

The Property Line — The Middle Market Senior Housing Gap

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Welcome to The Property Line, a commercial real estate podcast brought to you by Seyfarth Shaw's Real Estate Department. The Property Line is a brief discussion of current market trends, bringing you insights from our acclaimed national team of real estate attorneys. Each episode focuses on a key takeaway for the busy real estate professional. Now, on to this week's discussion.

Cynthia Mitchell: Hello and welcome back to The Property Line. My name is Cindy Mitchell and I'm here with my partner, Robin Freeman. We are the co-leads of the Real Estate Healthcare and Finance Practice Group. We're joined by Pilar Carvajal. Pilar and I have known each other and worked together for many years. Pilar, we're excited to have you join us. I'll turn it over to you now to introduce yourself.

Pilar Carvajal: Thanks, Cindy. Thanks for the introduction. I'm so happy to be here with you both. So my name is Pilar Carvajal. I'm the founder and CEO of Innovation Senior Living, and I've spent more than two decades working in senior living, much of that time serving what we now call the middle market. So my understanding of the middle market really came after operating in it. Early in my career, I was exposed to the development and actually the implementation of the Florida Medicaid waiver. And I was involved in some of the earliest projects that converted affordable and public housing into assisted living using that Medicaid waiver. Now that experience gave me a very different view of who was falling through the cracks. I began seeing older adults move into these public housing properties because they qualified financially for the housing, but they didn't qualify for Medicaid. And as their needs increased, they paid privately for the additional support. Interestingly enough, those individuals became my private paid residents. And I didn't really realize it at the time, but looking back, they were actually the middle market. So that experience really shaped my entire career. I've spent years operating communities where I've mixed Medicaid and private pay residents side by side. They're often in older buildings where we have to be really disciplined about staffing and pricing operations, but still delivering a quality experience. And ultimately it taught me that you can't solve a middle market challenge by simply taking senior living and making it less expensive. You really have to design a different model, one that balances affordability and quality and takes into consideration what that older adult actually needs. And today specifically, I'm thinking even further upstream. So we know most older adults want to remain in their homes, many may never be able to afford traditional senior living, so now my question is really all about—how do we build infrastructure around people that allows them to age well at home?

Cynthia Mitchell: Thank you, Pilar. That's really interesting. You sort of touched on this a little bit with your introduction, but you've spent most of your career focused on middle income, older adults. Why has the middle market become such an important part of your work?

Pilar Carvajal: The middle market has actually been the thread running throughout my career. I've spent more than two decades, like I said before, operating senior living

communities that have really focused on the middle market. And I've been thinking about how to provide a quality experience for the older adult that's not wealthy and doesn't qualify for Medicaid. So what's really struck me always has been just how large that population is. And there's so few solutions that have been truly designed around that population. I think the fact that I'm also a Latina entrepreneur, I'm a founder of a woman and minority owned senior living company gives me also a very special perspective. So I think it really influences how I look at opportunities. And I've always been drawn to populations and markets that are overlooked or underserved by traditional models. And at Innovation Senior Living, I've been intentionally focused on the middle income consumer. And that means operating existing communities, serving Medicaid and private pay residents together under the same roof, but constantly balancing affordability with the need to operate a financially sustainable business. And that's taught me something very important, that serving the middle market isn't simply about lowering the price. You have to rethink the whole model. And so for me, the middle market isn't something I've studied or I talk about. I've actually spent years operating it and I know how it works.

Robin Freeman: Very interesting. What have you learned from actually operating senior living communities serving the middle market? What do you think the biggest lessons there are?

Pilar Carvajal: I would say the biggest lesson is that affordability actually requires discipline everywhere. I can't take a traditional senior living model and just reduce the rent and expect things to work. You have to look at everything—staffing, purchasing, programming. I look at technology, the real estate component, how can I make ancillary revenue and really focus on capital expenditure. So I'm always looking at everything and being very disciplined about those expenses. And when you're operating these older buildings, it becomes even more important, right? So you're dealing with roofs and HVAC systems and life safety requirements and insurance and deferred capital needs. So those things don't disappear just because you're serving a more price sensitive consumer. I think we've also learned a great deal about operating these mixed pay communities. So Medicaid can be an important part of the solution. I've used it all these years that I've been in senior living, but you have to understand reimbursement really well. You have to manage the payer mix and you have to maintain enough private pay revenue to create a sustainable community. And at the same time, you have to be really careful about what you cut. So middle income doesn't mean someone wants a lesser experience. They still want choice and dignity and connection—connection and a place they're proud to call home. So I'm continuously asking myself, what does that resident actually value, that middle income resident? And that's an important distinction because things that are expensive aren't necessarily the things that create the most value.

Robin Freeman: Thank you, that's so interesting. I know that one of the many ways that you're impacting this industry and community is you're on the NIC's Middle Market Committee. Tell us a little bit about how your work with the NIC's Middle Market Committee has influenced the way you think about solving this problem.

Pilar Carvajal: Sure. And it's an honor to be on that committee. I would say one of the things I appreciate about the NIC Middle Market Committee is that it brings together different parts of the ecosystem. So they bring operators like me to the table, capital providers. We have speakers come in, researchers, other industry leaders that look at this problem from different perspectives. And by bringing in the operator perspective like myself, I've actually had to make the economics work at the community level. So I'm able to speak operationally about what works. And when I see a model on paper, I'm thinking, well, what does the staffing look like? What can a resident afford? What happens when wages increase? What happens when insurance increases? You know, older buildings need a lot of capital expenses. And what happens when Medicaid reimbursement doesn't keep pace with the cost of providing care? So these are realities of the middle market. And I also believe existing senior housing has to be a part of the solution. We can't assume that we're going to build our way out of the problem with new construction. So I'm a firm believer that repositioning existing assets and finding ways to operate them more efficiently is an important part of creating more attainable senior living. So I think at the end, the challenge is finding that intersection between affordability for the consumer and the sustainability for the operator and the investor.

Cynthia Mitchell: You've described to us that you've been part of the middle market for many years now and in so many different ways. Can you tell us a little bit about how your experience or your different experiences have changed the way you now define the middle market problem—a very complex definition for sure.

Pilar Carvajal: Yes, it is. So earlier in my career, I thought about the middle market challenge primarily through the lens of senior housing. So how do we make senior living more affordable? Things like that. I still believe that's really important, but I've come to realize that the issue is actually much bigger than housing. Most older adults will spend the majority of their later years living in their homes and their communities. We all know this, right? The middle income consumer faces many of the same challenges there at their home and in their community. So they have way too many resources to qualify for Medicaid, but they don't have enough resources to pay privately for all the support that they necessarily need as they age. So what we're really facing is an affordability gap across the entire aging continuum. The middle market challenge doesn't begin when someone walks through the doors of senior living. It actually occurs much earlier in the process. And that realization for me changed the question for me about the middle market. Instead of just asking, how do we make senior living more affordable? I started asking, how do we make aging well affordable? I think that's a much bigger conversation for our industry to have.

Robin Freeman: An interesting way to put it that I think is really important. Is the broader view of the middle market that you just described what ultimately led you to Longevity Day Club?

Pilar Carvajal: Yes, and I see the Longevity Day Club as an extension of what I've learned from the middle market rather than a departure from senior living. So after years of operating communities and working with Medicaid and managing mixed pay populations, trying to make those economics work for that middle income senior, I come

back to one question. What happens before someone needs senior living? I mean, there's maybe 10, 15, 20 years when someone's living at home and wants to remain independent and healthy and connected, yet we have not built the infrastructure around helping that middle income consumer navigate those years. So Longevity Day Club grew out of exploring whether we could bring some of those pieces together earlier—social connection, movement, cognitive health, wellness, access to trusted partners that are really important in the aging process. And so while I'm still learning here and refining the model, I don't want to pretend I've solved all the problems, but I can tell you one thing—that consumer is really familiar to me. And it's the same middle income older adult I've spent my career thinking about. So whether I'm talking about Innovation Senior Living and my work with the NIC, senior housing or aging at home, my work keeps coming back to the same question. How do we create high quality aging experiences that ordinary Americans can actually afford?

Robin Freeman: Thank you, Pilar. That was really interesting. We're so grateful that you've joined us here today. We are at the end of our time, so we'll wrap up here. Thanks to you for joining and thanks for all our listeners for tuning in. Please keep an eye out for future episodes.

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