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# Apartment Resources

A Real Estate Research Periodical

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

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# The Five Pitfalls of Congregate Care Development

## Editor's Note

In the last few months, as we have traveled around the country attending seminars and conferences, we have noticed a renewing interest in retirement living development.

There are several levels of retirement living, ranging from independent-living to nursing care. Often, several levels of services are offered at the same location. Projects which combine independent-living, assisted-living, congregate care and nursing care are known as Continuing Care Retirement Communities, or full-service retirement communities.

Congregate care has been and continues to be one of the most common forms of retirement living. Therefore, we are devoting this special issue of *Apartment Resources* to congregate care development. The following article, along with the accompanying sidebars and graphs are reprinted, with some Updating, from the March 1988 *Apartment Resources*. Other articles have been written expressly for this issue.

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.

## Same Services—Different Pay Plans

Three basic types of congregate care pay plans exist. Each plan generally includes the same services, but each appeals to a different segment of the market.

1. *The "life-care" plan*—Associated exclusively with full-service retirement communities, this type of financing encourages the tenant 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 in concept ensures continuing care even if they become unable to care for themselves either physically or financially.

Generally, potential residents are carefully screened to ensure that they will not run out of money. In addition, a portion of the upfront fee is set aside to defer the cost of assisted-care or nursing care for the resident. The monthly fee may also purchase nursing care insurance to help defer the cost of nursing care. "Life-care" financing varies from facility to facility. Some 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 tenant fees include not only maintenance, but also congregate services.

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 previous page).

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 are 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 overlooked. Usually, making a mistake here causes an unrealistic **capture factor** for the market area—which ultimately results in overbuilding. 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 55. 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 according to the 1990 Census is 12.5%. The portion of the US population 74 and over is only 5.3%.

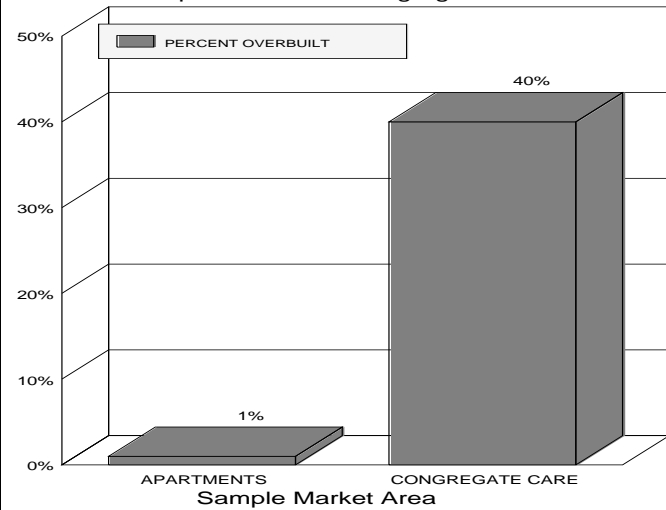
In practical terms, that means that in a market area of 25,000 people, approximately 3,125 will appear to be age- appropriate for congregate housing if you count residents age 65 and over. But an active congregate development in this area will find that its actual market is only 1,350 persons.

**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 market area is able to support about 6,000 market-rate apartment units. If an additional 50 apartment units were built, 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**



## **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.

### **The Dependantly Active**

It is important, when considering congregate care development, to understand exactly what type of resident is attracted to such a facility. We like to call them the dependantly active.

First, most elderly households want to live in their own home and maintain their own independent lifestyle. They are active: they may volunteer, travel, hold down a part-time job, work a garden, go to church, or visit relatives.

This is a sharp contrast from the dependantly active tenants sought by congregate care facilities. Such tenants need or want help providing for some basic needs, such as meals, or cleaning their apartments. In addition, they may foresee the need for a higher level of dependance in the future.

Yet, despite this dependance on the services of the community, congregate care tenants must be active enough to maintain some sort of independence, and sufficiently fit and healthy enough to interact with other community members and to participate in community events and outings.

The differences between the independent seniors and the dependantly active are critical. Even something seemingly as small as having to be in the dining room for meals can be seen by independent seniors as giving up control over their own lives. As a result, many independent seniors hold on in their homes until they are virtually unable to function there, and instead need assisted-living or nursing home services.

Therefore, beyond age-qualification and income-qualification, one additional issue decreases the number of supportable units in a market: only a small percentage of elderly households will need and want all of the services, both dependant and active.

## **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. The Danter Company uses an Effective Market Area (EMA)<sup>SM</sup> methodology for determining a given development's actual market area. This methodology, which 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 that can 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 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.

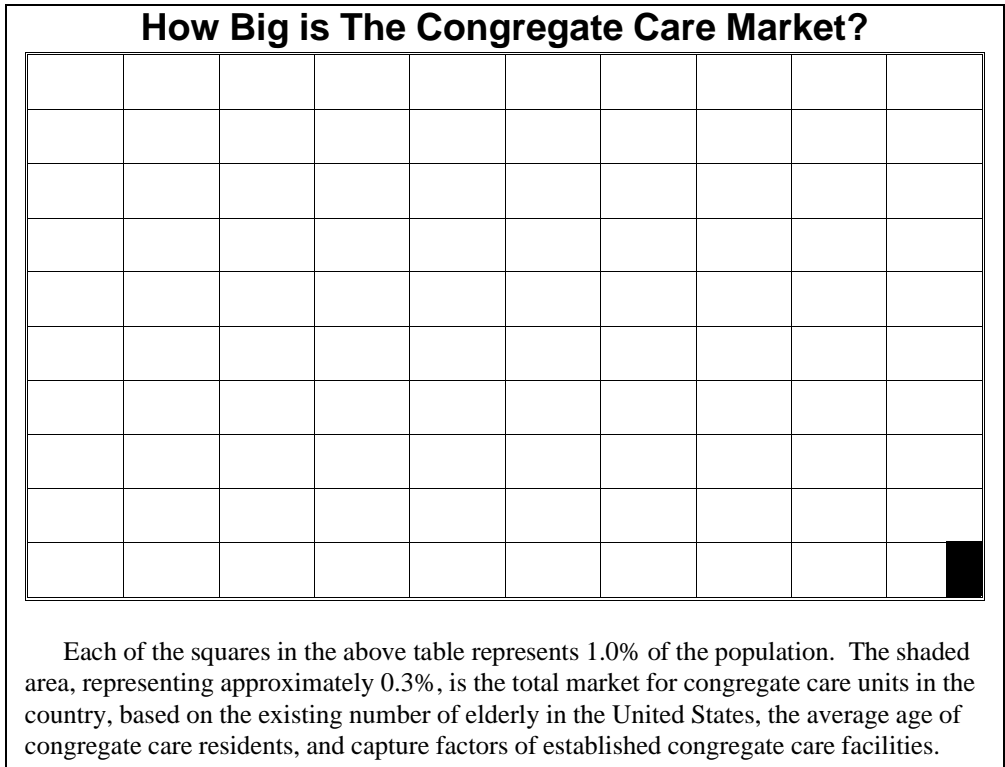
But it does mean that congregate care projects absolutely require the best research and planning you can do. Before you can confidently develop a

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.
- Identify competitive product and their market areas, resident profiles, and marketing strategies.
- 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.



## Three Congregate Care Markets--Case Studies

In the March 1988 issue of *Apartment Resources*, we examined the congregate care markets in three cities: Columbus, Dayton, and Indianapolis. For this special issue, we reexamined each market.

In March 1988, we concluded that these markets were experiencing dramatic increases in development despite a period of heavy building. As the table and chart below indicate, the total number of existing congregate care units has at least doubled in each market since 1980.

Dayton provides a good example of what can happen when a substantial number of congregate care units enters a market at the same time. The Dayton market in the early 1980s was dominated by nonprofit church-affiliated facilities which were successful at drawing residents from a wide geographical area. This drew the attention of developers who proceeded to develop for-profit facilities. Meanwhile, the nonprofit church-affiliated facilities, already successful, decided to expand.

The result was the addition of almost 1,000 units between 1985 and 1989, effectively doubling the number of units in the market. The church-affiliated projects had little difficulty competing because of their wider geographical market area and because they had established themselves in the market. Many of the newer projects, however, have experienced problems.

The problem in Dayton is that overbuilding has occurred by concentrating product in both price range and geographic area. Many projects in Dayton, particularly those with a church affiliation, are very successful and are still considering adding additional units. Others, however, have had to adjust pricing, or create market strategies to draw residents from well out of their Effective Market Area.

Although the number of units in Indianapolis tripled, it has not experienced the same problems as Dayton, primarily because it started with a very low number of units, and has a larger population. In Columbus, the market has grown steadily instead of in spurts, creating an environment in which only one or two projects are in lease-up at any given time. Nevertheless, short-term overbuilding has occurred in both Columbus and Indianapolis.

Our case studies have identified two key issues related to congregate care overbuilding. The first is that overbuilding is often created by the "perception of expectation" by developers. Developers must have a realistic view of absorption.

Second, much of the existing potential in many markets is for additional phases at existing projects. Such projects can add a smaller number of units (20-30) as demand warrants. New developments need a larger number of units to support their services.

### Congregate Care Market Summary

#### Columbus

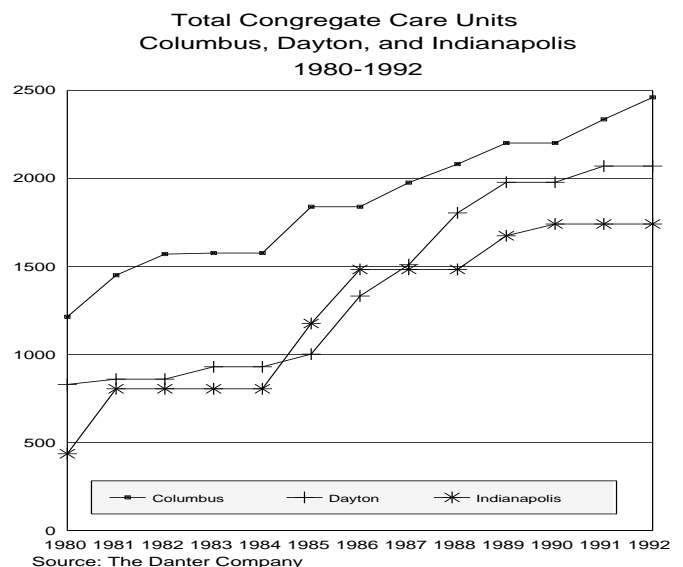
Total Units in 1980	1,214
Total Units in 1992	2,460
Average Annual Increase	104 units
Percent Increase 1980-1992	102.6%

#### Indianapolis

Total Units in 1980	436
Total Units in 1992	1,741
Average Annual Increase	109 units
Percent Increase 1980-1992	299.1%

#### Dayton

Total Units in 1980	830
Total Units in 1992	2,070
Average Annual Increase	103 units
Percent Increase 1980-1992	149.4%



# The Congregate Care Survey

**T**he Danter Company has conducted numerous telephone surveys of elderly households across the country to identify the appeal of retirement housing. We aggregated the most recent surveys, representing over 2,100 households over 60 in all regions of the country. Following are some of the highlights.

## Age

Following is a distribution of respondents by age:

Age of Respondent	Percentage
60 to 64	25.5%
65 to 69	24.5%
70 to 74	22.0%
75 to 79	13.6%
80 to 85	9.1%
85 or over	5.1%
Total	100.0%

## Marital Status

Most of the respondents are married (60.2%) or widowed (33.2%). A smaller number are single (4.1%) or divorced/separated (2.5%)

## Tenure

The following chart indicates how long respondents had lived in their current residence.

Years in Current Residence	Percentage
Less than 1	2.8%
1 to 3	10.1%
4 to 7	13.9%
8 to 10	12.9%
11 to 14	11.4%
15 to 19	9.2%
20 to 29	1.8%
30 or more	21.5%
Total	100.0%

## Moving Plans

When asked whether they planned to move in the near future, most respondents (94.7%) indicated that they did not. Only 4.4% said that they planned to move, while 0.8% did not know.

## Consideration of Retirement Housing

When asked whether now, or in the future, they would consider some form of retirement housing, 19.2% said yes, 66.9% said no, and 13.9% were unsure.

## Household Size

Most respondents live in a two-person household (56.4%) or a one-person household (33.2%). Smaller numbers live in a three-person household (7.2%) or in a household with four or more persons (3.2%).

## Income

While almost one in five elderly households in our survey would consider retirement housing, only about half of these respondents (about one in ten) were income-qualified for a typical retirement community, using a household income of \$15,000 as the income necessary to live in a retirement community as indicated in the following chart:

Household Income	Would You Consider Retirement Housing?			Total
	Yes	No	Unsure	
Less than \$15,000	17.8%	67.6%	14.6%	100.0%
\$15,000-\$24,999	23.4%	61.2%	15.4%	100.0%
\$25,000-\$39,999	19.8%	68.3%	11.9%	100.0%
\$40,000 or over	19.7%	70.2%	10.1%	100.0%



## News and Notes

- Look for a new article by Kenneth Danter, President of The Danter Company, in the July issue of *Mortgage Banking*. Issues addressed include interpreting rent and vacancy surveys, and trended versus untrended rents.
- The Danter Company is pleased to announce *The Danter Apartment Rent and Vacancy Report Series*. Call us at 1-800-532-6837 to find out for which cities the report is available.
- Don't forget that The Danter Company is more than the best source of information on apartments. We are a full-service real estate research firm that also studies condominium, single-family, golf course, motel/hotel, retail, office, industrial, congregate care/assisted-living, nursing home, resort, marina, and mobile/manufactured home development. Call us to find out how we can meet all of your real estate research needs.
- We would like to welcome members of the National Housing and Rehabilitation Association. As an official analyst for the organization, The Danter Company provides this newsletter without charge to all association members.
- Kenneth Danter, president of The Danter Company and nationally-recognized expert on real estate development and trends, is available for speaking engagements. He has addressed numerous regional and national associations and conferences and local apartment associations throughout the country on issues of importance to multifamily professionals.
- In case you missed it, "Apartment Lending After the Boom" is now available in reprint. Written by Kenneth Danter, president of The Danter Company especially for *Mortgage Banking*, this article details survival strategies for the nineties that no multifamily professional should be without. Call, write, or fax us today to get your copy.

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