RENOVATION AND ADDITIONS IN SENIOR HOUSING AND SKILLED NURSING

By William A. Nicholson, CEO, The Congress Companies

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As demographics continue to create an increasingly greater demand for high quality senior housing and SNF options, we have seen providers undertake building renovations and additions to improve and reposition their existing assets in order to match the bar set by new facilities entering the market. Also, as land and new construction costs continue to escalate, many regional and national providers have looked increasingly toward acquisition opportunities to which they can add value by renovations, additions, and decompression, and put those newly renovated assets, many of which have an established, solid place in the local market and community, under their brand umbrella.

WHY RENOVATE AND NOT REPLACE?

While each situation is unique, we do see recurring factors. In the case of older AL, SNF and IL assets, especially in desirable communities in the northeast where land is at a premium, many existing facilities were built on sites with land inadequate to rebuild, with no ability to maintain adequate parking and egress during the construction phase, and upon completion, no means to relocate residents to the new facility.

The availability of good sites, the cost and equity required for the development process, designs, entitlement, and physical construction, and then filling up a new (unoccupied) building (often a 3 to 5-year process) is unattractive to many established providers. In the case of SNF assets, many providers have concerns as to future reimbursements to support the escalating costs of new construction. For many established providers with smaller, older portfolios, the risk-reward associated with ground-up construction is not consistent with their business or succession plans.

WHAT DRIVES THE NEED TO RENOVATE?

Competitive forces:
Competition is significant in the senior housing and nursing sectors. Older assets are under pressure from newer product. This phenomenon is certainly present in all real estate-related assets. And when resident care is involved, as it is in SNF, AL and IL, the phenomenon is even more pronounced.

For example, new AL buildings constructed in the 2014-to-date period are opening up and taking residents away from existing facilities. Older facilities will need to improve their physical assets to successfully maintain and compete for occupancy. The rate of change is so rapid that even some AL buildings constructed in the 2014-2015 period likely need to make additional updates as market demands have already shifted.

Functional obsolescence:
Many SNF assets are struggling with functional obsolescence and low census challenges at the same time. We see many 60's and 70's vintage SNFs that were built at 350-385 gross square feet per bed. This is far below even the standards of the 80's and 90's, and certainly below today's market demands.

We see many older SNFs with two double-bedded rooms sharing a bathroom, with four patients to a bathroom. This is a very difficult model to market in today's competitive environment. At the same time, many SNFs today are operating at census levels far below their original capacity, and we often see 180 to 240-bed buildings with current censuses of 120-150 patients. Decompression and renovation may be an appropriate strategy for these assets in order to attract a more desirable quality mix.

Older AL assets face their own challenges. We have seen many older AL assets which do not have secure or appropriately designed units to deliver memory care. Some older ALs were designed with too many studios and not enough one-bedroom units to meet the current market demands. The trend toward larger AL units presents another competitive challenge to many older AL buildings.

Demographic shifts:
We have seen ALs built 20-30 years ago in "outer-belt" communities which subsequently experienced a rapid influx of newer high-end single-family homes and higher income residents. Over the last 20 years many rural towns have developed into high-end executive areas, where higher earning "adult children" (who as we know are often the decision makers) also reside. Older, more economy-oriented AL buildings with smaller (or even "companion") units are not acceptable for their AL-aged parents; thus, renovations, expansion, or both in these older AL buildings is necessary.

Unfortunately, many providers with 20- to 40-year-old senior living buildings begin to consider "sprucing things up" only after significant census has been lured away by a new building in their Primary Market Area. To simply "spruce up the lobby" or "give the front entry a face lift", or other surface or cosmetic approaches, while not addressing programmatic, mechanical, lighting, traffic flow, gross square footage, or other instances of functional obsolescence is often "too little, too late".

The decision of whether to spend minimal dollars for a "face lift" that doesn't change fundamentals vs. significant renovation dollars which do address fundamentals, while potentially affecting census during construction, is difficult for sure. This fundamental must be answered early in the process as part of a true business plan for the asset or portfolio. Successful renovation projects invariably involve a more "business planning" based approach to the entire asset.

Things change:
Successful firms in all industries adapt to change. Part of that adaptation in the senior living industry is how buildings must evolve to meet changes in market demands.

Design trends are certainly a factor. All of us in the senior living industry can immediately see the "date stamp" of designs from each decade. Moreover, how residents and staff use the buildings changes over time as the industry matures. The care that providers deliver to residents has changed since the 60's and 70's in the SNF market, and since the 90's in the AL and IL markets.

The demands and expectations of each generation of residents change as well. The SNF resident of the 60's and 70's, or the AL /IL resident of the late 80's and 90's, had different expectations and lifestyles than current residents. The baby boomer wave which the industry must look forward to serving will have different and even more demanding expectations.

Technology has changed. In the 70's new SNF facilities never considered Low Voltage budgets of $750,000. The SNF, AL or IL resident in the 90's did not own an iPad or require Wi-Fi. In the 80's and 90's we did not see rehab patients in SNF Rehab units working from their laptops, which is common now.

Building products change. For example, flooring products for senior living have developed and improved over the past few years. Furniture that is virtually indestructible has entered our markets in the past decade.

THE PLANNING PHASE – WHERE EVERY PROJECT'S SUCCESS IS DETERMINED

Business Plan:
Every successful project starts not with a project plan but rather with a business plan. A building project, be it new or a renovation, is not an end, but rather the means to an end — a tool to effectuate a business plan. Providers that clearly articulate the business plan for their facility, its target market, price point, census mix, etc., end up with a finished product that meets their business plan as opposed to simply reacting to competition.

Program:
Providers must insist that their project team program their additions/renovation project to respond to the business plan for the property.

Design & Construction Planning:
Once the programming is in place only then can good design and construction planning begin.

Assemble a qualified project team:
Providers that assemble a team of qualified, experienced players (architects, construction managers, key subcontractors and suppliers, interior designers, engineers, market study, and other consultants) achieve greater success in additions and renovation projects, which inherently require more detailed planning and coordination than new construction.

Schematic Design:
Scope definition and phasing are the building blocks of the renovations and/or addition projects. Time invested with the project team on this phase of the planning is a high return investment. This is the phase in which the project is "sized" from a budget, cash flow and schedule perspective. Not only is the cost of the work defined if done properly, but the impact upon the provider's operations and revenue as a result of beds/units potentially out of service at each phase, and for what period in the schedule, are defined.

Deferred building maintenance items:
This is the time to evaluate Mechanical and Electrical systems, as well as roofs, parking lots, windows, siding and other significant building systems and components. To bundle these into a renovations/additions project is usually more cost effective. A recent example

of this is a complete LED lighting upgrade that we accomplished in a 100-unit IL renovation project. This was financed by the utility company through energy savings – a win-win for everyone.

The builders and designers on the project team must provide critical input to the provider during the schematic design phase in order to make good decisions on critical issues such as:

- Phasing, including incremental costs and duration of more small phases vs. fewer larger phases which tend to take more beds/units out of service at any one time;
- Transparency and accuracy of the real costs of lost census revenue vs. increased costs of construction for smaller phases is critical information for the project team to address early in the programming;
- Egress and traffic within, to and around the facility;
- Safety and temporary barriers, and dust and infection controls for each phase;
- Noise, vibration, and other potential inconveniences within the facility;
- Daily management of the plan: protocols for the contractor's and facility's operation teams to work together, identification of point persons, and a diligent system approach to monitor the details of executing the plans for these issues;
- A pre-planned schedule and system to turn over areas to contractors, and then upon completion back to operations, i.e., move-outs and move-ins, including furnishings as well as construction work;
- Implementing all of these into the plans and specifications so that all subcontractor pricing and scheduling is clear up front to minimize surprises;
- Investigating existing conditions: The obvious risk in renovations is the discovery of unforeseen issues upon opening areas, concealed spaces or connecting into existing building components and systems. The construction and design team should put into place a plan to do as much investigation as possible, including invasive testing and investigations (and then repairs) prior to going too far with the design and pricing. While it's unlikely that each and every concealed condition can be identified, thorough preconstruction surveys can minimize these surprises and their cost and schedule impacts.
- Budgets and schedules will be far more reliable up front if the capacity and condition of existing building systems (structural and MEP particularly) are known during the schematic design phase, early enough to identify any issues and provide proper schedule and budget for them sooner rather than later in the process.
- Provide responsible budget and cost contingencies for those things that arise and could not be foreseen.

Design Development:
This is the phase wherein the team "drills down" into the details of the scopes defined in the schematic design phase. The issues often include:

- Amenity spaces and common areas, and how they are designed to meet the current expectations of the market, the resident and, as important, the residents' families. The high-end "hospitality feel", the café spaces, country kitchens, gathering spaces and special design elements of modern seniors' designs can be included in the designs with marginal incremental costs, especially if planned well in advance and with accurate cost information during the design phase.
- Lighting and ventilation are components of older SNF and AL assets often in need of improvement. They are critical to the success of any senior housing renovation.

- “Traffic flow” within the building should be defined. Assess how residents move around, what spaces currently work well or no longer work well, that is, how people actually live and congregate in the building and what spaces are no longer used as originally envisioned. Input from operations and marketing people to the project team will be invaluable to answer these important questions.
- Focus on safety and infection control in the planning and design process. The ICRA guidelines are a great place to start. STARC and similar systems for dust control, containment, noise control, and negative pressure inside work units to separate “hot zones” are important to consider. While there is some cost involved, these measures, when incorporated into the construction documents by the construction manager and designers early in the process, can be procured from subcontractors far more cost effectively when communicated well in advance, and are critical to successful renovations and additions jobsite execution.

Focus on the residents and their families:
While senior housing and nursing are certainly businesses, we also must consider that these are our residents’ homes. The planning process therefore must take into account and respect the residents’ living experience and well-being.

Beyond safety and infection control, dust and traffic barriers, and proper phasing, we must consider and incorporate into our planning those things that are important to the residents, including:

- Scheduling and work hours to minimize disruption to the residents’ sleep habits and daily routines;
- Holidays and special family events planning;
- Daily cleanup and housekeeping. The Construction Manager and all subcontractors need to be held accountable for a higher standard of housekeeping, cleanup, and safety than in a new construction project. This needs to be incorporated into the scheduling and pricing early in the planning process to minimize surprises. Providers do not want to be surprised that their expectations are not met. And contractors need to be clear on those expectations up front as well to properly estimate and schedule the work.

Turning potential challenges into a positive:
It is quite interesting that since the early 70’s we have repeatedly observed that residents and their families, while potentially inconvenienced by renovations and construction, actually find a well-planned and well-run project to be a good thing in many ways. Residents are often quite interested in and intrigued by the construction process. It is an “event”, which serves to pique the interest of many residents.

Often facilities will plan virtual tours of the construction on their websites, social media, or telecommunications systems, with content approved by the CM and the provider, as a communication tool, and as a way of involving the residents and their families in the “virtual progress” of the project.

In general, most markets react favorably to businesses which improve their physical facilities, and senior living is no exception. Well-marketed and communicated improvements to an SNF, AL or IL building are generally well received and can become substantive and positive marketing and sales content for a senior living property and provider.

William A. Nicholson
CEO
The Congress Companies

For more than 30 years, Bill Nicholson has been an integral member of The Congress Companies management team. Carrying on in the tradition of his father and uncle, the founding members of the firm, he is the second generation of the Nicholson family to build on the company's legacy of planning and constructing high quality buildings and lasting client relationships.

Bill has served as Principal-in-Charge on more than 80 construction projects in the Senior Living/Health Care, Multi-Family, and Educational market sectors.

Since 1995, he has also served as the Chief Executive Officer of The Congress Companies' property management group, PCE Management, LLC, where he is responsible for overseeing the management of elderly housing and commercial properties.

Bill is a graduate of Babson College, where he earned a Bachelor's degree in Business Administration.

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