



Industry Best Practice: Continuous Capital Investment

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Spectrum has the opportunity to work with dozens of not-for-profit retirement communities every year throughout the United States. The biggest challenge to leadership of these communities today is sustaining marketability while maintaining financial health. Retirement communities house a variety of building types and systems that must be continuously upgraded to maintain fresh living residences and amenity spaces. To adequately fund depreciation, leadership must practice financial discipline, understand the purpose of the entrance fee and recognize that strategic investment is in forms other than capital building.

The Entrance Fee as Investment

Residents of not-for-profit retirement communities should understand that although entrance fee refunds do not appreciate (or may even amortize to zero), the resident receives qualitative proceeds from their entrance fee investment in the form of enhanced lifestyle, social opportunity, wellness, enriched living and guaranteed long term care. The resident foregoes opportunity income from their entrance fee in exchange for the lifestyle promised by the community. This promise is the foundation of the resident and community relationship. As a result, to fulfill resident commitments, good leadership must be disciplined in their stewardship of community assets by demonstrating ongoing renovation, expansion and continuous improvement of services and amenities.

The community-resident commitment is not one sided. Leadership should make it clear to new residents that despite the disruption caused by construction, ongoing improvement is in the resident's best interest, and residents should be supportive of change. Expansion and renovation are often required to attract new consumers, maintain occupancy and keep monthly fees reasonable. In addition, not-for-profit, tax-exempt communities are expected to provide charitable value, take the long view and invest in new ways to serve. When moving into a community that has the benefit of tax-exemption, the resident must recognize that the community's commitment to serve goes beyond today.

Financial Discipline

Sometimes financial discipline requires spending money. A good test of whether a community is adequately funding capital replacements is to calculate the age of facility from an accounting standpoint.

OUR MISSION

We foster successful relationships with retirement communities serving together to enhance value, fulfill missions and enrich the lives of seniors.

“Age of facility” is a measure of how much new capital has been invested over the life of the community. The more funds invested, the “younger” the facility is. Continuing Care Retirement Communities should generally plan for a balance between depreciated assets and new investment that yields an age of 10 years or less.

To prioritize expenditures, communities should annually update a 25-year capital replacement budget. Such budgets must be developed after a complete inspection and life cycle analysis of the buildings and building systems by a qualified engineering firm.

Strategic Investment Comes in Many Forms

Strategic investment is not limited to dollars spent on capital improvements. To ensure that a retirement community is ready to take advantage of opportunities, leadership should invest time and effort in public relations, communications, fund raising, education and long range planning.

Public Relations and Communications. Regardless of whether a CCRC is in an active marketing and sales phase, the community should maintain positive public relations. The obvious use of media may include occasional newspaper articles, public radio recognition and hosting local constituent groups for meetings and events. It is also important to be visible in the community through support of the arts, education and other service providers. Because of the recession, communities have cut their marketing budgets. During times of economic uncertainty, however, it is more important than ever to educate the greater community to the benefits and security of retirement living. There has been a lot of negative press recently around bankruptcies, missing bond covenants, falling occupancy and slow fill up. Every professional involved in the retirement living industry should feel responsible to counteract negative news by educating the public to CCRCs and the benefits they provide. A tarnished industry image could be more damaging than outdated amenities.

Fund Raising. Despite the obvious benefits of raising money for the community, a well conceived fund raising effort allows the opportunity to tell your story. Even if your efforts are for an ongoing annual campaign, it gives you the opportunity to share information on new services and service venues, volunteer efforts and how many people you serve. It is important that the public and residents are periodically reminded of your not-for-profit purpose.

Ongoing Education. Another budget item that communities tend to cut in difficult economic times is ongoing education. Leadership needs guidance and knowledge to weather the recession; however, instead of participating in expensive conventions, communities may want to consider participating in web casts, asking a friendly vendor to conduct education sessions and updating news link alerts from the web.

Long Range Strategic Planning. Until we are clearly out of the recession and capital markets become more favorable, capital improvements will be undertaken in much smaller bites than in the past. There simply is not enough appetite in the capital markets at the interest rates we used to enjoy. Long range planning is particularly important if a community needs to re-position in phases. Invest now in planning for future improvements with the understanding that we must take a longer view in our new, challenging environment.

If you don't like change, you're going to like irrelevance even less.

~General Eric Shinseki, Chief of Staff, U.S. Army