

00:57 - 05:16

Lucas McCurdy

Bridge gap three two. Welcome to Bridge the Gap podcast is senior living podcast with Josh and Lucas. A beautiful day and a great guest returning. Arick Morton, CEO of NIC MAP. Welcome back to the program.

Arick Morton

Thank you. As always. It's a pleasure. An honor to be here with you today.

Lucas McCurdy

Well, we love these podcasts because we get to have the cutting-edge information around the data and the industry. We've got a heavy hitter. Arick brings the data to our show, and we're here at Asha. This is the winter meeting. And there are a lot of conversations. It did, you know, get a little hurt by the snowstorm that hit pretty much the entire central and East Coast.

But, you know what the real winners are here. We braved the storm, and we got here. And so, for our audience, you're in for a treat. We have worked hard to get to this point, and we're going to bring the data and the conference information to you. So, Arick, there's a lot of talk going on around the industry. I feel like the industry has made a turn in the right direction. What conversations are you hearing as we kind of start the conversation?

Arick Morton

Yeah, sure. I mean, I think what I'm hearing is, you know, the trends continue to kind of persist. And, so, you know, if you have something, if you own, you know, if you are operating or owning something right now, you know, you're feeling great. All kinds of trends are on the rise, up into the right. You know, I think from an acquisition perspective, it's competitive. Right? There is, you know, a certain amount of inventory on the market. There is a lot of competition for it. There are a lot of people who kind of want to get in or who are in and want to expand.

So I think we're seeing, you know, competition for deals, heat up, cap rates, you know, that's putting downward pressure on cap rates. And then on the construction side, I mean, I think there are a lot of people trying to figure out how to make it work. I think there's that remains, a challenge. I do think, you know, we can talk a little bit more about it. You know that there's some kind of trends. There are some early signals in the trends that might, you know, provide enough lift to, construction folks in the development space that they can start to make some forward bets. So I'm actually optimistic that we might start to see the logjam break there. Despite, you know, good sustained interest rates and, you know, continued upward pressure on construction costs.

Lucas McCurdy

We're going to dive more into the data and the details around the specifics. But kind of, you know, high level, there's optimism.

Josh Crisp

Absolutely. And that's, that's just been sort of building over the last couple of years that we've been talking with you. So a lot of people are excited about that. But before we get in a little deeper into that, you know, a big congratulations to NIC MAP. I believe you guys are celebrating 20 years.

Arick Morton  
We are, we are.

Josh Crisp  
Congratulations.

Well, thank you. I mean, I think I'd be remiss not to, you know, give most of the credit to Bob Kramer and kind of the NIC team that really laid the groundwork for this. And really, you know, I think had the vision and to understand what the industry needed, to kind of meet this moment and many moments before it. So I stand absolutely on their shoulders, and I have the privilege and the honor of, of, you know, continuing to lead this, this wonderful, data service and kind of broader product suite, forward. So, yeah, it's it's, it's an incredible milestone when you really think about it.

Josh Crisp  
It is a very, significant milestone. And we want to hear a little bit more about the story because there's, you know, we were just talking with one of your colleagues last night at dinner and getting a little bit more about it, and it's just a really fascinating story. And how forward thinking, so many leaders have been in the industry that now Lucas and I, you and so many of us here at ASHA are benefiting from. And so tell us a little bit more about that milestone and what it was like when NIC actually launched.

Arick Morton  
Sure. Yeah. I mean, I had the great fortune of kind of growing up in the senior housing industry. My dad was a senior housing entrepreneur. And so, you know, I remember as a kid kind of what the conditions were and, and really, you know, senior housing kind of became an asset class around the time of the savings in, savings and loan, you know, explosion and, and resulting crisis in really it was, you know, kind of financed.

05:16 - 09:16  
Arick Morton

I mean, my dad started a company in 1996, and if you can believe this, it was venture capital backed, so, you know, the and it had, you know, kind of really pretty high cost mortgages. And so it was, really I would say, we weren't an institutional asset class, a real estate asset class at the time. And so the NIC's mission really was in the you know, the problem is if you're paying, if you're blended, average cost of capital is 12 or 15 or 20, you know, that ultimately is going to inhibit the amount of product that can be built. It's going to require higher costs. And so at the end of the day, I mean, that is to the detriment of the seniors in the United States of America.

So NIC's mission is and kind of always has been to say, how can we, you know, continue to institutionalize this asset class, drive down the cost of capital in a way that will allow for the maximum amount of competition and the maximum amount of, product to be built. So, you know, when you kind of think about how that played out, one was a conference, where capital and operators could really get together.

And, you know, NIC is a well-oiled, beautiful conference, you know, incredibly efficient in that regard. The other piece was kind of reliable, trustworthy third-party market data, which, you know, pretty much every other real estate asset class. It's institutional. It's kind of a prerequisite. So in 2004, they started NIC MAP, and then they launched the data for the first time in 2006.

And basically, you know, the idea with there was if you want, you know, sovereign wealth funds and in kind of the large pension funds to allocate to this asset class, they need to, you know, they can't just see one off market studies for an individual deal or some sponsor kind of cobbled together a set of data they need to see you know, kind of the global market and trends within it so that they can kind of think about, should I allocate to multifamily, should I allocate to senior housing, and how should I think about that?

Right. And without that data, I mean, senior housing is a large asset class, but very small when you kind of think about global pools of real estate capital. So, you know, it's always easier to just say, you know what? That's kind of seems kind of risky. Let's just keep it with, let's just put a little more money into multifamily or office or whatever that might be.

And so we had to kind of earn our spot at the table and having reliable, you know, high quality transparency is something that is, just frankly, a, you know, kind of a prerequisite to, to eat at that table. So NIC launched, you know, and launched a data service started with 31, started with 31 markets, then went, you know, 99 and then to 140.

And now we're going to 215. And we'll keep going beyond that here over the next year or so. And basically, you know, that has it has been a resounding success if you look at cap rates, if you look at the cost of capital, if you look at who invests and who allocates money to this space, I mean, we have sovereign wealth funds of, you know, of large, countries and major pension funds and all that, who kind of now they're like, how can I put more into this space?

And a lot of that, you know, without that transparency, without that, that reliable kind of total market data, you know, we would see cap rates go up, we would see less capital available that would harm, obviously, you know, all the folks here, and it would certainly, come to the detriment of the seniors at the end of the day.

Josh Crisp

So, that's really interesting. So, that timing, you know, I guess I had the benefit. I entered the senior housing industry in 2005, went to my first NIC event, which was already a big event, where I got to hear some of the history of even prior to that, how NIC was essentially like a networking group that became what we see today, which is just such a powerhouse.

And I had the benefit of already having it when I entered senior housing. NIC MAP Data, which was really cutting-edge right at the time. It was all that we had. But that has changed a lot over the past couple of decades, and the impact on that. Are there milestones that you see along the way over the past couple of decades that you can look back and be like, that was a pivotal point when things just greatly advanced, and I feel like we're probably in one of those moments now? Right?

09:16 - 14:23

Arick Morton

I think so, I mean, I think some of the kind of the moments I would call out are certainly the, you know, the expansion of coverage, because, I mean, you know, you'll see with some of the large lenders and whatnot. I mean, actually, you know, NIC mapped coverage drives, you can drive, right? Premiums, risk spreads.

It can drive, invest ability. You know, people don't want to go put money into a market that they don't really feel like they, you know, have reliable data for. They're just trusting, you know, maybe a market study or whatnot. And so I think each time NIC map increases the coverage, that really opens those markets up to kind of institutional quality investment.

That's a lower cost. You know, for me, I grew up in and around senior housing. I know how much the passion of the people who who run the business. And then I certainly, you know, have seen, firsthand the impact it has on the families. So to me, that's you know, that's kind of the Northstar, right? It's just how do we get more of this incredibly needed product into the hands of the folks who need it?

So I think those are big milestones. You know, I do think when NIC map and Vision LTC came together, that unlocked a lot of kind of analytical capability and a lot of increased sophistication in terms of, you know, kind of the invest ability. And the speed of decision making. So I think that was that was a big one.

You know, a couple of the other things that I think are going to, you know, be really big impacts. One, you know, we're we're kind of rolling out this incredible financial benchmarking capability. I think that's going to be, you know, the, the revenue side, which I kind of think of as occupancy and rate piece, you know, that's a well-oiled machine.

But I do think it's like, all right, how am I operating efficiently? Could I improve my operations? Where's our opportunity there? We don't have great transparency and insight into that. That's something that we're, you know, really kind of making a big dent in. And the other pieces I think, AI is going to dramatically upscale kind of the quality, speed and sophistication of investment decision making.

And that's something that we're we're rapidly rolling out as well. And I think what that's going to do is just kind of help the industry increase its velocity at a time where it's it's frankly desperately needed. Well, so I'm I'm interested. You know, all of those things are very positive milestones.

And, we kind of can if I think if we're not really careful, you kind of gloss over those big successes and 20 years and think, well, it's all been great.

But along those ways, when you're pioneering, there's a lot of challenges and a lot of difficulties. So speak to maybe some of the things where you all have like had big obstacles to advance what we have today, maybe some of those obstacles, opportunities and challenges you had to overcome. And what does that say for the future? Because I'm sure there's a lot of obstacles ahead, because you guys just keep taking it to the next level, right?

I mean, I think, you know, there have been many I mean, I think, you know, the starting something like this, it's a bit of kind of a classic collective action problem, right, where it's good for everybody in aggregate. But, you know, everybody's like, well, I don't know. You know, I want to keep my honey hole secret, right? I don't want transparency.

So there's a tension there. And I do think there was, you know, because of conferences like this. And NIC, ASHA, and NIC, you know, there was a really, and there remains to be, you know, I have the pleasure of working with the NIC board, so I see it all day, every day. There is an ethos of, okay, you know, there's plenty of food out here for all of us. So let's make sure that we keep the health and quality of the industry high. You know, by doing things like ensuring that we have good data. So I think, you know, just starting that, overcoming that collective action problem. And the flywheel is, you know, the hardest problem for a data service like Nic map, obviously, it helps when you have a force of personality and a visionary like Bob Kramer.

He is absolutely, you know, probably one of the only people who could have gotten that off the ground. And, there were plenty of challenges along the way. But, you know, Bob is, is just an incredible, luminary. And so he was able to kind of bulldoze through those and convince people that coming together and, you know, putting this together is going to, at the end of the day, benefit, you know, benefit the investors can benefit the owners.

It's going to benefit the lenders. It's going to benefit, most importantly, the residents, and the families of thereof. So I think, you know, that's probably the biggest challenge along the way. The other one I would point to just having lived, having the battle scars, I mean, I think would be the last couple of years, right? I mean, the last couple, the, you know, 2020 through 2024 was probably it was unquestionably the hardest period in the senior housing, industry's history.

And so, you know, I think just kind of surviving and thriving through that and, and knowing that like, okay, well, you know, it's challenging right now, I think, you know, 20 or 25% of the top hundred, a top ten operators went bankrupt during that period. You know, obviously, you know, less publicized, but tons of capital got washed out. You know, but knowing that there's these incredible storm clouds, but within, you know, three years, they're going to part and there's going to be this incredible kind of long term future. And how do we how do we navigate the short term stress, while not sacrificing kind of the long term, I think has been probably the greatest challenge that I've had to navigate.

14:23 - 18:04

Josh Crisp

That's really awesome, you know, to hear those stories. Lucas, you know, the theme that I hear through each one of those is that as the times got difficult and the challenge to get to the next level became in front of, you know, this group of leaders coming together was really what allowed people to overcome. And when senior living has been tested, that's what's been happening. And I think we're also at that same inflection point, now pivoting to another time for the next generation of senior housing and this tsunami of demographic that's coming. It's it's going to present awesome opportunities, but incredible challenges that we have to come together on.

Arick Morton

Sure. Yeah, five years ago. So I guess we'll we'll call that going into Covid, right. You know, we want to talk about what it be the first, first day of Covid. You know, that's a different story. So, I mean, I think, you know, if you kind of put us back to call it, you know, for Q 19, right. We were overdeveloped. You know, we had seen the penetration rate click up.

So we developed a lot more than we developed way ahead of demand because it was a very accommodating development cycle. Our time in the development cycle. And we knew the boomers were coming, so people wanted, you know, it's kind of like when five years, you're like, well, five years, kind of a long time. So we were overdeveloped, you know, occupancy was trending down.

Not as much as the of the over development because increased penetration rate was picking back up. You know, labor costs were outrunning way, wages were outrunning labor. Sorry. Rent growth. You know, the fundamentals were, were kind of deteriorating. But, you know, everybody knew we had this incredible kind of opportunity, you know, five years out, half a decade out, obviously, Covid hit.

And then, you know, we've been through that stage. Some things change. So that's where we were. You know, if you look at where we are today, occupancy-wise, were you I believe were above where we were then is substantially. I don't have the figures for it. For Q 19, numbers committed. I think it was in the 80 sevens. So we're now at 89. You know, we picked up almost 200 basis points last year, which is incredible. I mean, it's an incredible gain. And so, you know, we are on track to crest 90% this year, which I think is kind of a psychological barrier. I think the all-time record, you know, don't quote me on this, is mid 91..

So, we did our webinar the other day and the whole question was, you know, will we do we think we'll break that record this year or next year? So, you know, we're we're coming up on our kind of our all time record, rent growth is outpacing, you know, wage growth, you know, pretty, pretty healthily and in certainly outpacing inflation.

So, you know, and then construction is kind of at all absolute historic lows. So from, you know, from a if I, if you own a building today, I mean, the fundamentals are, you know, incredible. Obviously, if you're kind of zooming out and looking at this at a macro level and saying, okay, you know, we're an industry that does need to meet this kind of yawning need, you know, that makes you a little more worried about just our ability to kind of have sufficient capacity. But, you know, I mean, the fundamentals are as strong as they have probably ever been in our industry history.

Josh Crisp

To dumb that down a little bit, what you're talking about, does that signal that we're beyond the recovery phase now? I mean, we've been talking about recovery for a lot of years now, but we've actually moved on to the next phase totally. So we can be talking about that.

Arick Morton

Recovery is done, I think.

Josh Crisp

Amazing.

Arick Morton

Yeah. Yeah. Recovery is done.

Josh Crisp

Yeah. Well, so there's a lot of things that you have mentioned are things that are misunderstood and but so occupancy rent growth supply. Which of those metrics do you think is the most misunderstood by the average Joe and senior housing thing?

18:04 - 26:50

Arick Morton

People probably generally have a pretty good sense of that. I mean, I think the thing I think, you know, when I think of misunderstood, I'd probably kind of answer that around, you know, when you think about the current performance of where the market's going, you know, which of those metrics are maybe most overlooked. And the one that I kind of, you know, I think is really interesting and where I've kind of spending some time diving in is around, okay.

If you look at the occupancy velocity and then you look at the rent growth and you kind of take those two and apply those to a development proforma, you know, what is that? Right. Because if you're targeting, you know, an Unlevered nine or whatever in the third year and your rate growth, I mean, if you go in and I've had the opportunity to to build senior housing and, you know, managed many development, performance, the sensitivity of that rate growth, if you go in there and just, you know, change a three to a 4 or 5, you know, that kind of unlevered yield will probably explode on you.

And certainly if you kind of tweak up that lease-up assumption or you tweak off that, that stabilized occupancy assumption. Same thing. Right. I'll kind of all three of those, you know, are are pretty dramatic levers. And then if you move them all together, you know, you're going to have a pretty substantial change on your unlevered yield.

And so, you know, I think the what I think about is I had the great fortune of kind of how vision like, got started was, you know, Steven Vick, who, you know, has had an illustrious career and was one of those early kNIC grandees, you know, he was looking he, he developed through, 2008 when everybody else stopped.

He got them, brought them all out of the ground up there in, by, by you all up the north, north, north Dallas Denton, that kind of kind of ring. And he brought those out of the ground. I mean, they filled up in like 12 months and, you know, now he saw all the competition coming. So he's kind of like, I don't know about that.

But, you know, I think I kind of take his experience of, you know, he developed when everybody wasn't. And I mean, he just had in, you know, all of his pro forma assumptions kind of did much better than, than he anticipated. And so, you know, I kind of look at this current moment and I think we're probably in a similar moment where it's like, if you can, if you got something that's on the one yard line from a unlevered yield, you know, you look at the other, you kind of look at those assumptions, you look at where the market is and you say, well, geez, you know, if we take a little bit of bad, if we have a little faith and make a 3.2 to a 3.8 on rent growth or whatever it might be, you know, this thing goes over the line and my guess, right, don't quotes is not investment advice. Is that the folks who kind of are willing to take that little bit of a leap of faith are going to probably smash their expectations and have kind of an incredible run. And so I think it's kind of a 2008, 2009 moment here where if you develop through that, you know, the what you'll get on the other side is probably going to outperform.

Josh Crisp

So when you start talking about that, you know, I immediately start thinking about the development performance and mitigating your risk. But when you're building that out and making your assumptions, there are great data sets out there to inform the developer, the operator, to be able to predict that pretty well.

Arick Morton

Well, you know, I'm obviously biased, but, you know, I mean, that's exactly what NIC map does, right? So, you know, you know what? You're you know, where your site is, you know what your comp set is. You know, you can basically look at where's that, you know, where's that comp set at from an occupancy perspective. What's the rate velocity. What's the rate trend. What does it look like globally. What's what's labor doing from a you know, a growth perspective. So I mean that data is pretty much, you know, at the unit level like a unit type level, I should say, so that I mean, that data is there. And so, you know, I think you kind of take that.

And then the question you have to ask yourself, then you have the demographics or you have the you have the demand side sitting right next to it. You kind of got to look at that and say, okay, well, you know, do I have some faith that that and, you know, I mean, it's the hard part to me, the hard part of development is always the answer to a question of like, okay, how much you know, has how much is my new product going to kind of outperform? Right. What share of the new move ins can I pretty much expect to get? Because I've developed something when and there's a lot of markets that haven't seen development for, a hot minute. And so, you know, I think, you know, Stephen kind of gave me, you know, I go back to, to steam back. Right? He's like, if you can find him, you know, old and full, right?

And then, you know, you can go build the right product in the right spot and you're competing against a bunch of old bull stuff. I mean, you know, you should just mop the kind of mop the floor up. You know, just because obviously, you know, this is a care business, it's an operational business. You got to have operational quality. But assuming you do that, if you have brand new bespoke, you know, custom kind of purpose built real estate for the modern times, you know, you're you should win the head to head battles at a very high clip. Sure. So, Lucas, I, we, you know, Arick and his team sort of have, like, all this data, and I'm, I just kind of visualized them over there some time, like just seeing all this data and they kind of know what's coming, and we're not talking about it yet.

And you always just want to be like, phone a friend. Like, what are you seeing over here that we're not talking about yet? Well, fortunately for our listeners, they don't have to phone a friend. They can just tune in right here and get it directly from the horse's mouth right now. Well, you know, as we kind of transition, our conversation, you know, one of the last points I think that is left to talk about is just the capital providers. And, I've seen you on panels and even recently, you know, where, senior housing is getting a lot of attention in the real estate vertical asset classes, like it's being talked about. It's not just a little stepchild somewhere off in the distance. That's just for certain people that have a big heart. Yeah. This is a real, a real asset class that's getting a lot of attention from not just the industry legacy players, but a lot of outsiders.

How are they looking at senior housing as an asset class right now? So NCREIF, which I'm not going to hazard. I don't, I don't know the acronym exactly off the top of my head, but it's basically the, it's it's basically kind of the institutional real estate, investment fund, the national real estate investment fund somewhere in there. And basically what they do is they aggregate performance for folks who are, you know, kind of have large institutional pools of capital they report their performance in. And then they they do lots of things. But one of the things they do is they produce kind of a relative ranking of, returns by asset class. And so for the last year, senior housing has been the, top performing, asset class of all asset classes.

I don't know if data centers in there, obviously, data center is, you know, kind of its own thing there. But, you know, building data centers is not something that you're, you know, you can kind of, you know, apples and oranges. Yeah, a little bit. And so, you know, out of the kind of call it resident, you know, you're more garden variety real estate asset classes. We have been the best performing real estate asset class for the last year. And it really doesn't look like there's

any, that's not going to change anytime soon. So, you know, obviously, you know, that kind of puts us to the top of when you think about the the pension funds or the large institutional capital who allocate. If you think about the kind of the fund managers, who, you know, take those allocations and invest them, you know, senior housing, it's it's like, well, hey, there's there's great returns being generated there.

And those aren't, you know, some short term kind of thing. I mean, they're propelled by a megatrend, which is generally, you know, if you're an investor, you love a megatrend, right? Because, you know, you're going to have coverage for ten, 20 years. Your thesis is going to be able to ride for that time. So, you know, we are we are absolutely kind of making it to the top of the ranks there.

Obviously, we're a small asset class. So there's only so much capital you can allocate. Right. You're not just going to be like, I'm all in. You know if you're a large pension fund, you can't just go all in on seniors, right. You're going to still need that diversification. But yeah, I mean, we're it is kind of our, our, our shining moment.

And, you know, I think that we'll, we'll kind of continue, you know, as barring some, you know, absolute insane structural kovid type of situation or something like that, you know, it's got kind of seems like we'll, we'll continue to, to perform, not in part because we have such strong fundamentals and in part because when you look at the other real estate asset classes, they don't have a mega trend propelling them. So, you know, we're kind of at the top and it doesn't seem like there's much out there to, to threaten that.

Josh Crisp

Well, another great show with our friends at NIC MAP

Lucas McCurdy

That's right, that's right. So, to our listeners that want to learn more about this, scroll down in the show notes. Connect with Arick and NIC map and their team. Get a demo. If you're not a current user of NIC map, imagine after this program, you're going to want to be, So connect their team. They'll take good care of you there. If you want more information, more content, go to [btgvoice.com](http://btgvoice.com). Arick, thanks for your time today. Always. It's a pleasure to be with you all. Thank you so much. And thanks for listening to another great episode of Bridge the Gap.