BDO

Health and Life Sciences Rx PODCAST

EPISODE 7: ADAPTING TO CHANGING MARKET WINDS: HEALTHCARE REITS AND PRIVATE EQUITY

INSIGHTS FROM THE BDO CENTER FOR HEALTHCARE EXCELLENCE & INNOVATION AND LIFE SCIENCES PRACTICE

INTRODUCTIONS

Steven: As the 'care anywhere' model ramps up and the aging population grows, and the industry focuses more on value than volume, there are a number of implications for healthcare REITs and private equity investors. We've seen REITs changing their focus. We've seen private equity investors move into the senior housing space and skilled nursing facility space, and our next panel is going to talk about these trends and these factors that one should keep in mind. So, our panelists are as follows, and they're going to be coming up to the podium right at this moment. The first panelist is Jason Dopoulos, senior managing director with Lancaster Pollard who specializes in capital funding to the senior living and healthcare sectors; Kent Eikanas, president and CEO of Summit Healthcare REIT; Matt Jameson senior investment professional on the BlueMountain healthcare investment team; and finally, Paul Mullin, senior vice president of Community Development at Silverado Senior Living. And of course, our moderator is Bobby Guy, well-known healthcare and deal lawyer with Polsinelli. Thanks guys.

Bobby: So, I get the joy of getting to do a panel with four very good friends. I'm still working through though that when Tom DeRosa came up, the music was Justin Timberlake "Can't Stop the Feeling," and for our panel, it was Toto "Africa." Right? I don't know how that works out. It may be that that's considered 'dad rock,' and we're talking on senior living, maybe for the team?

Kent: It may have been the updated version.

Bobby: Oh. Right, right, right ...

Kent: So, we're cool again.

TOPICS DISCUSSED INCLUDE:

SENIOR LIVING: HOSPITALITY OR HEALTHCARE? [02:09]

Bobby: Alright, so my theory on panels is that we have the most fun, if we make highly controversial statements and tell war stories. So, I've put all of the panelists on notice that we're going to take a shot at that. So, I'm going to throw this out there. Since we're talking from the senior living side, alright, we're talking senior living, skilled nursing, all of the convergence happening and everything else, we see often the idea that senior housing is just a real estate and a hospitality business. Anybody on the panel say, "Yes it's absolutely just a real estate and a hospitality business?"

Kent: I say absolutely not. No. It's far from. And the reason why I say that is it's really an operational business. And you need to really focus on the operator first and the real estate second.

Paul: Yeah, Bobby, coming from the operation site, Silverado being a standalone memory care provider, assisted living operator and developer, with Welltower as our partner, Tom as our partner, we are absolutely looking at that combination of clinical with a hospitality component. I think it was said earlier, we've got to find a way to make these communities more appealing. Obviously, all the amenity-rich type things of having nice pools and nice grounds and all those types of things are important, but having a real clinical wellness component is probably our strongest suit to reach down the age span to younger folks that want to increase their cognition rather than lose it, coming to stay with us.

Jason: And I think as Paul said, and I come from someone that finances these facilities, that the amenities and how a facility may look and drive someone in the door is very important, so there is a hospitality aspect to it. But what we look at to determine the ability to repay equity and data is strictly coming from the operations. So, we're evaluating staffing ratios, nurse ratios, how a facility state survey may have come out and that affects their operating income which affects their ability to repay their capital. So, the hospitality is great to get people in the door but then it's really the nitty-gritty of operating it that we, as a bank, evaluate to determine if we can lend or invest in a project.

Bobby: So, as we talk today about all of the convergence happening in healthcare for example, and we think about sort of the senior housing side and the real estate and hospitality, has that been a mistake that people have made over the years? Is it fair to say? Have you all seen different people make that error of thinking, "You know what? We can do this. We're great at this."

Matt: I definitely think people are doing that now, and we were talking about this earlier. We've seen multi-family folks come in and develop senior living facilities, and it creates a lot of tension in the market because you have new facilities that make it up to 50, 60 percent occupancy and struggle. But what that does is it takes the marginal potential resident and puts a lot more competition for them. And so, when you see that these guys come in and say, "It's a senior listing, that's the same as multi-family. I'll just build it out. It's a memory care, same as multi-family. I'll just build it out." And it really wreaks a lot of havoc in markets.

EDUCATING SENIORS ON HOUSING [05:30]

Bobby: So, as we talk about sort of senior care moving, let's say that we've got so much more sort of home and moving away from sites with this. What do you guys see sort of in how does that affect the market? Let me ask you specifically. You guys have seen the ad for the financial advisor where the son says, "Hey, Dad. I think we're going to have to put you in a home." And the son goes and talks to his financial advisor and then they build a house right behind his home. Right? Is that realistic?

Paul: I think it's absolutely realistic to a point. Coming from where we are in the dementia-specific world, by no means should you have a loved one at home if they have acute dementia. It's just not a safe environment for them to be in. Not to mention, as Tom DeRosa mentioned earlier, loneliness is the biggest killer of seniors really. And everybody, in general, depression is a killer. And sitting at home watching TV, dozed out on medications your doctor gave you is no way to end your life. We really like to concern ourselves with the third life in assisted living and senior housing where people come to us and they say, "Wow. I wish I would have shown up sooner. I have new friends. I have events to wake up. I have a purpose to get up in the morning and walk the dog or meet the kids that came in from the local school." So it really is creating more than just that hospitality environment, creating that community, creating a purpose for people to wake up in the morning.

Kent: It's definitely a continuous education on educating the elderly that, no, it is a better way of life. You see a lot of elderly stay at home like Paul said, not eating, getting dehydrated, no activities, just kind of just going brain-dead. When you go to a facility and you have good operations involved, you have tons of activities, great food, and the quality of life is just absolutely unmatched between staying at home and being miserable, and just kind of just living out your days. Where thriving at a really good facility can be beneficial for the resident.

TECHNOLOGY SHIFTS IN HOME HEALTH [07:50]

Bobby: And so, does technology, do you think, start to change that as we begin to look at all the home health? Would that mean it's a later date that people go in or obviously, you're not going to get the full experience, the community experience if you're at home. So even if it's less expensive for

the government from a payer perspective, right? To have you get home health or whatever. Does the new technology start to hurt the industry and really eat into the market for it or as the education improves? Do we continue to see it expand?

Matt: Personally, I think you see that the age at which people enter facilities has gone to the right. I mean that's been something that's been marching over time and I think technology helps enable that. I think better healthcare, I think better understanding of your body and longevity help that. I think touching back on something, there is an important part of this is that, that community aspect is from an investor's perspective, is kind of this amorphous thing that you know it when you see it, but it's extremely valuable. Because you think about when you're taking your parent and saying, "Hey, I've got to go look for some place for them to live." You want to find someplace that's compassionate. You want to find some place that has some degree of medical support. You want to find a place that, let's say, they're dealing with early onset dementia. They may be more prone to pull back because they're scared of what they're seeing in their forgetfulness. They're scared about what it means to their family. So, they pull back even more, away from community. And so, if you're in a place that's more supportive around that, that's a special thing.

Jason: I mean, I've seen a lot of tech. I mean, we've gone to the aging 2.0 conferences together and it seems like great technology to help people connect with their families. Whether it's just in their room. But as Matt said, the community is very important because if you're at home doing that and you just have a new Alexa or something that could help you connect with your kids. You're still not talking to a friend about it or playing checkers or chess with someone over it or anything like that. So, I think as Paul mentioned, the loneliness and in that aspect is something we have to educate. I'm doing it with my grandfather right now. He does not want to go, right? He says, "Well, you got me this device." And I'm saying, "Well, you need to have other people to share that with or you're going to be looking to call me or my sisters and we're not always there." Even though you want to be. So, I think you know, he wants a place that looks nice. So, there is the hospitality, but then it's just the care I think is much more important.

Paul: People have talked about technology putting senior housing out of business. Well, in fact, I think it's probably the force multiplier that will allow us to reach what's coming down the pipe and the way this age wave it's going to hit us in the next three to five years. Already hitting us. Things like Honor, which is here out of San Francisco, which is kind of the Uberfication of home health. They'd be a great partner for us. We're in conversation with them to see how we could extend into markets like San Francisco or Los Angeles where we already have communities, but we need better outreach to people that are stuck in their homes and still need care and convince them, "Hey, why don't you come in and check out our Nexus program and help the cognition and brain plasticity come back through programming." And so, we think through technology, we'll really be able to augment the services we have today. It's definitely going to change. I think the bricks and mortar of what we're building today, I think there'll be a revolutionary change in what we're all investing in and developing in the next 10 years because of technology. But I don't think by any means it'll put our business at jeopardy.

THE STATE OF REAL ESTATE [11:27]

Bobby: In fact, it improves it. That's very interesting perspective on it. And probably The Economist magazine would agree, right? That technology never takes away jobs, it just creates lots of more new ones. And so, for senior housing, very possible. Right. So, let me move to the investing side. Thinking about the real estate specifically and about what it looks like. So, what's investing look like right now in the market for senior housing when you're looking at sort of stabilized versus construction and value add? Let me put that out to the panel.

Kent: So, from a REIT perspective, we're a lot less likely to take risks, so we're looking at more stabilized opportunities. The problem is the lease coverage ratio's much thinner in stabilized opportunities. Now we have run into more issues with assisted living than we have with skilled nursing because we've built in a lot more coverage with skilled nursing, but I think with cap rates getting as low as they have been in the last few years, it's very difficult to structure a meaningful lease for a REIT, so a lot of REITs have resorted to doing … just flat out doing management contracts, which for Summit, that's not a good structure for us, so we really stay disciplined, focusing on the opportunities that we can really structure a good lease that's a win-win for the operator and us.

Bobby: That's the REIT perspective on it. What if we took maybe the operator perspective? Paul?

Paul: Yeah, over the past 10 years, we've really focused on ground-up development. We started our company with about 10 to 15 communities that were everything, or we even reconstructed a hospital to be a med-surg hospital in Redondo Beach to become assisted living and residential, and I do think there's a huge runway for that. As mentioned earlier, there's a ton of hospitals with tons of spare property. So, I think there's a real opportunity to reposition that space for residential assisted, but we really felt over the past five to 10 years we really needed to build purpose-built communities that are therapeutically designed to really treat people with dementia rather than trying to reposition skilled nursing or assisted living. I think there is definitely a cohort in our industry that believes the days of kind of putting 'lipstick' on an old building and trying to turn it around are done because so many of those buildings are now 20 or 30 years old. It's really difficult to reposition that type of asset as opposed to building a new one, but it's definitely getting into the breakpoint where we're looking at Seattle now. We're looking here in San Ramon. The cost to build is astronomical, so it may be a good time to look back at repositioning with those costs in mind.

Bobby: Jason, what's the finance piece look like for that?

Jason: Yeah, I mean from our perspective, we finance both the REITS and the private equity. So, I agree with Kent that cap rates are to a place where coverage is really tight on some assets, and that's where you've seen some trouble in the skilled nursing sectors as Tom said before where the risk was more the tenants can't make the lease payments and then the financing crumbles. So, when we're looking at where returns are coming from, private equity groups I think such as mass group or even operators, if they can build or reposition or turn something around. That's where they can get what they consider risk-adjusted viable returns. REITs might have a lower cost capital and lower hurdle. They're going to be looking for more stable assets, and that market for the stable assets, we've seen institutional core funds now put senior living into their funds where it used to be thought of as there should be a big spread over multifamily. Our sector, SNFs, others are trying to make it so people see seniors in that same bucket. What that means is as we succeed in doing that, there's going to be big funds that can pay for buildings in San Francisco and LA, maybe five and a half caps and placed in a bucket with their multi. What Kent's saying is he would have trouble making that work with the lease covered, so when we finance that, we have to stress all of that and make sure that we're putting the proper amount of debt on the real estate to not over-leverage the asset.

THE PRIVATE EQUITY OPPORTUNITY [15:50]

Bobby: Is some of that too much money chasing yield right now, or is a lot of that changing? Is it distress across the market because of other issues?

Jason: I mean, I think, I don't know if Matt wants to take a cut of that. I think there's a lot of money chasing our sector right now. There's overseas money. There's new institutional groups, and there's our small club that's been doing this for years, but I'd be interested in what Matt thinks.

Matt: Yeah. I live in Dallas and it's kind of a boom bust economy in Dallas, and I see it certainly on the senior living side is that there's been a lot of money that's flooded in. There's a lot of new memory care facilities. There's a lot of new … facilities there, some from very, very strong operators, some from people who probably are more questionable about whether they should have built it. We think that the private equity opportunity is probably going to be one that's a little more distressed over the next couple of years. As you have interest rates move up, you have pressure on occupancy. You have pressure on rates. A lot of the new build is going to create issues in specific submarkets, and it's hard to say, specifically, Dallas because it's a part of Richardson. It's a part of Plano. It's a part of North Dallas. These are very local businesses, but we think there's certainly going to be pockets of stress and distress that are going to be attractive to investors like us because they will take some time to reposition, but the demographics you alluded to are real. They're there. It's just a question of what is the timing of those demographics and how and when do they hit. And I think we feel like those things tend to come, probably two to three years later than people expect. And so, if we can buy into periods where there's more stress and then frankly selling into periods where there's … a little tighter supply and the demographic boom is hitting at the right point, that's what we as private equity investors want to do.

Bobby: And right now, if you look at it, I mean, we've seen a fair amount of private equity money come in over the last few years, but what does it look like now in the current economy in the outlook? Are we still seeing lots of private equity money chasing yield on this, looking for deals? Do you see lots of competition on it?

Kent: I'm not sure if they're chasing yield per se because you know at a five-cap, I'm not sure how much yield that can generate, but no, I think on a return basis, I think they're willing to roll the dice and think that someone else can come in and pay a five-cap and generate some type of return that's meaningful to private equity. Again, if they're not working with the right operator, it's going to be a great opportunity for Matt down the road.

Matt: I also think if you look at Brookdale and Capital Senior's public proxies, their stock prices have not performed well for the last six months. And I think that's somewhat reflective of the environment that we're entering into. And I think that also reflects a little bit on private equity will be in that same boat as they look to try to either buy at a five and I don't know where you'd trade lower than that in this space. There's only risk if it goes to six or seven as interest rates increase.

Bobby: How many years was it that everybody thought you couldn't break the five-minute mile? When will it be that we break the five on the cap-raise?

Jason: Like Kent said, you have to hope that if you're buying there that you're going to be able to increase rents in the market where it's private pay. And maybe that turns into a 650 or something down the road. But to go back to your original question, there are funds raising a lot of capital for our space. And their decision is how much risk they want to take with those investments, right?

If they're investing and just doing a management contract, they're inherently taking more risk in the operations than doing a lease. And they might be able to pay a little more because they're capturing more of the dollars of cash flow, but there's also a lot of risks to that. And a lot of these groups that are buying stable, they're trophy assets. The ones that are turnarounds no one's paying that cap rate.

But when you see a brand-new asset in Miami or in New York or in California, or there's one in San Jose that was $750,000 a unit or something that recently sold. But those are the ones that you see in the trophy areas.

Paul: Yeah, it's interesting. There's definitely a rotation. We just had a $50 million investment from Artemis Private Equity. And they really did their homework more than on the real estate. They're investing in our hospice company. We have a hospice division. Our belief is that if you're not in palliative care or hospice in the next 10 years and you're in the assisted living space, you might be left standing without a partner in the way of partnerships with hospitals and acute care payers.

So, they really did their homework. They realized the strength of the operator, more than just the real estate or the yield, and put their money and their trust into investing in this kind of long-term view of an integrated healthcare platform. Not only memory care, but hospice, palliative care, all those things that I think most big, big hospital and insurance payers are looking for in the way of partners and will be looking for.

CHARACTERISTICS OF A GOOD OPERATOR [21:08]

Bobby: That actually brings me to a point in thinking about it. So, we started off sort of talking on finance and what is this type of business. Right? Is it really just hospitality? What does it look like? So, let's talk now from an operations perspective. I'd love to hear, sort of across the group, what the characteristics are of a good operator. Kent, why don't you take it from the REITs perspective first and give us an idea. And then, Jason, you can give us an idea of who you don't want to default. And then, Matt, you can go on down the line.

Kent: Yeah. From a REIT perspective, when we go to our facility, we want to see interaction with the residents, knowing residents by their names, not necessarily from the corporate level. If you're a CEO of a larger assisted living company, you may or may not know all the residents. But we have seen that and that's impressive. We want to see lots of activities. Nothing worse than going through a facility and it's dead quiet with residents stacked up looking at a TV. That's just the last thing we want to see. And then it's not uncommon for the residents to say, "Hey, you know the food's great," or, "The food's not that great." So, we like to hear the residents' perspective when you tour.

And their track record. We really value a track record for the operators that we work with. We don't work a whole lot on proforma. We work a lot on what has been accomplished and if it's replicable and sustainable.

Jason: Yeah. I mean, I completely agree with Kent. And I think for someone who goes in a lot of these facilities, your sensory, what you sense right when you walk in can tell me a lot. What you smell, see. How it's going on. I mean, that leads to if that building's well run. And if I go above that, to what Kent was talking about is what we will look at is, state survey or records, everyone has issues, but how do they address them and move forward? Is there sustained poor tags with the state or how are they doing? And then, we look at that operator's global kind of cash flow, how they run all of their buildings. Because we might walk into their winner, their best building, we want to know how their worst building is. And do they still support it? And how are they going about that? So, what Kent says is absolutely right. And then, we kind of go one step above to see how they are operating on, usually it's a regional level, there's not many national players. But how they're operating in their region.

Bobby: Matt, let me put that to you, then. So, [what are] the characteristics of what you guys see in a good operator, what you look for? And then, Paul, I'll actually get to you as the operator.

Matt: I think first and foremost, we look for track record, right? Track record within the local environment. So being investors, we start with the numbers and we work backwards from there and see what people have done. And how then do they achieve those numbers? Certainly, we have walked into facilities where there's people who are wailing or crying. And you say, "Are you taking the right level of acuity? Are you filling up your facility by taking people who are probably not appropriate for this care setting?" We always want to eat lunch in the facility. Food matters. So, you want to actually have that look and feel. But yeah, we want people who are very local and understand the local markets, they're in the Kiwanis Club or know the town mayor. Those sorts of things, that they are part of the community.

Bobby: Paul, if I had lunch in your facility, what would I order?

Paul: Yeah. As far as nutrition goes, we absolutely buy into the fact that you are obviously what you eat. When it comes to memory care, there's any number of nutrition elements—green tea, turmeric, other things that we know are curative to memory disorders. So certainly, part of the diet at Silverado. But more importantly we're looking, and I think what people should be looking for, the first thing that Jason said, really. If you're investing or if you're even curious about senior housing, go check it out. Go mystery shop it, as we say, or shop it. How many people are smiling when you walk in the door, both residents as well as associates? Does the executive director greet you? Are you seeing the top brass, the management of that facility or that community, as we like to call it? They're out and about rather than sitting in their office doing administrative work. If they're just sitting in their office avoiding their residents, then that's probably not a really well-run community. So, some of the simple blocking and tackling. But more importantly, what's the programming? And Jason mentioned that. Our programs around Nexus, the idea that you can bring cognition back to people that are losing it through simple programming. We believe we have a $2 billion Aricept-type product that is non-pharmacological. It's programming. It's meditation, it's brain games. We use UC San Francisco's BrainHQ as brain games with our residents. We have support groups where people with dementia get together and talk about the disease. They might forget it later in the afternoon, but boy is that meaningful to them right there and then to talk to somebody who can be empathetic about what's going on. It really makes a difference. It's amazing. And we've proved it out using the MMSE scale, the Mini-Mental State Exam. We actually keep outcome data on everything and everyone. That's an important aspect of operators. Are they keeping the outcome data on their own residents? Can you go and find out how mom's doing? But we're proving that people that were very high acuity and really kind of lost in the way of cognition, are coming back. And if you walk into some of our communities, you might not be able to tell whether they're associates, staff or residents. And that's powerful. We believe that's the future of where memory care should be going, is treating the illness, and making people better, and improving their cognition. Brain plasticity is real. There's the ability for the brain to regenerate and we're doing that with our residents. So those are the types of things you want to look for: the programming, the people, smiles, simple stuff.

Kent: Yeah. I know you didn't answer the other side of the coin, but we've had folks come to us and say, "Hey, we're going to knock it out of the park. We're going to hire a new administrator and cut the pay," which is the last thing you want to do. Because in our opinion, you can never pay an administrator too much. And they're going to do all these different things that are going to make them hit it out of the park. And we just do not put a whole lot of credit to that.

NATIONAL VERSUS LOCAL OPERATORS [27:34]

Bobby: So, I think we have just a few minutes left. So why don't we take questions from the audience, if any. Questions?

Audience Member: Thanks, guys. I'm interested to hear your perspective on the key question of, does the national operator model work? Or are we back to the basics of, care is local, the balance between quality of care and span of control is only manageable at the regional level? And if so, what is the optimal size of a good operator at a regional level or a local level?

Bobby: That is a great question.

Kent: From our perspective, we prefer to work with the local regional operators. We're not big fans of the national guys that are from coast to coast. A lot of operators are successful operating in all different regions. But we feel like we see most success with operators that know the state surveyors, know the referral sources. And the best way to maximize that type of situation is to stay in your region. And we've seen a lot of success working with, not only assisted living, but skilled nursing operators in that regard. As far as size goes, I think it's case by case. I wouldn't be willing to say this is the perfect number of facilities for that particular operator in any particular region. I think state by state you are going to see a number of beds in each state and it's going to vary.

Jason: Yeah. I think just to specifically talk about skilled nursing, we've seen at that model being national really is difficult for it to work. We've seen some large operators really have trouble. And it goes to what Kent said, different states, knowing the hospitals, working with readmission referrals. So, there may be one public SNF company that's doing pretty good, and they have their regions and their different brands, right? Because this brand in this state, it's ran by this team. It's kind of like their own silo to do all the things Kent said. So, what we've seen recently is that the national model has not gotten value in the public markets or worked all that well when they're someone that's either leasing buildings or owning. We've seen management agents go all over. That's a less risky proposition when you're signing a management contract and you might be able to carry that brand to certain markets. But when we've seen groups that get too big, and again, I can't even get into size. We've seen kind of diseconomies of scale where they have kind of broken apart.

Paul: It's a funny business. It seems you need to have four to 10 communities for any of you out there, or any of these guys sitting here, for you to talk to us about investing in. And that's a happy, easy-to-manage size. We are now moving into 40 communities, finally one on the East Coast in Alexandria, Virginia, and the wheels are definitely starting to shake because we need to build the infrastructure internally, which we're doing. We're hiring talent management pros, actually coming over from Disney and other industries. Our biggest concern to scale isn't so much where we are. It used to be, "Hey, we want to be a three-hour plane ride away." Now, it's "How do we get people working for us?" Like many other industries, our biggest challenge going into the next 10, 20 years is getting a million more people into the senior housing business that want to be caregivers and executives and everybody else. And right now, we're all just trading the same million people that are in the business today. There isn't an incredible amount of growth or outreach. Only now are we starting to get to the universities, and getting to the schools, the gerontology schools, like USC in LA and Stanford here to really get students interested in the idea of aging and taking care of seniors. So that's our biggest problem of scale is people and finding the right people. And so, looking at an investment, do they have a strong talent management and HR division? Do they have strong, probably operations more than anything, do they have a strong operational team to lead a venture no matter how big it is? I think some of the speedbumps that we've hit on the big, big national platforms have been just bad investments, really. You look at some of these combinations to scale and you got to scratch your head. I was scratching my head when it happened as to why you would do that. So, when you really kind of look under the covers of these investments you start to see it wasn't so much the operator as it was some pretty poor investment decisions, I think.

FOREIGN INVESTMENT IN THE SENIOR MARKET [32:15]

Steven: Could you talk a little bit about the foreign investment? I know that over the last couple of years we've seen an acceleration of Chinese investment in the senior market, and then it kind of tapered off, and where are you seeing that now, and what do you see? What's going to happen in the future?

Jason: I mean we saw them come in pretty strong a couple years ago into I think kind of personally looking for yield. You saw them buy a lot of skilled nursing portfolios where they were just kind of landlord, and they came in with a pretty good force there and bought a lot of assets, but they have some regulatory issues over there where their government can kind of put a pause to it, and they have because of other investments that have not done well in other asset classes where it's just real estate. So, we've recently seen a pivot where they're trying to invest into operations because a lot of all these countries are behind us in terms of taking care of their aging and they have many more people than we have. So, we've seen them recently inquire about buying into operations with the real estate because they need to learn and then kind of retrench it back to their country. And then they were kind of the first to come in, and now we've seen some other firms from the Middle East and also from South Korea be interested in investing in our space. The scale they like to invest in is usually large, which our world is not when you think about that big to take in this amount of money, but it's ebbed and flowed. It's slowed down a little bit now because of what's going on between our two countries, but I think it's been active. I think Kent here, he's worked directly with them on some investments. He might be able to add something to that as well.

Kent: Yeah. Jason is absolutely accurate. They've invested in senior housing both for yield and for education purposes. They're trying to advance their operation capacity and ability in China and other countries, but the government has basically shut down their real estate investments as of last October.

Bobby: Let me ask just one question to follow that up and I think this will finish the panel. I'm curious. We've been close to a number of deals where Chinese investors, for example, have been looking now to do operations in real estate, and over the past six months to a year I'll tell you that I haven't seen any of them come off, right, and none of them have gotten to the point where they actually had to get through the Committee on Foreign Investment [in the United States] or anything else. Hey, are we seeing this happen on a regular basis or is that sort of the general experience is that there's additional interest, but it's broken on the shoals so far of getting to a deal prior to getting to CFIUS?

Jason: I think personally from the ones we've seen there's so much more work to get over the finish line that there has to be a substantial price premium to what's being paid in the United States. So, if there is that premium, you're going to put the time in and kind of hope. You know there's things you can't control, right, and hope it goes over and the deal has to be of a size to make it worth that. So that goes back to my point. There's not that many. So, yeah. I've seen a couple personally break down and there's a couple still going and then it's up to the operator and their capital partner to how long they want to try to do that because it can be mind-numbing how much you have to go through to close a cross-border transaction.

Paul: Yeah. More than just the investment. Well, we've talked to are some large Chinese firms about Union Life and a few others about bringing their staff over here to learn the business of caring for seniors. It really is not a consideration obviously in the Chinese culture to have senior housing. It's looked down upon as a job. So, there's not a lot of training around that. I think the best kind of investment or the best partnership that we would look for initially would be to have them come over, live in our communities, work in our communities, learn what we do, and that's kind of been the conversation. We haven't been successful in engaging that yet, but I think that will be kind of, and has been in some other business cases, the first step before the real estate plays start really hitting frantically on investments.

If you enjoyed the show, please visit iTunes to subscribe, rate, and leave a review. Join us next time for another edition of ***BDO's Health & Life Sciences Rx*** podcast.

CONTACT:

PATRICK PILCH
Managing Director, National Leader
The BDO Center for Healthcare Excellence & Innovation
212-885-8006 / ppilch@bdo.com

STEVEN SHILL
Assurance Partner and National Leader
The BDO Center for Healthcare Excellence & Innovation
714-668-7370 / sshill@bdo.com

People who know Healthcare, know BDO.

ABOUT THE BDO CENTER FOR HEALTHCARE EXCELLENCE & INNOVATION

The BDO Center for Healthcare Excellence & Innovation unites recognized industry thought leaders to provide sustainable solutions across the full spectrum of healthcare challenges facing organizations, stakeholders and communities. Leveraging deep healthcare experience in financial, clinical, data analytics and regulatory disciplines, we deliver research-based insights, innovative approaches and value-driven services to help guide efficient healthcare transformation to improve the quality and lower the cost of care.

@BDOHealth www.bdo.com/blogs/healthcare

Accountants | Advisors | Doctors
www.bdo.com/healthcare

ABOUT BDO

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 650 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 80,000 people working out of nearly 1,600 offices across 162 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.