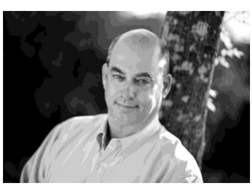
RHarper Consulting Update



CCRC of Tomorrow - Cruise Ship or Launching Pad

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

For more information on RHarper Consulting Group please call 615-218-4102 Or rharper@rharperconsulting.com

I don't subscribe to the school of thought which holds that the continuing care retirement community (CCRC) is dead, but I am convinced that the CCRCs of tomorrow will be very different from those built over the past half-century. While many existing CCRCs have repositioned, renovated and refreshed recently, new demand and functional obsolescence will cause the next generation of CCRCs to evolve in ways we might never have considered, with new structures, amenities, and challenges. My crystal ball is as foggy as everyone else's with the details, timing, and other critical factors, but I believe that if we look closely enough, we can see some forms emerge.

We have certainly seen the challenges of developing the current paradigm mount to where only a handful of new developments are started each year. The out-of-pocket equity just to satisfy the pre-sale requirements prohibits most new CCRC development. Further, regulatory requirements and moratoriums on certificates of need have virtually eliminated the opportunity for new nursing beds ,and in some cases assisted living. So, the continuum of care may simply not be available for a new CCRC campus in the future.

The industry has been searching for the Holy Grail of affordability for the past thirty years. Some think they have found it by building a cheaper building, others with different types of fee structures or innovations in financing and equity placement. Most, though, have provided more amenities and services, and simply targeted a shrinking market segment – high-income consumers who are willing to pay the higher fees – while leaving the rest of the market untapped.

A critical step in understanding what the CCRC of tomorrow can be is to step away from the current image of our customer and focus on the customer of tomorrow. The CCRC customer of tomorrow in all likelihood will have a very different retirement outlook culturally and financially. Most will have worked well into their seventies, have very limited pensions, and be much more accustomed and attuned to making their choices from a wide range of options beginning with their morning coffee. If you ask them, our CCRC customers today will tell you this as well.

To meet these challenges, the CCRC of tomorrow may have:

Smaller independent living buildings – buildings of eight to 16 units, financed by local banks via revolving construction loans triggered by a seventy percent pre-sale. These buildings will be elevator served, have very limited circulation space, and be connected to a commons building via walkway or transportation schedule. The double-loaded corridor, mammoth IL building, spoke-and-hub arrangement is too inefficient to build, maintain and operate. Look at today's urban infill multi-family designs to get a flavor of what's coming.

Commons – A very tight "club" with high finishes focused on resident programmed activities, many of which will occur off campus. Think of it as a "launching pad" to go to the specific activity venues in the community rather than a self-contained "cruise ship" where activity spaces sit idle twenty-three hours per day. Dining will be available, but the residents will have exclusive guest cards at participating local restaurants while the dining in commons will be more casual.

Financing - these buildings will also look very different than our current capital structures. For instance, as mentioned above, using a series of construction loans or a revolving line seems likely. Further, exploring how various financing alternatives may be used on the same campus for different buildings is intriguing – building 1 is conventionally financed, building 2 is financed using a HUD 232 program, while building 3 is a rental financed via a REIT lease. Adapting the product to available or new affordable housing programs opens a number of other ownership and equity avenues.

Health services - will be off-campus, self-sustaining, and in most cases owned and operated by others. Priority access arrangements, long term care insurance, home health care allowing aging-in-place, and in-residence supportive services will be the alternative to bricks-and-mortar health care facilities on site. Customers will have a range of options priced and available based upon their specific needs, rather than all paying for the sustainment of a relative few who require high-cost services.

Transportation – Seniors making lifestyle transitions don't want to give up their cars. That has been a long-time issue in our industry, and in most cases, we have simply surrendered to it by building parking lots and garages where many vehicles sit idle for years. The CCRC of tomorrow will have to have a strong economic disincentive relative to personal transportation. Common-use vehicles will work whether they are "zip" cars or rented by the hour via a quick phone call to the local agency. Solving the parking problem will have huge impact on affordability and costs – CCRCs can then be located on smaller, more available tracts of land in mature, well-served neighborhoods.

The CCRC of tomorrow is actually ready to implement now, and building the CCRC of today will most likely continue to get more difficult or even impossible. Let's not kid ourselves - the CCRC of tomorrow will be very different from what we have today, and will be in some ways different from the vision I have crafted above. We'd better shift into high gear to look at what we can build today that will meet the CCRC needs of tomorrow - and we may just find a better solution for the today's needs as well.

For more information please contact:
Roger Harper
615-218-4102
rharper@rharperconsulting.com
www.rharperconsulting.com

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.

To unsubscribe