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Senior housing - a compelling investment alternative to other commercial real estate sectors

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In their search for attractive risk-adjusted returns, investors favor sectors that are resilient, transparent, and exhibit sufficient liquidity. The senior housing sector meets these criteria, offering investors an additional real estate investment alternative.

Senior housing (independent and assisted living) was the most resilient commercial real estate segment during the recession and has exhibited strong performance during the recovery. Senior housing's need based demand resulted in annual occupancy trends that held up better than the traditional commercial real estate sectors of apartments, office, hotels, and retail. Rent growth for senior housing remained positive throughout the recession and recovery, performing well better than the other real estate sectors, all of which reduced rents in light of declining occupancies. Senior housing's positive rent growth and less volatile occupancy demonstrates the built in resiliency of a sector serving an aging population. In fact in the next 10 years, the 75+ population will increase 2.1% annually, well above the 0.8% annual increase for the U.S. population overall. This demographic underpinning bodes well for the future of senior housing.

Transparency has been steadily improving as well. Investors can now obtain data on senior housing from the National Investment Center for Seniors Housing and Care (NIC); the National Council of Real Estate Investment Fiduciaries (NCREIF); and Real Capital Analytics (RCA)

In 2004 NIC launched a research tool known as the NIC MAP database and began tracking nearly all professionally managed senior living properties in the top 31 metros in the country. In 2009 NIC MAP was expanded to include the top 100 metros in the country. Updated quarterly NIC MAP provides data on rents, occupancies, pending supply, growth rates of seniors and adult children, median income and home values - all in support of informed investment decision-making.

Since 2009 NCREIF has been reporting senior housing returns, thus providing institutional, private equity investors with a view of the sector's relative investment performance. The data showed the sector performed well. Income returns in the 1, 3, 5, and 7 year period outperformed the traditional real estate types and total returns outperformed in the 3, 5 and 7 year periods. NCREIF's returns are widely used and embraced by the private equity real estate community and having senior housing returns available from NCREIF has added credibility and visibility to the sector.

In 2011 RCA began tracking sales transactions in senior housing. With the passage of the RIDEA act in 2008, healthcare REITS have been actively forming joint ventures with operators to participate more closely in the operational upside many operators produce. In 2011 alone, $11.8 billion of senior housing transactions were conducted by healthcare REITS, representing 94% of the senior housing transaction market. Not only did this important capital source provide a great deal of liquidity to senior housing it also provided a greater degree of interest among investors looking in from the sidelines. RCA's inclusion of senior housing in its sales transactions database adds an essential layer of transparency to senior housing.

Resiliency, transparency, liquidity...senior housing has proven to be a compelling investment alternative.

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