H2 2020

U.S. Seniors Housing & Care Investor Survey

Photograph courtesy of:
Carolina Bay, BCT Architects (design architect)
and LS3P Associates (architect of record)

Wilmington, North Carolina

Executive Summary

- The H2 2020 survey revealed that seniors housing capitalization rates showed overall increases from H1 2020 levels, whereas previous surveys reflected cap rate compression from H1 2019 to H1 2020.

- An increased spread in Class A versus Class B cap rates, also indicated by a reduced delta between Class B and Class C rates, illustrates an investor flight to quality throughout the pandemic.

- Assisted living once again claimed the top spot for investor interest (33%), followed by independent living (22%) and active adult (15%).

- Year-to-date total investment was down 48%.

- More than two-thirds (70%) of respondents expect occupancy to increase over the next year, compared with 53% in the previous survey (H1 2020).
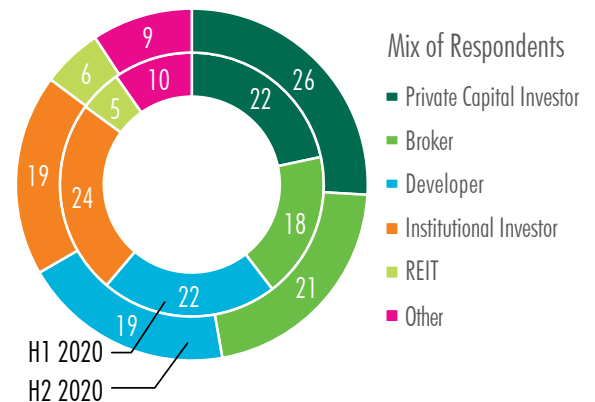
U.S. Seniors Housing & Care Investor Survey

The H2 2020 CBRE Seniors Housing & Care Investor Survey's objective is to identify new trends in the seniors housing & care industry and to provide key insights on the state of the market. The data is based on market sentiment as collected from the most influential seniors housing investors, developers, lenders and brokers throughout the United States.

This survey is the ninth consecutive report in a long legacy of consistent reporting methodology, providing pertinent and actionable market intelligence.

The prior survey (H1 2020) closed at the end of February 2020 and, as such, survey respondents had only a limited perception of the potential adverse impact of the pandemic. The H1 2020 survey resulted in a pre-pandemic industry benchmark, and we have juxtaposed these prior results with this survey (H2 2020) to quantify the impact of COVID-19 on the seniors housing market to date.

Through the COVID-19 pandemic, the industry has grappled with quantifying the effect on the seniors housing market. This survey asked additional questions to gain insight into operators' current and expectant underwriting assumptions.

Figure 1: Survey Respondent Categories (%)

Mix of Respondents
- Private Capital Investor
- Broker
- Developer
- Institutional Investor
- REIT
- Other

Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

Investor Survey Results

The H2 2020 survey revealed that seniors housing capitalization rates showed overall increases from H1 2020 levels. Previous surveys had revealed rate compression between the H1 2019 and H1 2020 survey periods.

Active adult capitalization rates had the largest increase—an average +80 basis points (bps)—over the prior period. While active adult rates were 118 bps below independent living in H1 2020, the spread narrowed to 43 bps for H2 2020. As the market works to categorize the active adult segment, indications in this survey show a departure from the consideration of active adult being a pseudo multifamily product, to a clear seniors housing classification.

Capitalization rates also increased for assisted living and memory care—an average of about 35 bps. Outside of assisted living core, Class B and Class C, the remaining rates for these care levels show a tight range in indicated increases of between 26 and 40 bps.

Capitalization rate changes for skilled nursing ranged from -24 bps to +34 bps. However, on an overall basis, the cap rate indication held steady. Non-core, Class A and B skilled product accounted for the most significant compression (-24 and -22 bps), while the core, Class C segment exhibited the highest increase (34 bps).

Overall, capitalization rates for H2 2020 resulted in an increase of 31 bps from H1 2020 levels. Excluding active adult, a product that is finding its place in the market, the remaining seniors housing & care rates had an average increase of 22 bps from the prior survey, or over pre-pandemic levels.

Figure 2: Seniors Housing & Care Investor Survey Results - 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	4.0	8.0	5.2	84	4.0	9.0	6.2	94	5.0	10.0	7.2	88
	Independent Living	4.0	8.0	5.6	8	5.0	9.0	6.5	28	5.0	10.0	7.5	21
	Assisted Living	4.0	9.0	6.3	38	5.0	10.0	7.3	65	6.0	11.0	8.4	15
	Memory Care	5.0	10.0	7.2	36	5.0	10.0	8.0	40	6.0	11.0	8.9	32
	Skilled Nursing	9.0	14.0	11.2	8	9.0	14.0	11.9	-8	11.0	16.0	13.7	34
	CCRC/LPC	5.0	10.0	7.2	7	6.0	11.0	8.3	32	7.0	12.0	9.3	19
Non-Core	Active Adult	4.0	8.0	5.8	83	5.0	9.0	6.7	75	5.0	10.0	7.5	55
	Independent Living	5.0	9.0	6.3	-11	5.0	10.0	7.2	18	6.0	11.0	8.1	-1
	Assisted Living	5.0	10.0	6.9	26	5.0	10.0	7.6	39	6.0	11.0	8.6	27
	Memory Care	5.0	10.0	7.5	28	5.0	10.0	8.1	38	6.0	11.0	9.1	38
	Skilled Nursing	9.0	14.0	11.5	-24	9.0	16.0	12.2	-22	11.0	16.0	13.7	9
	CCRC/LPC	6.0	11.0	8.0	37	6.0	11.0	8.7	51	7.0	12.0	9.6	23
	Average Change per Class				27				38				30
	Average Change per Class (excluding Active Adult)				15				28				32

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

In the early months of the pandemic, the availability of capital slowed to a near standstill. However, in recent months, both debt and equity have started to flow again, particularly for buyers and borrowers with pre-existing relationships and proven track records.

The increased spread in the Class A versus Class B rates, also indicated by the reduced delta between Class B and Class C rates, illustrates an investor flight to quality throughout the pandemic.

Capitalization rates for Class A assets had an overall increase of 27 bps. However, when excluding active adult, the rates for Class A assets had the lowest

increase of 15 bps, compared to Class B and Class C increases of 28 and 22 bps respectively.

Consistent with the most recent survey periods, independent living had the widest cap rate differential between core and non-core assets at 68 bps.

Excluding independent living and continuing care retirement / life plan communities (CCRC/LPCs), the other segments showed compression in the spread between core and non-core locations, signifying investor demand expanded geographic boundaries in search of yield. Overall, capitalization rates for core markets averaged 41 bps below that for non-core markets.

Figure 3: Seniors Housing & Care Investor Survey Results - Capitalization Rate Spreads

INVESTMENT CLASS SPREADS (bps)							
		A-B	Change	B-C	Change	A-C	Change
Core	Active Adult	93	10	99	-6	193	3
	Independent Living	98	19	100	-7	198	13
	Assisted Living	100	27	111	-51	211	-23
	Memory Care	74	4	95	-8	170	-3
	Skilled Nursing	79	-16	172	42	251	26
	CCRC/LPC	108	25	103	-12	211	12

LOCATION SPREADS (CORE VS. NON-CORE) (bps)							
		A	Change	B	Change	C	Change
Core	Active Adult	57	-1	52	-19	34	-33
	Independent Living	76	-19	69	-9	60	-22
	Assisted Living	62	-12	34	-26	24	12
	Memory Care	30	-8	17	-2	17	6
	Skilled Nursing	36	-32	26	-15	7	-25
	CCRC/LPC	80	30	42	19	23	4

		A-B	Change	B-C	Change	A-C	Change
Non-Core	Active Adult	88	-7	81	-20	169	-28
	Independent Living	92	29	90	-19	182	10
	Assisted Living	71	13	101	-12	172	1
	Memory Care	61	10	96	0	157	10
	Skilled Nursing	70	1	153	32	223	33
	CCRC/LPC	69	14	84	-28	154	-14

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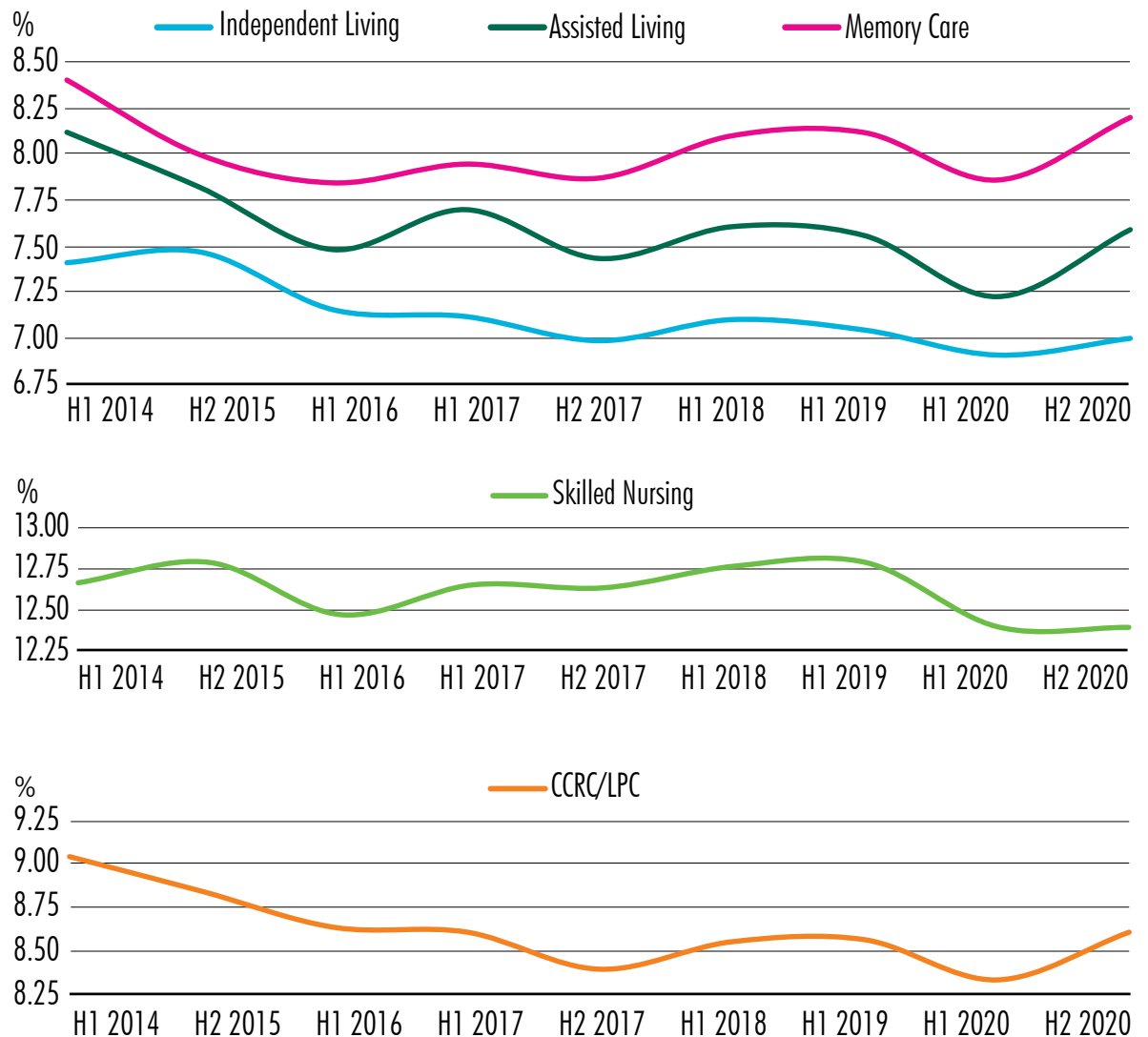Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

Historical Capitalization Rate Trends

CBRE has published the Seniors Housing & Care Investor Survey since the beginning of 2014 and included the following capitalization rate trends as consolidated from the historical trends for each care level.

Historical data from the survey indicates overall compression in capitalization rates. However, the

COVID-19 pandemic has reversed this trend, with rates for nearly all care levels increasing. Skilled nursing is the only care level that maintained flat capitalization rates through this period.

Figure 4: Seniors Housing & Care Investor Survey Results - Historical Capitalization Rate Trends

Note: Time periods represent when surveys were done.
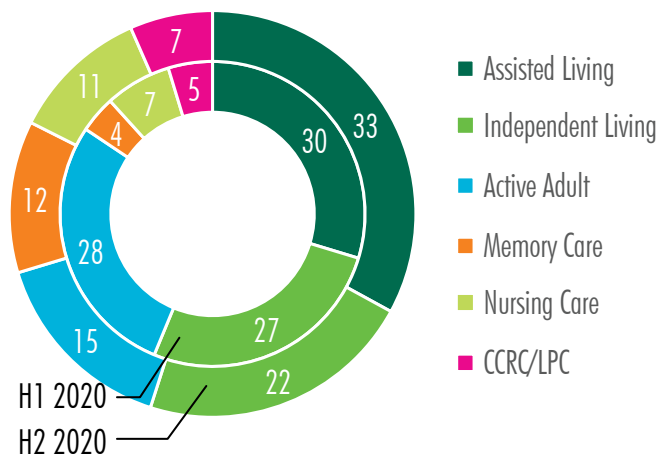Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

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.

Assisted living once again claimed the top spot for investor interest (33%). While in recent years active adult communities had led this segment, investor interest declined in the most recent periods. Active adult fell to third place following independent living (22%). Investor interest in memory care re-emerged in the H2 2020 survey and tripled since the prior survey.

Figure 5: Biggest Opportunity for Investment (%)

- Assisted Living
- Independent Living
- Active Adult
- Memory Care
- Nursing Care
- CCRC/LPC

H1 2020
H2 2020

Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.
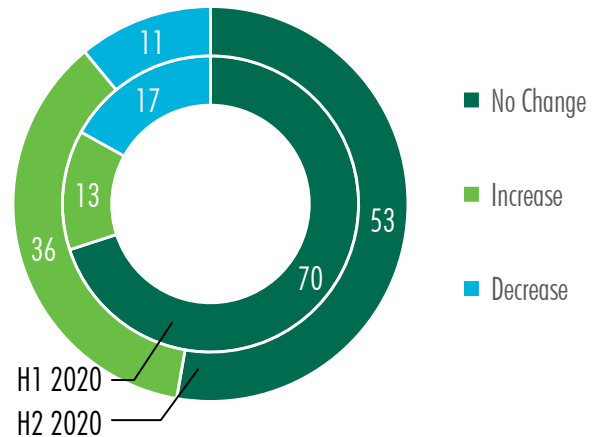

Photograph courtesy of:
Arbor Terrace, BCT Architects and Faulkner Design Group (interior design)
Fulton, Maryland

Respondents were asked about their 12-month outlook for seniors housing capitalization rates.

The outlook has shifted immensely from the last survey. The portion of respondents expecting an increase in capitalization rates rose to 36%, up from 13% in the prior survey—a result, in part, of the anticipated impact of COVID-19 on the seniors housing & care market. While somewhat lower than in the prior survey, over half (53%) of respondents expect no change in capitalization rates in the near term.

Figure 6: 12-Month Cap Rate Outlook (%)

■ No Change
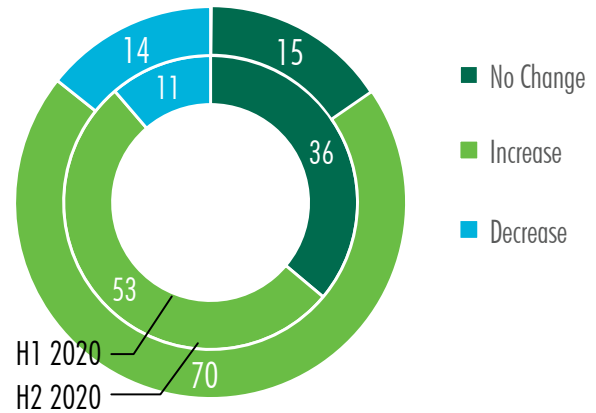■ Increase
■ Decrease

11
17
13
36
53
70
H1 2020
H2 2020

Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

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

Over two-thirds (70%) of respondents expect occupancy to increase over the next year, compared to 53% in the prior survey. The response reflects the troubled COVID-19 period as well as guarded optimism going forward.

Figure 7: 12-Month Census Level Outlook (%)

■ No Change
■ Increase
■ Decrease

14
11
15
36
53
70
H1 2020
H2 2020

Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

Photograph courtesy of:
Arbor Terrace, BCT Architects and
Faulkner Design Group (interior design)
Fulton, Maryland

Census Recovery and Rate Underwriting

As the COVID-19 pandemic has directly impacted seniors housing & care communities across the U.S., respondents were asked to provide insight into their expected changes in seniors housing residential rental rates, occupancy levels, and rates of absorption during the next 12 months.

Figure 8: Seniors Housing & Care Investor Survey Results - Regaining Stabilization (% of Respondents)

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

Response	Active Adult	Independent Living	Assisted Living	Memory Care	Skilled Nursing	CCRC/LP
0-6 Months	16.0	7.4	12.8	16.0	16.0	6.4
6-12 Months	39.4	38.3	28.7	28.7	25.5	25.5
12-18 Months	23.4	35.1	35.1	29.8	22.3	37.2
18-24 Months	12.8	11.7	14.9	18.1	21.3	20.2
24+ Months	8.5	7.4	8.5	7.4	14.9	10.6
Primary Indications						
6-18 Months	62.8	73.4	63.8	58.5	47.9	62.8
6-24 Months	-	-	78.7	76.6	69.1	83.0

Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

Figure 9: Seniors Housing & Care Investor Survey Results - Absorption Rate Assumptions (% of Respondents)

For communities that lost census during the COVID pandemic, to achieve pre-COVID stabilization, what absorption rate are you underwriting?

Response (Units/Month)	Active Adult	Independent Living	Assisted Living	Memory Care	Skilled Nursing	CCRC/LP
None/Stable	14.1	7.6	2.2	4.3	17.4	12.0
1 - 3	40.2	54.3	59.8	58.7	42.4	45.7
3 - 6	32.6	26.1	29.3	27.2	22.8	27.2
6 - 9	7.6	7.6	2.2	3.3	8.7	7.6
9+	5.4	4.3	6.5	6.5	8.7	7.6
Primary Indications						
1 - 6	72.8	80.4	89.1	85.9	65.2	72.8

Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

Figure 10: Seniors Housing & Care Investor Survey Results - Rent Underwriting (% of Respondents)

How are you underwriting rental rate trends during the next 12 months?

Response	Active Adult	Independent Living	Assisted Living	Memory Care	Skilled Nursing	CCRC/LP
Increase 7%+	1.1	1.1	1.1	1.1	1.1	1.1
Increase 3-7%	4.3	3.3	7.6	8.7	2.2	1.1
Increase 1-3%	37.0	41.3	43.5	42.4	20.7	30.4
Flat	48.9	44.6	34.8	35.9	63.0	54.3
Decrease 1-3%	7.6	8.7	10.9	6.5	6.5	10.9
Decrease 3%+	1.1	1.1	2.2	5.4	6.5	2.2
Primary Indications						
Flat & Increase 1-3%	85.9	85.9	78.3	78.3	83.7	84.8

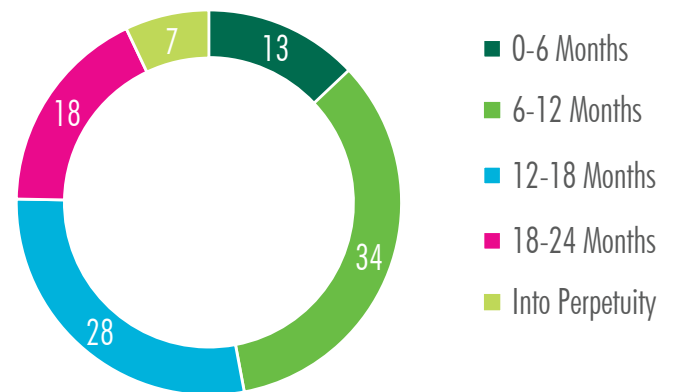Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

Operational Expenses

Throughout the COVID-19 pandemic, operators have reported elevated expenses mostly comprised of increased payroll as well as sanitation and PPE. Respondents were asked about elevated expenses since the onset of the pandemic. Over 72% of them reported the net monthly operating expense increase has ranged from between flat ($0) and $250 per unit.

Some operators reported that pandemic-related elevated operating expenses have begun to abate. Looking ahead, the survey asked how long operators are underwriting current elevated operating expenses. As summarized in Figure 11, 62% of the respondents reported underwriting practices that incorporate elevated, COVID-19 related operating expenses for the coming six to 18 months.

Figure 11: Length of Elevated Operating Expense Underwriting

- 0-6 Months — 13
- 6-12 Months — 34
- 12-18 Months — 28
- 18-24 Months — 18
- Into Perpetuity — 7

Source: CBRE Seniors Housing & Care Investor Survey, H2 2020.

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Investment Activity & Market Perspectives

- Investment in seniors housing & care assets totaled $6.5 billion year-to-date through Q3 2020, based on statistics from Real Capital Analytics. More than half of the acquisitions occurred in Q1; during the COVID-19 period, seniors housing investment declined considerably.

- The year-to-date total was down 50.2% from the prior year. The Q2 and Q3 total of $2.9 billion was down 67.2% from the prior year.

- The COVID-19 induced recession led to a significant investment decline in all commercial real estate sectors. Commercial real estate acquisitions in Q2 and Q3 totaled $118.4 billion, down 60.8% from the prior year.

- The Q3 average price per unit for seniors housing acquisitions was $116,200, up 3.5% year-over-year, a gain that likely reflects a shift to higher quality assets rather than asset appreciation.

- Private investors represented 56.9% of year-to-date investment volume, up substantially from full-year 2019's 46.8%. Institutional capital represented 26.7% of investment volume in 2019 but only 19.1% year-to-date 2020.

- REITs' market share was essentially unchanged at 21.9%. International capital remained very small at only 1.9% of the total.

- Q3 occupancy for stabilized assets in primary and secondary markets was 84.4%, down from Q1's 89.5% according to National Investment Center for Seniors Housing & Care, Inc.

- Independent living had the smallest decline— from 91.3% to 86.8%.

- The seniors housing & care sector had 52,500 units under construction in Q3. This total was down 21.5% from the prior year and represented the sixth consecutive quarter for decline. Construction starts have been falling as well. For the year ending in Q3, starts totaled 19,100 units.

- The U.S. economy remains weak but is recovering from the mid-2020 recession and the initial 22 million employment decline between February and April. The U.S. has gained back half of the jobs lost and should continue its recovery, albeit slowly, through 2021.

- Even with the recession and still challenged economy, the housing market has held up well, thanks largely to the low mortgage rates (2.81% for a 30-year fixed-rate mortgage in mid-October according to Freddie Mac). The active buying arena combined with rising home prices is helpful for future seniors housing demand.

- National existing home sales in September were at a seasonally-adjusted annual rate of 6.5 million, up 20.9% from a year ago according to the National Association of Realtors. September median sales price was $311,800, up 14.8% year-over-year.

- Demographic trends are generally positive for the seniors housing sector. Baby boomers are nearing traditional ages for seniors housing. The oldest are now turning 74, and 9,000 baby boomers are turning 70 years old every day based on Census estimates.

- The seniors housing sector will continue to face challenges over the near term. However, the sector has turned the corner from 2020's significant challenges. Full recovery will take time as the survey respondents indicated.

Appendix

Investment Class Classifications

Since 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 its 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, a payer mix that 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 areas, and typically feature a more "institutional" design with resident units located on long, narrow wings or hallways.

For nursing care properties, a primarily Medicaid payer mix, 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 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 CON regulations and a moratorium on additional CON licensed beds. Also 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 typically 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. Also includes facilities located in states where reimbursement for Medicaid is low, or with budgetary restraints.

On behalf of CBRE Valuation & Advisory Services and Americas Research, we would like to express our sincere gratitude to all our clients and colleagues who participated in this survey.

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