

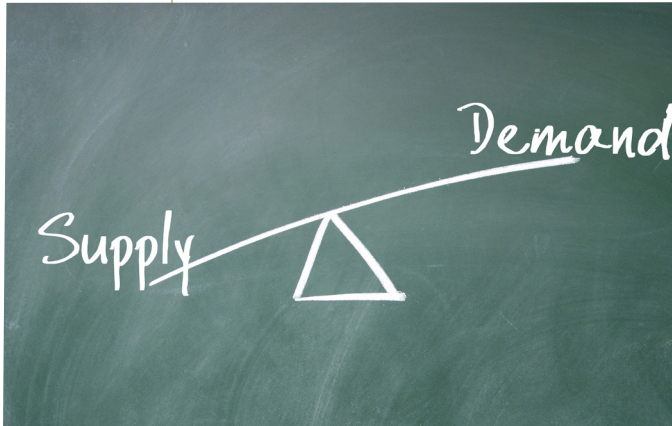
Future Demand for Middle Market Senior Living

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EXECUTIVE SUMMARY

The baby boomer generation has drastically changed the seniors housing industry due to their expectations regarding financial situations and living arrangements, as compared to their parents. Diminished finances, a lack of caregivers, and rising costs converge to create a massive opportunity in the



assisted living sector for options that meet the price point for the average resident and will not unduly burden each state's Medicaid program. While there is a demand for more senior housing at a middle-class price point, the supply conducive to these transforming needs is currently lagging.

FUTURE DEMAND FOR MIDDLE MARKET SENIOR LIVING

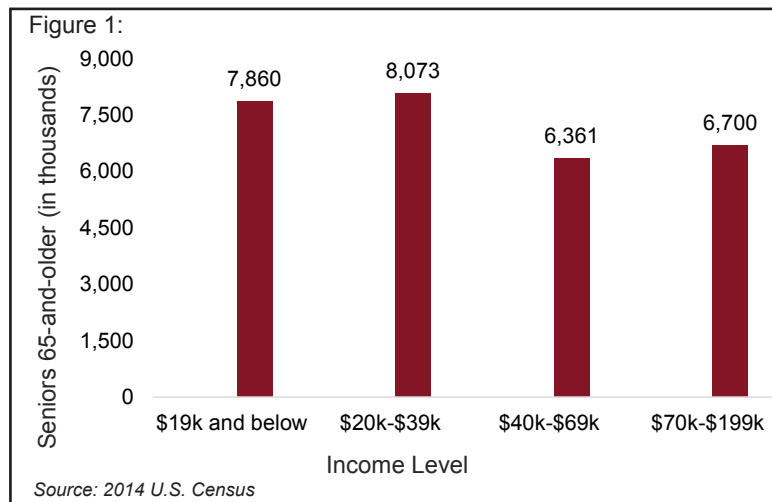
By Steve Kennedy and David Onuscheck

The seniors housing industry is at an inflection point. This is not simply because of the aging baby boomers, rather, it is because this generation has drastically different financial situations and living expectations as compared to their parents. Diminished finances, a lack of caregivers, and rising costs converge to create an unprecedented need for seniors housing at a variety of price points. As such, traditional seniors housing supply will be required to adapt to meet the needs of the new generation of seniors in the coming decade.

Previously, we have explored methods for **addressing the wave of low- and moderate-income seniors** who are in need of some assistance but who still want to maintain independence. On the other end of the financial spectrum, there are plenty of facilities catering to the high-income population. But what about the middle-class? Is there a gap in supply for seniors with incomes that prevent them from qualifying for Medicaid, yet do not earn enough to afford several years in an upscale seniors housing facility?

Burden of Housing Costs

The 65-and-older age group is growing rapidly, with that cohort expected to increase by 37% between 2010 and 2020, according to Michael Baldwin of **Oracle Healthcare Advisors**. Private pay nursing home costs in 2012 **averaged 252%** of the median household income for seniors in that age group. Even when decreasing the acuity level, affordability problems remain. With average assisted living (AL) costs totaling \$3,000 per month, and the average 65+ annual income equaling \$34,381, this housing burden is **105% of total income**. Adding to this problem is the growing wealth disparity among seniors that precludes many of them from using accumulated savings for housing expenses. According to the 2014 U.S. Census, over half of seniors aged 65-and-older who make under \$200,000 fall in the \$20,000 to \$70,000 income range (see below).



“Over 20% of seniors aged 75-and-above have a net worth of less than \$50,000,” according to Nathan Young of market research firm Vogt Santer Insights. This statistic is also true for the 65 to 74 category, and, as Young points out, “1,643 people turn 65 every day.” This volume, combined with this group’s **modest assets**, demonstrates their stark financial reality.

The Great Recession left the boomers financially stifled as it eliminated much of the savings they had accumulated. One of the main causes is that their income is being drained by existing housing costs. They are also more likely to have lower annual incomes and to rent, rather than own their home, as compared to their parents’ generation. In 2010, more than 70% of homeowners between ages 50 to 64 were still paying off their mortgages.¹

Colleen Blumenthal, managing director at **HealthTrust**, a health care appraisal firm, sees such statistics firsthand. Her main concern is the financial hurdle the next generation of seniors will face, given the dichotomy between current earnings and rising costs of senior living. “Most seniors can afford a \$2,000 per month price point,” she said, “but not \$6,000. It’s not feasible given their current savings and their lack of home equity.” Her concern underscores the country’s lack of an affordable cost structure that can handle the next wave of middle-class seniors.

Lack of Caregivers and Existing Stock

In the past, seniors commonly lived with their adult children who acted as caregivers. However, baby boomers had fewer children than their parents. This coupled with the boomers' diminished financial status further limits this option. The **AARP** estimates that “the ratio of potential caregivers to those over 80 will decrease from 7-to-1 today to 4-to-1 by 2030, and to **less than 3-to-1 by 2050.**”

Compounding this problem is that the existing supply of housing is not properly equipped for seniors. “**Housing America's Older Adults**” outlines five traditional features common in senior housing: single-floor living, no-step entries, lever-style door and faucet handles, and switches, outlets, and wide hallways and doors accessible for those in wheelchairs. The study indicates that “while nearly 90 percent of existing homes have at least one of these five features, only 57 percent have more than one.” The decrease in caregivers combined with poorly equipped current housing stock underscores the need for additional middle market options.

Rising Costs

Although the financial burden exists for both homeowners and renters, it is much worse for renters. While the average homeowner 65-and-older typically has enough savings to live in a skilled nursing facility (SNF) for 42 months and enough non-housing income for 15 months, the average renter cannot afford one month in a nursing home, with only 18% having the ability to afford this level of care for one year. Although Medicaid may help some seniors once they are required to move to a SNF, the major problem arises in the middle of the acuity spectrum at AL facilities. Medicaid is rarely available for seniors in AL, and it is the magnitude of these costs which poses the biggest problem.

How Will the Market Adapt?

One thing is clear: “very few middle-class families are in a situation where they can afford the \$3,000 to \$6,000 a month for assisted living,” said Alayna Waldrum, a housing legislative representative at LeadingAge, during an Irving Levin Associates webinar. Matt Rule, vice president of affordable housing

Irving Levin Associates webinar. Matt Rule, vice president of affordable housing development at National Church Residences pointed out in the same webinar that “there’s really a need on [existing] campuses to create a different product that serves a senior at a different price point.” The question then becomes what type of product?

One of the major differences between previous generations of seniors and the aging baby boomers is their varying demands. The boomers have expressed interest in communities where care services are available, but not required. This allows seniors to retain their independence, but have access to care in a walkable community—a highly sought after amenity that has led to an increase in seniors seeking rentable apartment style living options. In 2000, 80% to 85% of those aged 55 to 74 owned their home; in 2015, it has decreased to 75% to 80%. The appeal of amenities, lower maintenance costs, and reemergence of the urban core with walkable communities has significantly contributed to **this trend**.

While independent living (IL) in its varying forms is currently a growing sector responding to the market’s demands, there remains a need for additional changes as the new wave of seniors move up the acuity spectrum and into traditional AL facilities where routine, daily care is required. The costs of such facilities are incongruous with current incomes and savings. It is both a social and economic concern if there are not adequate facilities with affordable cost structures, because it may force seniors to enter nursing homes prematurely. That would present an entirely new host of problems, as SNFs can be too institutional and too expensive for seniors whose care needs are in line with those provided in an AL facility. Although some states are proactively addressing this problem, such as Illinois with its **Supportive Living Program**, most states have fragmented opportunity and relatively minimal solutions generally consisting of some Medicaid waivers and the use of tax-credit equity.

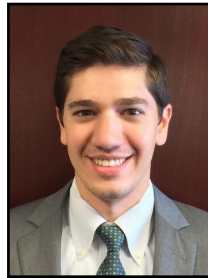
These factors, combined with a void of seniors housing options that align with

the changing needs of seniors, create a massive opportunity in the AL sector for options that meet the price point for the average resident and will not unduly burden each state's Medicaid program. Although there is a demand for more senior housing at a middle-class price point, the supply conducive to these transforming needs is currently lagging.

1. "Housing America's Older Adults." Joint Center for Housing Studies of Harvard University, 2014.



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