



RHarper Consulting Update

Resetting the Value Equation How Seniors Are Valuing Housing Options



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The economic recovery has started and we are beginning to see new signs of life in the senior housing market as well as other areas of our economy. We have real growth in GDP, household spending and the housing market is showing significant recovery. Reports from the “front lines” of senior housing show an increase in inquiries, first time and return tours, but an uptick in sales/closings has not yet materialized. Given the economic disaster which has impacted the senior housing market, the value equation has been reset and owners/sponsors must carefully assess and react to achieve success.

Continuing Care Retirement Communities (CCRC) are particularly impacted by the recession and the target customer is clearly challenged to absorb high six figure entry fees and monthly fees that exceed their previous mortgage payments. Many are now weighing the CCRC value package against the purchase of a discounted condo coupled with a long term care insurance policy. While the CCRC may provide activities, socialization, and other services not available in a condo setting, the perceived value of those services is often not resonating with the market. The CCRC will have to “reset” their programs, pricing, and service package to regain their position as the premier choice of senior housing options.

Resetting the Value Equation

Ala Carte Services – Many CCRCs are developing ala carte service offerings or fixed price packages to provide their residents and prospects with greater perceived value. A twenty meal-a-month package with readily available extra meals is proving to be a popular option. It is also forcing providers to offer a greater variety of dining options, meal choices, and generally, become more focused on providing a value added dining experience to drive revenue.

Parity with Other Providers isn't Working - You can throw out your comparable market studies because in most cases, your competition isn't successful with their pricing strategy unless they have already “reset” their value equation. Holding your pricing at pro forma levels and hoping your prospect in looking only at other CCRCs as their alternatives is how we used to do business. Listen and learn from your prospects and understand all the alternatives they are considering. Your sales teams will have to be able to overcome a whole new set of objections related to these alternatives.

Vacancy is an Expense – If you consider vacancy as an expense, it may change your whole pricing paradigm. As an example, if you were trying to reduce your food service expenses, you would expect to reduce these costs by small increments and margins and a 2% decrease in that expense would be worthwhile. You can apply the same logic to vacancy – any increase in revenue is good even if it is below what we believe the market “should” be. Pro forma rates aren't achievable unless you have pro forma occupancy. Full buildings generate more revenue than vacant buildings and more importantly, they generate a building full of referral sources.

The senior housing industry has always survived by being responsive of market forces and evolving programs and pricing to adapt to changing conditions. However, our industry has not always been quick to respond and recognize these shifts as they occur. The organizations that end up surviving today's crisis will be the ones who recognize the changes in value perception quickly and “reset” their value equation to meet their customers' perceptions of value.

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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.

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