Part I. Defining the Middle Market Crisis

Are today’s senior housing prices too high for tomorrow’s residents? The industry is searching for answers to ease the burden.

The seniors housing industry is under pressure to solve the problem of a lack of affordable options for America’s aging middle class. But no one has developed a proven model just yet. It is an important topic that the industry is going to be challenged with for at least the next couple of decades as the demand for more affordable senior housing options rises.

One scenario that we are faced with is that Baby Boomers have not saved as much as preceding generations. Many have too much money to qualify for an affordable low-income housing tax credit (LIHTC) community at 60 percent of area median income, but don’t have enough to put $500,000 down to move into a CCRC.

According to BlackRock, a New York-based global investment firm, the average Baby Boomer is planning on a yearly retirement income of $45,000. Middle-income can be defined as an annual income of $36,000 to $60,000, with home equity between $150,000 and $400,000 and an average of $250,000 in savings.

Many industry leaders believe that we are working backward and that the industry has been looking at how much money a person has in retirement, in their homes and with Social Security to find out what they can show for monthly income. So, if people can expect to spend 50 percent of their monthly income on housing, what is that number? What is the shortfall between that number and what’s available today, and how will we make up the difference?

The need for moderately priced living solutions is just starting to get attention. Many believe that our industry has not given it a lot of thought because we are comfortable building what we know. It’s a conversation that is greatly needed and we’re just starting to have.
How do we fix it?

Stakeholders in the industry are talking about several potential changes to the way seniors housing is currently developed and operated. These changes could result in a housing product that is more affordable in the future.

The ideal model would require new standards and practices that would enable organizations to deliver easily replicated prototypes of moderately priced housing in multiple markets, which many say hasn’t happened in the volumes necessary to meet tomorrow’s demand.

Of course, this model would have to provide attractive returns to potential investors and also meet the lifestyle preferences for Boomers, who differ from the Silent Generation (currently ages 72 to 92) and Greatest Generation (people born between 1901 and 1924).

This is no small task, and it’s a problem with many moving parts. Some of the key solutions getting attention at conferences and in news stories these days revolve around a few objectives:

• **Discovering ways to reduce overall square footage** — Many experts are evaluating a prototype of smaller, yet still private, units alongside downsized common areas that are flexible and can easily transition from uses such as a dining area to an activity space.

• **Exploring third-party vendor solutions** — Some operators are already examining potential cost savings gained from eliminating a commercial kitchen and opting for a third-party catering service, or exploring telehealth options that enable computers or mobile devices to access health care services, which could decrease staff costs.

• **Building relationships between developers and operators to enable optimal site selection** — Many operators are the first to admit they’re not necessarily developers by trade. Partnering will become more important to navigate rising land prices and construction costs and to identify locations ideal for Boomer-based seniors housing. Additionally, collaboration will be necessary to shorten construction schedules.
• **Adapting different financing models** — Making the numbers work would likely require less debt for less time, so organizations/investors would need to bring more equity to the table or be more efficient with the development process.

• **Defining a housing product that is a hybrid of independent living and assisted living** — Some experts say assisted living itself is a barrier to providing affordable options for the middle-income demographic because compliance with mandatory building and operating regulations is costly. Consequently, several providers are experimenting with an independent living model that incorporates health services in creative ways.

**Demographics Overwhelm**

Each of these topics is part of a changing dialogue about senior care and living. The unprecedented groundswell of demand expected from aging Baby Boomers is leading the urgent need for this change.

By the time all Baby Boomers turn 65 in 2030, 18 percent of the U.S. population will be at least 65 years old or older, according to Pew Research. Many agree that we have never seen this kind of population anomaly before.

Seniors are coming in sheer numbers, and they will not be as prepared financially as their parents were. Several studies have concluded that the Great Recession didn’t hit other cohorts as hard as it did the Baby Boomers, who don’t have as many remaining working years to make up losses. The need to find creative solutions to meet the extraordinary demand is incumbent upon each of us.