



NATIONAL  
MULTIFAMILY  
HOUSING  
COUNCIL

## 2015 NMHC Research Forum

**Seniors Housing - benefitting from favorable trends, while serving resident, family and investor needs.**

Thursday, April 2, 2015

Philip Martin  
Vice President, Research & Investment Strategy  
Waterton Associates

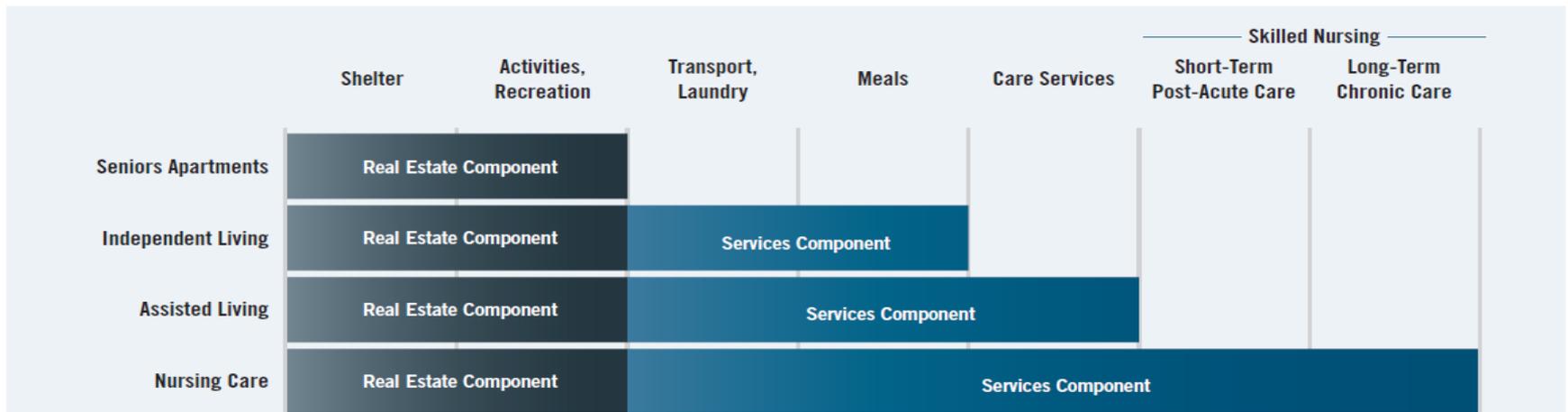


# Senior Housing – Housing and Care Types

## Seniors Housing and Care Property Types



## Property Types by Services Provided



Source: NIC Research & Analytics

# Healthcare Services and Senior Housing – Industry Scope

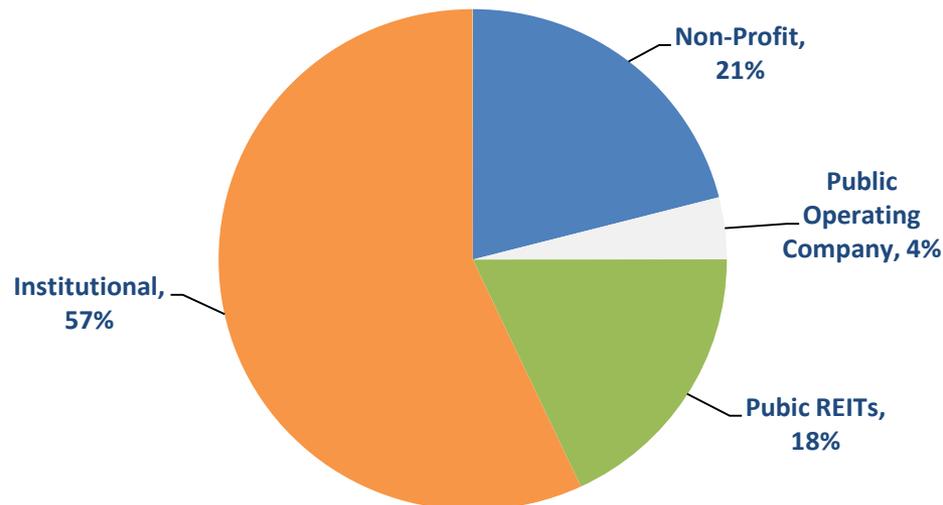
## Health Care Services Industry

- \$3.1 trillion
- 17.7% of GDP
- 6.3% annual growth since 1990, well ahead of inflation

## U.S. Private Pay Senior Housing Market

- \$55 billion in annual revenue
- \$225 billion in assets
- 11,500 communities
- 1,420,000 units
  - IL-50%, AL-40%, MC-10%
- Ownership fragmented
  - Top 50 owners control less than 35% of the units

Ownership: Private Pay Senior Housing

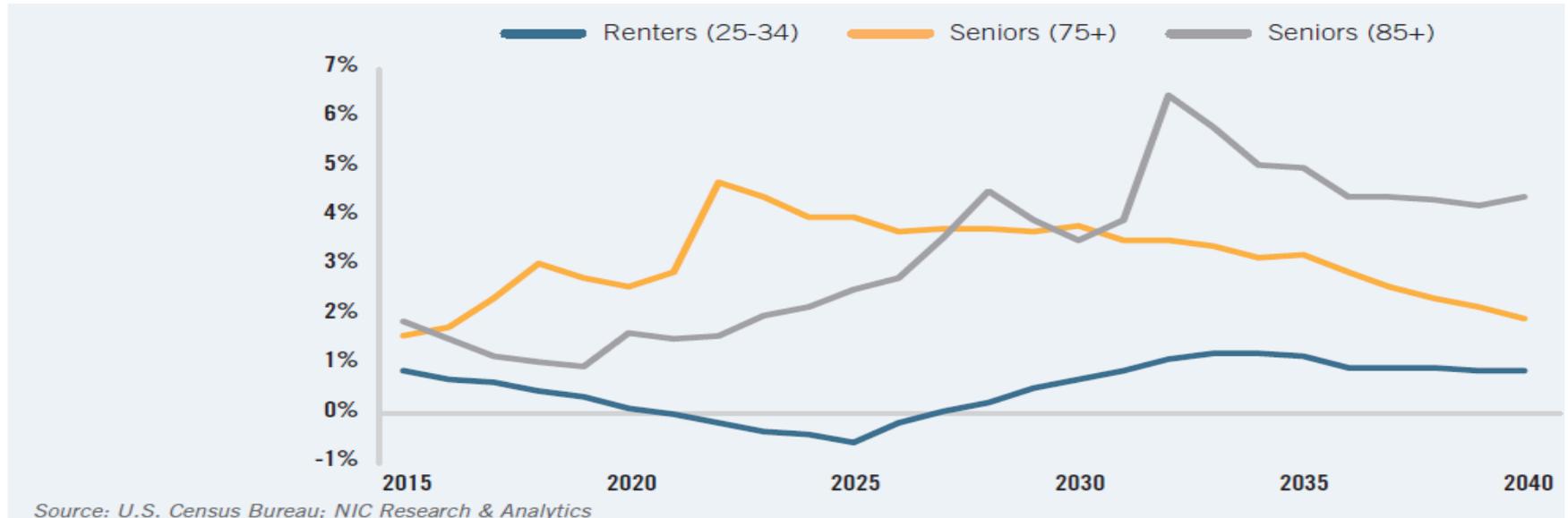


## Senior Housing – Existing Supply

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- ~1.4MM units (IL-715k, AL-560k, MC-145k)
- ~70% of supply in top 100 MSAs
- Fragmented ownership, with top 50 controlling less than 35% of the units
- 9% vacancy
- ~25% of existing supply at risk of obsolescence
- Limited new supply growth over last ten years, approximating 1% of existing supply annually

# Senior Housing – Demand 75+ Age Cohort



## 75+ Age Cohort

- 19MM Individuals
  - 3.2% annualized growth through 2025 (26MM); compares to 0.3% and 1% annual growth for the 18-34 age cohort and aggregate population, respectively
- 12MM Households; 7%-10% current senior living penetration rate
- Estimated senior living demand by 2025 is 2.2MM, up from 1.4MM today.
  - Assumes 3.2% annualized growth of the 75+ age-cohort, and NO CHANGE in the 7%-10% senior living penetration rate

# Senior Housing – Demand and Growth Catalysts

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## Demand Factors and Growth Catalysts

- Need for more care/cost/socially/emotionally appropriate and practical seniors housing for both the resident and their families
- Increased life expectancies and expanding aging population
- Desire for less demanding and more carefree lifestyles and housing options
- Geographic markets with concentration of adult children aged 44-64 (adult children very involved in senior living decision-making process)
- Increasing acceptance and awareness among consumers and investors (i.e. current 7% senior living penetration rate likely to rise)
- Positive health care and resident outcomes
  - more appropriate setting/lifestyle = greater wellness, fewer high cost hospital visits
- Physical plant obsolescence
- Federal and state policy addressing the need for more affordable senior living
- Potential cap rate compression - increased investor awareness and acceptance
  - currently senior living cap rates 150 - 250 bps above multi-family

# Private Pay Senior Housing – Supply and Demand

	Supply
Current supply	1,420,000 units
Plus: Aggregate new unit growth thru 2025	398,000 units (2.5% annual growth)
Minus: Aggregate unit obsolescence thru 2025	71,000 units (~0.5% per year)
Equals: 2025 estimated senior housing unit supply	1,747,000

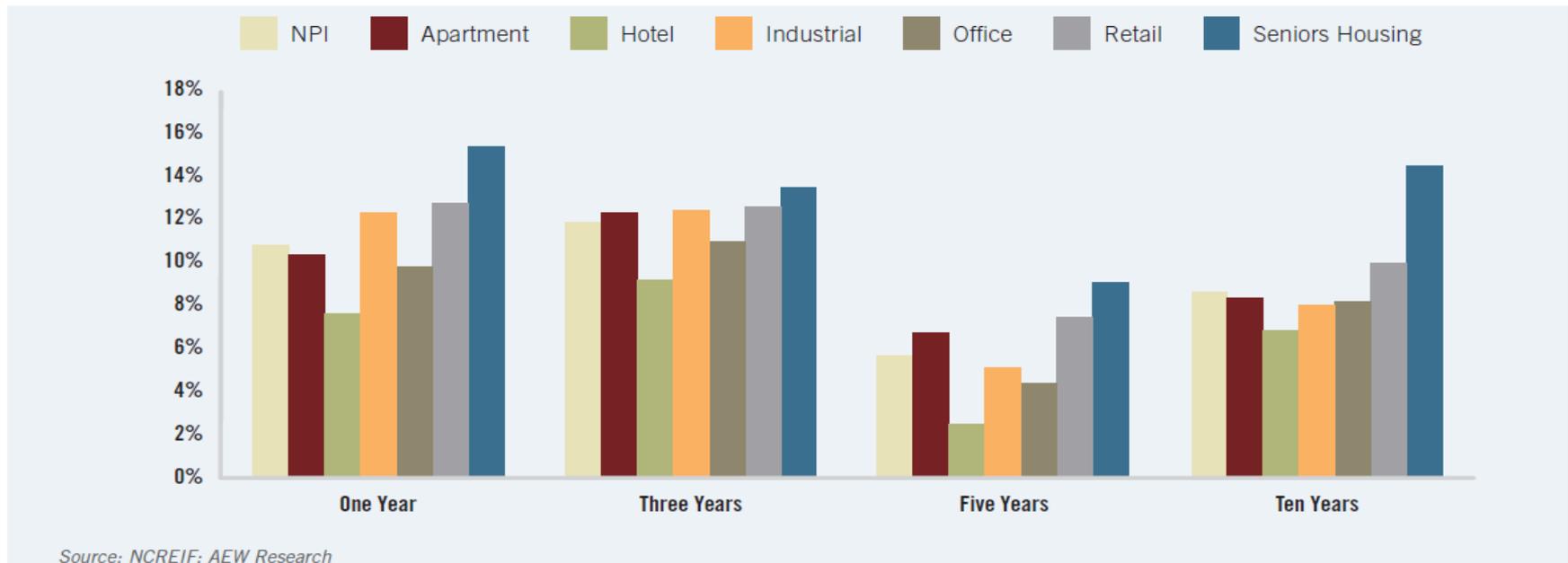
	Demand
Current population (75+yrs)	19,000,000
Plus: Aggregate population growth thru 2025	7,000,000 (3.2% annual growth)
Equals: 2025 population (75+yrs)	26,000,000
Multiplied by: Senior housing penetration rate	8.5%
Equals: 2025 estimated aggregate senior housing demand	2,210,000
Estimated Supply Shortfall	463,000 units
Demand/Supply Ratio	1.3x

# Senior Housing – Investment Outperformance

- Trailing 10 Year Average Annualized Total Returns, Through 2013
  - Senior Housing: 14%
  - Multifamily: 10%
  - NCREIF NPI: 8%

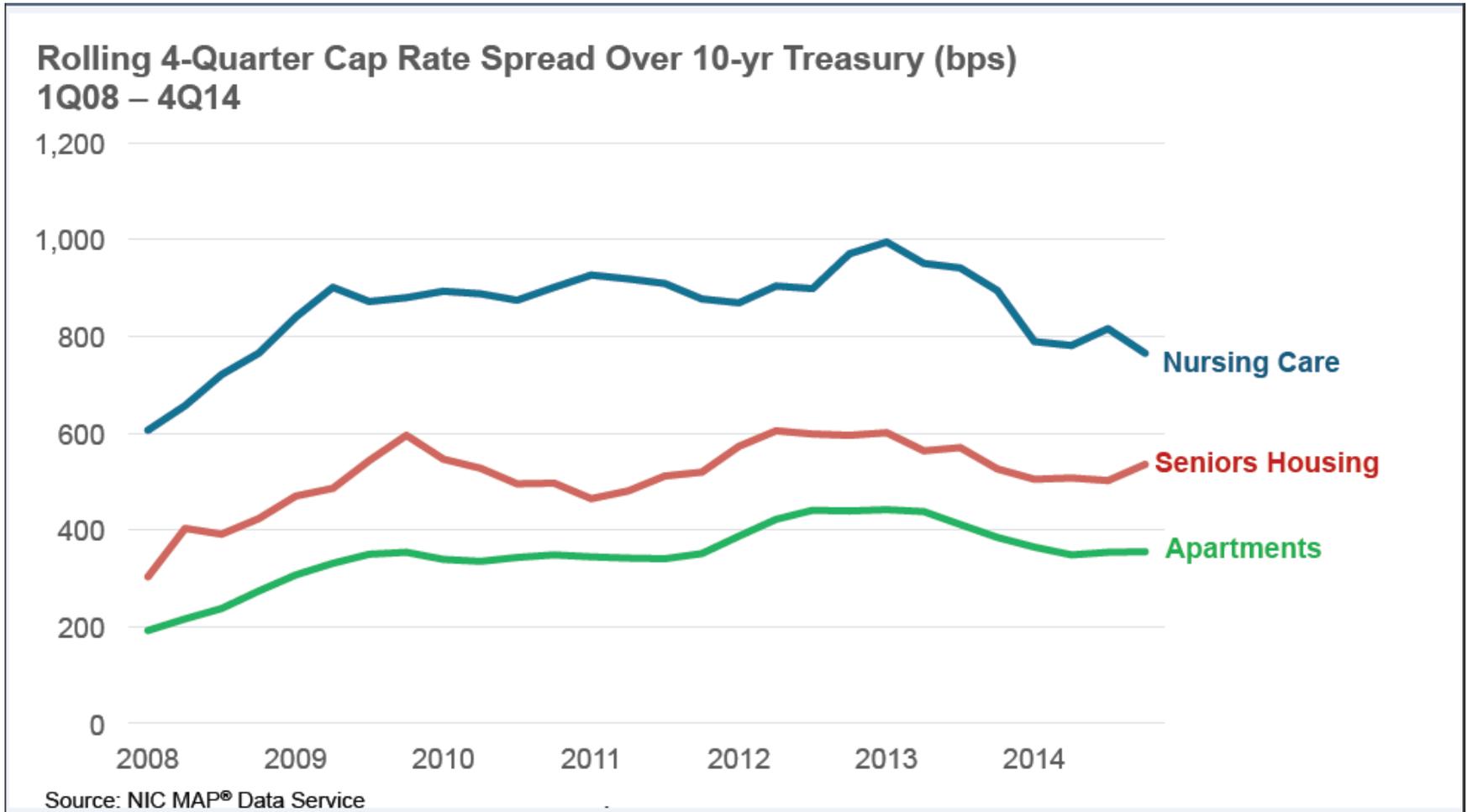
## NCREIF Annualized Total Returns Across Select Property Types in 1-, 3-, 5-, and 10-year Periods

As of 12/31/2013

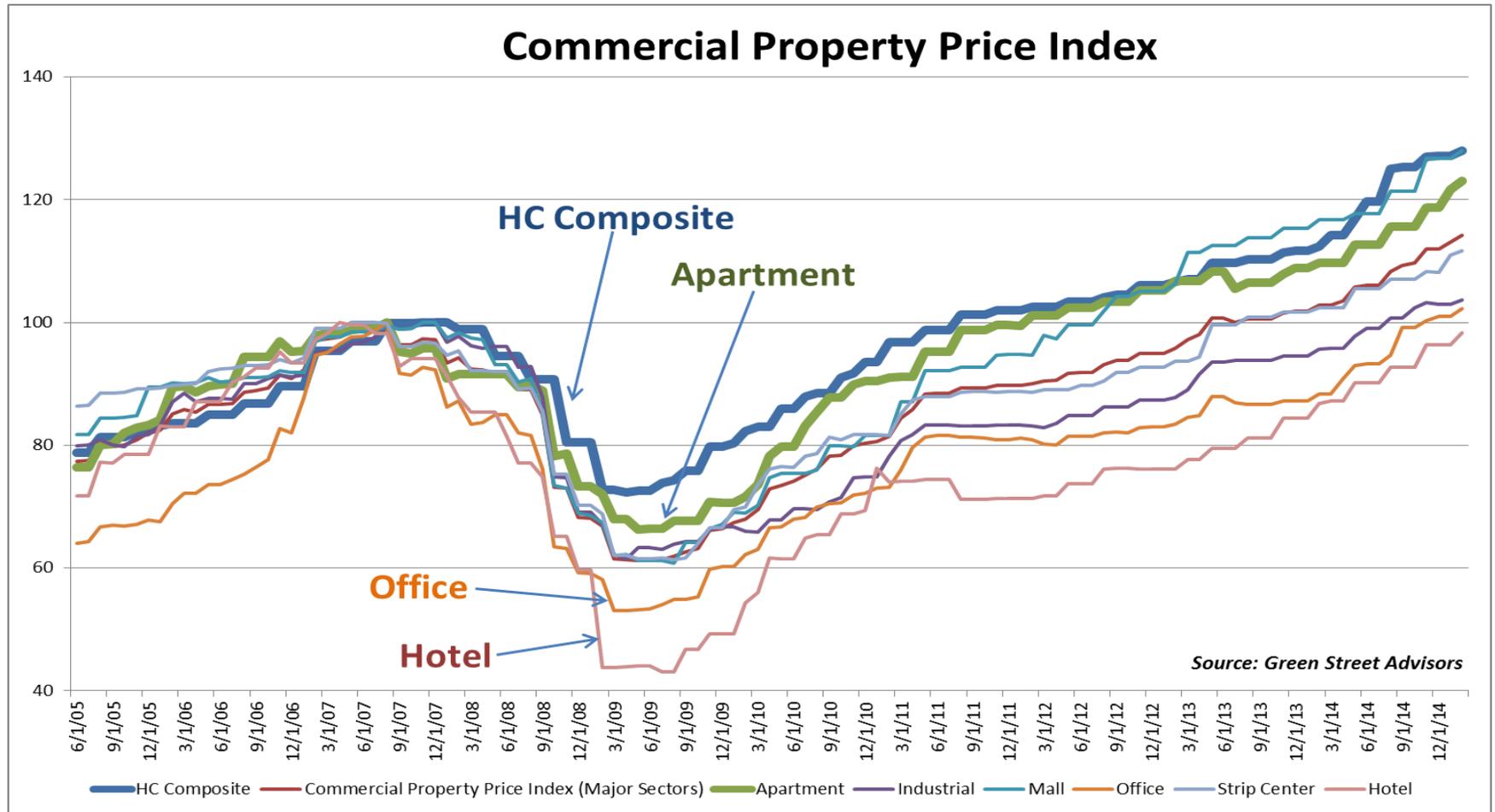


Source: NCREIF; AEW Research

# Senior Housing - Attractive Relative Investment Spreads (500 basis points over 10 Yr. Treasury)



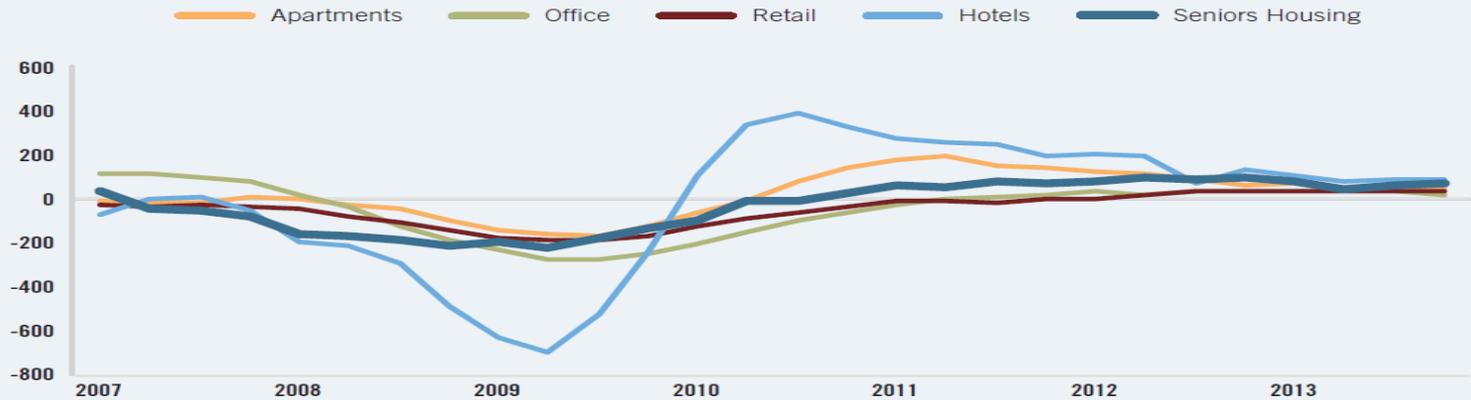
# Senior Housing - Less Volatile Underlying Asset Valuation Performance



# Senior Housing – Less Volatile Operating Performance

## Commercial Real Estate Year-over-Year Occupancy Trends (bps)

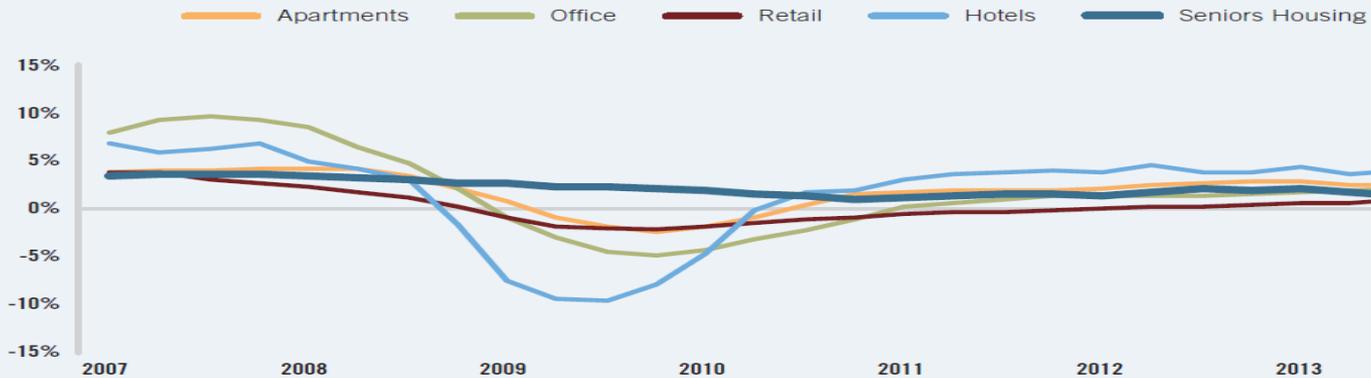
1Q07 - 4Q13



Source: NIC MAP® Data Service; Mortgage Bankers Association; STR

## Commercial Real Estate Year-over-Year Asking Rent Growth Trends

1Q07 - 4Q13



Source: NIC MAP® Data Service; Mortgage Bankers Association; STR

# Senior Housing - Risks

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- Operationally intensive - Healthcare services operating model
- Regulation and licensing standards/Healthcare reform
  - Federal and State
- Affordability
  - Lack of income/savings/net worth
  - Retirement portfolios, largely in fixed income, receiving low rates of return
- Successful management of resident
  - “Aging in place” and delivering “quality outcomes”
- Construction/development and lease-up execution
  - Be careful not to overestimate the potential rate of increase in senior housing penetration
- Physical plant obsolescence and capex
  - Physical plant must adapt to changing senior resident needs and profiles
- Competing seniors housing options
  - Multigenerational and/or communal living
  - Adult children building homes with “in-law” suites
  - More affordable home health
- Inability to sell home

# Senior Housing – Operational and Investment Summary

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## Favorable and Sustainable Risk and Reward Profile

- “Need driven” and less cyclical industry and demographic
- Demand expected to meet/exceed supply for foreseeable future
- High barriers to entry – operations, zoning/entitlement
- Increasing awareness, acceptance and utilization among consumers, healthcare providers and investors
  - more care / cost / socially/ emotionally/outcome appropriate and practical housing alternative for the senior resident, their families, and the healthcare delivery system
- Above average historical operational and return performance, relative to other commercial real estate sectors
- Income and Growth
- Investment spreads, relative to other CRE, are wide

# Demographic and Financial Determinants of Housing Choice in Retirement

**NMHC Research Forum**

**April 2, 2015**

**Calvin Schnure  
Senior Vice President,  
Research & Economic Analysis**



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# Senior Living: Yesterday, Today and Tomorrow

Senior living in my grandfather's time:

*"old folks home"*

What words are associated with senior living today:

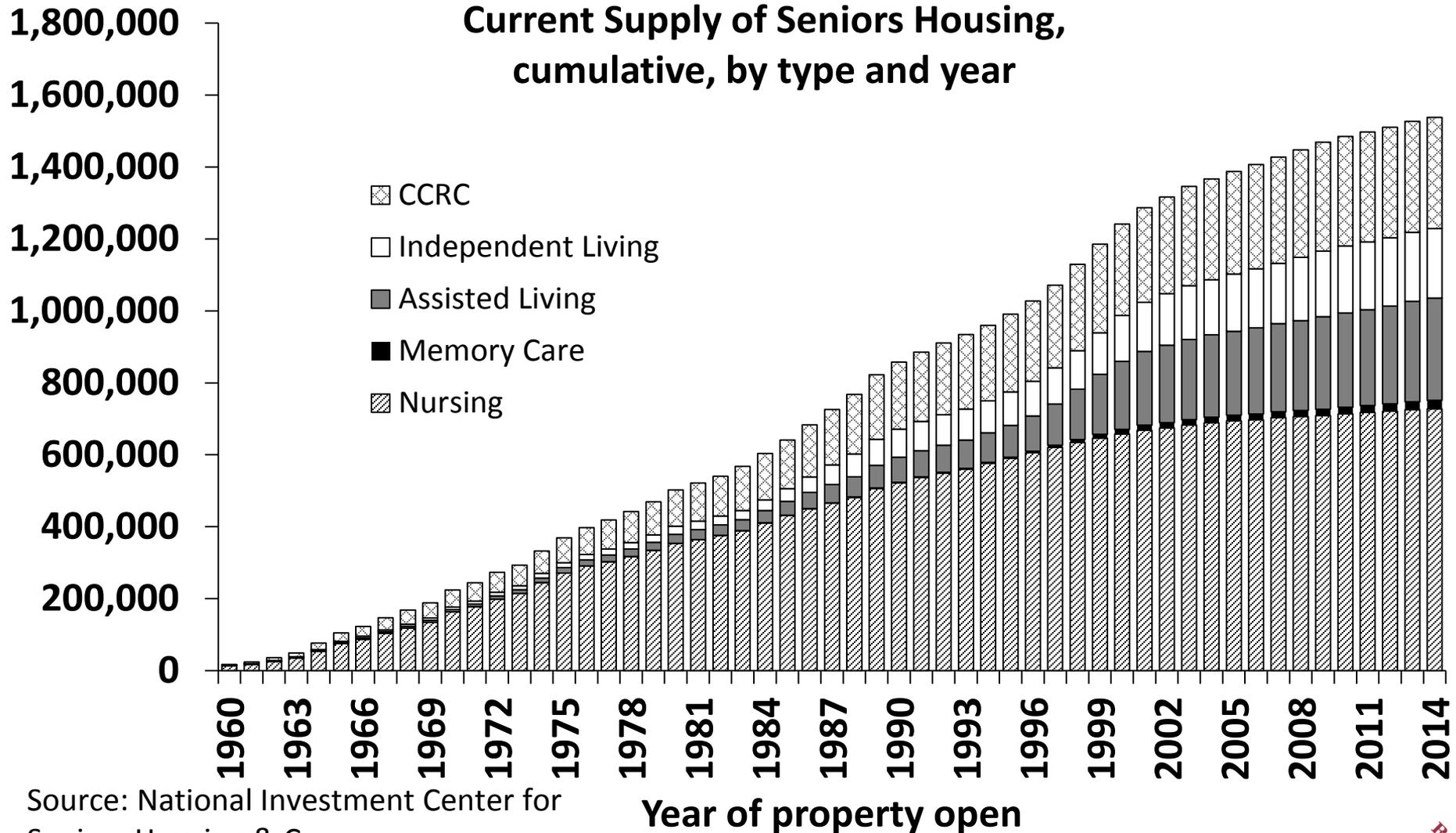
*"Sunrise", "Friendship", "Leisure", "Continuum of Care",  
"Community"... "Golf"!*

Today's (and tomorrow's) seniors find greater availability of seniors housing, and greater variety of choices.

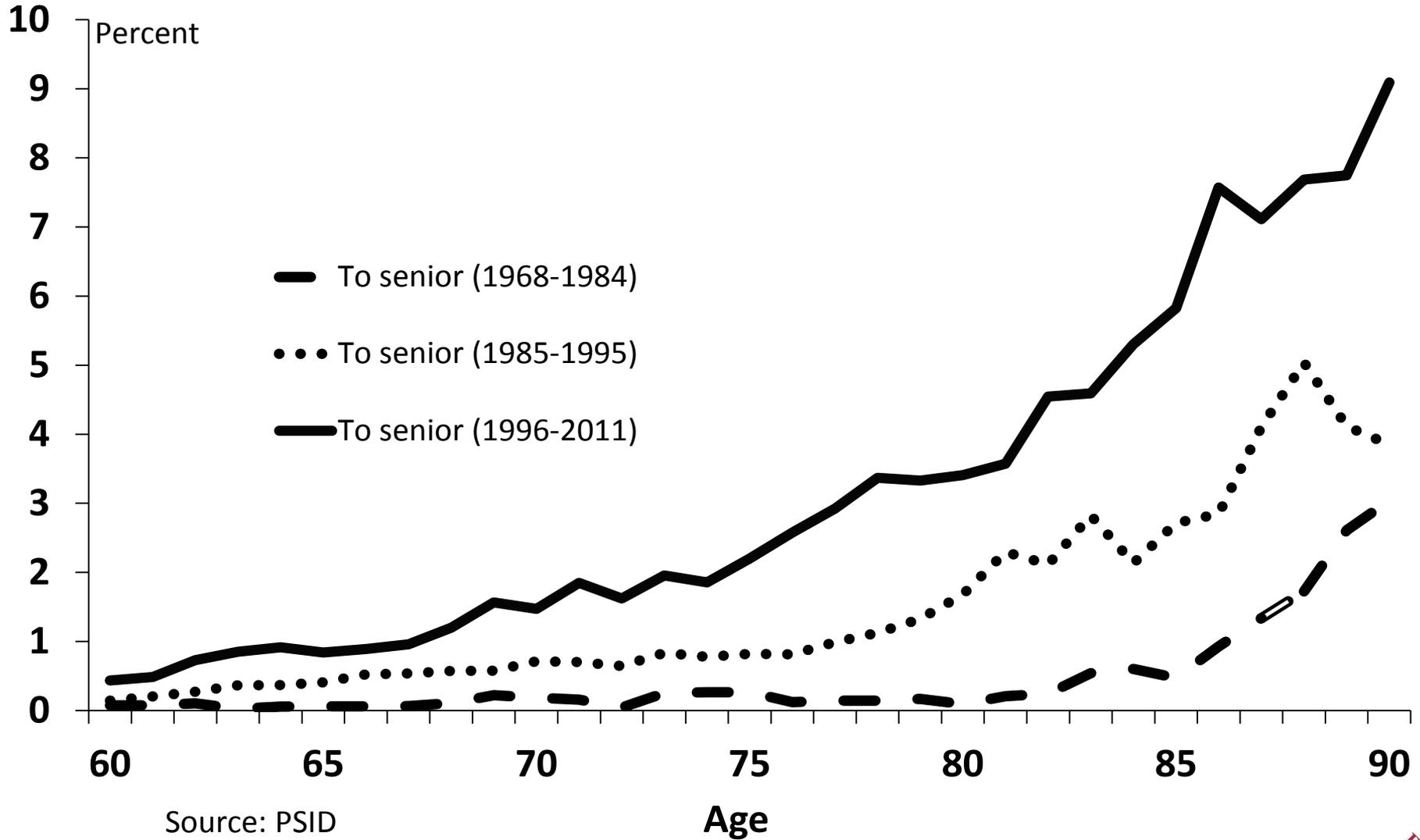
**Question:** What factors drive the choice of housing arrangements among older adults?

**Sneak preview:** Demographics, lifestyle choice, finances.

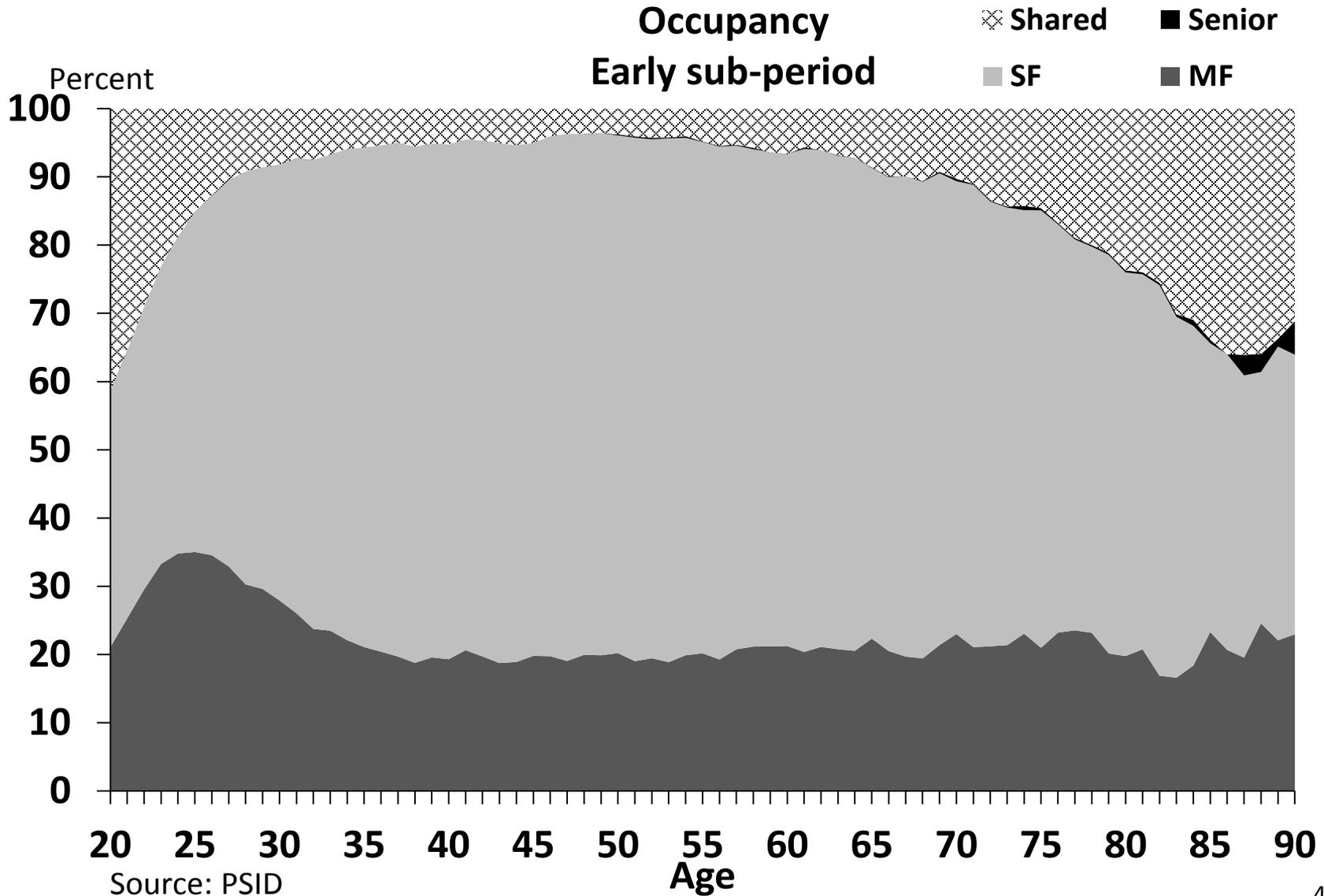
# Supply of Seniors Housing, by type



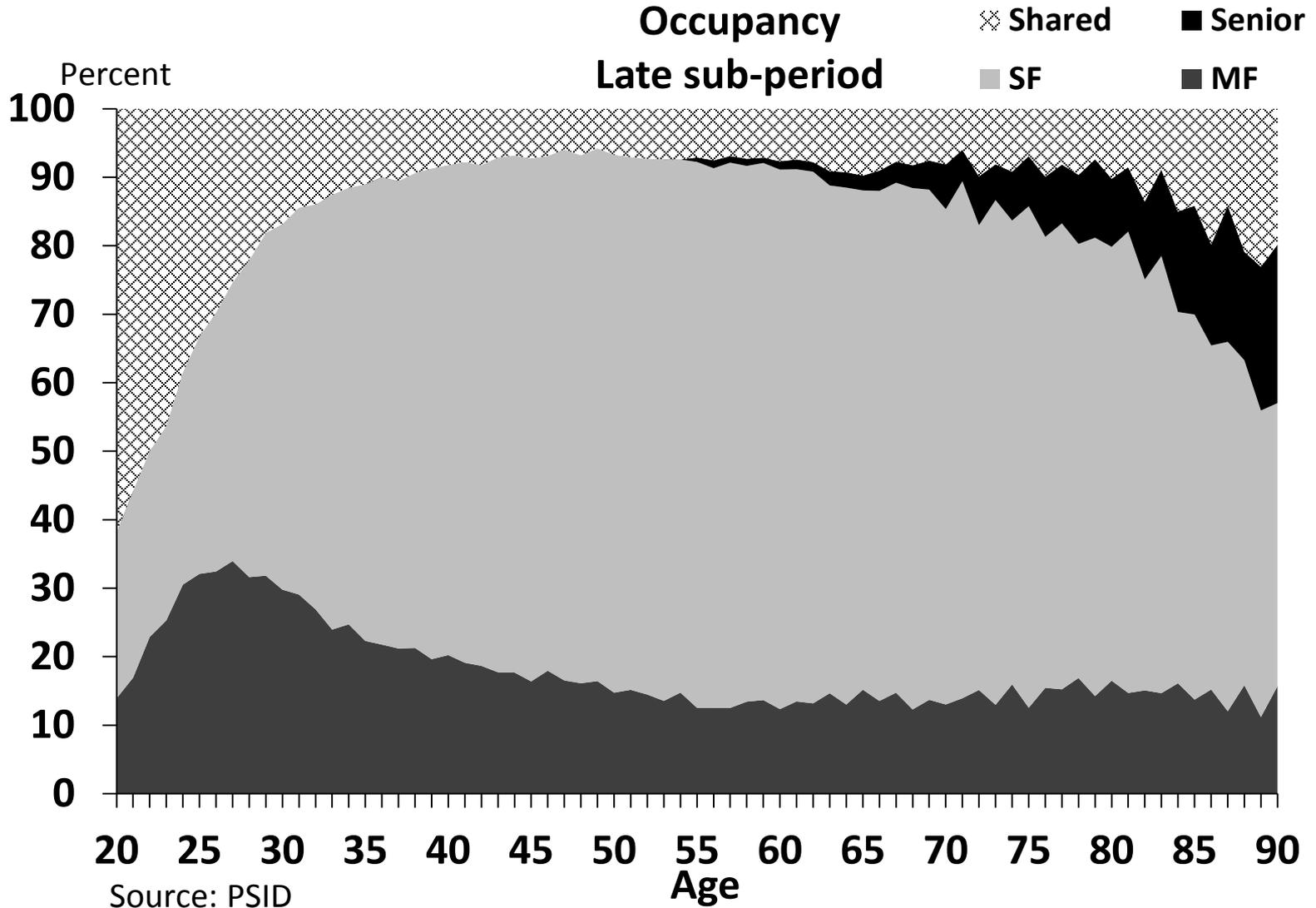
# Frequency of Moves into Senior Housing



# Occupancy Shares by Age, 1968-1984



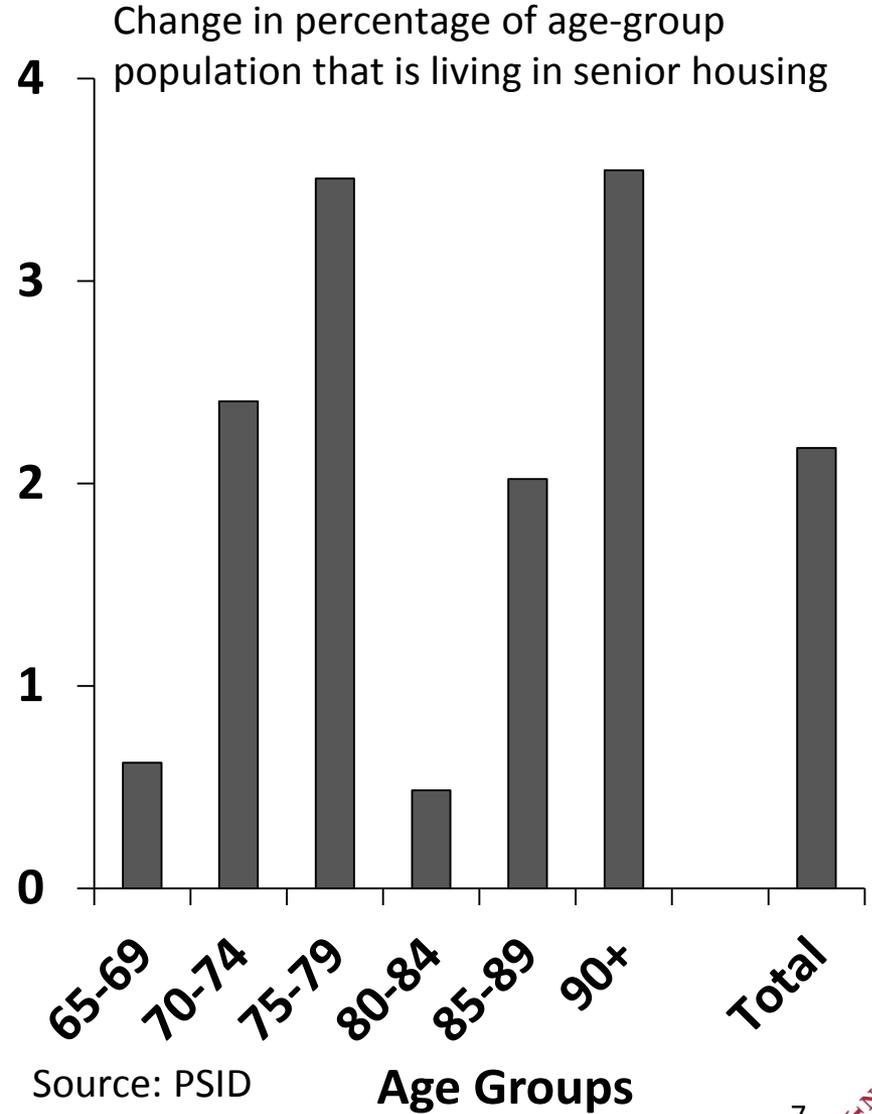
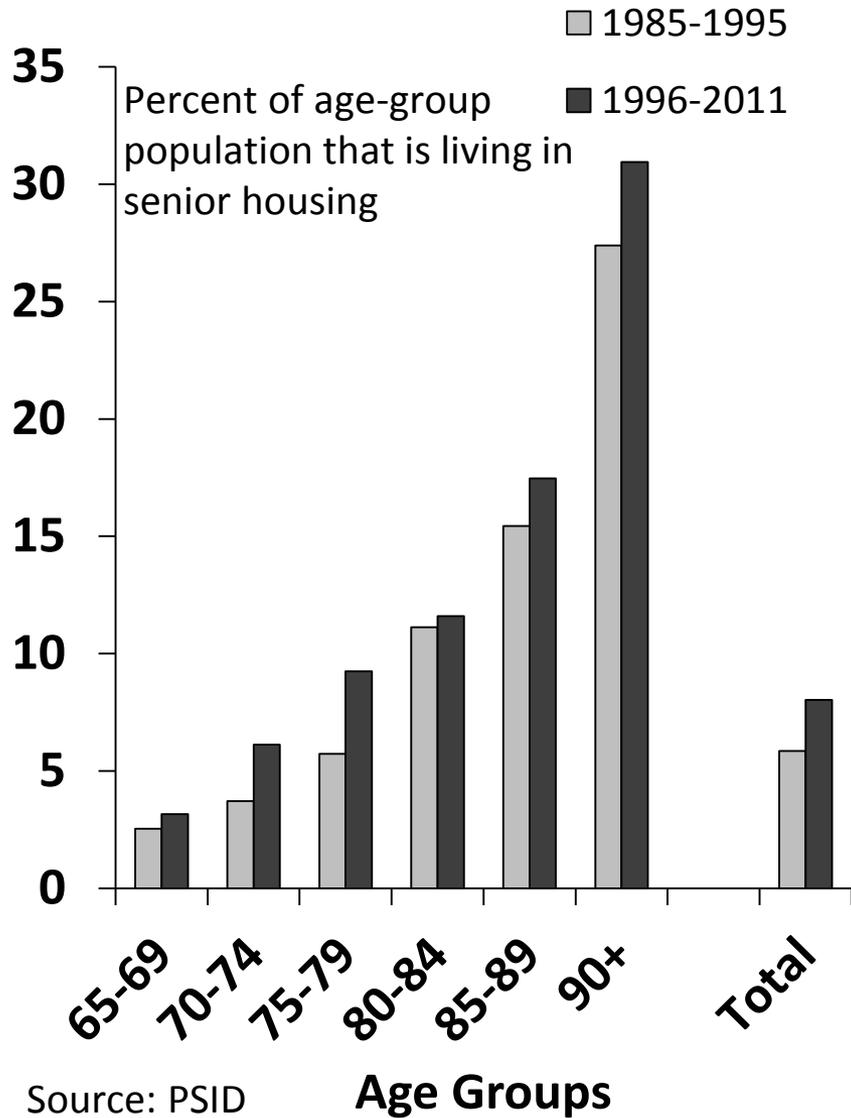
# Occupancy Shares by Age, 1996-2011



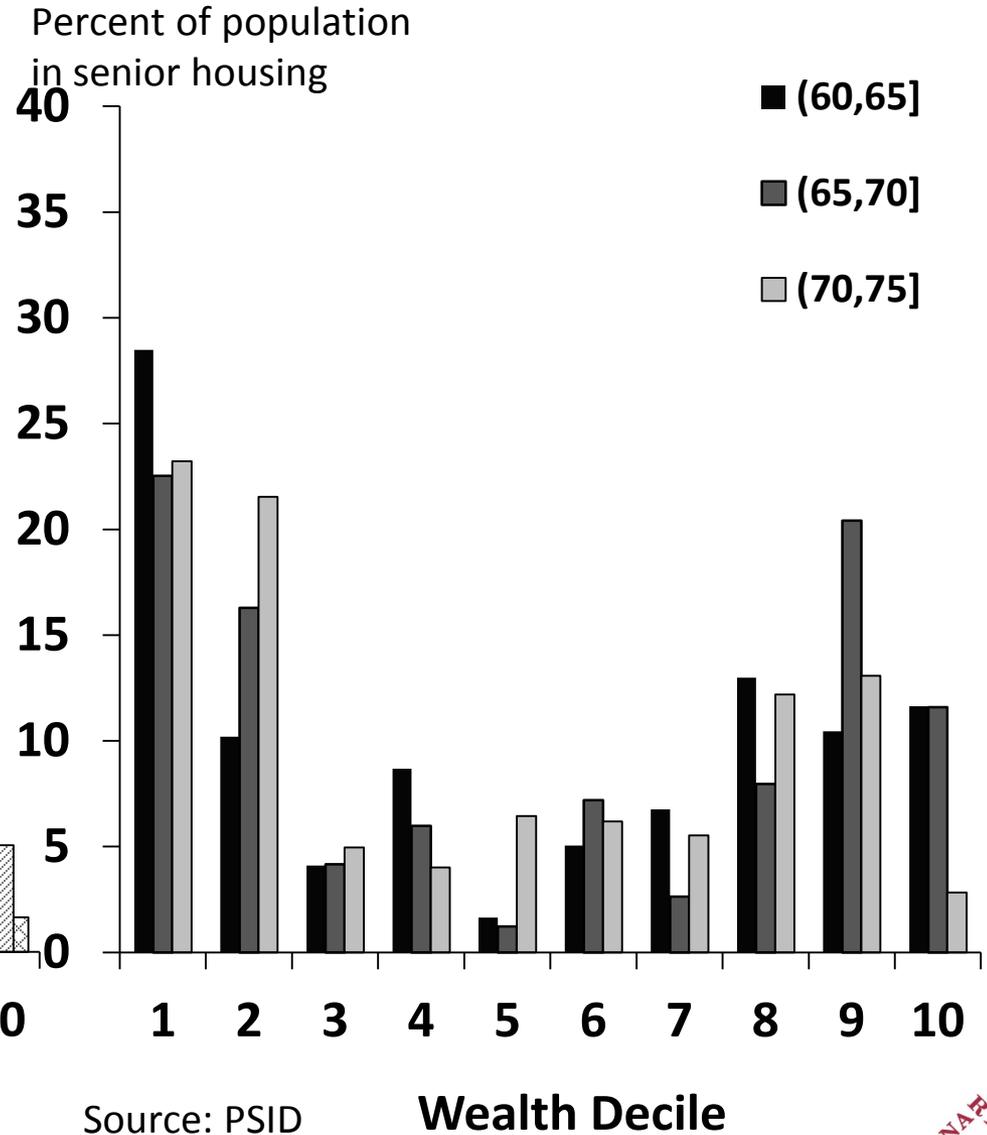
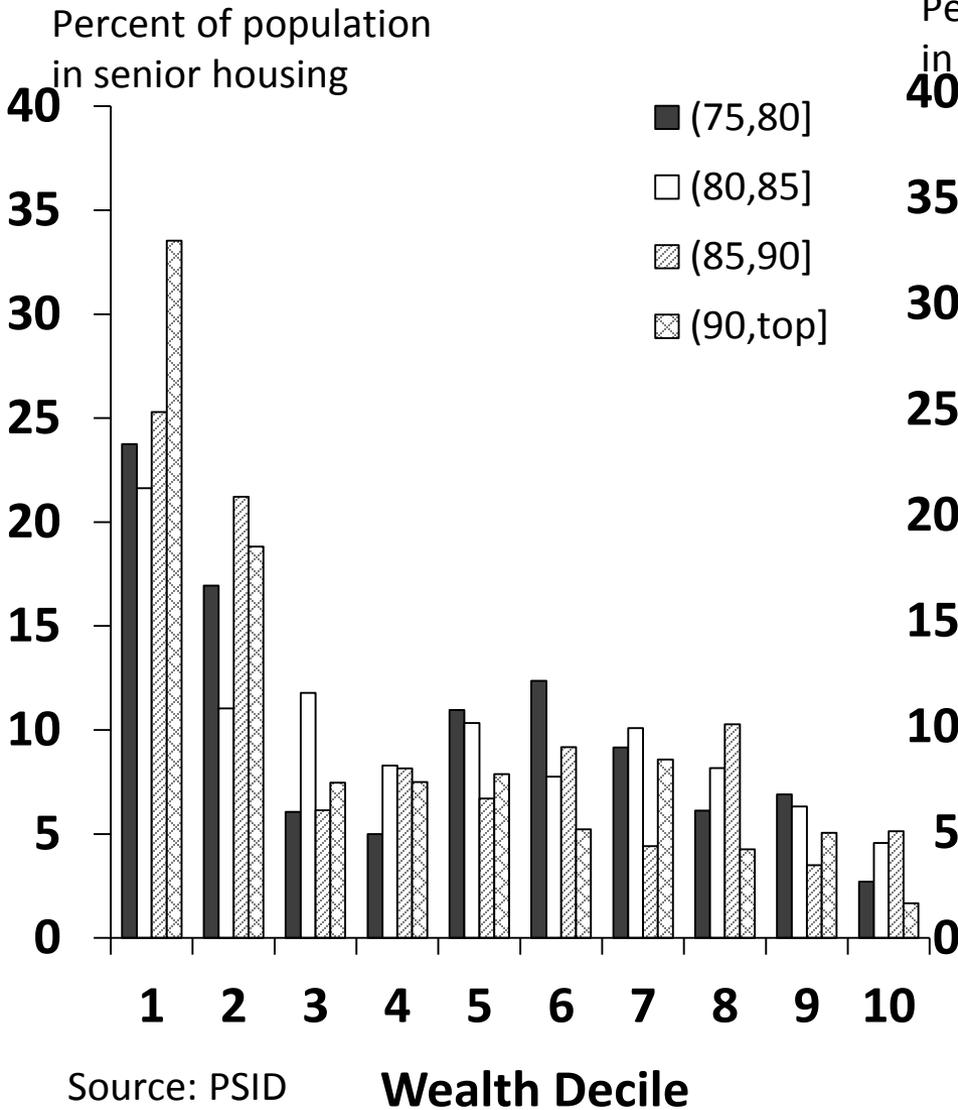
# Demographics Matter For Housing Choice

- Age, race, marital status, and education affects senior living choice in expected ways
  - Older ages much more likely to occupy senior housing
  - Single individuals less likely than married couples to move in to senior living facilities
  - White population more likely to enter senior living than are other races
  - Higher levels of education associated with greater occupancy in senior housing

# Penetration Rates

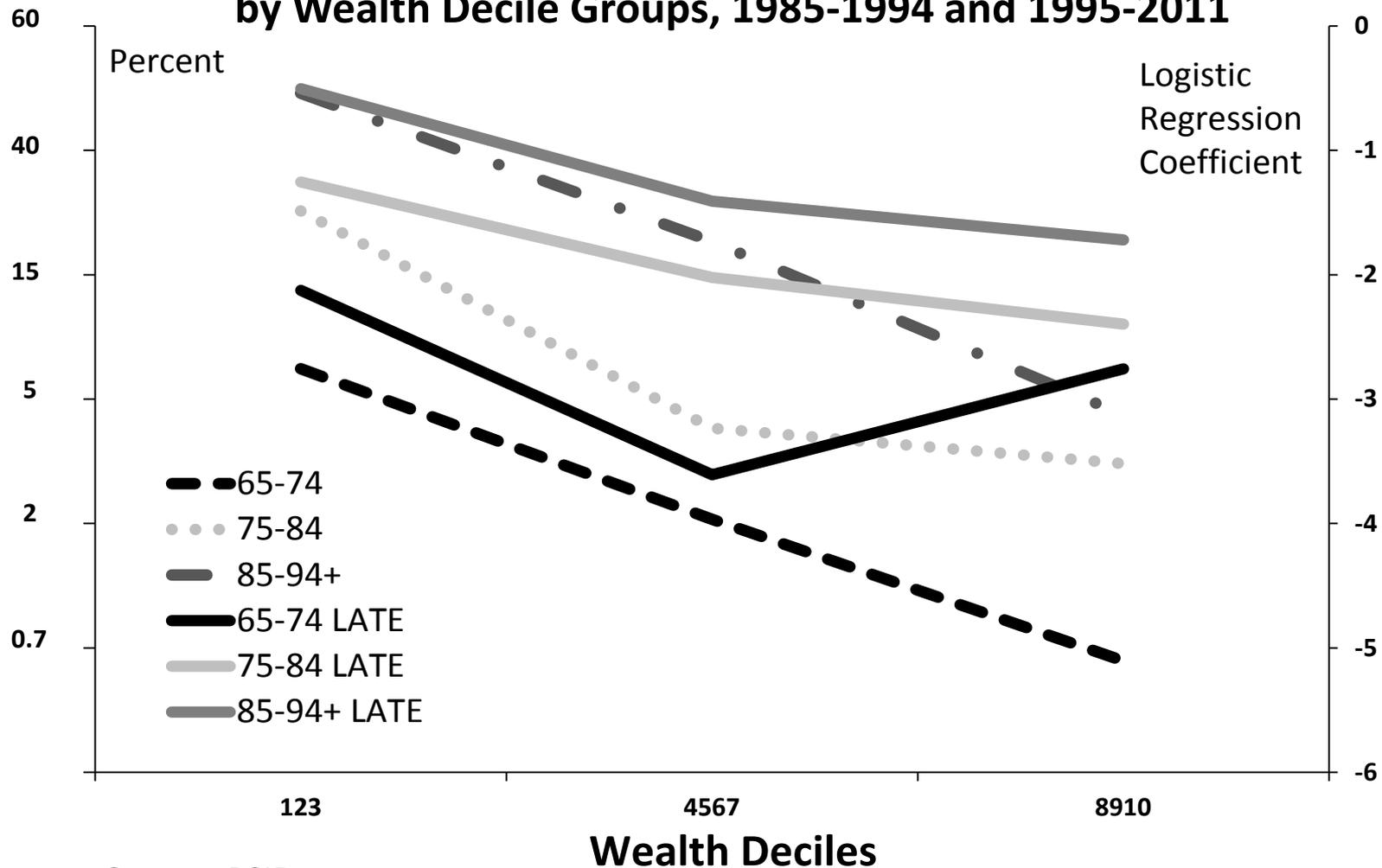


# Role of Wealth in Senior Housing Choice



# Wealth Increases Choice of Senior Housing

## Probability of Senior Occupancy, by Wealth Decile Groups, 1985-1994 and 1995-2011



Source: PSID

# Takeaway Messages

Senior housing is a different experience than it was in generations past.

- Instead of a move based on need for skilled nursing or medical care, it is increasingly a choice of lifestyle;
- Facilities are more likely “communities” than “institutions”;
- This all costs money!

The relationship between age, wealth, and probability of senior housing occupancy changed over the past two decades:

- “Aging in place” or is giving way to “active communities”;
- Wealth used to allow one to obtain nursing and other services in-home; now it allows access to a senior living community;
- The impact of the Baby Boom on demand for senior housing will be greater than demographics or headcount alone would suggest;
- The types of services and living arrangements provided will continue to evolve.

# The Full Research Study is Available Online

## Demographic and Financial Determinants of Housing Choice in Retirement and the Rise of Senior Living

Calvin Schnure

Shruthi Venkatesh

National Association of Real Estate Investment Trusts©

March 31, 2015

This study examines the demographic and financial determinants of housing choices of older Americans, and how they have changed over the past several decades. Using logistic regressions with the Panel Study of Income Dynamics (PSID), a nationally representative longitudinal survey from 1968 to 2011, we find that in earlier periods, greater wealth was associated with “aging in place” and a lower likelihood of living in senior housing. More recently, the relationship between wealth and senior housing has changed, and higher wealth has become associated with increased senior living. Underlying this change is a shift in the mix of senior facilities, from predominantly those focused on medical needs and skilled nursing to newer retirement communities with a higher level of non-medical services, activities and amenities. The move to senior housing has become, for many older Americans, a choice of lifestyle rather than a move based on medical or nursing needs.

These trends suggest that the aging Baby Boom generation’s effects on senior living communities may extend beyond those merely related to its size. With a large number of high-wealth individuals in the Baby Boom generation, demand for high-end retirement communities may experience a particular rise in the years ahead. The age at which older Americans move into a senior facility has shifted forward over the past two generations, and the front edge of the Baby Boom generation will soon be approaching the age range when moving to a senior community becomes a realistic consideration.

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2588026](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2588026)

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