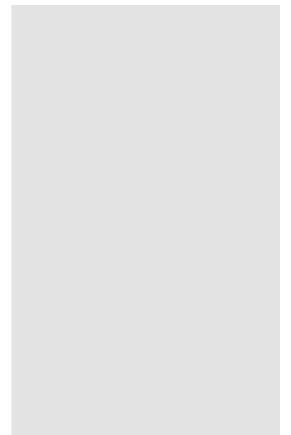


THE NEXT OPPORTUNITY IN SENIOR LIVING:

Designing for the Middle Market



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People Focused Design

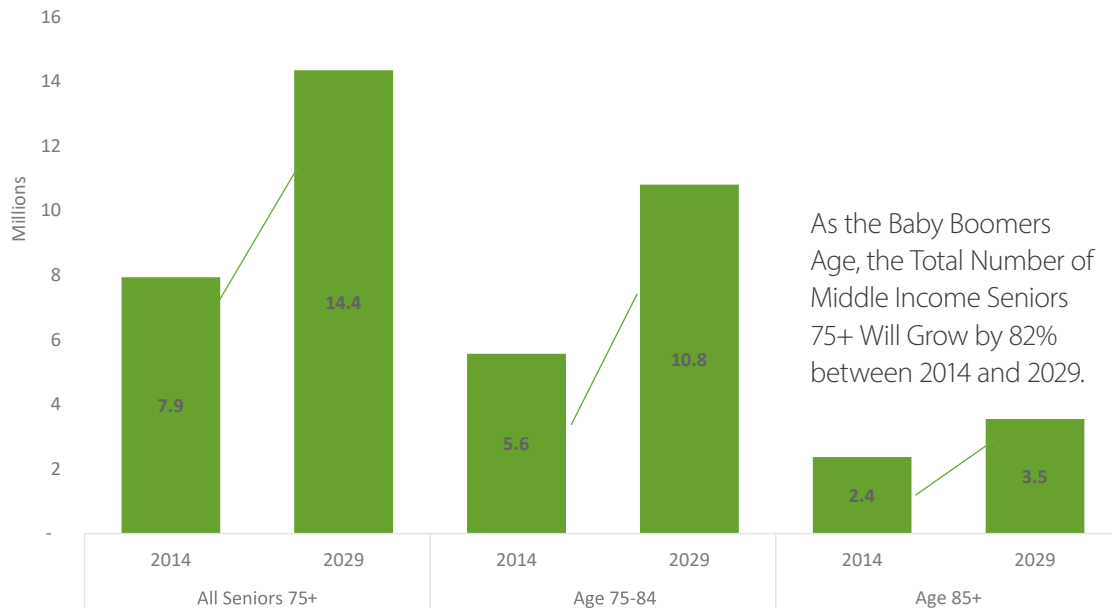
DESIGNING FOR THE MIDDLE MARKET

Today's senior living marketplace offers ample housing opportunities for seniors in upper income brackets, as well as subsidized housing for low income seniors. However, these two groups comprise a mere 30 percent of the nation's senior population. What, then, about the remaining 70 percent?

Aptly named, the middle market includes seniors who have too much in financial resources to qualify for government support programs such as Medicaid, but not enough to pay for most private pay senior living options for very long. Those in this segment risk exhausting their savings on long-term care, threatening their own financial security, as well as the overall sustainability of Medicaid. There are currently few housing choices for those in the middle, presenting a challenge for providers, architects, developers, and financial institutions serving senior living.

The need for middle market solutions intensifies as baby boomers enter the market. By 2030, it is estimated that an additional 20 million seniors will be consuming Medicare, health care, and senior living services. In addition to having saved less for retirement than generations before them, boomers are also far more likely to reject traditional offerings.

Size of the Middle Income Population 2014 and 2029, by Age



REDEFINING RETIREMENT

Whether by choice or financial circumstances, a growing number of seniors are not “retiring” in the traditional sense. Increasingly, they are interested in remaining engaged with the broader community and even working, perhaps in a less-than-full-time capacity. Living options that offer easy access to community destinations, flexible spaces, storage, and ample parking are already popular today.

And, as baby boomers approach traditional retirement age, alternatives to the traditional senior living community will be in demand. Many boomers will have no interest in living among people their own age. They often want to be around younger generations, and increasingly seek lifestyles similar to that of Millennials: more options and freedom, perhaps ditching their cars and the hassles of home ownership. They’re tech-savvy and expect a level

of customer experience in keeping with today’s world of Starbucks and Apple stores. Less interested in high-end services, boomers are more likely to want an experience and amenities that fit their current lifestyle and income level. The new generation of senior housing consumers wants value, peace-of-mind, and independence.

This perfect storm of factors has housing, finance, and development experts questioning whether to build more market-rate housing, or instead create new brands to serve the middle market. Indeed, the middle market poses a unique opportunity for senior living providers, developers, architects, and financial professionals to create a new level of housing for today’s seniors that will ultimately be more likely to meet baby boomers where and how they want to live when it’s time.



CREATING A NEW PRODUCT

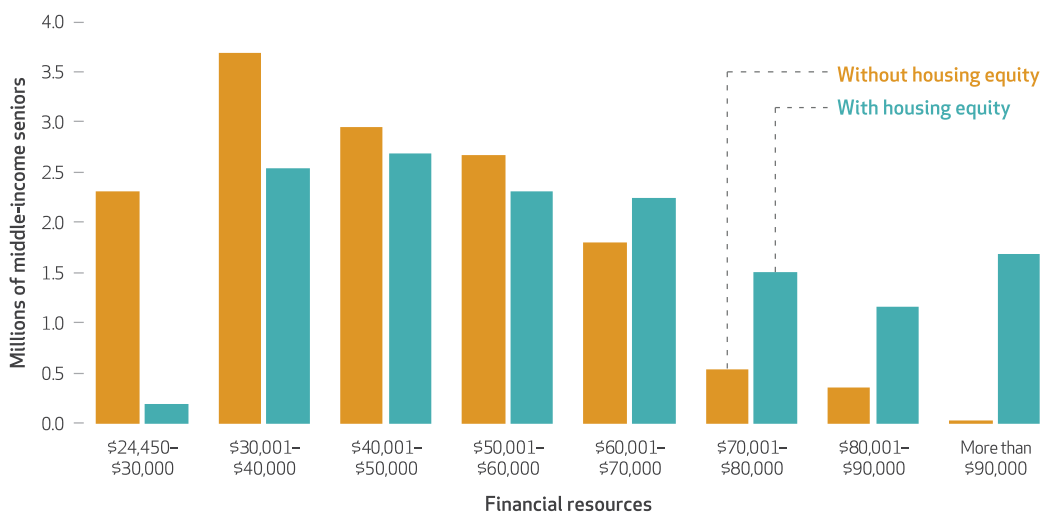
The first challenge in tackling the middle market, of course, is to create products and pricing that appeal to the middle market consumer, with sustainable operational and financial models. In addition to the lifestyle considerations, price points are critical. So what can this consumer afford?

DEFINING AFFORDABILITY FOR THE MIDDLE MARKET

According to the National Investment Center for Seniors Housing and Care, (NIC), the average monthly rent for independent living in the United States is \$2,971. The average assisted living rent is \$4,365. These are rates that the middle market consumer cannot afford long term.

To design affordable housing for this demographic, it is helpful to consider the total income these consumers are projected to have and work within realistic ranges. Then use a focused process and specific strategies to keep housing product both appealing and affordable.

Exhibit 4 Projected financial resources of middle-income seniors in 2029, by resource level



SOURCE Authors' analysis of data from the Health and Retirement Study for 1994, 1998, and 2014.
 NOTES Financial resources include annuitized income and assets. The ranges of annuitized financial resources for middle-income seniors ages 75-84 and those ages 85 and older are in the notes to exhibit 1.

Health Affairs: <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2018.05233>

INITIAL PLANNING

The middle market is a vast but largely untapped design market with few test models in place. No one has yet identified the “Ah ha!” solution, but the senior living industry recognizes that delivery will be driven not by quality, but affordability.

Some design professionals argue that this is as much a math problem as it is a design problem. To keep design and dollars in check, owners must account for all hard and soft costs—including operations—to build a pro forma and create a projected program based on square footage. This final number is the budget to design to, and strictly enforce.

But before putting concept in design, owners must do their homework to identify the potential need for middle market housing in an area and determine what prospective residents want. Their feedback should drive programming and will help to prevent the “amenity creep” that can break a budget and increase costs.

However, **site acquisition** for a proposed middle market community can be a barrier to the burgeoning model, as zoning for this type of housing doesn’t currently exist. One key to overcoming this challenge is to develop relationships with local government agencies and include them early in the development process. By demonstrating the need for middle market housing and discussing the potential to use shared services such as transportation to reduce lot size, owners and design teams can address the need for variances to reduce parking, increase density, or decrease campus setbacks.

Where **programming and land use** are considered, middle market housing emerges as something between a single-family home and multi-family apartment building. Living spaces may range from studio apartments to two-bedroom units designed smaller than single-family or traditional senior living communities. The smaller unit

size not only helps to reduce cost, but also increases the number of units on the site. Stick-built framing is a clear construction choice to augment affordability.

Relationships are critical to middle market housing development. Senior living providers and design partners can work with local officials to identify connections that can be helpful in procuring land parcels, available structures, funding, and other resources.

Simpson Senior Services, a not-for-profit senior living service provider in southeastern Pennsylvania, leveraged its relationship with the United Methodist Church to collaborate in obtaining land for developing Simpson Gardens. In fact, the original Simpson House building was built on land donated by the Methodist Church. Then in the 1990s, Simpson Meadows in Downingtown was built on land that was obtained from the neighboring Downingtown Methodist Church. Simpson Senior Services continues to collaborate with the Methodist Church on other opportunities, which is an extremely viable middle market strategy.

Community partnerships, like that between Simpson Senior Services and Trinity Lansdowne Methodist Church, allow participating parties to share economies of scale. Collaborations like this bolster the need for—and importance of—public-private partnerships in housing development. Taking advantage of local “opportunity zones” that offer tax incentives is another attractive development option.



DEVELOPMENT CONSIDERATIONS

When it comes to land acquisition, community partnerships can provide a double benefit for a single purpose. Property owners, whether nonprofit or commercial entities, may gift or offer a long-term lease option for underutilized land or abandoned properties—such as vacant lots, warehouses, underperforming retail outlets, and former business parks—to senior living providers for middle market housing development. The landowner receives tax credits for the investment, and the land or structure is developed or repurposed for middle market seniors, providing a win-win for landholders and senior living providers alike.

Without established zoning guidelines for middle market housing, development will have to follow where the dollars lead. Larger cities and greater metropolitan areas may offer more funding opportunities than suburban venues, including tax incentives for community revitalization or the repurposing existing structures. Selected towns and cities that are open to the proposed housing type with a faster approval process could also be a means of reducing costs associated with the additional time that may be needed to obtain approvals.

Municipal incentives aside, senior living, development, and finance industry professionals point to a restrictive capital structure as a barrier to bringing middle market housing development to fruition. Partners will have to



think outside the traditional financial structure box and propose creative financing solutions, such as paying non-accredited investors a reduced rate of return or exploring available tax incentives and abatements.

Development assistance may also come from the community itself. When performing housing market assessments, senior living providers should investigate nearby services and amenities, and develop partnerships that can be used to supplement or reduce demand on prospective community offerings. For example, a provider may offer minimal dining within its own facility and supplement the service with special pricing at nearby restaurants and eateries. Middle market developments in or adjacent to existing health, fitness, retail, or other building types may allow senior living providers to eliminate these spaces from the community design and encourage residents to use neighboring amenities identified through the partnerships. This also supports smaller unit design and reduced operating costs to keep the budget on track.

DESIGN CONSIDERATIONS

In today's economic climate, there is little opportunity to scale down construction costs for middle market housing. Yet with careful budget scrutiny and redefined building types, owners and team partners may uncover a middle market housing solution through creative construction and design.

Design teams should meet with senior living providers early in the design process to discuss how best to utilize existing and planned spaces. New design does not necessarily require new construction. Repurposing or renovating existing land or spaces within a building or on a campus can maximize efficiency, reduce costs, and shorten project schedules.

During the design process, owners and design teams can engage various strategies to reduce costs: build less expensive and smaller units, offer less amenity space, build for higher density and increased energy efficiency, and repurpose or refurbish an existing property, to name a few.

Incorporating more studio apartments over one- or two-bedroom units also creates cost and space efficiencies. However, owners should study the market carefully before going into design: In select markets, consumers prefer bedroom units over studio apartments, while studios sell out in other areas.

Where living spaces cannot accommodate overnight guests, communities may consider separate guest apartments to be used by residents to house short-term guests. Guest apartments can eliminate largely unused space from resident units and help to reduce a building's overall square footage.



But affordable design doesn't mean a characterless structure without amenities or common spaces. Simpson Gardens, the apartment building designed for low income seniors in Lansdowne, features dining and activity spaces as well as a library and central laundry. Repurposed facilities may offer existing spaces suitable for inclusion in middle market design, while common spaces created by indoor-outdoor connections, like rooftop gardens, also offer valuable amenity space.

Similarly, middle market communities built or designed adjacent to lifestyle amenities can highlight walkability to nearby facilities and reduce or eliminate the need for parking. Communities may instead choose to provide an hourly-based transportation service or encourage partnerships with ride-hailing companies like taxi services, Uber or Lyft.

Interior finishes can play a significant role in keeping design costs low. Modest, standard finishes, versus custom, should be used as much as possible in unit construction, from cabinets and countertops to flooring and fixtures. Synthetic or laminate countertops, vinyl baseboards, and carpet or vinyl flooring should comprise common detailing, with limited upgrade options provided. Design teams can work with residents to address what customizations are most impactful for the design, while remaining cost effective for the owner. Custom design should only be considered in high-visibility areas such as the front entrance or common areas.



WORK SMART TO CONTROL COST

Smart design is key to controlling costs, from start to finish. The more economical the construction long-term, providers will realize costs savings in maintenance and even staff resources. To achieve a truly affordable middle market design, owners and design team partners must work with contractors to ensure costs stay within the defined budget. Tightly coordinate the trades to avoid downtime and rework. Take full advantage of each contractor's relationships with vendors and subcontractors to achieve the greatest savings.

Energy efficiency, whether part of a repurpose or new design, offers great savings potential in both the short and long term. While many owners struggle to justify capital costs, design professionals can help identify upfront costs and savings. Many utility providers today offer rebates. During the design of Cornerstone at Simpson House, for example, Simpson Senior Services worked with the cogeneration plant engineer and agreed to a set energy price to stabilize fluctuations in seasonal energy costs.



AFTERWARD

The COVID-19 pandemic has added a real and pressing urgency to the needs of the middle market. The entire senior housing community has been at the forefront of the pandemic, medically, economically, and emotionally. As the virus forces a fast-moving world to slow to a crawl, our team at Lenhardt Rodgers Architecture + Interiors continues to move forward as we develop senior housing solutions from our home offices. This virus has brought to the forefront existing challenges and served to highlight new ones. Of these, the challenge and opportunity that is the middle market has only become more pertinent and will become even more essential in a post-COVID-19 world.

Pre-pandemic, there already was an increasing demand for senior housing that provides up-front and sustained affordability along with quality healthcare. The coronavirus induced downturn in the economy due to layoffs, healthcare costs, reduced home equity values and stock market volatility may leave seniors in deeper debt as they search for future housing options. At the same time, investors, owners and healthcare providers are looking for ways to meet this increased housing demand, even as they too navigate this difficult economic climate.

There are opportunities for creative solutions inherent in these challenges, especially for the middle market. Today's economy may prove opportune for investors to acquire distressed and value-add communities. Refurbishing and/or repurposing existing buildings into housing for the middle-market senior could be cost-effective and timely. Redesigns with planned smaller neighborhoods allow for smaller group exposure in the case of a medical crisis.

Providers should reassess the benefits of existing services and amenities. Reducing underutilized dining options can both save costs and reduce exposure. Revising meal plan options may provide additional cost savings to the middle market. The expansion of telehealth and web-health

alternatives for seniors is an effective way of maintaining care while reducing healthcare costs. Another option to consider is the replacement of some indoor gathering spaces with desirable outdoor recreation space.

Before the pandemic, the middle market was a growing concern. Today, it has become a critical need that is relevant to all shareholders in the senior housing community. We offer our analysis to further this crucial conversation as we continue to develop creative housing solutions for all seniors, in today's difficult reality and for the future.





**LENHARDT
RODGERS**

Architecture + Interiors

People Focused Design

438 S. Bethlehem Pike
Fort Washington, PA 19034

Phone 215-653-0935
Email contact@lenhardtrodgers.net

Photography by Sam Oberter.