Shifting Tides in Seniors Housing and Care

The perfect storm of demographic changes, more investors seeking to broaden or alter their scope and new ideas about aging in place has had a galvanizing effect on the seniors housing and care sector of healthcare real estate. The Affordable Care Act alone has caused a dramatic restructuring of the healthcare industry as a whole, and while it doesn't necessarily impact the senior-care sector of the market, it has caused the industry to rethink itself and begin delivering more patient-centric care—which is much at the heart of the senior sector's transformation.

By Carrie Rossenfeld

To start, the sheer number of seniors—members of the population greater than 65 years old—in the US has been steadily rising and continues to do so. According to Newmark Grubb Knight Frank's Global Healthcare Outlook 2015, the US Census Bureau reports that there were 40 million seniors in the country in 2010, and this number is expected to more than double by 2050, bringing the senior population to more than 20% of the total US population. That's a lot of people needing places to live that cater to their needs, in addition to specialized healthcare facilities.

The rising number of seniors translates into serious money for the real estate sector. Penton Financial Services reports that in 2014, the seniors housing and care market was estimated to be valued at $330 billion. According to Lorie Damon, DTZ's managing director and leader of the firm's national healthcare practice, "Economic indicators such as employment trends suggest a strength and vibrancy in the healthcare sector that other industries have not been able to match. Those trends are mirrored in associated, positive gains in medical office, as well as in commercial office, industrial and retail real estate."

So what are some of the latest trends experts in this field are seeing in seniors housing and senior care facilities? "We see a great deal of activity in development of branded seniors-housing facilities," Alan Ursillo, SVP with JLL, tells Real Estate Forum. "The activity ranges from standalone memory-care facilities to assisted living and hybrid continuing-care retirement communities.

THE SECTOR, WHOSE VALUE CONTINUES TO CLIMB, IS FACING SOME SERIOUS CHANGES DUE TO THE INFLUX OF BABY BOOMERS, DIVERSIFIED INVESTORS AND NEW EXPECTATIONS ABOUT THE SENIOR LIFESTYLE

Granite Investment Group has partial ownership of Sagebrook Skilled Nursing Health Center in Cedar Park, TX, located within 15 miles of eight major hospitals in North Austin.

Developers are concentrating on high-barrier-to-entry locations and private-pay residents."

Change seems to be a constant theme of this sector, Neal Raburn, managing director of Greystone, tells FORUM. "Typically, the owners and operators involved with the development of seniors housing assets are also involved in the operations, allowing them to improve their model constantly, so their assets are always evolving."

Dedicated healthcare REITs are noticing ongoing strength in the sector. "We're continuing to see average stabilized occupancy rates in assisted living and memory-care facilities in the low 90% range," relates Brooks Barton, VP of seniors housing for American Healthcare Investors. While independent-living occupancy tends to lag a bit behind, typically 100 basis points or more, 2015 is looking to be a particularly strong year for IL, with average occupancies projected at or above 92% by year's end. We are also seeing strong occupancy growth in continuing-care retirement communities for 2015, with projections in the low 90% range here as well."

Barton adds the overall strength in seniors housing occupancy is a clear indication that the economy continues to improve, in particular the housing sector, which often dictates occupancy levels. "As consumer confidence increases, so too do consumer attitudes about discretionary spending, tapping into the equity of their homes and retirement investments, all of which have direct impacts on seniors-housing occupancy."

Stephen Jones, chairman/CEO of Snyder Langston, tells FORUM the continuum of care is the main thing on his mind when it comes to this sector. "This evolving component changes, I believe for the better, the care that seniors receive. The shift has manifested in senior-living facilities such as Belmont Village and Silverado Care. These communities offer an array of services that focus on the overall well-being of their residents and are actively involved in the latest research and tools to improve senior living."

On the seniors-housing side, consolidation is increasing—not only in terms of the real estate itself, but also in ancillary companies pursuing economies of scale and overage in their markets, according to Jason Price, SVP of seniors housing with Granite Investment

Group. "For example, economies of scale enable companies to deploy sophisticated computer systems across the enterprise to facilitate the ability to communicate patient outcomes to their customers (hospitals, physicians, discharge planners, etc.) and create a competitive advantage. Constraints on reimbursement and reductions in average length of stay have contributed to the drive for consolidation as owners and operators pursue efficiencies in the delivery of care in an effort to maintain their margins."

Even the investor profile for the senior sector is changing, both for housing and healthcare-related facilities, says Ursillo. "We are seeing a more diversified investor entering into the seniors-housing market. Large, publicly traded REITs that have been successful in building their portfolios in multifamily, retail, office and industrial assets are now looking strongly at the yields healthcare-related properties are providing, especially in seniors housing. These new investors in the market, as well as current healthcare REITs in the market, are driving cap rates to new lows."

Greystone managing director Cary Tremper is not sure how much the actual profile is changing, but the investor "pool" is getting much larger. "The level of transparency has been heightened, allowing investors to access and utilize better (and more) information to make sound business investments. Thanks to the hard work of NIC and ASHA, our sector has attracted some notable institutional investors, which lends credibility to the overall industry and further attracts new investors."

Barton says his firm is noticing a marked increase in portfolios structured under the REIT Investment Diversification and Empowerment Act of 2007, where not only the real estate is being sold but also the operations. "This requires more scrutiny and overall diligence on the part of the buyer, since there is a greater exposure to risk related to cash flow. Of particular importance is determining the narrow band where stabilization has occurred while at the same time ensuring there is still ample room for consistent organic growth to ensure viable returns. Not all investors have the appetite for this risk, but those who do can often expect to see higher-than-average returns, particularly if they have a well-diversified portfolio where risk can be spread among various asset types and structures. We are also seeing frothiness in the market, which sometimes leads to higher-than-normal prices per unit being paid. The increase in RIDEA deals may be symptomatic of this frothiness."

Price says institutional investors are moving into the seniors-housing space as they see the benefits that this sector can have on a diversified real estate portfolio. "Seniors housing performed very well through the last downturn and provides attractive current yields to investors. What we have seen is REITs making a huge impact since they have been a driver of consolidation (there have been several billion-dollar deals in the last 12 months) and with their low cost of capital, prices have been hitting new highs. Right now, the availability of capital has never been better, and with the current low cost of debt, many owner-operators are coming to the conclusion that now is a good time to exit the business."

In addition to a shift in investors, design elements for this sector are also changing. Ursillo says, "Currently, successful developer/operators in the market that have multiple sites are expanding their branded model to high barrier-to-entry locations. The successful developer/operator understands the new dynamic of active seniors coming online in today's market and are designing and building active seniors housing for them to live in and age in place. Seniors housing is no longer perceived by today's seniors as a place where they go to die, but instead, a place to enjoy a lifestyle of fun activities, amenities and living with people similar in age who have similar

expectations of aging in place."

One notable trend of developers of primarily assisted-living and memory-care facilities, says Raburn, has been incorporating flexibility into their facility designs as it pertains to the ability to adjust units to meet changes of acuity demand. "For example, developers may design their building to allow a number of assisted-living units to convert to memory-care units by moving the secured door to the memory-care unit to a predesigned location down the hallway. Similarly, skilled-nursing developers have changed their facility design to focus on attracting rehabilitation and therapy residents by having larger, dedicated therapy space and more offices for visiting doctors and therapists."

The Bascom Group LLC recently acquired the 183-unit Boulder Palms Senior Apartments in Las Vegas for $10.35 million.

Tremper adds that he believes developers and operators are listening to what their residents want and need, getting residents vested in the decision-making and then incorporating those concepts into their communities to make life easier and fun. "This can sound as simple as allocating space for washers/dryers in the individual units in a new community to developing a 'bistro' concept in the common area for residents to gather and socialize. Operators set themselves apart not only with the physical aspects of a community but also the quality of care and overall programming delivered by community-level leaders, which I believe is the most vital aspect to the long-term success of a seniors-housing community."

Barton says new construction tends to be more focused on aesthetics, with a strong slant toward hospitality. "The next generation of residents will conceivably want higher-end services and amenities, with a greater emphasis on technology and connectivity. The challenge is to somehow combine all of these elements within an environment that is still functional without being overly burdened with excessive costs, which can deteriorate profit margins. There has long been a stigma within the seniors housing industry that regardless of the product type (independent or assisted living or Alzheimer's care), all senior-care options were seen by prospective residents as lumped into a category reserved for skilled nursing: cold, sterile and unwelcoming. Gradually, that perception is beginning to fade away with a new generation of residents as well as a conscious effort on the part of developers to build in a way that is

more residential than clinical. Interestingly, we are seeing this movement not only in seniors housing, but also in skilled nursing."

Jones says the increased emphasis on the seniors-housing arena touches on multiple components of this building sector, including an interest in exterior aesthetics, design, high-end amenities and more, all with the purpose of providing an enjoyable environment for residents.

Price points out that community-based care has been the buzzword as an alternative to the multifamily structures of independent and assisted living. "In the skilled-nursing space, there is still a need for population density to provide efficient nursing care." He adds that his firm is seeing needs-driven real estate products like skilled nursing moving toward incorporating more hospitality services in their models and in their design. "That's what the customer is starting to demand. The Baby Boomers may not yet be in the buildings themselves, but they're the decision-makers for their parents going into these buildings. Owners and operators feel they need to respond to this group's demand for these amenities and features."

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> **JASON PRICE,** Granite Investment Group

There is a need for commercial real estate to pay more attention to this burgeoning sector of the industry. Ursillo says, "10,000 people turn 65 in the US every day. In five to 10 years, we will have a shortage of new seniors housing because our senior population will be the largest in our history. If we do not continue to build new active seniors-housing communities, we will most likely have a supply issue."

He adds that while we run the risk of overbuilding, because of lessons learned in the 1990s and the fact that developer/operators are choosing to build in high-barrier-to-entry locations, he believes the market will self-regulate and not allow overbuilding. "My worries are for those seniors who have not planned for retirement and cannot afford the rents these facilities will have to charge them. This portion of the market is estimated to be as high as 70% of the seniors coming on line in the next 10 to 15 years. This will be a challenge we will have to plan for in the very near future."

Tremper says success in the senior sector comes down to people. "Seniors-housing professionals have the opportunity to change lives on a daily basis. A developer can deliver the most state-of-the-art community, but it still comes down to having the right people leading and representing that community, delivering quality care, services and programming to the residents or members that will define the ultimate success."

Jones adds, "This sector will only continue to evolve and grow as the nation ages. Not only does this benefit the construction industry, but I think it is also a welcomed cultural focus. We will all reap the benefits of a more-conscious effort around senior care—for both our elderly loved ones and ourselves as we enter that demographic."

From an activity perspective, Barton says seniors-housing and senior-healthcare-facilities acquisitions are on the rise and have seen a consistent upward trend over the last five years. "We expect this to continue through 2015 as the bull market results in a welcome environment for sellers."

Price sums up that seniors housing has always been considered to be under the "other" category in real estate investments, but this is changing. "The four classes of investment-grade real estate have been multifamily, commercial, office and industrial. With the demand that's coming from the Boomers, the limited current supply/development and the investment performance that these assets have been able to product, it won't be long before people start talking about the five verticals of commercial real estate—including seniors housing." ◆

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