



# THE HOME CARE OPPORTUNITY: BIG RISKS, BIG REWARDS FOR SENIOR LIVING PROVIDERS



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# EXECUTIVE SUMMARY

*This report profiles senior living companies that are incorporating home care, describes the risks and rewards in doing so, and identifies common pitfalls that stand in the way of success.*

As the baby boomer generation ages in the coming years, demand for private-pay senior living is expected to soar—but so too is demand for at-home care.

Recognizing this, many independent living and assisted living companies are taking a closer look than ever before at the opportunity and risks in expanding their services to include private-pay personal care in people's homes. Some see tremendous upside, as this part of the care continuum could become a \$25 billion market within three years.

These bullish providers have recently launched home care divisions, or are considering doing so in the near future. They are targeting profit margins as high as 15% or greater for their home care divisions, and believe that by offering home care, they can create new referral streams for their senior living communities and achieve staffing synergies to alleviate acute and growing workforce challenges.

But others are averse to the risks involved, and there are cautionary tales of senior living companies that have struggled to turn a profit on home care. These providers, as well as business consultants specializing in home care, warn that newcomers to the sector underestimate its challenges. Bloated overhead expenses and lack of strong, independent leadership are two common issues that erode margins, even for senior living providers that have more clients than their local home care competitors.

Meanwhile, the home care sector itself is being disrupted by surging private equity investment in growing home care franchise companies. At the same time, a number of tech-forward home care providers have burst on the scene with substantial venture capital behind them; there have been several \$20 million-plus funding rounds announced in the past two years. With home care competition ratcheting up, senior living companies might not have the luxury of time: While it is never easy to enter a new line of business, the changing landscape could mean there will be more barriers to entry in the future.

The home care risk-reward equation for senior living providers is not simple, and as with any calculation of this sort, the answer rests in large part on an individual company's business model and goals, and the dynamics of its particular markets. But any senior living enterprise that is thinking about home care should consider the substantial opportunities, including building up a referral stream and capturing additional revenue, as well as the serious operational challenges and other risks.

This report lays out the considerations around getting into home care, provides insight into how senior living providers already are incorporating home care, and describes evolving best practices as well as common pitfalls that stand in the way of success.

## Key Takeaways

- Seniors have an overwhelming desire to age in their own homes, but the cost of home care to consumers limits the current market opportunity
- Senior living providers often struggle to make a healthy margin on home care services despite having larger client bases than most home care providers, due to operational inefficiencies that can be avoided
- The home care industry is beset by major staffing challenges
- The home care industry currently faces disruption from a major influx of new capital and providers
- Interest in adding home care has risen among senior living providers in the past five years, and some of the largest providers in the industry are currently considering or making home care plays



# THE CASE FOR, AND AGAINST, HOME CARE

*Home care presents distinct opportunities but also challenges for senior living providers, so the decision to enter home care requires careful consideration.*

An increasing number of senior living companies in recent years have been weighing the pros and cons of adding home care.

“In the last five years, we’ve seen an increase in interest on the part of senior living providers to add private-pay home care,” says Stephen Tweed, CEO of Leading Home Care, a Louisville, Ky.-based consultancy firm specializing in the home care industry.

There are various reasons for this increased interest. One is an expected surge in consumer demand for home care, driven by seniors’ reluctance to move out of a long-time home, as well as concern over the cost of assisted living.

At the same time, senior living companies have been experiencing occupancy pressures related largely to oversupply. In the second quarter of 2017, the nationwide assisted living occupancy rate hit 86.5%, according to the National Investment Center for Seniors Housing & Care (NIC). This tied the second quarter of 2009 as the lowest rate ever recorded by Annapolis, Maryland-based NIC, which began tracking this data in 2004.

So, providers are under pressure to increase length of stay, find new prospects, and generate additional revenue—all of which could potentially be achieved by adding home care services.

## SENIOR LIVING OCCUPANCY TRENDS AS TRACKED BY NIC

*As occupancy goes down in senior living, providers are looking more closely at home care.*

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
<b>Assisted Living</b>	88.3%	88%	88%	87.7%	87.2%	86.5%
<b>Senior Housing</b>	90%	89.7%	89.8%	89.6%	89.3%	88.8%

