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Sell, Buy Senior Housing

By MAURA WEBBER SADOVI

A New York developer that sold a large senior-housing portfolio near the top of the market is part of a venture that has cut a deal to buy back the properties and build even more, a transaction that illustrates the divergent perceptions about senior housing.

Engel Burman Group, based in Garden City, N.Y., teamed up with Harrison Street Real Estate Capital LLC, a real-estate fund-management firm in Chicago, to take control of a seven-property portfolio spread throughout Nassau and Suffolk counties on Long Island in a transaction valued at $370 million. Harrison Street, whose founders include former Motorola Inc. chief executive Christopher Galvin and his brother Michael Galvin, is leading the venture.

In 2007, Engel Burman sold six of the properties, which carry the Bristal brand, for $320 million, and now with Harrison essentially is buying them back for about $318 million. Engel Burman contributed a seventh property valued at $52 million.

Jay Brenner

This senior-housing property in East Northport, N.Y., is part of a recently acquired portfolio.

Five of the properties were acquired from a venture of Chartwell Retirement Residences of Canada and a sixth was acquired from an Australian firm. At each of the properties, about 80% of the units provide a level of care known as assisted living, while about 20% are tailored to residents with Alzheimer's disease or facing other memory-related challenges.

Jan Burman, president and co-founder of Engel Burman, said his company sold its six properties in 2007 to take some equity out of the company rather than as part of a desire to exit the industry. "We cashed out, but we still loved the properties," Mr. Burman said. After selling, the firm began developing more senior-housing properties but was planning to brand them under a different name. By repurchasing Engel Burman's former properties, the venture can use and build on the Bristal brand name. Repurchasing the properties also enables the venture to speed the growth of the portfolio to a larger size that would be more attractive to a potential buyer down the line, he said. "Clearly, what we've found is size is important," Mr. Burman said.

The sale trails a few blockbuster deals in recent years. Among the biggest: Ventas Inc.'s $5.8 billion acquisition of Nationwide Health Properties in 2011. More recently, a joint venture of Blackstone Group LP sold a large senior housing portfolio to HCP Inc. late last year for $1.7 billion.

Buyer interest since the recession has been fueled by perceptions that the properties are less susceptible to swings in the economy because people who need assisted living typically can't time when they need to be in such properties. Occupancy rates in senior housing nationally stood at 89.1% in the fourth quarter, above the 87% they fell to in 2010 but below the 91.7% peak in 2007, according to the National Investment Center for the Senior Housing and Care Industry.

Not all investors are convinced of the upside potential for the segment, and deal volume has been uneven year-to-year. It is one of the few types of real estate that didn't see a big run up in the volume of deals immediately before the recession. From 2006 through 2009, annual deal volume was in the $2 billion to $3 billion range before rising to about $6.1 billion in 2010. Overall, there were $9.7 billion in deals in 2012, down sharply from $27 billion in 2011, according to Real Capital Analytics, a real-estate research firm.

"We're still seeing portfolio acquisitions but not the size we saw in 2011. Those deals took the low-hanging fruit," said Chris McGraw, senior research analyst at the National Investment Center.

Predictions are mixed as to whether deal volume in the senior-housing sector will pick up again, but many analysts expect more investors and developers to begin building new properties as prices of existing ones rise. Nationwide average prices per unit stood at $119,000 in the fourth quarter, above the low of about $86,000 hit in 2010 but below the previous high of $188,000 in 2006.

Engel Burman and Harrison are among the investors that plan to build. Chris Merrill, chief executive of Harrison Street, said the properties are attractive because they generate above-average monthly rents as high as $4,200 for the assisted living units and $5,500 a unit for those in the so-called memory-care segment. The venture plans to build another 1,000 units together. Harrison Street said it is focusing on a similar mix of assisted living and memory-care units rather than housing for seniors who don't need any assistance. "If Mom has health issues or dementia, it's very hard to take care of that at home," said Mr. Merrill.

The Bristal properties will be part of Harrison's Harrison Street Core Property Fund, whose investors include pension funds and other institutions. In total, Harrison Street manages a real-estate portfolio of about $5 billion. The acquisition brings the total senior housing portfolio up to 68 properties valued at more than $1.3 billion.

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