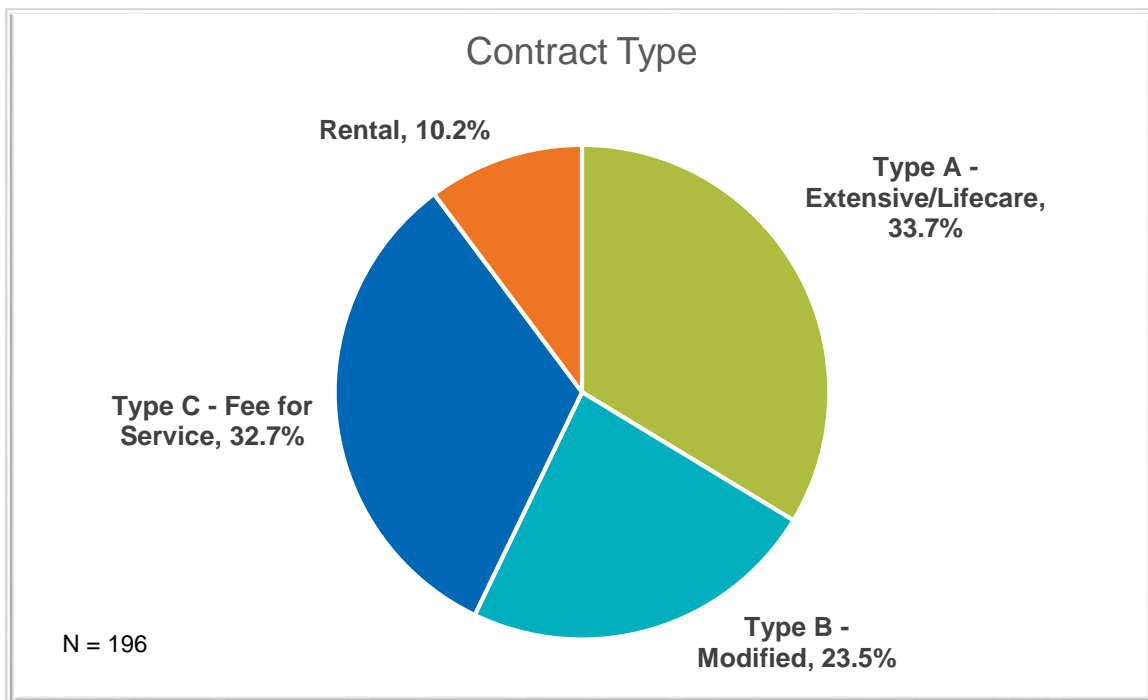


RESIDENT MONTHLY FEE INCREASES

ZIEGLER CFO HOTLINESM

The October 2019 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 2019 and to predict potential changes in those monthly fees for the year ahead. Nearly 200 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 comparison 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. Of the 196 responding, Type A and Type C contracts were the most common among the survey respondents. This information was gathered to describe the composition of the survey respondents as well as to examine the results of the survey by contract type.



The tables below detail the quartile figures for Independent Living rate increases since 2013, and by level of care for 2019. The maximum increase in Independent Living was 6.88%, with eight organizations increasing fees 5% or more. At the other end of the scale, 11 reported a less than 2% increase, with five reporting no increase to monthly fees last year. Since 2013 the 1st Quartile average increase has inched up from 2.5% to 3%. No organizations reported decreasing fees. The median increase remains 3%.

Percentage Increase to Independent Living Monthly Fees

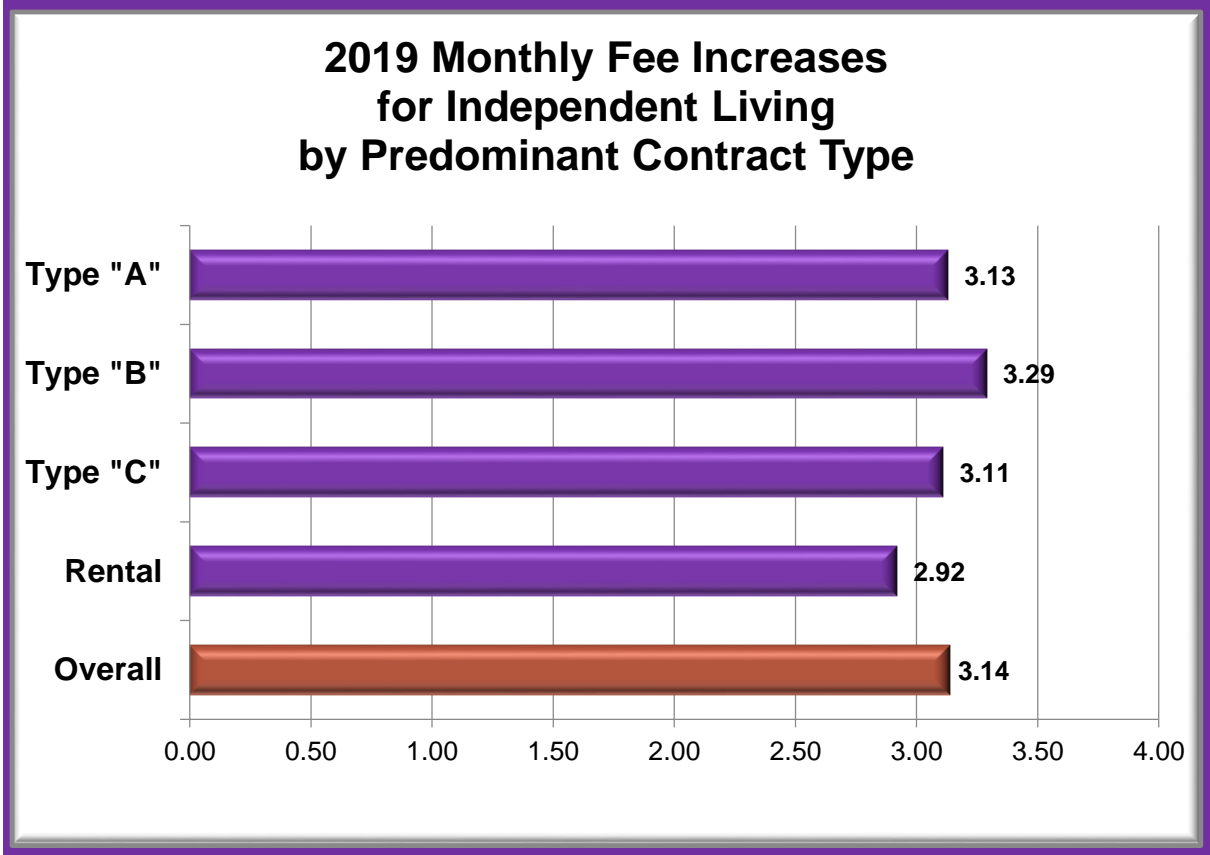
Statistic	2013	2014	2015	2016	2017	2018	2019
Minimum	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1st Quartile	2.50%	2.75%	2.94%	2.75%	2.89%	3.00%	3.00%
Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
3rd Quartile	3.50%	3.50%	3.60%	3.50%	3.50%	3.50%	3.75%
Maximum	5.00%	5.00%	6.50%	5.50%	8.00%	6.00%	6.88%
Average	2.94%	3.05%	3.16%	3.09%	3.12%	3.17%	3.14%

Shown by care level, it appears that increases are similar, with Assisted Living having a slightly lower average increase.

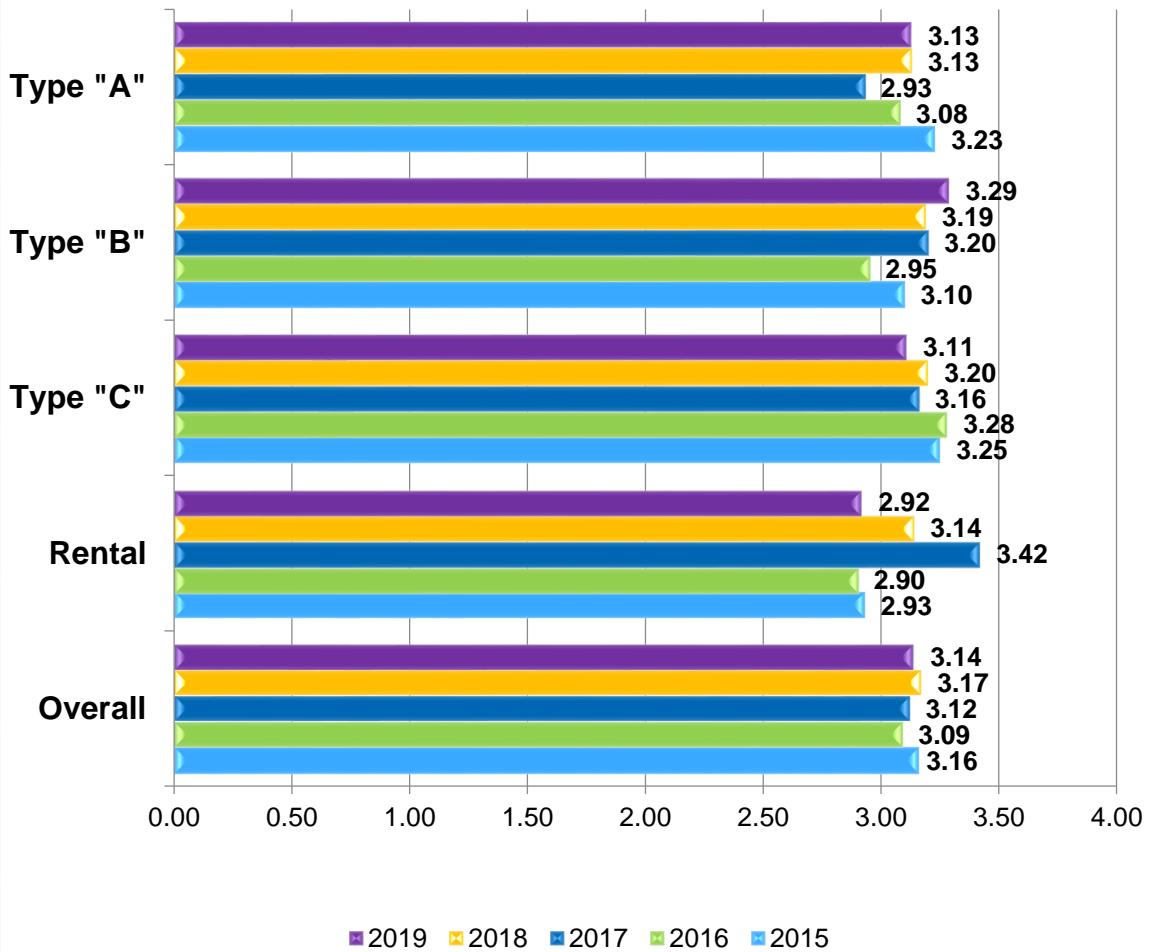
2019 Percentage Increases by Care Level

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	3.75%	3.85%	4.0%
Maximum	6.88%	6.88%	6.88%
Average	3.14%	3.11%	3.14%

Below is a breakout of fees by contract type for Independent Living, followed by contract type breakout from 2015 to 2019. Over the past five surveys, average increases in monthly fees for Type A and Type C appear to have declined somewhat, while Type B has increased. Rental, after an increase in 2017, has ultimately held steady, along with the overall average.



Monthly Fee Increases for Independent Living by Predominant Contract Type 2015 to 2019



Similar questions were posed on potential increases for 2020. The results for Independent Living residents from 2014 to 2020 are detailed below; breakouts by level of care and contract type follow.

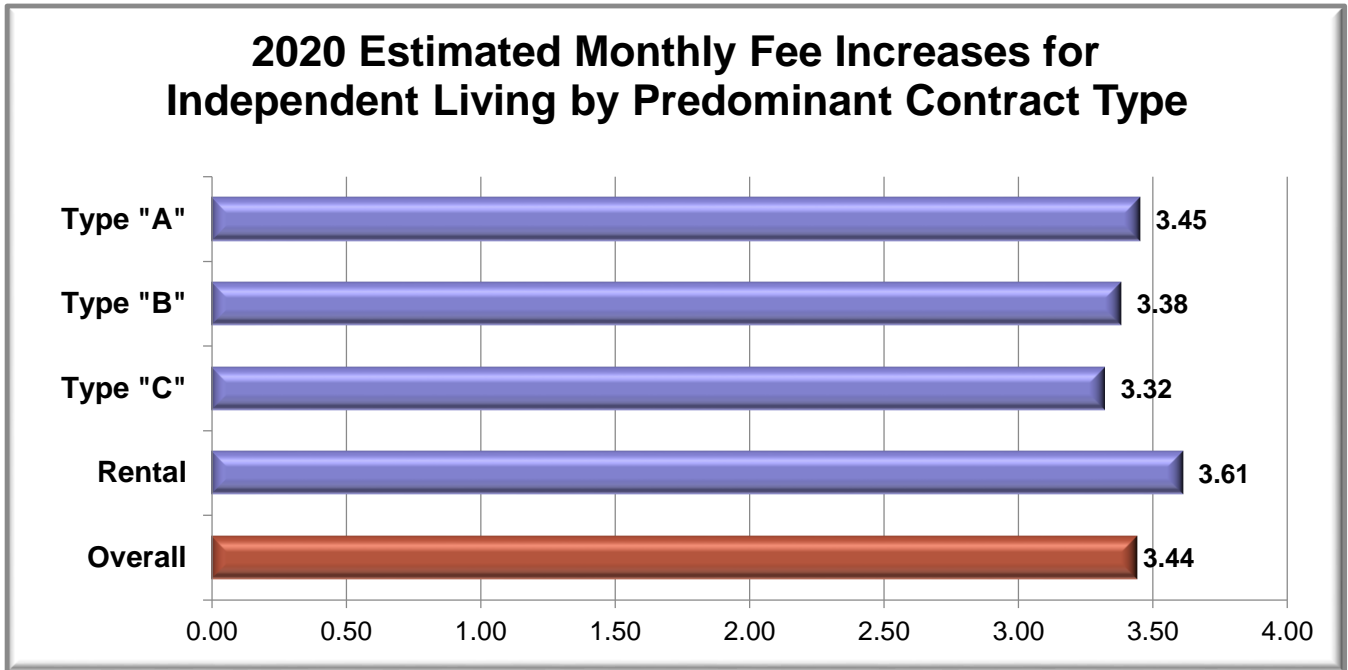
Estimated Percentage Increase to Independent Living Monthly Fees for 2020

Statistic	2014	2015	2016	2017	2018	2019	2020
Minimum	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1 st Quartile	2.50%	2.90%	2.95%	2.80%	3.00%	3.00%	3.00%
Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
3 rd Quartile	3.50%	3.50%	3.75%	3.50%	3.50%	3.75%	4.00%
Maximum	5.00%	5.00%	5.00%	10.00%	6.00%	5.00%	14.0%
Average	3.10%	3.06%	3.15%	3.13%	3.10%	3.18%	3.44%

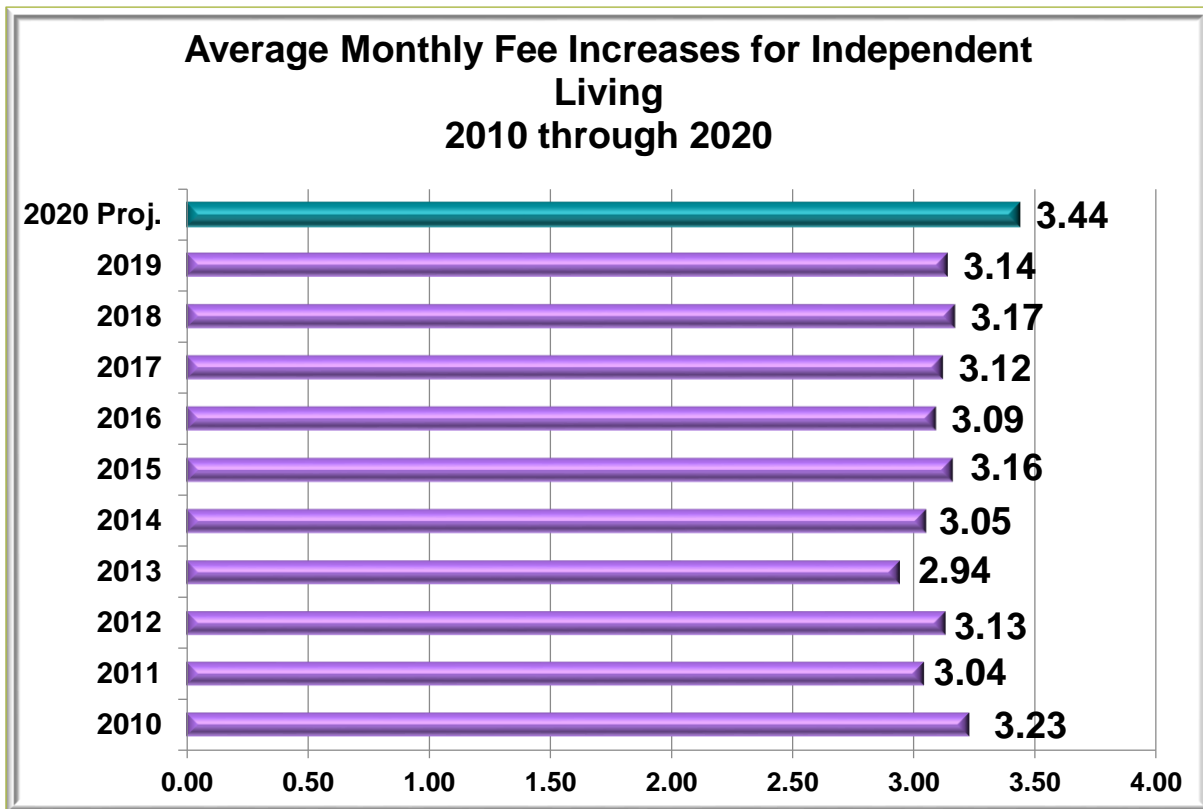
2020 Estimated Percentage Increases by Care Level

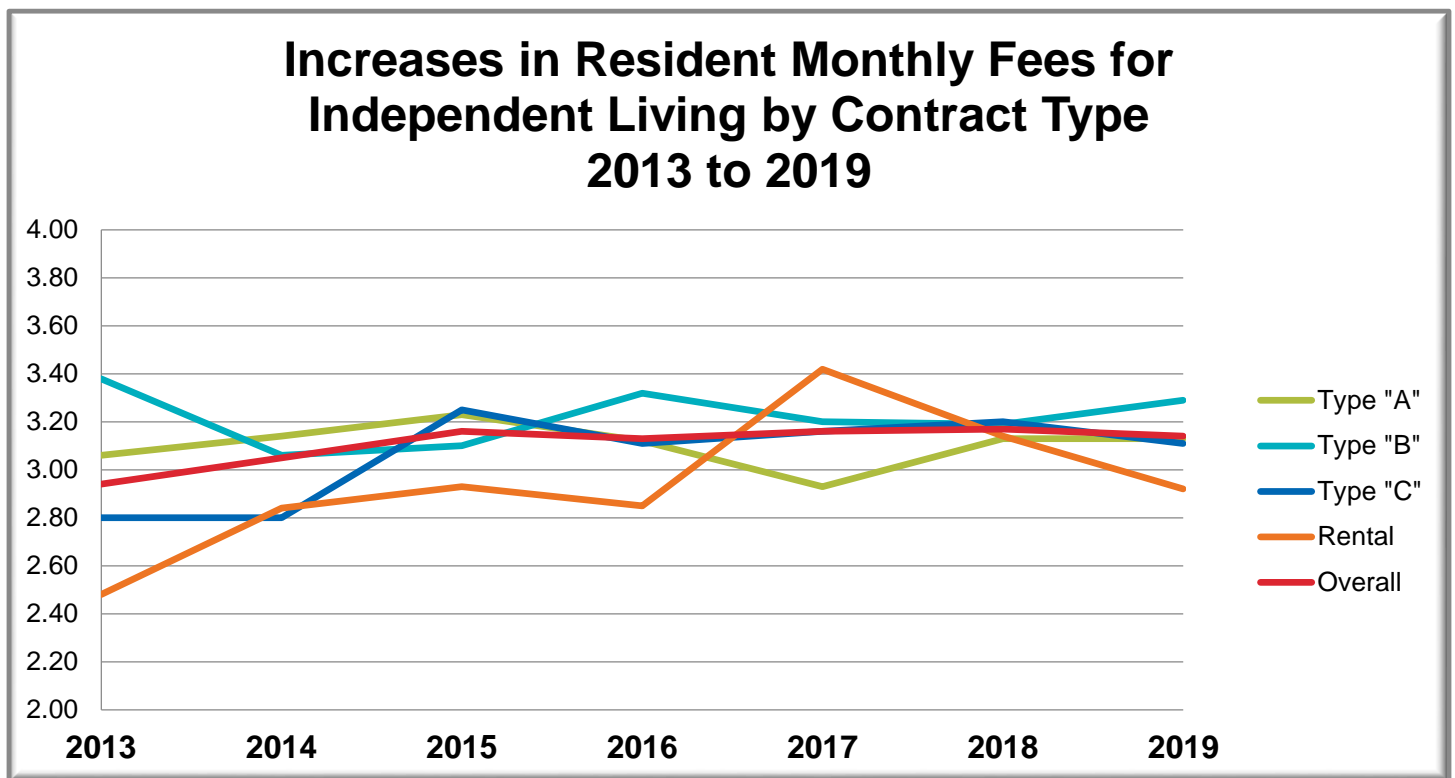
Statistic	IL	AL	SN
Minimum	0.0%	0.0%	0.0%
1 st Quartile	3.0%	3.0%	3.0%
Median	3.0%	3.0%	3.0%
3 rd Quartile	4.0%	4.0%	4.0%
Maximum	14.0%	10.0%	8.0%
Average	3.44%	3.27%	3.26%

The 2020 estimates also are broken out by contract type.



The following bar graph shows the overall average monthly resident fee increase from 2010 through the 2019 projection. The line graph below this shows the monthly fee increases by contract type from 2013 (the first year this data is available).





The survey asked about the primary driver(s) behind the changes in monthly fees. CFOs overwhelmingly attributed increases in fees for 2019 and estimated increases for 2020 to labor costs, while also citing healthcare and benefits, inflation, rising food costs, and competition and market pressures. The table below summarizes the top responses for drivers of monthly fee increases; respondents could list multiple drivers.

Comment	Number of mentions
Labor costs (includes wages/salaries, healthcare, etc.)	188
Insurance	21
Increasing food costs	16
Inflation	15

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

- *We should always increase at least 3%*
- *With Medicare & Medicaid reimbursement, it's hard to balance the budget.*
- *How long can we continue 3+% increases?*
- *We have some room to move IL rates in relation to our competition and increased IL rates a bit higher than normal to cover some major community improvements.*
- *Unsustainable*

- *We cap increases to contract holders to 2 or 3% over Western Region CPI depending on the contract.*
- *Pricing is beginning to reach tipping point with residents having fixed incomes*
- *It's a challenge to keep monthly fee increases as low as possible when residents compare this to the CPI index yet continue to want more services.*
- *Seems to be more pressure on monthly fees in 2020 than in recent past years*
- *We have 17 locations so increases vary depending on local market conditions.*
- *Always trying to find a balance between affordable monthly fees and increased activities and amenities for our IL residents.*
- *Although we have tried to educate our residents on the increasing labor costs, we anticipate some push back on the fee increases.*
- *To keep up with costs we should increase fees 8% to 10% which isn't practical. It is getting harder every year to generate sustainable NOI*
- *Labor in skilled nursing will not get any better even if we have a recession. Will we get to the point where we cannot accept non entrance fee residents in to our skilled nursing due to the lack of staffing?*
- *I am concerned that our ability to continue to raise our monthly fees 3-5% is not sustainable and that increased costs will result in reduced services to our residents.*
- *New minimum wage laws in our state (NJ) will prove to be an economic hardship in the coming years.*
- *Seattle minimum wage increased by 45% from 2015 to 2019 and payroll expense is 60% of our budget. That's been a huge expense driver.*
- *We may end up having a special assessment due to the significant increase in real estate taxes and the fact that the taxes are paid in arrears*
- *For a few years now, we have had lower fee increases for IL 2nd occupants (around 1.5%-2%) to keep us from getting out of market. It's actually allowed our market to somewhat catch up.*
- *We try to match the market when determining fee increases; each year we analyze competitors to see how we should adjust.*
- *We charge separately for phone and cable. We provide Wi-Fi for free. As people are cutting cable and not using a land line, we are considering moving to a "Technology Fee" instead, because we still have to maintain the infrastructure for phone and cable.*
- *SS COLA is only 1.7%...but we budget for 3%-5% increases in all expenses.*
- *We are over-priced our our IL units. We have a nearby apartment complex (NOT senior care) that charges almost half of what we do.*
- *We run at an operating deficit and unfortunately only a 4% increase (which we believe is within the majority of our residents financial means) does little to diminish our operating loss.*
- *Competitive market pricing is preventing increases in fees*
- *Continued increased non-entrance fee new build competition making increases more challenging with older building products.*

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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