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4 Ways Covid-19 is Shaping the Senior Living Industry of the Future —— Part II

By Tim Mullaney

Federal oversight and regulation

For several reasons, the pandemic could be a tipping point toward greater oversight and regulation of the industry from Washington, D.C.

One factor to consider is the persistent and ultimately successful case that the industry has made, largely through the coordinated efforts of its trade associations, to gain access to federal relief funds.

In making the case for federal dollars, the industry has showcased the ways in which communities — particularly on the higher-acuity end of the continuum — are in fact health care settings. While provider CEOs and other industry leaders make the fair point that other private-sector industries such as airlines and hotels have received much larger relief packages, putting the genie back in the bottle might be impossible once lawmakers and regulators come to understand assisted living as part of the health care continuum, especially if more Medicare Advantage or Medicaid dollars begin flowing this way in the coming years.

These points were raised most plainly at NIC by two people with plenty of insight into the way that Washington, D.C. operates: former Avalere CEO Dan Mendelson and ATI Advisory founder and CEO Anne Tumlinson.

"You can't ask for federal dollars in a public health emergency and then say you're not health care," Tumlinson said.

But, she and Mendelson are hardly the only voices to address the potential for more regulations as a result of Covid-19.

Eric Mendelsohn, CEO of National Health Investors (NYSE: NHI), raised the issue at Argentum. He pointed to the effort already being led by Massachusetts Sens. Elizabeth Warren and Ed Markey, who requested copious information from some of the largest senior living providers in the nation, and put out a report attempting to quantify the number of Covid-19 deaths in assisted living.

This request for information read like "an inquisition," Mendelsohn said, warning of potential negative repercussions for the industry if Warren takes on a leadership role in a possible Biden administration.

Also at Argentum, Commonwealth Senior Living President and COO Earl Parker flagged that the influx of government money could ultimately lead to more government oversight.

Federal regulation likely would focus on defining assisted living while leaving states with autonomy on more granular aspects of regulation, Tumlinson believes. And she and Mendelson both strenuously urged industry groups to take a proactive approach now, to play a part in shaping any coming framework.

Exactly which industry group might take the lead on any such effort is an open question, as is the possibility of consolidation among the provider associations. In the last several months, these organizations have worked together more closely than ever before, and their leaders appeared together on a NIC panel last week. But there have been efforts in the past to more formally consolidate, and at least a few voices have questioned whether now is a good time to renew those efforts, in order to speak with a more unified voice on Capitol Hill.

Providers will become more transparent

Providers surely would have to publicly report more data about their operations and resident health outcomes under any future federal regulatory framework, but there are also business imperatives that will almost certainly create a more transparent industry in the future.

Even though providers have not been required to report Covid-19 data to federal authorities, they have had to adhere to a patchwork of state reporting requirements. This has created confusion and concern among consumers because states have presented data differently and sometimes inaccurately, Bickford Senior Living Executive Vice President of Operations Alan Fairbanks said at Argentum.

At the same time, media reports have often lumped private-pay senior living providers together with skilled nursing facilities in dire reports about infection rates and death.

So, Fairbanks and the Bickford team believe that their company must provide clear, robust information about how Covid-19 is affecting each community within their portfolio, as part of an effort to maintain consumer trust and confidence. While many providers have emphasized the need for quick and candid communication with residents, family members and staff about Covid-19 infections rates, Bickford has been posting this information for all to see on the company's website.

Trilogy Health Services also created a public-facing website with information of that providers rarely disclose — not only flagging the number of presumed or confirmed Covid-19 cases, but the number of total active employees and total in-house residents in each community on a given day, cumulative number of Covid-19 recoveries among team members and employees, and employee and resident deaths.

"It was a little bit risky to go that route, but it actually gained us a lot of trust from our communities and families," Trilogy CEO Leigh Ann Barney said at NIC. "And, surprisingly, we had some praise from our local media outlets for being transparent."

Trilogy and other providers such as Atria Senior Living have already invested in technology to enable these efforts at communication, and this tech will remain in place and support more transparency even after the pandemic wanes. For example, Fairbanks and Commonwealth's Parker agree that rental and care rates will be posted to provider websites more often as a result of the pandemic.

This type of transparency will be needed to rebuild occupancy, as providers will have to work even harder than in the past to win over consumers.

"Sharing your identity, values, interests is even more important now, to capture the mind share of seniors that are coming into the market, or they're in the market," Greystone's Spooner said at the Ziegler event.

A more consolidated, sophisticated industry

Leaders with PGIM Real Estate — one of the largest private equity investors in senior housing — made a prediction in June. They said that the pandemic would widen the spread between winners and losers among senior living operating businesses. Those operators with a strong culture and the sophistication to handle the increasingly complex demands of senior living have a brighter long-term outlook, while weaker operators will struggle and many will not survive.

During the recent industry conferences, this idea was backed up by numbers that are starting to quantify the division between the strong and weak players.

NIC's Mace described an occupancy "barbell." One side of the barbell is created by the roughly 22% of inventory that has maintained occupancy rates of 95% or higher. The other side of the barbell is created by the roughly 28% of communities with occupancy rates that have fallen to 80% or lower.

Operators with portfolios on the low-occupancy side of the barbell will have a hard time weathering the pandemic, Mace suggested. New data from HealthTrust paints a picture of why this is so, as rising expenses and declining revenue have converged to drive senior living margins down to an average of about 21%, which is around the level seen in skilled nursing facilities.

This margin compression likely is putting low-occupancy operators with thin coverage in danger of missing their debt service obligations, HealthTrust Partner and COO Colleen Blumenthal said during Argentum.

As time goes on, expect bankruptcies and acquisitions of distressed assets or entire operating platforms. In other words, a long-anticipated "evolution" of the senior living industry is being accelerated as the pandemic creates a survival-of-the-fittest environment.

This is not necessarily a bad outcome for the industry as a whole, if the result is a more consolidated sector with fewer but stronger operators. And the recent conferences began to paint a picture of how the strong will survive this period and thrive in the future through better operations.

"We have been tested as an industry," SRG's Grust said at NIC. "We have, I think, risen up."

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January 2020

- The land acquisition financing of a new development for a 174-suite retirement residence offering independent and assisted Living, as well as memory care in Lindsay, ON., was successfully completed by Chancery Seniors Housing Investments Inc.

February 2020

- Chancery Seniors Housing Investments and Avenir Senior Living announced that their joint investment, Avenir Behavioral Health Centre in Surprise, Arizona, successfully concluded the Joint Commission survey, and has been approved to receive Medicare funding.

November 2020

- Chancery Seniors Housing Investments and Hillsport Developments opened The Bartlett Independent Seniors Apartments in Oshawa, ON.

December 2020

- Chancery Seniors Housing Investments and Hillsport Developments announced the closing of the refinancing of the senior debt for The Bartlett Independent Seniors Apartments in Oshawa, ON.

Chancery Seniors Housing Investments Inc. is a private real-estate investment firm with a focus on seniors housing. Powered by its two strong founding partners, Suske Capital Inc. and LD Capital Corp., Chancery creates a team with the expertise and experience of over 55 years in real estate and seniors housing developments with an estimated completion value of over $5 billion.

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