



# REAL ESTATE JOURNAL

May 22, 2006

## **In With the Old**

Investors find sustained demand, higher returns in senior housing projects

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Once considered a risky investment, the senior housing market is attracting more capital to its relatively higher returns.

Whether senior housing units are rented at market rates or low-income levels, the demand appears guaranteed as the U.S. population ages. However, similar to other property types, capitalization rates are dropping as more money is attracted to the assets.

According to the U.S. Census Bureau, the number of Americans aged 65 and older in 2004 was 36.3 million. California has the highest number of residents in that age group at 3.8 million, followed by Florida with 2.9 million.

A recent study by the National Institute on Aging, one of the National Institutes of Health, estimated that the number of senior citizens aged 65 and older will double in size to 72 million by 2030, accounting for one in every five U.S. residents.

### **Low-Income Need**

While a lot of capital is being invested in market-rate properties and a variety of senior housing types, there is still a big need for low-income apartments.

The poverty rate for people 65 and older was 9.8 percent in 2004, compared to 12.7 percent of all Americans, according to the U.S. Census Bureau. The federal Office of Management and Budget defines the poverty threshold as annual income at or below \$9,645 for an individual and \$12,334 for a family of two.

San Diego-based Senior Community Centers completed the 200-unit Potiker Family Senior Residence in downtown San Diego in August 2003. The income limit is 30 percent to 45 percent of the area median income, with a maximum income of about \$21,000 a year, but most residents earn \$10,000 to \$12,000 per year, said Paul Downey, president and chief executive officer of Senior Community Centers.

In another high-priced Southern California housing market, Encinitas-based **Las Palmas Foundation** and the Related Cos. of California recently opened **Bayview Landing**, which has 120 apartments for low-income senior citizens in Newport Beach.

The project's one- and two-bedroom units rent for \$700 and \$1,000 per month to seniors who are at least 62 years old with incomes between 50 percent and 60 percent of the area median income.

Bayview Landing was financed with a \$1.25 million loan from the city of Newport Beach, \$250,000 from The Irvine Co., \$4.92 million in tax credit proceeds and a \$9.2 million California Housing Finance Agency loan.

The developers have a 55-year ground lease with The Irvine Co. for the five-acre site at Jamboree Road and Back Bay Drive, next to the Newport Dunes Marina and a new 10-acre city park, and close to Irvine's Fashion Island mall.

"It's as luxurious as any upscale condominium building in the area. It has tremendous community facilities, a movie room, a weight room, a pool and spa," said **Joseph Michaels, president of the nonprofit Las Palmas Foundation.**

Michaels said the senior housing and park were complementary uses, so the project had widespread community support.

"The park is really a great amenity. We have an active group of seniors that ride bikes and walk on the trails," he said.

Las Palmas believes that amenities and activities are important in senior housing projects. The nonprofit plans to hire an activities coordinator for recreational events, such as water aerobics, computer classes, workshops and transportation to local doctors' offices and shopping centers.

Las Palmas is typically a long-term owner and operator of its properties, but its investment partners can sell or recapitalize their interest after 15 years, especially if a project needs renovations. The nonprofit operates 20 affordable-housing communities in California, including nine properties with 1,161 units for seniors.

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