



Is the Feasibility Demand Analysis For Senior Living a Thing of the Past?

As we begin the New Year, slight stirrings in the senior housing market tell us that perhaps there is a light at the end of this tunnel as it relates to the new development of senior housing communities.

Sure if you're one of the top 10 or 20 big guys in the industry there is always REIT deals that abound for financing— even then at what price if you do decide to go that route? But that's for another day. Perhaps you, like everyone else in the industry is sure that HUD will be the answer. Well it isn't that pretty on that side either when you consider that HUD did less than twenty 232 deals in the last year – the 232 is the assisted living program for HUD. And they tossed out almost 80 more applicants for various reasons – mostly because they felt the market is already saturated I suspect. Really?

Which brings me to my point here – feasibility and demand analysis for senior housing. That process is or should be turned upside for many reasons. HUD looks at every senior community in the market regardless of age and quality of that community. So you may get turned down in a market where your three competitors are 25 years old and are at 50 percent Medicaid and the “so-called” private pay is way under market or heavily discounted. Now that's not even close to comparing apples to apples here.

A veteran developer associate Phil Downing said it best recently when he stated “There is far more to figuring out market demand for senior housing in today's marketplace than a market demand rate. Anyone can tell you what a five percent penetration rate is any given market.” Phil is so right. A true market demand analysis is only telling you half the story anymore. I see plenty of those studies day in and day out. It worries me when the client accepts “tangible” numbers as the deciding factor – it is far more than that... It is the

intangible factors that help determine a “go or no-go” decision to add senior housing to that existing community.

Here are a just a few things that go far beyond the numbers:

- Age and quality of the competition. If you are looking at assisted living today, that means including independent living product in most markets because let’s face it, many of those older ILs are just an assisted living lite building.
- The impact of home and community-based services. Occupancy rates at existing communities are what they arte for many reasons. But one of the most important and growing influences is home and community based services. Are they growing, are they taking 90 percent of the market? These things must be explored.
- NORCs – Those naturally occurring retirement communities. Apartments that have become senior residences over time. True Senior Apartments that now see everyone getting services in the building (HCBS) so they are all in their 80s. That a true competitor.
- Psychographics. What is psychographics you ask? It represents the true intangibles about the site and the primary market area? Will people go over that bridge to get here, or through that neighborhood, or want to live near that Adult Store? Those gray areas are very impactful.

Here is an example of that very psychographic issue. A local college has excess land on the edge of campus. Like many colleges they are looking to draw the alumni back to the area and live near or on the campus and enjoy those many amenities. The market study from a firm based in the Midwest showed some good numbers for senior housing demand and interviewed some of the alumni. Great everyone thought lets do it.

Small problem, the neighborhood around the campus is not exactly like waking through this great little private college. In fact the area is one of the lowest income areas in the local community and is fraught with shabby and low quality retail and very few if any amenities aside from the campus itself. Image and perception is everything. How safe do you think an 82 year old will feel in that area? Intangibles, psychographics and a lot more than numbers here.

On the flip side, a developer – after going to many, many banks –finally got financing for Independent Living Apartments in a blue collar town. The other banks all said that the market was full based upon “penetration rates.” This guy knew differently – the product was old and the operators crammed full services down the customer’s throats. He, on the other had known that there was a market for nice size apartments and amenities that gave

the IL resident choice – a la carte services. The guy built a big building in a “tough market” in “tough times” and knocked it out of the part – filling really, really fast!

Ultimately the market demand and feasibility process is to assess opportunities to create value. Is a project the right product in the right place with the right economics? With today’s market dynamics very different with the influence of the economy, home and community-based services and other tangible and intangible factor, the question that will be asked is; how much senior housing is optimal? Is the local neighborhood the most attractive for senior housing development? Are the proforma room rates & operating costs realistic?

So as you New Year plans geared up for that new community, remember numbers tell 50 percent of the real story. That practical experience is more important today than ever before.

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