



Campus Repositioning:

The Future of Skilled Nursing & Consumer Preferences

Session 70D

MOMENTUM

2023 ANNUAL MEETING & EXPO

Renaissance Schaumburg
Convention Center - Schaumburg, IL

Introductions



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Session Objectives

- Understand senior living market dynamics, data associated with reduced utilization of skilled nursing beds, including projections on future demand for long term care.
- Discuss specific provider experiences and case studies of repositioning their communities to meet the needs of the consumer of the future
- Explain how to execute a successful campus repositioning and the resources necessary to manage and mitigate risk

The Evolution of Senior Living



"You can't really know where you are going until you know where you have been."
Maya Angelou

Nonprofit old age homes were constructed to offer room, board, and care. Professional home health care emerged in 1893 leading to the creation of the Visiting Nursing Association (VNA).

1700's

1900- 1950

1980- 2000

2011- 2020

Poorhouses, almshouses, and other county infirmaries became homes for the indigent elderly.

1800's

- By the 1900s there are 7 CCRCs in the United States
- Social Security Act was signed into Law
- Increased need for long-term care as the aging population grows.

1950- 1979

The advent of Assisted Living created by Paul and Terry Klaassen, founders of what is now Sunrise Senior Living opened their first building in 1981 in Oakton, VA

2001- 2010

Largest expansion of seniors housing coupled with the greatest reduction of SNF beds

In the year 2001 there were almost 2,000 CCRCs located in the U.S. (AASHA,1999). Pennsylvania, California, Florida and Virginia have higher concentrations of CCRCs, with the Philadelphia/Delaware Valley area recognized as the "CCRC capital of the world" due to the high concentration (45) of CCRCs in that area.

- The 1950s marked the beginning of three decades of deadly SNF fires across the US
- 1959 Launch of the section 202 program of the Housing Act creating affordable housing for the elderly
- 1965 – Medicaid funding available for care for the elderly
- 1971 – Office of Nursing Home Affairs created
- 1972 – Social Security reforms for facilities supported by Medicaid

The Evolution of Senior Living

Rethinking the Senior Living Continuum– *Anticipating Future Consumer Expectations*

Easter morning 1900: 5th Ave. New York City
Spot the Automobile



Source: US National Archives

Easter morning 1913: 5th Ave. New York City
Spot the Horse



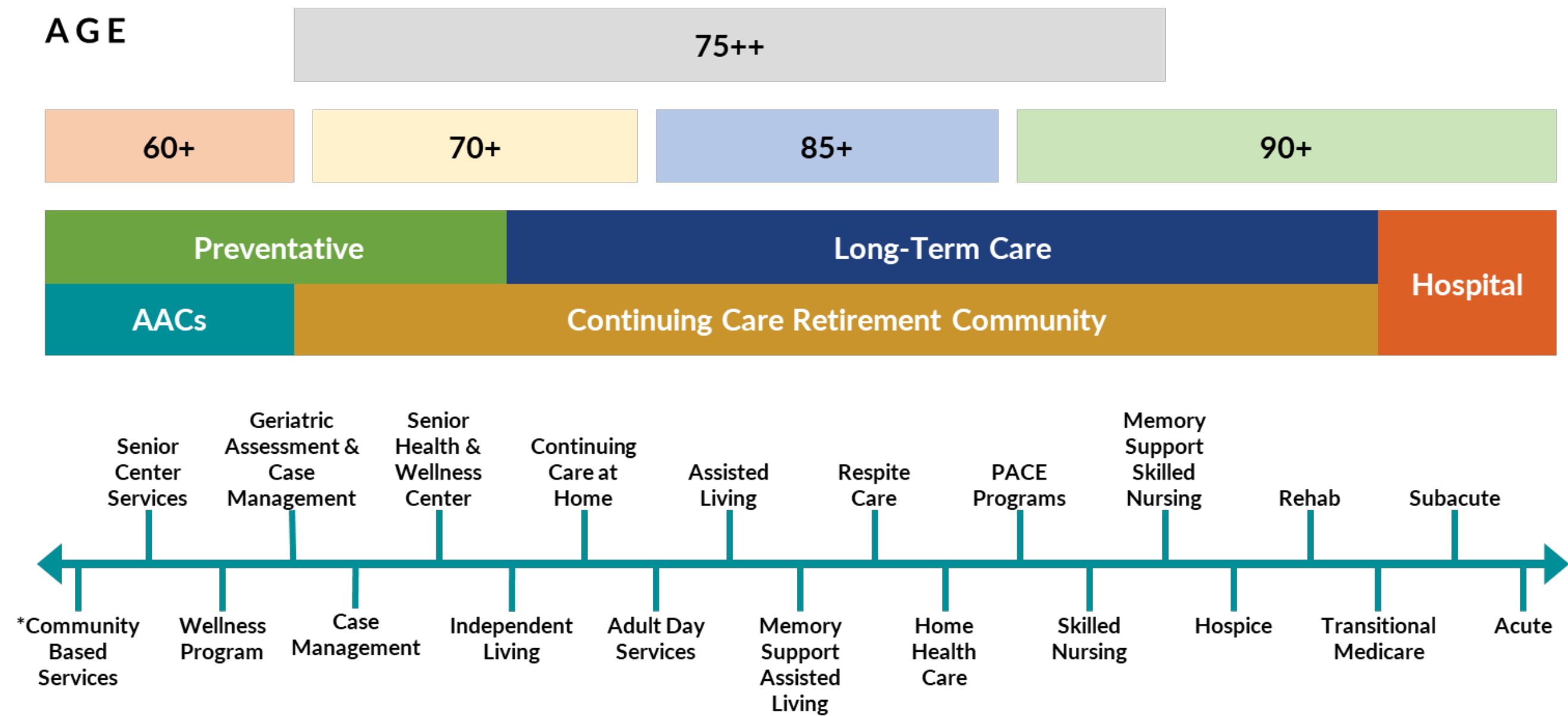
Source: George Grantham Bain Collection.

The Evolution of Senior Living

What is **NOT** on this list today that will **INFLUENCE** the senior living landscape tomorrow?



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*Transportation; Information/Referral; Counseling; Meals-on-Wheels; Integrated Day Care; Homemaker/Chore/Housekeeping; and Emergency Response System

LeadingAge
Illinois

The Evolution of Senior Living

Critical Questions NFP Boards are Asking:

Who is the Consumer of the Future?

1. Who is the **RESIDENT OF THE FUTURE** and what environment will they be attracted to as they age?
2. How does my organization need to **EVOLVE** in order to attract this consumer?
3. What product and or service is our organization **MISSING** that will maintain relevance for the organization into the future?
4. What will be our **VALUE PROPOSITION** to the consumer of the future?

Any business today that embraces the status quo as an operating principle is going to be on a death march.

Howard Shultz



The Evolution of Senior Living

Why are organizations considering asset repositioning and long-range master planning?

Industry Influencers that **CANNOT** be Ignored

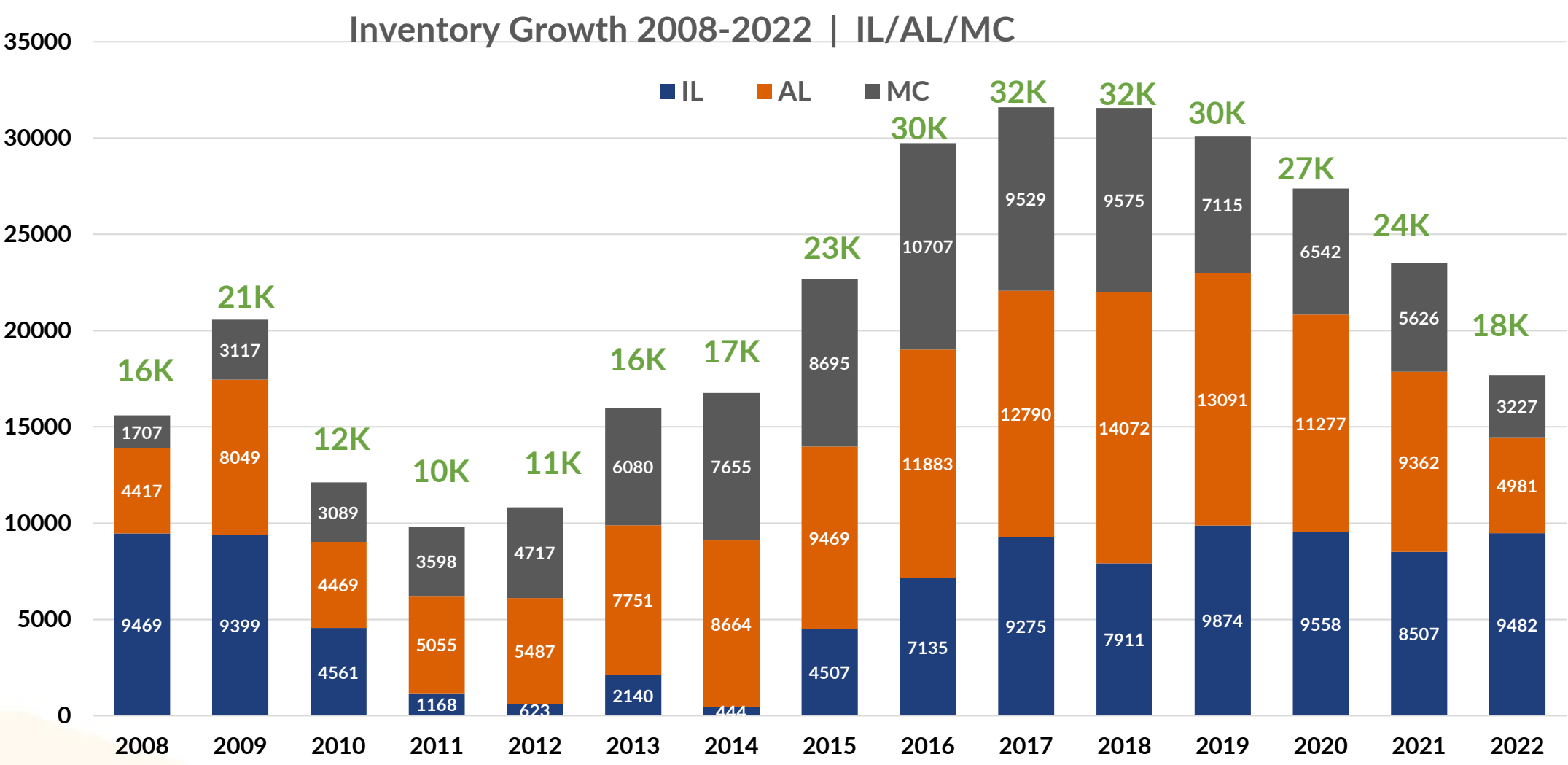
- Inadequate reimbursements & financial pressures
- Increased demand for Home and Community Based Services
- Increased competition and preferred senior living options in the marketplace
- Significant leadership turnover
- Caregiver/Labor Shortages
- Increased consumer expectations
- Functionally obsolete buildings/assets
- Inadequate capital investments over the years
- Increased acuity and shorter lengths of stay
- Increased technology demands



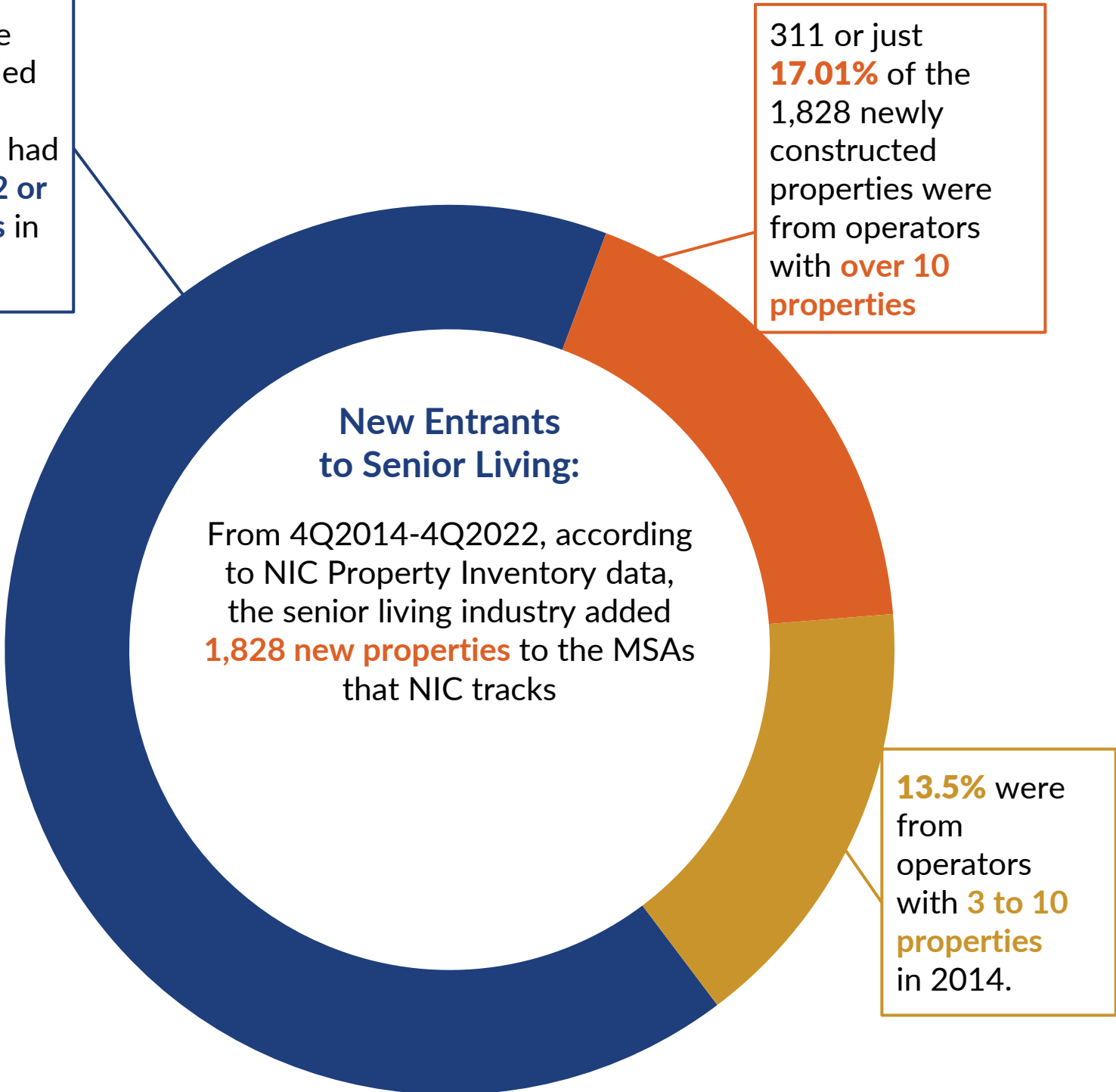
Senior Living Market Dynamics

The Senior Housing Construction Boom

22% of senior living product added over the last 10 years has been developed in the last three years.



69.5% of those properties added were from operators that had a portfolio of 2 or less properties in 2014.

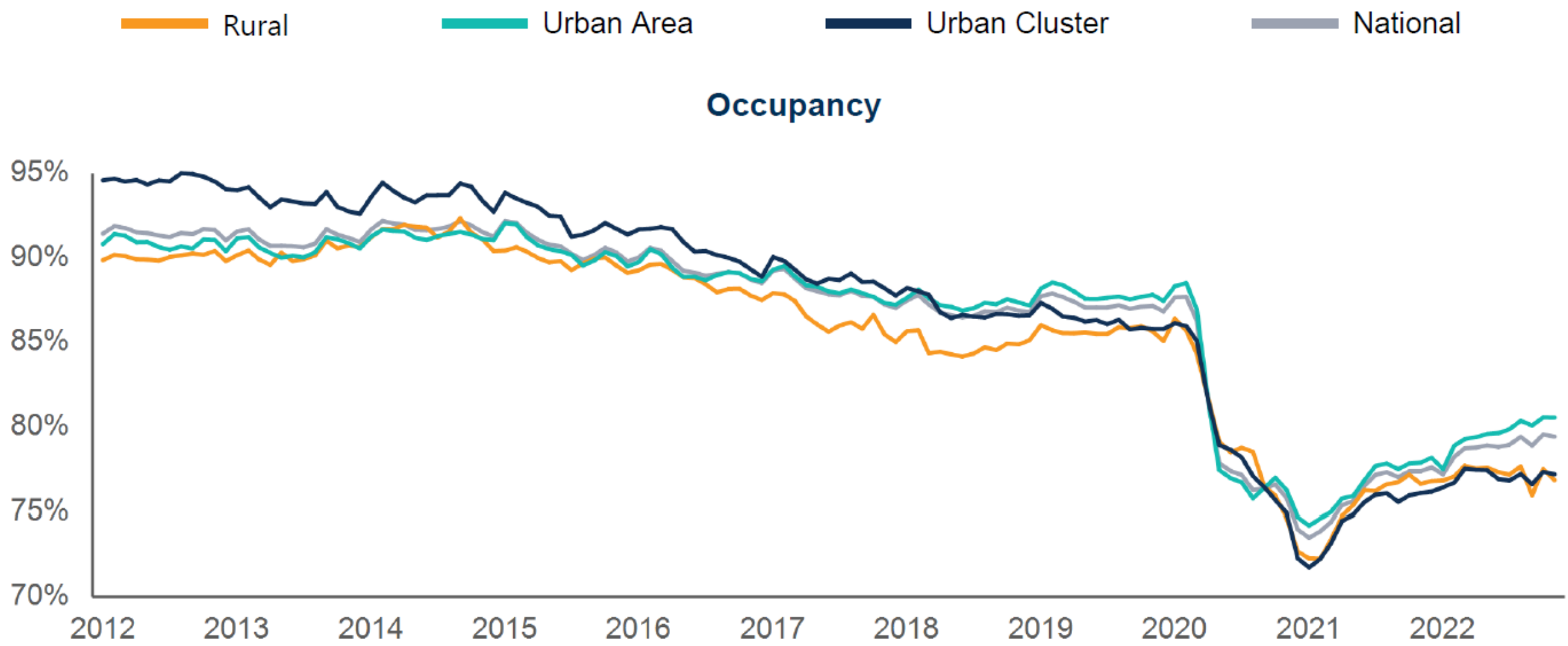


13.5% were from operators with 3 to 10 properties in 2014.

Nursing Home Market Dynamics

Skilled Nursing & Long-Term Care: How Many Beds do I Really Need?

Skilled Nursing Occupancy January 2012 – November 2022



Source: NIC MAP, powered by NIC MAP Vision

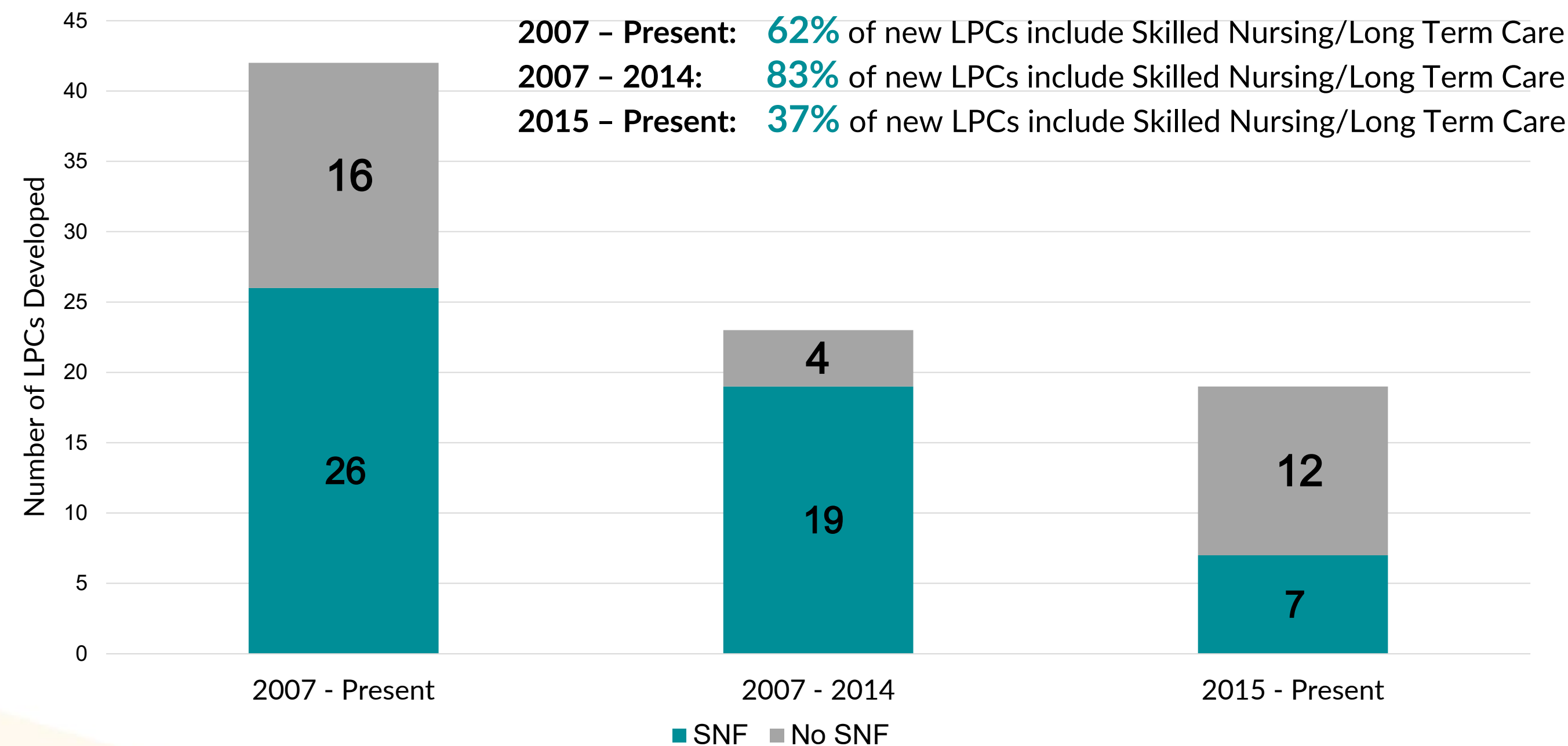
SNF Bed Reduction –
Net Loss of 46,140 (~5.1% of beds)

Year	Inventory Growth/Reduction
2008	- 880 Beds
2009	- 1,815 Beds
2010	+ 829 Beds
2011	- 137 Beds
2012	- 2,106 Beds
2013	+ 418 Beds
2014	- 2,008 Beds
2015	+ 655 Beds
2016	- 1,428 Beds
2017	- 2,964 Beds
2018	- 6,535 Beds
2019	-4,201 Beds
2020	-3,577 Beds
2021	-10,144 Beds
2022	-9,548 Beds

Source: NIC Data; Primary and Secondary Markets 4Q2022

Nursing Home Industry Trends

LPCs move away from SNFs in new developments



Nursing Home Industry Trends

Declining Nursing Home Utilization

This table and graph present the trend of national and Illinois nursing home utilization rates from 2015 to 2022. Utilization rates have declined 31% for the US and **34% for Illinois** from 2015 to 2022.

✓ Shift to Home- and Community-Based Services:

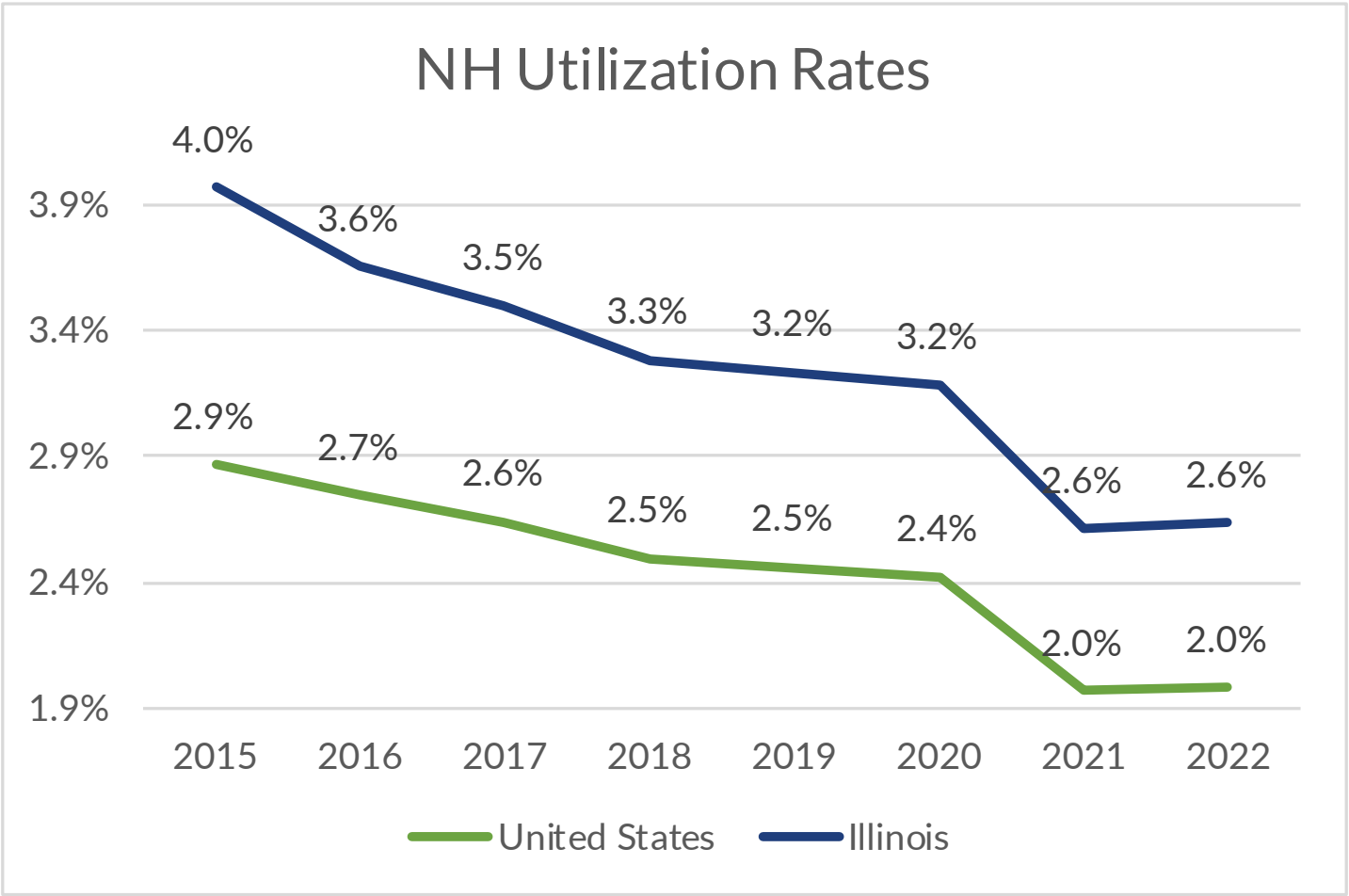
- Desire of the senior to remain at home for as long as possible or choose alternative care settings
- Health care industry is offering more services to seniors in their own homes
- Federal and state programs as well as payor sources are supporting programs and initiatives to push care out of the nursing home setting

✓ Decreasing hospitalization rates

✓ Decreasing length of stays in nursing homes

National & State Historical Utilization Rates									
Location	2015	2016	2017	2018	2019	2020	2021	2022	% decrease from 2015 to 2022
United States									
Nursing Home Residents (A)	1,367,548	1,350,121	1,342,876	1,307,382	1,330,591	1,316,950	1,098,305	1,157,714	
Population 65+ (B)	47,732,480	49,215,165	50,815,712	52,423,114	54,074,028	54,438,296	55,847,953	58,509,892	
Utilization Rate (A/B)	2.9%	2.7%	2.6%	2.5%	2.5%	2.4%	2.0%	2.0%	-31%
Illinois									
Nursing Home Residents (C)	72,492	68,351	68,100	65,378	66,178	65,594	54,962	57,726	
Population 65+ (D)	1,828,225	1,872,830	1,947,595	1,990,548	2,045,361	2,060,440	2,103,309	2,190,580	
Utilization Rate (C/D)	4.0%	3.6%	3.5%	3.3%	3.2%	3.2%	2.6%	2.6%	-34%

Sources:
KFF analysis of Nursing Home Compare.
Census American Community Survey, Claritas



Nursing Home Industry Trends

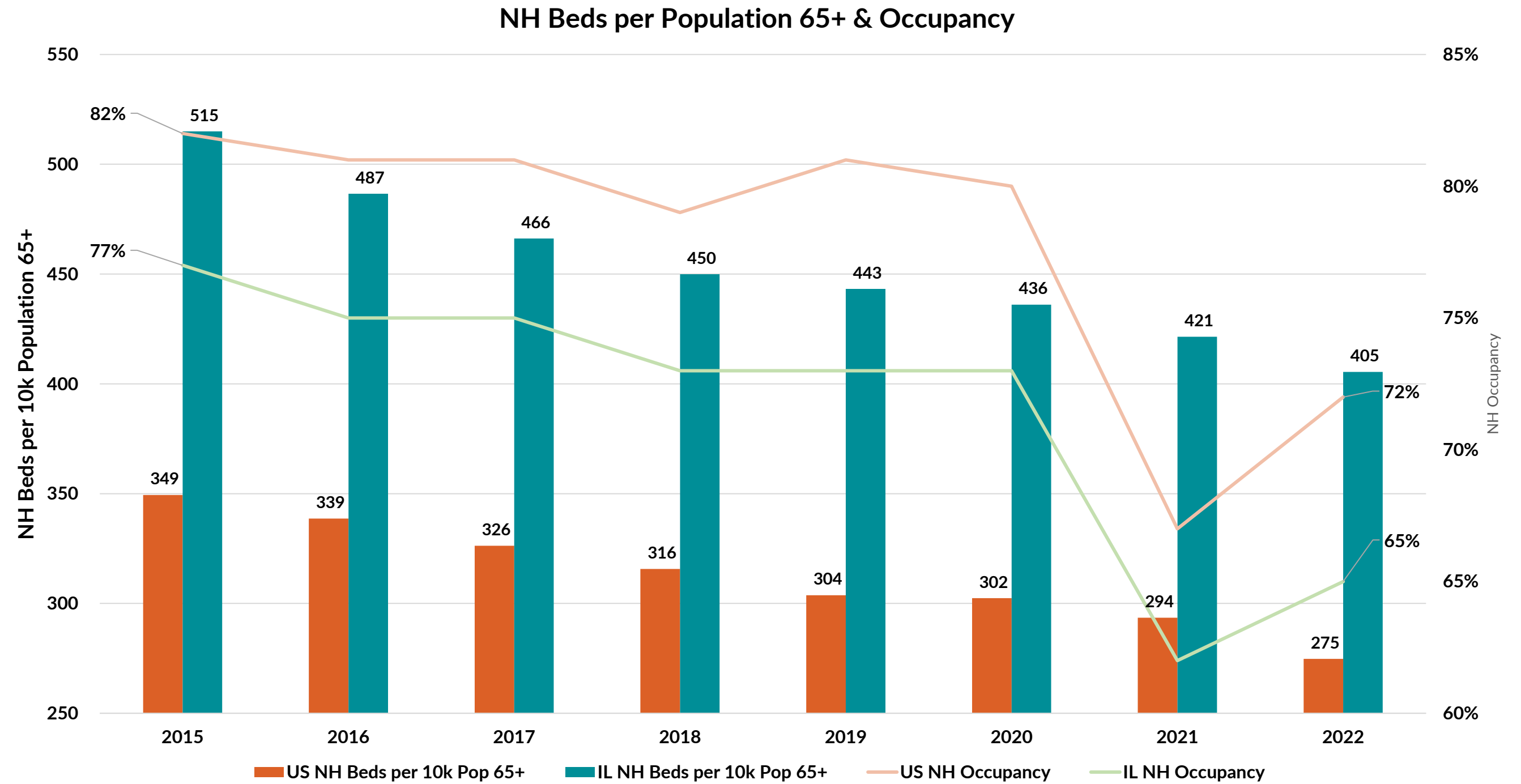
Declining Nursing Home Beds & Occupancy

This graph presents:

- NH beds per 65+ population
- Occupancy

Results:

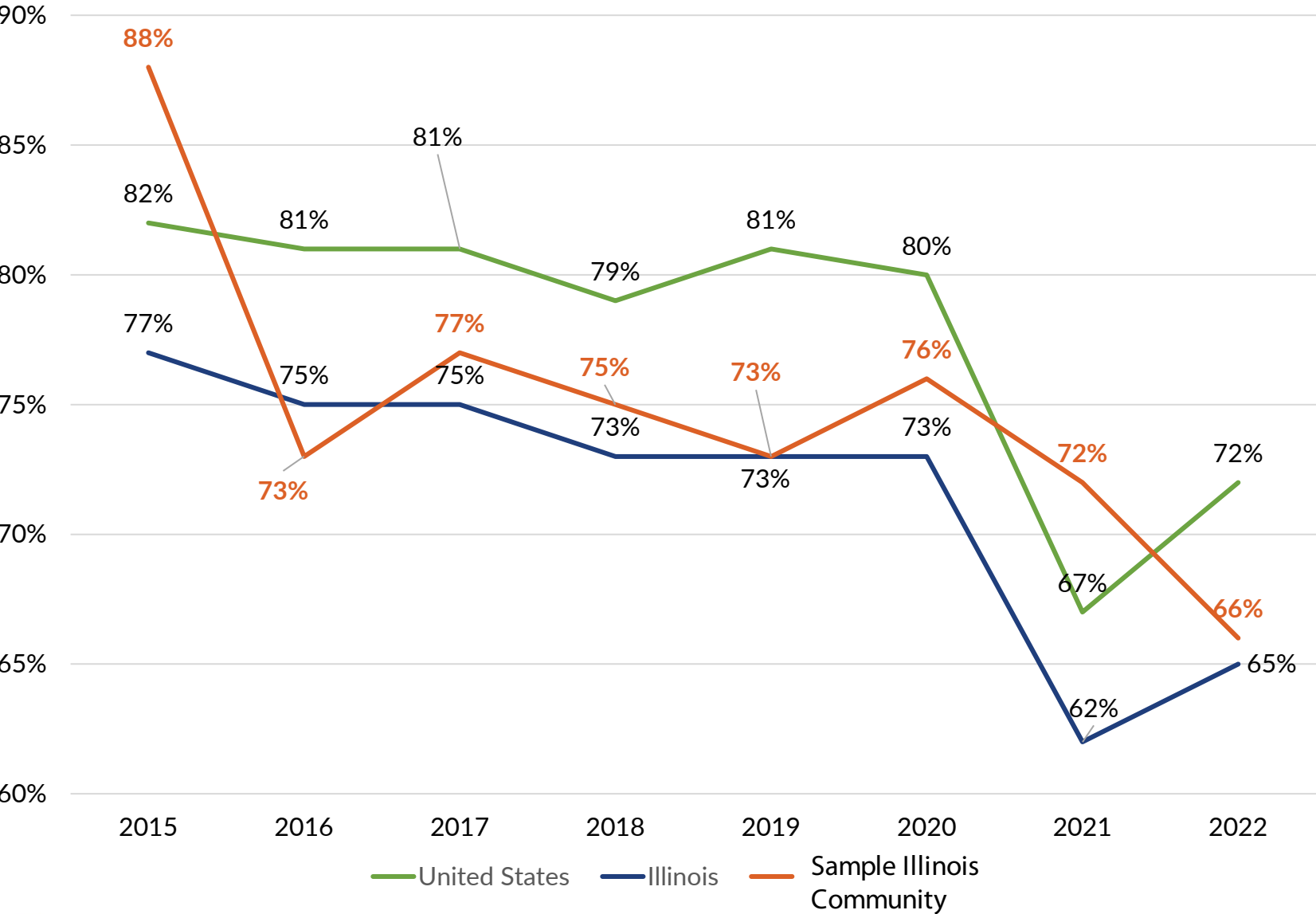
- ✓ Illinois has 1.5x more beds per its 65+ population than US as a whole
- ✓ Even though NH utilization in Illinois is higher than that of the US (previous slide), occupancy is lower due to so much excess capacity



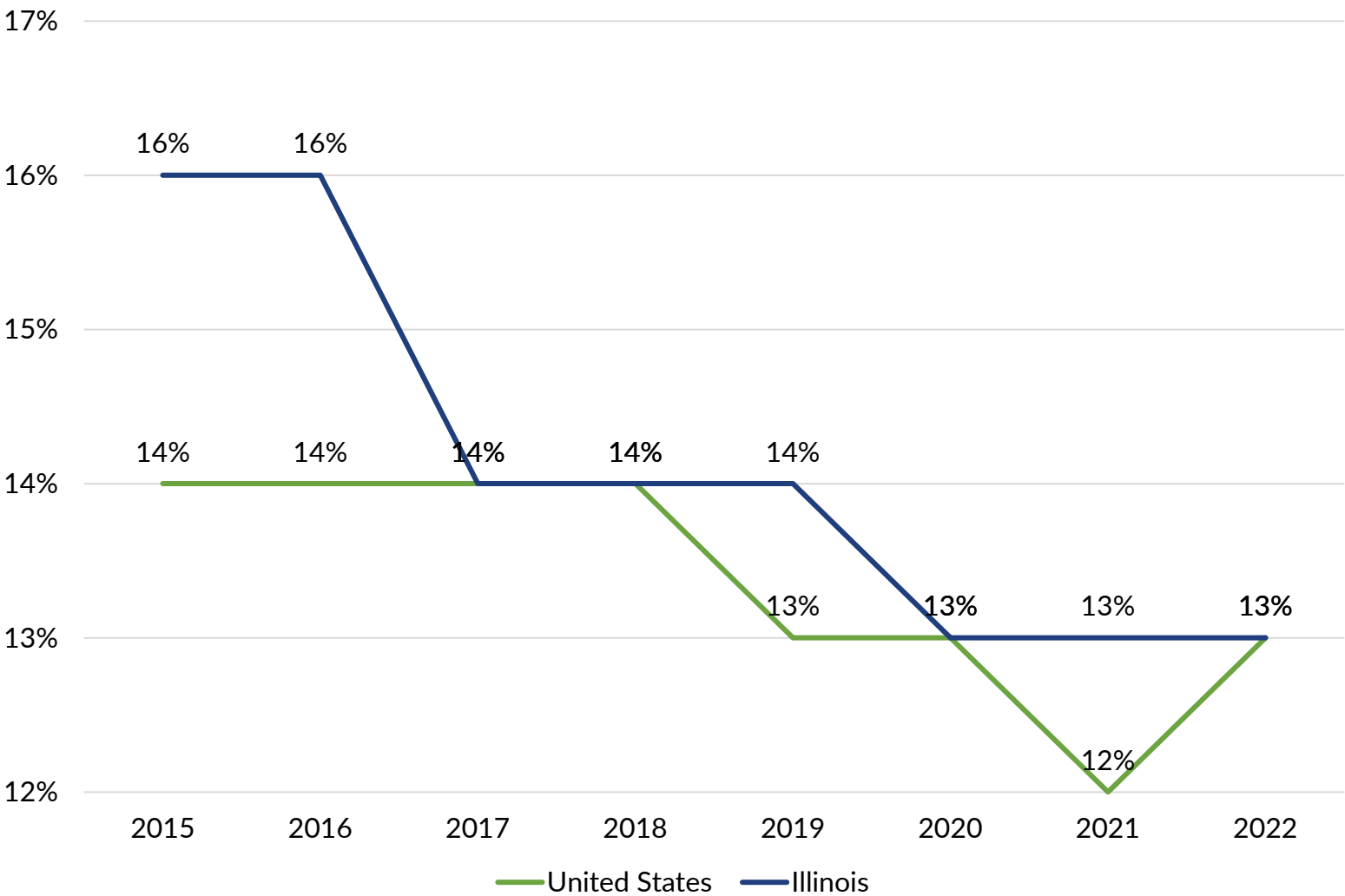
Nursing Home Industry Trends

Declining Occupancy & Medicare Utilization

Nursing Home Occupancy



Nursing Home Medicare %



Nursing Home Industry Trends

“What If” - Continued Decline in SNF Utilization

Estimation of Qualified Nursing Home Population within the MA based on MA Utilization		
	What if 2022 Utilization Continues	What if Pre-Covid 2019 Utilization Continues
2026		
Total Age Qualified Population 65+ (A)	20,272	20,272
2026 Utilization Rate	3.55%	3.88%
2026 Calculated Bed Need Based on Utilization (B)	719	786
Less: MA Competitive Beds at 92%	823	823
Bed Need (Excess)	(104)	(37)
What If Utilization Decreases by 25%		
2026		
Population age 65+	20,272	20,272
Utilization at 75% of current	2.66%	2.91%
2026 Calculated Bed Need Based on 75% of Utilization	539	589
Less: MA Competitive Beds at 92%	823	823
Bed Need (Excess)	(284)	(234)
What If Utilization Decreases to 1%		
2026		
Population age 65+	20,272	
Utilization at 1%	1.0%	
2026 Calculated Bed Need Based on 1% Utilization	203	
Less: MA Competitive Beds at 92%	823	
Bed Need (Excess)	(620)	

The “What if 2022 Utilization Continues” estimates a bed excess of 104 beds in 2026. This excess assumes the current utilization continues as 65+ population grows.

The “What If Utilization Decreases by 25%” is a calculation to estimate the impact of seniors choosing to utilize home- and community-based services rather than move into a nursing home. Based on industry literature, a 25% decrease in the nursing home utilization is used and results in a bed excess of 284-234 beds.

The “What If Utilization Decreases to 1.0%” is based on the utilization experienced in Oregon and Arizona. This calculation results in a bed excess of 620 beds.

Nursing Home Industry Trends

“What If” - Continued Decline in SNF Utilization

Estimation of NH Bed Need

	Internal (Based on A.V. Powell)	External	Total
Nursing Home Beds Needed 2022-2032	31-32	34-39	66-69
Current # of Nursing Home Beds			96
Potential Reduction of Nursing Home Beds			27-30

Sensitivity Analysis			
	Internal*	External	Total
Nursing Home Beds Needed 2022-2032	22-31	34-39	56-69
Current # of Nursing Home Beds			96
Potential Reduction of Nursing Home Beds			27-40

*Assumes 3.5% annual decrease in NH utilization

Estimation of the NH bed need through the next ten years:

- Estimates need of 66-69 NH beds, indicating a potential to reduce 27-30 NH beds.
- The internal estimation is based on A.V. Powell estimates. A.V. Powell does not assume NH bed utilization declines at all over the next 20 years.

A sensitivity analysis was performed assuming:

- Internal NH bed utilization decreases 3.5% annually
- Estimates need of 56-69 NH beds, indicating a potential to reduce 27-40 NH beds.

Nursing Home Industry Trends

CMS' Payment Shift to HCBS Funding

Figure IV.1. Medicaid HCBS and institutional LTSS expenditures as a percentage of total Medicaid LTSS expenditures, FY 1988 to 2019

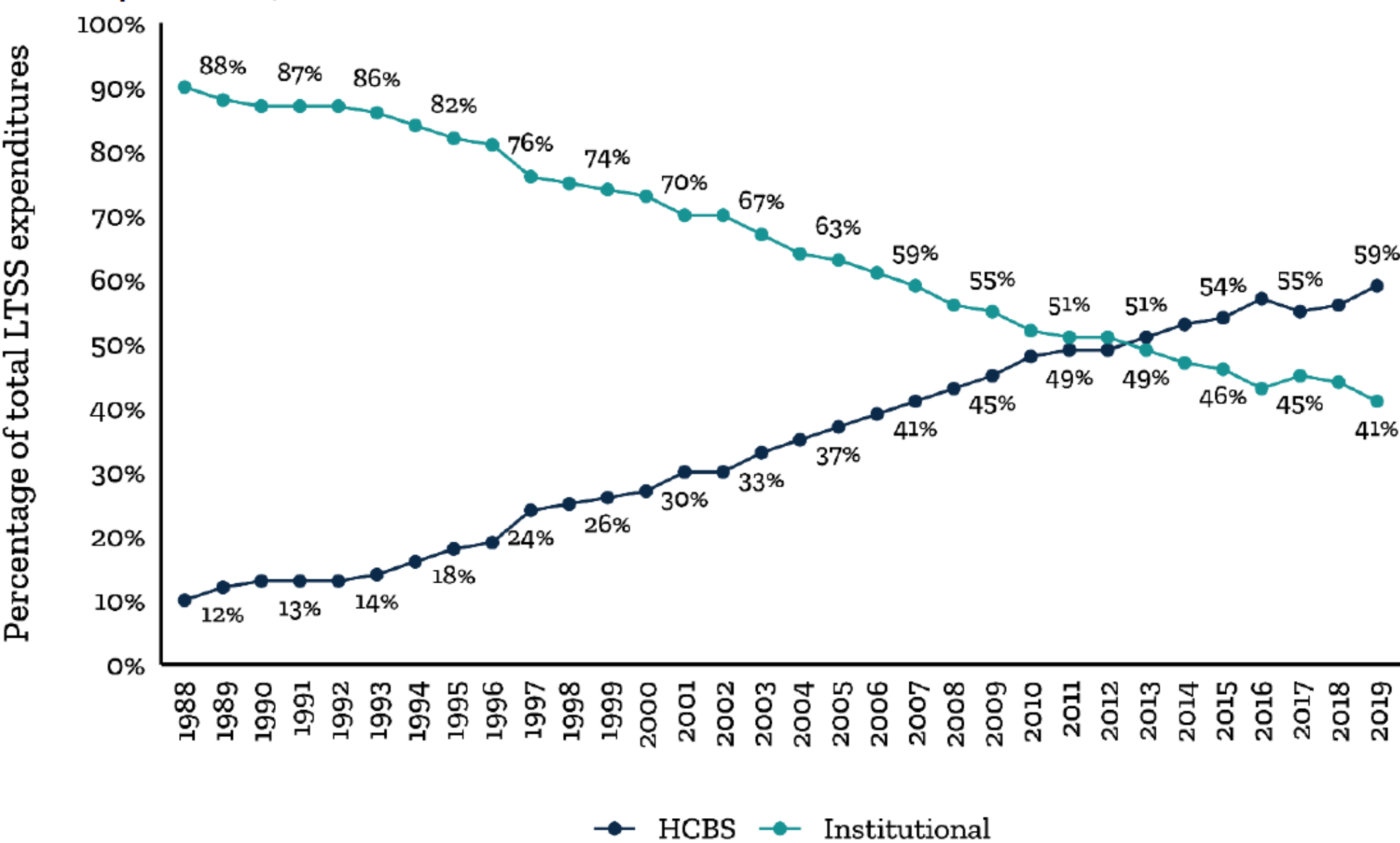
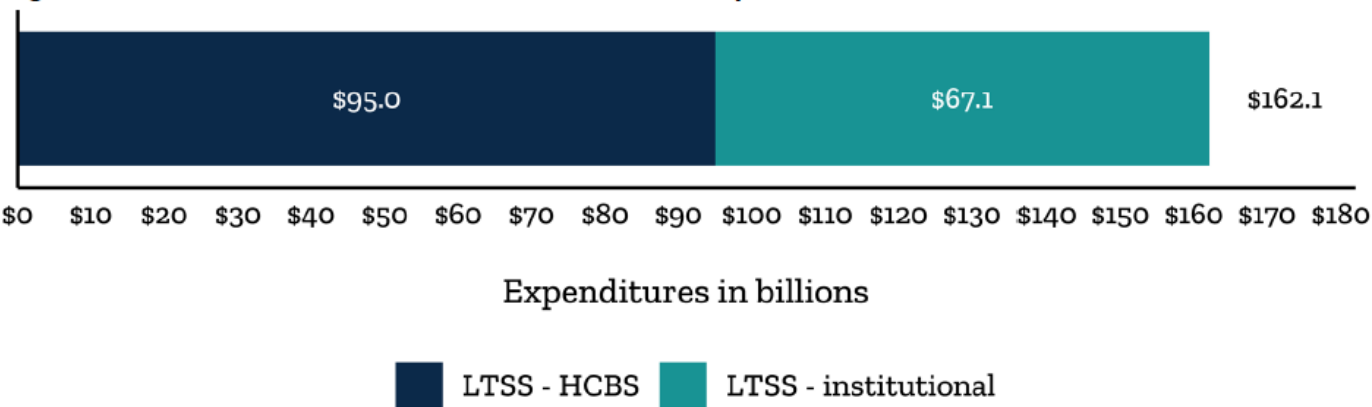


Figure II.1. Medicaid HCBS and institutional LTSS expenditures, in billions, FY 2019



Source: Medicaid Long-Term Services and Supports Annual Expenditures Report 2019

Nursing Home Industry Trends

Shift to Home & Community Based Services

The pandemic has changed the revenue drivers for skilled nursing providers.

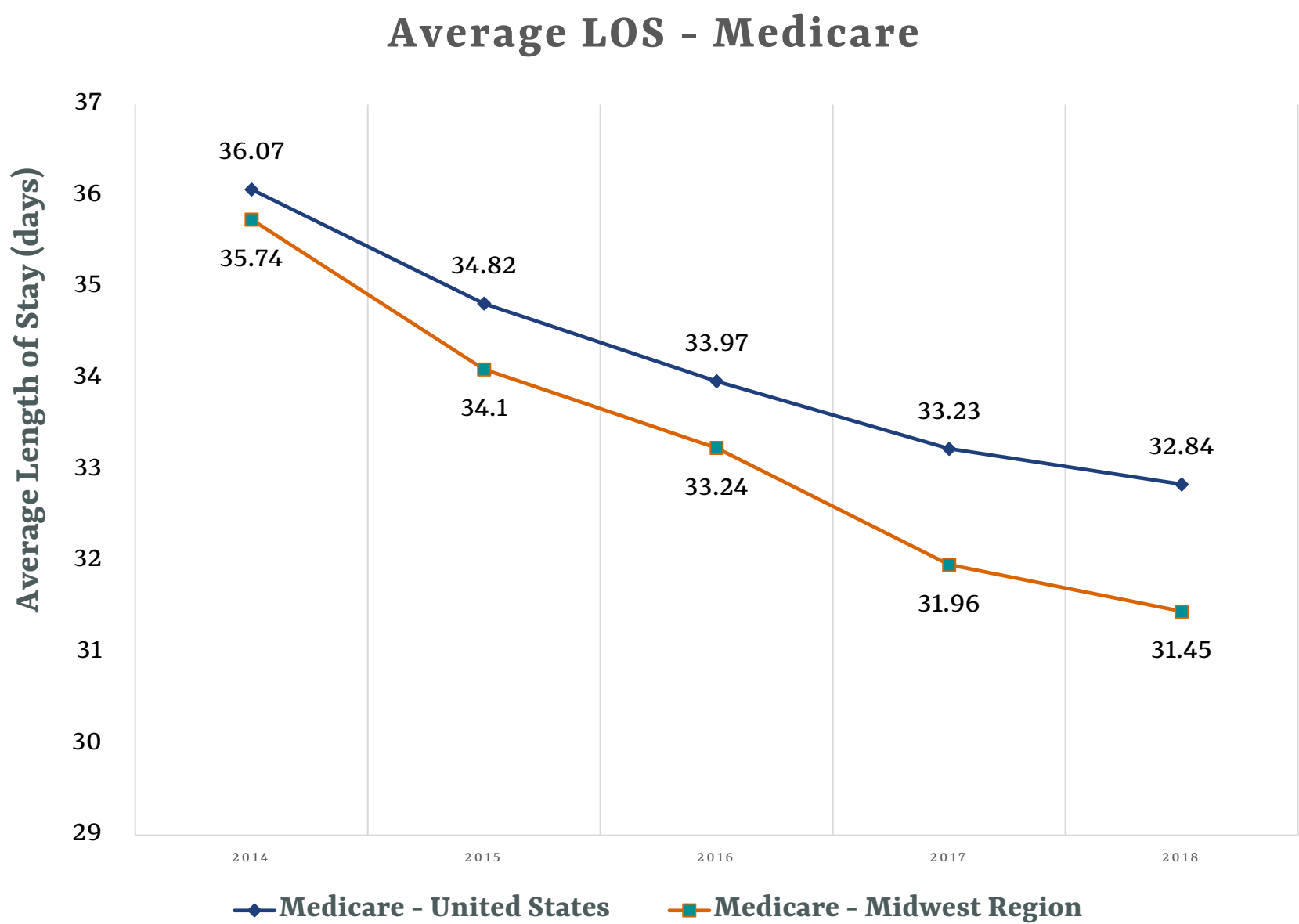
Post-acute care has been the lifeblood of NH financial viability, and it has been hit hard — first, by a **sharp decline in elective surgeries** and overall declines in utilization across many types of care, as well as a strong **preference for home-based rehabilitation**.

	2019 average	October 2020
% of patients discharged to SNF	19%	14%
SNF use	324 admissions per 100,000 insured members	167 admissions per 100,000 insured members
Share of post-acute spending	39%	31%

Rachel M. Werner and Eric Bressman, "Trends in Post-Acute Care Utilization During the COVID-19 Pandemic," Journal of Post-Acute and Long-Term Care Medicine 22, no. 12 (December 2021): 2496-2499.

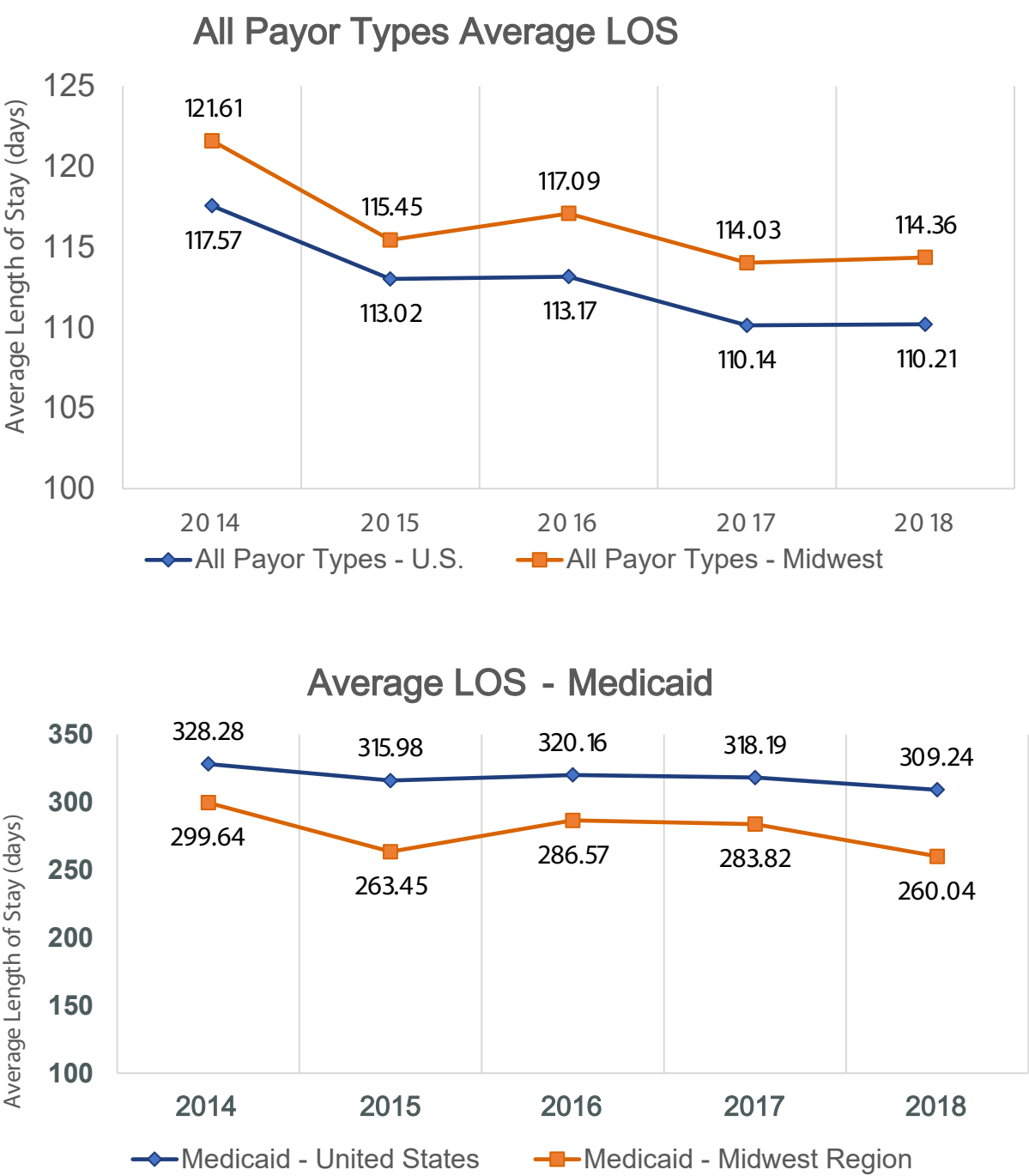
Nursing Home Industry Trends

Decreasing Length of Stay in Nursing Home Short Term Rehab



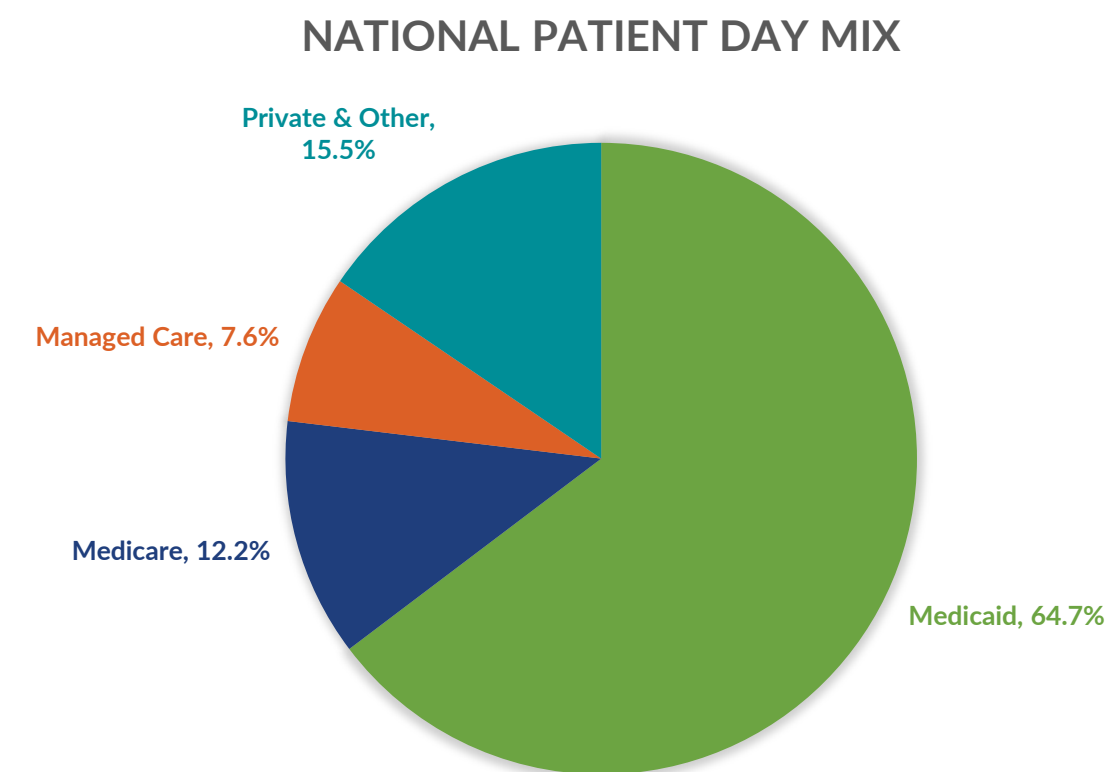
Source: Marcum: A Five Year Nursing Home Statistical Analysis (2014-2018)

Decreasing Length of Stay in Long Term Care



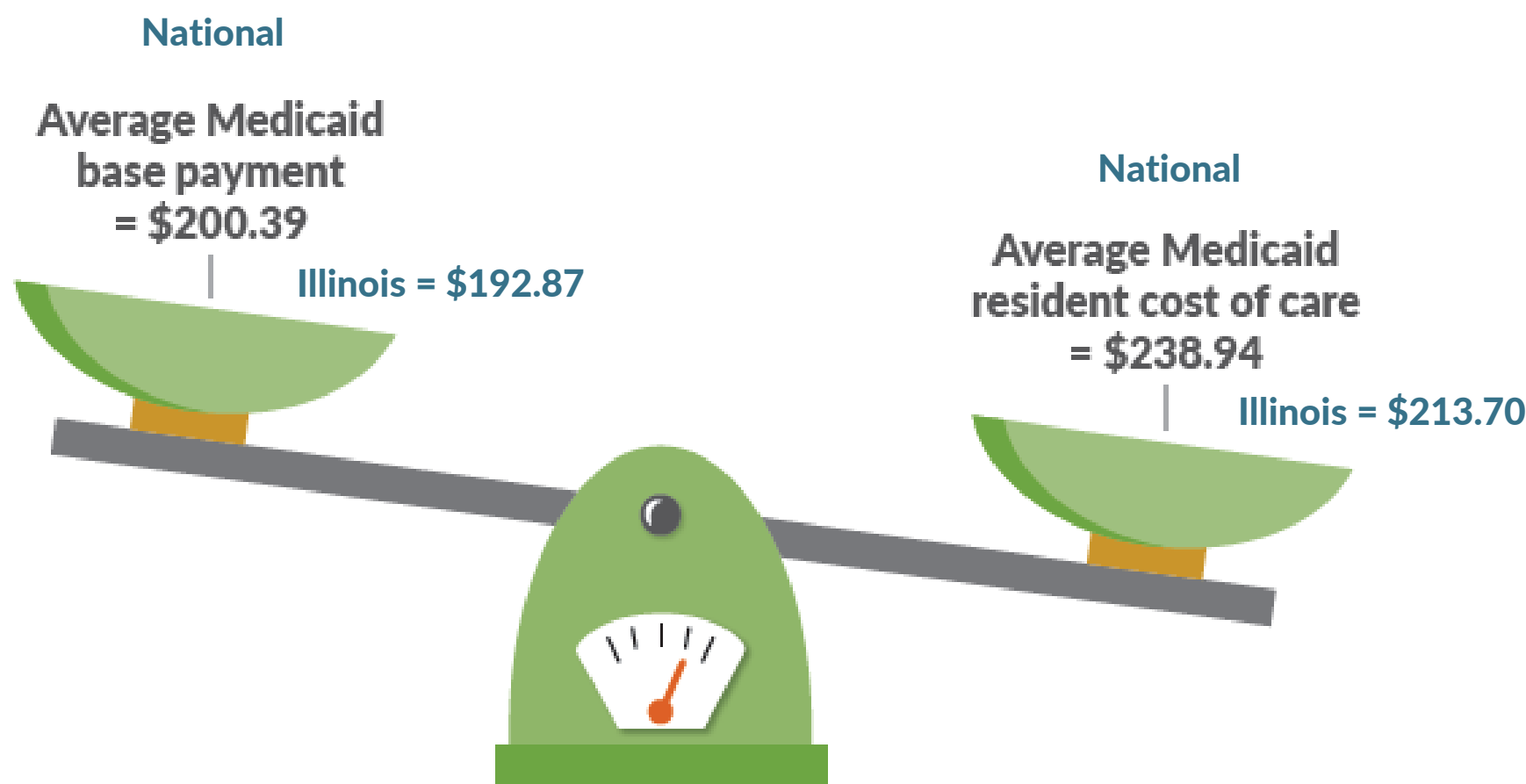
Nursing Home Industry Trends

Medicaid is Largest NH Payor Source



Source: Skilled Nursing Monthly Report, data through November 2022, National Investment Center for Seniors Housing & Care (NIC)

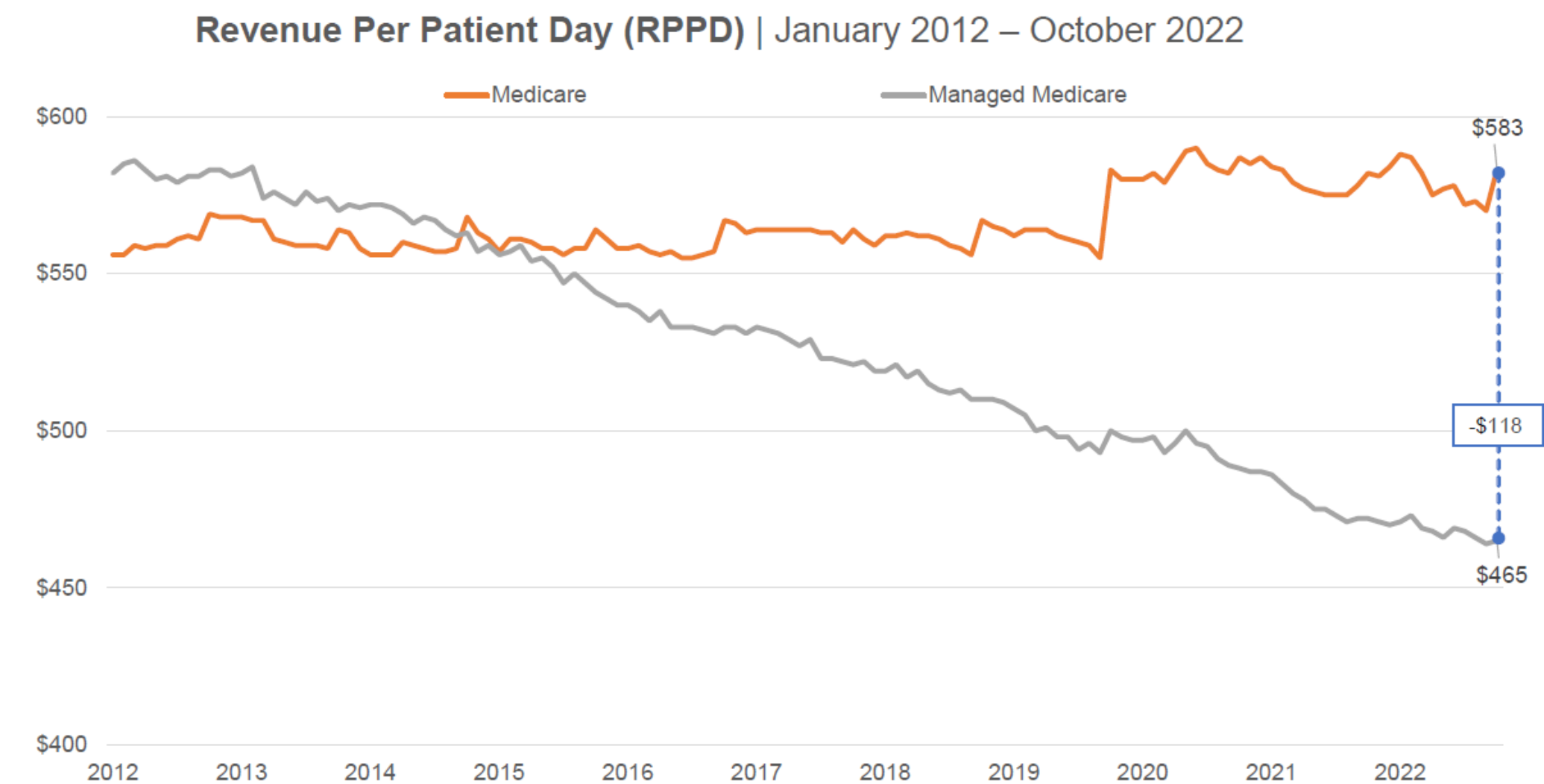
Medicaid Payments Do Not Cover Cost of Care



Source: MACPAC, January 2023. Data is based on 2019 costs and payments.

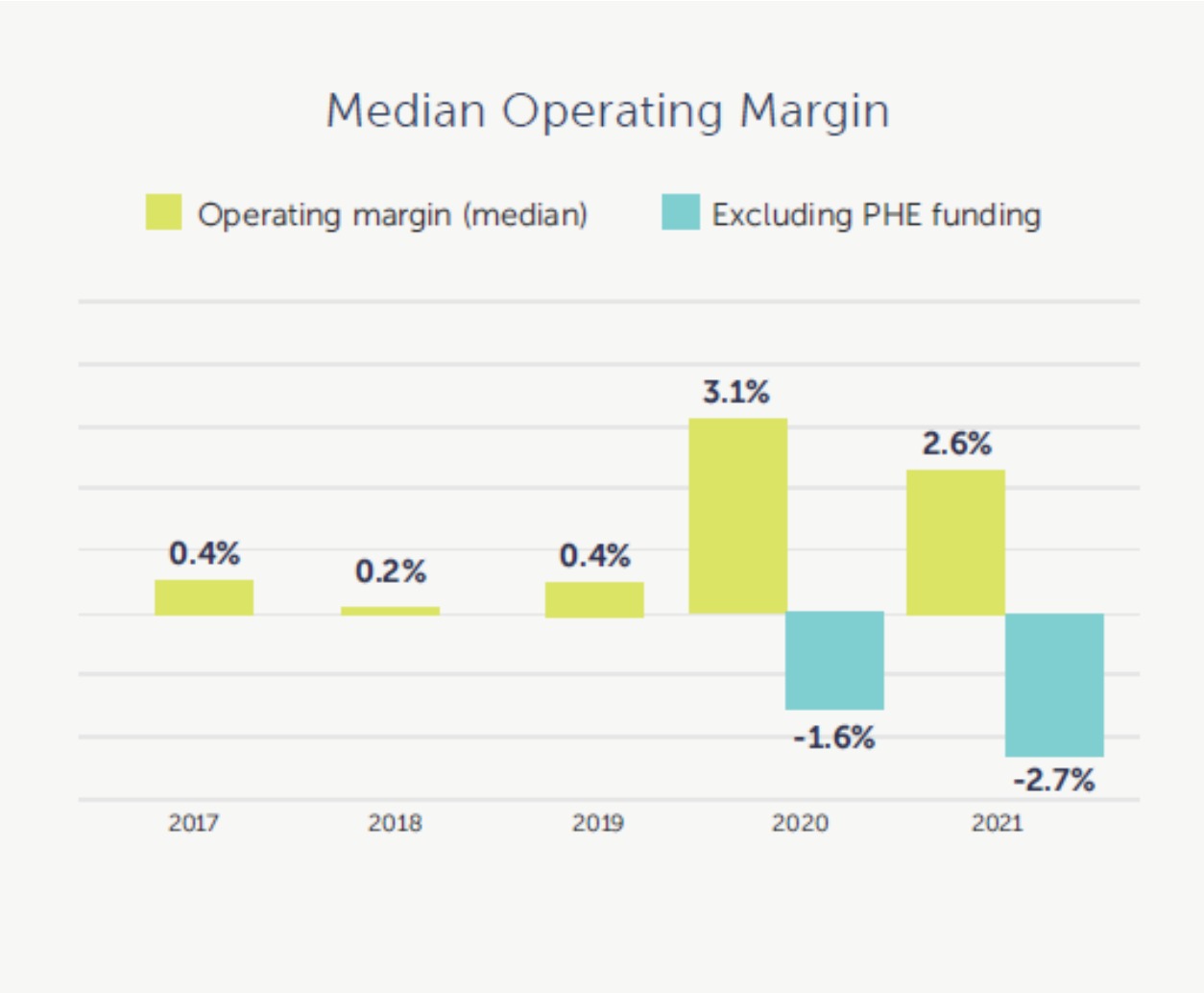
Nursing Home Industry Trends

Medicare and Managed Differential Continues to Widen



Source: NIC MAP® Data, powered by NIC MAP Vision

Declining Nursing Home Operating Margins



Source: CLA 37th SNF Cost Comparison and Industry Trends Report

A hand holds a clear crystal ball in the foreground. The crystal ball acts as a lens, reflecting the background scene. The reflection shows a calm body of water, likely a pond, with a line of green trees and foliage on the far bank. The sky above the trees is filled with soft, white clouds. The background of the entire image is a blurred version of this same scene, creating a sense of depth and focus on the crystal ball's reflection.

Where do we go from here?

Critical Priorities for a Sustainable Future

#1

Asset Repositioning
& Accretive Growth



#2

Technology to
Enhance the
Resident &
Associate
Experience



#3

Staffing
Challenges
Recruitment &
Retention



#4

Consumer Focused
Boomer Preferences



#5

Financial
Sustainability



Asset Repositioning & Accretive Growth

Rethinking the Senior Living Continuum

Right Sizing - General Industry Benchmarks

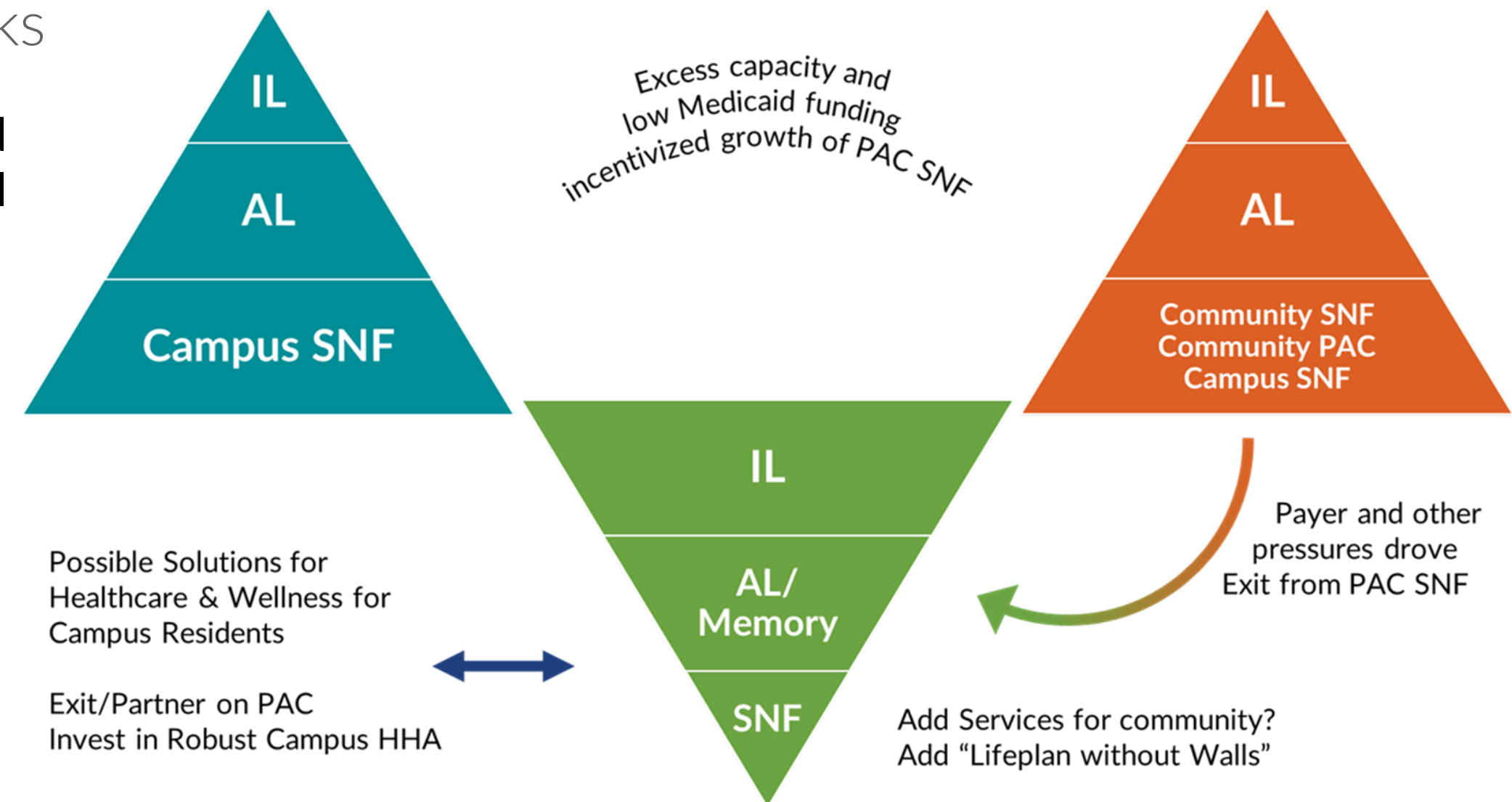
The following ratios are “rules of thumb” that should be analyzed in the context of the market and financial analyses.

Benchmark Ratio 1: $IL/(AL+MC)$

For every 1 AL and MC, there should be a minimum of 3 IL units.

Benchmark Ratio 2: $(IL+AL+MC)/NH$

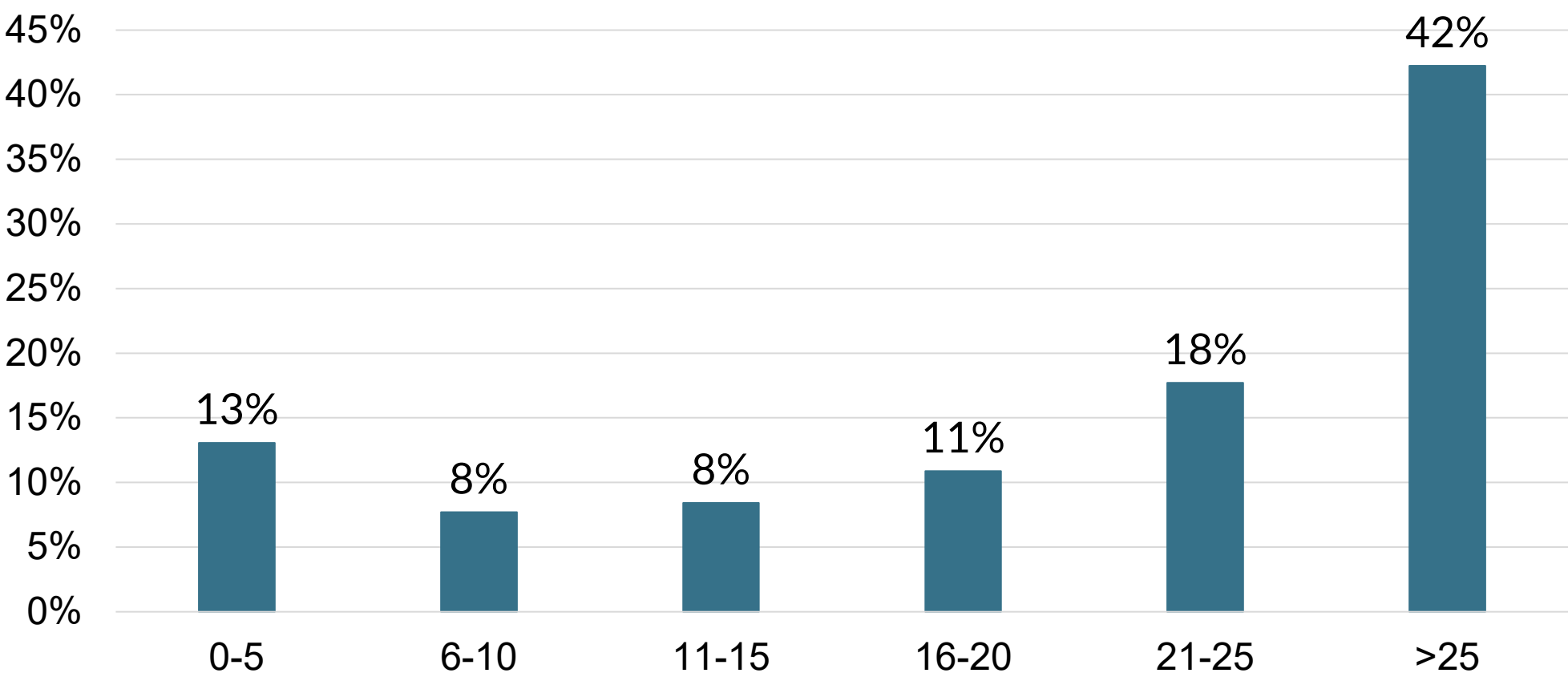
For every 1 NH bed, there should be a minimum of 8 “senior housing” units (IL, AL, or MC).



Asset Repositioning & Accretive Growth

Age of Properties and Required Capital Investment

Percentage of Senior Housing Properties by Age Group



Much of the existing supply is outdated:
60% of Senior Housing is more than 20 years old



Source: NIC Data; Primary and Secondary Markets 4Q2022

Asset Repositioning & Accretive Growth

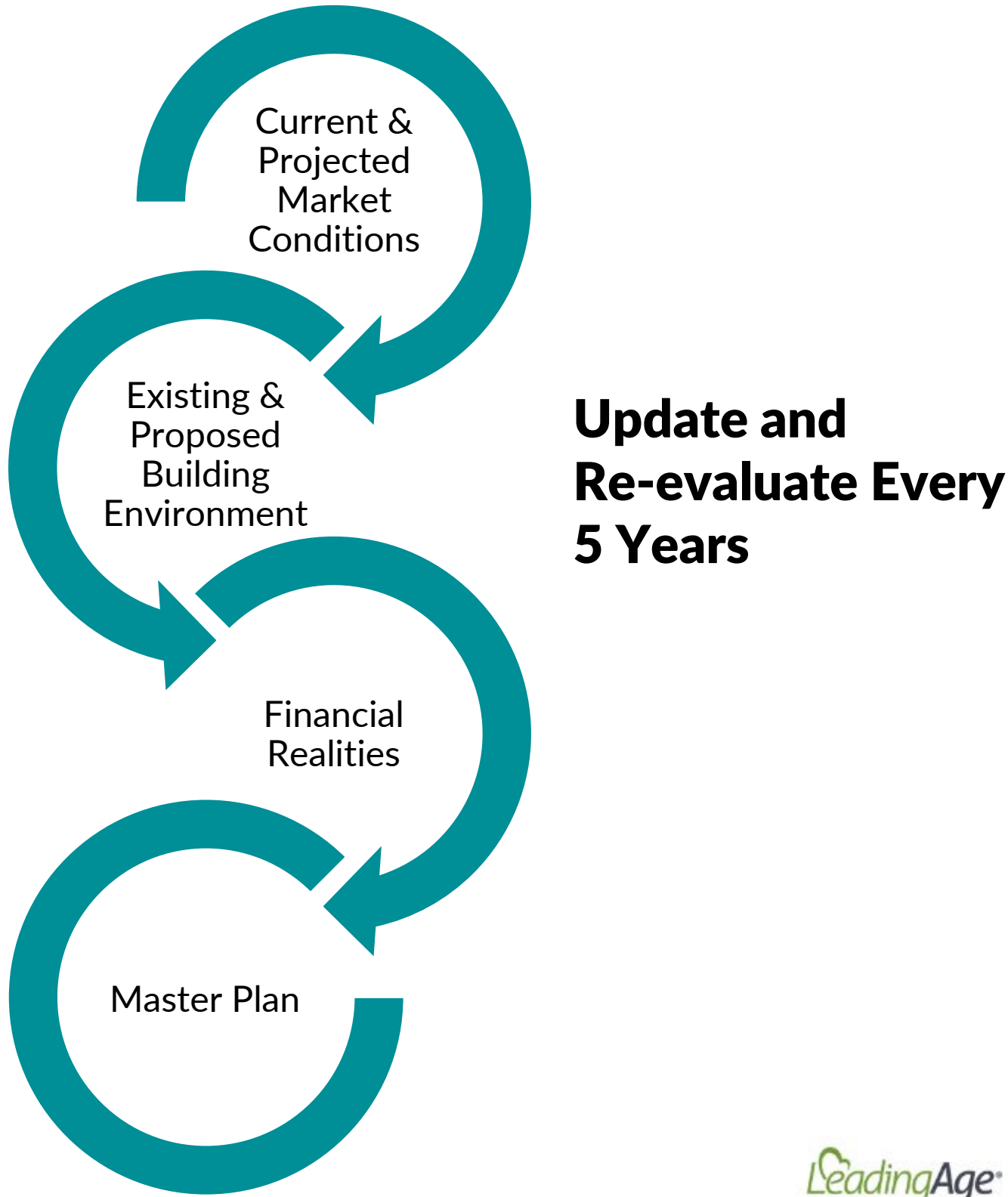
Consistent Mistakes Made By Providers

- Ignore reinvestment in current assets
- Investments made on non-revenue producing spaces
- Reduction of SNF beds without offsetting lost revenue
- Must maintain the RIGHT payor mix of SNF while reducing
- Increase in debt making it impossible to reinvest later
- Waiting too long and market opportunity is lost



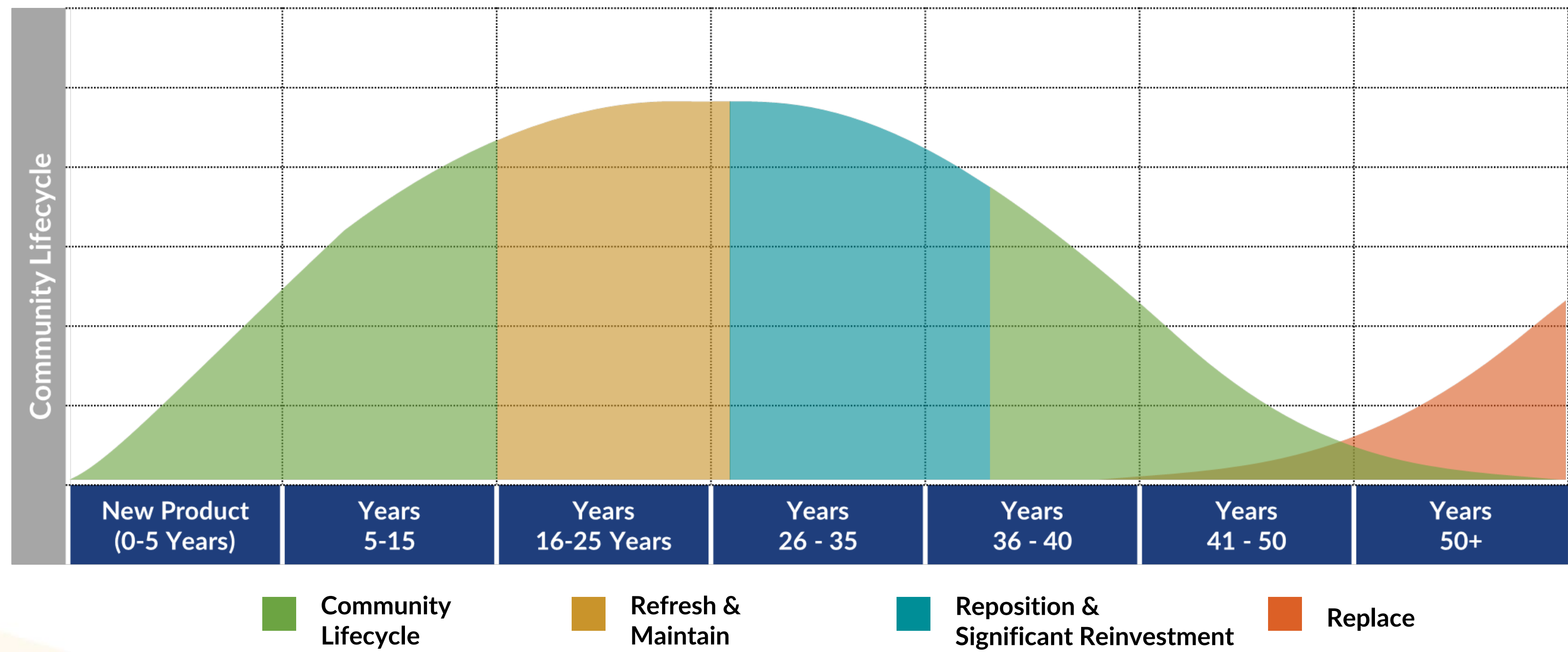
Asset Repositioning & Long-Range Master Planning

What is it?



Asset Repositioning & Long-Range Master Planning

Building Lifecycle



Asset Repositioning & Master Planning

STEP 1 — **Project Strategic Planning:** Inform, Educate & Visioning

- **Market Feasibility Analysis:**
What senior living product and services can the market support?
- **Facility Condition Assessment:**
What is the current condition of the buildings? What are the critical infrastructure elements and building systems that should be considered and what additional capital needs may be important?
- **Financial Modeling:**
What can be supported financially? What will meet the needs of our customers today and into the future? Is our vision consistent with the organizations mission and strategic priorities?
- **Project Visioning, Prioritization & Programming:**
Review and discussion of information collected. Evaluate information in the context of industry trends and consumer expectations. Facilitate brainstorming and visioning a reimagined senior living experience. Clearly defined programming to guide the master planning process.

STEP 2 — **Project Master Planning:** Ideation, Conceptual Planning, Feasibility

- **Engage with AE and CM Firm:**
Bring the AE and CM firms up to speed on current work. Clearly define the proposed repositioning options, building conditions, and financial feasibility that will guide the master planning process.
- **Master Planning Process:**
Design charrette and development of master plan for the campus including conceptual design estimates and schedule.
- **Financial Feasibility:**
Prepare a proforma specific to the proposed capital improvements, repositioning projects or expansion opportunities.
- **Finalize Business Plan & Present to the Board**



CLARK-LINDSEY VILLAGE

CASE STUDY

Case Study



ClarkLindsey

Existing Campus

Independent Living	131 +/- Entry Fee Apts.
Independent Living	16 Villa Units (4) Quads
Long Term Care/Skilled	93 beds
Long Term Care & MC	24 (2) Green Houses

Case Study

Organizational Strengths

- Very engaged Board of Directors
- Extremely talented leadership team
- Provider of Choice in the market
- Employer of Choice in the market
- Well respected organization with strong community support
- **Proactive approach** to market position – trying to position themselves as an attractive product for the consumer of the future.
- Very integrated in the broader community with wellness center open to the public and extended relationship with the University of Illinois

ClarkLindsey



Lifelong Learning

Case Study

Key Challenges

- Aging product – The Village Apartments
- Too many SNF beds
- Institutional healthcare model
- Staffing challenges
- No assisted living and comprehensive memory care
- Needed more IL at different price points
- Needed larger community space



Case Study

Opportunities & Strategies

- Addition of assisted living and memory support services
- Market position of existing product vs. new product. Appropriately pricing product and services across the economic continuum
- Captured market opportunity ahead of competitors
- Right size SNF by offering preferred product AL/MC green house with a focus on serving life care residents only, limited external admissions
- Lessen exposure to staffing challenges and regulations.



Summary of New Unit Configurations by Project Phase					
Level of Care	Existing	Phase 1	Phase 2	Phase 3	Final Unit Mix
Independent Living Apt.	131	-	-	45	176
Independent Living Villas	16	8	-	-	24
Assisted Living	-	-	38	-	38
Memory Care	-	-	26	-	26
Green House Homes (SNF)	12	-	12	-	24
Green House Homes (MC)	12	-	(12)	-	0
Long Term Care and STR Beds	93	-	(72)	-	21
TOTAL	264	8	(8)	45	309

Unit Benchmarks		
Benchmark Ratio 1: IL/(AL+MC)	12.25	3.1
Benchmark Target	3+	3+
Achieving Benchmark?	YES	YES
Benchmark Ratio 2: (IL+AL+MC)/NH	1.5	5.9
Benchmark Target	8+	8+
Achieving Benchmark?	NO	NO

Q & A



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