



GRACE MGMT INC.
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Grace Management President: We Are Restarting Growth, Cautiously Optimistic on Covid-19 Outlook

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Grace Management is preparing for an active year ahead, as its President Guy Geller believes that proven operators will have opportunities despite ongoing operational and financial pressures from the Covid-19 pandemic.

The company — a wholly owned subsidiary of CPF Living Communities — anticipates closing on a new acquisition this month, with more expected opportunities on the way in the future. That's a stark difference from earlier this year, when Grace had initially put its growth initiatives on ice, according to Geller, who is also COO of CPF Living Communities in addition to his role as president of Grace Management.

“As I look at 2021, I believe that it will be a fairly active year for transitions, both from within managed contracts as well as acquisitions,” Geller told Senior Housing News. “We are planning for growth.”

That's not to say the company hasn't run into difficulties related to Covid-19. Like much of the senior living industry, Grace saw its move-ins slow at the outset of the coronavirus pandemic as it enacted lockdowns across its portfolio of 55 communities throughout the U.S.

“March and April were low for us, but not dramatically low,” Geller said.

But in the months that followed, Grace was able to push its move-ins in the right direction with the help of virtual tours and new messaging for the Covid-19 era. In May, for example, the company saw an uptick in move-ins from pent-up demand, Geller said. And every month since then, the company has been able to slowly grow its occupancy. Geller estimates the provider's total occupancy is 250 to 300 basis points lower than before the pandemic, sitting at an average of about 88%.

“We're not anywhere on pace to where we thought we'd be when we set our budgets eight months ago, but we are seeing a continued uptick in occupancy,” Geller said. “We think that the market needs our product.”

Current state of play

The coronavirus pandemic has cast a cloud of uncertainty over the senior living industry, particularly with regard to what the fall and winter months might bring. In the meantime, senior living providers are seeing their margins compressed as expenses rise and revenues fall, with no end in sight to the headwinds.

But for Grace, the road ahead lies in careful planning and diligence, and the company is “cautiously optimistic” about its prospects in managing the pandemic, Geller said. Grace has adopted a mindset that Covid-19 is here to stay, at least for the foreseeable future. But Geller also believes the pandemic can be mitigated by sticking to the infection control fundamentals, such as sanitization, testing and careful reopenings where possible.

Much of that mindset has to do with the provider’s journey thus far. Whereas Grace struggled to procure enough personal protective equipment (PPE) and other supplies in the early days of the pandemic, those struggles have eased as the company gained experience mitigating it.

“It was everybody pitching in and trying to learn as much about best practices, it was people taking on different responsibilities — regional operators that normally just operate buildings becoming supply gurus, things like that,” Geller said. “And that translated all the way down to the property-level team members pitching in to find the right way to manage through this crisis.”

Crucial to those efforts was the expertise of Dr. Kevin O’Neil, chief medical officer at ALG Senior and an industry veteran with experience at Brookdale Senior Living (NYSE: BKD) and other organizations, who also began working with Grace as medical advisor earlier this year.

On the Covid-19 testing front, Grace has not adopted a companywide mandate regarding testing residents as a baseline, in part because of the initial “spotty” results and long wait times for tests to come back. In addition, Grace’s portfolio is spread across the country in states with different Covid-19 infection patterns and testing mandates and resources. But the provider does screen its new residents and associates for Covid-19 using a saliva-based test. Grace also routinely tests associates to make sure they’re not carrying the disease into the communities where they work.

Grace has partnered with Lenexa, Kansas-based Clinical Reference Laboratory (CRL) to meet its testing needs. The effort is not cheap, as Grace budgets about \$110 for each saliva-based test it procures through CRL. And this is just one expense that has driven costs up “astronomically” compared to annual projections prior to the onset of Covid-19, Geller noted.

“We hope it’s not a long-term thing, for the extreme level of cost,” he said. “But, we’re going to do the right thing every single time, and if that means it costs us a little bit more, that’s what we’re going to have to do.”

Insurance costs are another current pain point, related to both premiums and deductibles. And these costs were already rising before the pandemic began, Geller said.

“You’re seeing increased insurance costs across the platform without providing any kind of coverage for Covid-related issues,” Geller said. “So, that’s a cost that we can’t really mitigate against effectively right now, and it’s one that’s going to continue to be bothersome, even post-crisis.”

Still, Geller believes the U.S. Dept. of Health and Human Services (HHS) plan to send financial support to private-pay assisted living providers will help blunt the impact of rising expenses — and he hopes that independent living communities will receive aid in the future, too.

“With some government support, hopefully we can get some expense reimbursements,” he added. “But we’re not going to let that change how we view this, and we’re not going to hold back on spending where it’s going to help our residents and our associates live safely and happily.”

‘Positioned well to respond’

Looking ahead, Geller believes some of Grace’s biggest challenges are emotional and mental fatigue as the pandemic continues.

“We all want to make sure we’re in the right frame of mind to deal with this for however long we have to deal with this,” Geller said. “Our continued message is that ... we do not let our guard down.”

And, he believes that despite the ongoing toll of working through a pandemic, the company’s workforce is reaping the benefits of the hard work they did earlier in the year.

“Our team members are excited to be at work, because they know the amount of effort that they put into getting the community where it is today,” he said.

But despite all of Grace’s current challenges, Geller still believes the company is on good footing for the months ahead and beyond. The company has doubled down on its infection control measures, and is monitoring its markets for new Covid-19 outbreaks with the help of a specially created committee.

“At the end of the day, I think we are positioned well to respond, if we need to, to any sort of uptick in numbers,” Geller said. “We’re cautiously optimistic that we’re not going to have to roll back into heavy restrictions due to the level of diligence that we take with our associates and family members coming into our communities.”

All of this gives Grace confidence that it can continue to grow, even as Covid-19 shows no sign of slowing down. The company has been an active acquirer in recent years to achieve its current scale, and as of 2019 planned to add 12 to 15 communities within three years. Transaction volume across the industry has slowed considerably since the pandemic began, but Grace’s pending acquisition could signal that operators are beginning to seize opportunities.

“We do believe that this gives us an opportunity for best-in-class managers to grow their presence and to be successful,” Geller said. “From a third-party management perspective, we’re continuing to support some of our owners with new communities by taking those on.”