Senior Housing Market Outlook

Opportunities from a supply and demand imbalance

REPORT

Roadmap for Discussion

We will cover the following topics throughout this report, to give a broader perspective on the market outlook.

01 Surging Fundamentals

02 Investment Activity

03 Bright Prospects

Surging Fundamentals:

The fundamentals of the senior housing market are improving significantly, driven by specific demographic, economic, and sectoral trends.

Investment Activity:

Dislocated debt markets suppressed investment activity over the last few years, presenting both challenges and opportunities for savvy investors.

Bright Prospects:

The positive outlook across near, medium, and long-term horizons indicates a strong future for the senior housing sector.

Executive Summary

Polycrisis Resilience:

From 2020 to 2023, the senior housing industry has successfully weathered significant challenges, highlighting its resilience. These challenges included a series of pandemic-induced shocks: an occupancy and labor crisis due to COVID, followed by suppressed capital markets resulting from a rapid rise in the Federal Funds rate to battle inflation. While these difficulties put significant stress on the industry, the senior housing industry weathered these storms, a testament to its resilience and need-based value proposition.

Recovery Indicators:

Post-COVID, supply and demand metrics recovered at a rapid pace. Entering 2024, occupancy and aggregate employment are within 1-2% of pre-COVID levels, and the capital markets show signs of life as the Fed telegraphs a coming rate-cutting cycle. Employment levels exceed pre-COVID levels, further underlining a recovery phase that is expected to continue. Within the industry, rents are rising while operating expenses and inflation are moderating, leading to expanding profit margins.

Unprecedented Demand Growth:

Finally, explosive demand growth driven by the aging population presents a generational opportunity for industry stakeholders. Currently, growth of the population aged 80+ (the first Boomers turn 80 in 2025) significantly exceeds the growth of housing inventory. Additionally, senior housing continues to see historic absorption rates (that is, the net change in occupied units continues to rise), surpassing pre-COVID levels. In the first quarter of 2024, the absorption rate increased by 40% compared to 2023, which was a historic number in its own right.

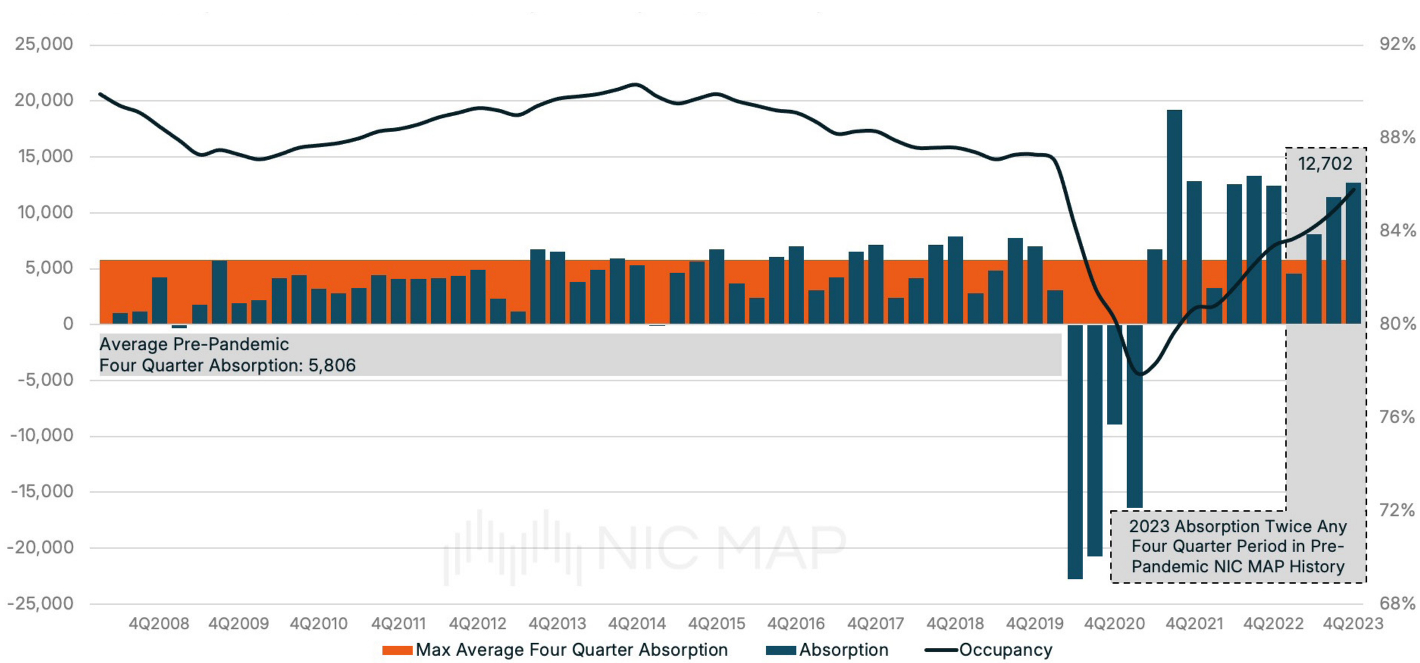
01

ROADMAP FOR DISCUSSION

Surging Fundamentals

The fundamentals of the senior housing market are shifting into a very favorable state, driving continued margin recovery.

Record Absorption

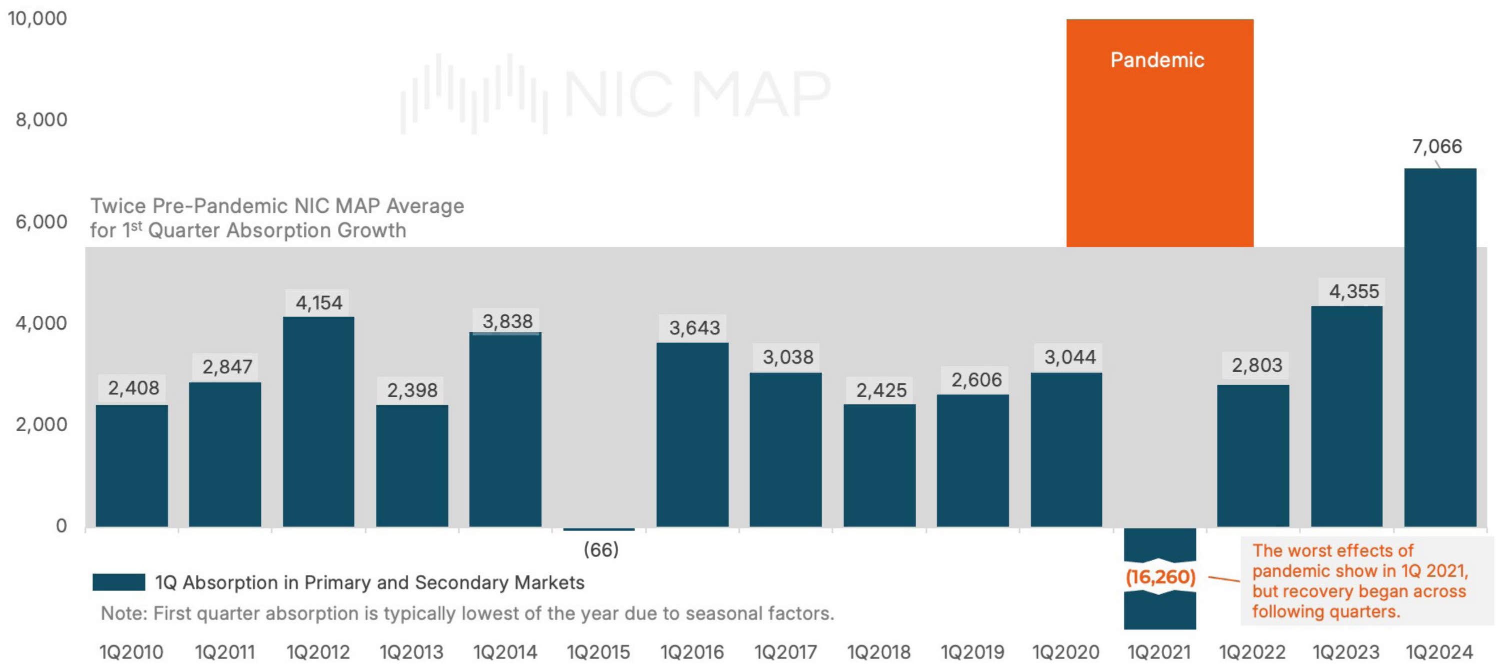


Source: NIC MAP® Data, powered by NIC MAP®, All Data from Primary and Secondary Markets.

In 2023, absorption rates doubled any pre-pandemic four-quarter period, indicating robust demand. Absorption surged to historic levels and points to both occupancy recovery and future investment potential.

Rapid occupancy recovery is underway as the pandemic recedes into the distance. Sequential occupancy growth and net absorption are both growing at historic levels. This historic demand growth is occurring even before the aging wave kicks into full gear in the coming years.

Historic Absorption Growth Continues in 1Q24, up 40% Year-Over-Year



Source: NIC MAP® Data, powered by NIC MAP®, Primary and Secondary Markets.

40%↑

A continuing trend of unprecedented absorption growth.

First-quarter absorption in 2024 is up 40% year-over-year, marking the highest first-quarter reading in NIC MAP history. However, this is merely a continuation from last year, where the first quarter of 2023 also saw historic absorption growth.

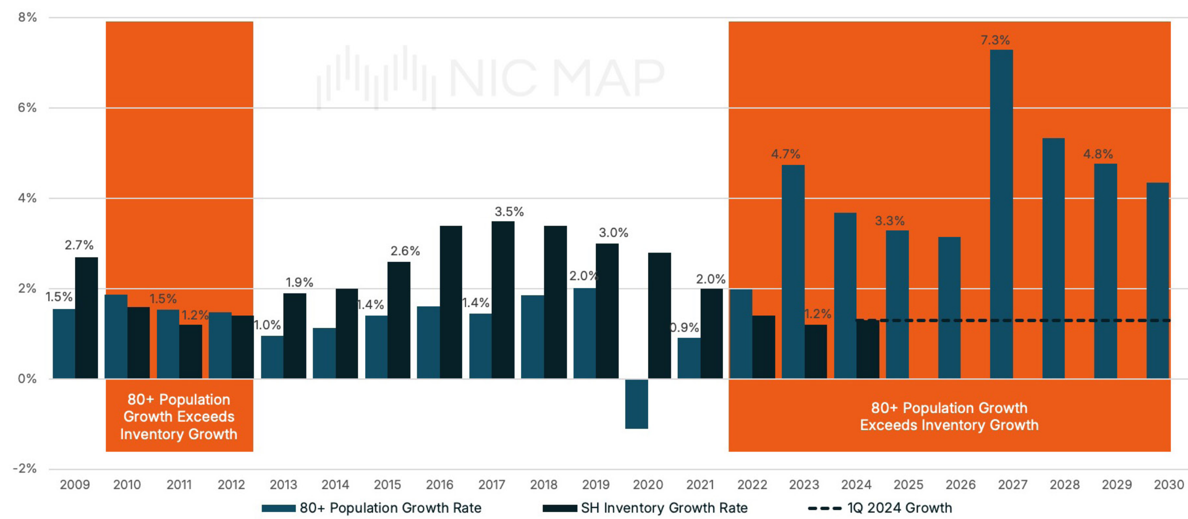
Note that as a rule, first quarter absorption rates are lower than other quarters due to seasonal factors, making year-over-year comparisons more informative than quarter-over-quarter comparisons.

80+ Population Growth Materially Exceeds Inventory Growth

Senior Housing Returns to a Favorable Balance between Resident Growth and Inventory Growth.

Senior housing fundamentals largely depend on the relationship between the 80+ population and the supply of senior housing stock. For most of the past decade, supply growth (senior housing inventory) exceeded demand growth (80+ population), leading to gradually declining occupancy rates.

However, beginning in 2022, this relationship inverted, with the 80+ population exceeding inventory growth. By 2023, 80+ population growth began to materially outpace supply. As a result, there is a growing gap between supply and demand growth, which will continue over the coming years unless senior housing development rapidly increases. In the meantime, the growing gap will likely materially lift senior housing occupancies, as inventory growth lags well behind demand growth.

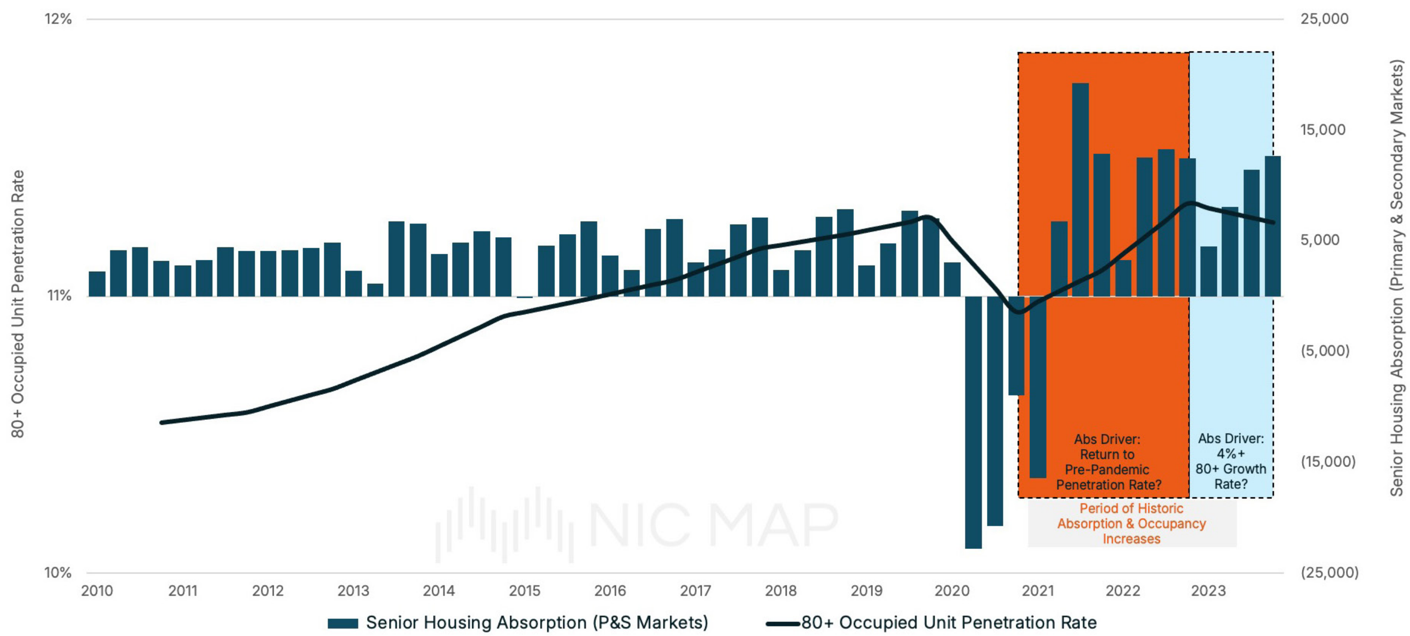


Senior Housing Inventory Growth vs. 80+ Population Growth

Source: NIC MAP® Data, powered by NIC MAP®, Primary and Secondary Markets; OECD.

Customer Adoption Levels Return to Pre-Pandemic Highs

80+ Penetration Rates Recover and Data Shows Aging Growth Now Driving Absorption



80+ Occupied Unit Penetration Rate: Total Occupied Senior Housing Units / 80+ Population
Source: NIC MAP® Data, powered by NIC MAP®, All (2010-2014) and Primary and Secondary Markets (2015 forward); Census Bureau.

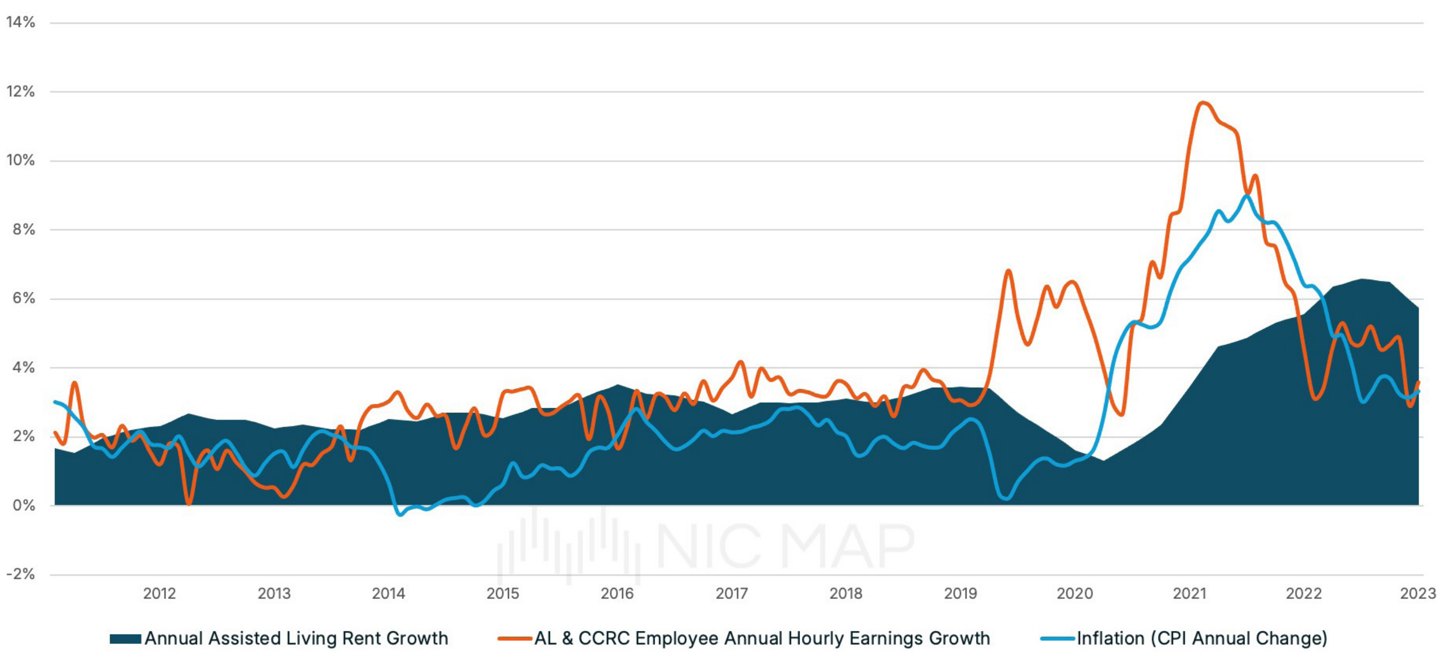
The 80+ occupied unit penetration rate is calculated by dividing the number of occupied senior housing units by the 80+ population. The 80+ occupied unit penetration rate provides a clear indicator of changes in overall senior housing product adoption, adjusting for changes in both population and inventory. Across the 2010s, the penetration rate slowly increased, reaching an all-time high on the eve of the pandemic.

Driven by COVID admissions bans and the lack of an effective vaccine, the penetration rate shed six years' worth of gains in one year, bottoming out in 1Q21. With the introduction of the vaccines and a lifting of admissions bans, the penetration rate returned to its all-time high by late 2022, suggesting a full recovery from the COVID shock.

As the penetration rate has recovered from its COVID decline, the data suggests that the historic absorption seen in 2023 and 1Q24 is driven by the surging growth of the 80+ population, and not merely a continuation of the COVID recovery.

Rent Growth Remains Strong as Wage Growth and Inflation Moderate

Rent and Occupancy Growth Drive Senior Housing Margin Expansion



Source: NIC MAP® Data, powered by NIC MAP®; BLS; Inflation via FRED.

In the decade prior to the pandemic, senior housing rent growth largely tracked the weighted average of wage growth and non-wage expense growth. During the pandemic, occupancy fell while wages and inflation soared. To recover and compensate, operators limited rent increases below expense growth, compressing margins while the industry worked to regain occupancy.

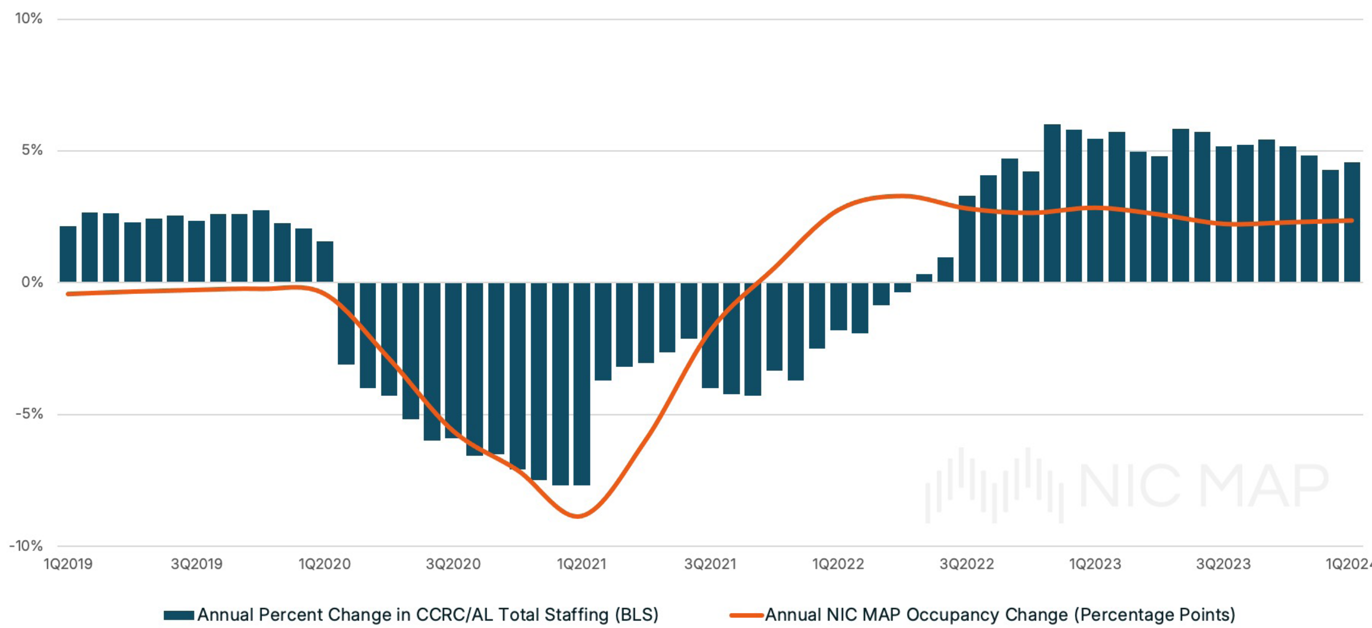
However, as inflation trends downward, rents are beginning to exceed expense growth, combining with improving occupancy to rebuild the industry's margin profile. This trend appears set to continue for the foreseeable future, as demand growth will continue to significantly outstrip supply growth.

As a result, senior housing margins are likely to continue to expand.

Staffing and Occupancy Recovery

Staffing and Occupancy Recover to Near Pre-Pandemic Levels as Labor Markets Normalize

Robust labor availability is a key driver of operational performance, service quality, and affordability. The COVID pandemic caused senior housing occupancy to decline while simultaneously reducing the pool of available workers. This led to significant upward pressure on wages and required the use of expensive agency staffing. Recently, both staffing levels and overall occupancy recovered to near pre-pandemic levels as labor markets have normalized. In fact, today, aggregate industry staffing is 5% above pre-pandemic levels. This employment rebound alleviated upward pressure on wages and significantly reduced the use of agency staffing, again improving the industry's overall margin profile.

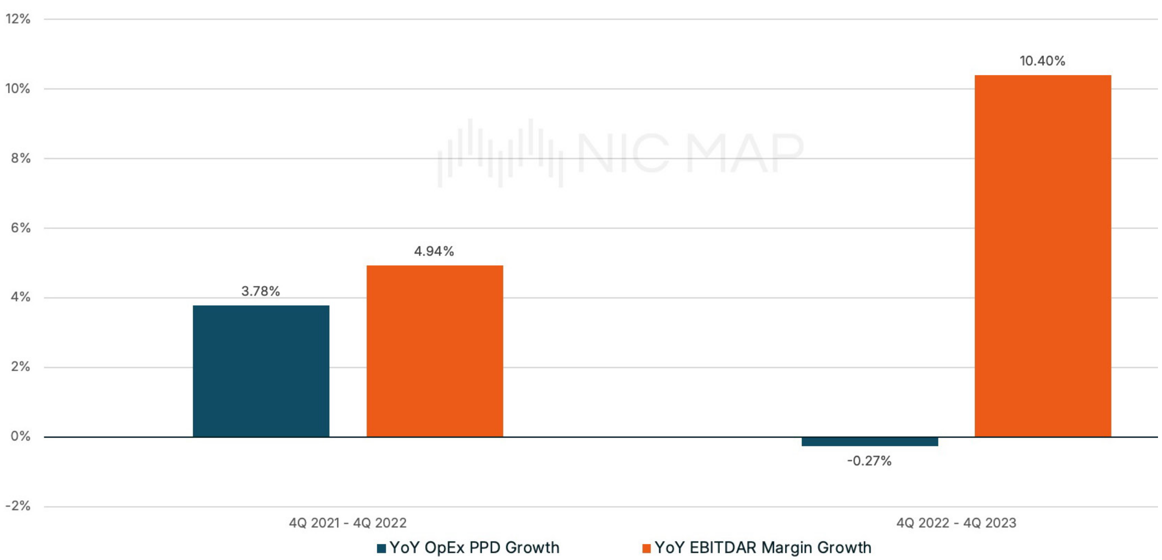


Sources: NIC MAP® Data, powered by NIC MAP®, All Markets; BLS.

Improved staffing levels enhance operational efficiency and service quality overall for residents. As the next generation enters senior housing, there is an increased focus on service quality as a key factor in decision criteria.

Public Operating Portfolios Show Declining OpEx PPD, Expanding Margins

Senior Housing REIT RIDEA Portfolios Show Slowing OpEx Growth, Accelerating Margin Expansion



Welltower (WELL) and Ventas (VTR) Weighted SHOP Portfolio

Source: WellTower and Ventas Quarterly Supplementals via EDGAR.

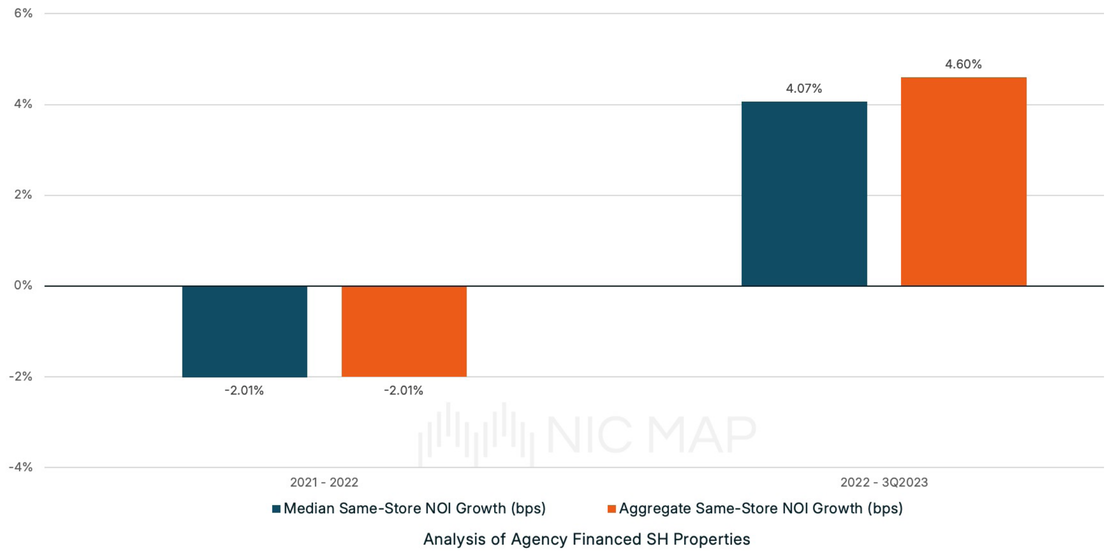
Public REIT operating portfolios provide real-time, diversified insight into changing operating expense and margin profile trends. Recent filings by the industry's major operating portfolios show moderating expense growth and margin expansion, as the combination of growing occupancy and favorable rent/expense growth trends drives margins upward.

Public portfolios provide diversified, timely insight into industry trends.

Margins Expanding Across Stabilized Portfolios

Expanding margins are the clearest sign of strong fundamentals in the senior housing industry. The permanent financing market is showing strong margin growth.

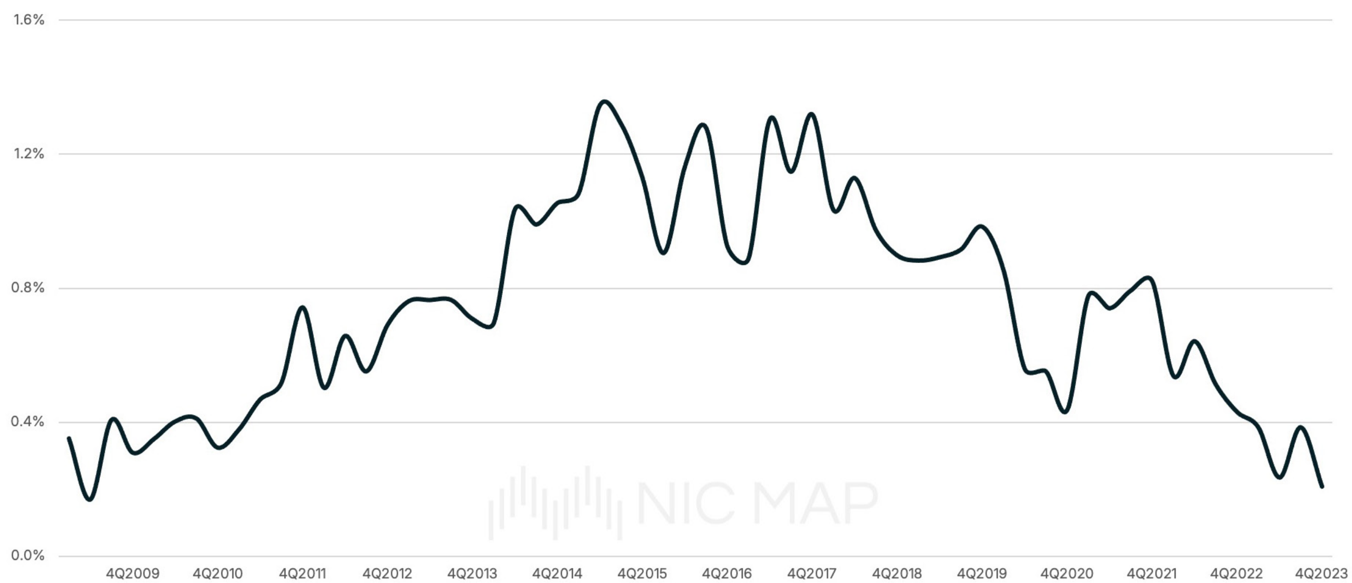
Financial filings by agency-financed senior housing properties provide a window into EBITDAR margin trends across the country. While soaring wage growth led to increased operating expenses and declining margins through 2021 and 2022, in 2023 that trend reversed, with margins expanding and operating expenses declining across the board. This margin expansion is likely to continue as demand growth outstrips supply growth for the foreseeable future.



Source: Preliminary Analysis of Agency Financed Properties Completed by NIC MAP®

Supply Growth Slowing While Absorption Surges

Senior Housing Construction Starts Fall to Near NIC MAP Historical Lows



Senior Housing Construction Starts (as % of Inventory)

Source: NIC MAP® Data, powered by NIC MAP®, Primary and Secondary Markets.

Despite historic absorption and occupancy growth and exploding near-term demand growth, high interest rates and limited capital availability are driving senior housing construction starts to near all-time lows. In fact, senior housing construction starts are nearing lows not seen since the depths of the Great Recession in 2008.

What does this mean?

With multi-year pre-development and construction timelines, the current level of construction starts means that supply growth will likely remain depressed for years to come. At the same time, the growth of the senior housing consumer base will grow dramatically as the first of the boomers turn 80 in 2025. As a result, the sector will see significant supply and demand imbalances and a favorable environment for both new development and for existing owners of senior housing properties.

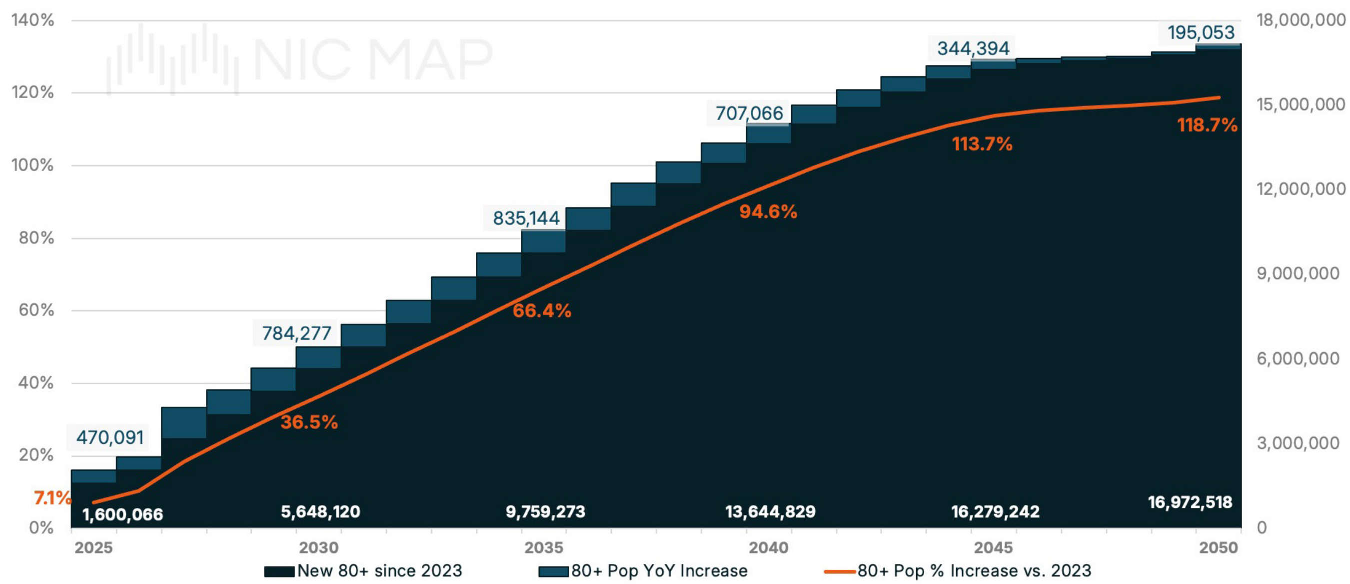
Senior Housing Demand Growth Is Durable and Long Lasting

80+ Population Undertakes Historically Unparalleled Expansion Over Next 25 Years

Demographics show promise for substantial future growth.

The aging of the Baby Boomer generation is an unprecedented demographic megatrend. In the history of the US, the aging population has never grown so fast or so large. The explosive growth of the 80+ population will require the senior housing industry to rapidly expand for decades to come.

The 80+ population is projected to grow significantly over the next 25 years, which will drive corresponding growth in the senior housing sector. This rising tide provides a fertile environment for investment activity. Near term prospects are very positive as limited supply, limited pace of supply growth, and the spike of 80+ consumers place significant upward pressure on industry occupancy.

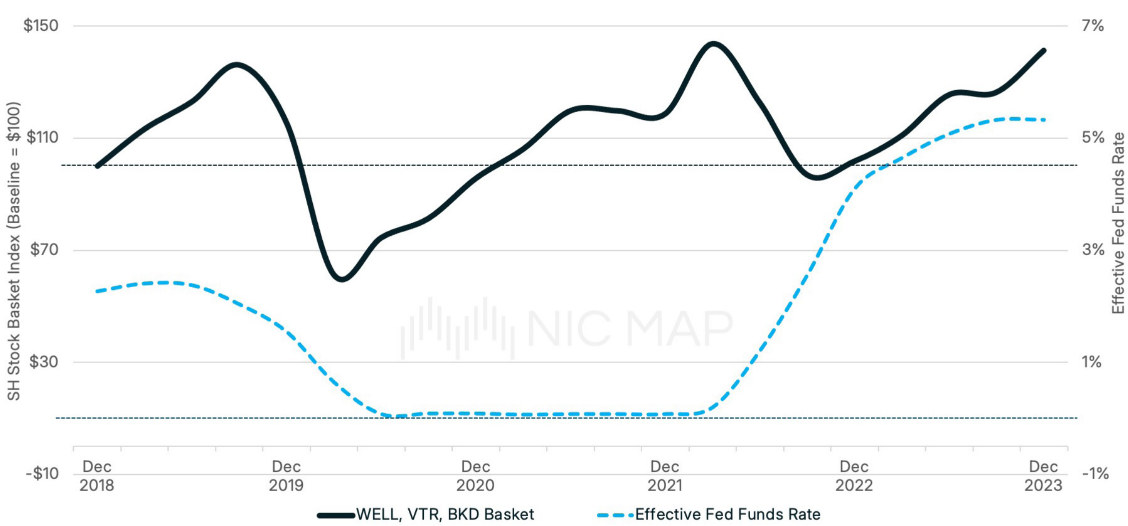


80+ Demographic Growth Rates | Census Bureau Projections 2025 - 2050

Public Markets Have Recognized the Opportunity

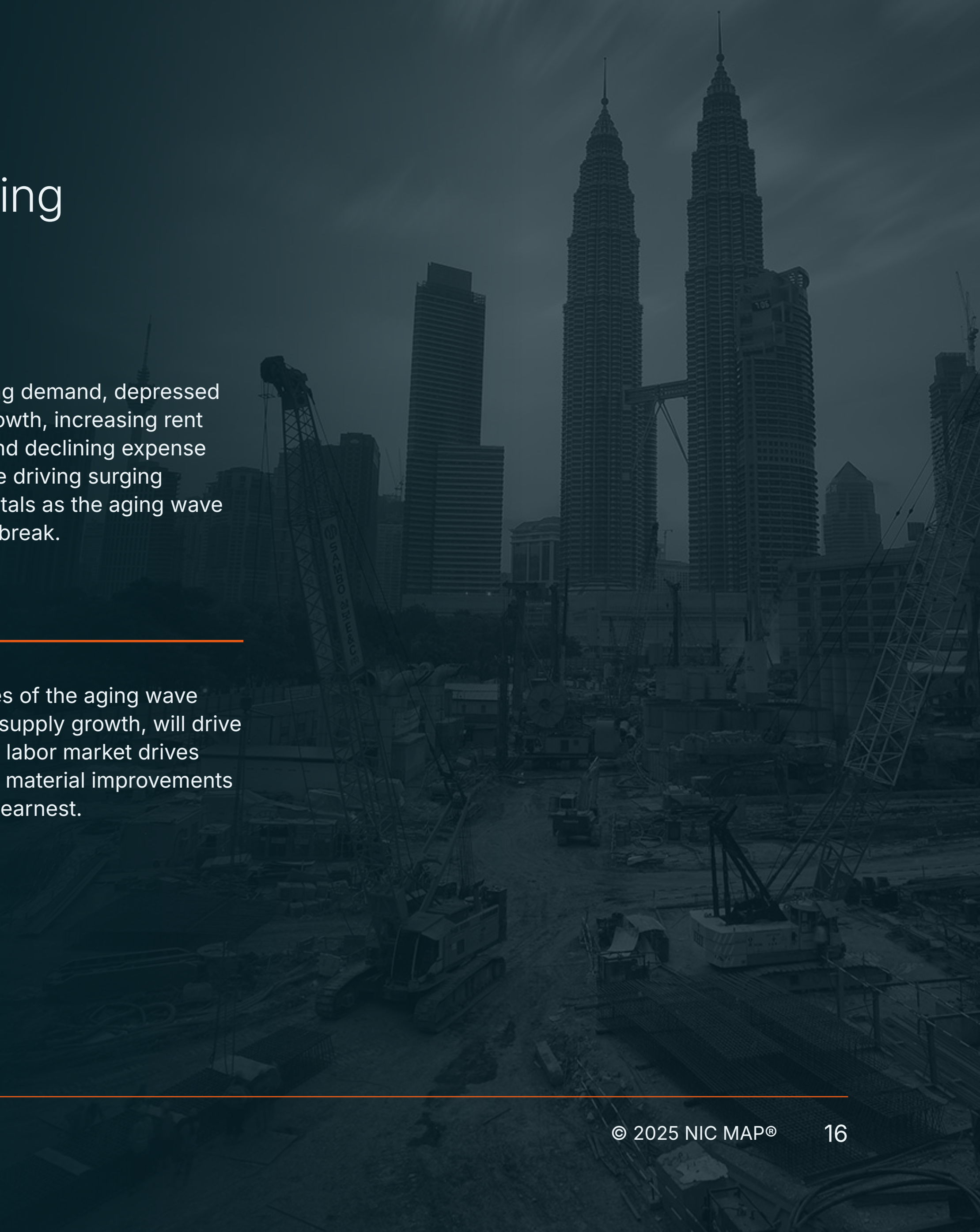
Risk Free Rate Doubled, Yet Basket of Direct NOI-Exposure SH Public Equities Exceed 2019 Valuations

The performance of senior housing public equities is a direct barometer of investor confidence in the senior housing sector. Public market valuations of senior housing equities exceed pre-2019 levels despite higher risk-free rates. The performance of senior housing public equities is a direct barometer of investor confidence in the senior housing sector. In addition, current REIT dividend yields are well below the 10Y UST, suggesting that investors see opportunities for significant capital appreciation in the near future.



Source: Microsoft Stock Price Data; Quarterly Filings (Share Count), FRED (EFFR).

The performance of senior housing public equities reflects investor confidence in the senior housing sector and could attract more capital to the sector.



Pending Growth Surge in Senior Housing

In 2023, senior housing saw absorption growth twice that of any non-pandemic period in NIC MAP history.

Simultaneously, the excess supply growth trend of the past decade reversed, falling well below surging demand growth of 80+ consumers.

Burgeoning demand, depressed supply growth, increasing rent growth, and declining expense growth are driving surging fundamentals as the aging wave begins to break.

The senior housing sector is seeing historic absorption growth, as the first ripples of the aging wave wash ashore. This unprecedented demand expansion, combined with flattening supply growth, will drive occupancy growth at the same time that the post-pandemic normalization of the labor market drives favorable rent/expense growth dynamics. Collectively, these forces should drive material improvements in industry financial health indicators, right as the aging wave begins to break in earnest.

02

ROADMAP FOR DISCUSSION

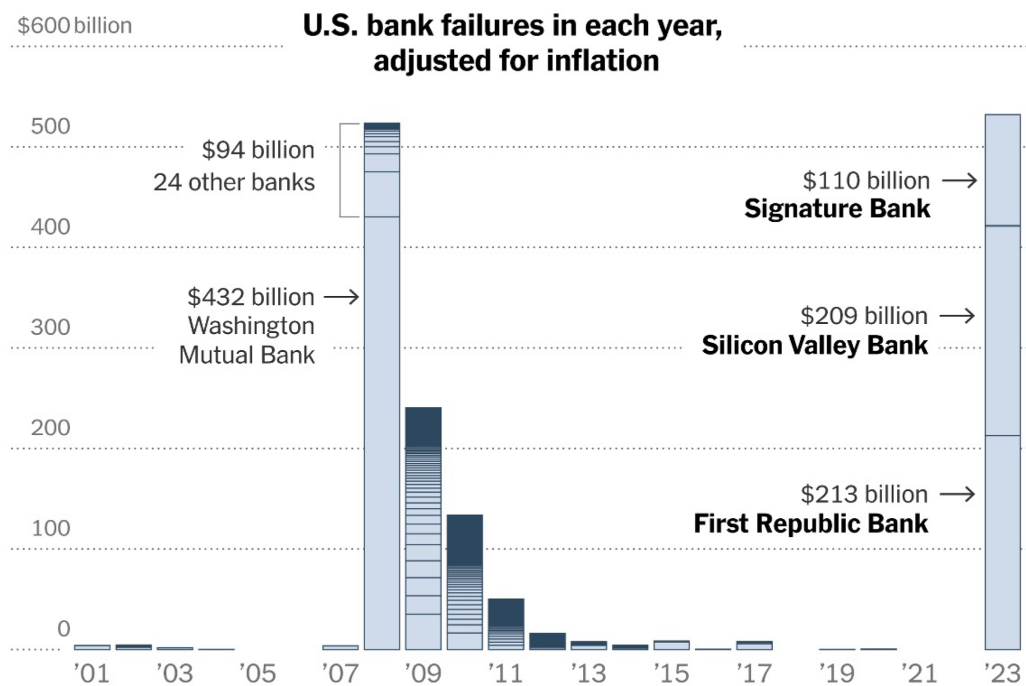
Investment Activity

Dislocated debt markets suppressed investment activity, presenting both challenges and opportunities for savvy investors.

Rate Hikes Triggered a Banking Crisis of Underappreciated Proportions

Bank Failures in 2023, in Terms of Total Assets, Exceed Those in 2008

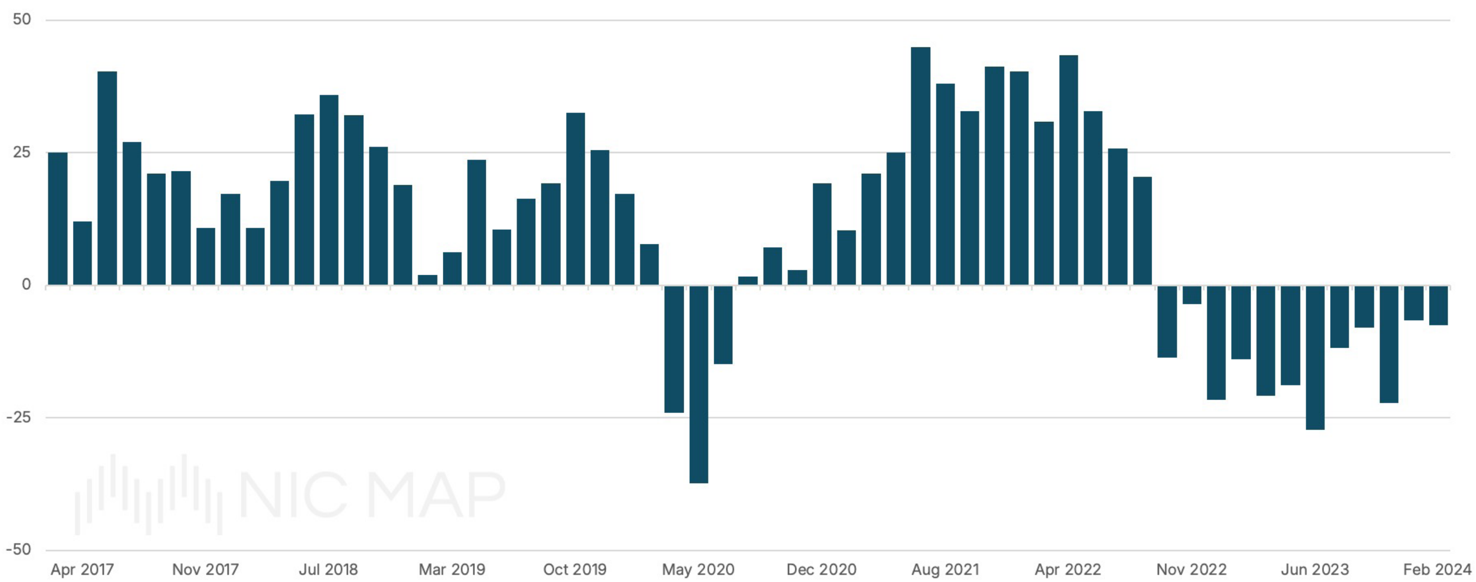
Recent bank failures in 2023 exceeded those in 2008 in terms of total assets, impacting commercial real estate lending.



Source: New York Times

Bank Failures Led to a Pull Back in Commercial Real Estate Lending

CRE Lending Pulled Back Significantly Due to Banking Conditions and Office Sector Challenges



Banking Conditions Survey – CRE Loan Volume

Index Calculation: Subtract the percentage reporting a decrease from the percentage reporting an increase banking outlook and their evaluation of general business activity.
Positive Index (>0): More respondents report an increase than a decrease. This suggests the indicator has increased since the last period.
Negative Index (<0): More respondents report a decrease than an increase. This indicates the indicator has decreased since the last period.

Source: Federal Reserve Bank of Dallas; Banking Conditions Survey.

Bank failures led to a significant pullback in commercial real estate lending, including to the senior housing industry.

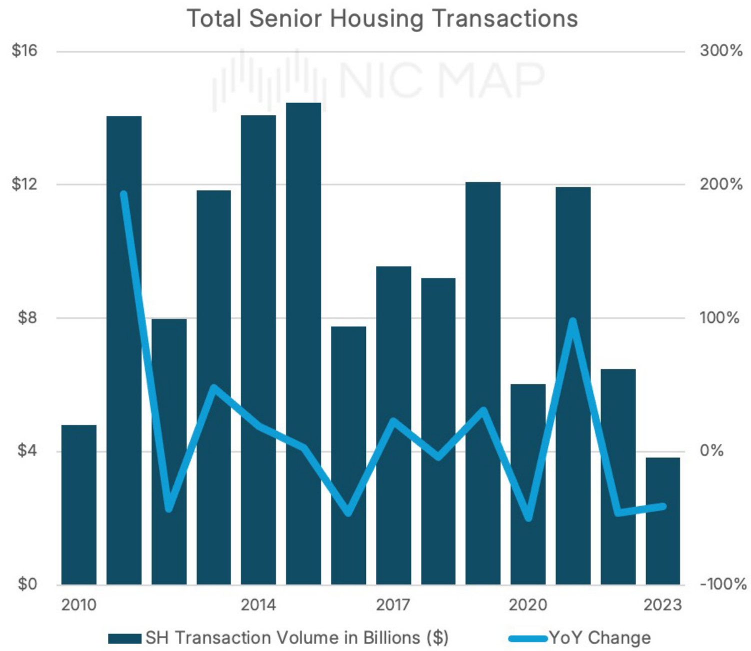
However, debt markets, though depressed, continue to function. Agency lending continued, and as of June 2024, nearly a quarter of banks report increases in their commercial real estate lending volumes.

Credit Tightening Slowed Senior Housing Transaction and Construction

Transaction Volume Down 40%+ in 2022 and 2023; Construction Activity Slips to 0.2% of Inventory

Credit tightening led to a significant reduction in senior housing transaction volume and caused a marked deceleration in construction activity.

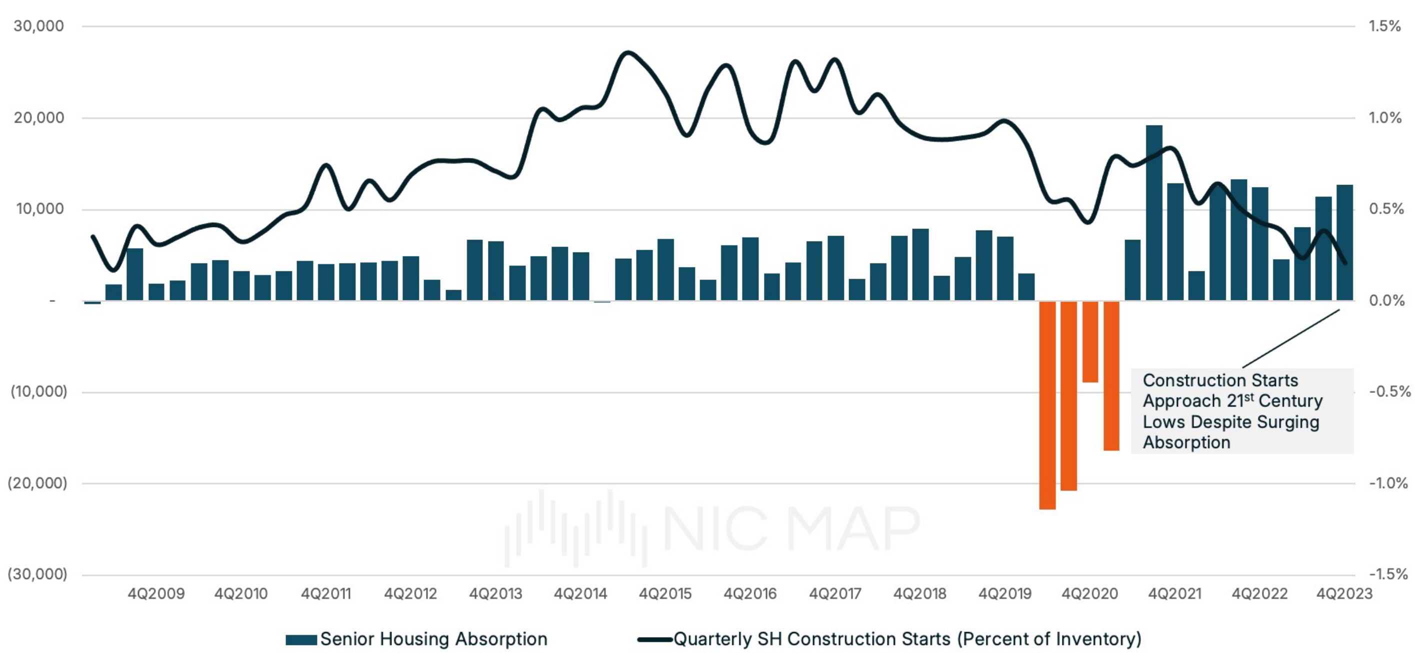
Because of the pullback in the banking sector, capital sourcing and capital stack construction requires a more robust and thoughtful approach. For those who can accomplish this, deals are still getting done.



Source: NIC MAP® Data, powered by NIC MAP®. Transactions are National; Starts are Primary and Secondary Markets.

As a Result, Supply Growth Slowed Despite Surging Absorption

Senior Housing Construction Starts Fall Even as Occupied Units Grow for 11 Consecutive Quarters



Source: NIC MAP® Data, powered by NIC MAP®, Primary and Secondary Markets.

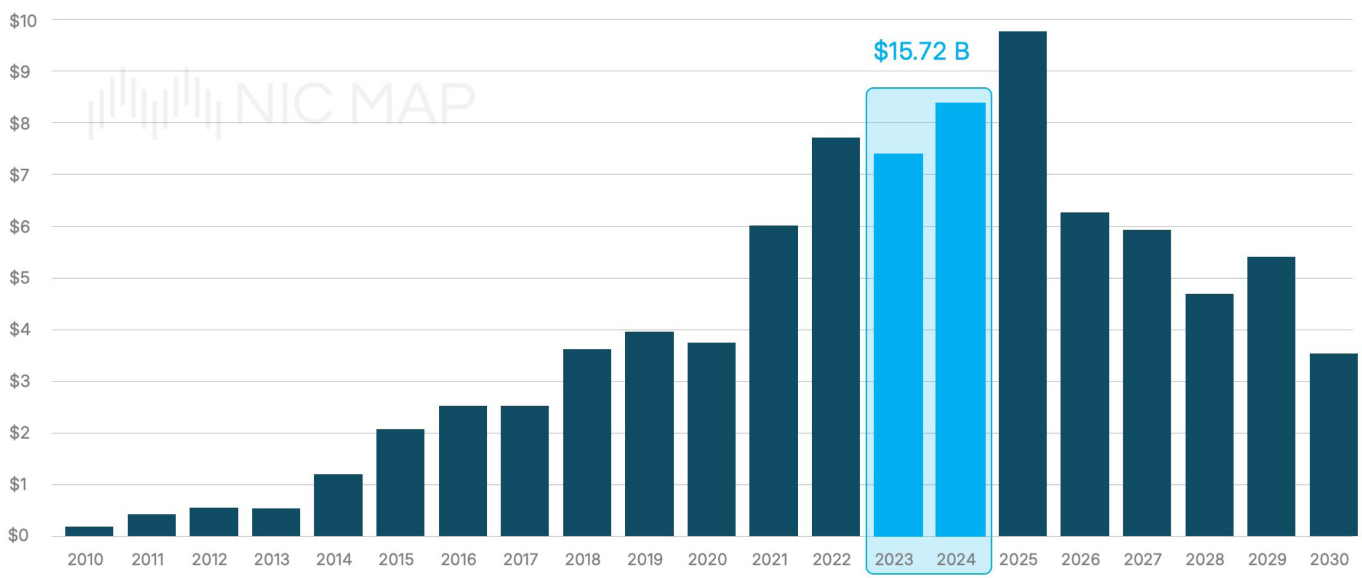
Senior housing construction starts are approaching 21st-century lows despite historic absorption rates. The disconnect between surging demand and falling supply growth highlights the impact of the dislocation in the credit markets.

As demand growth accelerates, there is a pressing need for new senior housing development. Sponsors that meet this demand are likely to find themselves in an excellent position.

Senior Housing Faces Growing Debt Maturities

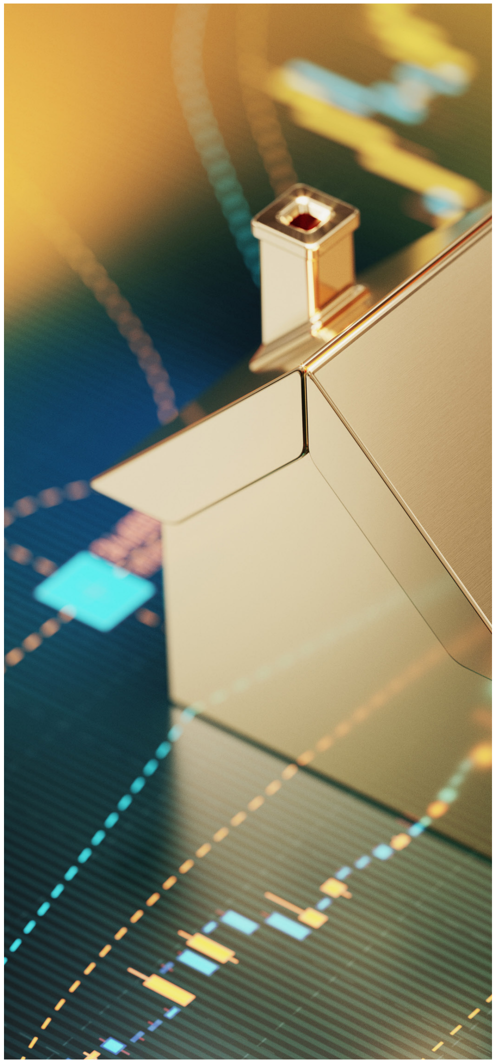
Despite Surging Fundamentals, Senior Housing Needs Increasing Debt and Equity Capital in the Near Term

The senior housing sector faces growing debt maturities in the near term, creating a pressing need for greater access to both debt and equity capital. These maturities, combined with the dislocated capital markets and surging fundamentals, create material opportunities for investors ready to deploy capital.



Senior Housing & Care Loan Maturities

Source: Cushman & Wakefield, October 2023.



03

ROADMAP FOR DISCUSSION

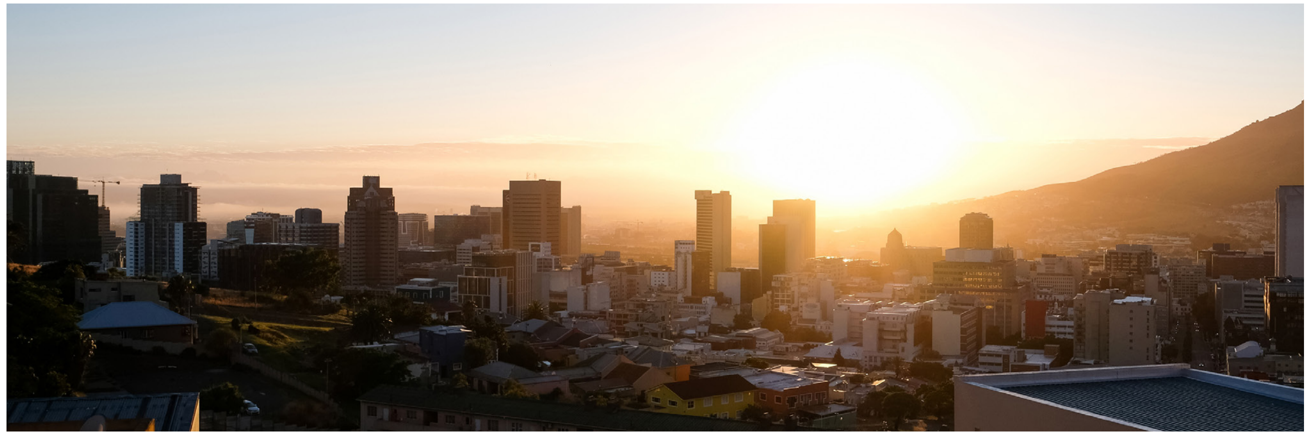
Bright Prospects

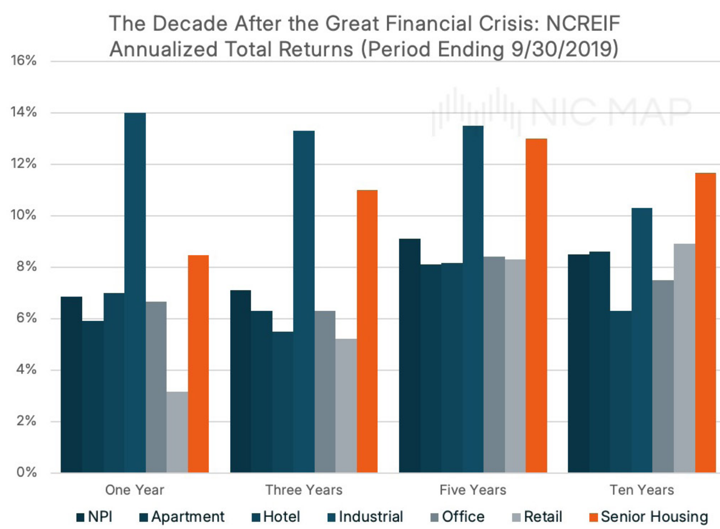
The near-, medium-, and long-term outlook for the senior housing industry is incredibly bright, as a need-driven sector confronts an aging super-cycle.

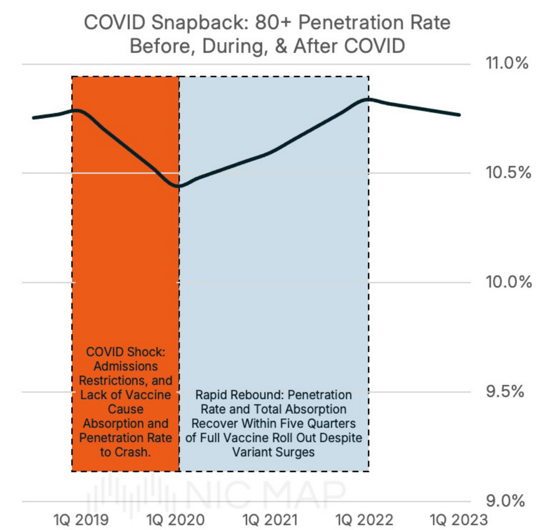
The 21st Century's Great Economic Shocks Affirm the Durability of Demand

Senior Housing's GFC Performance and Rapid Return to Pre-COVID Penetration Highlight Need-Based Dynamics

The sector's performance during the major economic shocks of the 21st century demonstrates the durability of demand for senior housing. The sector outperformed during the Great Recession, despite a crippled housing market, the primary source of funds for senior housing residents. A decade later, the industry persevered through a global health pandemic. Despite the uniquely adverse impacts on the senior housing sector, the industry rapidly returned to pre-COVID penetration rates soon after the introduction of effective vaccines and the lifting of admissions bans. The performance of senior housing through adversity underscores the inelasticity of demand and highlights the extent to which the coming aging wave will continue to drive the fundamentals of senior housing growth.





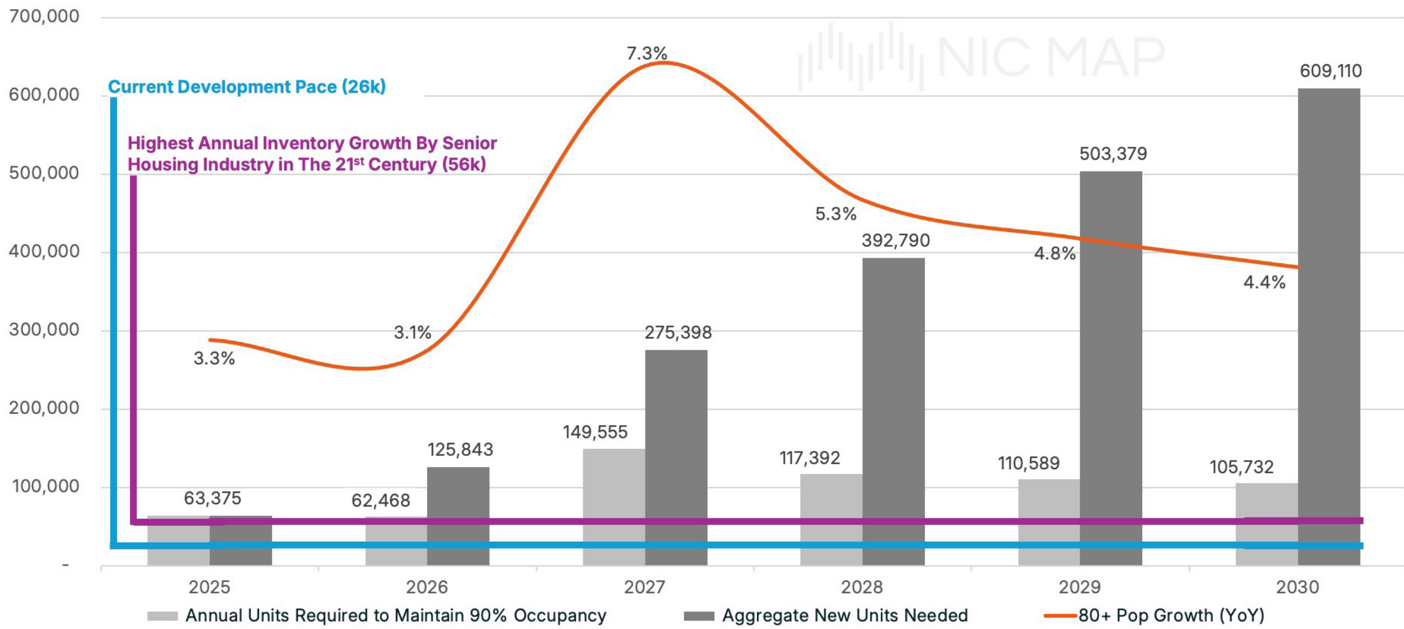


"Indeed, during the Great Recession, returns for seniors housing, as measured by NCREIF, were less volatile and suffered an outright decline of 6.7 percent over the course of only two quarters versus returns on apartments, which declined 24 percent over the course of seven quarters." -- **Beth Burnham Mace, "Seniors Housing Stacks Up", CIRE Magazine.**

"80+ Occupied Unit Penetration Rate" is Occupied Senior Housing Units / 80+ Population in NIC MAP Primary & Secondary Markets.
Source: NIC MAP® Data, powered by NIC MAP®; Census Bureau; NIC, NCREIF.

May Need Historic Near-Term Inventory Growth to Keep Pace with Demand

Must Develop at Nearly 2x the Maximum Pace and More Than 3.5x Current Pace For 90% Occupancy in 2030

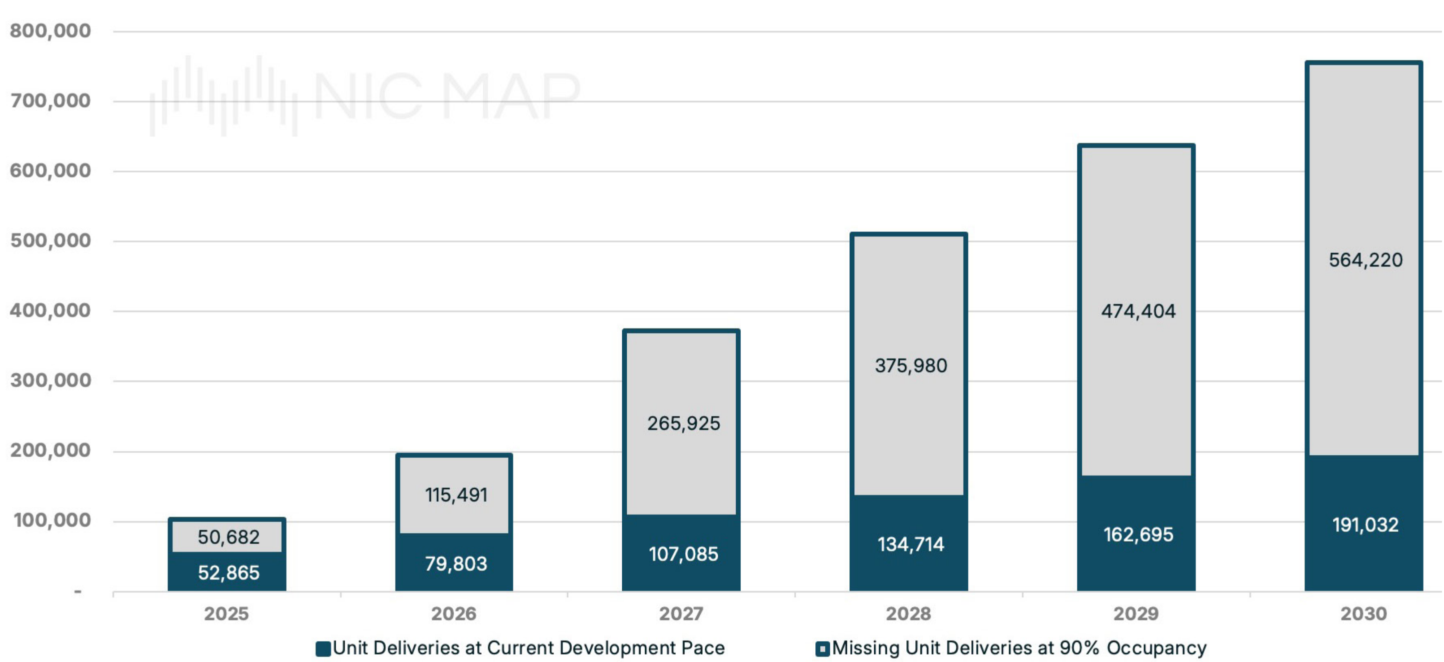


Source: NIC MAP® Data, powered by NIC MAP®; Census Bureau.

The aging wave will begin to break in earnest in the back half of the 2020s. To keep pace, the industry will need historic near-term inventory growth. However, inventory growth is currently at near record lows. In fact, at current penetration rates, the industry will need to develop at nearly double its historical maximum development pace just to maintain 90% occupancy by 2030. At the current development pace, a significant supply gap will emerge by the end of the decade.

Senior Housing Development Falling Behind 80+ Growth

Senior Housing Industry's Current Development Pace Could Yield ~$275B Gap by 2030



Current Development Pace vs. Units Required for 90% Occupancy (Based on Current Penetration Rate)

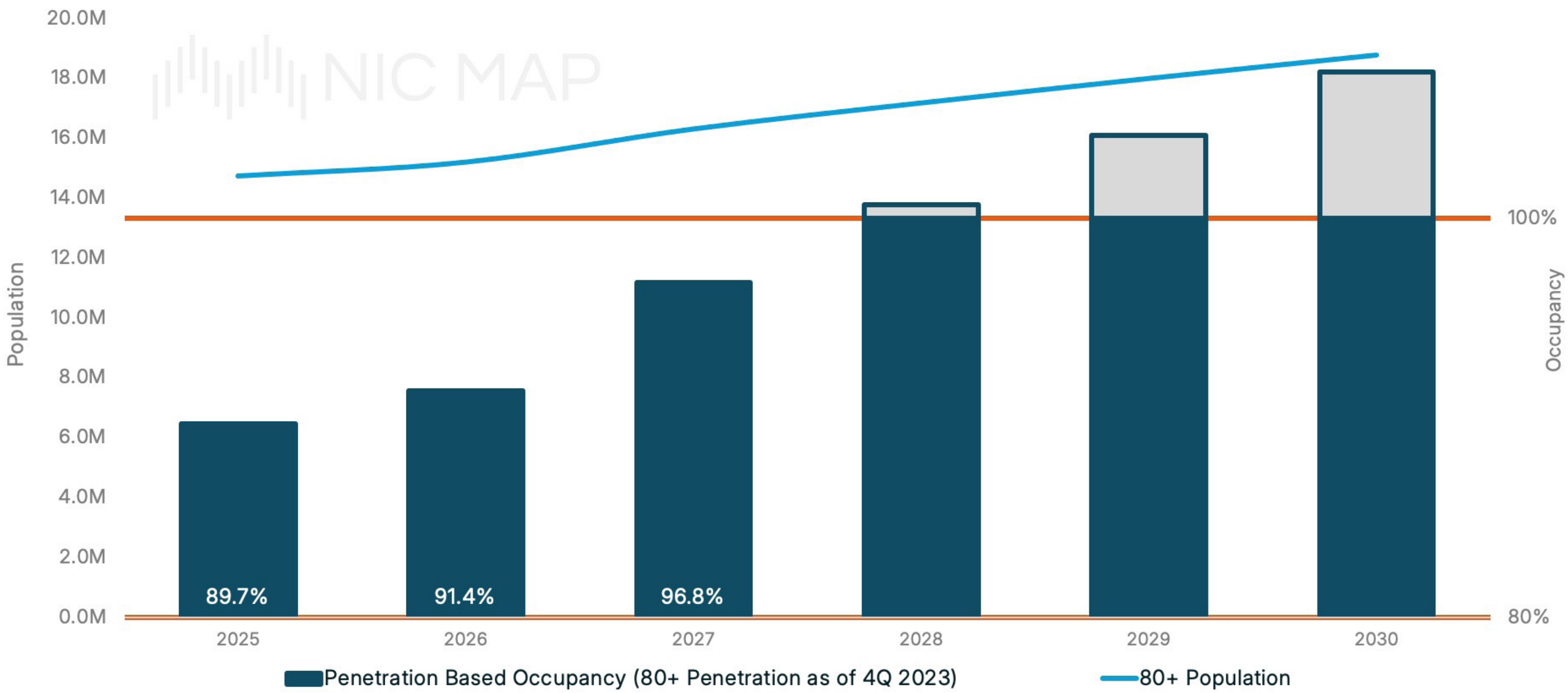
Source: NIC MAP® Data, powered by NIC MAP®; Census Bureau.

At current penetration rates, projections suggest that the industry could return to 90% occupancy as soon as 2026, and occupancy will continue to expand after that. In fact, without further investments in development, the current development pace will result in a $275 billion supply gap by 2030.

Surging demand and suppressed supply growth are creating favorable conditions for both acquisition and new development.

Industry Could Return to Stabilized Occupancy (90%+) by 2026

Under Capacity in 2028, Based on 80+ Penetration Occupancy and Today's Development Rate

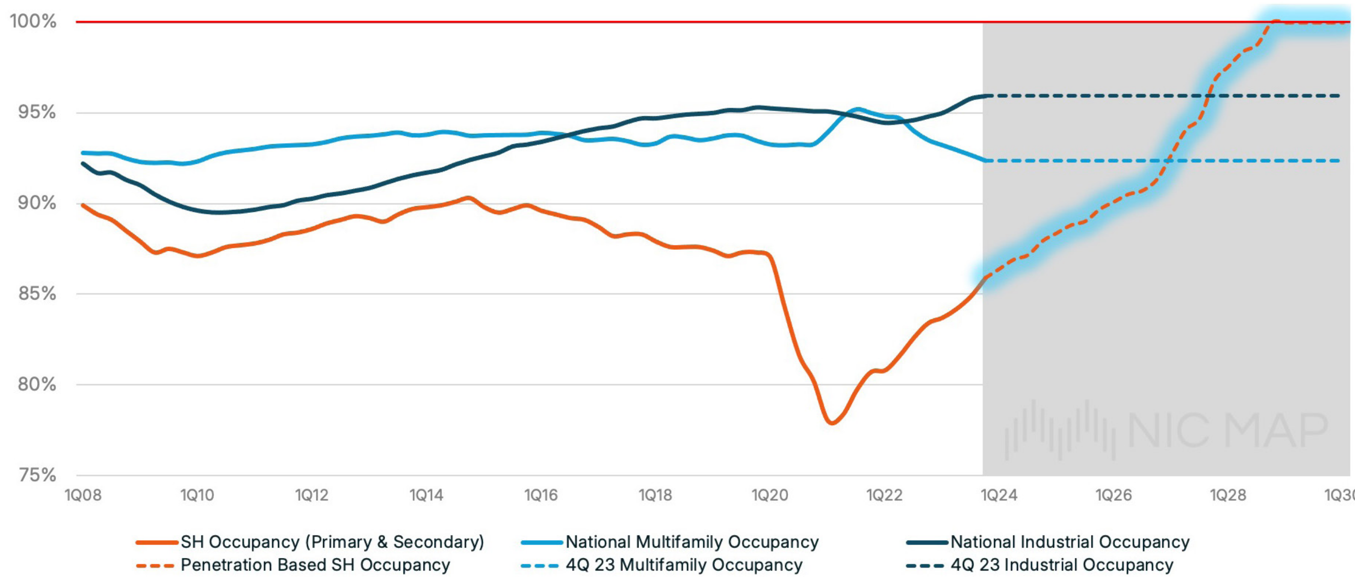


Source: NIC MAP® Data, powered by NIC MAP®; Census Bureau.

Can Senior Housing Occupancy Catch Multifamily and Industrial?

Based on 4Q2023 80+ Growth, Occupied Penetration, and Development, the Answer May Be Yes

Senior housing occupancy could potentially match that of multifamily and industrial sectors.
Based on the combination of the current penetration rate, projected 80+ population growth, and current development rates, projections show tremendous upside for senior housing occupancy. For this reason, senior housing routinely ranks as an asset class with top-tier return prospects across the commercial real estate vertical.

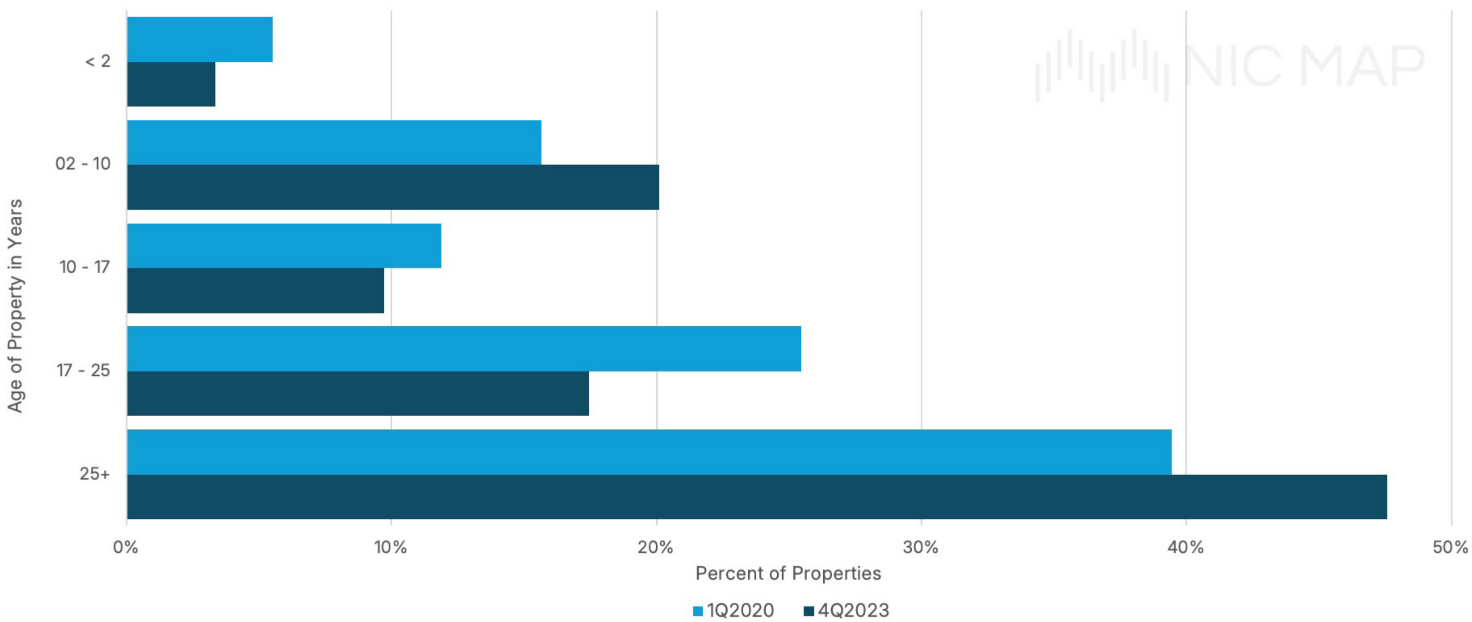


Source: NIC MAP® Data, powered by NIC MAP®; Census Bureau, Apartments.com, NAREIT.

Rapidly Aging Existing Stock Will Drive Incremental Inventory Needs

Functional Obsolesce Will Reduce the Effective Existing Inventory in the Coming Years

Nearly half of current senior housing stock opened before the year 2000. In the nearly twenty-five years since, senior housing customer preferences, profiles, and operating costs have changed substantially. Consequently, the rapidly aging existing stock will drive functional obsolescence and reduce effective inventory, further increasing demand for new supply. This will put even more pressure on the industry to expand to meet the demands of a rapidly aging population.

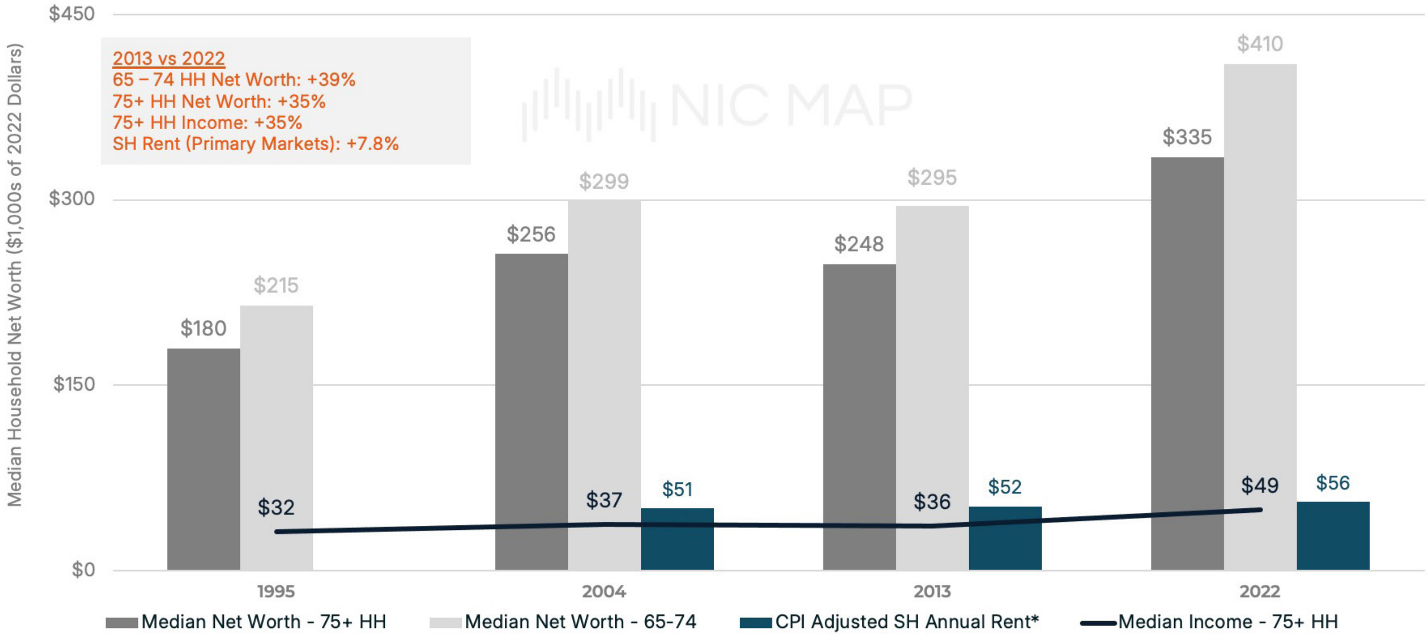


Senior Housing Distribution by Age of Units | All Markets | 1Q2020 and 4Q2023

Source: NIC MAP® Data, powered by NIC MAP®.

What Could Drive Penetration Rate Expansion?

Growing Customer Base Is Materially Wealthier than Generations Before



*SH Annual Rent based on Primary and Secondary Markets, except for 2004, which is based on Q1 2005 Primary Markets.

Source: Growing Wealth of Older Americans (Survey of Consumer Finances); NIC MAP® Data, powered by NIC MAP®.

75+

Affordability is a key question governing the senior housing industry's ability to effectively meet the needs of a rapidly aging population. Fortunately, a look at the overall financial health of 65+ and 75+ households suggests that affordability will increase, rather than decrease, in the coming years.

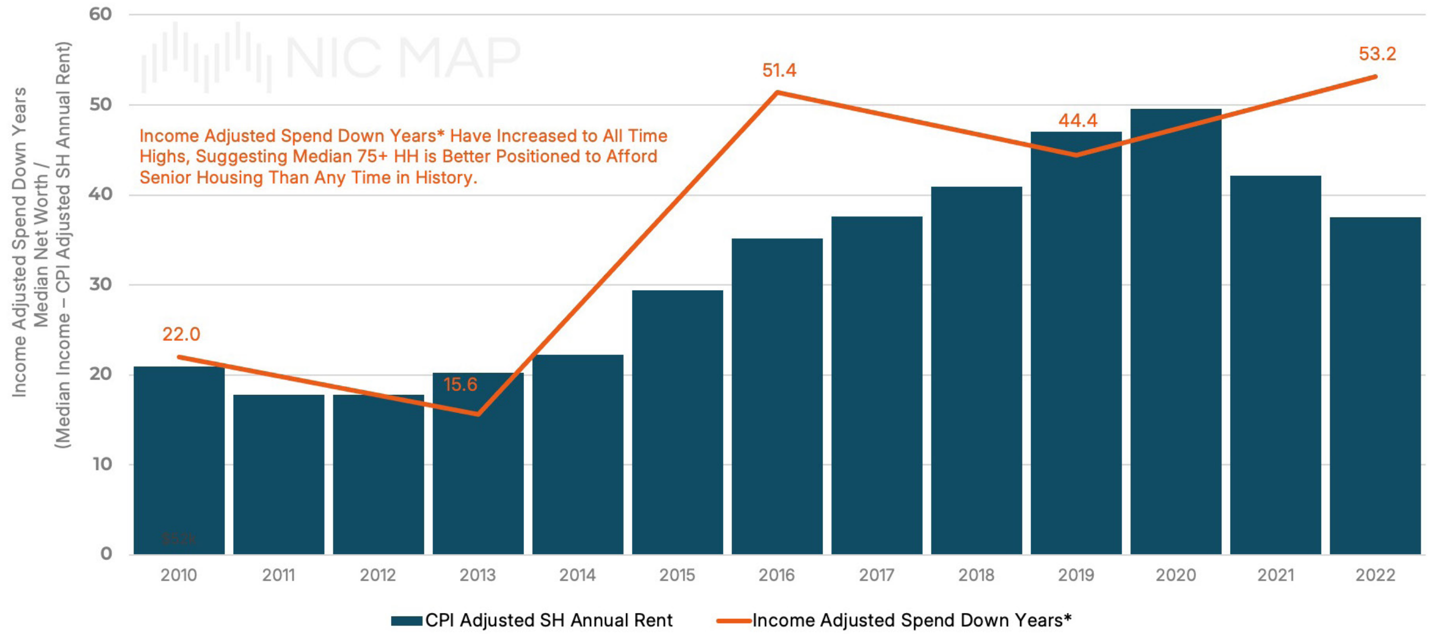
Median senior household net worth and income have increased at rates far greater than senior housing rents over the past decade, suggesting that affordability is expanding. This could further increase penetration rates.

Affordability at All Time High?

Ratio Between Median Senior Household Purchasing Power and Senior Housing Rents Increasing

Residents typically pay for senior housing by first using monthly income, such as Social Security or pensions, and then cover any shortfall by spending down their net worth – often from the sale of their former home. Thus, a useful indicator of affordability is to look at the number of years of senior housing that net worth can afford after subtracting monthly income from the monthly senior housing rent.

Using that measure, the ratio between household purchasing power and senior housing rents is at an all-time high. The delta between these two factors further suggests that the next generation will enjoy greater affordability than the preceding generations, which could expand penetration rates.

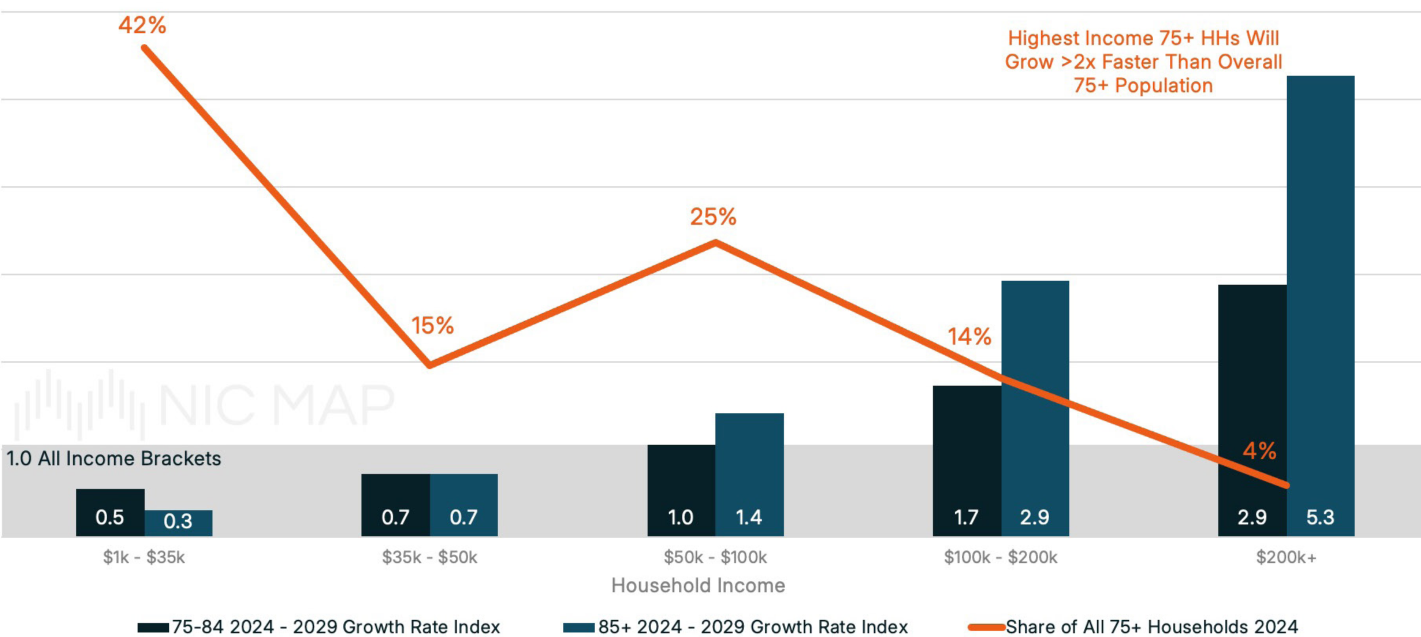


*Income Adjusted Spend Down Years = Median Net Worth / (Median Income – CPI Adjusted SH Annual Rent). Directional Indicator of Years *Net* Worth Can Fund The Difference Between SH Rent & HH Income.

Source: Claritas; NIC MAP® Data, powered by NIC MAP®. Rents based on Primary and Secondary Market Aggregate, CPI-U via FRED.

The Wealthiest Cohorts of 75+ Households Are Set to Grow the Fastest

Private Pay SH's Typical Resident Cohorts ($35k+ and $50k+) Growing at 1.4x and 1.6× 75+ Growth Rate



Source: Claritas; NIC MAP® Data, powered by NIC MAP®.

75+

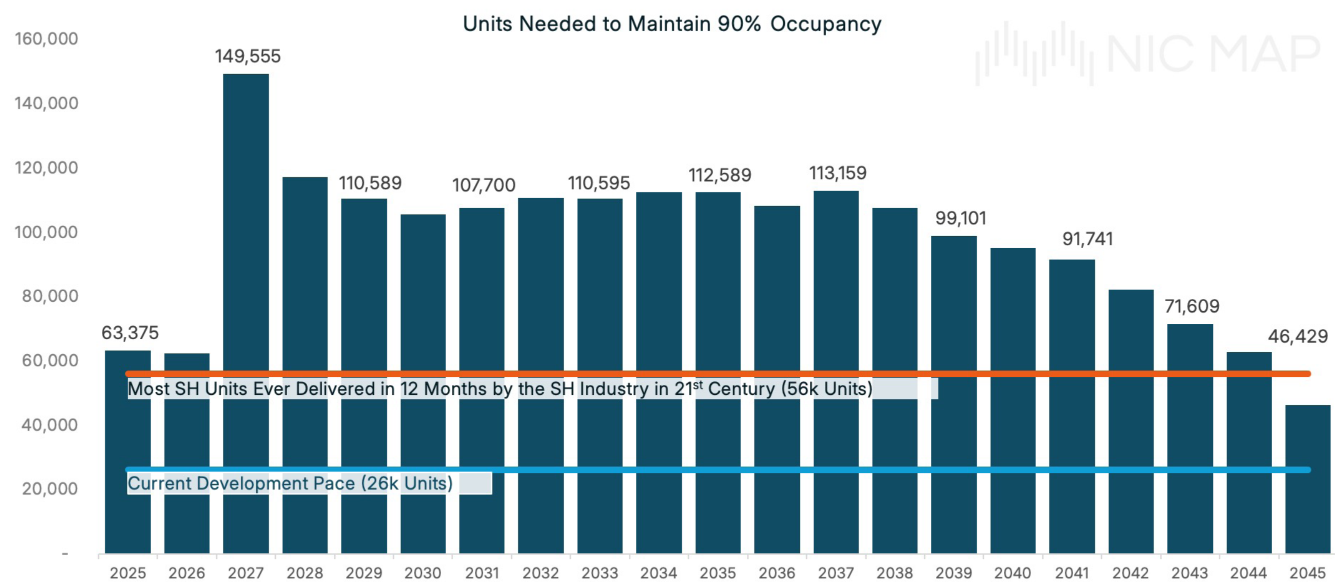
In addition, the wealthiest cohorts of 75+ households are projected to grow significantly faster than the overall 75+ population. The private pay senior housing industry typically defines prospective residents as having incomes above $35k or $50k per year. We see that 75+ cohorts with incomes of $35k+ and $50k+ are growing at 1.4x and 1.6x the rate of the overall 75+ population, respectively. The rapid growth of high-income households supports the further expansion of the private pay senior housing market.

An Awe-Inspiring Challenge Faces the Senior Housing Industry

Industry May Need to Deliver 1.9x More Units Per Year Than Historical Maximum for Next 20 Years

The aging wave presents the senior housing industry with a challenge of historic proportions: develop at an unprecedented pace to meet unprecedented demand. To grow supply to levels needed to maintain 90% occupancy at current penetration rates, the industry needs to develop at nearly twice its maximum historical development pace each year for the next two decades.

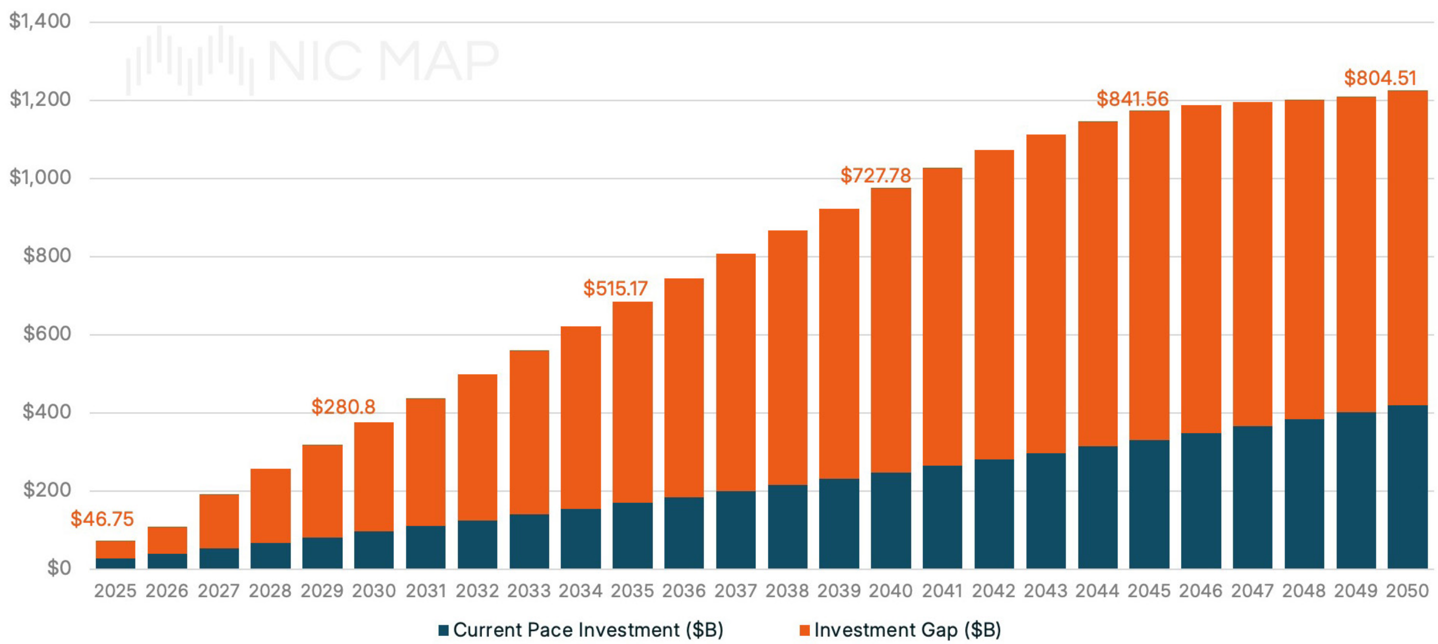
The challenge is made more pronounced by the currently depressed pace of development, which is at roughly one quarter of the pace needed just to maintain current penetration rates. Addressing this issue requires historic investment across all segments of the industry and create unique and unprecedented investment opportunities.



Source: NIC MAP® Data, powered by NIC MAP®; Census Bureau.

Huge Investment Gap in New Inventory to Maintain 90% Occupancy

Cumulative Development Cost at $500k/Unit at More Than $1 Trillion by 2041



Source: NIC MAP® Data, powered by NIC MAP®; Census Bureau.

>$1T

At current 80+ penetration rates, the senior housing industry needs to develop more than $1 trillion in new inventory by the early 2040s. The current development pace is on track to yield a supply gap of approximately $800 billion. The significant investment gap in new inventory highlights the pressing need for an all-of-industry effort to meet the future housing needs of the aging population. Meeting this investment gap requires a substantial increase in the capital allocated to the sector and creates a generational investment opportunity along the way.

Looming Demand Tsunami

- Meeting the rapidly expanding housing needs of the aging population presents a clarion call for investors and industry stakeholders alike.
- The breaking age wave will trigger unprecedented demand for senior housing in the near-, medium-, and long-term.
- Current supply growth is at historic lows, creating conditions for an emerging shortage in senior housing units.

To keep pace with demographic trends, the industry needs to develop new supply at a rate that far exceeds previous historical maximums. In the short term, occupancy rates are likely to grow significantly as the industry catches up with the tsunami of demand.

Addressing this urgent need for senior housing fulfills a critical societal need while creating a generational investment opportunity.

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