SENIOR HOUSING REPORT

VIEWPOINT 2018 / COMMERCIAL REAL ESTATE TRENDS

By: John F. Thigpen, MAI

With the population aged 65+ forecasted to grow at an annual rate of 3.28% over the next five years, demand for senior housing should continue to accelerate. Because of increasing demand, senior housing has been one of the strongest asset classes over the past 10 years and this should continue for the foreseeable future.

Industry Performance

With the delivery of approximately 45,000 senior housing units during the past 12 months, National Investment Center for Senior Housing and Care (NIC MAP) data service reports occupancy for senior housing has declined slightly during this period, while absorption rates are increasing. As these new units are being absorbed, YOY average rent and occupancy rates should increase and there does not appear to be a risk of market-wide overbuilding.

Assisted Living

Delivery of new inventory has been the key factor affecting the performance of the assisted living segment, and has led to a decline in average occupancy over the past four quarters to 86.4% in 3Q '17.

Construction versus inventory, according to NIC MAP, has been decelerating over the past 12 months to 7.6% in 3Q '17, while annual rent growth rates have remained stable at 2.8% to 3.1%, and average rental rates for assisted living is $4,565 per unit.

Independent Living

The independent living market segment has also been affected by deliveries of new supply, with new inventory accelerating at an average rate of 2.3% of total inventory over the past 12 months, while absorption during this period has averaged 1.9%. Occupancy has declined for the past four quarters, ending at 90.6% for 3Q '17. Construction versus inventory decelerated over the past 12 months to 4.0% in 3Q '17, and annual rent growth rates slowed to 2.4%, and average rates were $3,093 per unit.

Nursing Homes

In contrast to independent and assisted living segments, the nursing home sector is not adding a significant number of new beds. Occupancy rates have declined over the past two years, which is the result of Centers for Medicare and Medicaid Services (CMS) encouraging shorter lengths of stay for Medicare patients, to control spending. Because of these policies, Medicare/managed care census is declining while Medicaid utilization is rising.

Transactions

According to Real Capital Analytics, transaction volume for senior housing accelerated over the past 12 months, with transaction volume over the past four quarters at $15.2 billion.

Capitalization rates for senior housing properties compiled by IRR have trended downward since 2010, and reflects the continued acceptance by investors and strong long-range market fundamentals.

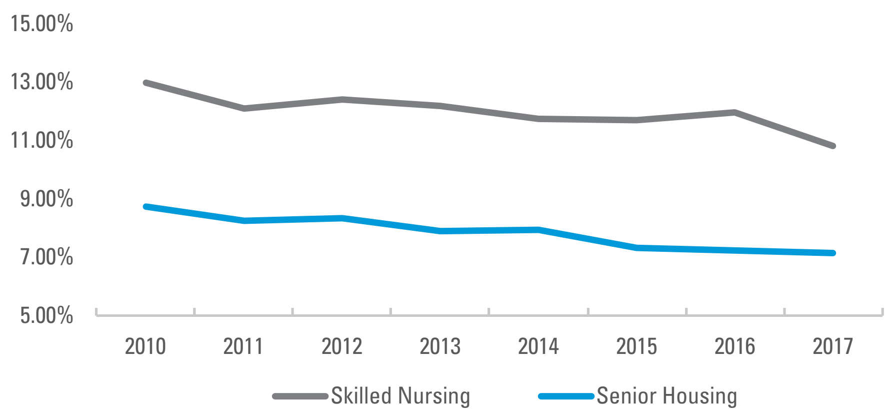
Over the past three to four years, the buyer composition for senior housing acquisitions have moved from users to a more balanced composition consisting of users, public, private and institutional purchasers. This is a reflection of the growing market acceptance for this property class.

Conclusion – Outlook

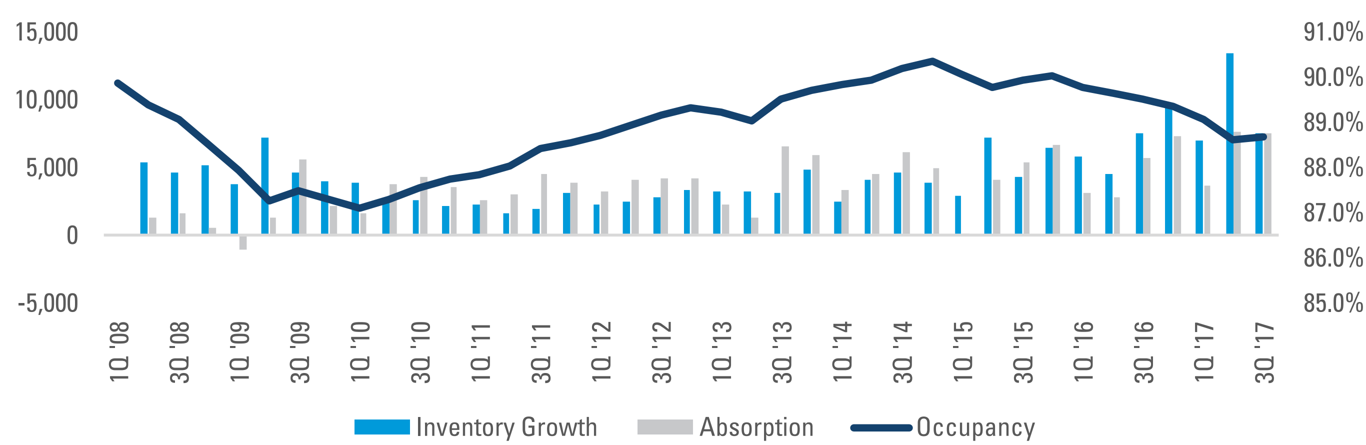
Aging trends will continue to increase the demand for senior housing in the foreseeable future. Delivery of new units is currently driving the market performance for senior housing; however with increasing demand, wide-spread overbuilding is not forecast. The acquisition market is expected to remain active in the senior housing sector. IRR expects 2018 to be another strong year, as the market continues to absorb newly delivered units.

In 3Q '17, price per unit sales for senior housing have remained high at $197,483 and Nursing Care had an average price per bed of $97,171

CAP RATE COMPARISON



INVENTORY, OCCUPANCY AND ABSORPTION RATES



Source: NIC MAP Data Service

Comprehensive Commercial Real Estate Market Research, Valuation and Advisory Services

About IRR

Integra Realty Resources (IRR) is the largest independent commercial real estate valuation and consulting firm in North America, with over 158 MAI-designated members of the Appraisal Institute among over 580 professionals based in our 49 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments.

About Viewpoint

IRR's Viewpoint represents the compilation and presentation of Commercial Real Estate (CRE) rates, market conditions, and forecast data. The rates, market conditions, and forecast data is generated via IRR's Viewpoint Survey. IRR's Viewpoint Survey requests market experts consisting of Appraisers and Consultants, each of whom have deep CRE expertise, to provide insights on over 60 U.S. markets. Viewpoint data is collected across five asset classes including Multifamily, Office, Retail, Industrial, and Hospitality.

Viewpoint's rates data (Cap Rates, Discount Rates, Reversion Rates, Vacancy Rates, etc.) reflects an expert's opinion based on recent market activity experienced in the past 6 months. Viewpoint forecast data represents a 12-month outlook based on current market conditions. The data in Viewpoint reflects rates data and forecasts based on stabilized properties in the respective U.S. marketplace. Where referenced, all regional and national averages are based on simple average calculations and are not weighted.

IRR's Viewpoint Survey is conducted through a proprietary data survey tool, and all data is checked both manually and by a specially designed computer editing procedure. While we do not guarantee that the survey is statistically accurate, the Viewpoint data provides, what we believe, is the best, clear-sighted insights into the CRE marketplace.

Sources

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Cap Rate Comparison
Source: Integra Realty Resources

Inventory, Occupancy and Absorption Rates
Sources: NIC MAP Data Service