



Maravilla Scottsdale

An Update on the Seniors Housing Sector

**Presented to Homer Hoyt Fellows
By Beth Mace, Chief Economist, NIC**

May 2017

Today's Presentation

- Additional Considerations for Investing in Seniors Housing
- The SH&C Transactions Market: Buyer Type Is Changing
- Seniors Housing Fundamentals: Occupancy Softening

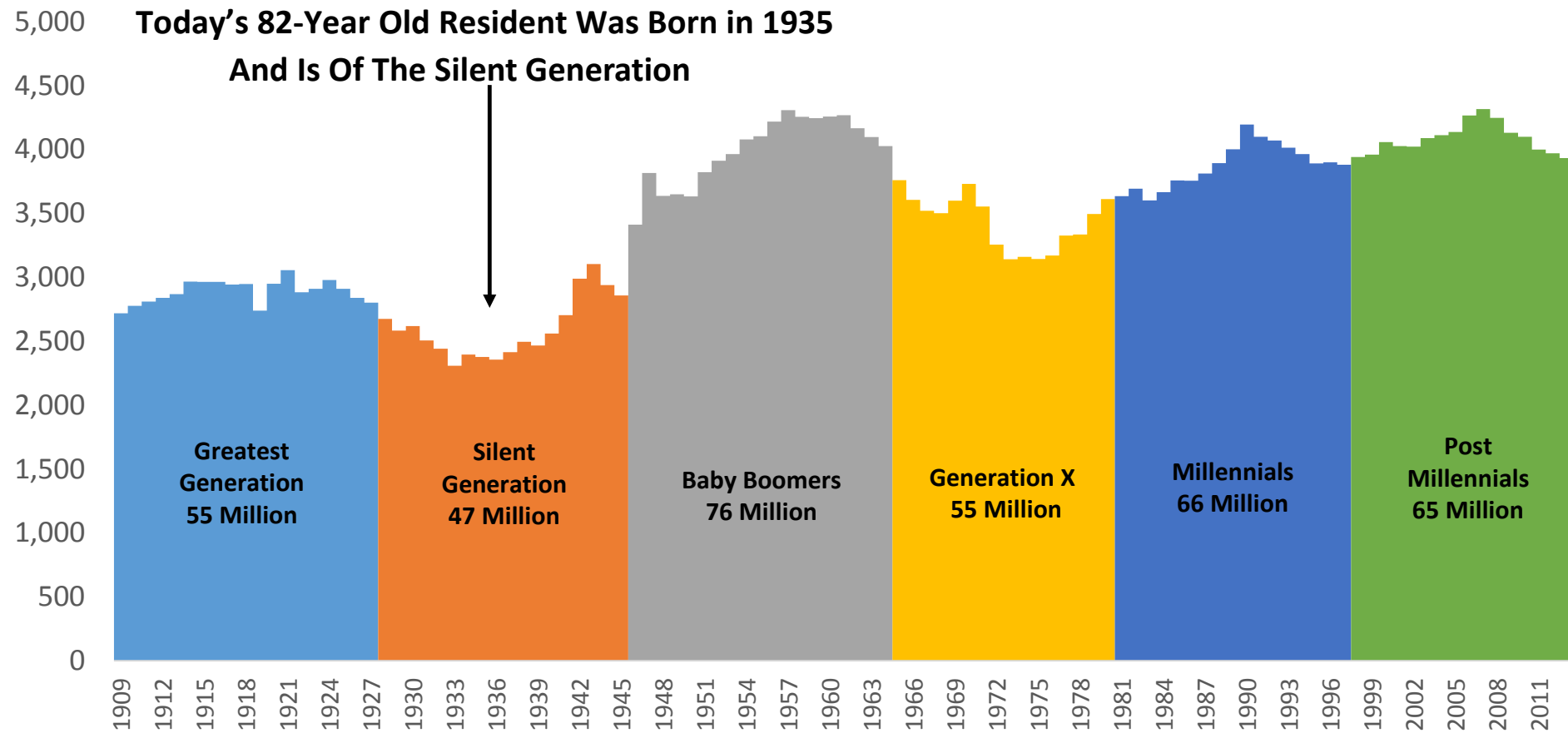
Additional Considerations for Investing in Seniors Housing

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)



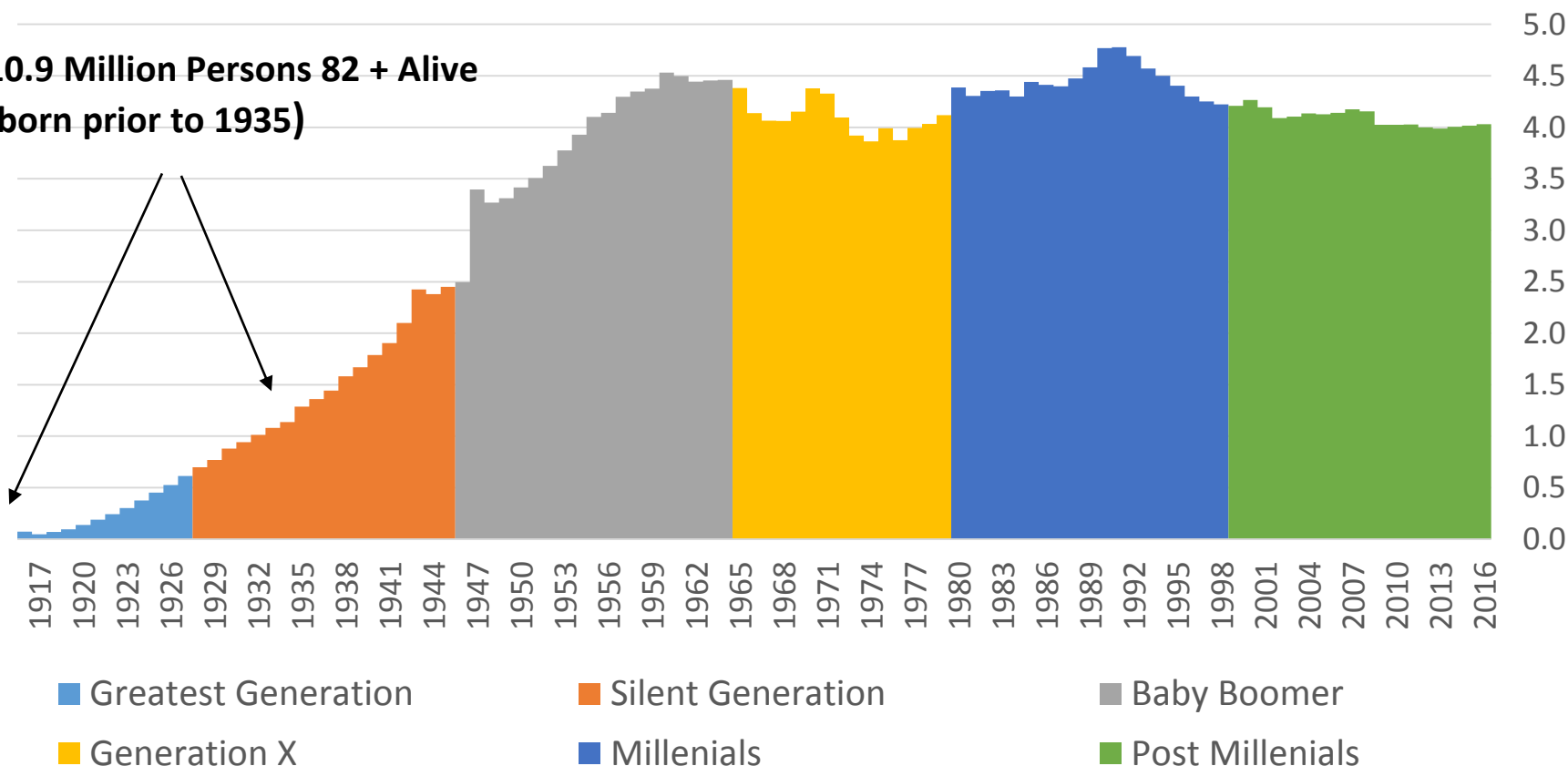
Source: U.S. Census, NIC MAP® Data Service

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 From 1900 to 2000 Is Up By 30 Years

Life Expectancy | 1900 - 2000

Birth Cohort	Life Expectancy (in Years)		Probability of Reaching Age 65
	At Birth	At 65	
Men, 1900	51.5	13.5	47%
Men, 1950	73.7	19.3	76%
Men, 2000	81.8	22.2	87%
Women, 1900	58.3	18.0	58%
Women, 1950	79.8	21.6	85%
Women, 2000	85.7	24.2	92%

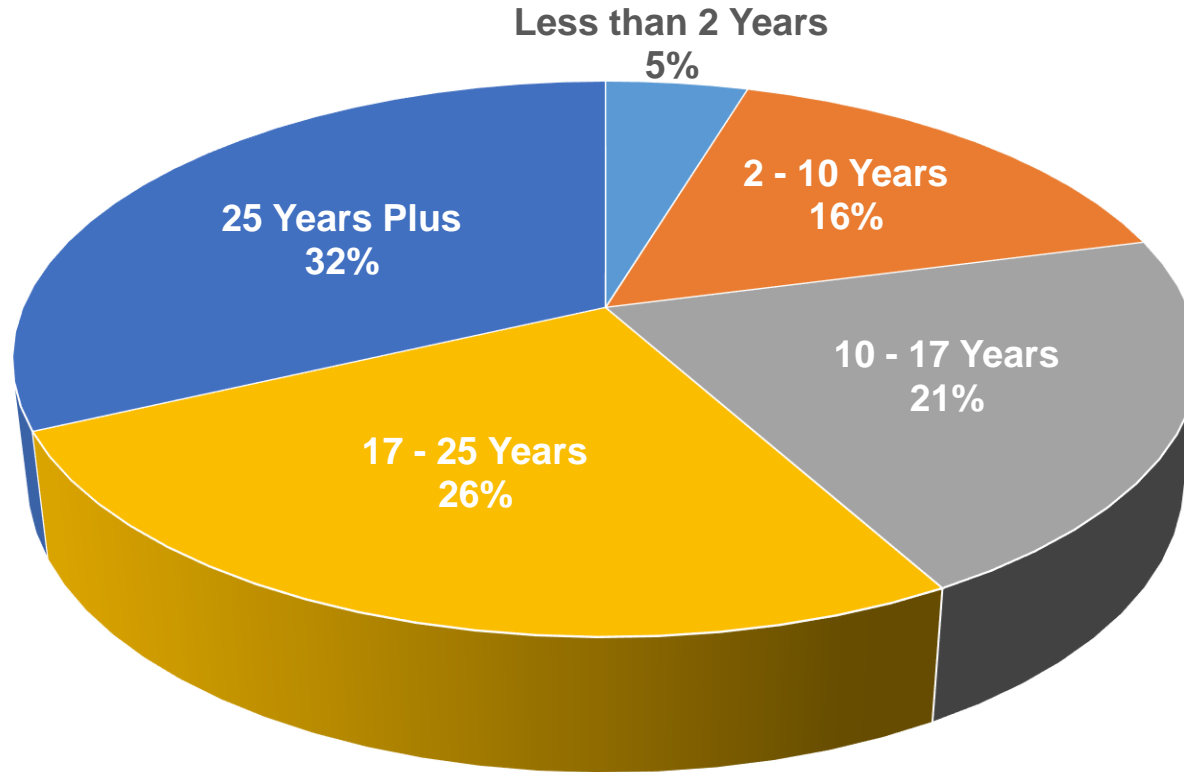
Source: U.S. Social Security Administration, James Poterba, Economic Implications of Demographic Change, NABE Business Economics, January 2016

Growing Transparency and Understanding of the Sector

- Information about market fundamentals, trends and capital market conditions is available from sources such as:
 - NIC
 - Wall Street Analysts
 - 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

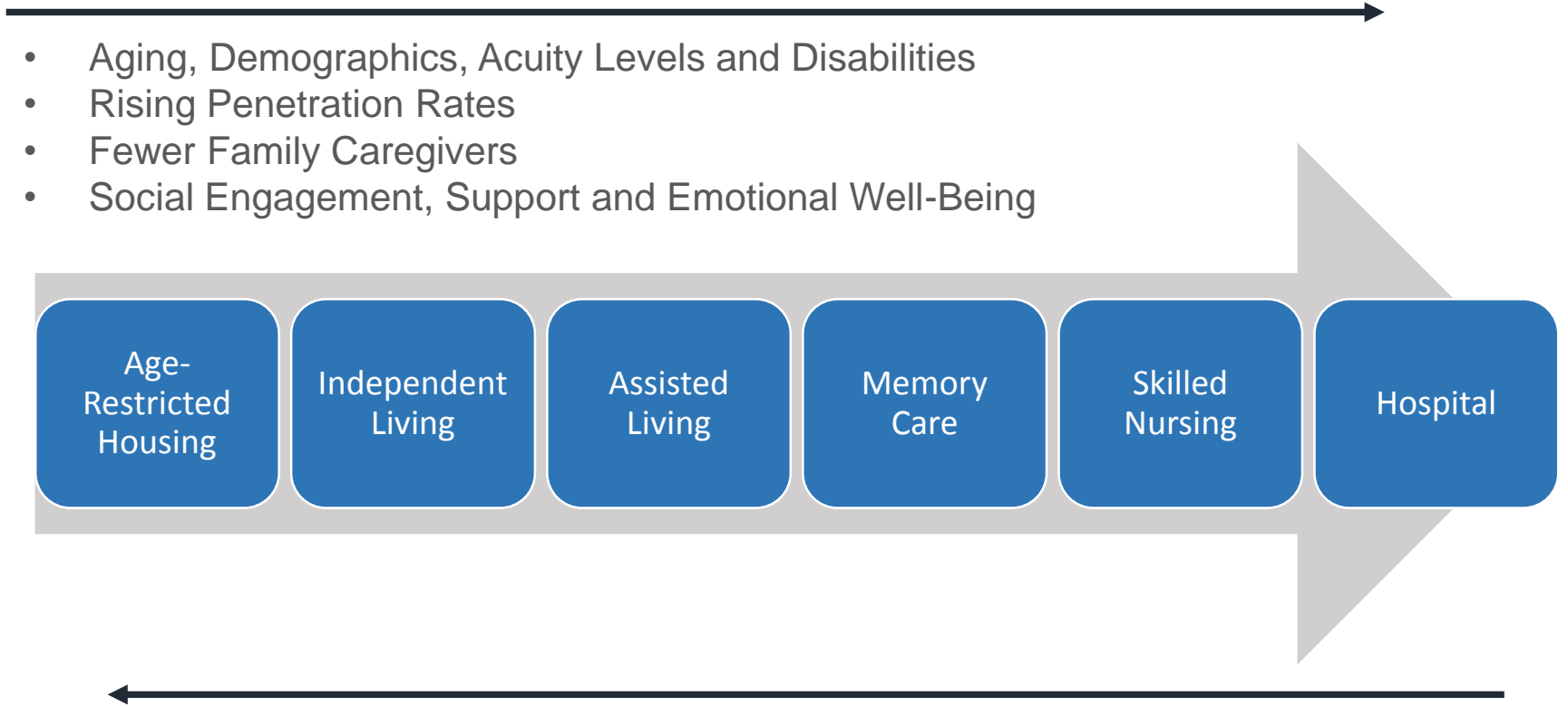
Seniors Housing Stock Is Aging

Share of Seniors Housing Properties by Age of Property



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

Age-
Restricted
Housing

Independent
Living

Assisted
Living

Memory
Care

Skilled
Nursing

Hospital

- 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**

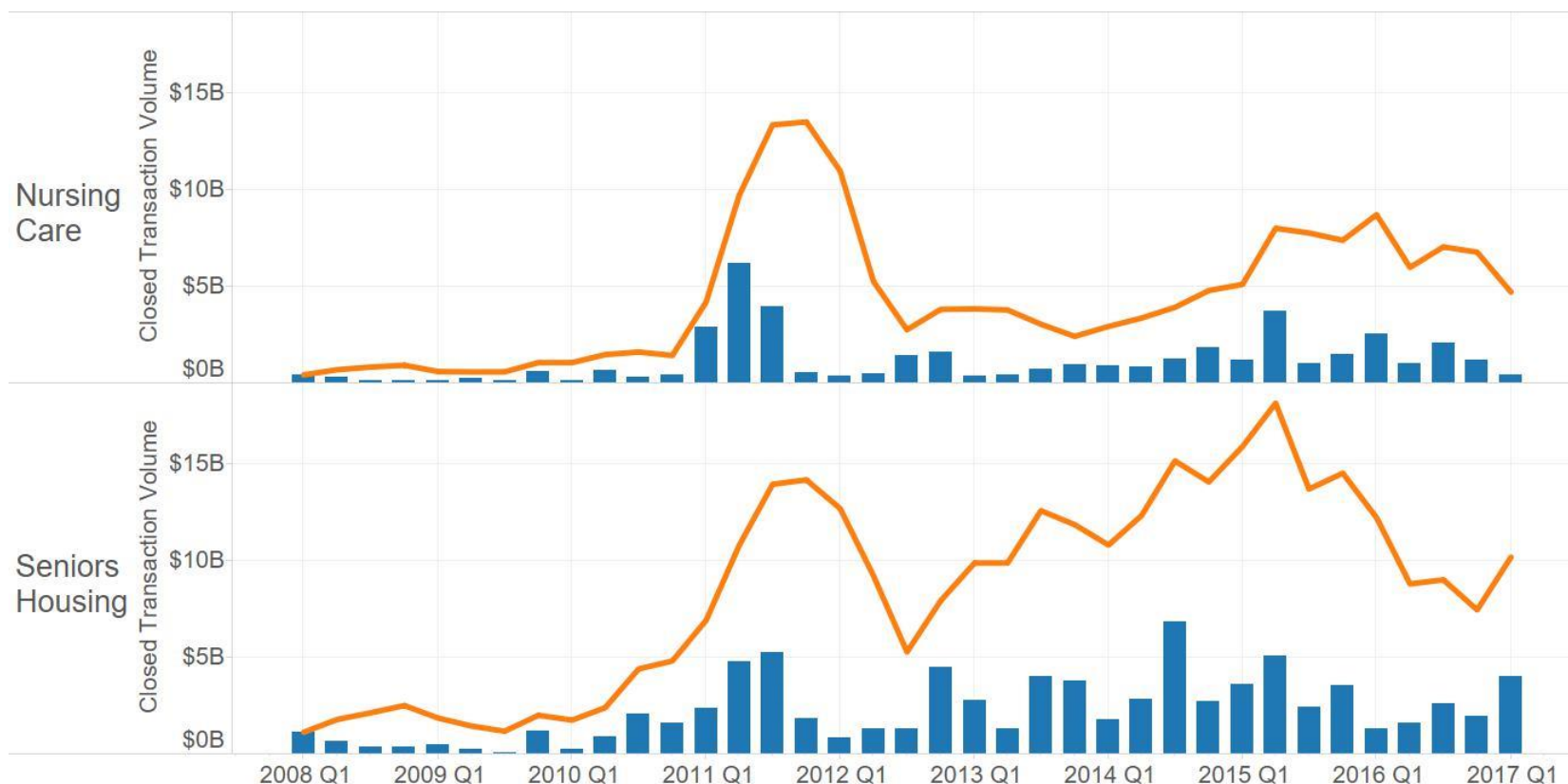
Challenges (Opportunities for Some) in the Sector

- 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



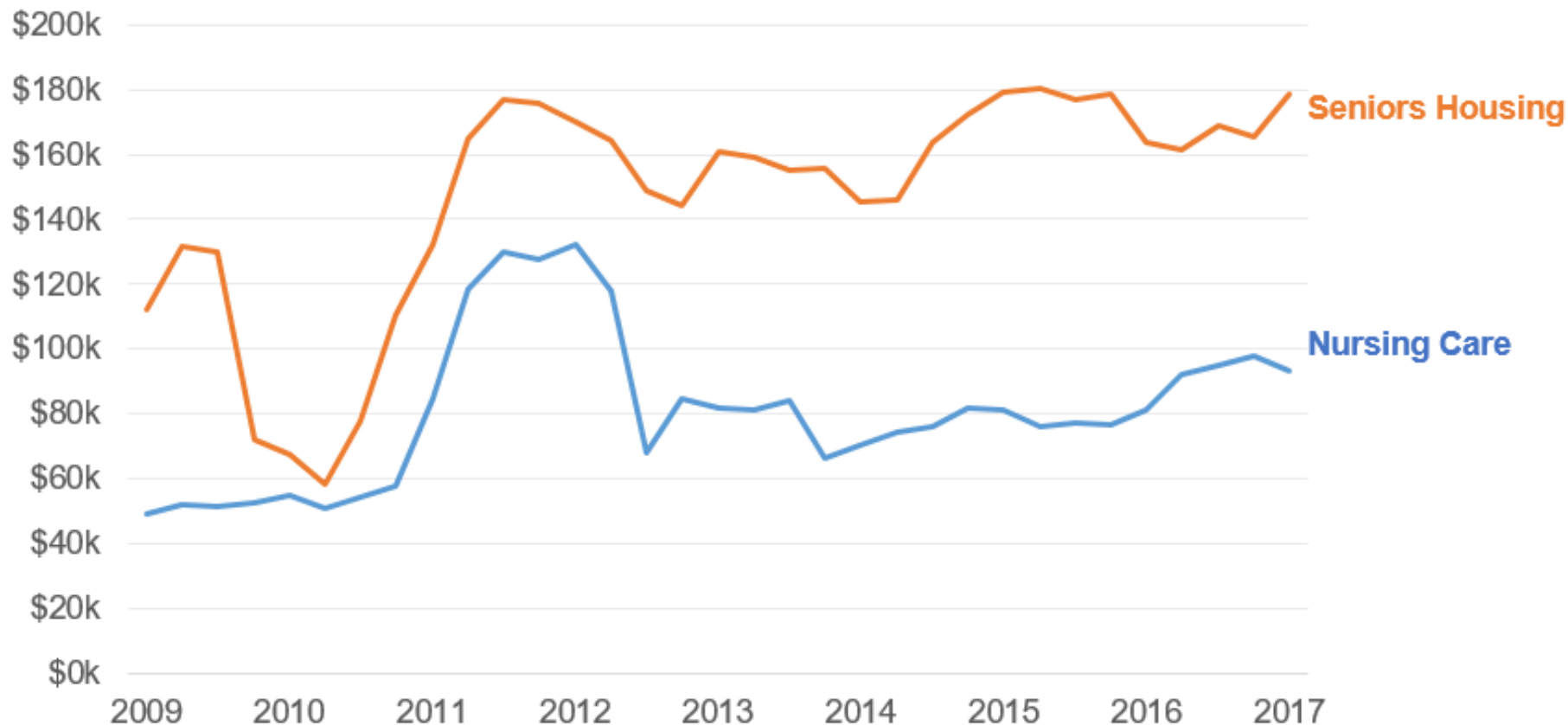
Source: NIC MAP® Data Service

* 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

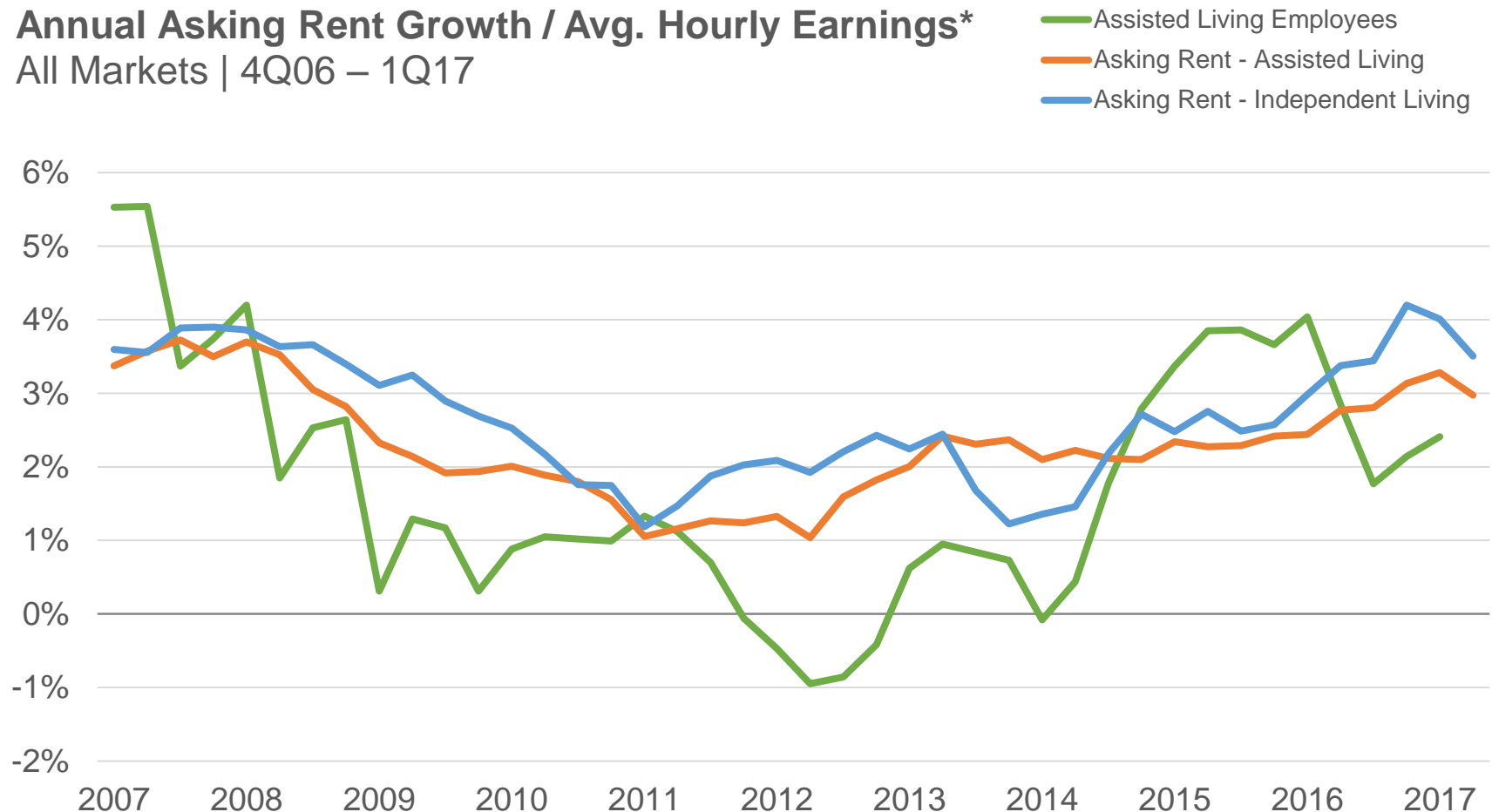
Source: NIC MAP® Data Service

Seniors Housing Market Fundamentals: Occupancy Softening

Asking Rents Decelerate, but Remain Strong

Annual Asking Rent Growth / Avg. Hourly Earnings*

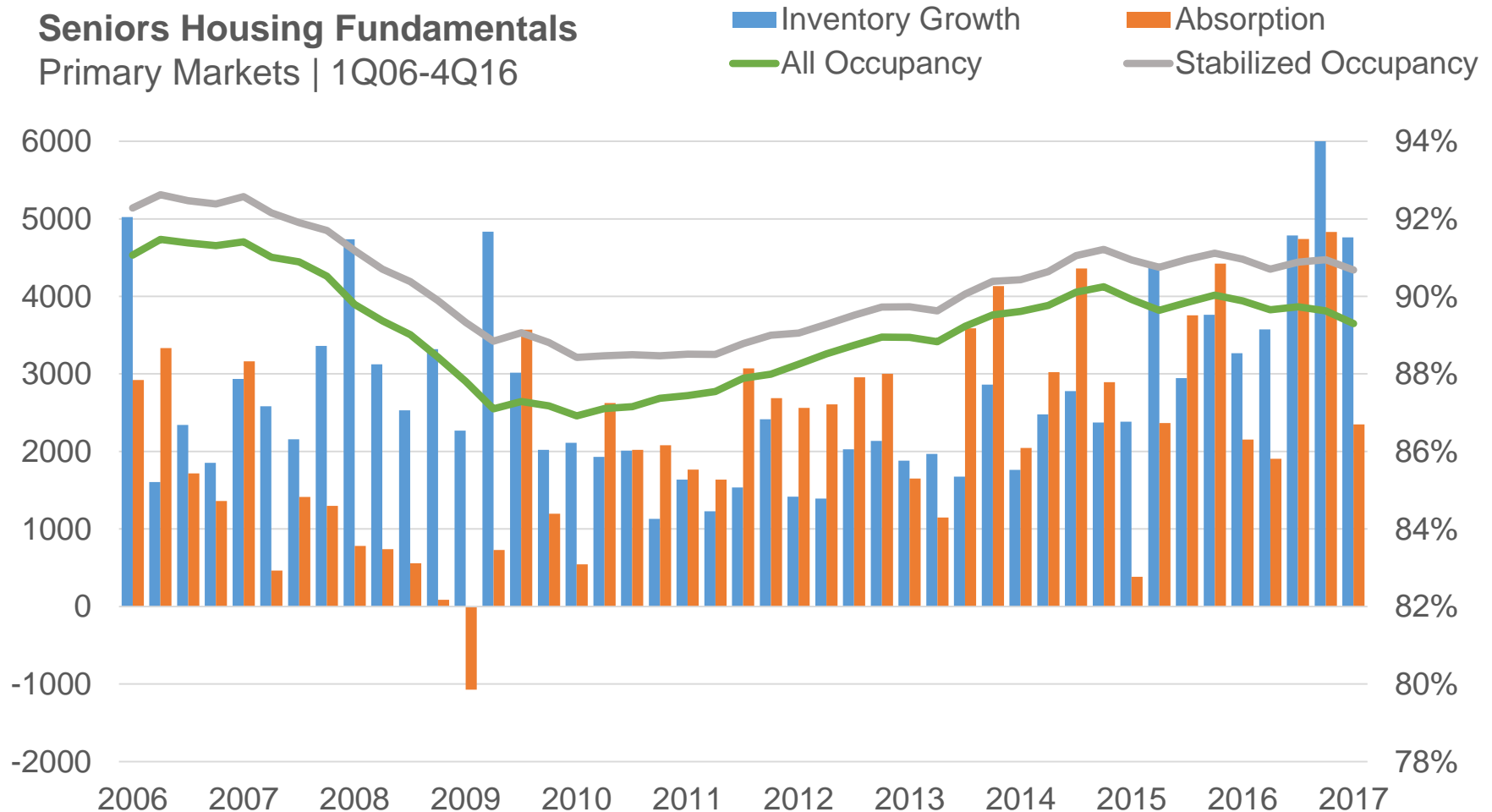
All Markets | 4Q06 – 1Q17



Source: NIC MAP® Data Service

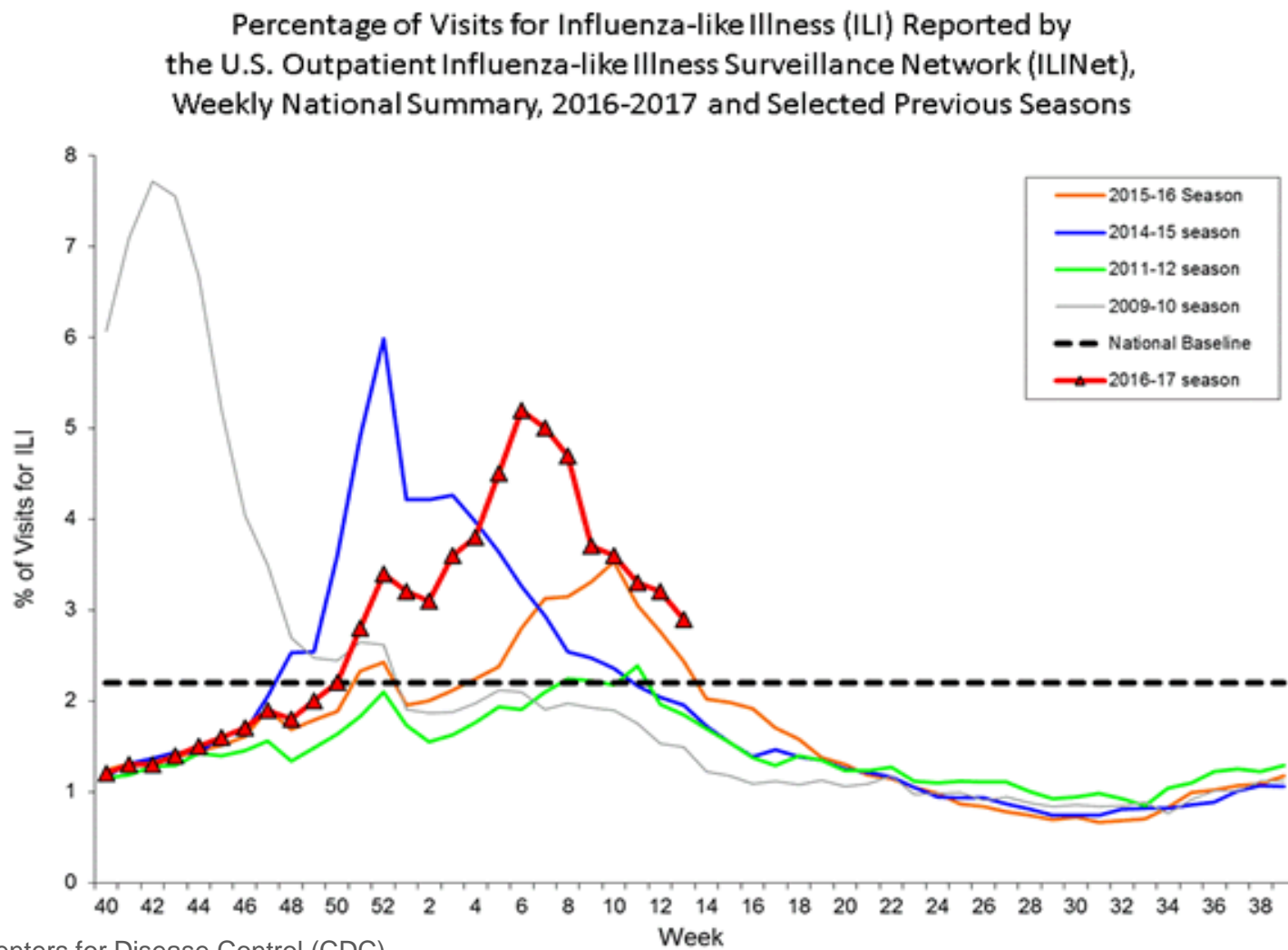
Seniors Housing Occupancy Slips Further

Seniors Housing Fundamentals Primary Markets | 1Q06-4Q16



Source: NIC MAP® Data Service

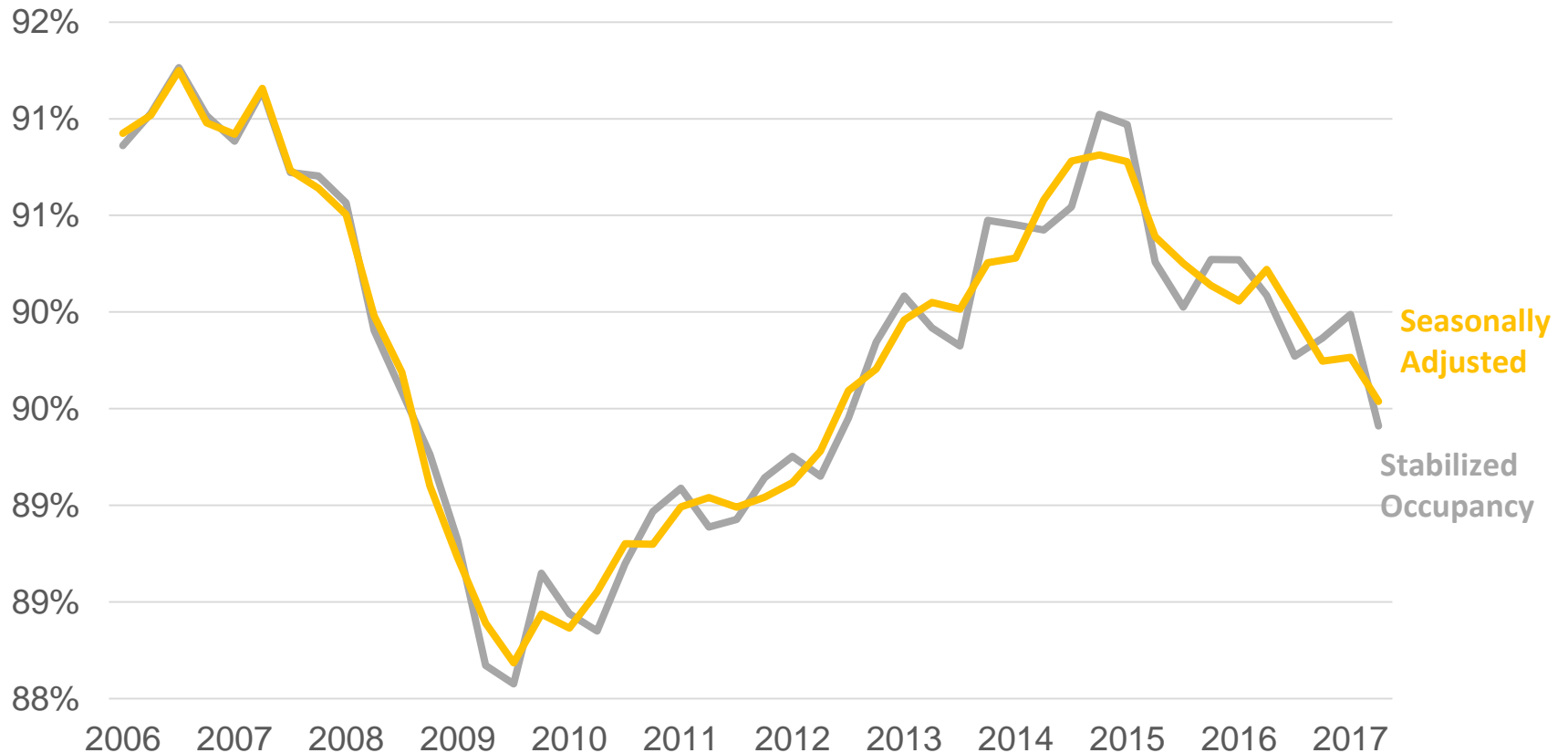
Relatively Severe Flue Season May Have Affected Demand



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

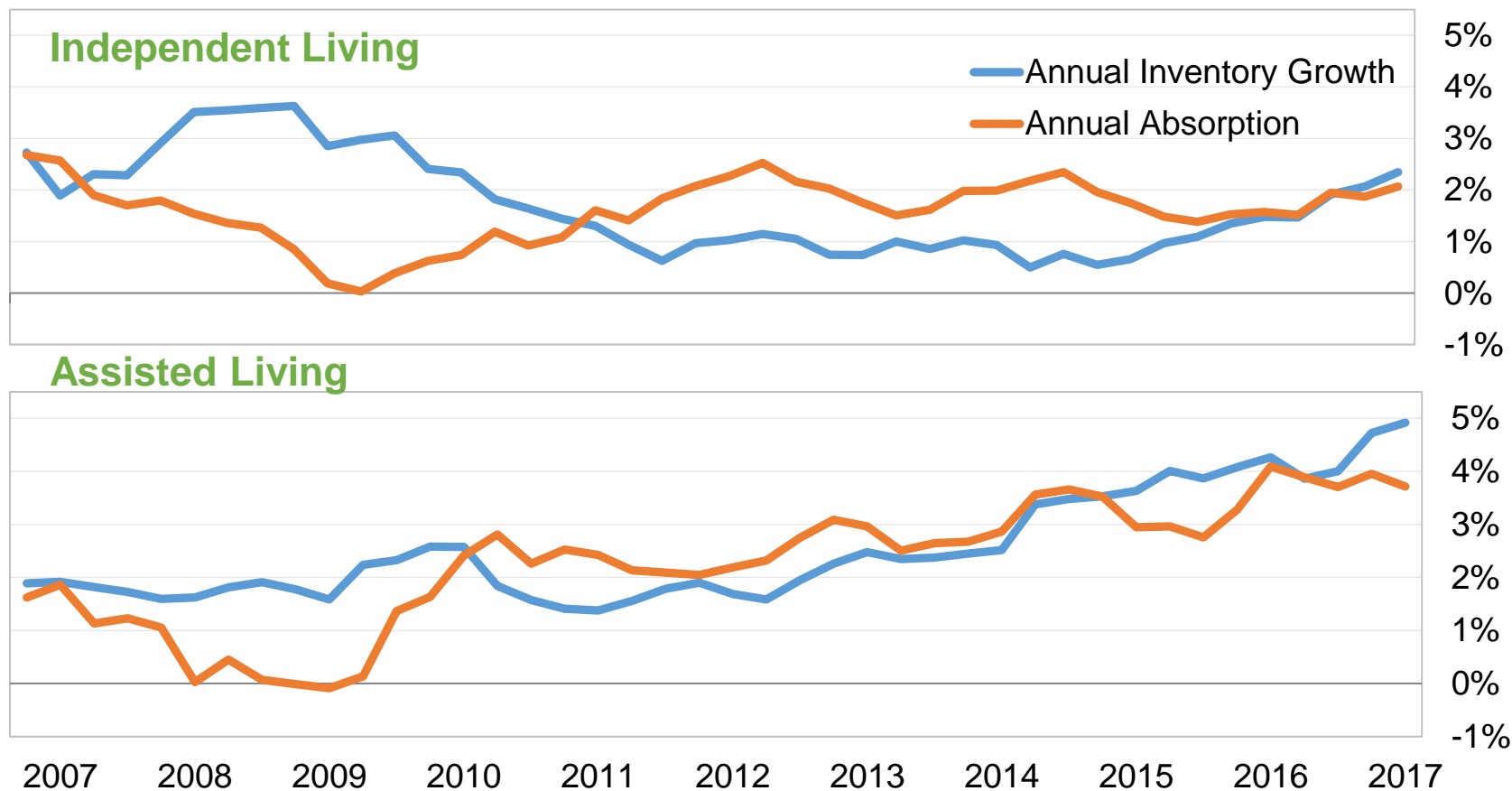


Source: NIC MAP® Data Service

Annual Inventory Growth Outpacing Annual Absorption

Annual Inventory Growth Rate and Annual Absorption

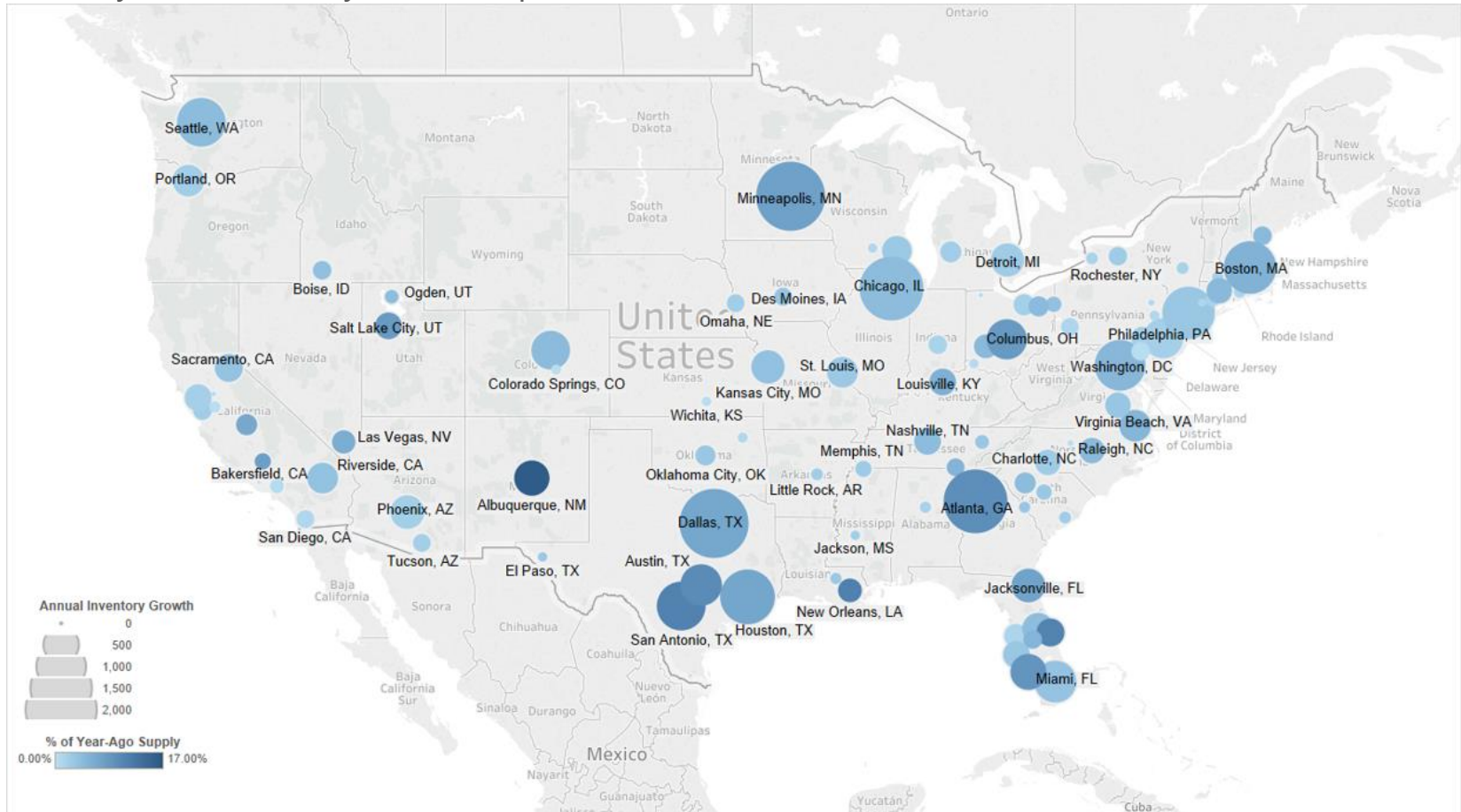
Primary Markets | 1Q06 - 1Q17



Source: NIC MAP® Data Service

Seniors Housing Annual Inventory Growth

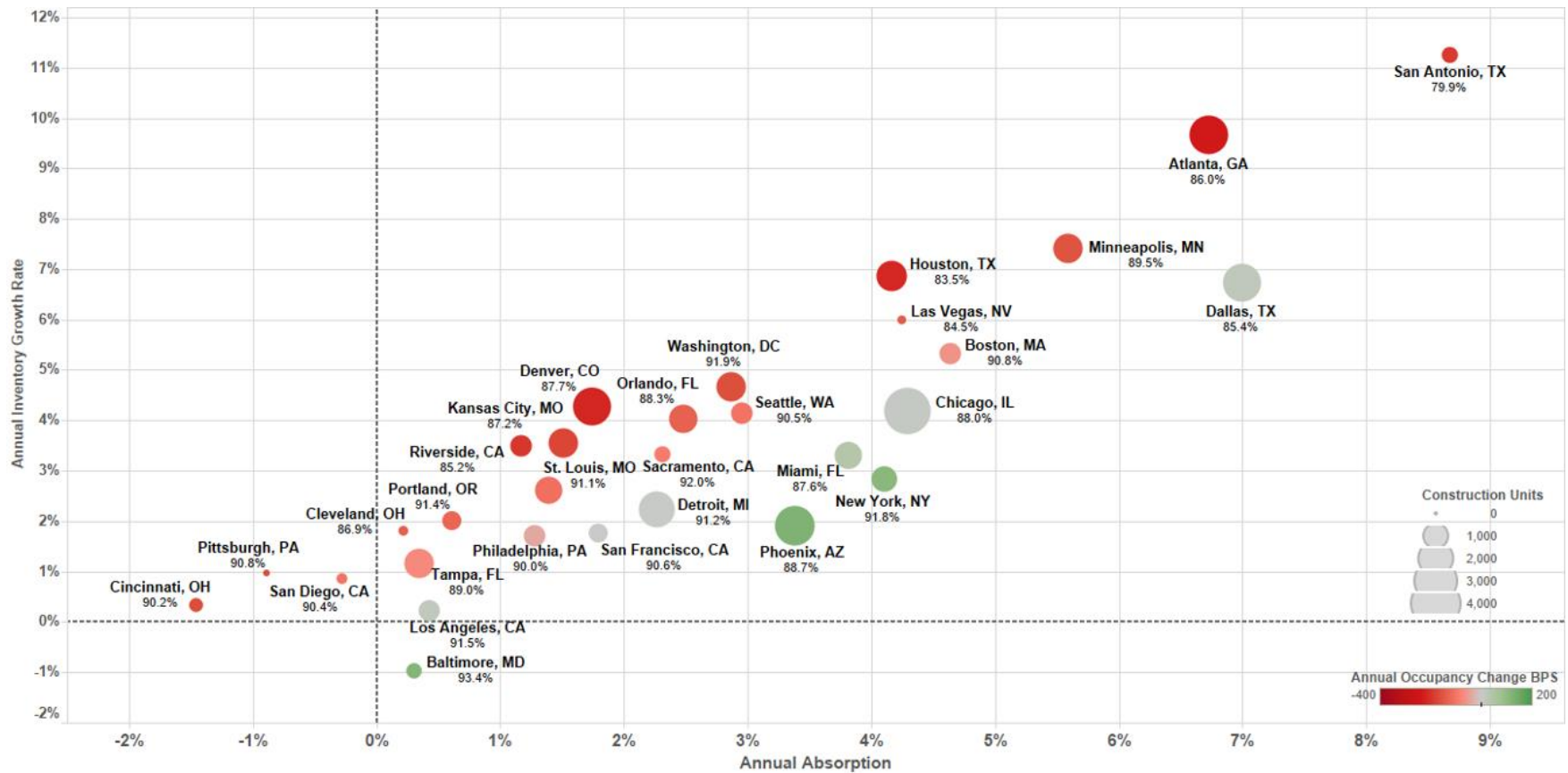
Primary & Secondary Markets | As of 1Q17



Source: NIC MAP® Data Service

Supply and Demand Patterns Vary by Market

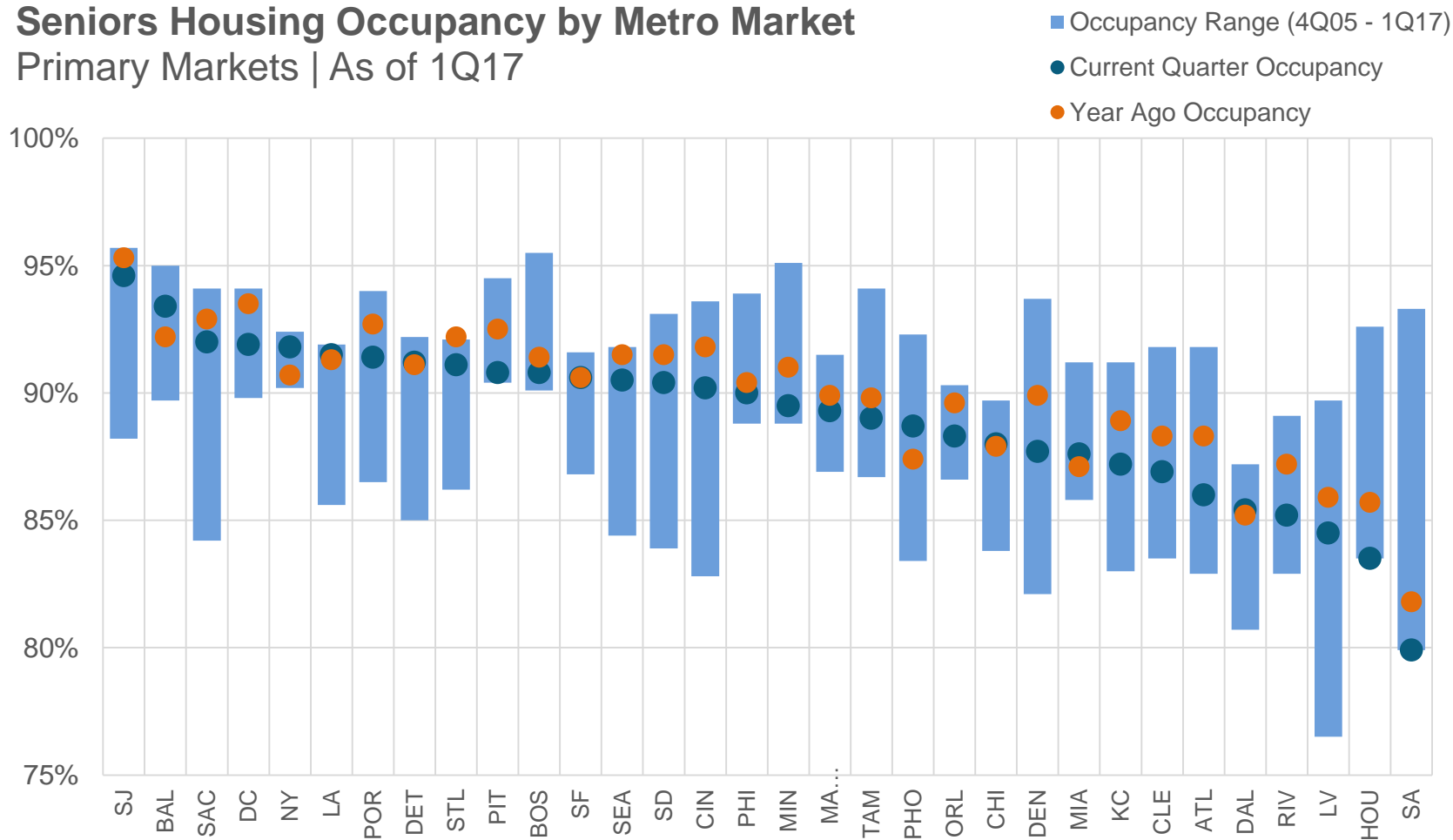
Seniors Housing Annual Supply-Demand Primary Markets As of 1Q17



Source: NIC MAP® Data Service

Twenty-Two Markets Down, Eight Up, One Flat Year-Over-Year

Seniors Housing Occupancy by Metro Market Primary Markets | As of 1Q17

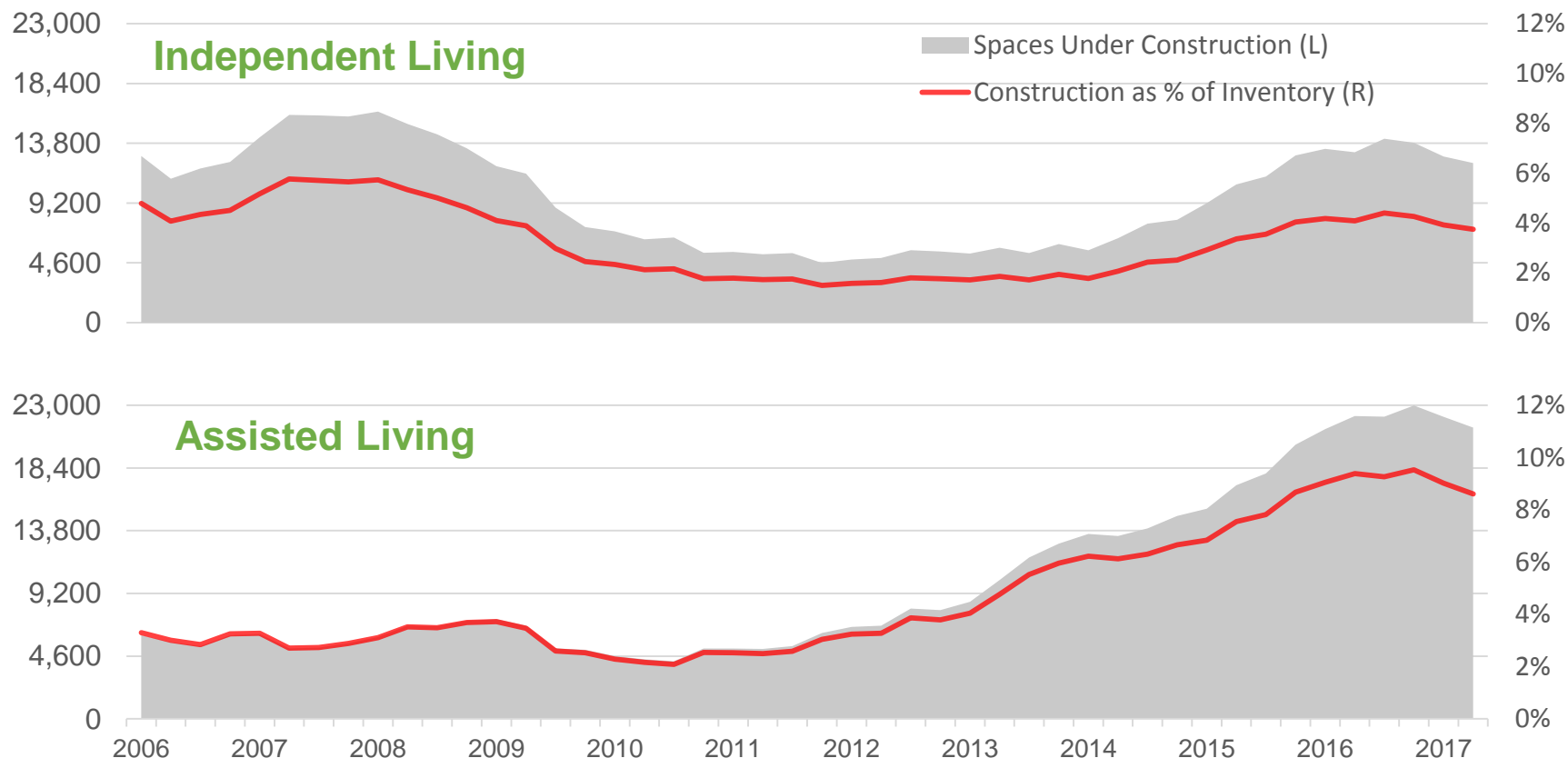


Source: NIC MAP® Data Service

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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