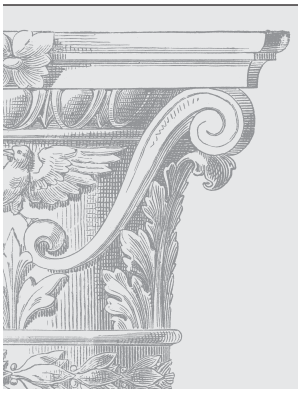
Honorable Mention



The Impact of Erickson Communities on Existing Markets

Susan B. Brecht, Kathryn L. Brod, Nicole D. Muller

Abstract

In the past 20 years Erickson Retirement Communities has been developing continuing care retirement communities (CCRCs) in an increasing number of markets. Its CCRC developments have caused existing providers in these and future Erickson target markets to question how their own communities will be affected. The Erickson Impact study surveyed existing providers in four market regions in which Erickson Retirement Communities have been developed, including both mature and nascent markets, to determine the effects Erickson communities are having on existing communities. The results suggest that communities are making changes as competition increases, but most senior living providers that are making these changes do not attribute these decisions to the presence of an Erickson community. Mature markets that may have been deemed "saturated" with seniors housing have demonstrated that they can successfully absorb a significant number of new units. Strong performers, in particular, see no decrease in occupancy rates or waiting lists.

INTRODUCTION

Senior living has historically been a sector characterized by providers operating communities with fewer than 500 units and systems that have emerged from single-sites to serve a metropolitan, state-region, or single-state area. Few have developed mega-campuses; few have emerged into national systems. Into this environment, Erickson Retirement Communities began the intentional development of mega-campus communities and has, over the course of 13 years, emerged into a national system. An increasing number of markets has seen Erickson Retirement Communities enter, offering their mega-campuses of 1,500+/- independent living apartments to local seniors. In many of these markets, long-standing providers have been operating successfully on a smaller scale and providing housing and services to seniors in a variety of formats. Questions on the minds of many include: 1) What is the impact on existing retirement communities when Erickson comes to town; 2) Will Erickson's new community impact occupancy and waiting list levels for existing communities; and 3) How do retirement communities prepare and respond to new competitive pressures?

The authors of this independently funded study set out to answer these and related questions by surveying existing senior living providers in order to replace speculation with data. The study focused on the independent living components of continuing care retirement communities (CCRCs) in four different regions. (It should be noted that these areas represent regional market areas rather than individual market areas. There are multiple market areas within each of these regions.)

- Baltimore (representing a mature market)
- Chicago (representing an emerging market)
- Kansas City (representing a nascent market)
- Philadelphia (representing a mature market)

These disparate markets were selected to determine whether the impact of an Erickson community would vary based on the maturity of the market. Erickson has developed and operates at least one retirement community in each of these markets. For ease of reference, since each has been developed by Erickson Retirement Communities, we reference individual communities as Erickson communities.

For those who are not familiar with Erickson's model, all are CCRCs with a 100% refundable entrance fee and, through a phased construction process, offer a total of 1,500+/- independent living, assisted living, and skilled nursing care units. Erickson's first community, Charlestown in Baltimore, opened in 1983. Today, Erickson owns and/or operates 19 existing retirement communities, two under construction, and three near opening in Colorado, Illinois, Kansas, Maryland, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Texas, and Virginia. Erickson plans to develop new communities at a rate of two to four per year, adding communities in California, Arizona, Missouri, Wisconsin, Minnesota, Florida, Georgia, New York, Massachusetts, and Connecticut.

METHODS

This research was undertaken, designed, and funded jointly by a market research firm and a major investment-banking firm, both specializing in the seniors housing industry. The surveys were mailed in March 2008 to the executive directors of 188 retirement communities in the four markets analyzed for this study. It is likely that marketing directors also may have contributed responses to the survey. Participants mailed back the completed surveys in a self-addressed, stamped envelope provided with the survey form. Respondents were asked to answer questions regarding the following topics:

- Annual data from 2003 through 2007 on occupancy and waiting lists for independent living units
- Whether or not the Erickson properties attracted residents who were on their waiting list and whether or not it had been harder to refill units since Erickson entered the market

- Changes made in entrance fees, refunds, service contracts, marketing staff and budget, physical plant, and programming after Erickson entered the market
- Distribution of residents by income ranges

The number of surveys sent along with the individual response rate by market is presented in **Exhibit 1**. Philadelphia (47%) and Baltimore (44%), the two mature markets, demonstrated the highest response rate overall. Chicago, with the second highest number of surveys mailed, had the lowest response rate (24%) overall. Among all four markets, the survey resulted in an overall response rate of 38%. **Exhibit 1** provides further detail of the survey sample.

Because Erickson marketing materials indicate that their target market is seniors with average incomes of $25,000 to $50,000, the study asked respondents to identify the market segment reflected by the majority of their residents. Among responding communities in each market:

- Nearly 17% of the communities overall reported that they have no residents with incomes between $25,000 and $49,999.
- 15% reported that they have no residents with incomes of $75,000 or more.
- Among the Kansas City respondents, 66.6% reported that more than half of their residents have incomes between $25,000 and $50,000. This market had the highest proportion of respondents reporting that the majority of their residents are within this income range.
- The greatest proportion of residents with incomes of $75,000 or more was found in the Philadelphia and Baltimore markets. In Philadelphia, 21.2% of the survey respondents reported that more than

Exhibit 1: Survey Response Analysis

Market		For-Profit		Non-Profit		Grand Total Responding
		Total Sent	Total Responding	Total Sent	Total Responding	
Baltimore	18	3 (17%)	2 (67%)	15 (83%)	6 (40%)	8 (44%)
Chicago	62	7 (11%)	0 (0%)	55 (89%)	15 (27%)	15 (24%)
Kansas City	23	6 (26%)	2 (33%)	17 (74%)	7 (41%)	9 (40%)
Philadelphia	85	10 (12%)	4 (40%)	75 (88%)	36 (48%)	40 (47%)
TOTAL	188	26 (14%)	8 (31%)	162 (86%)	64 (40%)	72 (38%)

half of their residents are within this income level, as compared with Baltimore, where 50% of the respondents report that more than half of their residents are within this income level.

In addition, Erickson's corporate office provided specific information about relevant individual Erickson communities and, in general, about Erickson Retirement Communities.

PROFILE OF MARKETS

For information purposes, **Exhibit 2** presents the Erickson communities that exist within the four markets analyzed for this paper, along with their year of opening, total number of independent living units (ILUs) built to date, and planned expansion.

To provide further context to this study, we calculated market penetration rates in these markets to quantify the impact of the Erickson mega-campuses in each of these four distinct Metropolitan Statistical Areas (MSAs). It is of interest to compare the market penetration rates among markets that are considered mature versus emerging. For example, in

Exhibit 2: Erickson-Developed Communities in Examined Markets: Current Versus Planned (ILUs)

Market	Name of Community, Town, State	Year Opened[2]	Number of Existing IL Apartments as of 4/30/08	Number of Total Planned IL Apartments at Build Out
Baltimore	Charlestown Catonsville, MD	1983	1,560	Organic growth
	Oak Crest Parkeville, MD	1995	1,508	1,500
Chicago	Monarch Landing Naperville, IL	2006	362	1,500
	Sedgebrook Lincolnshire, IL	2005	469	1,500
Kansas City	Tallgrass Creek Overland Park, KS	2007	227	1,100
Philadelphia	Ann's Choice Warminster, PA	2003	1,419	2,000
	Maris Grove Glen Mills, PA	2006	643	1,425

the Philadelphia area, Erickson developed two communities in a highly developed mature seniors housing market that some consider saturated.

For purposes of this analysis, we assumed that the age- and income-qualified households served by the existing market rate retirement communities consist of those age 75+ with incomes of $25,000 or more.

The Baltimore market is the only market among the four regions profiled in this study in which the Erickson communities are fully built out. There are two existing Erickson communities in the Baltimore market; Charlestown opened in 1983 and Oak Crest opened in 1995. Both of these communities have reached full capacity (note: Charlestown, as the flagship campus, was not originally conceptualized as a mega-campus community; as a result, in **Exhibit 2**, its number of planned units is shown as "organic growth"). Each of the communities has slightly more than 1,500 ILUs, for a total of 3,089 units, which represents a 43.3% share of the total ILUs in the Baltimore MSA. The remaining three markets are home to newer Erickson communities that are still

Exhibit 3: Market Penetration Rates (MPR) in Examined Markets

	Baltimore[3]	Chicago[4]	Kansas City[5]	Philadelphia[6]
Number of Existing Erickson ILUs 95% Occupancy	3,089 2,935	830 789	227 216	1,839 1,747
Total Number of Market Rate ILUs in the MSA[5] 95% Occupancy	7,136 6,779	19,151 18,194	7,065 6,712	19,386 18,417
Market Share of Erickson Existing ILUs to Total ILUs in the MSA	43.3%	4.3%	3.2%	9.5%
Number of Households Age 75+ w/$25,000 in 2007	60,151	176,479	39,579	139,597
Market Penetration Rate for Existing Erickson ILUs Only	4.9%	.45%	.5%	1.3%
Regional Market Penetration Rate (MPR)[6]	11.3%	10.3%	17.0%	13.2%

Sources: Claritas. (2007). NIC MAP Database. (2008).

in active development.

- Philadelphia has a total of 1,839 Erickson ILUs existing to date between two communities (a 9.5% share of all existing units in the MSA). Opened in 2003 and 2006, both Philadelphia-area communities are still expanding, with projections to add another 1,000+ units to the existing campuses.
- Two Erickson communities were opened in the Chicago area (one in 2005 and one in 2006), and to date they offer 830 units, representing a .45% share of the existing units in the MSA.
- Tallgrass Creek in Overland Park, Kansas, is among the newest Erickson communities to open (2007), and to date it offers 227 ILUs (a 3.2% share of existing units in the Kansas City MSA).

The MPR for existing Erickson ILUs only is the highest in Baltimore (4.9%), followed by 1.3% in Philadelphia, .5% in Kansas City, and .43% in Chicago.

The highest overall MPR was found in Kansas City (17%), which also has the lowest number of age- and income-qualified households and the lowest number of market-rate independent living units. It is interesting to compare the Kansas City MSA with the Baltimore MSA because there is a similar number of ILUs in both of the MSAs, yet Baltimore has 20,572 more qualified households. Baltimore is an older, more densely developed city in the mid-Atlantic region, and therefore, it is reasonable to expect this difference. Baltimore has an MPR of 11.3%, compared to Kansas City's 17%. Chicago has the lowest MPR with 10.3%, followed by Philadelphia with 13.2%.

It is of interest to analyze the monthly absorption rate of the newer Erickson communities in these markets (see **Exhibit 4**). Clearly, Chicago has the lowest monthly absorption rate, followed by Kansas City. Philadelphia has significantly out-performed the other markets analyzed at a rate approximatley twice the others. Maris Grove, Erickson's second community to open in the Philadelphia suburbs, is experiencing a monthly absorption rate of 25.79, far surpassing all the other markets and even surpassing Ann's Choice, the first community to open in the Philadelphia market.

Exhibit 4: Monthly Absorption Rates for Erickson Communities in Development

Market	Community	Monthly Absorption Rate
Chicago	Monarch Landing	7.67
	Sedgebrook	8.06
Kansas City	Tallgrass Creek	12.00
Philadelphia	Ann's Choice	21.14
	Maris Grove	25.79

Note: Baltimore was not included intentionally in this analysis, as both Erickson communities are fully stabilized.

Results and key findings

This section presents study results and key findings based on the major questions included in the survey, which are provided in parentheses after each topic heading.

Occupancy and Waiting List Trends

(Provide annual occupancy and length of wait list for IL from 2003-2007)

While the overall occupancy rates for the study sample across the past five years has remained relatively constant (between 93% and 97%), the occupancy rates comparing the individual market areas reflect disparities. The most mature markets, Philadelphia and Baltimore, report occupancy rates ranging from 95% to 97%; the less mature markets of Chicago and Kansas City report occupancy rates ranging from 93% to 97%. Kansas City, the market into which Erickson has just made its entry, has the lowest current CCRC occupancy rate (93.5%).

Waiting lists are often an indicator of demand in a given market. Long waiting lists may suggest that there are not a sufficient number of units available to meet the needs of area seniors or that a specific type of unit is highly desirable and simply not available at a particular community; however, waiting lists also may be full of prospects with an "I'm not ready yet" attitude and who want to secure a place on the list just in case they choose to move in the future; these lists should be viewed with caution.

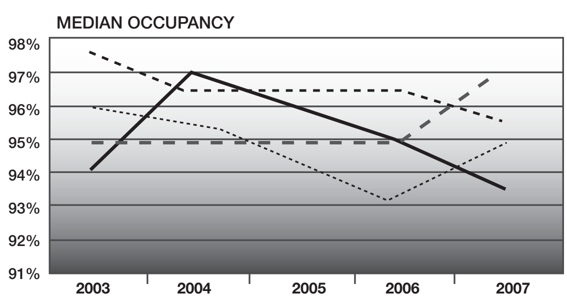
The median waiting lists in these markets reflect a similar trend, as compared to the median occupancy rates. The longest waiting lists are found in the most mature markets of Philadelphia and Baltimore. In each of these markets, waiting lists have strengthened (i.e., grown longer since 2003). The waiting list length reported in the Chicago market has shown a marked decline over the last five years, dropping from a median of 81 in 2003 to 31 in 2007. In the nascent market, Kansas City, the waiting lists, although relatively constant during the five-year period, are very thin, with a median of 16 reported in 2007.

Propensity to Consider Erickson Communities

(Are your prospects also shopping/considering the Erickson property?)

While 61% of respondents overall say their prospects are also shopping/considering the Erickson properties, this is much more likely in

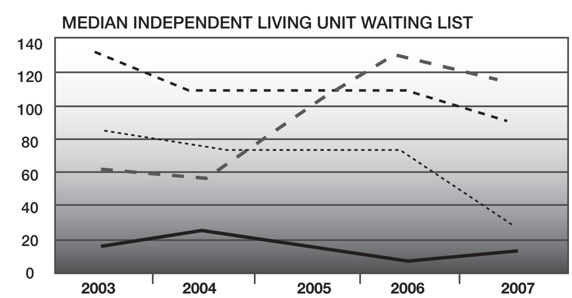
Exhibit 5: Median CCRC Occupancy in Examined Markets



	2003	2004	2005	2006	2007
Philadelphia (2003, 2006)	97.0%	96.0%	96.0%	96.0%	95.0%
Chicago (2005, 2006)	96.0%	95.0%	96.0%	96.0%	95.0%
Kansas City (2007)	97.0%	96.0%	96.0%	96.0%	95.0%
Baltimore (1984, 1995)	97.0%	96.0%	96.0%	96.0%	95.0%
Total	**97.0%**	**96.0%**	**96.0%**	**96.0%**	**95.0%**

Years shown in parentheses identify first years of occupancy for Erickson Communities in the market areas

Exhibit 6: Median Waiting Lists in Examined Markets



	2003	2004	2005	2006	2007
Philadelphia (2003, 2006)	89	88	89	88	100
Chicago (2005, 2006)	81	68	70	68	31
Kansas City (2007)	17	26	17	6	16
Baltimore (1984, 1995)	62	57	109	130	117
Total	**75**	**75**	**80**	**78**	**94**

Years shown in parentheses identify first years of occupancy for Erickson Communities in the market areas

Philadelphia (70%) and Baltimore (75%) than in either Kansas City (44%) or Chicago (40%). Despite Erickson's traditional economic target market noted previously, the communities serving the group most economically similar to Erickson's core target market are least likely (48%) to indicate that their prospects are shopping/considering Erickson. While Erickson's target market consists of middle-income seniors with incomes between $25,000 and $50,000, it is surprising to find that it is communities serving the highest income group ($75,000+) that most frequently (69%) reported their prospects to be shopping/considering Erickson properties.

Are Waiting List Depositors of Existing Communities Moving to Erickson Instead?

(To what extent has Erickson attracted residents who were on your waiting lists?)

The drain on the waiting list appears strongest in Philadelphia, where 46% of respondents indicated that between one and eight depositors on their waiting list had moved to an Erickson community (in contrast to 22% to 29% in the other three markets). This trend is likely a result of the opening of two Erickson communities in the past five years in the Philadelphia market, and during the last two years both have been marketing to fill new neighborhoods. Given that most of the CCRCs in Philadelphia are mature and have long waiting lists, the Erickson communities provide brand-new apartments without the wait. Despite this, the actual number of depositors who are lost to Erickson properties appears to be minimal and would be likely to occur if any new and well-positioned provider entered the market. Our survey data indicate that the median waiting list has continued to increase in Philadelphia despite the opening of a second Erickson property, not to mention several other new CCRCs that have developed within the last five years.

In Baltimore, also a mature market, nearly 29% reported that one to eight depositors had moved to an Erickson community, although one provider noted that more than 15 depositors had moved to Erickson. Erickson's Baltimore community first opened its doors to residents in 1984 and reached full build-out in 1994. These findings suggest that even after the initial fill-up period, the Erickson community continues to impact the waiting lists of area providers.

Again, with regard to the economic target market, it appears that the highest income group ($75,000+) is more likely to consider Erickson properties. Among the existing communities serving the highest income group, 37% reported that none of their waiting list depositors moved to an Erickson community, while 62.5% in the highest income group reported that one to eight depositors had moved. In comparison, 54% to 56% of the communities serving lower income groups report that no one on their waiting list had moved to an Erickson community.

What Impact Does Erickson Have on Marketing?

(Did you find that the number of leads/inquiries for your communities increased? Was it harder to refill units with the arrival of Erickson?)

Anecdotally we have heard that the entry of an Erickson community into a market often translates into an increase in activity for other providers in the market. Many attribute this to the extensive marketing that Erickson undertakes when developing a community in a new market. With the introduction of a new community, Erickson uses a multilayered marketing approach to reach seniors through a variety of print, television, and radio advertising, and direct mail, including the *Erickson Tribune* (distribution exceeds three million across all market areas). Some providers have said that they believe this level of marketing activity raises awareness about senior living and increases interest among prospects for all of the retirement community options in the area. The findings of this study only slightly support this claim.

Approximately 22% of communities/providers indicated that they had seen an increase in the number of leads. The overwhelming majority reported that the increase had been slight, but two respondents (one in Chicago and one in Kansas City) indicated the increase had been "dramatic"; however, slightly more than 60% of the surveyed retirement communities said that the number of leads and inquiries to their community did not increase during the period, and 15.3% were unsure whether there had been an increase.

Communities in Chicago (27%) and Baltimore (25%) were more likely to indicate a slight increase. Communities serving the highest end of the income range ($75,000+) were most likely (37%) to indicate a slight increase in leads and inquiries, which is somewhat surprising, given that Erickson communities generally do not serve this segment of the market. By contrast, none of the communities in Kansas City indicated that the presence of Erickson had any impact at all on leads/inquiries.

Just below 20% of the respondents indicated that they found it harder to refill units since Erickson opened its community. This was most pronounced in Chicago (33%). Those communities serving the income group $50,000-$74,999 also were more likely (23%) to indicate that refilling units was harder. This also is surprising, given that this income level is above Erickson's income target market.

<u>How Do Marketing/Sales Budgets and Staffing Compare?</u>

Marketing/Sales Budgets

(Did you increase your marketing budget as a result of Erickson entering the market?)

Erickson's scale allows for a greater marketing budget than most of the smaller systems. Erickson Retirement Communities report that they typically spend 2.2% of their annual operating income on marketing. In all markets but Chicago, the majority of respondents indicated that their annual marketing budget is less than 2% of their annual operating expenses.

There was a striking difference in marketing budgets among the markets analyzed for this study. In part, this may be due to differences in such things as media costs and salaries on the East Coast versus the Midwest. It also may indicate the need for more aggressive marketing in certain markets.

- Approximately 55% of the communities in Philadelphia and 50% in Baltimore report a marketing budget of less than 2%.
- In Kansas City, the least mature CCRC market, 75% report marketing budgets of less than 2%.
- The emerging market of Chicago reports that one-third of the communities have a marketing budget of less than 2%. Forty percent of the communities responding in Chicago reported a marketing budget of 2%-4%, and nearly 27% report a marketing budget of 5% or higher.

Overall, only 12% reported spending 5% or more on marketing. Communities targeting the highest income group ($75,000+) were most likely (50%) to spend 2%-4% of their operating budgets on marketing, while those targeting the lower end of the market ($25,000-$49,999) were most likely to spend less than 2%, although a large proportion (42%) indicated they spend 2% to 4% on marketing.

Changes in Marketing/Sales Staff

(What, if any, change did you make in your marketing staff once Erickson entered the market?)

Nearly 20% of the respondents overall indicated that they made changes to their marketing staff once Erickson entered the market, although this was slightly more pronounced in Baltimore and Chicago (25% and 27%, respectively). Similarly, communities serving those with $50,000-$74,999 in annual income were more likely to have made changes to their marketing staff (23%) than either those communities at the top or bottom end of the economic range.

The most likely changes to have been made include:

- Adding sales counselors (9% overall; 12.5% in Baltimore and 20% in Chicago)
- Making changes in marketing/sales management staff (7% overall; 25% in Baltimore)

Still, the great majority of respondents indicated having made no changes to their marketing staff once Erickson entered the market and, in fact, very few who did make changes attribute them to Erickson's presence in the market (91% overall said "No," these changes were not made as a result of Erickson entering their market; all respondents in

Kansas City and Baltimore denied making changes as a result of Erickson's entry). Of those who did indicate their changes resulted from Erickson being in the market, they were most likely to be serving the middle-income group (29%).

<u>Has the Introduction of Erickson Communities Led to Contract Changes?</u>

Impact on Entrance Fee Refunds

(Did you add additional refundable entrance fee options and if so, were changes a result of Erickson entering the market?)

This study set out to determine whether existing providers are offering more entrance fee options or are considering adding more plans, given the introduction of Erickson's fully refundable (100%) entrance fee plan. About 10% of communities responding to the survey added a new refundable entrance fee option after Erickson opened in their markets, although the difference by markets was dramatic.

- In Baltimore, 57% of respondents indicated they had added a new refundable entrance fee option.
- By contrast, very few Philadelphia (5%) and Chicago (8%) communities added a new plan.
- In Kansas City, none of the respondents added a refundable entrance fee.

Although very few respondents added refundable entrance fees, those who did were most likely to have added a 90% refund (versus a 100% refund). Those most likely to have added the 90% refund targeted the lowest income group ($25,000-$49,999).

While the timing of these changes coincided with Erickson's entry into the markets, none of the respondents indicated that the changes they made were a direct result of Erickson. Though respondents were asked to detail the types of contracts they had added since Erickson entered their markets, there were insufficient data points to provide the results to this question. It is quite possible that those who added new refund options were responding to the general industry trend of offering more choices to prospective residents.

Impact on Resident Service Contracts

Erickson CCRCs offer a single resident service approach, the fee-for-service or Type C contract. This contract type provides the continuum of care for residents at market rates. Slightly more than 6% of total respondents indicated they changed or added to the type of contracts they offered after Erickson entered the market. All respondents who indicated a change noted that they had added a fee-for-service contract; these respondents were located in Philadelphia and Baltimore, the two most mature markets. The largest number of communities (four) who added a fee-for-service contract was in Philadelphia, where the all-inclusive, or extensive, contract type has dominated the market for decades. This contract type offers residents the ability to reside throughout the continuum of care for the same monthly service fee they pay to live in their independent living residence. Only one provider (in Philadelphia) attributed the addition of the fee-for-service contract to their menu of contracts to the presence of an Erickson community.

<u>Has the Introduction of Erickson Communities Led to Changes in the Physical Facilities?</u>

(Since Erickson opened, have you made/planned to update/make changes to physical facilities/? Did this result from Erickson's entry?)

Nearly 60% of communities responding made changes or are planning to make changes to their physical plant since Erickson opened, particularly in Baltimore (87%) and Philadelphia (64%), the two mature markets where it is likely that the oldest communities are located. The communities most likely to have made changes (64%) were those targeting the segment of the market with incomes $25,000-$49,999.

The following updates, additions, and renovations to the physical facilities were noted overall by respondents in the order of their mention:

- Expanded with additional units/apartments (31%)
- Apartment renovation, including bathrooms and kitchens (24%)
- New nursing centers (20%)

- New dining venues, including casual bistros and cafés (20%)
- New fitness/aquatic centers (17%)

With the exception of Chicago, none of the communities reported making these changes due to Erickson. Changes to the physical facilities at the existing communities are likely to be driven by market forces, including increased competitive pressures overall as well as the change in consumer preferences over time. Many of the retirement communities, particularly in the Philadelphia and Baltimore markets, are older and recognize the need for renovation and enhancement to remain attractive to today's seniors.

Discussion

The survey conducted for this article had both strengths and weaknesses in terms of its design and outcomes. Strengths include the designation and inclusion of markets at varying stages of development and the high response rate in each of these markets, particularly Philadelphia and Baltimore—the two mature markets. The weaknesses may be construed as the lack of a random sampling technique that would have resulted in projectable results. Additionally, it is possible that any reported changes could be coincidental rather than directly caused by Erickson. We believe, however, that there is significant value in this first effort to use data rather than conjecture to assess the impact that an Erickson community has on other providers in the markets that it enters. The discovery of the impact that market conditions have on Erickson's own performance adds further value to the study.

It appears from this study that the level of a market's maturity in seniors housing has a direct impact on Erickson's own performance. Healthy market conditions appear to support successful performance by Erickson and for all organizations that are willing to continuously evaluate and improve their communities and services to maintain their appeal to their target market. In Philadelphia, arguably one of the most heavily developed CCRC markets in the country, Erickson's own fill rates have far surpassed the other Erickson communities within the select markets, with its second property, Maris Grove, even exceeding its first, Ann's Choice. By contrast, Erickson seems to be affected negatively in less mature markets, as evidenced by their significantly lower fill rates in Chicago and Kansas City, where existing providers also are not doing as well, based on performance measures such as median occupancy and waiting list length.

An unexpected outcome of this study is the demonstration that mature markets, such as Philadelphia and Baltimore, should not be classified as "saturated." It appears that the more the supply is increased, the better the providers in these markets seem to do. In fact, it may be that highly developed markets that have sustained high performance benefit Erickson as a result of the high level of education and awareness among the target market, paving the way for Erickson's entry. This supports the notion that market penetration rates are not necessarily the most important indicator of future market success. With the right products that are continuously "engineered" to be responsive to the preferences of the buyers, high market penetration rates are sustainable. One could also conclude that Erickson seems to benefit from the other successes in the market. Certainly Erickson's performance (fill rate) in the Philadelphia market is an example of this. This seems to be occurring with a relatively minimal impact on the ability of existing providers to maintain waiting lists and occupancy levels without wholesale changes to marketing and expenditures.

We expected to learn that Erickson's entrance into a market would lead existing providers to make changes in pricing strategies, such as entrance fee refunds, fee-for-service contract options, and an enhanced level of amenities and programs, but the study revealed that for most existing providers, these changes were made independent of Erickson's existence in their market, and in fact, they did not acknowledge a cause-and-effect relationship.

Although not directly attributed to the presence or entry of an Erickson community, increases in competition are leading to change. The most significant changes seem to be seen in the two most mature markets (Philadelphia and Baltimore), which have a greater number of older communities in need of updating.

It also appears that the addition of Erickson's large number of independent living units does not necessarily cause any decreases in overall occupancy or waiting list averages in markets that demonstrate strong performance in these key performance indicators. As evidenced in Philadelphia, the most mature market, both performance indicators improved during the period in which Erickson introduced its two communities. This is further supported by the fact that existing providers have not significantly increased marketing budgets or staffing. Based on the performance indicators, the existing communities have maintained stable occupancies without significant budget increases being necessary. This should allay fears among providers who are sustaining strong performance results with qualified marketing and sales teams and marketing plans in place.

Corporate management of Erickson communities has stated that their greatest competition is the home rather than other retirement communities. In other words, Erickson has worked to expand the likely group of seniors who will consider moving to a retirement community, thereby expanding the number of potential prospects from which to attract residents. This study strongly suggests that Erickson is probably reaching both segments of the market: those already considering a move to a retirement community and those who planned to stay at home. This finding is evidenced by the responses indicating that the majority of communities report their prospects are comparing them to Erickson communities. Although respondents in the two strongest markets are not experiencing significant declines in their waiting lists, many respondents did indicate that prospects are shopping their community along with the Erickson communities. While this comparison-shopping does not seem to be harming existing providers significantly when choices are finally made, it does indicate that the market for an Erickson community definitely includes people who may have considered a move before they arrived in the market.

Another surprising conclusion is that, although Erickson communities target the middle-income market ($25,000-$50,000), they clearly are of interest to those with higher incomes. This finding was confirmed based on the number of respondents reporting that prospects at the highest end of the market were shopping Erickson communities and that the waiting lists of the high-end communities also were being eroded to some extent. This may reflect the value of the "brand" as well as the interest of those with greater means in the "newest game in town."

Conclusion

The "Erickson Impact" appears to be neutral to positive for most existing providers. In the markets where there are high levels of awareness and acceptance of seniors housing, Erickson's own performance seems to be enhanced.

Authors

Susan B. Brecht
President
Brecht Associates, Inc.
201 S. 25th Street, Suite 208
Philadelphia, PA 19103
susanb@brechtassociates.com

Kathryn L. Brod
Senior Vice President/Director of Senior Living Research
Ziegler Capital Markets Senior Living Finance

Nicole D. Muller
Associate
Brecht Associates, Inc.

Endnotes

1. AAHSA Ziegler 100 Report. (2008). *Chart 46B.*
2. First year of occupancy.
3. Includes Anne Arundel, Baltimore, Carroll, Harford, Howard, Queen Annes Counties, and Baltimore City in MD.
4. Includes Cook, De Kalb, DuPage, Grundy, Jasper, Kane, Kendall, Kenosha, Lake (IL and IN), McHenry, Newton, Porter, and Will Counties in IL, IN, and WI.
5. Includes Bates, Caldwell, Cass, Clay, Clinton, Franklin, Jackson, Johnson, Lafayette, Leavenworth, Linn, Miami, Platte, Ray, and Wyandotte Counties in MO and KS.
6. Includes Bucks, Burlington, Camden, Cecil, Chester, Delaware, Gloucester, Montgomery, New Castle, Philadelphia, and Salem Counties in PA, NJ, DE, and MD.
7. Includes Erickson ILUs.
8. Includes Erickson ILUs.
9. Occupancy levels indicated are representative of the survey respondents only and are self-reported. Therefore, they do not necessarily reflect the overall occupancy trends in these regional markets.

References

American Association of Homes & Services for the Aging, Ziegler Capital Markets. (2008). The AAHSA Ziegler 100. Washington, D.C.: Chart 4-6b.

Claritas. (2007). Market Data. Retrieved May 6, 2008, from www.claritas.com/eConnect2

National Investment Center. NIC MAP Supply Database. (2008) Retrieved May 7, 2008, from http://www.nicmap.org.