

# The Wright Approach



**Retirement and Assisted Living as a Lower Price Option for Seniors No Longer True!**

**By Stephen P. Wright**

A story I heard recently made it clear that many senior living and dementia care communities being developed across the country are running the risk of being unaffordable for far too many seniors; seniors that are assumed to be our primary customer.

Five friends, all in their late seventies and early eighties had been exploring senior housing and assisted living options in their community. The four widows and one widower all had some health issues, ranging from incontinence to physical limi-

tations. In the end, however, just one senior of the five and their families chose a senior housing option. The other four chose lower-priced options. For one, it was to live with her daughter. Two others chose home health care services at a substantially lower cost, and one selected a small home environment.

As a rule of thumb, when a feasibility study is done for a market, it is estimated that seniors can allocate up to 80 percent of their annual income to board and care in an assisted

living community. For the senior, whose annual income level is \$36,000 per year, he or she could spend about \$2,400 per month for this board and care.

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That's great when you have a large number of seniors with those income levels. But, based on the numerous market feasibility studies I have done in recent months across the U. S., just 7 to 10 percent of the total 75+ age population has that kind of wealth accumulation. Considering that you might capture 10 to as high as 15 percent penetration rate from that age and income qualified sector, that's a pretty thin slice of the pie that many people are chasing.

When I see new senior, assisted living and dementia communities being built to cater to the upper-end client base, I wonder where the client base will come from to support the high rates that must be commanded. In two specific markets that I have analyzed in the past year, a high-end project and a lower cost project have entered the market at close to the same time. In both cases there is some doubt that there may be sufficient market demand to sup-

port both projects in the market. If I was a betting man, I would place my bets on the lower cost project—given that all other things are equal.

The medium-sized towns across the country hold the opportunity for much of the growth of assisted living in the years ahead. Pricing sensitivity must be a factor when rate setting is being done. Some argue that if long term care rates can approach \$3,000 per month in many markets, why can't assisted living rates be 80 percent of the cost of that care? Once you realize that the percentage of people actually paying top dollar, or the private rate, in a nursing home is usually less than 20 percent of the nursing home residents, then that assumption is not nearly as solid.

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### **It's the intangibles — not the sticks and bricks.**

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A few savvy companies have recognized that a niche exists in developing communities that cater to the needs of the moderate income seniors. The market is deep in every corner of the country. Unfortunately for senior housing providers, other competitors are finding that this is the market to focus on as well. Every city, large and small, has seen the coming of small adult group homes in their market place. Usually at 70 to 80 percent of the cost of assisted living communities, these four-to-six bed facilities have sprouted up everywhere. Joining them in the competitive arena are the new breed of cost-conscious home health and home health care agencies.

Once considered a stopgap choice, and too costly over time, these home health care providers are multiplying in large urban areas. It has long been assumed that once a senior needed more than just four or five home visits in a month, then it made more economic sense to move to a senior housing setting. That pricing advantage for senior housing communities is disappearing. One sea-

soned general manager of a retirement and assisted living community in southern California told me that his biggest competitor is no longer retirement and assisted living communities, but instead the home health care providers.

The variety in models and design of assisted living communities is what makes that sector of senior housing so exciting. From real estate developers to nursing home operators to

seasoned retirement housing operators, each bring their own ideas to the table as the best project to build for the market. The 1980's senior housing overbuilding taught many people the lesson that bigger and more beautiful did not guarantee success. One thing is clear when it comes to the prospect and his or her family deciding which community to choose — families hardly ever pick a community because it is the prettiest, looks the most expensive and has all

*continued on page 27*

# The Wright Approach



*continued from page 17*

of those pieces of furniture that they never had in their own home. They base the decision on comfort and the relationships they develop with the people they meet. It's the intangibles — not the sticks and bricks.

When developing your company's market strategy niche, think about being the "affordable senior housing or assisted living option" in the community. I can guarantee that when the market heats up with new competition, you will be in a solid position to survive the onslaught.