Real Estate Forum®

Healthcare Insights

July/August 2016

Senior Housing's

Limitless "Boom"

What to expect as the sector begins to welcome one of the largest demographic groups in our nation's history

The Georgian Lakeside assisted-living and memory-care facility in Roswell, GA, designed by KTGY, features a coffee bistro, dining room with professional chefs, keyless entry and Wi-Fi.

By Carrie Rossenfeld

The seniors housing sector has been busily preparing for a swell as Baby Boomers age. This group is joined by octogenarians who are living longer and providing steady demand, from retirement communities to the most intensive skilled nursing. Experts say the influx into this market hasn't even hit its peak yet and will continue to be significant for decades.

"The next 20 years will see unprecedented growth in our nation's senior population," NorthMarq SVP and managing director Stuart Oswald tells REAL ESTATE FORUM. "Between 2010 and 2030, the populations of both the over-65 and the over-85 age groups are expected to double."

Designed by KTGY, Azulon at Mesa Verde, a 55-plus resort-inspired retirement community in Costa Mesa, CA, offers access to some of the best dining, shopping and entertainment in California.

Oswald says these growth expectations have led to increased development in the seniors housing sector both from experienced operators and new firms. However, he adds, experts agree that it is not easy to predict how much of this new aging population will occupy traditional seniors-housing units (independent living, assisted living, Alzheimer's care and skilled nursing), making development planning a difficult task. "Forecasting demand for new units is not easy. I've seen projects built where a market study supported only a few new units, yet the project was wildly successful. I've also seen projects that did not lease well, yet the market study indicated very strong unmet demand."

In the financing realm, most senior-living operators with a track record and respectable balance sheet have been able to find construction financing from banks in the 65% to 70% loan-to-cost range for the past three years, and the majority of those properties are exceeding their pro formas, Oswald says, but that doesn't mean finding financing solutions in this highly specialized category is easy. "The number of lenders participating in the senior housing sector remains relatively small compared to those lending on the major property types. Fannie Mae, Freddie Mac and HUD remain very committed to seniors housing, as well as a few banks and insurance companies. Lenders that aren't in the seniors-housing sector understand that underwriting the operator- and the industry-related risks are far more

NorthMarq arranged roughly $17 million in financing for Quail Park Memory Care Residences of West Seattle, a 48-unit, 66-bed community. The construction loan has an LTV of approximately 65% and a loan-to-cost of around 70%.

critical than underwriting the real estate. Traditional real estate lenders that don't have an experienced staff committed to seniors housing should generally avoid making these loans."

The market is wary of overbuilding in healthcare, and location—along with community philosophy/branding/concept—becomes important in how owners and operators can plan their projects, Soo Im, a director at KTGY Architecture + Planning, tells FORUM. "In general, there is a lack of good leadership and staff to fill all the new communities that are being built, and this is an even larger problem for developer/builders looking for third-party operators for their new facilities. The successful communities are those that can balance great culture, value and service and elevate the experience to a higher level for both residents and staff."

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STUART OSWALD
NorthMarq

Im adds that the culture is shifting from the traditional staff- or operational-based care models toward resident-centered care and promoting more residential and home-like quality in the communities. "It's about providing choice and autonomy for the residents and promoting their dignity as they age. Preventative-care programs centered on a good dining program, along with health-and-wellness programs, are still one of the more important aspects of building a strong community."

Cheri Clarke-Doyle, SVP for Trammell Crow Co., tells FORUM she is observing seniors-housing trends that fall into two categories. "First, there is an uptrend in the quality of product to feature more amenities, more common areas and more lifestyle perks. For example, many new centers are making education and fitness classes a centerpiece of their operations. Secondly, a trend is beginning to emerge that today's seniors want infill locations and are willing to tolerate higher rental rates. They want to be integrated into the fabric of communities and have great access to family, entertainment and medical care."

In fact, the seniors-housing industry is moving away from the old nursing-home model and toward amenity-rich projects with multiple levels of services to attract and retain residents, Sonya Dopp-Grech, SVP and director of healthcare services for NAI Capital, tells FORUM. "Rebranding of facilities to broaden appeal, in some cases due to industry consolidation, is also frequently being accompanied by renovated facilities with on-demand services and a multitude of amenities to support active, healthy lifestyles."

Dopp-Grech adds that there is a growing need for memory-care facilities, in part due to more awareness, new and improving therapy options, research and political pressure around the unique needs of memory-care patients. And, "as in many other industries, technology is increasingly being utilized to offer on-demand services and to improve access and quality of care. Technology data collection is also allowing seniors-housing operators to be more responsive to residents' needs."

Joshua Hausfeld, managing director of healthcare finance for Pillar, a direct lender for healthcare and multifamily properties, says the focus for many providers is on automation and integration of medical care. This includes electronic medical records, integrated medication management, information sharing with local hospitals and other technological advancements. "The industry is spending significant dollars on technology to improve patient outcomes and reduce clinical errors. While these advancements are more prevalent in the skilled-nursing sector, they are making their way to the lower acuity facilities as well."

Senior-related healthcare real estate is likely going to see further segmentation based on price and lifestyle, says Clarke-Doyle. "It's important to remember that the average age for moving into independent living is the mid-80s; baby boomers are still 15 to 20 years away from driving the market. This segmentation may even go so far as to highlight and attract specific interests, hobbies, ethnicities and sexual orientations. Lastly, the future will likely see an increased emphasis on green design."

Oswald says since the trend in the past five years has been to add more memory-care units to serve the seven million people that are expected to have Alzheimer's by 2025, operators will continue to fine-tune their models for the ideal memory-care community. "Developers are attracted to the great yield offered by building a project with small units (i.e., 300 square feet) that can be leased for around $5,000 per unit. However, these buildings are very specialized and lenders and owners run the risk of new prototypes rendering their facility less desirable or, in the worst case, functionally obsolete as the industry evolves."

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SOO IM
KTGY Architecture + Planning

He adds that values are reaching eye-popping levels, as much as $600,000 per unit, causing lenders to look more closely at alternative-use scenarios. "Most recently, NorthMarq arranged a roughly $17-million construction loan for a 48-unit, 66-bed memory-care community in West Seattle. The developer had a great track record, and this was the third loan we had arranged with this lender for this borrower. The loan-to-value was approximately 65%, and the loan to cost was approximately 70%."

In the skilled-nursing market, profitability has been an issue with many communities, and with changing regulation on the Medicare/Medicaid reimbursable, most for-profit operators focus on short-term rehab facilities rather than long-term care and state-of-the-art therapy facilities, says Im. "Memory care is one area where there is still a lot of interest and research, and everyone's still learning how to best provide care for this population. This means there's a lot of room for innovation, and the need for memory care is expected to grow substantially in the next decade."

Homecare is another area where we will likely see more growth, rather than the focus on brick-and-mortar, to help support individual needs both physically and financially, Im adds. "A big challenge for the senior-related healthcare industry is affordability for those who are living on very limited Social Security income and don't have family members who can assist financially."

Dopp-Grech sees many changes coming for senior-related healthcare real estate. "Growing occupancy levels and demand with a focus on lifestyle will drive many of these changes. The industry is expected to experience consolidation; new operators will emerge, particularly due to partnerships with insurance companies, hospitals and medical-service providers. The industry is just beginning to see the effects of the Baby-Boomer generation; to attract this emerging demographic group, senior-related healthcare real estate will change to increase its appeal to younger seniors looking for active independent living. Properties will add more comprehensive-care services to capture additional market share and better serve their residents' current and future needs. Continuing-care properties will take this a step further by allowing residents to stay within their senior community while progressing through a range of care needs."

The seniors-housing industry will continue to grow out of necessity to provide quality housing and care options for the aging population, says Hausfeld. "The first Baby-Boomers are still 15 to 20 years away from fully utilizing the services of the seniors-housing industry. We will therefore see continued growth in the sector for the next several decades." ◆