



Owner's guide to senior living development & construction

Introduction

A large development or construction project is a juggling act involving multiple teams of people, complex processes, nuanced skills and knowledge, and high stakes — but with the potential for great rewards for your organization.

As an operator and corporate executive, orchestrating and participating in this flurry of whirling activities can be disconcerting unless your internal team has extensive experience in the development, design, and construction of similar-sized projects.

This white paper will be a guide to walk you through the steps needed to successfully plan and implement projects from concept through completion.

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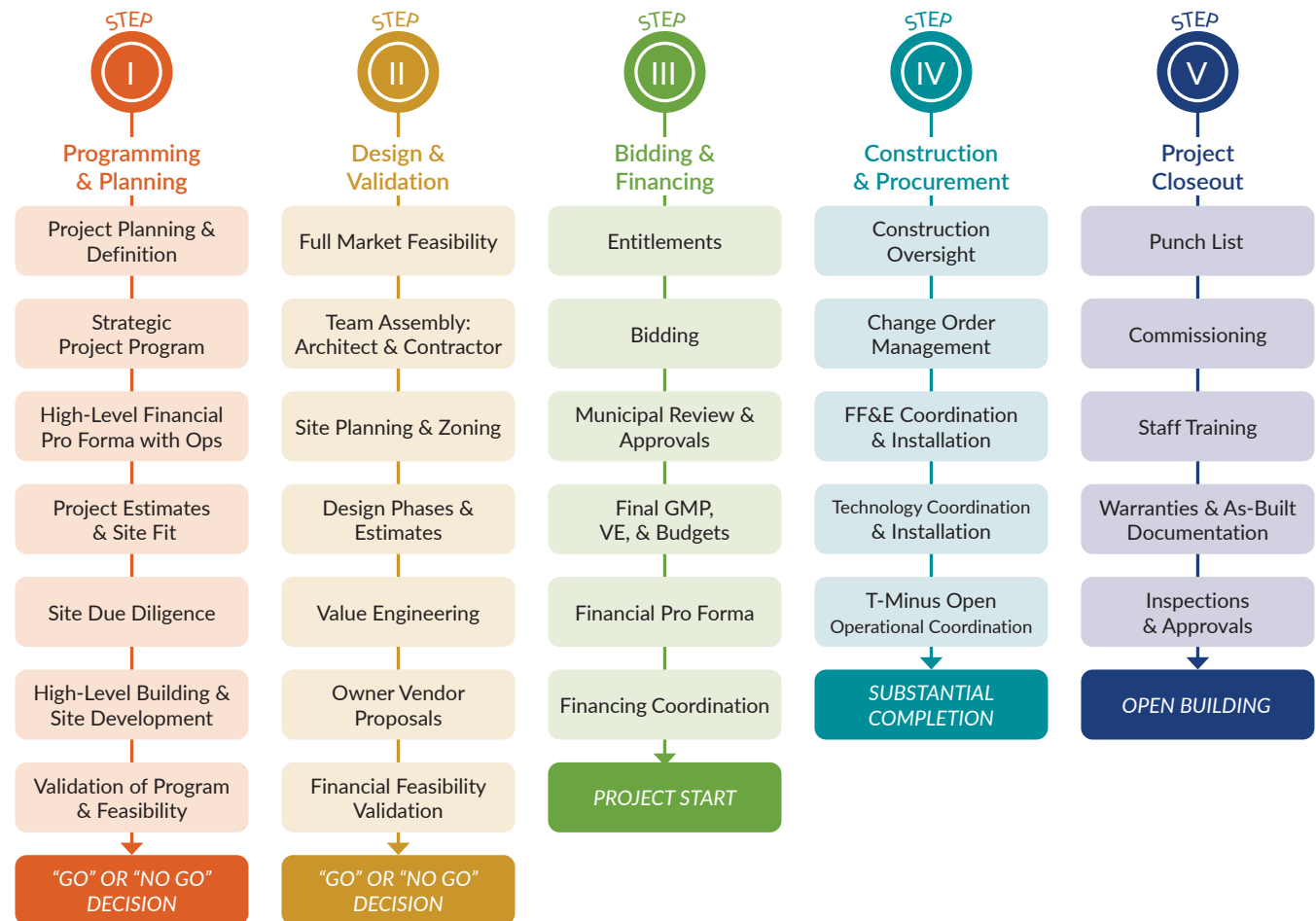
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The development process

The complex life cycle of a typical project can be broken down into five segments.

The process is not linear; each step often overlaps, has sub-steps, and requires continuous planning, consensus building, reevaluating, and recalibrating prior to and during each step.

These steps are by no means the only ones you undertake during a project, nor do they always fall in this order. Our graphic merely provides a framework to discuss the major activities and milestones.



How to plan a development project



Programming & Planning

In product development, a proof of concept is evidence demonstrating a solution is a marketable, financially feasible, and designable concept that works.



Design & Validation

In construction, we start the same way. Our “proof of concept” involves high-level “master” strategic programming and planning steps that test the feasibility and business case for the large construction project you’re considering.

“Strategic master programming is the most important step in the development process,” said Dana Wollschlager, partner and practice leader of Plante Moran Living Forward, an independent senior living development advisory firm based out of Southfield, Mich. “It’s the only way to know that you’re not building something you can’t afford, building more than you need, or building in the wrong location.”



Bidding & Financing

As the owner, this means you must consider your project from several angles before committing to construction or expensive architectural fees.

- **VISION:** What should your community look like in the future? How will you position your community to meet the needs and wants of the consumer of the future?
- **MARKET & LOCATION:** What kind product and how many units can the market support? Where is there need for the types of services you’re offering?
- **SCOPE OR PROJECT:** How extensive does this project need to be? Should you renovate or build new?
- **CAPITAL STACK:** How do you pay for the project? How much debt can the project support? Is there a cash investment required? Will there be a capital campaign? How will the project affect cash flow?
- **PROJECT TEAM:** Whose expertise do you need to plan the project? When is the appropriate time to bring each person in? How do you choose the right project team?



Construction & Procurement



Project Closeout

“The visioning process is probably the hardest step for most providers,” said Jamie Timoteo, partner of Plante Moran Living Forward. “It can be very difficult for communities to imagine how they may need to change to stay relevant and competitive.”

Timoteo recommends using third-party development advisors. As experts in the senior living space, they can help that creative process by bringing in novel ideas and explaining industry trends to help get leadership teams thinking beyond what they currently know.

“Development advisors help owners continue to serve their existing residents while also preparing the organization with the appropriate project planning to continue to attract and meet the future consumers’ desires,” said Timoteo.

Meeting these needs and planning for changes to those needs can be a very difficult balancing act that addresses future healthcare delivery, contract types, resident movement through the continuum, dining venues, wellness initiatives, walkability, and relevant amenity spaces. In addition to these service delivery aspects, you still need to incorporate components like unit types and sizes at the quality level that meets the market demand and ensure you are pricing and programming everything reasonably and competitively.

“A strong development advisor can be crucial during the scenario-vetting stages,” Timoteo concluded.



Building consensus with stakeholders

It's not always easy to sell the need for a large development or construction project to your board or other stakeholders. But if your proposal has the following data-driven analyses to clearly demonstrate a business case, you'll have done everything you can to set the project up for approval:

- ☒ Market feasibility study
- ☒ Capital planning analysis
- ☒ Property condition assessment
- ☒ Space planning, programming, and due diligence
- ☒ Financial feasibility analysis
- ☒ Summary of relevant industry trends affecting your business
- ☒ Conceptual design and estimate



Hiring design and construction firms

The goal of the team selection process is to make sure you have the right design, construction, and other professional service firms on board. You may need help from a development advisor for the following:

- 1 Ensure you are planning your project well in advance, and only move forward with a clear understanding of your scope and budget
- 2 Provide firms with a well-developed Request for Proposals so you get the information you need to make an informed choice
- 3 Identify firms that have successfully built senior living and have the expertise to handle the complexity of your project
- 4 Assess the firms' project approach, which includes understanding their scope of services and their ability to identify challenges
- 5 Assess the firms' team availability and the hours they have available to commit to your project
- 6 Vet the quality of the schedule for the project from predevelopment through certificate of occupancy
- 7 Consider the chemistry with your management team and other development team members
- 8 Be knowledgeable about what is fair and reasonable when negotiating the business terms of the contracts, including (for example) methods of pricing additional work, payment terms, staffing commitment, and allowable reimbursable expenses
- 9 Understand the value of services, which often is not correlated with the lowest fee

How to pay for a development project

STEP
I
Programming
& Planning

STEP
II
Design &
Validation

STEP
III
Bidding &
Financing

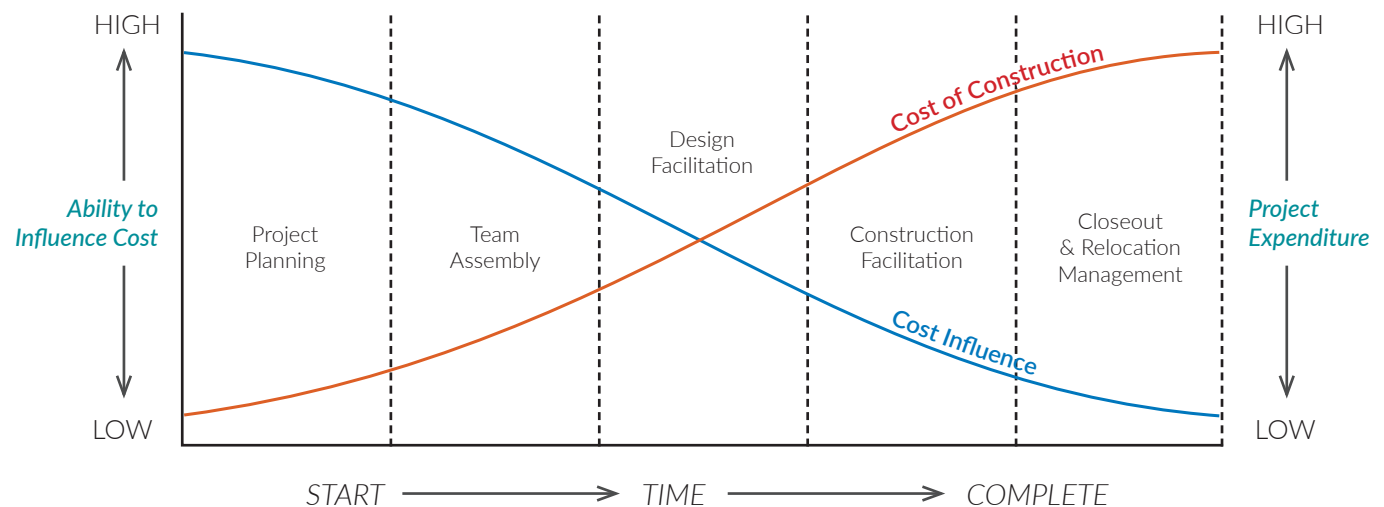
STEP
IV
Construction
& Procurement

STEP
V
Project
Closeout

The first three steps of a development project are especially important from a financial perspective. It takes a disciplined planning process to avoid building more than you can afford, going over budget, or making decisions with unfortunate financial consequences. During these phases, the project team has the most influence over the cost. Use the initial planning and design phases to vet all potential options.

The ability to influence cost is greatest at the start of the project, as illustrated by the cost influence curve:

Cost Influence Curve



SOURCE: Plante Moran Living Forward

“A lot of providers think the first step to planning a project is to call an architect,” said Greg Hensley, senior vice president with Plante Moran Living Forward. “While your architect can and should be one of the people you bring to the table, having a clear vision and understanding of your organization’s financial capacity needs to happen first. Understand the priorities your organization wants to accomplish by creating a project program next.”

Understanding the whole financial picture will help provide clear direction for your

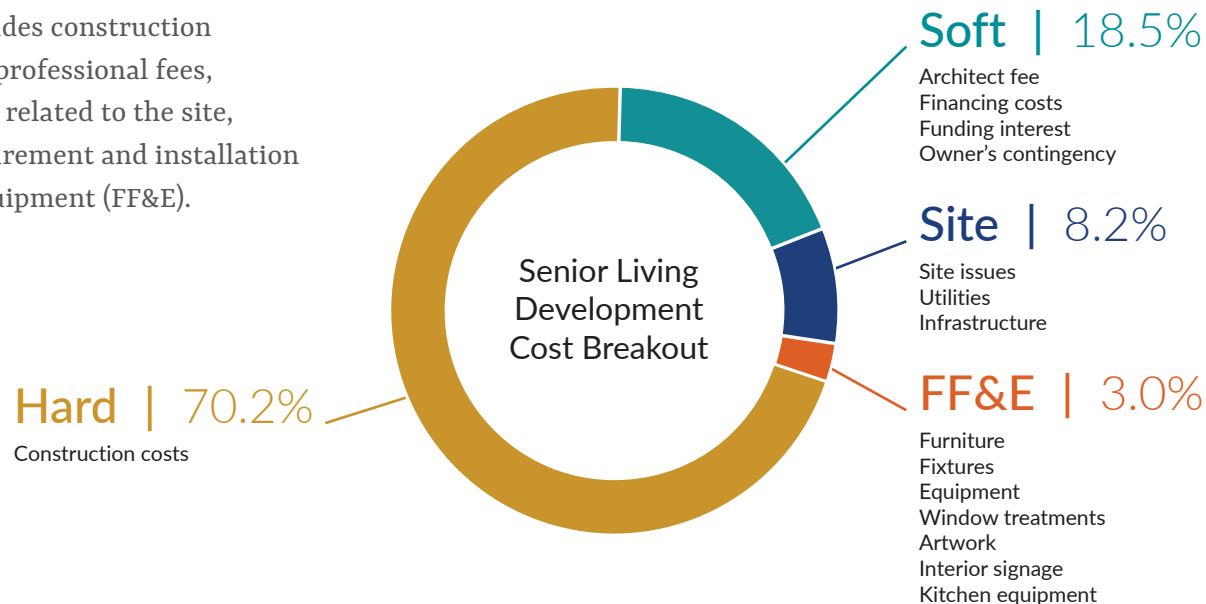
architect, facilitating a design phase that has clear boundaries defined: total number of units for the project, programmed amenity space, capital stack, return requirements, and existing capital improvement needs. These terms will determine the pro forma driving the project’s budget.

Understanding the whole financial picture will help provide clearer direction to your architect and will facilitate a design phase that has clear boundaries defined.

Total project budget

The total project budget includes construction costs (hard costs), soft costs (professional fees, contingencies, etc.), expenses related to the site, and costs related to the procurement and installation of furniture, fixtures, and equipment (FF&E).

Many providers forget to factor in soft costs when accounting for the total cost of development.



SOURCE: CBRE 2022 Seniors Housing Development Costs

Capital stack breakdown

The capital stack breakdown looks at debt, equity, fundraising or capital campaigns, tax credits, and tax increment financing to figure out the optimum balance of funding sources for your project. Analysis of the existing financial position is necessary for determining a project's financial feasibility.

Return requirements

Return requirements will vary widely depending on the organization and the long-term plan for the project. Owners who plan to hold the property long term (nonprofits, for example) will likely evaluate their investments much differently than owners looking to flip the property upon stabilization. Return requirements could include the following:

- Development yields
- Stabilized cap rates
- Cash on cash
- Incremental cash flow generated
- Debt service coverage ratios

Existing capital needs

If you already own a campus, knowing the capital needs for your existing assets is equally important to ensure they are not neglected once the large project commences. Continuing to reinvest in your existing assets will pay dividends and keep your entire organization more marketable as consumers' expectations evolve.



Creating a realistic budget

A realistic budget should be based on programming and a well-defined pro forma.

As the project progresses through design, and as you receive input from your project team, this budget may need to be revised.

Any decision to change a budget should be with due cause and agreed upon by the entire project team.

Rising cost of construction

According to CBRE’s 2022 Seniors Housing Development Costs report, the average cost of a senior housing development has increased by 17.8% since 2020 to \$317,400 per unit or \$333 per square foot (SF). The Weitz Company’s Spring 2024 Senior Living Construction Costs report cooperates CBRE’s estimate, breaking down the estimated per SF cost as noted in the table.

Remember, construction costs differ by region for a variety of factors, so it’s important you leverage expert resources to get a solid idea of the construction prices in your local market. Adjusting budgets to take into account future escalation is critical as well.

Senior Living Construction Costs

	CITY INDEX OF 100			
	MID-LEVEL		HIGH-LEVEL	
	LOW	HIGH	LOW	HIGH
Independent Living	\$237	\$283	\$281	\$359
Cottages	\$187	\$216	\$259	\$317
Assisted Living	\$273	\$348	\$358	\$445
Skilled Nursing	\$314	\$368	\$391	\$498
IL Commons	\$381	\$481	\$517	\$667
Under Building Parking	\$149	\$184	\$187	\$234
Sitework	EXCLUDED		EXCLUDED	

Mid-Level: Generally are of wood-framed construction with standard amenities and finishes, targeting the more moderate income senior. **High-Level:** Generally are of steel or concrete construction with high-end luxury amenities and finishes, targeting the higher income senior.

SOURCE: The Weitz Company, LLC (2024). Costs are full-burden and include general conditions, insurance, tax, bond, and fee, but do not include site costs. The above costs are based on a city index of 100. These indices, coupled with local market conditions, are essential when comparing overall pricing.

How to manage a development project

STEP
I
Programming
& Planning

Managing a project through design and construction requires dedicated time and expertise to ensure the project stays on track and is developed to your specifications. Strong leadership, meticulous coordination, and open communication among the project team is essential for success of these steps.

STEP
II
Design &
Validation

As the design moves from conceptual design and schematic design to the construction document phases, you will need someone to take the lead, with available time, experience, and expertise to make sure the project team adheres to the original program, schedule, scope, and project budget.

STEP
III
Bidding &
Financing

“As you begin to prepare to close financing and start construction, it is critical to properly forecast and time the completion of design, regulatory approvals, final pricing, availability of long lead materials, and resident or staff relocations,” said Hensley. “Most projects require a dedicated lead to orchestrate the entire development team to prepare for a smooth and predictable construction start.”

STEP
IV
Construction
& Procurement

When the design is completed and the construction team breaks ground, you’re then faced with three competing priorities:

- The project team and construction process
- Preopening
- Existing operations

STEP
V
Project
Closeout

“Projects are often an inconvenience to staff, havoc on your operations, and overwhelming to those who must handle all the project-related responsibilities on top of their regular daily tasks,” said Wollschlager.

To manage the project effectively day to day, you will need someone to be the touchpoint for a variety of daily, ongoing project duties, such as:

- ✓ **Scheduling and running** regular project meetings with the team to monitor progress
- ✓ **Managing** the accounting and payment procedures (review and recommend pay applications and draw requests)
- ✓ **Coordinating and streamlining** communication among project team members
- ✓ **Reviewing and vetting** change orders, and exploring viable alternative solutions that might minimize or eliminate extra costs
- ✓ **Ensuring** the project team remains accountable for its contractual obligations
- ✓ **Coordinating** furniture, fixtures, and equipment (FF&E), low voltage, and technology
- ✓ **Managing** site due diligence (such as surveys, zoning, entitlements, wetland mitigation, stormwater management, flood plain constraints, utilities, parking requirements, and site access)
- ✓ **Continuously updating** actual vs. budgeted costs to avoid any financial “surprises”
- ✓ **Daylighting and helping resolve** issues
- ✓ **Among other tasks**

Development advisors are often brought into owners’ internal project teams to facilitate all of these tasks required to run the project while the construction manager takes the lead during the construction of the buildings. Without an experienced representative, owners often find their staff stretched thin.

“Early in my career, I was an operator who was suddenly handed a large construction project, and I remember spending all day handling project needs and all night trying to catch up on my daily work,” said Wollschlager. “It was really tough.”

“And just as you’re getting into a rhythm with the daily project responsibilities, opening starts becoming more of a reality,” explained Wollschlager. “From the moment the site is roped off to the day you open your doors, there is a lot to do to prepare to operate your new community. These preopening tasks cannot wait until construction is done — many can take months depending on size and complexity of project.”

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Plante Moran Living Forward has identified more than 200 preopening tasks that providers have to plan for, with involvement from every department: accounting, clinical, dietary, human resources, maintenance, marketing, and operations.

“With an ‘all hands on deck’ approach to the preopening coordination, your new building will run as effectively and efficiently as possible so you can meet not only the needs of your customers, but also your covenants and other financial obligations,” Wollschlager concluded.

Once construction is completed and the new building is opened, it’s easy to lose track of other project tasks that still need to be completed. Development advisors can assist with verifying that all regulatory certifications are obtained, final waivers are collected, staff is properly trained on new building equipment, warranties are issued, and vendors are finally paid. Taking advantage of the availability of vendors while they are still intimately involved in the project to close out these critical items will contribute to an organized transition into operating your new building.

These are some of the main preopening tasks Plante Moran Living Forward has identified:



SOURCE: Plante Moran Living Forward

Conclusion

Development is a complex process, with many interconnected steps. For multiphased projects, the overlapping timelines and tasks to be completed can become especially overwhelming.

Each of the five development steps described involves a herculean effort on the part of staff and the project team to keep the process moving forward through the myriad obstacles that can derail the process. With extensive planning and a team with the right expertise, resources, and processes on board, you can increase the likelihood of delivering a successful project on time and on budget.

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About Plante Moran Living Forward

The next level of senior living development

Plante Moran Living Forward provides unbiased, value-driven senior living development advisory services under a single point of contact to help senior living providers stay competitive, grow, and provide quality care. We are dedicated to providing unrivaled advocacy and support to senior living operators, owners, and developers from concept to completion.

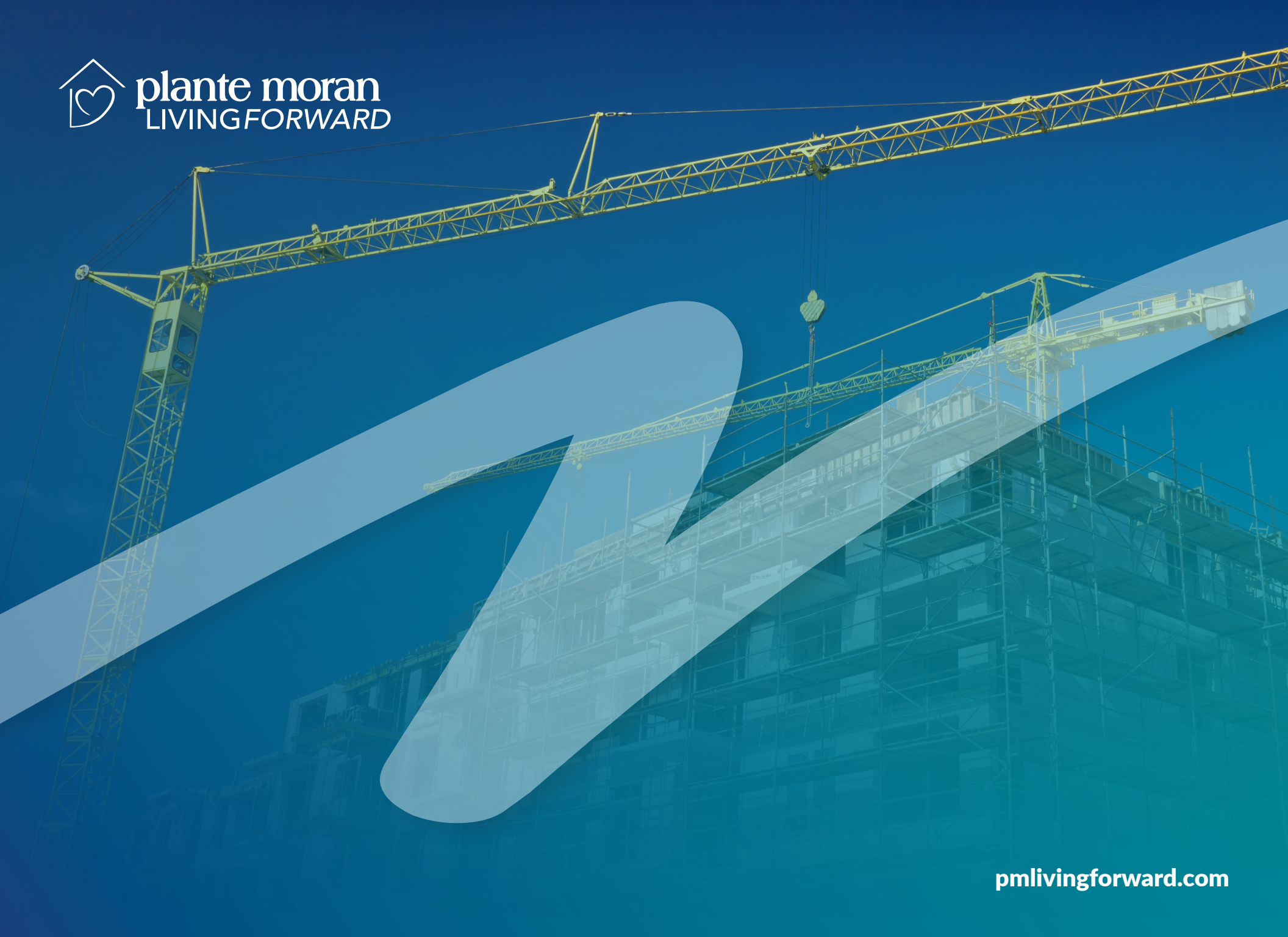
DEVELOPMENT ADVISORY

- Project planning & oversight
- Market & financial feasibility
- Property condition assessment
- Asset repositioning
- Site selection & transaction management
- Owner's representation

OPERATIONAL CONSULTING

- Comprehensive operational assessment
- Strategic planning & operations alignment
- Ongoing operational advisory
- Marketing & sales evaluation
- Product & service package pricing
- Operating model development

To learn more, visit us at pmlivingforward.com.



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