ADAPTIVE REUSE FOR ASSISTED LIVING

Conversion Dreams Can Turn Into Nightmares

Adaptive reuse or conversion of existing structures to assisted living has emerged as a commonly-considered strategy. Typical initiatives involve conversion of apartments and moderately-sized hotels and motels into assisted living projects. But the conversion of existing real estate into other uses involves delicate trade-offs, objective evaluations and a clear understanding of marketplace risk. You must walk a very thin line between being emotionally influenced by inappropriate, situation-driven building and site limitations and realizing the significant benefit-driven opportunities that can exist through the cost-effective conversion of appropriate properties. Unfortunately, the underlying motivation of an owner/operator in many cases is, “I have this old property (that I’m in love with) – now what do I do with it?” A common, but frequently deadly, rationalization is that, “Surely the market will understand what I went through to pull off this conversion!” It probably won’t.

Recent examples of adaptive reuse clearly indicate that while many successful conversions were based on a sound rationale, other projects experienced an agony not unlike that of a homeowner “fixing up that old house.” Serious problems continue to emerge as you get deeper and deeper into the conversion activity. You quickly pass beyond the point of no return.
Many existing owner-operators face the difficult decision of adaptive reuse through the modification of a building for expansion and upgrade of existing, probably aging senior living structures on their campus. It could also include the consideration of conversion of too many nursing rooms into functional assisted living or memory care units.

But in spite of laudable end objectives, we frequently fail to initially ask the defining strategic question, “Should this structure be saved in the first place?”

Addressing this question is often postponed when sponsors find themselves receiving standard and sometimes premium market rates for substandard structures. The sponsors know this can't last forever – but there never seems to be a good time to bite the bullet.

Another option frequently considered is acquiring an existing property for adaptive reuse. From time to time, sectors of our real estate markets become overbuilt and some properties become obsolete for their original intended use. These properties are frequently sold by lenders and owners for deep discounts. These market situations can lead to some interesting adaptive reuse opportunities. But along with these opportunities come significant risks.

There are four fundamental rules of successful adaptive reuse. If these rules are broken, your project may fail.

**First, the site characteristics** of the adaptive reuse candidate should be essentially irreplaceable in the immediate primary market area. If someone else can build a new, state-of-the-art product on a similar nearby site, the new project is likely to be far more competitive than your converted existing/older property.

**Second, the existing building structure** should be truly unique – with innovative, practical and cost-effective adaptive reuse potential. It could be a historical landmark, or one with a past that is memorable for positive reasons.
Third, the total turn-key cost of acquisition, renovation and conversion should be somewhat less than the all-in cost of a newly-designed and developed state-of-the-art assisted living community. But keep in mind that debt service cost recovery makes up only 25 to 30 percent of the resident’s required total monthly service fee. The price/value relationship must be competitive, because the consumer marketplace will inevitably focus on their perception of cost versus value, highlighting the trade-offs you’ve made rather than the benefits you’ve delivered.

Fourth, the consumer will give very little credit for some of the inevitable tradeoffs and compromises in the end product that typically result from adaptive reuse of an existing structure. The only thing that counts in the consumer marketplace is the perceived value and tangible benefits of the end product or service. Just as homeowners fall in love with the “quaint old home” that appears suitable for fix-up, some operators get involved in irrational love affairs with their newly acquired “bargain real estate.”

The key to successful adaptive reuse is to facilitate a value-oriented match between the realistic adaptive reuse opportunities that are present in the conversion property and the benefits and demand-driven needs of the marketplace.

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