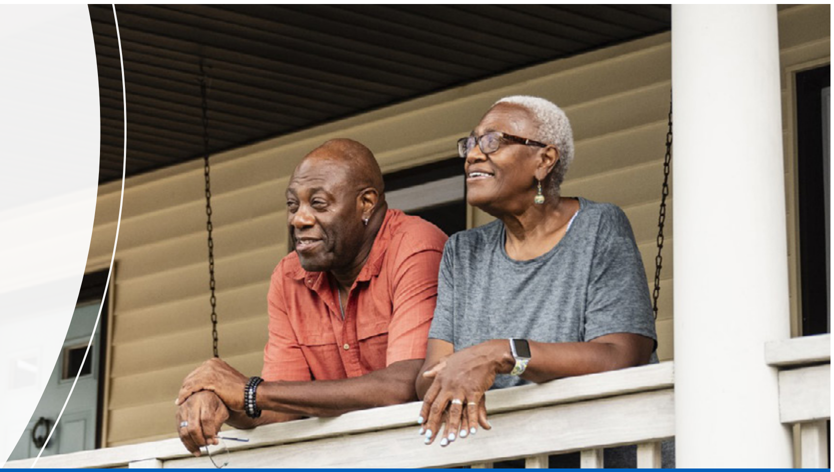
Senior housing and family offices

A mutually beneficial partnership



Real estate has long been a fundamental asset class for family offices, given that it can help provide generational wealth thanks to its tax-advantage benefits, sustainable cash flow and long-term capital appreciation. However, there is one real estate category that deserves more serious consideration as part of a family office's investment strategy: senior housing.

The long-term outlook for senior housing is strong. Demographic trends[1] are driving what's expected to be an explosion in demand for a market segment at a time when supply of new senior housing remains low. That's why as many family offices look for new investment opportunities, senior housing is becoming a desirable option.

It can also be mutually beneficial, as the senior housing sector needs investors that take the long view to finance and sustain its long-term growth.

Demographic and investment shifts

As the youngest baby boomers are nearing retirement and the oldest boomers turn 80 next year[2], senior housing is primed for strong growth over the next 10 to 20 years. To meet the demands of an aging population, new construction activity will have to pick up significantly in the near term.[3]

There's also a shift in the types of investors needed to meet this demographic tailwind. Much of the investment in this sector has come from public and private real estate investment trusts (REITs) and private equity firms. But it's become clear that senior housing requires patient capital to meet its real estate as well as operational needs. Family offices by design tend to view investments as more of a marathon than a sprint, and we're seeing more family offices investing in both the real estate and the operators.

Mutual benefits

Because senior housing is a growth sector, it's going to require significant amounts of capital from sources that historically have not invested heavily in this space, particularly for the new construction that will be required over the next decade to meet the increased demand. Furthermore, senior housing is a needs-based industry. Unlike trend-driven investment opportunities, this is a sector of the market that should remain robust in the next 20 years.

REITs and private equity, which have been the growth engine for senior housing over the past 20 years, have largely followed a bifurcated property company and operating company (PropCo-OpCo) structure. By separating a facility's operations from its ownership, it protects the property owner's assets, but it also leaves the operating company exposed to long-term risks.

Unlike other real estate investments, senior housing leans heavily on the operational side. To achieve next-level growth, the senior housing sector needs more investment in operations, and that's something only large-scale patient investors—such as large family offices—can provide through direct investments.

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Investment vehicles

Family offices interested in exploring senior housing opportunities have several investment instruments at their disposal. Public REITs or mutual funds are good options for smaller offices that want to dip their toes in the water and focus primarily on the real estate. Larger family offices can invest directly in the property and operator or co-invest with other family offices.

Whether you're a small family office that uses a third-party investment manager or a larger office that makes direct investments, senior housing is an attractive opportunity because of the growth projections and the needs of the industry. Family offices provide the kind of stable capital that the senior housing industry needs while potentially generating returns for multiple generations within the families.

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[1] U.S. Census Bureau

[2] U.S. Census Bureau

[3] Senior Housing News

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