



# RETHINKING SKILLED NURSING AND SNF CONSTRUCTION

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As The Great Recession is now behind us, and the capital markets are showing renewed and increased interest in Senior Living and Health Care construction, it is appropriate to evaluate the future of the spectrum of Senior Living products, specifically Skilled Nursing Facilities (SNF).

During The Great Recession, and now as we have moved out of it, the Senior Living and Health Care industry has experienced difficulties in many respects, while at the same time there have been silver linings. While the industry had faced a lack of construction financing, which seems to have recently turned the corner, increased costs of operations and construction and government funding cuts continue to present challenges.

Concurrent with these challenges, interest rates have remained at historically low levels. As the economy continues to show further signs of recovery, increasing operating and construction costs and changes in government funding are part of a new landscape for the Senior Living industry.

## THE CHALLENGES

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Many existing nursing homes have struggled. Many, for a variety of reasons, have lost money on patients covered by Medicaid. Many nursing homes are losing money daily for each Medicaid resident.

Further, pressure on and changes in reimbursement rates to nursing homes for certain Medicare patients, generally those released from hospitals to nursing homes for short-term care to recover from injuries or acute illnesses, is significant since Medicare payments are responsible for some 20 percent of total nursing home revenues nationwide. In addition, those changes in reimbursement have been uneven across the spectrum of services provided and levels of acuity.

Some nursing home providers have reacted by cutting staff. Other providers have simply left, and continue to leave the industry, as they close facilities, sell beds and buildings, and reduce the supply of nursing beds in the markets they serve.

However, others have taken a forward-looking approach and a vision of tomorrow's SNF based on the changing landscape of the industry itself.

Many SNF operators with vision have realized that change and challenges in any industry do not necessarily mean the demise of that industry. On the contrary, those providers with the vision to understand and adapt to meet the evolving needs and the demands of their customers will continue to be successful. Let's keep in mind that the demise of the 8-track tape as a medium to play back pre-recorded music did not mean the end of pre-recorded music. Nor did the demise of the wooden heel in the shoe industry mean the end for the heel or shoe industry. Change is inevitable.

## THE EVOLVING NATURE OF THE NURSING HOME - WELLNESS VS. SICKNESS

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The traditional model of skilled nursing is without question in the midst of fundamental changes. The nursing home no longer will be that final resting place for seniors. This is a fundamental change from the model this industry has followed for over 40 years.

There will be an increased focus on resident-centered care, and on quickly and efficiently returning residents to their homes. Nursing homes are starting to function as more of a temporary pit stop so to speak, in the aging process, not the final resting place.

And, as the current nursing home stock is at, or is imminently reaching functional obsolescence, those providers with vision will require physical plants and interiors to support a new paradigm, a new model, and a new delivery of services to their residents. Over the past several years, forward-thinking SNF operators are catering to that increasing cohort of Medicare patients who are discharged from expensive acute-care hospitals into far less expensive, sub-acute skilled nursing homes.

These patients require quality, short-term rehabilitative care. These patients, generally covered by Medicare, are recovering from strokes, hip and knee replacements, trauma, wound care, IV therapy, respiratory, occupational or speech therapy. The costs to keep a resident in a skilled nursing facility, while the highest of any part of the continuum of care, are still far less than acute-care hospitals. The shortening of the nursing home stay will provide significant savings for the Medicare, Medicaid, and managed care programs which are ripe for fundamental changes as well.

The new model is wellness - getting patients better and out of the nursing home, back to their own home, not simply warehousing patients. This presents obvious challenges and changes in the way we all approach this industry, including naturally, the provider, and certainly the builders and designers of the physical plants that serve their elderly clientele.

The first baby boomers have now passed age 65. By 2030, 20 percent of the U.S. population will be over 65, an increase of 13 percent. The number of 85-year-olds will increase by over 50 percent, and the number of centenarians will increase by 300 percent!

Many industry experts predict a tidal wave of baby boomers requiring skilled nursing care. This wave of boomers will likely require short-term rehabilitation care funded by Medicare initially, and may later require long-term and hospice care.

At the same time, the number of nursing homes decreased by 10 percent from 2000 to 2010. From 2007 to 2011, construction of nursing home beds declined by approximately one third, while most of the nation's existing stock of nursing home beds is functionally obsolete.

Many industry experts believe that the combination of these factors will result in a significant wave of nursing home construction, which will be required to address three trends: first, an aging population with a far different set of expectations than the previous generation of Skilled Nursing patients; second, a greater proportion of short-term rehabilitative stays; and third, the functionally obsolete existing supply of SNF buildings.

## DESIGN AND CONSTRUCTION MUST EVOLVE

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As the SNF industry prepares to provide for an increase in baby boomers growing older, the SNF of tomorrow will need to provide for the growing need for quality, short-term rehabilitative care. This will be a clientele with choices; therefore, the SNF industry (SNF health care providers, designers, builders) must deliver a quality product that meets these demands.

For example, two beds to a room used to be the norm. In fact, many obsolete facilities still exist, wherein two double-bedded rooms (4 patients) share one bathroom. The nursing home of tomorrow will now move rapidly toward buildings more heavily populated with private rooms, patient-focused social spaces with exercise rooms, therapy gyms and even pools, lightning fast Wi-Fi, more quality food options and much more attractive and dignity-providing environments.

It is not unusual today to see rehab patients actually working remotely at their jobs or businesses from laptops and cell phones while rehabbing from knee or hip replacements.

For sure, the patients' increased demand for such amenities will pose significant pressure on construction costs as well as operating costs and profitability. Those firms delivering construction and design for today's and tomorrow's SNF must develop an understanding of the customer's mission and its clientele.

## CONSTRUCTION AND DESIGN FOR TOMORROW'S SNF

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As the SNF industry evolves, so must the SNF physical plant. As we are in an era of wellness and rehabilitation not warehousing, this means that the physical plant must similarly evolve to allow the SNF provider to deliver the services that the market demands. It is no longer a matter of hypothesis or conjecture; it is a fact that the physical environment influences the healing process. So construction and design of facilities that are conducive to rapid patient recovery and the health of the staff will be fundamental to the evolving model of tomorrow's SNF.

### **Fundamental changes in the physical plant model will include:**

- Replacement of multiple-occupancy rooms with private rooms. Most of the existing 1.9 million SNF beds were built with virtually all semi-private rooms, one bed by the window, one by the bathroom, and a curtain in-between to separate the two residents. This was the norm. The changing model of tomorrow's SNF will be to optimize resident privacy and dignity. This will reduce the rate of infections, reduce re-hospitalizations, reduce noise and allow patients to sleep better. Although the upfront construction cost of private rooms is higher, there is significant research that demonstrates costs will be lower in the long run as a result of reduced infection rates and hospital readmissions.
- Deliver facilities that are "staff friendly." For example, the traditional nursing station is hectic. It is a work space susceptible to errors while updating charts and filling medication orders. A central nursing station means nurses and staff must travel long hallways to reach their patients and other on-unit spaces. A more decentralized model featuring several well-organized substations close to patient rooms is the alternative, decreasing medication errors and travel time, and allowing nurses to spend more time on patient care and to respond more quickly to calls for assistance.

- Increase access to natural light. Natural light results in fewer medication errors and reduced energy costs. Exposure to natural light reduces depression and fatigue and improves alertness. Studies have shown that exposure to natural sunlight actually decreases the length of patient stays, lessens the need for analgesics, and decreases agitation among residents suffering from Alzheimer’s disease.
- Reduce noise. Noise is a significant source of stress for staff (and patients). Sound-absorbing acoustical ceilings, silent paging systems, and more single patient rooms all reduce noise. Patients have reported greater satisfaction with their care, better sleep, and lower blood pressure as noise is reduced. Levels of job satisfaction and the quality of work by staff also improve as noise is reduced.
- SNF construction and design must move toward home-like, rather than institutional size and scale; views of the outdoors; familiar, non-reflective finishes, cheerful, varied colors and textures, while remaining watchful for those finishes that can disorient residents with certain impairments. We must build toward a goal of resident autonomy by making resident spaces easy to find, identify, and use.
- It is an absolute necessity to provide an odor-free environment. Since SNF residents may suffer from incontinence, any pervasive odors whatsoever signal uncleanness and/or poor operation to residents, family and visitors. Careful choice of furnishings and HVAC and fresh air design are critical to odor control.
- Finally, the decision as to whether to add to, renovate or replace existing facilities is increasingly a key component of the physical plant and programmatic analysis. The builders and designers of tomorrow’s SNF must be equipped to guide their clients through those decisions, keeping an eye on, and providing solid cost, financing and schedule information regarding issues of financial feasibility, future operating costs, reimbursement, and maintaining patient care during construction.

## CONCLUSION

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The SNF industry is in the throes of significant change. The industry certainly faces challenges. Those challenges also bring opportunity for well-managed providers with vision, who will survive and flourish as they adapt to and meet the demands of a rapidly changing SNF market. As a result of this changing paradigm, the SNF physical plants must rapidly evolve and adapt to meet the demands on providers by their residents and as functional obsolescence requires replacement of much of the country’s existing, and aging nursing home stock.

Construction and design professionals must take the time to listen to their customers, to understand their business models and the rapidly evolving needs of their clientele. The nursing home design and construction industry must respond to those changing needs and deliver quality and market-appropriate buildings to meet those needs. Those that do so will survive and flourish alongside their customers.



**William A. Nicholson**  
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*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.*

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