

Active Adult Segment: Gamble or Sure Bet?

Insiders weigh the odds of success for this emerging product type.

By Jane Adler

Win or lose, investors and developers are placing big bets on the newly emerging product category of active adult rental communities. Aimed at the huge cohort of 74 million aging baby boomers, the projects are amenity-rich but lack many of the services found in traditional senior living communities, such as housekeeping, meals and assistance.

The bet is that a certain segment of baby boomers will sell their homes and opt for a worry-free lifestyle that comes with a modern apartment and cool places to hang out and work out, like bistros and yoga rooms. These newly minted elders don't want to pay for services they might never use.

Multifamily developers are jumping into the market. The active adult rental product is similar enough to multifamily apartments that it doesn't seem to be much of a stretch to exclusively target older adults.

But developers are being careful to partner with experienced senior living operators that understand the nuances of housing an older population. Today's younger seniors will age in place and eventually may need some services or be forced to move.

Traditional senior living developers and owners are getting into the market too. They realize independent living today mostly serves a much older resident and that some kind of



A private dining room is available for residents of Avenida Cool Springs in Franklin, Tennessee.

product needs to take its place.

At the same time, these experienced senior living developers worry about big multifamily companies muscling into the market. Competi-

tion also comes from the condominium market and other retirement campuses, such as life plan communities.

Location is key, developers say. The demographics of the immediate area must meet income and age criteria. Infill locations are a plus, providing the kind of amenities that people can walk to such as restaurants and shops that this age group wants.

"Baby boomers are the rising group of seniors," says Jay Oglesby, president of Capstone Lifestyle Communities based in Birmingham, Alabama. "There is very limited rental housing currently available that is designed to meet the lifestyle preferences of baby boomers."

Capstone, known as a developer and owner of student housing, plans to break ground in early 2020 on its first active adult rental project. It is located in Matthews, North Carolina, a suburb of Charlotte. The project will be operated by Wilmington, North Carolina-based Liberty Senior Living under the brand name Inspire. Another Inspire project is planned in Chapel Hill, North Carolina, with other sites

under consideration in the Carolinas, Tennessee, Texas and Florida.

"Our goal is to attract younger residents," says Oglesby. He likens his projects to life plan communities that tend to attract younger seniors, but without the hefty entry fees. The project in Matthews will contain 184 units in a four-story elevator building and 20 freestanding villas with attached garages.

City entitlements for the project are in place. Construction debt and institutional equity has been arranged, with financing expected to close in the first quarter of 2020.

The project is set on a campus where Liberty operates a skilled nursing facility. Parcels are available for the eventual development of an assisted living/memory care building. "We see our active adult project as part of a continuum," says Oglesby.

Active adult concept evolves

The term "active adult" isn't new. It is widely associated with the Del Webb brand of communities offering for-sale homes to younger retirees. Other developers have followed the model.

Developer Minto Communities USA, headquartered in Coconut

Growing Pains Fan Industry Identity Crisis

As a relatively young industry that serves older adults, senior living still struggles with its identity. Should residents be called "seniors"? Do consumers understand "seniors housing"? Do they know what the term includes and what it doesn't? Should the word "seniors" even appear in product category names?

The lexicon of the industry is changing to reflect modern sensibilities. The trade association Argentum was originally known as the Assisted Living Federation of America. LeadingAge was the American Association of Homes and Services for the Aging. Continuing care retirement communities are now life plan communities.

Also, in youth-oriented America, age discrimination and the terms associated with it still exist. Savvy marketers don't want to remind potential customers of their advancing age.

Enter the new "active adult" product category. It's not a new term, having first been popularized by the Del Webb brand of communities that began cropping up in the 1960s. These projects are targeted at younger retirees who want a single-family home on a golf course or near other fun activities. In some ways, the new "active adult" product is similar to age-restricted, and mostly affordable, apartment projects for independent residents.

So, is "active adult" the right term for the new amenity-rich but service-light age-restricted rental buildings? Will the name attract younger seniors? Does it convey the right message?

There's some agreement that "active adult" is the

right moniker, and the term is gaining traction. But not everyone is on board with the terminology or the definition of what the product offers.

Richard Hutchinson, CEO of Discovery Senior Living, doesn't like the term "active adult." He prefers "experiential living" to describe his company's rental projects for younger seniors. "We have to change how we are thinking about this industry," he says.

This isn't the first time the industry has run up against how to name a new product. As the senior living industry has matured, its products have been segmented and mostly described by the services they provide.

Assisted living is just that, though the segment serves an increasingly frail population. The same can be said of independent living. Seniors housing includes a variety of product types. And companies use their own brand names to define different products.

The result is consumer confusion, industry sources say. Sponsors aren't always sure what they're investing in either.

So, what is an "active adult" property? The National Investment Center for Seniors Housing & Care (NIC), which tracks the industry, is exploring definitions of the active adult segment that reflect today's market. Definitions are important to track and analyze the product category so both investors and consumers know what they're buying.

That sounds like a good start for a new identity.

— Jane Adler



Glenmont Abbey Village is an active adult project from The United Group of Companies located in Glenmont, New York.

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The great room at Avenida Lakewood, near Denver, offers a contemporary gathering spot for residents.

Creek, Florida, made a big splash over the last several years with its Latitude Margaritaville projects that feature for-sale homes in a resort-style community. The developments are located in Daytona Beach and Hilton Head, South Carolina. Another project is planned for the Florida Panhandle.

Still another product category

that attracts younger seniors is the age-restricted affordable apartment building. These projects, often financed with low-income housing tax credits, are designed for independent seniors seeking a safe and low-cost apartment.

But the industry hasn't quite settled on the name "active adult" to describe the new rental product

(see sidebar). No statistics are available on how many units are being built either.

Developers are tinkering with the product. "We are trying to figure out what these younger seniors want, what they are willing to pay for it, and what the model costs to operate," says Robert May, managing partner of

Avenida Partners, an active adult developer based in Newport Beach, California.

Backers are lining up. Investors in Avenida include big names such as The Carlyle Group and the California Public Employees Retirement System (CalPERS).

The new active adult rental projects generally target boomers in the upper- and upper-middle-income bracket. The projects feature modern designs and include a lot of amenities.

"Our product is at the intersection of residential and hospitality," says May. "We are similar in feel to a curated boutique hotel."

Avenida staffers receive hospitality training. Residents are treated like guests by all the employees, from the executive director to the maintenance worker. "We show we care," says May.

The developer has seven Avenida projects either open or slated to open this year. Five more are in the pre-construction phase and six other sites are now in the process of being acquired.

Avenida builds two prototypes, each with 140 to 160 units. "Our projects are on the small side," says May, who believes that helps create a sense of community.

The upscale Avenida brand takes its name from the Spanish word for avenue, a place for activities and where people come together. The Avenida buildings are highly programmed and amenitized. Units range in size from 750 to 1,350 square feet. "Residents believe they are joining an exclusive club," says May.

A lower-cost brand, with a working name of Avatar (name subject to change), offers units ranging in size from 650 to 1,050 square feet.

Monthly rents at Avenida and Avatar range from \$1,650 to \$2,900. No entry fee is required, though residents pay a one-time community fee of \$1,000 or \$2,000, depending on the product.

The community fee covers two main cost categories: all application fees (including credit and background checks, administrative costs); and a portion of the expenses to underwrite the "5 to Thrive" resident enrichment program which includes an outside speakers series, and other group activities.

The sweet spot for active adult residents is 72 to 78 years old, say developers. Most are homeowners who prefer the flexibility of a

rental option. Many are widows who no longer want the responsibility of a house.

A big difference between active adult and independent living projects is the dining service. Meals are generally not available in active adult communities. However, some offer a breakfast and coffee bar.

Active adult developers sometimes leave room to eventually add a commercial kitchen, figuring residents will one day need dining services as they age.

It's all about the lifestyle

Active adult projects sell the lifestyle. Activities and special events are a big part of the community. It's like a multifamily development in many respects but flush with amenities.

The United Group of Companies, a developer based in Troy, New York, owns and operates 16 active adult projects, each containing about 140 to 185 units. Four others are in development. The United Group also develops multifamily and student housing projects, as well as other types of commercial properties.

The active adult projects feature a lifestyle program called SUN (senior umbrella network). Activities include health and wellness programs, life-long learning, a speaker series, theater outings and fitness programs such as tai chi and aqua aerobics.

Each campus features a 10,000-square-foot clubhouse for activities and gatherings. Monthly rents range from about \$1,700 to \$2,500.

"Baby boomers like to travel and have fun," says Michael Uccellini, CEO at the United Group. He adds that baby boomers also like to entertain and want modern apartments with great rooms and fancy kitchens.

Interestingly, the United Group also owns and leases a product it calls "independent living lite." The average age of residents is slightly older than that of active adult residents. "The demographics are different," says Uccellini.

The United Group has four independent lite projects in operation and one underway in Palm Beach Gardens, Florida. Another Florida project is planned in Sarasota. The independent light projects feature a dining room and commercial kitchen, and residents can buy meals. The dining operation is outsourced to a local restaurant. (For more on the United Group,

please turn page 28 for a profile on the company.)

With a focus on lifestyle, the first active adult project by Capitol Seniors Housing recently opened in Cinnaaminson, New Jersey, a suburb of Philadelphia. The project, Siena Luxury Residences, sits on 15 acres. The community includes 204 units in 12 three-story buildings. Each building contains

17 units. The lobby of each building is well furnished and carpeted.

The centerpiece of Siena Luxury Residences is a large clubhouse that features a bistro, multiple TVs, theater, gym, card and activity rooms, and a heated outdoor patio.

"Everything has been thought through," says Michael Hartman, principal of active living at Capitol

Seniors Housing, headquartered in Washington, D.C. "It's beautiful."

Location matters

Picking the right site can determine success or failure, say developers. They look closely at the demographics of the surrounding area. The psychographics of local residents is important too, says Avenida's May. Is there a willing-



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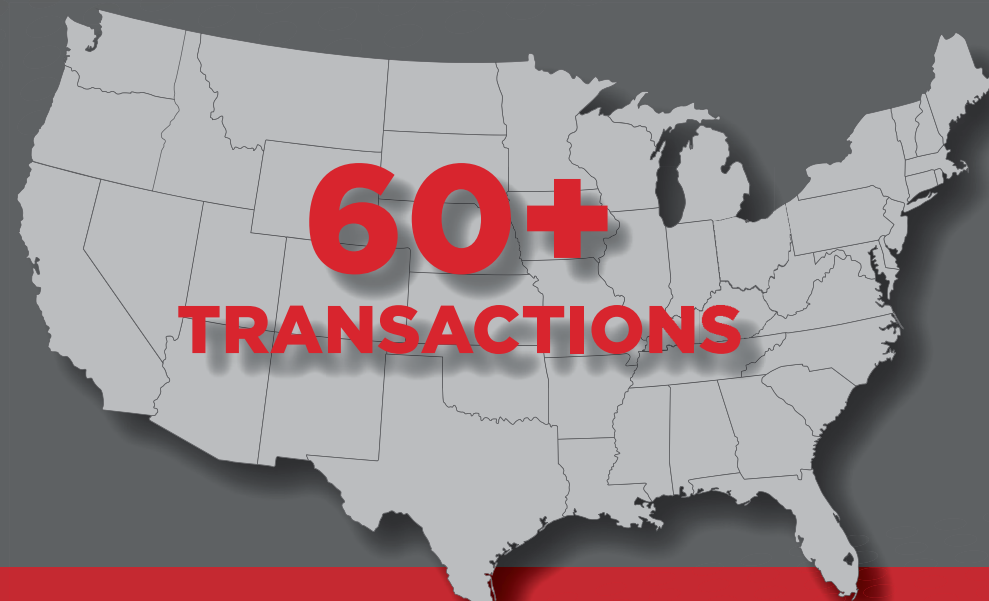
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The clubhouse is the activity hub at Siena Luxury Residences in Cinnaminson, New Jersey.

ness to pay for the lifestyle?

May prefers infill locations where seniors already live. They want a place that's familiar. They want to shop where they have always shopped. They don't want to switch doctors.

"Location is hyper important," says Richard Hutchinson, CEO of Discovery Senior Living based in Bonita Springs, Florida. He spoke on the active adult segment at an InterFace Seniors Housing Southeast conference in Atlanta

last summer and was recently the keynote speaker at InterFace Seniors Housing Northeast in Philadelphia.

Discovery has 16 properties in 14 states, providing everything from active adult to memory care, as well as supervised independent living.

Hutchinson prefers locations with established services and amenities in the surrounding neighborhood. That way residents can visit local restaurants and shops,

and find the services they need. He notes that profits would suffer if the active adult project tried to provide all the amenities wanted by baby boomers. "We are trying to co-locate where other amenities are," he says.

Avenida's May says it's important to customize the building to the specific location. Residents in certain markets may be more interested in a high-end fitness center. A multi-story building can accommodate a roof deck with a nice view and lounge. "It's a site-specific solution," says May. "You need to figure out the secret formula for each micro location."

The lease-up period for an active adult project is longer than for that of a traditional multifamily project by as much as two years. Seniors are slow to make a decision especially if they are selling a home.

But as tenants, seniors are "sticky." They rent for about seven years compared with one or two years for those in typical multifamily buildings. Also, developers say baby boomers can spend up to 50 percent of their monthly income on rent because they usually have accumulated assets — an important factor when a project is being underwritten.

Baby boomers are typically unfamiliar with the product, say developers. Prospective residents need to be educated about senior living in general and the active adult segment in particular.

Avenida starts to market apartments nine months prior to opening. An aggressive education and awareness program to the wider community includes special events, seminars and speaker series. "People don't know they can have a maintenance-free home and have fun," says May.

Another key component is the executive director. May selects managers from the area who know locally influential residents and who can provide potential referral sources. "The executive director is embedded in the wider community to build awareness of our product," he says.

What's ahead?

Gen X.

United Group's Uccellini is focused on what baby boomers want now but also looking ahead to the preferences of Gen X, which represents 50 million people who are now between the ages of 40 and 54. "We are evaluating that," he says.

Moving forward, Hartman at Capitol Seniors Housing favors the idea of providing more choice to consumers. He compares the emerging active adult segment to disruptive technology innovations from companies such as Uber and Airbnb.

A certain group of seniors wants unbundled services, he notes. They don't necessarily want a meal package or housekeeping. They'd prefer to buy those services on an as-needed basis. "The idea is to keep the monthly rent low and give the consumer the option to buy more services," he says.

Technology will play a big role too. If a resident doesn't feel like cooking, he or she can order food via a phone app. "Many things are on demand and on device," points out Hartman.

For now, expect more active adult projects to open and variations on the product to emerge. "There's a good bit of money chasing the idea," says Brian Beckwith, CEO of Atlanta-based Formation Capital, which has more than \$4 billion of managed investments in healthcare real estate comprising over 60,000 beds in 35 states. "We'll see whether its time has come or not." ■



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