



# Development Outlook Amid Volatile Construction Environment

Presented by ARCH Consultants, Ltd.

## **MOMENTUM** **2023 ANNUAL MEETING & EXPO**

Renaissance Schaumburg  
Convention Center - Schaumburg, IL



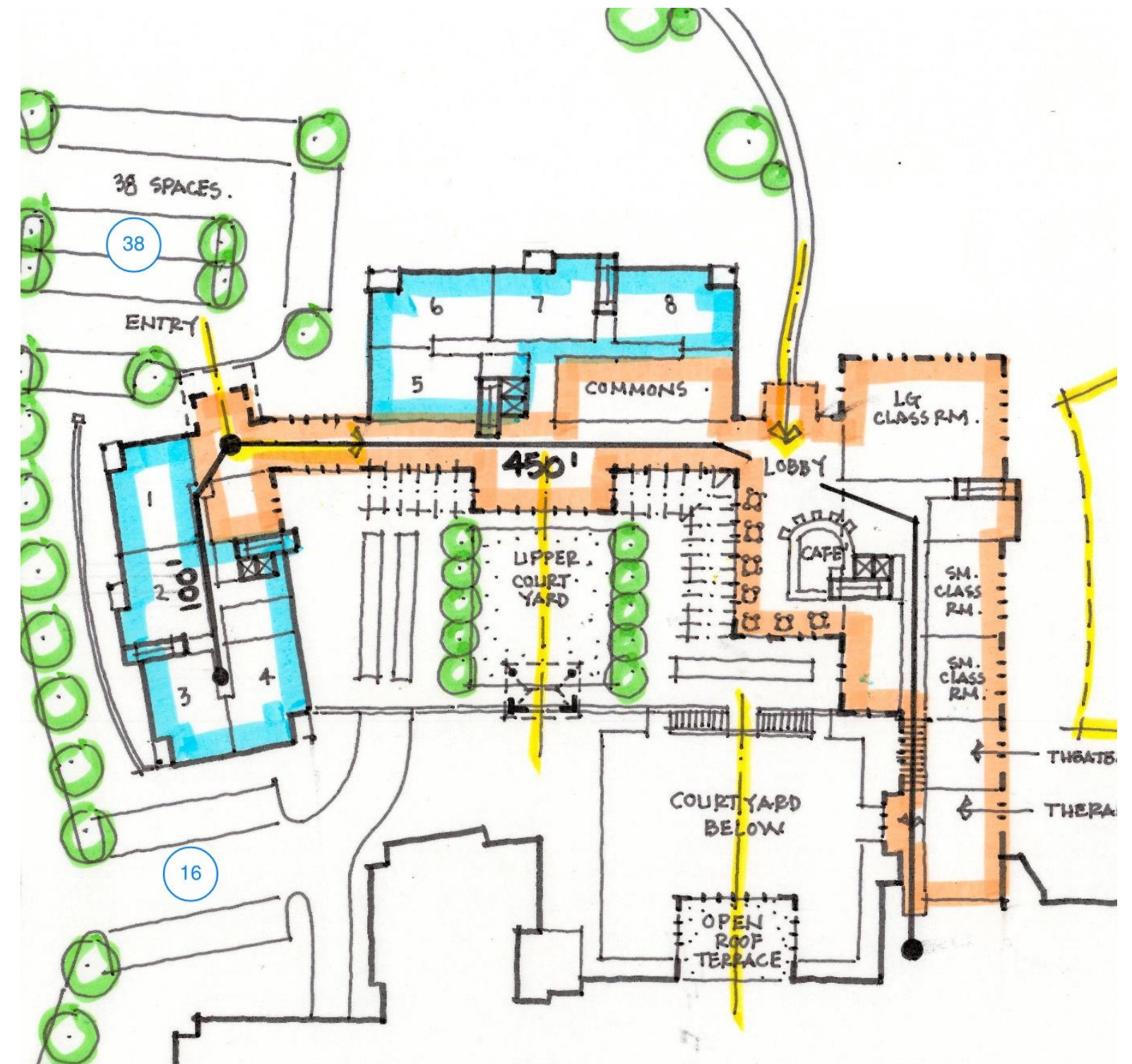
# The Big Idea





# You have a Vision of the future

- Does the market support it?
- Do the financials work?
- How long will it take to get to market?
- Will it take me in the right direction?
- Does this solve my problem?
- Can I get financing?
- How much will it cost?
- What do I do first?
- Do I have competition?
- How do current events affect it?





# Big Idea – What are you planning for

- Growth

- New Location

- Expansion – expand portfolio by entering a new market
    - Defensive – protect market share
    - Market Growth – unmet market demand

- Campus Expansion

- Maximizing amenities/efficiency
    - Capture market demand
    - Expanding Offerings

- Repositioning/Market Demand

- Campus Repositioning

- Shifting market demand/unit mix/new offering
    - Exit a product type/offering
    - Repurpose space for best and highest use
    - Amenities offering

- Market Standards

- Investment to upgrade to current market demand



# The Big Idea

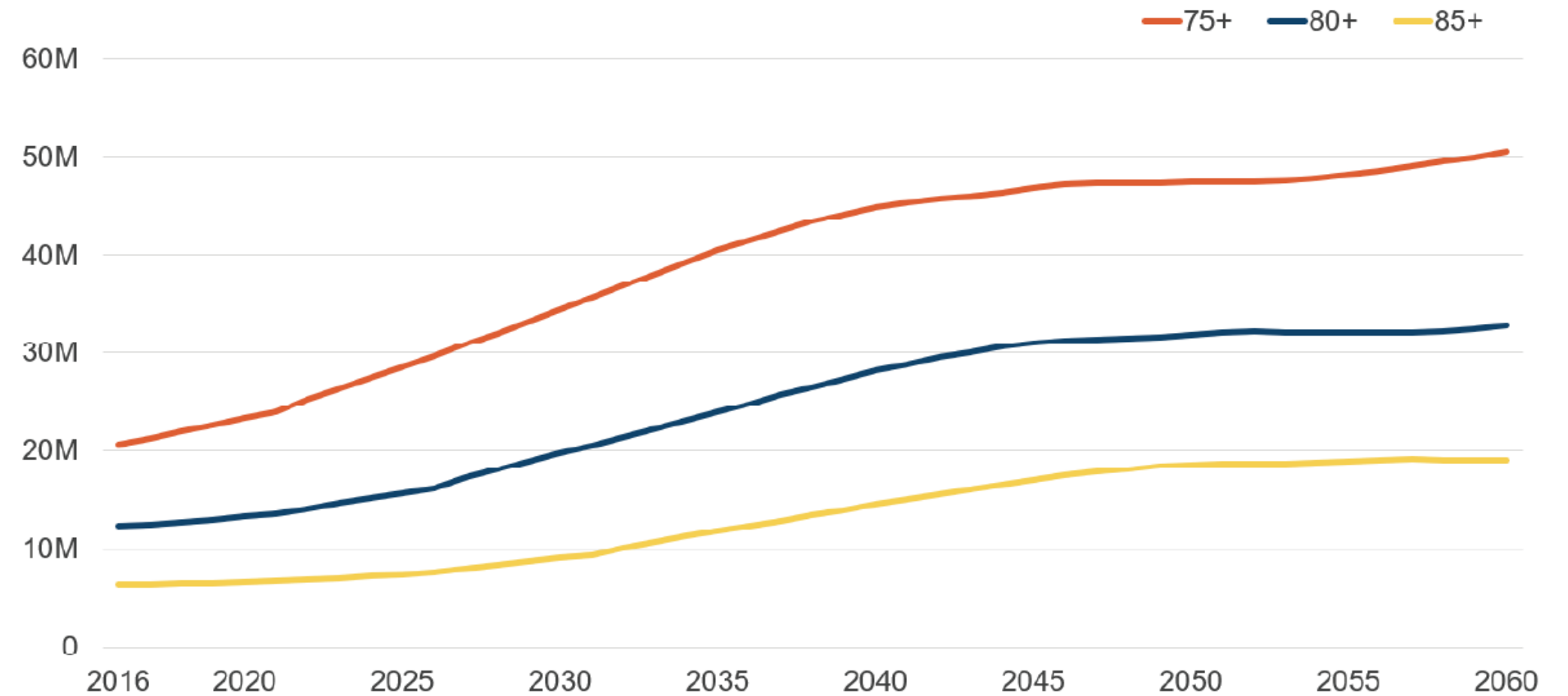
Understanding the Market



# The Big Idea – Market Growth

- The 75+ age group is expected to grow by 9 million by 2030 and is one of the largest growing demographics in the United States.
- The number of households headed by people age 65 and older is expected to grow from 34 million to 48 million in the next two decades, according to studies from the Urban Institute
- 70% of adults 50 and older want to age in place according to AARP survey
- 24% of adults 50 and older feel disconnected from their community according to AARP survey

**US Senior Population Growth Projections by Age Bracket**  
United States | 2016 - 2060

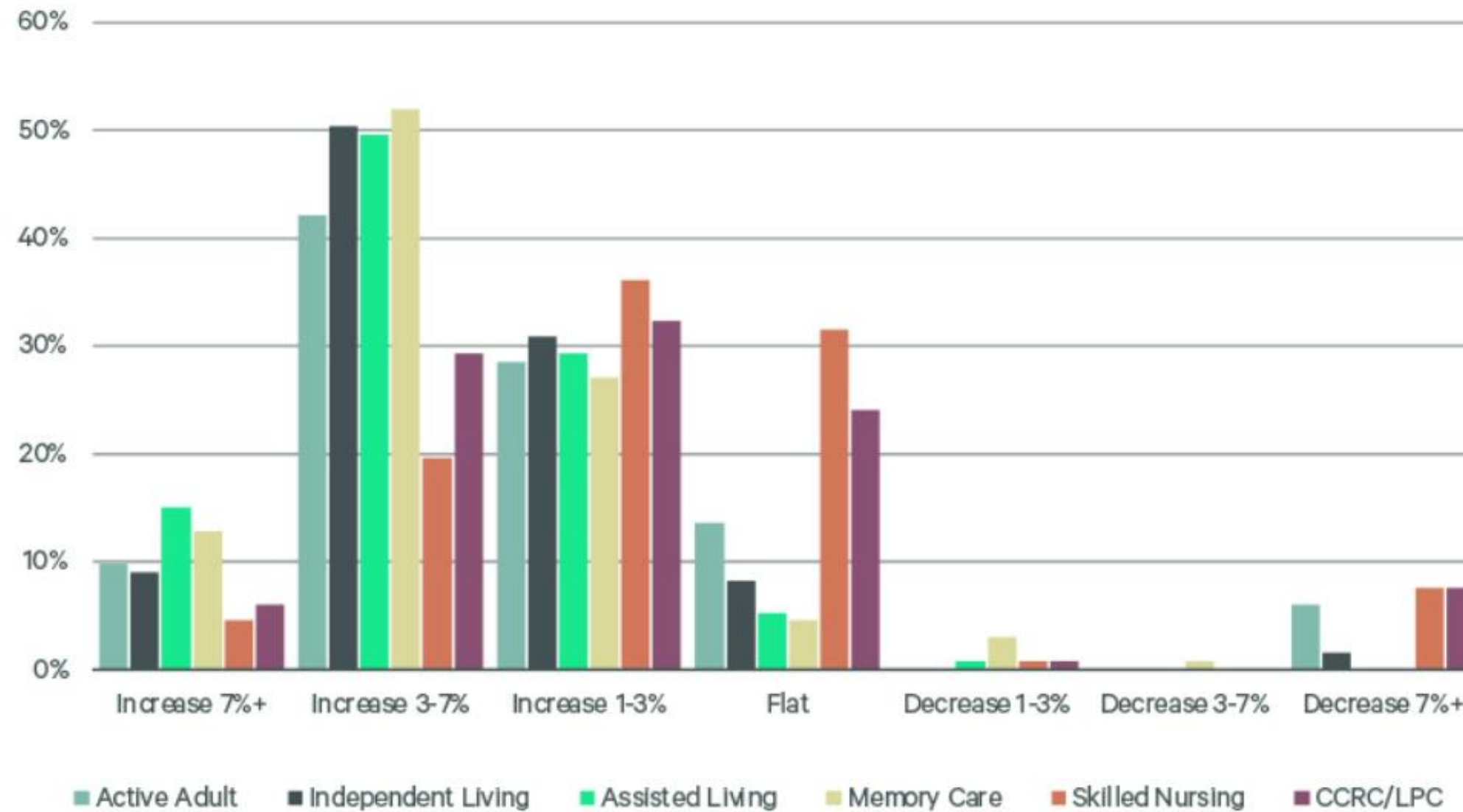


Source: U.S. Census, NIC Research



# The Big Idea – Rental Rates

Figure 10: Underwriting Rental Rate Trends



Source: CBRE Seniors Housing Investor Survey results, 2022.

- Historical Rent averages are 2-4% with recent years trending closer to 2%

Source: NIC.org - Industry Metrics for the Seniors Housing & Care Property Market

- Social Security had an increase of 5.9% in 2022 and is estimated at 8.6 to 10.5% in 2023 based on current CPI inflation.

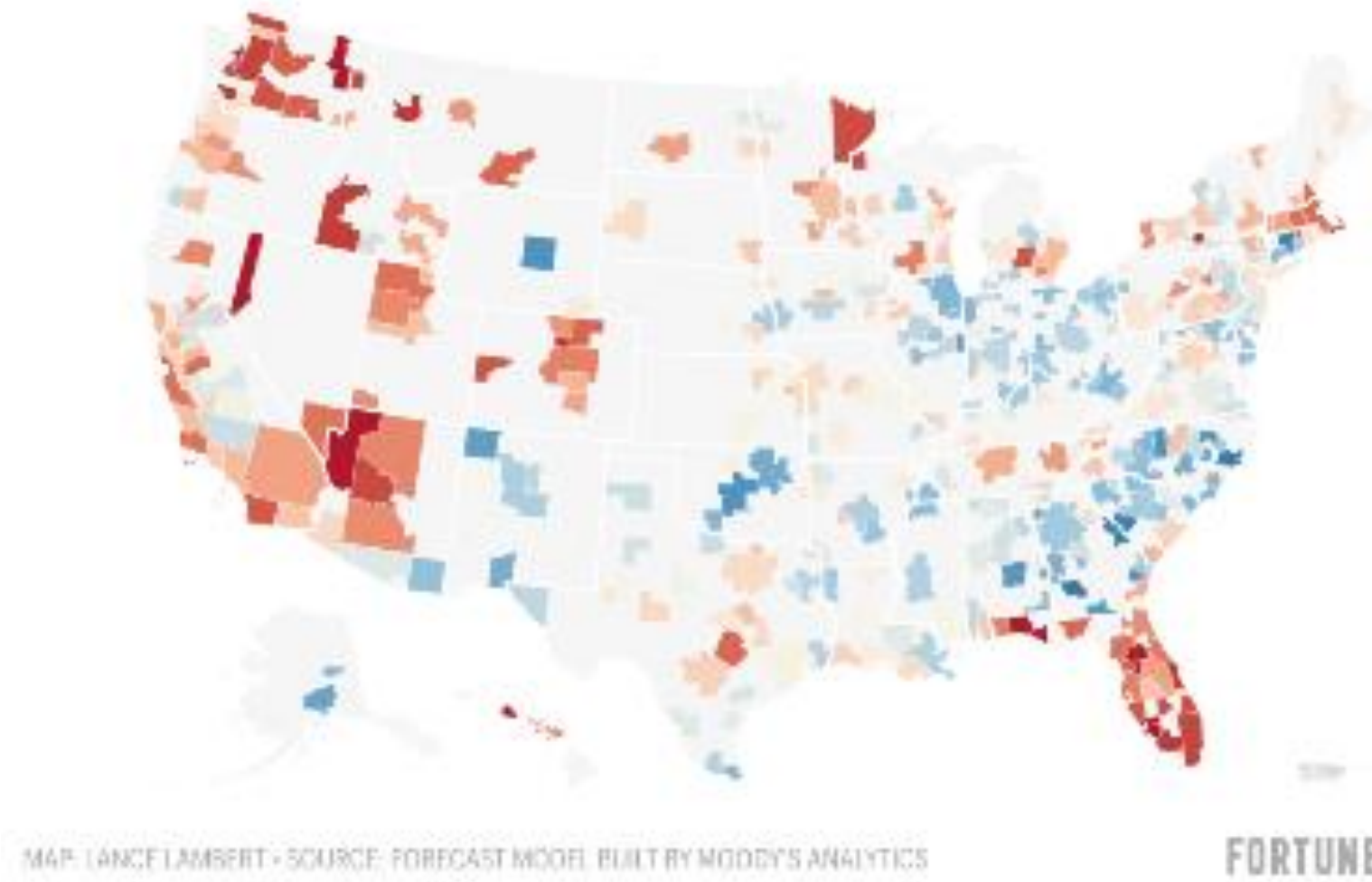
Source: Fortune.com - How Big Will The Raise Be For Social Security In 2023? – July 22, 2022



# The Big Idea – Housing Market

## How regional house prices are expected to shift in 2023, according to Moody's Analytics

Expected shift between Q4 2022 and Q4 2023



- National average home prices grew 31.4% over a two-year period from June 2020<sup>1</sup>
- National average home prices are expected to recede 5% in 2023<sup>2</sup>
- Mortgage interest rates increased from 3.92% in February 2022 to 6.09% in February 2023<sup>3</sup>
- Housing supply stock could increase with estimated volume decline of 7%<sup>1</sup>

Source: 1. National Association of Realtors  
2. New York Federal Reserve – Bank Consumer Expectation Survey  
3. Freddie Mac – Historical Mortgage Rates



# The Big Idea – Housing Market

Age Range	Net Worth	Net Worth (Excluding Equity in Own Home)	Total Assets at Financial Institutions	Total Equity in Own Home
Households Aged 65 and older	\$201,500	\$59,780	\$8,025	\$140,000
Households Aged 65-69	\$197,500	\$69,600	\$6,700	\$130,000
Households Aged 70-74	\$218,200	\$73,040	\$7,500	\$139,000
Households Aged 75 and Older	\$193,600	\$49,370	\$10,000	\$145,000

Source: Census.gov

Source: Census.gov – 2020 Census Data

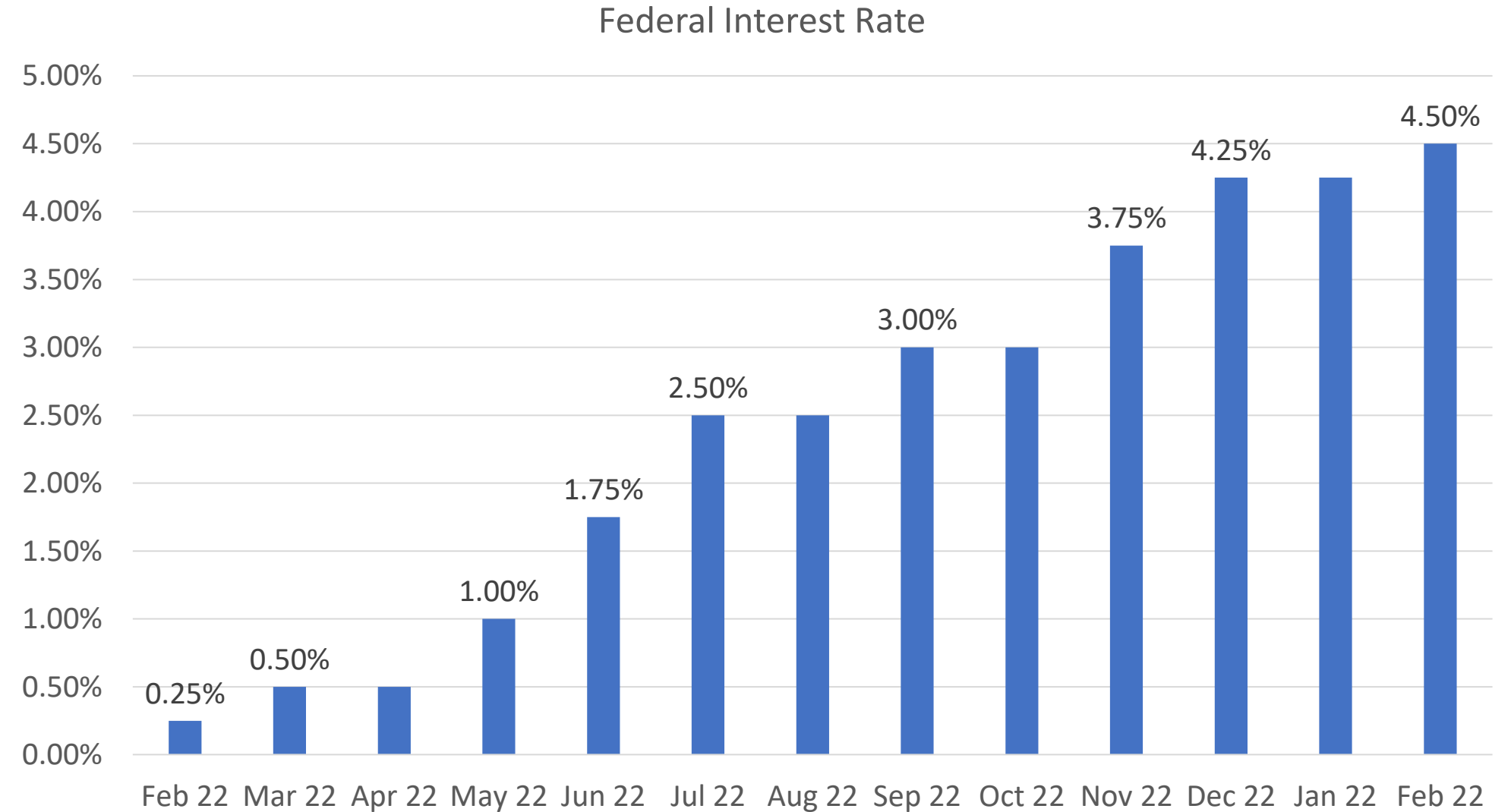
- The average American 65 and older has almost 70% of their net worth in their home.
- 10,000 people a day in the United States turn 65 according to AARP.



# The Big Idea – Capital Planning

## Determining Capital Capacity

- Equity
  - Look at a 3-to-10-year operating projection to determine ability to support capital
- Debt
  - Determine operation ability to support debt for borrowed capital
  - Federal Interest Rates are expected to peak in the 5.25 to 5.75% range between 2023 and 2024 according to Bankrate





# The Big Idea – Considerations

## Market Study

- Market Demand
- Competition
- Absorption
- Price Point

## Financial Advisor

- Financial Structure
- Debt Capacity
- Finance Options

## Development Advisor

- Pro Forma Development
- Capital Planning
- Cost Estimating
- Schedule/Process

## Legal

- Contracts/Agreements



“Good fortune is what happens when opportunity meets with planning.” – Thomas Edison



# Development Planning

“By failing to prepare, you are preparing to fail” – Benjamin Franklin



# Development Planning

## Vision

- Vision Statement
- Project Description
- Identify Desired Outcome

## Pro Forma

- Financial Model
  - Project Budget
  - Financing
  - Operating Cash Flow

## Project Planning

- Overall Project Plan
- Project Duration
- Develop Key Milestones
- Financing Planning Timeline
- Key Decision Points and Offramps
- Project Feasibility



# Development Planning – Vision

Captures what you are trying to achieve

Gives purpose

Keeps you focused

Evolves over time

Guides the process

Excites your team

Creates buy in

Guiding principles development



“If you don’t know where you are going, any road will take you there.” – Lewis Carroll



# Development Planning – Pro Forma

## Defines Project Scope

- Number of units
- Size
- Rough Cost
- Income
- Operating Expenses
- Equity/Financing

## Outlines Financial Feasibility

- Does the project make sense
- What is the minimum size/units that works
- Financial Structure options
- Cash flow projection
- Project Strength

### Sample Senior Living

Cash Flow Forecast - New Campus Development  
(\$000s)

Fiscal Year Ending 12/31

	Initial Occupancy		Occupancy Stabilization		
	2027	2028	2029	2030	2031
<b>Revenues</b>					
Monthly Fees	\$5,000	\$6,000	\$12,000	\$13,000	\$14,000
Other Income	\$100	\$100	\$250	\$250	\$350
<b>Total Operating Revenue</b>	<b>\$5,100</b>	<b>\$6,100</b>	<b>\$12,250</b>	<b>\$13,250</b>	<b>\$14,350</b>
<b>Expenses</b>					
Resident Activity Center	\$300	\$350	\$450	\$480	\$490
Food/Nutrition	\$1,400	\$1,600	\$1,700	\$1,900	\$2,000
Administration	\$250	\$280	\$350	\$370	\$390
Housekeeping	\$500	\$750	\$850	\$950	\$980
Maint./Utilities	\$1,100	\$1,200	\$1,400	\$1,500	\$1,600
Real Estate Taxes	\$900	\$1,000	\$1,050	\$1,100	\$1,150
Lease Payments	\$300	\$400	\$500	\$500	\$500
<b>Total Operating Expenses</b>	<b>\$4,750</b>	<b>\$5,580</b>	<b>\$6,300</b>	<b>\$6,800</b>	<b>\$7,110</b>
<b>Operating Cash Flow</b>	<b>\$350</b>	<b>\$520</b>	<b>\$5,950</b>	<b>\$6,450</b>	<b>\$7,240</b>
Entrance Fees	\$50,000	\$52,000	\$2,500	\$4,000	\$4,000
Investment Earnings	\$200	\$100	\$300	\$300	\$400
Capital	(\$100)	(\$250)	(\$300)	(\$300)	(\$350)
Net Debt	(\$47,000)	(\$51,000)	(\$8,000)	(\$8,000)	(\$8,000)
Combined Annual Cash Flow	\$3,450	\$1,370	\$450	\$2,450	\$3,290
Unrestricted Cash Reserves	\$3,450	\$4,820	\$5,270	\$7,720	\$11,010
<b>Key Ratios</b>					
Debt Coverate Ratio			<b>1.66</b>	1.97	2.38
Dash Cash on Hand	265	315	<b>305</b>	414	565



# Development Planning – Project Planning



## Non-Numbers Stuff

- Zoning Review
- Site Feasibility
- Use Restrictions
- Opportunity/TIFF Zones
- Local Development Board
- Department of Health
- Site/Building Valuation
- Entitlement
- Market Study



## Consultants

- Civil Engineer
- Architect
- Zoning/Real Estate Lawyer
- Site Surveyor
- Environmental Study
- Geotechnical Study
- Appraiser/Valuation
- Market Consultant
- Cost Estimator

## Timeline Overview





# Development Planning – Capital Planning

## Facility Assessment

- help determine existing facility capital reinvestment

## Capital Planning Analysis

- Capture all new initiatives and facility capital reinvestment together

## Capital Evaluation Process

- Metric based selection criteria for evaluating capital allocation.
- Metric categories could include; life safety, ROI, operational efficiency, end of useful life, critical system, resident satisfaction/request, expanded operation, etc.
- Timing of Capital Allocation/Outlay

## Capital Project Scoping

- Defining/Detailing project goals
- Detailing project scope, budget, deliverable and measurable metrics

## Capital Sources

- Equity - Capital from operations/investment
- Debt - Bond Financing/Loan
- Other - Merger



# Development Execution



# Development Execution

## Market Overview

- Inflation
- Labor
- Market Conditions

## Strategies

- Time Management
- Design Documents
- Design Elements/Material Selection
- Early CM/Sub Engagement
- Contract Types
- Contract Costs
- Change Order Management
- Supply Chain
- Don't lose sight of other scopes
- Update Financial Models



# Development Execution

Market Overview



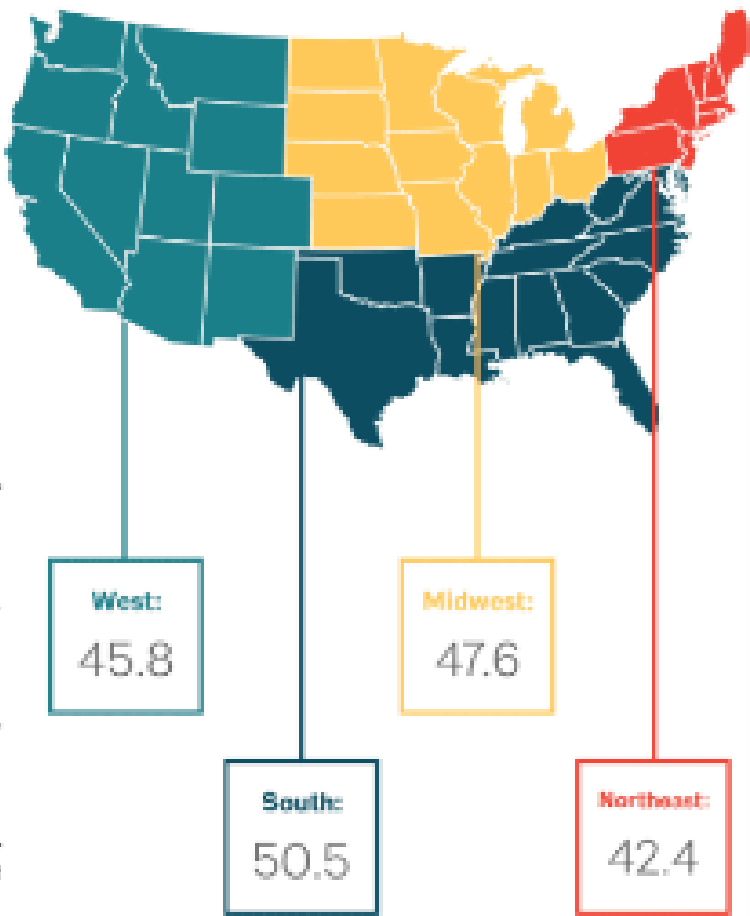
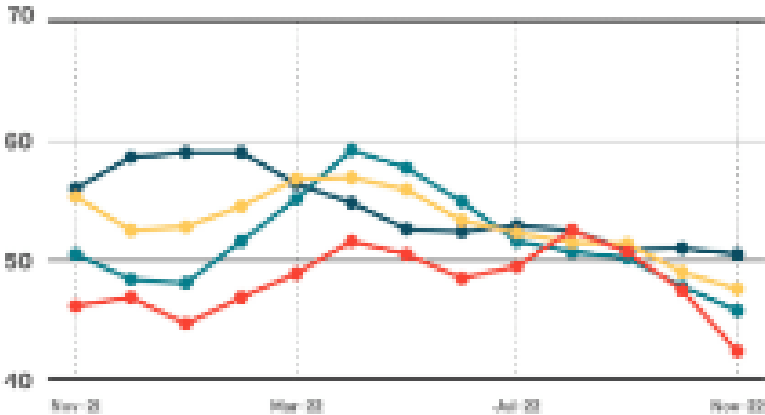
# Development Execution – Design/Construction

## ARCHITECTURAL BILLING INDEX (ABI) THE AMERICAN INSTITUTE OF ARCHITECTS (AIA)

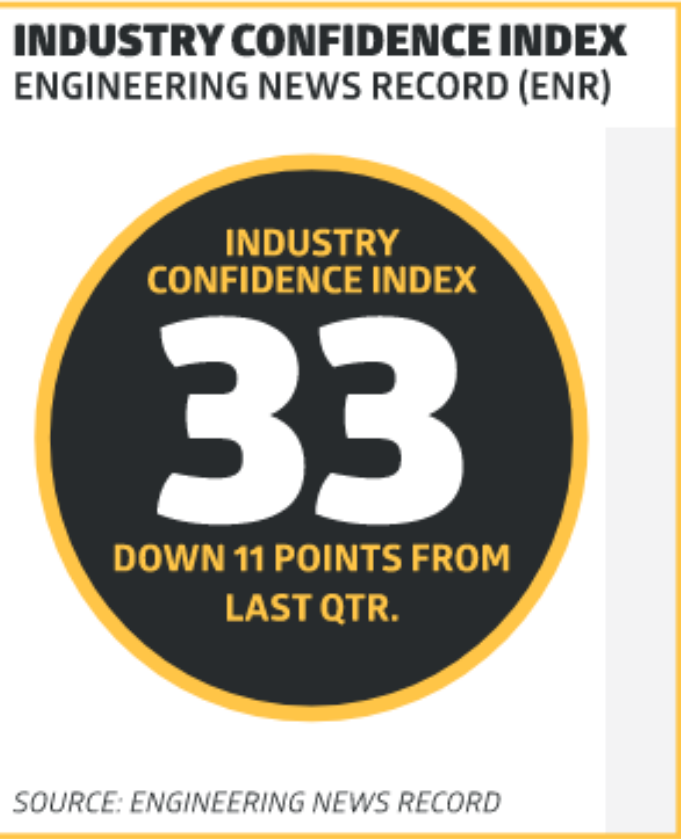
### Regional

Firms in all regions of the country except the South report declining billings

Graphs represent data from November 2021–November 2022 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



SOURCE: THE AMERICAN INSTITUTE OF ARCHITECTS (AIA)

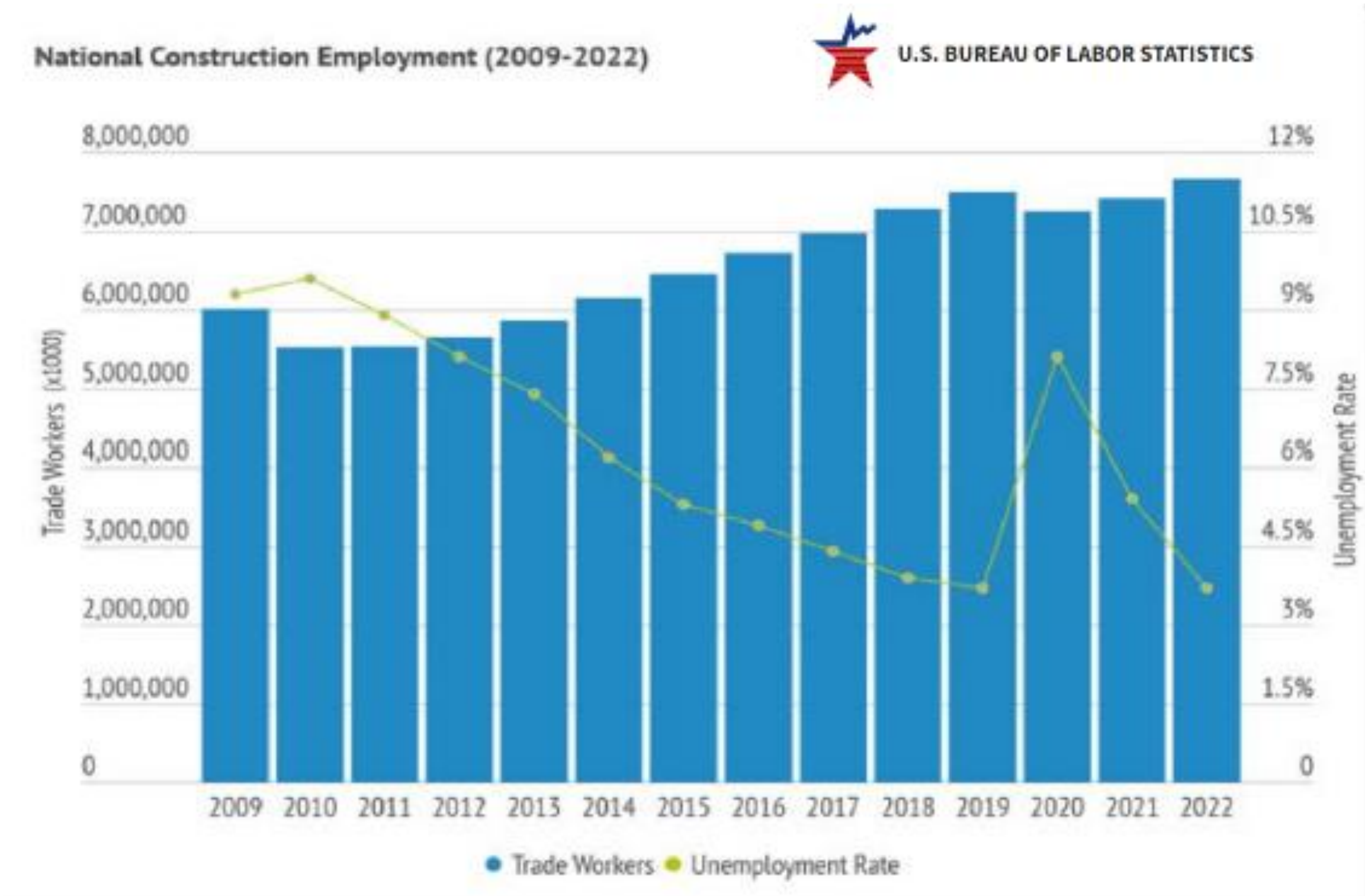


A rating of 50 or higher indicates a growing market

Source: Weitz Company Construction Market Report Winter 2023



# Development Execution – Construction Jobs



Source: Weitz Company Construction Market Report Winter 2023



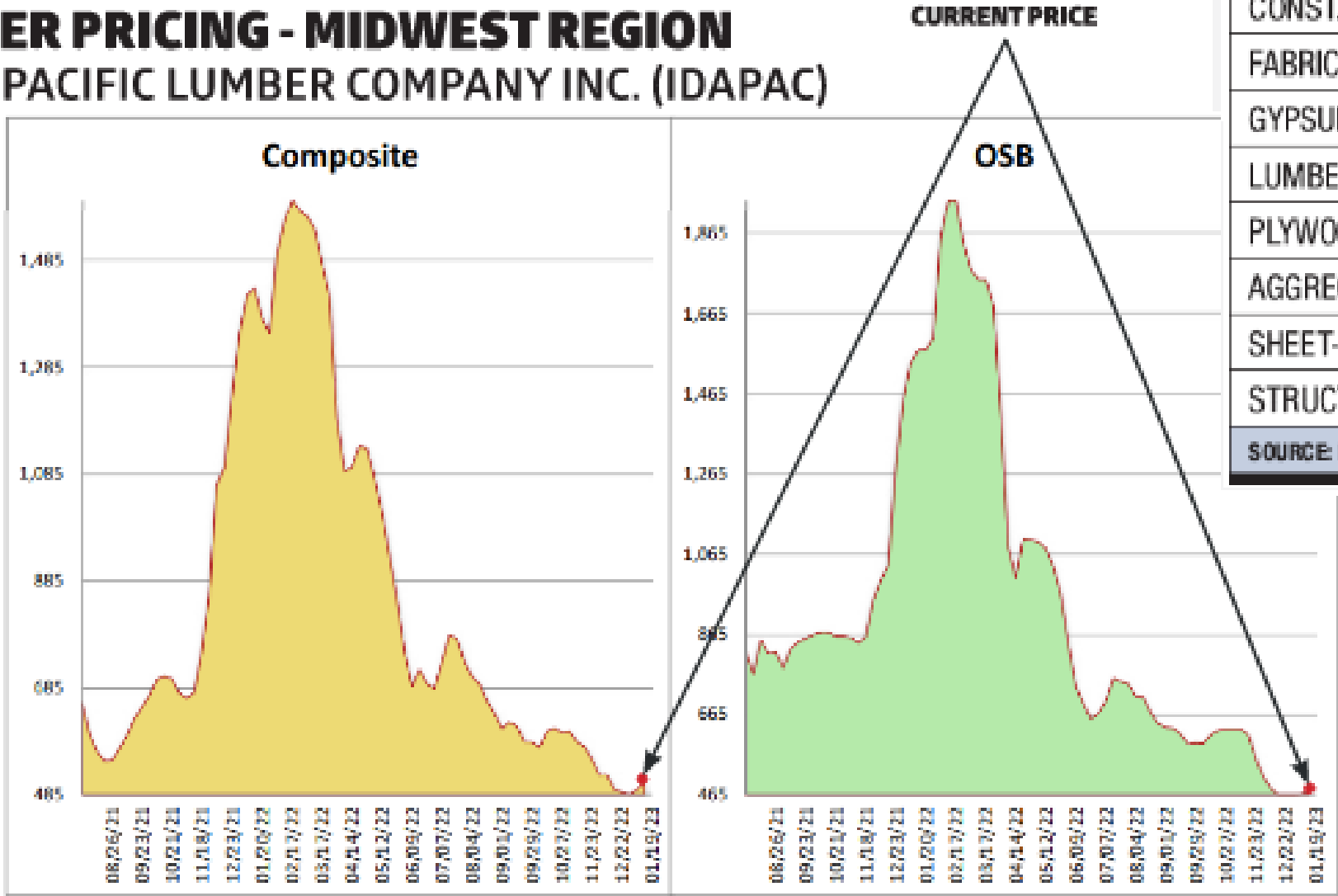
# Development Execution – Inflation

Materials that had the highest inflation through 2022 have the highest predicted reduction between 2023-2025

MATERIALS PRICE INFLATION THROUGH 2025						
	2020	2021	2022	2023	2024	2025
ASPHALT PAVING	-3.1	+3.6	+16.9	-0.8	-5.3	0.4
CEMENT	+1.1	+4.0	+9.7	+5.3	0.4	2.4
REINFORCING BARS	-10.2	+54.3	+15.8	-22.2	-10.7	0.7
CONST. MACHINERY	+1.8	+4.5	+10.5	+5.5	0.0	0.3
FABRICATED PIPE	-0.3	+17.7	+15.4	-9.5	-8.1	-1.1
GYPSUM PRODUCTS	+0.3	+15.9	+17.9	7.5	-6.4	3.9
LUMBER, SOFTWOOD	+30.1	+41.9	-5.4	-31.0	1.5	3.1
PLYWOOD	+13.0	+46.2	-1.9	-26.7	1.3	1.0
AGGREGATES	+4.5	+4.0	+10.1	4.6	1.5	1.8
SHEET-METAL WORK	-0.3	+11.7	+20.1	-3.0	-8.5	-5.7
STRUCTURAL STEEL	-2.3	+26.7	+27.5	-7.7	-9.0	-6.4

SOURCE: IHS GLOBAL INSIGHT INC. NOTE: ESCALATION RATES ARE ANNUAL AVERAGES.

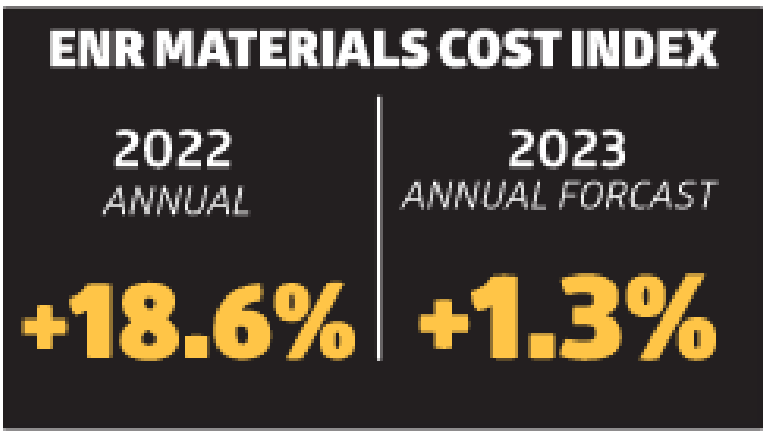
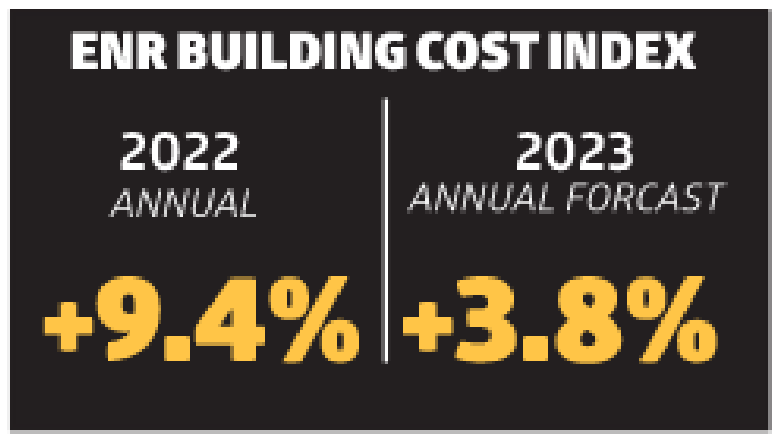
LUMBER PRICING - MIDWEST REGION  
IDAHO PACIFIC LUMBER COMPANY INC. (IDAPAC)



SOURCE:  
IDAPAC; IDAHO PACIFIC LUMBER COMPANY, INC.



# Development Execution – Inflation



CURRENT MATERIAL LEAD TIMES		SOURCE: WEITZ SUPPLY CHAIN
STEEL DECKING & JOISTS .....	4 - 5 MONTHS	
CABINETS (US) .....	1 - 2 MONTHS	
CABINETS (OVERSEAS) .....	4 - 5 MONTHS	
FLOOR COVERING (US) .....	1 - 2 MONTHS	
FLOOR COVERING (OVERSEAS) .....	4 - 6 MONTHS	
APPLIANCES (US) .....	3 - 4 MONTHS	
APPLIANCES (OVERSEAS) .....	10 - 12 MONTHS	
LIGHTING (SPECIALTY LIGHTING LONGER) .....	3 - 4 MONTHS	
SWITCHGEAR .....	12 - 15 MONTHS	
TRANSFORMERS .....	12 - 18 MONTHS	
GENERATORS (600KW>) .....	12+ MONTHS	
GENERATORS (600KW<) .....	18 - 24 MONTHS	
CUSTOM AHU'S .....	4 - 5 MONTHS	
COOLING TOWERS .....	3 - 5 MONTHS	

Lead times are even or down up to 50% from Summer 2022 report



# Development Execution

Strategies



# Development Execution – Considerations



## Financial Conditions

- Interest Rates
- Price Inflation
- Lead Times
- Labor Costs

With project financial pressure coming from multiple directions from financial carrying costs to labor, having a detailed plan and schedule, can lead to better alignment of financing and limit exposure to future inflationary costs.



# Development Execution – Design Elements and Material

## Design Documents

- Complete Set of Documents for Bidding
- Peer Review Design Documents
- Early CM Engagement
- Early Sub Contractor Engagement for Design Build



## Material Selection and Design Considerations



### Go Vertical

- Lower Site Development Costs
- Lower Building Costs

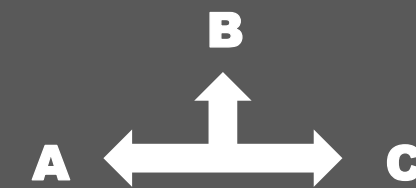


### Wood Frame



### Prioritize Money

- Front Door
- Kitchen & Bath



### Plan for Alternate Materials



# Development Execution – Construction Contract

## Construction Management (CM)

- Early engagement contract
- CM has responsibility to owner
- Typically cost plus contract setup
- CM at risk setup limits some owner cost exposure

## Guaranteed Maximum Price (GMP)

- Limits the amount the owner has to pay if additional expenses are incurred
- Owner may share savings with contractor if project comes in under budget

## Incentive Construction Contract

- Contract guarantees price and date for which the project would be delivered
- Contractor is incentivized if project is delivered under budget and/or early

## Integrated Project Delivery (IPD)

- Single contract for Design and Construction (Tri-Party Contract)
- Designer, Contractor and Owner share in the risk and reward of the project delivery from both a budget and delivery date.

## Lump Sum

- Pre set price for project delivery
- Best suited for small, straight forward projects



# Development Execution – Construction Costs



MATERIAL 40%



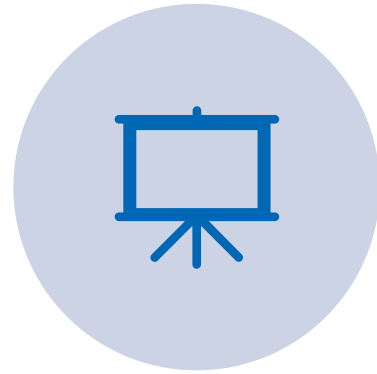
LABOR 35%



EQUIPMENT 14%



GENERAL  
CONDITIONS 5%



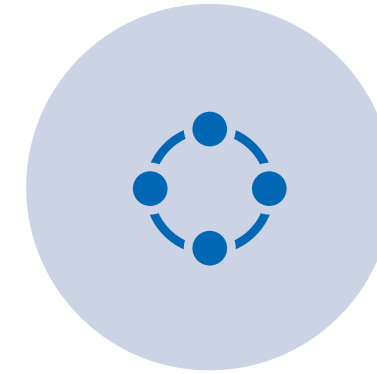
OVERHEAD 2.5%



PROFIT 1.5%



INSURANCE 1%



BONDING 1%



# Development Execution – Construction Change Orders

## Change Orders<sup>1</sup>

- Make up 10 to 15% of Construction Contract Costs
- Create 10 – 30% inefficiency (delays/rework)
- Change Order Disputes last 15 months on average

## How to Manage

- Complete set of Construction Documents
- Engage CM early in process
- Engage select sub-contractors during design (design assist)
- Establish a process with the contractor to manage issues when they come up to avoid project slowdown





# Development Execution – Construction Costs

*“The subs are running the show.”*



Update Estimates  
as Needed



Ensure Complete  
Design Docs at  
Financing



100% Permit and  
Approvals



Incentivize  
Performance

***Keep Momentum***



# Development Execution – Strategies

## REGULAR MONITORING TO UNDERSTAND MARKETPLACE

- Keep up to date on market pricing, inflation and labor
- Update Pro Forma/Financial Models to factor in any market changes

## PLAN FOR ADEQUATE CONTINGENCIES

- Contingencies range but are usually higher at the beginning of the project

## DESIGN TEAM AND CONTRACTOR ARE ALIGNED ON SUBMITTAL APPROVALS

- Minimizes multiple reviews which can cause delays

## EXPECT QUICK BUY-OUT FROM CONTRACTOR

- Helps to lock in pricing

## TURN CONTRACT CLOSE TO FINANCE

- Minimizes risks to future price fluctuations
- Minimizes risk of misalignment between construction cost and financing capacity

## CONSIDER STORING CRITICAL MATERIALS

- Helps mitigate costs of project slowdown/stoppage or extended duration

## PAY DEPOSITS TO LOCK INTO MATERIAL/EQUIPMENT

- Helps mitigate risks of delays due to long lead items

## PLAN FOR REALISTIC ESCALATION

- The project budget should account for cost escalation
- The contractor estimate should account for construction cost escalation

## OTHER PROCUREMENT

- Furniture Fixtures and Equipment
- Low Voltage





# Questions and Answers





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Illinois

**MOMENTUM**

# 2023 ANNUAL MEETING & EXPO

**MARCH 7-8, 2023**

Renaissance Schaumburg  
Convention Center - Schaumburg, IL