SENIOR HOUSING INVESTMENT

S U R V E Y

VOLUME 28 | **SENIOR LIVING VALUATION SERVICES, INC.** | **FALL 2022**

The *Senior Housing Investment Survey* provides information concerning the investment criteria currently used or perceived to be used in the evaluation of senior housing properties. Survey participants included owners/operators, financial institutions/investors, brokers/mortgage bankers, appraisers and consultants.

Survey Methodology

The 28th annual *Senior Housing Investment Survey* was sent to 382 potential respondents, including those with membership in various national senior housing associations, parties responding to the survey in previous years and others involved in the senior housing industry and known to the editor. As of a November 3, 2022 cutoff date, 48 surveys or 13% of the total sent had been returned, a lower percentage compared to previous years. Of the respondents, 29% represent market principals such as owner/operators or financial institutions/investors, a similar percentage compared with previous years.

Survey Results

Survey respondents were geographically dispersed with a lower response from the East and a higher response from the Midwest. Geographic location did not appear to bias the survey results as responses were not materially different between differing portions of the country. Approximately 33% of respondents this year identified themselves as having a national perspective, a lower percentage compared to previous years. The respondents indicated differences between projected annual cash flow growth factors in revenues (5.0% average) and expenses (4.9% average) reflecting widespread current inflationary expectations. The cash flow growth factors were slightly below projections of overall inflation (5.2% average, the highest in the 28 year history of this survey).

A minority 33% of all respondents noted that capitalization rates for senior housing properties in general are not expected to significantly change over the next 12 months. 62% of respondents are expecting a cap rate increase (well above the 32% of the previous year) and a small 8% are expecting cap rates to decrease (well below the 20% from the previous year). It appears that recent inflation and interest rate spikes have turned respondents bearish.

This year's survey asked respondents their opinions of the impacts of the fading Covid-19 pandemic on senior housing capitalization rates in general. The results indicate that a very large majority of respondents do not believe in 2022 that Covid-19 has materially impacted senior housing cap rates.

The specific overall capitalization rates, discount rates (internal rate of return) and equity dividend rates (cash on cash return) used or perceived to be used by respondents are presented on the following pages. The range and average of all responses and the range and average of all responses less the 5% highest and 5% lowest responses are shown.

The rate averages range from the lowest for age restricted apartments to the highest for licensed subacute skilled nursing facilities. These results are not surprising given the higher degree of management specialization, smaller profit margins and higher degree of licensing as one moves up the continuum of senior housing from age restricted apartments to unlicensed congregate facilities to licensed assisted living and memory care to licensed long term and subacute skilled nursing facilities. Rates for continuing care retirement or lifeplan communities which are typically combinations of each of the categories of senior projects, fell near the average of the rate range of the other categories of senior housing types.

SENIOR LIVING VALUATION SERVICES, INC.
2022 SENIOR HOUSING INVESTMENT SURVEY

Indicate the classification that best describes your company or profession (% of total responses):

17%	Owner/Operator	38%	Appraiser
12%	Financial Institution/Investor	12%	Consultant/Other
21%	Broker/Mortgage Banker		

Indicate the region with which you are involved with/knowledgeable of (% of total responses):

0%	East	22%	West
17%	South	33%	National
28%	Midwest		

What annual growth factors are you using (or perceived to be used by others) for cash flow projections of senior housing properties in general:

Range	Average	
3%-8%	5.0%	Revenues
3%-10%	4.9%	Expenses
3%-8%	5.2%	General Inflation

What are your expectations of overall capitalization rate changes for senior housing properties in general over the next 12 months (% of total responses):

2022		2021	2020
6%	Increase more than 100 basis points	5%	5%
56%	Increase 0 to 100 basis points	32%	47%
33%	Flat, no significant change	43%	45%
6%	Decrease 0 to 100 basis points	18%	0%
2%	Decrease more than 100 basis points	2%	3%

In your opinion, how has the current Covid-19 pandemic changed overall senior housing capitalization rates:

2022	
0%	Increased more than 100 basis points
11%	Increased 0 to 100 basis points
78%	No material change
11%	Decreased 0 to 100 basis points
0%	Decreased more than 100 basis points

Overall Capitalization Rate

	2022 All Responses		2022 Adjusted Responses (1)		Basis Point Change from 2021
	Range	Average	Range	Average	
Age Restricted Apartments	4.5%-7%	5.7%	5%-7%	5.7%	+10
Unlicensed Congregate Living	5%-8%	6.2%	5%- 7.5%	6.2%	-20
Licensed Assisted Living	6%-9%	7.6%	6%-8.7%	7.5%	+20
Licensed Memory Care	6.5%-10%	8.2%	7%-9.5%	8.0%	0
Licensed Skilled Nursing-Long Term Care	5%-20%	11.5%	9%-13.5%	11.4%	-50
Licensed Skilled Nursing-Subacute Care	9%-17.5%	11.6%	10.5%-15.0%	11.5%	-70
Continuing Care Retirement Community	5%-16%	8.3%	7%-10%	8.2%	-50

Internal Rate of Return (Discount Rate)

	2022 All Responses		2022 Adjusted Responses (1)		Basis Point Change from 2021
	Range	Average	Range	Average	
Age Restricted Apartments	4%-13%	7.5%	5%-9%	7.3%	-70
Unlicensed Congregate Living	5%-10%	8.4%	6.5%-10%	8.6%	-20
Licensed Assisted Living	5%-13%	9.3%	7%-11%	9.3%	-30
Licensed Memory Care	8%-12%	9.9%	8%-12%	9.8%	-30
Licensed Skilled Nursing-Long Term Care	9%-16.5%	13.5%	9.5%-15.5%	13.6%	-70
Licensed Skilled Nursing-Subacute Care	9%-22%	14.1%	10%-18%	14.0%	-70
Continuing Care Retirement Community	7%-12.5%	10.3%	8%-12.5%	10.5%	-30

Equity Dividend Rate (Cash on Cash Return)

	2022 All Responses		2022 Adjusted Responses (1)		Basis Point Change from 2021
	Range	Average	Range	Average	
Age Restricted Apartments	2%-13%	8.2%	4%-11%	8.8%	-50
Unlicensed Congregate Living	2%-15%	9.4%	4%-14%	10.1%	-100
Licensed Assisted Living	3%-18%	10.5%	6%-18%	11.7%	-100
Licensed Memory Care	3%-16%	11.4%	7%-15%	12.0%	-130
Licensed Skilled Nursing-Long Term Care	4%-25%	13.8%	9.5%-20%	14.4%	-180
Licensed Skilled Nursing-Subacute Care	4%-20%	14.0%	9.5%-20%	14.7%	-240
Continuing Care Retirement Community	2%-20%	12.8%	6%-20%	13.4%	-200

(1) Minus 5% Highest and 5% Lowest Responses

Highlights of the 2022 survey results include small changes in overall capitalization rates for most types of senior housing except for long term skilled nursing care, subacute nursing care and continuing care retirement communities which decreased by a material 50 to 70 basis points. Surprisingly, given the respondent expectations for relatively high inflation, discount rates are expected to decrease for all senior housing property types. Projected changes in equity dividend rates are also significantly lower than the previous year for all senior housing property types, possibly reflecting expectations of a difficult short term future for senior housing.

The difference or spread between overall cap rates and discount rates surprisingly decreased. Most appraisers rely on an industry accepted relationship between overall cap rates and discount rates that can be summarized in the following formula: overall cap rate plus annual cash flow growth rate less about 100 basis points = discount rate. This formula does not appear to be widely used or known by many (non-appraiser) senior housing industry participants. The discount rate (also known as the yield rate or the internal rate of return rate) is a difficult financial concept that is subject to varying interpretations.

Survey Relevance

2022 has seen significant inflationary and interest rate upward pressure on capitalization rates which has not yet been reflected in actual sales which are a lagging indicator. Market transaction activity and new construction has recently slowed despite strong demand and ample capital availability for new development and acquisition. Staffing concerns and wage pressures are materially impacting senior housing in 2022. Though market activity was strong in the first half of the year, the relative paucity of recent market transactions in the past few months reflect a fog of uncertainty in the short and medium term.

Nevertheless, overall long term prospects for industry recovery and strength are strong, supported by the foundational and undeniable favorable long term demographics (only 3 years to the first baby boomers turning 80 years old!) and still historically low albeit currently rising interest rates.

The results of this survey can be an asset in the evaluation of new development or acquisitions by lenders and investors. However, market illiquidity and the specialized management driven characteristics of the industry overall and on individual properties specifically, mute the impact of more traditional measures of real estate such as capitalization, discount and return on equity analysis. Other limiting factors include a lack of confidence in the uniform application and understanding of these criteria – especially for non stabilized or more complicated properties, the difficulty in quantifying general and specific property risk and illiquidity, concerns over reliable future cash flow projections and their unproven relevance for some not-for-profit owners/investors.

Other investment criteria used include the terms and availability of debt and equity financing, replacement cost comparisons, property age and size, debt coverage ratios, market share, portfolio effect, geographic concentration value surcharges and opportunities for significant cash flow gains in distressed or underutilized properties. These criteria have their own significant limitations such as the inability to objectively account for property specific risk and to comprehensively assess the impact of a potential default and resale of a property.

The Senior Housing Investment Survey is compiled and produced by Senior Living Valuation Services, Inc., a San Francisco based firm that specializes in the appraisal of all forms of senior housing. Readers are advised that Senior Living Valuation Services, Inc. does not represent the data contained herein to be definitive. The contents of this publication should also not be construed as a recommendation of policies or actions. Quotation and reproduction of this material are permitted with credit to Senior Living Valuation Services, Inc.

Inquiries, comments or requests of interested parties wanting to participate in the 29th annual 2023 survey can be directed to:

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