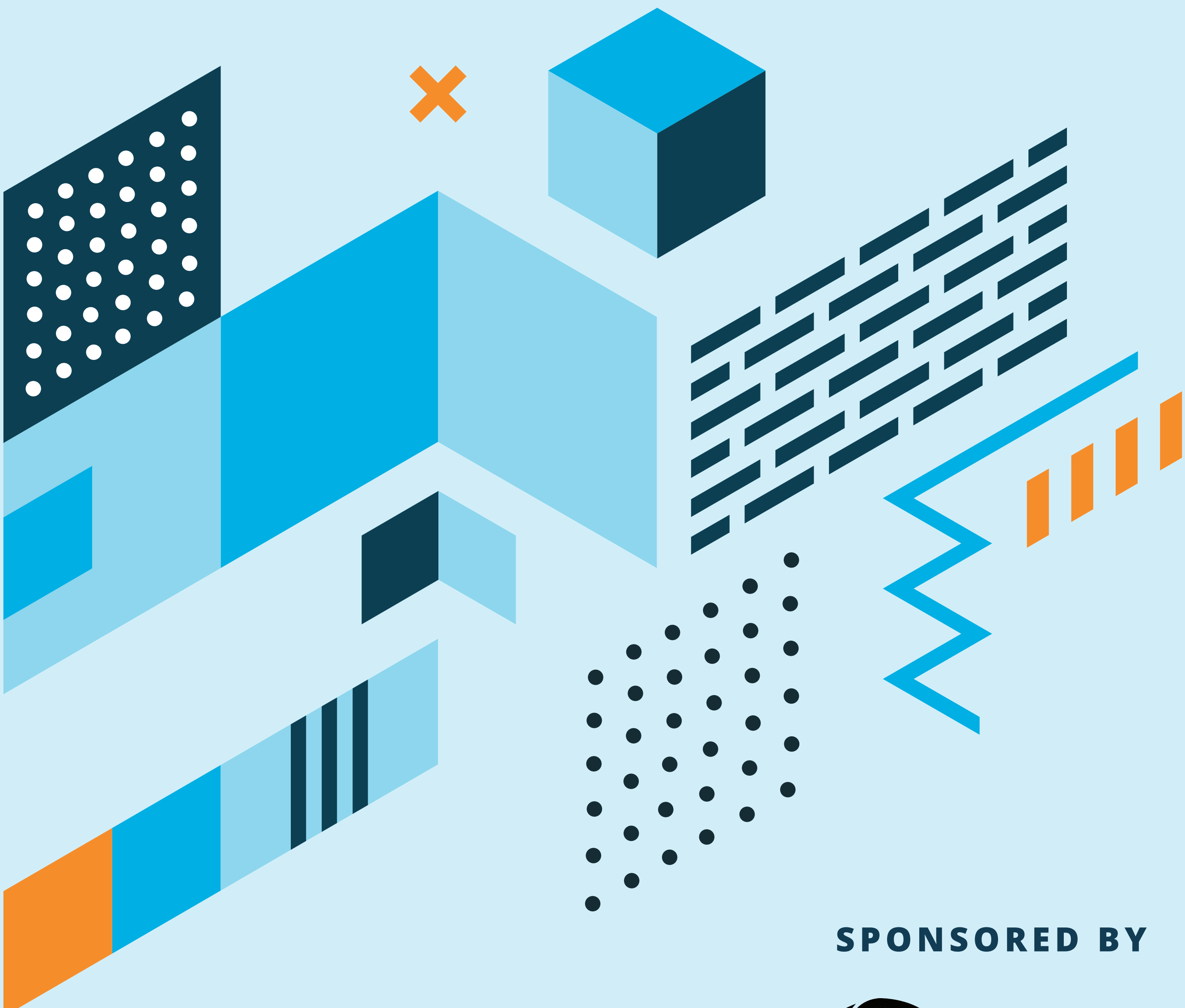
# **Dodging Oversupply:** Finding Hidden Senior Housing Opportunity in Untapped Markets



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SENIOR HOUSING NEWS

# **Dodging Oversupply:**

## Finding Hidden Senior Housing Opportunity in Untapped Markets

Following a recent development boom in senior housing, oversupply is a major concern for owners, operators and developers, as it has led to depressed occupancy numbers across the country.

In fact, 30% of operators surveyed in early 2019 by *Senior Housing News* reported occupancy as the top challenge this year, second only to staffing. Industry data supports this concern, with the National Investment Center for Seniors Housing and Care reporting national occupancy at a stable rate of 88% in late 2018 and early 2019 — well below historical averages.

Senior living and health care delivery are inherently local businesses that compete in a very concentrated geographical footprint. Because of this, oversupply creates a disruptive force for both existing and new entrants in that market. But it also means that there are ample market areas less affected by oversupply, with strong demographic growth, and therefore, ripe for expansion. This leaves operators asking one very important question: Where are the gaps in oversupply?

This white paper will explore the process for determining where potential opportunity lies in market areas less affected by oversupply, as well as the key data in those markets that must be analyzed before moving forward with expansion plans.

**30% of operators report occupancy as the top challenge in 2019.***

**According to a 2019 survey conducted by* Senior Housing News

## Identifying market areas less affected by new competition

Operators seeking to dodge oversupply have several options — they can pinpoint underserved areas of the nation's largest metropolitan statistical areas (MSAs), perhaps in the urban cores where barriers to entry are high, or in overlooked suburbs, or they can widen their focus and look to secondary markets that may be less affected by new development.

**Analysis shows secondary cities like Savannah, GA, and Wilmington, NC, offer significant opportunities for development.**

An analysis conducted by VisionLTC suggests that there are indeed many such submarkets in large MSAs, for example Sherman Village in greater Los Angeles or La Costa in the San Diego MSA, where demographic growth is attractive and new competition and oversupply issues are limited. However, many of these submarkets see limited new development for a reason — they have high barriers to entry. As a result, many operators have begun to look outside of the nation's largest MSAs to understand: Is the industry as a whole overlooking secondary markets?

### Gaps in Assisted Living Oversupply in Selected Large MSAs

| Location | Metro | Supply Growth Past Five Years | Average Age of Existing Supply | 5 Year Demand Growth | 75+ Avg Net Worth | Adult Child Avg Net Worth |
|---|---|---|---|---|---|---|
| Coral Springs Lakes | Atlanta, GA | 0% | 24 | 37% | $1,244,272 | $1,441,509 |
| Laurel | Baltimore, MD | 0% | 29 | 30% | $1,104,553 | $1,059,362 |
| Aurora Highlands | Denver, CO | 0% | 24 | 49% | $1,250,676 | $820,425 |
| Sherman Village | Los Angeles, CA | 0% | 29 | 31% | $1,151,809 | $827,144 |
| Coral Springs Lakes | Miami, FL | 0% | 25 | 34% | $1,366,065 | $1,010,148 |
| Wekiwa Springs | Orlando, FL | 0% | 24 | 38% | $1,090,045 | $1,062,786 |
| El Camino Largo | Phoenix, AZ | 0% | 32 | 31% | $1,118,645 | $794,083 |
| La Costa Canyon | San Diego, CA | 0% | 27 | 32% | $1,731,858 | $1,925,645 |
| Agnew | San Jose, CA | 0% | 22 | 32% | $1,105,502 | $1,014,457 |
| North Bay Hills | Tampa, FL | 0% | 27 | 45% | $1,459,463 | $1,093,634 |

*Methodology: Analyzed 5-mile market areas for each one of 50,000+ test locations across top 100 MSAs.*

## Primary and Secondary Market Analysis

| | Supply Growth 2014-2019 | Seniors w/ Dementia Per MC Bed | 85+ Population Growth | Cost of Living Inc Qualified 75+ Growth | Income Qualified Adult Child HH Growth | Memory Care Demand Growth | Assisted Living Demand Growth | Median Home Value Growth | 75+ Median Net Worth |
|---|---|---|---|---|---|---|---|---|---|
| **Top 100 MSAs** | 15.85% | 13.83 | 5.23% | 24.77% | 13.56% | 20.88% | 23.57% | 6.93% | $236,479 |
| **MSAs 100-500** | 10.22% | 16.76 | 6.85% | 25.49% | 11.55% | 18.84% | 21.26% | 5.27% | $216,134 |

*Source: VisionLTC*

While each MSA is unique, VisionLTC's analysis comparing the 100 largest MSAs against secondary MSAs, defined as the next 400 largest MSAs, shows significant opportunities for new development.

The core drivers of senior housing performance - supply-to-demand ratios, financially-qualified need, and financially-qualified demand growth - are nearly identical. Meanwhile, supply growth across the past five years is 33% lower in the secondary markets. The analysis suggests that there is significant opportunity to "dodge oversupply" in secondary metros and that companies looking to grow should keep cities like Savannah, GA, Wilmington, NC, and others in mind as they develop expansion plans.

**"The demographics tell a story that aging as a force is really happening across the nation. The nation's largest markets are great, but the need is growing equally in those secondary markets. We'd be remiss not to look there."**

**Arick Morton**

*CEO and Co-Founder of VisionLTC*

"The demographics tell a story that aging as a force is really happening across the nation," says Arick Morton, CEO and co-founder of VisionLTC. "The nation's largest markets are great, but the need is growing equally in those secondary markets. We'd be remiss not to look there."

The opportunity may be even more appealing given the cost of development today, he says.

"Given where construction costs and land costs are going — and everyone wanting to be in Tier 1 markets— there is an opportunity to find high yield where you can get land at an affordable price and the market demands new product."

It can be challenging to collect and analyze various data points to determine where the oversupply lies, but an upfront look at some lesser-examined benchmarks can determine the success of an expansion into a new, secondary market.

### Some of those data points may include:

- Supply growth
- Cost of living adjusted senior and adult child growth
- Net worth qualified senior and adult child growth
- Incidence of dementia and limitations associated with activities of daily living (ADLs)
- Financially qualified seniors with dementia and ADL limitations
- Income & wealth of current senior housing residents in the market
- Income & wealth of the adult children of current senior housing residents
- Macroeconomic & labor market conditions
- Resident relocation distance & location of adult child residence

## Untapped opportunity in the middle market

Recent findings published by researchers including those from the National Investment Center for Seniors Housing and Care and NORC at The University of Chicago indicate the need for middle-income senior housing will grow immensely in the next 20 years.

The researchers project that by 2029 there will be 14.4 million middle-income seniors and that 60% will have mobility limitations and 20% of will have high health care and functional needs. The majority will not be able to afford senior housing in its current form or at its current price point.

Yet the opportunity is vast in secondary markets, where the cost of living is lower than in urban centers and the population is equally supportive of senior housing. Examining market factors can help identify areas of opportunity.

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**14.4 million middle-income seniors**

**60%**
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**20%**
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## A deeper dive: the data

Most expansion efforts will first examine some of the high-level data points before delving into additional metrics. Those metrics may be relative to the target demographic, seniors; their family members or adult children; the prospective staff in the area; and even the construction dynamics in a particular market.

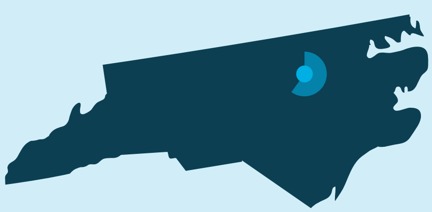
Among some of the areas where a deep dive can net a wealth of information are:

**The effective draw radius.** Where are prospective residents coming from? “That tells you a couple of things,” Morton says. “Is it an adult-child-driven market, or an in-place market?”

Taking Pittsburgh, PA, and Raleigh, NC, as examples, VisionLTC finds that ~60% of residents in Raleigh come from within a 5-mile radius while in Pittsburgh, that figure comes to ~80%. Raleigh is rapidly growing, with many seniors relocating there to be near adult children, while in Pittsburgh, most of the senior population have lived there for their lifetimes and plan to remain there.

The effective draw radius considers how far people will drive to a community. In some areas, it will be less than two miles, while in others, a drive time of 15 minutes is tolerable. That depends on the population and some of the influences at work in a specific community.

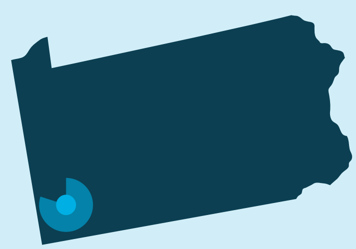
### The Effective Draw Radius



RALEIGH, NORTH CAROLINA

**~60% of residents**

in Raleigh come from within a 5-mile radius



PITTSBURGH, PENNSYLVANIA

**~80% of residents**

in Pittsburgh come from within a 5-mile radius

CASE STUDY:

# New Perspective

An analysis of any new market begins with demographics and defining the competitive landscape. When approaching secondary markets, a look into growth potential as well as existing inventory is a good first-step. A deeper dive into these metrics can help paint a clear picture upfront.

VisionLTC's market analytics platform allows users to make this deep dive. For example, the platform examines the existing inventory in certain age categories, such as properties that are less than five years old versus those that are more than five years old.

"It's easier to come in with a new development when competitors' properties are 15 years old, than when they are three years old," Morton says. For New Perspective Senior Living, based in Eden Prairie, Minnesota, VisionLTC can be used as an initial "go/no-go" assessment, says Adam Cozine, the company's vice president of real estate.

"When someone sends us a project to evaluate, right away we use VisionLTC as a tool to see if there is unmet demand," Cozine says.

The company currently has 22 properties in its Midwest-based portfolio, with two under development. In the coming years, its leadership anticipates expanding throughout the Midwest with significant plans to reach many of the secondary markets in that territory.

A deep dive analysis can be used both in terms of determining whether expansion is viable both from a new development and acquisition standpoint, Cozine says, and to build a regional presence in new secondary markets with at least three projects in any given MSA that will justify a regional team to support those operations.

"When we expand, we are not doing a one-off deal," he says. "We are looking to acquire first and develop from there to build a region, and we are using VisionLTC to see if a certain region has enough demand to do a project."

**"When someone sends us a project to evaluate, right away we use VisionLTC as a tool to see if there is Unmet Demand"**

**Adam Cozine,** *vice president of real estate, New Perspective*

**Resident profile.** Like any product, senior housing is stratified. Some providers serve Medicaid residents, some focus on the middle market and many focus on the high end.

"Sometimes the industry has a tendency to look at them as all the same, but on the flip side you want to segment residents. We have the tools to figure out who you are serving, who your competitors are serving, and the supply and demand dynamics within your target resident segment," Morton says.

The resident profile should include income, net worth and psychographics.

**Adult child profile.** In many markets, the adult child is the key decision influencer and the reason that the prospective resident relocates to the market. Understanding the characteristics of that adult child is critical to building the right product in the right place. VisionLTC's data provides insight into the financial profile of the adult child/next of kin at any given senior housing property as well as where the adult children live.

**Acuity.** The affluent high-barrier markets tend to be significantly healthier, Morton notes, with lower incidence of ADL limitations and cognitive impairment.

**"Most market studies have a national needs assumption. X% have dementia and need memory care. But there are Y variances. Some markets have high incidences of dementia, some low. Being able to adjust for that is incredibly important."**

**Arick Morton**

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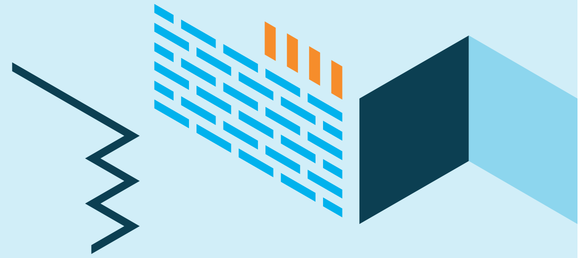
A look into the number of residents taking medication for dementia, for example, can be indicative of the acuity level of prospective residents in a given area.

**Net worth.** While income is a critical consideration, net worth is another important figure. Examining how senior living residents in the area are paying for rent and services — whether through income or through spending down of assets — can help shed light on the viability of a market.

**While some areas experienced a disproportionate development boom in recent years, there are still many areas that are ripe for senior housing development.**



"There is a lot of net worth in the secondary markets," Morton says. "In the secondary markets, you often get more of a saver, who owns the house free and clear. The income might not be as high, but net worth more than fills the gap."

**Macroeconomic factors.** A look at the macroeconomic factors considers the housing market in a particular market including how quickly home sales take place, on average. A slow housing market can limit the ability of a community to fill up initially in addition to placing a drag on move-ins in the long term.

**Supply age & quality.** Looking at the age and quality of the existing supply in the market is critical, as competing against newer real estate is often more difficult than competing against aged real estate. Many submarkets in secondary MSAs haven't seen new construction in a decade or more, despite significant demographic growth, creating a real opportunity.

**Competition operational quality.** Through its proprietary database of the results of state inspections/surveys, VisionLTC can assess the quality of the existing competition in any given market.

"Being able to look at the quality of competition is very important," Morton says. "A lot of folks don't dive into that."

## Expanding into new markets

While some areas experienced a disproportionate development boom in recent years, there are still many areas that are ripe for senior housing development. Many of those markets fall outside of the top 100 metro areas, yet they have ample demand for senior living products.

A deep dive into market data that goes beyond simple age and income qualifiers can be the difference between building or acquiring a community that struggles to fill up, and building or acquiring a community that thrives in its market.

## Contact Us

VisionLTC is one of the senior housing industry's leading providers of analytical decision-making tools. VisionLTC works with many of the industry's most advanced stakeholders to improve opportunity identification and evaluation, strategic decision-making, and operational efficiency.

To learn more about how VisionLTC can assist your organization, please reach out to **Kyle Gardner at [kgardner@visionltc.com](mailto:kgardner@visionltc.com).**

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