

Chicago Pacific, Grace Management Add Five Communities to Growing Portfolio

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Private investment firm Chicago Pacific Founders (CPF), along with its subsidiary senior living management companies CPF Living Communities and Grace Management Inc., have added five communities to their portfolio in a recent flurry of acquisitions.

The additions are part of an ongoing expansion that could see another 12 to 15 communities added within the next three years, Guy Geller, COO of CPF Living Communities and president of Grace Management, told Senior Housing News. Currently, Minneapolis-based Grace operates 58 communities across 19 states. Chicago-based CPF has ownership in over 75% of them, with that proportion growing.

The most recent deals include a three-property portfolio in the Pittsburgh area, a community about 40 miles north of Houston, and a property in Scottsdale, Arizona. CPF and Grace found these markets appealing from a demographic and supply standpoint, and there is the potential for gaining a larger footprint in these areas in the future, Geller said.

As the company continues to gain scale, Grace is pursuing operational innovations in areas such as dining and is also pushing out wider hospitality-focused training across its workforce, he added.

Return to Steel City

Grace was doing third-party management for a community in Pittsburgh until last year, and so was familiar with the market and happy to establish a presence there under the owner/operator model with CPF, Geller said.

“While we certainly had interest in entering back into Pennsylvania, where we feel like there’s some good barriers to entry ... we didn’t want to go in with one single asset, where we had to commute to it,” he said. “So, this gives us an opportunity to have scale, boots on the ground, and operate three that are built homogeneously, so there are synergies.”

The Pittsburgh-area portfolio includes The Residence at Bethel Park and Point Pleasant, both of which offer independent living, and The Residence at Whitehall, which offers both independent living and personal care services. CPF declined to disclose financial terms of the deal or the seller.

The Residence at Bethel Park opened in April 2017 and The Residence at Whitehall opened earlier this year, while Point Pleasant has been in operation since 2009. The blend of a stable, cash-flowing community mixed with two newer assets was also appealing to CPF and Grace.

Opportunities for improvement exist on the sales/marketing and operations side to drive the success of these acquisitions, Geller said. For instance, he believes that Grace can help solve a challenge in maintaining good salespeople at the community level and can also drive a more organic marketing approach.

Grace and CPF are approaching these communities as long-term investments, and eventually could use these as a beachhead for further growth in Pittsburgh as opportunities arise.

A Focus on the Southwest

As in Pittsburgh, CPF made recent acquisitions in Texas and Arizona that were motivated by strong demographics and a longer-term strategy to build up regional scale.

The Arizona deal was announced in early July and involved a 101-unit independent living and assisted living community called The Ranch Estates at Scottsdale.

The Texas acquisition also was announced earlier this month. In that deal, CPF and Grace acquired Woodhaven Village, a 161-unit independent living, assisted living and memory care community in the town of Conroe, north of Houston.

Houston has posted low senior housing occupancy recent years due to a combination of factors, including new supply and a hard-hit economy. However, Woodhaven stabilized quickly after opening in 2017, Geller said. He is bullish on the prospects for the Conroe submarket, as well as for the Scottsdale area. These Texas and Arizona markets are seeing economic expansion, which Grace and CPF anticipate will lead to increased senior living demand and an available workforce in the years to come.

Overall, Grace now is managing three communities in Texas and three in Arizona, and Geller believes that the company will have a first-mover advantage as retirees move to the region in greater numbers.

Local flair with economies of scale

While CPF and Grace do renovate and add on to their acquisitions and are not ruling out ground-up development in the future, growth so far has been achieved through acquisition. As is commonly the case for companies that expand in this manner, Grace's portfolio is a somewhat eclectic mix.

Building sizes, levels of care, rental rates, and other variables differ across locations, although these variations are not too drastic, Geller said. And the company is confident in its ability to create value in multiple forms such as occupancy growth, operations management, conversions, expansion, unit mix shift and more.

"By identifying each asset's specific value-add opportunity and having the team to execute it, we feel we can actually change historical performance in a variety of ways and for a diverse set of assets," Geller stated.

Grace is also striving to strike the right balance between efficiency and customization as it continues to scale up.

For example, the company prefers to keep the existing name on buildings that it acquires, while updating the look and feel to be consistent with the Grace Management brand. This occurred with Woodhaven Village. The local team felt tied to the existing logo, so Grace kept it in place but tweaked it.

In terms of overall operational efficiency, scalability is key. For instance, Grace's culinary program is in the process of shifting to an all-inclusive pricing model with some creative takes on multi-venue dining.

This is being done across the whole portfolio but with modifications to suit individual locations and is part of a larger push to create an even more hospitality-focused resident experience in every Grace community.

"In the last year or so, we've been focused on rolling out additional hospitality training so we can have a better product for our residents and, going into the next cycle of customers, that's a demand that's got to be met," Geller said. "We can't be just providing the basics of care or peace of mind or safety."

Looking further ahead, there could be opportunities for Grace to integrate more with Medicare Advantage, although this is still in very early and exploratory stages, Geller said. But CPF has acquired companies in the MA space, and CPF Founding Operating Partner John Rijos believes that Medicare Advantage inevitably will become a more significant payer for senior living services.

Prior to co-founding CPF, Rijos spent more than 13 years as president of Brookdale Senior Living (NYSE: BKD), helping grow that provider from 20 to more than 600 communities. Don't expect Grace to reach a similar size, however.

"We've got growth and expansion on our mind, but we're conscious at the rate at which we grow and ultimately not wanting to be too big," Geller said. "But it's opportunistic, and we keep our eyes open."