



The Next Big Challenge: Building & Operating Middle Income Senior Housing

SPONSORED BY

PLANTE MORAN
LIVINGforward™ 

www.pmlivingforward.com
847-628-8903



info@seniorhousingnews.com | 312.268.2420

The Next Big Challenge: Building & Operating Middle Income Senior Housing

Senior living pioneers are working to solve the next big challenge for this vast housing market

The middle market for senior housing is vast. Millions of baby boomers are approaching their later years, and many will seek senior housing and care solutions. Yet for the majority of them, those solutions are financially out of reach.

Serving one bookend of the senior population only, there are thousands of communities that cater to high-end residents who pay for their living and care expenses out of pocket. On the other end of the nation's income distribution there are seniors and households who qualify under various programs—often controlled by state and local governments—to live in subsidized affordable housing options based on their household incomes.

There's no denying that the needs of those who fall in between the two ends of that spectrum are largely unmet. The senior housing industry realizes that this middle market is a challenge. At the same time, it's also a great opportunity. While a mainstream solution has not been developed, some senior housing players are pioneering programs and models that will lend themselves to the rising model of the future for the middle market.

Defining the Middle Market

For the purposes of this white paper, the middle market is defined as those households between \$25,000 and \$50,000 in annual income—households that do not typically meet the income criteria for low income benefits as determined by area median income.

Based on income and expenses, the middle market faces a shortfall when it comes to senior housing options. According to the National Investment Center for Seniors Housing and Care, the average independent living monthly rent in the first quarter of 2016 across the U.S. was \$2,971. The average assisted living rent was \$4,365. Seniors living in an independent living setting spend approximately 60% of their income on housing, while seniors living in an assisted living setting spend approximately 85% of their income on housing. On average, senior households spend nearly \$60,000 per year in an independent living setting and nearly \$62,000 in an assisted living setting. Those in the middle market are not able to meet those expenditures on an annual basis. The table below provides the average annual expenditure for senior households living in an independent and assisted living settings.

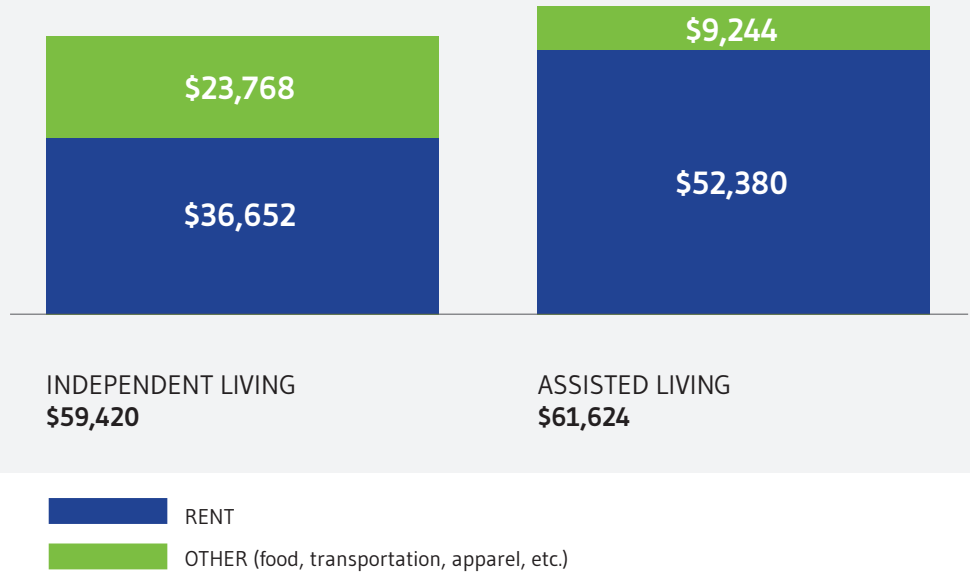
Senior living consulting firm Plante Moran Living Forward recently compiled data to define and explain the market. According to the research, around 30% of households that are in the 85+ age group fall into the middle income population segment. That

There's no denying that the needs of those who fall in between the two ends of the spectrum are largely unmet.

amounts to roughly 1.2 million households now and in the coming years for seniors over the age of 85. Looking at the number of seniors over age 75 who earn between \$25,000 and \$50,000, the number of households increases to 4.4 million.

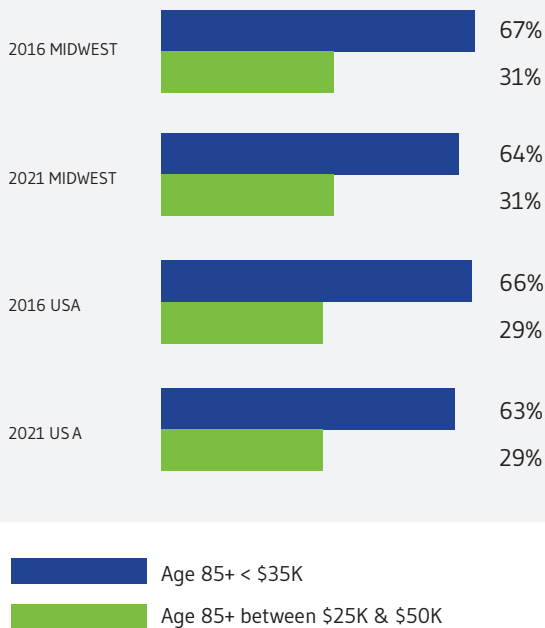
“Our national policy and industry efforts to ignore the need for middle income market senior housing is positioning our nation for a housing crisis like nothing we’ve seen before,” says Dana Wollschlager, principal with Plante Moran Living Forward. “The newest shiny option in market rate senior housing is always

Average Annual Expenditure



Source: National Investment Center for Seniors Housing and Care, Plante Moran Living Forward

Income Levels of Age 85+ Household



Source: The Nielsen Company

easier to develop and operate and clearly produces greater returns for investors. While the complexities associated with a more moderately priced senior living option seem daunting, we must demand a continued national conversation to identify solutions—including policy changes, regulatory adjustments, alternative funding options and incentives to engage investment—and encourage development through greater collaboration between federal and state agencies.”

The dearth of affordable options stresses not only the generation who will be seeking senior living options in the coming decades, but also the generations that will need to support aging parents who lack affordable senior housing.

“A lot of focus is being placed on the aging senior population over the next five years, but it is important to take into account the financial outlook for the adult children of today,” says Jamie Timoteo, vice president of Plante Moran Living Forward. “The adult child is frequently the financial source for today’s senior. The question is: will they still have the financial capabilities to afford care when they reach the point in time to move into a senior living community?”

Senior Housing Options and Costs

Type	Description	National Median Cost	National Median Annual Cost
Independent Living Communities	Resident generally independent and self-sufficient	\$2,000 - \$5,000 per month	\$24,000 - \$60,000
Assisted Living Facility	Residents live in private apartments; staffed for assistance with some daily tasks and activities/entertainment	\$3,600 per month	\$43,200
Memory Care	Secured area of assisted living or skilled nursing facility	\$3,500 - \$6,600 per month	\$42,000 - \$79,200
Residential Care Homes	Private residential homes adapted to accommodate limited number of residents; 24-hour supervision and assistance	\$2,200 - \$3,400 per month	\$26,400 - \$40,800
Nursing Home Care	24-hour monitoring and medical assistance (semi-private and private)	\$220 - \$250 per day	\$80,300 - \$91,250
Home Health Aide Services	Range from weekly visits to 24-hour care	\$20 per hour	\$41,600
Adult Day Health Care	Half-day or full-day care at center with transportation option	\$69 per day	\$17,940
Respite Care	Short-term stay or temporary in home care, typically less than a month	\$75 - \$200 per day	\$19,500 - \$52,000

Sources: A Place for Mom, Guide to Senior Housing and Senior Care 2006, Genworth 2015 Cost of Care Survey

There may not be a silver bullet, but there are several approaches to addressing this middle market challenge that are beginning to gain traction.

The solutions

Senior housing developers and operators are pioneering solutions in two major ways: first, through operations, and second, through design and development.

Solving the problem through operations

Some senior living providers have been successful in reducing costs by using different operating models. Namely, they are identifying ways to incorporate residents of mixed incomes within a single community.

In some instances, this means the revenue generated from private pay residents helps subsidize the costs faced by lower income residents. But in some places, a mixed income model is being supported by government programs.

The best example of this is in Illinois, where in 1996, the state introduced a Supportive Living Facilities program that created the rights to use Medicaid waivers in assisted living. Today, those waivers are being used to allow for residents to reside in assisted living communities alongside private pay residents, and receiving the exact same amenities and care they would find in any private pay community.

"I believe it's part of the solution," says Jim Keledjian, principal for Pathway Senior Living, based in Chicago. "There are 26 states that have some form of a Medicaid waiver, but none of the programs are as good as in Illinois."

Pathway Senior Living has a portfolio that includes both private pay and mixed income communities. The company has pioneered the mixed income approach with a large degree of success in offering units to residents for about \$600 per month out of pocket, versus the relative private pay cost of \$4,200 per month.

The program works in Illinois based on the fact that if a project is selected to receive a Supportive Living license, the project only has to use a minimum 25% of its Medicaid units when the community is 100% eligible for the waivers.

Another benefit to the mixed income model is that if a private pay resident spends down his or her assets, that resident can transition onto to the state's Medicaid program and can remain in the exact same unit. The rent is simply converted to a mixed payment that includes a majority of Medicaid reimbursement.

Gardant Management Solutions has also found success in Illinois with the mixed income model. Similar to the way the state program is used by Pathway, Gardant operates a portfolio of mixed-income assisted living communities across the state.

“

You have to go in with the mindset that occupancy will be at least 98%. All apartments are filled every day.

- Rick Banas

Vice President of Development and Positioning for Bradley, Illinois-based Gardant.

”

Both private pay and Medicaid waiver residents enjoy the same amenities and services, but at different price points. And the operators find their occupancy reflects a model that works. When it comes to attracting financing sources for mixed income projects, the assumption needs to be that the community has a much higher average occupancy than the average private pay community.

“We find you can’t go into this expecting 84%-88% occupancy and get the return on investment to attract financing sources,” says Rick Banas, vice president of development and positioning for Bradley, Illinois-based Gardant. “You have to go in with the mindset that occupancy will be at least 98%. All apartments are filled every day.”

A Gardant community located in Pekin, Illinois has gone for as many as 21 consecutive months with zero lost revenue days.

The cautions: One caveat of the mixed income model, according to Pathway, is that it works best in suburban areas, contrary to a largely held belief that the middle market will flock to the urban areas of the country for senior living solutions.

The other major hurdle to the mixed income model is dependence on government programs and participation.

“The long-term problem is Medicaid,” Keledjian says. “What’s the availability of Medicaid? Will the states continue to lower Medicaid reimbursements? That’s the real issue.”

Developing the existing programs for more widespread adoption as well as piloting new solutions will require providers to work together.

“Senior housing operators will need to collaborate to demonstrate the concern of rising health care costs and the inability of a large portion of the aging population to afford the proper care,” Timoteo says.

CONTROLLING DEVELOPMENT COSTS

Senior living architects and designers are targeting cost savings in many ways. Here are a few areas for savings.



Apartment size



Number of parking spaces



Finishes

(granite vs. synthetic counters)



Amenities inside unit

Project density



Number of bathrooms



On-site dining facility



Proximity to area amenities and services

Solving the problem through development and design

The senior living industry is very good at building high-end, private pay communities and has seen a wealth of success in constructing these state-of-the-art properties across the nation. With spacious common areas, luxury finishes, cutting-edge workout and wellness facilities, and roomy resident dwellings, developers continue to churn out these senior living products.

But by controlling construction costs and building under different models and assumptions, developers can in part solve the middle market problem through construction and design.

For example, developers can incorporate more studio apartments rather than one-bedroom and two-bedroom apartments, knowing that studios are much more affordable.

“We are going to need to change focus on design of the apartment,” Banas says. “Our model is 40% to 50% studio units at 325 to 340 square feet. The biggest obstacle is convincing our sales staff that they can sell a studio apartment.”

Designing with less square footage overall is another way to reduce building costs upfront. Developers have successfully reduced rents by 10% to 20% merely by building smaller and smarter, utilizing shared spaces for multiple purposes, and building strategically in areas where land and development costs are lower.

The benefits are several fold. Smaller units mean shorter distances across the community, which could mean less confusion for a resident who has memory care needs. Selling this concept to the adult children of senior housing residents leads to these smaller units becoming more marketable.

In addition to design that presents a more affordable model, those creating the communities must do so in a calculated way, says Ward Isaacson, president of Minneapolis-based Pope Architects.

“It becomes as much a math problem as a design problem,” Isaacson says. “Determine what rents you will need to charge, then take staffing, tech, financing, land costs, estimated construction costs and other soft costs, then compile the numbers into a pro forma and a project space program project based on square footage. That’s it. That’s the budget. If one of those factors shift, something else has to give.”

The cautions: The middle market again presents more of a challenge than its low-income and high-end counterparts.

“At the lower end, you know what you’re doing with subsidies, and at the high end, you have some more design freedom,” Isaacson says. “In the middle market, you have to stick to the budget, period. That takes a lot of restraint.”

The next big challenge

The solutions are few currently, but new ideas are being piloted every day from involving partners like mega-churches to sustainable and energy-efficient design, building smaller, and utilizing government benefits as much as possible.

While the problem won’t be solved overnight, senior living providers will be well served to continue the conversation about the middle market, and to view it as not just a challenge, but a major opportunity in the years to come.

“If we can solve for the obstacles, there are tremendous opportunities,” says Banas. “It requires a new mindset.”

FOR MORE INFORMATION PLEASE CONTACT



Dana E. Wollschlager

Principal

Plante Moran Living Forward

2155 Point Blvd., Suite #200

Elgin, Illinois 60123

Mobile: 612.961.1249

Direct Dial: 847.628.8903



Jamie Timoteo, MBA

Vice President

Plante Moran Living Forward

10 S. Riverside Plaza 9th Floor

Chicago, IL 60606

Mobile: 440.773.5935

Direct Dial: 312.344.2449



Eric Dumont

Vice President

Plante Moran Living Forward

26300 Northwestern Highway

Southfield, MI 48076

Mobile: 248.943.7180

Direct Dial: 248.603.5287