

# Investing in Senior Housing

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Though the United States' birth rate has reached its lowest point in more than a full century, there are plenty of senior citizens in need of quality housing that caters to their specific needs and wants. The baby boomer generation is the second-largest, coming in just behind the millennials. As a whole, we are an aging society that will require additional senior housing in the decades ahead. The number of people reaching 75 years of age will climb by an astonishing 48.1% across the 2020s decade, more than triple the growth rate over the past decade (Source: U.S. Census Bureau projections). Now might be the best time to invest in senior housing as an asset class.

## SENIOR HOUSING IS A BUSINESS

Nearly 10,000 baby boomers reach the common retirement age of 65 every single day (Source: Sen. Rob Portman (R-Ohio), writing in *The Wall Street Journal*, July 22, 2014). The ensuing golden years only last so long. Though the rise of home care costs has caused some baby boomers to remain in the comfort of their home, senior housing is an inevitability for many when approaching or reaching octogenarian status.

The commonplace loss of autonomy as one ages is unfortunate, yet it also presents a potential opportunity for savvy investors. However, no two senior housing communities are the same in terms of size, type, or value offering. The core of this unique business is its level of service and care. Operators that have the proper procedures, processes, and systems in place attract residents as well as

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loyal staff members. The best senior housing communities have high employee retention rates that attract more residents and ultimately add to the bottom line.

As of the start of 2021, the average unit count in senior housing communities was in excess of 100 (106 to be exact). The average development cost is \$34,725,000, equating to an average cost per unit of \$269,400 (Source: CBRE - U.S. Seniors Housing Development Costs Report (December 2018)). Crunch the numbers and you will discover that this sector's average cost per square foot is an impressive \$317. This figure will likely continue to move even higher as more boomers shift out of the home into senior housing.

## THE MERITS OF SENIOR HOUSING AS AN ASSET CLASS

Though the average investor might understandably be focused on identifying the next exciting growth stock, the truth is that senior housing has the potential to outperform other asset classes in the short and long term. The data shows senior housing as an asset class has performed quite well when the overall economy undulates. People often seek a social space with immediately accessible care as they age.

People are living longer than ever before, meaning they will remain in senior housing for more years than in the past, catalyzing revenue for each level of care. Senior living includes distinctive levels, as follows:

- **Age 55+**
- **Assisted living**
- **Memory care**
- **Skilled nursing**

When many people think of "Senior living" or "senior housing", they often think of skilled nursing. However, it's important to fully understand the distinctions since each level of care

requires different operational capabilities and should not be clumped together when assessing the value of a senior housing investment.

## NO TWO SENIOR HOUSING COMMUNITIES ARE THE SAME

Senior housing facilities in a single market have the potential to be significantly different in terms of quality of care and appeal from an investing perspective. In short, there are idiosyncrasies and nuances to each type of senior living community which need to be carefully reviewed and understood.

Senior housing occupancy rates are not uniform throughout the industry, yet rents are comparably stable and have the potential to increase as the housing crisis unfolds in the years ahead. Historically, senior housing properties have provided steady rates of return in comparison to other forms of real estate.

## INVEST IN SENIOR HOUSING WITH THE GUIDANCE OF AN INDUSTRY EXPERT

Since the operations are tied directly to the underlying real estate, it's important to have an acquisition team highly experienced in the senior housing real estate space. Understanding the operating business is crucial to making a smart investment.

Between now and 2025, it is anticipated that there will be more than a 22% increase in the number of people over the age of 75 in the United States. This means that more than a million people will reach age 75 by 2025. It seems clear that senior housing will not only be in-demand, but may also be very difficult to obtain as the decade ahead takes shape (Source: U.S. Census Bureau projections).