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Chicago Pacific Co-Founder: Senior Housing Business is Forever Changed

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"Our business is forever changed."

Those are the words of John Rijos, whose perspective is informed by decades of leadership in the senior living industry. Having been co-president of Brookdale Senior Living prior to its merger with Emeritus Corp., Rijos went on to co-found investment firm Chicago Pacific Founders (CPF). He also is chairman and CEO of the firm's senior housing subsidiary, Grace Management.

While Rijos believes that the Covid-19 pandemic has altered many aspects of senior living, he singled out workforce practices and care coordination as two areas of particular transformation.

"It's now not just caring for people in terms of feeding them and providing entertainment and activity; it's really taking on a lot of the responsibilities that the adult children took on and saying, that's now our responsibility — coordinating care," he told Senior Housing News during the recent American Seniors Housing Association (ASHA) Mid-Year Meeting in Lake Tahoe.

On the workforce front, the "$12 an hour employee is gone forever," he said, and senior living providers need to change their approach to recruiting.

While helping lead the company into this changed environment, Rijos is pleased with the performance of Grace throughout the pandemic. Across the company's 48 communities, occupancy as of Aug. 1 was 92%, and he anticipates pre-pandemic net operating income (NOI) by the fourth quarter of this year.

And, he sees opportunities for further growth in senior housing and other sectors, with CPF poised to raise its third investment fund next year.

180-degree shift on Medicare Advantage

Rijos credits several factors for the strong performance of Grace communities, including their intersection with Medicare Advantage plans and providers.

Prior to the pandemic, CPF was already investing in the Medicare Advantage sector, and today the firm's portfolio includes four companies in the MA space. They include insurer ATRIO Health Plans, as well as provider groups that work with MA plans to deliver coordinated care.

CPF is investing in these types of companies because of the growth trajectory of Medicare Advantage. The beneficiary population is “growing very fast” because older adults recognize that they can get additional, attractive benefits through MA plans compared to traditional Medicare, Rijos said. CPF then seeks ways to introduce Grace residents to Medicare Advantage options that can enhance their health care.

“You benefit by now having more services and another source of leads that you didn’t have before; and also, by having Medicare Advantage companies provide services to residents, that increases length of stay,” he said.

Grace residents benefited during the pandemic from having access to MA-reimbursed services, which helped drive better health outcomes and increase the satisfaction of residents’ adult children, he added. That’s in large part because MA plans often include a care coordination element, which takes pressure off family members.

Going forward, the pandemic has reinforced both the need for more robust care services and care coordination, Rijos said. The good news is that Medicare Advantage insurers now take senior housing seriously as a source of potential beneficiaries.

“That has changed 180 degrees from three years ago, when they would never come to our communities,” he said. “Now, they do seminars in our communities, they do tours with residents of our communities, they recommend our communities to their members once they need to leave their home and move into a care-providing environment.”

In short, senior housing is no longer a “sideshow” but a “real part of their business plans,” according to Rijos.

“Senior living communities and Medicare Advantage companies are a match made in heaven,” he said. “You wonder why it took so long.”

New approach to workforce

The pandemic changed people’s priorities and with it, their approach to work, Rijos observed. Senior living providers must adapt to these changes.

“Now, family’s more important, flexible time is more important,” he said.

How senior living workers perceive their compensation also has changed, given that the pandemic led to mass layoffs, and now, a worker shortage across industries.

“McDonald’s is giving applicants $50 to show up for an interview … hospitals are doing sign-on bonuses of $2,000, $4,000, $5,000,” Rijos said. “People that work in our communities now know they can go anywhere and make as much money, maybe more.”

As a result, the universe of potential workers has gotten smaller while labor-related costs have risen.

The situation should improve as enhanced unemployment benefits are phased out, but Rijos thinks the days of $12-an-hour senior living workers are over. And, senior living providers need to approach recruitment differently.

“It’s a real marketing effort, and it’s multipronged,” he said.

Grace has shifted its interviewing approach to invite more questions from applicants, so that they can get a clearer sense of the culture of the company.

“A company with a very good culture that you can explain well, and that makes sense to potential employees or associates, is going to help you recruit,” he said. “So will $15 to $20 an hour.”

Opportunities for expansion

In the years preceding the pandemic, a slew of private equity investors and real estate developers with multifamily and hotel backgrounds entered the senior housing space.

Some of them “thought this was easy” but the pandemic provided a sharp reality check, Rijos said. As a result, some of them are now exiting the space and firms like CPF/Grace have opportunities to grow through acquisition.

CPF/Grace added seven communities during the pandemic. Still, most potential sellers have not reached a point of selling at a large discount, just to exit the space. But Rijos believes more deals are out there.

“You don’t need most [to sell at a discount], you just need some,” he remarked.

CPF is likely to raise another investment fund — its third — next year. The investment strategy probably will be a “rinse and repeat” of the formula that proved successful with the first two funds, according to Rijos.

On the senior living front, the current portfolio is about 70% independent living and 30% assisted living and memory care.

Rijos is seriously contemplating the active adult rental market.

“I love the product,” he said. “It’s very easy to run — you highly amenitize it, there are very few employees, it’s all about filling quickly.”

The challenge is in setting rental rates correctly, so that there is just the right premium to traditional multifamily options.

“When you get above 25%, 30% higher than multifamily, fill-up is much slower,” he said. “At 40%, you’re banging up against independent living, with a lot more services. So, there’s a sweet spot.”

There’s also a sweet spot when it comes to balancing care and hospitality in senior living, in light of the pandemic-related changes to the business, he believes. At the same time that Grace has introduced more care through the Medicare Advantage relationships, the company has added hospitality-focused roles to its corporate staff.

“I think we have to grow both ends of the barbell,” he said.