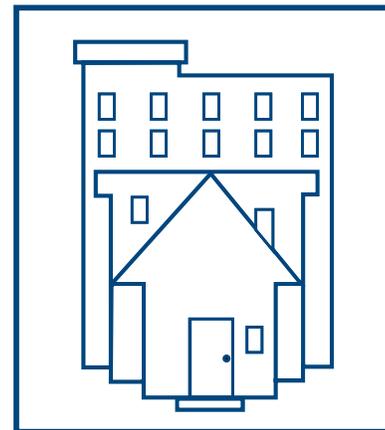


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## REAL ESTATE COMPANY



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### Labor, Land Costs to Impact Senior Housing Development

According to a recent CBRE report, total costs increased by 6.4% in 2019, with labor and land expenditures cited as key factors. *By Gail Kalinoski*

Labor and land costs are the primary drivers of a 6.4 percent increase in senior housing development costs for 2019 and a new CBRE report expects those costs to rise this year as well.

The research from CBRE Valuation & Advisory Services found the total cost for a senior housing development last year was an average \$317 per square foot.

The average cost per revenue unit was essentially flat and the average number of total revenue units per property dropped from 106 to 128. Hard costs (labor, sitework, foundation, building shell construction, roofing, interior finishes, landscaping, signage) were 66.8 percent of the total development cost. Soft costs (inspection fees, construction loan-related costs, architectural/design costs, project management) represented 19.5 percent of the total costs followed by site acquisition costs at 10.1 percent.

An uptick in perceived risk due to lower national occupancy rates is given as a reason for average returns (stabilized net operating income as a percentage of overall development costs) rising 9.5 percent in 2019, or approximately 60 basis points.

James Graber, Managing Director, Valuation & Advisory Services, CBRE, said in a prepared statement that developers are using a more rigorous selection process for projects in a 'flight to quality' that is resulting in lower construction starts projected for this year.

The report notes returns on cost ranged from about 8 percent to 10.3 percent in 2019, compared to the 2018 range of 7.7 percent to 9.9 percent. There was no identifiable pattern based on CBRE's review so the data is more deal specific based on supply and demand factors in the primary market area of each development.

While the development activity is expected to remain strong in 2020 and returns on cost expectations have increased, there is still an elevated perceived risk. Although still at high levels, development activity did slow in 2019. Citing NIC statistics, the CBRE report said there was a total of 60,883 units in 543 senior housing developments—excluding majority nursing care projects—under construction in primary and secondary markets in the fourth quarter of 2019.

The construction pipeline total was down 10.2 percent from the previous year. The cycle peak occurred in the third quarter of 2018, when 68,702 units were under construction. The report states continued moderation in development activity is healthy for the market because demand has not kept up with new supply, leading to a dip in occupancy levels and year-over-year rent growth.

#### COSTS BREAKDOWN

**Site acquisition costs**—while just 10.1 percent of the total development costs last year, it is still a significant component. While the range depends on the market and location within a market, the average site

costs, based on total revenue units, averaged between \$12,200 and \$31,200 per unit, or an average of \$35.75 per square foot.

**Hard costs**—they generally fell within a statistical range of \$166.25 to \$245.50 per square foot of gross building area and 62.6 percent to 71.5 percent of total development cost. The primary variation is due to the building quality and materials of a project. Labor was a factor, both in availability and whether it was unionized. Average hard costs per square foot of gross building area rose 4.8 percent last year to \$206.50 per square foot.

**Soft costs**—averaged \$63.50 per square foot last year, up 7.6 percent from 2018.

**FF&E costs**—furniture, fixtures and equipment are not always included in development costs, but can represent a considerable portion of the costs, according to CBRE. Last year, CBRE estimates FF&E costs were about \$8,800 per revenue unit, down 2.2 percent.

CBRE Valuation & Advisory Services, which completed valuations of more than 2,000 senior housing properties across the U.S. last year, used data from the valuations of 317 developments scheduled for delivery for this report.



## Retail Sales in Record Drop in April, With Clothing Taking the Biggest Hit

by Marianne Wilson, *Editor-in-Chief*, Chain Store Age

Consumer spending took a nose dive in April as the COVID-19 pandemic drove record unemployment and caused many states to continue stay-at-home orders.

Retail sales dropped almost twice as much during April as they did in March as the nation's economy saw its first full month when most businesses were closed because of the pandemic. Retail sales were down 14.1% seasonally adjusted from March and down 8.7% unadjusted year-over-year, according to the National Retail Federation. (The NRF numbers do not include automobile dealers, gasoline stations and restaurants.)

Total or overall retail sales fell 21.6% in April from a year earlier and were down 16.4% from March, when sales fell 8.3%, according to the U.S. Census Bureau.

Every category of retail except online was down on a monthly basis in April, including grocery stores and others that had seen a surge in March as consumers stocked up. Clothing and accessory stores were in freefall, down 78.8% (and 89.3% year-over-year). Online sales rose 8.4% (and were up 21.2% year-over-year).

Online, grocery stores and building materials were the only categories that saw a year-over-year gain.

Here is how the other retail sectors fared in April over March:

- Building material and garden equipment: -3.4%
- Grocery stores: -13.2%
- Pharmacies and other health/personal care stores: -15.2%
- Big-box (general merchandise) stores: -20.8%
- Department stores: -28.9%
- Sporting goods, music and other hobby stores: -38%
- Furniture/home furnishings stores: -58.7%
- Electronics and appliance stores: -60.6%
- Clothing and clothing accessory stores: -78.8%

Consumer spending, which accounts for more than two-thirds of U.S. economic activity, tumbled at a 7.6% annualized rate in the first quarter, the sharpest drop since the second quarter of 1980.

Jack Kleinhenz, chief economist, NRF, said that the April results were not a

surprise since it was the first full month when most businesses not considered essential were closed, both in retail and across the economy.

“But month-to-month comparisons provide little insight other than indicating that most of the economy was on lockdown,” he stated. “Now that we’re in mid-May, many businesses are already starting to reopen. Relief payments and pent-up demand should provide some degree of post-shutdown rebound, but spending will be far from normal and may be choppy going forward.”

### Starbucks seeks rent relief for next 12 months

by Marianne Wilson

Starbucks is asking its landlords for a break on rent as COVID-19 takes a toll on sales.

In a letter to landlords that the coffee giant sent earlier the month, the company asked them to “adapt to new realities” — including an anticipated \$225 billion hit to the American restaurant industry during the next three months, reported The Seattle Times.

“Effective June 1 and for at least a period of 12 consecutive months, Starbucks will require concessions to support modified operations and adjustments to lease terms and base rent structures,” read the letter, which was signed by Starbucks COO Roz Brewer, according to the report.

Starbucks' second-quarter global same-store sales fell 10% amid a 13% decline in transactions for its second quarter, which ended March 29. The company warned it expected the negative financial impacts of COVID-19 to be significantly greater in the third quarter.

With more U.S. locations than nearly any other chain, Starbucks' request for rent relief could have widespread ripple effects on commercial property and mortgage markets if implemented nationally, noted the Seattle Times.

Starting on May 4, Starbucks began opening its stores in the U.S. and Canada, with expectations of having approximately 90% of all company-operated U.S. Starbucks stores reopened by early June in various formats, with an emphasis on mobile order and take-out. Customers will not be allowed inside most of the locations.

## Assistance Available to Restore and Protect Privately-Owned Land for Wetland Habitat

**Ohio Country Journal**, February 19, 2020

The U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS) encourages people and groups wanting to restore and protect critical wetlands to consider enrolling their property into conservation easements.

This year, NRCS will invest in technical and financial assistance to help private landowners, tribes and other groups protect these valuable lands. Efforts will be focused on restoring previously drained agricultural lands and protecting the restored wetlands with easements. Landowners are financially compensated for enrolling their land in easements.

"Protecting these lands preserves Ohio's heritage, natural resources and open space," said Barbara Baker, NRCS Assistant State Conservationist in Ohio. "Easements are an important tool for people who are trying to preserve the land for future generations."

The Agricultural Conservation Easement Program (ACEP) utilizes the Wetland Reserve Easement (WRE) component of the program. Applications for ACEP-WRE are accepted on a continuous basis. Applications signed and submitted to NRCS by the ranking and funding deadline will be evaluated for fiscal year 2020 funding. The application deadline for this year is March 27, 2020.

Through ACEP wetland reserve easements, NRCS helps landowners restore and protect wetland ecosystems. Wetlands are one of nature's most productive ecosystems providing many ecological, societal and economic benefits.

In the 1700s, wetlands covered 5 million acres of Ohio, primarily in the northwestern part of the State, referred to as the "Great Black Swamp." Competing land uses resulted in a 90% loss of wetlands by the late 1900s. Since 2005, NRCS has assisted landowners in restoring more than 25,000 acres of Ohio's wetlands.

"Wetlands provide many benefits, including critical habitat for a wide array of wildlife species. They also store floodwaters, clean and recharge groundwater, sequester carbon, trap sediment, and filter pollutants for clean water," Baker said. "Seventy-five percent of the nation's wetlands are situated on private and tribal lands."

Last year, Ohio landowners restored 600 acres of wetlands through ACEP. Landowners can choose either a permanent or 30-year wetland conservation easement.

Eligible lands include farmed or converted wetlands that can successfully be restored, croplands or grasslands subject to flooding, previously restored wetlands, and riparian areas that link protected wetland areas. As part of the easement, NRCS and the landowner work together to develop a plan for the restoration and maintenance of the wetland.

Ohio landowners interested in wetland reserve easements and partners interested in agricultural easements should contact their local USDA Service Center.

To learn more about ACEP and other technical and financial assistance available through NRCS conservation programs, visit [Get Started with NRCS](#).



## Social Security: Backstage for Now

AARP Bulletin, March, 2020

Even though more than 64 million Americans rely on it for crucial benefits each month, Social Security so far has not been a key topic in the presidential debates or on the campaign trail. But the challenges the program faces are real, and getting closer. If no action is taken, the Social Security trust funds will be completely drained in just 15 years. If that happens, the agency may need to reduce everyone's monthly retirement benefit by nearly 20 percent.

Few candidates have seemed interested in addressing this, and for a reason. "There's not much upside to tackling Social Security's shortfall in a campaign," says Richard Johnson, director of the Program on Retirement Policy at the Urban Institute, a think tank. "Fifteen years is long time, politically. There are lots of immediate concerns that people are more worried about."

"The media has largely ignored Social Security despite its importance to virtually all Americans," adds Nancy Altman, president of Social Security Works, a nonprofit advocacy organization.

But that doesn't mean presidential candidates haven't started thinking about how they would address the issue. A few potential solutions do pop up on the campaign trail and on Capitol Hill.

One commonly cited proposal is to raise the cap on when workers no longer have to contribute to the Social Security payroll tax (in 2020, you stop paying when you reach \$137,700 a year). While most Americans aren't earning that much annually, the total income for those who do has grown significantly. Raising that cap to, say, \$250,000 would add a considerable amount to the Social Security trust fund. Critics of the option point out that only high earners would have to shoulder the responsibility of fixing the funding this way, and their added contribution wouldn't fully solve the problem.

Another option legislators have proposed is to gradually raise the tax rate for all workers. Right now, that's 12.4 percent – with 6.2 percent paid by the employee and 6.2 percent by their employer. Some proposals suggest taking that number to roughly 14 percent, and perhaps increasing the amount people receive when they retire. Critics point out that the extra sum would come out of paychecks that families need now.

Whether candidates – or the nation at large – have the stomach to take on such a critical issue in such a polarized climate remains to be seen. Some say that fixing Social Security goes beyond simply upgrading its financial structure, and needs to include a reevaluation of its priorities. "The decision whether to expand or cut Social Security is a matter of values, not affordability," Altman says.

With so much on the line, it may not be surprising if candidates skirt the issue for now.

"I hope Congress and the next president take on reform, but I'm not optimistic," Johnson says. "The last major effort to fix Social Security's finances, in 1983, happened just as the system was about to collapse. I think policymakers will be putting off these tough choices until there's a real crisis."



### QUESTIONS FOR YOUR CANDIDATES: SOCIAL SECURITY

**1** How will you make sure Social Security can pay people full benefits now and in the future?

**2** Are you willing to fund Social Security in a way that improves service?

**3** What will you do to make sure people who need disability benefits can get them, without hassles?

**4** How will you help the SSA fight fraud and waste?

# CORUM

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## Notable Quotables

**If opportunity doesn't knock, build a door.**

*-Milton Berle*

**Live today. Not yesterday. Not tomorrow.  
Just today. Inhabit your moments. Don't rent  
them out to tomorrow..**

*-Jerry Spinelli*

**At the end of your life, you will never regret not  
having passed one more test, not winning one more  
verdict, or not closing one more deal. You will  
regret time not spent with a husband, a friend, a  
child, or a parent..**

*-Barbara Bush*

**Integrity is telling myself the truth. And honesty is  
telling the truth to other people.**

*-Spencer Johnson*

**Your success and happiness lies in you. Resolve to keep  
happy, and your joy, and you shall form an invincible host  
against difficulties.**

*-Helen Keller*

**Socialism is a philosophy of failure, the creed of ignorance,  
and the gospel of envy... its inherent virtue is the equal  
sharing of misery.**

*-Winston Churchill*