An Update on the Seniors Housing Sector

Presented to Homer Hoyt Fellows
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Today’s Presentation

- Additional Considerations for Investing in Seniors Housing
- The SH&C Transactions Market: Buyer Type Is Changing
- Seniors Housing Fundamentals: Occupancy Softening
Additional Considerations for Investing in Seniors Housing
Factors Drawing Investors Into Seniors Housing and Care

1. Considered a core real estate asset class by some
2. Substantial and growing sector
3. Desirable demographic trends
4. Solid market fundamentals
5. Compelling investment returns and sizeable risk premium
6. Significant transaction volumes and liquidity in the sector
7. Rising transparency and understanding of the sector
8. Fragmented sector with consolidation opportunities
9. Aging Inventory/Stock of Seniors Housing
10. RIDEA REIT structure vs. NNN structure
11. Governmental and social policy changes regarding healthcare and costs and changes in post-acute care payment and delivery systems
12. Better understanding of social/psychological benefits for residents
Near and Long-term Demographics Are Getting Better

Number of Live Births (1909 to 2013, 000s)

Today’s 82-Year Old Resident Was Born in 1935
And Is Of The Silent Generation

Source: U.S. Census, NIC MAP® Data Service
Happy Birthday More than 82 Times to Nearly 10 Million

Number of Persons Alive by Year of Birth
(estimates as of 2017, millions)

10.9 Million Persons 82 + Alive
(born prior to 1935)

Source: U.S. Census, NIC MAP® Data Service
Fewer Caregivers To Support Seniors

- Ratio of Caregivers (45-64 year olds) To Those Over 80 Will Shrink From 7:1 Today to 4:1 in 2030
  - Declining Fertility Rates Among Baby Boomer Women
  - Baby Boomers Shift from Being the Caregivers to being the Receivers of Care

Source: U.S. Census
## Life Expectancy | 1900 - 2000

<table>
<thead>
<tr>
<th>Birth Cohort</th>
<th>Life Expectancy (in Years)</th>
<th>Probability of Reaching Age 65</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At Birth</td>
<td>At 65</td>
</tr>
<tr>
<td>Men, 1900</td>
<td>51.5</td>
<td>13.5</td>
</tr>
<tr>
<td>Men, 1950</td>
<td>73.7</td>
<td>19.3</td>
</tr>
<tr>
<td>Men, 2000</td>
<td>81.8</td>
<td>22.2</td>
</tr>
<tr>
<td>Women, 1900</td>
<td>58.3</td>
<td>18.0</td>
</tr>
<tr>
<td>Women, 1950</td>
<td>79.8</td>
<td>21.6</td>
</tr>
<tr>
<td>Women, 2000</td>
<td>85.7</td>
<td>24.2</td>
</tr>
</tbody>
</table>

Source: U.S. Social Security Administration, James Poterba, Economic Implications of Demographic Change, NABE Business Economics, January 2016
Growing Transparency and Understanding of the Sector

• Information about market fundamentals, trends and capital market conditions is available from sources such as:
  o NIC
  o Wall Street Analysts
  o Publically-available information on REITs and Public Companies (earnings calls, etc.)

• This allows lenders and borrowers to better understand current conditions and potentially provides a more disciplined capital market
Seniors Housing Stock Is Aging

Share of Seniors Housing Properties by Age of Property

- Less than 2 Years: 5%
- 2 - 10 Years: 16%
- 10 - 17 Years: 21%
- 17 - 25 Years: 26%
- 25 Years Plus: 32%

Source: NIC MAP® Data Service
Emerging Opportunities for Seniors Housing and Care

- Aging, Demographics, Acuity Levels and Disabilities
- Rising Penetration Rates
- Fewer Family Caregivers
- Social Engagement, Support and Emotional Well-Being

- Post Acute Care Collaboration
- Fee-For-Service Framework vs. Value-Based Outcomes
Sr. Housing Investing: Positive Portfolio and Enhancement Effects

• Offers Diversification
• Captures A High Income Stream
• Provides an Asset Type Less Dependent Upon the Economic Cycle
• Provides Core-Plus To Value-Added Returns
Perceived Risks of Investing in Seniors Housing and Care

• Valuation and exit risk (similar to other commercial real estate)
• Supply risk (not unique to seniors housing)
• Obsolescence risk (physical plant no longer meets the needs of its residents; design risk)
• Liability risk (associated with standards of care for residents)
• Resident credit risk (extremely low for today’s cohort of residents)
• Turnover risk (associated with high churn rate of residents)
• Largest Risk: Operator risk
Challenges (Opportunities for Some) in the Sector

- Labor Costs and Scarcity
- Quality Operator Shortage
- Property Age and Obsolescence
- Industry Consolidation
- Care Coordination/Changes in Health Care Industry
- Affordability
- Technology
The Seniors Housing and Care Transactions Market: Buyer Type Is Changing
First Quarter 2017 Transaction Volume Accelerates

U.S. Seniors Housing & Care Transaction Volume*
1Q08 – 1Q17

Source: NIC MAP® Data Service

* Preliminary Data
Private Buyers Steady, Public Buyer Down in 2016

Closed Transactions for Seniors Housing & Care by Buyer Type*
2008 – 1Q 2017

Source: NIC MAP® Data Service

* Preliminary Data
Seniors Housing Pricing Hovering at Peak

Seniors Housing & Care Transactions Rolling 4-Quarter Price Per Unit¹
U.S. | 1Q08 – 1Q17

1. Preliminary Data

Source: NIC MAP® Data Service

²
Seniors Housing Market Fundamentals: Occupancy Softening
Asking Rents Decelerate, but Remain Strong

**Annual Asking Rent Growth / Avg. Hourly Earnings**
All Markets | 4Q06 – 1Q17

- Assisted Living Employees
- Asking Rent - Assisted Living
- Asking Rent - Independent Living

Source: NIC MAP® Data Service
Seniors Housing Occupancy Slips Further

Seniors Housing Fundamentals
Primary Markets | 1Q06-4Q16

- Inventory Growth
- Absorption
- All Occupancy
- Stabilized Occupancy

Source: NIC MAP® Data Service
Relatively Severe Flue Season May Have Affected Demand

Percentage of Visits for Influenza-like Illness (ILI) Reported by the U.S. Outpatient Influenza-like Illness Surveillance Network (ILINet), Weekly National Summary, 2016-2017 and Selected Previous Seasons

Source: Centers for Disease Control (CDC)
Half of Assisted Living’s Occupancy Decline Likely Seasonal

Assisted Living Stabilized Occupancy Seasonally Adjusted
Primary Markets | 1Q06 – 1Q17

Source: NIC MAP® Data Service
Annual Inventory Growth Outpacing Annual Absorption

Source: NIC MAP® Data Service
Where Did Inventory Growth Occur in Last Four Quarters?

Seniors Housing Annual Inventory Growth
Primary & Secondary Markets | As of 1Q17

Source: NIC MAP® Data Service
Supply and Demand Patterns Vary by Market

Seniors Housing Annual Supply-Demand
Primary Markets As of 1Q17

Source: NIC MAP® Data Service
Seniors Housing Occupancy by Metro Market
Primary Markets | As of 1Q17

Source: NIC MAP® Data Service
Construction as a Share of Inventory Remains High

Annual Inventory Growth Rate and Annual Absorption
Primary Markets | 1Q06 - 1Q17

Source: NIC MAP® Data Service
Upcoming NIC Events:

2Q17 NIC MAP® Data Service Client Webinar
Wednesday, July 19, 2017, 11:00am ET

2017 NIC Fall Conference
September 26 – 28, 2017
Sheraton Grand Chicago
Chicago, IL

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