

## Guest Contributor: The Forest and Trees of Senior Housing Investing

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October 28, 2019



Every investment is impacted by factors at both the macro- and micro-levels. In commercial real estate, for instance, national issues like a downturn in brick-and-mortar retail intersect with local market issues like high unemployment or economic growth. These local market-level issues can cause both positive and negative outliers in industry trends.

While we all want to avoid the negative outliers, the positive outliers hold tremendous economic potential. That's why it's imperative to keep both in mind when choosing a potential investment opportunity.

In the past, many focused on the macro-level shift of aging Americans as the primary reason to invest in senior housing. Some jumped into the industry headfirst, confident that more older people would automatically translate into high investment returns. It soon became clear, however, that a wide mix of other factors—operator quality,



cost, recruitment, demand, etc.—were also important. Sustained success in senior housing investment requires knowledge of all these issues and how they intersect with one another.

The senior housing industry is still ripe with opportunity for those who take the time to get to know the forest and trees of smart investment choices. The following are micro- and macro-level trends you need to consider before making your senior housing next investment.

### The Forest: National Trends Impacting Senior Housing Investment

By and large, there are five major issues impacting senior housing investment throughout the country. These forest-level factors should be taken into account with every senior housing investment.

**Affordability.** One of the biggest issues impacting the senior housing industry recently is affordability. This past spring, the National Investment Center for Seniors Housing & Care (NIC) published an [eye-opening report](#) that showed of [14.4 million](#) Americans expected to make up the “middle market” by 2029, more than half will not be able to afford senior housing. The average cost of senior housing today in the United States is, about [\\$4,000/month](#). In some states, such as Delaware, the cost is more than \$5,000 per month, and in the District of Columbia, the cost is nearly \$7,000. This has presented a national push for more affordable senior housing options, from senior apartments to co-housing.

**Aging in place.** [Research shows](#) most people would rather age in their own homes than move to an assisted living community or memory care facility. New technologies are making it easier to do so. Forward thinking companies will consider how a desire to age in place longer will impact their investment, as well as ways new technologies could allow for strong and profitable opportunities for senior housing operators to provide aging-in-place support.

**Recruitment issues.** As the need for aging care has grown, there has been a decrease in people trained or willing to do the work of geriatric and long-term care. This in turn presents issues for senior housing operators throughout the country looking to run outstanding communities and retain top talent while staying profitable.

**Healthcare reimbursement models.** Starting October 1, 2019, skilled nursing facilities—a sector already struggling to maintain profitability—will see another [new payment model](#) take effect. Focused on outcome-based care, it could negatively impact facilities that invested heavily in therapy-style treatment or who are treating fewer medically complex patients.

**Potential economic shifts.** Even as we move through this extended period of economic growth, we need to consider the potential of an economic downturn. Whether that happens in the next few months or years, the likely truth is that it will happen. When it does, it will impact those segments of senior housing that are not need-based. This includes active and independent living, which are currently seeing a surge.

### The Trees – Immediate and/or Localized Factors Impacting Your Investment

As noted above, the localized factors impacting an investment are often even more significant than national trends. The following are a few to consider when selecting a promising investment.

**Local economic development.** By and large, private-pay senior housing communities prove to be far better investments than nonprofit or government subsidized communities. While affordability is a concern, there are communities around the country, such as the Silicon Valley, where economic development is thriving. In these



areas, especially areas with high barriers to entry that prevent overbuilding, tremendous opportunity still abounds. In fact, occupancy rates for senior housing in Silicon Valley are [94+ percent](#)—well over the national average.

Local job market. When unemployment is low, it can be difficult to recruit workers to what is often considered an emotionally challenging job of senior care. Right now, our country is experiencing record low unemployment rates in some areas, creating “[worker deserts](#)” that would make running a large senior care community challenging.

However, there are [parts of the country](#) that are still clamoring for industry and job growth, especially in secondary and tertiary markets. Consider how investing in these geographic areas could help or hinder your investment.

Local occupancy levels. Most senior housing investment reports will state occupancy in terms of national averages.

Looking at those numbers, it’s clear that occupancy has shifted downward nationally in the past few years. That said, those occupancy numbers vary drastically at the local level. As noted above, rates in some parts of the country hover in the mid-90s. We’ve invested in some memory care communities with occupancy rates of 100 percent. Getting to understand the true demand in your specific local market will help you determine where you’re likely to gain occupancy rates in the 90s—which is still very possible—versus those in the high 80s as averaged nationally.

Local culture. Every city has a different cultural foundation, and every culture has its own distinct relationship to senior housing—how people view senior housing, when people view senior housing as necessary, and what type of housing is preferred. For instance, certain cultures are more likely to live two- or three-generations per household. Others may prefer senior apartments or co-housing to larger senior housing communities. It is worth getting to know and understand the culture of the city in which you plan to invest to see if the community truly meets a need and demand in that specific area.

There is a wide range of demographic data and underwriting information that goes into every senior housing investment.

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