

# CCRCs Today

*Media coverage, as we all know, tends to look at the negative and draw conclusions from a small sample size of examples and unrelated data. We recommend you keep this document as a tool for responding to media inquires.*

Past and current media coverage focusing on a small number of not-for-profit (or nonprofit) CCRCs filing for bankruptcy has brought attention to the financial strength of CCRCs and how they are financed and built. The most recent media scrutiny focuses on financing and development of CCRCs. This document provides an explanation of the development process and reiterates the importance of CCRCs in meeting the needs of our growing senior population.

Though there have been a small number of bankruptcy filings, the reality is that CCRCs have fared much better during the economic downturn than most other real estate sectors. CCRCs represent an increasingly important living option for seniors, giving them a substantial measure of security and positive lifestyle as their health and financial circumstances change later in life.

## **Background**

The concept of CCRCs has been in existence for well over 75 years. Early CCRCs were organized by not-for-profit religious or fraternal groups that recognized the need to provide care to their aging members. Today there are almost 1,900 CCRCs providing multi-levels of care on a single campus with over 80% of those being not-for-profit, but today's CCRCs are much more than that. CCRCs provide an active multi-dimensional life style for seniors. There has been significant growth of CCRCs over the last 25 years, but that has not always been the case. Prior to the last 25 years, access to capital and the professional expertise needed to develop a modern CCRC was almost non-existent. Interested professionals, providers and LeadingAge (known as American Association of Homes for the Aging, AAHA, at that time) came together to develop programs to access capital and create the professional development services needed for the successful development of a CCRC. These efforts resulted in the successful development model in use today.

## **CCRCs are Meeting a Great Need**

According to the federal Administration on Aging, the older population – persons 65 years or older – numbered 39.6 million in 2009 (the latest year for which data is available). They represented 12.9% of the U.S. population, about one in every eight Americans. By 2030, there will be about 72.1 million older persons, more than twice their number in 2000. People 65+ represented 12.4% of the population in the year 2000 but are expected to grow to be 19% of the population by 2030.

Many of these older adults will benefit from living in a CCRC. CCRCs are much more than a “downsizing alternative” for older adults who aren’t able or prefer not to maintain their own home. For example, CCRCs offer:

- Social interaction – a home-based support network and social programs for aging in place.
- New lifestyle – freedom, choice and relaxation.
- Activities and programs – preventative, holistic care.
- Wellness programs – including on-site fitness equipment and programs.
- Peace of mind – health and social well-being ensures that the concerns of the older adults and their families are met.
- Dining options – from snack bars to complete meals provide wellness and health benefits.
- Transportation – available for physician visits, religious services, shopping, etc.
- Low-maintenance lifestyle – sheds homeowner concerns about maintaining their own home.
- Security – provides older adults and their families with peace-of-mind that they are in a safe environment and not “home alone”.

Furthermore, CCRCs demonstrate the best of managed care – maximizing use of residents’ own resources and minimizing their reliance on government payments, particularly Medicaid. Financial security is provided by a combination of entrance fees and the risk-sharing nature of the CCRC model.

Consumer awareness and preference continues to grow. A recent study, *National Survey of Members of Residents Living in CCRCs*, published by Mather LifeWays, Brecht Associates and Ziegler, found a very positive opinion of CCRCs. 77% of baby boomers with a family member in a CCRC would be very likely or likely to consider a CCRC and 74% said the family members’ experience in a CCRC influenced their opinion.

Satisfaction data for CCRCs over the years as gathered by Holleran, a senior living research firm, found that consistently since 2003 CCRC residents have rated their overall satisfaction “good” or “excellent” meaning they gave a 4 or 5 on a 5-point scale. 86.6% of residents would recommend a CCRC to family and friends and 84.1% rated their long-term confidence in the CCRC as good or excellent. This data is from the last 24 months and consists of 61,200 surveys in 250 CCRCs across 38 states.

A CCRC also has a lasting impact on its local community. The majority of the 100 largest CCRC sponsors across the country representing approximately 100,000 living units have been in existence for 50 years or more. A CCRC typically provides services for over 50 years during which time the CCRC will serve 17,500-18,000 individual residents. A CCRC is also a major employer, with approximately ½ FTE for each resident with the average CCRC employing over 150 full time equivalents.

A CCRC impacts the local community in many other ways. Most CCRCs have either an informal or formal “Social Accountability Program” where they undertake a wide range of activities that impact their local community. These programs range from assisting local charities, participating in health fairs, fundraising events, organizing events with local schools, providing free or discounted services such as transportation and a wide variety of other programs benefiting the local community. All CCRCs have funds either through dedicated endowments or otherwise to assist those residents who can no longer pay for their care through no fault of their own.

## **Developing a New Campus CCRC**

There is a disciplined process for developing a “green-field” start-up CCRC although each CCRC development has its own unique circumstances that impact development. That being said, most CCRC developments have common factors. Developing a new CCRC campus is a rigorous multi-year process involving many professional services.

Typically a not-for-profit sponsor through its executive team and board of trustees will begin investigating whether a CCRC is feasible in a given market. In virtually all cases the trustees (who are well respected and active professionals and business people in the local community) are intimately involved in the development process. Developing a CCRC is a very sophisticated process. Most CCRC sponsors, whether they developed a new CCRC before or not, use the expertise of outside consultants including national developers. In many cases these consultants and developers help sponsors avoid CCRC developments that are not feasible and prevent the sponsor from losing significant amounts of money.

Sponsors, often in partnership with consultants and national developers, understand the complex requirements necessary for success: market demand analysis, business models, pre-finance dollars, pre-sales commitments, construction guarantees, working capital, corporate liquidity, start-up experience, space planning, market incentives, lender requirements and more. The multi-disciplinary experience a developer gains through working on a variety of projects is brought to each sponsor. This experience and the assistance of consultants and national developers mitigate the risks in developing a CCRC.

The developer’s fees are paid over the life of the development as specified in the development contract and are only due when and if the project meets certain mutually agreed upon benchmarks. A number of factors go into determining a developer’s fee: scope of the project, project budget, complexity of the project and the capabilities of the sponsor. Some sponsors have broader capabilities and experience, others less so. These factors are all considered in determining a developer’s fee, which typically is 3-6 % of the development budget (which does not include other costs of development like financing costs) and is paid over a five- to seven-year timeframe.

One of the first steps is to commission a market demand feasibility study, either through the third party developer or an independent marketing firm. The feasibility study’s authors will spend many months analyzing a wide variety of factors to determine whether a CCRC would be viable. Assuming the study is positive, pre-development steps such as securing property, going through land use and zoning and, most importantly, “pre-sales” begin in order to obtain deposits and commitments to move in from prospective residents.

If the deposits meet certain thresholds agreed upon by sponsors and investors (typically deposits for 65-80% of the apartments which is higher than some state requirements such as CA where the requirement is 50%) then obtaining financing proceeds. For not-for-profits this is typically using the municipal tax-exempt bond market. Many highly credible and sophisticated institutional investors such as mutual funds participate in this market. These investors look extremely closely at the financial and feasibility information, analyze who the sponsor is and their strengths and will invest only if the project withstands

this intense scrutiny. Moreover, those individual investors who participate are experienced investors who understand CCRC financings.

Only after the proposed CCRC has met this intense scrutiny by investors and they have purchased the bonds will construction commence. The construction is coordinated by a general contractor often in conjunction with the third party developer. Trustees and the executive team of the sponsor will be intimately involved during this entire process, overseeing construction costs, working on the inevitable construction issues and working with the developer to bring the development to completion within budget.

This entire process typically takes five years, sometimes longer, from initial feasibility to completion. At several points the proposed CCRC must prove its viability or it won't go forward and all times the sponsor's board of trustees work closely with all involved to assure a successful development. A CCRC which completes construction today has had continual intense scrutiny over the life of the development process by consultants, financial advisors, investment bankers and investors themselves, providing the sponsor, its board of trustees and, more importantly, prospective residents the assurance that the CCRC is and will remain financially strong.

### **Impact of the Recession**

Like all other parts of the business and financial sector, the CCRC sector continues to be impacted by the recession. No one could foresee the depth and breadth of the recession and particularly the impact on the housing market and home values. As reported in *The Wall Street Journal* article, *Little Harm Shown at Dawn of Housing Bust*, January 13, 2012, The Federal Reserve and Chairman Bernanke predicted a "soft landing" for the economy at the end of 2006 and not a housing bust. The Federal Reserve simply underestimated the extent to which the housing boom had strained the financial-services industry.

Seniors moving into CCRCs often need to sell their family home when they make the decision to move into a CCRC. With the housing market crashing and personal wealth decreasing, CCRCs were negatively impacted. CCRC occupancy dropped in virtually all markets across the country from the low 90s% to the mid 80s% and most CCRCs needed to respond and they did. A variety of new marketing efforts were undertaken, and CCRCs looked hard at their operations to make sure they were efficient while still fully serving their residents.

However, CCRCs are not immune to the financial crisis, especially those that opened during the recession. Since the recession began, there have been 12 bankruptcies out of almost 1,900 total CCRCs, less than 1%. Several of these were related directly or indirectly to new developments, others were CCRCs in markets where housing prices crashed and seniors were unable to sell their homes. While these bankruptcies are difficult for all involved, in **ALL** cases the CCRC remained open and the residents were not forced to relocate.

### ***The common denominator for these communities in bankruptcy was the impact of the recession.***

Attention has been drawn to this small number of CCRC bankruptcies in part due to the high profile nature of some of these projects. For example, The Clare in Chicago, IL, whose sponsors have

successfully provided services to seniors and others for many years, had deposits for 65% of its units at financing which rose to 94% prior to opening. For various reasons The Clare lost a substantial number of these deposits on or about the time it opened in December, 2008, in the depths of the recession. Another CCRC had successfully provided services to seniors for over 100 years at its existing campus, but the cost of a failed CCRC project in another state and the downturn in occupancy forced it into bankruptcy. All the others scattered around the country have similar circumstances which contributed to the bankruptcies

It is critical to note that in **ALL** cases except one the residents did not suffer any financial harm or lose any of the services they contracted for. In one case, residents lost rights to entrance fee refunds, but continued to live in the CCRC and receive the services they contracted for. In no other business sector can you say that consumers weren't harmed except in one isolated case.

### **The Future**

The future for CCRCs is strong. Many existing providers are dusting off shelved projects or looking to new opportunities.

The rigorous development process for CCRCs continues. Developers continue to look for ways to be more cost effective during the development process to keep costs manageable. The criteria for feasibility studies remain strong and are reviewed for each project. The pre-sales requirements are also established to minimize risk for financing. The financing criteria are more stringent than in the past, in many cases driven by the investors who are looking to minimize risk. The amounts of working capital reserves set aside to cover initial operation have increased and sponsors are being required to increase their financial participation in projects. All of this makes those CCRCs under development or planned for development in the future financially sound projects.

Loan covenants have also been crafted to provide early warning signals of potential challenges. Violations of these marketing and occupancy minimums **must not** be confused or compared to defaults on payments. Many covenants are in place simply to signal improvements, they are necessary to meet certain objectives and to trigger actions to help get the project back on track. Covenant violations trigger remedial corrective actions and help insure the sponsor gets back on track to be within the forecasted feasibility study projections. The vast majority of the time these covenant violations are corrected and the projects are successfully developed.

The future of CCRCs is bright and growing. Feasibility studies and ongoing financial management continue to be sophisticated and rigorous. The demographics of the growing numbers of seniors demonstrate a strong need for CCRCs and they will continue to be built to meet this demand. As the economy gets back on its feet, the orderly development of CCRCs will proceed and CCRCs will be built and occupied at a rate similar to the years before the recession. All in all, while CCRC development has been impacted by the recession as all of us have, CCRCs are and will continue to be financially strong and provide tremendous benefits to the seniors they serve.

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