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Owning the Operations: A Plain-English Guide to RIDEA Structures for Senior Housing Investors

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How RIDEA-style ownership changes what an investor is exposed to, why operator reporting matters more than ever, and the questions to ask before trusting a portfolio's numbers. Includes the 2026 change to the TRS asset limit.

Owning a share of a community's operating results is not the same as understanding them. When investors take on operating exposure, the quality and meaning of the operator's numbers become part of the investment.

2008
year the RIDEA provisions became law, as part of the Housing and Economic Recovery Act

25%
maximum share of a REIT's assets that TRS securities may represent for tax years beginning after Dec 31, 2025 (previously 20%)

5
operating drivers every RIDEA-style investment should underwrite

6
diligence questions for investors before relying on portfolio metrics

1. What changes when an owner shares in operations

RIDEA, the REIT Investment Diversification and Empowerment Act provisions enacted within the Housing and Economic Recovery Act of 2008, widened the structures available to owners of healthcare real estate. In a common arrangement, qualified healthcare property is leased to a taxable REIT subsidiary (TRS), which hires an eligible independent contractor, the operator, to run the community. The owner can then participate economically in the community's operating results, subject to the statutory conditions.

You will often hear the term SHOP, short for senior housing operating portfolio. SHOP is a reporting and business label, not a separate tax election. The legal framework is RIDEA; SHOP describes the kind of portfolio that results.

Under a traditional triple-net (NNN) lease, the tenant collects resident revenue, pays operating costs and owes the owner contractual rent. That does not make the owner risk-free: tenant default, weak rent coverage, deferred maintenance and transition costs can all affect the landlord. Under a RIDEA-style structure, changes in revenue and operating costs flow much more directly into the owner's results, in both directions.

Exhibit 1. Traditional triple-net lease vs. a typical RIDEA-style structure

	Traditional triple-net lease	Typical RIDEA-style structure
Income	Contractual rent; tenant credit and rent coverage matter.	Economic participation in operating results through the structure.
Exposure	Operator bears month-to-month margin swings; owner keeps credit and asset risk.	Owner has more direct exposure to revenue and expense swings.
What the owner needs to see	Coverage, covenants, care quality and property condition.	Detailed, trustworthy operating evidence becomes central to oversight.

Economic comparison only; not a complete contract or tax analysis.

The structure does not mean the owner provides care or runs the community. The TRS, the independent operator, the management agreement and each party's legal responsibilities remain distinct, and no two contracts allocate upside and downside identically.

2. Five operating drivers worth underwriting

Once an investor shares in operating results, a handful of drivers determine most of the outcome. Each deserves its own scrutiny, not just its contribution to a total.

- **Census and occupancy** — move-ins, move-outs, available capacity, concessions, and the difference between an occupied room and a billing resident.
- **Labor** — scheduled versus worked hours, wage rates, overtime, turnover and reliance on contract agency staff.
- **Care needs** — assessed acuity, services actually delivered, care-level changes, and whether staffing supports residents safely.
- **Rate realization** — quoted versus contracted versus collected rates, care add-ons and receivables.
- **Regulatory exposure** — licensure, survey findings, complaints and operating restrictions, which vary by state and care setting.

The real question is not whether reports arrive faster. It is whether each reported driver means what the owner and operator agreed it means, and whether both can trace it back to evidence.

3. The information gap behind the numbers

An operator typically runs separate systems for clinical records, medication administration, sales, payroll, scheduling and accounting. Each can be accurate for its own purpose and still disagree with the others. Connecting systems moves data between them; it does not settle which record governs a given business question.

Occupancy is the classic example. A room can be occupied before billing begins, and a deposit can exist before a resident arrives. Both records may be correct. Good governance keeps both measures and states clearly which

one answers which question, for example physical occupancy for staffing and economic occupancy for revenue.

Exhibit 2. One community, four honest answers to “how many units are available?”



Illustrative example adapted from SeniorCRE research. The occupancy rate an investor sees depends on which denominator the report uses.

4. What makes operating data trustworthy

Four properties separate numbers an investor can rely on from numbers that merely look precise.

1. **Definition** — each metric states its purpose, population, unit, denominator, timing and exclusions.
2. **Source authority** — for each purpose, a named source governs, with an accountable person and a stated reason.
3. **Reconciliation** — matching rules, tolerances and exceptions are documented, and unresolved differences stay visible rather than being quietly erased.
4. **Lineage** — every reported figure can be traced to its source records, calculation and any later restatement.

A fifth control, authorization, decides who may see or act on the results. Investor visibility into operating performance never implies access to identifiable resident health records, and privacy law and contractual duties remain binding.

> *When metrics affect management fees, covenants or investor reporting, owner and operator should agree on the definitions and the dispute process before the first report is produced, not after the first disagreement.*

5. REIT qualification: evidence is not a tax opinion

For REIT investors, operating data can support tax work, but it cannot certify REIT qualification on its own. The tests apply at the REIT level, use statutory definitions and rely on tax-basis calculations and valuations that differ from property-level results.

- **75% asset test (IRC §856(c)(4)(A))** — at each quarter-end, at least 75% of total asset value must be real estate assets, cash items and government securities as defined by the statute.
- **75% and 95% gross income tests (IRC §856(c)(3) and (c)(2))** — annual tests on qualifying income categories. Resident service revenue earned inside a TRS is not automatically the REIT’s own gross income.
- **TRS asset limit, now 25%** — Public Law 119-21, §70439 raised the limit in IRC §856(c)(4)(B)(ii) from 20% to 25% for taxable years beginning after December 31, 2025. Fiscal years that began earlier need separate analysis.

- **90% distribution requirement (IRC §857(a)(1))** — based on REIT taxable income with statutory adjustments; it is not 90% of NOI, EBITDA or cash flow.
- **Independent operator** — for the qualified healthcare property exception, an eligible independent contractor must operate the property on behalf of the TRS.

Be wary of any claim that software or a data feed "ensures" REIT compliance. Qualification is a legal and tax determination that requires qualified professional advisers.

6. Six questions to ask before trusting the numbers

Operating evidence should add to, not replace, lease review, debt analysis, audited financial statements, clinical oversight and professional tax advice. These are the questions we encourage every investor to ask a sponsor or operator.

1. **Which occupancy definition is being reported**, and what denominator does it use?
2. **How are rates measured** — quoted, contracted or actually collected — and how are concessions shown?
3. **How is labor reported**, including agency hours that may not yet be invoiced at month-end?
4. **Who decides** when two systems disagree, and is that decision recorded?
5. **Can a reported figure be traced** back to its source records and any restatement?
6. **What happens at exit** — can the owner obtain usable data if the operator or platform changes?

Clear answers do not guarantee better results, a lower risk premium or easier financing, which also depend on markets, credit and execution. They do reduce the risk of making decisions on numbers that mean something different from what you assumed.

Sources

1. Housing and Economic Recovery Act of 2008, Pub. L. 110-289 (RIDEA provisions). https://www.congress.gov/bill/110th-congress/house-bill/3221

2. 26 U.S.C. §856, Definition of real estate investment trust. https://www.law.cornell.edu/uscode/text/26/856

3. 26 U.S.C. §857, Taxation of real estate investment trusts. https://www.law.cornell.edu/uscode/text/26/857

4. Public Law 119-21 (2025), §70439. https://www.congress.gov/bill/119th-congress/house-bill/1

5. SeniorCRE, Demystifying RIDEA Structures (October 8, 2026), the source research for this adaptation. https://seniorcre.com/whitepapers/demystifying-ridea-structures

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