Industry braces for major challenge ahead: Affordable housing

Editor's Note: While new construction for assisted living housing continues at a rapid pace, the word affordable doesn't seem to be part of the equation. This article explores the supply/demand shift that while seniors still desire senior living communities, they likely can't afford it, as well as some industry solutions.

During 2018, more than 1,550 assisted living construction starts were logged. By the end of that year, the American Health Care Association/National Center for Assisted Living reported their assisted living members' bed count grew by more than 20,400, to a total of 251,108. Slightly lower growth was reported the year before. Meanwhile, stable occupancy rates blessed the assisted living sector in 2018 – an average of 85.4%.

New construction continues at a healthy clip in a sector that has long courted the most affluent seniors.

But there are storm clouds on the horizon.

As 2018 came to a close, People's United Bank Healthcare Financial Services' Senior Vice President and Market Manager Matthew Huber wrote in McKnight's Senior Living that the industry could be soon facing a severe downturn as a result of overbuilding.

Observers say the construction of assisted living communities is beginning to outpace the number of people needed to fill them. According to the National Investment Center for Seniors Housing & Care (NIC), the assisted living inventory growth in 2019 will continue pushing down occupancy rates.

All of this has nothing to do with the attractiveness and viability of assisted living to many seniors, especially with rising acuities, Alzheimer's and dementia, requiring increased memory care. It has everything to do with simple economics. Many baby boomers approaching retirement are increasingly being priced out of a market they had their eyes on before the great recession in 2007, and are choosing to stay put.

A late 2018 survey from RetirementLiving.com bears this out: researchers discovered that 80% of seniors approaching retirement age plan to continue living at home as they age.

Similarly with Provision Living, a large assisted living and memory care services operator, which recently polled thousands of seniors about what they believed to be optimal retirement scenarios. A significant number of them indicated their retirement plans included remaining at home.

Upon closer inspection, the surveys reveal these choices are not going to be easy ones for seniors. Affordable housing will be increasingly in demand. Why? Because a large number of baby boomers are rapidly finding themselves short on cash and savings, and saddled with more consumer debt and less pension money than previous generations. In June 2019, the World Economic Forum released dire news in a study that paints an uncertain future for seniors leaving the workforce. Among its major findings: many American retirees will outlive their savings by more than 10 years – or roughly the average remaining life expectancies following the age 67 retirement age.

Staving off the looming crisis

A number of initiatives are underway to infuse more affordability into the assisted living sector.

As NIC Chief Economist Beth Burnham Mace told McKnight's Senior Living in May 2019, NIC's own analysis projected that a $10,000 cut in annual senior living costs would make senior living housing affordable to 2.3 million more seniors; a $15,000 annual expense drop would make it affordable to almost 6 million more seniors.

One researcher told the magazine the senior living sector would be able to greatly expand the potential market for senior housing – and increase options for these previously underserved seniors – if it were able to develop products that appeal to middle-market consumers at a price they can afford.

A series of industry initiatives are underway that target the so-called middle market demographic – the middle income seniors soon to be priced out of assisted living yet too "affluent" to be eligible for Medicaid assistance. It is a cohort defined in the World Economic Forum study that found by 2029, 54% of American retirees will outlive their savings by more than 10 years and not have the resources necessary to pay for senior housing.

As the magazine reported, seniors ages 75 to 84 will have incomes of $25,001 to $74,298 (in 2014 dollars), and seniors aged 85 or more will have incomes of $24,450 to $95,051.

High-profile owner-operators have noted that serving middle-income seniors could be an answer to the occupancy and oversupply challenges facing senior living operators and developers.

Among some of the potential solutions industry groups are exploring to make senior housing more affordable:

- Charging less rent and accepting lower investment returns and profit margins.
- Operating mixed-income communities, where the higher rents paid by some residents can be used to subsidize the rents of those with lower incomes.
- Offering more basic housing products.
- Taking advantage of technology to reduce operating costs, increase staff efficiency or enable residents to be more self-sufficient.
- More formally involving family caregivers, outside volunteers and healthier residents to offset staffing

costs.

- Using à la carte pricing to separate care and services from housing to increase flexibility for some residents.
- Establishing Medicare Advantage plans, individually or jointly with other operators, to offer on-site medical services.
- Potential public-sector actions, including tax incentives for developers and operators who serve middle-income seniors; establishing higher limits for low-income tax credits and other programs to include more middle-income seniors; expanding subsidies or voucher programs for older adults; and creating new incentives to encourage long-term care financial planning.

One large provider's vision for affordable housing

For more than half a century, Eskaton Senior Living, a northern California-based provider, has called this part of the country home, caring for millions in a myriad of settings from skilled nursing to home to memory care to rehab and practically everything else in between.

In all, this mid-size long-term care provider is likely less known for its unusual name than the words beneath its logo: "Transforming the Aging Experience."

Eskaton has long served as an important incubator for cutting-edge emerging technology like fall detection sensors and smart lighting to lower energy bills.

But affordable housing is a much larger mission. In a recent white paper, Eskaton explained its vision.

In contrast to the bright future technology provides is the somewhat murky landscape of affordable housing – something that will undoubtedly pose serious challenges for senior living providers and the coming "age wave." In places like California, where affordable housing was in serious deficit, providers like Eskaton are more than eager to find solutions through partnerships.

Eskaton was an early pioneer of affordable housing in the Sunshine State back in 1978, when it opened the President Thomas Jefferson Manor in Sacramento, which offered relatively low-cost, independent-living housing to seniors with restricted incomes. At several locations, Eskaton has provided affordable housing with services funded by Section 8 rent subsidies from the Department of Housing and Urban Development. Many of these communities were developed in partnership with the local cities and counties that provided advocacy, support and, in some cases, funding.

What's more, by partnering with ValueMed for competitive and cost-effective pharmacy services, Eskaton is better able to contain costs while providing robust medication management.

The over-supply of senior living due to new construction could be solved by focusing on the under-served middle market. While the industry looks for solutions, communities who actively market to this cohort could find themselves the center of attention for millions of seniors who seek assisted living services but do not have the resources for luxury living. One way to reduce the cost of assisted living? Rely on ValueMed Pharmacy *services, technology and expert consulting pharmacists for the most cost-efficient senior pharmacy solution. Contact us at ValueMed@PharMerica.com or 866-628-2583 to learn more.*