

“For Boomers Only”

Edition 4

Rent versus Buy

One of the most frequently asked questions that clients of Parc Communities pose to us is “Why can’t Mom purchase her apartment home instead of renting?” To best address this issue, we lead our Baby Boomer clients through a step-by-step explanation which not only addresses the Parc Communities perspective on this issue but also attempts to explain all of the practical reasons why ownership of real estate is seldom desirable for people who are seeking a hospitality type of lifestyle.

Most residents of Parc Communities move into our properties from a home, townhome, or condominium. Our depression-era residents have typically enjoyed home ownership for most of their lives. The majority have free and clear ownership and have enjoyed an outstanding investment return on their homes. Their natural inclination is to want to continue some form of ownership. What our Baby Boomer client must understand and effectively communicate to his/her parent are the realities of ownership. Because Parc Communities is dedicated to providing a carefree lifestyle for its residents, we believe that a rental program is the best way in which to relieve our residents of all of the anxiety that is associated with ownership. Since you and your Mom or Dad have been dealing with the everyday issues of home ownership for many years, you may not recognize the subtle causes of this anxiety. The following are a number of relevant issues.

- a. In most instances, your Mom will have owned her home for many years. As a hard asset, it may have begun to significantly deteriorate. Dealing with the issues of deferred maintenance and preservation of that asset will require more time and money as each year passes. Rather than addressing the problems as they arise, your loved one will oftentimes quietly obsess over the matter while doing nothing about it. He or she is vulnerable to unscrupulous contractors and may be unwilling to tackle a problem, even when it might involve a life-safety issue.

In a Parc community, all physical maintenance is provided by Parc Communities, at no charge to resident

- b. Even if your Mom owns her home free and clear, she will still be responsible for periodic payments for taxes and insurance. In most instances, she will not have the inclination to challenge rising tax assessments and insurance increases. Although she may be greatly frustrated by the escalating costs, she will simply make payments and endure the anxiety associated therewith.

In a Parc community, all taxes and insurance are paid by Parc Communities.

- c. If she owns her own home, your Mom is responsible for monthly payments of water and sewer, pest control, landscape maintenance, trash disposal, telephone, and utilities. Just keeping up with all of these bills will oftentimes be a burden.

In a Parc community, the only separate bills that your Mom will pay are her telephone and cable. The invoice for electricity will be included along with her monthly rental invoice. Most other monthly costs are included in her rent.

Occasionally, the investment consideration itself is the most important question that you and your loved one may be discussing. To better address this issue, it is critical that you understand the reasons behind alternative capital structures that are generally available for senior communities.

1. Continuing Care Retirement Centers (CCRC's) are facilities which are typically owned by a qualified not-for-profit (501(c)3) organization such as a church or senior housing authority. In a CCRC, the resident pays a one-time fee, oftentimes in excess of \$200,000, which the ownership entity uses to either pay developmental costs or guarantee bond financing. The facility usually includes independent housing, assisted living, nursing, and dementia care.

In exchange for the initial contribution, the resident is assured that his or her monthly assessments will not change, regardless of the type of care that he or she may ultimately require. Upon the resident's death, his or her estate will usually receive a predetermined, proportional return of the contribution. Depending upon the orientation of the 501(c)3, certain residents may be admitted with reduced contributions and/or reduced monthly service fees.

While living in the CCRC, the resident pays a monthly service charge, which represents his or her pro rata share of all costs required to operate the community. This fee, depending upon the resident's actual living space, will generally amount to approximately 75% of the monthly rent that is paid by a resident in a Parc community.

The CCRC model is one which is well suited to many seniors, particularly those with early indications of either physical issues or dementia or those with limited resources. Since, by the very nature of the structure, the independent residents in a CCRC bear a disproportionate financial burden compared to those residents requiring either assistance or nursing care, the decision to enter this type of community must be carefully considered.

2. Retirement Condominiums are communities in which the resident owns fee simple title to both his or her living space and a pro rata share of the common areas. Although such communities do exist, particularly in Florida and Arizona, they are seldom found in areas that do not attract the traditional “Snowbird” type of retiree.

With a retirement condominium, the resident owners determine the level of services which they desire. Since the average owner of such a condominium is typically in his or her late 60's to early 70's, most do not wish to have on-site dining, program activities, 24-hour emergency response, and many of the overhead items that are included in a Parc community. In addition to debt service, if applicable, each owner must pay his or her share of taxes, insurance, maintenance, and staffing for the common areas. Typically, the cost for such common area maintenance will be at least 50% of the rental in a Parc community. If the typical retirement condominium were to have the inordinate allocation of common areas and personnel that are to be found in a Parc community, the monthly common area maintenance would be closer to 70% of the rental paid in a Parc community.

As with the CCRC, the retirement condominium is well suited to a broad spectrum of seniors, particularly those who are early into retirement and do not wish to pay for a complement of services which they do not need. In today's economic environment, the cost to carry such a condominium is extremely attractive. The investment potential, transactional expenses, and the illiquidity of the investment must, however, be carefully evaluated before making such a purchase.

We at Parc Communities believe that the pure rental model is a more user-friendly structure for our residents. The following are just a few of the reasons:

- a. **Our resident does not need to tie up a significant amount of his/her savings in real estate.**
- b. **Our resident, or his/her estate, does not have to deal with disposing of the asset in the event it is no longer needed.**
- c. **Our resident does not need to subsidize others who might require assistance or nursing care.**
- d. **Our resident knows in advance what services and amenities are included in his rental and the scope of said services is not likely to change.**
- e. **Because of the fact that we, at Parc Communities, are able to capitalize upon today’s low interest rates, we are able to pass through that cost effectiveness in the form of favorable rental rates.**
- f. **When comparing either the life estate (CCRC) or retirement condo model to our pure rental model, one would need to anticipate a significant inflationary period, along with a 7 to 10-year occupancy period, for there to be a favorable comparison in actual costs. In today’s world, both scenarios appear unlikely, particularly if your loved one is already over the age of 70.**
- g. **Our residents enjoy an absolute satisfaction guarantee. If, for whatever reason, they no longer wish to live in our community, they may have the right to relocate upon 30 days written notice.**

THE BOTTOM LINE IS SIMPLE. IF YOUR LOVED ONE IS 70 OR OLDER, AND IS NOT SUBJECT TO NEAR-TERM HEALTH ISSUES, HE OR SHE WILL SAVE MONEY BY LIVING IN A PARC COMMUNITY. MORE IMPORTANTLY, LIVING IN A PARC COMMUNITY WILL PROVIDE HIM/HER WITH THE ULTIMATE IN LIFESTYLE, COMFORT, AND FLEXIBILITY.