

MDS Moore Diversified Services, Inc.

*Serving Senior Living Clients For Over 37 Years
There Is No Substitute For Experience*

“You’ve Got Questions . . . We’ve Got Answers”

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COMMUNITIES ALSO AGE IN PLACE

Product, Price, Value, & Services Are What Really Count

While most of us are aware that our *residents* age in place, we frequently overlook or ignore another chronic aging trend - the gradual deterioration of our *physical plants*. As the senior living industry matures significant and innovative improvements are being made in the design and ambience of new senior living communities. This new trend is good, but it also represents a major challenge to older communities forced to compete with new, state-of-the-art projects.

Strategic Focus

Let’s sharpen our focus on this huge challenge by reviewing a “reality punch list.” Here are four very relevant issues and questions that must be *consistently* addressed:

1. How market-responsive is your campus? Do you compete effectively on **product, price, value, and services**? Will you really be able to compete in the future?
2. Have you responded to the emerging trend of today’s senior consumers rejecting the “status quo?”
3. Do you understand the dynamics of the senior living product life cycle and is your progression through this life cycle appropriate?
4. Are you striving to become a unique **community of choice** - in terms of both programming and the physical plant?

Finally, are you charging *Buick/Cadillac* prices for a *Chevrolet/Pontiac* quality physical plant? Some feel compelled to do in order to pay their escalating expenses, sustain break-even cash flow, and avoid financial distress. Read on.

Charging for Buicks But Delivering Chevrolets

Your response to the inevitable aging of a community must focus on two important issues:

1. The mindset and value perceptions of *future* residents and their families
2. The reaction of your *existing* residents

The two issues are very complex, and inevitably interrelated. Existing residents express reasonable levels of satisfaction and are frequently resistant to change. However, the future marketplace is heavily focused on five key attributes: product, price, value, choice, and services. Over the next five years, the status of many of the existing physical plant aging problems will evolve from *serious* to *critical*.

Staff members will usually start to recognize subtle changes in the viability of their community. Long waiting lists become shorter, resulting in a smaller inventory of serious, qualified prospects. Stabilized occupancy begins to decline and marketing momentum eventually stalls.

Basic Design Flaws

Typical shortcomings in many older assisted living communities include:

1. Very small studio or alcove units
2. Not enough one bedroom units
3. Inadequate Pullman kitchens or no kitchens at all
4. Dated plumbing fixtures, lighting fixtures and cabinetry
5. Obvious wear and tear in public spaces, coupled with outdated interior designs
6. The community scores low on the ambiance scale

Combined, these flaws result in negative value perceptions.

Space is Always at a Premium

In older communities, there is frequently inadequate space in community/common areas; space that is now desperately needed. Aging residents have more needs and staff frequently require more space to serve those needs. Dining areas are often small or lack ambiance. Some communities opened only self-service buffet lines, but with aging residents and competitive threats, full wait staff service and a menu offering multiple entrees is becoming imperative.

Five Warning Signs

There are five warning signs to look for which signal that some capital investment is necessary:

- 1. Cosmetic wear and tear.** Frayed or soiled upholstery, worn carpets, out of style drapes and faded wall coverings are common examples of cosmetic wear and tear. Wear and tear can also include cosmetic defects in the floor, wall surfaces and finishes in your public areas. Even if you offer outstanding quality of life and programming for residents, small but obvious blemishes on furniture or other amenities may give the opposite impression.
- 2. Physical plant deterioration.** Leaky roofs or chronic heating, ventilating and air conditioning (HVAC) failures are tell-tale signs of ignored or deferred maintenance. You can probably avoid higher repair costs later by tending to smaller, inexpensive problems as they occur, before the situation becomes worse.
- 3. Functional obsolescence.** The most obvious examples of outdated décor are kitchen and bathroom cabinets, plumbing fixtures and lighting in the individual living units. Dated furniture styles and electrical fixtures in the public areas are other common examples. Outdated and drab interiors in public spaces creates negative first impressions for potential residents and their families.
- 4. Increased operations costs.** Higher utility bills and a hampered work flow are often signs that various types of capital improvement are necessary. Again, it may be a matter of tending to small challenges before they turn into major problems. Every \$1 in increased operations costs that could be corrected decreases the value of your community by at least \$10.
- 5. Competitors are making capital improvements.** It's one thing to keep your original physical plant functioning, and another to remain competitive. If the "other guy" upgrades his facilities and you don't, you're handing him a marketing advantage. This doesn't mean abandoning cost-effective common sense, of course. Some sponsors become so obsessed with adding additional bells and whistles that they price themselves out of the market just to pay for all the extras. It's always wise to keep track of what your competitors are doing and, when possible, beat them to the punch.

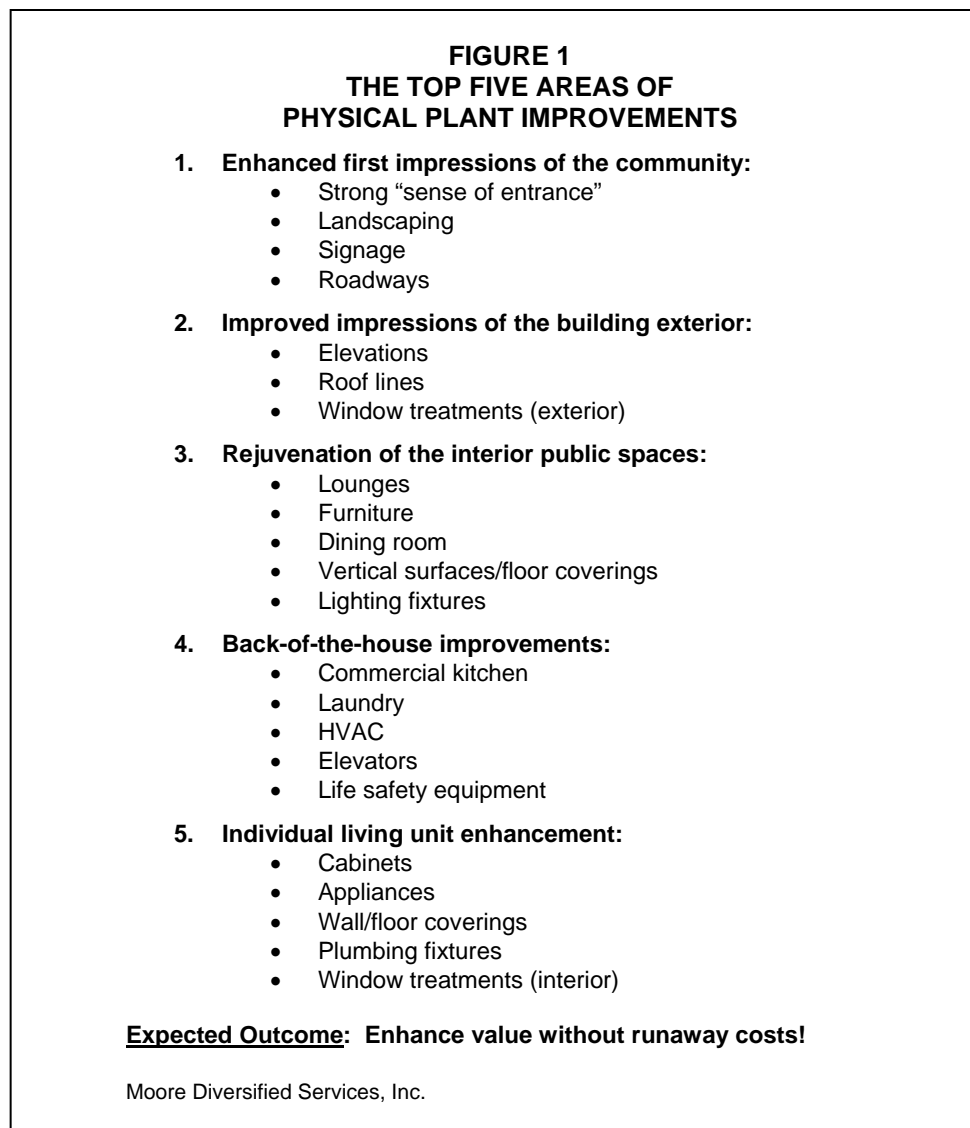
Top Five Areas for Potential Capital Improvements

Just as there are five signals that it is time to consider capital improvements, there are five areas to consider in particular when planning these improvements:

- 1. Make a good first impression.** That old adage, "*You never get a second chance at a good first impression*" is truer than ever in today's highly competitive business environment. Consider how the outside of your campus looks to visitors. Review signs, pavement, landscaping and lighting, for example.
- 2. Improve the look of the building exterior.** This includes fresh paint, new color combinations, window treatments, and interesting elevation facades and roof lines. Use the entrance to create a good first impression.

3. **Rejuvenation of interior public spaces.** This generally means using new materials, finishes and renovation to improve and update the interior design of each community.
4. **Back-of-the-house details.** Expand and improve kitchen equipment, laundry facilities, and provide energy-efficient HVAC systems.
5. **Improvements to individual living units.** Update or replace appliances, plumbing fixtures, cabinetry, carpeting, and vertical and horizontal surfaces.

Figure 1 summarizes the top five areas of improvement.



Exploit Market Niche Opportunities

Market niches should be carefully considered during a comprehensive renovation and/or expansion effort. This would include purpose-built applications such as special Alzheimer's/dementia units, space for a home health agency or fresh approaches to rehabilitation and adult day care.

Your Existing Residents May Deceive You

Many sponsors judge the severity of their physical plant problems by monitoring the relative degree of *existing* resident satisfaction. This approach can be dangerously misleading, because the mindset of existing residents in these outdated facilities can represent a good news/bad news situation.

The good news is that many existing residents living in sub-par living units (by today's competitive standards) are generally quite content. Formal resident panels indicate a surprisingly high degree of resident satisfaction. While many residents are aware of – and have visited – the newer competitors, they still prefer their “home,” and are either willing to accept or are not sensitive to their sub-par conditions. Some residents are even paying premium prices for a community lacking ambience and modern amenities.

The bad news is that the positive attitudes of such residents frequently mask the true reaction of the broader replacement market, which is the lifeblood of any senior living community. New prospects and their loved ones visiting these communities are generally much more critical in terms of their first impressions. They see an aging facility serving an older, frailer community of residents. This can represent an immediate turn-off.

A Master Plan to Retrofit as Units are Vacated

Many sponsors find that with these capital improvements, they must change their pricing and service delivery policies. Naturally they are concerned about how existing residents will react. But to defer such changes indefinitely is not viable. Retrofit by attrition – upgrading vacant units as residents move out – is an alternative strategy. The attrition strategy clears the way for reasonable changes in pricing and service delivery policies. The future viability of the community is gradually re-established. This approach involves a number of challenges. Still, it should prove very effective in the long-run.

One of the most effective ways to gradually make changes on an existing campus is to have a master plan that addresses the *total concept*, but implements the necessary changes in *phases*. The plan could include a unit-by-unit upgrade as individual units become vacant. This approach minimizes the impact on existing residents, and even provides a rationale for a two-tiered pricing strategy as the newly enhanced, more state-of-the-art living units become available to future residents.

Upgraded living units can also be offered to existing residents for a modest increase in monthly service fees. There are obviously serious financial implications to consider. Next month's newsletter will show you how to compute a modest increase in a unit's monthly service fee in order to break even on the capital cost of the improvement.

Don't Procrastinate – The Time to Act is Now!

Many owner/operators and boards of directors are reluctant to make relatively expensive, progressive capital improvement investments. Instead, they hope for a miracle – that the downward occupancy spiral will level off to a plateau of acceptable performance.

The physical plant problem is not going away. Capital improvement efforts should be implemented as a consolidated, proactive strategic initiative. Capital improvements should not be a fragmented, reactive, Band-Aid approach.

Remember, if the situation will gradually become critical in five years, now may be right time to start taking action.

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