Strategic Planning

First step to [RE]positioning and [RE]novating your community. A Case Study

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Who We Are

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Life Care Services

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Life Care Services

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Vice President / Director of Business Development
LCS
Introduction to Cain Brothers

Cain Brothers is a leading investment bank focused exclusively on the health care industry

- An employee-owned firm providing investment banking services to a wide range of health care clients
- One of the largest, most experienced teams of health care bankers in the industry
- Pacific Northwest Senior Living Clients include: Horizon House, Riverview Retirement Communities, Mirabella Seattle, Mirabella Portland, Holladay Park Plaza, Cascade Manor, Rogue Valley Manor, Pacific Retirement Services and Dallas Retirement Village
What We’ll Cover

- A Community “Repositioning” Process
- Case Studies
  - Dallas Retirement Village
  - Whitestone
- Financing strategies
- Q/A
What is Repositioning?

- Not always bricks and mortar
- Repositioning includes:
  - Renovation and/or expansion
  - New programs
  - New services
  - Marketing efforts for branding, customer selection
Master Planning / Strategic Planning

- Who are you?
- How do you want to be perceived?
- What are your resources?

Strategic Planning

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Response Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually</td>
<td>32%</td>
</tr>
<tr>
<td>Every 2-3 years</td>
<td>13%</td>
</tr>
<tr>
<td>Every 4 years or more</td>
<td>29%</td>
</tr>
<tr>
<td>Never</td>
<td>26%</td>
</tr>
</tbody>
</table>
Master Planning - Assess the Current Situation

- Market Research
- Competitive Analysis
- Site Analysis
- Building Analysis
- Regulatory
- Financial Feasibility

Consumer Expectations

1. Wellness
2. Culinary
3. Technology
4. Transportation
5. Health Services
## Wellness

- **Most Important Wellness Amenities**
  - Fitness Center: **73%**
  - Walking / bicycle paths: **73%**
  - Pool (indoor): **55%**
  - Garden / green house: **37%**
  - Warm water therapy pool: **35%**
  - Craft / workshop area: **32%**
  - Garden beds (raised): **32%**

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## Dallas Retirement Village (DRV)
DRV – A History

- Location: Dallas Oregon
- Property: 30 acres
- 1947: DRV opened
- DRV is Not For Profit
- All volunteer Board of Directors

<table>
<thead>
<tr>
<th># of Units</th>
<th>Description</th>
<th>Original Construction</th>
</tr>
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<tbody>
<tr>
<td>73</td>
<td>Independent Living Apartments</td>
<td>1985</td>
</tr>
<tr>
<td>45</td>
<td>Assisted Living Units</td>
<td>1996</td>
</tr>
<tr>
<td>15</td>
<td>Independent Living Townhomes</td>
<td>1997-2002</td>
</tr>
<tr>
<td>20</td>
<td>Assisted Living Units</td>
<td>2004</td>
</tr>
<tr>
<td>20</td>
<td>Memory Care Units</td>
<td>2004</td>
</tr>
<tr>
<td>121</td>
<td>Skilled Nursing Beds (replaced existing)</td>
<td>2004</td>
</tr>
<tr>
<td>30</td>
<td>Independent Living Townhomes</td>
<td>2005-2009</td>
</tr>
<tr>
<td>324</td>
<td>Total Units</td>
<td></td>
</tr>
</tbody>
</table>

- 1996
  - A low point
  - Assisted Living opened

- 1997
  - Townhomes

- 2004
  - Nursing home replaced existing
Steps in the Repositioning Plan

• Understanding of Current Situation

• Market Analysis:
  – Target Market and Primary Market Area
  – Demographic and Economic Characteristics
  – Competitive Environment
  – Market Penetration Analyses

• Recommended Project Scope

• Key Considerations and Next Steps

Current Situation

• 360 Residents
  – 45 IL garden homes (completed 2008)
  – 73 IL apartments (opened 1985)
  – 20 MC suites (opened 2004)
  – 121 nursing beds (new health center opened 2004)

• High occupancy. (Average 95% plus)
Current Situation

- Key challenges include:
  - Small apartments (400-685 sq ft)
  - Lack of common space
  - Limited expansion capability
  - Multiple entrances
  - 2014 – refinanced apartments
  - Cash flow challenges
Current Resident Profile

<table>
<thead>
<tr>
<th></th>
<th>Apartments</th>
<th>Townhomes</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Units</td>
<td>73</td>
<td>45</td>
<td>118</td>
</tr>
<tr>
<td>Average Age</td>
<td>86.7</td>
<td>84.4</td>
<td>86.0</td>
</tr>
<tr>
<td>Married (#units)</td>
<td>15</td>
<td>24</td>
<td>39</td>
</tr>
<tr>
<td>% of units</td>
<td>21%</td>
<td>53%</td>
<td>33%</td>
</tr>
<tr>
<td>Average Annual Income</td>
<td>$28,053</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Average Assets</td>
<td>$223,899</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Zip Code Origin</td>
<td>Dallas</td>
<td>Salem</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>54%</td>
<td>11%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>48%</td>
<td>13%</td>
<td>39%</td>
</tr>
<tr>
<td></td>
<td>53%</td>
<td>12%</td>
<td>36%</td>
</tr>
</tbody>
</table>

LCS Survey Key Observations

- Existing residents - Dallas
- Prospects and leads - Salem
- Three most important factors:
  - Quality of staff
  - Personal security/safety
  - Quality of facilities
- Challenges:
  - Location
  - Small apartments.
Key Market Observations

- Target area - Salem
- Current Incomes: $35,000 to $50,000.
- Seniors represent a large percentage of the population in the PMA.
- Growth projections
  - 75+ are low,
  - 65+ are higher and increasing at a faster rate than the total
- Good market!
- Must attract Salem and surrounding area

Competition

- Most are rental and stand alone with one CCRC.
- Mixture of older product and some state-of-the-art.
- Mainly located in the Salem PMA close to primary Acute
- Closest CCRC 13 miles away (Salem)
- Similar communities - not located in the PMA.
- Total competitive units:
  - 196 IL
  - 230 AL
Recommended Repositioning Strategy

**Strategic Decisions**

- Process with Board
- Key decisions
  - More community space
  - “Right size the community”
  - Reduce dependence on state / federal funding
Key Considerations

- **Summary:**
  - Larger apartments
  - Personal security/safety – fewer entrances?
  - Quality of facilities is important
  - Location will be an objection for some Salem residents
- **Apartment vs garden home needs**
- **Match market with expansion**
- **Is it financially feasible?**

### Preliminary Recommended Resident Program

<table>
<thead>
<tr>
<th></th>
<th>Independent Living Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care Benefit</td>
<td>10% discount for 24 months upon permanent transfer</td>
</tr>
<tr>
<td>Food Service</td>
<td>1 meal per day</td>
</tr>
<tr>
<td>Housekeeping</td>
<td>Bi-Weekly</td>
</tr>
<tr>
<td>Utilities</td>
<td>Included</td>
</tr>
<tr>
<td>Basic Cable</td>
<td>Included</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>Included</td>
</tr>
<tr>
<td>Maintenance/Groundskeeping</td>
<td>Included</td>
</tr>
<tr>
<td>24-hour Security</td>
<td>Included</td>
</tr>
<tr>
<td><strong>Accommodation Fee Refund</strong></td>
<td>Scheduled Transportation</td>
</tr>
<tr>
<td><strong>Activities Programming</strong></td>
<td>Included</td>
</tr>
<tr>
<td><strong>Trash Removal</strong></td>
<td>Included</td>
</tr>
<tr>
<td><strong>Snow Removal</strong></td>
<td>Included</td>
</tr>
<tr>
<td><strong>Pest Control</strong></td>
<td>Included</td>
</tr>
<tr>
<td><strong>Covered Parking</strong></td>
<td>Included</td>
</tr>
<tr>
<td><strong>Health Care Services</strong></td>
<td>Pay as you go</td>
</tr>
</tbody>
</table>

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### Preliminary Unit Mix and Resident Pricing

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Square Footage</th>
<th>Monthly Service Fee</th>
<th>70% Refundable Accommodation Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2008</td>
<td>2014</td>
</tr>
<tr>
<td>One Bedroom</td>
<td>700-900</td>
<td>$1,684</td>
<td>$1,325</td>
</tr>
<tr>
<td>One Bedroom with Den</td>
<td>900-1,000</td>
<td>N/A</td>
<td>$1,450</td>
</tr>
<tr>
<td>Two Bedroom</td>
<td>1,050-1,150</td>
<td>$2,128</td>
<td>$1,700</td>
</tr>
<tr>
<td>Two Bedroom Deluxe</td>
<td>1,150-1,300</td>
<td>N/A</td>
<td>$1,900</td>
</tr>
<tr>
<td>Two Bedroom with Den</td>
<td>1,300-1,500</td>
<td>$2,572</td>
<td>$2,050</td>
</tr>
<tr>
<td>Second Occupant Fee</td>
<td></td>
<td>$711</td>
<td>$635</td>
</tr>
</tbody>
</table>

### Considerations and Next Steps
Dallas Retirement Village: **Future** Campus Expansion Plans

- **Community Center**
  - **Phase 1**
    - Additional dining room, bistro, program spaces, wellness and exercise services
    - 15,000 sq. ft./2-story
    - Construction Start: 2015
    - Construction Completion: 2016
  - **Phase 2**
    - 4,000 sq. ft. single story
    - Pool, Spa and additional wellness center space
    - Construction Start: TBD

- **Independent Living Apartments**
  - Renovate 73 Apartments
  - Add 40 Apartments (Phase 1 - 2015/16)
  - Add 20 Apartments (Phase 2 - TBD)
Opened 1913, Greensboro

167 Independent Living
12 Assisted Living
88 Skilled Nursing
### Financial Comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th>2007</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Operating Income</td>
<td>(2,023,040)</td>
<td>(245,706)</td>
</tr>
<tr>
<td></td>
<td>Net Income</td>
<td>(1,352,373)</td>
<td>431,090</td>
</tr>
<tr>
<td></td>
<td>Total Operating Revenues</td>
<td>7,275,768</td>
<td>10,368,952</td>
</tr>
</tbody>
</table>

### Debt Service Coverage Ratio

- 2007: -1.92
- 2013: 3.73
Dear Mrs. Campbell,

We all like to be comfortable and surrounded by things that relax us. Bring us joy or make us feel secure. Whether it’s a favorite chair, morning cup of coffee, or long chat with a close friend. The community can provide you with that sense of comfort.

We’ve designed a free guide to discover the community and lifestyle that suits you. With so many senior living options, it’s hard to know which is best for you. An easy way to find out is by requesting a free copy of our Comfortable Choices guide. It leads you through things to consider from your health and lifestyle needs to amenities and financial options to services and future needs to access. Request your copy or call today. Then, come in for an appointment to discuss the many advantages WhiteStone offers.

We’ve paid close attention to the things that make people feel comfortable, and have incorporated new floor plans, new senior services and amenities. We are currently enjoying new up-dated kitchens, new fitness center, new state of the art equipment and more.

Schedule a tour, or contact us today to schedule an appointment to discuss the many advantages WhiteStone offer.

Sincerely,
[Signature]

Lena Towle
Marketing Director

**Request your FREE copy of our Comfortable Choices guide.**

Call (336) 367-2474 to receive your complimentary copy of theBeautiful guide. Or, return the attached reply form to the package and postage provided.

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**Sales Improvements**

<table>
<thead>
<tr>
<th>2007</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td>85%</td>
<td>93%</td>
</tr>
<tr>
<td>0</td>
<td>2335</td>
</tr>
<tr>
<td>.8%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
Dallas Retirement Village: Financing Goals

- Fund Construction of Community Center
- Improve Cost of Capital for Existing Debt (in process)
- Simplify Debt Structure
- Simplify Organizational Structure
- Strengthen Financial Profile:
  - Allocation of Costs to Dallas Health Care Center, LLC
  - Leverage Cash and Operating Strength of Dallas Health Care Center, LLC

Capital Market Current Overview

- Macroeconomic Observations
  - Moderate GDP improvements, unemployment, inflation
  - Interest rates
  - Ukraine

- U.S. Treasury Market
- Tax-Exempt Market
Municipal Bond Supply and Demand

Tax-exempt rates are significantly impacted by supply (new issuance) and demand (investable money)

- After 40 weeks of outflows reported during FY 2013, long term municipal bond funds have seen inflows in 14 of 20 weeks to start FY 2014
- High yield muni funds have also rebounded in FY 2014, with 19 consecutive weeks of inflows
- Recent issuance continues to be dominated by refundings, which are neutral to supply

Interest Rate Remain Low

<table>
<thead>
<tr>
<th></th>
<th>5/19/14</th>
<th>Max</th>
<th>Min</th>
<th>Avg. Since 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Yr</td>
<td>3.35%</td>
<td>9.16%</td>
<td>2.52%</td>
<td>5.60%</td>
</tr>
<tr>
<td>Treasury</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB(1)</td>
<td>4.81%</td>
<td>7.83%</td>
<td>4.06%</td>
<td>5.60%</td>
</tr>
<tr>
<td>SIFMA(2)</td>
<td>0.08%</td>
<td>7.96%</td>
<td>0.03%</td>
<td>2.50%</td>
</tr>
<tr>
<td>1M LIBOR</td>
<td>0.15%</td>
<td>8.75%</td>
<td>0.15%</td>
<td>3.63%</td>
</tr>
</tbody>
</table>

(1) The Bond Buyer Revenue Bond Index consists of revenue bonds of 25 issuers with a 30-year final maturity and an average rating of A1/A+
(2) Securities Industry and Financial Markets Association Index – Previously called the Bond Market Association Municipal Swap Index
Dallas Retirement Village: Organizational Structure

Dallas Mennonite Retirement Community, Inc. (Not for Profit/501(c)(3))

Dallas Health Care Center, LLC
- 20 Assisted Living Units
- 20 Memory Care Units
- 121 Skilled Nursing Beds

Dallas Retirement Foundation (Not for Profit/501(c)(3))

Meadows Development (For Profit/Taxable)
- 6 Independent Living Garden Homes

Assets/Activities:
- 39 Independent Living Garden Homes
- 73 Independent Living Apartments
- 45 Assisted Living Units
- Adjacent Land
- 4 adjoining residential homes

Dallas Retirement Village: Original Phased Development & Financing Strategy

Development Activities (uses of funds)
- Build Community Center ($3.2 Million)
- Refinance Apt Loan ($1.8 Million)

Financing (sources of funds)
- $5 Million Bank Loan
- $29 Million Tax-exempt Bonds

2010 2011 2012 2013

- Build Apt Expansion ($22 Million)
- Renovate Apts ($2 Million)
- Refinance Bank Loan ($5 Million)
Perseverance to Improve Debt Structure

- Recession
- Interest rates down
- Refinance the Health Care Center debt
- Refinancing with FHA:
  - Reduced debt by $350,000+ annually
  - Accessed 'Residual Receipts' twice a year
- Bank lending has increased
- Refinanced IL Apartments and Land Loan
- Refinancing with local bank:
  - Reduced debt service
  - Eliminated affordability requirements and reporting on IL debt
  - Negotiated 10-year fixed rate

Preliminary Sources and Uses

<table>
<thead>
<tr>
<th></th>
<th>Villa Expansion</th>
<th>Refinance</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td><strong>Sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax-exempt bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term (paid off with entrance fees)</td>
<td>$6,770,000</td>
<td>$0</td>
<td>$6,770,000</td>
</tr>
<tr>
<td>Long-term</td>
<td>11,695,000</td>
<td>4,075,000</td>
<td>15,770,000</td>
</tr>
<tr>
<td>Subtotal - bonds</td>
<td>18,465,000</td>
<td>4,075,000</td>
<td>22,540,000</td>
</tr>
<tr>
<td>Equity - cash-out from Citizens Bank loan</td>
<td>500,000</td>
<td>0</td>
<td>500,000</td>
</tr>
<tr>
<td>Equity - DRV’s cash</td>
<td>500,000</td>
<td>0</td>
<td>500,000</td>
</tr>
<tr>
<td>Subtotal - cash</td>
<td>1,000,000</td>
<td>0</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Total sources</strong></td>
<td>$19,465,000</td>
<td>$4,075,000</td>
<td>$23,540,000</td>
</tr>
</tbody>
</table>

| **Uses**              |                |           |         |
| Villa Expansion       | $16,531,099    | $0        | $16,531,099 |
| Refinance Citizens Bank loans | 0      | 1,650,000 | 1,650,000 |
| Loan #2: IL loan refinance | 0      | 1,498,000 | 1,498,000 |
| Loan #3: equity for Villa Expansion | 0    | 500,000   | 500,000   |
| Debt service reserve fund (DSRF) | 926,450 | 318,950   | 1,245,400 |
| Capitalized interest  | 1,517,074     | 0         | 1,517,074 |
| Financing costs       | 489,970       | 108,130   | 598,100  |
| Rounding              | 407           | (80)      | 327      |
| **Total uses**        | $19,465,000    | $4,075,000| $23,540,000 |
Preliminary Financial Ratios

- The Villa Expansion is projected to reach stabilization in 2018
- A typical debt service coverage ratio covenant that bondholders would require for a start-up project upon reaching stabilization is 1.35x
- Liquidity, as demonstrated by days cash on hand, is strong in the projections

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Net income available</td>
<td>$1,461</td>
<td>$1,977</td>
<td>$2,077</td>
<td>$2,166</td>
<td>$2,256</td>
<td>$2,345</td>
<td>$2,429</td>
<td>$2,520</td>
</tr>
<tr>
<td>Aggregate annual</td>
<td>$4,190</td>
<td>$4,208</td>
<td>$1,389</td>
<td>$1,394</td>
<td>$1,388</td>
<td>$1,392</td>
<td>$1,395</td>
<td>$1,391</td>
</tr>
<tr>
<td>Debt service coverage</td>
<td>0.35</td>
<td>0.47</td>
<td>1.50</td>
<td>1.55</td>
<td>1.63</td>
<td>1.68</td>
<td>1.74</td>
<td>1.81</td>
</tr>
<tr>
<td>Unrestricted cash and</td>
<td>$5,157</td>
<td>$6,768</td>
<td>$7,034</td>
<td>$7,366</td>
<td>$7,776</td>
<td>$8,252</td>
<td>$8,789</td>
<td>$9,402</td>
</tr>
<tr>
<td>investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daily cash op exp (incl. interest)</td>
<td>$11.2</td>
<td>$13.9</td>
<td>$14.5</td>
<td>$14.8</td>
<td>$15.1</td>
<td>$15.4</td>
<td>$15.7</td>
<td>$15.9</td>
</tr>
<tr>
<td>Days cash on hand</td>
<td>461</td>
<td>486</td>
<td>484</td>
<td>497</td>
<td>515</td>
<td>536</td>
<td>561</td>
<td>590</td>
</tr>
</tbody>
</table>

Summary - Areas for Success

- Good Planning
- **Effective Communication**
- Solid financing
- Will to engage in process