



RHarper Consulting Update

CCRCs Dead? - Nope, Just Evolving!

Recently making the rounds are several articles sounding the death knell for continuing care retirement communities (CCRC). The premise of these articles is that since many communities are facing occupancy and financial challenges, and that our proven methods and programs are not rising to meet these challenges, then surely, the industry must be dying. Lost in these opinions is any evidence that the fundamentals that have driven successful CCRCs have changed or disappeared. Socialization, health and physical security as well as priority access to high quality long term care have been the primary motivators for seniors to make the transition to a CCRC.

Over the past five decades we have seen the CCRC evolve in many ways. Settings have gone from quiet and pastoral to urban and chic. Amenity packages have expanded from simple meal service to full 24 hours concierge service, business centers, Wii lounges, and spas. Entry and monthly service fees rose dramatically during the past decade as an expanding economy with rapidly rising home values fueled the fire. In other words, the CCRC followed the economy, evolving into a more luxury and lifestyle oriented product.

The current state of the economy has dramatically impacted senior consumers when it comes to making the decision to move into a CCRC. Their inability to access equity in their home, their perception that they have experienced a loss of equity due to declining home values, market losses in their retirement portfolio, and the uncertainty of the economy have left seniors opting to wait for better times before making their next major lifestyle decision. Perhaps seniors are really waiting on CCRCs to evolve again, providing programs and pricing structures that meet today's challenges.

Will the economy drive the evolution of the CCRC as it has in the past? Clearly, it will. Today's senior is now evaluating their decision under a very different value equation than just two years ago. High six-figure entry fees are meeting tremendous resistance in today's market as prospects face the reality of deflated and stagnant housing markets. This effect is likely to linger well past the start of the recovery as the uncertainty of a reoccurrence lingers.

How will our industry adapt its products and what programs will resonate with seniors in the market convincing them that the next generation of product has value that is tangible and substantive?

- Adaptive Reuse – Are there existing buildings in the target market that can be acquired and adapted to function as a CCRC? The conversion of failed condominium projects to senior living presents real opportunities in today's market. The value of being in the market quickly are tremendous, particularly when it can be delivered at a discount to new construction costs.
- Affordability – Entry-fee models must reflect the effects of home values. Just as we allowed entry fees to track the increase in home values, we must face the reality of the decline – more importantly, we must not only look at the numbers reflected by the market, but also factor the perceived loss in value felt by our prospects. Monthly service fees must also reflect the market roll back as well.
- More Efficient Marketing – The costs to market a CCRC increases dramatically as perceived value of the product declines. The cost to obtain and convert prospects, as well as the time frame to achieve pre-sale marketing targets has become a tremendous hurdle for project success. Greater use of social media, better sales training and management all must evolve towards achieving a lower cost per unit contracted.
- Project Scale – Project planning, land planning, and acquisition strategy must shift towards determining and delivering the smallest possible initial phase. A really objective evaluation of “economy of scale” of large scale projects may reveal that the additional costs to achieve higher pre-sales, more complex site development issues, and higher unit cost for greater density exceeds the savings.

The evolution of CCRCs is constant – today we are seeing new directions for the next round of changes. The industry is not dead, just evolving.

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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 also a listed mediator and arbitrator providing dispute resolution services for the construction and real estate industries.