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# AN UPDATE ON THE SENIORS HOUSING SECTOR

PRESENTED TO HOMER HOYT FELLOWS  
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# AN INVESTORS PERSPECTIVE

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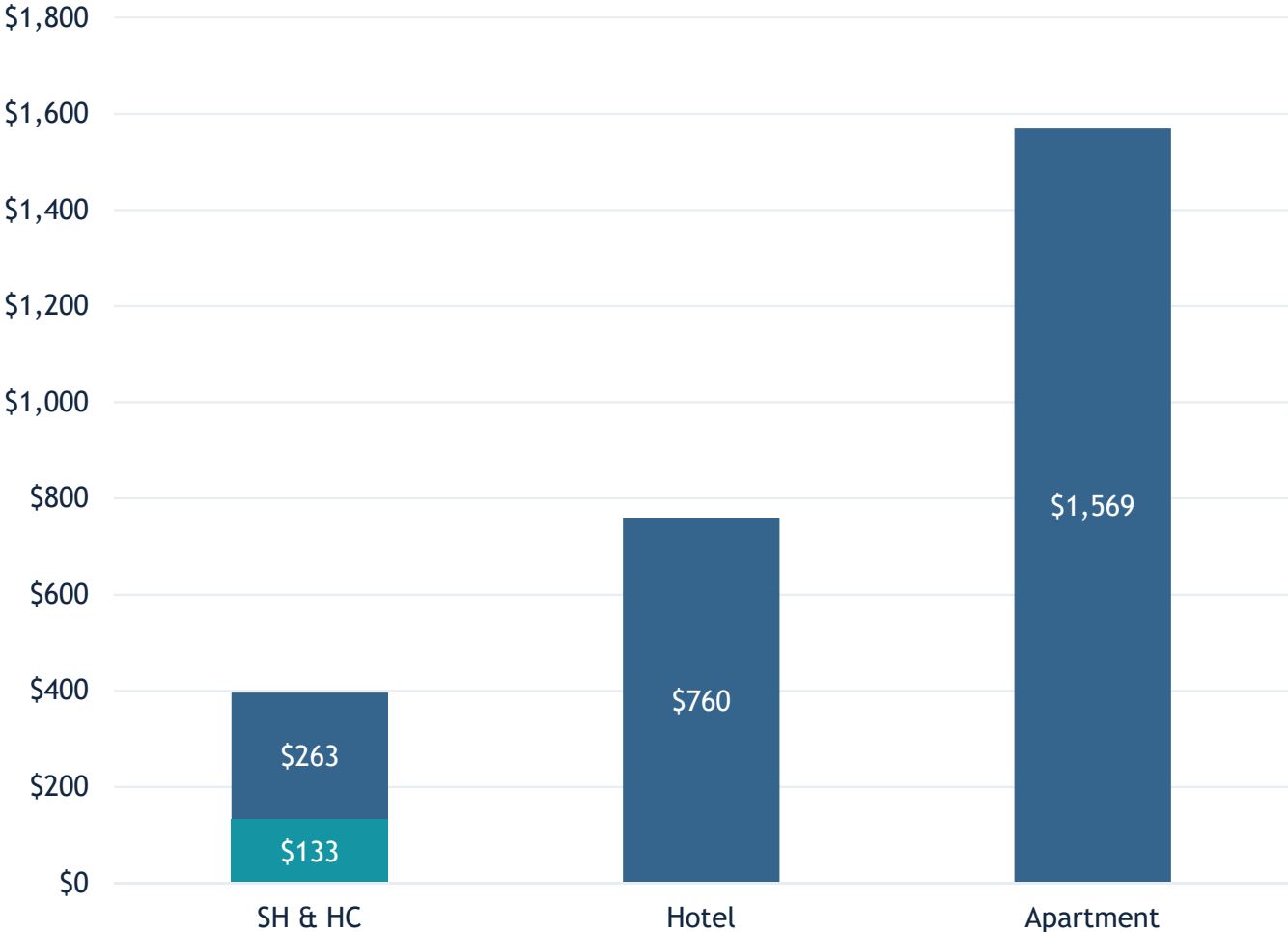
- Background: Seniors Housing at AEW
- Defining Seniors Housing
- Why Seniors Housing
- Investment Thesis vs Other CRE

# SO WHAT DO WE MEAN BY SENIORS HOUSING



# THE RELATIVE SIZE OF SENIORS HOUSING AND HEALTH CARE

2016 Estimated Value in \$Billions



Seniors housing and health care accounts for roughly \$370 billion or 5% of the \$7.1 trillion institutional CRE and multi-family investment market

Seniors housing and health care accounted for roughly 4% of the transaction volume in 2016 versus 8% for hotel and 30% for apartments

Source: AEW Research, NIC, Real Capital Analytics, Lodging Econometrics, Costar Analytics

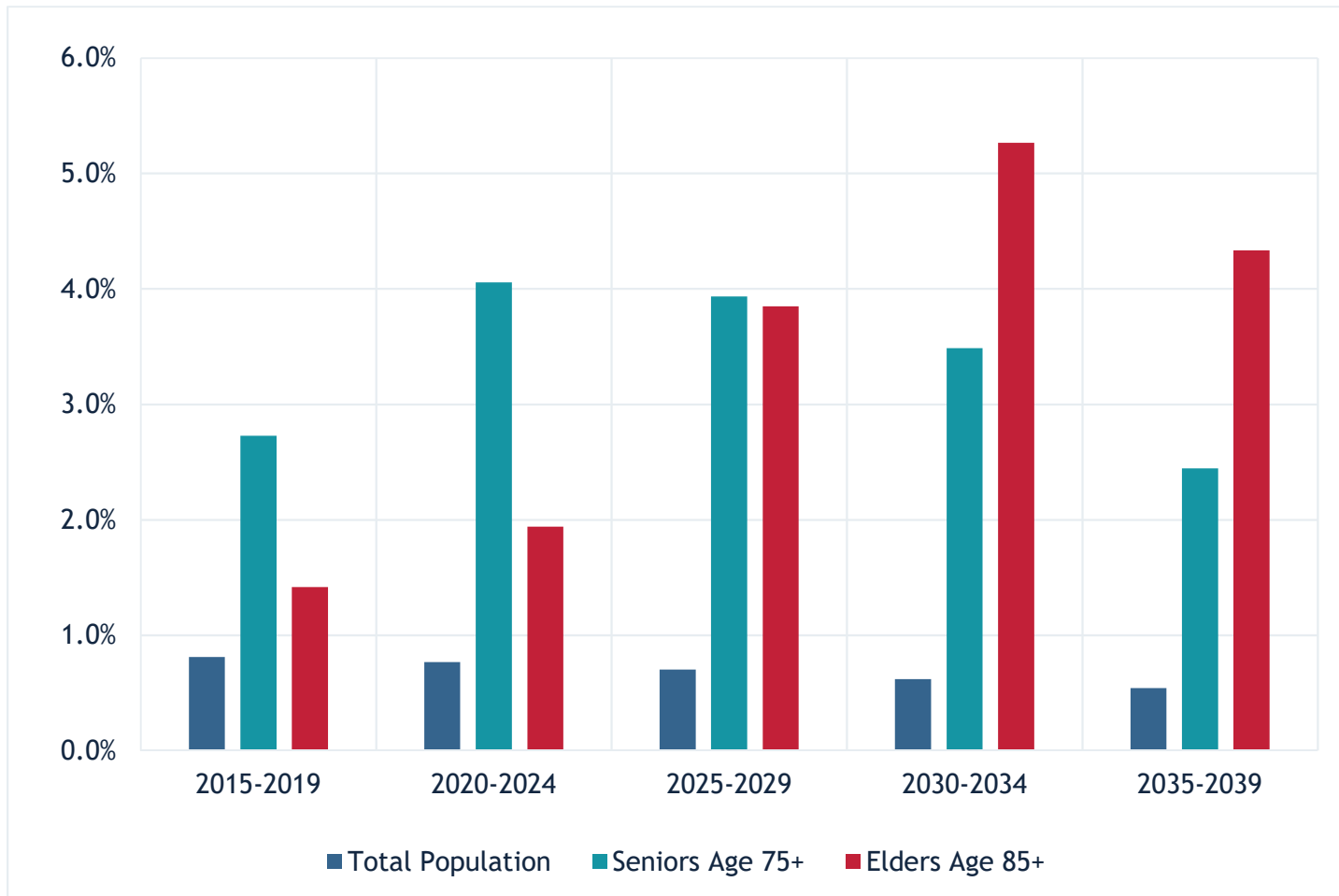
## WHY SENIORS HOUSING? DEMAND AND THE DEMOGRAPHICS

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- The seniors population is expanding at twice the pace of the overall population and the gap widens over the next decade and a half
- Today's seniors are very different from their predecessors - they live longer, have lower rates of disability, have higher levels of education, and are more affluent
- America's aging baby boomers are a demographic force behind many of the changes in the types of services and products offered to seniors housing consumers
- Family dynamics are changing. More seniors are living alone, resulting in increased demand for services historically provided by spouses or other family members. The adult child is less available, but more financially capable
- The seniors housing sector is better understood today with rising acceptance creating an untapped source of demand from seniors

# LONG TERM PERSPECTIVE - DEMOGRAPHIC TAILWINDS

## AVERAGE ANNUAL POPULATION GROWTH BY AGE COHORT, PERCENT



Source: U.S. Census, AEW Research

The U.S. is on the front edge of a ramp up in growth among seniors

The oldest baby boomers are turning 70 years old

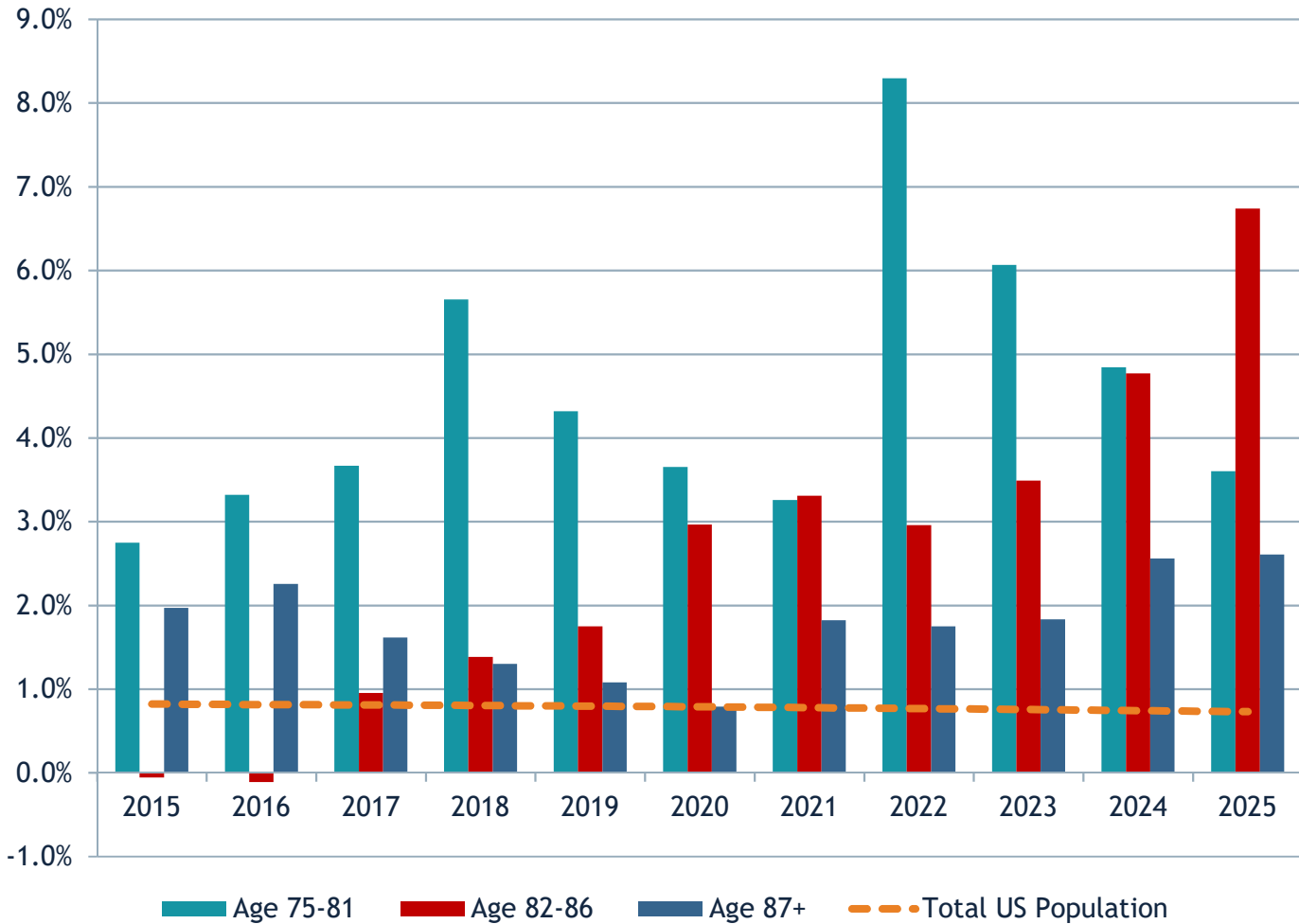
Growth in elders (85+) extends farther into the future and accelerates given longer life expectancy

The number of seniors (75+) expands from 20.2 million today to over 41.1 million over the next 20 yrs.

Estimates show US annual seniors housing demand rising from 25,000 unit to over 90,000 between 2025 and 2030

# NEAR TERM PERSPECTIVE - DEMOGRAPHICS SHIFT GEARS

## ANNUAL POPULATION GROWTH BY AGE COHORT, PERCENT



The median age of a seniors housing resident is in mid-80s with a length stay of between two and four years but twice as long for CCRCs

The ramp up in mid-80s seniors begins this year

Source: U.S. Census, 2014 forecast

## WHY SENIORS HOUSING? INVESTMENT THESIS

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- Despite cap rate compression among all property types, the relative spread between seniors housing and other property types continues to be attractive
- Seniors housing has evolved from an “emerging” sector of the institutional real estate investment universe to one that is increasingly accepted; evidence found in capital sources, debt markets, insurance, public markets and default rates creating deeper investor pool
- The sector has shown itself to be recession-resilient, as occupancy rates fell and rent growth remained positive throughout the most recent downturn
- Return-on-cost for seniors housing development can be 300 to 400 basis points greater than a multifamily development in today’s investment environment
- Seniors housing returns have historically outperformed traditional property types with regard to income, appreciation and total returns



# STRONG RETURN METRICS VERSUS OTHER PROPERTY TYPES

ANNUAL RETURNS; PERCENT AS OF Q1 2017



Source: NCREIF, AEW Research; Other Property Types include office, industrial, retail and apartment

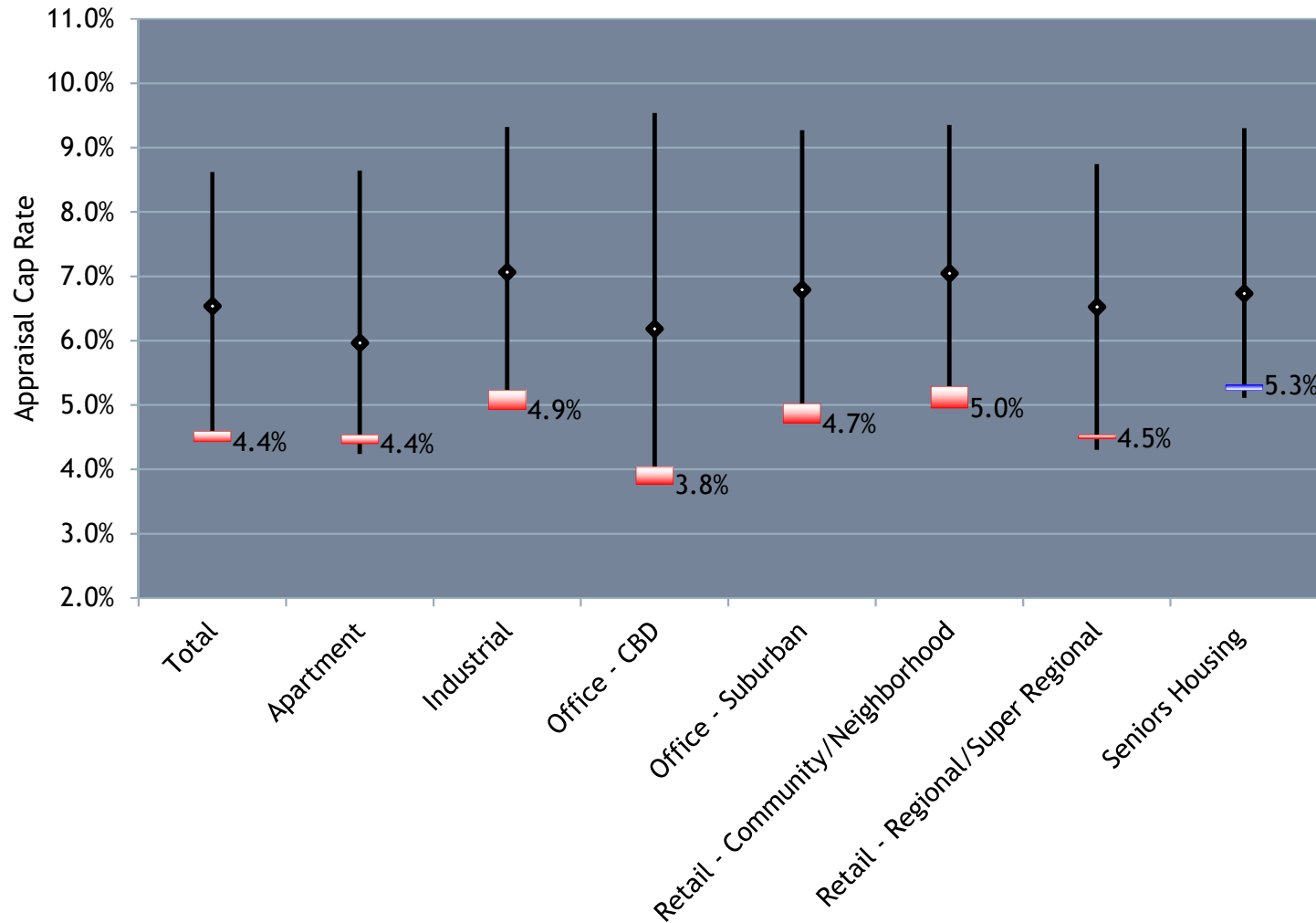
Seniors housing has been a consistent outperformer on a total return and component basis

Strong income metrics remain attractive in today's environment of low interest rates

The same holds for cash yields

# CAP RATES AT OR NEAR HISTORIC LOWS

CAP RATES; AS OF Q4 2016

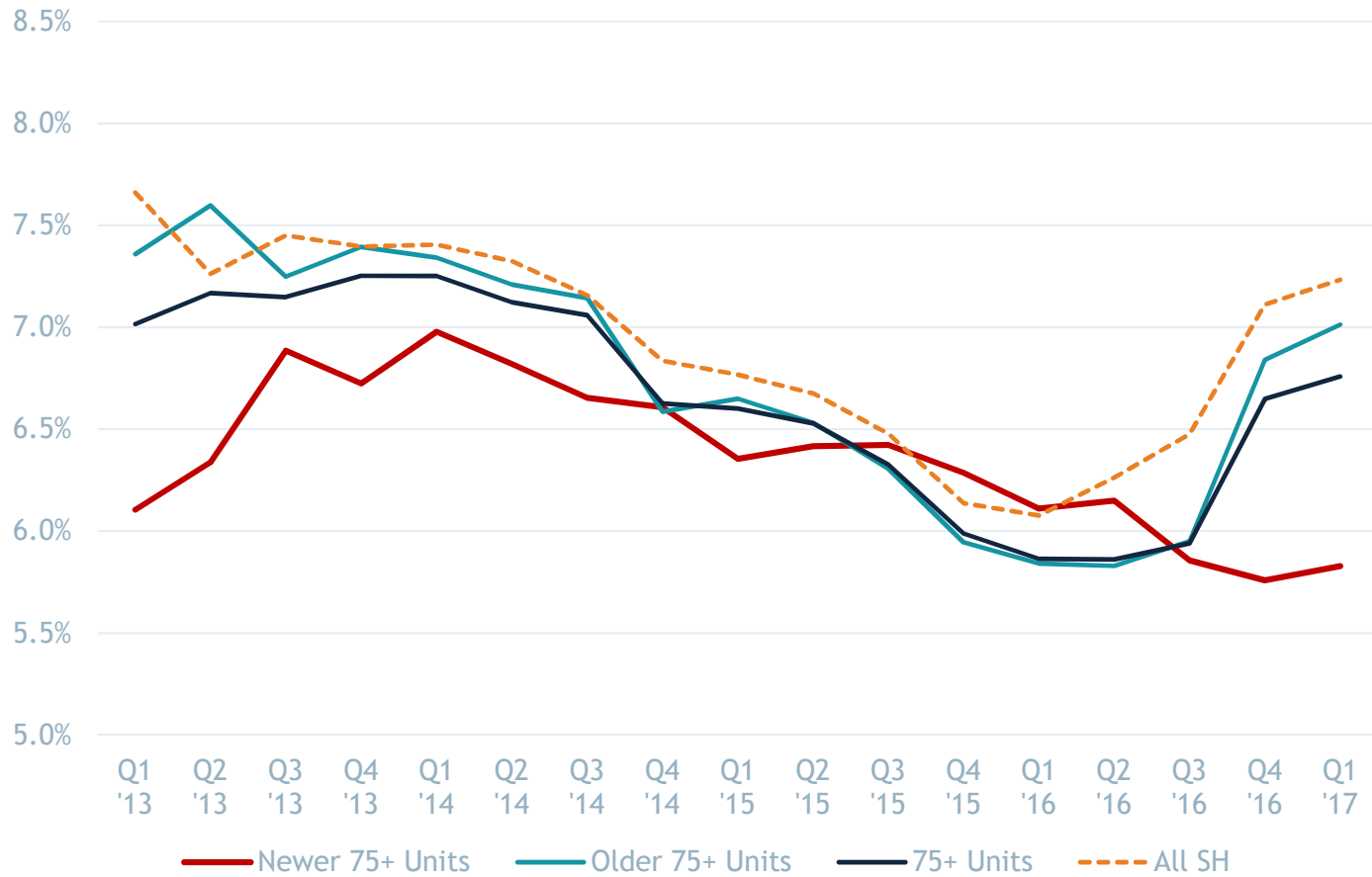


The cap rates presented in the chart reflect appraisal based cap rates for institutional properties owned by NCREIF

Source: NCREIF, AEW Research; SH data begins 2003Q2, all others 1996Q1 through Q4 2016

# SENIORS HOUSING CAP RATES DIVERGE ON QUALITY

SH CAP RATES, PROPERTIES 75+ UNITS BUILT BEFORE AND AFTER 2007



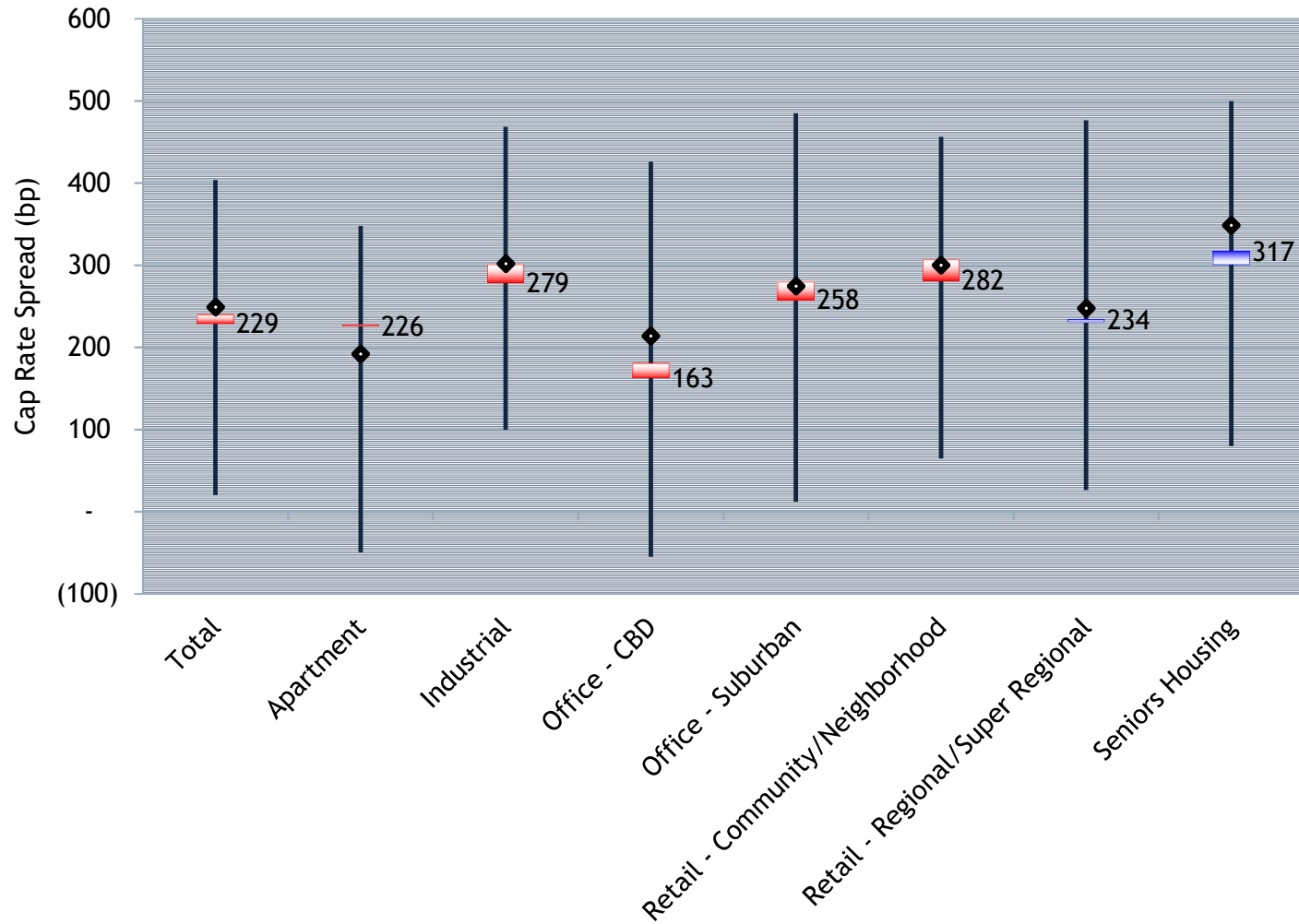
Cap rates for projects developed over the past 10 years continued to trend lower to below 6%.

Cap rates for older communities have seen cap rates drift higher although price per units is still rising

Source: Real Capital Analytics, AEW Research  
 Note: Old is pre-2007, New is 2007 to current

# SPREADS NEAR HISTORIC AVERAGES

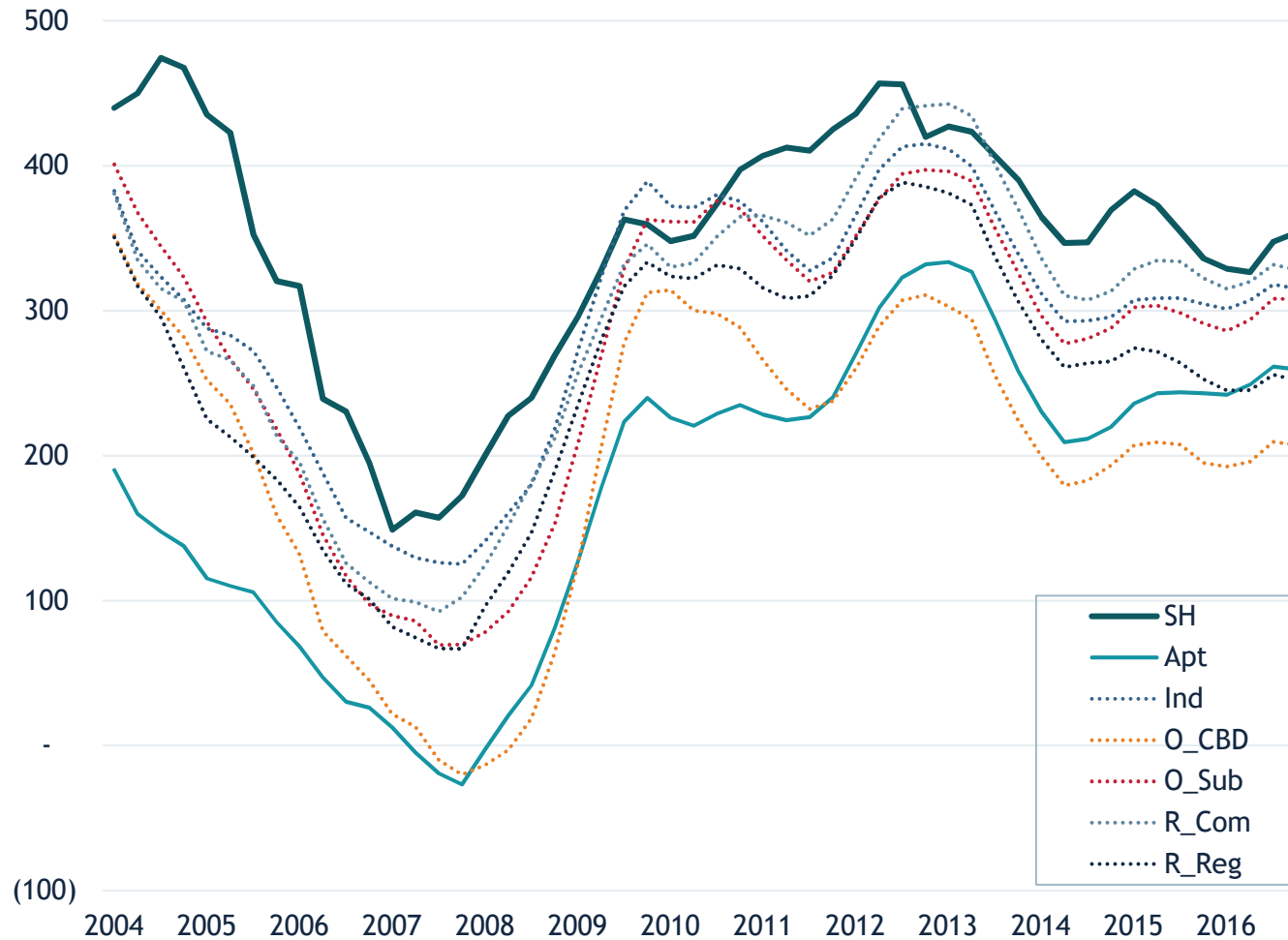
SPREAD TO 10-YR TREASURIES; AS OF Q4 2016



Source: NCREIF, AEW Research; SH data begins 2003Q2, all others 1996Q1 through Q4 2016

# SENIORS HOUSING RELATIVE SPREADS REMAIN WIDE OVER TIME

Rolling 4Q SPREAD TO 10-YR TREASURIES; AS OF Q4 2016



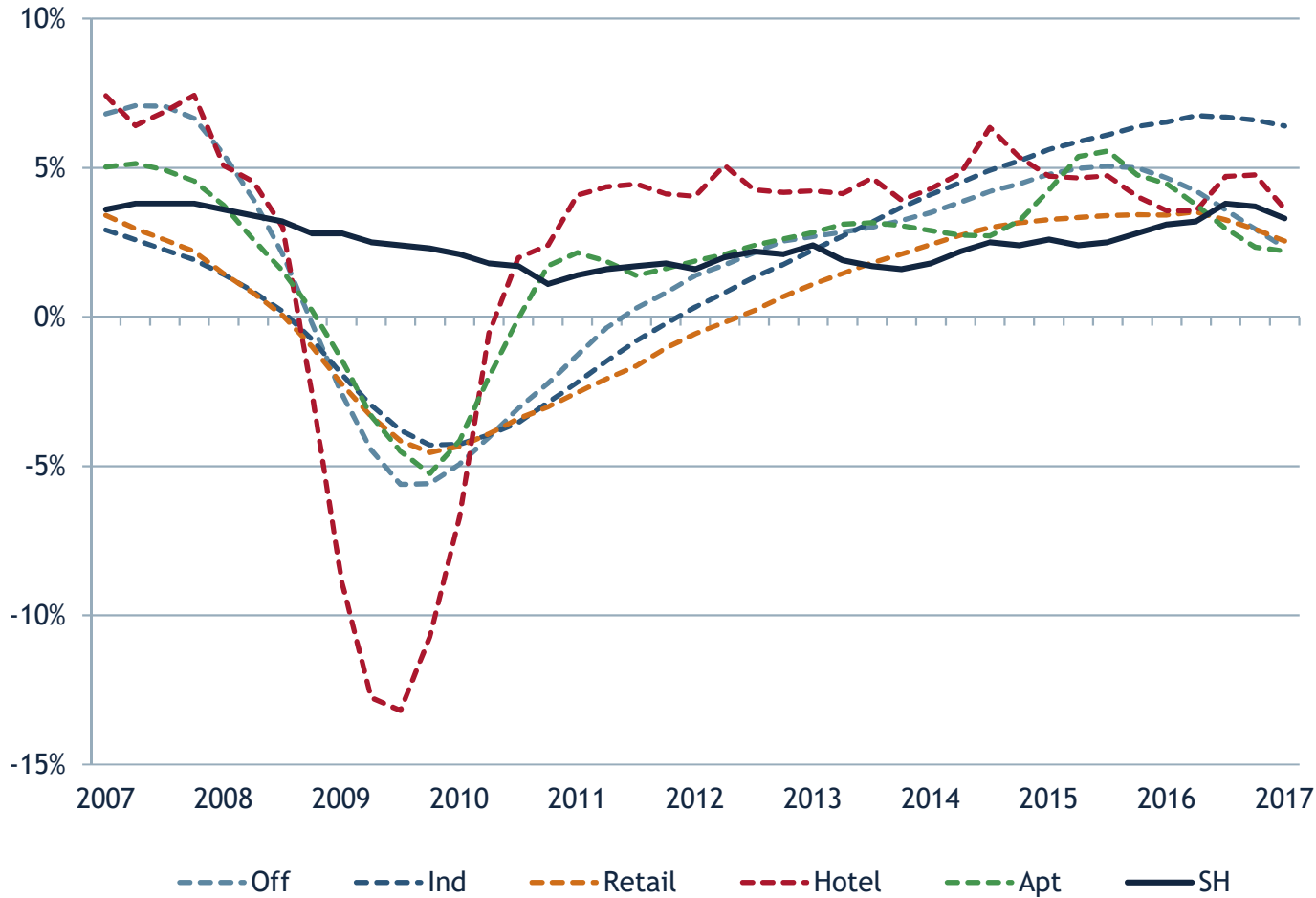
Seniors housing spreads have averaged between 100 to 150 basis points wider than apartments over the past 10 years

Spreads have narrowed more recently as acceptance has increased

Source: NCREIF, AEW Research; SH data begins 2003Q2, all others 1996Q1 through Q4 2016

# SENIORS HOUSING HAS SHOWN RESILIENCE TO ECONOMIC DOWNTURN

## ANNUAL RENT GROWTH, ROLLING 4 QUARTER CHANGE



Seniors housing has demonstrated less volatility through the most recent economic cycle where data is available

The higher acuity and more needs-based segments have shown the highest resilience

Source: Costar Analytics, NIC