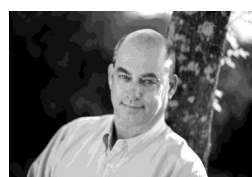




# RHarper Consulting Update

## Senior Housing Preparing for Recovery in 2010 and Beyond



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It appears, based upon activity in 4Q09, recovery in the senior housing sector has started. Approaching the end of last year, around \$1 billion of tax-exempt senior housing transactions financings were completed. Practically all of those transactions had been waiting on the capital markets to re-open for twelve to eighteen months. The mix of projects heavily favored re-positioning of existing campuses along with a few new developments. Arguably, all are “legacy” projects and reflective of the market two to four years ago when those projects began their planning process.

While some savvy sponsors have started planning for expansions, repositioning, acquisitions, or new campus development during the past two years, many are still waiting on further indications of stability and recovery in their markets as well as the capital markets. Some have seen their occupancy erode after years of stable operations with waiting lists due to the effects of the economy. We believe now is the time to mobilize and act to take advantage of new trends in senior housing, lower construction costs, better labor markets, and access to the capital markets.

Those now starting their planning for new capital projects, or picking up where you may have left off, should take fresh a look at their market and adjust their project positioning to reflect:

- **Affordability** – Today’s seniors have been particularly affected by the economy. The values of their homes may be down 20% to 50% from three years ago and while they may still have significant equity, they are feeling the perception of loss and the fear of more to come. In addition, many have seen retirement incomes impacted by the economy as well. Creating a resident service program and pricing that addresses these factors is essential for success:
  - **Unbundling of Services** - Consider unbundling of services to provide a more value driven resident pricing program. Offering a “pay as you use” service package can provide a significant competitive advantage over your competition.
  - **Lifestyle is Important, but Affordability Rules** – Our advertising and sales/leasing approaches over the years have reinforced lifestyle, security, and amenities, but in challenging economic times, consumers seek “best value.” As an industry, we have done a great job selling the lifestyle, the consumer “gets it”, now they want it at the best price. Be the value leader in your market.
- **Keen Attention to Competitors** – Your competition is dealing with the same market trends and reacting as well. Pricing, services, programs, advertising are all being constantly evaluated and tweaked. Make sure you are constantly aware of not only what you competition is doing, but how your residents and prospects perceive it. Innovators are going to be the winners in the recovery.
- **Operational Trends and Opportunities** – Most operators are now reporting decreased turnover, better quality applicants, and generally a greater appreciation and dedication by employees to their current positions. However, there are other operational trends to incorporate into new project planning:
  - **Sustainability**- The energy industry has made huge strides in the past five years in more efficient technologies. Further, many states are making stimulus funds available for solar and other technologies.
  - **Meal Preparation and Delivery Systems** – there are now several pre-prepared meal delivery systems that provide high quality food products at very competitive prices. Use of these systems can greatly reduce personnel costs and reduce storage requirements. While they may not be the solution for all communities, they are providing an alternative that is worthy of more investigation
- **Lower Capital Costs** – We have all read about lower construction costs now available in the market, but most of the other “soft costs” associated with development of a new project have also seen significant savings. Design costs, engineering services, appraisals, feasibility studies, furnishings, fixtures and equipment are all affected by the market and present value opportunities for those acting now on their projects.

As we know, the planning process for senior housing and the requisite pre-sales period is time intensive. Waiting until all the signals are positive means you will likely miss opportunities. Starting the planning now is a prudent action step. If the market slows again during the process, you have the opportunity to adjust “on the fly” and slow along with it. However, missing this window will mean higher costs if you have to play “catch up” and risk missing the demand currently building as seniors have been delaying their decisions to move.

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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.*