



FINANCIAL INNOVATIONS LAB®

Innovative Financing and Care Models to Scale Affordable Housing Solutions for Middle-Income Older Adults



EXECUTIVE SUMMARY

Report Background

As Americans age, their choices about where to spend the later stages of their lives are often informed by financial resources, health status, familial circumstances, and level of desire for community engagement. Older adults can pursue a variety of housing and care options—including in-home services and alternative housing arrangements that offer a range of supports depending on health and functional needs. Over the last several decades, the senior housing market has expanded to meet evolving consumer preferences of socialization and autonomy, while integrating care on a spectrum that considers older adults' fluctuating needs over time.

The increasingly diverse senior housing landscape is marked by a persistent polarity in the cost of its offerings. There is a plethora of private-pay options catering to the upper end of the income distribution and a safety net of government-subsidized housing and care for lower-income families and individuals, with a dearth of choices between them. Most impacted by the gap is the neglected “middle market,” a rapidly growing segment of the aging population who have incomes above the threshold to qualify for government subsidies but lack the financial assets to afford the housing and care they may need.

Coined the “Forgotten Middle” by the National Investment Center for Seniors Housing & Care (NIC), these older adults will have no choice but to stay in their homes while they and their families struggle to meet their care needs or be forced to spend down their assets to qualify for public means-tested programs. It is projected that nearly three-quarters of the estimated 16 million middle-income older adults age 75+ will be financially ill-prepared to afford housing that accommodates their needs in 2033, with over half projected to live with three or more chronic conditions and mobility limitations.¹

Across states, communities, and regions, the magnitude of the challenge is evident when considering the intensifying shortage of direct care workers and the growing awareness of the financial, emotional, and physical impact on family caregivers who provide the majority of long-term care for older adults.² Exacerbating the urgency, the effects of the COVID-19 pandemic loom over senior housing developers and operators as they grapple with economic conditions that have put pressure on their operating margins and balance sheets. In addition, these economic conditions create stress in lender portfolios serving the senior housing industry, particularly federal agencies and regional banks.

And yet, there is optimism for the industry moving forward. The hard-learned lessons of the pandemic have ushered in beneficial industry disruption, with developers and operators reimagining how they design and deliver housing and care. Innovation is driving up the overall value proposition developers and operators present to both investors and consumers, notably for middle-market housing and care options. Several leading-edge solutions that address costs, efficiency, and overall quality have emerged despite several challenges to achieving scale. This suggests a role for the private and public sectors to coordinate across industries and support the innovations required to serve middle-income older adults.

Innovative Financing and Care Models to Scale Affordable Housing Solutions for Middle-Income Older Adults summarizes the research and key findings of a Financial Innovations Lab® (“Lab”) conducted by the Milken Institute’s Innovative Finance and Future of Aging teams. In July and August 2023, the Milken Institute partnered with NIC and CVS Health to convene a series of Lab sessions. These convenings brought together a highly curated group of experts from health care, senior housing and long-term care delivery, finance, technology, government, philanthropy, and academia.

Solutions Overview

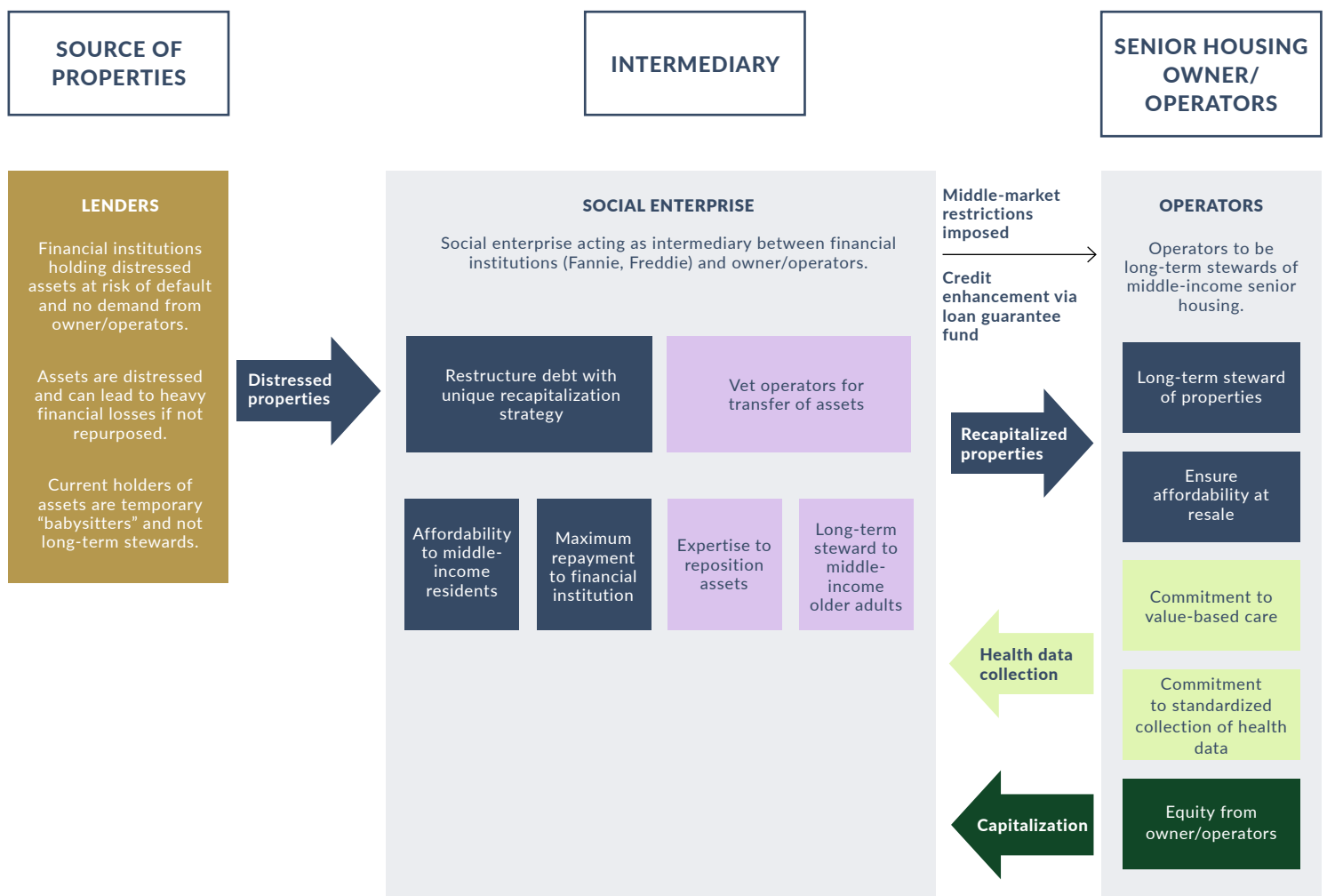
The Milken Institute spoke with more than 80 stakeholders to assess potential areas of opportunity to scale the market. Consensus-built solutions represent perspectives from expert interviews, a full-day Lab, and follow-up working groups.

Solution 1: Establish a social enterprise along with an advisory council to refinance and rehabilitate existing distressed senior living properties

- There are thousands of existing distressed independent living, assisted living, and memory care properties that either need major physical rehabilitation to be adequately functional or are on the verge of foreclosure due to declining margins, outdated infrastructure, and market dislocation. Some of these properties have come back to lenders, including the government-sponsored enterprises of Fannie Mae and Freddie Mac and their partner banks. Properties would often benefit from debt restructuring and potential repurposing as dedicated middle-market housing to stabilize before the transition. This situation presents an unprecedented opportunity to create a solution for the forgotten middle by protecting older adults from dislocation, leveraging and repurposing existing troubled assets, and avoiding a public financing catastrophe. Lab participants suggested a two-phase pilot approach to achieve milestones and gain proof of concept with greater speed.
 - Phase I would establish an advisory council comprising best-in-class senior housing middle-income operators and senior housing-focused financial experts, who will work with a select group of senior living operators to examine lenders’ portfolios of distressed assets, design market-driven interventions to help stabilize properties, provide next steps to achieve financial stability, and recommend how these properties could be repositioned to serve the middle market.

- Phase II, assuming these properties benefit from the advisory council’s work and a track record of success is established, would establish a more permanent, independent social enterprise to work with lenders across the market as a senior housing social enterprise (Figure 1). This intermediary entity could help lenders transfer the claim they have on the properties, and then pre-vetted, experienced owners and operators could temporarily hold and rehabilitate the assets to transition the property back to the lender (providing maximum repayment) and its original owners, or the temporary owners could buy the property outright.
- The social enterprise would aggregate distressed senior living properties and provide a robust operating structure and platform for long-term affordability that can serve multiple generations of middle-income residents.

Figure 1: Phase II: Social Enterprise Structure

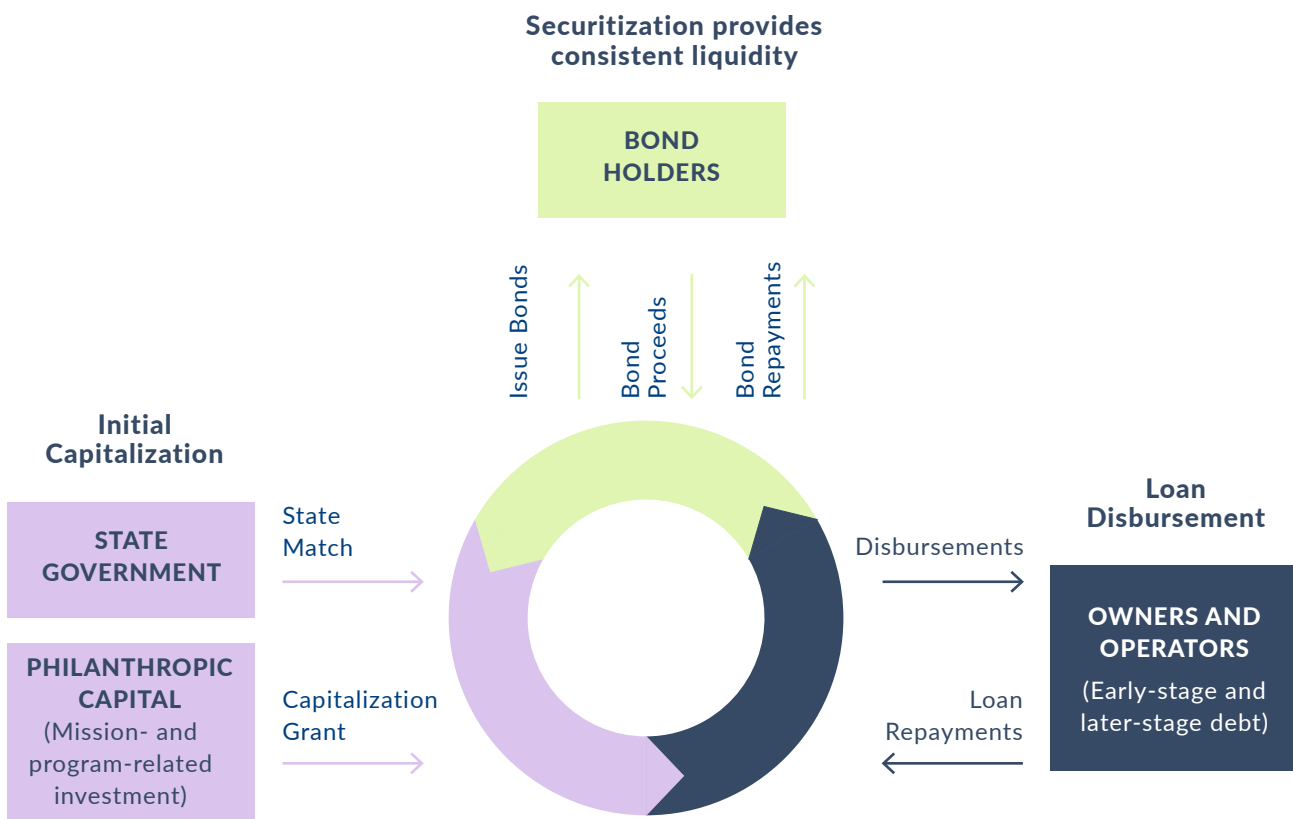


Source: Milken Institute (2023)

Solution 2: Design a revolving loan fund to provide a sustainable source of capital long-term

- To lower the cost of capital for upfront construction costs and potentially during later-stage operations and maintenance, Lab participants discussed an alternative financing model, such as a revolving loan fund (RLF). In the RLF, the money is re-lent to new borrowers as initial loans are repaid. The fund can also issue bonds using its assets, accessing larger pools of capital, which can then be revolved to provide more loans to developers (Figure 2).
- While an RLF supporting both upfront and later-stage debt provides an opportunity to diversify risk, some investors might prefer a fund that targets a specific development time frame because the fund’s managers would have the expertise to assess the nuanced risk of a particular phase and the loans would be standard across the portfolio.
- Lab participants noted the fund’s subordinated or “junior” debt could be packaged with the “senior” loans in a unified or “unitranche” structure that contains both senior and junior tranches to allow for easier application and replicability over time. For the fund to offer loans at interest rates between 8 and 10 percent and remain at an acceptable level of risk, it would ideally total a few hundred million dollars. A five- to seven-year repayment horizon at the asset level would provide enough time for construction and possible delays.
- The entity’s risk profile and cost of capital could be further reduced by creating a loan-loss reserve fund from excess capital recycled into the fund set aside expressly as insurance against default.

Figure 2: Revolving Loan Fund Model

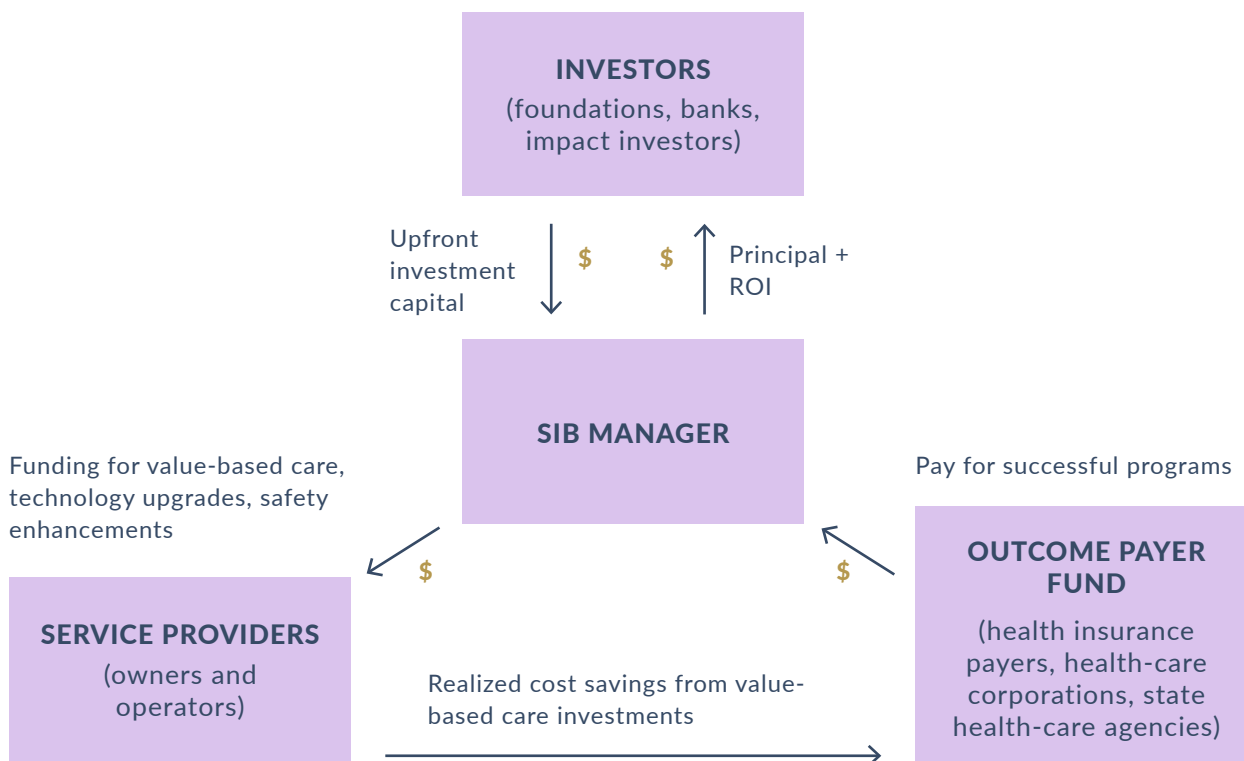


Source: Milken Institute (2023)

Solution 3: Use a pay-for-performance model—1) to attract upfront funding for housing and 2) to provide a new revenue stream to offset the ongoing costs of providing supportive services (care)—by delivering long-term cost-savings for the payer

- Lab participants explored a pay-for-performance contract, also known as a social impact bond (SIB), in which insurers commit to pay for improved health outcomes for their members that result in claims savings. Given the challenges of accessing low-cost equity capital for construction, an SIB is an alternative strategy to obtain required capital in a more streamlined manner and an opportunity not only to involve insurers but also to appeal to a wider pool of philanthropic or impact-aligned capital.
- With an SIB in place (Figure 3), private investors can pool their capital for disbursement to senior housing owners and operators serving the middle-income market, providing the upfront funding for technology upgrades to improve resident safety and prevent falls-related hospitalizations. Over an agreed-upon duration, for example, five years, data concerning fall rates and subsequent hospitalizations would be tracked. If the metrics reveal that the technology successfully reduced falls and hospital visits, the insurer, realizing the claims savings, repays the investors.
- Assuming an SIB is used, once it has been paid off, the payer can enter a value-based care contract with the senior housing operator that utilizes the health-care savings achieved to offset the ongoing costs of providing residents with supportive services (care).

Figure 3: Social Impact Bond Structure

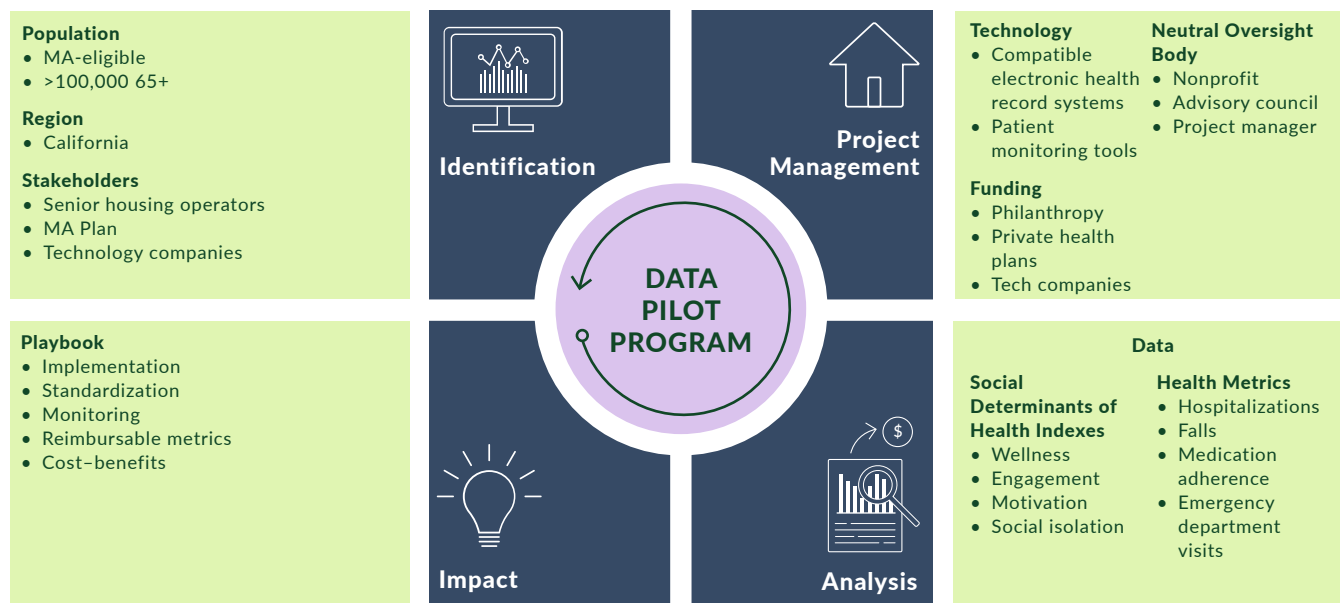


Source: Milken Institute (2023)

Solution 4: Launch a regional pilot to generate data supporting partnerships between senior housing operators and payers in value-based care

- The transition to value-based care models in health care and the movement to integrate senior housing into the broader health-care continuum hold promise to improve care quality and reduce both housing and care costs. Data—capture, analytics, interoperability, and more—are essential to propel progress and realize benefits. Yet, many senior housing operators are early in their transition toward data-driven strategies that support operations and demonstrate the bottom-line impacts of their services.
- A regional pilot program (Figure 4) is a feasible next step that Lab participants raised as having the most potential for immediate influence. A pilot program among a group of senior housing operators, technology companies, and a Medicare Advantage (MA) plan can identify data collection priorities, build pathways to overcome data exchange challenges, and demonstrate early insights that provide health and economic value to participants. Because data aren't always useful outside the places where they are collected due to differing lexicons, such a pilot is essential to creating a shared lexicon, where information collected by one system about an activity, status, or outcome can be understood and acted upon in another.

Figure 4: Structural Considerations of Pilot Program



Source: Milken Institute (2023)

View the full report on the Milken Institute website at:
<https://milkeninstitute.org/report/innovative-financing-care-models-affordable-housing>

ENDNOTES

1. “The Forgotten Middle in 2033,” NORC at the University of Chicago, accessed August 16, 2023, <https://www.norc.org/research/projects/the-forgotten-middle-in-2033.html>.
2. Richard Schulz and Jill Eden, *Families Caring for an Aging America* (National Academies of Sciences, Engineering, and Medicine, November 2016), <https://nap.nationalacademies.org/catalog/23606/families-caring-for-an-aging-america#:~:text=At%20least%2017.7%20million%20individuals,for%20our%20older%20adult%20population.>