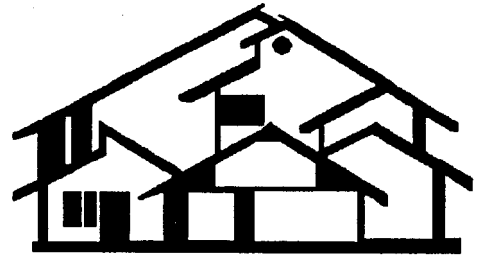


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**Sheltered
Housing
for
Older People:
Getting Started**



John Merrill

A beginner's guide for persons who want to develop additional housing options for older people in their community.

Sheltered Housing for Older People: *Getting Started*

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Introduction

In many communities older citizens who could benefit from a more supportive housing environment must choose between continuing to live unaided in their own single-family home and entering a health care facility. This publication is intended as a guide for those who recognize the lack of housing options for older persons in their community and are willing to work to provide additional options.

The guide is designed to enable interested citizens to explore the need for such housing and to effectively participate in the development process. It is intended specifically for community groups and would-be housing sponsors who have no experience with housing development. The guide concentrates on small rental or cooperative housing projects that provide housekeeping services but no health-care services.

The guide is based on material gathered from an extensive review of publications on the development of housing for older persons as well as interviews with professionals who have successfully guided the development of numerous housing projects. Staff from 23 housing developments for older persons were interviewed during the course of this guide's development. Most of those housing developments had been built since 1982. They varied in size from six to 400 units and represented a range of management types and service levels. Information gathered from these interviews will be presented at appropriate points in this guide.

Each chapter provides practical background information on a critical aspect of the development process. The Resource List at the end of the guide is especially useful for readers who want more information or are ready to begin a project. A reading list is also provided. ■

Overview

Older persons need a variety of housing options to fill their individual needs; these needed housing options vary considerably from community to community depending on the types of housing and supportive services already available. Chapter One provides general background on the various segments of the elderly community, the special housing needs of older persons, and various forms of housing to meet different combinations of those needs.

Chapter Two presents a step-by-step process for making an analysis of the situation.

Chapter Three provides an overview of the development process with emphasis on the early steps. It also includes a list of the types of expertise needed as the process proceeds.

Chapter Four discusses techniques for estimating the need through a detailed market analysis.

Because the "bottom line" in housing development is whether or not the project is financially feasible, there are two chapters in this guide on financing. Chapter Five deals with the processes used to determine how much the project will cost.

Chapter Six discusses financing techniques to make the project affordable for the target population. Details of specific financing opportunities are not discussed because such information quickly becomes outdated. However, the Resource List provides brief descriptions of a number of funding and technical assistance agencies that can provide current information.

If construction or renovation is a part of the development, an architect and contractor will usually be involved. Chapter Seven introduces the process of working with an architect and a contractor. It also provides some general design guidelines.

The last two chapters deal with issues that may seem premature for a development guide—marketing and management. However, both must be considered from the outset. In many cases marketing begins as soon as there is a good chance the project will become a reality. Chapter Eight provides an introduction to marketing strategies. Chapter Nine deals with a number of decisions about management that affect the development process. ■

Chapter One:

Older People and Their Housing Needs

This chapter provides background information to help you understand the nature of the need for supportive housing for older persons and to help you interpret the situation in your community.

Demographic Highlights

The Old are Aging. The well-publicized increase in the percentage of older persons is occurring largely because people are living longer. The most rapid increase is in the population of persons 75 years of age and older. This group is predicted to double between 1970 and the year 2000. By 1990 the average 65 year-old American woman will reach the age of 85 and the average 65 year-old American male will live to age 80.¹

Women Outlive Men. In 1980 elderly women outnumbered their male counterparts three to two. That ratio increases with age; nationally seven out of ten persons 85 and over are female.² This trend is expected to continue over the coming years so that by 2010 there will be three women over 85 for every man over 85.

A Growing Number Live Alone. The number of older persons living alone nearly doubled between 1960 and 1980. In 1987, approximately one third of the older people in the United States lived alone, two thirds of them women and nearly one half age 75 and over.³

Most Have Modest Incomes. While the income of older persons has been increasing, their income is considerably less than that of their

younger counterparts. In 1980 three quarters of the elderly had incomes below \$10,000 as opposed to 42 percent of the persons of age 25 to 64.⁴

For the majority of older persons who are no longer employed, Social Security benefits are the primary source of income. Interest and dividends are the second most important source. It is important to note that a substantial number of persons 65 and over continue to have earnings from employment.⁵

Most Older Persons Are In Good Health. The majority (70 percent) of older persons rate their health as “good to excellent.” (This includes persons 85 and over.)⁶ A very small number indicate having difficulty with activities of daily living. The following section includes details on the health status of older persons.

Most Move Only with a Decline in Health. When asked what would cause them to move to retirement housing, older persons usually indicate it would take a major event. These events include a decline in health and the resulting need to reduce the burden of housework and home maintenance.⁷ The desire to not be a burden on family and concern about emergencies are additional reasons given for moves.⁸ During the five year period from 1975 to 1979, only 18 percent of persons between the ages of 65 and 74 moved and only 16 percent of persons 75 and older moved. This compares with 40 percent of the population as a whole.⁹

The Effect of Aging on Housing Needs

The vast majority of persons 65 and over are able to live in ordinary housing. Less than half the people 65 and over report any limitation on activity.¹⁰ However, there are a number of changes that occur with normal aging.

Stiff or Painful Joints. The most common health-related problem is stiff or painful joints.¹¹ Stairs and long corridors become difficult if not impossible. Operating door knobs and appliance handles can become a challenge. Reaching becomes more difficult.

Declining Vision. About 10 percent of all persons 65 and over report problems with vision. However, among persons age 85 and over the number climbs to 28 percent.¹² These visual impairments may involve problems far short of blindness. The lenses of the eyes may become clouded or yellow making images fuzzy and exaggerating the effect of glare. These persons may have difficulty seeing the fine print on thermostats and appliance controls.

Chronic Conditions. Various chronic conditions such as heart trouble or emphysema can result in a lack of energy and endurance, making routine tasks into major undertakings and leading to further reductions in activity.

Isolation. As aging progresses a person's friends and relatives may disappear through either migration or death. Remaining friends may be equally frail. The opportunities to make new acquaintances decrease as one ventures less frequently from home. As a consequence, the person may become isolated.

Activity Limitations

The greater frequency of health problems among older persons suggests they may have limitations on specific activities affecting their housing needs. These limited activities are often divided into two groups. The first are *Activities of Daily Living (ADL's)* which involve personal care, such as bathing, eating and dressing. The second set of activities are referred to as *Instrumental Activities of Daily Living (IADL's)*. These

Table 1.1
Percentage of older persons reporting difficulty with selected tasks.

Task	Age 65-74	Age 75-84	Age 85 and over
Walking	14.2	22.9	39.9
Getting outside	5.6	12.3	31.3
Bathing	6.4	12.3	27.9
Doing heavy housework	18.6	28.7	47.8
Shopping	6.4	15.0	37.0
Preparing meals	4.0	8.8	26.1

SOURCE: National Center for Health Statistics, United States Department of Health and Human Services.

include such activities as shopping, meal preparation and housecleaning.

Multiple problems with personal care tasks, or ADL's, suggests a high level of dependence and the need for a high level of services. Several recent studies provide indications of the frequency at which various activity limitations occur. In general they show a relatively small number of older persons who need ADL assistance. Table 1.1 shows the personal care activities and household chores that older persons most often report as difficult. Less than one quarter of the persons under age 85 report problems even with these tasks.

Available evidence suggests the vast majority of older persons with impairments need only limited services, if any, and that they are mentally competent to oversee these services themselves. Meals, housekeeping and transportation appear to be the most commonly needed services. The assurance of help in an emergency is a feature that older persons consider important.¹³

Description of Common Housing Options for Older Persons

Mention "housing" and many people think of its sheltering aspect—the physical structure that protects from the weather. However, housing for older persons is usually much more than mere architectural shelter. The availability of services as needed is also extremely important.

Housing options for older households range along a continuum from completely independent living with few, if any, services provided, to very dependent living with a wide array of services available. It is the level of services provided that distinguish the housing options at various points along this continuum. The single-family, owner-occupied home that most persons live in as they

enter their retirement years typifies the independent end of the housing continuum.

When a person's health declines, living in his or her own home may present problems. For example, it may be difficult to climb stairs to a second floor bedroom or bath, or it may be impossible to manage housework. When this happens the solution that most older persons prefer is to make modifications to the home and bring in necessary services. However, if it is not economical to adapt the structure for continued use, the person may prefer to move to a facility that provides the needed services.

While the level of services provided in housing facilities for older persons varies widely, there are four general divisions.

Independent Living Facilities. The first division is often referred to as independent living facilities. These facilities essentially consist of apartments where residency is restricted to persons over a certain age. There may be common rooms for activities and recreation as well as an on-site manager. In general, residents are expected to function on their own. One example of independent living housing is the housing for older persons provided by public housing authorities. Rents including utilities at such public housing programs are generally limited to 30 percent of the person's income. Cost may be an advantage for non-subsidized units as well since units are typically smaller. The primary advantage to the older person, however, is the elimination of home maintenance. Also, there is a reduction of housekeeping with a smaller unit. Most independent living units are on one level making them more accessible. This can be an important advantage.

Congregate Care Facilities. For persons who are less able to function independently, congregated care is the next step. The essential characteristic of congregated care is that meals are pro-

istic of congregate care is that meals are provided, but a wide range of other services may be provided as well. Usually the emphasis is on the provision of instrumental activities of daily living as opposed to personal and nursing care. In most cases, residents have apartments with kitchen facilities. In others they have a private bedroom and bath and share the remaining facilities with other residents. Some are very small and home-like; others are large with hundreds of residents.

Assisted Living. The next level of service is commonly referred to as assisted living. At this level personal care, such as assistance with bathing and medications, is provided on a regular basis. Such facilities often require a license. Much of the material in this guide applies to assisted living facilities; however, such facilities must meet special requirements. Contact the local licensing agency for information on these requirements.

Health Care Facilities. When a facility provides regular nursing care, it is usually considered a health care facility or nursing home. Health care facilities vary according to the level of nursing care provided.

This guide focuses on the development of congregate care housing at a level where a moderate amount of IADL services is provided. ■

Footnotes

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12. Richard Havlik, "Aging in the Eighties, Impaired Senses of Sound and Light in Persons Age 65 and Over," *Advance Data*, Public Health Service (Hyattsville, Md.: Sept. 19, 1986).
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Chapter Two: The Situation Analysis

Transforming a good idea into a fully occupied housing facility can take several years and will proceed with greater ease if there is a broad base of community support. Before deciding to commit the time and other resources to pursue the development of housing for older persons in the community, conduct an informal situational analysis.

A situation analysis will help determine if there is enough need and interest in the community to make pursuing a project worth further effort.

Organizing for the Task

If more than one person will be involved in conducting the analysis, the first step is to organize the group. Decide who will chair the meetings; have a second person keep a written record of them. This record is a way to keep members informed if they miss a meeting and to document decisions for future reference.

Once the group is organized, develop a plan of action. This should include a goal statement upon which all members of the task force agree. The goal should indicate what the group intends to do and by when. For example, "In view of the apparent lack of housing options for the frail elderly of Pleasantville, the Senior Housing Task Force will investigate the feasibility of developing a new supportive housing project in the community. The investigation will be completed by January 31, 1990." Until more detailed information on needs and resources is assembled, it is premature for the goal to specify that housing will be developed even though that may be what is bringing the group together.

With a goal in place, the next step is to agree on a list of tasks the group will undertake to

achieve the goal. The list should include dates when tasks will be done and who will be responsible for each task.

Questions for the Situation Analysis

Your situation analysis should address at least the following questions.

1. *What housing and services are already available to older persons in your community?* The services available may depend on a person's income.

2. *How well are these options used? Are there waiting lists? Do they have good or bad reputations?*

3. *Does there appear to be interest in services or housing options that are not available?* You are looking only for initial indications. Information on doing a more complete market analysis is presented in Chapter Four.

4. *What other groups or individuals are interested in the problem?* Chances are you are not alone in thinking about the unmet needs of your community's older citizens. Another group may already be making plans or may be interested in joining forces with you.

5. *What types of barriers and opposition can be expected if you proceed?* For example, will some group feel you are usurping their role? Does the local nursing home have empty beds so that the administrator might view your efforts as cutting into his client base?

6. *Do you have any special advantages that will increase your chances of success or indicate in which direction you should head?* Here are some examples: someone may be ready to make a substantial donation to help launch the development; there may be some influential people

involved with your committee; there may have been recent publicity about the need for some additional housing options.

Where to Find Answers to These Questions

Begin your situation analysis by developing a list of individuals or groups in your community who might be interested in housing for older persons or might have helpful information about housing needs and resources. Some examples follow.

Public Housing Authority. Your community or county might have a public housing authority. Many housing authorities manage government-owned rental units for older persons. Others operate subsidy programs for private housing. These programs, which include Section Eight rental assistance and housing voucher programs, provide a rent subsidy to qualifying households.

Housing authorities are sometimes involved in other community activities. The housing authority director is likely to know what is happening in the community in terms of housing development.

County Aging Unit. This unit maybe known by a number of names including the Commission on Aging, Office on Aging, Department of Aging, or Elderly Programs. Aging units administer a wide array of services and provide information and referrals.

Area Office on Aging. This regional office coordinates efforts of county aging units and the distribution of funds through the Older Americans Act. Your county aging unit should be able to provide the address and telephone number.

City or Regional Department of Planning or Development. This unit may have information on plans underway for housing development. Planning staff may be able to provide information on housing needs, population characteristics and possible funding sources.

County Department of Social Services. This department handles many programs, several involving older persons. The county director should be able to identify appropriate contact person(s).

Local Hospitals, Health Clinics and Nursing Homes. Some health organizations have seen the need for specialized housing for older persons and have developed housing in response. In other cases, they may know there are numbers of their elderly patients in need of supportive housing and be willing to have staff work with an effort to provide it.

Local Clergy. Clergy often know their elderly parishioners' specialized housing needs and may be willing to work with you in exploring ways to meet those needs.

Cooperative Extension Service Office. This is a county office that provides a link between your community and your state's land grant university. The extension staff usually offers a variety of help. They have data about the older population in the county. They can help you contact university faculty who can provide various types of special assistance. One of the extension staff might even be willing to work with your group on an ongoing basis.

Organizations for Older Persons. There is a variety of organizations for older adults, and some may want to promote the development of additional housing options for older persons. Such groups can provide a convenient way to obtain the consumer's view of the housing needs and wants of your community's older citizens.

The county aging unit is a good place to start. During each interview remember to ask for the names of other agencies and individuals you should contact. Be prepared for the fact that some of the people you interview may be pessimistic about the chances for providing any additional housing or services. Press these people for the causes of their pessimism. Note the problems they raise; include them as things to consider during your planning.

Developer or Sponsor

Once your task force has considered these questions, you will want to reassess your goals and decide how to proceed. Perhaps the timing is wrong and you should temporarily abandon the project. But, more than likely your initial sense was correct and you should proceed. This is a good time to broaden the base of the group. Some of the persons contacted during the situation analysis may be interested. You should also include some potential residents.

Once your task force has been broadened you must establish how it will function. Will the task force serve as sponsor or as developer?

As *sponsor* you might serve as the entity to which funding is channeled during development; you might be the eventual owner or manager of the housing; or, you might primarily be an advocate for the community and potential residents. In this last role you monitor the development process to ensure the original intention for the hous-

ing is not lost. This last function is important but often difficult when the sponsor also serves as developer and is under a variety of financial and time pressures.

The *developer* is the group (or individual) holding the process together. There is a great deal of time-consuming effort in project development. Being the developer involves such tasks as borrowing money, buying land and negotiating with contractors. You will get an idea of what is involved as you read through the rest of this guide. Chapter Three provides an overview of the tasks the developer must accomplish.

When you see the types of knowledge and experience required and the amount of time involved, your group will probably decide it would be wise for someone else to be the developer. Should your group choose not to function as the developer, architects and general contractors are among the professionals that often fill that role. There is a variety of factors to consider in selecting a professional to serve as developer. Chapter Seven, "The Design Process," discusses some of these factors. ■

Chapter Three:

Overview of the Development Process

The purpose of this chapter is to present an overview of the housing development process. It is intended to provide a broad perspective of the development process so its individual steps can be kept in their place. Without this perspective, actions at one step may inadvertently change the direction of the entire process. The remaining chapters of this guide discuss some of the early steps in the process in detail.

The steps, or activities, appear below in the order they usually occur. However, steps can change in order and some steps may be added or expanded. Often several activities can proceed at the same time. Such steps are indicated by a common number. The chapter number following the name of a step indicates where this guide provides more information about that step.

The Development Process in Steps

Step 1A: Perform market analysis (Chapter Four). Determine the characteristics of the specific market for which the housing is intended.

Step 1B: Select legal counsel. A variety of contracts and other legal documents must be prepared and negotiated. This could include a contract for the market analysis. The attorney should have substantial experience with the type of real estate development being proposed.

Step 1C: Select architect and/or developer (Chapter Seven). There are several ways to obtain design help. This is the time to decide. You will need the help of this consultant to develop the site selection criteria and the construction-quality standards.

Step ID: Select financial consultant (Chapters Five and Six). Even a relatively small housing project can involve a great deal of money and a number of intricate financial transactions. In addition, if the project is intended for low- and moderate-income older persons it is critical that you understand various methods of minimizing development costs. A consultant may be necessary to guide the development through the financing process.

Step 2A: Develop site-selection criteria. Use market analysis results to determine the size, location and characteristics of the desired site.

Step 2B: Develop construction-quality standards (Chapter Seven). Use market analysis results to establish the physical requirements of the housing to be developed (e.g., size of unit, number of units, common facilities, design features and quality of construction). Building codes and land-use regulations must also be considered in construction-quality standards.

Step 3A: Obtain site control. Before other commitments can be made and development proceed you must obtain a legal agreement guaranteeing the land can be purchased on an agreed-upon date at a specified price. (A licensed real estate broker or lawyer should be involved in this step.) Land-use regulations governing the site must also be researched and any necessary variances negotiated.

Step 3B: Select management agent (Chapter Nine). You must decide who will manage the project once it is ready for occupancy. If an existing public or private agency will provide

management, that agency should be involved at this point to provide advice on the physical plans and prepare the management plan. If that management agent does not have experience with the type of facility you are developing, a consultant who can provide the necessary management planning information should be included on the development team.

Step 4A: Prepare management plan (Chapter Nine). This plan should detail how the various management functions will be handled and who will be responsible for them. It should detail what supportive services will be provided and by whom. The plan also estimates the management costs that can be expected during the early years of the project.

Step 4B: Prepare marketing plan (Chapter Eight). These plans include what the marketing activities will be, when they will start and how much marketing will cost during the first few years of operation.

Step 4C: Prepare preliminary construction cost estimate. You will need an estimate of construction costs to decide if the project is financially feasible or not. This estimate should be based on the construction-quality standards, an estimate of the scope of work and the characteristics of the site. It is usual to obtain more than one estimate.

Step 5: Prepare project feasibility study, or *pro forma* (Chapter Five). This document brings together the various costs estimates developed in Steps 4A, 4B and 4C and the projected revenues based on the market analysis. These are compared to determine whether the revenues will be enough to cover the costs.

Step 6: Negotiate financing (Chapter Six). The development will usually require several types of loans. These include construction loans, permanent financing and special loans or donations to bring the project costs in line with the expected revenues.

Step 7: Complete project design work (Chapter Seven). Once the financial commitments are made, detailed design work can be accomplished.

Step 8A: Choose construction contractor (Chapter Seven). With the design documents ready, a contractor can be selected. When public funds are used, a competitive bidding process must be followed.

Step 8B: Begin recruiting tenants (Chapter Seven). With the architect's drawings of the building completed and your tentative costs calculated, active marketing should begin.

Step 9: Close construction loan. When you accept a firm construction bid you can close the construction loan. The construction process then begins.

Step 10: Monitor construction. The developer must closely monitor the construction to assure work meets specification and to negotiate with the contractor for necessary changes.

Step 11: Accept completed building from contractor and obtain permanent financing.

Step 12: Begin occupancy.

The Development Team

As you can see, there are many tasks involved in developing a housing project. Many of these tasks involve special training and knowledge that members of your task force may not have. Even for the feasibility phase of the project you will need technical advice. The following are some professionals whose assistance you will need:

- Market analyst
- Legal counselor
- Architect
- Construction contractor
- Real estate broker
- Financial analyst
- Marketing agent
- Manager
- Fund raiser

An early task for your group is to determine how you will access this variety of needed expertise. You might be able to interest professionals in your community in contributing their needed expertise. Even if they can not do all the work, their participation may enable you to deal more effectively with consultants. ■

*This chapter is based primarily on information provided by William Perkins, director of the Wisconsin Partnership for Housing Development.

Chapter Four:

Market Analysis

In spite of an overall need for supportive housing for older persons, projects are sometimes built only to find that older persons do not want to move into them. The result is a project that struggles to pay its bills, has trouble giving adequate service to its residents and possibly falls into bankruptcy. A market analysis (often referred to as a market study) can provide the detailed information on the local housing market to insure that such a disaster does not occur.

Market studies also have spin-off effects. The market study is a good sales tool. Asking the local elderly what their housing needs are also tells them that there may soon be an answer to those needs. Market studies are often required by banks and other lenders to prove that a project is viable—that it has real demand in your community. Even when the lender does not require a market study, proving an effective demand exists makes getting loans easier.

Who Will Do the Market Study and How Will It Be Paid For?

It is usually preferable to hire a market-analysis professional. An experienced professional will be familiar with the process, know which questions to ask, where to collect the needed information and how to interpret the information once it is assembled. Be sure to check the qualifications of any candidates you consider to do your market analysis. Be sure that the market analyst you hire has experience with the specific type of housing you have in mind.

Market analysts can be expensive, and they will usually expect to be paid when their work is completed. The market analyst may be willing to wait for payment if the same development firm is

doing other work on your project. The development firm or a local organization that supports your work might even donate the services or the necessary funds.

“Front end” costs, such as a market analysis, can sometimes be recaptured when the building is financed. In such cases a short-term loan is a possible way to pay for the market analysis.

How Is a Market Study Done?

Step 1: Define the Population To Be Served.

Your group may have formed as a result of common concern for the frail elderly who need affordable housing with services. If so, you need only study that part of the elderly population and confirm the need for housing in this target group. You might, however, see a general need for new housing options for all older people in your community. In this case, your study would survey the entire elderly population and possibly include those soon to become elderly. Keep in mind that the size of the population you want to study will have a large impact on the cost and speed of your market study.

Another way to determine your target population is along group affiliation lines. Some sponsors draw their residents primarily from their own their group (e.g., union, club, church or synagogue).

The income and assets of the potential residents is another way to target your market. Some groups serve only low-income people who do not own homes; others serve only higher-income people who have assets, such as a home, that can be sold for funds to invest in new housing.

Step 2: Determine Market Area.

You must also define the geographical market area you hope to serve. From how far away do you expect to draw residents? Keep in mind that the elderly generally desire to “age in place”—remain in the community where they currently reside, surrounded by friends, family and familiar faces.

There maybe a secondary market group consisting of persons in the surrounding area who come to the community to shop and obtain other services.

Step 3: Determine Consumer Demand

Secondary Data. Investigation of consumer demand usually begins with an analysis of available data originally gathered for other purposes. Market analysts refer to such data as *secondary data*. Demographic data is a major type of secondary data used in market analysis. A common source of demographic data is the Bureau of the Census. State and local agencies also collect data about age, income and housing. Cooperative Extension Service offices and local and regional planning agencies are good places to check on what secondary data is available for your community. Be sure to check the date when the information was gathered. If your data is several years old, it is wise to be alert for changes that could have occurred in your community since the data was collected.

Demographic data only tells you the general characteristics of the submarket, or population segment, in which you are interested. It provides information on age distribution, income level and range, household type and other general characteristics of your submarket. It also identifies where the elderly live in your community and

whether they own or rent their homes. Finally, by comparing demographic data over time, you can see emerging trends that affect your submarket.

Primary Data. Market analysis should not stop with the analysis of secondary data. It is important to be able to estimate what proportion of the potential market would actually move into the housing you propose. To make this estimate with any confidence you need information obtained directly from potential residents. Information such as this, gathered specifically for a project, is known as *primary data*. You can gather this primary data through mail surveys, personal interviews, telephone interviews, focus groups, or a combination of these and other methods.

There is a great deal of technical knowledge and skill required to effectively gather primary data. You must select an appropriate group of persons to be interviewed, develop the interview questions and then interpret the findings of the interviews. If your group cannot afford to hire a market research consultant, it is critical that you obtain technical assistance in designing any primary data collection you undertake.

Primary data from surveys and interviews may not always present an accurate picture of the submarket demand. People who respond to a survey may indicate they are interested in a particular form of housing, but that does not mean they are willing to move into the project if it were constructed. Even if they are willing, homeowners might have difficulty selling their homes to obtain the necessary funds for the move.

Surveys often miss the “hard to reach”—those who cannot respond to a survey without assistance. These can be people who have severe infirmities, who have trouble reading or getting to a mailbox, or who do not have a telephone. If

these people are apart of your target group, be sure special efforts are made to contact them and get their replies. Social service agencies may be willing to help.

Ambiguous and unclear language is another potential problem with surveys. Make sure the questions are presented in simple, plain and clear language. Asking people if they prefer “congregate housing” to “personal care facilities” will do no good if they do not know what these housing options are or define them differently.

Step 4. Inventory Existing Housing and Service Options

A preliminary inventory of existing housing and supportive services is a recommended part of the situation analysis. As part of the market analysis the housing and service inventory must be investigated in more detail. Include existing as well as proposed housing. The following are some topics to address in each part of the investigation.

Existing Housing

- What type(s) of dwelling units and services does the housing offer? Be specific about such things as size and features of units, frequency of services, and how services are delivered.
- What are the fees charged residents? Be sure to consider admission fees and various service fees charged in addition to rent.
- Are there special qualification for residency? For example, does a person have to meet low-income guidelines?
- Is the housing fully occupied?
- Is there a waiting list? If so, how many persons are on the waiting list?
- What special amenities or features does the housing offer? Is it close to shopping? to a hospital?
- What is the community image of the housing? Is it considered run down? a place only for the rich or poor? for people who are waiting to die?

Twenty of the 23 projects surveyed during the development of this guide used some form of market analysis to determine the extent and needs of their target markets. Of these, six used in-house staff and 14 used professional marketing firms to do the market studies. Of the four that did not do market studies, three were small developments and the fourth had not yet begun construction at the time this guide was written. The developer of the latter project was actively seeking to market units through church groups and meetings of organizations for older people.

To gather primary data on older persons, 18 of the 23 projects surveyed used mail surveys, and 18 held discussions with members of organizations for older persons (some projects used both methods). All of the 14 professional marketing firms used demographic data in the analysis of their market, and 18 of the projects used some form of secondary data overall.

Community Support Services

- Are there income or other special requirements to obtain the service?
- What are the consumer's costs for the services?
- Can the service be expanded to meet the demand the proposed housing might place on it?
- Is there a waiting list for services?
- Does stable funding make the service's availability likely in the foreseeable future?
- What is the community attitude toward the service? Is it seen as welfare? undependable? too expensive?

Step 5: Analyze and Interpret Data

Perhaps the most critical task in the market analysis is the actual analysis and interpretation of the data gathered. Judgement based on previous experience usually plays a critical role since the findings are rarely clear cut. ■

Chapter Five:

Determining Financial Feasibility

In addition to understanding the demand for the housing your group is proposing, it is important to know if the housing can be developed for costs that match your target market's ability to pay. Is it financially feasible? The financial feasibility analysis is based on the broad outline of the project developed in the market analysis. This includes services that should be offered, willingness of people to move into a new project, and rents the target market can afford. The analysis translates these into costs and anticipated income for the project.

Some groups depend on members with experience in accounting, banking, or real estate to develop the feasibility study. Groups that do not have the expertise to do their own financial feasibility study hire professionals to perform the studies for them. Even if the financial feasibility study is prepared by a consultant, you should be aware of the assumptions and process the expert uses so you can interpret the results realistically.

This chapter provides an introduction to the various categories of costs and sources of revenues associated with a housing project. Each item is described and, where possible, rules of thumb are given so you can judge if your own project's costs and revenues make sense. An example is used to show how the parts fit together to determine the financial feasibility of a project.

Project Costs

There are two general categories of costs to consider: capital and operating.

Capital costs include large, one-time outlays such as land or buildings, construction and equipment and furnishings. *Soft costs* incurred during development are also considered capital costs and include consultant fees, insurance

premiums, marketing costs and holding costs. Capital costs are generally incurred "up-front," that is, before residents move in and begin paying rents. These costs are often paid with a construction loan. When construction is completed, the construction loan is refinanced with a mortgage loan.

Operating Costs cover all expenses incurred in running the project, including operating the building and providing services to the residents. Repayments on mortgage and other loans are an important operating cost.

Capital Costs

Land Costs. If you are constructing a new building on unimproved land, you will first have to purchase the land. If you are renting the land on a ground lease, your land costs will be rent on the land. Land costs vary widely depending on the amount of land purchased, the project's location and conditions of the sale. In several recently completed projects, land costs varied from six to 20 percent of project-development costs.¹

Building and Renovation Costs. Construction and renovation costs vary according to the design, services provided, and the condition of existing building(s) and the site. Construction estimates tell you what an estimator thinks the project will cost, given your design criteria and time frame. Frequently architects and builders will make preliminary cost estimates on a contingent basis: they get paid only if the project proceeds and their firm is hired for the design or construction. It is important to recognize that these estimates are not firm construction bids.

Make sure that the estimator you choose has adequate experience in either construction or renovating buildings like the one you are considering. The estimator should meet with your group several times to get a clear picture of what you want to build, who it will serve and what your cost constraints are.

Soft Costs

As previously explained, soft costs are those costs necessary for renovation or construction that are not for the physical construction of the building. Some common soft costs for a sheltered housing project are listed below. Typically, soft costs are between 10 and 20 percent of the total construction costs for new projects. Soft costs are difficult to control. For example, if the project is delayed three months by a strike, interest on the construction loan could grow far beyond what was projected.

A contingency reserve is customarily included as a part of the soft costs and serves to protect the project from the unexpected (e.g., changes in the plan necessitated by soil problems, extra marketing costs because of slow lease-up). Contingency reserves are typically five to 10 percent of the total construction budget.

Some common soft costs for a housing development are

- Architectural and engineering fees
- Market analysis fees
- Legal fees
- Marketing costs
- Financial feasibility study fees
- Loan closing costs
- Interest on construction loans
- Interim property taxes
- Property and liability insurance
- Title insurance
- Interim utilities

Operating Expenses

Operating expenses include all of the costs of operating the project each year. Some of the expenses, such as real estate taxes and insurance, are fixed; while others, such as personnel costs and utilities, are controlled by the project.

Debt Service. Payments on loans acquired to pay capital cost are usually the largest operating expense. To estimate debt-service costs, total the capital costs and check with local lenders to obtain probable loan terms and monthly payments.

Personnel Costs. Management and service provision is another large operating expense for sheltered housing for older adults. In projects where the residents require only minimal assistance (generally maintenance services), management costs can be from six to 10 percent of the project's annual budget (including debt service). If the project serves people who need more services, management costs will be much higher.

To estimate the management costs for a project, first compile a list of the services you will provide. Then visit facilities in your area to find out the costs of each of the services. Be sure to distinguish services to be provided in the rental contract from those to be purchased separately by the residents. Chapter Nine includes a list of services for your consideration.

Real Estate Property Taxes. Property taxes are a large operating expense category. In some areas, buildings owned by non-profit organizations are exempt from property taxes, but payment in lieu of taxes may be important to maintain community good will. These payments offset the cost of such services as fire and police protec-

tion. Your local assessor's office can help you determine the approximate real estate property taxes on the project.

Property Insurance. Property insurance includes coverage for fire, physical hazard and liability on the property. Most lenders require that a property be fully insured with a nationally-recognized company. Insurance rates vary between companies, so get several bids from insurance agents before selecting one to use in your estimate.

Maintenance and Repairs. Maintenance costs include routine items such as supplies, snow removal and yard maintenance, as well as periodic maintenance (e.g., painting and roofing). A local property manager can help you estimate the annual costs of maintenance and repair. One expert suggests budgeting maintenance at seventy-five cents per square foot.² Others suggest budgeting about 20 percent of the total annual budget (before debt service) for maintenance costs.

Utilities. Utilities include heat, electricity, water and sewer, telephone, cable television and garbage collection. In group-living residences, these costs are generally divided equally among the residents. When residents live in individual units residents often pay their own utilities. Your local utility companies can help you estimate the first year's utility bills.

Professional Services. Will your project manager take care of the accounting for the project, or will you hire a bookkeeper or accountant? Your lender may require an audit of the books each year. Possible legal fees should also be considered.

Operating Reserves. No budget can anticipate all costs for a year. There will be times when utility costs are higher than expected or real estate taxes go up faster than estimated. Instead of raising rents when costs go up, it is better maintain an operating reserve fund to cover unexpected operating cost increases. Some projects set this reserve at two percent of the total annual budget.

Vacancy and Bad Debt Reserve. Most projects will not have 100 percent occupancy all the time. Residents can become ill and have to be hospitalized; they might move out, leaving a vacant unit for a period of time; or, occasionally a resident might be unable to make a rent payment. Even though the rent is not being paid, expenses must be covered. The size of this reserve depends on the demand for your project. In areas of high demand, where there are waiting lists for similar projects, the duration of vacancies will be short and the reserve can be small (around three percent of gross revenues). In areas of less demand, or where a project is the first of its type, the reserve should be larger (five to 10 percent of gross revenues).

Replacement Reserve. You will have to replace large-ticket items every so often despite regular preventive maintenance. These items include appliances, mechanical units (e.g. furnaces and air conditioners) and roofs. The replacement reserve allows for smooth payment of these items without having to take out new loans or increase rents. Replacement reserves are usually calculated at six percent of the construction costs excluding soft costs.

Marketing Costs. Many projects are marketed through local service-provider networks. However, there will be marketing expenses when

vacancies occur, especially if government funding requires affirmative action marketing. How and where you market the units will determine how much to budget for this line item. No matter how strong the effective demand is in an area, it takes at least six months to a year to entirely fill a project. Some groups estimate these holding costs and include them in the permanent loan amount.

Food Service. Decide early in your planning how much food service will be provided as part of rent. Food service managers at local nutrition sites, schools and hospitals can help you make food service cost estimates once they know the amount of these services you intend to provide.

Administrative Operating Costs. Whether the project has an on-site office or is operated out of another office in town, the project will have to pay administrative expenses. These include telephone charges, office equipment purchases or rental fees, office rent and similar expenses. Administrative costs are one to two percent of the total operating budget.

Estimating Revenues

There are several ways to estimate potential revenues. A market analysis can provide several types of information helpful for estimating revenues.

One way to estimate revenues is to assume that rents should equal 30 percent of the gross monthly income of target households. (The federal government expects tenants of government housing to pay no more than 30 percent of their income for housing and utilities.) If meals and other services are to be provided, a higher percentage of income should be used.

Revenue from any other fees such as entry fees or fees for special services or garages should be considered. Some of these fees are difficult to predict since they are one-time fees or may not be paid by every tenant. But, some estimate of the annual revenue they produce should be made.

Many market surveys provide information on how much respondents are willing to pay for rent. This is another way to estimate rent levels. Surveys may also indicate present housing costs which should also be considered when estimating rent levels.

Another method is to look at rents on comparable units in your area and make adjustments for differences in size and quality of units and the number of services provided.

All of these methods for calculating rents have weaknesses when used separately. Their biases can be balanced out, however, if you use each method and then average the rents calculated.

Financial Feasibility

The next step is to total all of the expenses for one year. Add to that figure the debt-service charges for that year. The sum is the total expense budget for one year for the project. Divide the total expense budget by the number of units in the project to get the annual cost per unit you must charge to break even. Then, divide this by 12 to get the necessary monthly unit rent charge.

Operating costs typically increase each year in response to inflation and other factors. Consider these probable increases when setting the rent schedule and judging the financial feasibility of the project.

Example 5.1 is an example of a feasibility analysis for a hypothetical 20-unit project that provides on-site management. Residents would be able to buy meals on a pay-as-you-go basis from an outside food service contractor, so no food service costs are in the operating budget.

There is a gap between what the project will cost and what the residents can afford. This is not unusual for elderly housing projects targeted for low- and moderate-income residents. Chapter Six will explore ways to remove this gap so that development can proceed as planned. ■

Example 5.1: Financial Feasibility Analysis

This example is for a 20-unit project with a total capital cost of \$7000,000.

Annual operating costs

Annual debt service		
(\$700,000 loan, 30 years, 10% interest rate)		\$73,716
Personnel	2@ \$20,000	40,000
Real estate taxes		25,000
Insurance		3,000
Maintenance and repair		5,000
Utilities		2,000
Professional fees		2,000
Operating reserve		1,600
Vacancy reserve		2,500
Replacement reserve		1,600
Marketing costs		250
Total annual expenses		\$156,666
Annual cost per unit		\$13,055
(Total expenses divided by 20 units)		
Monthly rent required		\$653
(Annual cost per unit divided by 12)		
Average market rent per month for residents:		\$450
Average annual gross income per unit:		\$5,400
Total income for project (20 Units)		\$108,000

Footnotes

1. Unless otherwise indicated, the cost information in this chapter was developed through consultation with Jerry Sargent, Wisconsin Housing and Economic Development Authority; Tom Hirsch, Wisconsin Department of Health and Social Services; Susan Hobart, Madison Mutual Housing Association; and Ann Miller, The Reed Company.

2. Dennis Day-Lower. *Shared Housing for Older People: A Planning Manual for Group Residences*, Shared Housing Resource Center (Philadelphia: 1983).

Chapter Six: Making the Numbers Work

When all the estimated costs have been tallied and compared to the amounts the intended residents can afford to pay, there is often a gap—*the numbers do not work*. This chapter describes ways that housing developers can lower costs to make the numbers work.

Creative Financing

The first thing a new developer may consider is cutting construction and service costs. Evaluate cuts in construction and services carefully to be sure they do not seriously affect the quality of the project or increase future costs. A number of alternatives to trimming the project's quality are discussed below.

As the example at the end of Chapter Five illustrates, debt service is often one of a project's biggest costs. Finding ways to reduce this cost is one approach to making a project financially feasible.

All financing for housing has some similarities, whether it involves a single family home or a large multi-family development. If you were going to build a home for yourself, you would probably need to obtain a short-term construction loan to pay the cost incurred before the home is complete. Once the home is complete, permanent mortgage financing can be obtained. This loan usually has more favorable terms since the home you have constructed can serve as collateral for the loan, reducing the lender's risk. Usually a mortgage loan is not available for the full cost of the home. The owner has to make a down payment to cover the balance. In general, the procedure is the same for multi-unit projects intended for older persons, as well.

This chapter looks at the various stages in the financing process and explores creative ways to cut costs at each stage. Examples are provided to

help make these methods of cutting finance costs more understandable. The examples are very simplified. In actual practice there might be some offsetting costs.

Reduce the Amount to Be Borrowed

Cash Grants and Donations. The most basic way to reduce the cost of financing is to borrow less money. Many projects receive grants from state or federal agencies, charitable foundations, local businesses or religious groups. Grants can sometimes be used to fund the feasibility and market studies; to defray start-up costs such as marketing and early vacancies; to purchase equipment such as kitchen appliances and furnaces; or to develop specific facilities such as a lounge or garden area.

Example 6.1

What is the effect of a donation on debt service?

Using our sample project's financial feasibility analysis (page 21), suppose we would receive a \$40,000 donation from a church group for kitchen equipment and a \$60,000 grant from a state agency to pay for market and feasibility studies.

- These donations lower the mortgage loan from \$700,000 to \$600,000.
- Payments on the mortgage are reduced by \$965 a month.
- With 20 units in our project, *we can now lower the required rents by \$48 a month per unit.*

Resident Deposits. Requiring refundable deposits from prospective residents is another way to reduce the size of the mortgage.

These deposits can be refundable to the resident if they decide not to move in, but they function to both reserve a unit and indicate to lenders that there is a seriously interested market for the project.

If refundable deposits are used, money must be available to cover refunds. The money for refunds can be obtained from other prospective residents or from a reserve account. If a reserve account is used, the full amount of the deposits would not be available to reduce the size of the loan.

Land Donations and Write-Downs. Sometimes a landowner can be induced to make a gift of land needed for the project or to sell the land at less than fair market value.

Free land can be difficult to resist. However, if the site does not meet your needs, the gift may pose a problem. Building the project on the wrong site could doom it to failure. However, if the donated land is not suitable for your purposes you may be able to trade it for a more suitable site. If you do consider a land trade, be aware that there are tricky tax implications. A variety of reasons may motivate landowners to donate land:

- Sensitivity to the need for housing for older persons.
- Desire for public recognition.
- Desire for a tax deduction derived from making a gift to a non-profit organization.
- A religious institution sees the project as potential housing for members of its congregation.

Example 6.2

What is the effect of resident deposits on debt costs?

Prospective residents in our sample project could be asked to make a \$5,000 deposit to reserve a unit.

In our 20-unit project, we could get up to \$100,000 in deposits and have to borrow \$100,000 less to build or renovate the project. This has the same effect on monthly costs as getting \$100,000 in grants: *we can afford to lower the required rents by \$48 a month.*

- A nursing home sees future investment in the form of care for the residents if they should need extended care.
- The local government sees the project as a way to reduce demand on a public nursing home or medicaid budget.

Land Leases. A landowner maybe willing to provide a long-term lease to the project. Such leases can run for periods of time ranging from 30 to 99 years. The project owns the building but not the land under the building. Often rent for the land is lower than the debt service to repay a loan to buy the land. A variety of reasons may motivate landowners to agree to a long-term lease:

- The owner has a sentimental attachment to the land and does not want to sell it.
- The owner wants to retain some control over how the property is used.
- Income as opposed to capital gains may suit the owner's financial purposes.

In-Kind Contributions

Another way to reduce development costs is to encourage contributions of materials and services.

Materials. Suppliers and contractors are sometimes willing to donate materials or provide them at a reduced cost. In some cases suppliers make donations to showcase new products they want to promote. In other cases a supplier or contractor has an inventory of materials in styles or colors that are no longer popular and is happy to reduce inventory.

Caution should be used to assure that donated materials fit your plans and that no hidden costs are involved. If donated building materials do not match the other materials being used (e.g., they are an odd size or color), labor and material costs can increase. If the donations are outdated models of appliances or equipment, future maintenance costs can increase because replacement parts may not be available.

Services. It is also possible to secure the contribution of services. Architects, engineers and accountants may be willing to lower their fees for a project they recognize to be for the public's good. There also are regional, state and national groups organized to support non-profit sponsors. They may be available to do market research, feasibility studies and other tasks for nominal fees. A list of such groups appears in the Resource List.

Volunteer Labor. The use of volunteer labor is another way to cut construction costs. Contractors or labor unions may agree to donate or discount the cost of services. Or, you maybe able to recruit volunteers to do certain tasks. Demolition, painting, landscaping and clean-up are jobs often assigned to volunteers.

Before deciding that a specific task will be assigned to volunteers, discuss the idea with the contractor. For some tasks, the savings can be so small that the effort needed to recruit and supervise volunteers is not worthwhile. On the other hand, the public-relations value of a community work day may make it worth the effort.

Reduce Finance Charges

When you have reduced the amount that must be borrowed for the development as much as possible, it is time to shop for the lowest-cost loan money. The place to begin is with local lenders such as commercial banks, savings and loan associations, and credit unions.

If local lenders are unable to provide funds at terms that will make the project feasible, you should explore alternative sources of mortgage money. These include insurance companies, religious organizations, the local municipal government, public housing authorities and non-profit agencies. These sources of funds maybe able to tailor the loan terms to the project's needs and take an interest rate lower than that of conventional lenders.

Another approach is to break up the use of financing into component parts. Various private and government agencies award grants or provide low-interest loans for construction (or renovation) that produces energy-efficient or barrier-free units. Gas and electric utilities are an example. These special-purpose funds reduce the amount you must borrow at market interest rates. It is also possible to get a low-cost construction loan from a government agency or charitable group. This short-term loan could be repaid when a long-term loan is obtained.

There are special lenders who concentrate on certain forms of developments. The National Cooperative Bank in Washington, D. C., makes

loans to cooperatives. State Housing Finance Agencies provide a variety of loan programs for housing that meet special needs or is affordable to low- and moderate-income households.

Finally, some organizations are unwilling to give a long-term mortgage to any project because they do not want to be in the legal position of being a creditor. However, these groups may be willing to “buy-down” the interest rate on your mortgage by making a one-time payment to the lender for you. Such payments will help lower the interest rate on the loan by reducing the risk to the lender.

Reduce Interest Rates

There are several ways to reduce interest rates, and even a small reduction in the interest rate can have a significant impact. One way is to obtain the loan from a government program established to provide low-cost financing for the development of housing for low- and moderate-income households. Some government agencies have authority to issue tax-exempt bonds; others induce commercial lenders to offer lower rates by providing mortgage insurance; still others subsidize interest rates directly. In some cases, however, savings acquired from lower interest rates can be partially offset by the cost of additional requirements imposed by the financing agency.

Another way to reduce interest rates is to find a way to reduce the risk for the lender. Pre-leasing of units can have this effect, as can a loan guarantee of some type from, perhaps, a group of local business citizens.

Yet another way to lower interest rates is to accept a variable interest rate. As much as two percent can be cut from the interest rate by allowing the rate on the loan to vary as prevailing interest rates change. By accepting a variable-rate mortgage, a borrower is taking the risk that rates

Example 6.3

What is the effect of lowering the interest rate on a mortgage loan?

Using our sample again (page 21), let us say we apply for a \$700,000 loan at a 10 percent interest rate. If that mortgage is fully-amortized (repaid in full) over 30 years, it requires \$6,143 per month in debt-service payments.

If the interest rate can be lowered to seven percent through some form of subsidy or creative financing program, the monthly payments would be only \$4,657. This saves \$1,486 per month in debt service.

We have 20 units in the project, so *rent can be lowered by \$74 a month.*

may increase which may also increase debt-service payments. But, there are various clauses that can be written into variable-rate mortgages to limit changes in interest charges and make them manageable.

Adjust the Mortgage Terms

There are many ways to adjust the terms of a mortgage loan that will reduce annual debt-service costs.

Most mortgages are *fully-amortizing*: the payment schedule provides for the repayment of the amount borrowed as well as interest charged. Changing the *amortization schedule* (the timing and conditions under which the loan is repaid) can reduce debt-service payments. An interest-only loan is one way to do this.

Another option is to increase the term of the loan. If the 30-year amortizing loan used in the above example would be extended to a 40-year term, debt-service payments would fall by \$199 per month, or \$10 per unit for a 20-unit development.

Many lenders, however, do not like to give 40-year loans. Interest rates change too often for lenders to like being locked into one rate on a loan for more than 15 or 20 years. A partially amortizing loan is a common solution. The payments on such loans are calculated to repay only part of the amount borrowed by the end of the mortgage term. Example 6.4 illustrates how one might work.

Example 6.4

What are the effects of changing the loan amortization schedule?

On our sample project's financial feasibility analysis (page 21), we calculated our monthly payments for the desired length of the loan—30 years. Our monthly payments were to be \$6,143 for 30 years. In 30 years we would have repaid the entire principle (\$700,000) plus 10 percent interest on the outstanding balance of that principle over the life of the loan. This would be a *fully-amortizing* loan.

Let us say, however, that our lender wants the loan to last only 20 years. As a fully-amortized loan this would raise our debt-service payments to \$6,755 per month, which is too high for our budget.

But, we can compromise with our lender by taking a *partially-amortizing* loan: we will have a 20-year loan term with payments set as if it were a 30-year loan. We will pay only \$6,143 per month for 20 years, instead of the \$6,755 payment. At the end of this 20-year loan period we will still owe some principle because the monthly payments are not high enough to pay the loan in full. At that time we will have to pay the principle still due or refinance with a new loan.

Cooperative Ownership

Another way to make a project financially feasible is to organize it as a cooperative: a special legal entity of which the residents are actually the owners. Residents buy shares in the cooperative and, in return, receive the right to occupy a unit. The residents pay monthly carrying charges which are the equivalent of rent.

The cooperative is funded much like a single-owner project with one mortgage. The cooperative is the owner of record, and the residents are share holders of the cooperative. There are special sources of financing only available to cooperatives that provide money at competitive rates.

Cooperatives vary in the way ownership shares are handled.

Limited Equity. In one type of cooperative, the cost of buying into the cooperative is nominal, roughly equivalent to the security deposit on a rental unit. When the resident moves out, the shares are redeemed by the cooperative. Interest might be paid on the share, but the redemption price is not based on the current market value of the share. In other words, if the value of the property increased through appreciation, the

resident would not benefit from this appreciation by realizing a larger redemption value. Such cooperatives are known as *limited equity cooperatives*.

Full Equity. In cooperatives known as *full equity cooperatives*, the cost of shares is much higher—often thousands of dollars. The investment in shares can be redeemed at its market value at the time a resident moves out. The resident would benefit from any appreciation on the property as reflected in the market value.

Deep Equity. The third type of housing cooperative often works well for older persons. It is known as a *deep equity cooperative*. As with full equity, the cost of shares is much higher than it is for a limited equity cooperative. A resident will often use money from the sale of a home or other assets to buy into the cooperative. The redemption value of deep equity shares does reflect some established interest rate but does not reflect property appreciation.

Advantages Cooperatives Offer. The money received from cooperative membership shares can be a significant advantage to sponsors striving to make a project financially feasible:

- It can be used to reduce the amount that has to be financed, thereby reducing debt service and operating costs dramatically.
- It can assure the resident a lower and more affordable monthly housing cost while providing the security that the money invested in the membership share is available if needed.

Cooperatives offer another advantage to community groups striving to provide affordable housing to older persons. Because the cooperative continues as residents come and go, cost increases usually associated with changes in ownership are avoided. This means that the housing becomes relatively more affordable over the years.

Cooperative Housing Is Relatively Unfamiliar. There are over 150,000 units of cooperative housing in the United States, and agricultural and other producer coops are common.¹ Nevertheless, the idea of cooperative ownership is unfamiliar in many locales. This means that plans for cooperative ownership may require additional marketing to overcome market resistance.

Resident Participation. It is often assumed that a housing cooperative requires a major commitment on the part of the residents to participate in managing the property. However, a high level of resident participation is not inherent in the cooperative form of ownership.

Example 6.5

How can cooperative ownership affect a project's required rent?

If we develop our sample project as a deep equity cooperative, we could ask residents to purchase an ownership share before develop occurred. If the price of a share is \$15,000 and all shares were sold, it would provide \$300,000 to reduce the size of the mortgage loan. *This would enable us to reduce the rent necessary to make the project financially feasible by \$132.*

While a high level of resident participation is not necessary, managers of some cooperatives designed for older persons report that resident participation in property management encourages interaction among residents and increases residents' self-reliance.² This participation also offers decreased costs if the residents accomplish work that would otherwise require paid staff. ■

Footnotes

1. James Bordenave, *Of the People, By the People, For the People: Cooperative Housing for Rural America*, Rural Community Assistance Corp. (1979).
2. Gerry Glaser, "Housing Cooperatives for the Elderly," Presentation to the President's Commission on Housing (Washington, D. C.: Dec. 3, 1981).

Chapter Seven: The Design Process

This chapter presents background on the architectural design process for task force members so that they can provide effective oversight for development. It also presents design guidelines to assure the facility provides maximum support to residents with functional limitations.

Overview of the Design Process

Before retaining a design or construction firm, you will feel more comfortable if you know what these professionals will be doing. In this section we will review the typical steps in the design process.

Develop the Conceptual Program. The *conceptual program* is the initial set of directions you as the client give to the architect or builder. The conceptual program states your objectives for the project to the architect gives information on the size of units and quality of construction; states any constraints peculiar to your project that the architect must consider (e.g., a limitation on the budget or exterior construction).

This is the time to share all of your task force's findings and decisions. For example, if you have determined an operational definition of who the residents will be (e.g., frail elderly), you should state it. Similarly, you should share any information you have on a target income for residents or a plan for utilizing community agencies for services.

Architects appreciate clear and specific guidance because it decreases the potential for disputes and last-minute changes. It is important to realize, however, that some of your objectives—no matter how clearly stated—may be

impossible to achieve given the many constraints that affect housing projects.

In many cases architects will help you develop the conceptual program. They know the kind of information they need and have practice recording it in a form they find useful.

The final conceptual program provides the construction-quality standards needed to make preliminary cost estimates.

Conceptual Design. The architect will take the conceptual program and translate the ideas into physical form. Along the way he/she will collect additional information on regulations affecting the project, on the site or existing building, and on the needs of the future residents. If personal assistance is to be provided to residents, the architect will check to see if the facility must be licensed. He/she will then check the licensing regulations.

If your conceptual program does not provide what the architect considers adequate information on what physical facilities are required, he/she will also collect information on that topic.

With this array of information, the architect would come up with designs to be considered. Some designers present a single, fairly detailed design. Others present conceptual designs showing alternative ways the various aspects of the project could be handled. In either case, carefully study the materials presented. Ask questions if things are not clear or you do not understand the designer's reasoning. Suggest alternatives you do not see presented and object to things you feel are inappropriate or will not work. Changes at this stage are relatively easy and inexpensive.

Preparation of Construction Documents. Once the designs are accepted, there are two types of documents to be prepared: working drawings and specifications.

Working drawings get their name from the fact that they graphically show the work that must be done to complete the project. They are detailed, precise drawings that provide the information contractors need to determine costs and construction schedules and to acquire building permits. Working drawings may also be required to secure financing and insurance coverage.

Specifications are documents describing materials, equipment and procedures to be used in the project. In some cases, specifications prescribe a specific product that must be used (e.g., a certain brand name of casement window). In other cases, the specifications set standards the product or equipment must meet (e.g., a sprinkler system may be required to be listed by Underwriters Laboratory [UL] and meet UL 217).

Letting Bids. If you are working with an architect, the next step will be to obtain bids from various contractors who are qualified to do the work. This can be as simple as picking a few names from the phone book. However, depending on the source of your financing and who is sponsoring the project, other additional steps may be required. You may have to advertise for bids and make special efforts to ensure all eligible bidders know about the project and have an equal opportunity to bid.

Construction Inspection. From the point a bid is accepted to the point the completed project is accepted, you will want to have someone inspecting the construction on your behalf to make sure that the work is done as specified. This is a service architectural firms provide. This inspection is important, so if you select someone other than the architect to do it, be sure the person has the necessary skills and experience.

Client Acceptance. Designers often refer to this as “the walk through” or “punch list.” It is the final inspection by the architect and client to be sure that everything is as specified.

Selecting Design and Construction Professionals

If your project is a small remodeling job with no special problems or licensing requirements to meet, a general contractor might provide the necessary design services. However, you should consider using the services of an architectural firm for new construction or more complicated remodeling projects.

Selecting an Architectural Firm.¹ It is important to keep in mind that architectural firms are not equally experienced with all types of buildings. Some may specialize in schools or health-care facilities and have little experience with elderly housing. For these reasons, when you are looking for an architectural firm it may be necessary to expand your search beyond the local community. Your state Society of Architects is a good source of assistance to persons wanting to hire an architect. The society’s office staff can

usually provide lists of which of its members are experienced in which of the various types of buildings as well as instructions on how to make your selection.

Request for Qualifications. Once you have identified several architects who appear appropriate for your project, the next step is to provide them with a Request for Qualifications. This is a letter describing the type of project to be designed, the scope of services required, any budget or time constraints, an indication of how proposals will be evaluated and a deadline.

You should arrange interviews with representatives of those firms that seem to best match your need. You may want to request that the architect who will manage your project participate in the interview. Your group members can see if they feel comfortable with the individual who will be your chief contact with the firm.

Interviews with architects frequently include a presentation of the firm's work on projects similar to the one under consideration. You should be alert to whether or not the firm appears to appreciate your group's special concerns and will be able to produce the type of project needed in your community. If you have doubts, be sure to ask questions. You will also want to discuss the fee arrangements with each of the firms. The fee is frequently based on a percentage of the construction cost, but other methods are used. Your state Society of Architects should be able to help evaluate the advantages and disadvantages of different fee structures.

*Selecting a Builder*²

The Traditional Approach. There are several approaches to hiring a builder. The usual process is to invite builders to submit bids on the work specified in the architect's working drawings and specifications. The bids are then evaluated to ensure that they met the conditions set forth in the drawings and specifications. If an architectural firm is involved in the project, the firm will help with the process of selecting the builder.

There are some possible disadvantages to this system. The owner must spend money to have the contract documents prepared. Because each stage of the process can only begin when the previous stage is completed, the time involved can be extensive. Another problem is that the bids may be much higher than expected. This can require that the project be adjusted, more bids requested and more time required.

The Design/Build Approach. Another method is to hire a firm that both designs and builds. This is the traditional system for custom-built, single-family home construction. Until recently it was not common for larger projects. The builder working with the sponsor develops a preliminary set of plans. A guaranteed maximum price is set when the design is completed.

There are both advantages and disadvantages to this approach. Usually the time required for completion of the project is shorter, the sponsor also has fewer front-end expenses and the price is known early. A disadvantage is that the designer, being apart of the building team, can not act as an advocate for the sponsor. A potential disadvantage is that the builder might choose to use lower quality methods or material to keep costs down without consulting the sponsor.

Negotiated Contract. Still another method involves hiring a contractor early in the development process. When the preliminary design decisions have been made, a price is negotiated with the contractor who participates in the design development. This combines some of the advantages of the other two methods.

Assuring the Project Provides Needed Physical Support

You are building supportive housing for older persons for several reasons. Certainly you want it to be affordable and to provide services your target group of older people need. However, the project should also be physically supportive of its intended residents' needs. As explained in Chapter One, there are some physical changes that occur with aging, as well as some changing social needs. The housing you provide can be designed to make these changes less disabling. In so doing, it will allow residents to retain the greatest possible independence consistent with their physical health and reduce resident turn-over.

The architect should be considering supportive features in the design. However, you should have some background to be able to determine which are the more important features. The ideas that follow are general and not inclusive. They are intended to give you a sense of the issues. There are suggestions for further reading in the Reading List.

The facility's outer structure and the individual units should be accessible to and functional for the mobility impaired (this includes people

who are unsteady or troubled by stiffening or painful joints as well as those who use wheelchairs or walkers).

- Eliminate steps as much as possible.
- Make halls and doorways within units wide enough (2 feet 8 inch minimum clear opening) to accommodate walkers and wheelchairs.
- Use lever or loop handles on entry doors and cabinetry.
- Light switches and thermostats should be low enough to be reached by a person in a wheelchair. Likewise, install convenience outlets at a height accessible to both a person in a wheelchair and a person who has difficulty bending.
- Use firm padding, if any, under carpeting to provide an easy rolling surface and firm walking surface.
- Use lever-controlled water faucets. Make provisions to prevent scalding.
- Bathing facilities should either be curbless showers or allow use of a transfer seat.
- Shower heads should be hand held on a flexible hose and adjustable in height.
- Smoke detectors and other signal systems should have visual as well as audible annunciators.
- Controls on ranges should be on the front of the appliance.
- Windows should be placed low enough in walls to provide an outdoor view for a seated person.

Care must be taken to make the environment as “readable” as possible for persons with visual impairments.

- Take measures to prevent glare from windows and lighting.
- Select signing with large print and designed with high contrast.
- Highlight changes in floor height with contrasting colors and textures.

Frail older persons usually spend most of their time at home and may need higher room temperatures for comfort. Central air conditioning may also be necessary for summer comfort. This means that energy efficiency is an important consideration to control operating costs. Local utility companies offer assistance in determining the most cost-effective methods of minimizing energy consumption.

To support social interaction between residents, seating areas should be located adjacent to areas of heavy activity (e.g., entrances, dining rooms and staff offices). ■

Footnotes

1. *Selecting Your Architect*, Wisconsin Society of Architects (Madison, Wis.).
2. James Potter, “Construction” *A Primer on Developing Housing for Wisconsin’s Elderly*, Wisconsin Association of Homes and Services for the Aging (Madison, Wis.).

Chapter 8:

Marketing Your Project

What if you gave a party and nobody came? This can happen with a housing project. You can produce innovative housing units targeted to a well-documented need and have no takers. This chapter is intended to expand your conception of marketing and make the case for starting the marketing process early and integrating it with the development process.

A Good Idea May Not Be Enough

The Cornell Cooperative Extension Service and the Office For Aging in New York State have been working for several years to encourage the development of innovative housing options for older citizens of New York. They first operated on the common premise that if housing options are available they will be utilized. They recently realized that providing the units is not enough and began working to explain the benefits of various options to potential users.¹

There are several reasons why older persons do not always rush to utilize a new housing development.

Less Likely to Move. As noted in Chapter One, it is typical for older persons to own their own homes, and they are less likely to move than their younger neighbors. One can speculate on a number of reasons for their reluctance to move.

- They may be emotionally attached to their present home.
- They have learned to live in their present home and modified it to meet their personal needs and tastes.
- For a frail elderly person with limited energy and strength and with vision or

hearing problems, the process of adapting to new surroundings can be extremely intimidating.

Changes in Life Style. Innovative housing arrangements that require changes in life style may be difficult to accept.

- The prospect of sharing facilities with strangers and having to accommodate to their varied tastes and personalities can be troubling.
- It can be unsettling to consider moving from an owner-occupied unit with predictable and relatively low monthly costs, to a rental unit where monthly costs are higher and subject to change by management.
- There may be a concern about the loss of independence.
- The new housing may develop an image of being for older persons who are in need of a high level of services. This stigma will keep away persons who would benefit from some supportive services but do not identify themselves as frail elderly.

These are by no means all the factors that might keep older persons from applying for housing able to meet their special needs. *The point should be clear: attractive, supportive housing is not enough to assure a full house. An effective marketing program is essential.*

The Goals of Marketing

Marketing is much broader than simply contacting prospective tenants and signing leases. With this in mind some general goals for marketing are listed below.

Goal 1. Create a high level of visibility and a positive image for the entire community as well as for perspective tenants. Potential residents need accurate information about the project early to allow them as much time as possible to consider moving. Your committee needs to demonstrate that it has the community's best interest in mind and that its work will benefit the community.

Goal 2. Increase public support for your work. You will need to market your project not only to potential residents but to community-decision makers as well. This can be valuable if you need zoning variances or other similar cooperation from the local governing body. Supportive local clergy and bankers may help encourage older persons to consider residency.

Goal 3. Attract residents to the project. Goals 1 and 2 help to support this final goal.

Given these broad goals for marketing, it is important to think about marketing all through the development process. This allows you to take advantage of natural opportunities for publicity, develop community support and write resident contracts in advance of the actual opening.

Develop a Marketing Plan

Marketing efforts should begin with the development of a marketing plan, and a careful market analysis is the first step in creating an effective marketing plan (see Chapter Four). The market analysis can provide an accurate picture of the targeted market segment. It should also indicate potential barriers that marketing activities must overcome. Some of these barriers are listed in the previous section entitled, "A Good Idea May Not Be Enough."

Marketing Cost. There will be direct costs for marketing that must be budgeted. One of these costs is the staff time needed to coordinate and execute the various marketing activities and to talk with prospective residents and other interested persons. Preparation of marketing materials and mailings are another expense.

Marketing Plan Design. The marketing plan should also include a schedule of marketing activities and occupancy. Will marketing activity be directed toward preconstruction leases? Will it emphasize post-construction leasing? Will there be intensive marketing to shorten the rent-up period and reduce vacancy costs? Answers to questions like these should be in the marketing plan.

Marketing Techniques

Use the Development Process as a Marketing Tool. Marketing begins with the selection of the committee, or task force, charged with planning the project. Involve persons from various segments of the community. These persons will not only assure that your group knows what various factions in the community are thinking. Task force members can also share their enthusiasm for the project with their colleagues and friends. Be sure to include representatives of local organizations for older persons on the committee.

As part of your situation analysis, you should visit organizations for older persons and service organizations to get ideas on what the housing needs of older people are. At the same time, you can introduce the benefits of the type of housing you are considering and get responses from the audience. This will help to establish your committee's image as a group sincerely concerned about meeting the special needs of older citizens in the community.

Keep the Project in Public View. Frequent news releases and close cooperation with the local print and electronic media will keep the project in public view. It is easy to become so involved in your work that you neglect to keep the community informed. On the other hand, it can be a challenge to decide what items will interest the media.

Examples of news-worthy items are

- Agendas and/or minutes of committee meetings.
- Significant decisions that are reached (e.g., where the facility will be located).
- Significant events that occur (e.g., when money is received, personnel hired or plans received).
- Committee field visits to existing housing projects.
- Sketches of room and floor plans.
- Ground breaking.
- Open houses.

Progress Statements. When marketing begins early, there is a risk of inadvertently building expectations that can't be met. This can occur when conjectures or examples are taken as final decisions or when words are interpreted incorrectly. This risk can be decreased by issuing frequent progress statements documenting decisions made and confirming areas where decisions have not yet been made. Some additional measures to take follow.

Contacts with projects contacted the preparation of this guide indicated that the most common marketing technique used was newspaper advertisements. Other common techniques were presentations to church groups and various organizations for older persons. In contrast, the project marketers felt that the most effective technique was "word of mouth." Most began marketing activity at least six months before the project.

Additional marketing techniques include

- Establishing a prospective-resident list, and provide periodic project updates to these prospective residents.
- Establishing a "hotline" that people can call to obtain information on the project's status, make suggestions, and request additional information.
- Meeting with professionals in the community who work with older persons; asking their advice on housing needs and related issues; and keeping them informed about the project as it progresses.
- Developing a brochure about the project and distributing it to agencies that serve older persons, hospitals, and nursing homes. ■

Footnotes

1. Personal communication with Patricia Polak, Project Director, Cornell Cooperative Extension Service, September 12, 1986.

Chapter Nine: Management

The cost of managing a completed project is a key factor in determining the project's financial feasibility. Therefore, key management decisions must be made early, while the project is being planned.

There is a second reason to make key management decisions early. Management decisions can have a variety of effects on the physical development of the project. For example, if meals will be brought in from an adjacent facility, the space and equipment required for food preparation will be very different than if meals are prepared on-site. If plans call for a live-in resident manager, space will be needed for private quarters for that manager.

This chapter presents some of the issues that should be considered when developing a management plan.

Major Management Tasks

There is a variety of management tasks for which arrangements must be made. Some of these are inherent to property management in general; others are specific to managing supportive housing for older persons. The following are stated in terms of tasks, not positions, since various tasks may be assigned to positions in different combinations, and some tasks may be contracted out to other agencies or carried out by volunteers.

Policy Development. The project must be able to respond to changes in the market and the environment in which it operates. A key area in management is being alert to these changes and determining the best response.

Fiscal Management. This includes budget preparation, letting of contracts, bookkeeping and maintenance of other records.

Supervision. This involves the supervision of employees, contracts and volunteers.

Facility Management. This includes routine care of grounds, common spaces and equipment; handling needed repairs; and scheduling replacements and improvements, as needed.

Public Relations. This includes representing the project to governmental agencies, the media and the public.

Marketing of Units. There will be an on-going need to recruit tenants, respond to questions from potential tenants and provide tours.

Tenant Relations. This includes taking applications from prospective tenants, evaluating applicants and making selections, collecting rents, handling tenant concerns and dealing with problem tenants.

Information and Referral Service for Tenants. Tenants in supportive housing may need help in identifying agencies or individuals to provide services not provided as part of their housing.

Resident Support Services. These will vary depending on the desired level of services identified in the market analysis.

Resident Involvement in Management

One point this guide stresses is the importance of involving potential residents in the development process. It is just as important to consider the role of residents in management. Management styles range from an external style in which all decisions are made by staff and all work is carried out by staff, to an internal style in which residents make most decisions and carry out much of the work.

The internal approach to management style has several advantages. The more residents carry out the various management functions listed above, the less staff will be necessary and the lower the management costs. Resident involvement has other advantages as well. It increases the residents' personal sense of control and provides meaningful activity for residents who do not already have full schedules. Involvement in common activities also encourages social interaction and leads to the development of friendships.

Even though encouraging resident participation in management is attractive, it has several practical problems that must be considered. It takes time and assistance to implement an internal management system. Also, in a facility designed for frail elderly it is not wise to count on utilizing residents for many management functions, as frail residents maybe limited in the amount of management activity they are able to

Potential services include:

- Meals
- Housekeeping
- Laundry
- Transportation
- Emergency response
- Recreation

undertake. However, such residents should have the opportunity to participate in making policy decisions and to assist, rather than replace, staff.

In-House Versus Community Services

A management task and major operating cost is the provision of resident support services. For a facility of the small scale discussed in this guide, the cost of staff to provide the variety of needed services seem, at first consideration, prohibitive. But, there are ways a small facility can cope with this financial challenge. One way is to arrange with community agencies to provide various resident-support services. In some cases, services may be available from public or public-supported agencies that will directly charge the resident. Transportation, visiting nursing services, benefit counseling and housekeeping are among the services that may be provided in this manor.

Another alternative is to contract with a private business. This may be less expensive than providing the service yourself. Food service is an example. A local hospital, restaurant or nursing home may be willing to bring in all, or part, of the food. This would reduce the number of necessary food-service staff and lower the level kitchen facilities needed.

Mandatory Versus Optional Services

One of the goals of housing for older persons is to encourage the highest possible level of independence. From this perspective, services should be optional and provided only if a person needs them. But, from the practical point-of-view, optional services present some management challenges. If services are provided in-

house, allowing them to be optional can do three things: increase the cost of the service since the costs are split between fewer residents; make budget planning difficult; and be inefficient when a service is utilized by only a small number of persons. Arranging for optional services to be provided by community agencies can overcome these practical problems and allow decisions to be made on the basis of what is best for the residents.

There are also arguments for making some services mandatory. Requiring that at least one meal per day be provided by the facility encourages good nutrition; dining together encourages residents to interact; and, mealtime is a convenient time for staff to check on the residents' well-being. And, even though a resident may be able to take care of a task, it may require great effort on the resident's part, leaving him/her too tired to participate in other more beneficial activities.

Aging in Place Affects the Management Plan

The average age of residents of retirement housing facilities has been increasing. This is because residents remain in the units longer than expected and new residents are older. This results in a gradually increasing level of required services. It means that a facility may be designed with one set of service needs in mind but gradually face pressure to provide additional services. Some facilities respond by imposing strong occupancy restrictions that require residents to move when they require certain services. These restrictions may be based on what services can be provided without licensure and/or modifications of the facility. Others attempt to meet the changing needs through staff and facility changes. The fact that the demand for services will change over the years should be considered in the management plan.

Include the Management Perspective on the Development Team

Only a limited number of management issues have been introduced in this chapter. They deal primarily with resident support services. There are also issues that require planning for each of the other management tasks. The best way to assure that the broad spectrum of management issues are considered in the project's plan is to include persons with housing management experience on the development team. Housing managers can provide much of the needed perspective. However, if they do not have experience in the management of supportive housing, visits with managers of several facilities that provide housing with services should be considered. ■

Resource List

Sources of Information on Housing Assistance Programs

Due to the rapid change in information, specific program details are not provided. The most current information should be obtained at the time of need. Telephone numbers are given with the resource listing; addresses are at the end of the list.

American Association of Retired Persons (AARP), toll-free telephone 1-800-872-4700. This organization provides a wide variety of information on housing for older persons.

Division of Community Services Programs (Wisconsin Department of Health and Social Services), telephone (608) 266-7797. This agency and the Wisconsin Housing and Economic Development Authority (WHEDA) co-administer the Community Housing Alternative Program, a program to help finance housing development for frail older persons. It also administers the Community Options Program which assesses support needs and provides support to keep persons with disabilities in the community.

Farmers Home Administration (FmHA) (U.S. Department of Agriculture), telephone (608) 264-5426. This agency is charged with supporting the development of housing in rural areas. FmHA has offices serving every county. The FmHA Section 515 program supports development of housing for elderly handicapped persons.

Wisconsin Department of Development, telephone (608) 266-3075. This agency administers the Wisconsin Development Fund which distributes community development block grant (CDBG) funds on a competitive basis to small cities in Wisconsin. Housing rehabilitation is one of the funding categories. Cities with over 50,000 population administer their own CDBG programs.

Wisconsin Housing and Economic Development Authority (WHEDA), toll-free telephone 1-800-362-2767. This public-benefit corporation uses tax-exempt bonds to finance housing for low- and moderate-income persons including elderly persons. It also operates a competitive grant fund to support housing developments, a revolving loan fund for pre-construction costs and administers various federal housing programs on behalf of the state.

Wisconsin Partnership for Housing Development, telephone (608) 255-1558 (Madison), (414) 344-5444 (Milwaukee). This private non-profit corporation provides technical assistance in housing development to community based organizations across the state. It also administers loan funds.

Wisconsin Society of Architects, toll-free telephone 1-800-Architect. The society provides assistance to the public in selecting an architect.

U.S. Department of Housing and Urban Development (HUD), Milwaukee Area Office Housing Development Branch, telephone (414) 291-1059. HUD offers a variety of programs that provide some combination of mortgage insurance, interest subsidies and rent subsidies. These include:

Section 221(d). Direct loans for housing for the elderly or handicapped. This program is available to non-profit sponsors only.

Section 221 (d)4. Rental housing mortgage insurance for moderate income households. This program is not restricted to non-profit sponsors.

American Association of Retired Persons (AARP)
1909 K Street NW
Washington DC 20049

Division of Community Services Programs
One West Wilson Street
Madison WI 53703

Farmers Home Administration
57 Fairgrounds Drive
Madison WI 53713

Wisconsin Department of Development
P.O. Box 7970
Madison WI 53707-7970

Wisconsin Housing and Economic Development
Authority (WHEDA)
Suite 500
One South Pickney Street
Madison WI 53701-1728

Wisconsin Partnership for Housing Development
1045 East Dayton Street
Madison WI 53703

Wisconsin Society of Architects
321 South Hamilton Street
Madison WI 53703

U.S. Dept. of Housing and Urban
Development (HUD)
Suite 1380
310 West Washington Avenue
Milwaukee WI 53203-2289

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Resources for Further Information

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