SENIOR HOUSING INVESTMENT

S U R V E Y

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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 27th annual *Senior Housing Investment Survey* was sent to 336 potential respondents about 20 months into the dual health care and economic shocks caused by the Covid-19 pandemic, 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 October 29, 2021 cutoff date, 61 surveys or 18% of the total sent had been returned. Of the respondents, 30% represent market principals such as owner/operators or financial institutions/investors, a higher percentage compared with previous years.

Survey Results

Survey respondents were geographically dispersed with a lower response from the East. Geographic location did not appear to bias the survey results as responses were not materially different between differing portions of the country. Approximately 48% 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 (3.3% average) and expenses (4.1% average) reflecting widespread current inflationary expectations. The cash flow growth factors bracketed projections of overall inflation (3.8% average, the highest in several years).

A plurality 43% of all respondents noted that capitalization rates for senior housing properties in general are not expected to significantly change over the next 12 months. 37% of respondents are expecting a cap rate increase (below the 52% of the previous year) and 20% are expecting cap rates to decrease (well above the 3% from the previous year).

This year's survey asked respondents their opinions of the impacts of Covid-19 on senior housing capitalization rates in general. The results were about evenly split between those saying that cap rates have not materially changed and those responding that they have increased slightly, without differentiating between the cap rate impacts of Covid-19 on different senior housing property types.

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.
2021 SENIOR HOUSING INVESTMENT SURVEY

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

22%	Owner/Operator	33%	Appraiser
8%	Financial Institution/Investor	13%	Consultant/Other
24%	Broker/Mortgage Banker		

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

0%	East	19%	West
17%	South	48%	National
17%	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	
1%-8%	3.3%	Revenues
2.5%-12%	4.1%	Expenses
2%-5.5%	3.8%	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):

2021		2020	2019
5%	Increase more than 100 basis points	5%	0%
32%	Increase 0 to 100 basis points	47%	20%
43%	Flat, no significant change	45%	73%
18%	Decrease 0 to 100 basis points	0%	7%
2%	Decrease more than 100 basis points	3%	0%

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

2021	
7%	Increased more than 100 basis points
44%	Increased 0 to 100 basis points
45%	No material change
2%	Decreased 0 to 100 basis points
2%	Decreased more than 100 basis points

Overall Capitalization Rate

	2021 All Responses		2021 Adjusted Responses (1)		Basis Point Change from 2020
	Range	Average	Range	Average	
Age Restricted Apartments	4%-9%	5.7%	4.5%-7%	5.6%	-30
Unlicensed Congregate Living	5%-8%	6.4%	5.5%- 7.4%	6.4%	-20
Licensed Assisted Living	5%-11%	7.3%	6%-8.7%	7.3%	-20
Licensed Memory Care	5.5%-9.5%	7.9%	6.5%-9%	8.0%	-40
Licensed Skilled Nursing-Long Term Care	8%-14%	11.8%	10%-13%	11.9%	-40
Licensed Skilled Nursing-Subacute Care	7%-14%	12.1%	10%-13.5%	12.2%	-10
Continuing Care Retirement Community	6%-13%	8.8%	6.5%-12%	8.7%	-30

Internal Rate of Return (Discount Rate)

	2021 All Responses		2021 Adjusted Responses (1)		Basis Point Change from 2020
	Range	Average	Range	Average	
Age Restricted Apartments	6%-10%	8.0%	6.5%-9.2%	8.0%	-40
Unlicensed Congregate Living	7.3%-11%	8.8%	8%-10%	8.8%	0
Licensed Assisted Living	7.5%-13%	9.6%	8.3%-10.5%	9.6%	-40
Licensed Memory Care	8.4%-19%	10.7%	8.5%-12%	10.1%	0
Licensed Skilled Nursing-Long Term Care	9.5%-20%	14.3%	13%-16%	14.3%	-70
Licensed Skilled Nursing-Subacute Care	9%-20%	14.5%	13.5%-16.5%	14.7%	-30
Continuing Care Retirement Community	7.3%-15%	10.9%	9%-13%	10.8%	-30

Equity Dividend Rate (Cash on Cash Return)

	2021 All Responses		2021 Adjusted Responses (1)		Basis Point Change from 2020
	Range	Average	Range	Average	
Age Restricted Apartments	4.5%-11%	9.2%	8%-10%	9.3%	-120
Unlicensed Congregate Living	5%-15%	11.0%	10%-12%	11.1%	0
Licensed Assisted Living	5%-15%	12.3%	11%-15%	12.7%	+10
Licensed Memory Care	7.5%-20%	12.9%	11%-15%	13.3%	+30
Licensed Skilled Nursing-Long Term Care	7%-20%	15.8%	14%-18%	16.2%	-80
Licensed Skilled Nursing-Subacute Care	5%-20%	16.4%	16.4%-20%	17.1%	-10
Continuing Care Retirement Community	5%-25%	15.4%	10%-22%	15.4%	+170

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

Highlights of the 2021 survey results include modest expected decreases in overall capitalization rates for all types of senior housing although the expected decreases are small with none exceeding 40 basis points. Discount rates are also expected to decrease for most senior housing property types. Projected changes in equity dividend rates are more variable with decreases for age restricted apartments and long term care facilities and increases in continuing care retirement communities.

The difference or spread between overall cap rates and discount rates slightly increased. 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

2021 has seen significant and lingering ongoing market disruption from the Covid-19 pandemic. Market transaction activity and new construction is still modest despite strong demand and ample capital availability for new development and acquisition. Staffing concerns exacerbated by vaccine mandates and wage pressures are materially impacting senior housing in 2021. The relative paucity of market transactions have created a fog of uncertainty in the short and medium term.

Nevertheless, overall long term prospects for industry recovery and strength are strong, supported by undeniable favorable long term demographics (only 4 years to the first baby boomers turning 80 years old!) and projected historically low though increasing interest rates into the foreseeable future.

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.

Inquiries, comments or requests of interested parties wanting to participate in the 28h annual 2022 survey can be directed to:

Michael Boehm, MAI, CRE
Senior Living Valuation Services, Inc.
1458 Sutter Street
San Francisco, CA 94109
(415) 385-2832
email: mboehm@slvsinc.com