

Apartment ReSources

A Real Estate Research Periodical

Volume 2, Number 3 March 1988

March Market Hotline!

Special Congregate-Care Issue!

This month, we've developed an exclusive look at the congregate care market. The article "The Five Pitfalls of Congregate-Care Development" details the most common errors we've seen in the congregate market. If you've ever considered the possibilities in congregate development, be sure to read this article. (See Page 4.)

- You may notice our *Apartment Absorption Update*: is missing from this month's issue. Unfortunately, only January 1988 data are currently available from the Census Bureau. We felt that such limited data would not yield useful year-to-date comparisons. *Apartment Absorption Update*: will return next month.

(Continued on Page 2)

Apartment Resources is a monthly publication designed for apartment developers, lenders, and builders involved in all forms of multifamily housing.

In This Issue:

March Market Hotline! 1

Construction Decline; 1988 What's Hot and What's Not

The POP Results: 3

On The Outside Looking In

Apartment Resources Special Report . . 4

The Five Pitfalls of Congregate-Care Development

This special analysis of today's congregate-care market reveals some astonishing facts about the current rate of congregate development. Don't miss "The Congregate Explosion" on Page 6.

- Visitor registration cards are an often-underused tool for product marketing. If you are using your visitor registration card only for prospect callbacks, you may be letting important information about your market slip away. For example:

—If you aggregate your registration cards by address, you'll be able to determine the market area that is being impacted by your project. Knowing this will help you determine the area in which advertising will be most effective. You'll save marketing dollars by focusing your advertising on the market area your project affects. This is one of the techniques we use in our Project Opening Plan (POP)SM program to track market trends.

—If you ask (on the visitor registration card) what type of housing your prospects are living in now, you'll be better able to qualify your tenants. If, for example, the prospect is currently living in an apartment, he or she is most likely looking for step-up amenities. On the other hand, if the prospect is currently living with his or her parents, the primary concern may be price. This kind of information can assist you greatly in dealing with these prospects.

Most shoppers find visitor registration cards bothersome, so don't expect them to fill out a two-page survey. However, if you ask just a few good questions, you'll be able to develop a powerful marketing data base. We'll continue to discuss visitor registration cards in future issues of *Apartment Resources*.

- Are you experimenting with offering fireplaces as an amenity? Why not consider a unit design that places the fireplace in the dining room? Moving the

fireplace from its traditional living room location to the dining room offers several benefits:

- It's a unique location that will cause apartment shoppers to remember your project.
- It provides a more romantic setting than the typical apartment dining area.
- It makes no impact on living room layout. In a living room, most of the furniture goes against the wall. In a dining room, however, tables and chairs are usually away from the wall. Therefore, placing a fireplace in the living room dictates to your tenants where they'll be placing their furniture. In the dining room, it simply provides atmosphere.

- Winning the space race—Tenants who "step up" in apartment housing pay a lot of attention to space. Our research indicates that tenants initially attracted to projects with shared amenities (ones that cause tenants to share common areas) usually move to projects that have increased personal space. We've found that three space-related unit attributes influence apartment shoppers:

—Entry volume (i.e., the amount of space one sees when entering a unit)—this is why cathedral ceilings are visually pleasing.

—Bedroom space, particularly the second bedroom. The master bedroom is *expected* to be roomy.

—Closet space.

You should make sure that your design uses space with an eye for room arrangement. We occasionally survey units where the design, particularly window and closet arrangement, doesn't leave

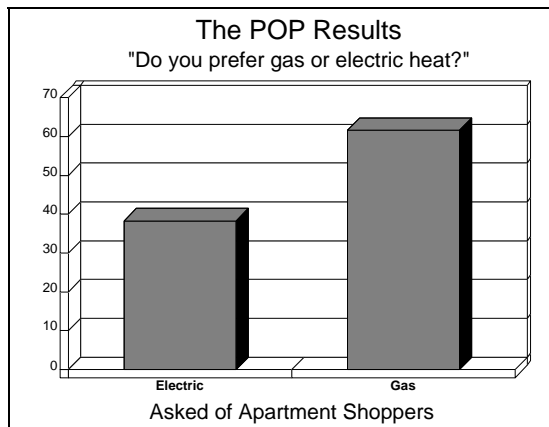
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The POP Results:

The Apartment Market Heats Up

One of the fundamental features of a housing unit is its heating/cooling system. No unit or project amenity can have value for a tenant who feels uncomfortable in his or her environment. It comes as no surprise, then, that tenants have strong viewpoints on the type of heating or cooling they prefer. What is surprising is the way those choices are made.

In our Project Opening Plan (POP)SM surveys, which are conducted during the rent-up of an individual project, we ask potential tenants of that project a number of questions to determine demographics, housing history, and opinions on the importance of various project unit features. In their original form, the results of these surveys can be used by a project manager to achieve a more balanced absorption of units by accurately

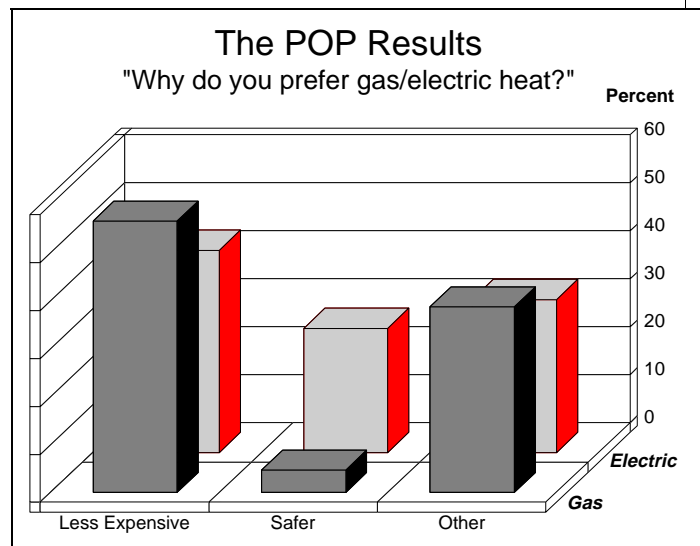


controlling unit rental fees. But when we aggregate the results of these surveys for our POP Results, they give us insight into the demographic makeup and attitudes of modern apartment shoppers.

One question we ask on each POP survey is, "When shopping for an apartment, do you have a preference for electric or gas heat?" Each respondent who indicates a preference is then asked why he or she made that choice.

The survey reveals interesting results. Clearly, gas is the preferred choice of potential tenants—over 60% of the tenants shopping for an apartment today would rather live in a unit with gas heat. But regardless of the utility preferred, *cost* was the main reason for the selection. In other words, tenants who prefer one utility over another do so because they feel it costs less than the other. Apparently, the pricing structure of electric and gas heat is such that it is difficult for consumers to analyze the relative value of these utilities.

Nevertheless, this survey indicates that regardless of the utility you offer, your apartment shoppers will respond best if you emphasize cost-effectiveness. As the accompanying graphs indicate, almost the only consistent response shoppers gave when asked why they preferred a specific utility was cost. If your units feature electric heat, however, your marketing program can also mention the relative safety of electric heat. Over 25% of tenants who prefer electric heat do so because they perceive it to be safer than gas.



The POP Results:

One of the real estate research services offered by Kenneth Danter & Company is the Project Opening Plan (POP)SM, a 12-month study of an apartment project's rent-up process. The objective of our POP studies is to give the project's development and management team all of the necessary information required to fine-tune rents and marketing strategies during the first year. Among the analyses conducted are comparative shopping reports of the project and its competitors, an analysis of the Effective Market Area (EMA)SM, an area advertising/marketing analysis, and rent-up tracking by unit type.

Another analysis conducted is an in-depth survey of all visitors who shop the project in its first 12 months. These surveys provide management with detailed shopper profiles within the EMA.

To produce **The POP Results**, we've aggregated the results of all of our POP surveys to provide the most accurate overall tenant profile available today.

We'll be bringing you more POP results in future issues of *Apartment Resources*.

The Five Pitfalls of Congregate-Care Development

If there is a first rule of investing, it is this: "If it sounds too good to be true, it probably is." Nowhere do we find this rule better applied than in congregate-care development.

Congregate care is still one of the newest development alternatives in the housing industry. On the surface, it appears to fill a gap long-ignored in housing for mature adults. Simply put, it provides a housing alternative for adults who need or desire some measure of assistance in their day-to-day housekeeping chores, but who do not need or desire the complete range of assistance provided by nursing homes.

The Basics: Common Congregate Care Services

Most congregate-care developments have certain basic aspects in common: in return for a service fee, which may be financed in several ways, they provide housing and services for older adults. The services usually provided include meals, housekeeping and/or linen service, and organized activities. Although the type of services offered can vary greatly, depending on the development, one finds some combination of these basic services at most congregate-care facilities.

However, the pay plans that have been developed for congregate care vary greatly. They usually fall into one of three general categories: the "life-care" plan, the "straight rental" plan, and the "condominium" plan. (See inset, *Same Services—Different Pay Plans*.)

The Complexities: Developing Congregate Care That Works

It is easy to define the basic concepts behind congregate-care development and pay plans—the difficulty lies in putting them to work. When we're presented with a plan for a congregate development that sounds too good to be true, we often find that the developer has ignored the Five Pitfalls of Congregate Development.

Pitfall 1: The Target Market Is Not Age-Appropriate

This is the single-most devastating pitfall in congregate development, and the one most often

Same Services—Different Pay Plans

1. **The "life-care" plan**—This type of financing assumes that the tenant is willing to remain with the facility for the remainder of his or her life. Tenants under such a plan endow a large sum of money to the facility, which ensures continuing care even if they become unable to care for themselves.
"Life-care" financing varies from facility to facility. Some congregate-care facilities require a monthly fee in addition to the original endowment, and each facility has its own terms regarding the percentage of the endowment that reverts to the tenant's estate at death. This percentage can range from 0% to 100% of the original endowment.
2. **The "straight-rental" plan**—This is the most common type of financing, and works as its name implies. Congregate tenants in these facilities pay a straight rental fee, which includes the congregate services. Some facilities in this category also charge a deposit (equal to two month's rent) or an entrance fee (higher than a deposit but less than an endowment). As with the endowment plan, the percentage of the initial fee refunded upon death or move-out varies with each facility.
3. **The "condominium" plan**—In this plan, tenants actually purchase their own units. Like most owners of condominiums, tenants are required to pay monthly common fees for services. In congregate-care condominiums, however, tenant fees include not only maintenance, but also congregate services.

overlooked. Usually, making a mistake here causes an unrealistic **capture factor** for the market area—which ultimately results in overbuilding. (For more information on the importance of **capture factors**, see "The Ultimate Fallacy Symbol" in the November 1987 issue of *Apartment Resources*.) This mistake often occurs when people misuse the term "elderly housing."

Developers often use the term "elderly housing," to refer to a variety of housing alternatives for older adults. But what most people have difficulty establishing is the age at which "elderly" begins. Depending on the source, the age at which tenants are considered "elderly" can begin as low as age 59. The only constant that seems to apply here is that as the developer gets older, the age at which people become "elderly" increases!

But in general, the problem with referring to housing for older adults as "elderly housing" is that this term tends to lump a very diverse population segment into one homogeneous mass. By doing so, it is easy to forget that older adults need a continuum of housing alternatives *whose services increase as the tenant's housekeeping ability decreases*. On one end of the spectrum, healthy, active older adults may need nothing more than a single-floor apartment that frees them from climbing stairs and maintaining a large house. At the other end of the spectrum are older adults in failing health who need constant nursing care.

The people who need a congregate-care lifestyle are usually forced into it from a perception of necessity. Often, their decision to move is based on a debilitating illness or injury, or the death of a spouse. Because of this, developers should not assume their age-appropriate target-market for congregate housing to be age 60 or over. Many persons in this category are still able to maintain their current lifestyle, and will do so as long as they are able.

Our research indicates that the median age for people moving into a congregate development is 74, with 75% of all residents moving in at age 71 or over. The portion of the US population 65 and over is 11.3%. The portion of the US population 74 and over is only 5.0%.

In practical terms, that means that in a market area of 25,000 people, nearly 3,000 will appear to be age-appropriate for congregate housing if you count residents age 65 and over. But an active congregate

development in this area will find that its actual market is only 1,250 persons.

Pitfall 2: Small Market Shares Can Mean Big Mistakes

In very small market segments, mistakes are not easily absorbed. When you are dealing with an otherwise normal-size market area, it is sometimes easy to forget that your specialized housing appeals only to a small percentage. For example, assume that an average market area is slightly overbuilt in apartment units. A new apartment development will increase that overbuilding by a small percentage, and, depending on marketing and circumstances, may even achieve some success. However, if that same market area is overbuilt in congregate units, a new congregate development will increase that overbuilding by a significant percentage. Only under extraordinary circumstances would such a development achieve success. (See inset, *Congregate Overbuilding—Risky Business*)

Pitfall 3: The Market Area Is Too Large

Developers often make the mistake of assuming that mobility patterns are constant. They assume that if average apartment tenants will move a given distance to step up into better apartment housing, congregate tenants will move an equal distance to attain new congregate housing. In fact, the mobility patterns for older adults, especially with regard to congregate housing, are quite different than those for the average apartment tenant. Kenneth Danter & Company uses an Effective Market Area (EMA)TM methodology for determining a given development's actual market area. This methodology, which

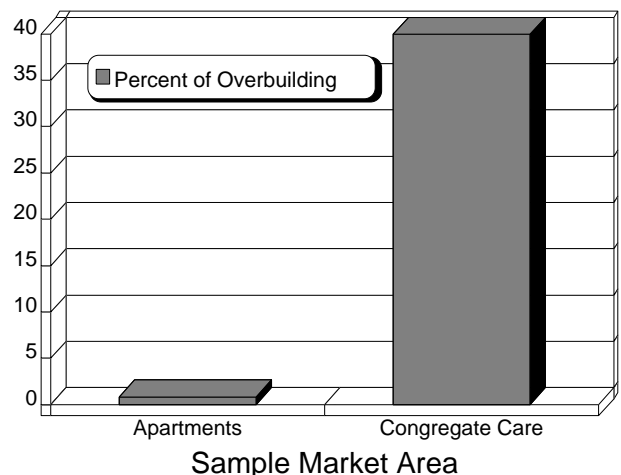
Congregate Overbuilding—Risky Business

This graph indicates the risk in overbuilding congregate-care units. Although no two market areas are alike, assume for the sake of example a hypothetical market area that is fully developed in both market-rate apartment and congregate-care units. This particular market area is able to support about 6,000 market-rate apartment units. If an additional 50 apartment units were built in that market, the degree of overbuilding would be less than 1.0%.

However, in the same market area, one would find support for far fewer congregate-care units. For this example, we'll assume 125 units. Building an additional 50 congregate units in this same market area will overbuild the market by 40%. Our experience indicates that the speed at which congregate markets can become overbuilt can make development treacherous for the inexperienced congregate developer.

The Effect of Overbuilding 50 Units

Apartments vs. Congregate Care



incorporates telephone surveys, interviews with local officials, and on-site analyses, establishes the boundaries within which most of the support for a development will occur.

Our surveys of potential tenants for older adults indicate that, generally speaking, the distance congregate tenants will travel for housing is less than that for apartment tenants. Although there are marketing techniques one can use to achieve broad regional acceptance for a congregate facility, these techniques rely on associating with already-established institutions. Without these associations, the market area boundaries for a congregate facility tend to be smaller than those for other forms of housing.

Pitfall 4: The Congregate-Care Facility is Independently Established

Once tenants have decided to relocate to a congregate-care facility, they have already begun thinking of future needs, when they will be less able to care for themselves. They know that one day they may require an assisted-living arrangement, and perhaps even full nursing care. A congregate-care facility that does not already provide answers to these concerns is only a temporary solution for these tenants.

The two ways to overcome this pitfall are to develop a congregate-care complex that includes assisted-living and nursing facilities, or to develop a congregate-care facility near such facilities and

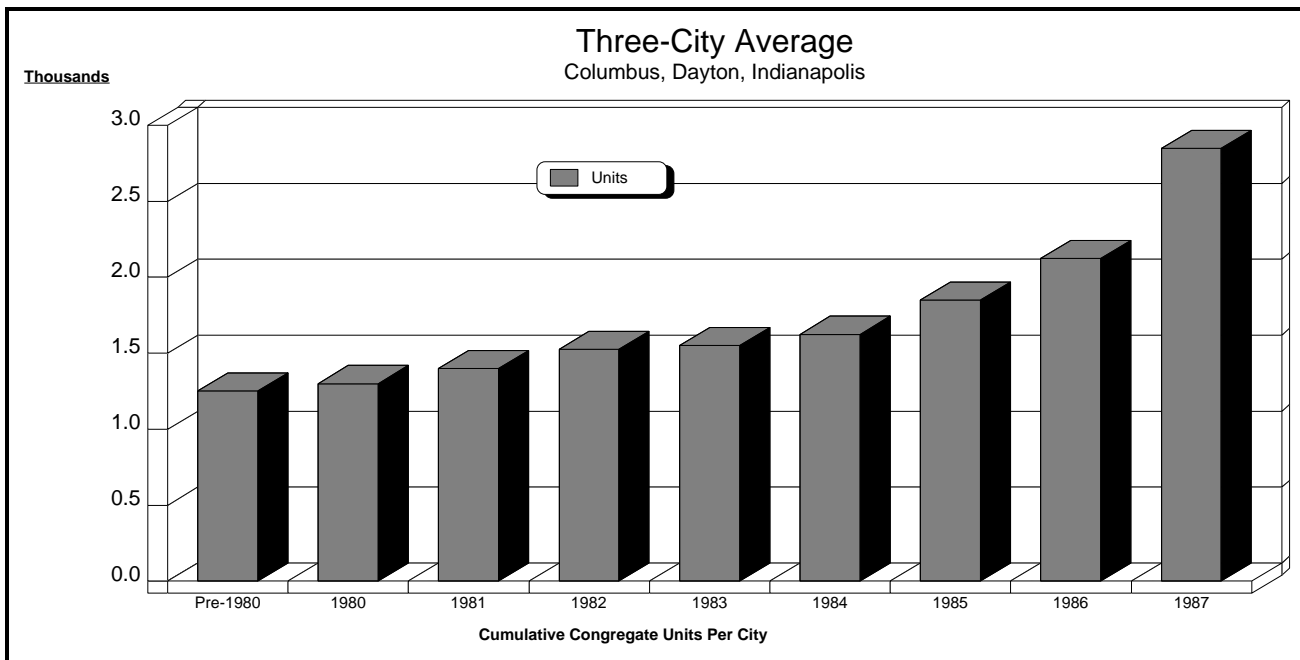
The Congregate Explosion

In an earlier article on the congregate-care market (*Congregate Care—New Wave or Tidal Wave?*, Resources No. 1, 1985), we discovered astonishing leaps in the number of congregate developments. As we predicted, the explosion in congregate development continues today. In that issue, we traced the development of congregate-care units in three cities—Indianapolis, Dayton, and Columbus.

Given the small housing market share of congregate-care developments (usually, adults age 71 and over), we were concerned that intense development of the congregate-care market would quickly lead to disastrously overbuilt markets. As noted in "The Five Pitfalls in Congregate Care," even the introduction of one project in a slightly overbuilt congregate market can lead to problems.

For this article, we returned to the markets in the three cities to evaluate the current state of congregate development. We reviewed the history of congregate development since 1980, and also noted the number of units opened, under construction, and planned for 1987. We found that development interest in congregate care remains unabated, despite a trend of heavy building that began in 1985.

Prior to 1980, the three cities averaged 137 new units per community annually. This increased slightly in 1981 to 150 units. During the recession years of 1982 through 1984, construction fell to only 37 new units per community annually. However, the congregate market took off in 1985, with each city increasing its number of new units by 225. Another increase occurred in 1986, with 275 new units being built per city. Finally, the number of units planned, being built, or under construction in 1987 was 705—a staggering increase for markets this size.



develop an association with them. The former solution usually requires a major investment and planning beyond the original intention of building a congregate facility. The latter solution is somewhat easier, but requires establishing good relations with the existing facility, and ensuring that existing facilities provide the same quality of housing as your facility—even though you have little control over their operations.

Pitfall 5: An Attempt is Made to "Sell-Down" The Market

Developers in northern regions, realizing that the target market for congregate-care housing are those people aged 72 and over, sometimes attempt to "sell-down" the market (market the complex to younger tenants). This approach rarely works, because of the value younger tenants place on congregate services.

The services that make congregate-care distinctive are not wholly needed by younger tenants. For example, younger, more mobile tenants prefer to make their own meals or dine out occasionally. Therefore, an enforced seven-day meal plan would not be of interest to these tenants. But even if meal, activity, and housekeeping services were offered in optional packages, these tenants would probably not find them of high enough value to justify their extra cost. Furthermore, the key to successful congregate management lies in presenting these services economically, and the best way to do that is by offering them in quantity. Having a percentage of tenants refuse these services can only increase the cost of providing them to tenants who need them.

The Future of Congregate-Care Development

Does all of this mean that congregate care is a bad investment? No. Our research still uncovers markets or concepts in which congregate-care developments have excellent chances for success.

But it does mean that congregate-care projects absolutely require the best research and planning you can do. Before you can confidently develop a congregate-care facility, you must

- *Identify the exact depth of your market and the true boundaries for your market area.*
- *Identify the best location, price structure, and amenity package to serve that market.*
- *Identify "pipeline product"—new projects that are in the planning and construction phases.*
- *Attempt to establish an alignment with a non-profit organization, such as a church or synagogue.*
- *And most of all, ensure that the congregate-care facility plays more than just an economic role in the community. To be successful, it must establish links with area hospitals, care facilities, churches, and other community organizations that older adults depend upon.*

Developing successful projects isn't easy, and developing successful congregate projects is even more difficult. But careful research and planning can help you tell the truly good projects from the ones that are merely too good to be true.

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Kenneth Danter & Company
40 W. Spruce St.
Columbus, OH 43215