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INDUSTRY INSIGHTS

Carlyle Group, Other Active Adult Pioneers Venture Into 'Uncharted Territory'

By Chuck Sudo

The most experienced developers and investors in active adult communities are reaping benefits from the product type, as the senior living industry at large scrambles to define its parameters.

More seasoned players in the active adult market — including private equity giant The Carlyle Group — say that it is a product where average lengths of stay are more than two times the average of independent living, and at profit margins that outperform senior housing.

And active adult is coming into its own as part of the senior housing continuum. It is not interchangeable with independent living, where residents today are older than in the past, but complements traditional senior housing.

The idea of active adult as the new independent living was the topic of a panel discussion at last week's National Investment Center for Seniors Housing & Care (NIC) 2019 Fall Conference in Chicago, featuring executives from The Carlyle Group, Avenida Partners, Cortland Partners and Capitol Seniors Housing.

As the active adult market has heated up in recent years, the need for a more standard product definition has emerged. Carlyle Group in particular has emerged as a major presence in the space, beginning a concerted push about five years ago. The investment firm works with several partners in the space, including with Greystar on its Overture brand. Over the past four years,



Overture has rapidly scaled, with 40 communities across 13 states now listed on the Overture website.

Capitol Seniors Housing Founder and Managing Partner Scott Stewart compares the wide-open field for active adult to when the Washington, D.C.-based company entered the broader senior living industry in the early 2000s. Back then, institutional groups that were initially spooked by senior housing's high insurance costs and operational intensiveness returned to the space, chasing yield after multifamily cap rates plummeted.

That same multifamily landscape is now driving investment in active adult. Stewart sees a lot of runway for active adult, with the oldest baby boomers entering their 70s and at least a decade away from entering independent living. Capitol Seniors Housing is pursuing active adult development and remains bullish despite some initial setbacks.

Positive demographic trends

The aging baby boomer demographic is the primary driver of investor interest in active adult, Carlyle Group Principal Zach Crowe said. The Carlyle Group studied demographic trends before it first invested in active adult and found that the oldest baby boomers — in their late 60s and early 70s — are at least 15 years away from entering traditional senior housing.

Carlyle Group's active adult portfolio includes a mix of acquisitions and ground-up developments; 15 communities are stabilized. Crowe sees opportunity for active adult across all price points but emphasized that careful market analysis is needed to determine what consumers in a particular area want and what they will pay for.

The average age in Carlyle Group's active adult portfolio is between 72 and 73 years, which excited the company from a demand perspective, and creates a potential pipeline for residents to move to Carlyle investments with higher acuity care. Carlyle has been investing in traditional senior living and care for decades, with its holdings at one time including skilled nursing giant HCR ManorCare.



"The most interesting thing we saw about the [senior housing] space is that the oldest baby boomer was going to age directly into the average age of an active adult [resident]," Crowe said.

Crowe sees active adult occupying a gray area between traditional multifamily housing and independent living. It is not competing with either product. Crowe estimates that between 60% and 70% of active adult prospects are selling their family homes and downsizing. Carlyle Group found, in its initial focus groups on active adult, that very few residents shopped traditional multifamily apartments when looking to downsize their housing footprints.

Stronger lease-up, retention rates

Multifamily investors entering the active adult space need to understand that the lease pro formas are different, Cortland Partners Director of Investments Jared Bankos said. The Atlanta-based developer currently operates nine active adult communities under the Attiva brand, totaling 2,200 units in the Atlanta suburbs, Las Vegas and across Texas.

While lease pro formas in traditional multifamily housing can sometimes be as high as 20-30 per month, depending on the size of the building, a lease pro forma between six and eight units per month is considered successful in active adult. So, these buildings tend to be smaller in scale than multifamily apartment complexes. Cortland Partners' Attiva communities, for example, average around 180 units.

Avenida launches its pre-marketing and pre-leasing efforts nine months before a community opens, reaching out to influencers in its markets who are interested in the product, as well as senior living providers to assuage fears that they are competing for the same renter.

This results in establishing a mutual referral network to send referrals who would, for example, be better suited for independent living to a competitor, and vice versa. May considers active adult to be a new stop in the senior housing continuum.

Another benefit of active adult is that, once residents move in, they rarely leave until they need higher levels of care. Crowe estimates the average length of stay at Carlyle Group's stabilized



active adult communities is between six and 10 years, once residents have moved in and accepted the sense of community.

"You have to be patient on the lease-up but — once you get [the communities] full — they stay full," Crowe said. "It's a very stable asset class, especially when adjusted for risk."

Having a consistent, stable tenancy allows active adult investors to push rent growth, which translates into higher, more consistent returns. Active adult is second in rent growth among Carlyle Group's portfolio, Crowe said.

Original Article:

<https://seniorhousingnews.com/2019/09/19/carlyle-group-other-active-adult-pioneers-venture-into-uncharted-territory/>

PROJECT UPDATE

Bartlett Project Update

The Bartlett Seniors Housing Complex will be a 129-unit apartment building designed for active senior living, located at 550 Bond Street in Oshawa, ON. The Bartlett represents an affordable alternative to conventional seniors housing, offering services that permit seniors to live independently, on an à-la-carte basis through a concierge, in a regular apartment building, while providing the comfort to seniors and their families that care will be available in short order should the need arise. Below is a brief update on the progress at The Bartlett and pictures from the site.

- Windows have been delivered and installation continues.
- EIFS material has been delivered.

- Brick ties are being installed.
- Suite framing layout is being chalked and framing has begun.
- Mechanical rough ins are ongoing and proceeding on schedule.





Chancery Seniors Housing Investments Inc. is a private real-estate investment firm with a focus on seniors housing. Powered by its two strong founding partners, Suske Capital Inc. and LD Capital Corp., Chancery creates a team with the expertise and experience of over 55 years in real estate and seniors housing developments with an estimated completion value of over \$5 billion.

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