

DECLINING OCCUPANCY IN GOOD TIMES?

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Since 2012 we have happily seen a steady increase in the value of most residential real estate and equity prices. Because of these positive economic factors, consumers are feeling wealthier and spending more. We can debate the reasons for the increases. It could be that people are gainfully employed and feel good and that feeling of euphoria is driving up the value of assets. Or perhaps it is because the Federal Reserve has kept interest rates at historically low levels and so asset values have increased, or maybe it is a combination of both situations.

However, I recently had a conversation with an associate in the senior housing industry about the fact that occupancies across the entire senior housing industry are down. Wow! Down? Why would occupancy rates be down during such an up time? And what will happen when the next significant recession comes along? (And, it will come along.)

During our conversation, we talked about several factors that contribute to the decrease in occupancy rates. First, there is much more competition in most markets due to the excessive building of new communities over the last few years. And second, there is an abundance of home care solutions, and more seniors are choosing to stay home.

I would like to spend a few minutes and discuss both issues and talk about some changes that need to take place in the senior housing industry.

First, let's address the fact that there is plenty of competition and a significant number of new senior housing communities. Despite these details, I am sure that everyone would agree that there are far more qualified seniors that could occupy every empty unit across the entire country than there are new apartments – ten times over. There would need to be ten times the number of communities before the ratio of units to qualified seniors would develop into a real crisis. There are

simply way too many seniors who need to live in a senior housing community, and the number is growing, not shrinking.

Now there could be a different discussion whether those of the baby boomer generation (who are now approaching their seventies) will have the same financial means as the greatest generation or the silent generation, which represent most seniors using services today. No matter how you slice it, there are still plenty of potential customers out there.

The next issue is the growth of the home health care industry and the increasing trend of the aged population employing the services of an aide versus moving into a retirement community. The distinct advantage of the home care agency is that they can acquiesce to the senior's deep-seated commitment to living in their own home and staying there until the day they die.

However, two problems can potentially surface when relying on the home care solution. One, the care agency provides so much care costs soon equal or exceed the cost of the senior housing community. And as a homeowner, the elderly senior is still paying for taxes, insurance, maintenance, utilities and food so when a significant amount of home care is added to those recurring expenses, sooner rather than later the elderly homeowner is financially upside-down.

The second and somewhat related issue is that often the senior is not receiving adequate care or companionship since they are merely getting a few hours a week with an aide in the home and realistically they need more. Obviously, home care is not an elegant solution, if the senior requires more than a typical four to twelve hours per week from an aide that visits one to three days per week.

So, why are senior housing companies experiencing declining occupancy? From my perspective, it is because when the consumer (the senior or their family member) seeks out a

senior housing solution, the salesperson at the community may not be explaining why the senior should use their service.

If I visit an independent or assisted living community today and ask for a tour, the salesperson would most likely show me around and tell me all about the deliverables. They probably say things like “we provide meals, housekeeping, transportation, activities, and care.” They may never explain why my family member should use their service – that my (mom, dad, grandma, grandpa) would have a better outcome if they lived in a community, that they would be far better off living there than at home.

Think about this for a moment. Let's say that I am considering senior housing; however, I have a bias toward staying in my own home yet I come for a look at your offering. When I am there (and it took a lot of effort on my part to get there), it is not explained to me why I should use this service, or that I will be better off if I do. The result? I leave the community, and I go home and stay there. Why shouldn't I just stay home? The salesperson did not provide sufficient reasons to do anything else.

Elderly seniors have strongly entrenched motives for wanting to stay in their homes and need serious persuading to make a difficult move into community living. Is that persuading happening? No. Until it does occupancy rates will continue to decline.

Remember, the home health industry does not have to persuade the person to stay home – they already want that. On the other hand, salespeople in the senior housing industry need to become adept at convincing seniors on the merits of leaving their homes. Unless that happens, occupancies are likely to continue to slide.

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