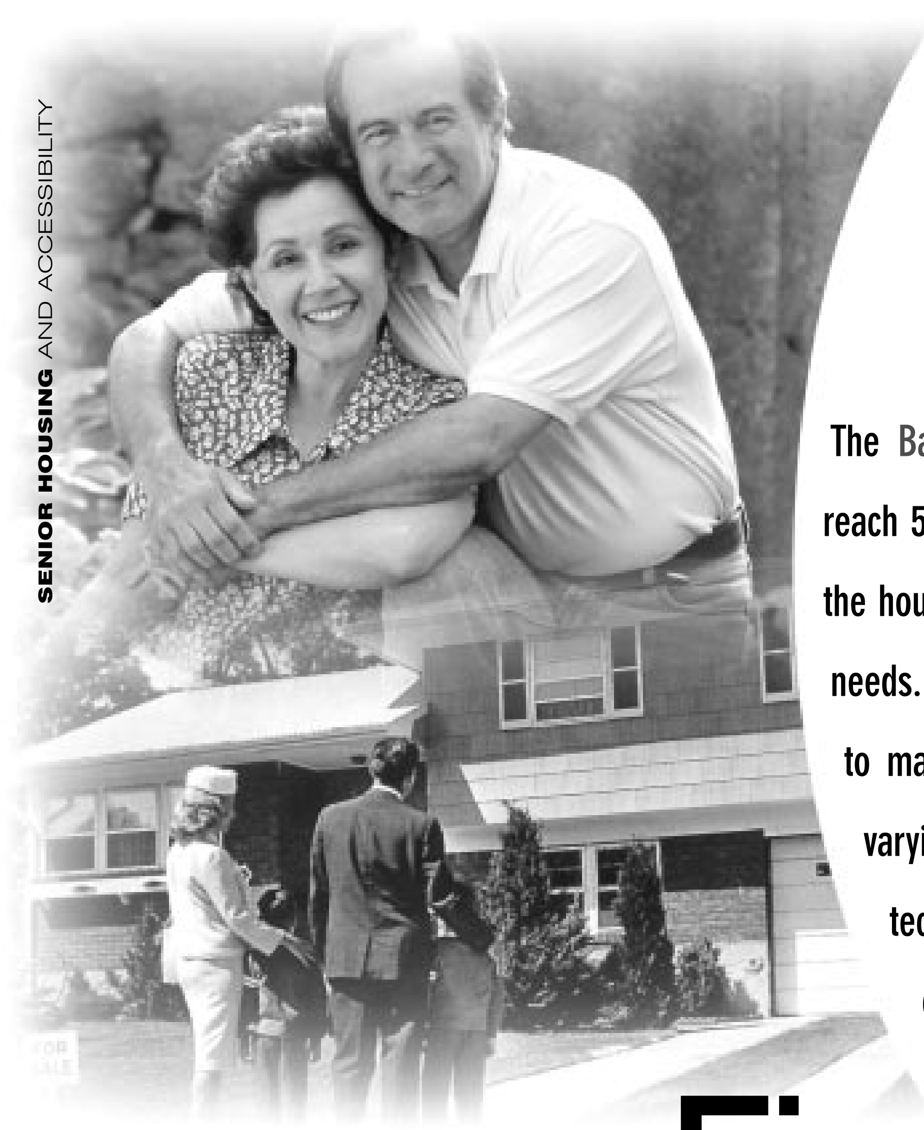

The Many Layers of Senior Housing

The Baby Boom generation is just beginning to reach 55 and, as it has done for the last 30 years, the housing industry is gearing up to address their needs. The range of housing products catering to mature households continues to expand with varying designs, amenity packages and financing techniques. Builders must be aware of these different options as they define the need.

by Bob Lefenfeld

Finding the Need

The first wave of the baby boom generation is turning 55 in 2001, entering the active adult stage of life as their grown children begin moving out and creating households of their own. Whereas issues such as schools and commuting patterns to employment have historically driven shelter decisions for the baby boom households, future shelter decisions will be focused on more general lifestyle issues.The current offering of move-down housing has been defined by the needs and desires of households of the two previous generations: the World War II generation born between 1910 and 1930 and the Swing Generation, a relatively small generation born between the Great Depression and the end of World War II. The housing industry has been offering an increasingly broad spectrum of products to these aging households, which will serve as the foundation for products offered in the future. Some are particularly attractive to certain age cohorts, other address specific lifestyles. The array of move-down housing includes such varied products as:

- Active Adult Housing communities are typically smaller,

amenity-rich and for sale which address the needs of households whose focus has shifted from childrearing to lifestyle. These communities are typically targeted to households in their 60s.

- Senior Rental Apartments offer independent living units along with a package of communal facilities and services such as library, community center, transportation and wellness rooms. Residents of these communities are generally in their mid 70s. With the use of Low Income Housing Tax Credits, these communities address both moderate-income as well as market-rate households.
- Congregate Care Retirement Communities offer a broad range of services catering to varying levels of fragility. These communities are addressing consumers in their late 70s and early 80s. Paid for based on a combination of an entrance fee and a monthly service fee, these communities offer a range of services including independent living, assisted living and skilled nursing.
- Assisted Living offers a combination of housing, personalized supportive services and health care designed to meet the needs - both scheduled and unscheduled - of those who need help with activities of daily living. Residents are typically in their early 80s.

Size of the Market

As of 2001, only the very oldest of the baby boom population would be qualified for an age-restricted community. Over the next 10 years, the number of households 55 to 64 will increase by 48 percent, increasing at an average annual rate of 669,000 nationally, as the first wave of this generation matures (see Table). In comparison, the number of households attaining age 65 and above will increase by just over 300,000 households annually.

Less than half of the baby boom generation will reach age 55 by 2010 (see Chart). Over 44 million or 54 percent of the baby boom population will not reach the 55 to 64 age cohort between 2010 and 2020. By 2020, we as a nation will have twice the number of persons 55 to 70 as we have today. At that time, the oldest wave of that generation will be in their late 60s and early 70s.

The patience required to begin addressing these households is evident when looking at recently released Census data. Within Maryland, the only counties with a significant base of 55- to 64-year old households are in the relatively rural areas of the Eastern Shore and Western Maryland (see Map). Within the urbanized Washington/Baltimore core, only Baltimore City and Baltimore County have more than 15 percent of their population base age 55 to 64. This key cohort accounts for less than 15 percent of the population base in most other urbanized counties in the state.

Active Adult Products

The first product mature households will be considering are for-sale active adult communities. Many of these units will be restricted to households with one householder 55 years old or older. Some will not have a formal restriction but will instead be age-targeted. While these communities are open to a range of senior households, they are generally focused on households in their 60s rather than their 70s. The chief motivation for these households is a lifestyle change rather than finding housing that addresses a slower, possibly more fragile lifestyle.

Much of the active adult product in the U.S. was originally developed in the southeast and western United States, where land costs are relatively low allowing for the development of one-story villa products. In this area, land prices have historically restricted the development of small villas to exurban locations, as demand for typical two-story colonials is extremely strong, even on small lots. Thus, it has not made economic sense for builders to develop smaller, less profitable villa products. However, we have seen selected small villa products successfully offered in strong markets such as Columbia, Annapolis and Northwest Baltimore County.

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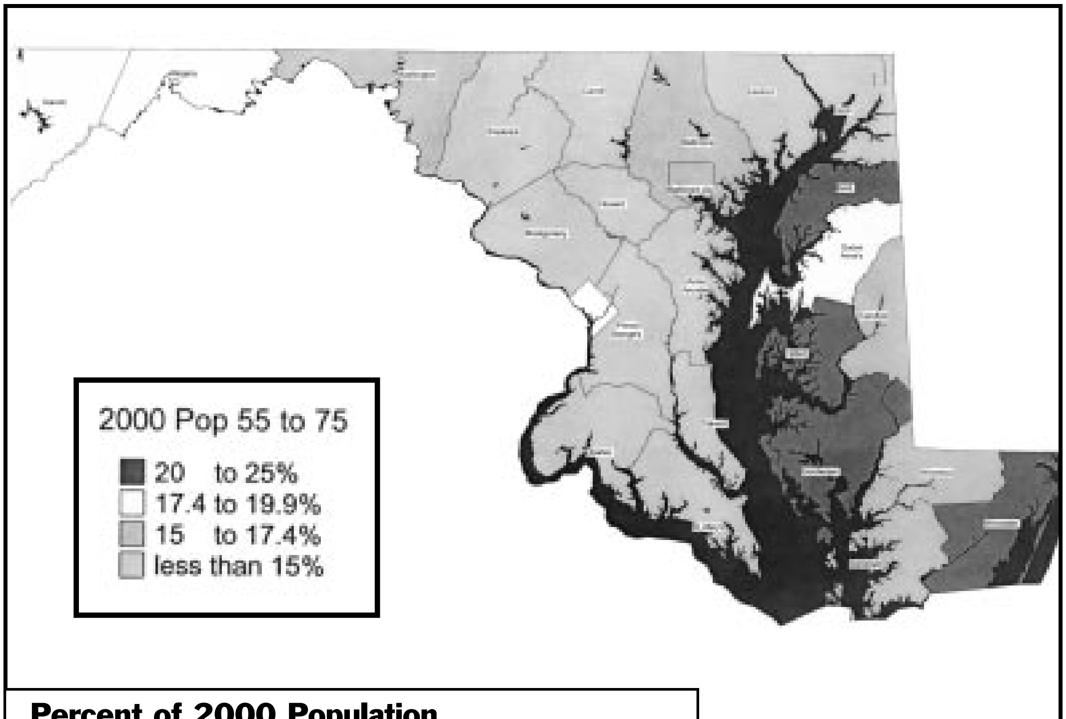

Percent of 2000 Population Age 55 to 74 by County

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Other active adult products have been introduced in large campus settings of planned unit developments. Leisure World developments in Montgomery County and Loudoun County offer luxurious, high-density, for-sale products in this type of setting. IDA, the developer of the Leisure World communities, has recently introduced an elevator-served mid-rise at their Loudoun location. Elevator mid-rises addressing a mature market have been the mainstay at Mays Chapel Village in North Central Baltimore County as well. Another active adult PUD, Cameron Grove in Central Prince George's County, began sales by offering three product lines - condominiums, a four-plex villas and duplex cottages. They are now adding a small detached product.

One of the more successful active adult products in the Washington-Baltimore region has been Heritage Hunt. Located in the emerging Gainesville area of Prince William County, the community offers one of the most comprehensive amenity packages available in the region including a golf course, two clubhouses and a fitness and aquatic center including indoor and outdoor pools. Housing products include small and large lot detached homes, tri-plex villas and four unit townhouse buildings.

U.S. Household Growth by Age of Householder (in thousands)

Age	2000	2010	% Change 2000-10	Annual Increase
45-54	21,200	25,300	19%	410
55-64	**14,000**	**20,700**	**48%**	**670**
65-74	11,400	13,300	17%	190
75+	10,700	11,800	10%	110

Source: U.S. Census Bureau

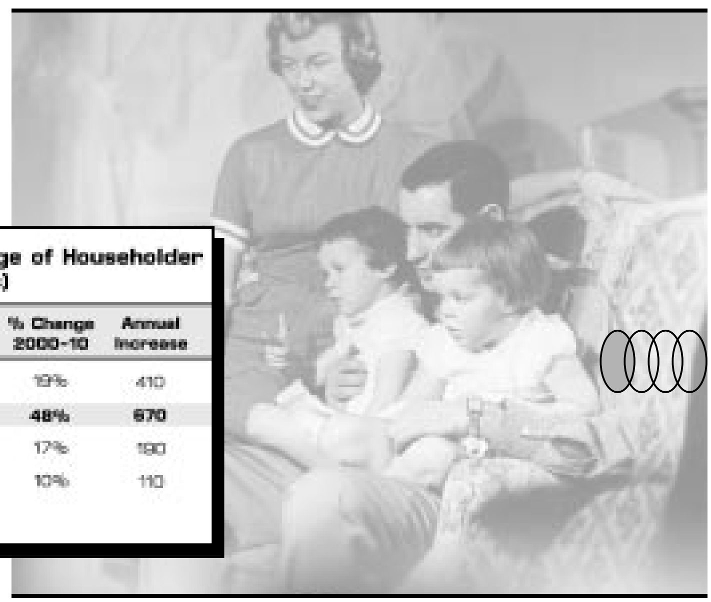
Outside of larger planned communities, 55 plus households are moving to mid-rises and high-rises. Some are located in the center of affluent established areas, offering residents a carefree lifestyle in their established neighborhoods. Others are offering major amenities such as access to the Bay or in-town living. While there are relatively few luxury rental communities nationally that are age-restricted, numerous age targeted or age restricted developments are in the planning stages. These units will address the needs and desires of mature renters who want vacation/retirement homes in other areas but want a continued presence in their home region.

Components of a Market Study

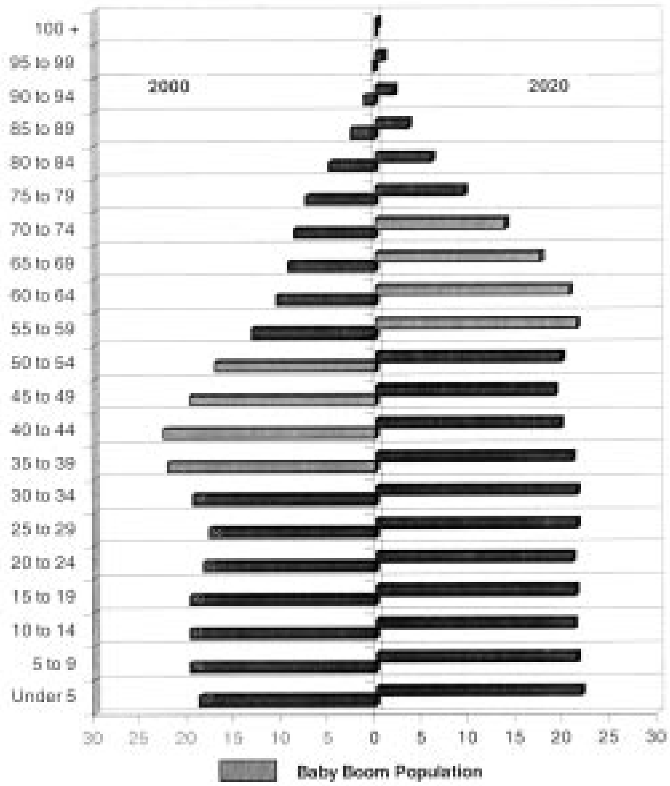
Regardless of product type and location, all market analyses should focus on three basic areas of evaluation: the site, the demand for the product and the supply of comparable projects.

■ **Market Area.** A market area for a community is that area in which the proposed project will most likely compete for buyers. In delineating the boundaries of a housing market area, the analyst must take into account accessibility, natural and built boundaries and neighborhood definitions. There is no "rule of thumb" about the appropriate size of a housing market area; its size will vary, depending on many factors. The project may offer a regional appeal as a destination due to natural characteristics or its amenity package. Thus, it is reasonable to compare it to other regional communities. Alternatively, a project's location in an established neighborhood may be the prime attraction of the development, limiting its draw to surrounding areas.

■ **Site Analysis.** The site analysis weighs the site's strengths and weaknesses, including physical characteristics, surrounding land uses and accessibility of services and amenities. The amenity package of the proposed project may be the existing neighborhood amenities, distinct from anything developed by the builder.



■ **Demand Analysis.** Unlike move-up housing that is dependent on employment and household growth, the demand analysis for active adult housing is more dependent on the existing depth and characteristics of the target market. An understanding of the size of the mature population base, their income distribution and their equity characteristics is imperative.



Population by Age 2000 and 2020 (Millions of Persons)

■ **Supply Analysis.** After the analyst has quantified housing demand; he or she must examine the other side of the equation—housing supply. The supply not only includes those competitive communities specifically targeted to active adults, but those housing options that may be an alternative for these buyers.

■ **Net Demand.** Quantifying net demand means balancing the growth of mature households against the expansion of targeted stock, acknowledging that only some of the households over 55 will choose to move to an age-targeted community. Though sufficient demand may exist for move-down units in general, one should examine whether sufficient demand exists for the type of units proposed. An affordability analysis can quantify the band of households that could afford to purchase the proposed units.

A market study is truly a series of tests. Even a project that passes all these tests can still fail as a result of financial or management issues. However, a red flag raised on any market issue almost guarantees problems.

Just as the Baby Boom generation redefined urban and suburban development in the last 30 years, they will redefine how the move-down market will be addressed in the future. However, unlike the movement to a starter home and a move up home, which was often fueled by child-rearing issues, a decision to move down to a lifestyle community is often a discretionary decision. Thus, product offerings will continue to diversify and this market will continue to evolve. ■

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