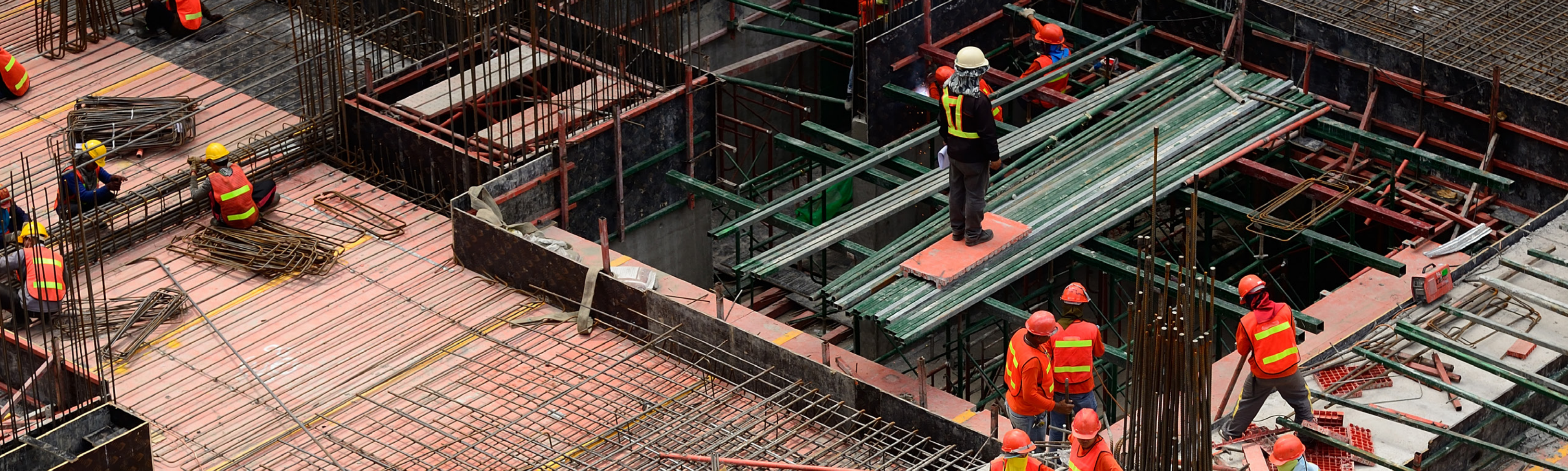
VALUATION & ADVISORY

SENIORS HOUSING **INVESTOR SURVEY**



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Development in the seniors housing arena remains active. Newmark Knight Frank has a group of professionals and MAIs dedicated to valuation and advisory services in this arena. In order to gauge the pulse of the seniors housing market, Newmark Knight Frank conducted a nationwide survey of active participants in the seniors housing and healthcare industries. Our 2018 nationwide survey involved more than 425 total respondents, including U.S. and foreign investors, operators, appraisers, brokers, lenders, underwriters and credit officers, and acquisition personnel for REITs and various other debt and equity investment entities. The results of our 2018 investor survey, organized by senior housing asset type, are presented in the following table.

2018 SENIORS HOUSING INVESTOR SURVEY

PROPERTY TYPE	OVERALL CAPITALIZATION RATES					
	2018				YOY	2017
	Low		High	Mean	Bps Δ	Mean
55+ Age Restricted Apartments	4.0%	-	7.5%	5.2%	-50	5.7%
Independent Living	5.4%	-	8.8%	7.2%	10	7.1%
Assisted Living/Memory Care	6.0%	-	11.3%	7.3%	10	7.2%
Skilled Nursing	11.0%	-	15.0%	12.0%	-10	12.1%
CCRC	8.3%	-	14.0%	10.4%	-40	10.8%

PROPERTY TYPE	DISCOUNT RATES					
	2018				YOY	2017
	Low		High	Mean	Bps Δ	Mean
55+ Age Restricted Apartments	6.5%	-	13.5%	9.0%	-10	9.1%
Independent Living	9.5%	-	14.8%	11.3%	30	11.0%
Assisted Living/Memory Care	9.0%	-	15.3%	11.9%	10	11.8%
Skilled Nursing	10.3%	-	15.8%	14.0%	10	13.9%
CCRC	10.0%	-	15.0%	13.3%	-30	13.6%

Source: NKF Seniors Housing Investor Survey for 2018 and 2017.

The single largest takeaway from the survey is that the amount of new development for 2018 is only a fraction of the amount planned for 2019. This construction boom has many investors concerned about possible overbuilding in certain markets. There is also concern about how the boom will impact facilities built in the late 1990s and early 2000s: Although the new product is expected to absorb at a decent pace, this will likely be to the detriment of the older facilities in terms of both occupancy and rental rates. Several respondents suggested that facilities over the age of 10 years with little renovations will likely trade at capitalization rates near the upper end of the range.

Capitalization rates have remained relatively flat over the past 12 months, a further indication that the market is stable, but has some concerns about overbuilding.

Development activity in seniors housing has continued at a fairly consistent pace in 2018 with the focus on facilities that allow seniors to age in place within the community. New construction couples independent living with assisted living and memory care within the same building or on the same campus. These Class A developments are designed with numerous amenities, including bistros/lounges, underground parking garages, full-service spas, full activity schedules (offered both on- and off-site) and upscale finishes.

Investors continue to favor Class A senior assets that are well positioned and well located. Some developers and investors, though, have decided to wait on the sidelines in markets that have recently seen significant new construction, while the units are absorbed by the market. A lack of available sites is another impediment in many markets. Another trend that is becoming popular is the redevelopment of former hotels into seniors housing, although the costs of retrofitting a building to satisfy state licensing requirements are often prohibitive.

There is still very strong demand among foreign capital investors that are seeking to align with a regional operator and develop new projects within their existing footprint. These types of partnerships have become very common in the Southeast and Midwest portions of the country, and they have allowed some of the regional operators to obtain inexpensive debt for new construction and to grow their portfolios significantly.

Several respondents commented on the growth in certain regions of home health companies that are now providing some low-cost options for seniors to stay in their current residence. There was a mixed view from several operators as to whether these home health companies could provide the in-home personal care services at a reasonable cost on an ongoing basis. Nonetheless, the impact of home health options did have some bearing on investment risk assessment of the survey participants.

Most rate indicators will remain flat or trend upward over the next 12 months because of:

- Rising interest rates
- Reduced lending
- Risk associated with some markets being over-bedded
- Rising labor costs

Within the major MSAs, some infill sites with strong demographical demand still support new development. Great caution should be shown with the developments because, in most cases, there are high levels of supply just outside of the PMA.

OUR OUTLOOK:

The market will continue to tighten, given the significant planned construction in 2019, as some mainline lenders will be taking a cautious approach over the next year or two. Buyers and owners have indicated that some prime lenders are concerned about oversupply and therefore have either reduced their lending or increased their lending parameters. Secondary lenders and hard moneylenders are moving into the arena. This draws concern, as individuals enter the market with a lack of knowledge of the product type or operational skills. Over the next 12 months, rental rates will continue to push upwards and absorption will be positive, but some markets will continue to struggle with overbedded product type.

We thank everyone who participated in the survey. If we can assist you with your market assessment needs, valuations, or advisory services, please contact ***Norm LeZotte, MAI* at *norm.lezotte@ngkf.com, 404.965.6285*** *or* ***Michele Allerton, MAI* at *michele.allerton@ngkf.com, 724.742.3321.***

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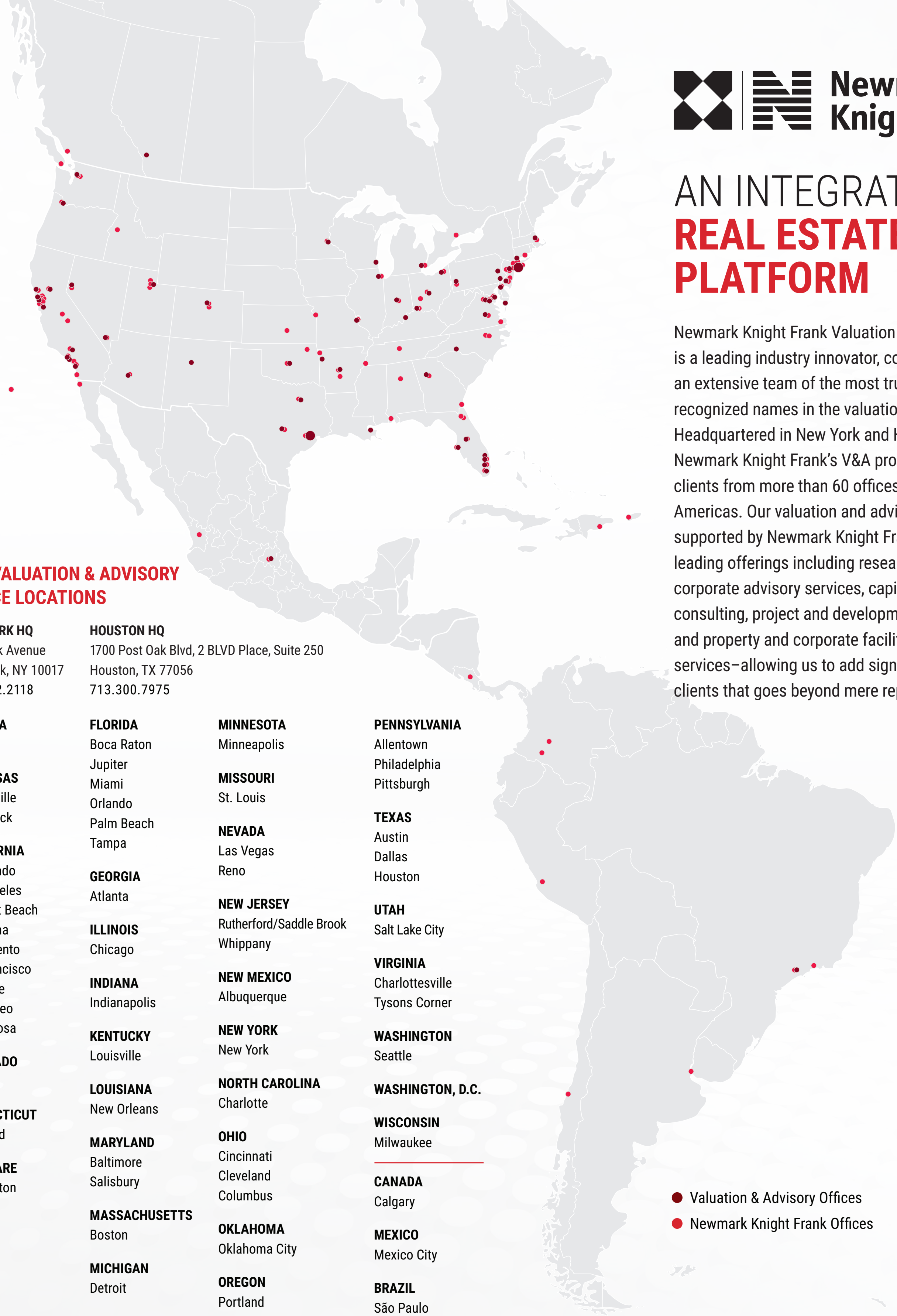

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