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## Firm Targets the Aging Boomer Cohort

Real-estate sector focusing on health care gains favor as the U.S. population ages

By Keiko Morris

A Florida-based private-equity firm is doubling down on an investment strategy focusing on the graying of America.

Last week, Kayne Anderson Real Estate closed a \$1.85 billion real-estate fund, its fifth and largest yet, largely targeting senior housing and medical office buildings along with student housing. The investment vehicle, called the Kayne Anderson Real Estate Partners V, raised funds from a range of global investors, including pension funds, family offices and endowments. Family offices manage the fortunes of the wealthy.

"I think everybody is acutely aware, no pun intended, of the demographic trends in the sectors of health-care real estate," said Al Rabil, chief executive of the firm, which is a unit of Kayne Anderson Capital Advisors LP.

Most commercial-property investors who buy office buildings, rental apartment buildings and shopping centers have traditionally shunned health-care-related real estate as too risky and complicated. But this nontra-



The Watermark at Brooklyn Heights will be converted into a high-end residence for seniors.

ditional sector is gaining luster thanks to the aging of the baby-boom population, usually described as those born between 1946 and 1964.

This bulge in the population is expected to increase demands for both senior housing, which often includes independent and assisted-living programs, and medical office real estate. The shift toward performing many medical procedures outside hospitals and releasing patients the

same day also has benefited owners of medical office properties.

Demand for these property types is expected to be more resistant to the boom-and-bust cycle, analysts have noted. That adds to their appeal now with investors getting worried about how long the bull run in the commercial-property sector, now in its ninth year, will last.

"Senior-housing performance held up well during

the downturn and had a nice cycle," said Michael Knott, a managing director at Green Street Advisors. "So that, coupled with the coming demographic boom, created a lot more interest in the space."

Investor interest is driving prices higher, particularly for medical office buildings, making it trickier for investors to reap the high returns that attracted them to the sector. The capitalization rate of medical office

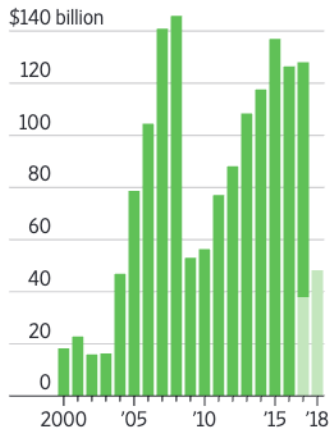
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## Growing Up

After a dip in 2016, private-equity real-estate funds have been more successful in raising new money.

■ As of May 22



Source: Preqin

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buildings, a common real-estate-industry metric for measuring value, fell by 0.63 percentage point in 2017, according to Green Street. Falling cap rates mean rising prices.

Also, popularity in the commercial-property sector often leads to new development. For example, the stock of senior housing increased 3.6% in 2016 and 3.7% in 2017, according to Green Street. In

2018, supply is expected to increase 4.7%, the firm said.

That new supply may counteract the rising demand or may even create downward pressure on rents and occupancies, some observers say.

Indeed, stock-market investors have become wary of the health-care real-estate sector. Historically, real-estate investment trusts that specialize in this kind of property have traded at a large premium compared with other real-estate categories.

But that has changed since the beginning of this year, the first prolonged stretch in which that has been the case for the health-care REIT sector. “That advantage has been wiped out in recent months,” Mr. Knott said. “Even medical office, which was the favored son, is now valued at the largest discount to [net asset value] within the health-care sector.”

Since the beginning of the year, the FTSE Nareit Equity Health Care Index has fallen 4.8% as of Tuesday, worse than the 4.24% decline in the broader FTSE Nareit Equity

REITs Index, according to Green Street. Meanwhile, the S&P 500 index has gained 1.4% in the same period.

Kayne Anderson has been able to steer clear of the pitfalls facing health-care-related property, Mr. Rabil said. In senior housing, the firm has partnerships with the top operators in the business and targets higher-end clients in areas that are constrained by supply, he said.

For example, in 2017 Kayne Anderson acquired the Watermark at Brooklyn Heights, a 16-story building from the Jehovah’s Witnesses, which used it for housing. Kayne Anderson is planning to convert it into a high-end senior residence with about 300 units, and such amenities as a swimming pool, spa and several dining rooms.

“We foresee no time, at least in my lifetime, that we will be in a supply-demand equilibrium from the senior-housing perspective,” Mr. Rabil said.

The firm also is making improvements to a former Boston chocolate factory that had been converted into

senior residences. The roof had been a smoking lounge. Kayne is revamping the space into a rooftop terrace with high-end touches.

Kayne Anderson also is investing in housing that targets health-care workers, among others. In Rochester, Minn., the firm is developing 372 rental apartments across from one of the Mayo Clinic’s hospitals. The project, named Berkman, combines the firm’s expertise in student housing, medical office and conventional rental housing that will target health-care workers in the area.

“Yes, the demographic trends are very positive,” Mr. Rabil said, “but true outperformance will depend on operating capabilities and understanding the market and asset classes.”

Kayne is closing the fund at a time when the number of private-equity real-estate funds is declining but the amount being raised is increasing. So far this year, 90 funds have raised \$48.2 billion, according to data provider Preqin. Last year during the same time, 123 funds raised \$38 billion.