

THE POTENTIAL MARKET FOR HOUSING AMONG OLDER AMERICANS

The graying of America is impacting many parts of the U.S. economy including the home building industry.

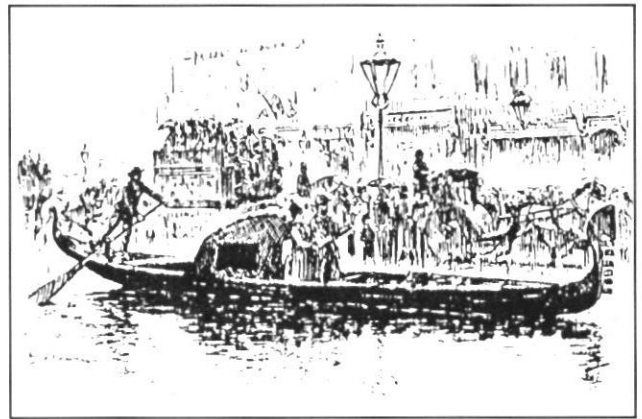
by Karen Martin Gibler

The trend of increasing numbers of older citizens in the U.S. population may be attributed to several factors. Low birth rates in recent years mean that fewer young people are in the population. Extended life expectancies mean more people are in the older age categories for longer periods of time. The graying of America is expected to continue as members of the largest single segment of the U.S. population by far, the Baby Boom generation, start reaching retirement age at the turn of the next century.

Traditionally, the new home market has been dominated by young, first-time buyers. However, with fewer young families in the population, home builders must look to other age groups for market expansion. The increasing mature and elderly segments of the population may provide opportunities for home builders if they learn about the tastes and preferences of older consumers, develop the housing products they want and effectively market to them.

When planning housing for older residents, builders should realize that these consumers cannot be placed into one generic group. Researchers have identified at least four age categories within the mature and senior citizen markets: preretirees aged 55 to 64, the active elderly aged 65 to 74, widows and married couples aged 75 to 84 with slight health problems and individuals aged 85 and older with more serious health problems.

Builders also should recognize that the housing choices made by members of previous elderly population segments may not be the best predictors of future housing demand. Each successive group of Americans who reach retirement age has different characteristics, and the people within these groups or cohorts vary tremendously. With rising income and educational levels and different



life experiences, the elderly population at the turn of the 21st Century may be substantially different from the current elderly population in terms of housing preferences. The more builders learn about the elderly retired and the people who are heading toward retirement, the better prepared they will be to serve these growing market segments.

The purpose of this article is to help home builders understand the characteristics and complexities of the 55 and older markets and present some ideas that builders may consider when developing housing for these market segments.

Market Size And Composition

The 55 and older population of the United States is growing and changing in composition, and both of these factors affect the housing industry. The sheer growth in size of the older population segment indicates a need for additional housing services, and the change in composition of this group affects the type of housing and location consumers will choose.

The greatest growth in total number and proportion of the U.S. population is currently occurring among the oldest

Karen Martin Gibler is a doctoral candidate in real estate at Georgia State University. She formerly held positions as a city manager's administrative assistant in charge of planning and zoning, an economic and transportation system consultant and an energy and economic development planner. She holds both M.B.A. and M.S. degrees in planning.

population segment. According to the U.S. Census Bureau, the 85 and older segment is projected to be the fastest growing age group in the United States through the year 2000. These very old individuals often experience health problems and financial constraints that restrict their housing choices. Although the majority of those aged 85 and older maintain an independent living situation, they most likely live in a relative's home, congregate care facility or nursing home.

Growth among the oldest segment of the population also means growth in the number of widows. Most adults under age 65 are married and living with their spouses. Married individuals, regardless of age, tend to maintain independent housing because spouses help one another through illnesses and provide companionship. However, the proportion of married adults living together declines appreciably after age 65; by age 76, fewer than one-half of adults are married. Because women characteristically enjoy a longer life expectancy than men, it is usually the wife who is left alone and who, because of illness or financial difficulties, is not able to maintain independent living.

Educational attainment among the elderly traditionally has been lower than that of younger age groups; however, the gap is narrowing. In 1983, for example, 40% of those aged 55 and older were high school graduates; by 1987 the proportion of elderly high school graduates increased to 58%. This trend, which is expected to continue, results in a better educated elderly population¹ and more informed and discerning consumers of housing services.

Retirement is common for men aged 55 and over, and the present increase in the number of retired men is projected to continue through the end of the century. The trend toward early retirement among men probably is a result of the increased affordability of retirement, with more men taking advantage of private and public pension programs. Retirement implies freedom from geographic ties to an individual's place of employment, one of the major determinants of housing location among younger buyers. Retirement breaks the linkage between housing and the workplace and allows a wider choice of housing location, including major cross-country relocation.

Meanwhile, more women under age 65 are working and participating in financial and business matters while earning their own retirement benefits. Thus, fewer elderly widows in the future will face the financial difficulties that many widows currently experience.²

Although most retirees are considered to be poor, only the very old and rural residents have extremely low incomes. Real personal income for both older singles and married couples has risen over the last three decades, and median household income for those aged 55 to 64 is above the national median. Households headed by individuals aged 65 and older earn appreciably less than households headed by younger individuals. On a per capita basis, however, the differences in income levels by age group are noticeably reduced. In addition, some forms of retirement income are exempt from income taxes, and income figures do not consider assets such as

home equity, a major component of wealth among the elderly. Over 90% of all elderly people or their spouses receive Social Security benefits, with a median per capita benefit of \$4,600 per year. The expansion of non-cash benefits and government-subsidized services has freed up cash for other purposes.³ Meanwhile, housing expenses for older individuals may be minimal since they often own their homes free and clear with the furnishings and other assets, and they no longer support their children. In addition, because of homestead exemptions and circuit breaker provisions in state property tax laws as well as income tax capital gains exclusions, the elderly assume fewer housing costs than do younger home owners. Thus, more older Americans than may be immediately apparent have the financial resources to purchase new housing, although these financial resources may be more in the form of assets than income.

Contrary to popular belief, most older Americans live independently in single family homes. In 1960 only one-fifth of those aged 65 and older lived alone; now almost 40% of those aged 65 to 74 and over half of those aged 75 and older live alone. Women are twice as likely as men to live alone. Almost 70% of heads of households aged 65 to 74 and over 60% of those aged 75 and older live in single family homes.⁴

In summary, those who have reached or are approaching senior citizen status are increasing in number more rapidly than other age groups. Seniors today tend to be better educated and more financially secure than previous generations. Most of them live independently, either with their spouse or alone. For the most part, the elderly are financially able to purchase a new home, and they are willing to relocate, sometimes across great distances. Consequently, the elderly represent an ideal market for home builders. To address this population, however, home builders need to identify target markets, design products that meet the target consumers' needs and develop pricing strategies that suit customers' financial status.

Market Segmentation

The mature market is as heterogeneous as any other age group. Many in the 55 to 64 age group are actively working, but their children are raised and they have paid off most of their home mortgage. They tend to be in good health and have considerable discretionary income to spend on luxury items; indeed, consumers in this age group often are ready to buy and do the things they put off while they raised children and climbed the corporate ladder. Many want a home that requires less yard maintenance yet provides the amenities they have earned. The individuals in this age group who take early retirement may consider moving to an active environment such as a retirement community in a resort location.

The 65 to 74 age group includes more retirees who are settling into a new life-style. Some may remain in the house they bought 10, 20 or more years ago because it elicits fond memories and is located near friends and family. Others, now that their jobs no longer dictate

where they must live, may want to return to the communities in which they grew up. More grow tired of lawn maintenance and want to find a way to maintain their social ties but reduce maintenance requirements without trading down.

Health care assumes greater importance among those aged 75 and older. Often a widow is left alone during this period, and she may consider moving closer to her family or into a more supportive environment such as a congregate care community.

A greater proportion of the population aged 85 and older requires assistance with daily activities, provided either by family members, social service agencies or institutions. If individuals in this age group do move, often it is done involuntarily because of health or security problems.

As people age, they bring with them the attitudes, interests and spending patterns they developed in earlier life. Thus, many of the characteristics that we now attribute to older consumers may be due not so much to their chronological age but to their life experiences, and as currently younger groups reach retirement age, their characteristics may not resemble those we see in the elderly population. This phenomenon is known as the cohort effect, and it means that some of the housing tastes, preferences and choices we currently observe among the elderly may change as different cohorts move through the 55 to 85 age ranges and these cohorts perpetuate different life-style patterns.⁵

To accommodate the changing tastes of upcoming elderly cohorts, home builders must be prepared to modify their products to provide the housing features each cohort wants. For example, the current fitness trend among young and middle-aged adults may persist as people age, increasing elderly home buyers' demands for exercise space and facilities. With more working couples accustomed to eating out or preparing quick, convenient meals, elderly retirees may be looking for modified kitchen areas. Also, aging cohorts who are comfortable with high-tech products, such as computers, may expect to find more sophisticated climate control, security systems and entertainment facilities in new homes.

Segmenting the elderly home buying market solely by age categories will not be sufficient for designing and targeting housing in the years ahead. Education, income, interests and activities also must be used to discriminate among the different elderly market segments.

Product Type

Most older Americans currently own their homes, and the percentage of home owners among the elderly is growing.⁶ The trend toward home ownership among the elderly does not reflect a shift from renting to owning at a late age; rather, it is a result of earlier tenure choice. More younger people are home owners, especially by middle-age, and they tend to remain home owners as they age. Renting is the preferred type of tenure for only a minority of older residents, and most older renters either were

renters at younger ages or they are very old and have fewer financial resources than other seniors.

The majority of older consumers prefer single family detached housing. The 1987 U.S. League of Savings Institution's Home Buyer Survey found that over 70% of new home buyers over age 55 bought single family homes. A 1988 national survey of recent new home buyers by the National Association of Home Builders (NAHB) showed that more than 80% of new home buyers aged 55 and over prefer a single family detached home.

The preferences and the relative importance of particular home features of older buyers vary from those of younger buyers in several areas. Older buyers usually want three bedrooms and two or 2 1/2 baths; few want a large yard or a larger house. Other features that are important to older buyers include access to shopping, energy efficiency, minimal exterior maintenance, security systems, quality of housing materials, recommendations of other buyers and warranties. Features that are less important to older buyers include access to work areas and schools, fireplaces, basements, brick exteriors, lot size and room size.⁷

Many older residents who leave single family detached houses and move to escape maintenance chores, obtain better security and address health problems. The housing options available to these movers have expanded in recent years to include apartments, condominiums, townhouses, congregate care settings, continuing care retirement communities or life care centers and shared housing. Many older individuals move to condominiums or lower maintenance houses just after retirement; more people move into congregate and other supportive living environments after reaching their 70s, after experiencing health problems or being widowed. Among the features that residents want most in supportive facilities are two-bedroom units, storage space for household belongings, in-unit medical alert system, natural lighting, energy efficiency, building security, transportation services, cleaning services and dining facilities in a low-rise building.⁸

To accommodate older individuals' housing preferences, home builders may provide low maintenance single family housing units on small lots. They may equip the units with such safety features as conveniently placed outlets and cabinets, easy-to-grasp handles, few steps, non-slip floors and contrasting textures and colors. Home builders may offer similar features in multi-family units, along with built-in security features.

Place

Older segments of the population historically have been less mobile than younger age groups; however, mobility among older residents is increasing as a result of an aging cohort that is more accustomed to relocating for corporate promotions, that has a higher educational level and that has improved financial status.⁹ For example, among the recent home buyers surveyed by NAHB, 6% of those aged 65 and over planned to move again in the next year

and 17% were unsure; among those aged 55 to 64, 11% planned to move and 19% were unsure.

There are several major paths of long-distance movement today—to Sun Belt destinations (Florida, California, Arizona and Texas), back to birthplaces (impacting such large population states as Illinois and Ohio) and from neighboring states to regional vacation centers (such as the Ozarks, Washington, New Jersey and New York).

These mobility trends point to two growing markets. One market consists of long distance movers who are relatively young and healthy new retirees who are looking for housing in a small town with a better climate and an active, independent living environment emphasizing recreation and social life.¹⁰ Individuals interested in moving over longer distances are motivated by retirement, a desire to reside in a warmer climate or to be in closer proximity to relatives. These retirees want quality housing with recreational opportunities located nearby, all at a reasonable price. They are good targets for retirement villages located in established amenity locations.

The second market is made up of local movers, many of whom are widows or individuals in failing health. Individuals interested in finding a new home in the same community where they have developed friendships and feel comfortable may be seeking a better home or a change to a leisurely life-style, or they may be forced to relocate due to poor health, widowhood or low income. They may be considering housing situations that provide additional security, require less physical activity to maintain or offer assistance with daily activities. Condominiums and rental retirement housing, including congregate care facilities, are attractive to these individuals. Because most of these movers want to remain in the same community, suburban locations in cities that have a large population of older residents are most desirable.

Price

Many older consumers appear to be as interested as home buyers of other ages in trading up to better and more expensive homes. However, they may react differently to the pricing and financing options commonly used by younger consumers.

Many elderly consumers are hesitant to use experiences, such as the Depression. According to the U.S. League of Savings Institutions, if older buyers do borrow to finance a home purchase, they more often use 15-year and adjustable rate mortgages than alternative financing techniques.

The older home buyer's biggest source of funds for financing a new home is often the equity that has been built up in previous homes. A recent report showed that the elderly hold close to \$800 billion in home equity, and 60% of that total is held by householders aged 70 and older. The average elderly home owner has over \$60,000 in home equity.¹¹ Several programs have been developed to give older home owners more financial options by tapping into their home equity. Some of these home equity conversion instruments, such as the reverse

annuity mortgage, reverse mortgage, sale leaseback and split equity, offer the home owner the option of continuing to live in his home while receiving income payments out of home equity. In addition, these instruments allow the lender to take possession of the home at the end of the term or lease or upon the home owner's death. Another option is for the home owner to use home equity to fund a rental living arrangement at a new location.

Home equity conversion programs have been slow to develop, partially because of a lack of lender interest and partially because of a lack of borrower interest. A recent survey of older residents in the Atlanta area revealed a general lack of knowledge about home equity conversion programs.

Pricing and financing techniques for elderly housing must be designed with certain limitations in mind. All-cash discounts and short-term financing make new homes more attractive buys for elderly consumers. If a housing developer wants to help home owners fund their new units through home equity conversion programs, then he must be ready to educate both lenders and borrowers about such programs. Developers offering continuing care or life care facilities face the even more difficult task of properly pricing units and health services based on life expectancy and growing medical costs.

Promotion

In promoting products designed primarily for the elderly, housing marketers must be careful not to repeat the mistakes of manufacturers whose products and promotions have been interpreted by seniors as threats to their self-esteem. Older consumers tend to be cautious and need a great deal of assurance before they act. They tend to be slower than younger people to adopt innovations and therefore must be shown how a particular new product meets their needs.

Seniors do not want to be singled out and reminded that they are old; they much prefer that emphasis be placed on the positive aspects of aging, such as gaining experience. Seniors also do not want to be stereotyped as loud and obnoxious old people or as timid and frail widows. Promotional appeal based on helping seniors identify with other age groups, a strategy referred to as "trans-generational," has been effective with this age group. Advertising based on this strategy shows both pre-retirement and post-retirement people enjoying products together.¹²

The manner in which information is presented to seniors also is important. Older consumers process less information than younger consumers when making purchase decisions, both because they are less capable of processing large amounts of information and because they have greater market experience. To accommodate the decreased processing capacity of seniors, promotional information should be presented in an uncluttered manner that allows self-pacing. To overcome the lack of information search, marketers must reach out directly to potential customers.

To reach older consumers, home builders must choose among various communication channels. In general, elderly persons are heavy consumers of television. Radio is much less popular; most seniors listen only to an AM radio station for one to two hours in the morning to obtain news and weather information. Newspapers are very popular among older Americans; most over age 65 read a daily paper, and many read one or two magazines per week.

The relative exposure to different media varies among seniors. As people age past 70, television viewing increases, and newspaper reading declines, perhaps due to failing vision. Still, a substantial number of individuals in this age group, particularly those with higher incomes and educational levels, continue to rely on print media.

There appears to be a difference in the effectiveness of advertising for younger and older seniors, with individuals in the younger group being more influenced by television, and magazine advertising being more influential among the oldest consumers.¹³

The elderly also place great reliance on informal sources of information such as word-of-mouth spread through friends and family; so reputation and customer satisfaction may be crucial to winning the mature consumer.

Due to these differences in media exposure, the housing marketer must know who the target audience is for a particular product. Home builders may use television to strengthen their name recognition and spark interest but communicate general information about developments through newspapers and magazines. Home builders may use direct mail for detailed materials which the older targeted consumer may read at his leisure. If the type of housing or financing arrangement is innovative, the builder is placed in the position of educator and may need to discuss housing and financing options in meetings of senior citizen groups, social events or with tours of the property. Once the units are partially occupied, residents themselves become a valuable source of referrals.

Builders of any housing development aimed for older residents should expect slower absorption rates than builders of units targeted to younger customers. It is a traumatic experience for older individuals to leave the family home of many years and relocate for what may be the last time. Older customers consequently may visit the development site repeatedly over a long period of time before making any decision. Older customers also may require extensive personal attention to obtain information and gain reassurance.

Summary And Recommendations

People aged 55 and older are a growing proportion of the U.S. population; they are also better educated, more financially secure and more mobile than their counterparts in years past. To successfully reach the older market segment, home builders must provide high-quality homes that are customized to meet consumers needs and are located in desirable retirement locations. In marketing these units, builders must recognize how seniors view

themselves; how their self-image is tied to their home and independence; and how these customers can be reached through the media.

There are many opportunities in this market that merit further study by home builders and market analysts. Identifying target market location, size and composition will require the study of both primary and secondary data on local areas. Builders must not only calculate the number of older people located in target areas, they also must assess the seniors' financial status, educational level, health status, family composition and previous home ownership. Competitive housing, as well as services that help older individuals live independently in single family houses, must be inventoried. In addition, the builder must work directly with potential residents to determine housing preferences and requirements. Although such specific analysis must be conducted for any housing project to be successful, some general suggestions may be made.

The states that are experiencing the highest rates of elderly immigration are the logical locations for construction of single family detached housing on low-maintenance lots. Because elderly, long distance movers have considerable income and wealth, moderate to large-sized homes and amenities may be planned. Promotions to attract out-of-state customers may include direct mail brochures, special vacation packages to familiarize pre-retirees with the area and finders' fees for referrals.

In contrast, communities that already have large numbers of older residents probably are better locations for the development of condominiums, rental retirement apartments and congregate care facilities. Consumers interested in moving into these communities face more income and price constraints in their choice of housing. The housing provider therefore may need to educate local residents about new facilities, services and financing techniques through senior citizen groups before approaching potential residents for a sale or lease. The provider may then begin a campaign of television spots to achieve name recognition in conjunction with newspaper advertising and direct mail pieces to attract the target market. Personal attention is the final key to selling seniors the housing that meets their individual needs.

The potential market for home builders is there—growing numbers of people with the necessary financial resources and interest in moving into a new home. The challenge for home builders who wish to develop this market is to design innovative products in the right locations and prepare sensitive promotional campaigns.

NOTES

1. U.S. Department of Commerce, Bureau of the Census, *Current Population Reports* (Washington, DC: U.S. GPO, 1986) Series P-25, No. 917. Department of Commerce, Bureau of the Census. *Current Population Reports. Marital Status and Living Arrangements: March 1987* (Washington, DC: U.S. GPO, 1987) Series P-20, No. 243. U.S. Department of Commerce, Bureau of the Census. *Projections of the Population of the United States, by Age, Sex and Race 1987 to 2080*. (Washington, DC: U.S. GPO, 1986) Series No. 1018.

2. Fullerton, H.N., Jr. "Projections 2000: Labor Force Projections: 1987 to 2000," *Monthly Labor Review* (September, 1987): 19-29.

Taueber, C. "Older Workers: Force of the Future?" in Robinson, P.K., Livingston, J., and Birren, J.E., eds. *Aging and Technological Advances* (New York: Plenum Press, 1984).

3. U.S. Congress, Congressional Budget Office. *Changes in the Living Arrangements of the Elderly: 1960-2030* (Washington, DC: U.S. GPO, 1988).

4. "Demographic Forecasts: Housing for the Elderly," *American Demographics* (April, 1987): 62. U.S. Congress, Congressional Budget Office. *Changes in the Living Arrangements of the Elderly: 1960-2030* (Washington, DC: U.S. GPO, 1988).

5. Mertz, B. and Stephens, N. "Marketing to Older American Consumers," *International Journal of Aging and Human Development* (Vol. 23, 1986): 47-58.

6. AARP. *Understanding Senior Housing* (Washington, DC: AARP, 1986). Bogorad, L. "Emerging Trends in Rental Retirement Housing," *Journal of Real Estate Development* (Winter, 1987): 7-17. Chevan, A. "Homeownership in the Older Population," *Research on Aging* (Vol. 9, 1987): 226-255.

7. Data provided by Isaac Megbolougbee, National Association of Home Builders.

8. Dwight, M.B. "Affluent Elderly Want to Live Where Quality Care's Readily Available," *Modern Healthcare* (April 26, 1985): 75-76. "1986 Consumer Audit," *Multi-Housing News* (July, 1986): 21-24. Regnier, V. and Gelwicks, L.E. "Preferred Supportive Services for Middle to Higher

Income Retirement Housing," *Gerontologist* (Vol. 21, 1981): 54-58.

9. Longino, C.F., Jr., Bigger, J.C., Flynn, C.B., and Wiseman, R.F. *The Retirement Migration Project: A Final Report to the National Institute on Aging*. (Washington, DC: National Institute on Aging, 1984).

10. Kim, J. and Hartwigsen, G. "The Current Population Shift Among Elderly Migrants," *Research on Aging* (Vol. 5, 1983): 269-282. Pampel, F.C., Levin, I.P., Louviere, J.J., Meyer, R.J., and Rushton, G. "Retirement Migration Decision Making," *Research on Aging* (Vol. 7, 1984): 139-162. Wiseman, R. "Why Older People Move: Theoretical Issues," *Research on Aging* (Vol. 2, 1980): 141-154.

11. Bogorad, L. "Emerging Trends in Rental Retirement Housing," *Journal of Real Estate Development* (Winter, 1987): 7-17.

12. French, W.A. and Fox, R. "Segmenting the Senior Citizen Market," *Journal of Consumer Marketing* (Vol. 2, 1985): 61-74. Mason, J.B. and Bearden, W.O. "Elderly Shopping Behavior and Marketplace Perceptions," *Proceedings of the Southern Marketing Association* (1978): 290-293.

13. French, W.A. and Crask, M.R. "The Credibility of Media Advertising for the Elderly," in Greenberg, B.A. and Bellenger, D.N., eds. *Contemporary Marketing Thought: Educator's Proceedings* (Chicago: American Marketing Association, 1977): 74-77. Schreiber, E.S. and Boyd, D.A. "How the Elderly Perceive Television Commercials," *Journal of Communication* (Vol. 30, 1980): 61-70.

THE BALLARD AWARD MANUSCRIPT SUBMISSION INFORMATION

The editorial board of *Real Estate Issues* (REI) is accepting manuscripts in competition for the 1990 Ballard Award. The competition is open to members of the American Society of Real Estate Counselors and other real estate professionals. The \$500 cash award and plaque is presented in November during the Society's

annual convention to the author(s) whose manuscript best exemplifies the high standards of content maintained in the journal. Any articles published in *REI* during the 1990 calendar year (Spring/Summer and Fall/Winter editions) are eligible for consideration and must be submitted by August 1, 1990.

Contributor Information for *Real Estate Issues*

The journal is published twice a year (Spring/Summer and Fall/Winter), and reaches a lucrative segment of the real estate industry as well as an impressive cross section of professionals in related industries.

Subscribers to *Real Estate Issues* are primarily the owners, chairmen, presidents and vice presidents of real estate companies, financial corporations, property companies, banks, management companies, libraries and Realtor® boards throughout the country; professors and university personnel; and professionals in S&Ls, insurance companies and law firms.

Real Estate Issues is published for the benefit of the CRE (Counselor of Real Estate) and other real estate professionals, planners, architects, developers, economists, politicians, scientists and sociologists. It focuses on approaches, both theoretical and empirical, to timely problems and topics in the field of real estate. Manuscripts are invited and should be addressed to:

Rocky Tarantello, Editor in chief
Real Estate Issues
American Society of Real Estate Counselors
430 N. Michigan Avenue
Chicago, IL 60611

Review Process

All manuscripts are reviewed by three members of the editorial board with the author's name(s) kept

anonymous. When accepted, the manuscript with the recommended changes are returned to the author for revision. If the manuscript is not accepted, the author is notified by letter.

Every effort will be made to notify the author of the acceptance or rejection of the manuscript at the earliest possible date. Upon publication, copyright is held by the American Society of Real Estate Counselors. The publisher will not refuse any reasonable request by the author for permission to reproduce any of his contributions to the journal.

Manuscript Preparation

1. All submitted materials, including abstract, text and notes, are to be typed double-spaced with wide margins. No page limit is imposed. Submit five copies of the manuscript, accompanied by a 50- to 100-word abstract and a brief biographical statement.

2. All notes, both citations and explanatory, are to be numbered consecutively in the text and placed at the end of the manuscript.

3. Illustrations are to be considered as figures, numbered consecutively and submitted in a form suitable for reproduction. Type figure legends double-spaced on a separate page.

4. Number all tables consecutively and type double-spaced on separate pages. All tables are to have titles.