

# The Business of Assisted Living: Growth, Construction & Partnerships

*Editor's note: This Forecast article is part three of a five-part series assimilating some of the latest research and industry news about assisted living in the year(s) to come as we face the challenges of rising acuity, staff training and medication management, among others. They are organized around the business of assisted living, the medicine of assisted living and the people of assisted living (both caregivers and residents).*

## Mixed Blessings of Occupancy and Expansion

The assisted living sector will continue growing in 2019, according to several sources.

The American Health Care Association/National Center for Assisted Living reports their assisted living members' bed count grew by more than 20,400, to a total of 251,108 by the end of 2018. Slightly lower growth was reported the year before. Meanwhile, stable occupancy rates blessed the assisted living sector in 2018 – an average of 85.4%, but still slightly lower than that of independent living.

(Worth noting: slightly lower occupancy rates (combined with ubiquitously anemic margins) are expected to force many nursing home companies to explore more profitable specialty ventures in areas like diabetes, obesity, mental health and opioid addiction, Cantata Health reported in late 2018.)

Supply and demand of assisted living housing were just about even by the end of 2018, something the National Investment Center (NIC) for Seniors Housing & Care said hadn't happened since 2015. It remains to be seen how even those numbers will be by the end of 2019.

Ventas Chairman and CEO Debra Cafaro predicted that 2020 will see “organic portfolio growth when senior housing operating conditions improve as other business lines continue to grow, capture the benefits of our research and innovation business and development pipeline, utilize our financial strength and flexibility, and reignite our long-standing history of completing successful accretive acquisitions.” She made that statement during a February 2019 investors call. Cafaro also noted that “the 75-year to 81-year-old contingent is growing 4% per year for the next five years, and the 82-year to 86-year-old cohort begins to grow over 3% per year after 2019.”



The optimism is infectious. In a February earnings call with investors, Welltower Executive Vice President and Chief Investment Officer Shankh Mitra said the company was pleased with the 120 basis point rise in occupancy in its assisted living unit.

It will be interesting to see where growth occurs, as the expected increase in dementia and Alzheimer's motivates more assisted living communities to expand into memory care, traditionally the bailiwick of skilled nursing.

## Meanwhile, Tempered Expectations

Of course, every silver lining has a few areas in need of buffing.

Writing in McKnight's Senior Living in December 2018, People's United Bank Healthcare Financial Services' Senior Vice President, Market Manager Matthew Huber urged caution for the senior living industry in the year(s) ahead. The reasons:

- The younger-than-expected 76 million baby boomer residents, who will be on average 10 years younger than those in the so-called "silent generation." One possible scenario: new customers may not be filling the wave of new buildings until a bit later than expected.
- Caveats about "easy capital." Those who take a loan from lenders based on looser terms could face future troubles, he warned.
- Affordability risks. Facing a wave of seniors who as a group have not been big savers or pension beneficiaries. "Where does that leave us? With the largest population of people moving into their senior years with only Social Security, and maybe the value of their homes, to carry them through to the end," Huber wrote.
- Looming downturn? If we remember anything from recent history, "the effects on an overbuilt senior housing market could be severe," he noted.

## Construction Costs Rising

Assisted living development costs are expected to rise a modest amount in 2019 despite the decline in construction starts and less competition in the industry for sites, labor and materials, CBRE Group, the world's largest commercial real estate services and investment firm, reported at the beginning of 2019. Meanwhile, a projected 4.3% increase in workforce hourly earnings could cause net operating income to dip.

One report predicted 6-8% overall increases in construction costs for the senior living market in 2019.

Recently, costs in assisted living have averaged \$180 to \$286 per gross square foot, and costs in skilled nursing have averaged \$207 to \$333 per gross square foot, according to an "issue brief" prepared by the Weitz Co. for the American Seniors Housing Association.

In light of these growing pains, Jim Moore, president of Moore Diversified Services Inc., a national senior housing and healthcare consulting firm, posited three key challenges in a McKnight's Senior Living column for senior living owner-operators in 2019:

- A continued rise in operating expenses, including labor costs, employee turnover, staff shortages, increased contract labor, wage competition and general inflation;
- Increasingly complex property management arrangements with "large, sophisticated, third-party management companies with significant economies of scale and purchasing power; and
- Pressures on aging senior living communities to compete with newer "properties offering innovative state-of-the-art designs responding to increased consumer preferences," including more technology.

## New and Novel Partnerships?

Construction may not be the only answer. Lisa McCracken, a senior vice president of senior living research and development at Ziegler, predicted that 2019 could see a wave of interesting "partnering without moving through a formal merging of organizations. Size, scale and sophistication will be even more important to thrive in 2019."

One of the most complex acquisition deals of 2018 underscores how the assisted living sector will grow in importance in the coming years.

The acquisition agreements involving Welltower, ProMedica Health System and HCR ManorCare made for one of 2018's most complex deals of all, as McKnight's Senior Living reported. Welltower CEO Tom DeRosa told investors "assisted living and memory care "may become more consequential" as a result, and described the deal as "the best example that one can point to" of changes in the overall healthcare system.

*Time will tell if the industry sees the stratospheric growth some predict or more measured increases that others anticipate, but new solutions are already forming. For example, ValueMed's consulting pharmacists with geriatric care backgrounds can help assisted living communities with the challenges posed by memory care and Alzheimer's residents. What's next in Forecast? Be sure to keep an eye out for Part 4: Resident Choices and Operator Pressures as we dive into the macro growth issues shaping the industry.*