SENIOERS’ HOUSING DEVELOPMENT OUTLOOK

As the percentage of the U.S. population age 65 and older continues to grow, housing for seniors must adapt.

RON NYREN

SIX MEMBERS OF ULI’s Senior Housing Council speak about trends affecting development of housing for seniors, including the impact of the recession, geographical factors influencing housing decisions, the potential needs of the baby boom generation as it reaches retirement age, and the future of seniors’ housing.
Contributing their insights are Mitchell Brown, chief development officer of Kisco Senior Living in Carlsbad, California, and chair of ULI’s Senior Housing Council; Paul Gordon, a partner at Hanson Bridgett LLP in San Francisco; Chris Kazantis, director of AEW Capital Management in Boston and portfolio manager of AEW Senior Housing Investors L.P; Bill Pettit, president and CEO of the R.D. Merrill Co. and Merrill Gardens LLC in Seattle; John Powell, senior managing director of Red Capital Group in Chicago; and Margaret Wylde, president and CEO of ProMatura in Oxford, Mississippi, and assistant chair of ULI’s Senior Housing Council.

**How has the economic downturn affected development of housing for seniors?**

**MITCHELL BROWN:** The developers who build master-planned communities for active adults, like most of their counterparts in residential development, were hit fairly hard by the recession and its impact on the housing market. Although those communities continue to be built, development has slowed appreciably. Many of those active adult communities are starting to recover. The full-service senior living side—including independent (congregate), assisted living, and continuing care retirement communities—has fared well. Although occupancy declined—the low point for the industry was the spring of 2009—most of our colleagues have seen noticeable improvements since then. There is some evidence that suggests that the more need-driven aspects of the continuum—assisted living, memory care, and skilled nursing—have fared a little better because when people need those services, they have to be provided, it’s not so much a matter of choice, whereas people can delay the move to more independent senior housing.

**JOHN POWELL:** The downturn substantially reduced new development activity, especially in the continuing care retirement community and independent living areas. A lot of that was due to the decline in the residential housing market, which has kept people in their homes longer. They either can’t sell or can’t get the price they are looking for to be able to move into these communities. That has significantly slowed absorption for new inventory for continuing care retirement communities and independent living facilities. The residential market still has two or three more years to recover.

**PAUL GORDON:** From the fall of 2008 to the present, the downturn brought the industry to a grinding halt. I had many clients who had projects in the pipeline that were pulled out at the last minute. There have been a number of acquisitions, sales, closures, and a lot of repositioning of existing products and facilities. Sometimes that means a renovation or remodel, and sometimes that means offering prospective residents different service packages, or different contract types or pricing options, particularly in continuing care retirement communities that have high entrance fees.

**MARGARET WYLDE:** There was so much product in the pipeline before the recession that the number of units that have opened per month all through the downturn has stayed the same as in 2007. Probably this quarter we are going to see the first drop in supply, so that’s going to start helping occupancy...
rates. And because there is nothing on the boards and nothing getting into the pipeline, people are going to recognize that the opportunities are going to improve once the economy turns around. Most of the money in this industry is being spent on acquisitions now, but that’s not producing any new supply. In some instances, the acquisitions are resulting in renovations that combine units because they weren’t right sized or they had deteriorated. So acquisitions may actually be reducing the total number of units.

Where is the financing coming from these days?

CHRIS KAZANTIS: The banks are starting to get back into the lending business. They’re looking at the metrics of the sector and noticing that before the recession, they were probably lending around 65 to 75 percent loan to cost, and now they can quote loans that are 50 to 55 percent loan to cost. In addition, construction costs have gone down. There are still not a lot of active lenders in the senior housing development arena, but Wells Fargo, Bank of America, Compass Bank, and some of the regional and local banks are.

BILL PETTIT: Partnerships with health care–oriented REITs [real estate investment trusts] are setting a new model for financing of housing assets. Private companies have more constrained access to efficient capital markets. For Merrill Gardens, entering into a partnership with Health Care REIT Inc. of Ohio allowed us to bridge the gap. Under the RIDEA structure [the REIT Investment Diversification and Empowerment Act of 2007, which enables health care REITs to share in the operating profits generated by seniors’ housing], private senior housing operators who have structured a relationship with a publicly traded REIT are able to gain access to efficiencies of the public capital debt markets. That will be very powerful as the industry continues to grow and deal with consolidation.

Where do you see the biggest potential for development of housing for seniors, the suburbs or the cities?

GORDON: Historically, most senior housing development occurred in suburban areas because of the availability of land and the infrastructure requirements. The amount of services requires space and economies of scale. You need to have a sufficient number of residents to support the fixed costs of providing services like dining and housekeeping. A continuing care retirement community has on average 200 or 300 units of independent living. It’s harder to develop that kind of property in an urban infill site: the cost of construction goes up. And people are always downsizing from a single-family home, so if they are paying a lot of money on entrance fees to move in, they want some space. Some developers recently have been successful in developing smaller-scale continuing care retirement communities.
A lot of senior housing development in the years before the recession seemed to focus to an increasing degree on more affluent, upper-middle-class seniors. Affordability is going to be a dominant theme for senior housing for at least the next five or six years.

**PETTIT:** The demand for senior housing tends to be very much a micromarket. It varies from region to region. In urban areas, you will draw seniors from only about three to five miles (5 to 8 km) away because of the density. Most seniors will make their decisions based on one of two location factors—whether a senior housing community is in or near the neighborhood where they spent their adult lives, or whether it is close to their adult children and grandchildren. So when you consider urban versus suburban, it depends on the balance between supply and demand in that particular market.

**BROWN:** There seems to be a trend toward more infill projects, both in traditional urban cores as well as in redeveloping edge-city suburbs—like Tysons Comer, Virginia, certain areas around Dallas, and Irvine, California. These areas have both the adult children of elderly parents (75-plus) as well as leading-edge boomers who are just beginning to enter a stage where they might be considering making a lifestyle change. Master-planned communities, particularly new urban types, are very good locations for senior housing.

**POWELL:** Cities like Chicago that have vibrant 24-hour downtowns are going to see more opportunities for development of housing for seniors. People like the convenient access to arts and entertainment, shopping, museums, good health care systems, and education. Also, the aging boomers are working longer, either full time or part time, so they are going to want to stay closer to their jobs, which suggests that we’re going to see more of these developments in major employment centers around the country. There will always be a market for the Sunbelt retirement areas, but I think people may not be flocking to play golf or tennis to quite the extent that they have in the past.

**KAZANTIS:** The performance of senior housing is probably even better outside the major metropolitan areas. There isn’t as much supply in the suburbs, and there is a lot of demand. The downside is that you don’t have the same barriers to entry outside major metro areas, so anyone can drop into those markets and build new, competing product. In more major metro areas, it’s harder to buy land, get it entitled, get zoning, get licensure, so you have more protection against new competition coming in. But in those metropolitan areas, there tends to be more existing competition already.

**How are developers of housing for seniors planning to adjust to the preferences of the baby boom generation as it ages? How are their needs/preferences different from those of earlier generations?**

**WYLDE:** Baby boomers are interested in active adult communities now, and the proportion who are interested in active adult housing is significantly greater than it was a decade ago. One reason is that there are now outstanding properties around the United States that show the quality of life that one can have, all the social opportunities. The other reason is that people who buy in active adult communities perceive that the value of their residence will be greater than that of a comparably priced residence in an all-ages community. A study we did in 2010 looked at homes bought by 55-plus households. Those who purchased in active adult communities paid $15 per square foot [$161 per sq m] more for their residence than those in comparable traditional communities. In both cases,
they spent an average of $230,000, but in active adult communities, the units were smaller.

**BROWN:** When we look at designing new campuses, we think about things like self-actualization, choice, involving residents in decisions not only about their physical environment, but also their lifestyle, providing opportunities for them to give back and volunteer. Creating flexibility is always important because if we have some extra land or spaces in our communities that are flexible, we can adapt to the changing needs of the people who live there.

**POWELL:** The baby boomers are working longer, which I think is a combination of the recession’s impact on their savings and a genuine desire to work longer. So having housing that is close to employment centers is going to be a consideration. More and more, technological amenities—internet access, business centers, computer rooms—are part of the amenity package. Increasingly, people want to stay in their homes as long as possible. So to the extent that developers can offer home health care services or partner with a health care service provider, they can create feeder opportunities into their senior housing communities over time.

**What other trends are affecting development in this building type?**

**PETTIT:** A lot of senior housing development in the years before the recession seemed to focus to an increasing degree on more affluent, upper-middle-class seniors. Affordability is going to be a dominant theme for senior housing for at least the next five or six years.

**WYLDE:** Continuing care retirement communities that have a little extra land or can acquire land nearby are going to build villas, single-family homes, or duplexes. These villas are going to make continuing care retirement communities more competitive with active adult communities. Today, I went to three properties, all of which have villas—incredibly attractive, very well merchandised—and if something happens, all the services that residents need are right there.

**GORDON:** There are completely different sets of laws dealing with real estate and with the provision of services, including health care. This is true for laws that apply to zoning, entitlements, operations, and fees. At the same time, consumers are more demanding, and they are concerned about their own finances and their future. So I’ve seen an increase in disputes about what residents can be charged and are willing to pay, and what services they are entitled to under their agreements. For example, in most of these properties, residents are paying a monthly fee. Is that for services or is it rent? If it’s considered rent, then landlord/tenant law applies. We’ve seen litigation over whether fees paid to retirement communities have to be refunded to residents because of the application of a landlord/tenant law.

**KAZANTIS:** Because of medical advances and because people are adopting much healthier lifestyles, they are living much longer. After the age of 85, there is a much higher incidence of dementia or memory loss. So now there is much more demand for stand-alone memory care/dementia facilities, whereas before those facilities might have been located in a small wing.

**Ron Nyren** is a freelance architecture and urban planning writer based in the San Francisco Bay Area.
The result of a partnership between nonprofit developer MidPen Housing Corporation and the Milpitas Redevelopment Agency, DeVries Place Senior Apartments is a housing project for seniors in Milpitas, California, that has become the cornerstone of the city’s downtown revitalization effort. In 2009, it won a ULI Awards for Excellence: The Americas award.

Situated on a historic yet underused site in the town’s center, DeVries Place provides 103 affordable rental homes for low- to very-low-income seniors. Helping restore the character of the town’s Main Street by incorporating a historic home, the apartments are within walking distance of the newly renovated downtown Milpitas.

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DeVries Place Senior Apartments in Milpitas, California, provides 103 affordable rental homes for low- to very-low-income seniors.
DeVries Place comprises two buildings—a meticulously renovated historic home and a newly constructed three-story apartment building atop a parking structure.

Built in 1915, the Smith-DeVries House was the family home and office of Dr. Rensselaer Smith, the second doctor to reside in Milpitas. The home, architecturally restored by Rothschild Schwartz Architects, was relocated from its original location to the 1.2-acre (0.5-ha) site, closer to North Main Street, and includes community rooms for residents and local civic groups, staff offices, a restored dining room, and three one-bedroom rental apartments on the second floor.

The three-story apartment building includes 100 affordable units, a fitness center, a theater room, a computer room, courtyards, and a rooftop patio. The design is a modern interpretation of the prairie style exhibited by the Smith-DeVries House.

The residential units are reserved for low-to very-low-income seniors: qualifying tenants are over age 62 and earn 25 to 40 percent of area median income—$18,575 to $33,960 per year. The studio,
The studio, one-bedroom, and two-bedroom units feature energy-efficient appliances and water-conserving fixtures. Photovoltaic panels meet 80 percent of common-area energy needs, and sustainable building materials and strategies were used in construction.

DeVries Place was an immediate success: within three months of opening in 2008, the affordable rental apartments were leased, and today, nearly three years after opening, a waiting list of more than 70 people remains. Financing for the $32.1 million project was provided through the Milpitas Redevelopment Agency, Santa Clara County, the Housing Trust Fund of Santa Clara, U.S. Bank, National Equity Fund, KB Home, Sobrato Affordable Housing Fund, and Opportunity Fund. MidPen Housing Corp.—a nonprofit developer that has provided more than 6,600 units of affordable housing throughout the San Francisco and Monterey Bay region—also manages the property, providing on-site services to the senior residents at no charge.

DeVries Place was one component of the Milpitas Redevelopment Agency’s revitalization strategy. The plan included expansion and modernization of the historic central library and construction of a new medical center—valuable resources located on the same block as DeVries and easily reached by the senior residents. “By integrating one of the oldest buildings in Milpitas within a new, high-density community, the city is able to grow while still maintaining the continuity and historic feel of its city center,” says Matthew O. Franklin, president of Mid-Peninsula Housing Coalition.

**JURY STATEMENT**

Part new construction, part historic preservation, the DeVries Place Senior Apartments provides 103 affordable rental homes for low-income seniors. The result of a partnership between a nonprofit developer and the city’s redevelopment agency, the residences for seniors are the cornerstone of the city’s downtown revitalization effort, restoring the character of a nearly forgotten Main Street.