



RHarper Consulting Update

Senior Housing Opportunities – Mid-Size and Smaller Markets

You don't necessarily have to go to the deepest ocean to catch a big fish – and you don't necessarily have to do business in the largest cities to find successful investments in senior housing. About 10,000 new senior housing units, including independent living, assisted living, memory care and skilled nursing, commenced construction in 2013, and 43% of these new unit starts are in five metro areas. While the concentration of units in these five markets may make perfect sense, it also shows that there's plenty of competition there – and better opportunities, you might even call them lower-hanging fruit, are available in small and mid-markets which have not seen that proliferation of new product.

There are a number of advantages and challenges to developing in smaller markets. Here are some based upon my experience and that of others:

Advantages

- Less competition – a new development in a smaller market has the opportunity to be the nicest, cleanest and most up-to-date choice for seniors and their families in the market. It can become an immediate high-quality brand.
- Lower overall project cost – Lower land prices and use of local construction labor results in better value for the same quality of product. Entitlements, impact fees and plan review timelines are generally more favorable in smaller markets.
- Agency financing, such as Farmers Home Rural Development and HUD programs, is often available in these markets.
- Access to lower-cost labor for operations is more readily available, providing a better opportunity for achieving target operating margins.

Of course, there are some challenges with developing in smaller and mid-size markets, including:

- Access to capital – Equity and some debt sources may be reluctant to venture into markets where they may currently have investments. It may require the borrower to provide more due diligence and market analysis.
- Limited absorption – Smaller markets are more readily overbuilt. Keeping a keen eye on competitor activity as well as the development pipeline is always important, but in smaller markets the impacts are felt more quickly.
- Management talent – while service labor may be more readily available, finding or transferring qualified, experienced management is often a significant challenge. This may require using a more centralized management structure, or providing more time from regional managers.

Overall, as the large metro markets reach maturity in this economic cycle, the mid-size and smaller markets will present readily available opportunities to sustain enterprise growth and market saturation. Smaller markets may require a different approach to management and operations, but they can also provide fertile ground for new business – in the near future, consider thinking smaller to grow larger.

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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.



Roger Harper, Principal of RHarper Consulting Group, provides development consulting services to the senior housing industry.

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