SPECIAL ISSUE

brief

SUMMER 2017

Apartments for Life (A4L) — Expanding Alternatives for Seniors

By Francesco Rockwood and Sarah Rockwood, Rockwood Pacific
and Phil Downey, Senior Housing Analytics

AMERICAN SENIORS HOUSING ASSOCIATION
Living Longer Better

SENIOR HOUSING ANALYTICS

Rockwood Pacific

TABLE OF CONTENTS

© 2017 The American Seniors Housing Association
All rights reserved. The text portions of this work may not be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by information storage and retrieval system without permission in writing from the publisher.

Apartments for Life (A4L) — Expanding Alternatives for Seniors

Justifiably, there has been significant investment in the development of new properties offering independent living, assisted living and memory care services. The growth in demand is compelling, and despite the pace of new construction, many markets will continue to be underserved for the foreseeable future. However, most of these new senior living developments cater to a relatively small portion of the older adult population that can afford and need the services bundled into these properties. Serving seniors in an apartment setting in which services are effectively unbundled provides a more affordable alternative for seniors who can't afford or don't need the services included in typical independent living settings. Compared to assisted living and independent living, the rate of development of purpose-built senior living apartments has been modest. Herein we assess the opportunities and challenges of **Apartments for Life** (**A4L**), a promising subcategory of senior apartments.

Definition of Senior Apartments:
Multifamily residential rental properties restricted to adults at least 55 years of age or older. These properties do not have central kitchen facilities and generally do not provide meals to residents, but may offer community rooms, social activities, and other amenities.

This classification has been endorsed by LeadingAge; American Health Care Association (AHCA); American Seniors Housing Association (ASHA); Assisted Living Federation of America (ALFA); National Center for Assisted Living (NCAL); and the National Investment Center for the Seniors Housing & Care Industry, Inc. (NIC)

THE CASE FOR A "NEW" CATEGORY

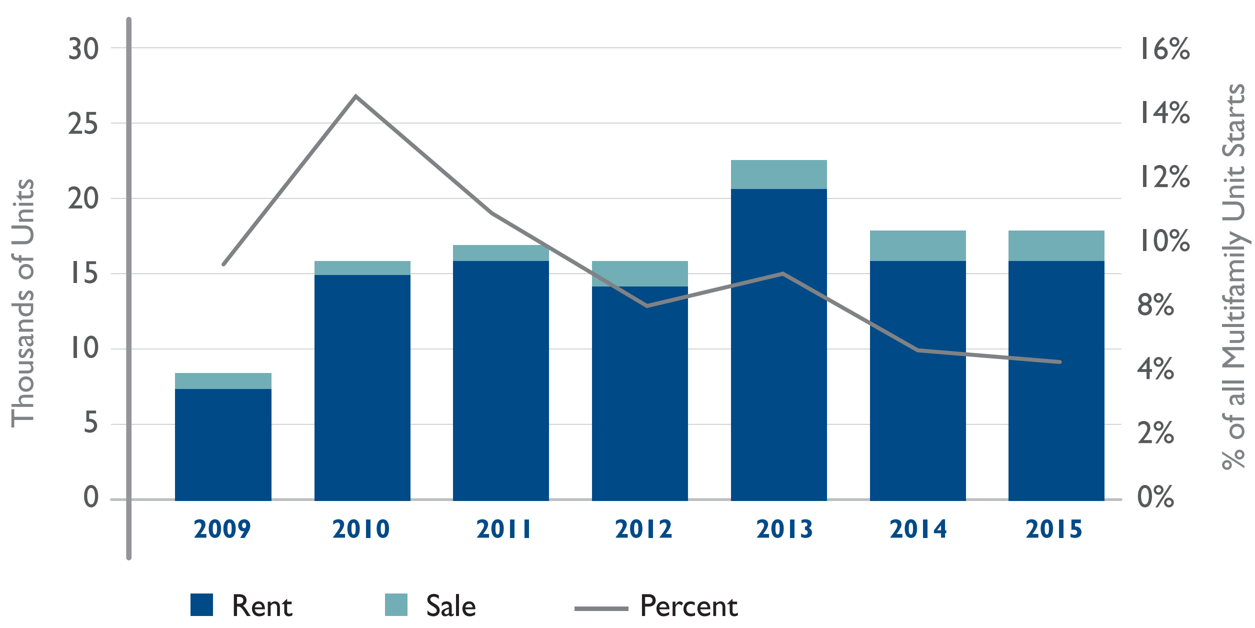
The apartment segment is immense with a market value greater than $1.3 trillion dollars.[1] Roughly a third of householders in the US are renters and roughly a fifth of 65+ households are renters.[2] Per a recent analysis by the Joint Center for Housing Studies at Harvard, the growth in the number of age 55+ renter households alone will grow by over 2.5 million households from 2015 to 2025.[3] Based on a commonly accepted definition, senior apartments typically limit occupancy to older adults, with a minimum age requirement of either 55 or 62.[4] This definition is arguably both too constrained and too liberal for the purposes of defining a distinct asset category within senior living. For instance, over time many non-age-restricted apartments have become vibrant, naturally occurring retirement communities (NORCs). Alternatively, many age-restricted communities are built and operated in a manner that is hard to distinguish from typical apartment communities.

There are varying definitions for the term **Apartments for Life** but this label is a good candidate for apartment communities that deliver more value to their senior residents without the cost structure associated with independent senior living. Like the genesis of "assisted living" as exemplified by Sunrise Senior Living and its founders Paul and Terry Klaassen, the term **Apartments for Life** has Dutch roots. Professor Victor Regnier of USC has been advocating for a new housing alternative based on a housing model referred to as *levensloopbestendige* in the Netherlands[5]. Herein, we are defining **Apartments for Life** as communities that provide for aging in place and fostering of community among residents, by incorporating: (i) universal design attributes that enable residents to remain independent as they become frail[6], (ii) concierge resources that support residents in accessing off-site services[7], (iii) facilitation of social gatherings, and (iv) a pricing structure that more closely approximates the rent levels of traditional apartment rents than typical independent living rents.

SIZING THE SEGMENT

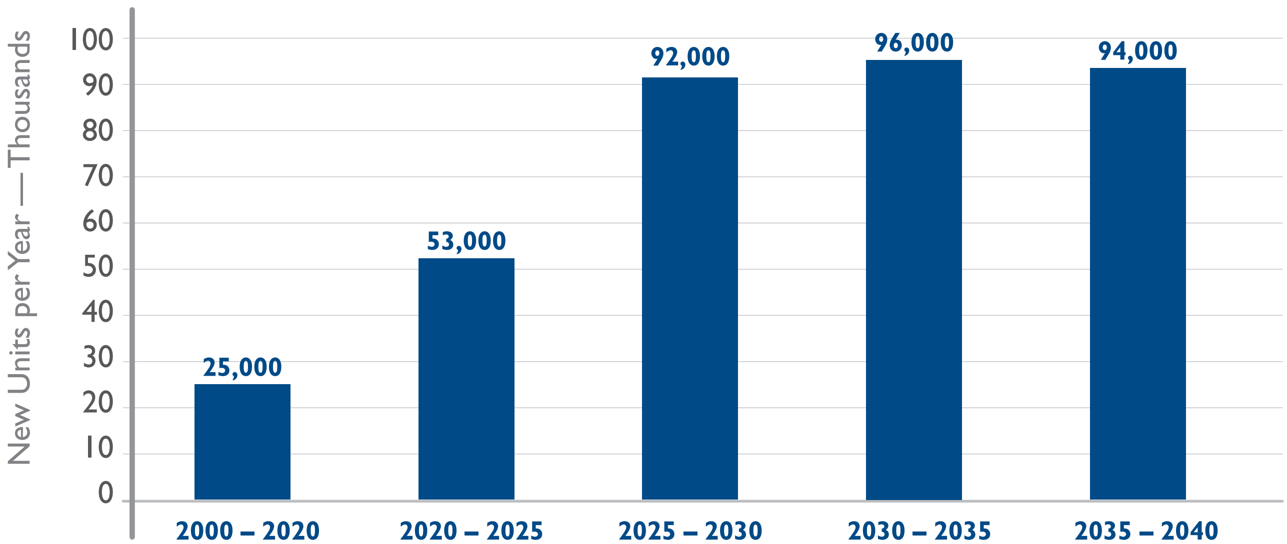
Unfortunately, statistics are not readily available for **Apartments for Life**. A good starting point is assessing figures for age-restricted apartments. Since 2009, the US Census has provided a breakout of apartment units that are specified as age-restricted.

Age-restricted multifamily unit starts in the U.S. by year[8]



To put these figures in context, the almost 20,000 units of age-restricted units started in 2015 is in line with the projected near-term annual growth in demand for independent living, assisted living and memory care units ***combined***.

Estimated annual demand for new independent living, assisted living and memory care units per year[9]



While the annual demand for new independent living, assisted living and memory care units is expected to grow substantially over the next fifteen years due to the aging of baby boomers, it is reasonable to expect that **Apartments for Life** communities could enjoy a similar increase in demand.

Incidentally, a significant portion of age-restricted apartments developed to date have been financed by the low-income housing tax credit program (LIHTC). While current tax policy discussions have negatively impacted LIHTC funding transactions, given the track record of the LIHTC program and its bi-partisan support, the LIHTC program is expected to continue to be a major funding source for new age-restricted apartment developments.[10]

CASE STUDIES

An early mover in the development of purpose-built age-restricted apartments was Fountain Glen. Fountain Glen formulated a location, building program and operating model specifically targeting seniors and successfully developed several communities in the greater Los Angeles basin. Presently several traditional multifamily firms including Alliance Residential, The Wolff Company and Greystar are executing business initiatives specifically targeting serving seniors in a similar manner. Greystar has taken the step of launching a separate brand, Overture, to communicate and deliver on the distinct **Apartments for Life** value proposition.

Elder Care Alliance, a mission-based non-profit based in Northern California, recently acquired **The Villa at San Mateo**, a property that had been converted from a hotel into an age-restricted apartment by Fountain Glen[11]. The Villa at San Mateo is a predominately market rate, age-restricted property, with only a small portion of rent restricted units. The 135-unit property has a public-facing, on-site diner and significantly more common space than a typical apartment building of a similar scale. While the previous owners did make some headway in fostering community, Elder Care Alliance has substantially more home office resources, capabilities and mission commitment related to caring for aging seniors than typical multifamily firms.

> "The acquisition of The Villa at San Mateo by Elder Care Alliance enables us to offer independent living options to a broader socio-economic group of older adults. We are currently exploring ways to better support healthy aging in place through new service offerings and the potential use of technology."
>
> **— Adriene Iverson**
> President and CEO
> Elder Care Alliance

General approaches for delivering on the **Apartments for Life** value propositions that Elder Care Alliance and other organizations are pursuing include:

Intentionally facilitating community and aging in place via location, design, and operations. When The Villa at San Mateo was converted from a hotel use to an apartment use in 2008, the property was redeveloped to specifically serve an older adult population. Under Elder Care Alliance's stewardship, The Villa at San Mateo includes a dedicated on-site staff position charged with fostering community building and connecting residents. Similarly, The Stories, a new development by Smart Living 360, a start-up company launched by Ryan Frederick, was specifically located, designed and programmed to facilitate aging in place.

Mixed use/inter-generational campus.[12] The Villa at San Mateo is effectively a mixed-use project in that it incorporates restaurant and retail operations within the same property and under common ownership. Expanding on this strategy, co-locating an **A4L** building with an enhanced services community offering assisted living and/or memory care could provide an opportunity to cost effectively deliver meals and other services to the **A4L** residents on an à la carte and/or membership plan basis.[13]

Leveraging home office resources and capabilities over multiple properties. In the realm of affordable senior housing, many non-profits operating properties developed under the HUD 202 program have excellent home office resources, capabilities and mission commitment for supporting aging residents in multiple communities. Recently new affordable senior living apartment projects usually involve the use of low-income housing tax credits (LIHTC) and not all LIHTC developers make a commitment to fostering aging in place. One that does is Senior Housing Assistance Group (SHAG), a major LIHTC developer-operator that has been very effective in meeting the needs of its aging residents. In large part, SHAG's success is due to its focus and scale. SHAG almost exclusively focuses on senior projects and can effectively leverage its home office resources over numerous communities in the greater Seattle/Puget Sound region.

CHALLENGES & OPPORTUNITIES

It has been decades since the emergence of independent living, assisted living and memory care as distinct segments and there now are a myriad of for-profit and non-profit operators dedicated to these business models along with numerous industry associations and dedicated capital sources to provide on-going support and research.

So why so little progress on **Apartments for Life** as its own distinct segment? From the perspective of developers and operators of traditional multifamily properties potential concerns include: (i) limiting the potential client base to only a portion of the potential addressable market (namely, limiting the market to seniors only), (ii) additional complexity, risk and staffing cost associated with serving a frail population, and (iii) more limitation on increasing rental rates quickly during periods of market upsides. From the perspective of firms operating traditional independent living properties, concerns include: (i) relatively lower revenues per unit, and (ii) an increased emphasis on real estate factors relative to operating factors.

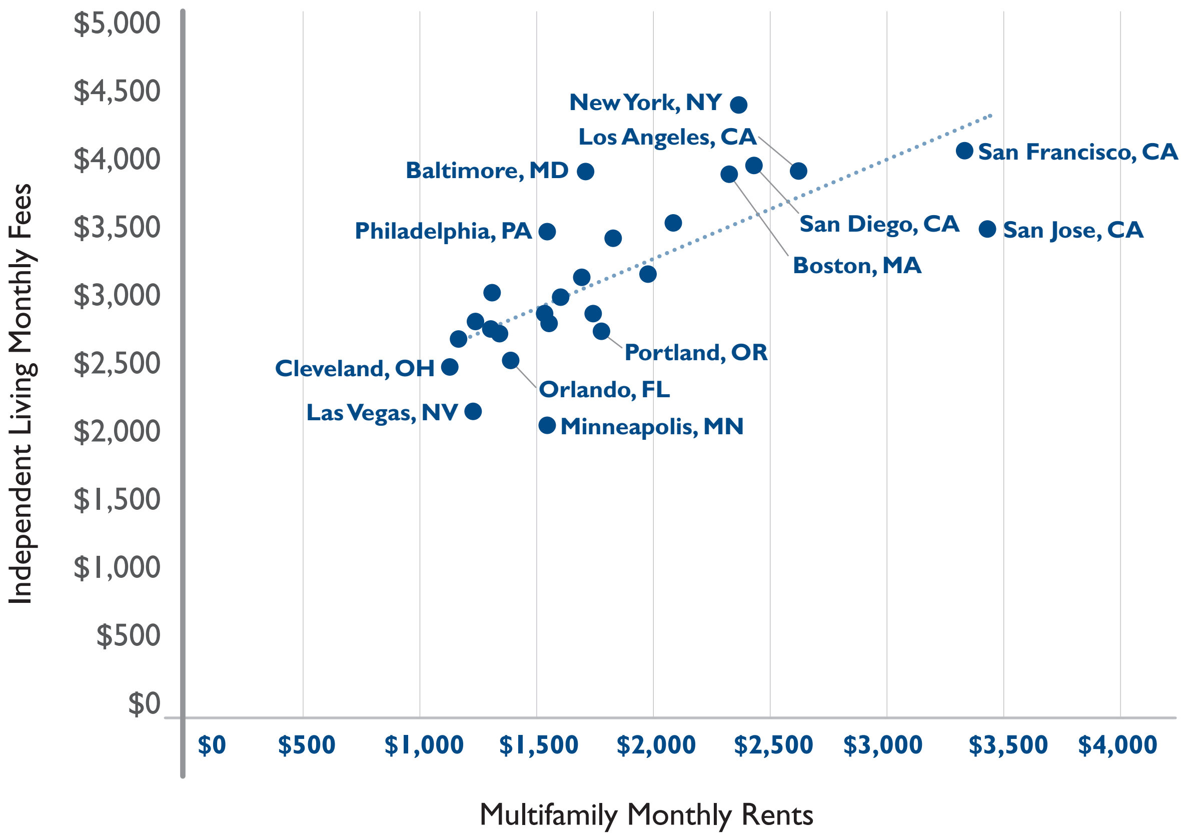
In contrast, from the perspective of older adults that either cannot afford or do not desire the independent living bundle, the value proposition of **Apartments for Life** compared to independent living could be analogous to the value proposition of assisted living compared to nursing care; offering a less expensive, less service intensive alternative that more closely aligns with their desires and needs.[14] We should be clear that we are not arguing against the merits of traditional independent living which has and will continue to offer a compelling value proposition for a substantial segment of the older adult population.

Returning to business model issues, there are several potential off-setting benefits to owning and operating **Apartments for Life**. Viewed from the perspective of traditional multifamily firms, compensating upside factors include: (i) increased rental rates, (ii) lower turn-over rates, and (iii) lower deterioration of rents and occupancy rates in down cycles resulting in lower income volatility and hence lower risk. Alternatively, from the perspective of traditional senior housing firms, major compensating factors include (i) significantly reduced exposure to the risks associated with future changes to health care policy, (ii) reduced exposure to liability risks associated with the delivery of care, and (iii) reduced exposure to workforce related issues including a substantially lower exposure to the risk of future wage cost increases.

LOCATION STRATEGY

Every metropolitan market can benefit from an **Apartments for Life** community because all have deep and growing older populations that can benefit from a lower priced, more flexible version of independent living.

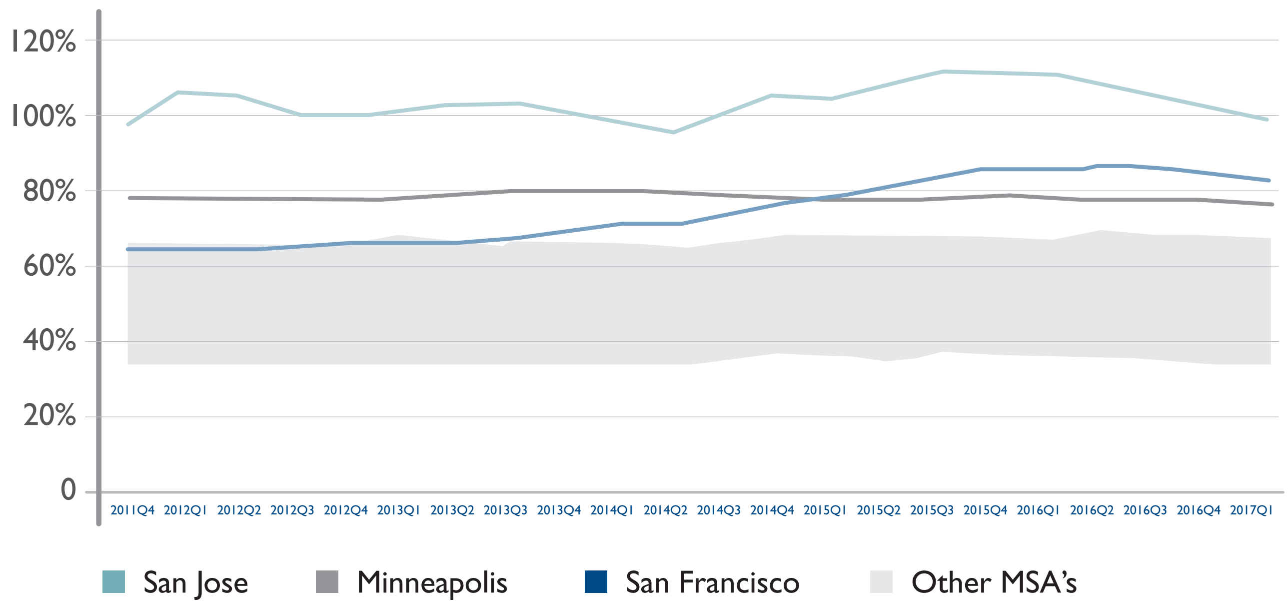
Multifamily rents versus independent living fees – 1Q2017
Top 31 metropolitan statistical areas (MSA)[15]



As expected, locations with higher apartment rents also have higher independent living fees. However, unexpectedly, the premium charged for services is lower in high cost markets than in lower cost markets. For instance, in St. Louis, independent living rates are approximately $2,000 above multifamily rents, but in San Francisco, independent living rates are only about $1,000 above multifamily rents. Clearly there are "many moving parts" underpinning these averages, and the correlation is not particularly strong. However, the trend line may imply that communities with relatively high independent living rental fees may be bumping up against an upper limit of their customers' willingness to pay for these bundled services.[16]

Note that in comparison to the general trend line, the independent living rent premium over apartment rents is particularly high in New York, Boston, San Diego, Baltimore and Philadelphia. Subject to the caveat that these are market-wide averages, markets above the trend line could be particularly good candidates in which an **A4L** can offer a compelling value alternative to traditional independent living. Ultimately, the characteristics of the specific neighborhood will drive the feasibility assessment, but markets about the trend line are expected to have numerous neighborhoods with attractive spreads between multifamily rents and independent living fees.

Ratio of multifamily rents to independent living fees by quarter for top 31 MSA's[17]

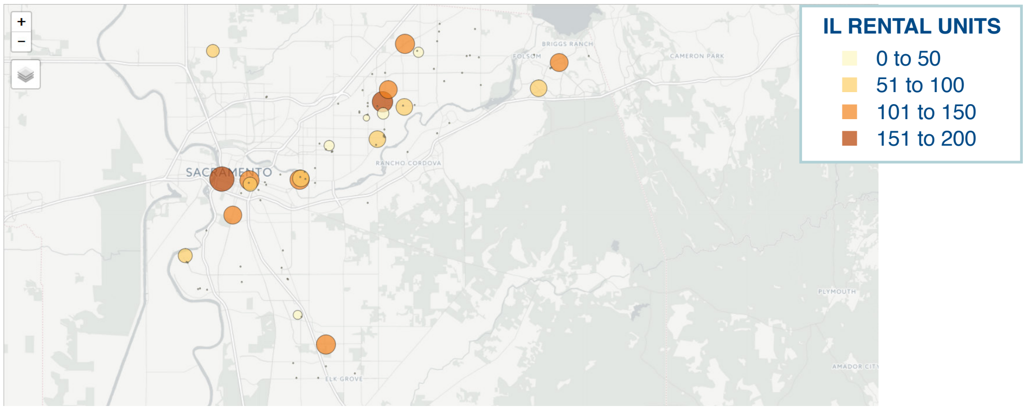


With the notable exception of the San Francisco metropolitan statistical area (MSA), the ratios of multifamily rents to IL monthly fees have remained relatively stable over time. Also, with the notable exceptions of the San Francisco and San Jose MSA's, the ratio for MF rents to IL fees has remained in the range of 30% to 60%. It is worth noting that even in San Jose, where the ratio would imply the value of an **A4L** model is less compelling, the experience of The Villa at San Mateo implies that even this market supports the **A4L** value proposition.

MORE LOCATION STRATEGY

One approach to a location strategy within a specific market is to consider the distribution of independent living rental units.

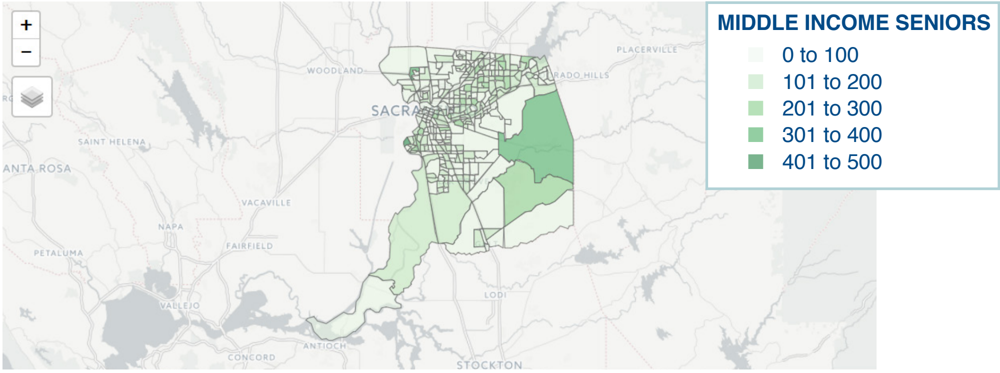
Open and under construction independent living communities in Sacramento County [18]



Properly executed, an **A4L** can offer a value alternative to independent living communities.

Another location strategy consideration is the current distribution of potential customers. While there is limited data on the **A4L** segment, intuitively an **A4L** property should be able to attract a relatively younger population. More specifically, executed properly, an **A4L** should be able to attract seniors age 65+ or 70+ rather than residents age 75+ or 80+ that are more common for independent living communities. Also, in keeping with the more modest cost, **A4L** should be affordable to middle income households. For the Sacramento County, the census tract with the highest count of **A4L** candidates is located on the eastern border of the county.

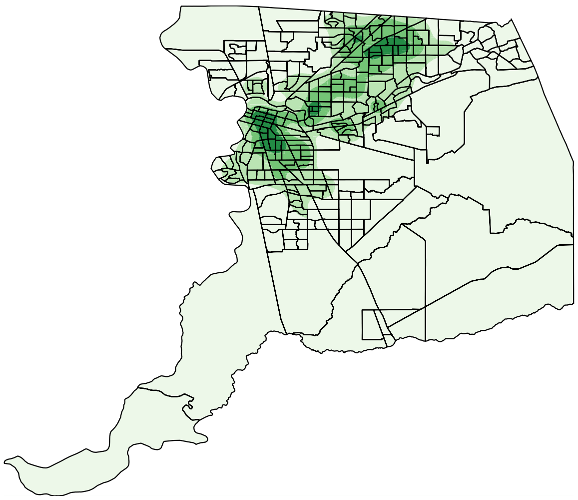
Count of households with head of household age 65+ and annual household income between $50,000 and $100,000 per year by census tracts in Sacramento County [19]



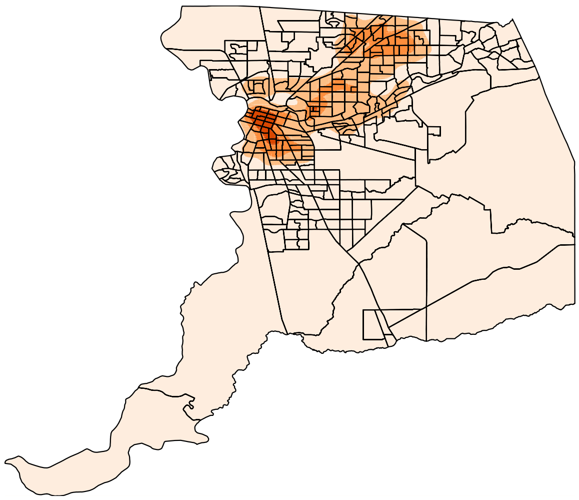
However, the preceding map is a classic example of how simple choropleth maps can be misleading. The census tract with the highest count of target customers is much larger than typical census tracts in the county and has a fairly low density of potential customers. Instead of steering acquisition and development resources to areas with high census tract counts (or zip code counts), a better tactic is to find locations that can support new construction, readily offer “linkages” to services, and have attractive trade area counts. A trade area count aggregates potential customers from all census tracts within a primary trade area. In the density maps below, applicable population and supply density maps are generated by creating dot-density maps by census tract (not shown) and then utilizing a kernel density estimate method to smooth the data to illustrate which parts of the county are particularly attractive in terms of proximity to target population and to existing independent living supply.

Target population density (green) | IL supply density (orange) | darker colors correspond to higher population and supply counts within a 5-mile trade area[20]

Target Population Density



IL Supply Density



For Sacramento County, the densities of target population and existing independent living generally align, although population densities going south along the CA-99 corridor are higher than supply density. In general, the dark green areas and the dark orange areas are relatively attractive; darker green implying proximity to target customers and darker orange implying proximity to numerous higher cost independent living units. Ideally, **A4L** communities should be located within a short walk of restaurant and convenience retail, and yet deliver an attractive residential feel… a tall order. Accordingly, site selection could arguably be more challenging for **A4L** than for independent living.

BUILDING THE CASE – MORE EVIDENCE

The American Seniors Housing Association (ASHA), the National Investment Center (NIC) and LeadingAge continue to make great progress in improving data availability and data quality for independent senior living. By comparison, data availability related to the **Apartments for Life** category is more limited. In particular, needed improvements include (i) better alignment in the definition of what is and is not an **A4L** (or some other handle), (ii) identification and standardization of **A4L**-specific development and operating benchmarks, (iii) greater availability of property data for existing and planned projects, (iv) more evidence that key operating metrics such as revenue per unit, cost per unit, changes in rental rents and occupancy rates, and turnover cost can be materially better than for traditional multifamily properties and (v) the development of distinct forums for sharing best practices and lessons learned.

Multifamily, senior living, and even health care firms are all candidates to address this emerging opportunity offering potentially both high financial and mission rewards. However, the main beneficiary will be older adults that will have expanded choices to meet their needs.

EXHIBIT A

Apartment Monthly Rents v. Independent Living Monthly Fees as of 2017Q1 (sorted by Ratio of IL Fees to MF Rents)[21]

MSA	IL.Fees	MF.Rent	Ratio
San Jose, CA	$3,478	$3,451	99%
San Francisco, CA	$4,036	$3,355	83%
Minneapolis, MN	$2,027	$1,567	77%
Los Angeles, CA	$3,883	$2,641	68%
Portland, OR	$2,757	$1,803	65%
Denver, CO	$3,123	$1,997	64%
San Diego, CA	$3,927	$2,450	62%
Riverside, CA	$2,855	$1,755	61%
Boston, MA	$3,868	$2,344	61%
Washington, DC	$3,496	$2,115	60%
Seattle, WA	$3,480	$2,099	60%
Las Vegas, NV	$2,131	$1,246	58%
Dallas, TX	$2,768	$1,566	57%
Orlando, FL	$2,496	$1,396	56%
Sacramento, CA	$3,098	$1,711	55%
New York, NY	$4,365	$2,389	55%
Chicago, IL	$2,966	$1,621	55%
Miami, FL	$3,399	$1,852	54%
Houston, TX	$2,855	$1,546	54%
Tampa, FL	$2,691	$1,347	50%
Phoenix, AZ	$2,721	$1,309	48%
Cleveland, OH	$2,455	$1,142	47%
Philadelphia, PA	$3,427	$1,567	46%
Cincinnati, OH	$2,792	$1,254	45%
Detroit, MI	$2,647	$1,174	44%
San Antonio, TX	$2,986	$1,324	44%
Baltimore, MD	$3,897	$1,720	44%
Kansas City, MO	$2,904	$1,252	43%
Atlanta, GA	$3,402	$1,335	39%
St. Louis, MO	$3,026	$1,133	37%
Pittsburgh, PA	$3,030	$1,068	35%

EXHIBIT B

Ratio of Apartment Monthly Rents to Independent Living Monthly Fees (sorted by 2017Q1 ratios) [22]

MSA	2011Q4	2017Q1	Change
San Jose, CA	98%	99%	0.02
San Francisco, CA	65%	83%	0.18
Minneapolis, MN	79%	77%	(0.01)
Los Angeles, CA	66%	68%	0.02
Portland, OR	57%	65%	0.08
Denver, CO	54%	64%	0.10
San Diego, CA	57%	62%	0.05
Riverside, CA	60%	61%	0.01
Boston, MA	50%	61%	0.10
Washington, DC	60%	60%	0.00
Seattle, WA	51%	60%	0.09
Las Vegas, NV	63%	58%	(0.04)
Dallas, TX	54%	57%	0.03
Orlando, FL	48%	56%	0.07
Sacramento, CA	53%	55%	0.02
New York, NY	53%	55%	0.02
Chicago, IL	54%	55%	0.00
Miami, FL	53%	54%	0.02
Houston, TX	53%	54%	0.01
Tampa, FL	46%	50%	0.04
Phoenix, AZ	46%	48%	0.02
Cleveland, OH	48%	47%	(0.01)
Philadelphia, PA	49%	46%	(0.03)
Cincinnati, OH	46%	45%	(0.01)
Detroit, MI	49%	44%	(0.04)
San Antonio, TX	40%	44%	0.04
Baltimore, MD	48%	44%	(0.04)
Kansas City, MO	41%	43%	0.03
Atlanta, GA	38%	39%	0.02
St. Louis, MO	40%	37%	(0.03)
Pittsburgh, PA	35%	35%	0.00

ENDNOTES

[1] Apartments: A $1.3 Trillion Market, Rosen Consulting Group for the National Multifamily Council (2013).

[2] Quarterly Residential Vacancy and Homeownership, Release Number: CB17-55, US Census (1Q2017).

[3] Baseline Household Projections for the Next Decade and Beyond (W14-1), Joint Center for Housing Studies at Harvard (2014).

[4] The Fair Housing Amendments Act of 1988 provides specific exemptions for housing intended for, and solely occupied by, persons 62 years of age or older, or housing intended and operated for occupancy by at least one person 55 years of age or older; see Senior Housing Guide to Fair Housing and ADA Compliance, 5th edition, Paul Gordon, Hansen Bridgett, 2016.

[5] Going Dutch: A mixed-use housing model from the Netherlands responds to the aging demographic, American Society on Aging AgeBlog by Victor Regnier (2012); USC Apartments for Life also by Victor Regnier (2013).

[6] Alternatively characterized as age-proofing or inclusive design.

[7] Shared meals can be particularly effective in fostering community building but the challenge is to benefit from shared meals without substantially increasing the minimum monthly cost; a traditional approach to bundling on-site meals effectively puts a community in the independent living (IL) category.

[8] Characteristics of New Housing, US Census (Sept 2015).

[9] Special Issues Brief: A Projection of U.S. Seniors Housing Demand 2015 – 2040, American Seniors Housing Association by Phil Downey, Larry Rouvelas and Frank Rockwood (2016).

[10] The LIHTC program was launched as part of the Reagan era Tax Act of 1986 and is generally recognized as a successful program that leverages private capital to effectively meet social objectives. Under the program, each state adopts and implements a Qualified Allocation Plan (QAP). QAPs generally include set-asides or other preferences for applicants intending to service an older adult population, however, many states have begun to prioritize other groups such as formerly homeless persons. Arguably a bigger factor in the relatively high percent of age-restricted LIHTC apartments relates to the perception by developers that land use challenges are lower for age-restricted apartments in comparison to family apartments.

[11] See http://www.prnewswire.com/news-releases/elder-care-alliance-announces-acquisition-of-the-villa-at-san-mateo-300384776.html.

[12] At the limit, intergenerational housing is arguably not distinct from traditional housing. The success of the active adult community model has demonstrated that while intergenerational housing has almost universal appeal, in practice, age restrictions are valued by many residents. Furthermore, as the traditional avenues for fostering community around shared faith and shared fraternal affiliations become more challenging, the shared experiences related to aging remain a strong potential force in community building. For relevant research on the active adult community model and societal changes in community building we recommend From Sun Cities to the Villages: A History of Active Adult, Age-Restricted Communities by Judith Ann Trolander (2011), Bowling Alone: The Collapse and Revival of American Community by Robert Putman (2001) and American Grace: How Religion Divides and Unites Us by Robert Putnam and David E. Campbell (2012).

[13] A mixed-use strategy involving both **A4L** and independent living would need to take into consideration the potential effects of the **A4L** portion of the mixed-use project on the independent living portion of the property in terms of potential cannibalization and/or pricing.

[14] The comparison between **A4L** rents to IL rents is not completely analogous to the comparison between AL rents and NC rents since **A4L** rents do not include necessary services such as meals and housekeeping. However, many potential residents of **A4L** are expected to have the desire and ability to self-perform some of these services and will value the greater flexibility offered by **A4L**.

[15] Apartment monthly rents per ZRI Time Series: Multifamily, SFR, Condo/Co-op ($), Zillow (2017Q1); independent living monthly fees per NIC MAP (2017Q1) for predominantly independent living communities, exclusive of entry fee/life plan and equity communities. Note that the equation for the trend line is $y = 0.7287x + 1{,}781$ with an R squared of 0.54. Incidentally, an alternate analysis was conducted comparing IL rental community fees to just apartments built after 2013 based on US Census data (Table B25111: Median Rent by Year Structure Built). The pattern observed in the alternate analysis was similar.

[16] Note that a slope (b) of less than one in the simple regression expression of $Y= a+ bX$ implies that the services premium in general declines as multifamily rates rise. Removing the outliers of San Jose, Minneapolis and San Francisco raises R squared to 0.72.

[17] Apartment monthly rents time series data per ZRI Time Series: Multifamily, SFR, Condo/Co-op ($), Zillow (2017Q1); independent living monthly fees time series data per NIC MAP (2017Q1) for predominantly independent living communities, exclusive of entry fee/life plan and equity communities.

[18] NIC Map (2017Q1); Rockwood Pacific.

[19] US Census Table B19037: Age of Householder by Household Income as of 2015; data extracted via Minnesota Population Center, National Historical Geographic Information System: Version 11.0 [Database], Minneapolis: University of Minnesota (2016). http://www.nhgis.org.

[20] Creating the density maps requires substantial computation that was reliant on the contributions of the open-source CRAN-R community. Specifically, distance calculations between census tract centroids and/or independent living properties were calculated with the geosphere() package (Robert J. Hijmans, Ed Williams, Chris Vennes); census tract polygon data was extracted from U.S. Census via the tigris() package (Kyle Walker, Bob Rudis); mapping of existing properties utilized the tmap() package (Martijn Tennekes, Joel Gombin, Sebastian Jeworutzki, Kent Russell, Richard Zijdeman); dot-density map of target population was created utilizing the maptools() package (primary author Roger Bivand; numerous supporting authors); and the kernel density maps were created with the GISTools() package (Chris Brunsdon and Hongyan Chen).

[21] Apartment monthly rents per ZRI Time Series: Multifamily, SFR, Condo/Co-op ($), Zillow (2017Q1); independent living monthly fees per NIC MAP (2017Q1) for predominantly independent living communities, exclusive of entry fee/life plan and equity communities.

[22] See footnote 21.

ABOUT THE AUTHORS

FRANCESCO ROCKWOOD

Francesco Rockwood, a principal at Rockwood Pacific, was the primary author of this paper. Rockwood Pacific provides real estate decision support and transaction services to mission-based organizations committed to serving older adults. Rockwood Pacific is affiliated with Senior Housing Analytics.

PHIL DOWNEY

Phil Downey, a principal at Senior Housing Analytics, provided guidance and peer review of the approach and conclusions utilized in this paper. Phil is a principal at Senior Housing Analytics, a firm specializing in senior living market analysis. Senior Housing Analytics is affiliated with Rockwood Pacific.

SARAH ROCKWOOD

Sarah Rockwood, a research associate with Rockwood Pacific, provided research and analysis of the demographic data utilized in this paper. Sarah is an undergraduate at the University of California at Berkeley.

AMERICAN SENIORS HOUSING ASSOCIATION
Living Longer Better

www.seniorshousing.org

SENIOR HOUSING ANALYTICS

www.senioranalytics.com

Rockwood Pacific

www.rockwoodpacific.com