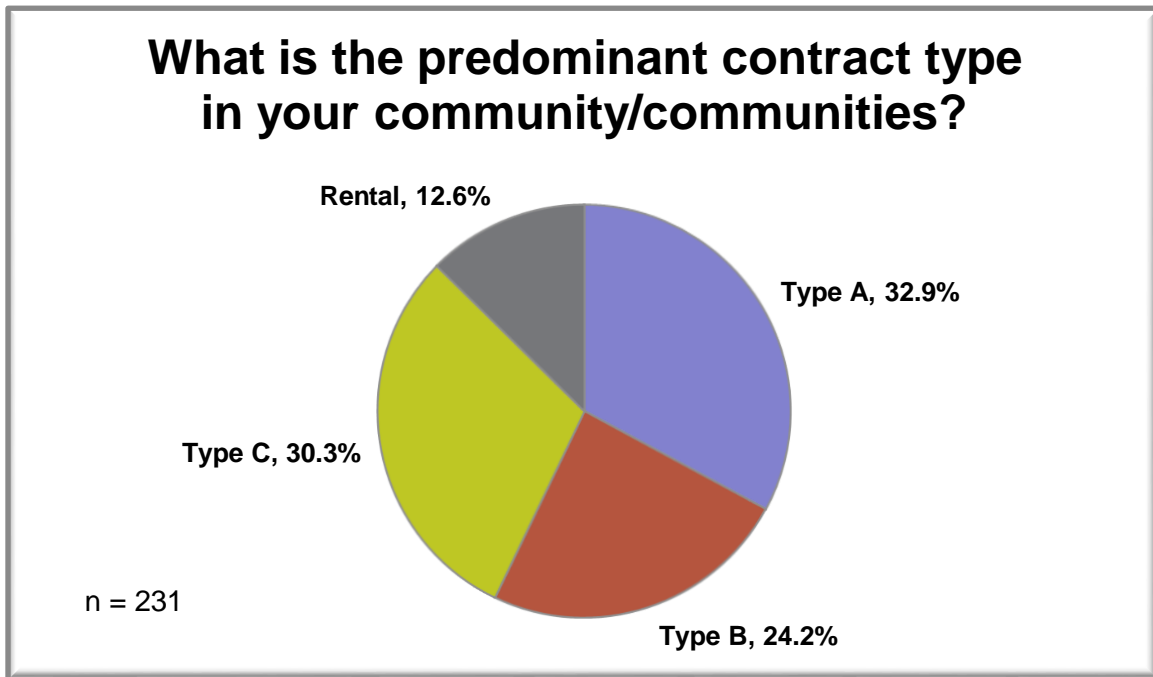


RESIDENT MONTHLY FEE INCREASES

ZIEGLER CFO HOTLINESM

The October Ziegler *CFO Hotline*SM poll was devoted to the topic of Resident Monthly Fee Increases. This has been an annual poll conducted by Ziegler for the past several years. The purpose of the survey is to track the level of resident monthly fee increases for 2018 and to predict potential changes in those monthly fees for the year ahead. More than 230 not-for-profit senior living CFOs and financial professionals from around the country responded to the survey. This summary report provides data received from the current survey and also details historical comparisons of changes from previous years.

The initial survey question gathered input on the type of contract that is primarily offered to residents within the organization. Type A and Type C contracts were the most common among the survey respondents. This information was gathered not only to describe the composition of the survey respondents, but also to examine the results of the survey by contract type.



When asked about the percentage change in monthly fees charged to existing senior living residents in 2018, the average percentage increase was 3.17%. The table below details the various quartile figures for the 2018 independent living rate increases. The maximum was 6%, with seven organizations increasing fees 5% or more. At the other end of the scale, eight reported a less than 2% increase, with two having no increase at all. No organizations reported a decrease in fees. The median increase has held steady across the past six years at 3.0%.

Percentage Increase to Independent Living Monthly Fees

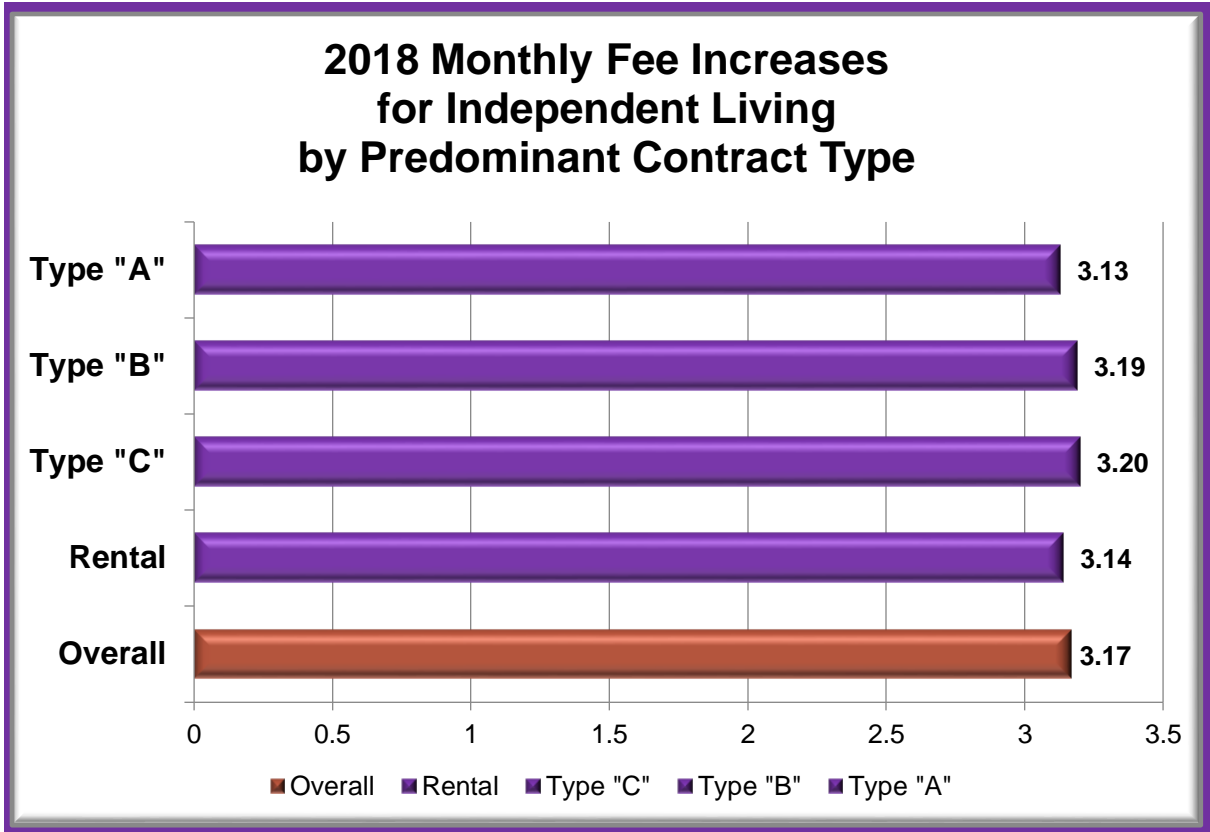
Statistic	2018	2017	2016	2015	2014	2013
Minimum	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1 st Quartile	3.00%	2.89%	2.75%	2.94%	2.75%	2.50%
Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
3 rd Quartile	3.50%	3.50%	3.50%	3.60%	3.50%	3.50%
Maximum	6.00%	8.00%	5.50%	6.50%	5.00%	5.00%
Average	3.17%	3.12%	3.09%	3.16%	3.05%	2.94%

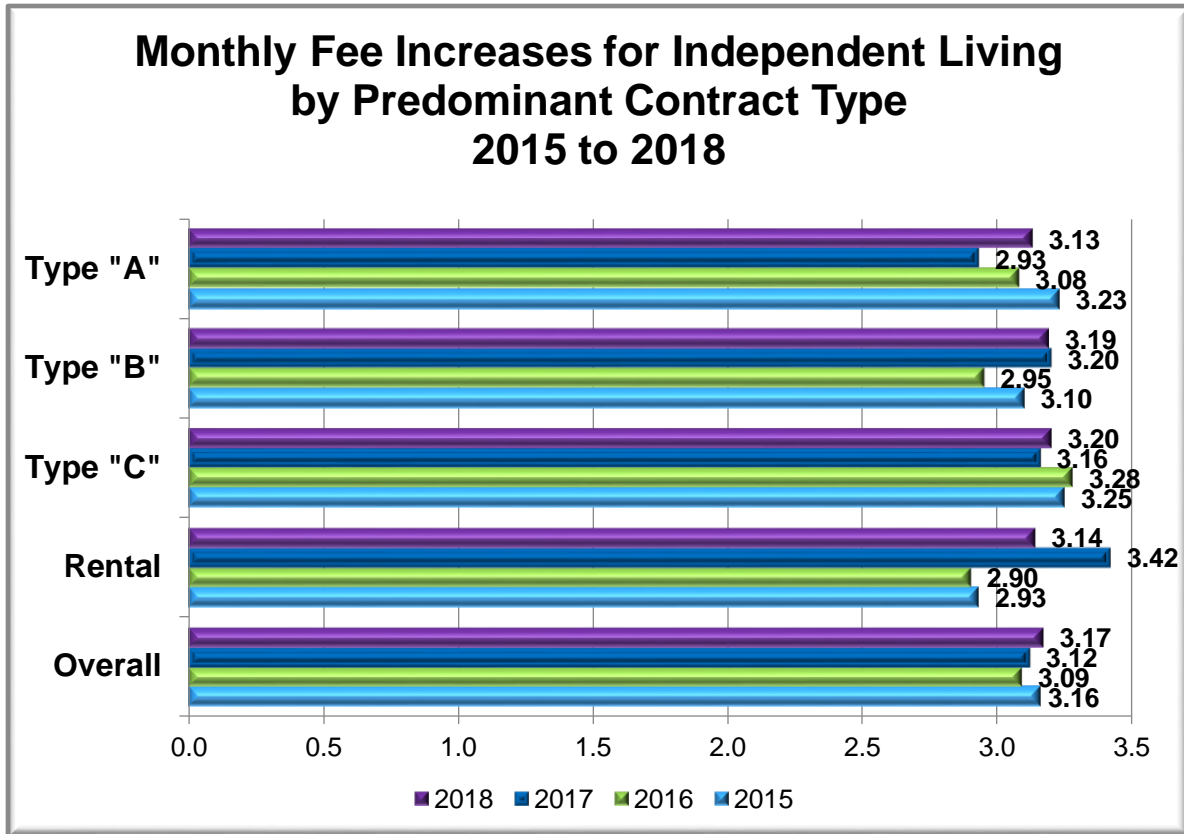
New this year is a break-out of increases by care level. The chart below details the quartile results for independent living, assisted living and skilled nursing percentage increases.

2018 Percentage Increases by Care Level

Statistic	IL	AL	SN
Minimum	0.0%	0.0%	0.0%
1 st Quartile	3.0%	3.0%	3.0%
Median	3.0%	3.0%	3.0%
3 rd Quartile	3.5%	3.5%	3.9%
Maximum	6.0%	10.0%	14.8%
Average	3.17%	3.14%	3.30%

Below is a breakout of fees by contract type. Type A had an increase of 0.20 percentage points while Rental decreased 0.28; Types B and C remained almost the same (-0.01 and +0.04 respectively). The overall average increase in monthly fees for independent living is up 0.05 percentage points for 2018.





Similar questions were asked about 2019 monthly fee increases. Respondents were asked to identify the percentage by which the organizations plan to increase or decrease their monthly fees charged to existing residents in 2019. The results for independent living residents are detailed below and show increases similar to 2019 as organizations made in 2018, with the same median of 3.0%, and a higher overall average of 3.18%.

Estimated Percentage Increase to Independent Living Monthly Fees

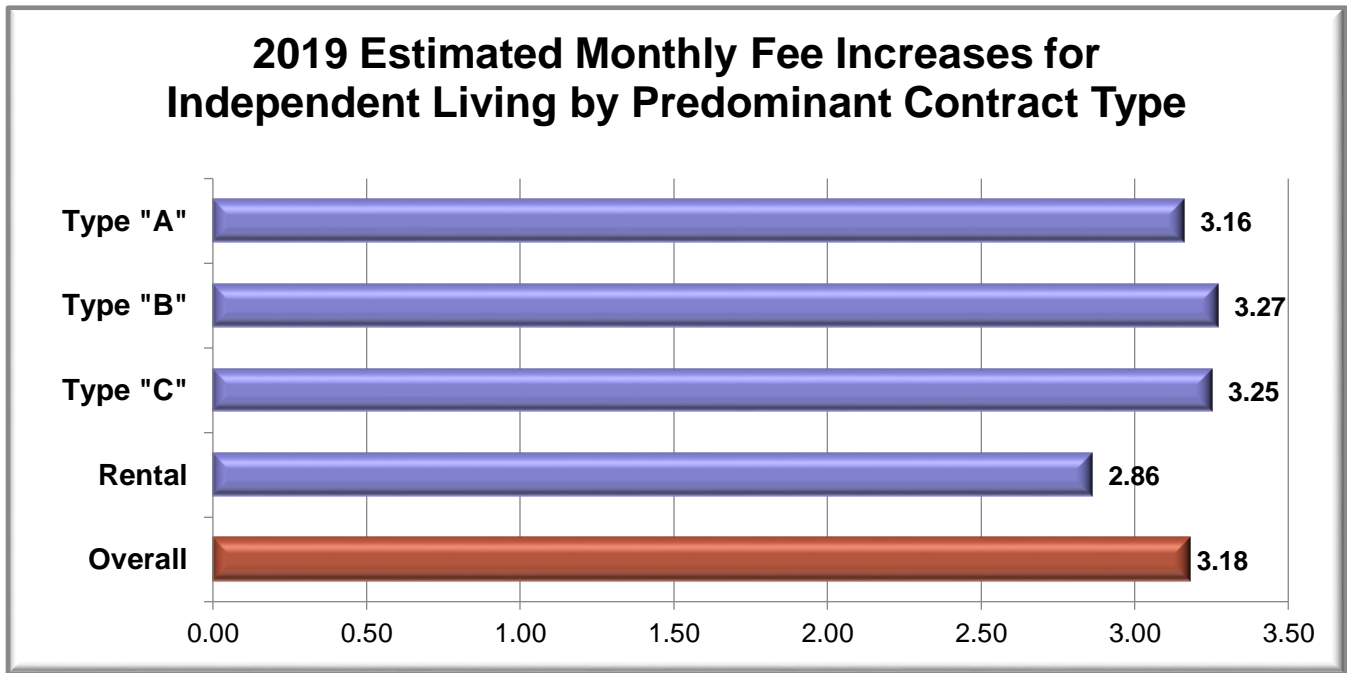
Statistic	2019	2018	2017	2016	2015	2014
Minimum	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1 st Quartile	3.00%	3.00%	2.80%	2.95%	2.90%	2.50%
Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
3 rd Quartile	3.75%	3.50%	3.50%	3.75%	3.50%	3.50%
Maximum	5.00%	6.00%	10.00%	5.00%	5.00%	5.00%
Average	3.18%	3.10%	3.13%	3.15%	3.06%	3.10%

New this year is a break-out of increases by care level. The chart below details the quartile results for 2019 for independent living, assisted living and skilled nursing percentage increases.

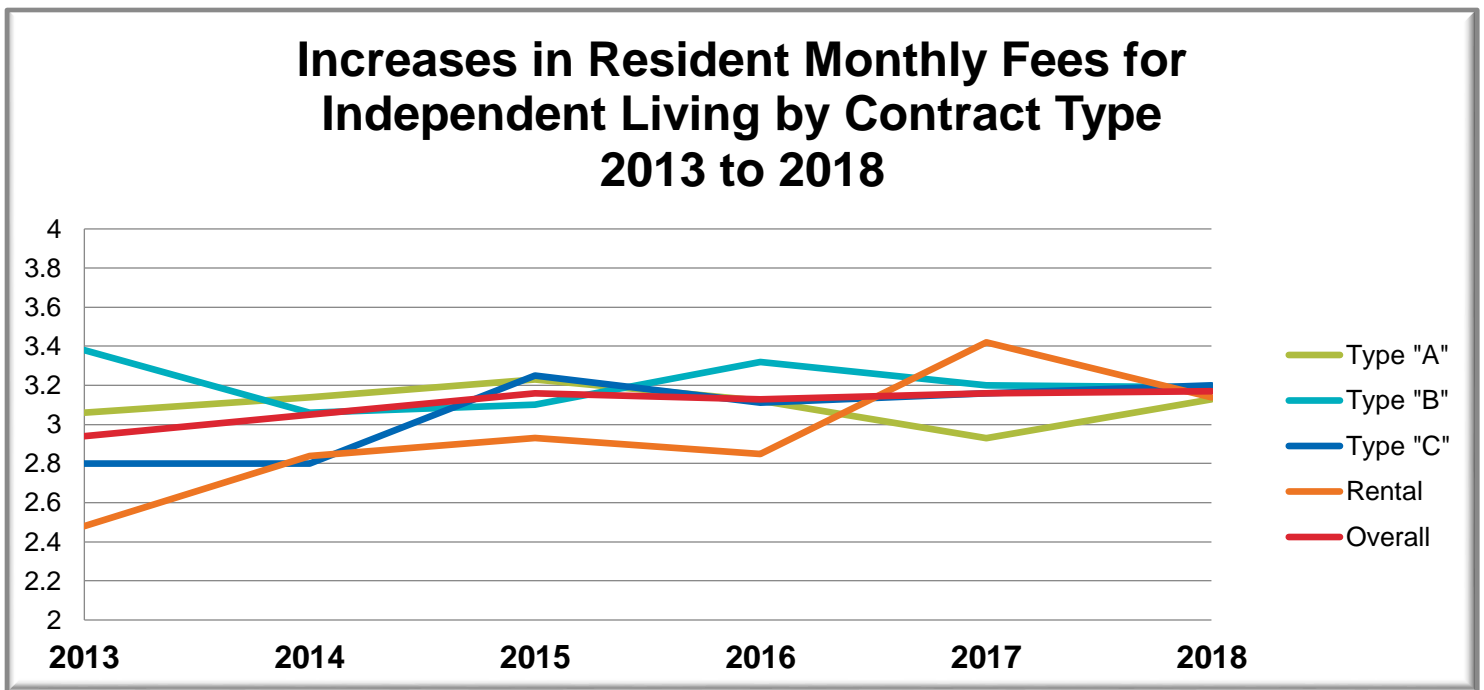
2019 Estimated Percentage Increases by Care Level

Statistic	IL	AL	SN
Minimum	0.0%	0.0%	0.0%
1 st Quartile	3.0%	3.0%	3.0%
Median	3.0%	3.0%	3.0%
3 rd Quartile	3.8%	4.0%	4.0%
Maximum	5.0%	6.5%	9.0%
Average	3.18%	3.18%	3.20%

The 2019 estimates also are reported by contract type. Contract Types A, B and C show higher figures compared to the 2018 predictions, while Rental contracts are planning lower increases.



The following bar graph shows the overall average monthly resident fee increase from 2010 through the 2019 projections. Looking back, the fee increases were the largest in 2010, with a nine-year average of 3.1%. The line graph below this shows the monthly fee increases by contract type from 2013 (the first year this data is available).



The survey followed up the questions about monthly fee increases by asking for the primary driver behind those increases. CFOs overwhelmingly attributed increases in fees for 2018 and estimated increases for 2019 to labor costs, while also citing healthcare and benefits, inflation, rising food costs, and costs associated with amenities and programming. The table below summarizes the top responses for drivers of the monthly fee increase; respondents could list multiple drivers.

Comment	Number of mentions
Labor costs (wages, etc.)	206
Specific mention of rising healthcare benefits	22
Specific mention of rising minimum wage increases	14
Inflation	29
Increasing food costs	13

A number of respondents shared additional comments about the monthly rate increases. Below is a compilation of selected quotes.

- *What we think the market will bear affects our rate increase significantly.*
- *We generally try to keep fee increases around an inflationary rate and then control expenses.*
- *Our skilled is largely Medicaid. They gave us a whole 2%.*
- *We are underpriced on service fees and have been making moderate corrections.*
- *We are currently rolling out a new pricing model for new residents that is based on square footage factors.*
- *This increase is artificially low to maintain a buildup of occupancy in the upcoming year.*
- *Healthcare costs inflating faster than the rest of the economy is a difficult thing to explain to residents.*
- *Insurance increases were more significant than in past years.*
- *Rising interest rates on variable rate debt also have an impact.*
- *Healthcare cost continue to significantly increase but the community is committed to absorbing some of this cost and not pass all cost to our employees.*
- *Each year, the New York State minimum wage law increases affect more and more staff each year. The following year's monthly service increase already has me concerned.*
- *Mission creep is a problem - expanding programs and services.*
- *The demand for more services coupled with increasing demand for a smaller pool of work force participants (full employment) has caused an increase in needed revenue offset.*
- *We operate in the city of San Francisco and the competition for employees is extremely tough. As a result we need to pay a premium wage rate to hire and retain staff.*
- *Would love to know if there are any new ways communities are working to reduce Monthly fee increases to residents, i.e. using a portion of Investment Income to offset increases, etc.*
- *It's getting more difficult to pass on large increases when the residents SS is not increasing at the same pace. Looking at any and all ways to control costs to lessen the burden on residents.*
- *CCRC Value Based pricing model moving toward the top of a sustainable range.*
- *The need for agency and OT due to EE turnover is having a large impact on the organization cost structure.*
- *Refinanced LT debt in 2018, leading to lower fee increases for 2019*
- *We did a higher increase for rental contracts (3.5%) and a slightly lower increase for entrance fee contracts (3.0%).*
- *For the second year in a row we did a lower increase for our IL 2nd occupants (approximately 1.5%-2%) in order to stay in line with the market.*
- *We always try to minimize the increase, as market competition also plays a significant role. Plus, as NFP, we want to keep our residents first and that means minimizing the impact to them*

- *Consistency appears to help the acceptance by residents*
- *Market studies also played a role in the new rates*
- *Trying to keep the weighted average down. Range for IL units between 2.0 and 4.0 with 3.3 wtd. avg.*
- *I don't believe 3 to 4% increases will continue to cover the higher wages associated with direct care salaries.*
- *We're getting close to capping out on rates. In order to increase future rates we're going to need to add amenities.*
- *Currently monthly fees do not cover operating costs and thus must use philanthropic revenues to cover gap making it difficult to build margin*
- *We also compare to competitors as well as a national average for IL's*
- *California labor costs related to minimum wage escalation promises to force higher rate increases through 2023.*
- *Increased labor costs (9% in California) push all costs up throughout the supply chain.*
- *Labor Costs. Arizona min wage continues to increase through 2020. In addition, tight labor pool. High demand, low supply, wage structure needs to change to accommodate. Inflation in goods/services is higher than it has in the past. Labor inflation still significantly more.*
- *Wages and benefits represent over 60% of our overall operating expenses*

The senior living organizations' responses included in this report have been collated without verification of the accuracy of the data/comments therein. The results provided do not express an opinion of nor can they be guaranteed by Ziegler.

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