

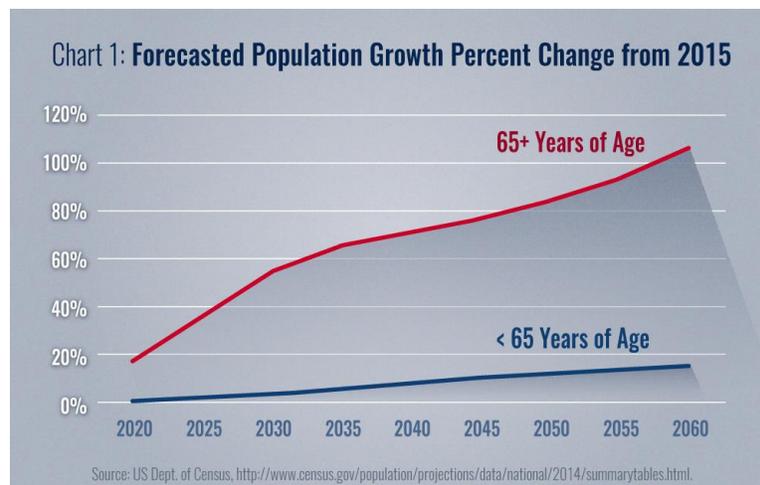


The Urgency for More Senior Housing: A California Case Study

This ConsumerGram looks at the impending surge in demand for senior housing in California and finds that policymakers need to take steps now to encourage investment by enacting policies that reduce the time and cost of development and make housing more affordable for seniors.

A Demographic Shift

All across the world, the population is aging, and with the post-World War II baby boomers reaching retirement age, the population in the United States is no exception.¹ With longer life expectancies and fertility at one-half the rate of 1960 – far below replacement rates – the United States population is very rapidly growing older.² As **Chart 1** shows, over the next 20 years, the senior population will grow ten times faster than their younger cohorts.



The demographic shift presents many challenges. For policymakers, it means significant strains on government budgets, most notably Medicare, Social Security, and various state and local programs. For retirees, the challenges are much more direct and personal. According to a survey by the National Council of Aging, older Americans are most concerned about their health (40%), memory loss (35%), mental health (32%) and housing (38%).³ With the government's

¹ Wan He, Daniel Goodkind and Paul Kowal, "An Aging World: 2015," United States Census Bureau, March 2016, see <http://www.ifa-fiv.org/wp-content/uploads/2016/04/An-Aging-World-2015-Census-bureau-and-WHO.pdf>.

² Steve Ertelt, "U.S. Population Falls to Dangerous Levels below Replacement Rate," LifeNews.com, September 10, 2013, <http://www.lifenews.com/2013/09/10/u-s-population-falls-to-dangerous-levels-below-replacement-rate/>.

³ "The United States of Aging: 2015 Results," National Council of Aging, July 2015, see <https://www.ncoa.org/news/resources-for-reporters/usoa-survey/2015-results/>.

growing fiscal challenges, utilizing competitive markets and encouraging private investment will become a key factor in adequately serving the burgeoning demand for senior housing.

Senior Housing Options

While the extended life expectancy of seniors can mean longer productive lives, it can also mean an increased need for long term care. While many seniors will choose to live in their homes until they become infirm, other seniors will consider various affordable housing programs, and still others look for ways to transition their lives more gradually and according to their social, mental, physical and medical needs. These needs are often met by campus-style properties that provide one or more care services, including independent-living services, assisted living services, memory care and nursing home care.

Among private housing options, there are “freestanding” facilities that offer only one type of care service, such as assisted living. There are also “campus style” facilities that offer more than one level of care, and are typically referred to as Continuing Care Retirement Communities (CCRCs). They offer independent living, assisted living and memory care programs, nursing care services, or some combination.

According to data from the National Investment Center for Senior Housing & Care, there are nearly 14,000 private market senior housing properties with over 1.7 million housing units across the country.⁴ That represents one unit for every 26 Americans aged 65 years or older. Freestanding campuses operate and provide (almost exclusively) monthly rental units and account for most of the housing units (55%), combined care are campuses offer predominately rental units as well and account for 24% of senior housing. CCRCs represent 21% of retirement units with only 40% operate as rentals, with the bulk of units available for a lump sum entrance fee to cover construction debt and a monthly charge to cover ongoing operating costs.⁵ Senior living campuses can be either for-profit or nonprofit organizations. Aside from these private options, there are also affordable housing options widely available to consumers, as noted earlier.

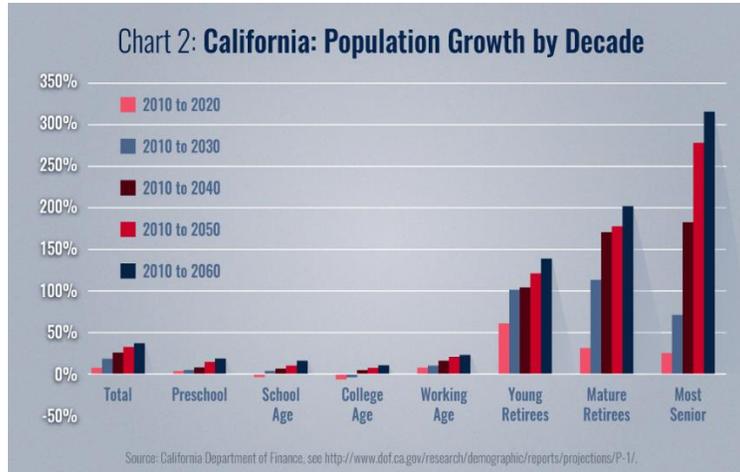
The breadth of options is important in addressing the aging explosion. For example, in California where the 65+ population will nearly double over the next twenty years, there will be more than one million seniors requiring some form of assistance by 2030.⁶ This means for California, as in all other states, there will be a significant increase in demand for health and support services. Therefore, the need for senior housing will climb sharply, which will require additional supply of such housing.

⁴ The data in this section comes from National Investment Center for Senior Housing & Care, which collects data from 99 market areas and represents the most comprehensive source for senior campus housing. For more information, see NIC MAP, First quarter 2016 at <http://www.nic.org/nic-map>.

⁵ Ibid.

⁶ Laurel Beck and Hans Johnson, “Planning for California’s Growing Senior Population,” Public Policy Institute of California, August 2015, at http://www.ppic.org/main/publication_quick.asp?i=1156.

Because housing demand appears to be driven almost entirely by the aging of the population, as **Chart 2** on the state of California exemplifies (below), it is necessary for public policies to be encourage investment so that there is sufficient housing supply to meet this extraordinary impending demand for senior living.



Yet, in the face of a marked increase in the senior population in California, the supply for senior housing remains in doubt. According to data from the National Investment Center for Seniors Housing & Care and as shown in **Table I** (below), California has 6 of the lowest ten metropolitan areas in terms of private senior housing penetration rates⁷ – including San Diego (18.8%), Sacramento (18.2%), San Jose (17.5%), Los Angeles (17.2%), San Francisco (15.5%) and Riverside (13.8%). The potential housing shortage, again based on penetration rates, is even more stark when compared to key metropolitan areas, such as Kansas City (32.0%), Dallas (31.6%) and Minneapolis (31.5%).

Table 1: Senior Living Penetration Rates Bottom 10 Primary Markets

	CCRCs	Combination	Free Standing	All Types
Las Vegas, NV	0.5%	3.5%	7.0%	11.0%
Miami, FL	3.5%	3.3%	5.9%	12.6%
Riverside, CA	1.6%	4.5%	7.8%	13.8%
San Francisco, CA	2.5%	4.3%	8.7%	15.5%
New York, NY	1.7%	2.7%	12.4%	16.8%
Los Angeles, CA	2.0%	3.9%	11.3%	17.2%
Phoenix, AZ	6.1%	5.4%	5.9%	17.4%
San Jose, CA	4.3%	4.5%	8.7%	17.5%
Sacramento, CA	1.3%	6.2%	10.7%	18.2%
San Diego, CA	4.7%	4.6%	9.6%	18.8%
U.S. Primary Markets	4.2%	5.0%	11.5%	20.7%

Source: NIC MAP, 1st Qtr., 2016.

⁷ Penetration rate, as defined here, is measured by the number of housing units divided by the number of householders aged 75-plus. The data in this section comes from National Investment Center for Senior Housing & Care's NIC MAP database. For further information, see, <https://www.nic.org/nic-map/resource-center/glossary/>.

Despite the growing shortage, there is little new inventory coming online in the near future, which suggests that more needs to be done to ensure that supply meets demand over the next 20 years.

Public Policy Considerations and Market Investment

Competitive markets are efficient in providing the supply of a good or service necessary to meet its demand. In any competitive market, the equilibrium price serves to establish supply and compensate producers for costs. When public policies raise costs, these costs are ultimately passed through to consumers in the form of higher prices, which (in turn) represses demand. Increases in regulatory costs and taxes increase marginal costs, which reduces consumer demand, lowers consumer welfare and impedes private investment. Given the aging population and impending need for future elderly housing, policymakers need to create an environment for more investment, not less.

Costs and barriers to entry can also stifle much-needed housing production. Again, take California for example. According to the Legislative Analyst's Office (LAO), which is the state Legislature's nonpartisan fiscal and policy advisor, home prices in California are much higher than they are in other large states.⁸ LAO outlines three key reasons for this – the high price of land, high cost to build and the local permitting process.

Aside from the high cost of land, developers face higher labor, materials, and government fees, compared to the rest of the country. Construction labor is about 20 percent more expensive in California metros than in the rest of the country. California's building codes and standards also are considered more comprehensive and prescriptive, often requiring more expensive materials and labor, including costs associated with achieving energy efficiency goals. Additionally, development fees—charges levied on builders as a condition of development—are higher in California than the rest of the country.

In addition, cities and counties often require housing projects to go through multiple layers of review prior to approval. For example, a project may require independent review by a building department, health department, fire department, planning commission and city council. Each layer of review can increase project approval time. Rezoning can also take longer in California. These delays add to the cost of capital and increase construction costs.

One of the solutions LAO offers is to build high-density housing. Building more units on the same plot of land allows a developer to spread land costs across more units, lessening the impact of land costs on the cost of each unit. This makes building campus-style senior housing a cost-effective way of increasing the state's supply of senior housing to meet the growing demand.

⁸ "Considering Changes to Streamline Local Housing Approvals," California's Legislative Accounting Office, May 17, 2016, at <http://lao.ca.gov/Publications/Report/3470>. The report's data and findings are referenced in the next three paragraphs.

California Governor Jerry Brown also proposed a solution in his most recent budget.⁹ The governor proposes additional legislation requiring ministerial "by right" land use entitlements for multifamily infill housing developments that include affordable housing. It would create a voluntary permit streamlining approval process for developers to use. The proposal will exempt from detailed local government reviews developments already zoned and approved for housing.

Another cutting-edge solution that is beginning to pop up across the country is building senior housing on college campuses. This is already happening in places like Massachusetts and Florida, and is on its way to California. The University of California, San Diego launched its Center for Healthy Aging in 2014 and now plans to build a senior living community on its La Jolla campus. Dr. Dilip Jeste, M.D., senior associate dean for Healthy Aging and Senior Care at the University of California and head of the University's Stein Institute for Research on Aging, and Center for Healthy Aging, said in a recent interview:

*"The population of older adults is increasing, but the number of geriatric trained health care providers is not only stagnant, but in some cases it is actually going down. The question is: how can we care for the growing number of older people who have greater healthcare needs when there are not enough clinicians to take care of them? We have to come up with new models."*¹⁰

Providing consumers with better information to make sound decisions about their housing options is also very important and something that can be improved. Senior living contract terms and provisions can be very complex for consumers. Policymakers taking steps to increase transparency would provide additional consumer protections without the imposition of onerous regulatory costs. The problem is that consumers are disadvantaged by imperfect or asymmetric information when sellers have more and better information than buyers do.¹¹ To avoid this problem of asymmetric information, consumers should be given complete and accurate information prior to their purchase, in order to help them make better decisions.

⁹ "Governor Brown Doubles Commitment to Fiscal Prudence in Revised Budget," May 13, 2016, at <https://www.gov.ca.gov/news.php?id=19417>.

¹⁰ Elizabeth Ecker, "Why Universities are Getting into Senior Housing," Senior Housing News, April 24, 2016, at <http://seniorhousingnews.com/2016/04/24/universities-getting-senior-housing/>.

¹¹ The implications of imperfect information informing consumer choices have been intensively studied. See, Joan K. Lewis, Teresa Mauldin, "Returns to Investments in Information: Can Investments Reduce Bad Purchase Experiences of Consumers?" *Journal of Consumer Studies and Home Economics*, 20 (2), 183–199, 1996. The authors examine the impact of consumer information, information sources, information acquisition costs, and consumer demographics on "bad purchase" experiences. The results suggest that age, education and extent of social contacts were relevant factors. See George B. Sproles, Loren V. Geistfeld, and Suzanne B. Badenhop, "Types and Amounts of Information Used by Efficient Consumers," *Journal of Consumer Affairs*, Vol. 14, Issue 1, p. 37, June 1980. The paper examines the efficiency of consumer decision-making as indicated by the types and amounts of informational resources utilized. They classify consumers in three groups ranked by their relative efficiency in making optimal choices in the context of their wants/needs/preferences and the information available about alternatives. Taken together these papers indicate that inadequate consumer information leads to loss of consumer welfare; that information acquisition by consumers is often costly; and that investing in better information can lead to increased consumer welfare.

Increased transparency and providing consumers with better information can avoid leading consumers to buy products about which they are poorly informed.¹² This regulation would be extremely beneficial to consumers and competition. In addition, it would not impose onerous costs on the industry and would help root out bad actors in the market.

Recommendations

This ConsumerGram discusses the aging population in California and the strain that this demographic shift will have on senior housing needs. The senior housing shortage is coming and policymakers need to find way to encourage more investment to make supply meet demand. In California the penetration rate for senior housing is less than half that of the national average. In the face of rising demand, the state has substantial barriers and costs in place that seem discourage investment and will ultimately repress senior living development. If action is not taken soon, the shortage will grow more pronounced as the population ages.

Therefore, it is imperative that policymakers take steps to create an environment that encourages private investment. To do this, policymakers should:

- Remove market barriers that inhibit investment in senior housing;
- Avoid promulgating regulations that would increase operator costs and discourage investment;
- Consider investment tax credits to encourage private investment in senior living facilities, in particular, campus-style facilities that mitigate the state's high land costs;
- Streamline the local permitting process;
- Facilitate public-private partnerships between the state and senior housing communities;
- Require greater transparency in order to strengthen consumer protections; and
- Refrain from the imposition of taxes, which will increase costs for operators and, ultimately, residents.

In summary, the aging demographics in California require policymakers to encourage private investment and use regulatory restraint to provide a wide variety of housing solutions for seniors. Without private investment, states will face enormous fiscal challenges in meeting the shift in housing needs, and seniors stand to be worse off.

¹² See A. Postlewaite, *Asymmetric Information, Allocation, Information, and Markets*, (John Eatwell, Murray Milgate, Peter Newman, eds.), The New Palgrave, WW Norton, NY and London, 1989, pp. 35-38.