

Lessons learned by senior living facilities through the COVID-19 crisis

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Tortoise participated in conversations with management teams across the senior living sector to discuss lessons learned from managing COVID-19 and permanent improvements to ensure safety in the future.

What has been critical to managing senior living facilities through the COVID-19 pandemic?

The key to handling any crisis is communication. In this case, over communication, being open and very honest with families and employees through not only written communication, but also through webinars and meetings has been essential. It is important to be very clear about the protocols in place.

Testing has also been necessary. In some facilities, employee testing is done on a day-to-day basis. Staff is encouraged to limit their social life when outside the facility to help minimize risk. In fact, some facilities have restricted staff from working additional jobs to minimize their exposure to the virus, and in return have awarded hazard pay or hero pay. In many cases, if the staff member chooses to work another job, they have been told that they can resume their role at the senior living facility when the COVID outbreak is over. In most facilities, all new residents are tested before they arrive, when they come into the community, and again after a certain number of days, depending on the protocol of the facility. If there are two negative results, that person can join the community. Until then, they are typically quarantined.

Has the increased expense of PPE, disinfectant supplies, and staffing deeply impacted profitability, and how will budget planning be affected in the future?

The increased expenses have definitely impacted the bottom line. Facilities have always had these items on hand but not at current levels. Cleaning products and anything related to sanitation have increased in price and quantity needed. Many facilities will be tracking four categories of PPEs in KPI formats and will be breaking out the surge pay for those differentials.

Additional staff has been hired in some facilities to help maintain distancing of residents. For example, additional staff has been transporting meals three times a day to each room. If outside staffing agencies are utilized, some are now charging \$35 - \$40 an hour for a nurse's aide that is typically paid \$14.

Fortunately, there has been access to financial support through the government initiatives in the form of PPP loans. It is required that 75% of those funds go toward payroll, which can be used for the additional hazard pay. The majority of Tortoise's operating partners have received PPP to help offset additional payroll and PPE expenses.

What are some new trends that will result from this crisis in the senior living industry?

We believe that the spectrum of senior living options will see different levels of demand in the near future. After COVID-19, because of the strict visitation restrictions in place, some families may want to modify their homes to accommodate their aging parents in lieu of senior living facilities, but it's very hard to provide the level of care and socialization that residents thrive on. There will be little to no change in the tremendous need for memory care because of the specific nature of the care. The need for independent living facilities may slow down a bit because it can be considered discretionary depending on the healthcare needs of the individual.

From an investment standpoint, we believe that cap rates may increase. Evaluations may change somewhat because of the perceived risk, particularly with institutional investors. Facilities that are successful, should not have trouble accessing capital or refinancing.

At Tortoise, we continue to be bullish on the senior living sector and believe that there will continue to be a strong need once our communities bounce back, which will take some time.

Does COVID-19 change the way existing facilities are designed and will it affect new construction going forward?

Retrofitting existing communities will take place. Permanent changes will be made in the dining facilities including installing barriers to protect against the spread of germs, increasing space between tables, decreasing the number of people dining together at each table, and staggering dining times.

Most states will likely require daily monitoring of temperatures for all employees, and many facilities may implement technology at the entrances of communities for employees and visitors. Many facilities will be looking at ways to figure out how to improve air flow and filtration through existing HVAC systems. Some facilities are moving toward electrostatic sanitizers and other types of equipment that can be used to do deep cleaning of units.

For new construction, there are some interesting considerations for HVAC, UV filters and variable refrigerant systems. That technology is similar to that which is used in hospitals circulating fresh air 10 to 15 times an hour throughout communities and using an infrared filter that kills bacteria and viruses.

On the design side, larger units in smaller buildings with fewer staff and fewer residents seem to be trending. That design will make the environment more conducive to comfortable isolation. There may also be a rise in interest in cottage style communities because of the home-like feeling and because the residents typically congregate in smaller groups.

How will this experience affect future occupancy levels and funding?

We think occupancy will likely decline somewhat, and we anticipate that mid-sized, regional operators may fare better than larger operators. Larger companies typically have a hard time with occupancy and staffing under normal circumstances, so any headwind can exacerbate that. Mid-sized operators are a little more hands-on in the day-to-day operations and can have an easier time managing that. Single site operators will also have a hard time absorbing additional PPE and staffing expenses without the economies of scale that a mid-sized regional operator can bring to bear.

Generally speaking, lenders still remain interested in new, ground-up projects. Projects under construction are progressing a little slower than usual to get to completion. Projects that are in the pre-leasing phase are generally faring well, given the current circumstances. The projects that seem to be impacted the most are those that have been open for a short time and were not quite at break-even before the pandemic.

Will there be any positive outcomes for the senior living sector as a result of this pandemic?

This has been extremely educational and informative experience for the sector. Innovations like telehealth and smaller group activities will likely stay in place for a very long time. While, there is no substitute to face-to-face facilities tours when making a life-changing decision like this, there have been many changes to the marketing approach that are electronic in nature through video presentations and virtual cards.

The precautions being taken now can and will be applied to all viruses, even the common cold, with a heightened awareness for employees and visitors as possible carriers. There is a much better understanding of proper infection control, and we will likely see employees wearing masks for quite some time as it makes people feel safer and prevents the spread of viruses.

The knowledge base of families has increased due in part to the number of COVID-19 headlines and Skilled Nursing Facilities. While the number of high acuity Skilled Nursing Facility deaths have been tragic, our communities have not seen the same impact given that they are lower acuity independent living, assisted living and memory care. Lower acuity communities like IL, AL, and Memory Care have seen far fewer, and in many communities, no exposure to COVID-19. This contrast is likely due not just to the already delicate health scenarios of the typical Skilled Nursing occupants, but also due to the proximity of the individuals inside those facilities and the higher number of employees and non-occupants that are required to operate those facilities.

While there is an important distinction in the level of resident acuity, nevertheless, families researching facilities are asking more and better questions such as how testing is conducted, how often testing is conducted, how staff is educated and trained to deal with a pandemic, how social distancing will be followed, as well as questions about the use of PPE. We anticipate families requiring a lot more education to give them a sense of comfort for the foreseeable future.

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