



**HEALTHCARE MORTGAGEE ADVISORY COUNCIL**  
Financing Seniors Housing for America

# THE SENIOR TSUNAMI

PREPARING FOR THE FUTURE

# TEAM

Moderated by Scott Thurman of  
**GREYSTONE**



**SEAN M. REILLY, MAI**

Managing Director  
Senior Housing Leader  
Valuation & Advisory  
Sr. Hsg/Healthcare Industry Group  
Cushman & Wakefield of Florida, Inc.



**CHRIS HAN**

Founding Principal  
Developer, Owner, Operator



**ROGER LEWIS**

Associate Deputy Assistant  
Secretary & Acting Director of  
Office of Residential Care  
Facilities



**TIM GRUENES**

Director, Production Division  
Office of Residential Care  
Facilities



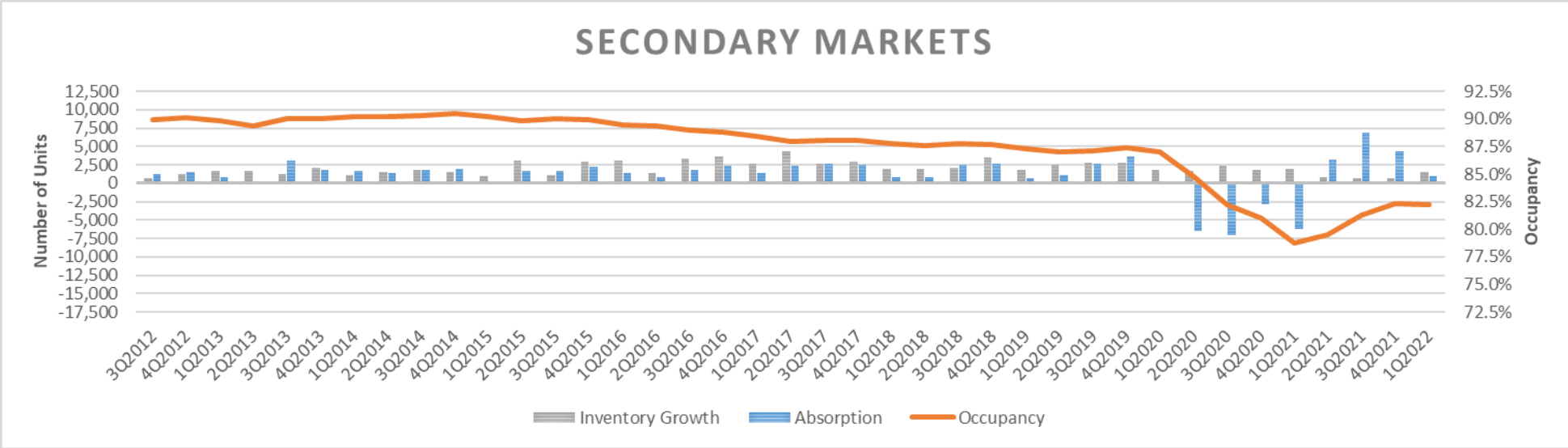
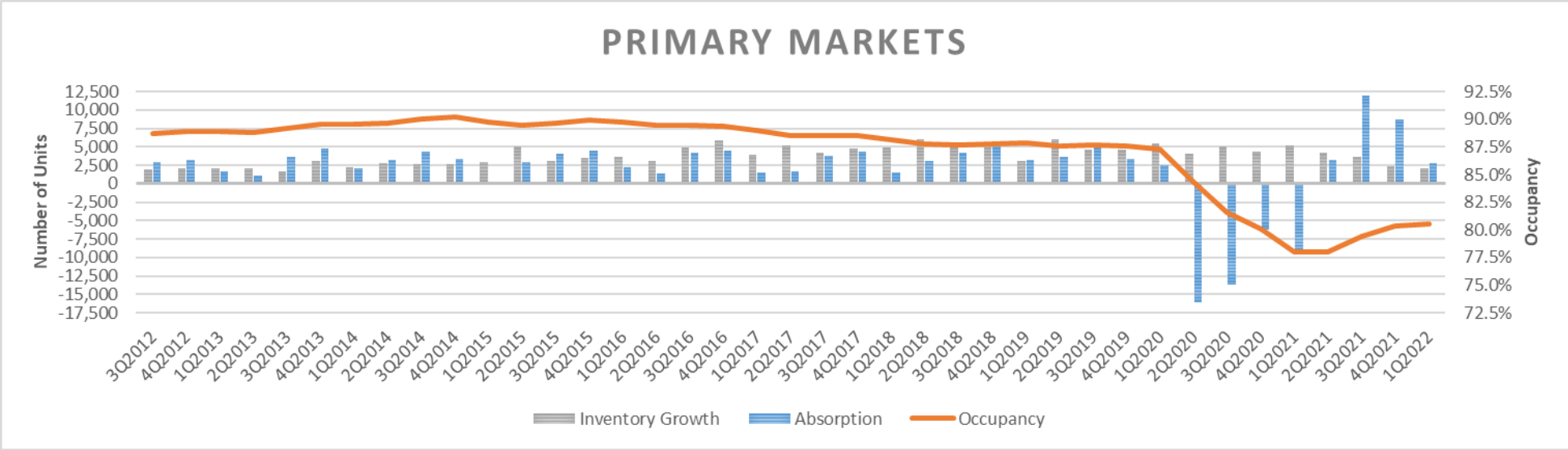
# MARKET & VALUATION TRENDS

Sean M. Riley, MAI

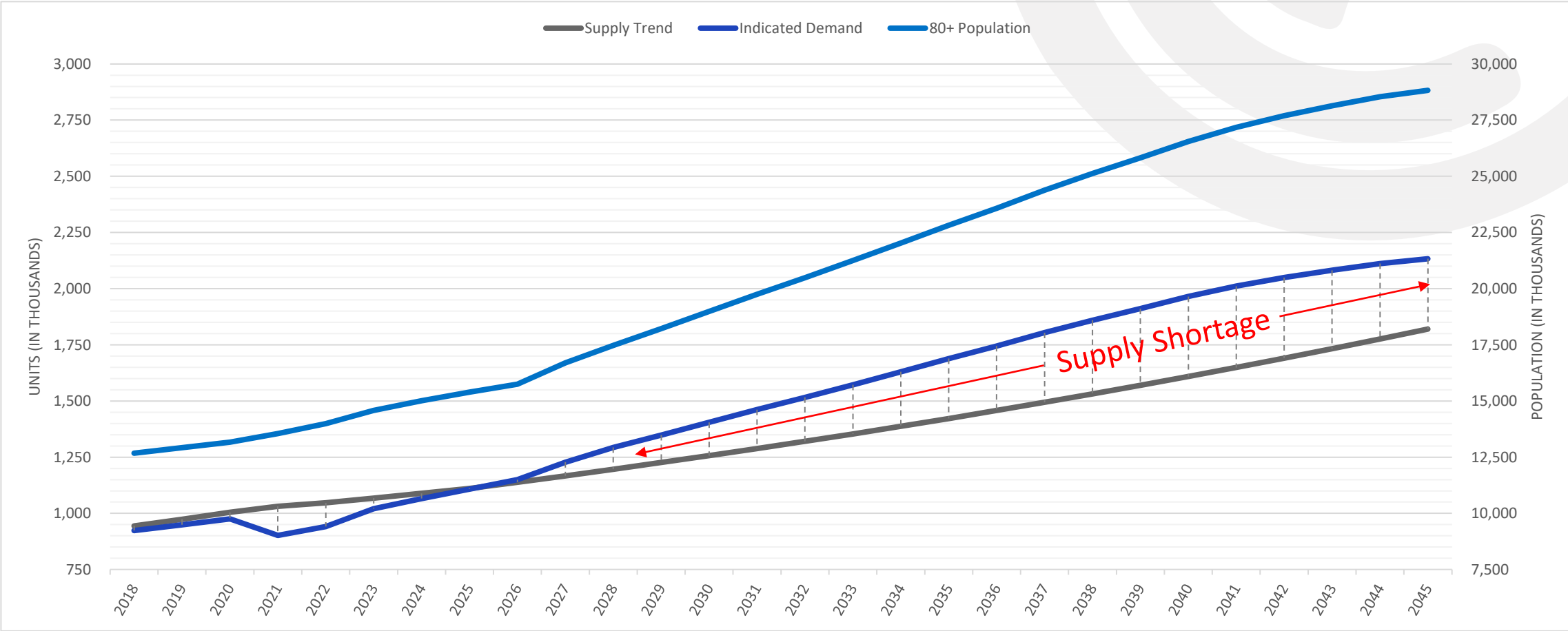
Cushman & Wakefield



# MARKET TRENDS: SENIORS HOUSING FUNDAMENTALS



# LONG-TERM DEMAND OUTLOOK – REMAINS STRONG



# SENIOR HOUSING & CARE OUTLOOK

## Affordability Remains Unsolved

What does the landscape look like for middle-income seniors in 2029 (peak demand is 2045)? Over half of middle-income seniors will not have adequate finances to afford assisted living.



The number of middle-income seniors will nearly double by 2029

**7.94m in 2020**  
**14.4m by 2029**



Middle-income seniors with mobility limitations and high health care or functional needs

**60% - Mobility**  
**20% - Functional**



Projected annuitized financial resources by age cohorts 75 to 84 and 85+

**\$25,000 - \$74,300**  
**\$24,450 - \$95,050**



Average monthly rent for assisted living before care

**\$4,977 / Month**  
**\$59,725 / Year**

# CAPITALIZATION RATES

2022 Cushman & Wakefield Senior Care Participants Survey						
Property Type	Survey Range	Survey Average	Change From 2021 Basis Point	%	Change From 2020 Basis Point	%
<b><u>Capitalization Rates</u></b>						
55+ Senior Apartments	4.00% - 9.25%	7.05%	-11	-1.54%	+11	1.59%
Independent Living	4.25% - 9.25%	7.10%	-15	-2.07%	+5	0.71%
Assisted Living	5.50% - 13.25%	7.76%	-16	-2.02%	-5	-0.64%
Skilled Nursing	9.75% - 14.50%	13.15%	-5	-0.38%	+10	0.77%
Continuing Care Retirement Community	8.00% - 14.35%	10.15%	-20	-1.93%	-5	-0.49%
<b><u>Internal Rates of Return</u></b>						
55+ Senior Apartments	6.25% - 9.75%	8.75%	-15	-1.69%	-5	-0.57%
Independent Living	7.25% - 12.25%	10.15%	-15	-1.46%	-5	-0.49%
Assisted Living	8.25% - 13.75%	11.85%	-20	-1.66%	-5	-0.42%
Skilled Nursing	9.00% - 14.75%	14.35%	-25	-1.71%	-15	-1.03%
Continuing Care Retirement Community	10.00% - 15.00%	13.75%	-20	-1.43%	-5	-0.36%

Source: Senior Care Participants Survey 2022 by Cushman & Wakefield, Inc.

# INVESTOR SENTIMENT

Scott Thurman

On behalf of Nick Stahler, Marcus & Millichap





# INVESTOR SENTIMENT

- Seniors Housing Investors are bullish on the asset class despite the operational changes and challenges COVID has created
- We experienced a shift in types of investors during pandemic
  - Due to the significant impending demographic wave, we had seen a large influx of new investors pre-pandemic
  - Unfortunately, we saw the exit of the new investors on a large scale during the pandemic
- Veteran players such as Private Equity, REIT's and Operators are current primary investors

# INVESTOR SENTIMENT (CONTINUED)

- Investors have reengaged new development after pausing for much of 2020 and 2021- affirming the mindset of investors believing in the demographic wave over the next decade
- The new resident profile that will be inherit in the demographic wave has also forced investors to be very disciplined when buying dated, existing assets, as the expectations of this new resident profile will be very different than the current
- New investors are likely to return in a big way as the industry stabilizes in a post-pandemic world

# UNDERWRITING IN 2022

- Underwriting has become increasingly more difficult during the pandemic
- Due to volatility created by the pandemic, we have seen a shift in the valuation approach from the T12 to the T3A/T12
- Margins have decreased across all levels of care with Assisted and Memory Care taking the biggest hit
- Labor expense experienced the highest increases up 8% on average in 2021



## UNDERWRITING IN 2022 (CONTINUED)

- Proformas assume these increased expense levels will stay in place with 3-5% increases annually
- Cap Rates have held strong with slight downward pressure do to lack of stabilized deal flow
- Marcus & Millichap's national team closed total of 46 transactions in 2021 with an average cap rate of 8.5% (all levels of care) down 50 bps from 2020's average

# OUTLOOK

- Industry is likely to go through a consolidation phase in the near term, which will alienate smaller investors and push deals to larger institutions
- Operators that have weathered the COVID storm are stronger and more efficient as a result
- Private/Small investors likely to return as industry stabilizes



# OUTLOOK (CONTINUED)



## **New development will continue and increase over time**

The cost of construction is likely to influence investors in the decision-making process for new supply. Less affluent/middle markets do not currently support the cost of construction



## **Long term outlook is very strong**

The immense demand wave over the next decade will be hard for the supply side to keep up with, new construction will be key to absorb this demand and cater to the expectations of the new generation of residents

# A DEVELOPER'S CONSIDERATIONS

Christopher Han

President & Founder of Sundara Senior Living



# CONTEXTUAL DEVELOPMENT FACTORS

## Obvious Factors

- Baseline Demographics
  - Undeniable growth with demand for services
  - Demand across all industry segments and price points
- Cost Pressures
  - Overall materials and labor inflation unprecedented
  - Secondary cost drivers within budget across the board
  - Most supply chain impacts built in – labor and wage less so
  - Cost elasticity easy to quantify – known risk
  - Price sensitivity with resident fees – unknown risk



# CONTEXTUAL DEVELOPMENT FACTORS (CONTINUED)

## Obvious Factors (continued)

- Covid Related Factors
  - Negative headline and market assessment risk – acuity
  - Need for safety protocols to inform design process
  - Relocation trends:
    - Housing impact cuts both ways – entry/exit equity
    - Land availability and price
    - Asset Competition: affordable, multi-fam, workforce
- Operational Impacts
  - Pre-covid trends exacerbated but known – labor, turnover, etc.
  - Protocol burden – safety, isolation, mitigation – need for functional design
  - Variability of response by sector, asset, size

# CONTEXTUAL DEVELOPMENT FACTORS

## Less Obvious Factors

- Consumer Evolution
  - Growing awareness, knowledge, and price sensitivity
  - Shift in consumption behavior
  - Run to formula
- Locational Challenges
  - High growth areas
  - Obvious markets rare
  - Going to the resident
- Contingency
  - Weather hazards
  - Design offsets
  - Provisioning
  - Pandemic

# MITIGATING FACTORS

- Understand target market
  - Markets have always been locally defined – unusual circumstances merit unusual analysis
  - Against backdrop of competitive parity - decisions often hinge on singular aspect – What is it?
- Demand appropriate
  - Traditional scaling and challenges
  - Smaller platforms and scattered sites can provide distinct development advantages
  - Development v. Operational balance
- Asset Risk
  - Secondary use and flexibility as a design input – mitigate asset risk
- Design
  - Environmental factors v. featuring: lighting, temperature, density, sound, etc.
  - Social factors: engagement & interaction, cultural, programmatic, etc.
  - Psychological factors: sense of space, access, belonging, etc.

These considerations are linked through mutual causes and effects, with various offsets and stresses. Diversity of platforms and innovation with design, scale, and approach is inevitable, appropriate and needed. Greater demand sparks greater innovation.

Against the backdrop of demographic trends and shifts, the next chapter will be particularly dynamic for the industry with a matching need for wider and more variable debt and equity markets.

# HUD'S PERSPECTIVE

on the Senior Tsunami

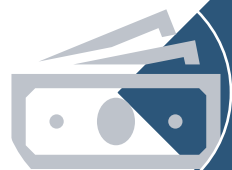
Roger Lewis and Tim Gruenes



# OTHER HEADWINDS



Employment



Affordability



Savings  
Problem



---

**HEALTHCARE MORTGAGEE ADVISORY COUNCIL**

Financing Seniors Housing for America

---

# THANK YOU!



[MEMBERSHIP@HMACONLINE.NET](mailto:MEMBERSHIP@HMACONLINE.NET)



[HTTP://WWW.HMACONLINE.NET/](http://WWW.HMACONLINE.NET/)