Active Adult Rental Properties

Defining the Emerging Property Type

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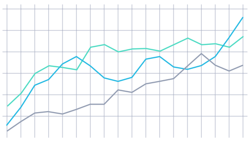
Executive Summary

The performance and growth of active adult rental properties continues to garner interest by real estate developers and investors in large part because they attract demand from the baby boomer population.

This paper defines the active adult rental property segment, offering background and insights leading toward a better, and more common, understanding of this emerging property type. Much of the commentary included in this paper came from interviews conducted with active stakeholders in the sector—investors, developers, equity and debt providers, and operators.



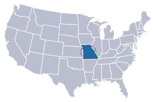
Experiencing substantial growth in development and resident demand.

Average turnover 20% vs, multifamily 50%.

Investor interest is measurably increasing based on KPIs.

72-74

Average age skews younger than independent living.



Residents downsizing and want to live closer to family.

Requires fewer employees to deliver great customer experience in a tough staffing climate.

The convenience of multifamily housing to older Americans seeking engaging, maintenance-free lifestyle enhancements and amenities for aging well.

Higher rents than multifamily, lower expenses than independent living, and long lengths of stay allow for healthy margins in a stabilized climate.

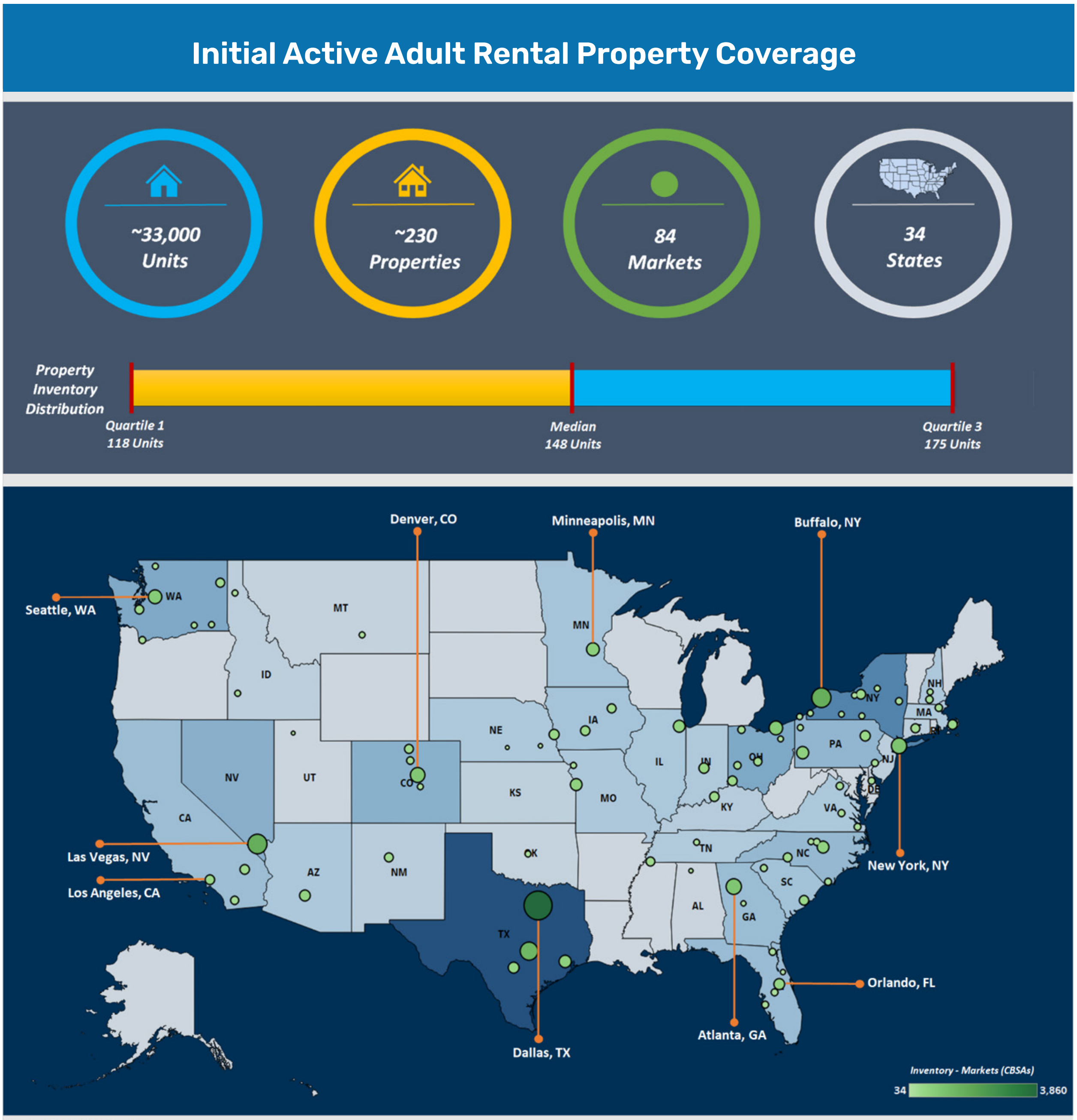
Introduction

Active adult rental properties serve older Americans who wish to live in a multifamily setting with other residents who generally are more independent and active than the residents in today's senior housing offerings. As a commercial real estate property type, active adult rental properties are a response to the preferences of the leading edge of the baby boomer generation—who as a generation will be over 85 million strong by 2025. They are younger and have lower acuity needs than the current residents in senior housing independent living. The properties are generally marketed to these target consumers as active adult apartment homes and often with mention of it being a 55+ community.

The market for purpose built active adult rental properties has enormous potential due to several factors including a large and immediate demand pool, no required healthcare licensure, less operational intensity than senior housing, potential rent premium compared to conventional multifamily properties, and typically longer length of stay than that of senior housing residents or younger multifamily residents.

These myriad benefits, including potentially higher margins and returns, are drawing interest from many different types of real estate investors. However, to date, there is no widely accepted definition or available data set which includes property inventories, market fundamentals/trends, and financial performance metrics for this property type.

The demographics and economics make active adult a fast-growing market segment that has been compared to the growth of the assisted living market of the mid- to late1990s: the product is evolving rapidly, data is sparse, and capital is providing the opportunity for significant growth of the segment. NIC MAP Vision recently released property-level inventory data for active adult properties. Their initial database of active adult rental properties in the U.S. comprises 230 properties, with many of the first-generation products, most built between 2010 and 2018, which have recently started to trade. As data collection efforts continue and additional active adult rental properties are identified, property counts in the NIC MAP Vision database are expected to increase dramatically.



Source: NIC MAP Vision data
Prepared by: NIC Analytics of the National Investment Center for Seniors Housing & Care (NIC)

While product iterations for purpose built active adult rental properties have been around for a few years, at its relatively nascent stage, there is significant exploration in product and pricing. There are also questions about the long-term performance of the property type and the ability to maintain occupancy as the first wave of residents that have moved into new properties age in place over time. Because the active adult properties do not provide residents assistance with activities of daily living (ADLs), existing communities have not experienced to date significant "age creep" among their respective residents.

The active adult property type is adjacent to the senior housing property types and at the beginning of the continuum of housing for older adults. For many investors and developers, the active adult segment is viewed as a means of participating in baby boomers' housing needs now rather than waiting another ten years until baby boomers "age into" higher acuity senior housing.

Definition. What is active adult? An element missing until now for the active adult rental property type—similar to “congregate living” senior housing in its early days—is a consistent definition and one by which the market can be measured to allow for comparisons and knowledge sharing. To that end, the National Investment Center for Seniors Housing & Care (NIC) defines the active adult segment as:

Active adult rental properties are age-eligible, market rate, multifamily properties that are lifestyle focused; general operations do not provide meals.

This definition puts a framework around the active adult category and will better enable centralized data collection on the growth and performance of the sector.

Several considerations help clarify the critical components of this definition:

- **Age-eligible:** The property must restrict residents based on age. This typically means at least one “qualifying” resident in the household must be 55+, 62+, or 65+, depending on the local governing jurisdiction. Note that age-eligible or age-qualified is a more positive description than age-restricted.
- **Majority market rate:** LIHTC (low-income housing tax credit) properties are excluded.
- **Multifamily:** Excludes single-family home-only communities (SFH). Similar to the senior housing data collection, it would, however, include data on attached or detached SFHs (e.g., townhomes, cottages) within communities with majority multifamily dwellings.
- **Rental properties:** Excludes for-sale properties.
- **Meals not included through property operations or base rent:** The property does not include meals (lunch or dinner) or allowances/credits for meals. Note that active adult may offer “light dining” options such as continental breakfast or happy hours.
- **Lifestyle focused:** Affording the residents a setting and environment that helps them to thrive.
- **Not a static definition:** It should be noted that the active adult definition and the property type is expected to evolve as the product matures.

Active adult rental properties are essentially age-qualified, conventional multifamily housing.

Active adult rental properties appeal to a younger, healthier (i.e., no or low acuity needs) cohort of the older population seeking an option for living in a secure, maintenance-free setting with amenities and opportunities that foster socialization and shared activities with like-minded older adults.

Active adult rental properties appeal to a younger, more active older adult.

Given that their target resident cohort is that of "younger" older adults, active adult rental properties provide limited resident services and amenities outside of the housing itself.

Progression of Needs

NO ACUITY NEEDS → GROWING ACUITY NEEDS

Conventional Multifamily | Active Adult | Independent Living | Assisted Living | Memory Care | Skilled Nursing | Hospital

	Shelter	Activities/ Recreation	Socialization	Transport/ Laundry	Meals Included	ADL Services*	Specialized Memory Care	Short-term Post-acute Care	Long-term Chronic Care
Conventional Multifamily	✓								
Active Adult	✓	✓	✓						
Independent Living	✓	✓	✓	✓	✓				
Assisted Living	✓	✓	✓	✓	✓	✓	✓		
Memory Care	✓	✓	✓	✓	✓	✓	✓		
Skilled Nursing	✓	✓	✓	✓	✓	✓	✓	✓	✓

**ADL (activities of daily living) services include medication management and assistance with bathing, dressing, and mobility.*

The active adult rental market caters to the younger older adults looking for the lifestyle, convenience, and amenities of conventional multifamily living but with residents of their own age cohort—they are looking for something different. These individuals often consider independent living senior housing as either too expensive or associated with residents with acuity levels that are too high for their current lifestyle choice.

In contrast to conventional multifamily properties, active adult communities rarely have to weather the traditional consumer "push and pulls"—those life events that hasten a move. Overall, the active adult resident cohort is older, has downsized, and is making a long-term decision to move to a community that offers an authentic experience of connectivity, independence, and choice.

Resident Profile

DEMOGRAPHICS

- The average age at move-in is the upper 60s to mid-70s
- Typically have $50,000 annual income with a minimum of $150,000 non-housing related assets
- Renters by choice
- Familiar with communal living setting
- Engaged in the community and the resident experience
- Many are married or widowed
- May be still employed full or part-time

TARGETED LIFESTYLE

- Lifestyle-oriented (desire enhanced socialization, health, wellness, and lifestyle programming)
- Will choose to live in an environment that helps them thrive; age isn't the driving factor
- Seek lifestyle connections with their peers
- Do not want or need healthcare in the community
- Share a common culture with other residents
- Making a long-term commitment

PREVIOUS RESIDENCE

- Downsizing from a long lived-in home
- May use proceeds of a home sale to fund tenure at the community
- About 70% move from within a ten-mile radius of a property
- About 60% come from a single-family home that they own

MOTIVATIONS TO TAKE RESIDENCY

- An emotional decision and sale similar to senior housing
- Desires financial flexibility often at a lower price point than independent living
- Often requires education on what the product is
- Not for those looking for the services of traditional senior housing
- Wants to remain in their community
- Will relocate to be closer to family
- Move-in catalyst is often the loss of a spouse, not a health trigger

Resident tenure is relatively long.

Unlike residents of conventional multifamily properties, older adults' timeframes for moving are longer. Active adult rents tend to be higher, and the units tend to lease up more slowly than conventional multifamily buildings. Additionally, the active adult residents have longer tenure—on average, about 6-9 years, with 80% retention in stabilized properties—making the active adult segment very attractive to risk-averse investors and developers once the properties stabilize. For perspective, according to the *NIC Investment Guide, Sixth Edition*, the average tenure at senior housing properties ranges from 2.9 years in memory care, to 4.3 years at independent living communities, and 9.2 years at entrance fee continuing care retirement communities (CCRCs, also known as life plan communities). During the pandemic, relative to senior housing property types, active adult outperformed as it was not as significantly impacted by the COVID-19 virus.

It has a high-touch sales process.

The customer journey into active adult is a life change commitment. Most prospects are searching for a place to live that meets their lifestyle wants and needs—a place where they will find social engagement, activities, and wellness programming, but with unbundled services. The typical prospect makes the decision independently, with input from family members. As younger seniors in excellent health, they typically start their search online. They do extensive research—as do their adult children—to find out as much as possible before engaging with a property. Many operators find that a large portion of their marketing budget is spent on a significant digital presence on the web.

Once contact with the community is made, the customer journey is similar to the decision process to move to independent living senior housing. Unlike conventional multifamily marketing, leasing agents employ tactics for engaging in the broader community, such as attending local chamber of commerce events and realtor programs and partnering with financial planners who may help influence a move to an active adult property. While early residents in the communities are often strong word-of-mouth promoters, comprehensive marketing plans are critical prior to and during lease-up (timeframes can be 60-90 days) and typically include a personal approach. Sales pitches are most effective when they include rent versus buy analyses and an emphasis on the culture and lifestyle of the community.

They are designed specifically for shared activity.

Active adult rental properties offer more physical plant amenities and common spaces designed specifically for shared activity than found within conventional multifamily housing and less than senior housing properties, which has a healthcare component that active adult residents typically do not seek or need.

Active adult garners interest from established multifamily developers and investors "working their way up" and senior living independent living operators "working their way down." It has more risk and a smaller demand pool than multifamily housing but is not likely to be perceived to be as risky as senior housing properties.

An appropriate scale to best ensure that an active adult rental property will achieve operational efficiencies is around 140 units, minimum. Some existing communities have up to 200 units but have mixed in some detached and semi-detached single-family homes, townhomes, and cottages with private entryways. Today's active adult rental properties are smaller than typical multifamily developments and are able to foster socialization and relationships—residents can get to know everyone, unlike in a typically larger multifamily property.

Most active adult rental property development expenditures are spent on the residences and then the common areas, specifically designed for socialization, wellness, and physical fitness, often with opportunities for income-generating programming. Design borrows attributes from the hospitality sector and multifamily/mixed-use housing. The focus is on a balance of essential spaces needed to provide for engagement and activity without excess; operations require staffing and efficiency resembling conventional multifamily housing, enabling rents at lower price points than the price points of senior housing properties.

Common areas are an extension of the resident's home.

Many active adult rental communities include a bar/pub area with liquor lockers, a full gym with a range of classes, a dog park, pool, clubhouse, and spaces for sharing meals, although no specific meal services are included in the base rent. Other potential offerings include concierge services that can help facilitate grocery and restaurant meal delivery, rideshare transportation, and referrals to housekeeping services. Because operations are low service, requiring fewer full-time employees than independent living but more than multifamily housing, the community is best located in proximity to commercial spaces, retail, grocery, and medical services.

Property Characteristics

SIZE AND CONFIGURATION

- Property size is generally 140-180 units
- Apartment square footages range from 650 to 1,800; luxury apartments 2,200+
- Similar residence square footage to independent living but more limited variety in floor plans compared to CCRCs
- Some properties offer rental cottages or small pods of apartments that have individual entryways

LOCATION

- Frequently set in suburban locations to provide options near residents' adult children
- Access to parks, and trails for walking and biking
- May have retail attached or be located near retail establishments

PRICING AND LEASING

- The price range is broad and geography-dependent, but generally, rents fall between premium multifamily and independent living properties
- Properties tend to lease up faster and have lower turnover than senior housing properties
- Expect 20-25% turnover (or 6-8 units per month on average) depending on market or geography
- Active adult rental properties do not typically compete with independent living or continuing care retirement communities (CCRCs) but may compete with conventional multifamily or the customer's home
- There are many opportunities for segmentation based on varying the level of services and amenities

AMENITIES AND SERVICES

- Well-appointed kitchens, oversized closets, and storage space
- Outdoor spaces for recreation, relaxation, and entertaining
- May have salon space leased out and partnerships with local restaurants and food delivery services
- May or may not offer resources regarding in-home health services
- May or may not partner with properties with higher levels of care, including assisted living, memory care, and skilled nursing to provide a pipeline for aging in place

A bridge between multifamily housing and senior housing.

Until recently, the term active adult described for-sale single-family homes set in a retirement community or within a section of a master-planned community. Early pioneers of the active adult rental product were primarily multifamily developers and investors envisioning something to bridge conventional multifamily and senior housing real estate that would appeal to the growing cohort of baby boomers. Any perceived stigma of renting versus owning since the Great Financial Crisis is not nearly as significant as it used to be. Some older adults are moving to active adult communities as a bridge—including grandparents moving to be near grandchildren, popularly referred to as the "baby chaser" phenomenon.

Active adult is not a pure real estate play.

There is an operational component to active adult rental properties. It is advised that anyone trying to "come up" from multifamily be partnered early in the process with experienced developers and operators with a senior housing mindset.

Active adult rental properties possess distinctions with adjacent property types.

While there is significant overlap and cross-pollination in the middle, there are key differences between active adult, independent living, and multifamily housing.

Active Adult vs. Independent Living

- "Younger" older adult residents
- Unbundled or contracted services
- Fewer full-time employees
- More limited liability
- No meals (or meal credits) provided in the base rent; however, continental breakfast may be served
- Prospective residents do not want or need any care services in the community
- Resident turnover is lower, although most residents will eventually need to seek assistance with activities of daily living, typically in an assisted living community
- Inquiry to close (sale timeframe) is shorter
- May be able to operate management of activities more affordably with offsite management
- Active adult rents are from 30% to 50% less than for independent living
- Unlike independent living, the product encourages residents to create their own opportunities, including organizing activities and events and managing some amenities

Active Adult vs. Multifamily

- Age-qualification 55+, 62+ or 65+ depending on the municipality
- Average turnover is 20% compared to multifamily at around 50%
- More full-time employees (management, maintenance, marketing, activities)
- Requires a more experienced marketing and sales team who are sensitive to the needs and wants of the active adult customer
- More focus on purpose programmed common spaces for socialization and wellness
- Lease-ups are significantly slower due to the decision-making process and sale of a home
- Prospective residents want to live exclusively among their peers, although opportunities for intergenerational engagement are often desirable
- May be fitted with a commercial kitchen that may allow the community to convert to independent living as residents age in place
- Service-light; active adult requires significantly fewer employees than traditional senior housing, which reduces operating costs and allows for a lower price point
- Depending on the market, rents are typically 10% to 30% more than like-kind conventional multifamily apartments; operators justify the rent premium to consumers by noting the higher level of staffing, and programming
- Capitalization (i.e., "cap") rates are closer to multifamily than senior housing and have recently been trending lower than multifamily
- Often viewed more favorably than a multifamily building in terms of entitlements; the product retains residents that have been in their communities for years and are not adding children into school districts

Age creep likely but may be mitigated.

Like independent living senior housing, a potential key challenge for active adult rental communities is the aging of residents. Most active adult properties leave it up to the resident to determine when or whether they need care. Some active adult properties embrace adding a list of vetted service providers or allowing in-home health, telehealth, or even a physician's office or clinic in the building. However, many do not want to offer care with the fear of driving off their customer, who they believe wants nothing to do with any care offerings. As a result, the proposition is that the older residents will naturally "age out" or "self-select" to move out when they see that they cannot do the things their peers around them can do.

Another prospective challenge will be to continue attracting younger residents rather than evolving into the low to mid-80s age range when the community reflects more of an independent living environment. Many active adult properties presume that if higher levels of services and supports are added, retention extends, and leasing rates will decrease as the community loses its independent appeal. The longer residents with care needs (even home health) are in an active adult community, the less it looks like an active adult community and more like senior housing; however, some residents may remain in the community until they need assisted living or memory care services.

The question of residents "aging out" often solves itself.

A key question in the active adult rental property market is whether a stabilized property can continue maintaining a vibrant atmosphere as the first residents age. Fair Housing laws generally do not allow operators to deny residents a place to live based on their health status. To qualify for the "55 or older" housing exemption (Fair Housing—Housing for Older Persons Act), at least 80 percent of the units must have at least one occupant 55 years of age or older. Because multifamily residents must be ambulatory without assistance, once a resident is considered at risk of not being able to get out of a building in an emergency, there is often a protocol to guide the individual to a higher level of care outside of the property in ways not dissimilar to transitions from independent living to assisted living in seniors housing properties. Most people want to live in an environment that is safe for them. Management must have the sensitivity to have honest conversations about safety and the setting in the resident's best interest. It is important to educate the market (municipalities, lenders, residents, adult children, etc.) on what the active adult product offers and does not offer in terms of services and supports. To mitigate market confusion and avoid the pitfalls of moving in people who want an affordable place to live but should be in senior housing, correctly positioning an active adult community will help alleviate attracting prospective residents seeking care.

Higher rents, lower expenses, and longer lengths of stay allow for 55% to 65% margins in a stabilized community.

For today's underwriters, active adult rental properties are seen as having more risk than multifamily properties, given a smaller demand pool than the multifamily market. Still, active adult properties are not likely to be perceived to be as risky as traditional senior housing properties. From a valuation standpoint, active adult rental properties are being pegged between traditional independent living and conventional multifamily. Because the active adult product is a relatively new concept, in many cases there are not enough comps in a market to find relevant rent and sale comparisons, although this is rapidly changing as more purpose built properties are completed The analysis may be dynamic—underwriters may have to begin from a baseline of comparable conventional multifamily, and then consider comparable independent living properties. With more time and more experience, underwriters will have more data to build their case.

Capitalization rates for active adult rental properties are more like conventional multifamily properties than independent living properties. As the active adult market grows, the sector will see more properties trade. As of 2022, most of the active adult rental properties are trading below 5% capitalization rates, with some under 4%. Additionally, as lenders become more familiar with the product, financing should become more accessible. As the active adult product generally appears more similar to conventional multifamily properties than senior housing properties, more options for long-term fixed-rate loans will likely be available to established active adult communities.

Expense drivers are labor, marketing, and maintenance of the site.

A low worker model is attractive in the current economy where staffing is challenging. Active adult rental property costs are substantially lower than that of independent living properties because active adult offers few services, typically with around 6-9 full-time employees, and some employing universal workers. Generally, there are opportunities for additional revenue by charging for garage parking, convenience store retail, catering services for social gatherings, and happy hours.

- One of the main focuses is being efficiently staffed. Employing universal workers reduces the number of full-time employees needed as workers are enabled and trained to attend to any necessary task (for example, the maintenance person helps with housekeeping, the executive director/community manager helps with activities, etc.).
- Active adult rental properties are less costly to build and operate than senior housing properties. According to developers, active adult properties' break-even numbers are lower than senior housing, and their margins are also higher. Capex is lower, too, as wear and tear on FF&E is less in an environment where walkers and wheelchairs are uncommon.

Lack of competition and affinity are opportunities to capture rent premium.

Active adult property rent rates are typically 10% to 30% higher than comparable multifamily in a given area, and anywhere from 30% to 50% lower than independent living properties in the market, depending on the level of luxury amenities. Active adult properties have proven that their residents will pay a rent premium over conventional multifamily housing to live with their peers in a setting with a distinct lifestyle or culture but desire lower rents than independent living. That culture needs to be initiated by the property management team before it can be created by the residents themselves.

NIC: A new source of market insights, meeting the need for data.

Building on what NIC has accomplished in the senior living and skilled nursing markets, NIC is focusing on enabling access and choice for older adults of active adult rental properties. NIC provides a platform for knowledge sharing, efficient connections, and insights and analyses that will allow for continued product evolution, better understanding, and appropriate capital to help older adults with their housing needs. As the leading provider of senior housing data, NIC MAP Vision now also brings more transparency to the active adult rental property market by tracking it in a similar fashion to other senior living property types—reporting on the inventory of properties across the nation, their characteristics, as well as their financial and operational performance.

National Investment Center | One Park Pl Suite 450, Annapolis, MD 21401 | (410) 267-0504