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Real Estate Investing Opportunities in Assisted Living

A look at investing in the housing needs of seniors.

Some real estate investors are buying assisted living facilities that will service the boomer generation.

By Joel Cone May 14, 2015 | 10:03 a.m. EDT

The aging of one of the nation's largest generations – the baby boomers – is a potential investment opportunity that has been on the radar of astute real estate investors for years.

The first children of the boomer generation (defined as post-World War II babies born between 1946 and 1964) began turning age 65 in 2011. According to a December 2010 report released by The Pew Research Center, boomers numbered 79 million, accounting for 26 percent of the U.S. population. Beginning in January 2011, the report estimates that about 10,000 boomers would be turning 65 every day for the next 19 years.

For investors who want a piece of the action in the large, institutional nursing and assisted living business models, they can participate as passive investors, buying shares in the many real estate investment trusts that specialize in multimillion-dollar health care facilities.

However, when it comes to the average real estate investor, who is used to either flipping homes or buying rental properties one at a time, there are much lower-cost alternatives that can deliver positive cash flow but stay in the comfort zone of their current business model.

Veteran real estate investor and certified financial planner Gene Guarino specializes in that smaller space: assisted living facilities, or ALFs.

From a business perspective, investors need to understand that they don't have to wait for the boomers. They can buy and own a senior care facility now and be ready to service the boomer generation down the road.

"Most people would say, 'I'm going to buy a nursing home.' That's a $20 million project," says Guarino, president of the Residential Assisted Living Academy in Phoenix. "Most people can't even picture themselves getting into this. But when you bring it down to the single-family home level, everybody can picture doing that. It's about location, but it's also about cash flow."

To him, the ALF business model is much more attractive than a single-family rental for a number of reasons, especially the fact that the investor is meeting the housing needs of aging seniors while collecting rent from multiple residents in the same property.

In respect to the location of an ALF, Guarino looks for more affluent, upper-middle-class neighborhoods. He prefers a single-level, single-family residence with larger square footage. The number of bathrooms is more important than the number of bedrooms because it's relatively easy to add bedroom space, but more difficult – and more costly – to move plumbing. Garages can always be converted to additional living space as well.

When it comes to purchasing the house, Guarino is less concerned about the price he pays than if he was a landlord buying a rental in a single-tenant scenario.

"The acquisition cost is not as important as the cash flow. Most investment courses say you make your money when you buy. This is buy and hold with a business component that's making me a lot more. It's not how much it costs, but how much will it produce," he says.

Unlike the conventional investment philosophy, in this business model Guarino is not concerned that the seller may be asking for more than the house is worth. He is willing to pay full price so long as it is the right house in the right neighborhood, and that can mean a drawn-out property search for a needle in a haystack, as he puts it.

However, once the property is located, it can make a big difference for the investor looking for a steady income stream. In terms of debt service, the difference between paying $1 million for a property and $500,000 is about $3,000 to $4,000 a month. That higher debt service translates into one additional resident, he says.

"If one house can only get me $3,000 per month, per bed, and another can get me $5,000 a month, per bed, the business is pretty much the same. If I can have a 10-bedroom house, I want the extra $20,000 a month," he explains.

In 70 percent of the states, the facilities are referred to as assisted living facilities, Guarino notes. In California, they are commonly known as board and care, or assisted living residences.

State regulations also can limit the number of units allowed in any ALF and how close they can be to others. In California, the limit is six bedrooms, for instance, but in some states it can be as many as 10.

"State regulations make the parameters of the property search tougher for investors looking to get into the assisted living space," said Rick Sharga, executive vice president at Auction.com.

"Fortunately, there are numerous sources of information online to help investors locate properties available through traditional sales and at auction across the country, along with property characteristics, market trends and other important [things] investors need to make an informed buying decision."

In addition to location, investors need to consider details such as zoning laws, the cost of renovating the property and general accessibility to the facility, among other factors.

Guarino says there are different levels of involvement in ALFs, depending on the amount of risk desired and whether the investor wants to be more passively or actively involved in the everyday business of the facility.

Other options to consider include whether to own the real estate and lease it to the ALF for up to twice the fair market rent; own and operate the ALF and lease the real estate; or own both the real estate and the business.

Guarino estimates the average cost of living in a ALF is $45,000 a year. In California, the costs vary, with a state median of $3,750 a month per tenant in 2014.

Because of the abundance of boomers in California, the opportunities there are outstanding, but Guarino points out that good opportunities also exist in other parts of the country such as Detroit, Atlanta and parts of Florida.

Longtime real estate investor Tom Bissmeyer says he tries to stay on top of trends in the business to direct his investment strategy in Denver. Years ago, it was buying rental properties around university campuses. Now he's focused on buying homes to turn into assisted living residences. "What I love about this space is the individual investor can get one, two, three or four of these and can build a very respectable yield for themselves. It's easy to have a 15 percent to 25 percent yield, depending on how you structure it," Bissmeyer says.

For Bissmeyer, it is important that his facilities reflect a home environment rather than an institutional one. Every resident has their own bedroom, but everyone eats in the same dining room, and home-cooked meals are prepared in the kitchen. Finding the right staff is also of utmost importance.

"It's about the quality of care for the residents. Making sure they are having a dignified experience at this stage of life," he says.

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