Back from the Brink

Four owners share the steps taken to breathe the new life into struggling properties.

By Jeff Shaw

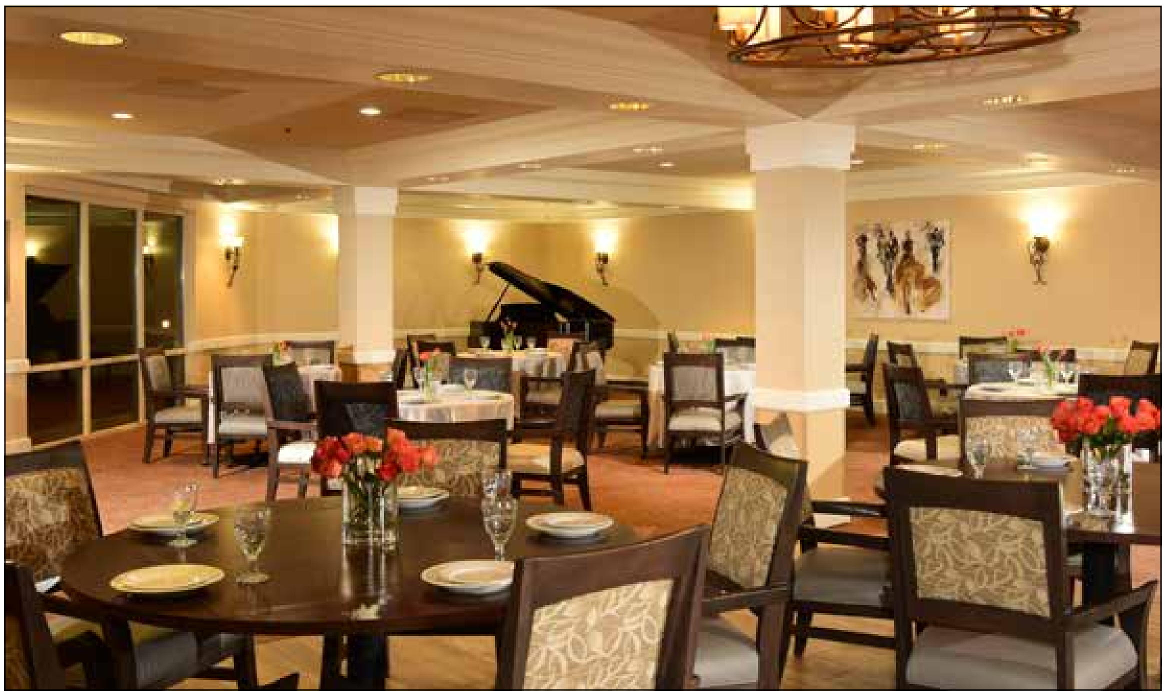
In recent years, a development explosion in seniors housing has led to a lot of shiny new pennies on the block. However, that wave of new product comes with a downside. New construction has generally outpaced absorption, leading to depressed occupancy rates.

For example, in late 2018 absorption for assisted living was strong at 3.5 percent, according to according to data from the National Investment Center for Seniors Housing & Care (NIC). But a blistering rate of annual inventory growth (4.9 percent) compared with the ratio of new construction to existing inventory (7.7 percent) meant occupancy still dropped to 85.3 percent and has stayed close to there.

Against this backdrop, many investors and developers have turned their eyes to a different type of opportunity: Acquiring and redeveloping old, antiquated properties. Also known as value-add acquisitions, this strategy improves an existing seniors housing community without adding any new units to a market's inventory.

Seniors Housing Business sought out examples where this strategy successfully turned around the performance of flagging seniors housing communities.

In addition to adding a full continuum of care, Bridge Investment Group updated the inteiors of Thunderbird Senior Living in Glendale, Arizona. The dining room is seen before renovations, above, and after renovations, below.



Case Study 1: Updating a huge classic

Thunderbird Senior Living had been one of the jewels of the early seniors housing days. Built in 1986 before the assisted living development boom of the 1990s, the property offered 345 units of independent living in the Phoenix suburb of Glendale.

Nearly 30 years later, though, the massive community had fallen on hard times. Despite major renovations in 2007, occupancy was only 71 percent when Bridge Investment Group bought the property in late 2014 for $26.8 million — "well below replacement cost," according to Bridge CEO Robb Chapin.

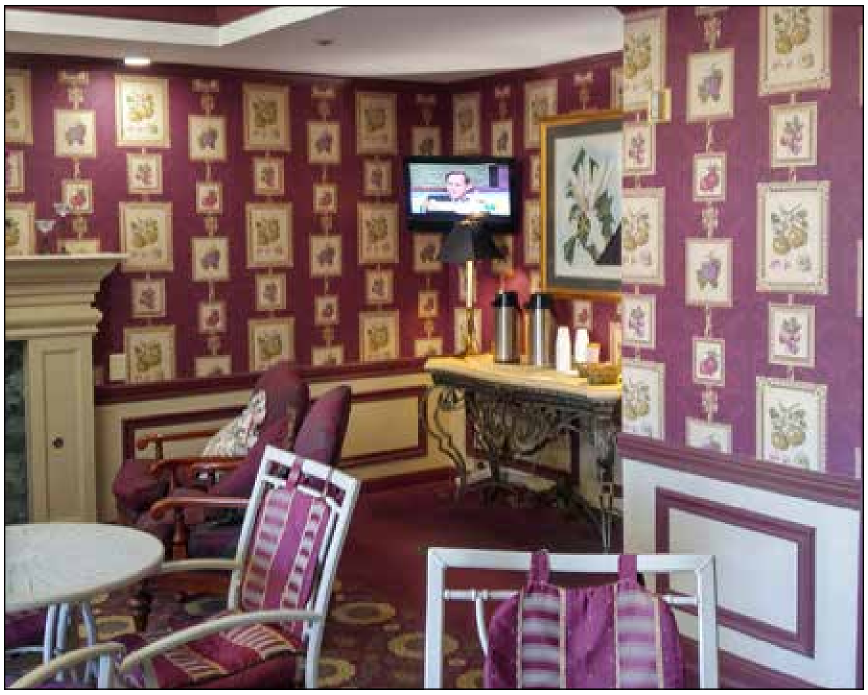
"As a value-add investor, we really saw the opportunity to do a conversion to this large property," says Chapin. "It has incredibly great bones. It was built like a fallout shelter."

Bridge believed it had discovered the core reason for low occupancy. Residents were turning over incredibly fast because they needed more services than the property could provide operating exclusively as independent-living community. With so many units, it was nearly impossible to fill them as fast as they were emptied.

"There was an issue with residents leaving out the back door, mostly because of acuity and care issues," says Chapin. "We felt if we could bring the building up to a higher acuity by adding assisted living and memory care, it would make the product a lot more relevant and allow residents to age in place over a longer period of time."

Bridge implemented a $7 million capital improvement plan. In addition to renovating the common areas and adding new dining and social spaces, Bridge put a particular focus on changing the acuity balance. The new owner converted 64 independent living apartments into 32 assisted living and 24 memory care units. The project took approximately 18 months to complete.

In addition, Bridge brought in Senior Lifestyle Corp., a Chicago-based operator of nearly 20,000 units of seniors housing through-



Located in Murfreesboro, Tennessee, The Rutherford suffered from very outdated decor when Venue Capital acquired it. A sitting room is shown before, above, and after renovations.

out the country, to manage the community.

"We had a small, mom-and-pop operator that just wasn't capable of maximizing the operations of the building," says Chapin. "When we brought Senior Lifestyle in, it was a game changer, along with all the capital improvements we made."

The companies established Thunderbird as a community for middle-class seniors, with independent living rents of approximately $2,500 per month.

"This building had a great location and great reputation over the years, but it had a lot of obsolescence from an operating standpoint," says Chapin. "Now we have a solid middle-income product that caters to a broad market. It's highly amenitized, with a lot of different ways people can enjoy a good quality of life through socialization. It's a very vibrant community now."

The changes shine through in the numbers. Occupancy has stabilized around 93 percent, and net operating income (NOI) has grown by 170 percent in the years since Bridge assumed ownership. Chapin believes there are opportunities to grow that NOI by an additional 60 percent.

"I get in there probably twice a year, and we have many residents that come up to me to share how great their experience is," says Chapin. "It's a combination of the team, the quality of residents and the price point. They all combine to make a high-quality living experience."

Case Study 2: Mom-and-pop problems

When Auctus Capital Partners looked at a potential acquisition in the Agoura Hills suburb of Los Angeles, the company saw a great physical structure with appropriate amenities and unit sizes but awful décor and marketing, according to Chris Rosenstock, the investment firm's founder.

The original developer of the property, which offered 120 assisted living and 36 memory care units, also operated the community, its sole senior living asset.

"His passion was not operations," says Rosenstock. "We're typically evaluating these turnarounds by the physical look and appeal of the building, as well as rates and expenses. This property had opportunities in both areas."

Built in 2001, the community was starting to show its age and was in need of some paint and landscaping improvements. The interior, though, was where the operator was particularly missing the mark.

Murals throughout the hallways were "childish," according to Rosenstock, and a "dusty, fake plant garden" was a visitor's first impression. The furniture was outdated, and the executive director's personal vacation photos lined the walls.

Occupancy had dipped to 80 percent.

Sensing an opportunity, Auctus acquired the community in February 2013 for $30 million and immediately set about rebranding and renovating the property, renaming it Meadowbrook Senior Living. Integral Senior Living was brought in to right the ship on operations.

"We put together a capital budget that would pave and remove the plant garden, putting in nice marble flooring," says Rosenstock. "We engaged our design team to put together a furniture package to look like a nice hotel. We budgeted for a new artwork package, and then painted, lit some dark hallways and covered up an old fireplace with a modern-looking design."

Unit interiors were upgraded with new flooring, countertops and appliances as well.

On the operations side, Auctus was able to start charging higher rents as the condition of the property improved. For example, the company bumped studio apartment rates from $3,200 a month to around $4,000 a month as the units turned over.

While income increased, Auctus was also able to lower expenses. The company brought down food costs per resident per day from $10 to $8 without reducing food options. The company leveraged its ability to enter into more favorable contracts with food vendors and focused on reducing waste. Energy-efficient lighting reduced utility expenses.

The turnaround effort cost about $1.5 million, according to Rosenstock, as most of the changes were superficial or to the operational systems. With occupancy rising to 92 percent and just 20 months after purchasing the property, Auctus sold it for $60 million, approximately double what it paid.

Case Study 3: Mending marketing mistakes

From the outside looking in, there was no reason Sunnington Assisted Living and Sunnington Senior Care should have been failing.

The 68-unit assisted living and 26-unit memory care communities were located across the street from each other in the Nashville suburb of Murfreesboro, Tennessee. The size, location and amenities seemed spot on, and quality of care didn't seem to be a problem. Yet the occupancy was stuck between 70 percent and 75 percent.

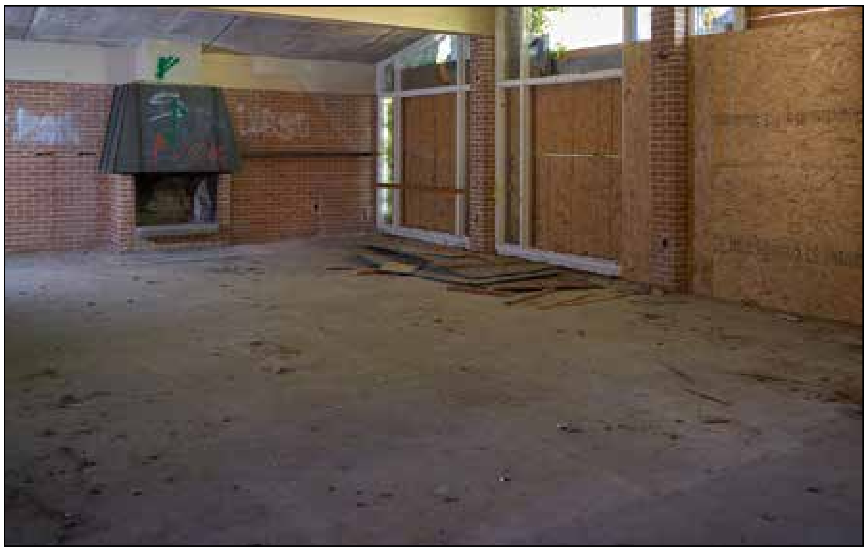
New York City-based Venue Capital and its operational partner, Inspirit Senior Living, realized that improving the performance would be a slow process, but that's the type of value-add opportunity each targets.

"We saw that these were excellent and unique properties, well built, nice environments," says Michael Goldberg, founder and CEO of Venue Capital. "We purchased these from a local doctor. We felt like care was being provided, but it wasn't a sophisticated operator."

The joint venture acquired the property and immediately set about rebranding it as The Rutherford (named for the county in which the property is located) and installing a more professional operation.

The new owners streamlined the marketing and sales process, updated the décor and converted a section of the building to a therapy gym as part of a $600,000 renovation. The therapy gym helped boost occupancy because it could accommodate residents who needed rehab after a hospital stay. The previous operator simply couldn't help at that level of need.

"They just did not have the architecture internally to support any acuity," says David McHarg,



Fairhaven in Denton, Texas, has been vacant since 2007 and became a hotbed for vagrants and drug use, despite being an early project by one of the state's most famous architects. A rendering of planned renovations to the historic community's great room are shown at right, as well as the recent condition of the dilapidated property at left.

president and CEO of Inspirit. "We work on contract with third-party, best-in-class rehab companies. We needed to add value for this place to be the very best choice for the consumer."

Inspirit also discovered that the two properties operated completely independent of one another, even though they were directly across the street from each other. The two separate executive directors and dining service coordinators were combined into single roles, for example.

"The assisted living community wasn't even referring its residents over to the memory care community," says McHarg. "They didn't operate cohesively."

The installation of the larger operator created economies of scale that reduced expenses. Being larger, Inspirit is able to demand better pricing on expenses such as insurance. The new operator was also able to establish stronger working relationships with area hospitals and social workers.

"Family members are going to want to place their parents in places they trust, that their doctors and social workers are recommending," says Goldberg. "It doesn't have to be a big, shiny, brand new building. If a place has a good reputation for providing good care, that's going to carry the day."

The new owners also put a stronger emphasis on targeting the middle market, both through rents and by converting several units to companion rooms for those that can't afford a private suite.

"We're not necessarily eager to be the most expensive operator in town," says McHarg. "We have some pricing advantage and we want to use that."

After all these changes, the building shot up to near full occupancy. Goldberg estimates that Venue has increased the value of the property by about 30 percent, or $5 million to $10 million. The company also plans to continue owning the property for the long term.

"We have a supportive network of investors, primarily high-net-worth individuals and family offices," says Goldberg. "They're comfortable investing opportunistically and have a long-term time horizon."

Case Study 4: Restoring an icon

In the mid-1950s, a little-known architect named O'Neil Ford partnered with a group of women looking to build a better home for their parents in Denton, Texas. Over a 10-year period, through bake sales and donation drives, the project got funded and Fairhaven was built.

Ford would go on to become the most famous architect to ever come from Texas, while Fairhaven would continue to offer assisted living services for over 40 years.

In 2007, after years of declining occupancy and deferred maintenance, Fairhaven was closed and the remaining residents moved to other communities. It remained vacant for over a decade, falling further and further into disrepair. The property soon became a hot spot for vagrants and drugs.

Austin-based developer Investcor came to the rescue in 2019, acquiring the property and planning a $9 million renovation to turn the historic property into a modern assisted living facility.

"We saw an opportunity to do something unique and special," says Justin Hobson, a partner with the company. "We fell in love with the project."

Investcor is partnering with Pi Architects to design the renovations. The developer is also teaming up with a local operator that specializes in smaller seniors housing properties, Newhaven Assisted Living and Memory Care. The operator's CEO is also an equity investor in the project, "so we know we're going to have his full attention to operate this as best he can," says Hobson. "He has skin in the game."

The 30,000-square-foot community sits on a three-acre site and includes 47 assisted living apartments. The renovation plan calls for updating and expanding the existing living spaces for more common and activity rooms. Refurbished original, wood-framed, floor-to-ceiling glass windows form a dramatic living room. An original copper-hood fireplace grounds the main great room as the central focal point for residents to gather.

"This isn't a historic preservation, where you bring it back exactly as it was," says Nick Bruhn, studio director for Pi Architects. "This is a restoration, making new life out of the building."

The project will be undertaken with a keen eye on preserving the historic nature of the building and the intentions of its original architect.

"Any architectural component important to the building will be preserved," says Hobson. "When you walk in, it will feel like the day it was built, but everything inside will be brand new. It will have the latest, greatest technology: Nurse call stations, Wi-Fi throughout the building, fire systems, brand new plumbing and HVAC where each room can be monitored individually."

Investcor was also able to increase amenity spaces by shrinking the mechanical rooms, which contain much smaller, more efficient systems than when the community was built. The developer is including a beauty salon; multipurpose room for cooking classes, yoga and private parties; two dining areas; sun room; library; and courtyard.

"Another really neat feature that we're preserving is a natural spring that flows from underneath the parking lot," says Hobson. "It created a pond, which we're going to use as a koi pond."

Ford's methods from the 1950s, while inventive, created a major architectural challenge. The entire building, including the roof, is made out of solid concrete.

"How do you retrofit the light fixtures, outlets, plumbing, in a building that doesn't have a single wood stud in it? That's a big challenge," notes Bruhn.

Although the project is quite expensive for such a small property, Investcor was able to make the numbers work thanks to state and federal historical tax credits, as well as a 10-year property tax abatement from the City of Denton. The community is scheduled to reopen in March 2020.

Although it's too early to know if the assisted living facility will be a success, Hobson says he's been overwhelmed by the community support. Former employees and residents have even donated items that they took from the original building when it closed, including a piano that was donated for the community's original grand opening in 1965.

"It's been very inspirational for us," says Hobson. "We have the ability to take something special and unique, with history we can preserve and restore, and bring all that back to the community." ■