

The top performers in today's assisted living market are stressing the basics, like high-quality care and services, while employing manageable growth strategies.

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LYNN WAGNER



More than a year ago, Benchmark Assisted Living took the unconventional step of eliminating its marketing department. At a time when many operators are struggling to boost occupancy and ride out an economic slump, it was a “counterintuitive” measure, says Thomas Grape, founder, chairman, and chief executive officer (CEO) of the Wellesley Hills, Mass.-based company.

Benchmark supplanted its marketing efforts with an intensive, finely tuned sales initiative, aimed at following up on leads more thoroughly, setting clear expectations and standards for the sales staff, and spending more time in direct contact with customers. For example, the company now categorizes leads into various levels of move-in potential and sets requirements for the number of follow-up calls the sales staff must make based on the probability of converting a lead to a move-in.

The result: Occupancy is up.

“We used to have on-site salespeople spending more time than they ought to on marketing activities” such as ad placement, Grape says.

Those efforts were designed to generate leads, but lead genera-

tion was not a problem for the company. In fact, Grape says, many assisted living providers probably have more leads than they recognize. "I'm not sure a lot of people suffer from a lack of leads," he says.

Benchmark operates 35 assisted living properties in seven New England states and New York. Average occupancy in properties that it owns and operates is an impressive 96 percent, achieved without resorting to rent discounts, Grape says.

Organizational Infrastructure

Grape attributes Benchmark's success not only to its sales approach but to its longstanding effort to keep the company's organizational and infrastructure development in line with its business goals and growth. The company invests heavily in staff and managers and in making its values "come to life," Grape says.

Over the past two years, while many assisted living operators have faced escalating financial and operational challenges, Benchmark's business has "never been stronger," Grape adds. Since its inception in 1997, it has grown to a \$100 million company that is not just surviving, but thriving in a marketplace that is currently viewed as being fraught with hazards.

"If you look at the assisted living business, while there are clearly challenges, and in some instances very severe challenges, companies that grew at modest levels really have been okay," says David Schless, president of the American Seniors Housing Association (ASHA) in Washington, D.C. "Some have done extremely well in the past several years."

Qualities For Success

While many factors explain the success of assisted living companies that have fared well in a market whose highs and lows in recent years could be measured on a Richter scale, experts point to three key differentials: a strong management team committed to high-

quality care and services, a manageable growth strategy, and an understanding of how to operate effectively in the local market.

"Clearly there are some operators out there with healthy occupancies, who are doing well and not having problems with access to capital," says Robert Kramer, president of the National Investment Center for the Seniors Housing & Care Industries (NIC), Annapolis, Md., which tracks the assisted living market. These companies have a "strong management team with a strong focus on operations," in addition to an "understanding that this is all about providing care," Kramer says. They have also been able to "find a niche and communicate that to the market," he adds.

Standouts In A Troubled Market

Assisted living's high performers are found across the spectrum of providers, from large companies to regional and small operators.

At Aegis Assisted Living, for example, nearly two-thirds of properties are more than 92 percent full, with seven properties at 100 percent occupancy. The rest are in "fill-up" mode, says Dwayne Clark, co-founder and CEO of the Redmond, Wash.-based company, which operates 21 assisted living communities in California, Washington, and Nevada.

Communities that have been open for 30 months or longer are all in the 90th percentile, says Clark.

Though the company has moved away from new construction and shifted to a growth-through-acquisitions strategy, it continues to build about two properties a year, says Clark. Aegis expects to operate 30 or more communities by year's end, adding properties through acquisition and management contracts.

Aegis is seeking to acquire under-

managed communities that can be brought up to Aegis standards with sound management and a moderate capital investment, says Clark. It is looking for properties in its target markets that are more than 60 percent occupied,

located in metropolitan areas such as Los Angeles and San Francisco, and less than 10 years old. Aegis made its first acquisition in March, recently closed on a second, and has offers on four more. The company isn't striving to be the biggest, says Clark, but it does want to be among the best.

"Our goal is to be a quality provider" with a "company culture that's very positive" and ensures that residents get the best service, says Clark. He sees Aegis as a "boutique" seeking to be the "provider of choice in every market we serve. To do that, we have to have the best people," he says.

Aegis' annual turnover is a low 22 percent to 50 percent, and in June it was chosen as the best company to work for in Washington state by *Washington CEO Magazine*, beating out companies like Nextel and other technology, manufacturing, construction, and a mix of professional firms for the top spot.

"We don't want to be just a great assisted living company, but a great company, period," Clark says. "To that end, we want to be a great employer for our employees." Clark also expects to make *Inc.* magazine's 2003 top 500 list of fastest-growing private companies. In the past five years, Aegis revenue has soared more than 23,000 percent.

Shift To Management Contracts

Sunrise Senior Living (formerly Sunrise Assisted Living) is breaking the norm with continued brisk expansion, including the construction of up to 30 new communities a year, says Paul

Klaassen, chairman and CEO of the company, which is widely viewed as one of assisted living's greatest success stories.

In March, Sunrise completed the acquisition of Marriott Senior Living Services for \$150 million, adding management contracts for 126 communities in 29 states, with a capacity of more than 23,000 to its portfolio. The deal brings the total number of Sunrise communities to 335, with a capacity of about 40,000 and an average occupancy in the low 90s. The transaction dramatically advances Sunrise's strategic shift toward the assumption of long-term management contracts and away from ownership of assisted living communities.

"There is less volatility to management services revenue," says Klaassen.

"It is more stable with almost no debt." Klaassen attributes the success of the company, whose revenue is projected to top \$1.5 billion in the wake of the Marriott deal, to a relentless focus on "resident-centered senior living" and a successful growth model. Sunrise has focused on building communities in clusters in major metropolitan markets, making it economically feasible to develop regional infrastructures to support those communities and build name recognition in select markets.

The focus on resident-centered care and services "drives everything," says Klaassen, from how buildings are designed, lighted, located, and run, to the approach to assistance with activities of daily living. "A resident-centered approach should look and feel different at the end of the day—and

will produce a different income statement and balance sheet," he adds.

Back To Basics

At American Senior Communities in Indianapolis, Ind., many of the company's 14 facilities are 100 percent occupied with a waiting list. Two others that have been in fill-up mode for a couple of years are at 95 percent, says Christine Shuey, director of operations for independent living and assisted living.

"We're locally owned and operated," says Shuey. "Our philosophy is getting back to basics, which means hiring the right people through a selective hiring process, then providing the comprehensive training to ensure that we have compassionate and sensitive care provided to our customers." The company



LENDERS OPTIMISTIC ABOUT

National lenders are making a cautious comeback to the assisted living market, in search of borrowers with a solid track record and attractive deals.

While investors continue to be wary of new construction, there is strong and growing interest in financing acquisitions for operators that can demonstrate success in managing properties.

As occupancy rates tick slowly upward again, the "signals are neutral to positive for the assisted living industry to continue to move along in a stable fashion," says Ray Lewis, senior vice president and chief investment officer for Ventas, a real estate investment trust in Louisville, Ky.

According to the most recent financial and performance indicators gathered by the National Investment Center for the Seniors Housing & Care Industries (NIC), Annapolis, Md., loan volume placed for the fourth quarter of 2002 was up 53 per-

cent, while capital placed in the sector increased 26 percent from the previous quarter.

Most construction loans went to continuing care retirement communities, while independent living accounted for a big chunk of the permanent debt increase, NIC reported in April. In assisted living, short-term debt increased by about 13 percent, which likely included rewrites or renewals due to low interest rates, NIC said.

Showing Increased Interest

As the market stabilizes, Ventas is "very interested in making investments," and the only reason it has not put more money in assisted living this year is that many transactions in the marketplace, Lewis says. "Marginal performers can limp along in a low-interest-rate environment," rather than selling properties at a

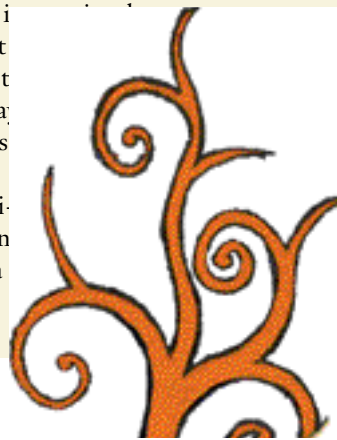
loss. The company has reviewed several transactions this year that have fallen through over differences between the bid and asking price.

GE Healthcare Financial Services is "bullish on the industry and continues to be very active in terms of loan origination," says Curt Schaller, vice president.

In a strong signal of the resurgence of interest in assisted living, GE Healthcare Financial Services is launching a permanent debt financing program that will open up a new source of long-term fixed-rate financing for assisted living operators, who in recent years have been limited to

for such financing: Fannie Mae and Freddie Mac. Those behemoths are "very conservative in financing assisted living" and tend to focus only on large organizations, Schaller says.

GE's new program will open the doors to small companies, with as few as



provides a spectrum of care and services, from independent living to nursing facility care, in some locations on a single campus. With the exception of one West Virginia community, all American Senior Communities are in Indiana. Strong community ties are critical to the company's success, says Shuey. The company partners with other health care providers to form referral networks and, in some cases, management contracts with hospitals that own a seniors housing community. American Senior Communities offers rehabilitation services for short-term patients for up to 20 days.

"Our business is about building relationships and trust," Shuey says.

The company focuses intensely on generating and managing leads. It uses a software program to track leads so

that potential customers "don't get missed," Shuey says. "We get to know them on a personal basis" and help them identify needs and solve problems, she adds.

American Senior Communities is growing in modest increments, with plans to break ground on a new community this year. In January, it acquired a full-continuum campus and continues looking for new opportunities, Shuey says. While financing is a challenge, the ongoing success of the company opens the door to lenders and "allows the owners to still grow the business," she adds.

Assisted Living In Transition

There is no simple way to sum up the state of assisted living. Experts describe a business in transition, where average

occupancy rates are stabilizing but far from healthy; where the building spree of the latter half of the 1990s has ground to halt but left many markets bursting at the seams with capacity; where a depressed economy has created hardship for operators that need to fill units but kept interest rates low enough to fend off widespread foreclosures and rampant selling; and where operators' strategic focus has shifted from growth and expansion to strengthening operations.

According to the latest data from NIC, which provides quarterly updates on key financial indicators in seniors housing and care, the median occupancy rate for stabilized assisted living properties was 86 percent in the fourth quarter of 2002, a 2.5 percentage point increase from the previous year. The

ASSISTED LIVING

five to 10 properties. "Our program is available to the whole spectrum of seniors housing operators," Schaller says. GE is comfortable with small organizations because it has the "experience and resources to get in there and understand those companies," Schaller adds.

GE's "bread-and-butter product" has long been bridge financing, Schaller says. Broadening its product line to include permanent debt financing sends a "strong signal that experienced lenders feel the long-term dynamics of this business are strong," Schaller says.

CapitalSource Healthcare Finance is on the lookout for bargain-priced properties, says Jim Pieczynski, director of real estate. The lender has done a "very good job financing facilities at substantially less than what it cost to build them originally," he says. "If you're in a market where there is another assisted living facility that spent \$80,000 a unit [to build], and

we're financing [a competing facility] at \$40,000 or below, that puts our borrower at a significant advantage, because they will have a much smaller mortgagee payment to make."

Pieczynski expects to find a growing number of these opportunities as the impact of overbuilt markets plays out.

Seek Experienced Local Operators

CapitalSource is primarily interested in working with regional private operators that have run facilities in the region and understand the regulatory arena.

"We're a strong believer that the assisted living business is a very locally driven market," Pieczynski says. "You need to know that local market and be ingrained in the community. By being regional and private, an operator puts himself at an advantage over a more far-flung organization."

Assisted living operators that seek financing from CapitalSource should be prepared to demonstrate a signifi-

cant financial commitment to the project, with at least a 20 percent investment, Pieczynski says. In addition, CapitalSource will look at how an operator has performed in running and filling other facilities in the area. Borrowers will be expected to back their projections for a particular project with past financial statements to show that, based on their track record, "what they think they are going to be able to do is not unreasonable," says Pieczynski.

CapitalSource is interested in financially underperforming properties that are stuck at a 60 percent to 70 percent census and could be turned around with an infusion of sound marketing and that have a program director who understands and is in touch with the local community.

"The long-term trend [for assisted living] is a positive one, in that demographics are in favor of assisted living," Pieczynski says. "I expect that to continue and to increase as time goes on."

data suggest that the freefall of occupancy rates may be over, but they still have not recovered to a sustainable level, says NIC's Kramer. An 86 percent occupancy rate may provide bare-bones cash flow, but it is not sufficient to generate a return on equity or cover debt service, especially if interest rates rise.

To do that, "we need to see [occupancy] numbers in the high 80s, low 90s, and above," says Kramer.

Preliminary data from the "2003 Seniors Housing Construction Report," produced annually by ASHA, reflect a continued construction slump. The report found only 6,147 assisted living units and 71 new properties under construction. That is significantly more than the 3,627 units and 43 properties built in the previous year. But in 2002, ASHA reported a virtual collapse of new construction, with a 69 percent drop in the number of new freestanding assisted living residences from the previous 12 months. On the heels of that dramatic decline, this year's increase does not add up to a turnaround. It's unlikely that building will exceed modest levels in the near term, says ASHA's Schless.

Financing Extremely Tight

In secondary and tertiary markets, assisted living operators with a good track record and strong relationship with a local lender are still able to find financing for new construction, says NIC's Kramer. But most national lenders are shunning construction, making it nearly impossible to get financing for a new project, he adds.

"A lot of people are trying to digest what they have and fill up what they currently have," says Jim Pieczynski, director of long term care investments in the Los Angeles office of Capital-Source Healthcare Finance.

A lackluster economy and poor-performing stock market have added to the pressures on assisted living operators, experts say. While there is no empirical data linking the sluggish

economy to depressed move-in and occupancy rates, there are widespread anecdotal reports that seniors are delaying their move as investment portfolios erode and assisted living becomes less affordable for seniors and their adult children, who often help finance the cost.

"Assisted living is probably more recession-proof than a lot of segments of the U.S. economy," says Schless. "But it's not completely immune to what's happening economically."

"People are waiting longer to make a decision to move [into assisted living]," says Susan Brecht, of the Philadelphia-based consulting firm Brecht Associates. "They are spending down income and even assets more readily than before. They are anxious about making the decision because of the cost," especially now that "family members don't have quite the elasticity to provide as much help."

Furthermore, while assisted living remains a "need-driven" product, many operators have had to offer rent concessions to move units, says Ray Lewis, senior vice president and chief investment officer for Ventas, a real estate investment trust in Louisville, Ky. As a result, the economy has had a "depressing impact" on many properties.

There has been an upside to the sagging economy, however, as low interest rates relieve the strain on financially troubled properties, observers say. Despite a "bit of negative cash flow," many properties that cannot fully support their debt are nevertheless able to hang on and see whether they can ride out the slump, says CapitalSource's Pieczynski.

"The low-interest-rate environment now is an unbelievable friend to assisted living," he adds. "The minute that

turns around, it will change the dynamic significantly."

An April report on seniors housing acquisitions, published annually by Irving Levin Associates in New Canaan, Conn., found that the sale price for assisted living units plunged 23 percent last year, after five years of steadily increasing prices. The

average price paid for assisted living facilities fell to about \$65,200, from \$85,500 in 2001. Stephen Monroe, editor of the report and a partner at Irving Levin, says plummeting prices stem from the number of financially troubled facilities coming on the market and do not reflect the overall state of assisted living, or impact the value of solid performers.

"The significant [price] drop is purely an indicator that there are a lot of distressed properties out there and they are finally being sold," says Monroe. "It doesn't mean the sector is suffering because these properties are suffering." Properties that are stabilized with good occupancies have held their value and are still worth a lot in the marketplace, Monroe says.

Monroe said the volume of distressed sales would be much greater if interest rates spiked up. "We would see more distressed properties on the market and more foreclosures," he says.

Winning Strategies

Assisted living operators that have maintained their strong performance in a troubled market have done so to a great extent through vigilance over day-to-day operations.

At Aegis Assisted Living, for example, CEO Clark has launched three key initiatives in the past year aimed at strengthening performance and operations. Last year, he personally began an audit of resident care files to determine

whether charges accurately captured the level of services individuals received, particularly as their needs increased.

Clark found that while care needs were being met, they weren't always accurately reflected through a timely reassessment. As a result, some residents were getting care for which they weren't charged because, he concluded, nurses who are "trained to be caregivers, to nurture, love, and care for people" were not prepared to ride herd over the financial implications of reassessing residents. Nurses, and to some extent administrators, who form emotional attachments to residents and family members "don't really like reassessing [residents] and calling family members to say, 'Your care went up on Thursday by \$300, and you have to start paying that right away.'"

Clark hired an outside nurse-consulting agency to "really inspect care fees." The agency applied a combination of business and clinical skills to the task of determining whether care fees were accurately priced, up to date, and timely. The result was a \$300,000 increase in monthly care fees.

No residents moved out in response to the fee hike, Clark says. While people might move when rents go up, they are less inclined to do so when care fees rise because they realize they are getting more services—and in some cases have been getting those services free of charge for a period of time.

Aegis continues to conduct audits periodically. "The most important part [of the process] is that it makes us hyper-diligent in tracking exactly what care needs people have," says Clark. "If we don't have that charge, we don't get the staff needed" to deliver the care.

In late January, Aegis launched an initiative in response to consumer concerns about rent increases by offering 5 percent of its residents the opportunity to prepay their rent for two or three years in exchange for a guarantee that their rent would not go up during that time. The program filled up in about

six weeks. While residents may still face increases in care fees, it "allows people to have peace of mind" that they won't have the added burden of an 8 percent rent increase, says Clark.

The Importance of Administrators

A third initiative, which is part of Aegis' unflinching commitment to attracting and keeping high-quality staff, was an intensive review of how the company's executive directors were evaluated and compensated. The result was a "substantial upgrade" in pay, says Clark. While the average assisted living administrator's salary is about \$47,000 a year, Aegis' average salary now ranges from \$80,000 to \$95,000. With bonuses, the average administrator "should easily make six figures," and the best ones are making \$130,000, Clark says.

"The administrator is the key to resident satisfaction, family satisfaction, and licensing [agency] satisfaction," says Clark. "They are your field CEOs, and one thing I'm committed to is not skimping on that person."

Today's administrators must be business-savvy leaders who "know how to read a financial statement and absolutely maximize the benefits of that business," Clark says. With its pay upgrade, Aegis is "buying skill sets and core competencies" essential to the effective operation of assisted living communities. "These are professional managers," says Clark, adding that he recently interviewed an individual who had previously run a \$27 million hotel. "Our [administrators] are usually the equivalent of a vice president in most other companies," he says.

Assisted living providers that are struggling to keep occupancy levels as high as possible can take a variety of steps to maximize those efforts, say consultants in the field. Among facilities' most critical referral sources are

satisfied customers who convey their good (or bad) experience by word of mouth, says Margaret Wylde, president and CEO of the ProMatura Group, a research and consult-

ing firm in Oxford, Miss. Advertising is important in markets where name recognition hasn't yet been established and consumers are not familiar with a particular assisted living community. In general, however, providers that succeed in pleasing family members, and making them "feel at home when they walk through the door," have a much more robust referral network, says Wylde.

One thing communities can do to strengthen family bonds is communicate with them on a regular basis, as opposed to only when a crisis erupts, Wylde says. Assisted living providers should maintain e-mail addresses for family members and make a point of sending them an occasional note communicating some positive "tidbit" of news about their loved one, she adds.

This type of message might say something like, "I just saw your mom in the dining room, sitting with so and so, having such a good laugh that I had to see what they were laughing about," Wylde says. "What daughter wouldn't feel good about that?" she adds. Adult children who receive these messages in the workplace are bound to share their experience with co-workers of the same age, some of whom may one day seek assisted living for their own parents, says Wylde.

Keeping Family Members Involved

Providers should also make it possible for family members to easily interact with residents and be involved in the life of the community. Instead of focusing on big events and activities, let family members organize a potluck dinner, Wylde suggests.

"We are doing focus groups with families across the country," Wylde

says. "They would like to be more involved but don't know what they can do." Families "will carry so much of the burden" in a community that fosters an "interactive life," she adds.

The focus on family members is part of what providers should be doing to pursue marketing leads, since more than half of referrals come from families, Wylde says.

It's also important to make a good first impression by keeping properties "at peak performance" and being responsive to prospective customers from the minute they walk in the door or phone with an inquiry.

Many assisted living communities put the phone on voice mail during the evening and on weekends, Wylde says. This can lead families who call during those times to think they will be unable to reach a resident or contact

someone on site when a need arises.

"When someone calls and needs something, they want to be able to fill that need right then, not when it's convenient for you to call back," she says. "That first impression has to be right on target. The more distant or cold it is, the less likely it is that you will get people through the door."

Focus groups have found that when people are asked why they didn't choose a particular facility, it's often because their phone call was not returned, or the person who answered the phone wouldn't give them the information they needed, or was unfriendly, Wylde says.

Tapping Into Referral Sources

It's also important to nurture community referral sources, says Brecht. Being a good performer "has a lot to

do with quality and the constancy of local linkages.

Assisted living providers can boost referrals by affiliating with a local hospital or, more directly, "putting an admission coordinator in the local rehab facility several days a week," so that "you are known to discharge planners who have your name at the top of their list of places to look at," says Brecht.

Assisted living facilities should maintain routine communication with physicians and care managers, she says.

"Bring them a picnic basket with lunch, just to treat them," she says. "Being actively involved on a day-to-day basis in the community will help keep your place full. A lot of people are not as hands-on as they need to be with that. When we say get someone hands-on in a rehab facility, we mean it. If you have someone talking to discharge planners, you get discharges."

In addition, the generation and follow-up of leads should be constant, Brecht says, pointing out that a facility that turns over 50 percent or more of its beds each year is never in a maintenance mode. One of her clients in San Antonio, Texas, with 99 percent occupancy, has two full-time marketing directors, one to handle tours and one to take calls and go out into the marketplace.

"You have to go the extra mile," Brecht says. "If people want to tour on Saturday, be there on Saturday."

Alice Katz, president of The Vinca Group in Owings Mills, Md., advises assisted living operators to resist the urge to cut their marketing budgets, though it might be a tempting option for short-term savings.

"People may think they are making a short-term reduction in costs," says Katz. But three or four months later, when lead generation has fallen off, providers will find that it is "not an effective strategy." ■

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