Here Is What Your Investors Really Want To Know

By Susan Saldibar

We all know the numbers. By 2030, the 65 and over population will increase from 40 million to 72 million. That's an 80% cumulative growth for that age group (source: The Scan Corporation). Experts tell us that investment in senior housing remains attractive to investors, given that it's still relatively fragmented and undercapitalized.

I'm no expert, myself, but I recently spoke with one. Alan James is SVP, Investment Management, Accounting & Commercial for RealPage (a Senior Housing Forum partner). As someone who keeps his eye on the senior housing market, he had a few things to say about the market and what potential investors are looking at to round out their portfolios.

Investors know the data is out there and they want to be able to use it.

"Of course, all investors are driven by return and opportunity. So, if one asset class is under performing relative to other assets, such as certain sectors of retail, investors rethink their allocations and further diversify to other real estate asset classes such as senior living. And we do have an aging population, so senior housing continues to have appeal," Alan tells me.

What are they looking for? "When we talk to the investor community, their view is that they want to look at returns by asset class. They want to see them broken into business units (IL, AL, MC) and look at the returns across each portfolio," Alan explains. And they want to compare operators as well. So, it's about aggregating the business data and then drilling down into a deeper set of metrics. Clearly, they know the data is there and want to be able to mine it to make better investment choices.

Almost nothing is off the table. They want the ability to slice and dice things like revenue by business unit, revenue by bed, debt coverage ratio, occupancy, return yield, market value, NOI and so on. And they want it all by operators, by region, by vintage year, by property class (as in A versus B).

Would you give your investor a window into your KPIs and performance? Maybe you should.

For operators, the challenge is to both understand what investors are looking at and make sure they are, not only looking at the same things, but are keeping ahead of the information curve.

"If I'm an operator I want investors to know that I am using these same tools to look at key performance metrics the same way as my investors," Alan says. "We have clients who use RealPage's tools and actually provide their investors with dashboard access so that they can go in and review asset and portfolio performance," Alan tells me. And many are using this visibility as a marketing tool to attract investors. This mutual "window" into performance, Alan believes, is making the ecosystem more efficient, as both investor and operator are looking at the same information through the same lens.

Alan also tells me that this changes the conversations investors have with operators. Part of that is due to a sophisticated scoring system RealPage has developed, which they call the "RealScore". In a nutshell, here's how it works. The investor and operator agree on the seven or eight KPIs that best measure the health of the community. They also discuss and agree to the weighting of each KPI. So, something like occupancy might be 15%, net cash flow at 10%, and so on. Then, using a star system of 1-5, an occupancy of 90% would be considered a 5-star. The portfolio is weighted based on those kinds of scores. Alan says it makes a huge difference. The conversations are clearer, more concise. So are decisions, such as what to do with a 1-star building. Keep it? Sell it? This is the kind of internal benchmarking Alan says investors are looking for in communities.

Draining the data swamp. Who doesn't love that idea?

It also adds a layer of clarity in an area that traditionally has been lacking. "We may think we know what Net Operating Income is. But now, using this tool, we know exactly what the terms of understanding are. It helps us focus on areas for opportunity," Alan says. It also gives an investor confidence that the operator knows what they are doing. The end result? The investor may place more capital with them downstream.

Is this where the industry is going? Is it a good thing? How could it not be? If the investors are using the same tools and benchmarks as the operator there should be a lot less gray area. And Alan feels that it also keeps everyone out of what he calls the "data swamp". "Real estate is buried in a data swamp," he says. "We expect managers to muck around in that swamp. In the past, they never knew where to get what they need," he adds. Using these tools, looks like they will now.

For more information on how to get the data you need, watch this video about RealPage Portfolio Management.