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INDUSTRY INSIGHTS

More Middle-Market Demand, Less Greed in the System: How Covid-19 May Affect Senior Living Development

By Tim Regan

The Covid-19 pandemic is changing many aspects of the senior housing industry, including the prospects for new development.

While the long-term ramifications are still unclear, there are early indications the pandemic will make banks more cautious about the sector and create new opportunities for middle-market projects, among other changes.

That's according to Ryan Haller, an industry veteran who spent several years with Avamere and is now heading up a senior living consulting practice called Orchard Hill Partners. Haller, who has a unique vantage point as a long-time senior housing developer, believes that, while the challenges will be numerous, there will also be some opportunities in the post-pandemic future.

Specifically, Haller believes that the Covid-19 pandemic will ultimately create opportunities for new senior living developments designed for the middle market and for whole-person wellness. At the same time, banks and lenders may be more choosy about senior living projects than in the past.

Senior Housing News caught up with Haller to learn more about how he sees Covid-19 impacting the senior living industry, and what operators can perhaps learn from this and other crises. The following interview was edited for length and clarity:

SHN: You have said that senior living developers were possibly making some of the same mistakes in the past few years that they made right before the Great Recession. What are they doing wrong, and what should they have been doing all along?

Haller: I think it's not necessarily an industry-specific topic. It's more of a macroeconomic topic. What we were seeing a lot is, how do you afford to build development when land prices continue to go much higher in price and commodities continue to go much higher in price? System impact fees continued to go up every single year. The only thing that was not going up was rents, commensurate to everything else.

Many of the developments we look at that traditionally would pencil just would not pencil. I think there was a little bit of an element of greed that most developers were seeing. And you can point the finger as much as you want, but the reality is that, if you can't lift rents at a commensurate rate as the cost of development and you have a lot of private equity firms having their standard hurdle rates that you cannot meet, it's pinching.

SHN: You've been talking with a lot of your fellow developers in the past few weeks. What are you hearing from them? I assume at least some fear and concern.

Haller: It is a very polarized group. There is the group that kind of takes the old philosophy of the only thing we have to fear is fear itself. And they're also calling it very opportunistic. The other side is completely conservative. You know, pencils down, let's get through this, let's see how the world looks three months from now.

For our deals that are under [letter of intent] and in diligence right now, we've already had some discussions with a couple of our partners where they said, 'Look, let's just move the horizon out three months.' So, if money was supposed to go hard July 15, for now, let's just move that to October 15, because this is just going to be a dead period until then.

We had a development partner out of Montana that is a low-income housing provider. And on April 1, only 40% of all their tenants across the country paid rent. So, he's come back to us and said, look, we're still doing the deal, I still own the land, I still want to work with you. I just have to figure out how I'm going to be solvent coming out of this whole deal. Another one of my partners has texted me three times in the last couple days to slowly spell out the word "opportunity" in their texts.

I also think it just all depends on what your capital position was. Warren Buffett's saying comes to mind: "It's only when the tide goes out that you learn who's been swimming naked." I think the tide receded a lot quicker than what people thought was going to happen. And I think there are some people living on the edge, and we're all completely exposed. As a result, they may not see the other side of this.

I think that there's a high capital appetite just because of demographics involved. I just question how many of those people are going to look at the microeconomics of senior living after this and say, okay, how is the population affected? What's the solvency of developers? Is the demand as high as what we thought it was? I don't think we can answer that question probably for at least another three months or so.

SHN: You have said you are still bullish on this industry, despite the pandemic. Why?

Haller: For one, there's still a middle-market crisis. That hasn't changed. If anything, I think Covid-19 was an accelerant. Baby boomers, a lot of them that were hit so hard with their 401(k) accounts during the Great Recession who are just now rebounding, they probably had to add three, four or five years to their retirement plan. A lot of people have been battered again a second time. You have people probably that were outside the middle market range that perhaps are now entering into the middle market.

I think for developers out there that have a great middle market product … it's probably going to be the entree at the dinner party.

I think the other opportunity is, we talked for years about how do we bring more services to seniors housing? And what I don't mean by that is how many more billiards tables or activities, games and amenities that we can bring. But it's things like, how do you bring more telehealth into the mix? So many seniors housing providers are probably more on the residential side or light health care side. And for them, I think this is going to be an opportunity.

SHN: What long-term effects do you see for the senior housing industry on the horizon? Do you think this could change something fundamental about the industry?

Haller: I will say yes, but probably not to the same degree that some other asset classes are facing.

We still have the fundamental basic blocking and tackling items that make the industry successful. I think there's going to be some caution that is thrown into the industry. I think banks are going to be very cautious.

At the end of the day … we know that operators drive all the value on the development that we have, and that's why I take such a long time deciding what operator I want in a building is because they drive all the value. So I think, coming out of this, one of the statistics that [banks] are going to look at is probably the amount of Covid-19 outbreaks you had in your portfolio, and what you did about it. We've had banks and lenders ask us for all sorts of policies and procedures in the past. And sometimes, I think that that's been a box to check. But now, some lenders and some capital providers may actually start taking a look at how well-prepared you are on your disaster preparedness plan, for example. I think now they are recognizing that it really could bring you down to your knees very quickly

I guess I would summarize all of this by saying: there's no doubt that this will change the industry. I don't think we'll know how much for a year. You'll start seeing some subtle changes in the meantime. You might see some deals die here and there. But I think that the qualification and process, and some of the rules of engagement, will have some immediate altering as we learn more about the real true net effect of Covid-19 on the industry.

Original Article
https://seniorhousingnews.com/2020/04/15/more-middle-market-demand-less-greed-in-the-system-how-covid-19-may-affect-senior-living-development/

Stony Plain Project Update

Stony Plain Active Adult Lifestyle Community is located just west of Edmonton, Alberta. When complete, the residence will be a 6-storey apartment building with 83 Active Adult Lifestyle Community suites. It will offer In-suite 24-hour emergency call systems, a recreation facility, housekeeping, laundry services, on-site management and maintenance. A main floor of commercial and retail space will provide residents with easy access to amenities such as a doctor's office, pharmacy, bistro or coffee shop. Below is the progress update and pictures from the site.

- The work on roofing is underway as we speak.
- We are preparing the suites for boarding.
- Elevator installation has begun.
- Heat and water lines are being installed and the electrical work is progressing as scheduled.
- The work on the windows and building exterior is progressing very well.
- We have educated all the staff on the Covid-19 and enforced adequate distancing requirement on site to keep our workers safe. We have also installed a hand wash station on site and will apply disinfectant sprays on a regular basis.
- We completed the 8th draw of the senior loan on April 2, 2020.
- Strata documentation for the library is under review by the Town of Stony Plain and we expect to close the sale in April 2020!
- The pre-leasing of suites continues to exceed our expectations and was 87% complete by early April 2020. We are looking forward to the opening of Stony Plain Three Robins in Q3 2020!

Lindsay Seniors Residence Update

Lindsay Retirement Residence will offer Independent and Assisted Living accommodations and will include a variety of spacious suites and amenity spaces. There is also potential to include several Memory Care Units that will provide additional care options for the seniors in Lindsay and offer a full continuum of care model. The facility will offer a full compliment of Dietary, Wellness and Life Enrichment programs tailored to meet the needs of the community and the residents. Below is most recent project update.

- Our Site Plan Application is under review by the Town of Lindsay. We are expecting final staff comments by the end of April. After we receive comments on our submitted application, we would likely have our re- submission in for final approval in June and would expect to have Site Plan Approval by late Q3 2020.
- The extent of the initial staff comments will be a key driver of the schedule moving forward. We anticipate working drawings can commence once the June submission is made and our Building Permit submission would be made during Q3 2020.
- The initial staff comments expected this month will allow us to refine our financial model, update the construction budget, and move forward with financing. This includes the equity raise and debt financing required to fund the development, construction and lease-up of the project.

Surprise Project Update

Chancery is partnered with long time Suske Capital partner, Avenir Senior Living, in the development of this 32-bed geriatric behavioral hospital in Surprise, Arizona.

The Surprise Behavioral Hospital will benefit from its proximity to Surprise Memory Care, which is located on the adjacent land. The Surprise Memory Care community will provide referrals to the hospital, and the hospital will allow for higher level of care for the existing residents of Surprise Memory Care. Below is most recent project update.

- Over the last quarter, the occupancy of our hospital has seen steadily rapid growth where we recorded an average daily occupancy of 7.6, 11.2 and 13.3 patients in January, February and March, respectively.

- The hospital continues to meet our expectations with respect to revenue and profit margin, and is expected to achieve operational break-even as early as the end of April 2020. The management team and staff at the hospital are working hard to stabilize the facility and we have every confidence in their ability to deliver.
- The Medicare adjudicator completed the site visit by the end of January with great success, and we are extremely happy to report to you that our Medicare number application was approved on March 18, 2020. We are currently waiting for our Medicare number to be recorded in the Medicare system, after which we can submit our bills and start to receive funding.

Chancery Seniors Housing Investments Inc. is a private real-estate investment firm with a focus on seniors housing. Powered by its two strong founding partners, Suske Capital Inc. and LD Capital Corp., Chancery creates a team with the expertise and experience of over 55 years in real estate and seniors housing developments with an estimated completion value of over $5 billion.

For more information about our company and projects, please visit www.chancerysenio rs.com