 76.5 years, and women can expect to live 81.3 years) are misleading. For those in our fifties, we have already outlasted those who have passed away (they skewed the average downward). Thus, we "survivors" can expect to live much longer than the average expectancy. This is particularly true for upper middle-class people who have access to quality healthcare and healthcare information. Roger Stevens, CEO of **Westminster Communities of Florida**, recommended an excellent book titled ***The Truth About Your Future***. It suggests that you have a very good chance of living until at least age 95, thanks to the advances in pharmacology, biotechnology, nanotechnology and the mapping of the human genome!

According to a **recent Harvard study**, older, middle-class Americans with easy access to Medicare health insurance are living longer, healthier lives—with fewer disabilities than in the past. The study credits improved medical treatment, particularly cardiovascular health and vision care.

In a review of the life expectancy study, ***Money* magazine states**: "More widespread use of statins and other heart medications has reduced disability from heart disease. And fewer seniors have impaired vision thanks to now-routine cataract surgery. Improved sight, in turn, reduces physical injury and the onset of disabilities."



▲ *Figure 4: Americans are living longer. Credit: Centers for Disease Control and Prevention*

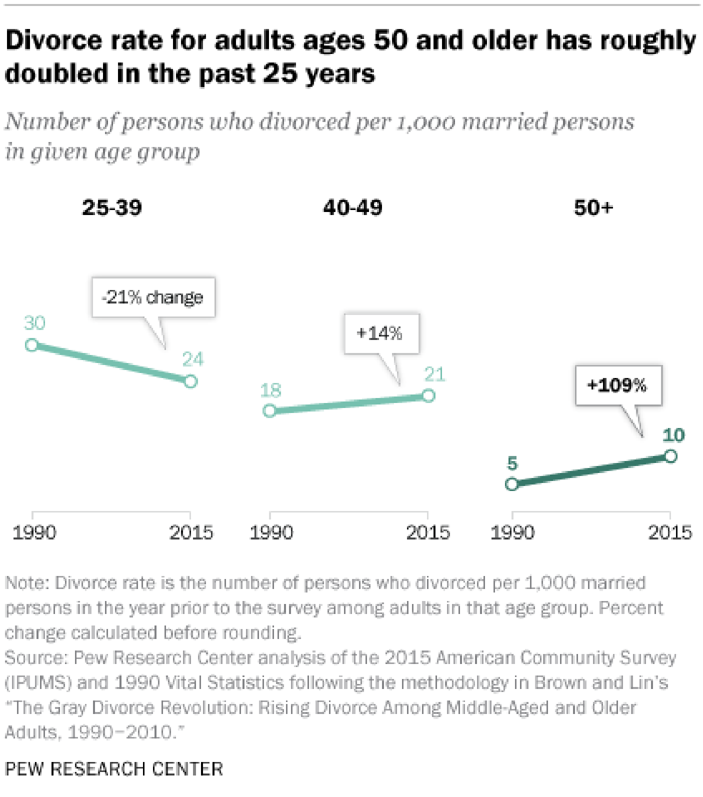
The combination of increased longevity and improved health status has led to a spike in what's called "disability-free life expectancy" among older Americans. Between 1992 and 2008, the data show life expectancy for people aged 65 increased from 17.5 years to 18.8 years. In 1992, 8.9 of those 17.5 years were disability free vs. 8.6 years when seniors experienced illnesses. By 2008, the number of disability-free years rose to 10.7, while the number of years with health issues declined to 8.1. **Dr. Aubrey de Grey predicts** that the first person who will live to be 200 has already been born!

What are the implications of increased life expectancy to senior living providers?

As professionals in the senior housing industry, we need to understand what it means to us that the people we serve will be leading longer, healthier lives. Some key questions that we need to ask are:

- How will Type A contracts be affected by longer lives?
- What should our **healthcare** component look like (CCRC at home, independent living, home health, assisted living, skilled care, memory care, rehab)?
- What will the average age of entry be in 15 years?
- How long will our residents work? How will this impact their finances? How will this affect how we build communities?
- What should we do differently in our on-site clinics and rehab?
- What will change about how we approach wellness and fitness?

A wave of boomers, experiencing waves of change



▲ *Figure 5: "Gray divorce" explained. Credit: Pew Research Center*

While divorce is currently on the decline for younger couples, divorce among Americans 50+ has more than doubled since the 1990s. This trend called "Gray Divorce" will shape how senior living communities think about floor plan sizes, service options and social opportunities on and off-site.

Although these sheer numbers might look low in comparison to other age groups, the jump in percentages is startling. In addition, the boomers divorced at a higher rate than previous generations and many of them never remarried. The composition of senior households has shifted dramatically over the past two decades as more seniors are living alone. While only 29.5% of senior households age 65 and older were living alone in 2000[1], this figure had increased 43.2% in 2016[2]. Several factors that contribute to this increase are higher divorce rates, an increase in the percentage of people who have never been married and an increase in widows/widowers.

Evolving finances and evolving lifestyles

Nationally, the future will bring some significant growth in the more affluent market segments age 75+. With this information, we can determine that about one-third of boomers are well positioned to meet their financial needs in retirement, and two-thirds of boomers intend to keep working post-retirement to meet financial needs.

National Demographics

Households Age 75+

Income	2015	2020	# Change	% Change
Below $35,000	7,686,000	8,038,000	352,000	4.6%
$35,000 to $74,999	3,593,000	4,000,000	407,000	11.3%
$75,000+	1,810,000	2,298,000	488,000	26.9%

14% of 75+ Pop — 16%of 75+ Pop

▲ *Figure 6: Income demographics for those older than 75*

National Demographics

Households Age 65 to 74

Income	2015	2020	# Change	% Change
Below $35,000	6,135,000	6,900,000	765,338	12.5%
$35,000 to $74,999	5,793,000	6,892,000	1,100,000	19.0%
$75,000+	4,713,000	6,403,000	1,689,000	35.8%

28% of 65 to 74 Pop — 32%of 65 to 74 Pop

▲ *Figure 7: Income demographics for those at retirement age*

So, as you can see, with a rapidly growing senior population who are financially prepared to pay for retirement costs, the future of senior housing should remain bright. And for those who aren't as well prepared to retire, we're seeing some interesting employment trends to consider as you target prospects for your community.

Seniors will choose to stay employed . . . both for money and engagement

Two of our favorite books, ***Blue Zones*** and ***The Purpose Economy***, talk about the importance of having meaningful, daily engagement. For many people, that connection and purpose comes from vocational activities (whether paid or volunteer).

In addition, as seniors live longer, they are seeing the need for increased saving. This is particularly true for the upper-middle class, the demographic that typically moves into retirement communities.

So what are the implications of lifetime employment to your Life Plan Community?

- We are going to have to modify how we financially qualify people, considering current income potential.
- On-site coworking spaces that allow residents and nonresidents of multiple disciplines to share office space and ideas will become the norm for progressive communities looking to attract younger, more vital people.
- For an excellent article on this topic, check out the ***Harvard Business Review***.
- The concept of "Live Where You Work, Eat, Play" will become a competitive advantage for communities that truly understand the power of this positioning.
- You will need to **drop the term "retirement" community** from your community's descriptor.

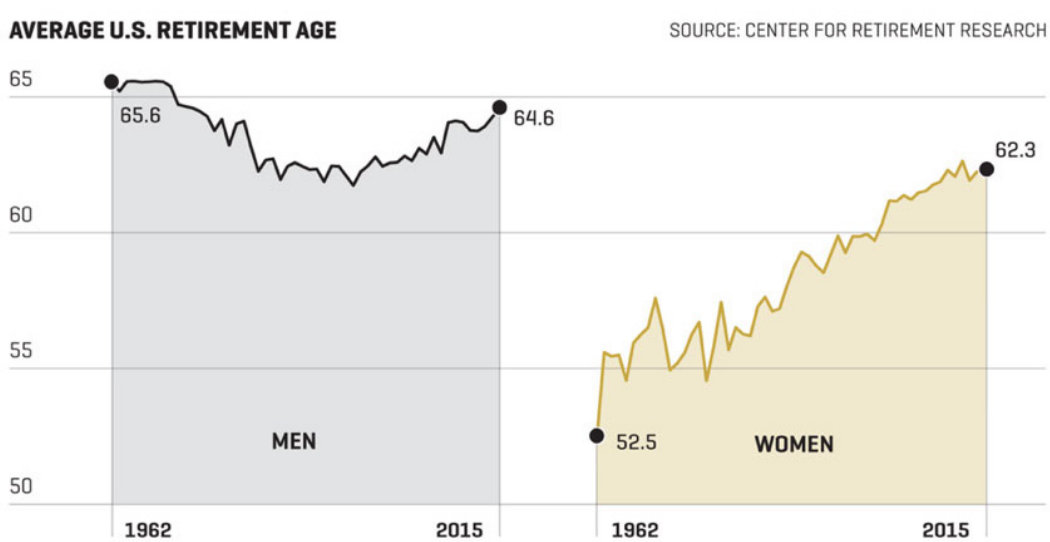


Figure 8: Americans are working longer. Credit: Center for Retirement Research

What will the next wave of seniors want?

From moving out of their houses, to choosing contracts, to picking the right product, the services and contracts seniors are searching for are quickly evolving.

Do seniors want to move to a CCRC?

Consumer Research Findings

Consumer Preference	Survey 1	Survey 2	Survey 3
Move to a CCRC	12%	8%	9%
Stay at home as long as possible, then move to AL	26%	14%	32%
Stay at home as long as possible, contracting for home care	39%	18%	12%

▲ *9: Consumer preferences for retirement living*

What are the psychographics of the coming senior housing customer? According to Point Forward Solutions' "Making Innovation Work" white paper, today's prospects are less influenced by their peers, less responsive to embellished claims, less sensitive to price and more sensitive to value. These prospects also have greater interest in having choice (in product, services and contracts), intergenerational interaction, campus walkability and a greater comfort with technology. Echoing much of the national research reports for seniors (although to a much lesser degree), Love & Company's regional surveys suggest that the vast majority of CCRC or Life Plan Community prospects age 70+ with an annual income of $50,000 would prefer to stay in their houses as long as possible, with assisted living or home health being the tools that they envision helping them accomplish this task.

Senior living community leaders know the importance of attracting younger seniors. Younger prospects typically result in a longer stay and therefore a lower turnover. Using actuarial data to project length of stay for two ages a mere 2.5 years apart (79 vs. 81.5), being 2.5 years older results in a 5% higher turnover. When you have 250 residences, a 5% turnover means 12.5 apartment homes. By decreasing the average age of entrance by 2.5 years, you decrease the number of homes you need to sell annually. Lower turnovers result in a higher census, greater revenue and lower marketing costs.

Cater contract options to today's younger seniors

So how do we attract baby boomers? One thing we know is that contract offerings can have a dramatic impact. The younger group of seniors generally finds one-price-fits-all Life Care contracts to be financially unattractive. Rather than bundling service packages, these boomers prefer unique-to-them options and custom packages, resulting in only paying for what they use. Additionally, younger prospects find the classic entrance and monthly fee contracts to be financially unattractive as well. Instead, they tend to gravitate toward reduced entrance fee options, ownership and rental contracts.

One-price-fits-all Life Care contracts will no longer be the norm. These all-in-one contracts are financially unattractive to younger prospects, because they only want to pay for the services they're going to use. Bundled service packages will need to be broken down and paid for on an as-needed basis. Likewise, Life Care will need to be priced by age instead. As previously mentioned, large entrance fees and monthly service fee contracts are also becoming financially unattractive to younger prospects. Instead, they are interested in reduced entrance fees (fee-for-service), ownership and rental type agreements. Implementing more of these types of agreements will attract the younger prospects.

A preference for larger, more contemporary residences

The next chart shows senior preferences for apartment home sizes, according to a Love & Company survey, alongside the inventory mix of one of our existing clients (an older community) and the inventory mix Love & Company is typically seeing with newer communities. We show our sample client as a demonstration of how this knowledge might shape your approach toward the future.

▼ *Figure 10: Types of residences today's seniors want*

Psychographics of the Coming Consumer

Type	Client X %	2013 Survey %	Typical Mix, New Community
Studio/eff	11%	3%	0%
1 BR	33%	19%	15%
1 BR/D	10%	25%	25%
2 BR	36%	25%	35%
2 BR/D	10%	22%	25%

RLPS, The Townhomes on Hendricks Place at Moravian Manor

Perkins Eastman, Laclede Groves

RLPS, The Townhomes on Hendricks Place at Moravian Manor

KGRW & Associates, Summit Vista

▲ *Figure 11: A look at examples of contemporary senior living residences*

Only 10% of couples opt for a one-bedroom apartment.

According to Love & Company's survey, prospects prefer larger apartment and villa floor plans, with only 22% of the respondents selecting anything smaller than a one-bedroom with den. In contrast, 44% of Client X's current inventory is studio, efficiency or one-bedroom apartments.

Nationally, what we are seeing are newer communities with 0% studio/efficiencies and only 15% with one-bedroom apartments. Interestingly, on a square footage basis, Client X's inventory compares favorably. Again, it is the unit mix that raises concerns. As you can imagine, the mix of smaller units is particularly unappealing to couples. Only 10% of couples opt for a one-bedroom apartment, while 80% of couples have chosen a two-bedroom apartment with a den.

The question of an appropriate product is also very much a visual and aesthetic question. Is your retirement community offering what today's prospects are looking for and are expecting? For older Life Plan Communities that still have small residences with dated designs, it will be virtually impossible to attract a younger prospect unless they have a significant health need. Pictured to the side are some images of newer communities as examples of what does work.

Today's seniors live well and know wellness

Another factor that younger prospects find attractive is an updated wellness program. This includes integrated resident and staff activity as well as newer wellness amenities. According to the Mather LifeWays' survey, the percentage of senior living communities offering wellness programs for residents and staff will nearly double (from 40% to 78%) in the next five years. From exercise to dining, expect to see purposeful mingling of staff and residents in all parts of the campus.

Offering truly varied food options will become the #1 driver of success

"You say you want a revolution!" More than two and a half million boomers (including Paul McCartney, Bill Clinton, Al Gore and Martina Navratilova) now identify as vegetarians, and that number is rapidly growing thanks to the boomers' desire to ward off chronic conditions and consume in an environmentally responsible way.

According to **Northwest Earth Institute**, the word "vegan" has steadily increased in Google searches—it is now up to 36 million hits. Chipotle offers vegan burritos. Even White Castle offers vegan sliders at all locations now. And Kaiser Permanente, the country's largest HMO, recommends that its members eat a plant-based diet. The vegan trend has also impacted the dairy industry. Cow milk consumption is down, while the sales of soy, almond and other milk substitutes are up. One book that will increase this trend within the senior living space is **Dr. Valter Longo's *The Longevity Diet***, which studies the dietary habits of centenarians around the globe in "**Blue Zones**."

Although **vegetarians** are far from the majority, the push for a more **plant-based**, organic, farm-to-table approach to dining is becoming mainstream.

Although vegetarians are far from the majority, the push for a more plant-based, organic, farm-to-table approach to dining is becoming mainstream. Communities that don't offer a varied approach to food options will quickly be reduced to eating their competitors' leftovers. Educated consumers are now asking where and how their food is sourced.

Forward-looking communities like Garden Spot Village have introduced innovative ways to **supply their own vegetables and fruits through the use of an aeroponic greenhouse**. Whether you are sourcing the food yourself, like Garden Spot, or purchasing through local vendors, varied food choices are no longer optional.

Put another way, David Koelling of **Strategic Dining Services** says, "Ability to adapt is the key to the modern kitchen . . . either taking advantage of seasonal opportunities and regional sourcing or adapting to the ever-changing expectations of our residents and potential residents. The focus has to be on building a team that is not only capable of adapting but has the resources, training and the support of leadership to do so."

Additionally, the dining venue takes on importance as well, because today's seniors expect restaurant-style service and quality. Expectations for senior housing dining are elevated in today's world with celebrity chefs. Retirement communities like The Moorings are offering multiple dining venues including outdoor venues. Gone are the days with "dining rooms;" they have been replaced with "restaurants." This means your retirement community should be thinking about ways to make your dining experiences upscale and adding variety and options.

Part II: Technology's Influence on the Next Generation of Senior Living

To be considered truly current and competitive, a senior living community must offer contemporary technology, which includes access to resources, new hardware and updated software for residents and staff.

A senior housing community must be Wi-Fi enabled throughout the entire campus. Residents will track the community's daily activities through their tablets and computers. Daily reminders will also help with exercise and medicine compliance. Community designed apps created specifically for residents (think RunKeeper and MyFitnessPal) will bring new levels of integration. According to *Senior Housing News*, 71% of seniors are going online every day, and more seniors are accessing the Internet from mobile devices than ever before.

With more mainstream uptake of smart home technology, today's seniors will also be open to smart home technology improving their daily lives. Such smart home technologies include remote control and automated systems for lighting, heating and cooling, energy management, security systems and even health management. There are also apps now for our homes, from security systems and lights to temperature control. All of this can be done using an app on a smart device through wireless connectivity. Apps can also be used for community communication. Would developing an app help your residents get the most out of your community?

Consider new technology's total transparency

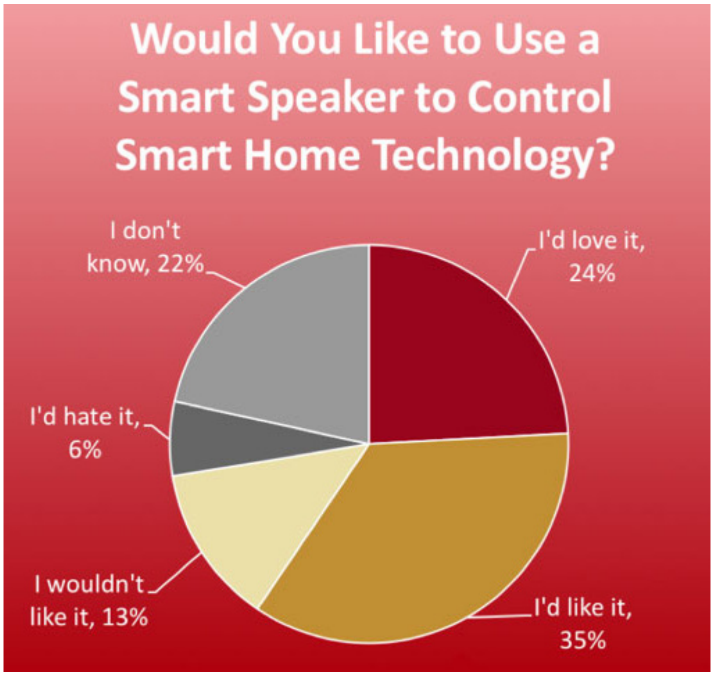
CEOs need look no further than **United Airlines to see how social media** changes everything. Smart senior living organizations will accept the new norm that there are no secrets. Thanks to the far-reaching tentacles of Facebook, Twitter, Yelp, LinkedIn, Instagram, Google reviews, etc., prospects can now easily peek beyond the gates of your community. They can see the residents, the staff, your organization's processes, pricing and values. Although they might not have the whole story, they are catching glimpses of your organization.

Social media enables those that have been wronged (or feel they have been wronged) to voice their displeasure, and allows unhappy customers and staff to unite together, thus magnifying their voice. All of this means that your internal culture is becoming the most important part of your brand. **Online reviews will become a key driver of your business.**

Wellness through technology

With new technology and smart devices, residents will become more aware of on-site and off-site activities (and thus, more engaged) as smart speaker technology like **K4Connect** becomes the norm resulting from ease of use. With one of the fastest adaptation rates of any technology in history, smart speakers will soon be prevalent in retirement communities. In 2016, less than 10 million people were smart speaker users. By 2019, it is projected that nearly 60 million will be smart speaker users! Love & Company recently did a study for Michigan State University, a potential sponsor of a university-based retirement community (UBRC), with age- and income-qualified seniors, and found that a whopping 59% of the seniors interviewed would "like" or "love" the opportunity to use a smart speaker.

Asbury Communities is using technology accessed through its own strategic partnerships to bring advances to its residents and clients. CEO Doug Leidig points out, "We will soon be bringing Paro, a therapeutic seal that utilizes artificial intelligence, to our residents with the assistance of one of our business partners, **Sodexo Senior Living**. Paro helps to increase the socialization of seniors with dementia."



▲ *Figure 12: Seniors' opinions on smart home tech*

Doug adds, "We're currently piloting a telehealth program with **TripleCare** to determine if treating residents in place with off-site telephysicians is better than transferring them to the hospital. Just think of the positive impact on the residents and the reduction of readmissions! And on the other end of the spectrum, with independent living environments we've begun piloting smart homes with **K4Connect**."

Love & Company's President Rob Love and Roger Stevens, CEO of **Westminster Communities of Florida**, agree with Asbury's focus on technology and wellness. "It is clear that smart technology is here to stay and is a very real factor in the marketability of homes today. As such, it will quickly become a basic expectation of boomers as they begin to consider Life Plan Communities more and more. To be ready, communities need to be planning for this today," advises Rob.

"Look," adds Roger, "the **Quantified Self digital trend** will continue to gain traction with boomers. Tracking your activity with the assistance of smart watches and other items will soon become the norm. We'll see everything from fitness to sleep, to glucose monitoring, ideally improving wellness and empowering residents to be the champions of their own health. Residents will be enabled to manage health issues that are either chronic or acute. Insurers such as Kaiser Permanente and Humana are already studying digital health interventions. I don't think it will be long before they partner with progressive senior living organizations to improve success rates for resident treatments and lowering re-admissions."

Brad Paulis, of **Continuing Care Actuaries**, also notes **in a guest blog he wrote on this subject**, "Technology, both within communities and in homes will enable individuals to stay in independent settings longer. Healthcare utilization long-term will permanently decline over time, and acuity levels of your independent living will likely increase."

The Quantified Self **digital trend** will continue to gain traction with **boomers**

"2025 tech" is at the doorstep

A variety of new technologies, sometimes dubbed "2025 tech," are rapidly advancing into the mainstream and will soon affect the senior living landscape. Here is a quick overview of such technologies.

Driving us toward the future

If you want to know how quickly technology is changing our world, just ask a New York City cab driver. In 2014, the licensing (a medallion) to drive a taxi was both limited and costly (approximately $1 million). Today, thanks to the impact of ride-sharing services, Uber and Lyft, a medallion holder will be lucky to get $250,000 if he or she attempts to sell his or her rights. This seismic shift has left many independent taxi drivers underwater and buried in debt. Taxi drivers won't be alone. I almost always utilize Uber's services while traveling now as opposed to a rental car. Why? For the same reasons I no longer use cabbies: convenience, price and service.

Transportation is an important topic when it comes to seniors. Residents should have the freedom to go where they please anytime they want, which isn't always easy. Currently, several driving services are on the market specifically for this reason. For example, Uber, a ride-sharing service, is one great way for seniors to go places without having to own a car. Another service that allows seniors to drive without owning a car is ZipCar, a car-sharing system.

But what about self-driving cars? What impact would a self-driving car have? That reality isn't too distant in the future. With this technology, residents will be able to manage their own transportation longer. The demand for garages, underground parking and close-proximity parking would essentially disappear. Cars could be parked anywhere and could come when needed. But why stop there? A retirement community could own driverless cars that were sheltered and powered under solar collectors and parked off-site (at a less desirable, less expensive location).

▲ *Figure 13: Self-driving cars have massive implications for the senior living industry*

Residents could use an app to page a car and it could arrive before they are downstairs. Fewer parking spots would be needed and the residents would save on car expenses. In fact, the savings could be yet another benefit of living at your community. Think about the green space this could add to your community's campus and how it might affect your next master planning process!

Small size, big impact

Nanotechnology, human genome mapping and microbiology are all colliding to produce quantum leaps in healthcare. What implications will they have on your senior housing community? We expect to see the trend of aging in place continue, both within and outside the community gates. How will new technology affect boomers' and seniors' abilities to stay in their own homes? How will this technology affect how long residents are able to stay in your community?

Three dimensions, infinite possibilities

3-D printing is proving that its uses are almost boundless. The technology is already being used to produce artificial limbs and organs. For example, recently at an Orioles baseball game, a 5-year-old girl threw out the first pitch with a prosthetic hand.

This prosthetic gave her the ability to control and grip the ball. These advances are no longer the talk of science fiction but rather advances that will help your residents today and tomorrow. How can you include them in your planning for the future?

Creating a cleaner, greener future

Prospective senior residents have an increasingly sophisticated understanding of sustainability and take an active interest in how their housing affects the environment. NewBridge on the Charles is heated and cooled using 400 geothermal wells; it also has vegetated roofs for reducing urban heat-island effect. These measures and the effort to preserve the natural state of the site during construction are like marketing gold stars.

“People are drawn here by our environmental sensitivity,” Hebrew SeniorLife's Ruth Stark recently told Build Design + Construction. According to Build Design + Construction, this does not mean that senior communities must be LEED-certified. “As green as NewBridge is, management chose to forgo certification. Whether certified or not, sustainably designed senior housing developments should play up the health and indoor environment benefits of sustainability, as well as the positive impact on utility bills— even if the residents are not paying directly for utilities.”

Each aspect of technology has a significant impact on the bigger picture. Whether it comes to healthcare or housing, the technology is changing fast. It's important to remain aware of how these technological advancements affect your community—directly and indirectly—and to anticipate them.

Part III: Financial Considerations for Senior Living Communities Now and Beyond

Whether for-profit or nonprofit, all senior living communities are dependent on their bottom lines. However, actuary and senior living expert Brad Paulis mentioned special considerations to note as it relates to competition in the marketplace:

"The for-profit segment understands this demographic change. Expect increased competition on the rental side as for-profits see an opportunity. Additionally, expect more for-profits to enter the entry-fee model retirement community," Paulis, of **Continuing Care Actuaries**, said. "The increased pressure from for-profits and increased utilization of technology in homes will be the primary challenge in the ability of not-for profits to capture the increased demand. Maintaining competitive fees and implementing operational changes with the use of technology may be necessary and ultimately result in increased occupancy."

For-profit providers will continue developing **rental communities** – market fundamentals support it.

Roger E. Randall II, Senior Vice President of **BB&T Capital Markets**, also offered valuable insight to the trends affecting both sides of the industry (for-profit and nonprofit). He wrote the following in a **guest blog** for us:

Nonprofit organizations have long been the dominant provider of senior care in Life Plan Communities. Because of the Life Care pricing model (large one-time entrance fee plus an ongoing monthly service fee), these communities are only affordable to (roughly) the top 25% of local residents who have both the assets and income to afford entry. The other 75% of the senior population has to look elsewhere for care.

Rental communities offer an alternative, particularly for people with few net assets (lifelong renters, as we will see). For-profit organizations (whether family-owned or publicly held) tend to avoid the full continuum, providing care in stand-alone communities offering one level of care or possibly independent and assisted living on one campus through a rental-pricing model.

According to a report by the Joint Center for Housing Studies of Harvard University titled "Projections & Implications for Housing a Growing Population: Older Households 2015-2035," as the population of this country continues to age, we will see the highest growth occur in the low income and middle market income levels. People tend to vote with their checkbooks so we will continue to see for-profit rental communities enter markets traditionally served by nonprofit senior living providers.

Consider the demand-side of the business:

- Nine million homeowners age 65 and older have less than $50,000 in net assets beyond the value of their home, amounting to average net assets of $267,000.
- Savings by senior households that rent is a whopping 98% lower (totaling just $6,100 average net assets).

The supply-side is also compelling:

- Rental communities with one or two levels of care tend to be far simpler to develop than Life Plan Communities. Fewer levels of care mean:
    - Simpler building design
    - Faster development timelines
    - Lower debt burden

Moreover, since we are talking about for-profit organizations, which are driven by return on investment and delivering that return to shareholders, these projects are easier to sell for a quick investment return. Rental communities serve a needed purpose in the senior care market. For-profit owners and operators will continue to identify new and existing markets to disrupt. The opportunity is simply too great to ignore.

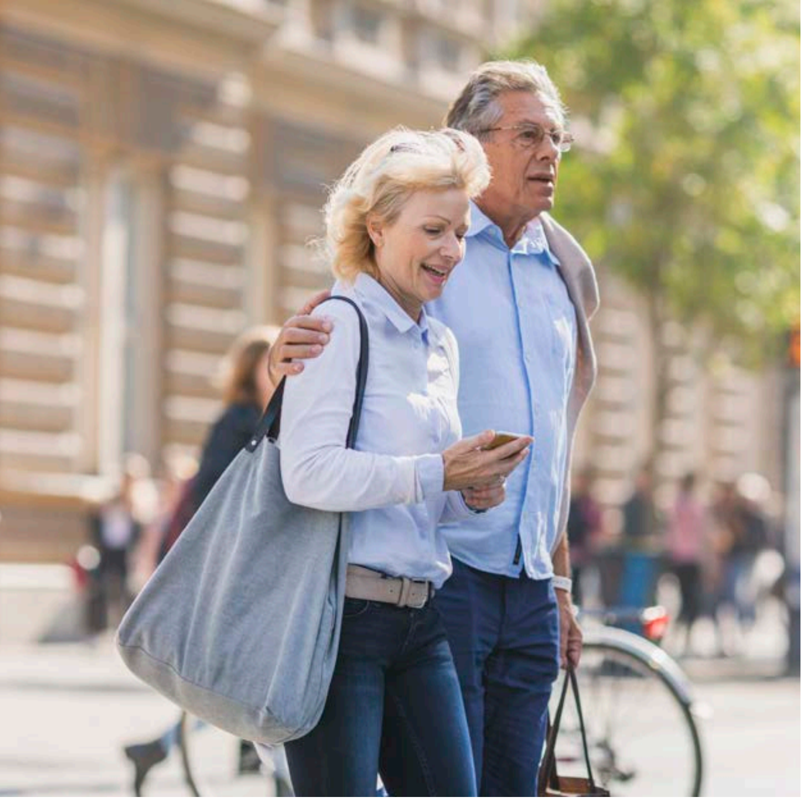
Nonprofit providers will respond to the increased competition from for-profits – Focusing on the middle market and urban developments.

Executives of nonprofit providers look at their current senior care offerings, and because of history, mission and/or economics, they mostly see entrance fee-based Life Plan Communities and some low-income housing, but too often the middle market is left unserved or underserved. Those feeling pressure from for-profit start-ups or those who want to stay ahead of them will increasingly look for ways to enter new markets and defend existing ones. A couple interesting ways they may choose to do so include serving the middle market and developing in urban areas.

To serve the middle market senior, nonprofit providers will likely need to embrace the rental model as the typical mid-market senior does not have the assets to afford living in a Life Plan Community. Fortunately, the benefits that for-profit companies enjoy from the rental model are the same benefits that nonprofits can enjoy; they offer business diversi-

fication (achieved by offering different pricing models and different levels of products, services, etc.) and another way to further the organization's mission and serve more people.

Today's senior increasingly eschews the country club-style retirement of prior generations. Instead, retirement is seen as an opportunity to reinvent one's self, not the time to rest after a lifetime of hard labor and toil. This is not a new observation, but its im-



plications are important for senior living providers. Empty nesters and younger seniors are moving to vibrant cities where anything and everything is within a short distance.

As people age, they do not want to leave the city behind. Senior living organizations (for-profit and nonprofit alike) will need to develop communities in urban areas. Urban communities allow providers to:

- Serve a new group of seniors who would not relocate to suburban or rural campuses;
- Help urban seniors fight the increasing loneliness and isolation brought on by cities unable to meet their specific needs;
- Take advantage of existing city resources to reduce

Tax and bond reform represent critical considerations for the future

Senior living experts also note how tax reform will affect everyone in the industry. The implications of tax reform go beyond financing a community, and keeping an eye on trends in this regard can be critical to your success.

In his blog on The Leaders' Board, **Randall** notes that nonprofit senior living organizations dodged a bullet as the private activity bonds used to finance these projects remain tax-exempt (the House bill proposed removing this provision). Here are two changes that will affect nonprofit senior living financings:

Elimination of tax-exempt advanced refunding bonds

Nonprofit organizations can no longer advance refund**(i)** their debt with tax-exempt bonds. Many other industries lost this ability when Ronald Reagan enacted tax reform in 1986. Advanced refundings are a financing tool allowing borrowers to take advantage of lower prevailing interest rates. They can also be used to remove or amend covenants, which may be necessary to achieve certain strategic goals.

For new offerings, ways to mitigate the effects include:

- Shortening the no-call period(**ii**)
  - Most nonprofit senior living fixed-rate bond transactions have a 10-year no-call period.
  - Shortening this period to 5 years would allow borrowers to refinance their debt with tax-exempt debt within 5 years of closing on the financing, instead of waiting 10 years.

- Doing this, at least in the short-term, will likely result in borrowers paying a premium as a shorter no-call period increases the reinvestment risk of fixed-rate bondholders, for which they will expect to be compensated.
- Utilizing taxable debt
  - Borrowers can still advance refund debt using taxable debt, but this would prove to be costly.
- Options and other derivative instruments can be used to mimic a fixed-rate bond, but maintain the callability of variable-rate bank debt.

Other strategies can be used, but each of them carry a cost that likely would not exist if tax-exempt advanced refundings were still allowed. Borrowers will need to weigh this cost against their strategic goals, recognizing these goals may change in the interim.

Planned elimination of LIBOR

The regulator that oversees the London Inter-bank Offered Rate ("LIBOR") has indicated the world needs to find a replacement. LIBOR is the base rate that serves as a foundation for credit cards, mortgages and other securities totaling $350 trillion (with a 't') worldwide, including $3.8 trillion ("t") of tax-exempt municipal debt (which includes variable rate senior living debt). In 2017, BB&T Capital Markets published a **Capital Markets Update** titled "Possible Elimination of LIBOR Could Impact Senior Living Communities" exploring this topic in detail.

The body responsible for selecting the new benchmark rate has voted to use an index determined by the interest rates that large financial institutions charge each other to borrow money overnight, secured by US Treasuries (also known as "repo" transactions). This new index must go through a public comment period before it is formally accepted as the index to replace LIBOR. Voluntary use of a new rate is planned to begin in 2018, with full replacement targeted for 2021.

Financings are still occurring while lenders and borrowers are waiting for the change to become official. Meanwhile:

- Bankers and attorneys involved in new financings have developed a number of provisions to handle this situation.
- Borrowers with outstanding variable rate debt should review their existing documents and consult counsel to determine exposure to the replacement of LIBOR.

Aaron Rulnick and Kerry Moynihan of HJ Sims noted in a guest blog that the industry must adapt with the tax changes of 2018. One of the major tax changes has been the Tax Cuts and Jobs Act. First initiated by the House on November 2, 2017, and culminating with the President enacting it into law on December 22, the Tax Cuts and Jobs Act is the first major tax overhaul since the 1986 Tax Reform Act.

Beyond the ways the act will affect each of us personally, the changes to the rules have far-reaching implications for not-for-profit senior living communities and how they access the capital markets. While the first version issued by the U.S. House of Representatives blindsided the municipal market with the suggested elimination of private activity bonds, which would have eliminated the tax-exempt financing benefit for all 501(c)(3) organizations, this key financing vehicle was ultimately maintained. Unfortunately, advance refunding and tax credit bonds weren't so lucky.

Here are three immediate ways those at HJ Sims are experiencing the implications of these new rules and what you, as key decision makers for your communities, need to know:

1) Advance refundings are now a thing of the past.

The logic behind eliminating this allowance is understandable from a federal revenue standpoint: When two sets of tax-exempt bonds are outstanding during an escrow period, the federal government is—in effect—doubling its tax subsidy.

How should you expect your finance professionals to address this elimination as they guide you through your next financing process? First, expect shorter call periods, which will give your community the option to refund its bonds sooner than the previous standard of 7-10 years. Several financings underwritten and closed by HJ Sims in December 2017 include 5-year premium call options. Fellow underwriters also successfully implemented shorter call options, signaling that the market has already embraced this shift.

A number of other market changes are being contemplated or implemented in reaction to the elimination of the advanced refunding provision. At this time, it's difficult to know which changes will prevail and gain market acceptance. These other initiatives include make-whole calls prior to par call, synthetic advance refundings, taxable "sandwich" structures and "Cinderella" structures. Many of these structures and/or provisions are already utilized in other industries or financial products.

2) With the decrease in the corporate tax rate, bank debt isn't as cheap as it once was.

When Bank Qualified Bond issuance began to taper off in 2011, commercial banks continued to directly purchase tax-exempt municipal bonds on a non-bank qualified basis and effectively pass their tax savings to the borrower by applying a "tax equivalent factor" to the taxable interest rate they charge. In recent years, this tax equivalent factor has generally translated to a 30% discount in the taxable interest rate, although it differs by a bank's effective tax rate.

With the corporate tax rate now a flat 21%, this discount will also drop—not only affecting future borrowings for 501(c)(3) organizations, but also potentially affecting outstanding bank deals depending on how existing documentation was written to contemplate changes in the corporate tax rate. It's critical that executives of communities with outstanding direct purchase bank bonds work with their finance and legal professionals to review their bond documents and understand the available options if their interest rate has increased.

Going forward, bank debt will remain attractive for shorter term capital needs with more flexible repayment mechanisms, but its use as a longer-term capital solution will need to be more judiciously assessed in comparison to other financing options.

3.) The potential value of tax-exempt bonds for investors has changed.

Tax cuts across personal income tax brackets mean lower effective federal income tax rates for most Americans. Investing in tax-exempt bonds is a key tax-reduction strategy for many Americans, and the changes (not only in tax rates, but standardized deductions) could mean a general devaluation of tax-exempt bonds. In the first two weeks of 2018, inflows continued into high-yield municipal funds.

Conversely, investors from high tax states (CA, NY, NJ, etc.) are now faced with a $10,000 limitation on the amount of state and local taxes (SALT) they can claim as a deduction, effectively increasing their overall tax burden. Traditionally termed “specialty states” because their bonds tend to carry lower yields than other states, residents from these states will need to adopt further tax reduction strategies and may increase their investment in tax-exempt bonds, thereby making these specialty states that much more special.

With all that in mind, senior living communities must consider new and potential regulations that affect their financing, as securing assets directly affects the master plan for any community.

Part IV: How Healthcare Already Affects the Future of the Industry

What are the implications of the Affordable Care Act? What will be the evolution of strategic partnerships in senior living, healthcare and technology? How might these trends affect how your retirement community thinks about the future? How might it alter your planning?

Affordable Care Act implications

Trump’s election and the impact it will have on the controversial Affordable Care Act is yet to be seen, but everyone can agree on one thing: changes are coming to the senior living industry. Knowing this, we must predict, anticipate and prepare for these implications.

The Accountable Care Organizations’ (ACOs) impact may shorten Medicare skilled nursing facility stays. There may also be changes in compensation based on outcomes instead of fee-for-service. Life Plan Communities (also known as CCRCs) that do significant direct admits to healthcare may need to become part of ACOs and track their outcomes. Services will be integrated more into housing to encourage wellness and prevent problems.

Some key trends include moving away from fee-for-service toward being accountable for a population. Payment will be for quality, not for the service. Site-neutral payment is paying the same amount for care regardless of where it’s given.

Strategic partnerships

More and more providers are entering into partnership agreements with like-minded organizations to develop innovative service models, negotiate healthcare contracts and grow at a more rapid pace than they would be able to otherwise. These partnerships can take multiple forms, but many are increasingly being reorganized as joint ventures. The 2014 LeadingAge Ziegler 150 survey results revealed that roughly one-quarter of the largest not-for-profit providers are engaged in some type of formal joint venture. The largest proportion of the 24% reported that they are in a joint venture with another senior living provider or a hospital/healthcare system. Partnerships create significant opportunities for advancement in senior living, healthcare and technology.

JOHNS HOPKINS MEDICINE

JOHNS HOPKINS HEALTHCARE

BROADMEAD

A Dynamic Lifestyle Community™

Some examples from two of our clients:

Broadmead, a CCRC in Baltimore, and Johns Hopkins HealthCare, LLC, are working to create centers of excellence in two critical areas of aging services: (1) dementia care and (2) health and wellness. For the dementia care center of excellence, the team will develop a program that combines current best practices in dementia care with forward-thinking approaches and evidence-based research.

Partnerships create **significant opportunities** for **advancement** in senior living, healthcare and technology.

Programs and services developed through the Broadmead/Johns Hopkins HealthCare collaboration will reach beyond providing care to residents. They will also provide resources, support and education for professional caregivers, family caregivers and other family members affected by a loved one's dementia.

Broadmead's second center of excellence initiative in health and wellness will investigate a variety of dimensions of wellness, including physical, intellectual, social, vocational, spiritual, environmental and emotional, to develop a signature, evidence-based program that promotes healthy aging, maximizes residents' independence and minimizes the effects of disease. Like the dementia care center of excellence, it will explore how residents' health and wellness needs—including exercise, nutrition, socialization, intellectual engagement and more—are best met throughout the community, whether the resident is in independent living, assisted living or comprehensive care. The findings will help to determine which programs really make a difference in terms of maximizing health, wellness and overall quality of life.

Vitalize 360 is a joint venture between two not-for-profits: (1) Kendal Outreach, LLC, a subsidiary of Kendal, a system of communities and services for older adults, and (2) Hebrew SeniorLife, a nonprofit affiliated with Harvard Medical School. Vitalize 360 is a coaching and assessment process for older adults that uses art and science to promote optimal wellness for successful aging. The program combines an award-winning, innovative and person-directed approach to wellness coaching with the power of information derived from a scientifically grounded assessment system. The mission is to engage, challenge and inspire older adults to live a full, healthy and vibrant life and enable communities to demonstrate appreciable improvement in successful aging.

Tomorrow's seniors will advocate for caring for themselves

Boomers want to take care of themselves (spiritually, physically, intellectually, emotionally and financially) rather than be taken care of. The communities that grasp this paradigm shift are the ones that will separate themselves.

Although many communities say they want to provide this environment, few have succeeded (less than 1%). The first sign that you have succeeded is when your community's average move-in age is in the mid-60s to early 70s.

How do communities get there?

- Communities will model their wellness programs after **Canyon Ranch**. As a benefit of living at the community, residents will receive a complete "executive" fitness exam like those given at the Cleveland Clinic. The community's medical, fitness and dining services team will be a well-coordinated part of each resident's wellness team.

- The **Quantified Self digital trend** will continue to gain traction with boomers. These digital interventions (perhaps every resident receives an Apple Watch or Gear S2 smart watch as part of his or her move-in package) will create positive inventions. We'll see everything from fitness to sleep to glucose monitoring, ideally improving wellness and empowering residents to be the champions of their own health. Residents will be enabled to attack and manage health issues that are either chronic or acute. I predict that insurers such as Kaiser Permanente and Humana, which are already studying digital health interventions, will soon partner with progressive communities to improve success rates for resident treatments and lower readmissions. In addition, all of this personal healthcare information now being collected will be compared with larger data sets of people with similar medical backgrounds (both genetic similarities and medical history) in new ways to improve treatments.

Better wellness programs lead to healthier seniors, fewer long-term beds

As in-home and on-site therapy treatments continue to improve, communities will continue to serve residents as long as possible in their apartments and cottages. **In the guest blog he wrote**, Brad Paulis of **Continuing Care Actuaries** notes, "With the number of seniors dramatically increasing, services for those who desire to stay in their home will also need to increase. There is a significant increase in the number of communities exploring at home programs. Expect exponential growth in this market segment."

Eric Krull, Executive Vice President of **THW Design**, states, "We all have seen both senior living communities and hospitals decreasing the number of available long-term care beds. The question they are asking is how do we shift our positioning and what do we do with the skilled beds that are so costly to operate? With the cost continuing to rise to maintain skilled nursing units, we have continued to reposition and transform LTC wings/buildings into Transitional Care Units used for short-term rehabilitation and therapy services with "Smart Gym Technologies." This helps the provider find new avenues of income.

"In the past year, we completed the master plan for a large heath system that has expanded this concept to include housing and 'Light Surgical Procedures' to serve a rural community. This new concept integrates LTC beds, post-acute beds, memory care, psychiatric care, urgent care and MOB service needs to a whole new level under one roof. Imagine creating 'Concierge Care' in a 'Life Style Village' in less than 100,000 square feet, in a one-story building shaped and formed in a residential hospitality ambience, with a focus on healing and resident-centered care. All of this integrated into a senior housing campus with IL and AL serving not just the internal community but the greater community ... perhaps this will redefine what our Life Plan Communities will be in the future," Krull adds.

Part V: Success from the Inside – Creating a Stellar Senior Living Workplace

Ask any senior living leader what keeps him or her up at night, and you'll quickly hear the words "staff recruitment and retention." In a **survey** of CFOs by Ziegler, 80% of respondents said it was one of their top concerns for 2018. According to **Argentum**, senior living communities need to recruit 1.2 million workers, while reducing the current 45% turnover rate for senior care professionals.

In a recent **Senior Housing News roundtable**, **Vi** President Randy Richardson noted, "Depending on what survey you look at, by 2025 we'll be short over a million caregivers in the system. So where are those people going to come from?" Ken Jaeger, founder and CEO of **MorningStar Senior Living**, added, "I just hate getting a family member letter saying you're understaffed or there's some openings in your community. We're doing everything it takes to be at staff. We like to overstaff because we know with turnover, people are being pulled away. I'd like to follow the **Chick-fil-A model**. It has an aggressive recruitment plan. It has a career path for its team members and one of the lowest turnover rates in the country and in the fast food industry."

Others are joining the effort. Argentum recently created **Senior Living Works**, an all-encompassing resource to inspire its workforce and recruit for the future. **Love & Company** created a video for LeadingAge PA called "**Make A Career Out of Making a Difference**" to recruit millennials into senior living. Many other states are now requesting the video to be edited for their recruitment efforts.

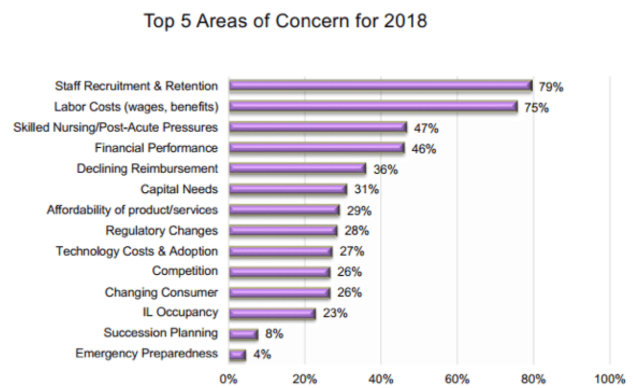
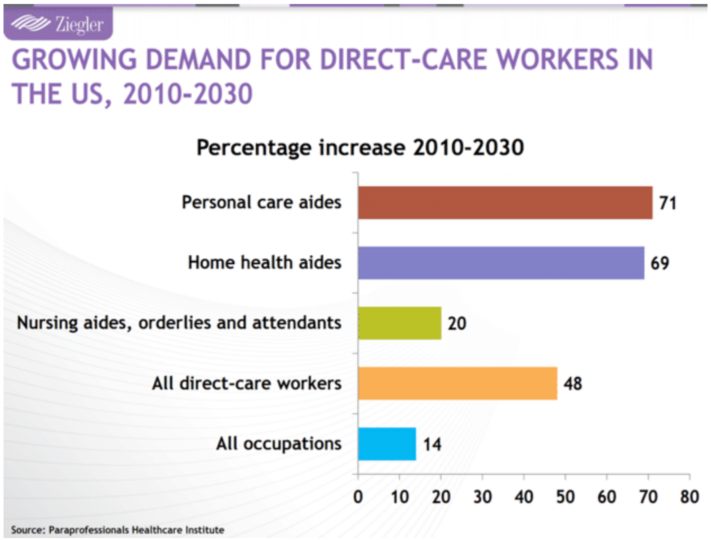


Figure 14: Senior living CEOs are concerned about employee retention. Credit: Ziegler CFO Hotline

A **McKnight's Senior Living** article captured numerous other recruitment efforts including those by two larger senior living organizations, Vi and Ecumen. Vi at Bentley Village opened its doors to gerontologic nursing students of Florida Gulf Coast University's nursing program. The students completed a clinical rotation at the nearby Vi community and gained important healthcare experience while also being exposed to working with residents.

Ecumen is also inviting students into its communities. Thanks to a $1.95 million grant from the Margaret A. Cargill Foundation, the organization has created the **Ecumen Scholars Program** that enables local nursing students to enjoy an internship while receiving a stipend. **Asbury offers nursing scholarships** at several of its communities in collaboration with the Asbury Foundation, recognizing that career development in this area of need is critical.



▲ *Figure 15: Demand for direct-care workers is surging. Credit: Ziegler*

Immigration and millennials: The next wave of care for the next wave of seniors

Historically, a large number of caregiver jobs has been filled by immigrants, skyrocketing from 520,000 in 2005 to approximately one million in 2015. One in four of the front-line staff in assisted living, nursing care and home care agencies is foreign-born, according to an analysis completed by RHI, a New York research firm.

All of this has raised serious recruitment concerns for healthcare organizations who are worried about how tightened entry into the United States will affect the availability of healthcare workers. Homeland Security is significantly reducing the number of immigrants granted Temporary Protected Status (TPS), which allows them to live and work legally in the United States. In addition to fewer immigrants entering the country, tens of thousands will also lose TPS in the coming years and face deportation.

"As an employer of choice, it's our job to convey the exciting opportunities that senior living provides. This is such an interesting time for aging services organizations," says Manny Ocasio, Executive Vice President of Human Resources at **Asbury Communities**, the nation's 15th largest system of not-for profit Life Plan Communities.

Manny continues, "The dynamics of the people we serve and the people who will serve them are very, very different. On the one hand, you have an older, primarily white resident being attended to by an ethnically diverse front-line employee, who is most likely a millennial. Millennials (those born between 1982 and 2003) will account for half the workforce by 2020 and 75% by 2030, so we need to know how to attract them.

"Fortunately, I believe that organizations like ours, who have a greater purpose with a higher calling, are particularly appealing to millennials. There is something spiritual about serving a human being who is right in front of you."

This sense of purpose among Asbury's associates was on full display in May 2018 as Asbury engaged – and celebrated – its associates through **Work Inspired**, a Facebook campaign where associates shared what inspires them, important life lessons they have gained and the special relationships they have formed on the job.

Recruit and retain with a culture of true listening and communication

Asbury believes that a key **to recruiting millennials** is to demonstrate a culture of true listening and communication. The new Associate App demonstrates Asbury's commitment to dialog. The smartphone app has dramatically increased the number of front-line staff members who now have an opportunity for two-way communication with their managers. Another tool that Asbury has developed and grown is its Leadership Development Institute.

> A key to **recruiting millennials** is to demonstrate a culture of true listening and **communication**.

This three-day training event is led by the Asbury Support & Collaboration Center in Frederick, Maryland, for system leaders including managers and up-and-coming associates. Training includes programs and activities where team members can develop their leadership skills with a focus on collaboration and listening. Many of these high-potential people are millennials. Manny sums it up, "We're looking to develop a diverse group of leaders who excel at collaboration... leaders who are able to demonstrate that they are listening."

Asbury's CEO Doug Leidig chimes in, "We're implementing some amazing, cutting-edge approaches to our healthcare efforts, all to improve the lives of those we serve and our staff... from implementing telehealth with **TripleCare** to launching our Associate App to improve communication with the front-line associates. Another example of striving to provide both our residents and staff with the best is the **Planetree®** person-centered training that every Asbury skilled-care employee undergoes. We know that not only does resident satisfaction go up with a fully implemented, person-centered approach, but so does staff morale. Our goal is to be the 'provider of choice' and we know we can't do that without also being the 'employer of choice.'"

Craft a culture benchmarked by the best

"Several business school studies have dispelled the nagging myth that companies that do well and have money to invest in good cultures have the best cultures. Rather, longitudinal research using Great Place to Work data has shown that it's good cultures that lead to companies doing well," notes Jacquelyn Kung, PhD, of **Activated Insights** whose firm partners with **Fortune Magazine's "Best Workplaces for Aging Services" list**. One key measurement for making the list is the Trust Index. Twenty years of research across industries have demonstrated several statistically significant benefits of scoring well on the **Trust Index™** employee engagement score including:

- Lower employee turnover
- Fewer workplace injuries
- Higher customer satisfaction
- Higher revenue growth
- Higher earnings before interest, tax, depreciation and amortization divided by revenue (EBITDA) margins

Jacquelyn continues, "As an industry, we have long said that employee engagement leads to happier residents which leads to better performance."

Progressively preparing for change

The most progressive organizations, such as **Asbury Communities** and **Westminster Communities of Florida**, have invested significant time and effort to better prepare for the future. Roger Stevens, CEO at Westminster, confirms, "Every two to three years, we update our five-year plan. The plan consists of two parts: Conditions Affecting Planning and, assuming those conditions, the Board Directives (the term we use to describe the heart of our strategic plan).

"As part of that process, we invite outside experts. This year we invited Rich Scanlon of Ziegler and Tom Mann of Love & Company to discuss conditions expected in our industry over the next several years. In preparation for this year's meeting, our board members read two books, ***Upside: Profiting from the Profound Demographic Shifts Ahead*** by Ken Gronbach and ***The Truth About Your Future: The Money Guide You Need Now, Later, and Much Later*** by Ric Edelman, along with other articles on the industry that I forward to them as time goes by. We live in a very exciting time when change happens so rapidly, many organizations get caught flat-footed. We strive to be proactive, rather than reactive."

"One of the lessons we have learned through experience is that in order to truly create success around new initiatives, you must create laser-focus on them and not just add it to someone's already full portfolio," says Asbury's President and CEO **Doug Leidig**. Doug continues, "And that certainly includes myself. In my opinion, too many CEOs personally bite off more than they can chew. To that end, I have hired and reassigned staff into a discrete growth team that has the primary responsibility to focus on growing the organization both through bricks and mortar in addition to exploring and adding new business lines and developing joint ventures/partnerships.

"We are going to be disruptors of senior living because we're focused on improving the lives of seniors. That requires taking advantage of new advances in technology and healthcare. It also requires paying attention to every operational detail!" In addition to managing eight of its own communities, Asbury is assisting other communities with their management through affiliation.

As an example of operational efficiency, in 2009 Asbury joined **Caring Communities**, a Reciprocal Risk Retention Group. Its members include 65 of the top 150 ranked CCRCs in the country. Caring Communities made a total capital contribution of $560,508 in 2009, and it began to receive dividends in accordance with its investment parameters in 2014. Over the past three years, as a result of its record and focus on risk and claims, Caring Communities has received dividends totaling $719,427.

But if you really want to see Doug excited, ask him about Asbury's integrated technology. "I view Asbury integrated technology as one of our biggest opportunities. Technology can improve the lives of the seniors we serve, as well as improve the services we provide. We recently created a phone-based app for our front-line staff. These are people who typically don't have access to computers at work, which makes communication difficult. This new app makes exchanges between our associates and management much, much easier . . . which ultimately means a happier, more informed, more effective employee."

How much has this app helped communication? Nearly 1,200 associates have downloaded the app, of which about 40% are associates who don't have email. That means Asbury is now reaching an additional 450 associates. When you look at the total number of associates now connected via email (1,250) and app-only/non-email (450), Asbury is now directly connected with about 1,700 associates electronically, which is an amazing 26% bump in connection! Users of the app read and are engaged at levels much higher than Asbury has ever experienced. For example, read rates in the app are nearly double what Asbury has seen in email communications (75% read rate in the app vs. 39% on email)!

Capitalizing on the power of place

When Steve Jobs was designing the headquarters for Pixar, he obsessed over every detail, including where the bathrooms would be placed. In his book, *The Innovators: How A Group of Hackers, Geniuses, and Geeks Created the Digital Revolution*, Walter Isaacson writes: "Jobs was very particular about where the bathrooms were placed in Pixar's office because he wanted 'serendipitous personal encounters' to occur."

Jobs' desire to have people from a wide variety of disciplines intermingling was legendary. He believed that this disparate exchange of people and thoughts would lead to greater creativity and teamwork.

Leidig understands this obsession. "Granted, we're not Apple, but we understood that we needed to do something dramatically different to break out of the industry's comfort zone. We were thrilled to confirm our long-held suspicions that we were going to lower our corporate office rent by heading just a few miles north, but still in the desirable Washington, D.C. metro area. The lease came with a significant build-out credit and this, coupled with the sizable savings in rent, meant Asbury Communities could dedicate more dollars to our mission of doing all the good we can for those we serve while creating a state-of-the-art work environment.

"The space was a complete shell, so with the help of Eric Krull of **THW**, we were able to design it to fit our specific vision. Gone are the offices and cubicles that subtly underpinned hierarchies, created silos and reinforced a culture of email over face-to-face interactions. In their place is a new energy and a new approach to solving the challenges we face as a provider of services for older adults. For us, this was really about culture change."

▲ *Figure 16: Asbury Communities understands the "power of place" when it comes to creating an effective workplace.*

No one in the Asbury Support & Collaboration Center has an office, including CEO Doug Leidig (pictured above). Instead, the office is blessed with an abundance of open areas and collaboration spaces.

Touring Asbury's space, you can't help but get excited. Rooms traditionally set aside for 'status' offices are now community spaces serving as idea laboratories. Open to associates from all Asbury entities, idea labs are a place where everyone can envision the future. (See **Doug Leidig's blog** on adjusting a culture to an open workspace.)

Each of these gathering spaces has state-of-the-art technology to enable seamless communication with Asbury's off-site colleagues and partners (while also showcasing what The Asbury Group Integrated Technologies can do for its clients). Simply put, the space is beautiful. Even more important, you can physically sense the energy. Walk through the open design and you'll feel the buzz that comes from people working together on changing how America ages. But something is beyond the high ceilings, high tech and beautiful design. Asbury has restructured its organization to successfully grow by going outside of senior living for talent to build a new vision of what aging should be.

Leveraging strategic partnerships inside and outside senior living

"[Partnerships provide] a **unique opportunity** for incremental growth, increased profitability and the opportunity for us to serve, connect with and become part of the daily ritual of an **even larger base of consumers**."
– Howard Schultz, CEO, Starbucks

Wall Street has long known the power of strategic alliances. However, the not-for-profit DNA of senior living has often resulted in a hesitancy toward partnerships outside of the industry's core services. An article by Geoff Baum in an issue of Forbes ASAP lauds the value of alliances: "Our statistical analysis shows that companies with more joint ventures, marketing and manufacturing alliances, and other forms of partnerships have substantially higher market values [than companies that do not form such partnerships]." The key takeaway of the article is that, "In the connected economy, connections matter. Alliances are incredibly, even decisively, important."

Asbury has taken this advice to heart. Strategic business partners allow the organization to rapidly expand the organization's expertise without significant capital expenditures. These partners primarily cover ancillary areas that have a direct and important impact on the customer value proposition, including dining, building services, fleet and energy management, rehabilitation services, workplace safety, interior design and architecture, technology, and marketing and branding. Each business partner is an industry leader in his or her respective area with a great depth of expertise and resources specific to the senior living industry.

Mike Hollen, President of The Asbury Group, notes, "Just within the last year, partnerships with **Sodexo**, **TripleCare** and K4Connect have helped us bring significant innovations to the market that we couldn't have accomplished on our own. The knowledge and expertise that our group brings to the table when combined with the talents of our strategic partners typically adds an exponential benefit to the service or product. Not only are we expanding Asbury's business lines, but also we're improving the lives of seniors every day!"

Another organization that understands the value of growth through partnerships is United Methodist Retirement Communities, Inc. (UMRC). Despite serving older adults for more than 110 years, very few senior living organizations have the entrepreneurial spirit that UMRC continues to display. UMRC now offers Michigan's most diverse housing options and services to seniors of all income levels with a total of eight campuses in 12 counties, and it serves more than 2,600 older adults in Michigan. "We have to be creative," says John Thorhauer, UMRC's President and CEO. "The time to prepare for significant growth is now. Today's seniors want quality, active lifestyles and choices and UMRC is dedicated to providing this lifestyle through a diverse array of options available to older adults at different income levels." John continues, "Not everyone will want or can afford the full- service retirement community setting." UMRC's multiple partnerships in Programs for All-Inclusive Care for the Elderly (PACE) and affordable housing have successfully leveraged the experience of six other senior living housing and service agencies.

John adds, "As Michigan's senior population continues to rapidly expand, nonprofit organizations committed to a mission of senior care must seek to meet an increased demand for services through growth and partnerships. Organizations like us need to leverage our existing strength to attract philanthropy and new capital to even attempt to keep up with demand."

While Asbury might not be alone in understanding the value of strategic partnerships, it might be one of the most aggressive in pursuing these opportunities. Unlike many other senior living organizations, Asbury had the wisdom to craft a unique team to focus on creating strategic partnerships (rather than throwing this responsibility on top of the executive team's existing responsibilities).

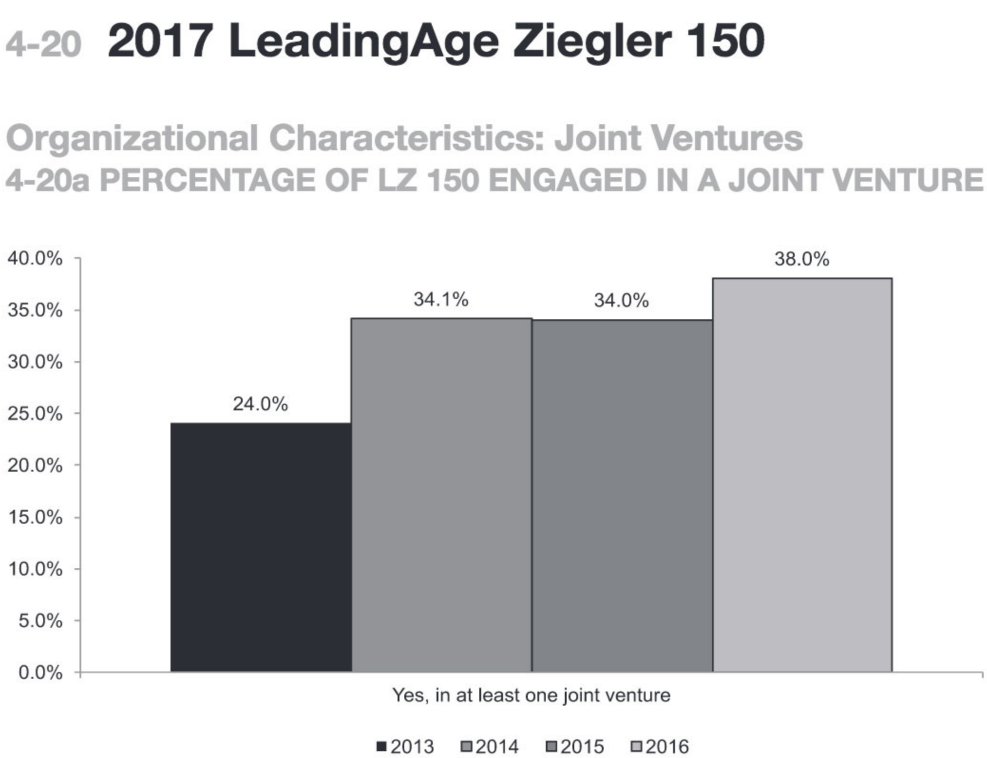


Figure 17: Data support the benefit of strategic partnerships, even those outside your main industry. Credit: Ziegler

Strategic partnerships enable new service lines

The ability to seek and create new partnerships also gives Asbury the ability to quickly add new service lines. Currently, Asbury's core competencies include:

- Executive/Senior Leadership
- Information Technology
- Clinical & Quality Systems
- Accounting & Finance
- Budgeting
- Financial Projections
- Development (Fundraising)
- Master Campus Planning
- Legal Services
- Risk Management & Compliance
- Sales & Marketing
- Communications
- Training & Education

Some of these core competencies are accomplished with the assistance of trusted partners that Asbury has vetted (full disclosure: **Love & Company** is one of those partners), while many are handled entirely in-house. All are managed with Asbury's skilled and experienced oversight. But it's the new service lines that excite me.

Some of the major initiatives Asbury is studying right now include **telehealth**, **home care**, robotics, smart home technology and a group purchasing organization. Interestingly, all of these initiatives could have a key strategic role in supporting another initiative Asbury is considering: **CCRCs without walls** (also known as Continuing Care At Home or CCaH).

Proactively pursuing affiliations

In a thoughtful **LeadingAge Magazine article**, David Smeltzer had some advice for providers contemplating a new partnership through a merger or affiliation. "A merger can either happen in your control or out of your control. Don't wait until things get bad to try to find a partner who shares your values," cautions Smeltzer, President and CEO of **Heritage Ministries** in Gerry, NY.

"I encourage any retirement community with less than $15 million in operating revenue a year to start seeking out potential merger or affiliation partners," he adds. "**It takes insight and courage for a board to act proactively**."

Asbury's CEO Doug Leidig agrees. "Across the country, we see lots of great standalone communities that are simply too small and undercapitalized to be able to modernize. Being able to modernize is particularly important when it comes to their IT systems because these systems provide efficiencies that are vital in today's competitive environment. Insightful, standalone community CEOs and boards are beginning to understand that affiliations provide the managerial support that benefit larger multisite organizations. It's our job to reward the CEO for his or her foresight and make him or her look good."

Asbury recognizes that most nonprofit Life Plan Communities have highly valued cultures and brand identities in their markets. Therefore, it is Asbury's philosophy to maintain and build upon the brand identity of each community and, more importantly, the local culture that current and future residents expect.

Sandra Hegelein Lawson, Asbury's Chief Strategic Alliances and Growth Officer, points out, "Asbury believes that everything we do should support the residents and the associates of the communities we work with. Our mission is deeply rooted in John Wesley's credo to: 'Do all the good you can, by all the means you can, in all the ways you can, in all the places you can, at all the times you can, to all the people you can, as long as ever you can.' We aim to assist the CEO however he or she would like.

"Our core strengths are the 'back of the house' business systems such as strategic planning, operations, information technology, marketing and financial management that leverage the expertise of our team and our business partners to the degree desired by

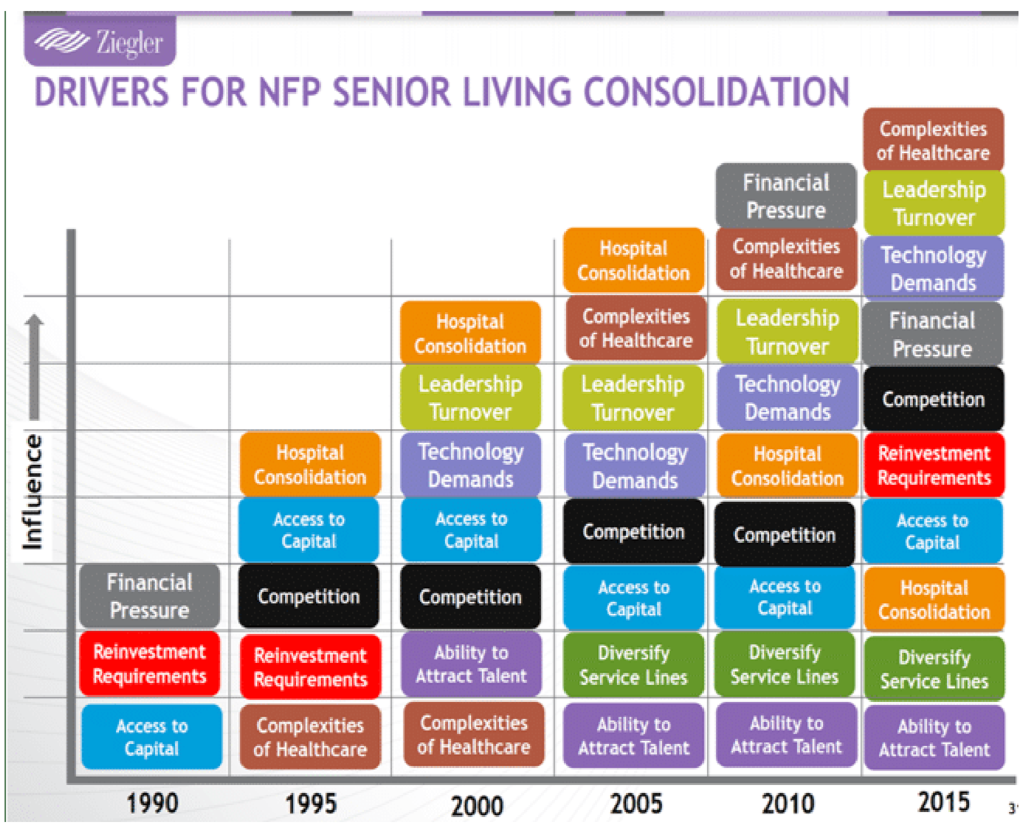


Figure 18: Why senior living organizations consolidate . . . the list keeps growing. Credit: Ziegler

the CEO and their team." Sandra continues, "What's so rewarding is that we often learn as much from our partners as they learn from us. This synergistic relationship provides efficiencies and access to expertise that neither organization would have access to . . . all while maintaining individual identity and culture."

Lead your organization into the future using LEAD

Thanks to the advances in technology and healthcare outlined in this series, I believe that senior living has arrived at a pivotal moment. Great leaders recognize the moment that change is needed—and grab the opportunity. Part of how they recognize the moment is by **asking themselves and others the right questions**. During my research for this blog series, I witnessed the executive team of **Asbury Communities** in action. The team members worked hard to identify gaps in systems, culture and processes that can become barriers to becoming a nimbler company by utilizing the principles of L.E.A.D.:

- L – Listen to those closest to the process
- E – Engage and empower in a fun, non-anxious way
- A – Ask "Why? "Why not?" and "What if?"
- D – Drive to become a data-driven organization to provide more tools for smart decision-making

Leidig has become the team's biggest cheerleader. "In order to illustrate the expectations I have of those who serve closest to me, I often quote Horst Schulze, former CEO of Ritz Carlton, 'Come to work every day with a healthy dose of discontent and go home every evening reflecting on what was improved.' I believe with all my heart that at the core of changing senior living for the better are the questions 'Why?' 'Why not?' and 'What if?'"

Conclusion

As technology and resources evolve, the people we're targeting are also changing. We must keep these industry trends in mind so that we can not only experience organizational success, but also successfully serve seniors.

For more information on senior housing trends and how Love & Company can help your retirement community with master planning, expansions or renovations, contact **Tim Bracken** at **301-663-1239**.

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