



# RHarper Consulting Update

## What Innovators in Senior Housing are Doing



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We are seeing many challenges to the old paradigms of senior housing. It is easy and convenient to attribute these changes to the downturn in the economy, but in reality these changes are an accelerated response to conditions that had been building in the market. The needs and demands of our customers have evolved much quicker than our resident programs and facilities. The dramatic change in the economy has highlighted the way our residents and prospective residents view the value of our offerings. However, there are innovators in our industry finding new ways to deliver enhanced value to their residents and are prospering while others are left behind.

Innovators have one essential purpose; value enhancement. All are finding creative ways to deliver resident services more cost effectively, lower capital and borrowing costs, utilize new organizational structures, or create facilities with more efficient use of space, energy efficiency and sustainability. These savings are being passed to consumers creating competitive advantages over other providers in their markets.

### Leading Edge Strategies

**Campus Repositioning** - Over the past decade, CCRC campuses around the country have renovated or added new facilities, revamped resident programs, and created new marketing plans, all to regain or maintain their unique selling position in their markets.

**Low Income Housing Tax Credit Senior Projects** – Sponsors are considering LIHTC projects for several reasons; (1) Washington granted a significantly larger allotment of tax credits to the states creating more opportunities, (2) 501 (c)(3) corporations are looking for affordable projects to affirm their charitable tax status, and (3) tax credits help raise the necessary equity for the transaction. While many have considered LIHTC projects too complex or outside their mission, innovators see the benefit of serving this market segment and have quickly learned to navigate the tax credit environment.

**Joint Ventures with For-Profit Developers** – Sponsors are finding willing partners in the proprietary sector as for-profit developers search for partners with viable and experienced operations platforms to invest and participate in their projects. For profit developers have found third-party managers lack the necessary commitment without “skin in the game,” while a well regarded not-for-profit brings tremendous value in market credibility, operations and occupancy development expertise. Innovators benefit by increasing market presence while spreading and mitigating their risk with developers who have expertise in delivering projects on budget and schedule.

**New Financing Alternatives** – While tax-exempt bonds have been the mainstay for financing not-for-profit sponsored senior housing for decades, the product remains an inefficient financing that often results in onerous and inflexible terms. Many communities are now struggling due to restrictions on additional borrowings, technical defaults, and other limitations of bond financings. Innovators are finding alternatives in HUD financings, sale-leaseback transactions with REITs, and bank qualified tax-exempt debt. Blending programs to create diverse capital stacks are being used to lower costs of borrowing.

**Innovative Operations and Cost Containment Strategies** – Innovators are finding new ways to deliver services with cost effective results. Pre-prepared bulk food systems are gaining acceptance not only for the labor cost advantage, but for consistent product quality as well. Energy management systems, high SEER heating and cooling systems, low power consumption lighting, cistern-fed irrigation systems and other sustainable elements are not only “green” things to incorporate, they produce real, tangible savings. Consider the acres of flat roofs in our communities and then imagine those roofs tastefully covered with solar panels and vegetated roofs. The cost of “green roofs,” solar projects, and other sustainable improvements may be fully or partially paid by stimulus funds.

**More Efficient Marketing Techniques** – As the number and size of senior living communities have grown, entrance and monthly fees have spiraled, and marketing budgets have grown exponentially. There is a correspondingly higher cost to drive enough qualified traffic to capture enough residents, many of whom are often on the margins of the qualification criteria. More affordable pricing structures provide greater potential market volume, and correspondingly lower cost to reach prospects that more directly fit target market criteria. Using low cost social media help marketing teams stay in touch with prospects in more personal ways at a fraction of the cost of traditional media.

Innovators in senior housing today will be the future winners and leaders in our industry. All the ways in which we build, service, finance and govern our communities are worthy of critical review and examination. The challenge our current economic environment places on us and on our communities may be viewed as an insurmountable obstacle, but Innovators see it as a once in a lifetime opportunity. Are you an Innovator?

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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.*