SENIOR HOUSING: A CRISIS-PROOF ASSET CLASS

Real estate that has proven to be resilient is in demand, especially in times of crisis. This is particularly true of the senior housing segment in the United States. The outlook remains positive, not least due to demographic change.

History will remember 2020 as the year of the coronavirus pandemic, and among the industries affected by the crisis is the real estate sector. Retail and hotel properties worldwide have felt the adverse impact, and owners of office buildings are facing serious challenges due to changes in the working world. According to all the information available to date, however, one asset class is remaining mostly stable through the crisis: residential real estate, particularly residential options for older people, or senior housing, as it is known in the United States.

This segment includes apartments for seniors who live independently as well as assisted living facilities and nursing homes. Just a few months after the outbreak of the coronavirus pandemic, this segment showed signs of "rejuvenation," states real estate consulting firm JLL in a recent market report and is "again proving its resiliency." This confirms the experience from the financial crisis of 2008/2009 triggered by the Lehman Brothers insolvency. Back then, the senior housing segment also proved comparatively stable.

Expectations exceeded

The concept of "resiliency," which originated in the field of psychology, describes the ability to withstand a crisis, a quality very pronounced in the senior housing segment. As explained by JLL, a positive trend in occupancy and rents has been ongoing in the segment for quite some time. Although occupancy has declined slightly due to the coronavirus crisis, it stabilized again as early as May. "Seniors housing (...) have outperformed initial expectations," the experts at JLL have therefore determined. Auditing firm PwC also underscores that "investment in senior housing provides diversification because the sector is not as cyclical as other property types."

The market for real estate aimed at seniors is appealing to investors for this reason. From spring 2019 to spring 2020, JLL recorded a transaction volume of USD 12.5 billion, the highest level reported since 2016. Investors can also expect attractive returns. According to figures from the National Council of Real Estate Investment Fiduciaries (NCREIF), the total return generated by senior housing in the past ten years averaged an annual 11.73 percent, well over the figure of 8.64 percent for other types of residential real estate. Total return is the figure obtained by adding cash flow and the increase in value.

An aging population

The driver of this positive performance is an aging population. U.S. Census Bureau statistics indicate that the number of people in the United States over the age of 65 will grow from 56.1 million today to 85.6 million by 2050, for an increase of 52 percent. As early as 2035, 78 million residents of the United States are expected to reach their 65th birthday, making this population group larger than the segment of children and youth under 18. This is due to rising life expectancy: A person who turned 65 in 2017 could look forward to an average of

20.4 more years of life. In 1972, the life expectancy in that case would only have been 15.2 years.

People are not just living longer, they have other needs as well. Many seniors wish to downsize from their houses, which have become too large for them, into apartments, even rented ones. More than a few have the financial means to afford a high-quality residence. Senior housing is a product that "will continue to be in high demand," says Shlomi Ronen, founder of real estate financing firm Dekel Capital Inc., who was quoted in the Los Angeles Business Journal.

The right property in the right place

Opportunities for investors also arise from the fact that numerous senior-oriented properties are aging themselves. PwC's "Emerging Trends in Real Estate 2020" report states that nearly two-thirds of these properties are over 20 years old. New residential complexes are therefore coveted, as they meet the needs of today's active seniors.

Plans are underway for this type of project in Georgetown, a suburb of Austin, Texas, which has nearly a million residents. The project is spearheaded by real estate company ACRON and two U.S. partners. "The Hacienda at Georgetown" complex will provide 125 independent living units designed for seniors who can live without support. It will also feature 81 assisted living units and 24 units for residents who require memory care. The property is scheduled to open in 2022. Qualified investors from Switzerland and the European Union are entitled to invest in ACRON Sun City Senior Living AG. Bond subscriptions are also available. The minimum subscription is USD 150,000, and the annual distribution is 6 percent.

The project, which is the third of its kind in ACRON's U.S. Senior Living investment series, is aimed at people who wish to continue to enjoy a high standard of living in retirement and can afford to do so. Austin is among the most prosperous of U.S. cities, and Texas is one of the most popular retirement destinations, thanks to its pleasant climate and other features. This is also underscored by the ACRON project's location across from the "Sun City" property developed by real estate firm Del Webb with around 10,000 houses aimed at people over 55. Some of these homeowners could find taking care of a single-family home to be too burdensome in the future: Many of the residents interested in a senior unit in "The Hacienda at Georgetown" are therefore likely to come from the neighboring community.

The strong interest shown by residents was underscored by enthusiastic attendance at an interest session organized by ACRON›s partner in the project, consulting firm MedCore. This event was designed to gauge the needs and wishes of potential clients. Particularly notable was the fact that a total of 126 households registered for an on-site event, and 121 actually attended. MedCore, which was running the event on ACRON›s behalf, had never seen a higher rate of participation.

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