

# TEXAS REAL ESTATE BUSINESS®

Connecting Real Estate in Texas

## SENIORS HOUSING DEVELOPMENT IS STRONG

Influx of investors, anticipated demand fuel new construction across Texas' major markets.

By Haisten Willis

Seniors housing construction is ramping up throughout the state of Texas. As developers look to population growth, the state's development-friendly climate and available capital, the number of projects under construction in the state's major markets continues to increase.

During the first quarter of 2014, there were 5,349 assisted living, independent or memory care units under construction in Austin, Dallas, El Paso, Houston and San Antonio, according to the National Investment Center for Seniors Housing & Care (NIC). By the first quarter of 2015, that number had risen to 6,525 total units, a 22 percent increase.

In San Antonio, there were 1,781

seniors housing units under construction in the first quarter of this year, representing 23.5 percent of existing inventory. Austin's 920 units under construction accounted for 15.4 percent of that market's existing inventory. Those were the highest two percentages of any major markets in the United States.

As of the first quarter of 2015, the average rate of construction across the largest 99 metro areas in the country was 4.2 percent of existing supply, according to NIC. The median number was 3.4 percent. One-third of the markets NIC tracks had construction that represented less than 2 percent of ex-

see *SENIORS*, page 28



Developer and operator Avanti Senior Living is constructing the \$17 million, 77,000-square-foot Avanti at Vision Park in Shenandoah, a suburb of Houston.

## INDUSTRIAL SECTOR A HOT COMMODITY IN TEXAS

Business-friendly environment leads to industrial sector growth in the Lone Star State.

By Haisten Willis



Daiken Goodman Air Conditioning will consolidate into a new campus west of the Grand Parkway. The move will vacate space around the northwest Houston submarket.

Growth in the industrial segment in Texas continues unabated as the business-friendly climate, job growth and surging population numbers keep the economy going strong. All four of the state's big markets — Dallas, Houston, Austin and San Antonio — are contributing to the industrial sector's increasing construction and occupancy.

To get a better glimpse into Texas' industrial market, *Texas Real Estate Business* recently conducted interviews with Royal Pratt, senior regional director and market leader for First Industrial's Dallas and Houston offices, and John Talhelm, Houston-based senior vice president of JLL. The following is an edited Q&A.

**Texas Real Estate Business:** Which trend is having the biggest effect on your local market's industrial property sector right now? In what tangible ways have you seen the market change as a result of that trend?

**Pratt:** The biggest trend driving the local market is the business friendly environment in Texas that is attracting new business investment. With that comes growth in population since people go where the jobs are. As a result of that trend, you have seen a broadening in the types of users seeking industrial real estate.

**Talhelm:** The impact on the Houston market due to the drop in oil prices has been focused on businesses that

see *INDUSTRIAL*, page 30

### INSIDE THIS ISSUE

Topping Out Ceremony Held  
for Three Hughes Landing

page 12

Japan-Based Daiso Opens  
First Texas Location

page 8

San Marcos: Texas' Best-Kept Secret

page 22

Demand Fuels Dallas  
Industrial Market

page 20

# SENIORS HOUSING DEVELOPMENT IS STRONG

SENIORS from page 1

isting supply.

“San Antonio’s demographic growth rate is among the strongest of the markets NIC tracks, with the number of 75-plus households expected to grow at an annualized rate of 4 percent a year through 2019,” says Chris McGraw, senior research analyst for NIC. “But occupancy and absorption have been rather weak recently.”

Occupancy in San Antonio was at 88.6 percent in the first quarter of this year, and absorption has been negative in each of the last three quarters, according to NIC.

The majority of Americans moving to Texas from other states are not senior citizens. Nonetheless, San Antonio is expected to have a higher-than-average influx of 75-plus households, according to NIC.

Also, elderly parents usually move closer to their children when it is time to make the transition into seniors housing.

The state of Texas added 91,200 jobs in the first quarter of 2015, which was actually the smallest gain for any first quarter since 2009. Texas has seen 59 consecutive months of annualized job growth, according to the Texas Workforce Commission.

“Seniors housing growth is going to occur in areas that are experiencing job growth,” says Larry Peters, vice president of Q10, Kinghorn, Driver, Hough & Co., a commercial mortgage banker.

Much of the growth in seniors housing comes ahead of the coming surge of Boomers entering their retirement



**Lori Alford**  
Avanti Senior Living



**Imran Javaid**  
Capital One Bank

years.

“The years 2020 through 2025 will be the peak times when Boomers begin needing these services,” says Imran Javaid, managing director of commercial and specialty finance for Capital One Bank. “After that, it will keep growing for another 10 to 15 years.”

The Baby Boom generation (1946-1964) will begin turning 75 in 2021 and age 80 in 2026.

Of the 6,525 units under construction in the major markets of Texas during the first quarter of 2015, 2,615 units were designated for assisted living. Another 2,347 were designated independent living, followed by 1,503 memory care units and 60 skilled nursing units. Memory care, including stand-alone and additions to seniors facilities, is expected to continue becoming a more important element of seniors housing as life expectancy increases.

Some industry experts believe that development is peaking in the major markets of Texas and expect a gradual pullback in the next few years.

“I think all four of Texas’ major metro markets will slow down in seniors housing development,” says Lori Alford, COO of Avanti Senior Living, a Texas based owner, developer and operator of seniors housing. “Some of that development will move to sec-



**Larry Peters**  
Q10 KDH



**Chris McGraw**  
NIC



**Charles Bissell**  
IRR

Last year was probably the strongest acquisition year on record. The high amount of capital available has driven down cap rates and increased values across the board.

— Charles Bissell  
National Practice Leader, IRR

ondary markets or to other states because of overdevelopment.”

## Financing

San Antonio and Austin aren’t the only Texas markets seeing lots of development in the seniors housing space.

A recent study by Integra Realty Resources (IRR) conducted on Collin County in suburban Dallas found that if all of the seniors housing projects under construction or in the development pipeline were to be built, the supply would expand by 53 percent in the county.

The most active seniors housing developers in Texas during the first quarter of 2015 were South Bay Partners with 1,156 units under construction, Caddis Partners with 413 units under construction and Life Care Partners with 371 units under construction. Ten separate developers had at least 180 seniors housing units under construction in Texas in the first quarter, and more developers could be on the way.

“It seems as if every time a new developer wants to enter into the seniors housing space, they come to Texas first,” says Charles Bissell, national practice leader of IRR, a commercial real estate appraiser. “We field calls weekly from developers new to the space that want to build their first project.”

Part of the reason for the tremendous growth is the number of investors who are interested in seniors

housing.

“Last year was probably the strongest acquisition year on record,” says Bissell. “The high amount of capital available has driven down cap rates and increased values across the board.”

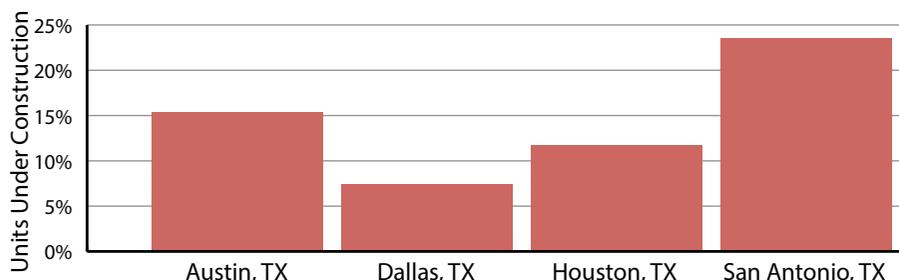
According to SeniorCare Investor, in 2014 there were 294 publicly announced mergers and acquisitions totaling \$25.5 billion. This was up from 225 transactions and \$11 billion in 2013. According to Bissell, funds are coming in from a variety of sources, including institutional equity, private equity, REITs and foreign investors.

Cap rates for seniors housing have fallen as a reflection of the influx of capital. Whereas in years past assisted living properties sold at cap rates of approximately 10 percent, they now hover around 6 percent.

Bissell says there is a definite possibility that overbuilding is taking place in some Texas markets, and he points out that Houston is already seeing some overbuilding in the memory care sector. The supply of memory care housing in particular has doubled in the last five years in Houston, according to IRR, and occupancy has fallen from the mid-90s to the upper 70s.

Before building a community in any location, Alford, of Avanti Senior Living, says the company always evaluates the need for memory care and then decides whether it’s necessary to include that level of care.

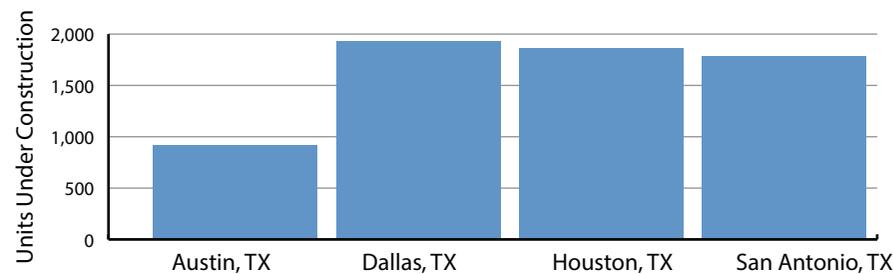
## Current Seniors Housing Construction Compared to Existing Inventory



The current rate of construction is significant when compared to the amount of existing inventory, especially in San Antonio and Austin.

Source: NIC

## New Seniors Housing in Major Markets



Many Texas metros are seeing a high amount of new construction in seniors housing. Source: NIC

“Within the past few years there has been a bigger focus on memory care, but I think we have to be cautious in the industry. You can’t sustain five brand-new memory care developments in one market,” says Alford.

### Effect of ACA

As with other property types that include a health care element, seniors housing has been affected by the passage of the Affordable Care Act in 2010.

New regulations required by the ACA have contributed to a rise in large seniors housing operators buying smaller ones, who are sometimes less equipped to handle new regulations requiring health care systems to join networks and provide continuums of care. The increased purchasing power of a larger operator also aids in areas such as food and insurance costs.

“Smaller operators don’t have the ability or resources to invest in some of the software and capital expenditures required to bring them up to speed,” says Javaid. “The consolidation trend is a reflection of that reality.”

ACA is having a similar effect on skilled nursing operators.

“The ACA calls for health care providers to form networks and to provide continuums of care, and that tends to benefit large skilled nursing operators,” says Bissell. “They can go



Avanti at Vision Park will include amenities such as an art studio (at left) and formal dining room (at right) in its location in suburban Houston. According to NIC, there are currently 1,863 seniors housing units under construction in the Houston area.

to a big hospital system and negotiate to become part of their network. A smaller operator doesn’t have the ability to negotiate with a big hospital system.”

How much development is needed

and how much consolidation is still to come remains to be seen. What everyone interviewed for this story agrees on is that seniors housing will play an increasingly important role in the commercial real estate industry in the

future.

Javaid couldn’t agree more. “In my opinion, seniors housing will eventually be recast as one of the core property classes.” ■



The attorneys at Siegel Jennings bring experience as accountants, appraisers and real estate developers to the practice of law. Our property tax services include:

- Representation at the administrative level through the State Supreme Court
- Local expertise in every state through the American Property Tax Counsel
- Tax management—acquisition/disposition strategies
- Cutting edge approaches to property tax reductions

## SIEGEL JENNINGS

Co., L.P.A.

*Fostering fairness for all taxpayers.*

Call Kieran Jennings, Esq. at 216.763.1004

23425 Commerce Park Drive • Suite 103 • Beachwood OH 44122  
www.siegeltax.com

Cleveland • Pittsburgh • Columbus

Founding member—American Property Tax Counsel (APTC)  
www.aptcnet.com