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INDUSTRY INSIGHT

Despite challenges in the senior living industry, some developers are strategically preparing for the future demand wave driven by baby boomers. Companies like Developers like Confluent Development are actively planning large senior living projects, anticipating a favorable demand environment by 2027. While construction costs and financing challenges persist, these companies are positioning themselves to capitalize on the senior living demand surge expected when market conditions improve, aiming to be at the forefront of the industry's growth.

Strike Fast, Be First: Senior Living Developers Prepare for Demand Influx Around the Corner

While some senior living operators and developers have frozen their development pipeline until conditions improve, other companies are not sitting idly in anticipation of a demand wave right around the corner.

Although many are not moving at quite the pace they were in preceding years, they are taking creative steps to make projects pencil out while debt and construction costs remain prohibitive for growth. And the prize they see within reach is a demand wave right around the corner in the form of increasing demand from the sheer number of incoming baby boomers.

By focusing on redevelopment projects and existing renovations, some senior living companies keen on growth have taken new paths to reaching development milestones. But challenges remain, as construction cost and labor pressures linger on and financing for new projects remains tricky to source.

On the flip side, developers still active in the senior housing space believe that they are getting ahead of the rest of the market by laying the groundwork for future projects before others can do so.

“Development is like a big locomotive,” said Confluent Development Managing Director Matt Derrick. “It just doesn’t start and stop on a dime. You have to lean in when it’s a little uncomfortable so that you can be rewarded on the other side.”

Right community makes the difference

From identifying markets with strong fundamentals to finding the right unit mix and community type, operators must be more diligent than ever before when considering where to grow next.

Tucson, Arizona-based Watermark Retirement Communities currently involved in nine projects under construction, according to Watermark Chief Investment Officer Bryan Schachter. The company has had success continuing on with development in part because of the product types it focuses on, and the fact that it works with development partners who are in-tune with market conditions.

“We’re primarily focused on higher-end, independent living, assisted living and memory care mostly located in primary or high barrier-to-entry markets,” Schachter told SHN.

With the launch of its luxury sub-brand, the Elan Collection, Watermark is moving forward with a range of projects to target affluent prospects in primary markets. That’s part of an effort of “growing the high-end component” of Watermark’s portfolio.

“That’s where we think our value proposition lies,” Schachter said. “We really look at these as being a driver behind the success of our portfolio.”

Schachter noted that lease up and margins for communities under the Elan brand had made “great progress,” leading to the company’s bullish outlook for development. But headwinds remain, such as challenges securing debt financing and construction costs.

“We’re in locations delivering a product and hitting a price point that allows us to overcome some of the wage pressures and expense inflation items that unfortunately, smaller and tertiary market projects just really can’t overcome,” Schachter said.

Schachter noted that Watermark was achieving break-even net operating income (NOI) at around 35% to 40% occupancy within its Elan communities that have recently opened, and are poised to generate a 50% or greater operating margin at stabilization, as demonstrated by an Elan community earlier this year.

That shows that with the right product, quality, unit mix and price point, if an operator builds a community, residents will follow.

"We're really optimistic about what this is going to continue to translate to as these other projects move further along in their lease-up," Schachter said. "This isn't a one-off thing, we've seen it repeat three or four times already and it gives us confidence as we continue to develop and lease-up these projects."

To keep construction moving, Schachter said Watermark partners with development partners within their respective markets.

"We wouldn't be in a position to take on this number of projects if we were trying to identify all these sites on our own and we're aligning ourselves with great developers that are really bullish on the industry in the mid-to-long-term," Schachter said.

In 2023, Watermark opened three new communities, including one in the metro Austin, Texas area and two in southern Florida. In its development push, Watermark is targeting around 150 to 225 units of IL, AL and memory care.

From a new development perspective, Schachter noted Watermark recently received licensure to proceed on a community in Oceanside, California, with other projects under construction or recently opened in Laguna Niguel, San Gabriel and Sacramento, California.

Additional projects include an IL community in Watersound, Florida, a high rise in Portland, Oregon and Marco Island, Florida, an expansion project at a Bellevue, Washington community and a second San Jose project. A number of the company's new development growth is in partnership with Alliance Residential and USAA as the capital partner, Schachter said.

"We want to be in locations in which residents can afford the product that we're looking to deliver, but also desire to be within a setting where they can access additional services and amenities around the community," Schachter said.

'Largest development pipeline we've ever had'

While conditions for development in the current moment remain tough, some organizations in the space are falling back on their due diligence and pre-development work to be ready once conditions improve.

Real estate investment and development firm Confluent Development recently unveiled its $500 million senior living development pipeline. The company is primarily targeting active adult and independent living.

The company has partnered with MorningStar Senior Living and Harbor Retirement Associates (HRA) to oversee management, with the Denver, Colorado-based developer working with MorningStar on 14 projects and HRA on nine communities.

As previously reported, Confluent Development this year opened projects that first started construction in 2021 in Mission Viejo, California, Shaker Heights, Ohio and MorningStar in Denver.

“This is the largest development pipeline we’ve ever had,” Derrick said. “This is very intentional and some of the best deals we’ve done we’re coming right after the Great Recession and we find ourselves in a similar place.”

But where Confluent Development is most active right now is behind the scenes planning and preparing for the real estate cycle’s next turn, according to Derrick. That means dusting off strategies that worked during a challenging time, emphasizing planning and due diligence, pre-development efforts and more, Derrick said.

While unable to disclose details regarding project specifics, Derrick noted that “two big projects” in the pipeline included large, IL, AL and memory care campuses on the West Coast and in the southern U.S, with an active adult community planned in the Mountain West. He also sees opportunities in the Midwest for active adult.

Within the pipeline, Derrick said he expects projects to be ready for construction to break ground in 2024 at the earliest, but most likely in 2025.

“We’ve strategically renegotiated those deals and pushed some of them out further that were supposed to break ground this year to push them further to when the debt markets have corrected,” Derrick said.

Redevelopment is also another way developers are pushing ahead for senior living projects. Northfield, Illinois-based Integrated Development II (ID2) is currently working pre-development on two senior living projects to be included in the redevelopment of two Chicago-area malls.

In partnership with Affinius Capital, ID2 is gearing up to develop the 166-unit Sophia at Hawthorn Mall and the 216-unit Sophia at Fox Valley Mall, two luxury communities that are slated to carry a full continuum of care.

Tough development climate lingers

Data from the National Investment Center for Seniors Housing and Care (NIC) shows that units under construction accounted for 4.9% of total existing senior living inventory in the second quarter of this year, and that's down nearly 3% from its record high of 7.7% recorded in the fourth quarter of 2019, while also being the lowest level of construction since 2014, according to NIC Chief Operating Officer Chuck Harry.While this remains a challenge for new development, a low rate of starts bodes well for operators to rebuild occupancy more quickly as new inventory coming online remains scarce.

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If a site was identified today, Derrick said that due to current market challenges, projects could take up to two to four years to complete, and that's why Confluent has its eye on the future of senior living development.

"That's going to put us square into 2027 where we believe we're going to be in arguably the best demand environment that this industry has ever had," Derrick said. "If I wait for the market to improve and to start those deals, I am going to be late to capitalize."

Phillips added that development was attractive, even now, based on the unmet demand for senior living in the "high-end market."

"Getting projects teed up and ready to go now will put us in position to strike fast and be first to market once the financing markets normalize," Phillips said. "ID2 believes the construction financing and capital markets will loosen in 2024, but will still be "tight."

Schachter also noted that Watermark has additional projects in the pipeline with the anticipation of capital markets improving.

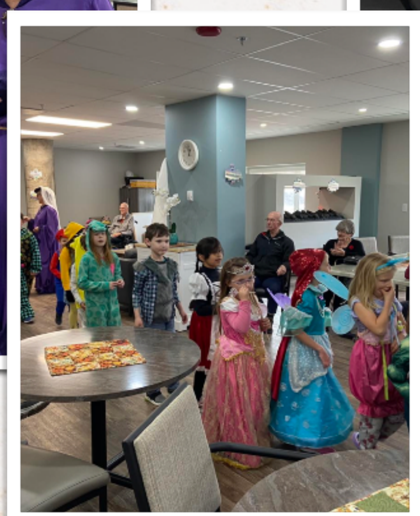
"We're going to be ready to hit go on a number of these projects with our development partners in tow when conditions improve," he added. "We're still big believers in the direction that we're heading."

Original Article:
https://seniorhousingnews.com/2023/09/12/strike-fast-be-first-senior-living-developers-prepare-for-demand-influx-around-the-corner/

Stony Plain Project Update

Three Robins Stony Plain is a seven-storey building with a total of 85 one-bedroom, one-bedroom plus den, and two-bedroom plus den suites. The ground floor of the building houses the Stony Plain Public Library, Ladybugs Flowers, and other residence amenities.

- At Three Robins, we hosted a Halloween parade where 220 children from SML Academy visited, sharing the excitement of dressing up for Halloween! Our residents joyfully filled approximately 400 bags with candy to distribute among the kids!



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For more information about our company and projects, please visit www.chanceryseniors.com