CBRE

U.S. SENIORS HOUSING & CARE INVESTOR SURVEY UPDATE

H1 2021

U.S. Seniors Housing & Care Investor Survey

Project: Ventana CCRC by Buckner
Dallas, Texas
Architect: HKS
Interior Design: IDA
Landscape: Talley Associates
Photography: Sargent Photography

U.S. Seniors Housing & Care Investor Survey

As the 10th consecutive survey, this H1 2021 CBRE Seniors Housing & Care Investor Survey is a product of consistent reporting methodology and pertinent and actionable market intelligence.

In the most recent surveys, respondents have provided a much-needed window into ongoing changes in market conditions as a result of the COVID-19 pandemic. The H1 2020 survey closed at the end of February 2020, providing insights into the last pre-pandemic market sentiment.

When juxtaposed with H1 2020 results, the H2 2020 survey provided real-time market insight into the impact of COVID-19 within seniors housing.

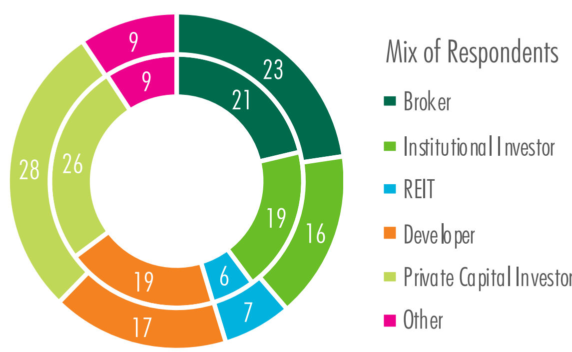
This H1 2021 survey's objective is to identify post-pandemic recovery trends in the seniors housing & care industry. The data is based on market sentiment collected from seniors housing investors, developers, lenders and brokers throughout the United States. We thank all the respondents for providing their vital insights on the state of the market.

Highlights of Seniors Housing Trends

- Capitalization Rates: While not fully recovered, the average cap rate during this survey (H1 2021) indicated a period-over-period (P-o-P) compression of -13 basis points (bps), an improvement from the +31 bps, P-o-P expansion during the prior survey.
- The vast majority of the respondents opined that they expect positive census trends, or a recovery from the negative census trends that resulted from the COVID-19 pandemic.
- The Active Adult product type re-emerged at the top of the investor opportunity list, which was also coincided with the largest compression in cap rates, an average of -32 bps, among all property types.

Figure 1: Survey Respondent Categories (%)

Senior Housing Investor Survey, H2 2020 (Inner Ring) and H1 2021 (Outer Ring).



Overall Cap Rate	Active Adult (AA)	Independent Living (IL)	Assisted Living (AL)	Memory Care (MC)	Skilled Nursing Facility (SNF)	Continuing Care Retirement Community/ Life Plan Community (CCRC/LPC)
Average (bps) P-o-P	▼ -32	▼ -12	▼ -7	▼ -6	▼ -18	▼ -4

Investor Survey Results

For this H1 2021 survey, seniors housing cap rates showed overall compression from H2 2020 levels. This trend was preceded by the expansion of rates between the H1 2020 (pre-pandemic) to H2 2020 survey periods.

Class A core assets led the overall compression at -22 to -32 bps, with the exception of Memory Care, which showed a more modest change of -8 bps.

Active Adult rates showed the most significant movement, with overall compression of -32 bps. When looking at the impacts of the COVID-19 pandemic, lower-acuity communities tended to fare the best, with Active Adult and Independent Living communities leading the way. Consistent with the analysis in the H2 2020 survey, the Active Adult segment has yet to find its definitive place in the market and continues to depart from its consideration as a pseudo-multifamily product, toward a seniors housing classification.

Following Active Adult assets, Independent Living and Skilled Nursing, representing the upper and lower ends of the acuity spectrums, showed the highest compression in cap rates of -12 bps and -18 bps, respectively. Care levels showing the least amount of movement in rates were comprised of Assisted Living, Memory Care, and CCRC/LPC communities at -7 bps, -6 bps and -4 bps, respectively.

Class A and Class B assets fared the best, with indicated compression of -14 bps and -16 bps, which were trailed by Class C assets at -10 bps.

Overall, the cap rates for this period compressed by -13 bps, a stark improvement from the P-o-P expansion of +31 bps during the prior report (H2 2020). Not fully recovered to pre-pandemic levels, the market is showing a greater degree of variation in investment thesis, with indications primarily showing cautious optimism.

Figure 2: Seniors Housing & Care - Capitalization Rates

		Class A			Class B			Class C		
		Low - High (%)	Avg. (%)	Change (bps)	Low - High (%)	Avg. (%)	Change (bps)	Low - High (%)	Avg. (%)	Change (bps)
Core	Active Adult	3.0 - 8.0	**4.9**	-32	4.0 - 9.0	**5.8**	-32	5.0 - 10.0	**6.8**	-36
Core	Independent Living	3.0 - 7.0	**5.3**	-22	4.0 - 9.0	**6.4**	-14	5.0 - 10.0	**7.4**	-11
Core	Assisted Living	4.0 - 8.0	**6.1**	-24	5.0 - 10.0	**7.2**	-9	6.0 - 11.0	**8.4**	2
Core	Memory Care	5.0 - 10.0	**7.1**	-8	5.0 - 10.0	**7.8**	-15	6.0 - 11.0	**8.9**	-1
Core	Skilled Nursing	9.0 - 13.0	**10.9**	-23	9.0 - 14.0	**11.7**	-24	11.0 - 16.0	**13.3**	-33
Core	CCRC/LPC	5.0 - 10.0	**7.0**	-24	6.0 - 11.0	**8.2**	-14	7.0 - 12.0	**9.3**	-1
Non-Core	Active Adult	3.0 - 8.0	**5.5**	-29	4.0 - 9.0	**6.3**	-38	5.0 - 10.0	**7.2**	-25
Non-Core	Independent Living	4.0 - 9.0	**6.2**	-10	5.0 - 10.0	**7.1**	-12	6.0 - 11.0	**8.1**	0
Non-Core	Assisted Living	5.0 - 10.0	**6.9**	0	5.0 - 10.0	**7.6**	-8	6.0 - 11.0	**8.6**	-3
Non-Core	Memory Care	5.0 - 10.0	**7.5**	-1	5.0 - 10.0	**8.1**	-7	6.0 - 11.0	**9.0**	-6
Non-Core	Skilled Nursing	9.0 - 14.0	**11.5**	-3	10.0 - 16.0	**12.1**	-15	11.0 - 16.0	**13.7**	-9
Non-Core	CCRC/LPC	6.0 - 11.0	**8.1**	8	7.0 - 11.0	**8.7**	-3	8.0 - 12.0	**9.7**	8
Average Change per Class				-14			-16			-10

Source: CBRE Seniors Housing & Care Investor Survey Results, H1 2021, Change from H2 2020 Survey.

The spread between core and non-core assets increased from 41 bps for the H2 2020 to 51 bps during this report (H1 2021), representing a flight to quality. This delta in the spread is the most significant for Independent Living and CCRC/LPC communities, at 77 bps and 66 bps, respectively.

Categorically, the Class A/B, non-core assets showed an across-the-board compression in cap rate spread.

The most significant increase in class/location spread occurred between the Class A/C, core Assisted Living and CCRC/LPC investment classes, with expansion of 26 bps and 23 bps, respectively.

Locationally, between core and non-core, a majority of the asset classes showed expansion, further indicating an investor move toward quality, higher-barrier markets.

Figure 3: Seniors Housing & Care Cap Rate Spreads

Investment Class Spreads (bps)							
		A - B	Change	B - C	Change	A - C	Change
Core	Active Adult	93	0	95	-4	188	-5
Core	Independent Living	107	9	102	2	209	11
Core	Assisted Living	115	15	122	11	237	26
Core	Memory Care	66	-8	110	15	176	7
Core	Skilled Nursing	77	-2	163	-9	241	-11
Core	CCRC/LPC	117	10	116	13	234	23
Non-Core	Active Adult	79	-9	94	14	174	5
Non-Core	Independent Living	90	-2	102	12	193	10
Non-Core	Assisted Living	63	-8	106	5	169	-3
Non-Core	Memory Care	55	-6	98	1	152	-5
Non-Core	Skilled Nursing	58	-12	160	7	218	-5
Non-Core	CCRC/LPC	58	-11	95	11	153	-1

Location Spreads - Core vs. Non-Core (bps)						
	A	Change	B	Change	C	Change
Active Adult	59	2	46	-6	45	12
Independent Living	88	12	71	2	72	11
Assisted Living	86	24	34	1	18	-5
Memory Care	37	7	25	8	13	-5
Skilled Nursing	55	19	35	9	32	25
CCRC/LPC	112	32	53	11	32	9

Source: CBRE Seniors Housing & Care Investor Survey Results, H1 2021, Change from H2 2020 Survey.

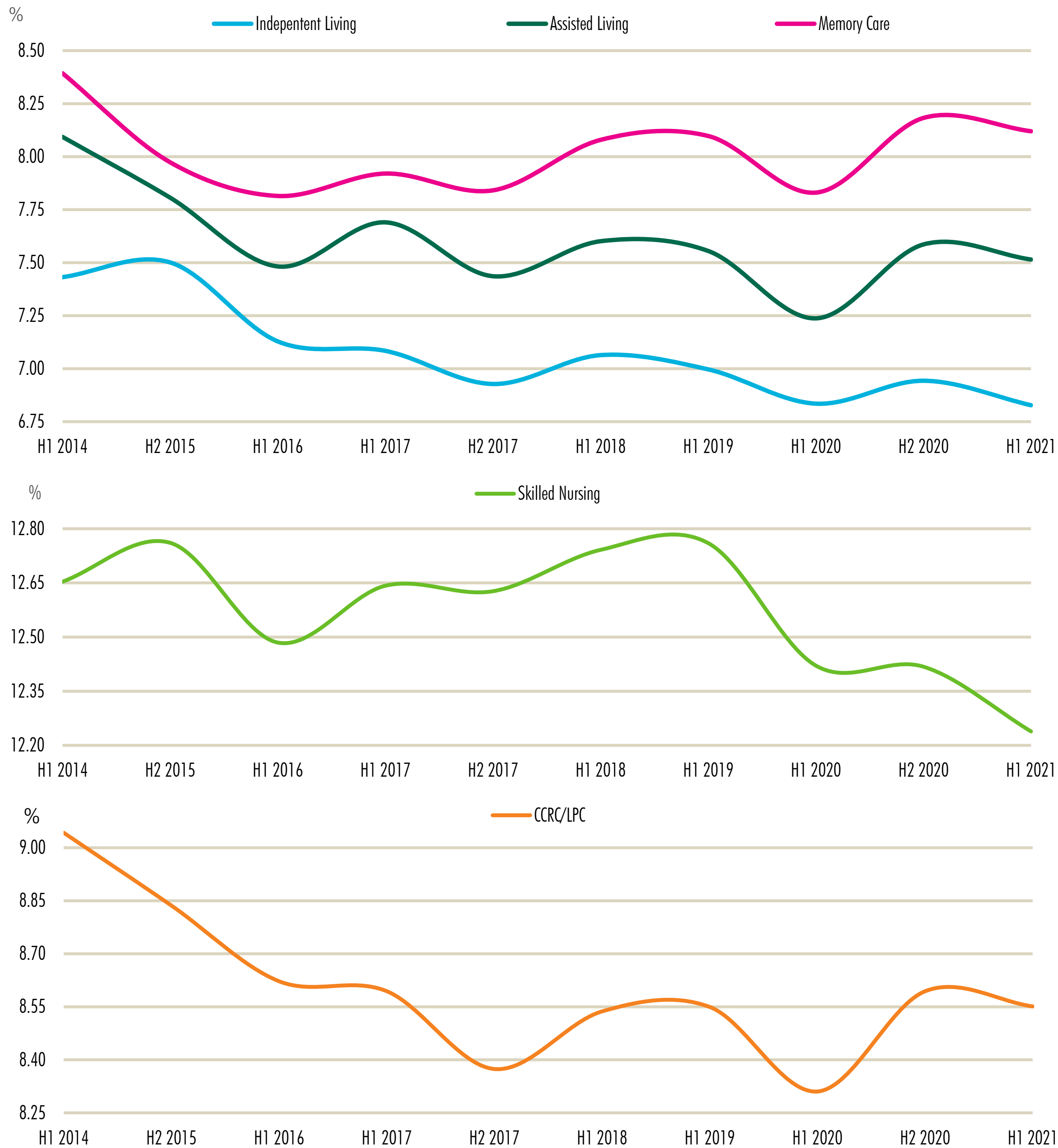
Project: Legacy Midtown Park
by Legacy Senior Communities
Dallas, Texas
Architect: HKS
Interior Design: StudioSIX5
Landscape: Talley Associates
Photography: HKS

Cap Rate Trends

Given its long history, starting in 2014, the CBRE Seniors Housing & Care Investor Survey includes the following cap rate trends as consolidated from each of the past ten surveys.

Historically, cap rates showed overall compression. While the COVID-19 pandemic reversed this trend, in this survey period, rates trendedback downward for all care levels.

Figure 4: Seniors Housing & Care - Historical Cap Rate Trends



Note: Time periods represent when surveys were done.
Source: CBRE Seniors Housing & Care Investor Survey Results, H1 2021.

Investment & Operational Expectations

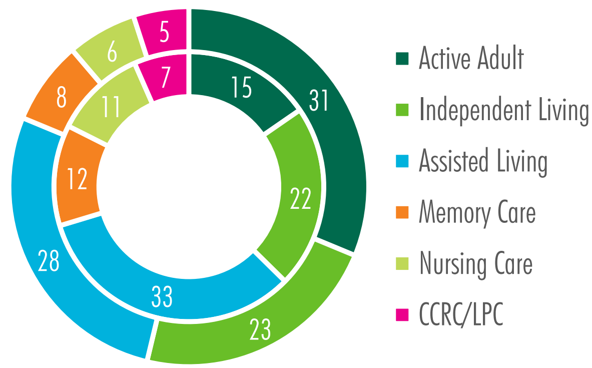
Survey respondents were asked a series of questions regarding market trend perspectives for near-term expectations. Incorporating consideration for the impact of the COVID-19 pandemic on the industry, an additional line of questions was added for this survey.

Respondents were asked where they see the biggest opportunity for investment.

After two reporting periods of Assisted Living leading this category, Active Adult has once again emerged as the seniors housing's biggest opportunity for investment interest (31%). Of the remaining care levels, the lower-acuity product, including Active Adult, Independent Living and Assisted Living, accounted for a collective 82% of responses. Both Memory Care and Skilled Nursing showed significant declines in investor perception of opportunity, indicative of market sentiment associated with the risk of higher-acuity operations.

Figure 5: Biggest Opportunity for Investment (%)

Senior Housing Investor Survey, H2 2020 (Inner Ring) and H1 2021 (Outer Ring).

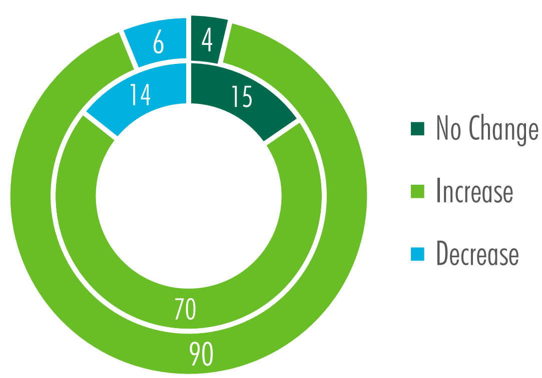


Respondents were asked about their 12-month outlook for seniors housing census levels.

During this period, the indicated expectation of recovery from the COVID-19 pandemic was evident with a positive outlook of an increasing census comprised of 90% of respondents, a 20-percentage point increase over the H2 2020 survey. Those expecting further declines in census levels declined by over half, or from 14% (in H2 2020) to 6% (H1 2021) of respondents.

Figure 6: 12-Months Census Level Outlook (%)

Senior Housing Investor Survey, H2 2020 (Inner Ring) and H1 2021 (Outer Ring).



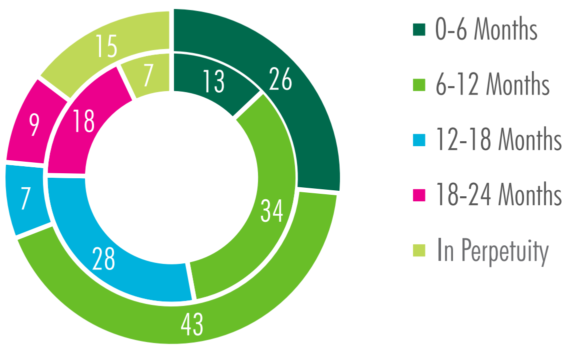
Operational Expectations

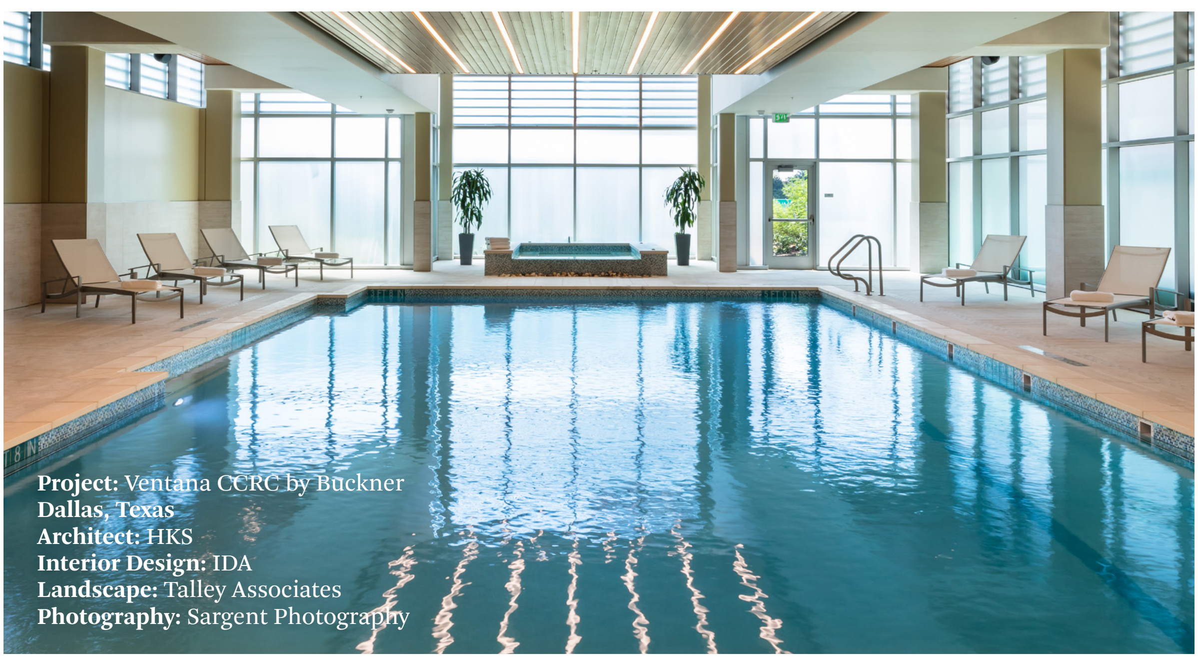
Since the end of Q1 2020, operators have faced significant headwinds as a result of the COVID-19 pandemic. These operational challenges included elevated expenses, mostly comprised of increased payroll as well as sanitation and PPE. Respondents were asked about their underwriting of elevated expenses since the onset of the pandemic, and 69% of them indicated that they will incorporate COVID-19-related expenses during the preceding 12 months.

Of the timeline segments, the 0-6 months and 6-12 months periods showed significant increases of 13% to 26% and 34% to 43% respectively, a trend that is indicative of an improvement in expectations. Notably, while 85% of responses showed a trend towards a reduced timeline for elevated COVID-19 expenses, the number of respondents who forecast these expenses into perpetuity more than doubled, or increased from 7% to 15%, a trend that requires our attention in the near term.

Figure 7: Length of Elevated Operating Expense Underwriting

Senior Housing Investor Survey, H2 2020 (Inner Ring) and H1 2021 (Outer Ring).





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Census Recovery and Rate Underwriting

As the COVID-19 pandemic has directly impacted seniors housing and care communities on a national basis, respondents were asked to provide insight into their expected changes in seniors housing residential rental rates, occupancy levels and rates of absorption for new development during the next 12 months.

For communities that lost census during the COVID-19 pandemic, what is your projected period to reach pre-COVID stabilized levels:

Response	Active Adult	Independent Living	Assisted Living	Memory Care	Skilled Nursing	CCRC/LPC
0-6 Months	22.0%	15.3%	6.9%	7.0%	5.1%	5.3%
6-12 Months	36.0%	30.6%	25.0%	31.0%	28.2%	31.6%
12-18 Months	22.0%	33.3%	37.5%	35.2%	43.6%	36.8%
18-24 Months	14.0%	12.5%	20.8%	12.7%	12.8%	21.1%
24+ Months	6.0%	8.3%	9.7%	14.1%	10.3%	5.3%
Primary Indications						
0-18 Months	80.0%	-	-	-	-	-
6-18 Months	-	63.9%	62.5%	66.2%	71.8%	68.4%
6-24 Months	-	-	83.3%	-	-	89.5%

For communities that lost occupancy during the COVID-19 pandemic, what absorption rate (units/month) are you underwriting to reach pre-COVID stabilized levels?

Response (Units/Month)	Active Adult	Independent Living	Assisted Living	Memory Care	Skilled Nursing	CCRC/LPC
1 - 3	28.6%	39.4%	56.2%	61.1%	35.3%	37.1%
3 - 6	40.8%	47.9%	27.4%	27.8%	38.2%	34.3%
6 - 9	24.5%	8.5%	8.2%	4.2%	11.8%	14.3%
9+	6.1%	4.2%	8.2%	6.9%	14.7%	14.3%
Primary Indications						
1 - 6	69.4%	87.3%	83.6%	88.9%	73.5%	71.4%

How are you underwriting rental rate trends during the preceding 12 months:

Response	Active Adult	Independent Living	Assisted Living	Memory Care	Skilled Nursing	CCRC/LPC
Increase 7%+	2.4%	2.4%	2.4%	2.4%	1.2%	1.2%
Increase 3-7%	13.3%	14.5%	19.3%	15.7%	6.0%	7.2%
Increase 1-3%	42.2%	54.2%	38.6%	34.9%	21.7%	33.7%
Flat	34.9%	27.7%	31.3%	37.3%	61.4%	50.6%
Decrease 1-3%	1.2%	1.2%	7.2%	8.4%	4.8%	2.4%
Decrease 3%+	6.0%	0.0%	1.2%	1.2%	4.8%	4.8%
Primary Indications						
Flat & Increase 1-3%	77.1%	81.9%	69.9%	72.2%	83.1%	84.3%

Source: CBRE Seniors Housing & Care Investor Survey Results, H1 2021.

Appendix

Investment Class Classifications

Since its first publication in 2014, the CBRE Seniors Housing & Care Investor Survey methodology has been consistent, resulting in a long legacy of data continuity. The definitions for classifying asset investment class and location have been included within this appendix.

CLASS A

The best-quality assets in the most desirable locations, fully or near fully leased, at or above market rent for the area, to residents of higher income levels and net worth, primarily private pay. High-quality finishes and amenities, state-of-the-art systems, exceptional accessibility, high-quality FF&E, advanced technology and call systems, a strong reputation within the market, and the ability to capture a greater than proportionate share of the target market. Class A properties are primarily located in core markets, but can also be found in non-core markets and are typically less than 10 years old with steel-frame or concrete-block construction.

For nursing care properties, this would include locations on or near the campus of a major health care provider, state-of-the-art therapy space, a large percentage of private units, and above market quality mix (Medicare census).

CLASS B

Properties competing for a wide range of residents, with rents in the average range for the area and potential prevalence of subsidized rents. Building finishes are average to good for the area and the systems are adequate. The technology and call systems are adequate, but are becoming dated. The building does not compete with Class A in terms of pricing or amenities offered with the ability to capture its proportionate share of the market. Class B properties are in core or non-core markets and are typically between 10 and 25 years old with wood, concrete-block or steel-frame construction.

For nursing care properties, the payer mix is consistent with the market average, functional design, stable census, small and/or slightly dated therapy space, use of improvements with primarily semi-private units (with or without a small number of private units) and meets all life safety code requirements.

CLASS C

Buildings competing for residents requiring functional space at rents below the average for the area, potentially with a high prevalence of subsidies. Properties operating with higher-than-average vacancy levels, with an inability to capture its proportionate share of the market. The physical property requires capital investment to improve the competitive advantage, and the amenities and finish are considered fair to average for the market. These properties are in non-core locations and are typically greater than 25 years old with wood-frame construction. Additionally, these properties lack modern amenities and common area, and typically feature a more “institutional” design, with resident units located on long, narrow wings or hallways.

For nursing care properties, Class C includes a primarily Medicaid payer mix, and functional obsolescence with outdated mechanical systems. The majority of rooms are semi-private or wards with substandard ventilation systems and may not meet all life safety code requirements.

Locational Classifications

CORE

Properties that are typically located in the denser parts of metropolitan areas with higher barriers to entry. These properties are typically located within the top 140 Metropolitan Statistical Areas (MSAs). They represent higher-density product, two-story-plus buildings, and are most commonly found in mature neighborhoods. Core seniors housing product can also be found in higher-density suburban neighborhoods with favorable demand growth and depth of the target population.

For nursing homes, this would include properties located in states with Certificate of Need (CON) regulations and a moratorium on additional CON-licensed beds. Properties also may be located in a state that has a history of strong Medicaid reimbursement.

NON-CORE

Properties within a market area that is outside the city center with a less-concentrated population, smaller MSAs, and lower-density land use than is typically found in the metropolitan or non-metropolitan areas altogether. Non-core markets are considered thin from a target demographic standpoint. Markets with little to no barriers to entry with below average income levels and target population growth. There is typically a large amount of undeveloped land surrounding the area for potential new development.

For nursing homes, this would include properties located in states with no CON regulations or moratoriums on additional CON-licensed beds. Non-core also includes facilities located in states where reimbursement for Medicaid is low, or with budgetary restraints.

CBRE Valuation & Advisory Services would like to express our sincere gratitude to all our clients and colleagues who participated in this survey.

Valuation & Advisory Services

James A. Graber, MAI
Managing Director | National Practice Leader
Seniors Housing & Healthcare
+1 347 722 0225
james.graber@cbre.com

Daniel Lincoln, MAI
Director
Seniors Housing & Healthcare
+1 205 515 5985
daniel.lincoln@cbre.com

Jordan R. Lee, MAI
Vice President
Seniors Housing & Healthcare

Andy Kepchar, MAI
Vice President
Seniors Housing & Healthcare

RJ DeBee III
Vice President
Seniors Housing & Healthcare

Anne Gompel, MAI
Vice President
Seniors Housing & Healthcare

To learn more about CBRE Seniors Housing Valuation & Advisory, please visit site at *cbre.com/shvas*

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