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Senior Living at a Crossroads: Organizations Reassess Their Role in an Evolving Industry

As the Baby Boom generation completes its transition into senior status—the entire generation is expected to reach retirement age by 2030—operators of senior living facilities will need to decide how they will accommodate that generation’s lifestyle preferences and healthcare needs. With thin margins and significant competition, senior living is already a challenging market. The need to update facilities to meet new demands will make it even more challenging.

This issue is particularly acute for not-for-profit healthcare organizations that have historically held or operated senior living facilities that are not a core element of their business but have been perceived as part of the organization’s broader community mission.

As the preferences and needs of senior populations evolve and successful operation of senior living facilities requires further sophistication, organizations are exploring options ranging from investing in updated facilities or new services to partnering with a dedicated operator or even divesting certain facilities.

Defining senior living

“Senior living” is a broad term; it can encompass everything from skilled nursing facilities to individuals wishing to age in place at their private residence. For purposes of this article, the focus of senior living is on independent living, assisted living, memory care, and skilled nursing services. Within these categories, services can range from providing basic housing to nursing services, defined as followed:

- Housing: providing shelter and related amenities
- Hospitality services: offering meals, transportation, housekeeping, entertainment, and concierge services



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- Care services: providing assistance with bathing, grooming, dressing, eating, medication management, and other activities of daily living (ADLs)
- Memory support: offering intensive, specialized care for residents with memory issues
- Nursing services: providing skilled nursing, short-term post-acute care and rehabilitation therapy, and long-term chronic care

These services are offered at different levels of senior living facilities, as illustrated in Figure 1.

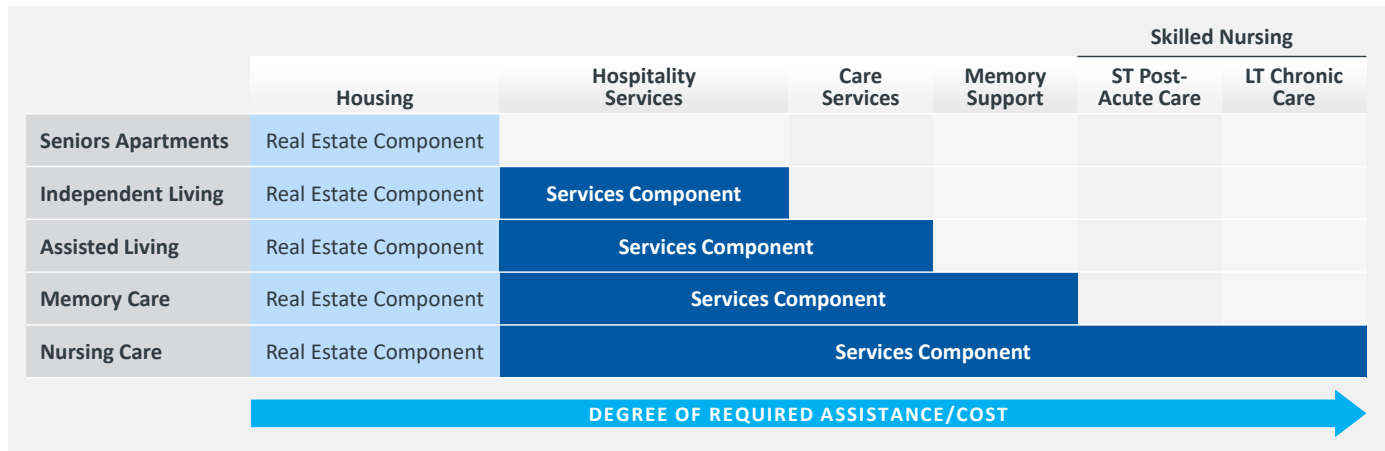
The full range of these facilities and related services are often found on a single campus in Continuing Care Retirement Communities (CCRCs), commonly referred to as Life Plan Communities (LPCs).

Not included in this definition is the “Active Adult” community model, but it is growing in popularity and should be noted as well. Residents of these communities have low acuity care needs compared to other senior living models, and these communities have reduced food service offerings.

Challenges facing senior living facilities today

One of the key challenges facing senior living facility operators across all categories of care is how to adapt

Figure 1: Distribution of services across senior living facilities



Source: National Investment Center for Seniors Housing & Care (NIC) Investment Guide, 6th edition

facilities that were built 20 or more years ago and no longer meet the preferences of seniors for amenities such as larger living spaces, private rooms, and cultural and wellness opportunities.¹ These amenities may be included in new facilities developed for affluent retirees; the challenge lies in how to adapt existing facilities to meet the needs of lower income, middle-class retirees. This group has been described by the National Investment Center (NIC) as the “Forgotten Middle” and by 2029, it will make up 43% of all seniors.²

This challenge has been compounded by additional headwinds that have intensified over the past three years. The COVID-19 pandemic hit senior living facilities hard, with occupancy rates hitting a record low of 78.7% in Q2 2021. While occupancy rates are beginning to rebound, they remain below pre-pandemic levels (Figure 2). Residents that may have deferred moving into a senior living facility in the early years of the pandemic may now require an advanced level of services at a higher cost.

Expenses are also increasing. Labor shortages and inflationary pressures are causing significant margin deterioration, and in many markets, senior living facility

operators have limited options to pass these higher costs on to residents. Rising interest rates have made financing options for facility upgrades more expensive.

Finally, innovations in senior living may challenge the capabilities of operators for whom senior living is not a core capability, and further erode occupancy levels. Some specialized senior living operators, for example, are extending services to create an all-inclusive suite of services that range from home health and home care to partnerships with wellness providers and real estate developers to enhance the amenities they offer. Other companies are investing in tech-enabled services that allow seniors to age in place at their home.

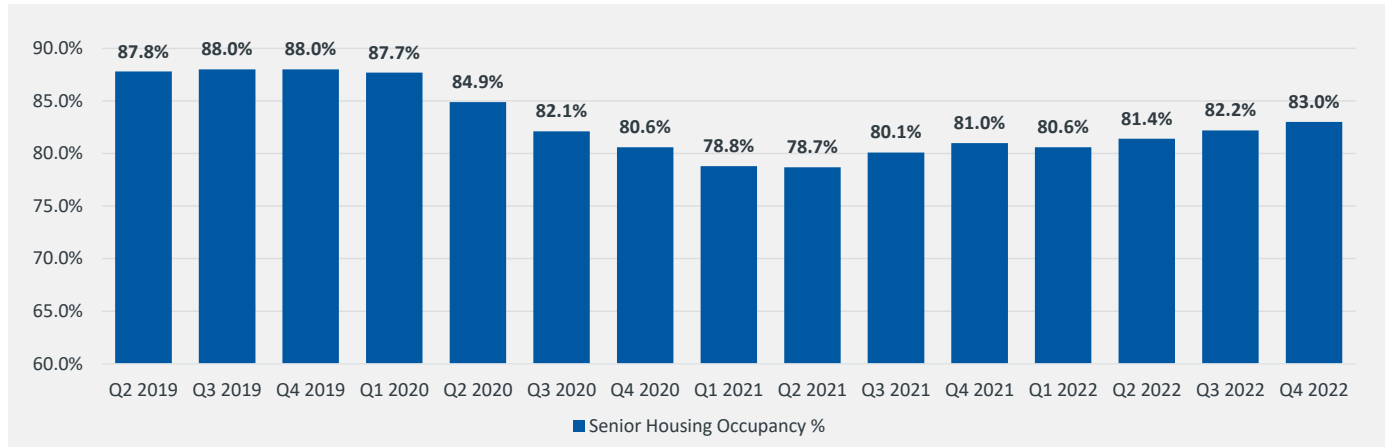
These new and innovative services are in line with a shift in philosophy by certain more sophisticated senior living operators. These operators are evolving senior living from a “hospitality” service to a holistic preventative care model.³ This evolution stems from a growing focus on primary care and addressing daily preventative care habits across a broad senior population. Activities have included dedicated primary care physicians conducting rounds at independent or assisted living facilities, monitoring and addressing

¹ See Linda Baker, “What Baby Boomers Want (Options!), Senior Housing Delivers,” *New York Times*, July 19, 2022, and Peter Grant, “This Affordable Senior Housing Project Is Aimed at the Middle Class,” *Wall Street Journal*, March 7, 2023.

² Beth Mace and Ryan Brooks, “Considerations for a Successful Middle Market Product: A Strawman,” *NIC Notes*, Jan. 20, 2022.

³ Kim Elliott, “It’s Time for Senior Living to Go Beyond the Amenities to Support Value-Based Care,” *Brookdale Senior Living Blog*, Sept. 19, 2022.

Figure 2: Occupancy remains below pre-pandemic levels



Source: National Investment Center for Seniors Housing & Care (NIC) and Moody's Investors Service
 Note: NIC occupancy figures shown as of the time they were reported

social determinants of health, and proactive management of chronic conditions. Some operators have had success in tracking hospital readmissions and other quality metrics that drive performance across accountable care organizations and other value-based care arrangements.

Options for not-for-profit senior living operators

Not-for-profit senior living operators still play a significant role in the industry: over two-thirds of all CCRCs are not-for-profit, as are 10% to 15% of all skilled nursing facilities, assisted living facilities, and independent living facilities. But with senior living at a crossroads, and operating challenges intensifying, those operators for whom senior living is not a core business or capability should reassess the viability of their operations over the long term.

Not-for-profit organizations have several options to consider; primary options include the following:

- **Invest in facility upgrades.** This option will be particularly attractive if existing facilities are well situated (e.g., close to restaurants, shopping, transportation options), there is strong market demand, and the organization has access to resources that will enable it to finance upgrades at a reasonable cost. This option will require the most significant capital commitment and will likely result in a higher cost structure than at the current facility: the organization should assess whether the market will

support higher prices to cover higher costs. It should also consider market research to determine what level of amenities the target audience for the upgraded facility desires.

- **Add new services to meet consumer or clinical demand.** This could include the addition of services such as wellness opportunities, clinical offerings, or dining alternatives. Adding these services may also require adding new capabilities; alternatively, the organization could seek out partners to provide new services to facility residents.
- **Partner with a skilled senior living operator.** This option provides the opportunity to stay engaged with a growing community need and potentially improve operating margins at the facility. The organization will need to work with its partner to determine the optimal partnership structure in terms of capital commitments, operational oversight, profit-sharing, and other factors.
- **Divest the asset.** This option will provide the organization with a one-time capital infusion that can be reinvested in services that are at the core of its business model. At the same time, divesting a senior living asset means that the organization will potentially miss out on future growth in the senior living market.

The best path forward will depend on factors such as available resources, market demand, and the organization's strategic goals (see Key Questions sidebar).

Key Questions for Assessing Your Organization's Role in Senior Living

As not-for-profit senior living operators consider their long-term role in the industry, key questions to consider include:

- What does our capital structure look like? Are we at risk of defaulting on covenants? Do we have the resources available to make needed investments in our facilities?
- What is the future vision of the organization in terms of scale and offerings? What tangential services do we think will be required, such as active adult communities, wellness services, geriatric primary care, and hospice/palliative care?
- To what extent has our organization committed to value-based care models, and how important is a senior living strategy to achieving our goals?
- What level of financial performance/margin do we need to succeed in the future? Are such margins within reach?
- What strategic changes or capital enhancements do we need to make to our portfolio?
- Are there certain markets that we should be moving out of?
- Is a partnership with a skilled, specialized operator required? If we currently have a partnership, is the help of a different operator required?

Conclusion: Balancing opportunity against commitments

There is a significant potential growth opportunity in the senior living market. To capture this opportunity, however, organizations may need to commit to significant capital expenditures to update facilities, enhance services, and expand capabilities. There are numerous alternatives to help balance this opportunity against the commitments required, and we stand ready to help your organization ask and answer the questions that can define your future role in senior living.

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