



LEADINGAGE WISCONSIN: SPRING CONFERENCE & ANNUAL BUSINESS MEETING

IMPROVING OCCUPANCY: ENTRANCE FEE VS. RENTAL CONTRACT OPTIONS

PRESENTED BY:

ROMY MCCARTHY

Director

Ziegler Senior Living

414 978 6555

rmccarthy@ziegler.com

CORY RUTLEDGE

Partner

CliftonLarsonAllen

612 376 4500

cory.rutledge@cliftonlarsonallen.com

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9:45 - 11:00AM

OBJECTIVES

- Compare and contrast available contract options for senior living communities
- Discuss how discounts and other sales incentives impact the financial stability of senior housing organizations
- Learn how organizations balance the various contract types while maintaining financial performance through case study examples

PRESENTATION OUTLINE

- Section 1 - Contract Types Overview
 - Section 2 - Ziegler CFO Hotline: Contract Types
 - Section 3 - CCRC Entrance Fee Contracts: Financial Implications
 - Section 4 - Case Study: Adding a Rental Option
 - Section 5 - Case Study: Conversion from Entrance Fee to Rental
- Questions & Answers

SECTION 1:

CONTRACT TYPES OVERVIEW

CONTRACT TYPES OVERVIEW

- Upfront entrance fee/on-going monthly fee, contract types include:
 - Type A - “Extensive”
 - Type B - “Modified”
 - Type C - “Fee-For-Service”
- Lifetime right of occupancy
- Access to all services/amenities
- Long-term nursing care

CONTRACT TYPES OVERVIEW

Extensive (“Type A”) Contracts: Contract between a CCRC and a resident of the CCRC that has an entrance fee and includes housing, residential services amenities and unlimited, specific health-related services with little or no substantial increase in monthly charges, except for normal operating costs and inflation adjustments.

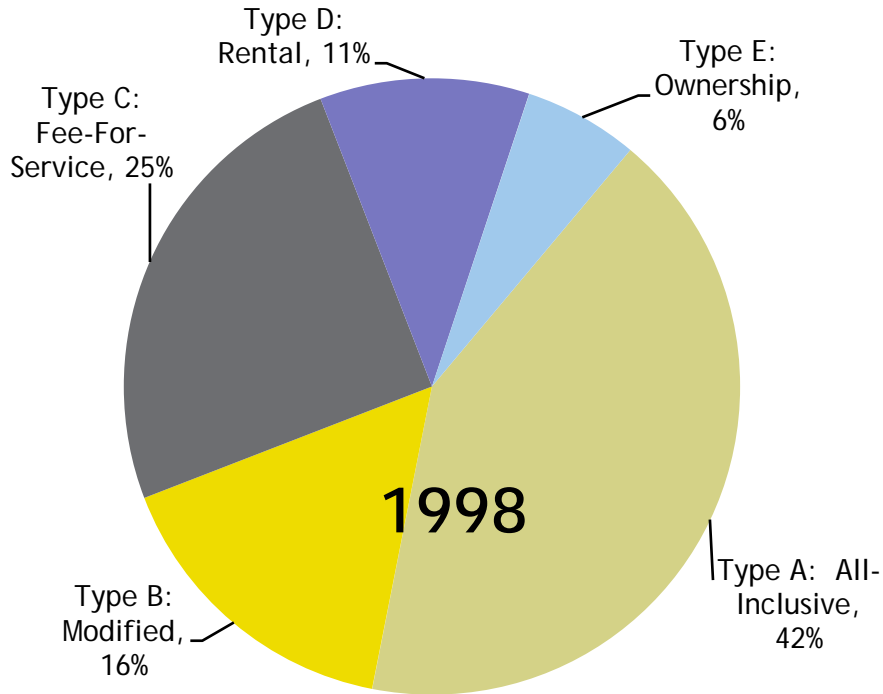
Modified (“Type B”) Contracts: contract between an entrance fee CCRC and a resident which specifies benefits received by the resident in return for a monthly fee. Modified contracts typically include housing, residential services amenities and a specific amount of long-term nursing care, with no substantial increase in monthly fees (reductions in fees may occur for a specified period of time [e.g., 30 days per year] or the resident’s monthly charges may increase as the level of care increases but at a discount from the posted fees for the services).

Fee-For-Service (“Type C”) Contracts: an entrance fee contract that includes housing, residential services, and amenities for the fees stated in the resident agreement. Access to healthcare services is guaranteed, but it may be required at full fee-for-service rates.

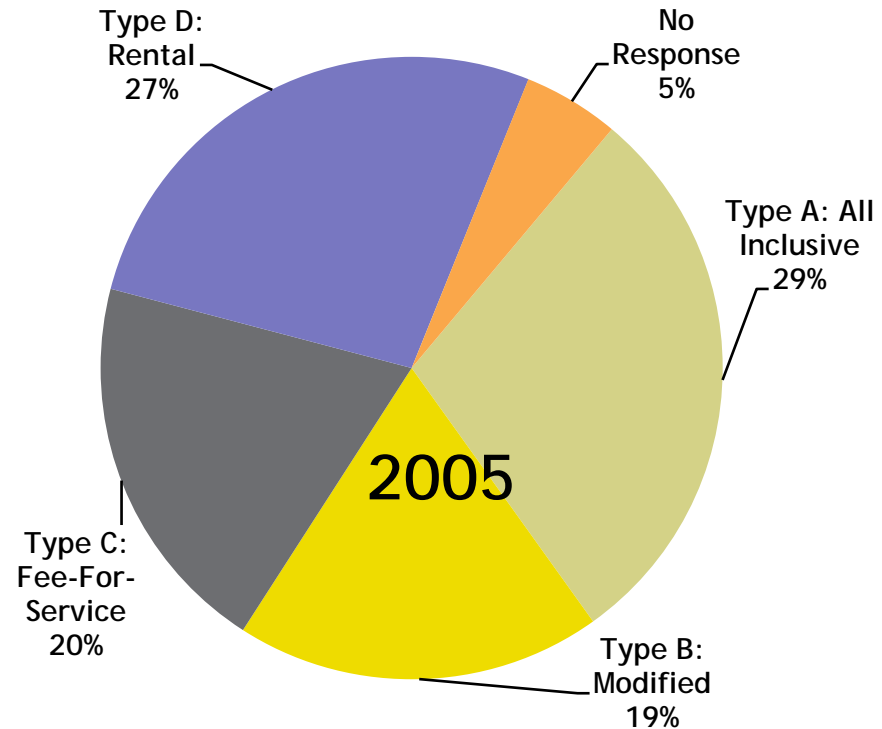
Rental (“Type D”) Contracts: contract between a senior living provider and a resident that does not require an entrance fee. Resident monthly fees increase directly with the level of care provided; also called Type D Contracts. Typically, residents are guaranteed preferential access to health care services.

Equity (“Type E”) Contracts: The independent living unit is purchased, commonly on a fee simple basis, by the resident at occupancy. A modest package of services (generally housing related only) are provided for a comparatively low monthly fee.

CONTRACT TYPES OVERVIEW



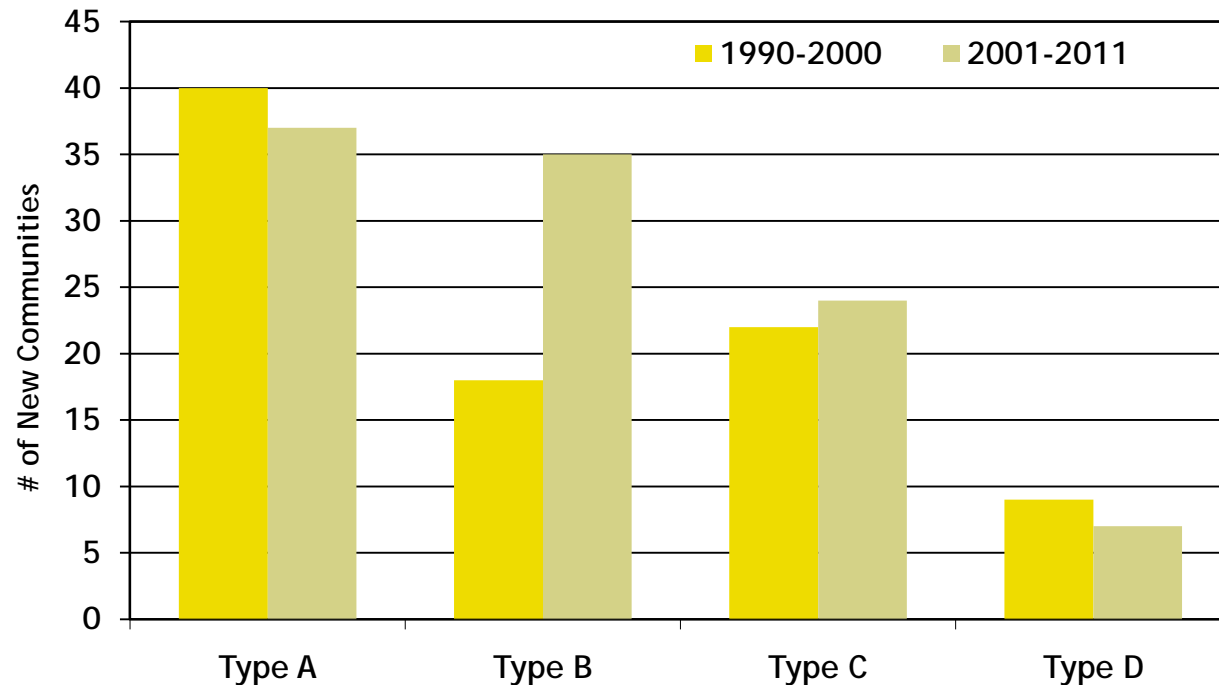
- Type A: All-Inclusive
- Type B: Modified
- Type C: Fee-For-Service
- Type D: Rental
- Type E: Ownership



- Type A: All Inclusive
- Type B: Modified
- Type C: Fee-For-Service
- Type D: Rental
- No Response

CONTRACT TYPES NEW COMMUNITIES

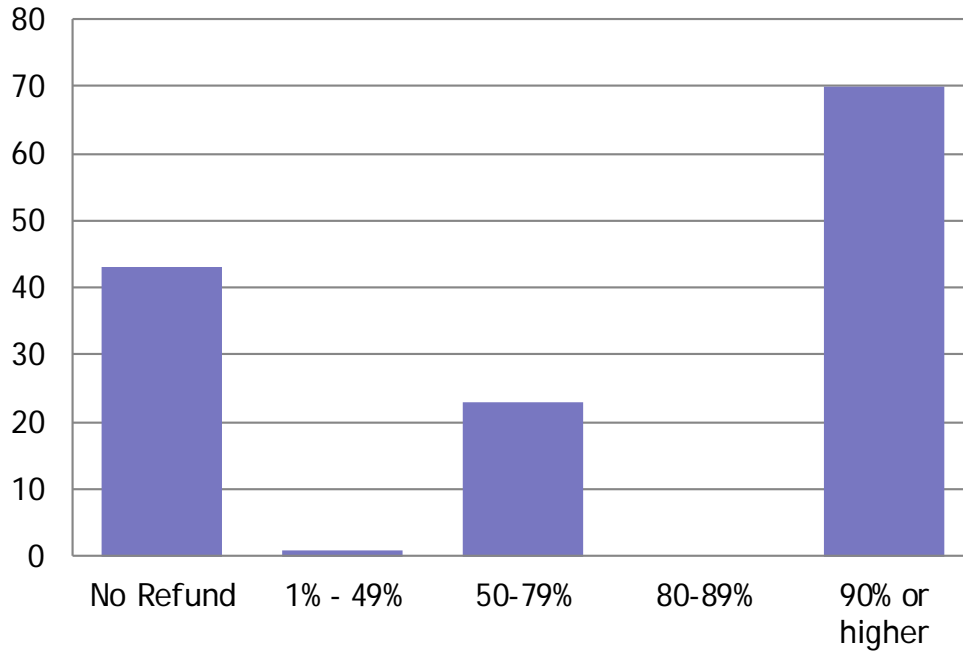
- Dispels rumors of the “death of Type A”
- Most significant change in the growth of Type B



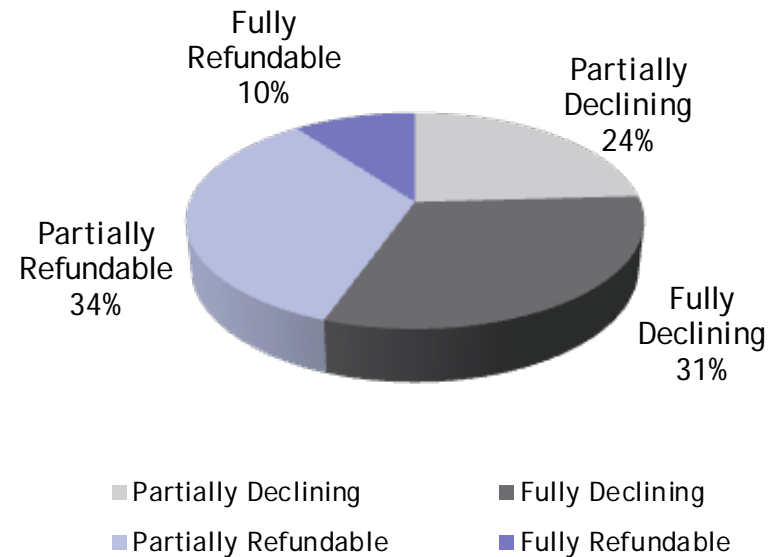
CONTRACT TYPES

NEW COMMUNITIES: EF REFUND OPTIONS

Type of Refunds Offered
2000-2011



Summary of All Refund Options Offered
2000-2011

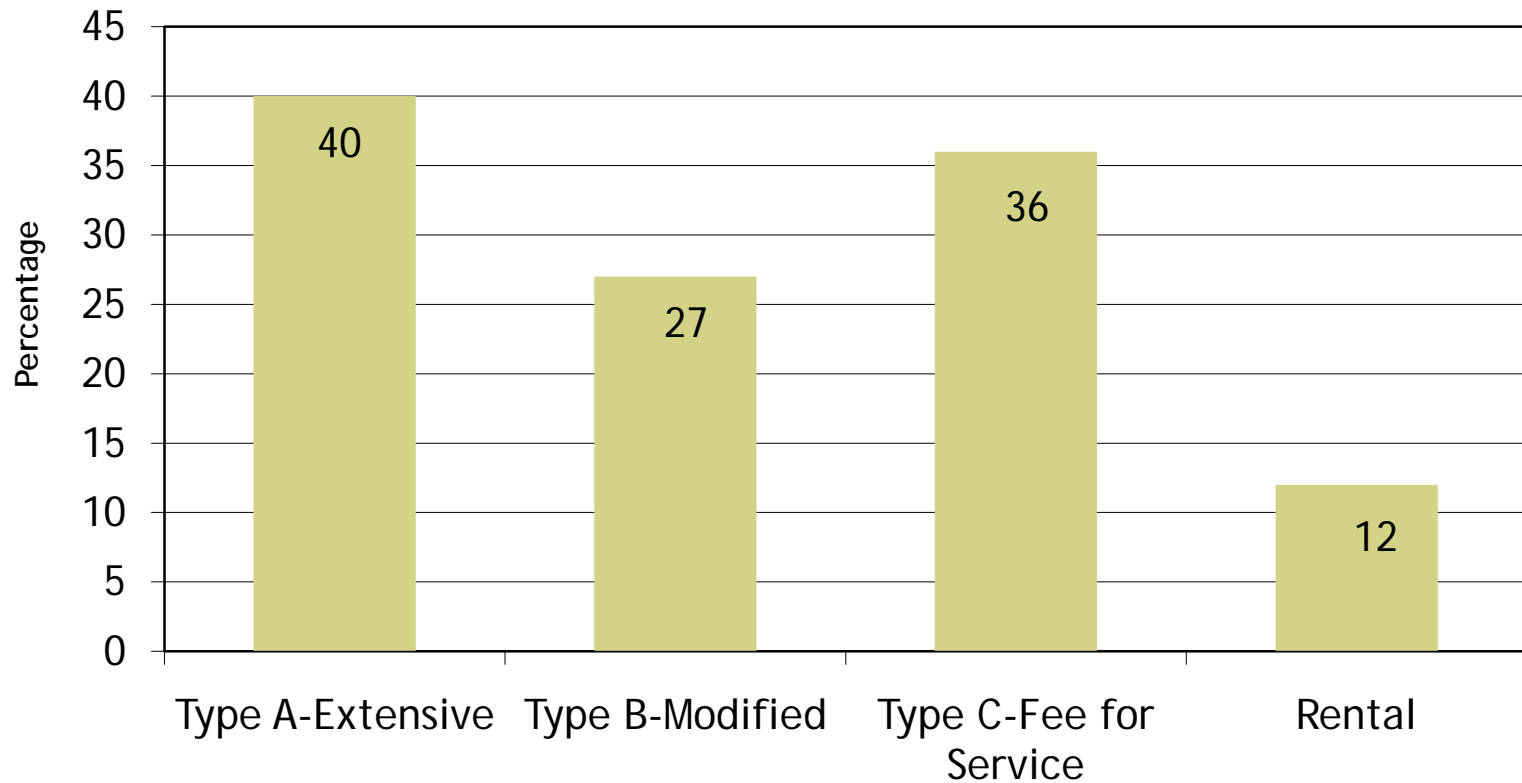


SECTION 2:

ZIEGLER CFO HOTLINE CONTRACT TYPES

CCRC ENTRANCE FEE CONTRACTS CONTRACT TYPES

Which type of CCRC contract does your community primarily see?

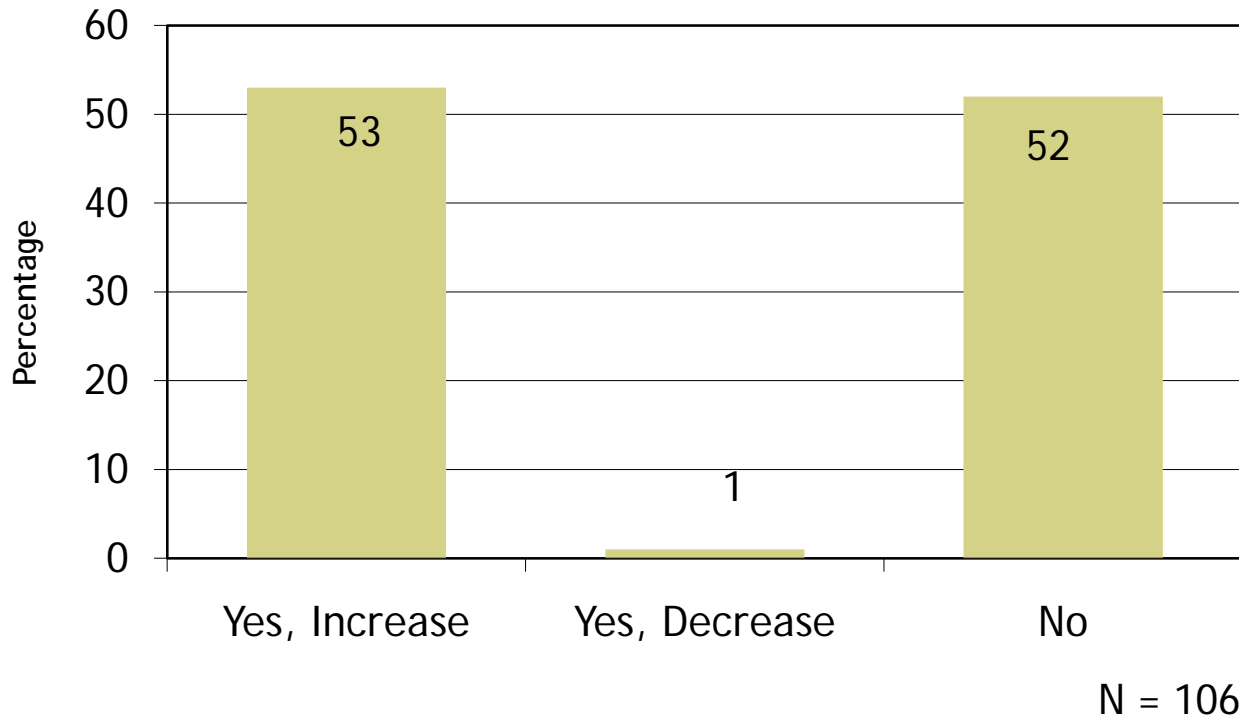


N = 110

CCRC ENTRANCE FEE CONTRACTS

ENTRANCE FEES

Did your organization increase or decrease Entrance Fees between 2009 and 2010?

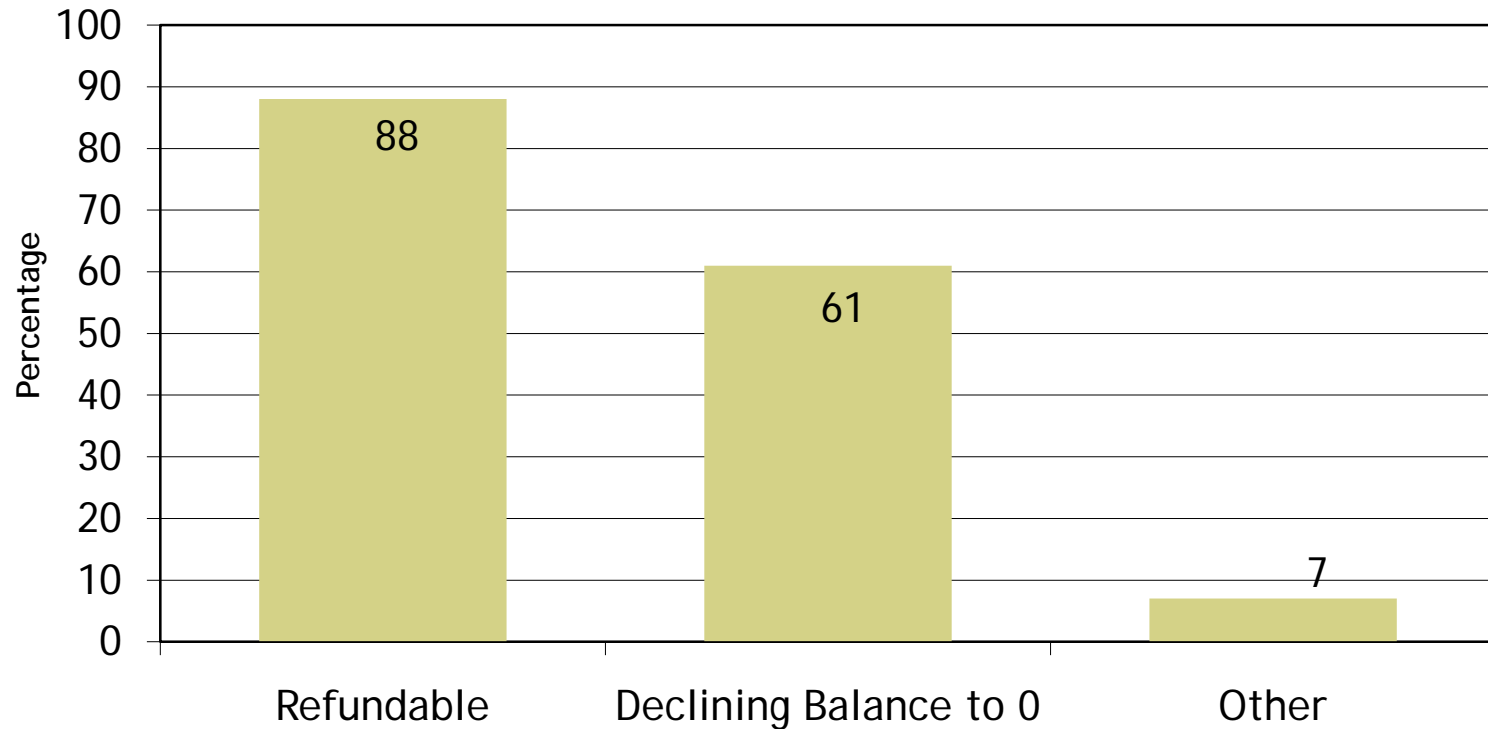


Statistic	% Change
Minimum	-15.0
1 st Quartile	2.0
Median	3.0
3 rd Quartile	3.5
Maximum	10.0

CCRC ENTRANCE FEE CONTRACTS

ENTRANCE FEE OPTION

If your organization offers an Entrance Fee plan, which of the following options are Available to residents?

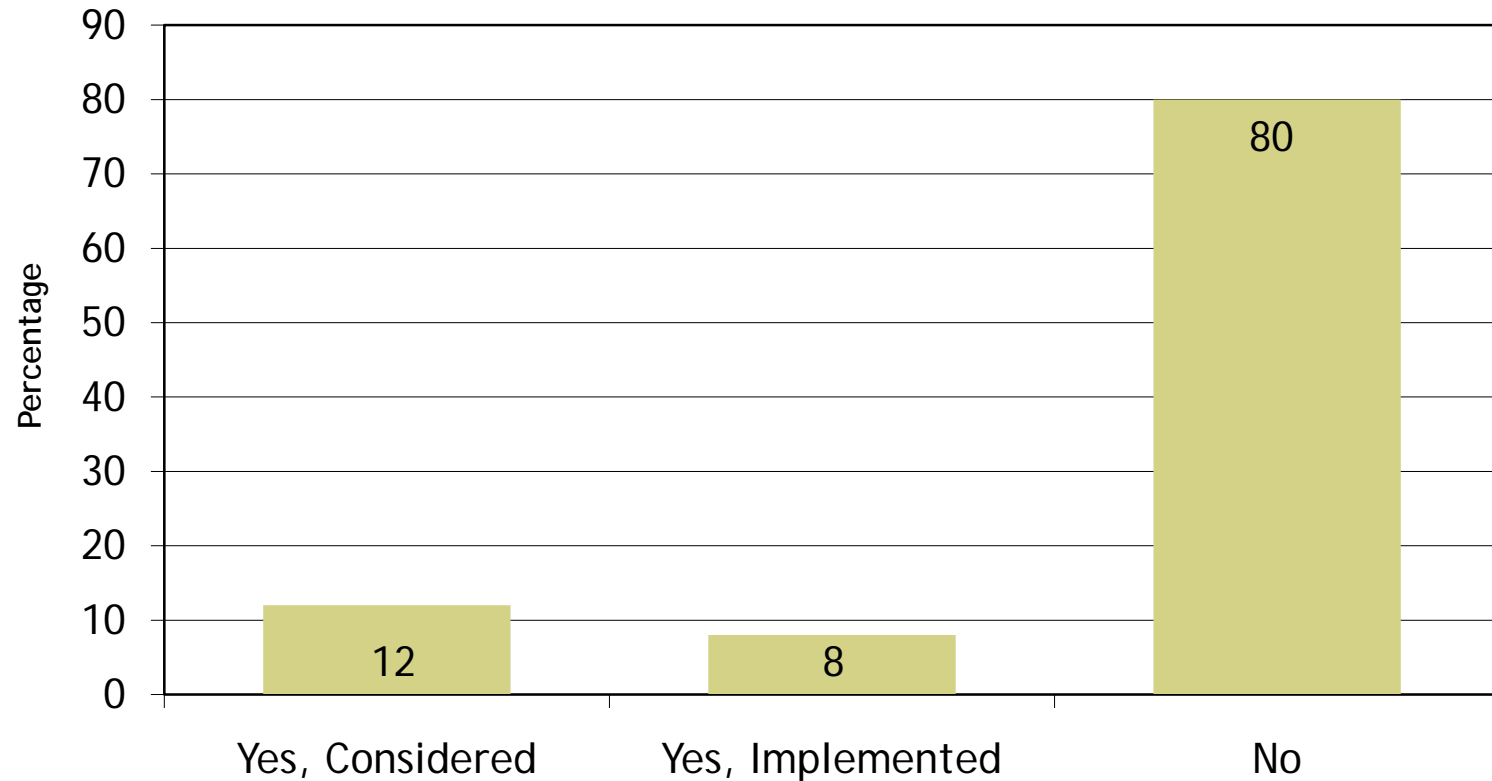


N = 105

CCRC ENTRANCE FEE CONTRACTS

ENTRANCE FEE REDUCTION

If your organization offers a Refundable Entrance Fee option, in the past year have you considered or implemented a reduction in the amount that is refundable?

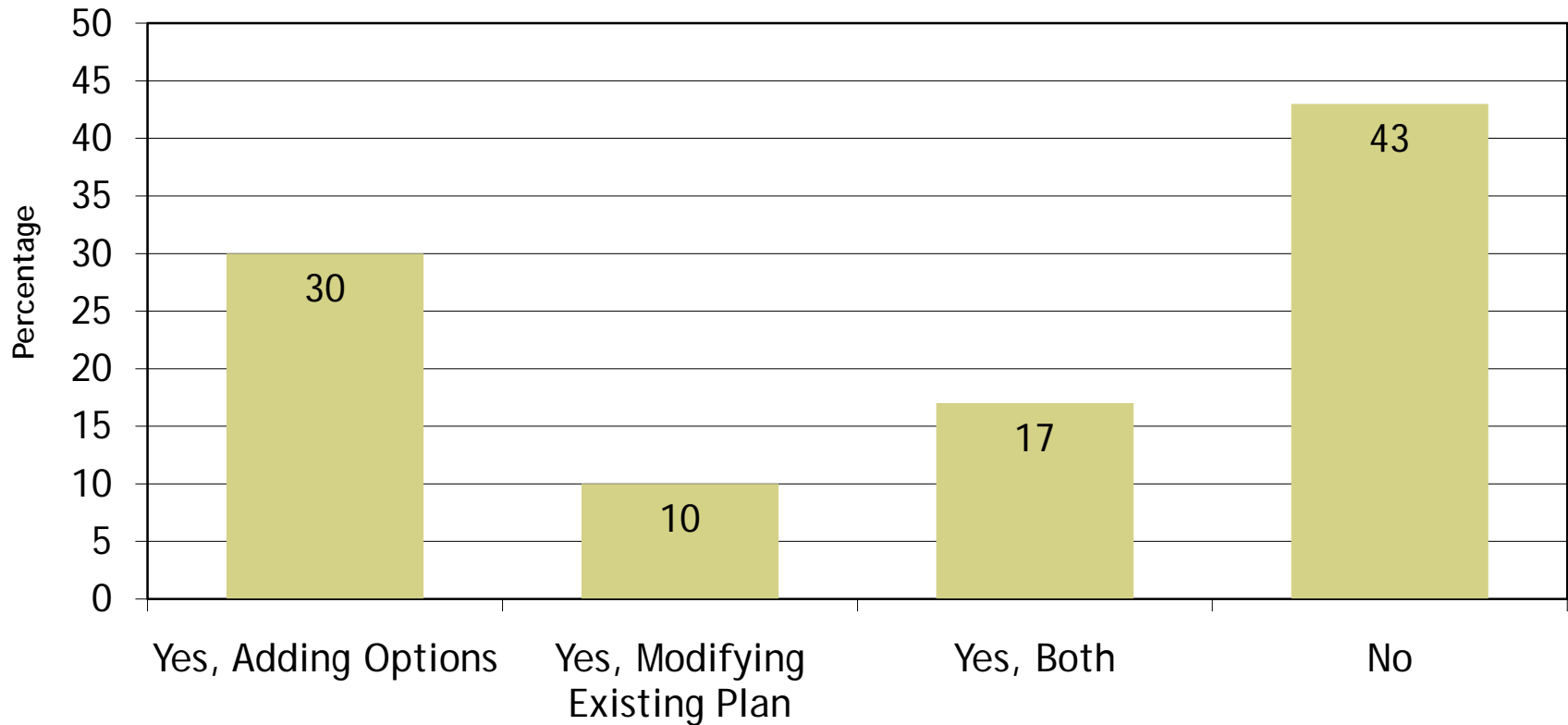


N = 98

CCRC ENTRANCE FEE CONTRACTS

ENTRANCE FEE CHANGES

In the past year, has your organization considered adding alternative Entrance Fee options or modifying your existing plan(s)?



N = 105

CCRC ENTRANCE FEE CONTRACTS

ENTRANCE FEES

In the past year, has your organization offered concessions, discounts, or waivers
In either Entrance Fees or Monthly Service Fees to encourage move-ins?

Entrance Fees	#	Monthly Service Fees	#	Move-in Encouragement	#
Concessions	18	Concessions	17	Other	25
Discounts	50	Discounts	28	None	21
Waivers	5	Waivers	21		

SECTION 3:

CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

REVIEW MARKET BEFORE PRICING

FUNDAMENTAL QUESTIONS TO ASK YOURSELF:

- Is our community what the consumer wants?
 - Rental approach is typically explored early if occupancy is challenged
- Is pricing really the issue?
 - Ask unsecured prospects, and then ask them again (and again)
- Why do we think that a new pricing strategy will improve occupancy?


Engage your board, and possibly outside help in addressing these questions

There are **significant** consequences if you answer these questions incorrectly...

CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

A tale of two plans: Amplifying the difference

	Rental Community	Entrance Fee Community
Income Statement		
Apartment Revenue	Yes	Yes
Health Center Revenue	Yes	Yes
Lifecare Discount	No	Yes
Amortization Income	No	Yes
Investment Income	Yes	Yes
Contributions	Yes	Yes
Operating Expenses	Yes	Yes
Depreciation	Yes	Yes
Interest Expense	Yes	Yes
Statement of Cash Flows		
Entrance Fee (EF) Receipts	No	Yes
EF Refunds	No	Yes
Balance Sheet		
Investments (EF-related)	No	Yes
Deferred Revenue	No	Yes
Refundable EFs	No	Yes



CCRC ENTRANCE FEE CONTRACTS

FINANCIAL IMPLICATIONS

	Entrance Fee A	Entrance Fee B	Rental
Monthly Rental Fees	\$ 2,600	\$ 2,600	\$ 3,540
Present Value of Rental Fees	\$ 276,533	\$ 276,533	\$ 376,534
Amount of Entrance Fee	\$ 100,000	\$ 138,585	\$ -
Refund Percentage	0%	50%	N/A
Life Expectancy	12	12	12
Interest Rate	5%	5%	5%
Cash Items:			
Entrance Fee Received	\$ 100,000	\$ 138,585	
Present Value of Refund	\$ -	(38,585)	
Total	\$ 100,000	\$ 100,000	\$ -
Total Inflows	\$ 376,533	\$ 376,534	\$ 376,534

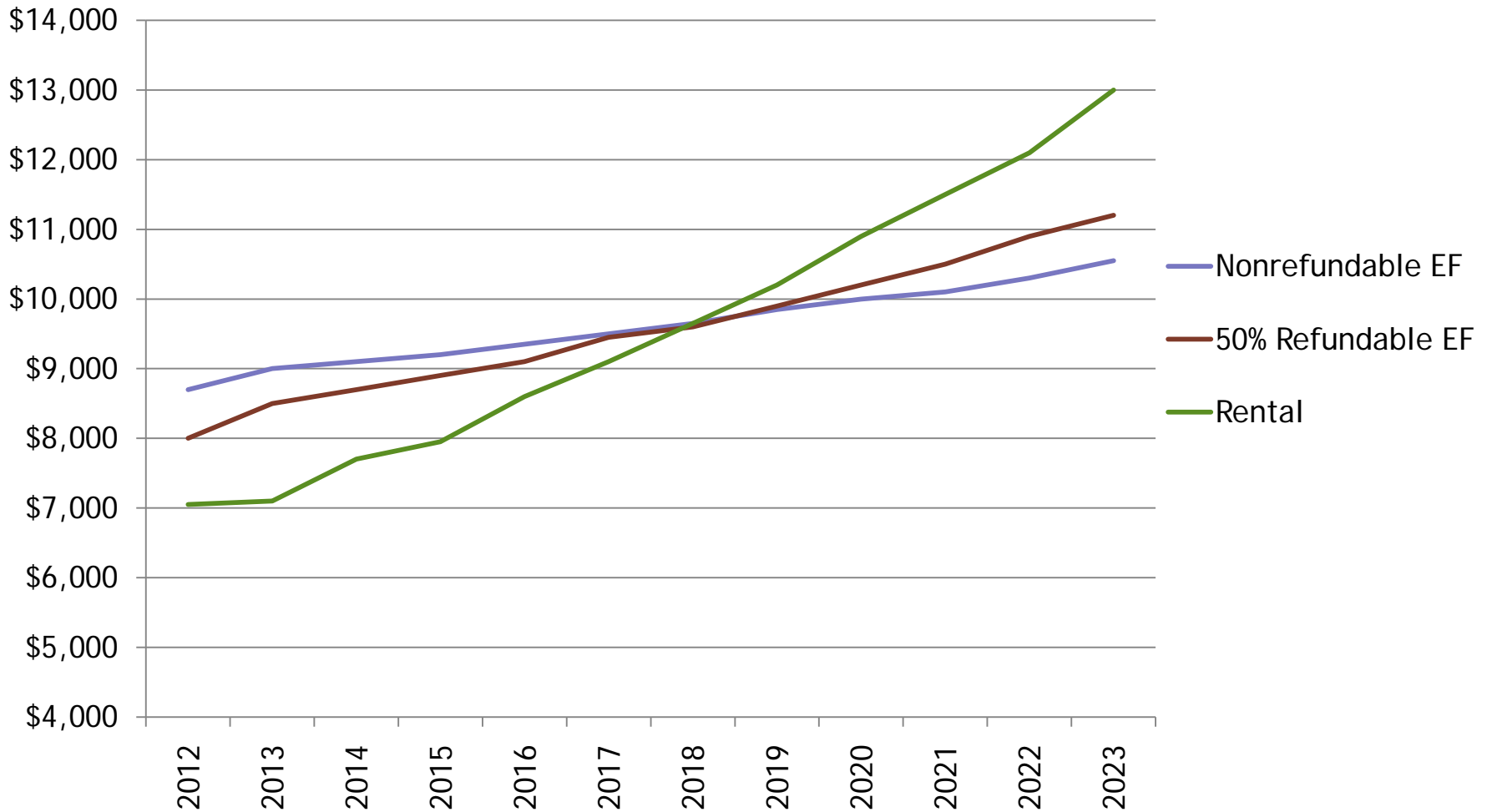
CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

SCENARIO KEY ASSUMPTIONS

- Building: \$60,000
- Debt: \$60,000
- Rate: 7%
- Debt Service (annual) \$4,835
- Depreciation (annual) \$1,500
- Operating expenses (annual) \$30,000

CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

Net Income

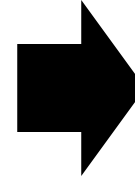


CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

Which Balance Sheet is Better?

Rental Balance Sheets

	2012	2013	2014	2020	2021	2022	2023
Assets							
Cash and Investments	\$ 8,030	\$ 16,079	\$ 24,530	\$ 84,890	\$ 96,782	\$ 109,268	\$ 122,379
Building	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Accumulated Depreciation	1,500	3,000	4,500	13,500	15,000	16,500	18,000
Net Building	58,500	57,000	55,500	46,500	45,000	43,500	42,000
Total Assets	\$ 66,530	\$ 73,079	\$ 80,030	\$ 131,390	\$ 141,782	\$ 152,768	\$ 164,379
Liabilities and Net Assets							
Debt	\$ 59,365	\$ 58,685	\$ 57,958	\$ 52,392	\$ 51,224	\$ 49,975	\$ 48,638
Deferred Revenue	-	-	-	-	-	-	-
Refundable Entrance Fees	-	-	-	-	-	-	-
Net Assets	7,165	14,394	22,072	78,998	90,558	102,793	115,741
Total Liabilities and Net Assets	\$ 66,530	\$ 73,079	\$ 80,030	\$ 131,390	\$ 141,782	\$ 152,768	\$ 164,379

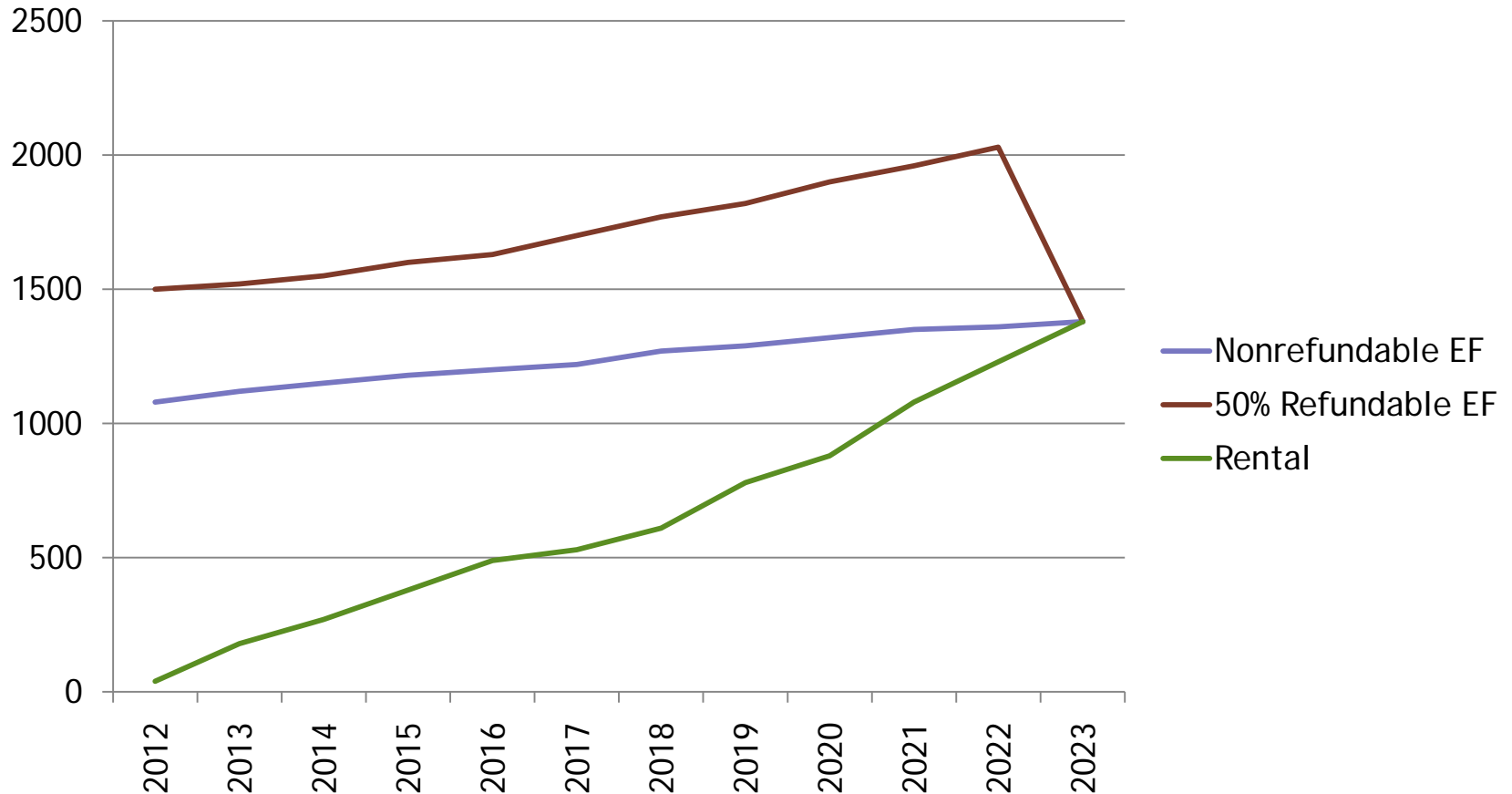


50% Plan Balance Sheets

	2012	2013	2014	2020	2021	2022	2023
Assets							
Cash and Investments	\$ 141,697	\$ 145,147	\$ 148,769	\$ 174,638	\$ 179,735	\$ 185,087	\$ 121,413
Building	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Accumulated Depreciation	1,500	3,000	4,500	13,500	15,000	16,500	18,000
Net Building	58,500	57,000	55,500	46,500	45,000	43,500	42,000
Total Assets	\$ 200,197	\$ 202,147	\$ 204,269	\$ 221,138	\$ 224,735	\$ 228,587	\$ 163,413
Liabilities and Net Assets							
Debt	\$ 59,365	\$ 58,685	\$ 57,958	\$ 52,392	\$ 51,224	\$ 49,975	\$ 48,638
Deferred Revenue	63,518	57,744	51,969	17,323	11,549	5,774	-
Refundable Entrance Fees	69,292	69,292	69,292	69,292	69,292	69,292	-
Net Assets	8,022	16,426	25,050	82,131	92,670	103,546	114,775
Total Liabilities and Net Assets	\$ 200,197	\$ 202,147	\$ 204,269	\$ 221,138	\$ 224,735	\$ 228,587	\$ 163,413

CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

Days Cash on Hand



CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

Same Set of Facts, Different Scenario

Entrance

Fee A

Entrance

Fee B

Rental

**WHAT HAPPENS IF HALF OF THE
ENTRANCE FEE RESIDENTS ARE
REPLACED WITH RENTAL RESIDENTS?**

Cash Items:

Entrance Fee Received	\$ 100,000	\$ 138,585	
Present Value of Refund	\$ -	(38,585)	
Total	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ -</u>
Total Inflows	\$ 376,533	\$ 376,534	\$ 376,534

CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

SCENARIO KEY ASSUMPTIONS

- 120 units of 50% refundable entrance fees
- 10% of EF residents leave annually and are replaced by rentals
- \$30,000/unit of operating expenses (annual)
- 3 months between rental move-in and EF move-out
- Replacement of capital at a 5% annual rate

IS THERE ENOUGH CASH TO “BRIDGE THE GAP”?

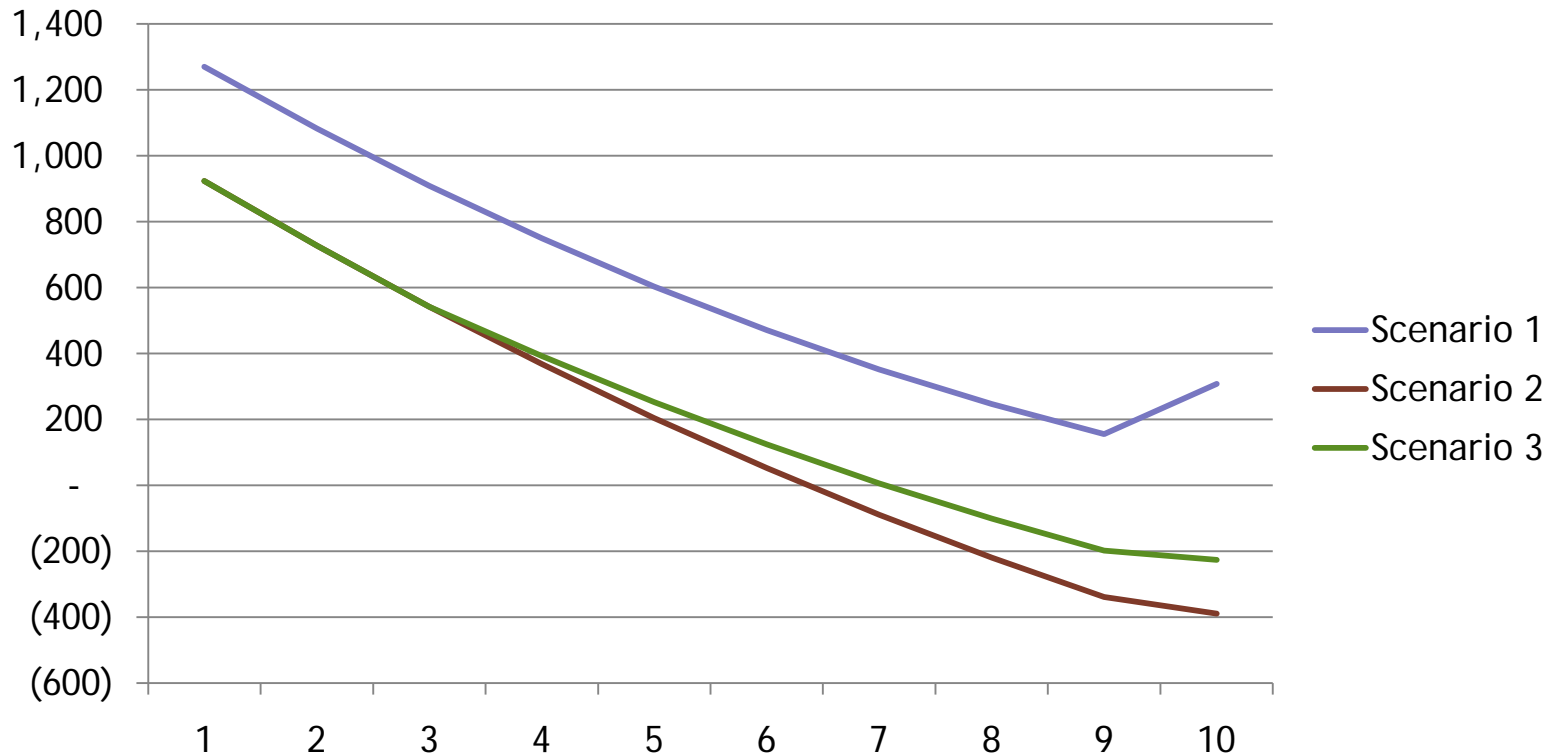
CCRC ENTRANCE FEE CONTRACTS FINANCIAL IMPLICATIONS

Days Cash on Hand - 3 Scenarios

Scenario 1: 100% Occupancy throughout 10 year period

Scenario 2: 80% Occupancy throughout 10 year period

Scenario 3: 80% Occup. years 1-3, 90% Occup. years 4-10



SECTION 4:

CASE STUDY: ADDING A RENTAL OPTION

CASE STUDY

PRICING THE RENTAL OPTION

- Single-Site CCRC
 - 125 Independent Living Units
 - 29 Assisted Living Units
 - 122 Skilled Nursing Beds

- 2011 Contract Types (2 Bedroom, 2 Bath)
 - Plan "1"
 - Entrance Fee \$190,000
 - Monthly Fee \$3,400
 - Plan "2"
 - Entrance Fee \$95,000
 - Monthly Fee \$4,230
 - Plan "3"
 - Refundable Security Deposit \$4,825
 - Monthly Fee \$4,825

CASE STUDY

PRICING THE RENTAL OPTION

- Analysis of Pricing
 - Plan options are inequitable
 - The potential to earn interest on the entrance fee needs to be considered
 - $\$190,000 * 5\% = \$9,500$ per annum
 - Monthly rental rate is a disincentive to this option
 - Differential in monthly rents (Plan 1 vs. Plan 3)
 - » $\$4,825 - \$3,400 = \$1,425 * 12$ months = $\$17,100$ per annum)
 - To equalize the Plan 1 and Plan 3, rate of return would have to be 9.00%
 - Differential in monthly rents (Plan 2 vs. Plan 3)
 - » $\$4,825 - \$4,230 = \$595 * 12$ months = $\$7,140$ per annum
 - To equalize Plan 2 and Plan 3, rate of return would have to be 7.50%

CASE STUDY

PRICING THE RENTAL OPTION

- 2012 Revised Contract Types (2 Bedroom, 2 Bath)
 - Plan "1"
 - Entrance Fee \$190,000
 - Monthly Fee \$3,130
 - Plan "2"
 - Entrance Fee \$95,000
 - Monthly Fee \$3,700
 - Plan "3"
 - Refundable Security Deposit \$4,270
 - Monthly Fee \$4,270
 - Assumed rate of return on Entrance Fee is 7.20%
 - Extracted meal plan from monthly service fee to provide several choices for residents

CASE STUDY

PRICING THE RENTAL OPTION

- Additional Considerations
 - Debt Service Coverage
 - Entrance Fees Received Net of Refunds
 - Monthly Fee \$3,130
 - Plan "2"
 - Entrance Fee \$95,000
 - Monthly Fee \$3,700
 - Plan "3"
 - Refundable Security Deposit \$4,270
 - Monthly Fee \$4,270
 - Assumed rate of return on Entrance Fee is 7.20%
 - Extracted meal plan from monthly service fee to provide several choices for residents

SECTION 5:

CASE STUDY:
CONVERSION FROM
ENTRANCE FEE TO RENTAL

CASE STUDY

CONVERSION FROM EF TO RENTAL

Snapshot of the Community

- 25 year old community
- Comprised of 135 +/- 'townhome' style accommodations and 53 'apartment' style living units
- Townhome occupancy is high - and largely remains a market viable product
- Market viability of apartments in question
 - Aging in place has been encouraged, to the point that the apartment building very much resembles assisted living
 - Entrance fees range from \$135,000 for a studio to \$210,000 for a 2 BR (small). Majority of units are studios or 1 BR's
 - EF's are 90% refundable
 - Monthly fees range from \$1,585 to \$3,400
- Organization has reasonable amount of cash (200 DCOH) but both needs and wants to preserve cash

CASE STUDY

CONVERSION FROM EF TO RENTAL

Market Considerations

- With the evolution toward assisted living, the community lost the ability to attract an independent type of resident
 - In addition, the unit types and styles had already made that a challenge
- Older, more frail consumers (and their families) are unlikely to be willing to pay an entrance fee, even with high refundability
- Two options (not mutually exclusive):
 - Offer a rental option (which was expected to become the preferred option)
 - Convert to assisted living (using a rental/non-EF approach)

CASE STUDY

CONVERSION FROM EF TO RENTAL

Preliminary Pricing Analysis

XYZ Retirement Community
2011 Townhomes and Apartments Pricing

Townhomes

Townhome Style	90% Refundable Entrance Fee	Monthly Service Fee	Rental Fee
Floor plan A	\$ 250,000	\$ 1,340	\$ 2,499
Floor plan B	\$ 265,000	\$ 1,396	\$ 2,624
Floor plan C	\$ 275,000	\$ 1,451	\$ 2,726

The Inn

Apartment Style	90% Refundable Entrance Fee	Monthly Service Fee	Rental Fee
Studio	\$ 135,000	\$ 1,585	\$ 2,163
1 Bedroom / 1 Bath	\$ 150,000	\$ 2,606	\$ 3,556
1 Bedroom / Den / 2 Bath	\$ 195,000	\$ 2,864	\$ 3,908
1 Bedroom / Den / 2 Bath	\$ 205,000	\$ 3,224	\$ 4,399
2 Bedroom / 1.5 Bath	\$ 200,000	\$ 2,930	\$ 3,998
2 Bedroom / 2 Bath	\$ 210,000	\$ 3,400	\$ 4,639

Using a 'fairness/equity' approach (in other words - what would a fair rental fee be if the EF was eliminated) yielded the results to the left.

This left open, however, how to pay the refunds (given the objective to preserve cash)

Items highlighted in YELLOW reflect the current pricing schedule for the community. Items highlighted in PURPLE reflect an equivalent rental fee assuming a) 5% discount rate and b) 7 year average contract expectancy in the townhomes and 4 year average contract expectancy in the apartments.

CASE STUDY

CONVERSION FROM EF TO RENTAL

Additional Pricing Analysis

XYZ Retirement Community
2011 Townhomes and Apartments Pricing

Townhomes

Townhome Style	90% Refundable Entrance Fee	Monthly Service Fee	Rental Fee
Floor plan A	\$ 250,000	\$ 1,340	\$ 2,499
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Alternative Calculation

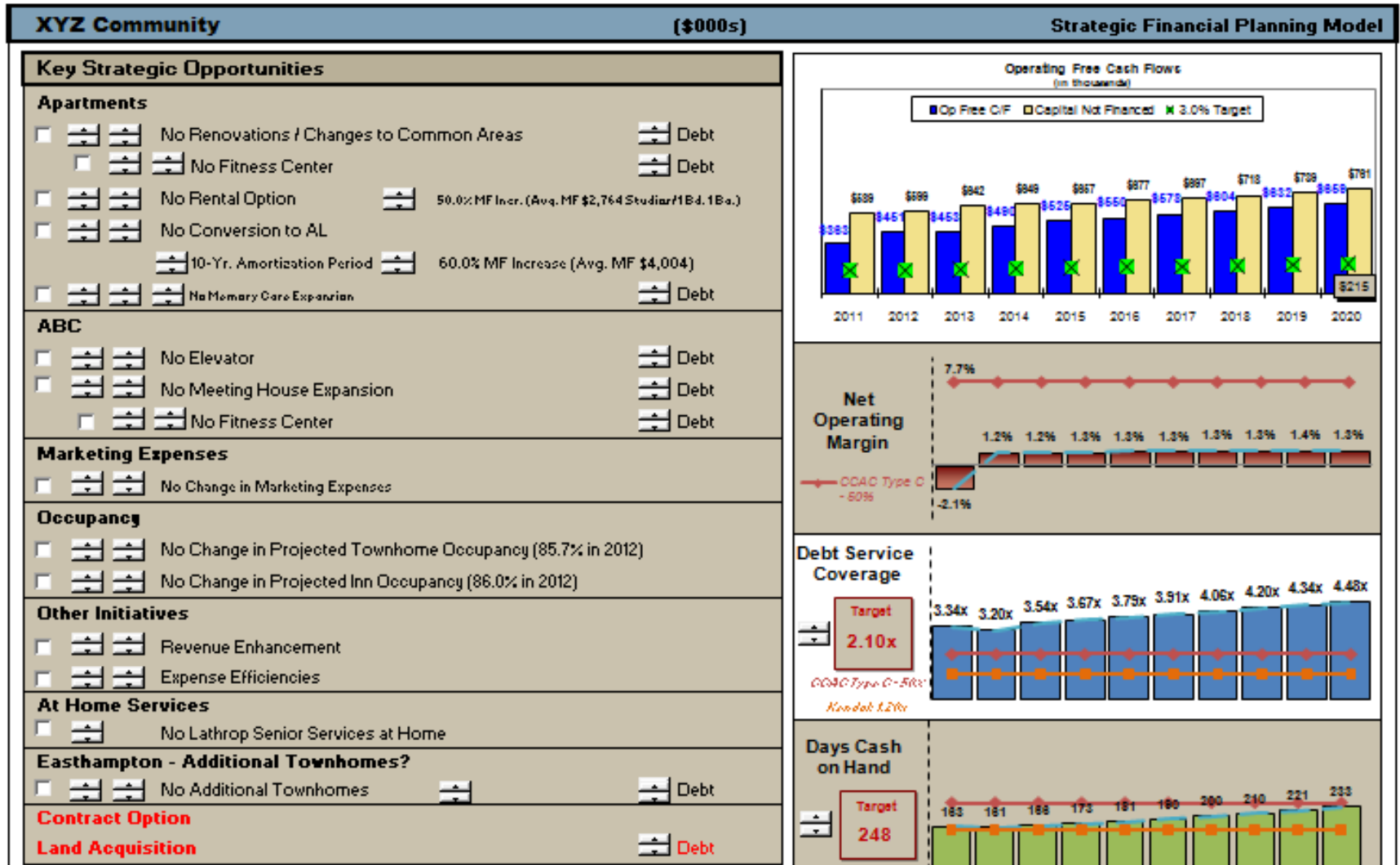
IL Rental	AL (30 Yr)	AL (10 Yr)
\$2,483	\$2,879	\$3,548
\$3,604	\$3,999	\$4,743

Using 10 Year Amortization raises fees to \$3,152 for Studio and \$4,348 for small 1 BR

The ability to utilize a revolving line of credit was considered to be viable - and it changed the pricing (per above). Fees shown in box are a 30 year amortization. 10 year amortization impact for IL noted below. AL fees, in particular, are market competitive.

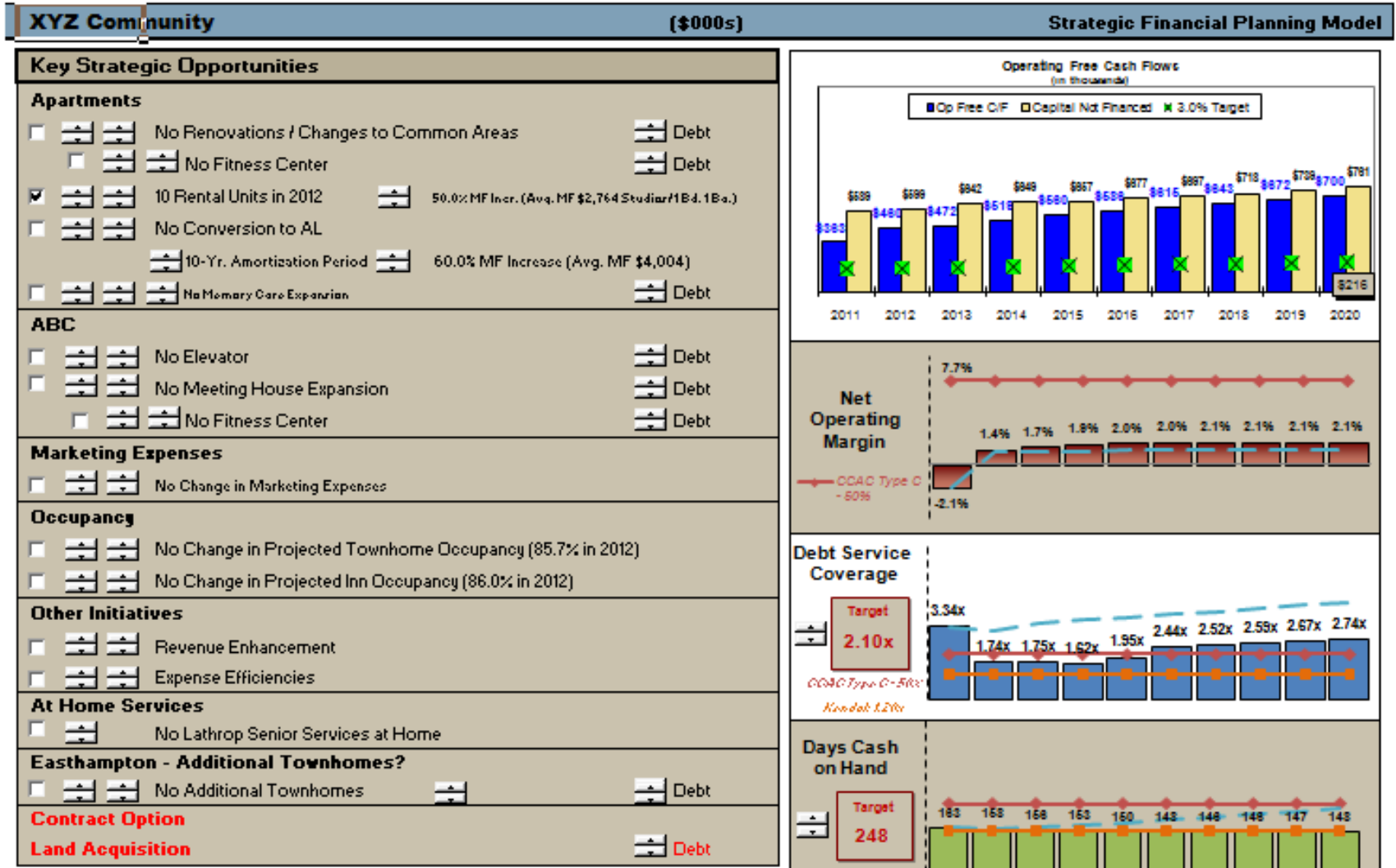
CASE STUDY CONVERSION FROM EF TO RENTAL

Analysis of "Baseline" Dashboard



CASE STUDY CONVERSION FROM EF TO RENTAL

Convert 10 Apartments per Year to Rental



SECTION 6:

CLOSING THOUGHTS

CLOSING THOUGHTS

- Market considerations cannot be overstated
 - Is desire for rental option overshadowing the marketability of the unit?
 - Is the price objection real or convenient?
- Are you prepared for a potential demographic?
 - More single vs. married
 - Most rental move-ins without selling their home are need-based
 - More fragile
 - Higher turnover rate (marketing considerations)
 - Financial health
- Don't only think about the equity of the EF/Rental transition
 - Consider how to get the rental residents to finance the EF refunds

CLOSING THOUGHTS

- Consider access to capital
 - Investors and lenders alike place a high value on liquidity
- Would a change in the investment portfolio be easier to implement with greater cash flow benefit in the form of interest income?

QUESTIONS & ANSWERS