

## Observations From the Front Line

What a difference six months can make! The first quarter of 2009 was one of the gloomiest periods in the United States' economic history, as consumers were increasingly unemployed and in hibernation, equity markets were declining rapidly and credit markets were frozen. Following the meltdown of the banking system the previous fall, the difficulty in determining the extent of core financial damage led to a widespread loss of confidence in the credit of American individuals and corporations.

As the October Senior Living Update goes to press, the fixed rate markets are thawing rapidly as high yield investors are scrambling to invest cash inflows and coupon payments. Retail investors are again reaching for yield in an environment that is punishing savers. Recent successful bond sales using fairly conventional structures are a major reason for optimism regarding the availability of capital to the sector. Interest rates and credit spreads are declining rapidly. Bank financing is still challenging in certain parts of the country. With a rally in the stock market over the summer and the success of the Cash for Clunkers program, there is certainly a sense of optimism that the worst of the financial storm has passed.


As usual, the purpose of this publication is three-fold: (i) provide management insights into the current complexities of managing senior housing businesses; (ii) demonstrate accessible methods of obtaining capital for various business activities; and (iii) demonstrate the industry expertise and financial strength of the BB&T Senior Living businesses. To that end, the following articles are included in these pages.

**1. The Affiliation Continuum.** There has been considerable chatter recently about the effect of the economy on consolidation (affiliation) trends. However affiliation is not just mergers and acquisitions. This is a follow up to last quarter's strategic planning overview of the affiliation considerations worth considering as part of ongoing planning exercises.

**2. Grandbridge Capital.** Did you know that BB&T subsidiary Grandbridge Capital was the highest dollar volume producer of senior housing loans for Fannie Mae in 2008? Did you know in 2007 it won a similar award from Freddie Mac? This overview of Grandbridge is an example of the alternatives to traditional tax-exempt structures that BB&T can deliver to providers needing capital.

**3. Snapshot of Virginia CCRC Group.** MSP Reports provides a guest article analyzing a group of 17 Virginia-based CCRCs and their operations in the current environment. This is a great sample size group of a range of organizations and their performance in the current economy.

**4. Construction Cost Estimates.** As provided by Weitz Construction, per square foot full burden construction cost estimates by level of care as of mid-year 2009.

We hope you too are beginning to feel that the glass is half full again. Please contact any of our team if we can elaborate further on any of the content herein and we look forward to visiting with folks through the fall conference season.  - John R. Franklin – Managing Director

## Understanding the Affiliation Continuum: A Valuable Exercise for Every Organization to Ponder

Lately there has been growing consensus that the Senior Living sector will experience increasing consolidation in the future. We believe several trends are emerging that make such activity inevitable. There is still uncertainty as to the magnitude of the increase and the form that it may take, but as senior living providers become more focused on strategic planning, many entities will find that some aspect of the "affiliation continuum" can significantly enhance the ability to achieve their mission.

Much has been written and discussed regarding the expected pace of change in our society. Successful companies are being described as "adaptive" organizations that create a culture that not only expects change, but embraces change to remain vibrant and successful. Our most recent newsletter contained an article that described one way to create such a culture. In "A Practical Approach to Strategic Planning", strategic planning was described as a way to "create processes around change", which infers that strategic planning is













