



RHarper Consulting Update

Takeaways From the AASHA Conference and Exposition



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I have just returned from the annual American Association of Services and Homes for the Aging (AASHA) Conference and Exposition in Chicago. As always, it was a wonderful time and everyone had the chance to renew old acquaintances, make some new friends, and take stock of the senior housing industry and emerging trends influencing the industry. Below are some of my observations:

- The credit markets have finally opened up, and several financings were closing during the conference and in the weeks following. Funding is available, rates have come down, and transactions that have been waiting in the wings for months are now moving forward. Kudos to the efforts of the investment bankers in our industry to assure fund managers and other bond buyers on the viability of projects in our industry during very troubled times.
- The level of due diligence required for new financings is, understandably, greatly elevated. Direct enquiries from bond buyers, increased cash reserves, and intense scrutiny and comparative analysis with competing projects is now the norm. This includes disclosures and commitments of some critical project participants including succession plans for key personnel with the sponsor and assurance from the consultants that project team members will remain with the project for the duration of the project.
- Of course, the most popular topic is “What Happens Next?” Most of the people with whom I spoke felt the industry would continue to see more project repositionings, additional phases, and remodeling/updates of existing facilities rather than new “greenfield” projects.
- There is an increased interest in Low Income Housing Tax Credit projects. Many for-profit developers are looking to raise equity via tax credits for entitled multi-family sites. Partnering with a 501(c)(3) sponsor/operator provides additional points on their applications for tax credits in most states. The Not-For-Profits are intrigued because of the low equity requirement (generally less than \$500,000), and a LIHTC project in their portfolio looks good in case their tax-exempt status is ever challenged.
- Most forecast the next generation of senior housing will be focused on smaller, more affordable projects. Minimizing market risk, limited seed capital, and more manageable project budgets are all more attractive now than the mega-CCRCs of the past few years. In other words, determine the smallest initial phase that would be viable as a stand alone project if future phases never proceed. Demonstrate market demand, operating margins, and market trends, then proceed with incremental expansions, that are more responsive to prevailing market trends.
- Urban infill sites are drawing interest, as well. Smaller unit sizes, sharing structured parking, utilizing existing neighborhood amenities, and locations in older demographically rich and diverse neighborhoods are proving to be successful business models. Couple this with local governments providing TIF and other incentives, and these projects are worthy of additional interest.
- There is a great deal of interest in distressed assets. Sponsors who have taken the past few years to strengthen their balance sheets and accumulate cash are looking for strategic acquisitions in their primary and secondary market areas. Opportunities are emerging from both the for-profit and not-for-profit sectors, as more projects are running out of resources.
- One item conspicuous by its absence was “green building/sustainability.” I mentioned this to several developers and designers. Most felt that “green” building was being incorporated broadly where economic justification can be demonstrated. However, few projects are willing to incur the initial and recurring cost for certifications. The marketing professionals felt that LEED or other “green” certification was a desirable feature, but not one that is currently commanding a premium in the market.

Overall, the Conference and Exposition was very well attended - reports were equal attendance from last year, and the mood was upbeat and positive. It was time well spent and I am looking forward to next year already.

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RHarper Consulting Group provides development consulting, program management, and owner representation services focused on the senior living and mixed use sectors. In addition, Mr. Harper is a listed mediator and arbitrator and provides dispute resolution services for the construction and real estate industries.

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