

Why Invest in Senior Living?



Executive Summary

People over 65 make up nearly **14% of total population**, according to the latest federal data, with a forecasted **increase to 18%** of the country by the year **2030**.

Over the past 20 years, institutions have crept into the marketplace, primarily through **private equity funds, REITS** and agency financing from **Fannie, Freddie and HUD**.

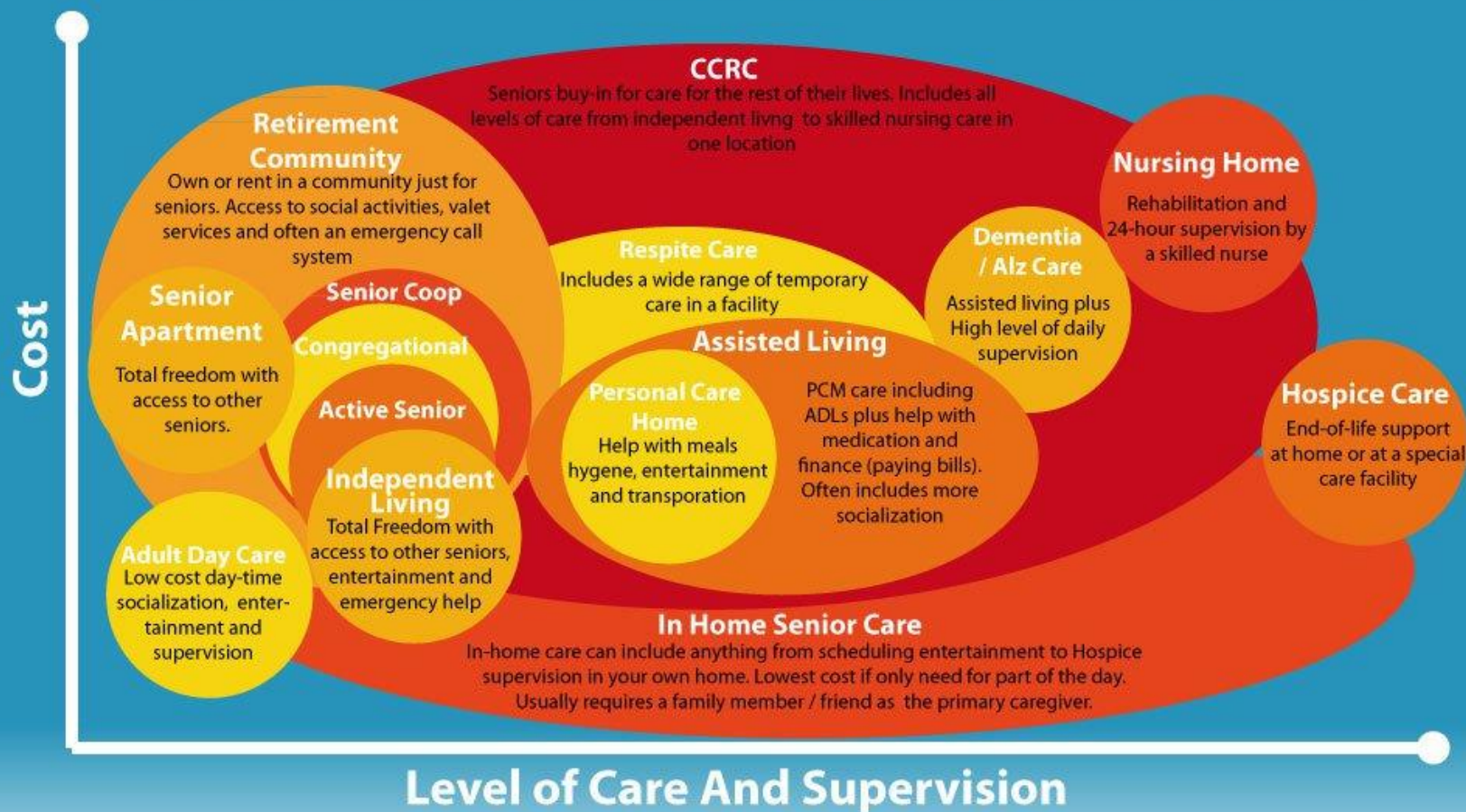
Existing product within the US averages approximately **18 years of age**, which together with **advancements in technology and new construction**, has lead to significant physical and functional obsolescence.

As the next generation of seniors transitions into Senior Housing, **diversification of product based upon specific levels of care**, Independent & Assisted Living and Memory Care, has forever changed the face of Senior Living into a more functional and attractive alternative to in-home care.

An **escalating decline in caregiver to senior ratio**, increased regulations and minimum wage legislation have combined to create **significant barriers** to the long term success of the **in-home care or “age in-place”** model.



The Senior Living Spectrum



This bubble graph shows how different types of senior care overlap and the relationship between the level of care and the cost.

Create by SeniorLiving.Org

The Senior Living Difference

- Niche asset class merging multi-family utility with hospitality and health services
- High growth industry driven by dramatic shift in demographics for the next 30 years
- Specialized real estate product evolving to meet generational demand preferences and needs
- Diversified mix of real estate investment opportunities across the risk/return spectrum



Investor's Perspective

- An **emerging commercial real estate asset** type that will eventually be considered a “**core real estate asset class**”
- Becoming more **understandable and transparent**
- Ample **debt and equity available** for the sector
- Investor **interest** is **growing** and the market is **more liquid**
- **Sizeable risk premium** compared to other asset types
- **Outperformed** other commercial real estate property investments during the **past 10 years**
- **Three** of the 15 largest REITs are now **health care REITs**
- **Resilient** real estate sector during the **economic recession**
- **Strong outlook** for market **fundamentals**

Sources of Equity Capital

- Private Equity Funds
- Public Equity REITS
- High Net Worth Individuals
- Pension Funds
- Nontraded REITS

Industry Metrics

A \$375+ Billion Industry

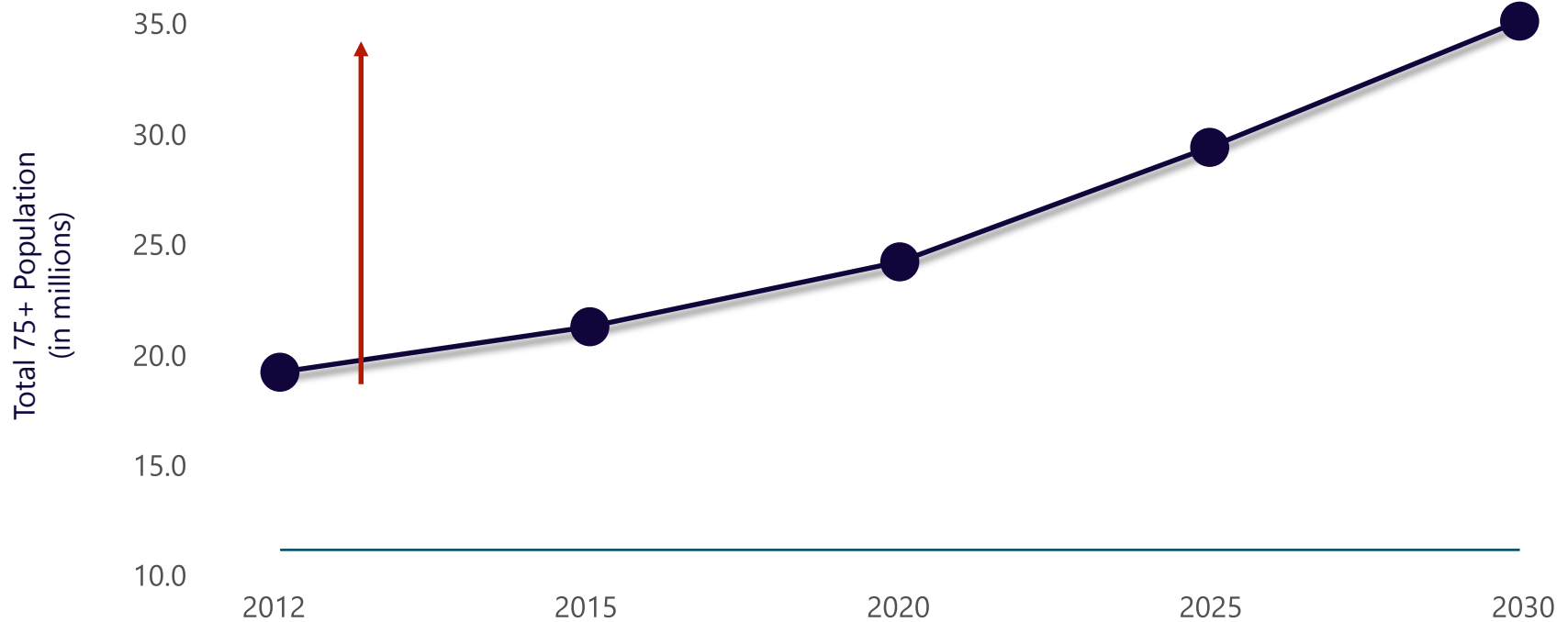
- High operating leverage
- Favorable Demographics
- Demand outpacing supply
- Private Pay

Primary Demand Drivers

- Less demanding lifestyle
- Socialization
- Need for increased care

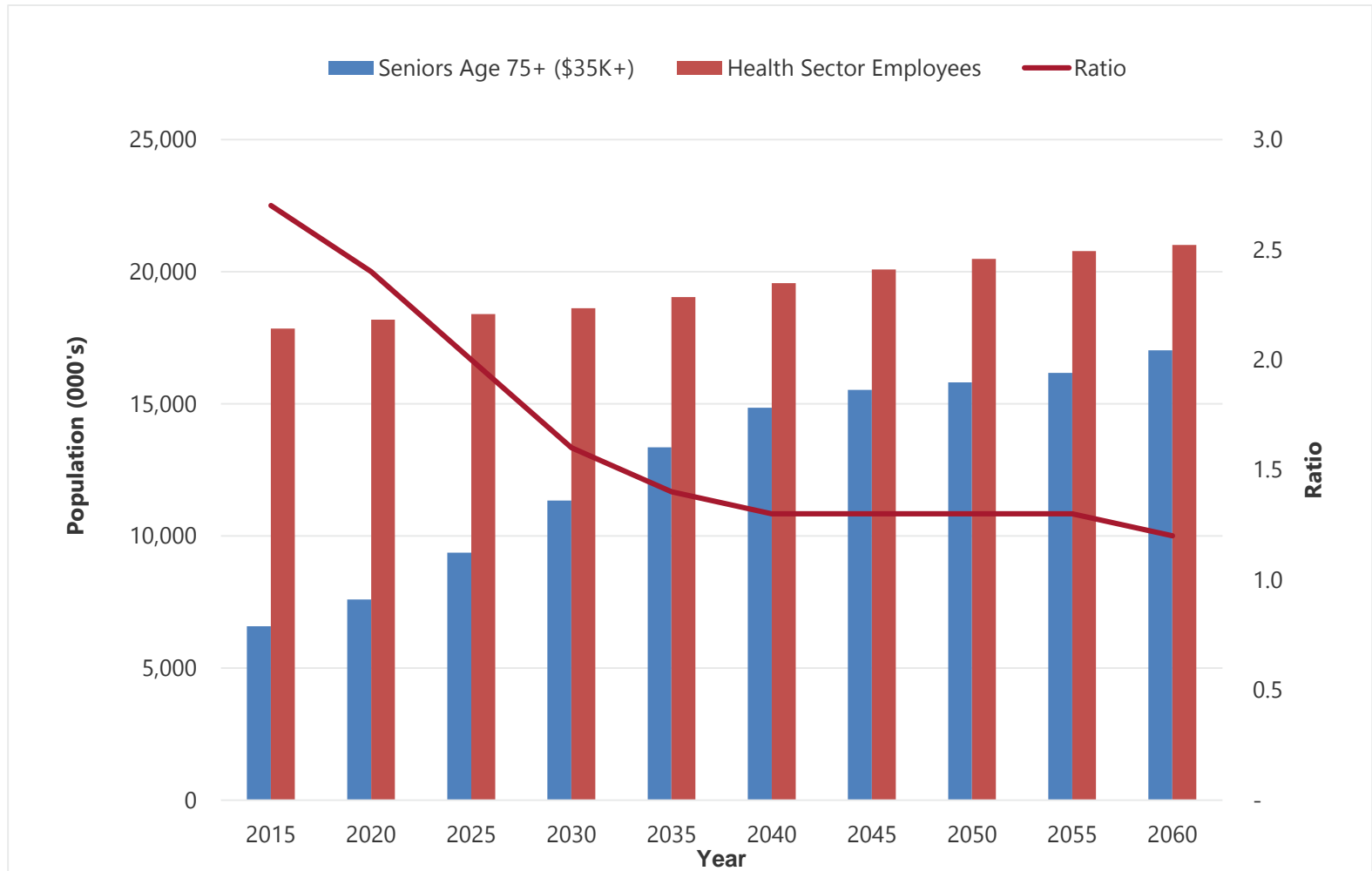
The Demand Driver

AGE +75 2012 - 2030

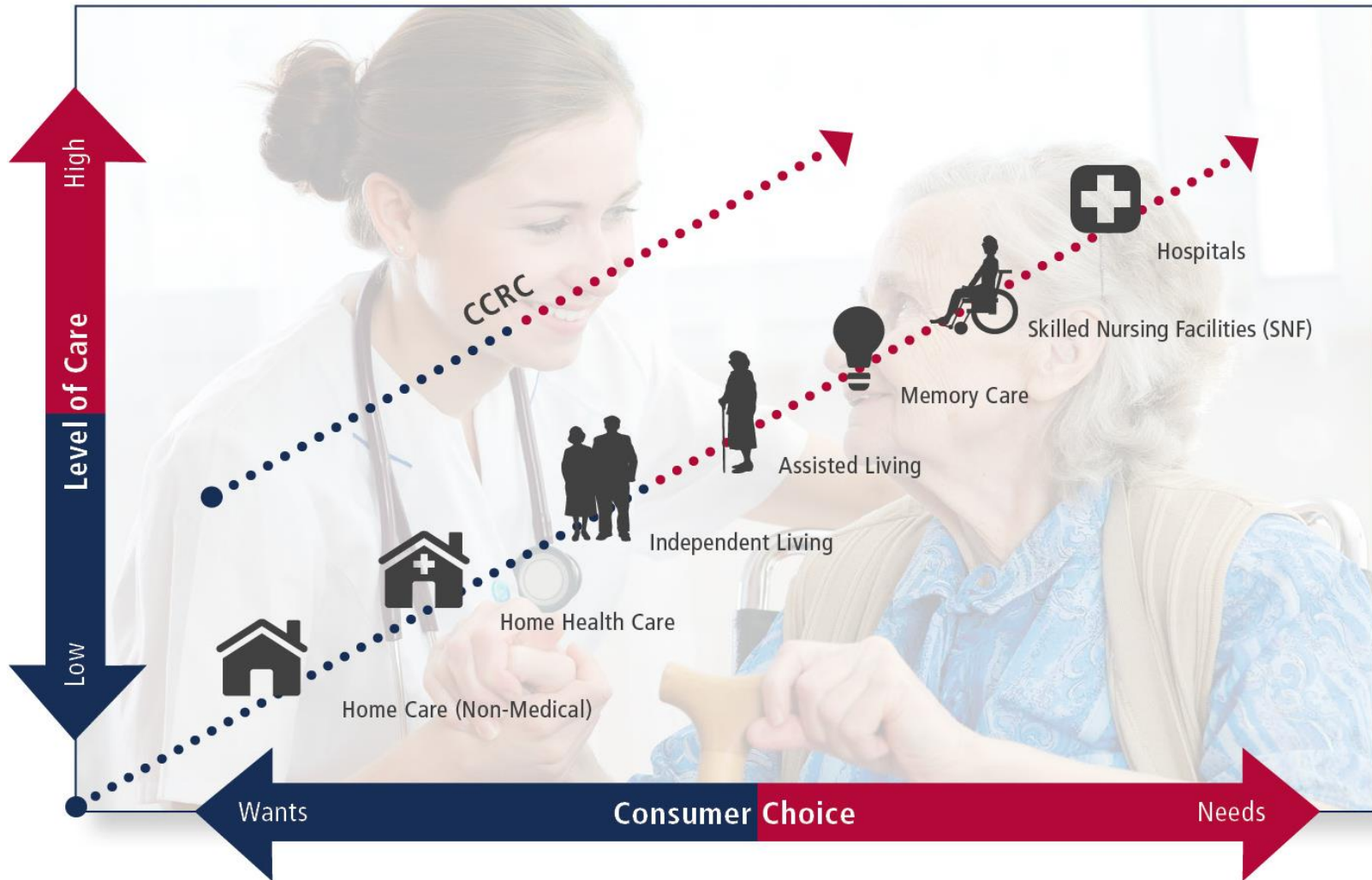


NEED FOR 2+ MILLION NEW UNITS BY 2030

Demographic Imbalance



Spectrum of Care

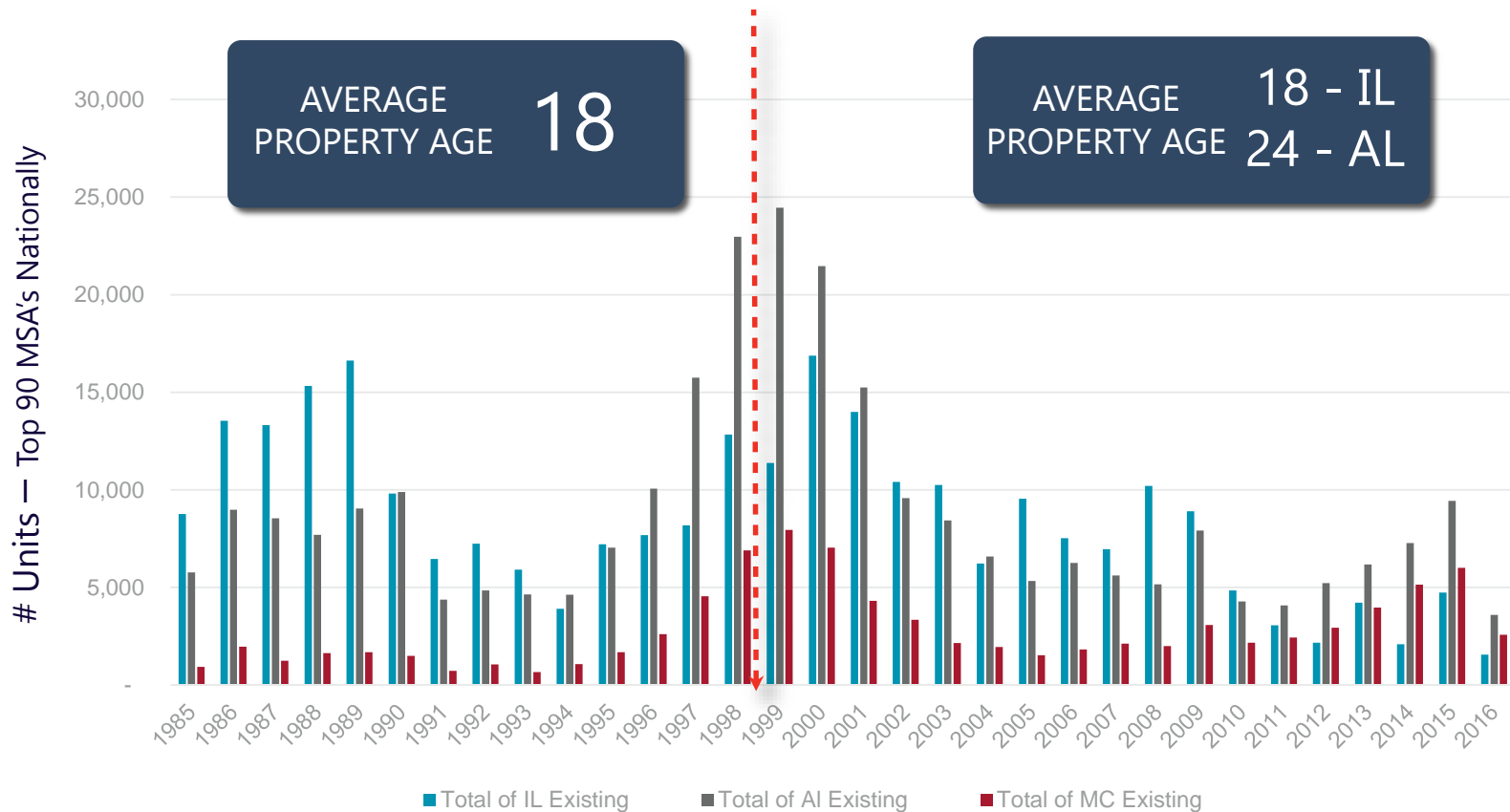


Types of Senior Living

Breakdown by Product Type

	Active Adult	Independent Living	Assisted Living	Memory Care	Nursing Care	CCRC
Avg. Resident Age	55+ Year	80.6 Years	87.0 Years	Varies	85.0 Years	80.0 Years
Avg. Length of Stay	10+ Years	31 Months	26 Months	Varies	22 Months	10+ Years
Decision Maker	Self	Self	Adult Child	Other than Self	Self or Adult Child	Self
Reason to Move in	Lifestyle & Socialization	Care Needs	Care Needs	Care Needs & Security	Assistance/Rehabilitation	Lifestyle - Age In-place
Reason to Move out	Care Needs	Care Needs or Death	Care Needs or Death	Death	Improvement or Death	Death
Needs Level	None	Low	Intermediate	Intermediate to High	High	Low to High
Typical Community Size	150-450 Units	120-250 Units	60-120 Units	20-60 Units	20-200 Beds	60-450 Units
Avg. Occupancy	95.0%	91.5%	90.7%	Varies	88.4%	91.0%
Payor Mix:						
Private						
Pay/Insurance	100%	100%	90%	90%	44%	90%
Medicare/Medicaid	0%	0%	10%	10%	56%	10%
Features:	Apartments featuring full kitchens and washer/dryers with community fitness center, clubhouse, pool and spa, barbecues, outdoor dining areas, and fireplaces	Apartments featuring full kitchens with central dining facilities, housekeeping, linen service, transportation, concierge and recreational activities/amenities	Similar to IL (some apartments with kitchenette and no washer/dryer) plus bathing, dressing, toileting, transferring and limited healthcare services	Similar to AL (no kitchen or washer/dryer in apartments) plus secure access, specialized activities, specialized areas and customized care levels	Encompasses both short term rehab and long term acute care in either a free standing or as part of a larger community, frequently part of CCRC	Larger well amenitized properties offered for both rent and entrance fee with continuum of care allowing residents to age in-place generally attracting younger more affluent residents

Existing Inventory



Property Vintage



New Supply Metrics – Western US

Product/Status	Primary MSA's	Secondary MSA's	Additional	Totals
Active Adult				
Planned	33,127	4,096	328	37,551
Independent Living				
Existing	82,678	12,563	4,015	99,256
Under Construction	2,401	443	120	2,964
Planned	5,907	287	-	6,194
Assisted Living				
Existing	80,841	12,975	4,361	98,177
Under Construction	4,213	904	238	5,355
Planned	29,570	3,039	54	32,663
Memory Care				
Existing	24,382	3,677	837	28,896
Under Construction	2,075	596	131	2,802

Key Considerations when Investing

- Operator/Partner Experience, History and Performance
- Strategy
 - Position in the Marketplace
 - Stabilized Property vs Renovation vs. New Construction
- Local and Primary Market Area Conditions
 - Supply and Demand, Vacancy Rates, New Competition
- Rents/Affordability/Ability to Pay
- Pricing
 - Replacement Cost/Price Per Unit
 - Cap Rates
- Exit Strategy/Market Liquidity

What to look for in an Operator

- Operator's track record of meeting NOI goals
- Operator's ability to compete in evolving sector with changing consumer preferences
- Operator's vision and long-term plans
- Turnover of residents and staff
- Systems and technology

Motivations of Capital Seekers

- A developer needs to source financing for building a new property
- An existing operator needs to find capital for property/portfolio repositioning
- A large operator needs to refinance his business since their existing financing is expiring
- An operator needs working capital
- An operator wants to share risk/reward with a joint venture (JV) partner

Perceived Risks of Investing

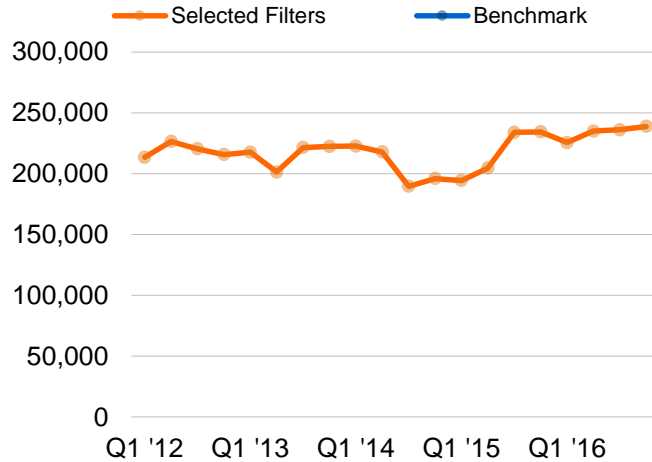
- Valuation and exit risk (all real estate sectors have this risk)
- Supply risk (not unique to seniors housing)
- Obsolescence risk (physical plant no longer meets the needs of its tenants/residents)
- Liability risk (associated with standards of care for residents)
- Resident credit risk (extremely low for today's cohort of residents)
- Turnover risk associated with high churn rate for seniors housing
- Reimbursement risk for non-private pay seniors housing properties

Key Underwriting Assumptions

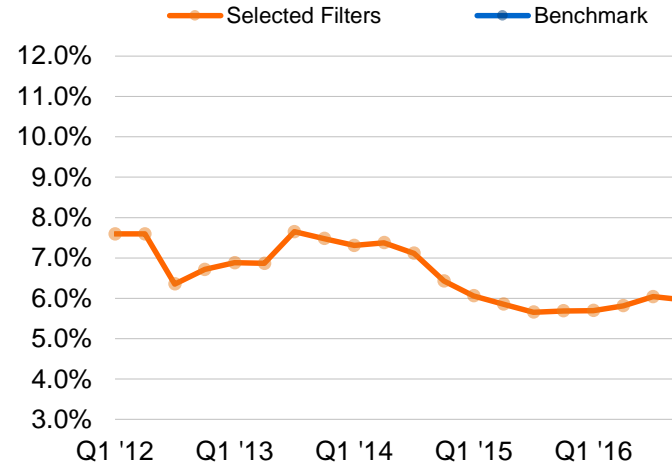
- Current Rates and Rent Growth
- Expense Growth Rates
- Lease up Velocity
- Competitor Behavior
- Operator Performance
- NOI Margins
- Margin Growth
- Share of Return from Cash Flow versus Residual Sales Price
- Capital Reserves
- Debt
- Exit cap rates

Market Trends

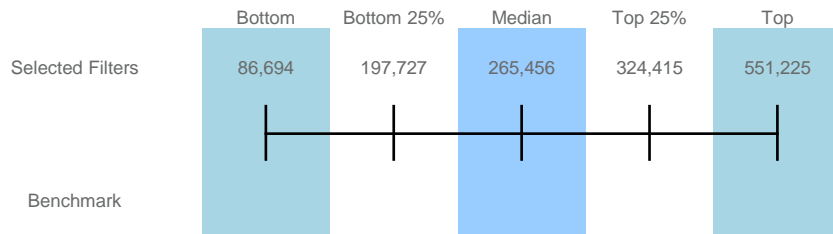
Avg Price (\$ / unit)



Avg Cap Rate (yield)

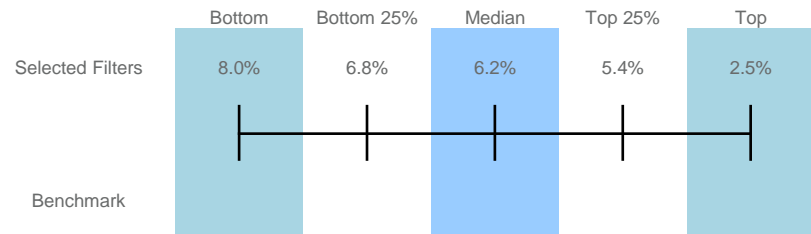


Price(\$ per unit) | Quartile Distribution*



* Data based on past 12 months

Cap Rate (Yield) | Quartile Distribution*



* Data based on past 12 months

Source: Real Capital Analytics

Market Trends

Most Active Markets

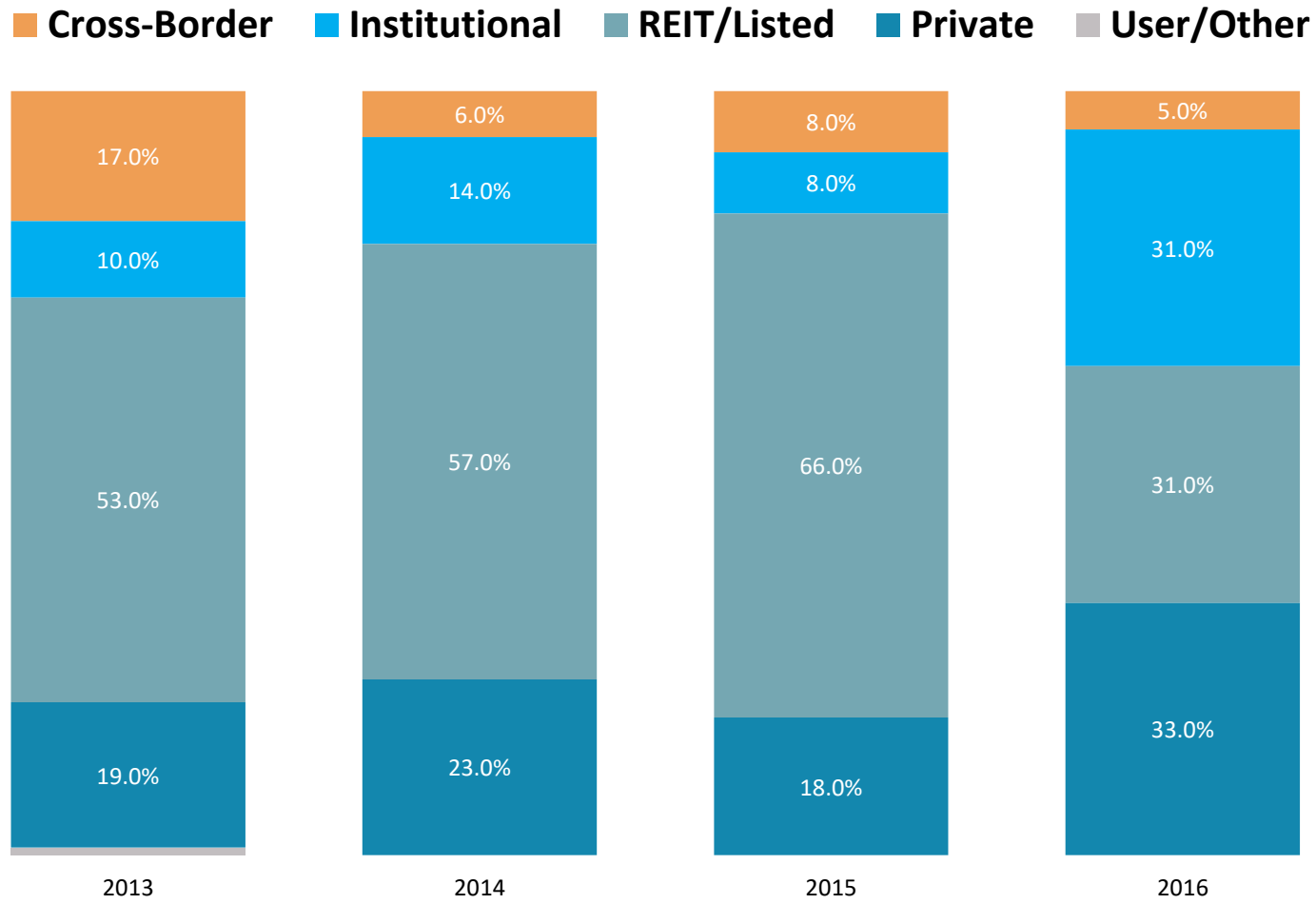
	2012		2013		2014		2015		2016		2017 (YTD)	
	Vol (\$)	# Props	Vol (\$)	# Props	Vol (\$)	# Props	Vol (\$)	# Props	Vol (\$)	# Props	Vol (\$)	# Props
Dallas	274,949,628	10	193,423,000	6	442,109,625	11	264,026,984	7	120,612,172	5	0	0
Atlanta	70,028,729	3	124,992,093	6	284,219,100	6	201,859,900	4	103,450,000	3	0	0
Houston	90,499,173	2	164,769,618	4	105,760,867	2	212,114,368	6	181,859,890	4	0	0
Los Angeles	36,889,733	1	174,863,497	7	168,000,000	4	193,240,351	7	156,020,000	4	0	0
Denver	88,730,566	2	149,220,000	4	122,125,000	4	303,040,664	7	65,685,000	2	0	0
Tampa	0	0	125,459,999	3	121,510,531	4	319,568,372	6	74,000,000	1	0	0
Toronto	136,633,703	2	0	0	108,270,480	3	279,925,045	7	50,426,186	1	0	0
Phoenix	48,338,420	2	30,000,000	1	262,987,313	8	86,939,147	3	90,127,495	3	0	0
Chicago	216,072,463	3	44,409,108	2	47,430,230	2	164,516,574	5	42,084,459	2	0	0
All Others	2,148,417,783	92	4,495,154,431	215	5,265,925,840	191	5,405,613,810	233	2,459,350,090	114	75,970,000	3

Date	Property Name	City	State	Units	Yr Built	Price (\$)	\$/units	Buyer	Seller
Dec-16	The Wellington	Aliso Viejo	CA	233	1987	99,000,000	424,893	Welltower	UBS Realty Investors LLC
Nov-16	Allegro at Hyde Park	Tampa	FL	136	2011	74,000,000	544,118	Allegro Senior Living, PGIM Real Estate	Bayshore Retirement Living
Sep-16	Westwood Horizons	Los Angeles	CA	235	1966	69,450,000	295,532	Kayne Anderson	Vintage Senior Housing
Nov-16	Waters of Edina	Edina	MN	139	2012	51,000,000	366,906	Prudential Financial	The Waters Senior Living
May-16	Sonata at Melbourne	Melbourne	FL	135	2012	45,500,000	337,037	Kayne Anderson	Prudential RE Investors
Jun-16	Belmont Village Thousand Oaks	Thousand Oaks	CA	139	2011	44,850,000	322,662	Blue Moon Capital Partners	Belmont Village
Jun-16	The Oaks A Merrill Gardens Community	Gilbert	AZ	134	2014	41,600,000	310,448	Gilbert AZ Senior Property LLC	Columbia Pacific

Source: Real Capital Analytics



Market Trends



Market Trends

Top Buyers

Rank	Buyer	Location	Prior 24 Months			All Time	
			Acq (\$)	# Props	Avg Price (\$)	Total Global Acq (\$)	# Props
1	Welltower	Toledo, OH, USA	1,591,075,342	29	54,864,667	19,687,666,978	1,017
2	National Health Invstrs	Murfreesboro, TN, USA	1,285,201,998	104	12,357,712	3,318,100,786	237
3	Northstar Healthcare	Arapahoe, CO, USA	1,280,962,670	43	29,789,830	4,225,123,257	330
4	G-A Healthcare REIT III	Irvine, CA, USA	1,192,988,000	99	12,050,384	2,443,107,460	186
5	New Senior Investment Group	New York, NY, USA	998,109,058	42	23,764,501	1,479,517,116	64
6	HCP Inc	Irvine, CA, USA	836,193,549	25	33,447,742	21,099,588,058	1,089
7	Brookdale Senior Living	Brentwood, TN, USA	690,222,549	17	40,601,326	6,398,642,267	404
8	CPP Investment Board	Toronto, ON, CAN	554,774,896	6	92,462,483	47,767,341,911	1,395
9	NorthStar	New York, NY, USA	522,154,487	18	29,008,583	15,123,487,485	788
10	The Freshwater Group	Tucson, AZ, USA	446,834,074	8	55,854,259	1,067,720,650	31
11	CNL Financial Group	Orlando, FL, USA	427,225,000	13	32,863,462	11,508,283,114	451
12	Senior Housing Properties Trust	Newton, MA, USA	368,353,023	11	33,486,638	6,307,259,050	294
13	Chartwell Retirement Residences	Mississauga, ON, CAN	363,795,010	9	40,421,668	3,187,643,694	148
14	Bridge Investment Group	Salt Lake City, UT, USA	352,444,681	11	32,040,426	4,770,465,462	190
15	PGIM Real Estate	Madison, NJ, USA	282,839,314	8	35,354,914	51,657,595,730	1,319
16	PSP Investments	Ottawa, ON, CAN	173,793,453	4	43,448,363	21,028,390,608	979
17	Kayne Anderson	Los Angeles, CA, USA	171,570,000	4	42,892,500	2,262,760,008	113
18	Cardinal Bay	Winters, TX, USA	146,859,890	3	48,953,297	209,999,996	8
19	TPG Capital	Fort Worth, TX, USA	145,612,807	22	6,618,764	9,370,254,589	1,283
20	Omega Healthcare	Cockeysville, MD, USA	141,474,696	9	15,719,411	6,889,158,158	806
TOTALS			11,972,484,496	485	716,000,928	239,802,106,379	11,132

Source: Real Capital Analytics



Market Trends

Top Sellers

Rank	Seller	Location	Prior 24 Months			All Time	
			Disp (\$)	# Props	Avg Price (\$)	Total Global Disp (\$)	# Props
1	Trilogy Healthcare Services LLC	Louisville, KY, USA	1,125,000,000	97	11,597,938	1,160,850,000	99
2	Fortress	New York, NY, USA	1,063,003,014	40	26,575,075	19,499,455,043	1,097
3	Discovery Management Group	Bonita Springs, FL, USA	684,394,896	10	68,439,490	1,141,894,896	16
4	Chartwell Retirement Residences	Mississauga, ON, CAN	578,222,549	15	38,548,170	1,839,787,015	80
5	Kayne Anderson	Los Angeles, CA, USA	554,774,896	6	92,462,483	2,641,914,189	76
6	Vintage Senior Housing	Newport Beach, CA, USA	473,831,392	11	43,075,581	921,569,862	20
7	Arcapita Bank	Manama, BHR	446,834,074	8	55,854,259	4,743,302,145	197
8	CNL Financial Group	Orlando, FL, USA	368,353,023	11	33,486,638	15,718,409,306	474
9	Hawthorn Retirement Group	Vancouver, WA, USA	352,317,425	12	29,359,785	445,499,844	19
10	NorthStar	New York, NY, USA	311,974,109	17	18,351,418	3,856,686,072	597
11	Harrison Street RE Capital	Chicago, IL, USA	265,743,459	8	33,217,932	2,268,358,854	124
12	Belmont Village	Houston, TX, USA	234,849,977	3	78,283,326	511,662,773	10
13	AEW Capital	Boston, MA, USA	232,900,000	6	38,816,667	26,081,986,600	963
14	Capitol Seniors Housing	Washington, DC, USA	209,397,299	6	34,899,550	810,138,691	21
15	Carlyle Group	Washington, DC, USA	204,787,299	5	40,957,460	33,604,747,397	790
16	Brookdale Senior Living	Brentwood, TN, USA	188,712,804	24	7,863,034	1,405,581,267	87
17	Formation Capital	Atlanta, GA, USA	181,140,000	3	60,380,000	1,685,212,765	119
18	Life Care Services LLC	Des Moines, IA, USA	158,517,000	5	31,703,400	268,538,400	13
19	Bridgewood Property Co	Houston, TX, USA	146,859,890	3	48,953,297	281,999,996	9
20	Signature Retirement Living	Toronto, ON, CAN	141,823,566	4	35,455,892	141,823,566	4
TOTALS			7,923,436,672	294	828,281,394	119,029,418,680	4,815

Source: Real Capital Analytics

