CHALLENGES AND OPPORTUNITIES OF A UNIVERSITY-CENTERED RETIREMENT COMMUNITY

WEDNESDAY, OCTOBER 30, 2019
BARRETT ROOM, HDH ADMIN 4TH FLOOR, UC SAN DIEGO
UNIVERSITY COLLABORATION & PARTNERSHIPS

COLLEEN RYAN MALLON, CHIEF MARKETING OFFICER, KENDAL
UNIVERSITY COLLABORATIONS & PARTNERSHIPS AT KENDAL COMMUNITIES

University Born Partnerships
Kendal at Hanover – Dartmouth College, 1991
Kendal at Oberlin – Oberlin College, 1992
Kendal at Ithaca – Cornell and Ithaca College, 1994
Kendal at Granville – Denison University, 2005
OTHER KENDAL COMMUNITIES
WITH UNIVERSITY RELATIONSHIPS

The Admiral at the Lake—University of Chicago and Northwestern
Kendal-Crosslands—University of Delaware, West Chester, Bryn Mawr and Swarthmore
Lathrop—Amherst, Smith, Mt. Holyoke, Hampshire and UMass
Collington—University of Maryland
Kendal on Hudson—New York Medical College
Barclay Friends—West Chester and Widener
Chandler Hall—Drexel and Holy Family
Kendal at Lexington—Washington & Lee and VMI
WHAT’S IN IT FOR THE UNIVERSITY TO BE PART OF A SENIOR LIVING PROJECT?

Opportunity for medical students to get hands-on experience
Research opportunities for students and faculty
Service contracts with the school
Employment opportunities for students at the community (servers, etc.)
Employment opportunities through internships and job placement
Chance for residents to engage with young people
Bolster alumni support/school spirit
Strengthen fundraising platform
Residents often enjoy taking classes, and bring valuable, real-life experience to classrooms
Expand campus diversity of thought and demographic diversity
Creates a source of mentors
Put under-utilized land to use
Can create new income source(s) for the university
PARTNERSHIPS IN DEVELOPMENT

STEPHEN BAILEY, SENIOR VICE PRESIDENT DEVELOPMENT, KENDAL
EXPLORING AND ESTABLISHING A UCRC: WHAT’S THE PROCESS?

**Step One: The Feasibility Process**
- Form a Working Group — all stakeholders represented
- Conduct Initial Market Research
- Develop the Vision and Program
- Site Evaluation and Concept Planning
- Develop Assumptions & Financial Model
- Conduct More Market Research!

**Finished Product**
An articulated vision, program and a concept plan, informed by market research and supported by a preliminary business plan

**Important outcome from a collaborative process**
To explore new ideas and build consensus around a shared vision. The feasibility report will provide an opportunity for a larger group of stakeholders to react and respond.
EXPLORING AND ESTABLISHING A UCRC: WHAT’S THE PROCESS?

Step Two: Feasibility Part 2
- Site Due Diligence, Zoning Validation
- Establish Preliminary Plan of Finance
- Validate Program, Budget and Schedule
- Land Term Sheet, Affiliation Agreement

Finished Product
A seed money financing package, including a plan of finance, letters of intent for real estate transactions and University affiliation agreements

Step Three: Implementation Part 1
- Complete Schematic Plans and Site Plans
- Obtain Certainty in Land Use Approvals
- Full Operating Financial Model with Capital Structure
- Initiate Marketing Campaign

Finished Product
An approved project with relative certainty around market risk and financing risk
EXPLORING AND ESTABLISHING A UCRC: WHAT’S THE PROCESS?

Step Four: Implementation Part 2

- Execute Marketing Program — 70% + Presales
- Complete Construction Documents and Negotiate GMP
- Obtain Building Permits, Finalize Regulatory Approvals
- Finalize all Contracts & Agreements
- Close Financing
- Build and Occupancy

Finished Product
A New Life Plan Community
THE WHY AND HOW OF MARKET RESEARCH FOR UNIVERSITY CENTERED RETIREMENT COMMUNITIES

LAURA JONES, SENIOR MARKETING CONSULTANT
TO UNDERSTAND THE MARKET...

Extensive quantitative AND qualitative research is imperative.

The quantitative research = Comprehensive Market Feasibility Study.
  ◦ The purpose is to get an in-depth read on the market and its ability to support a new community. Recommendations include residence mix, type, size and pricing.

The qualitative research = Focus Groups and Surveys.
  ◦ What does the market desire?
  ◦ The purpose is to gather information from the age- and income-qualified population in a market area to determine preferences for amenities, services, programs, pricing, etc. Recommendations are further refined.
COMPREHENSIVE MARKET FEASIBILITY STUDY

Project Overview and Area Description
- Location/Neighborhood
- Proposed number of residences by level of care
- Accessibility
  - Roadways/established travel patterns
  - Access/proximity to hospitals, doctors, conveniences, etc.
COMPREHENSIVE MARKET FEASIBILITY STUDY

Market Area Definition

◦ The geographic area from which the majority of residents can be expected to be drawn. The Market Area is the foundation for the demand analysis calculation
◦ Defined by examining radius/drivetime, interviews with local communities/planners, roadways/travel patterns, hospital discharge data and experience.
◦ Proportion ranges from 50% to 90% depending on
  ◦ Extent the area is geographically segmented
  ◦ Sphere of sponsor influence
  ◦ Extent that younger family members may bring elderly relatives from outside the area to live nearby
COMPREHENSIVE MARKET FEASIBILITY STUDY

Demographic Trends
- Current year versus Project year (5-year trend based on 2010 census)
- Data analyzed includes population data, household income data, adult child households, real estate trends

Competitive Environment (by level of care)
- Examine those competitors who serve a similar age and income market to the Project
- Combination of in-person visits and phone/internet analysis
- Research planned competitors as well
COMPREHENSIVE MARKET FEASIBILITY STUDY

Market Depth (by level of care)
- Quantitative methodology based on age, income and housing tenure criteria
- Agreed upon base line assumptions include minimum age, year of analysis, % residences to be filled from Market Area, and minimum income requirement
- Analysis can examine both rental and entrance fee products
- Established rates for analysis
  - Market Penetration Rate (MPR)
  - Project Penetration Rate (PPR)
  - Capture Rates
QUANTITATIVE RESULTS. POINT OF DECISION.

If the results from the quantitative research/feasibility study are positive, given the industry standards shared, then it is imperative to “talk to the market.”
SURVEY

Delivered either online and/or mailed.
Gathers information from the age- and income-qualified seniors in the market area.
- Defines geographic interest pattern
- Test acceptance of Project location
- Test proposed mix and design of residences
- Generates Project awareness/Interest in Project
- Perceptions/Acceptance of sponsor
- Increases focus group participation
- Gauge interest, readiness and preferences
- Identify true competition
- Identify unanticipated questions or issues that can be explored during focus groups
FOCUS GROUPS

Purpose is to gather and discuss important topics with age- and income-qualified seniors in the market area.

Same goals as described for surveys and also
- Ability to address most immediate concerns of sponsor
- Opportunity to query directly by better explaining concepts
- Ability to ask non-quantitative questions and best opportunity to test the value proposition of the Project
- Live reactions show intensity of interest

Discussions moderated to determine feelings and perception on key matters.

In addition to the research benefits, focus groups enable prospective residents to feel they have received valuable information and their views and ideas have been validated and the focus groups act as cultivation/education meetings and early announcements of the Project.
CONSIDERATIONS & TRENDS IN SENIOR LIVING FOR UNIVERSITY CENTERED RETIREMENT COMMUNITIES

LESLIE MOLDOW, PRINCIPAL, PERKINS EASTMAN ARCHITECTS
DESIGN CONSIDERATIONS & TRENDS IN SENIOR LIVING
UNDERSTANDING THE PAST

Independent Housing

Acute Environments

1900 1966 1985 2025

- Duplex
- Senior Condo
- The Villages
- Congregate Care
- Retail CCRC
- College CCRC
- HUD Section 8
- Hospitality CCRC
- Co-housing
- Assisted Living
- Special Care
- Green House®
- Home for the Aged
- Sheltered Care
- Nursing Care
- CCRC
- Green House®
FOUR MACRO-SHOCKS

Tech Age

Aging in the Community

Third Act

Paradigm Shifts
TECHNOLOGY AS CAREGIVER

- Robotic caregivers
- Automation (e.g., medication dispensaries)
- Sensors, apps, smart-home devices, monitoring devices
- Smart clothing, wearable devices, etc. that collect biometric info
- Robotic companions (that can also collect biometric data, provide reminders to take medication, etc. clear tripping hazards)
- Telemedicine, wellness services at home
TECH AGE

CONNECTING OLDER ADULTS TO THE WORLD AROUND THEM

- Social media sites help combat isolation and enable social mobility, even among those physically isolated in their homes
- Ride sharing apps of today; the driverless cars of tomorrow will tackle challenges of physical mobility
- Virtual experiences, reminiscence therapy
AGING IN THE COMMUNITY

INDEPENDENT TOGETHER

- Village Movement
- Co-housing
- Community-based initiatives
  - WHO’s Age Friendly Cities
  - AARP’s Age Friendly Communities
  - Dementia Friendly America and Dementia Friendly Communities
AGING IN THE COMMUNITY

CHANGING SHAPE OF SENIOR LIVING

- Modification of existing homes, new housing stock, accessory dwelling units
- The move to urban settings
- “Satellite” locations in denser areas that are linked back to a Life Plan Community’s main hub
SENIOR SERVICE DESTINATIONS

Cafés & More...

Creating neighborhoods better places for older adults to live, work, learn, contribute, and play, Mather LifeWays Community Initiatives include Mather—More Than a Café locations throughout Chicago, the Mather Edgewater outreach program, and Info Plus.

Mather—More Than a Café
Mather—More Than a Café is a whole new idea for Aging Well in your community. Stop by to tap into a network of community resources. Over a cup of coffee or a meal, decide which programs, classes, and day trips work out.

Mather Edgewater
Working closely with many of our community partners in Edgewater, we offer a full variety of exciting programs and events.

Info Plus
Specializing in Chicago’s northwest communities, Info Plus has 5,000+ listings for the right programs and services in your neighborhood. Free answers to life’s everyday questions are just a phone call away.

Courtesy of Mather LifeWays
RETIREMENT REPLACED BY A “THIRD ACT”

- Seniors are not leaving the workforce at the expected pace; finding new ways to participate in the knowledge economy of the American workforce
- Volunteering and personal pursuits
- Intergenerational interest
- Moving to non-traditional locations (outside Sun-Belt and overseas) due to climate change and/or healthcare costs and cost of living
FOCUS ON PERSONAL WELLBEING

- “[New retirees] feel that they’re too young to stop doing what they’re doing, and they want to keep doing it.”
- Spending time investing in their mental and physical improvement for longevity and living well
DIMENSIONS OF WELLNESS

The Multiple Dimensions of WELLNESS

- Physical
- Intellectual
- Emotional
- Financial
- Social
- Occupational
- Spiritual
BIOPHILIC DESIGN

An attempt to understand how the human affiliates with nature and natural processes.
PARADIGM SHIFTS

RESILIENCY / IMPACT OF NATURAL DISASTERS

- Impact of natural disasters can no longer be ignored, especially in the Sun-Belt
- Natural disasters have raised serious questions about the responsibility of senior living providers, and have sparked regulatory changes in some states
- Bond rating agencies are incorporating extreme weather preparedness into how they judge a community’s risk of defaulting
AN UNCERTAIN FINANCIAL FUTURE

- Retirement savings gap of nearly $10 trillion
- Complex financial picture for the next generation of senior living consumers
- Sharing economy is empowering older adults
PARADIGM SHIFTS

REGULATORY AND POLITICAL TURBULENCE

- Convergence with healthcare
- Increased regulations and lower reimbursements for long-term care may drive providers to forgo licensed nursing beds
- Immigration reform
WORKFORCE PRESSURES

Top 5 Areas of Concern for 2018

- Sheer numbers ... Boomers exiting the workforce; aging population
- Minimum wage pressures
- Image problems with the sector
- Immigration policy
- Growth among for-profit providers and agencies

Source: Ziegler CFO Hotline℠, January 2018
FUTURE SCENARIOS...

Each scenario starts with four assumptions...

...that lead to a hypothetical scenario for the future of senior living.
ASSUMING THESE THINGS HAPPEN...

**Technology Innovations**
Entrepreneurs and innovators are drawn to the untapped Boomer market

**Economic Disparity**
Wider socio-economic gap between the “haves” and the “have-nots”

**Increasing Longevity**
Longer lifespans due to health monitoring, automated caregiving, and infusion technology

**Third Act**
Boomers continuing to work, consult, and innovate long after “retirement”
WeTest
WeThrive

Intellectually curious older adults beta-test the latest technologies

Forefront of Everything

Unlock Tech for All

Proactive Healthcare
HOW DOES IT WORK?

**WeTest subscription model**
Empowering entrepreneurial and tech-savvy seniors to become innovation elders

**Middle-market focused**
Innovations more affordable, easier to use, and seamless with other technology infrastructures
HOW DOES IT WORK?

**WeTest brand links generations**
Intergenerational teaching and learning at a local WeTest WeThrive premium makerspace

**WeTest WeThrive communities flourish**
Significant breakthroughs in outfitting existing communities to support older adults with cognitive impairment
Transforming lives with new technologies.

Transforming Age is dedicated to creating the future. We are partnering with top innovators to develop new products and technologies to help older adults live better lives.

Transforming Age is excited to serve as co-developer in collaboration with Seismic. Together, Transforming Age and Seismic are paving the way in a new market category by mixing fashion and function: powered clothing. Watch our video to learn how powered clothing will redefine the fashion marketplace with a wearable solution to physical challenges that we all face, while also enhancing the lives of older adults.
ASSUMING THESE THINGS HAPPEN...

Sharing Economy
Boomers are increasing participants in an economy of collective rather than individual ownership

Experiences vs. Things
Older adults are more interested in having experiences rather than owning things

Third Act
Pursuing specific lifelong passions becomes a larger part of “retirement”

Medical Technology
Advancement in telemedicine allows care from anywhere
Centers for Creative Living

Snowbirding isn’t just for Florida anymore...

Third Act Adventures

Un-reinventing the Wheel

Trading Stuff for Experiences
HOW DOES IT WORK?

Network of micro-hotels
55+ micro-hotels affiliated with a homestay network

Experience-based destinations
Many experience stays are co-located with “bucket list” and seasonal destinations
HOW DOES IT WORK?

Income from homestay guests
Generate income from existing home while you’re out exploring

Telehealth and flexible care
Integral telehealth network that provides proactive health and wellness wherever you go
How to Retire on a Cruise Ship

Retiring on a Cruise Ship Could Save You Money

Everyone’s vision for retirement looks different, and yours might involve visiting exotic ports of call aboard a cruise ship. Planning to retire on a cruise ship can help you fulfill your dreams of traveling while potentially allowing you to stretch your savings further.
ASSUMING THESE THINGS HAPPEN...

- **Technology Innovations**: New technologies lead to a further globalized society and help connect people across the world.
- **Whole-person Wellness**: Biophilic environments and alternative medicine are market expectations.
- **Natural Disasters**: Increased frequency of severe events drives resilient-design strategies.
- **Healthcare Costs**: Skyrocketing costs of care in the U.S. force people to turn to overseas providers.
Into the Wilderness

Affordable overseas care in a resilient and biophilic setting

Boomers are Passionate Travelers

Cost Effective Medical Tourism

Connections with Colleges and Universities
HOW DOES IT WORK?

Overseas retirement
Overseas destinations are increasingly appealing due to its adventurous quality and low cost of living

Into the Wellderness
Taps into an international healthcare market providing top of the line care in a biophilic, natural setting
Insta-translate technology
Teaching, volunteering and learning at a local community college while being connected back home

Third Act adventure
Older American expatriates have risen to the challenge and built a rich community with strong connections back to the U.S.
Live now. Live here.

Enso Village is a Life Plan Community in Healdsburg, CA, with a focus on mindful aging, the joys of nature, environmental stewardship, contemplative care and healthy life choices for adults 60+. 
ASSUMING THESE THINGS HAPPEN...

- **Aging in the Community**: Less interest in senior-specific communities, and more services delivered in existing communities.
- **Decline of Physical Retail**: E-commerce leaves under-utilized commercial real estate in existing town centers.
- **Automation of Labor**: Community colleges and technical schools become important retraining centers.
- **Transit-Oriented Development**: Increased connectivity to traditionally car-based suburbs.
Vertical Main Street

Repurposed mall
with a community college partner

Reconnected to Community

Inter-generational

Co-locating with other Amenities
Housing and services on main street
The decline of physical retail creates significant real estate opportunities in town centers

Co-locate with academic institutions
By partnering with colleges, resources can be pooled and duplication can be limited
HOW DOES IT WORK?

**Strong transit connections**
Locating near transit creates connection opportunities for housing residents and visitors

**Dementia friendly**
Service-enriched housing in town centers provides opportunities to reconnect older adults with dementia with the world around them
HOGEWEY DEMENTIA VILLAGE*

Architect: Dementia Village Advisors (The Netherlands)
SENIOR LIVING FINANCE AND SOURCES OF SEED MONEY

MARY MUNOZ, SENIOR MANAGING DIRECTOR, ZIEGLER & CO
In the Midst of Change

Life expectancy continues to increase, along with the aging population. We are at the beginning of a transformative period with the aging Boomers.

Aging is being redefined and providers need to reinvent themselves to remain relevant.

The aging population has operational implications for providers (staffing, role of technology).

Saving for retirement is the topic of much discussion
- How much have Boomers saved?
- Where will the funding come from?

New campus activity has been slower post-recession, but repositioning and expansion are prevalent. California start-up projects include:
- Continuing Life Communities: for-profit system developing entrance fee life plan communities, 3 new locations in the last decade
- Enso Village – new community to be sponsored by Kendal Corporation and San Francisco Zen Center (seed capital stage)
- Viamonte – new community under construction, sponsored by Sequoia Living
- Fountainview at Gonda Westside – new community sponsored by Los Angeles Jewish Home (2014)
- MonteCedro- new community sponsored by Episcopal Communities and Services (2014)

Increased need for specialized memory care
- Nationally, ~4.5% of the total beds/units are devoted to Alzheimer’s/Dementia care
New Campus Development
Key Risk Points

Four broad risk areas
◦ Pre-finance period risk—early feasibility, entitlements, pre-sales
◦ Construction completion risk
◦ Fill-up period risk
◦ Stabilized operational risk

Mitigating pre-finance risk
◦ Experts to identify potential entitlement hurdles early
◦ Experts to evaluate market opportunity and competition
◦ “Off ramps” at various spending points
◦ Plenty of conservatism in financial projections; plan for inflation in resident pricing
◦ Experienced pre-sale firm; this is a very specialized selling process

Managing construction risk
◦ Contractor and owner contingency; reputable contractor who understands labor and material markets and inflation
◦ Financing team review and due diligence
◦ Construction monitor
◦ Owner’s rep

Fill-up risk - key occupancy levels within fill-up period
◦ Fill to 50%: initial flow of residents from core pre-sales
◦ Fill to 70%-80%: cash flow break-even
◦ Temporary debt usually repaid in full
◦ Fill to 90%: usually all temporary debt repaid
◦ Fill to 93%-95%: stabilized occupancy
◦ Cushion and conservatism in assumed fill schedule, estimating start-up losses and setting aside entrance fees to cover

Ongoing operations risk
◦ Experienced CCRC/LPC manager who has owned the operating projections from the outset
Select Ziegler - Financed New Campuses

- The Arlington of Naples
- The Terraces at Bonita Springs
- The Terraces of Boise
- Skyline at First Hill
- The Crossings - MRC
- The Barrington of Carmel
- 15 Craigside
- The Admiral At The Lake
- Mirador
- Stayton at Museum Way
- Park Place of Elmhurst
- MonteCedro
- Mirador
- Select Ziegler - Financed New Campuses
Start-up CCRCs

Three Capital Categories

- Pre-finance Capital
  - Corporate cash
  - Friendly loan/bank loan
  - Bond Anticipation Notes
  - Other

- Project Financing
  - Tax-exempt bonds
  - Bank loans

- Start-Up Operations Expense
  - Tax-exempt bond-funded interest
  - Entrance fees
  - Fundraising/other
  - Sponsor liquidity support

Source: Ziegler Investment Banking
Pre-Finance Capital

Pre-finance capital is needed in advance of project financing for such items as securing land, securing entitlements, marketing/sales, and architectural design. Capital requirements may be broken into two stages:

- **Stage 1** – Basic identification of new campus opportunity
  - Typically funded with corporate equity
  - The business plan is generally still in a high degree of fluctuation
  - Used in site identification and securing access to the land
  - $100K to $500K is a typical range; may be more in certain urban areas

- **Stage 2** – Execution of approved Development Plan
  - Funded with corporate or third party equity
  - The business plan has been determined and is being executed
  - Used in architectural development, initial marketing of independent apartments
  - $5 to $15 million is a typical range; at the higher end in California
  - If land has to be purchased, this number may be much higher

Source: Ziegler Investment Banking
Pre-Finance Capital Decision Tree

New Community Development

Pre-Finance Capital Needed

Fund Internally

Fund Externally

Reserves

One or more

Friendly Related Lender

Bank Loan

Venture Capital Lender

Typically anywhere from $5-15 million

Cost of Capital

Source: Ziegler Investment Banking
Evolving Role of Sponsor in Start-up Communities

Pre-sales are just the beginning; sponsor “skin in the game” is critical to today’s investor

Equity: as needed to meet target ratios. Land can definitely be a source of equity. Bond market does not necessarily require equity so much as aligned priorities to get construction completed on budget and to fill up the new project with the cash available. This alignment is demonstrated through subordination of investment returns and liquidity support agreements.

Sponsor needs to raise the capital to secure land (can be optioned), get entitlements and initiate presales before outside investors will come in

Subordination:
- Expected for all or a portion of sponsor management fees
- Expected for friendly loans from university or other not-for-profit sponsor/manager
- Also useful for repayment of equity to parent/university

Liquidity Support Agreements (LSAs)
- Available for project cost over-runs and additional working capital needs
- Not necessarily Trustee-held, but requirement to demonstrate funds are immediately available, and report on status periodically
- Burns off incrementally over time upon attainment of key milestones – final “BURN-OFF” conditioned upon temporary debt redemption, stabilized occupancy and meeting all covenants

Source: Ziegler Investment Banking
Sponsor Support and Repayment

**Equity**
- Minimal equity to meet targeted ratios
- Any equity that stays in the project can become subordinate note, repaid upon project stabilization and achievement of target covenants after payment of subordinate debt

**Management fees**
- Subordinate up to 50% of management fees, to be paid upon project stabilization and achievement of target covenants after payment of subordinate management fees
- Can accrue while not being paid
- Project to pay direct costs such as Executive Director

**Development fees**
- Typically up to 45% of fees paid at financing
- Remaining fees paid from bond proceeds and/or initial entrance fees upon reaching certain marketing/occupancy milestones

**Liquidity Support Agreement**
- Goal to minimize LSA (threshold to rate penalty);
- Optimize funded/unfunded mix
- LSA (undrawn amount) can burn off upon project stabilization and achievement of financial covenants for two consecutive years

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</tbody>
</table>

**Average**
- 141,912
- 5.382
- 6.199
- 1.20
- 180

**MPTF Project**
- 300,000
- 3,000
- 4,000
- 1.20
- 120-180

(1) The initial testing requirement at first year of stabilization is a 1.10x, increasing to a 1.20x in year two and thereafter
(2) Preliminary estimates, subject to change

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Source: Ziegler Investment Banking
Non-Profit Growth Through New Campus Development

Partnering with experienced professionals is key
◦ Reduces risk of failure or suboptimal performance
◦ Should have a positive impact upon seed capital funds/costs

Current environment generalizations
◦ Interest rates are near historical lows
◦ Construction costs are rising fairly rapidly as the economy heats up
◦ Owning land outright is a huge advantage

Post-crisis assumptions have changed:
◦ Working capital projections and cushion are critical
◦ 36-month assumed fill-up timing, base case. Sensitize to 48 and 60 months
◦ Sponsor role has changed
◦ Pre-sale levels are higher and pace will be scrutinized
◦ Entry fees relative to average home values will be scrutinized

Source: Ziegler Investment Banking
Financing Considerations for Start-Up CCRCs/Life Plan Communities

Entrance fee based LPCs are the typical model financed in tax-exempt, public markets

- 10% of the entrance fee is deposited with the owner, signifying a “strong commitment” by a future resident
- Entrance fees “self-capitalize” these projects, allowing close to 100% financing in the bond market. For-profits by comparison use banks, which generally require 25-35% equity.

Key risk areas include: successful pre-sales, successful construction, and successful fill-up.

Financing of project typically contingent upon:

- Securing land – option or purchase
- Full entitlements
- Construction contract locked (Guaranteed Maximum Price Contract, or GMP)
- Units pre-sold with meaningful deposits (70-75% in today’s post-recession market)
- Shovel-ready
- Generally 3-5 year process for most greenfield projects

Start-ups are structured with a combination of Temporary Debt (to be retired as new entry fees are collected) and Permanent Debt (intended to be amortized for full term to maturity and supporting by ongoing project cash flow)

Bond proceeds will cover construction costs, pre-development and marketing costs, and financing costs, as long as project cash flow is sufficient to cover the Permanent Debt at a minimum 1.30x debt coverage ratio. If not, equity is required in an amount necessary to allow the project at least a 1.30x debt service coverage ratio.

Liquidity target is 30% cash to Permanent Debt in the first full year of stable occupancy (usually 93-94%). Sources of this cash:

- Final entrance fees collected and not used to pay Temporary Debt
- Operating Reserve funded with entrance fees prior to debt redemption. This fund serves as a back-up protection for owner and lenders but is not expected to be used.
- Any excess cash flow from operations than can be generated as cash flow break-even is exceeded.
Example Entrance Fee Waterfall

The Obligor receives initial entrance fees and transfers them to the Master Trustee within 5 business days ($255.22 million total entrance fee pool at 100%) ($242.45 million total entrance fee pool at 95%).

Master Trustee Deposits Initial Entrance Fees into the Entrance Fee Fund upon receipt from the Obligor. The Master Trustee will apply the Initial Entrance Fees as shown below.

To pay Refunds prior to Occupancy (As required by Residency Agreements)

Working Capital Fund $19,350,000 8%

Operating Reserve Fund ("OPRF") $5,000,000 (excludes replenishment) 10%

Liquidity Support Fund ("LSF") For reimbursement of draws on the Liquidity Support Agreement prior to opening (not to exceed the initial funding amount)

Temporary Debt Redemption Debt Service Reserve Funds will be released at the final redemption date of each temporary debt component. Par amounts to be redeemed are:

Unrestricted Cash to Obligor Remaining proceeds of initial entrance fees

50% 75% 85%

$107,000,000 Series 2021B-3 Bonds; less Debt Service Reserve Fund $3,745,000

$47,000,000 Series 2021B-2 Bonds; less Debt Service Reserve Fund $2,680,000

$26,000,000 Series 2021B-1 Bonds; less Debt Service Reserve Fund $1,137,500

$38,425,250 (at 100% occupancy; assuming no LSA or OPRF replenishment)

$25,664,613 (at 95% occupancy; assuming no LSA or OPRF replenishment)

Includes 50% of development fees ($3.95 million)

Not subject to replenishment. 20% cushion over projected need.

(Estimate based on forecasted operations through stabilization)

Funded once at $5.0 million and then subject to replenishment

(Estimate based on size of initial EF Pool)

Fund will automatically be swept. The temporary debt components will be redeemed on a monthly basis, subject to the limitations described herein in the order shown to the right.

Once the preceding items are satisfied, all future entrance fee proceeds can be used by the Obligor as unrestricted cash.

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Not subject to replenishment. 20% cushion over projected need.

(Estimate based on forecasted operations through stabilization)

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Once the preceding items are satisfied, all future entrance fee proceeds can be used by the Obligor as unrestricted cash.

Source: Ziegler Investment Banking

(1) Occupancy percentages would be higher in the event of a replenishment of the LSF or OPRF. See "RISK FACTORS - Delay in Payment of Temporary Debt."
Success/Failure Indicators

Successful new campus projects at a minimum include:

◦ Solid market demand study which is then proven through a priority deposit campaign and a pre-sale conversion process with good momentum and with ability to replace cancellations, showing depth of market early in development
◦ Team members with industry experience – for example, if skilled care is included, an architect with experience designing and gaining approvals for skilled units is key
◦ Sponsor and partners with influence in the local market to gain entitlements and to run interference on barriers which may arise (such as parking/traffic issues, for example) – entitlement delays cost money
◦ Good subcontractor coverage on various aspects of the GMP, and a contractor with extensive network of subs – loss of subs has been an issue in recent times with “hot” construction markets
◦ Careful examination of the budget by experienced professionals to ensure no major line items are missed
◦ Professional experts handling marketing/pre-sales, which will be ongoing for as long as 5-6 years; knowledge of the local market and the product being sold are both critical
◦ Construction execution within budget/contingencies
◦ Fill-up execution, which is driven by the marketing team filling cancellations and continuing to sell during construction
◦ Adequate cushion in entry fee waterfall

Troubled development projects have included some of the following issues:

◦ Market proves to be thinner than expected, and cancellations are difficult to replace
◦ Longer than expected fill-up, eating into cash set aside for working capital (this was the majority of projects that opened during the recession)
◦ Subsurface issues not identified during soil borings, which led to major cost overruns in construction
◦ Missed line items in the construction budget, leading to inadequate funds or follow-on debt issues
◦ Delays during construction due to subcontractor shortages
◦ Failure to manage change orders, or construction budget in general
◦ Failure to manage costs during fill-up in order to stay within pre-funded working capital budget
◦ Changes in Board leadership and/or management which disrupted development or changed sponsor’s commitment to project

Source: Ziegler Investment Banking
ASU Mirabella Case Study

The Project:
$239 million financing for not-for-profit new campus CCRC in Tempe, AZ

Mirabella at ASU, Inc., a new Arizona NFP corporation was established for the purpose of developing, owning and operating Mirabella at ASU.

- Pacific Retirement Services, Inc., an Oregon NFP corporation established in 1990, is the sole corporate member of Mirabella at ASU.
- Mirabella at ASU will be the 11th CCRC owned and operated by Pacific Retirement Services Type A CCRC comprised of 252 ILU apartments, 11 ALUs, 20 MCUs and 21 SNF beds on an 1.9 acre site in Tucson, AZ owned by Arizona State University.
- Mirabella at ASU entered into a ground lease with ASU
- ILUs were 65% pre-sold by the pricing date.

Pre-financing costs were covered through a joint-venture between ASU and PRS. Total pre-finance capital detailed as follows:

- $26.5 million in pre-finance capital provided by PRS
- $6 million purchase of sub debt
- $3.6 million deposit to working capital fund
- $8 million deposit to LSA
- $8.9 million of deferred development fees
- $13 million in pre-finance capital provided by ASU
- $7 million land lease payment contributed back by ASU; no ongoing lease payments required
- $6 million purchase of sub debt

The Structure:

Non-rated, tax-exempt fixed rate bonds

Temporary Debt: $157 million
- non-rated tax-exempt fixed rate bonds to be redeemed with entrance fees at approximately 85% occupancy of the new ILUs.

Permanent Debt: $82 million
- non-rated tax-exempt fixed bonds amortizing over 35 years.
- Top yield: 6.09%
- $6.03 million Max. Annual Debt Service

Pro Forma DSC-MADS (2023): 1.61x
Pro Forma DCOH (2023): 508
Pro Forma Cash-to-Debt (2023): 42%
Steve joined Kendal’s corporate staff in 2012 as Project Director and has directed major expansion and repositioning projects for several Kendal communities, including Kendal on Hudson and Kendal at Ithaca. He also has served as a key resource for planning and developing new Kendal communities, including development plans for Kendal at Sonoma in northern California in partnership with the San Francisco Zen Center.

Steve’s experience includes more than 30 years in real estate development and planning. During his career, he has had the opportunity to direct multiple large commercial, residential and institutional projects throughout the eastern United States from concept development through construction and occupancy. A Licensed Landscape Architect, Steve earned his undergraduate degree in Landscape Architecture from Michigan State University and an MBA from the Whittemore School of Business and Economics at the University of New Hampshire.

He is a member of the Society for the Advancement of Gerontological Environments and the Urban Land Institute, and he has participated in panel discussions and presentations at national annual meetings of LeadingAge. Steve is a past Certified Commercial Investment Member (CCIM) and is a past member of the boards of directors of the Pennsylvania/New Jersey/Delaware chapter of CCIM and of the Philadelphia chapter of NAIOP, the Commercial Real Estate Development Association.
Colleen leads Kendal’s marketing and communications team and develops marketing, sales, communication and public relation programs and systems to support the organization’s strategic direction and align each affiliate’s marketing and sales plan and activities with Kendal’s short- and long-term objectives. She also promotes and protects Kendal’s brand, oversees the planning, development and execution of national marketing, sales and advertising initiatives for the Kendal System as a whole and helps affiliates conduct market research and develop sales strategies specific to their markets and specific needs.

Colleen joined Kendal in 2016 after 13 years leading the marketing and sales operations, along with other evolutionary initiatives, at Goodwin House, a well-respected and successful not-for-profit organization that has grown to provide an array of services, communities and programs for older adults in northern Virginia.

Colleen earned a bachelor’s degree in sociology/gerontology, with additional concentrations in women’s studies and biomedical ethics, from Trinity College in Washington, D.C. She also has done master’s level coursework in long-term care administration at the State University of New York in Utica and has been licensed as a nursing home administrator in Virginia since 1995.
Laura Jones is a seasoned researcher with an impressive career in the senior living industry and expertise in all aspects of senior living research, sales and consulting. As a former Marketing & Sales Director, Laura has practical experience in senior living marketing and sales and is an expert at uncovering insights that lead to a better understanding of both the market and the consumer.

Laura’s most recent experience includes working with Retirement DYNAMICS as a Senior Marketing Consultant and Market Intelligence Specialist and with Brooks Adams from GlynnDevins as a Research Director and Sales Specialist. In her roles, Laura was responsible for all aspects and tasks related to market research and analysis, she provided on-site sales training and coaching for clients and she used her industry experience and research knowledge to provide critical consulting services.

Prior to joining Brooks Adams, Laura was a Senior Sales Advisor with Love & Company, Inc. providing onsite sales services for a prominent Continuing Care Retirement Community. Laura also served as a Market Strategist for Brecht Associates, Inc., with responsibilities including the creation of comprehensive reports to provide senior housing clients with a better understanding of their markets and the customers they serve in order to plan for the future and garner financing. Previously, as Director of Marketing and Sales for Sunnyside Retirement Community, Laura provided sales leadership and implemented a comprehensive sales training program for the community’s senior living counselors, and amongst other accomplishments, achieved more than a 75% presale level for a challenging expansion during her tenure as Director of Marketing and Sales at Westminster-Canterbury of the Blue Ridge.
For the past 30 years Leslie has devoted her career to designing buildings and spaces for seniors and special needs housing communities. Her award-winning work involves the full continuum of care facilities, from active adult to senior centers, independent living, assisted living, Alzheimer’s care, skilled nursing environments, and continuing care retirement communities.

Considered an expert in her field, Leslie regularly speaks at national conventions concerning the latest trends in senior living design and she is past chair of the AIA’s Design for Aging Knowledge Community promoting research, education, and conferences to raise the bar of design in senior living communities.

SENIOR LIVING: Paradise Valley Estates, Fairfield, California 8 Acre campus master planning and conceptual design project. The site requires renovation of existing buildings and design of new buildings. This master plan includes 9 different apartment types, 3 cottage types and includes a range of amenities such as classrooms and a large clubhouse. This project required early on community outreach sessions and participatory design effort from stakeholders, residences, and the facility.

Transforming Age: Parkshore Campus, Seattle, Washington Created vision for the 21st century, including extensive board and resident involvement. Effort led to modernization of the kitchen, dining rooms, living room, administrative offices, front lobbies and the Sky Lounge.

Apple Valley Vitalocity, Apple Valley, Minnesota Created a guideline inclusive of input from politicians, chamber of commerce members, city staff, and residents to address how to make Apple Valley a community for all ages.
Mary Muñoz joined the senior living team at Ziegler in 1999. She manages the western region of Ziegler’s senior living practice and is one of three co-leaders of the national practice.

Mary works with a broad variety of senior living communities and multi-facility systems in strategic planning for growth, as well as creative financing strategies. She has extensive experience with start-up CCRC projects, campus expansions and redevelopments, and refinancings. She also specializes in financing senior living mergers and acquisitions, and in strategic and capital planning consulting services. Mary’s senior living bond transactions since joining Ziegler total over $6.0 billion in par amount.

Prior to joining Ziegler, Mary spent 12 years in a variety of healthcare lending and corporate finance roles. Immediately prior to joining Ziegler, she was a managing director in KPMG’s Health Ventures practice. She worked with clients on strategic capital planning, private equity financing, and business plan development. While at KPMG, she structured and executed over $500 million of senior and subordinated debt offerings for healthcare clients. Prior to joining KPMG, Mary managed the national healthcare finance groups at Wells Fargo Bank and The Bank of Nova Scotia, raising over $5 billion to fund healthcare provider mergers and acquisitions and leveraged recapitalizations.

Mary is a frequent speaker at state and national conferences on a wide variety of senior living topics, and has published numerous articles on senior living finance and credit topics. She received a B.A. and a M.B.A. from Emory University, Atlanta, Georgia.
Sarkis Garabedian is an investment banker specializing in serving the needs of senior living clients throughout the Western United States. In his 15 years as an investment banker, Sarkis has sourced over $3.5 billion of capital for a wide variety of healthcare and senior living organizations. Sarkis is based in Seattle and joined the Ziegler senior living investment banking team in 2013. Prior to joining Ziegler, Sarkis worked as a healthcare investment banker for over nine years covering the West Coast.

Sarkis has extensive experience working with senior living and healthcare providers to provide customized financing plans to best meet and balance their near term capital objectives with their long term strategic goals. His senior living experience runs the full spectrum of projects, including new campus, expansion and repositioning financings. He is proficient in leading complex fixed- and variable-rate public bond offerings and private placements, while providing credit, legal and refunding analyses to help evaluate potential impact to credit ratings, market access and cost of capital. Sarkis also has considerable experience negotiating credit facilities and favorable covenant, security and legal structures for the benefit of his clients.

Sarkis regularly speaks at Board retreats and industry conferences with topics ranging from industry strategy and trends to capital market conditions and financing vehicles.

Sarkis is a member of LeadingAge and serves as a frequent speaker at industry conferences. He received a B.A. in business administration with a concentration in finance and an M.B.A from Western Washington University. He holds Series 7, 79, 63 and 65 securities licenses.
Discussion