



RHarper Consulting Update

Repositioning—Event or Process

2011 was not a great year for most providers in the senior housing industry. New project starts are virtually non-existent, and the number of communities undertaking major repositioning has fallen dramatically. While the lack of new project starts is understandable, the lack of new repositioning efforts concerns me.

Many providers appear to take a short-sighted approach to repositioning, treating it as an event rather than a continuous process. Continuing-care retirement communities (“CCRCs”) often hold themselves back from necessary repositioning, often due to this faulty reasoning:

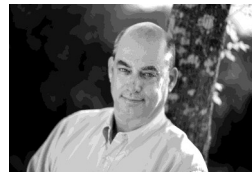
- **Complacency** - "Our occupancy is stable, why should we worry about repositioning?" Because changes in the market have been incremental in the past, CCRCs perceive that no change is occurring. This is a mistake. Resident populations are aging, competitors may be marketing significantly better/newer products, and the provider’s services to residents may not measure up to those provided by the competition. Don’t wait until you start to lose residents before beginning the repositioning process – at that point, is very costly and places your community at risk.
- **Lack of viable strategic planning** - In the past, the senior housing business seemed to change very little, and what market shifts we saw were easily anticipated and addressed. In today’s environment, though, the velocity of change has increased tremendously and many communities are locked into outdated and ineffective strategic visions. We only have to look at the effects changes in health care reimbursement are having on skilled nursing facilities to get an idea of how rapidly - and drastically - change is occurring. How many CCRCs that are currently in the midst of repositionings that were planned in 2006-2007 and targeted at the luxury, high-end market are now wishing they had focused more on affordability and value? Those are the overriding demands from today’s senior market, not amenities and concierge services.
- **The Big Project Syndrome** - The industry has touted and publicized the mega-dollar repositioning projects, spoken about them at conferences, won design awards for them, and published tombstone announcements in the financial press. This has left the impression in the industry that a repositioning must have huge scale to be effective. Many smaller projects currently underway are implementing well-thought-out strategic visions one small phase at a time.

How should CCRCs be approaching strategic planning and repositioning today? Let’s look at some best practice:

- **Make strategic planning and repositioning a continuous process and singular event once per decade.** Having a constant finger on the pulse of the market, listening to our trade organizations about future legislative and regulatory impacts, and closely monitoring what your competition and fellow operators are doing in similar markets is essential. Overlaying this information on your current strategic plan and assessing changes to that vision requires a constant level of diligence.
- **Phasing** - Every CCRC is capital-constrained, particularly in today’s market. Too many CCRCs feel that if they can’t do everything, then they won’t do anything. Determining how a strategic vision can be parsed into smaller phases consistent with available resources is the "art of the deal" today.
- **Engage experienced professionals** who will offer objective counsel regarding planning, financing, design, and construction. Further, insist that the development and planning process be interactive and engage all stakeholders, including your Board, and operations and marketing staffs. No one knows your business as well as you.

The environment for our CCRC projects faces some tremendous opportunities and challenges. We face the challenges every day, but the greatest opportunity is that today’s capital markets have shut off the supply of new projects. While our prospects have been jilted and scared by the housing and investment markets, many are returning and seriously considering their options. Rest assured that those prospects are expecting you to meet today’s standards, not those of five years ago.

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