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Golden Opportunities

Is Seniors Housing a Good Investment?

By Harold D. Hunt

The doctor has good news and bad news. The bad news is you're getting older. The good news is the outlook for investments in seniors care facilities is improving. After a poor showing in the 1990s, the seniors housing sector has begun to attract the attention of investors again. And what better enticement than the chance for a rate of return superior to those in more traditional real estate sectors?

Graying of America

Americans are getting older. The U.S. Census Bureau predicts that the number of Americans 65 or older will reach 40 million by 2010 and 54 million by 2020. By 2030, one in five citizens will be at least 65. This growth of the 65+ population will largely be a result of aging baby boomers and increased longevity. Many more Americans are entering the ranks of the elderly, and they will be living longer.

A study by the U.S. Department of Health and Human Services reports Americans reaching age 65 will have a 40 percent chance of entering a nursing home at some point in their lives. Of those who do, 10 percent will stay in a facility five years or longer.

On the flip side, this prediction implies that elderly Americans will have a 60 percent chance of avoiding a nursing home. Seniors in the years ahead will demand a range of housing options tailored to their tastes and preferences, level of income and health status.

Those considering seniors housing investments should proceed with caution, however. Elderly people don't typically consider their need for senior housing facilities (outside traditional housing choices) until about age 75. The big wave of baby boomers won't begin to hit this milestone for another 15 years.

Types of Seniors Facilities

The three primary categories of seniors housing facilities are independent living communities, assisted living communities and nursing homes (or skilled nursing facilities). Continuing care retirement communities (CCRCs) generally provide all three housing types in one location, allowing residents to easily transition to higher levels of care as they age. Adult day

care is a separate classification for seniors requiring only part-time care.

Independent living communities are also known as congregate care facilities. These properties are age-restricted and generally cater to retirees who are able to live on their own but may require limited services such as meals, housekeeping or transportation.

Independent living units can be single-family detached housing, condominiums, townhouses, apartments or even mobile homes. The range of property services provided, including building and grounds maintenance and security, varies widely.

Assisted living facilities provide meals and other personal care services and they have trained staff around the clock to help residents bathe, dress and take medications. Staff can also administer minor treatment under the direction and supervision of a licensed physician. However, licensed assisted living staff cannot furnish structured or organized medical, nursing or other care of the type hospitals and nursing homes provide.

Texas assisted living facilities are designated type A, B, C or E, based on the level of care residents require. Assisted living properties may provide licensed facilities for persons with dementia or Alzheimer's disease.

Assisted living communities can range from small, attached properties designed for a handful of seniors to large facilities providing services to hundreds of residents. Modern assisted living properties typically resemble apartments. Others are similar to dormitory rooms, consisting of a private or semi-private sleeping area and a shared bathroom, usually with common areas available for socializing. Such facilities typically include a central kitchen and dining room for preparing and eating meals.



SOME SENIORS-CARE facilities offer a full range of care, from independent living to skilled nursing care. Others specialize in a specific type of care, such as that for Alzheimer's disease and other types of dementia.

Skilled nursing facilities or nursing homes provide 24-hour nursing care to individuals who are chronically incapacitated. They also care for patients recuperating from surgery or other temporary medical conditions. Developing this type of facility is more difficult than other seniors housing because of required licensing and healthcare regulations.

Methods of Payment

The investment risks of seniors housing projects are related to how residents pay their bills. Typical payment methods are private pay from personal funds, Medicare, Medicaid and long-term care insurance. Government payments are subject to change depending on the prevailing political environment.

Independent living is typically paid for with private funds only. Residential units may be rented on a monthly basis or owned as condominiums or cooperatives.

About 90 percent of the country's assisted living services are paid for with private funds. However, some states (including Texas) have adopted Medicaid waiver programs that allow Medicaid payments for assisted living facilities.

Flat monthly fees charged by assisted living facilities generally reflect the mix of services being provided to the average

resident. In *Analyzing Seniors' Housing Markets*, the Urban Land Institute (ULI) reports that 25 to 30 percent of the residents of an assisted living facility can reasonably be assumed to require additional services that require extra fees.

The rule of thumb is that monthly fees should not exceed 50 to 65 percent of household pretax income for independent living and 75 to 80 percent for assisted living.

About one-third of long-term care in nursing facilities is paid for with private funds. Long-term care insurance may cover stays in licensed nursing facilities as well.

Medicaid currently pays for about 60 percent of long-term care. Medicare does not generally pay for long-term care in a nursing facility but will pay for stays up to 100 days under certain conditions.

A continuing care retirement community resident contract often involves an entrance fee, along with monthly service charges that may change according to the medical services required. Homeownership is considered the most reliable, easily identifiable indicator that a household will have the necessary capital to pay an entrance fee. Entrance fees may be partially or fully refundable. The fee is used primarily as a method of privately financing the development of the project,

NEW SENIORS FACILITIES are springing up nationwide, but the median age for U.S. nursing homes is 30 years.



Factors Affecting Returns

Returns in the seniors facilities sector are encouraging. Capital providers generally favor the government's consistent reimbursement policy and the sector's stable occupancy rates. However, laws and reimbursement policies differ dramatically from state to state.

Competition among equity investors and Wall Street has resulted in significant capitalization rate compression, leading to increased purchase prices for seniors housing properties. The higher prices are being supported by increased replacement costs caused by the rising costs of new construction.

The most important element of risk in a start-up seniors project is the initial fill-up period, which consumes both time and capital. The poor performance of assisted living properties in the last decade can be attributed to extremely aggressive absorption

forecasts that proved wrong. One result was a lack of sufficient working capital to ride out the longer fill periods that actually occurred.

The Assisted Living Federation of America (ALFA) conducted a national survey of seniors facilities providers in 2000. Fifteen companies participated in the survey. Forty-four percent of respondents indicated that actual absorption rates had fallen short of their projections in 50 percent or more of the communities opened since January 1999. Another 22 percent indicated absorption rates had been lower in 25 to 49 percent of communities opened during the same period.

Should overbuilding in seniors facilities recur, it may well stem from overly optimistic developers who, regardless of market conditions, believe their projects will face no competition. Other developers may assume that national name recognition can buffer them from local market conditions.

In the end, successful seniors housing investments are the same as other profitable real estate investments. They are a result of accurate market data and careful data analysis. 📌

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but part of the funds may also be earmarked for a resident's future healthcare costs.

Development Environment

A surge in seniors housing construction occurred during the 1990s, spurred by low interest rates, available financing and the expectation that millions of baby boomers were on the verge of retirement. The American Seniors Housing Association (ASHA) reports that seniors facilities development in the United States peaked about 1999, when 65,000 units were built, mostly in assisted living properties.

Today, supply and demand is more stable, partially because of high construction costs and more conservative lending practices. However, Texas metros are experiencing greater vacancies in the nursing home sector than the country as a whole (see Seniors Housing Market Data).

Marketing plays a key role in the success of a seniors housing facility, especially in nursing home properties. A modern, attractive facility is what potential residents and their families are looking for.

But the median age of a nursing home in the United States is about 30 years, according to the National Investment Center for the Seniors Housing & Care Industry (NIC). Some older facilities include three- and four-bed wards that are essentially unmarketable today.

Nursing homes are attempting to attract a larger percentage of Medicare and private-pay residents who generally require 30- to 60-day stays for physical rehabilitation or surgical recovery. Medicare patients are much more lucrative than long-term residents. On average, Medicare reimbursements are two to three times the amount of Medicaid reimbursements, largely because these patients require more intensive care.

THE TAKEAWAY

Accurate market data and analysis, and creative marketing strategies will be critical to the success of independent living, assisted living and nursing home developments. A huge wave of demanding baby-boomer retirees is on the way. The question is, when will these folks be willing to move from their homes to more restrictive living environments?

Seniors Housing Market Data

Timely, accurate market data is critical to successful real estate investing. In 2004, the National Investment Center for the Seniors Housing & Care Industry (NIC) launched a quarterly data and analysis service known as "NIC MAP" that reports revenue, occupancy, property and demographic information for

more than 7,500 U.S. seniors housing properties.

Surveyed properties contain more than 1 million units or beds in the 31 largest metropolitan statistical areas in the United States. The subscription-based service compares facilities (down to the submarket level) to other markets around

the country. NIC MAP also provides expanded supply and construction coverage for the nation's 75 largest MSAs.

In Texas, NIC MAP covers the Dallas-Fort Worth, Houston and San Antonio MSAs. Below is a subset of data taken from NIC MAP's 3rd quarter 2006 statistics.

NIC MAP Key Metrics for Three Texas MSAs and 31 Total U.S. MSAs Surveyed (3rd Quarter 2006)

Demand	Independent Living			Assisted Living			Nursing Care					
	Dallas-Fort Worth MSA	Houston MSA	San Antonio MSA	31 U.S. MSAs	Dallas-Fort Worth MSA	Houston MSA	San Antonio MSA	31 U.S. MSAs	Dallas-Fort Worth MSA	Houston MSA	San Antonio MSA	31 U.S. MSAs
Median Occupancy of Stabilized Properties	92.7%	97.0%	97.4%	96.5%	95.1%	97.4%	97.5%	95.8%	89.3%	88.4%	89.1%	94.0%
Mean Occupancy of Stabilized Properties	88.5%	94.8%	96.0%	92.1%	91.6%	91.9%	94.2%	91.4%	85.6%	84.0%	86.7%	90.8%
Supply												
Total Number of Properties by Type of Service Provided	84	42	22	1,747	115	62	35	2,909	181	119	79	4,540
Total Units in Inventory	10,350	6,499	3,614	242,540	6,228	3,937	1,857	172,615	23,032	13,920	8,894	575,185
Penetration Rate of Total Units per No. of Age 75+ HH	8.4%	5.9%	6.0%	5.2%	5.1%	3.6%	3.1%	3.7%	18.7%	12.6%	14.8%	12.3%
Number of Units Under Construction	329	402	0	8,878	329	173	0	3,479	425	0	392	3,262
Revenue												
Median Monthly Revenue per Occupied Unit	\$2,015	\$2,059	\$2,022	\$2,196	\$2,654	\$3,138	\$2,628	\$3,120	\$3,383	\$3,531	\$3,369	\$5,384
Average Monthly Revenue per Occupied Unit	\$2,136	\$2,033	\$2,143	\$2,316	\$2,785	\$3,346	\$2,577	\$3,269	\$3,476	\$3,623	\$3,436	\$6,142
Property												
Median Age of Property in Years	18	12	20	18	10	9	10	11	27	22	29	30
Percent of Properties Reporting Need to Upgrade	27.4%	45.2%	22.7%	32.6%	29.6%	45.2%	22.9%	33.5%	38.1%	48.7%	31.6%	41.7%
Median Number of Units/Beds per Property	116	141	128	111	50	61	50	53	120	119	108	117

Source: National Investment Center for the Seniors Housing & Care Industry
<http://www.nicmap.org/>



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