

Strategic Trends in Seniors Housing

In spring of 2021, Ferguson Partners conducted a study examining major strategic trends, challenges, and opportunities within the seniors housing industry. The purpose of this study was to identify and highlight the critical issues expected to shape the sector over the coming years, and to understand what industry participants are doing to adapt to the changing market conditions. To gather insights into these matters, Ferguson Partners conducted interviews with the leaders of 13 organizations within the seniors housing sector, including prominent REITs, private owners, operators, and developers, real estate private equity firms, and industry trade associations. The diversified participant base provided wide-ranging perspectives from the different corners of the seniors housing space. Unsurprisingly, the discussions were heavily focused on the impact and implications of COVID-19 on the seniors housing sector. The pandemic has had a significant impact on the industry, bringing to light important topics related to corporate strategy, human capital, technology, regulation and advocacy, incentive alignment, and much more. The key themes that emerged through the course of this study are outlined on the pages that follow.

Executive Summary of Findings

- The COVID-19 pandemic hit the seniors housing industry particularly hard in 2020. The combination of decreased occupancy, increased expenses, fewer development opportunities, and inconsistent government relief has left many market participants in a challenging position.
- Industry leaders continue to cite staffing and workforce issues as one of the primary challenges facing the sector. While many expected the rise in unemployment to make hiring and retaining employees easier, this has not panned out for study participants.
- As industry participants reflect on how to navigate these challenges, the disruption caused by the pandemic has also brought to light numerous opportunities that successful organizations will consider over the coming 12-24 months, including:
 - > Focusing on strategic planning and execution
 - > Addressing workforce challenges, from the senior-most levels to those at the community-level
 - > Investing in technology and harnessing data and analytics
 - > Aligning incentives between capital providers and operators
 - > Focusing on the further integration of hospitality and healthcare
 - > Investing in industry advocacy and education

- Looking forward, there are several thematic topics that industry leaders expect to materially impact the seniors housing market in the short- to medium-term, including:
 - > Shortage of middle-market communities
 - > Consolidation within the operator space
 - > Escalation of private equity market entrants
 - > Evolution of home healthcare
 - > Changing regulatory environment

State of the Market

2020 was a challenging year across the seniors housing sector. As the COVID-19 virus spread across the country in the spring and summer, seniors housing communities were particularly vulnerable due to the ages of their residents and the congregate nature of the properties. Coupled with negative media coverage and overall lack of education about the industry, this caused many that were considering seniors housing options to delay their decisions.

As a result, occupancy across the sector decreased throughout the course of the pandemic, reaching a record low of 78.8% in Q1 2021.¹ Given this downward trend, occupancy was identified by nearly every study participant as one of the primary challenges the industry faced in early 2021.

“It’s been a tough year. We’ve lost roughly 10% in occupancy, dependent on the type and location of our assets, which is better than most. It hasn’t felt great.”

“I don’t think people understand how deep the hole is. Pre-pandemic you were at 90% occupancy and, if you were good, you ended 2020 closer to 70%. If you’re leading the pack, you’ll end 2021 at 80%.”

While occupancy has been top of mind for many, we are seeing improvements in this area. And, unfortunately, this issue is far from the only challenge brought about by the pandemic. Some even argued that workforce challenges outranked occupancy in terms of key priorities for the industry to address. In a sector that already had a high turnover rate at the property level, the pandemic did not help matters. Interestingly, many study participants expected increased unemployment to alleviate some staffing challenges; however, commentary suggests that this did not occur.

“I thought we’d see relief on the labor side because of the increase of unemployment, but I was wrong about that. I’ve had a discouraging conversation about ability to recruit, train, and retain people at all levels. It does not help that people are getting unemployment and stimulus checks and making the same amount of money as they did [when working].”

¹ “U.S. Senior Housing Occupancy Reaches New Low.” The National Investment Center for Seniors Housing & Care, April 8, 2021

The pandemic also brought about new operating standards for industry participants in terms of health and safety protocols. Communities were required to adjust to the novel coronavirus in real time by making many changes, including improving infection control, which increased general and administrative (G&A) expenses. Moreover, certain sectors within seniors housing received less government relief/stimulus than other well-advocated for industries.

All told, these challenges took a significant toll on the sector. Numerous study participants highlighted how the pandemic put already thinly capitalized operators under even more duress. With occupancy at all-time lows, continued staffing challenges, increased G&A expenses, and inconsistent government relief, many industry operators have found themselves in a challenging position. Additionally, REITs and real estate private equity investors are navigating within a different environment, looking for ways to generate returns for investors.

However, amid significant uncertainty there are reasons for optimism. Study participants expressed hope that the successful vaccination campaign will begin to drive occupancy upward. Additionally, several interviewees suggested that there is likely pent-up demand for seniors housing given those that delayed these decisions during the peak of the pandemic. In fact, in the next decade, the number of Americans projected to be over the age of 65 is expected to increase by almost 20 million.² In order to ensure success and focus on the opportunities going forward, leaders will need to be purposeful about where investments are made in both time and money. In the next section, we explore some of the specific opportunities and potential focus areas in the industry.

Opportunities Emerging from the Pandemic

As the industry emerges from the pandemic, this study brought to light several key opportunities to strengthen and improve upon the industry as a whole. These opportunities are far reaching and broad but represent many of the key priorities of industry leaders.

Focusing on strategic planning and execution

Now, more than ever, it is critical to focus on well-crafted and thoughtful strategic plans, with impeccable execution. Many in the industry have understandably been focusing primarily on day-to-day issues over the last year. However, leaders warn that the full impact of the pandemic and the future of seniors housing has yet to be defined.

“2020 was the operational impact of COVID; 2021 will be the financial impact.”

While many organizations had long-term strategic plans going into 2020, it is time to review, update and look forward. Whether long-term goals have stayed steady or changed significantly in this last year, the path to completion has definitely changed. 2020 demonstrated to many industry leaders that the sector can be more flexible and nimble than they realized, and that continually adapting and improving will be critical moving forward.

“Even before COVID, we needed a true change within the industry. We need to fully professionalize the industry to move forward (better tech, better process, greater efficiency); COVID has resulted in more people acknowledging the need for this.”

² “Demographic Turning Points for the United States: Populations projections for 2020 to 2060.” Current Population Reports, P25-1144, U.S. Census Bureau, Washington, DC, 2020

Addressing workforce challenges: strengthening senior leadership and investing in staffing and recruiting at all levels of the organization

As mentioned above, many leaders feel the workforce challenges are arguably a bigger problem than the occupancy issue coming out of 2020. Many leaders felt optimistic that staffing challenges would be muted during the pandemic given the swift reduction in jobs available in the hospitality and retail markets. Universally, this has not panned out as hoped, and staffing still tops the list as one of the largest challenges facing the industry in 2021.

When examining workforce challenges, there are multiple focus areas the industry will be forced to address. Most people tend to focus on the general recruitment, training, and retention challenges that continue to plague seniors housing. However, there is a need to also look more broadly across the leadership and overall industry. In addition, there is still significant opportunity within the industry to build up DEI initiatives as well moving forward.

“On the talent side, the industry is in sore need of an upgrade at every level.”

There is no question that the industry is in a time of change and disruption. Using this time to address culture more broadly is key, including a focus on how to attract key leadership into the industry. Study participants discussed the need for current and future leaders to be more agile, flexible, and innovative, while also focusing on execution. It is also critical to recruit stronger leaders from better programs moving forward. Many current leaders are in the latter part of their career, and as a result, succession planning will be a key topic over the next several years.

“We have a generation of leaders that could be in the 8th or 9th inning of the game. This will create a transition in the leadership at many organizations. You need active, engaged, hands-on leadership.”

“The industry has become more complex and complicated. In terms of recruiting young people, we don’t really compete for the best and brightest kids coming out of school and we need to. This industry isn’t really on the campuses of the business schools, and we need to be there.”

Investing in technology

How can the industry ultimately impact long term-cost as well as free up staff and time to focus on residents? Technology was widely discussed as an area for improvement and a way to gain some of the needed efficiencies in the industry. However, it was also acknowledged that improvements require investments in time and money, both of which are even harder to come by this year.

“I do think that technology, whether for efficient staffing or delivery of better care, is a big opportunity for the industry.”

“The technological investments needed to create efficiencies require capital investments, but if organizations are thinly capitalized, they can’t make those investments.”

Even so, in order to adapt, many organizations have already invested in both resident/family-facing and public health technologies throughout the pandemic to survive. This has ranged from touchless technologies to building out digital marketing to digital medicine to embracing technology that allowed residents the ability to communicate remotely with family, friends and caregivers. In fact, the questions asked during initial sales calls today have evolved from ‘How is the food?’ to ‘What technologies do you have available for me to communicate easily with my mom?’ or ‘What measures have you implemented to keep my dad safe?’

“The pandemic caused the digital evolution to accelerate. We invested in a new website, digital marketing, etc. However, while many investments have been made in ‘front of the house’ resident-facing technologies, little time and money has been spent on ‘back of the house’ technology investments that focus on improved efficiencies.”

“Not as many back-end tech trends as you would think. In terms of how to make things more efficient in the building, you aren’t seeing as much. Some firms have built their own staffing models, but it’s unproven.”

“The data out there has been good enough to attract capital and make the investment case, but operations data is more difficult to come by. It speaks to the fragmentation of the industry.”

Harnessing the power of data and analytics

As noted above, many identified the need for larger scale change within the industry on many levels. One specific way to address this is to further explore efficiency and decision making driven specifically by data and analytics, something the seniors housing sector is behind on compared to many other industries. This is very challenging to accomplish in a manual fashion, and as noted above, technology to support these needs has not been widely adopted.

In addition, leaders mentioned that most of the seniors housing analytics and performance metrics are still primarily real estate focused. Moving forward, more holistic metrics will be required. One leader mentioned that the level of involvement in healthcare (see section below) is likely to drive some of the future analytical needs and trends (e.g., metrics to support value-based care and wellness initiatives).

“We have probably 10% of what we need [with regard to data and analytics] right now in the industry.”

“In the broader healthcare space, they are looking at value-based care; you have to pull both industries together to agree on metrics for success.”

Working to align incentives between capital and operators

The challenges presented by the pandemic magnified an already fragile relationship between capital and operators. Pre-COVID, the industry was fragmented, with capital representing different interests than the operators. Emerging from the pandemic the strain on operators is even more significant. The revenue decreased significantly in 2020, but operators have never had to work harder. Burn-out is real and a threat to the success of the industry. Therefore, there is an increased need for the capital and the operators to be creative and work together in new and supportive ways as the sector emerges from the pandemic and looks to the future. This also represents an opportunity to look at existing and long-term models differently and objectively; it is a time for innovative thinking and increased partnership. For example, while operators are being asked to find new ways to use technology and innovate, some of the capital partners suggested that they are also willing to invest additional capital in new and unique ways to make some of this happen.

“There are some underlying structural issues with operators.

The business model, I’ve never seen anything like it – there is so much required of the operators, and they are effectively getting paid a property management fee. They need to make investments in their business, but they aren’t aligned to do so.”

“When we come out of a crisis, it’s a time to reassess and correct, but I’m not yet seeing that innovation and improvement from the operators.”

“Operator transparency with capital partners is very important... work with us [to help find solutions].”

Focusing on the further integration of hospitality and healthcare

Most leaders agree that COVID-19 has shed a new light on the ongoing question about the focus on hospitality vs. healthcare for the industry, and that the pandemic has moved the needle towards a healthcare focus. This shift, along with the increasing acuity of residents, means that an increased focus on healthcare is here to stay. That said, all participants expect to continue to focus on both hospitality and healthcare long-term. This of course varies between communities, with assisted living feeling this more acutely than independent living.

“We are a vital model of the healthcare system, but we need to keep our social model intact.”

“Assisted living is hospitality with healthcare provided behind the scenes. It’s not an either/or situation; it has to be both.”

“Go to any assisted living facility today and the number one thing on everyone’s mind is healthcare. It’s quality of life, but it’s really healthcare. If you have 98% of residents with co-morbidities, how do you not talk about healthcare?”

Leaders had varied thoughts about how the industry might further integrate with healthcare; keeping a pulse on these trends will be important moving forward. There are questions and thoughts about whether insurance companies may ultimately be owners of senior living properties and if there are opportunities for further partnerships between healthcare systems and senior living organizations at the regional level. There were also multiple discussions about the role of Medicare Advantage in seniors housing and whether some may ultimately partner with or start their own plan.

Investing in industry advocacy and education

One fairly consistent theme heard throughout the interviews was an acknowledgment that the industry needs to continue to push for increased advocacy and education. While not all leaders agree on this point, some leaders feel that other industries have done a better job obtaining government aid during this time, primarily because they had previously invested in advocacy and continued to be more present and visible over this last year (e.g., dental industry, restaurants, etc.). Media coverage and challenges brought on by COVID-19 and the congregate nature of the industry also highlighted a strong need to focus on better education. While leaders agree there is a need for both advocacy and education, there is still work to do as an industry to come together to achieve this goal.

“Senior living must be more formal and organized and step up to invest in more public policy and advocacy. We are really looking for capital partners to step up here. Hopefully, they will accept that challenge.”

“The industry desperately needs additional funding right now.”

Looking Forward

In addition to the aforementioned strategic opportunities, study participants cited several open questions that will significantly impact the industry going forward.

How will middle-market seniors housing be addressed?

As things stand today, a major gap exists in the current offerings of seniors housing – middle-market communities. The overwhelming majority of participants concluded that these types of communities, targeting residents that are not eligible for Medicaid-funded solutions but also cannot afford the rents charged at many existing facilities, will be crucial to supporting the growing number of seniors in the U.S. While the challenge is clear, study participants suggested that the solutions are not.

“Affordability is a massive issue. Multifamily figured out affordable housing a long time ago – we’ve been watching this. The affordability issue isn’t going away, but it hasn’t been executed yet.”

“Breaking down barriers and pre-established biases around middle-market assets is important. A lot of people have done well with high-end communities, but to find capital and execute in the middle-market space is challenging.”

“For a lower cost, middle-market product, you still have to build the real estate. I know nobody that has come up with the answer yet.”

With that said, interviewees acknowledged that addressing this challenge will likely require industry innovation along with government support. Some industry leaders view the gap as an opportunity and are focused on addressing this issue. On the innovation front, technology has the potential to lower operating cost structures, creating more appealing economics for investors and developers. On the government side, Medicaid expansion and the introduction of a middle-market seniors housing tax credit program were floated as initiatives that could help address the issue. All things considered, the topic will certainly trend over the coming years in both the public and private sectors.

Will the operator industry look materially different in 12-24 months?

As was highlighted earlier in this report, many operators in the space have found themselves under duress. Lower revenue combined with increased expenses and a lack of development opportunities has left many in a challenging position. As a result, several participants anticipate that the operator industry will experience near-term consolidation. Smaller operators with liquidity and balance sheet challenges may be acquisition targets for larger firms looking to expand their current portfolios or enter new markets. Some discussed a possibility that the gap between the ‘haves’ and ‘have nots’ will be magnified. Depending on your perspective, this dynamic is likely to contribute to future challenges/opportunities in the industry as well.

Will new industry entrants change the market landscape?

Given the growth opportunities and disruption caused by COVID-19, several interviewees expect more private equity firms to enter the market in the coming years.

“You saw Brookfield and KKR show up. They are all going to come into the space because there is so much value to be gained.”

“The current situation creates a ton of opportunity for new entrants. You will see a lot more private capital coming into the business.”

“There is so much PE money chasing assets – tens of billions of dollars. They are running out of places to deploy capital.”

While some have reservations toward such a shift, there is no doubt that if many new, well-capitalized market entrants enter the seniors housing market, they will leave an impact on the industry.

Will home healthcare experience increased demand in the coming years?

Home healthcare is another topic that will impact the seniors housing market going forward. The home healthcare market is not new, and there are benefits to staying in your home as you age. The pandemic put a renewed focus on the industry as individuals weighed the pros and cons of congregate care settings. Additionally, the Biden administration recently released a plan for significant funding of home healthcare within its infrastructure bill. While this continues to evolve, it likely puts renewed focus on home health regardless of where the Biden plan eventually lands.

Despite all this, most study participants were not overly concerned that home healthcare will meaningfully cannibalize demand for seniors housing. For one, there are cost barriers for many given the price tag associated with having dedicated in-home care. Additionally, staffing/resourcing challenges exist for care providers of home healthcare. Perhaps the largest point made revolved around the health and wellness benefits of living in a social setting – something home healthcare cannot provide.

While not all industry leaders anticipate a significant shift toward this type of care in the near term that will materially affect the outcome of the seniors housing industry, it is clear home health has renewed focus and significant growth potential. There are opportunities to embrace this change and incorporate it more fully for some organizations. For example, the industry is likely to see more partnerships between seniors living providers and home healthcare organizations in the coming years, with some seniors housing organizations opting to bring home health in-house.

Will industry regulation change coming out of the pandemic?

While the seniors housing industry is already significantly regulated, particularly at the state level, the possibility of additional changes to regulatory policies is top of mind for many in the industry. Several study participants suggested that due to the pandemic, the federal government has had an increased focus on certain sectors of seniors housing. While much is still unknown about what may happen, some leaders suggest at a minimum there will likely be a need for improved and more comprehensive reporting to ensure compliance with regulations already in place. Moreover, an increased focus on the intersection of seniors housing and the healthcare industry may also bring about new possibilities and opportunities for regulations in the industry.

The industry must be prepared to drive the discussion and bring ideas and solutions to the table (see industry advocacy section above) if it hopes to avoid onerous policies and regulations.

Study participants:

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President

Argentum
Jim Balda
*President and Chief Executive
Officer*

Atria Senior Living
John Moore
*Chairman and Chief Executive
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Blue Moon Capital Partners
Susan Barlow
*Co-Founder and Managing Partner
—Chief Operating Officer*
Kathryn Sweeney
*Co-Founder and Managing Partner
—Chief Investment Officer*

Classic Arch
Brian Beckwith
Chief Executive Officer

CNL Financial Group
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Colony Capital
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Ferguson Partners

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