State of the Market 53:
Housing's stairway to heaven

RECAP
REAL ESTATE ADVISORS

By David A. Smith

And she's buying a stairway to heaven.

Without our ever noticing it, over the last half-century we in America have come to conflate *place* and *health.* Where you live signifies how healthy you are, and this conflation badly serves our elderly, our health care system, and our society.

Why do we make people move?

In a technological healthcare system, the implicit imperatives of capital equipment, specialized support systems, trained staff, and measured reimbursable procedures naturally give rise to cathedrals of medicine to which we journey after experiencing an acute event. Arriving, we are treated, we get better and we go home.

Because America is aging rapidly and in large numbers, the model that works so well for acute events has been co-opted for chronic conditions, especially those particularly those associated with age.

When so adapted, the treatment-sojourn model fails: with chronic conditions we can't go home. Where we are treated has become our unwilling home.

Only this is no home at all. The more aid we need, the more we move to increasingly intensive facilities that, in adding 'care,' remove everything we associate with home: autonomy, privacy, and loving familial and personal relationships.

No one likes this. Everyone wants to live at home

What lies at the top?

– one's actual home – but people too often have to leave. Not only is this a shame, it's actively harmful.

What can we do to increase the time the frail elderly spend in their own homes? The answer is easier, and braver, than you might think.

The stairway to heaven

Imagine a two-dimensional graph with time running left to right, dependency running from low to high. Now place five residential modalities on this graph:

- *Apartment*. Building services provided by management. We are fully, proudly independent.
- *Elderly housing.* Purpose-built and often configured with independence-extending features: wide corridors, brighter lights and louder doorbells, accessible toilets and showers. Often includes community space

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intended specifically at elderly social connectedness activities. Discreet help is available nearby.

- *Assisted living*. Like an elderly property but without no-longer-safe features (stairs and curbs, back-panel stove controls) and with daily-living services (on-call staff for activities of daily life (ADL), some meals, possibly medication reminders). We have frequent low-intervention help, and we appreciate it.
- *Nursing home*. A facility counted not by apartments or rooms but by beds. Living here, we give up most of our independence; we are helped almost continuously. Privacy is a rare luxury. Acute-event services are a call-button away. Many of us are ill. Some of us are visibly dying.
- *Hospice*. Our universe is a bed and a few feet beyond it. We move here only to die, with as little pain as possible.

On our imagined graph, the five steps from apartment to hospice are a stairway to heaven, rising upward to the right.

A stairway no one wants to climb

Five features govern our climb up the stairway of heaven:

- *It is one-way*. We step up and almost never step back.
- At each step, our radius of freedom shrinks. We lose independence each time.
- *Our living area shrinks*. This forces us to surrender self-defining possessions, making us feel disconnected, which often leads to depression.
- *Per-square-foot costs of occupancy skyrocket*. As the accumulated equity of a lifetime drains away, we turn to savings, offspring, insurance, and the government to pay our living costs.
- *Government's share of costs rises*. And what Uncle Sam pays for, Uncle Sam likes to (over-) regulate.

Not only does this model impoverish us and our extended family, it is also bankrupting the Federal government, so it is failing socially *and* failing economically.

People should age at home

We can reverse the impending failure – save money, extend healthspan – by reorienting our thinking from *moving to medical care* to *living healthily at home*. That aging people want to live at home is incontrovertible based on evidence like this:

- **AARP**: over 85% of people fifty and older want to "stay in my own home and never move." They are attached to their home and their communities, and say they fear losing independence more than they fear death.
- **Harvard School of Public Health**: socialization is still a key to healthy aging; memory decline at less than half the rate. Moving costs money and stresses caregivers.
- **Genworth**: 44% of primary caregivers experienced increase stress with their spouse; 55% of respondents report that their greatest fear of long-term care is of being a burden on their families.

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Stop moving people; start retrofitting properties

Neither the government, nor her relatives, nor the person herself wants her to move. Why move her?

A few straightforward and easily implemented changes can delay the move to a specialized facility by years or decades. Our work at Recap has found that:

1. *Many elderly properties have under-used public spaces*. Often these properties have community rooms or wide corridors that are bare transit or empty areas; even a little creativity and capital will transform them into social hubs. Simple social activities -- tai-chi, campus walking, study groups, and shared recreation – reduce depression, obesity, malnutrition, blood pressure, and fragility, the harbingers of injury, illness, or mental decline.
2. *Wayfinding and walking improvements can dramatically increase resident social interaction*. Getting people out of their apartments and into community life is a key to lengthening their healthspan. To do that, they need confidence they can *walk safely* to these activities. That takes modest in-property retrofitting. Aging elderly need sitting clusters and nodes at more frequent intervals; better lighting; directional aids; and handrails. They're all cheap and easy to do.
3. *Broadband to the elderly is like water to a desert*. In many ways the elderly are the best customers for broadband, because their minds can stay active even if their mobility has diminished. With broadband comes Skype for staying in touch with friends, children, and grandchildren; distance learning and lifelong learning; remote wellness sensing (voluntary); and panic bracelets or medallions. Elderly residents face two barriers to this universe: (i) the minuscule costs of a computer and large monitor, and (ii) personalized setup. Both are cheap and if done, the revival of people's interest and mental activity is astonishing. If I could, I'd mandate free broadband in every elderly affordable housing property, give every resident a desktop computer, and arrange for volunteer student setup technicians from the local college.
4. *Daily social activities delivered at the property*. Resident services coordinators are always busy, and always find agencies interested in importing services to the property's residents. However, they have trouble finding health-care based resources to pay for those services, in part because of Federal rules that generally prohibit Medicare/ Medicaid funds from being used in a housing context – even if those same residents are receiving Federal Section 8 or similar assistance. For a small cost (perhaps $4,500 to $6,000 per apartment plus annual service costs of $1,000 per apartment), the dusty gray elderly apartment property becomes a supportive living environment.

Resulting government savings are massive. Long-term care has an average cost of well over $6,000 *per month* for a semi-private room: if retrofitting an apartment delays a person's nursing home entry by one year, the annual payback (at least to

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Uncle Sam) is 1000%. These very real savings should drive the investment in alternatives.

Retrofit case study available

At our own expense, Recap commissioned an architectural re-envisioning of an existing all-elderly affordable property in upstate New York to learn what could be done and what it would cost. Our report is available free by emailing David Smith, dsmith@recapadvisors.com, with the subject line, Requesting free elderly retrofit case study.

The three barriers to retrofit

Though retrofitting an existing elderly property is conceptually easy – none of the improvements involve fundamental structures or major systems – it nevertheless faces three sets of issues, of escalating difficulty:

1. ***Physical issues***. Retrofitting apartments for accessibility, such as with walk-in tubs or showers or wider doors, usually entails little more than component replacement. Corridors are usually wide enough to accommodate side-by-side walkers or wheelchairs; interior steps, if any, can usually be replaced with gentle ramps.
2. ***Regulatory/ financing issues***. The regulatory structures of both HUD and IHTC properties generally assume that 100% of the property is used for residential rental apartments – that is, no other business. While a retrofit for the purpose of improving the in-apartment living environment will probably pass muster, redesigning the common areas (say, by adding a small kitchen) will encourage regulators to examine whether this is a 'non-residential use' that must be separately financed. Can the operator charge (say) $5 a lunch without that being considered rent (triggering a reduction in the stated rent)? If it can, does that income flow through the same property-level regulatory agreement? These questions ought to be easy to answer; often they are not.
3. ***Ownership/ management issues***. If services are to be enriched, someone must coordinate and manage their delivery. While many regulators allow the property to carry an employee called a resident services coordinator, this individual needs support from the owners and management – and right now there is no business case for delivering such services. Though immensely beneficial to residents and averted government costs, there's no link whereby doing all this additional work gives the owner any additional cash flow – often it's more work for *less* NOI. Not only is caring not rewarded, caring is actually penalized.

What to do if you own or manage a service-enrichable property

Any service-enrichable property that remains un-enriched is a societally underperforming asset – value will be created by optimizing it for service enrichment. These include elderly properties; properties that over time have become naturally occurring retirement communities (NORCs); any property with a large veteran population; or any property with a significant special-needs or supportive housing population. If you're involved in any of these, you owe it to your bottom line and your conscience to think how you would

service-enrich a property if you could. Take steps like these:

1. *Profile your residents' service-suitability.* Household by household, what would help them if someone provided it? These aggregated figures potentially represent effective demand, either for an outside service provider or for a capital retrofit.
2. *Create a time series of your elderly residents' health status*. What's the average age of your tenant population in a property? Is that average age older than five years ago? What's their average tenure? When they move out, where do they go? Knowing that their next step is up the stairway to heaven (and that the government will pay more when they step) will create an evidentiary trail that will both attract outside service providers and later make the business case for financing.
3. *Identify government counterparties that benefit from your services, even if they do not know it*. Many government agencies get a free ride when affordable housing owners and managers provide resident services at the property. Most of them do not realize it. Be ready to show them.
4. *Develop a computerized digital visualization of a physical retrofit at your property*, along the lines of the Recap case study referenced above. Visualization is powerful.
5. *Start boning up on pay-for-success (P4S) contracting*. This concept, originally introduced in England, has yet to emerge in the US at any scale, in part due to the business-model and regulatory-restriction reasons listed above. When the time is right, P4S will be the subject of a future *State of the Market*.

Send us stories and statistics!

We are committed to pushing innovations in this field. Send interesting statistics, good stories, great pictures, or new insights directly to me at David Smith, dsmith@recapadvisors.com.

Conclusion

If you have ever put a parent or sibling into assisted living, a hospital, or a nursing home, you know that among her very first questions upon your first visit will be, "Have you come to take me home?"

That's the voice of ourselves a few decades or years hence.

Why don't we listen to it?

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