



# CAMBRIDGE

*Senior Housing & Healthcare Capital*

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PRESS RELEASE

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## SENIOR HOUSING A PROFITABLE NICHE FOR SAVVY INVESTORS

With the baby boomer generation reaching its senior years, there is a new bubble of growth in the seniors housing sector. Demand for services is on the rise in all areas of senior housing, including independent living, assisted living and skilled care facilities. This population boom, coupled with the fact that the seniors and their families are more discriminating than ever when it comes to choosing the right facility in which to spend their golden years, has presented some equally golden investment opportunities. This has led to investors of all types, including private and institutional, as well as those who consider themselves "traditional" residential or commercial real estate investors, to shift their focus to the seniors housing market.

Cambridge Realty Capital regularly engages with potential investors, all of whom have similar questions about the profitability potential. Like any type of investment, there is always potential for profit, even during an economic downturn. The key is identifying and answering four critical, industry-relevant questions:

Is senior housing real estate or business?

Should I invest with a partner who is an operator or not?

Should I invest in skilled nursing facilities?

Do I want to consider a new construction deal?

Cambridge Realty Capital Chairman Jeffrey A. Davis lends his expertise in addressing these questions:

1) *Is Senior Housing Real Estate Or Business?* The line between real estate and business is somewhat blurry with senior housing investment, and quite distinctive from what is considered "traditional" commercial real estate investment.

According to Davis, the classic real estate mantra "location, location, location" does not necessarily apply to senior housing. Rather, "operator, operator, operator" is much more fitting. "We at Cambridge have always felt senior housing is more of a business," says Davis. "Good operations can make or break your investment."

When deciding whether or not to work with a particular operator, Davis offers this advice:

"Do not take anything for granted in senior housing. Read every part of the management agreement thoroughly. Use your own management agreement, not the operator's management agreement." Davis also advises investors to do thorough research and know the right questions to ask the managers, and to always ask "why?" Finally, don't sign off on your agreement and then disappear, assuming things will go as planned. Always keep a sharp eye on operations.

2) *Should I Invest With A Partner Who Is An Operator Or Not?* This is a common structure in senior housing investing, and many new entries into this market think this is the only way to go. However, according to Davis, this structure can and does work well sometimes, but it's not a given.

When partnering with a manager, Davis strongly advises working with someone who is also making a major capital investment themselves. This ensures that both partners are accountable and both have a significant financial stake in the success of the operations. Davis also urges investors to draft a management agreement that creates very specific performance criteria, adding that a management agreement should never be a lifetime contract or entitlement. Davis also counsels investors to keep a regular flow of open-minded dialogue between investor and owner.

3) *Should I Invest In Skilled Nursing Facilities?* The demand for skilled nursing care is greater than ever, leading to increasing investment opportunities in this niche of senior housing. The yields in this niche are always higher, making skilled nursing very enticing to investors, but Davis has a word of caution when it comes to skilled nursing facilities: "There is a lot of risk involved due to changes in reimbursement structures or different types of survey issues." In addition to an unpredictable future, Davis notes that there is also tremendous governmental involvement in skilled nursing facilities, which leaves little or no room for negotiation on the part of managers or investors.

However, Davis also notes that skilled care facilities can be a good risk for experienced investors because there will always be a demand for them. Additionally, when entered into carefully, investments in skilled nursing facilities can yield higher returns than traditional investments. The difference between profit and loss lies in active asset management and clinical surveillance, as well as a favorable lease and having an experienced attorney on board.

4) *Do I Want To Consider A New Construction Deal?* With an aging baby boomer population has come the need to build more senior housing facilities in order to meet the demand. Because of this, opportunities for investing in new construction facilities are abundant, and may look very appealing to investors, at least on the surface.

Davis encourages restraint when examining numbers. "It's very important to not get totally intoxicated by how numbers look on paper," he cautions. Basing an investment decision solely on numbers is a shaky investment strategy. Rather, he urges investors to look beyond the numbers to the demographics. "There must be both age-appropriate seniors in the market and high home values and income levels, plus different types of zoning constraints which create de facto certificate of needs." Potential investors should be prepared to conduct a complete market study, among other due diligence, before signing on.

For the savvy investor, senior housing can be profitable as well as rewarding on an altruistic level. Regardless of the state of the economy, the need for senior housing will always exist. However, says Davis, this does not mean that the senior housing market is recession-proof, only recession-resistant. If investors keep this in mind while conducting comprehensive research and seeking out highly professional partners and business advisors, senior housing is a smart and worthwhile investment.

Privately owned since its founding in 1983 as a real estate investment banker specializing in commercial real estate properties, Cambridge today has three distinctive business units: FHA-insured HUD loans, conventional financing, and investments and acquisitions. The company is one of the nation's leading senior housing and healthcare debt and equity capital providers, with more than 400 closed senior housing transactions totaling more than \$4.5 billion since the early 1990's, when the firm began its specialization in providing senior housing capital.

Cambridge has consistently ranked among the country's top five FHA-insured HUD lenders (now HUD Lean) over the last 15 years and offers an array of conventional lending options, including permanent construction and interim loans on either a floating or variable rate basis. The company's principal investment strategy includes direct property acquisitions, joint ventures and sale/leasebacks. The company has acquired 16 facilities totaling approximately \$60 million.

Cambridge is the creator of *The Signature Experience*<sup>™</sup>, a four-step process designed to transform the traditional lender/borrower relationship and identify "ideal" capital solutions for worthy projects. The

company has a national origination office in Los Angeles, and numerous correspondent and brokerage relationships nationwide.

Cambridge publishes the bi-monthly Capital Wisdom(R) electronic newsletter, which delivers company news and feature stories via e-mail to corporate friends and clients as well as monthly updates of other relevant news and breaking trends. Additional information is available on the Cambridge website, [www.cambridgecap.com](http://www.cambridgecap.com), and Cambridge can be reached at (312) 357-1601 or via e-mail to [info@cambridgecap.com](mailto:info@cambridgecap.com). The firm also has embraced social media and networking via Twitter at <http://twitter.com/cambridgecap>, via Facebook at <http://www.facebook.com/cambridgecap>, via blog at [www.cambridgecap.com/blog](http://www.cambridgecap.com/blog) and via LinkedIn at <http://www.linkedin.com/companies/454232>, where information on the firm and its employees can be found.

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