DEAR FRIENDS & COLLEAGUES,

It’s always around “back to school” time, when I pain over how quickly time is flying by and how much of my summer to do list I have yet to cross off. We’ve seen a similar reaction by management of our senior living clients. Time flies when you’re focused on occupancy, operating margins and staffing. While these issues are invariably vital to your community, you shouldn’t avoid looking forward and planning ahead.

In this issue of FOCUS, we learn how RLPS of Lancaster, Pa., uses focus groups to get stakeholder feedback on what the future should look like. Focus groups provide the qualitative feel for a quantitative output that helps management and the board look forward versus only inward.

Also in this quarter’s newsletter, we explore the “Silver Tsunami” senior growth wave that we’ve all been anticipating. Are you ready for what comes with that wave? Are you going to be able to serve the less affluent senior resident that is representative of the largest group in this wave? BB&T Capital Markets has several board tools that can help you educate and prepare your board for strategic thinking along these lines. With our “Trends in Moderately Priced Housing – Maximizing Opportunities for the Future” board education piece, we explore where the needs are and how to offer a home to anyone who walks in your doors, regardless of their assets and income.

Another trending board presentation is “How to Prepare Your Board for Partnership Opportunities.” This interactive exercise educates boards on types of partnerships in the faith-based senior living world. The session works with the board to engage in strategic discussion and collaboratively create a tool that management can use to gauge interest in future partnership opportunities that could present themselves. Consider allowing BB&T Capital Markets team members to help you help your board. Together, we can help you prepare for the future before it, like this summer, flies by.

Lynn Daly
Managing Director

Lynn Daly manages BB&T’s senior living client relationships in the Midwest and nationally. She has more than 24 years of dedicated experience working exclusively with nonprofit organizations on their financing needs.

POSSIBLE ELIMINATION OF LIBOR COULD IMPACT SENIOR LIVING COMMUNITIES

The elimination of LIBOR is a dramatic event in the financial markets. If your retirement community has outstanding bank debt or is contemplating bank debt, you will be directly impacted. For more information, click here to view a full article on our website, or go to BBTCapitalMarkets.com/Healthcare and scroll to the bottom of the page. Our bankers are ready to answer any questions that you may have. You can find the contact information on the back page.
First, some data to frame the situation. According to the report from the Joint Center for Housing Studies of Harvard University entitled *Projections & Implications for Housing a Growing Population: Older Households 2015-2035*, as of 2015 there were 12.1 million seniors (7.8 million households) age 80 or older. This population is expected to increase 30 percent to 15.7 million (10.5 million households) by 2025. In fact, by 2035, one out of every nine households will be headed by someone 80 years of age or older. These people will put enormous demands on our resources, forever changing the senior living landscape.

**A SIMPLE SUPPLY & DEMAND MODEL**

To help put this into context, let us consider how senior housing providers are addressing the current demand and use this to determine how the demand on these units will change as more and more seniors reach the age of moving into senior housing.

There are 710,000 independent living units across the country. Assuming national average occupancy of 90 percent, there are 639,000 independent living households out of 7.8 million total senior households age 80 or older. That means 8.2 percent of age-qualified households lived in an independent living unit in 2015. Assuming this ratio remains constant, by 2025 another 221,000 households will require independent living accommodations, meaning another 150,000 independent living units (ILUs) need to be constructed (in less than 10 years), just to meet the demand.

This likely understates the need for independent living unit construction. The 2015 *State of Seniors Housing* report published by American Seniors Housing Association notes the median age of those independent living units is 16 years old. In speaking to your marketing staff and prospective residents, if half of your units are older than 16 years, they likely need to be replaced. That’s a further 355,000 units needed to address the demands of today’s seniors. In summary, by 2025 we need to construct nearly as many independent living units (505,000) as there exist today. Given it can take three to five years from project definition to first occupancy, we are already drastically behind.

As the population ages, the prevalence of disease and disability increases as well. There are 130,000 assisted living units dedicated to memory care throughout the country. It is projected there will be 4.8 million people age 65 and older with dementia in 2025, increasing to 6 million by 2035. These figures are based on the assumption the prevalence of dementia will actually decrease over this time period (as it has each decade since 1975). If this decrease does not happen or is slower than projected, the number of people with dementia could grow by millions more. Assuming as of 2015 there were 4.0 million people with dementia and national occupancy of 90 percent, that indicates 3 percent of the population with dementia aged 65 and older lived in an assisted living unit dedicated to memory support. Assuming this ratio remains unchanged, by 2035 a further 23,400 people will require assisted living memory support accommodations in less than 20 years. The need to replace older independent living units applies to assisted living units as well. At a median age of 14 years in 2015, that’s another 65,000 units of memory care assisted living in need of replacing right now. All told, by the time today’s newborns graduate from high school, the industry will need to construct at least 88,000 memory support assisted living units to meet the need.

**Detailed Calculation**

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<th>Calculation</th>
<th>Result</th>
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<tr>
<td>Total existing independent living units (ILUs) x 90 percent occupancy</td>
<td>710,000 x 0.9</td>
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<tr>
<td>= Number households living in ILUs in 2015 / Total households age 80+ in 2015</td>
<td>639,000 / 7,800,000</td>
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<tr>
<td>= Percent of age-qualified households living in ILUs in 2015 x Total households age 80+ in 2025</td>
<td>8.2% x 10,500,000</td>
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<tr>
<td>= Projected total households living in ILUs in 2025 - Number households living in ILUs in 2015</td>
<td>860,200 - 639,000</td>
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<tr>
<td>= Increased number of households needing ILUs in 2025</td>
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Providers should necessarily be cautious about building units to address the needs of the Baby Boomers only to find there is not enough population demand from the generation immediately following (Gen X). However, this is not the case. Gen X did start out smaller than the Boomers, but immigration and lower mortality rates have allowed it to grow to similar size. There is a projected slow-down between 2040 and 2050, but once the Millennials become seniors in 2050, the older population’s ranks will swell again.
A WORD OF CAUTION
Clearly, the demand for senior housing is increasing at a rapid rate. Based purely on the rate at which seniors currently choose to live in one of these settings, we likely cannot build enough units to meet the need. If senior preferences begin to change and 1 percent more of the population chooses to live in senior housing, the industry will need hundreds of thousands of additional units for all levels of care.

However, these are national trends that are not happening uniformly in each market. There are many markets where the senior population is actually decreasing due to outward migration caused by economic, family and societal changes. Senior housing is a hyper-local business, and what may work in one market may lead to failure just 15 miles down the road. Providers must tune and match their communities to the specific needs and resources of the local markets they serve.

BACK TO THE REAL WORLD
It is important to note these calculations ignore income, assets, race and ethnicity, each of which is vitally important to understand. The macro numbers allow one to see the opportunity. Understanding the socioeconomic details of a local market allows one to determine how to respond to that opportunity.

Race & Ethnicity
The age 80 and older Black, Hispanic, Asian and other populations are growing at rates 50-100 percent faster than the White population. Because that age cohort is predominantly White, Whites are driving the population growth in terms of absolute numbers; however, due to those significant growth rates, the minority senior group will grow too big to ignore.

Income and Assets
The available data regarding our aging population and its financial resources paints a dire scenario.

- Nine million older homeowners have less than $50,000 in assets beyond the value of their home.
- It is worse for renters: median wealth of renters 50 and older was 44 times less than their homeowner counterparts ($6,100 in assets for renters compared to $267,000 in assets for homeowners).
- Population projections for seniors 80 and older suggest growth in that population will be driven by an expansion in the number of seniors burdened by housing costs, such that 2.9 million additional senior households will be moderately or severely burdened by housing costs by 2035.

Affordability may prove to be the primary challenge presented by the age wave. Providers that are able to establish innovative services and offerings, tailored to the needs of seniors yet affordable to an increasingly financially at-risk population, could well leave their slower-to-adapt competitors behind.

CONCLUSION
The opportunity is real. But this is not carte blanche to senior living providers to start building more units at all cost. Certainly more are necessary to meet the new demand and to replace tired inventory. However, the vast majority of seniors will never move to a senior living community. Many will not want to and just as many will not have the necessary income and assets, despite desperately needing the services these communities provide.

Senior housing providers are going to have to reinvent how they serve and change the way they operate. We must find ways to reduce the cost of providing care and services as well as broaden the scope of those offered. Because of the demands of an aging population, incumbent providers and upstarts alike will need to work very hard not to get swept away by the Silver Tsunami.

By 2035, one out of every nine households will be headed by someone 80 years of age or older. These people will put enormous demands on our resources and will change the landscape of senior housing forever.

1 All data cited are from this report unless otherwise indicated.
2 Occupancies fluctuate all the time, driven as much by market and operational issues as they are by population changes, so I have chosen 90 percent as this would likely be an acceptable level for providers to continue providing independent living services and not exit the business.
3 People younger than 80 years old live in independent living and often move in between the ages of 75 and 84. However, there is no longer data available for the 75-79 year-old cohort, and based upon the data for 70-79 year-old cohort, the implications of the analysis remain unchanged.
4 Numbers may not tie due to rounding.
5 The Joint Center for Housing Studies of Harvard University report does not provide the dementia population size for 2015, so I have chosen a number that is likely conservative. If the actual population in 2015 was lower than 4 million, then the number of incremental units needed due to the increase in population will be higher than indicated.
6 Moderately cost-burdened households pay between 30-50 percent of total income for housing, while severely cost-burdened households pay more than 50 percent of income for housing.
Focus Groups: Key to Building Consensus

By Kathleen M. Goff, director of strategic initiatives, RLPS Architects, Lancaster, Pa.

Having focused on senior living design since 1954, RLPS Architects and RLPS Interior provide master planning, architectural and interior design services that support our clients’ programs and missions. Our collaborative approach is based on a conscious commitment to demystify the planning and design process, resulting in a team effort between the owner, design team, consultants, builder and those who administer, market, manage and reside in senior living and care residences. RLPS projects throughout the country have been recognized with more than 80 state and national design awards, including the Design for Aging Review, Environments for Aging and the Green House™ Design Charette.

During the strategic/master planning process, RLPS works closely with our clients and their financial, market and investment banking consultants. We guide a systematic evaluation of program objectives, market study results, resident/staff/board input and existing building/site constraints through a collaborative review and visioning process. The culmination is the development of viable short- and long-term solutions that reflect the owner’s goals for updating programs and services for current residents and the next generation of seniors.

In addition to being grounded in the realities of financial feasibility, operational efficiencies and market demands, strategic and master planning solutions must be understood and endorsed by all stakeholders. One of our first agenda items is to conduct focus groups. This provides an efficient forum for various constituents to share ideas anonymously, identify concerns, help guide programming objectives and ultimately foster support for future initiatives.

Being part of and understanding the process promotes buy-in from all stakeholders. Additionally, it provides the opportunity for us to quickly gain insights into how each community “ticks” and what makes it unique. Our carefully constructed focus group method provides all participants with the opportunity to submit their ideas anonymously, giving each participant an equal voice. Past participants have complimented the “democracy of the focus groups” by soliciting ideas from various constituents early in the process rather than waiting for reactions after the fact.

Each response is tabulated and then formatted, along with group discussion comments, into a report that is provided to the client. The top five responses to each question are highlighted, as illustrated in the example below; however, all responses are documented in the report. As Senior Designer Brent Stebbins puts it, “Sometimes it’s a single idea that someone comes up with that will rise to the top as something that should definitely be considered.” We recommend presenting the focus group findings to focus group participants and/or the community at large so everyone is aware of the findings and has the ability to ask questions and offer their opinions. Residents and staff, in particular, feel part of the process and begin to gain ownership in the strategic/master planning initiatives, which helps move the process forward in a timely manner. Focus group participants may include current residents, potential residents, staff, board members, family members and community groups at large. Ultimately, this approach has proven helpful for building consensus and generating support for future initiatives, particularly for communities where allowing multiple voices and opinions to be shared is a priority, but providing an efficient forum to accomplish that goal can be challenging.

What new/additional programs or spaces would you recommend/like to see?

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<td>Memory Care Household</td>
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<td>Theater</td>
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Top 5 Responses = 52% of total responses
TRANSACTION OVERVIEW

On June 30, 2017, BB&T Capital Markets closed a $26 million Capital Trust Agency bond issue for the Tapestry Walden Senior Housing project in Tallahassee, Fla. The proceeds will finance the conversion of an existing Country Inn and Suites hotel and the construction of an attached new addition, providing a total of 89 units with 54 assisted living units and 35 memory care units.

TAPESTRY SENIOR HOUSING DEVELOPMENT

Tapestry Senior Housing Development (Tapestry), a for-profit, Minnesota-based developer, is the product of the merger of LaSalle Development and Comfort Health, with each company having over 30 years of experience in the senior living/health space. The organization has a long and storied history of developing and managing various real estate projects nationwide.

BB&T Capital Markets financed Tapestry’s initial Tallahassee Tapestry project in December 2015. The Tallahassee Tapestry project, a conversion of an existing Wingate hotel into an assisted living and memory care facility, was completed on time and on budget. Tapestry opened the community in January 2017 with 26 percent of the assisted living units leased and 55 percent of the memory care units leased by late March, ahead of forecasts. Tapestry will be uniquely positioned to continue to offer assisted living and memory care units at the new Walden site.

FINANCING OBJECTIVES

Continuing the 2015 relationship, Tapestry engaged BB&T Capital Markets (BB&T) to conduct the Walden financing. BB&T coordinated meetings with investors to demonstrate the unique value of Tapestry’s approach and story. BB&T highlighted the construction success and positive lease-up progress of the initial Tallahassee project and the management team’s strong rationale for another project in the same market area.

Through open communications with investors on the financing structure and security components, Tapestry and BB&T Capital Markets were able to determine a capital structure that suited the needs of the developer and appealed to investors. As a result, BB&T Capital Markets priced the transaction at a highly competitive rate. The tax-exempt bond with longest maturity of 2052 priced at a 7.00-percent yield. The longest taxable bond priced at a yield of 8.00 percent.
BB&T Capital Markets priced a $19.1 million fixed rate bond financing (the Series 2017A Bonds) for Aldersgate United Methodist Retirement Community, Inc. (Aldersgate), on May 18, 2017. The bond proceeds will be used to refinance an existing bank loan and fund the remaining construction costs of the renovation of a community center. Simultaneously with the Series 2017A Bonds, Aldersgate has also obtained approximately $35 million in bank financing to fund the construction of 62 new independent living units and routine capital expenditures. Both transactions closed on May 31, 2017.

BB&T Capital Markets obtained the lowest 30-year fixed interest rate to date in 2017 for a nonrated life plan community.

ALDERSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.

Founded in 1945, Aldersgate is a not-for-profit, mixed-model life plan community in Charlotte, N.C., on a 231-acre site that includes beautiful azalea gardens, nature trails and fields for walking/hiking, as well as an executive three-hole golf course on the premises. The existing community includes 248 independent living apartments and cottages, 47 assisted living units, 61 memory support units and 100 skilled nursing beds.

FINANCING PROCESS

In 2011, management discussed its strategic future initiatives with BB&T Capital Markets. Plans for the community included an expansion to the health care complement, along with an expansion of the independent living component. As these plans would likely involve a significant amount of debt, it was determined Aldersgate would need to review its capital formation strategy. To create maximum strategic flexibility, Aldersgate chose to restructure its existing Series 2009 and 2010 bank debt to nonrated, fixed rate bond debt in 2013. BB&T monitored the markets in late 2013 – a period in which the Federal Reserve’s announcement of its decision to taper its bond buying program caused tremendous turmoil in the municipal markets – and successfully priced the $38 million Series 2013 Bonds.

After the completion of the refinancing in 2013, BB&T Capital Markets continued to work with management and the project team to develop a financing plan for the health care project, which included 16 new memory support suites and a new 120-bed nursing center. To ensure construction would start in time, Aldersgate obtained an interim bank loan in early 2015 to fund a portion of the memory support suites construction. In case the permanent financing for the remaining health care project faced any delays, the interim loan would still enable a timely construction start of the project. The permanent financing was completed in late 2015 with a $49.2 million fixed rate issue with very positive institutional and retail participation.

Following the issuance of the Series 2015 Bonds, the same financing team worked to develop a plan to finance the last phase of the strategic plan formulated in 2011. This phase included the renovation of the existing community center an addition of 62 new independent living units.

“We’re always grateful for the high quality work and successful outcomes the folks at BB&T Capital Markets provide to Aldersgate. We’ve appreciated the skill set, the experience and the thoughtful guidance BB&T Capital Markets has shared with our board and leadership as we continue to implement this phase of our strategic journey, and we are thrilled with this most recent transaction. We have always felt John Franklin and his team not only do ‘great business’ but truly have the best interest of the mission and vision of Aldersgate in the forefront of their minds as they counsel and shepherd our organization.”

– Suzanne Hodge Pugh, president and CEO
Aldersgate United Methodist Retirement Community, Inc.

“We could not ask for a better financial advisor and business partner. The team at BB&T Capital Markets always applies its seasoned and extensive experience to each of our unique situations and recommends well-reasoned, appropriate options for our consideration. When regulatory or market challenges arise, and they always do, BB&T Capital Markets provides real-world workarounds and then stays involved until each of Aldersgate’s projects is completed.”

– Thomas R. Lawing Jr., chair, Board of Directors
Aldersgate United Methodist Retirement Community, Inc.
**FINANCING RESULTS**

The project team decided to obtain a taxable bank loan in mid-2016 to finance the renovation of the existing community center, assist with the marketing of the new independent living units and use bank debt due to the ability to drawdown the loan. The ability to refinance the bank loan with fixed rate bonds was placed into the financing documents so that option would be available in 2017 when the financing of the new independent living units was planned. In early 2017, BB&T approached the lender of the existing bank loan to gauge interest in funding all or a portion of the new independent living units as well as minor routine capital expenditures. It was ultimately decided that fixed rate bonds would be issued to refinance the existing bank loan and $35 million in new bank financing would be obtained to finance the independent living units. This is very advantageous to Aldersgate in that the community will avoid significant negative arbitrage by using bank debt for the new construction projects.

The collaborative effort of the deal team led to the pricing of the Series 2017 Bonds on May 18, 2017. The financing was received extremely well by the market, with remarkable retail participation that absorbed over half of the transaction. In addition, nine institutional investors participated in the transaction. The broad distribution created a superior cost of capital compared to any nonrated life plan community financing in 2017.

The Series 2017 fixed rate bonds were issued with a final maturity of 2047 with yield ranging from 2.13 percent to 4.77 percent. Key factors in this success were BB&T Capital Markets’ industry-leading retail and institutional distribution capabilities, Aldersgate’s strong management team and recent improvements reflecting execution of its long-term strategic plan. For more information and an expanded case study, contact John Franklin at JFranklin@BBandTCM.com or Seth Wagner at SWagner@BBandTCM.com.

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**Leadership Library Recommendations Shared at Conference**

During their leadership power session at the Leading Age Virginia annual conference, John Franklin, managing director and group head, BB&T Capital Markets, and Tim Ficker, managing director, MHS Consulting, shared their picks for excellent reads. Lucky members of the audience received copies of the top picks mentioned.

**JOHN’S FAVORITES**

- The Four Agreements, Don Miguel Ruiz
- The Road Less Traveled, M. Scott Peck
- The Righteous Mind, Jonathan Haight
- You Don’t Need a Title to be a Leader, Mark Sanborn
- The Five Dysfunctions of a Team, Patrick Lencioni
- Governance as Leadership, Chait, Ryan, Tayler

**TIM’S FAVORITES:**

- A Failure of Nerve, Edwin Friedman
- The Advantage, Patrick Lencioni
- Spiritual Leadership, J. Oswald Sanders
- Good to Great, Jim Collins
- Leadership is an Art, Max DePree
- Daring Greatly, Brene Brown

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**Upcoming Presentation By Lynn Daly**

Lynn Daly, managing director, will present “Trends in Moderate Priced Housing” on Sept. 15 at Leading Age Ohio in Columbus. The session will focus on exploring alternative sources of capital utilized in the senior housing sector for moderately priced products. Find out how various financial programs may be applied by your organization.