



## 10 Tips for Avoiding Senior Housing Construction Pitfalls

*By Steve Ordahl, Senior Vice President of Business Development*

Absolutely essential to building high-quality senior housing is a great client-builder relationship. Here are 10 tips to consider from Ecumen as you search out construction partners for your senior housing development:

- 1) **Study market research.** Developing senior housing isn't like the movie *Field of Dreams*. Just because you build it doesn't mean people will come. Make sure that you're entering any senior housing construction project armed with a detailed market study that will show you the demand and what people are paying in the area for the type of housing you're looking to build. Once a developer locks in the number of units to be built changing the design to a new mode of living (independent living to memory care) can be difficult and expensive. A quality market study is fundamental before moving to the construction process.
- 2) **Know your builder, its history and financial stability.** From the outset, look for a construction partner who brings a diverse

and long track record of success in senior housing development. Senior housing development is not simply putting up bricks and mortar. It has a number of unique nuances, especially when you're looking at very specialized housing and services, such as memory care, or looking to integrate housing into existing construction, such as a church, medical center or college campus.

- 3) **Drive the "Request for Proposal" process by providing contractors a "compare and contrast" template to post itemized costs.** By having a "compare and contrast" template, a client can view all four or five proposal submissions they will likely receive (always make sure to get several bids), by line item, looking for potential discrepancies in the proposals. If discrepancies exist, there may be a perfectly reasonable reason why. The template approach helps you see the whole picture and ask the right questions.
  
- 4) **Consult with a construction specialist attorney.** It's beneficial to have contracts passed through legal counsel that is well-versed in construction law. Many senior communities who are thinking about repositioning or adding new housing often have legal counsel, but they're often elder-services law specialists rather than construction specialists.
  
- 5) **Make certain the contract is well defined.** Good contracts have a clear definition of the scope of work, the schedule and

what the project will cost. Ask for the details. This will avoid the proverbial “change orders” that can increase the cost of projects.

6) **Watch for the “burden rate.”** That’s the amount contractors must pay for benefits, insurance and taxes for their employees. Typically, a contractor will use a multiplier of 30% to 70% of an employees’ base labor rate for the burden. Be sure to confirm this at the outset.

7) **Know your delivery types.** A *Construction Manager Agency* agreement transfers risk to the client. Under this scenario, the contractor is an agent to the owner and working in the best interests of the owner. A second type of agreement, *Construction Manager at Risk*, uses the same approach but places the construction company at financial risk if things go wrong. *Construction Manager Agency* agreements make sense when the client has worked with the construction firm before and has a level of confidence the work will be done within budget. Clients working with new firms may want to consider the *Construction Manager at Risk* approach, although the costs will be higher for the client because the contractor is assuming the risk.

8) **Get full disclosure from contractors.** Look at the fees and what is included and not included. Study closely “general conditions” and “reimbursed items” such as temporary heat,

power, toilets and snow removal. One contractor, for instance, might charge \$750 a month for a fully equipped trailer, another \$4,000 a month for the same type of trailer. Equipment rental rates are established by the Associated Equipment Distributors (AED), an industry association. A contractor may be charging less or more than the industry standard, leaving clients to ask the why. A higher charge may be due to maintenance, repair, rental fees and transportation cost. This is another example where the “compare and contrast” template is valuable when obtaining bids.

- 9) **Hire consultants – structural, electrical or civil engineers, architects -- with senior housing experience.** Senior housing communities are different from typical construction jobs because they include residential and commercial elements. Outside of high rises, many senior projects involve wood framed units that will bring in bids from residential framers and carpenters. A potential problem is that residential builders may not be familiar with regulations they must follow regarding senior housing. Some states require two-hour construction, meaning a senior complex must be able to burn for two hours without collapsing. Other states have no such code. Residential builders may not be accustomed to the scale or the systems or the need for fire alarms, large meeting spaces and commercial grade kitchens found in most senior housing communities.
- 10) **Be very clear on your expectations.** Are your intentions to sell this housing in a few years? Or will you retain it for years? Some clients say they will replace the carpet every five

years, for example, which means a contractor can suggest more inexpensive carpeting. A roof can have a 15 year shingle, or a 50 year shingle, the latter being more expensive. Some contractors will not work with owners seeking to flip buildings after five years because the focus is fully on cost rather than all of the other elements that go into creating high-quality senior housing.

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