



Independent Living Penetration Rates: One Indicator of Market Demand

Senior Living

forv/s
mazars

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“Our Senior Living Team has compiled a database of more than 200 financed senior housing projects nationwide that benchmarks important criteria, including penetration rates for independent living.”¹

Introduction

Independent living penetration rates are an important indicator of market demand for new senior living developments and expansion projects. However, with varying methods of calculating demand, different terminology, and certain subjective assumptions, how can stakeholders interpret the results or understand what an acceptable penetration rate looks like?

Our objective is to provide an interpretation of penetration rate results that allows stakeholders to understand acceptable thresholds of market demand for senior living services. This analysis of penetration rates represents the approach, methodologies, and interpretations of our Senior Living Team.

Forvis Mazars has been collecting and summarizing information for our Independent Living Database (IL Database) since 2000.¹ Our original white paper released in 2007 introduced our database of senior living developments and methodology surrounding our independent living penetration rate analysis. Subsequent versions incorporated additional projects,

as well as the concept of income qualification stratifications. While our method for calculating independent living penetration rates has not changed, the continued addition of new projects allows us to further stratify this data by other considerations such as region, market size, and financing type, among other parameters.

What Is a Penetration Rate?

Penetration rates help measure the degree to which a senior living market is either underserved or saturated. Simply put, what percentage of the qualified market must be captured to achieve stabilized occupancy?



Different types of penetration rates measure market demand in various stages of a project's development.

The Gross Market Penetration Rate measures the level of saturation in the market over a period of time, whereas the Project Penetration Rate and Net Market Penetration Rate measure market demand upon entry into the marketplace, *i.e.*, the penetration year. It is important to understand the penetration rates in the context of the dynamics of each individual market. Typically, lower penetration rates are considered favorable and higher penetration rates can be an indicator that units may become more difficult to fill or stay full. However, some markets, such as Philadelphia and South Florida, experience higher acceptance of senior housing options and may support higher penetration rates while experiencing high occupancy. Smaller markets can show lower penetration rates due to limited competition yet pose a risk due to decreased awareness and market acceptance of senior living services.

The occupancy of existing senior living communities is also a key indicator in determining the acceptance of a product and the depth of a market. The presence of existing communities that are fully occupied with

active waiting lists may be an indication that the market is underserved. Alternately, low occupancy at existing communities or slow enrollment at a new product might indicate that market supply exceeds demand. Other factors may include the possibility that available product and service offerings do not meet consumer expectations. Qualitative market research, such as consumer surveys, focus groups, and marketplace interviews, can help providers gain a better understanding of the market's acceptance of different types of senior housing products and service offerings.

Forvis Mazars typically calculates three penetration rates to assist in assessing demand for independent living services in a market area:

- | **Gross Market Penetration Rate**
- | **Project Penetration Rate**
- | **Net Market Penetration Rate**



Penetration Rates

What Are the Basic Components of a Penetration Rate Calculation?

Primary Market Area Definition

The primary market area (PMA) for senior living services is typically defined as the geographic area from which the majority of prospective residents live prior to assuming occupancy at a community. The PMA is typically determined by the origin of its residents, depositors, and/or lead base, as well as the experience of existing providers in the market area. Other factors to consider when defining a PMA include highways and county boundaries; natural boundaries, such as a river or mountain range; or the psychological boundaries perceived in a market area.

Percentage of Seniors Originating From the PMA

Once the PMA is determined, the percentage draw from the PMA is applied in order to estimate how many age- and income-qualified households would originate from the PMA versus other areas. The assumed draw from the PMA typically ranges from 65% to 75%, with 50% of the data set residing in this range, for an independent living project in the IL Database.¹ The draw percentage from the PMA can be lower if a project is located in an area considered to be a retirement destination, a market with high in-migration, or a market with a large adult caregiver influence.

Age & Income Qualification

To qualify for residency at a senior living community, a prospective resident must meet a particular age requirement and demonstrate sufficient financial resources to pay the initial entrance or community fee (if applicable), required monthly service fees,

and other living expenses. Accordingly, management typically establishes certain criteria to identify prospective residents who would be eligible to reside in an independent living unit, *i.e.*, annual income of approximately 1.5 times the annualized monthly service fee. In general, Forvis Mazars uses \$35,000, \$50,000, and/or \$75,000 income qualifications when calculating penetration rates, depending upon the circumstances of the community.¹

For the purpose of quantifying the number of age-qualified households in the PMA, households age 75 or older are typically the most likely to move to an independent living unit at a community. The average age of residents moving into independent living at a life plan community (LPC) is between 80 and 83 years old, with the age of entry for rental communities being even higher.²

The number of age- and income-qualified households in a PMA is a driving factor in determining the success of a community. Based on our research, PMAs with less than 1,000 age- and income-qualified households could face more challenges due to the limited number of qualified seniors in the market area. The median number of age- and income-qualified households in the IL Database for the \$50,000 income qualification in the year of opening is approximately 5,900 households.¹

Number of Existing & Planned Units in the PMA

Determining the number of existing and planned units to include in a penetration rate analysis is one of the more subjective components affecting the calculation. While there may be several existing and planned units



Many rental independent living residents rely on asset spend-down to afford their accommodations.

in the PMA, it is important to consider which units are comparable to a project from a service, amenity, and price point standard. Do the units have a similar pricing structure and income qualification? What are the product and service offerings of a community? Our Senior Living Team typically uses a conservative approach and considers all units with similar services and/or levels of care to be competing for the same pool of age- and income-qualified households within a PMA.

Number of Units

Available Due to Attrition

To calculate the Net Market Penetration Rate, the number of units to be absorbed in a given year must be determined. Available units could enter the marketplace via planned expansions or new communities and through the turnover of existing units in the PMA. Therefore, it is necessary to take into consideration the number of existing units in the PMA that would be vacated due to attrition. Using data extrapolated from the State of Seniors Housing 2023 report, the median annual resident turnover rates for entrance fee and rental units are approximately 13.0% and 41.6%, respectively.³

Is There an Industry Standard Penetration Rate?

The National Investment Center for Seniors Housing and Care (NIC) aggregate penetration rate measures the general saturation of a market area based on the inventory of units, regardless of annual household income or ability to pay.

While there are multiple penetration rate methodologies, each one serves a different purpose and uses a different set of components. NIC uniquely calculates penetration rates through an aggregate penetration rate. The NIC aggregate penetration rate is calculated by classifying all senior living communities into three categories based on the type of unit that comprises the majority of the total units at the community (Majority Independent Living, Majority Assisted Living, and Majority Nursing Care). The NIC aggregate penetration rate for independent living is calculated by dividing the total inventory of senior living units at communities where independent living

units comprise the largest share of the inventory by the number of households age 75 or older. Since NIC collects data on senior housing communities located in the top 140 metropolitan statistical areas (MSAs), the NIC aggregate penetration rate can provide context when the aggregate penetration rate for a market area is compared to the aggregate penetration rate for the MSA closest to the market area, the top 31 MSAs, the top 32 to 100 MSAs, and 40 additional MSAs.

Our Senior Living Team and other industry professionals generally calculate penetration rates in a similar manner; however, unlike the NIC aggregate penetration rate, penetration rates shown in market feasibility studies consider the saturation of a market area in regard to the number of age- and income-qualified senior households and considering seniors' ability to pay for the housing, services, and/or care offered. In general, market penetration and saturation rates show the market's total inventory of units relative to market depth, whereas project penetration rates show a project's inventory of units relative to market depth. These calculations assume that all communities in the market are competing for the same or similar pool of age- and income-qualified households.

How Does Forvis Mazars Calculate Penetration Rates?

The following information provides the three methodologies Forvis Mazars utilizes in order to understand independent living demand in a PMA:

- Gross Market Penetration Rate
- Project Penetration Rate
- Net Market Penetration Rate

In each of the examples, assumptions were made regarding the percent from the PMA, the number of units to be occupied by age 75 and older, the number of existing and planned units, and the number of age- and income-qualified households.

Gross Market Penetration Rate

The Gross Market Penetration Rate (sometimes referred to as a Market Saturation Rate) is the percentage of age- and income-qualified households in the PMA that the total market would need to capture for the entire market to achieve stabilized occupancy (typically assumed to be 95% occupancy).

The Gross Market Penetration Rate is calculated by dividing the total number of existing and planned independent living units in the PMA by the number of age- and income-qualified households in the

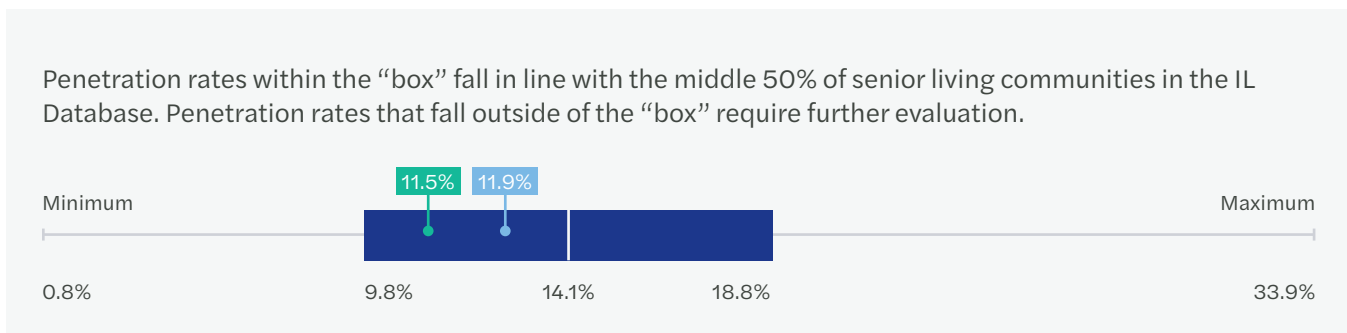
PMA. Whereas the Project Penetration Rate and Net Market Penetration Rate show a snapshot in time and typically are calculated in the year of opening, the Gross Market Penetration Rate is calculated in the current year and the projected year (often five years into the future) in order to show the rate of change between years.

Table 1 presents an example of a Gross Market Penetration Rate calculation considering a \$50,000 income qualification.

Table 1 – Gross Market Penetration Rate Example		
Market inventory of retirement communities:	20xx	20zz
The Project	–	150
Existing units in the PMA	500	500
Other planned units in the PMA	–	75
Total units available in the PMA	500	725
Percent of units to be occupied from the PMA	75%	75%
Total units to be occupied from the PMA	375	544
Total number of units to be occupied within the PMA at 95% occupancy (a)	356	517
Number of age- and income-qualified households (b)	3,000	4,500
Gross Market Penetration Rate (a/b)	11.9%	11.5%

A decrease or small increase in the gross market penetration rates is a favorable indicator, suggesting that the planned units only have a slight impact on the market.

In the example above, the decrease represents the Gross Market Penetration Rate benchmarks for the \$50,000 income qualification.



Project Penetration Rate & Net Market Penetration Date

The Project Penetration Rate is the percentage of age- and income-qualified households in the PMA the project would need to capture in order to achieve stabilized occupancy in the year of opening.

The Net Market Penetration Rate is calculated by dividing the number of available independent living units in the PMA by the number of age- and income-qualified households in the PMA. Available units include planned units of a project, proposed units at other communities, and units becoming available due to attrition. This calculation is particularly significant when more than one project is entering the market during the same time frame or if occupancy in the PMA is lower than expected.

The Net Market Penetration Rate represents the percentage of age- and income-qualified households in the PMA that the available units in the market would need to capture in order for the entire market to achieve stabilized occupancy in the year of the project's opening.

Calculations for both are considered when a project is expected to enter the market based on demographics interpolated for the year the project would be available for occupancy.

Table 2 presents an example of a Project Penetration Rate and a Net Market Penetration Rate calculation.

Table 2 – Project and Net Market Penetration Rate Example		
	Planned Units	
Units	Project	Competition
Planned units	150	75
Percent of planned units to be filled from PMA	75%	75%
Planned units to be filled from the PMA	113	56
Percent of units occupied by age 75 and older	90%	90%
Planned units from the PMA occupied by age 75 and older	101	51
Total units to be occupied at 95% occupancy	96(a)	48(b)
	Existing Units	
Units Available Due to Attrition	Entrance Fee	Rental
Number of units	375	125
Attrition Rate	13.0%	41.6%
Number of units from attrition	49	52
Percentage of attrition units from the PMA	75%	75%
Total existing entrance fee and rental units available due to attrition	37	39
Total existing units available due to attrition at 95% occupancy (c)	–	72
Number of age- and income-qualified households	–	3,750
Less: inventory of available comparable units*	–	(475)
Net number of age- and income-qualified households (d)	–	3,275
Project Penetration Rate (a/d)	–	2.9%
Net Market Penetration Rate ((a+b+c)/d)	–	6.6%

*Reflects the 500 existing comparable units in the PMA assuming a 95% occupancy rate (475 units).

Acceptable Penetration Rates

What Are Acceptable Penetration Rates?

Within the IL Database, Forvis Mazars has calculated independent living penetration rates for over 200 senior housing projects across 35 states.¹ The IL Database has been filtered to eliminate outliers based on the number of age- and income-qualified households and project size. In addition, the IL Database includes benchmarks for penetration rates at income qualification levels of \$35,000 and above, \$50,000 and above, and \$75,000 and above. This provides an opportunity to assess the market depth and supply at varying levels of affordability and measure against similar income qualifications of other markets.

Table 3 shows the penetration rate benchmarks derived from the IL Database.¹ Quartile divisions are calculated by ranking the penetration rates in the IL Database in ascending order and dividing into quartiles after eliminating outliers. The 25th percentile of the database represents the first quartile (the point at which 25% of the senior living projects in the IL Database are at or below), the 50th percentile represents the median, and the 75th percentile represents the third quartile.¹

In general, penetration rates are favorable if they fall between the 25th and 75th percentiles. If a penetration rate falls below the 25th percentile, although perceived

as favorable due to the low capture rate, a project may experience a longer-than-anticipated fill-up period due to lack of market awareness or acceptance of the senior living product even with a large number of age- and income-qualified households respective to the number of independent living units. If a penetration rate falls above the 75th percentile, the market may be saturated, and the project may have a more difficult time filling units. However, some markets may support higher penetration rates and indicate additional demand if the majority of the competitors have high occupancies with active waiting lists.

For Gross Market Penetration Rates, the change in penetration rates from the current year to the projected year measures the impact of the planned units on the market as a whole. A small change in the Gross Market Penetration Rate is a favorable indicator, suggesting that the planned units only have a slight impact on the market. A decrease in the Gross Market Penetration Rate over a period of time is considered favorable, indicating that the number of age- and income-qualified households in the market is growing at a faster rate than units being added to the market.

Table 3 provides the IL Database benchmarks for the Gross Market Penetration Rate, Project Penetration Rate, and Net Market Penetration Rate at the \$35,000, \$50,000, and \$75,000 qualifications for households age 75 and older.

Table 3 – Independent Living Penetration Rate Benchmarks					
	Min	25th	50th	75th	Max
Gross Market Penetration Rate					
\$35,000 Income Qualification	0.7%	7.4%	10.0%	13.9%	24.9%
\$50,000 Income Qualification	0.8%	9.8%	14.1%	18.8%	33.9%
\$75,000 Income Qualification	3.2%	14.9%	22.0%	28.7%	50.9%
Project Penetration Rate					
\$35,000 Income Qualification	0.1%	0.9%	1.6%	2.6%	5.6%
\$50,000 Income Qualification	0.1%	1.1%	1.9%	3.5%	7.5%
\$75,000 Income Qualification	0.1%	2.0%	3.6%	7.5%	17.2%
Net Market Penetration Rate					
\$35,000 Income Qualification	0.2%	2.4%	4.5%	6.0%	11.3%
\$50,000 Income Qualification	0.6%	3.9%	6.0%	8.8%	16.6%
\$75,000 Income Qualification	1.1%	7.2%	11.2%	16.2%	35.4%

Does the Penetration Rate Really Tell the Whole Story?

The penetration rate methodologies shown are generally used to provide information about market demand when the product has already been programmed and designed or to refine positioning strategies during conceptual stages of new developments or expansion projects. When a project is in the development stage, other tools, such as consumer research, should be used to determine unit mix, pricing, services, and programming.

The purpose of the benchmarks is not to provide a definitive answer about whether a project will be successful or whether a market can absorb a certain number of new independent living units. These benchmarks are designed to allow one project, community, or market area to be compared to other projects or a group of projects. The IL Database provides our team with the ability to compare projects across various stratifications, including location, project type, and market size. Benchmarks should be used to provide context and facilitate meaningful discussion about a project or a market area and should be considered in conjunction with other indicators of market demand. When evaluating a market and analyzing penetration rates, the following factors should also be considered:

- Occupancy levels and waiting lists at existing communities within and near the PMA, *i.e.*, if overall market occupancy is low, has the market already reached its saturation point?
- Timing of other proposed projects in the PMA
- Design of the units and community spaces at a project
- Contract offerings, *i.e.*, rental vs. entrance fee, lifecare vs. fee-for-service
- Alternative residential and care options for potential residents
- Marketing plans and efforts of the developer or manager
- Demographic trends of the PMA, including the number of age- and income-qualified households
- Local economic conditions and the real estate market
- Awareness of consumers about senior housing options, *i.e.*, if the consumer is unfamiliar with the product offering, what are the financial implications of educating the marketplace?
- Size of the lead base and/or velocity of pre-sales at the project



Summary



The Senior Living Team calculates three penetration rates in evaluating market demand: the Gross Market Penetration Rate, the Project Penetration Rate, and the Net Market Penetration Rate.

By using the IL Database benchmarks, a provider can understand how a community or market compares to other independent living providers across the country and to similar products based on location, project type, and market size. However, penetration rates should not be relied upon as a standalone factor in determining a project's potential for success. Even when penetration rates are "acceptable," they should be considered in conjunction with one another, as well as other factors that may impact performance.

When developing, marketing, and financing a project, it is important to work with leaders in the senior living field who stay up to date on an

ever-evolving healthcare industry. The team of professionals on a project should have the ability to analyze data and address issues through every step of the process, regardless of the methodology. Furthermore, it may be important to test different assumptions for the variables in the penetration rates, *i.e.*, income levels, PMA draw assumptions, etc., to gain a thorough understanding of various sensitivities or "what if" scenarios.

All things considered, understanding penetration rate methodologies and their implications assists project sponsors and stakeholders in creating a culture of planning to position a community for future success.

Our Senior Living Team

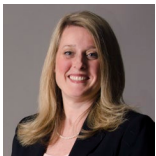
We have extensive experience helping clients plan and develop operationally and financially sound projects. We have taken great care in assembling a team of professionals with senior living experience in a broad range of financial, development, marketing, and operational disciplines.

We assist clients with strategic and development planning; business and financial advisory; performance improvement; reimbursement and regulatory compliance; health information technology; litigation support; and audit and tax. Collectively, we have supported senior living providers across the country with projects representing in excess of \$16 billion of capital raised.



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Sources

- ¹ Independent Living Penetration Rate Database, August 2024.
- ² G. Zebolsky, “An Introduction to Continuing Care Retirement Communities,” Milliman, July 28, 2014.
- ³ “The State of Seniors Housing 2023,” American Seniors Housing Association, Argentum, LeadingAge, National Center for Assisted Living, and National Investment Center for Seniors Housing & Care, 2023.



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