

# The New Growth Opportunity: Seniors Housing for the Forgotten Middle

## Seniors Housing Business Webinar

*July 16, 2019*



# Today's Presentation

- ▷ Goal of The Forgotten Middle Study
- ▷ Background
- ▷ Dissemination of the Results
- ▷ Key Findings
- ▷ Interviews with Middle Market Business Leaders
  - Charlie E. Trefzger, CEO, Affinity Living Group
  - Jon Fletcher, Vice President, Presbyterian Homes & Services, Senior Housing Partners
- ▷ Questions for Panelists
- ▷ Next Steps

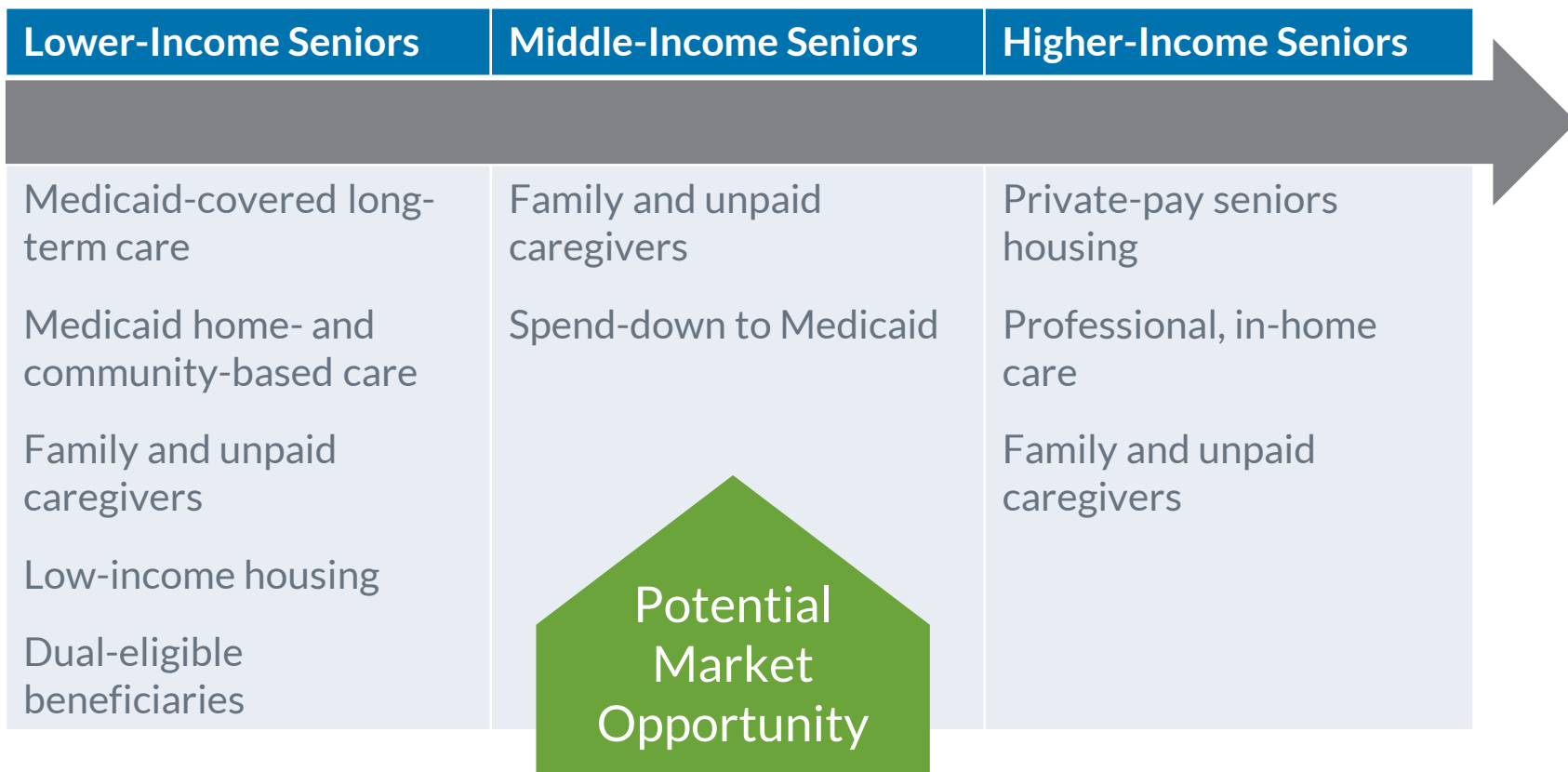
# Goal of the Study

**To analyze the expected growth from 2014 to 2029 in the number of middle-income seniors**

- ▷ How many of them will there be?
- ▷ Who are they? What do their demographics look like?
- ▷ What will their housing and care needs be?
- ▷ Will they have sufficient financial resources to access seniors housing?

# Middle Income Seniors

Those seniors who do not have enough financial resources to live in much of today's seniors housing, but too many resources to be eligible for Medicaid, unless they spend down their assets



# Dissemination of Results

- ▷ Manuscript published in May 2019 Health Affairs on Elder Care print edition, on-line version released at Health Affairs Briefing on April 24, 2019 ([nic.org/middlemarket](http://nic.org/middlemarket))

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- ▷ New York Investor Summit

- May 21, 2019

- ▷ NIC Fall Conference

- September 11 – 13, 2019 ([nicevent.org](http://nicevent.org))



# Goal of New York Investor Summit

**Get the conversation started on how we can collectively as an industry address the care and housing needs of this burgeoning cohort**

- ▷ What private sector solutions will work?
- ▷ Do today's financial structures work?
- ▷ Does today's operating model work?
- ▷ What types of public/private partnerships are required?

# Executive Summary

- ▶ Innovative financial structures and operating models are needed to provide care and housing options for America's middle-income seniors cohort.
- ▶ The investment opportunity is large and growing – over 14 million middle income seniors by 2029, 6 million more than today.
- ▶ Of these future seniors, 6.6 million (46%) are projected to have the financial means to meet the estimated \$60,000 annual costs of living in seniors housing and paying out of pocket medical costs.
- ▶ An additional 2.3 million middle income seniors could meet the yearly costs of rent and other costs if they were cut by \$10,000 from \$60,000 to \$50,000.
- ▶ At today's utilization rates, more than 700,000 units of seniors housing will be needed to satisfy potential demand from middle market seniors by 2029.

# Executive Summary

- ▷ The middle income seniors cohort includes today's retiring workforce housing cohort -- teachers, firefighters, government workers and nurses -- individuals with financial resources between \$24,000 and \$95,000 annually.
- ▷ Future seniors will be more racially and ethnically diverse and more educated than today, potentially altering the care needs and preferences of this burgeoning cohort.
- ▷ Many middle income seniors may have health and mobility needs that cause them to leave their homes for additional care
- ▷ Lower marriage rates, fewer children, and less access to caregivers may increase the need for paid, private seniors housing solutions



# A Variety of Factors Will Cause This Cohort and Its Needs to Swell

- ▶ **Sheer Demographics:** The first baby boomer turns 83 in 2029, with explosive growth in the cohort thereafter.
- ▶ **Reduced Retirement Savings:** Pensions are becoming less common, replaced by 401(k) and other defined-contribution plans.
- ▶ **Changing Marital Status:** Future seniors are less likely to be married (52%) than today's seniors (62%).
- ▶ **Fewer Family/Unpaid Caregivers:** People are having fewer children and those children are less likely to live nearby.

# Health and Mobility Limitations May Cause Future Seniors to Need Additional Care

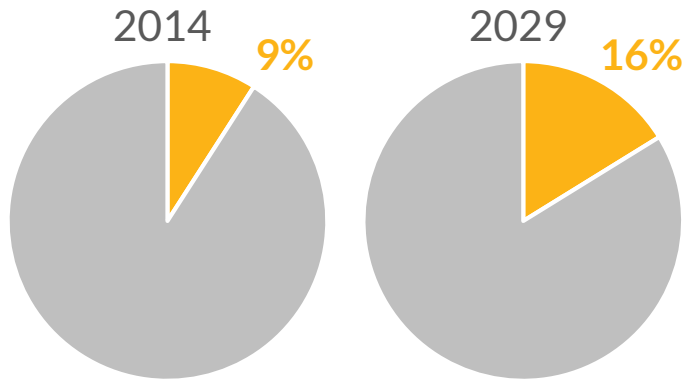
## Middle-Income Seniors 75+ with Health, Cognitive and Mobility Limitations, 2029

	All Seniors 75+		75-84		85+	
	#	%	#	%	#	%
<b>All Middle-Income Seniors</b>	14.35		10.81		3.54	
<b>Prevalence of Chronic Conditions</b>						
3+ Chronic Conditions	9.61	67.0%	6.97	64.5%	2.64	74.6%
<b>Activities of Daily Living Limitations (ADLs)*</b>						
0-3 ADLs	13.11	91.4%	10.17	94.1%	2.94	83.1%
3+ ADLs	1.24	8.6%	0.64	5.9%	0.60	16.9%
<b>Cognitive Impairment</b>	1.15	8.0%	0.63	5.8%	0.52	14.7%
<b>Mobility Limitations</b>	8.66	60.3%	6.09	56.0%	2.57	73.0%
<b>Mobility Limitations &amp; Cognitive Impairment</b>	0.84	5.9%	0.41	4.0%	0.43	12.0%
<b>High Needs</b>	2.90	20.0%	1.73	16.0%	1.17	33.0%

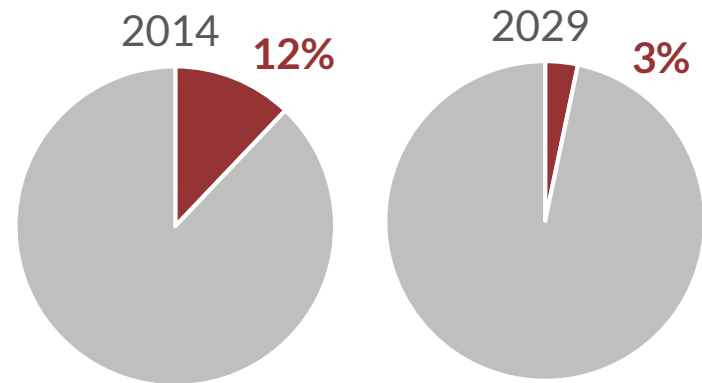
Note: High-needs is defined as those with three or more chronic conditions and one or more limitations in ADLs

# Future Seniors 75+ Will Be More Diverse and Educated

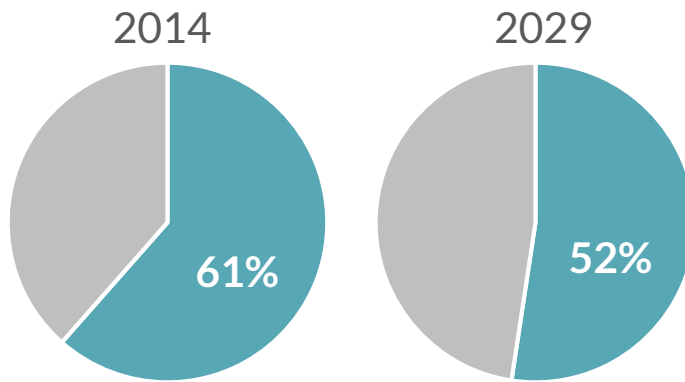
## Racial / Ethnic Minorities



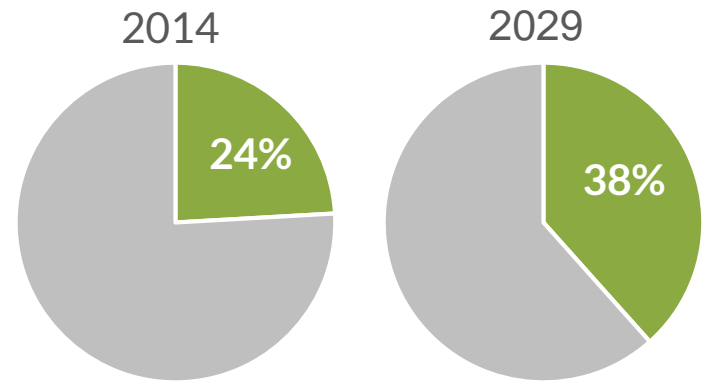
## No High School Diploma



## Married



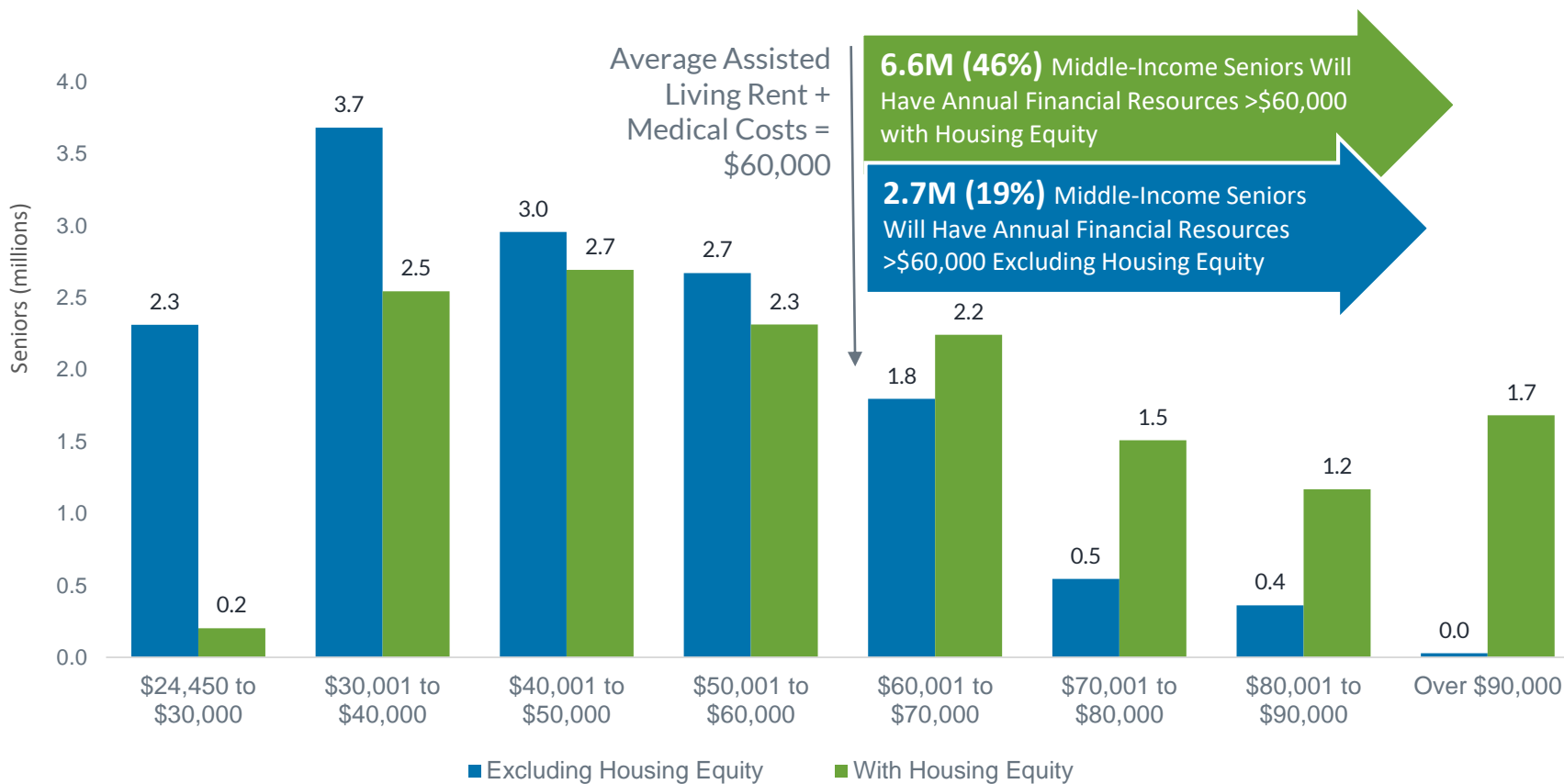
## College and Above



Results for seniors age 75+

# 46% of Middle-Income Seniors 75+ May Have Sufficient Financial Resources for Seniors Housing With Home Equity

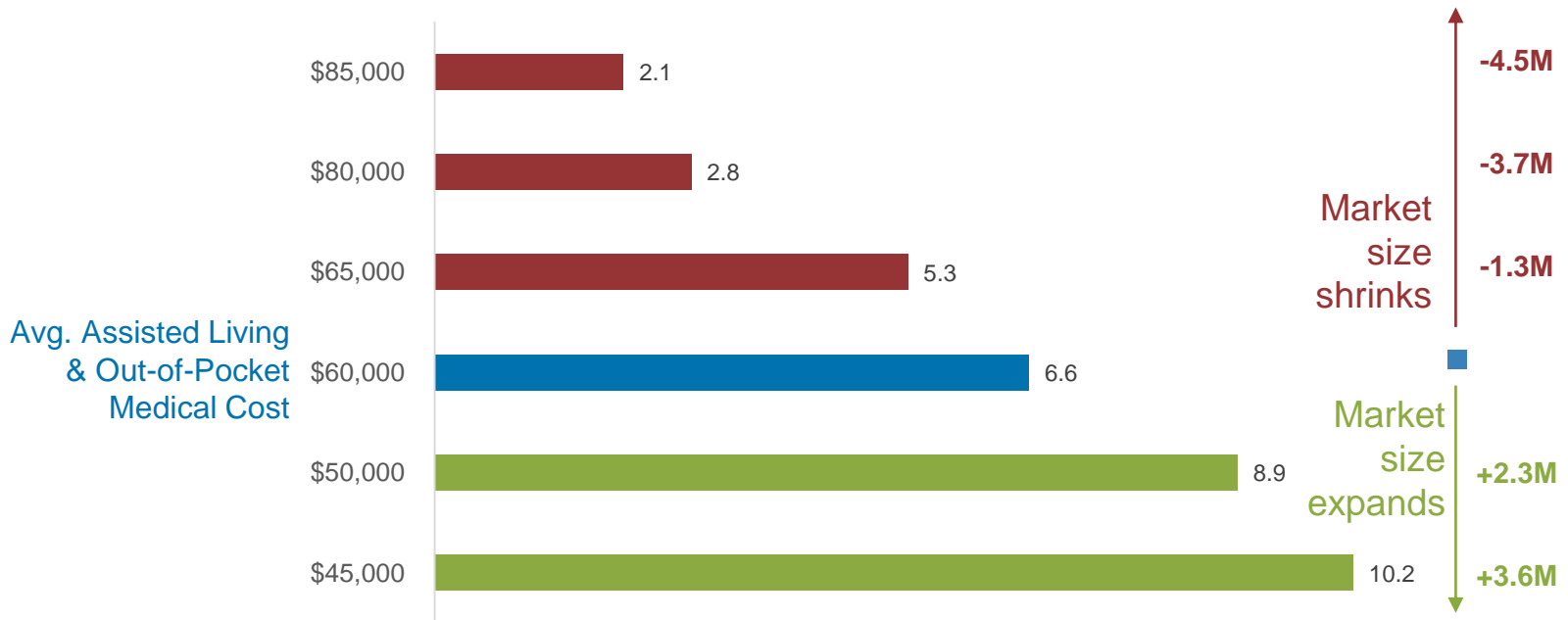
## Projected Financial Resources of Middle-Income Seniors Compared to Assisted Living Costs, 75+, 2029



Note: Numbers Depicted are in 2014 Dollars

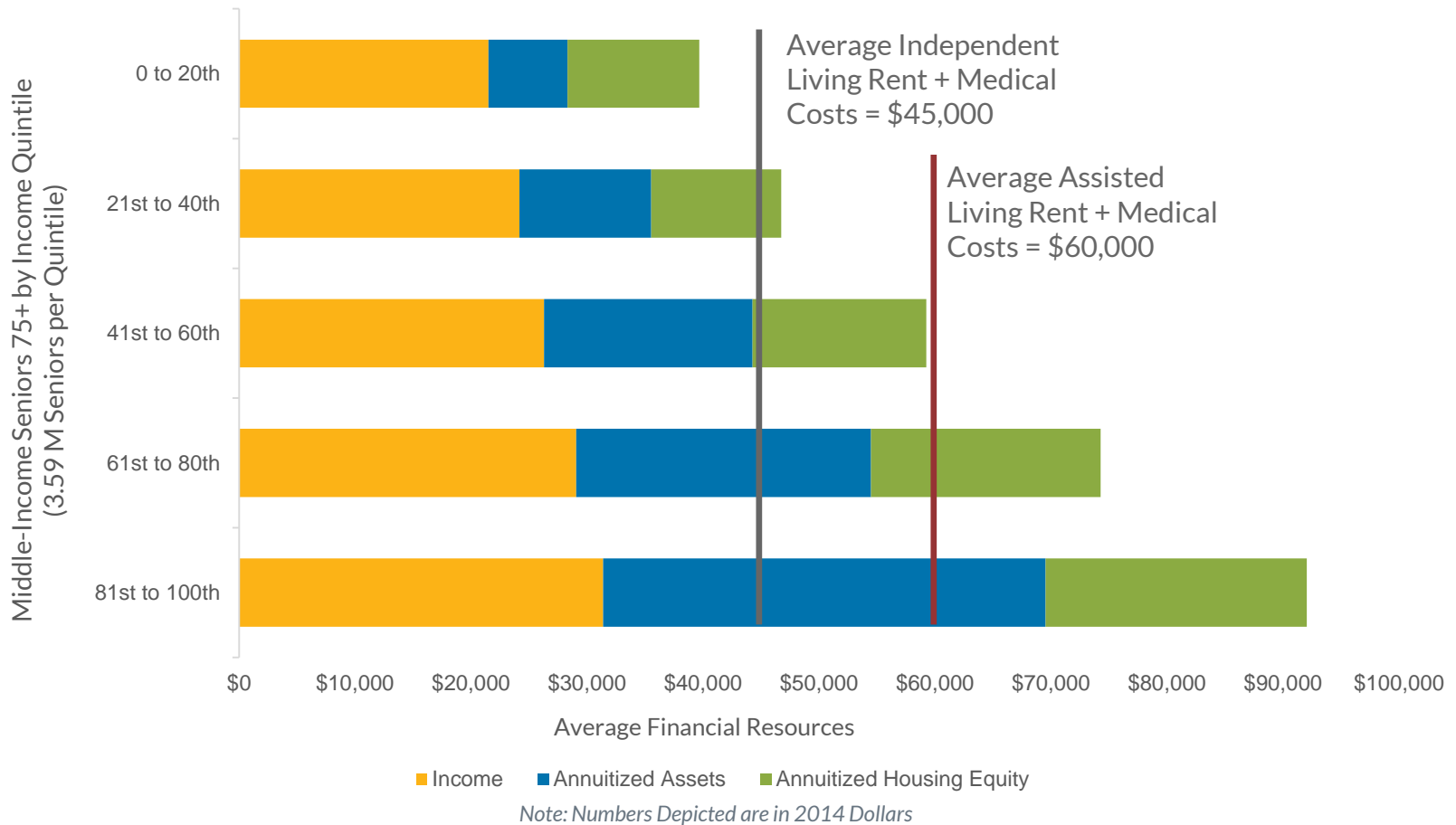
# As the Cost of Assisted Living Decreases, the Demand Pool Expands Significantly

## Number of Middle-Income Seniors 75+ with Financial Resources Greater than the Cost of Seniors Housing



# If Operators Create More Affordable Options, Many More Seniors May Enter the Market

## Average Financial Resources of Middle-Income Seniors by Income Quintile, 75+, 2029



# More than 1 million units of new seniors housing may be needed to meet middle market demands

## Price point and penetration rates dictate potential new supply needed

**Scenario Analysis: Projected Supply Needed in 2029 to Fill Middle Market Seniors Housing Demand at Current Costs: Three Rents, Two Medical Out-of-Pocket Estimates and Two Penetration Rates**

Annual Rent	Medical Out-of-Pocket	Total Cost	Number of Middle Income Seniors Who Can Afford the Total Cost (Millions)	Percent of Middle Income Seniors Who Can Afford the Total Cost	Units Needed at Different Penetration Rates	
					11%	14%
\$40,000	\$5,000	\$45,000	10.2	71%	1,145,088	1,431,360
\$40,000	\$10,000	\$50,000	9.0	63%	1,008,000	1,260,000
\$55,000	\$5,000	\$60,000	6.6	46%	739,200	924,000
\$55,000	\$10,000	\$65,000	5.3	37%	593,600	742,000
\$75,000	\$5,000	\$80,000	2.9	20%	324,800	406,000
\$75,000	\$10,000	\$85,000	2.1	15%	235,200	294,000

Source: NIC and NORC



***We strive daily to create the best life for all we serve.***



# TYPICAL RESIDENT PROFILE



**AVERAGE  
AGE: 83**



**AVERAGE  
NUMBER OF  
MEDICATIONS: 12**



**AVERAGE  
NUMBER OF  
CHRONIC HEALTH  
CONDITIONS: 5**



**70% HAVE  
DEMENTIA OR  
COGNITIVE  
IMPAIRMENT**



**AVERAGE  
LENGTH  
OF STAY:  
23 MONTHS**



**70% FEMALE**



**AVERAGE  
INCOME  
\$36,000/YR**



**40% HAVE  
INCOME OF  
<\$20,000/YR**



**60% RECEIVE SOME  
TYPE OF  
GOVERNMENT  
ASSISTANCE**



**93% REQUIRE  
ASSISTANCE  
WITH 4+ ADLS**

# DOING MORE... WITH LESS

- Economies of Scale
- Rates & Payment Options
- Staff
- Technologies & Innovations
  - Telehealth
  - Medication optimization
  - Palliative & hospice care
  - Falls prevention
  - Reduction in transfers
  - Best practices for Memory Care
  - Partnerships with nursing & gerontology schools

**From Volume to Value**  
Reimbursement will no longer be based on *volume* of services, but on *performance*.

- Reducing avoidable hospitalizations and readmissions
- Meeting disease quality metrics
- Improving health outcomes
- Improving the care experience

# “NEXT LEVEL” CHALLENGES



**IDENTIFY NEW  
FUNDING  
SOURCES  
*PUBLIC, PRIVATE  
& GOVERNMENT***



**DEVELOPING,  
IDENTIFYING  
AND UTILIZING  
*CUTTING-EDGE  
TECHNOLOGY***



**ONGOING  
INVESTMENT  
IN STAFF  
EDUCATION  
AT ALL LEVELS**



**LEGISLATIVE AND  
REGULATORY  
INFLUENCE AND  
COMPLIANCE**



**REFINE AND MAINTAIN  
THE CULTURE  
OF PROVIDING  
QUALITY CARE FOR  
THE MIDDLE MARKET**

# Presbyterian Homes & Services and Senior Housing Partners

*Roseville, MN*



[www.preshomes.org](http://www.preshomes.org)



SENIOR HOUSING  
**PARTNERS**

[www.seniorpartners.com](http://www.seniorpartners.com)

# About PHS & SHP

- ▷ Christian not-for-profit organization
- ▷ Founded in 1955
- ▷ 6,800 Employees
- ▷ Current: 48 communities; 8,149 units in operation
- ▷ Senior Housing Partners – Real Estate Development Division
  - 22 Communities, in 7 states, under construction, in development, or on contract for membership interest purchase, totaling 2,950 units (Internal & 3<sup>rd</sup> Party Pipeline).

## Presbyterian Homes & Services and Senior Housing Partners | Portfolio Snapshot

	Current		Construction		Development		Membership Interest Purchase		Total		3rd Party Development	
	#	%	#	%	#	%	#	%	#	%	#	%
55+	477	6%	32	4%	80	9%	0	0%	589	6%	11	1%
Independent Living	3,785	46%	292	38%	670	76%	362	87%	5,109	50%	499	56%
Assisted Living	1,776	22%	126	16%	81	9%	35	8%	2,018	20%	127	14%
Memory Care	746	9%	72	9%	36	4%	21	5%	875	9%	48	5%
Transitional Care	267	3%	50	7%	0	0%	0	0%	317	3%	0	0%
Skilled Nursing	1,098	13%	192	25%	12	1%	0	0%	1,302	13%	204	23%
<b>Total</b>	<b>8,149</b>	<b>100%</b>	<b>764</b>	<b>100%</b>	<b>879</b>	<b>100%</b>	<b>418</b>	<b>100%</b>	<b>10,210</b>	<b>100%</b>	<b>889</b>	<b>100%</b>

# PHS & the Middle Market

## ▷ Middle Income Definition:

- Fluid, submarket market driven, many external factors.

Tier	Income	House Value or Equity	Assets	% of Median Income	IL Rents Afforded (30% of Income)
Very Low Income	<\$15K	None	<\$25K Avg.	0-30%	Up to \$375/Month.
Low Income	\$15K-\$40K	\$0 to \$100K Avg.	\$25K-100K Avg.	30-60%	\$375-\$1,000/Month
Middle Income	\$40K-\$85K	\$100K-400K Avg.	\$100K-\$500K Avg.	60-150%	\$1,000-\$2,125/Month
High Income	\$85K+	\$400K+ Avg.	\$500K+ Avg.	150%+	\$2,125+/Month.

▷ Current residents spend approximately 45% of income for IL, 65% for AL/MC, and over 100% for SNF.

▷ PHS Target: 20% High Income, 60% Middle Income, 20% Low Income

- High-income communities off-set low-income communities. Middle Income communities are self-sustaining.
- Collectively, our Mid-Market communities have the highest GAAP margin. Low-to-Modest risk, stable and growing yields which are reinvested into missional work and benevolence.

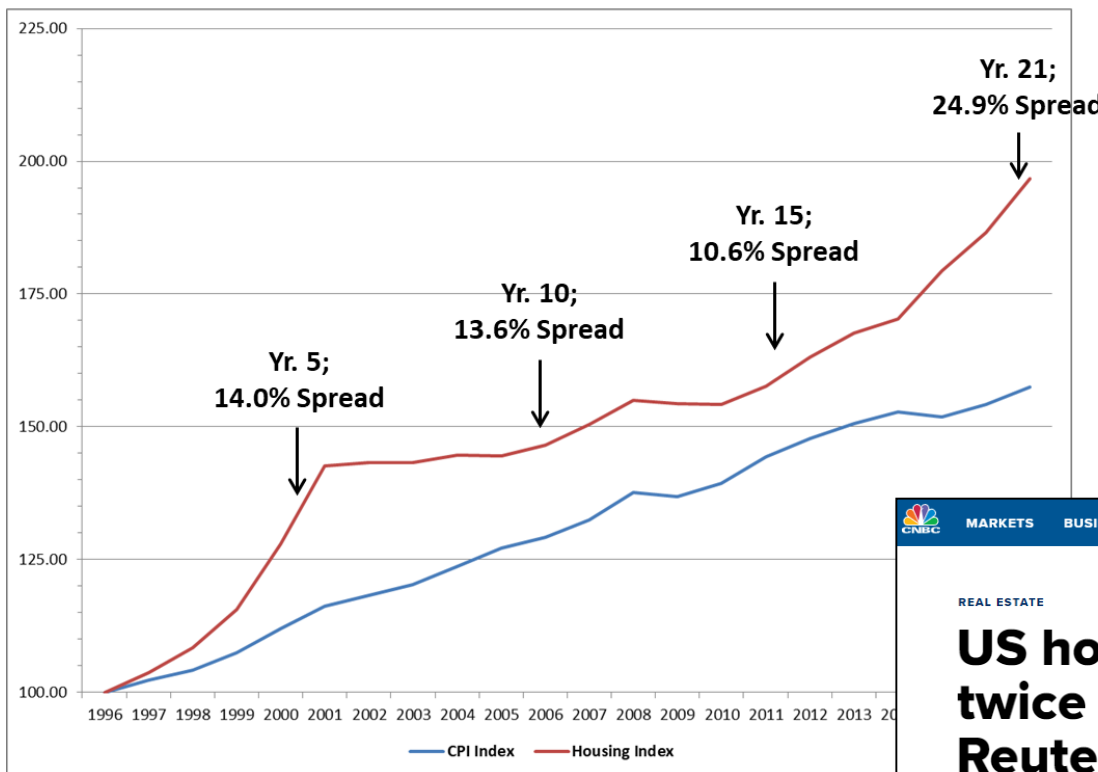
# PHS & Middle Market Strategies

- ▷ No single silver bullet, but several strategies that collectively add up to more efficient communities that can support middle market rents.
- ▷ Majority of units are rental only model, with no or low entrance fee.
  - If there are entrance fees, they are 100% refundable.
  - Lack of entrance fee expands access to Middle Market, higher occupancy.
- ▷ Build modest, slightly larger units (1,000sf average) with more basic finishes (carpet throughout, builder grade fixtures, etc.).
  - Larger units feel more like home and have less turnover and marketing costs.
- ▷ Build/acquire in close geographic proximity (hub and spoke model) to gain meaningful market share for purchasing power and efficiency in shared management services (Chaplains, wellness directors, engineering services, billing, marketing, etc.).

# PHS & Middle Market Strategies

- ▷ Bend the asking rent curve vs. market by managing revenue and expenses tightly with inflation. Gain affordability over time.

Minneapolis-St. Paul MSA: Average Inflation: 2.2%; Average Housing Cost Increase 3.3% over 21 Year Period



- ▷ Revenue loss vs. market is partially made up with above-market occupancy (97%+ in IL).





# PHS & Middle Market Strategies

- ▷ Development: Aggressively pursue external cost savings and subsidy opportunities that don't carry regulatory requirements.
- ▷ Advocacy at the project level regarding middle market as much needed affordable housing as a means to unlock possible subsidies or TIF.
  - Example – Cities may require an allocation of affordable units (5% at 30% AMI, 10% at 50% AMI, 20% at 80% AMI etc.). Seek subsidy if 35% of units are kept affordable to households earning 125-150% of AMI (as an example).
- ▷ Lean design: Review all designs, systems, and processes to remove unnecessary costs.
- ▷ Acquire & preserve existing senior housing (NOAH).
- ▷ Goal: Set return on cost requirements, any realized excess returns in the development process accrue to lower rents, not higher yields.

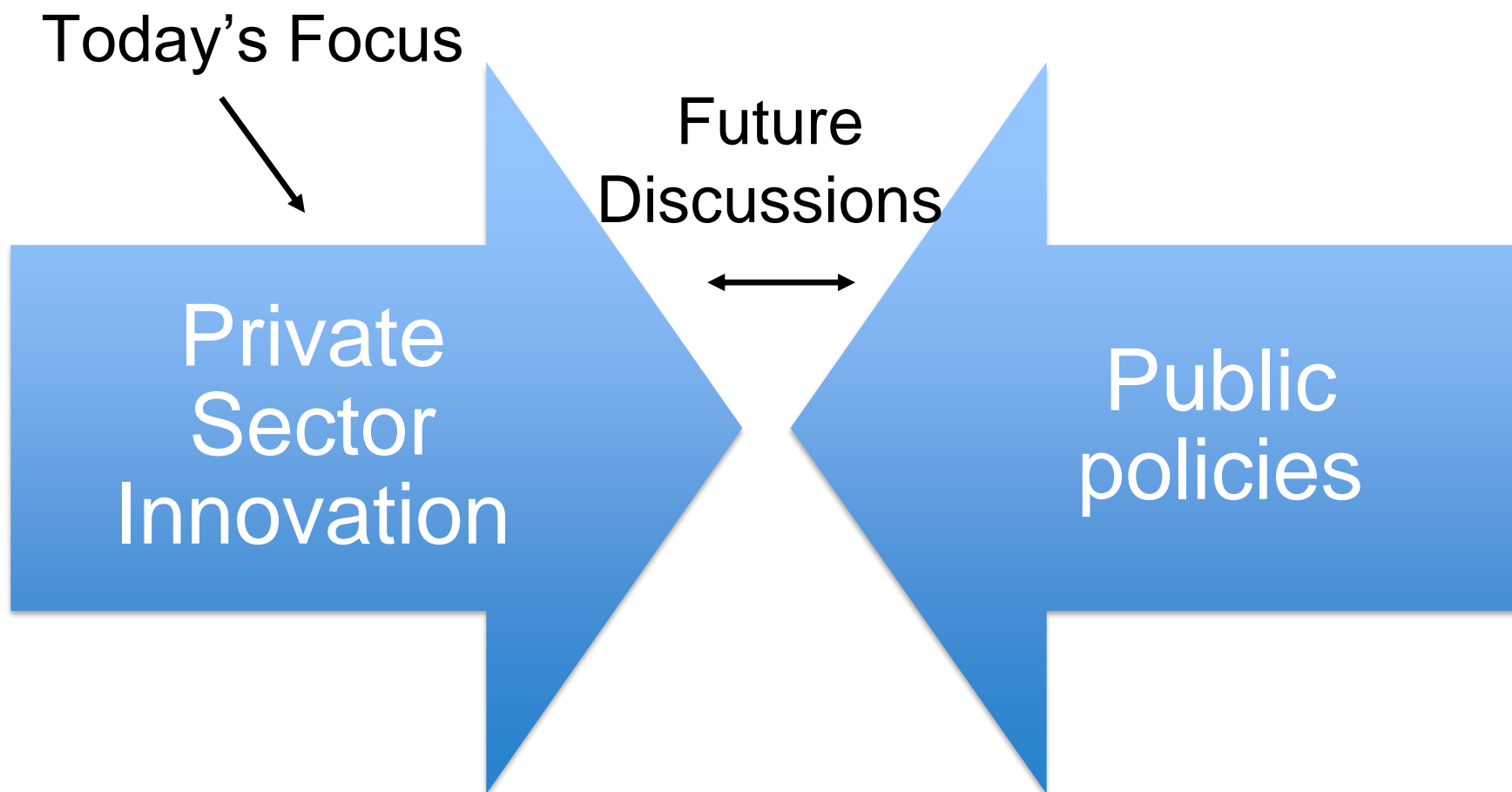
# PHS & Middle Market Considerations

- ▷ Low-to-Middle Market has higher likelihood of running out of resources as they progress through the continuum (AL/MC).
  - Surround these individuals with needed financial and social service resources, both internally and externally.
  - Benevolence support.
  - Each year we add elderly waiver dedicated units to portfolio to support growing need.
  
- ▷ Summary –
  - Pursue a variety of cost reducing measures (No “Silver Bullet”)
  - Emphasize rental model vs. entrance fee model to expand financial accessibility
  - Match community design & finishes to middle market
  - Set reasonable return thresholds and accrue benefits to residents (social investment)
  - Bank on higher occupancy to minimize long term risk

# Questions for Panelists

# Next Steps

# How Do We Address the Forgotten Middle?





# NIC 2019 FALL Conference

Investing in Seniors Housing & Care Properties

September 11<sup>th</sup> – 13<sup>th</sup> | Sheraton Grand Chicago

The MUST GO Conference for Seniors Housing & Care Decision Makers  
**#NICFall19**

- ✓ 3,000+ Attendees (67% Senior Executives!)
- ✓ 8 Networking Events with expansive networking space.
- ✓ 16 Sessions of Actionable Insights -Economic data, trends & solutions.

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