SENIORS HOUSING ANNUAL TOTAL RETURNS EQUAL 11.13% IN Q3 2018

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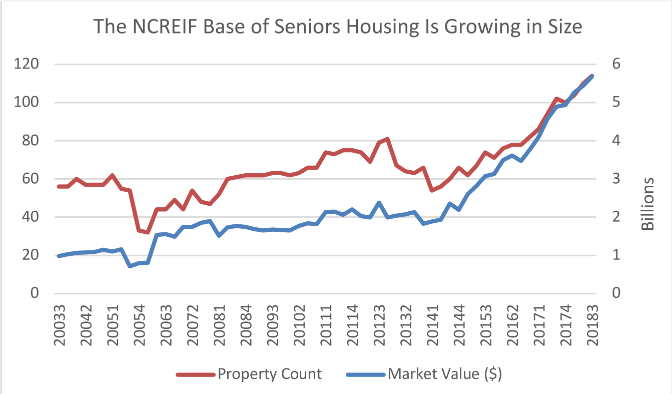
Returns Strong. Third-quarter investment return data for the NCREIF-reported seniors housing properties equaled 2.27%, composed of a 0.97% capital return and a 1.29% income return. The income return was the smallest since the data has been reported in 2003 but was still higher than the income return for the broader NPI. The positive capital return shows that seniors housing properties are still increasing in value after deducting capital expenditures that have been added.

The annual total return through the third quarter of 2018 was 11.13%, overshadowing the NCREIF Property Index (NPI) result of 7.16% and the apartment return of 6.35%. However, at 14.17%, industrial total returns outpaced seniors housing. Industrial has been the darling of commercial real estate recently, benefiting from e-commerce which has increased demand for last-mile warehouse space. Despite the relatively strong showing for seniors housing, the total annual return has been trending down since mid-2014 when it peaked at 20.37%. This pattern can also be seen in the broader index and reflects where we are in the cycle.

These performance measurements reflect the returns of 114 seniors housing properties, valued at $5.7 billion in the third quarter. This is the first quarter that the market value of the NCREIF universe of seniors housing has exceeded $5.5 billion. This growth reflects increased investor interest in the sector as evidenced by seniors housing ranking 2nd and 3rd among 24 commercial/multifamily sectors for best investment and development prospects, respectively, in the recently released 2019 PwC/ULI Emerging Trends Survey (behind fulfillment and warehousing).



Occupancy Rates Flat, but Low. The seniors housing occupancy rate was unchanged in the third quarter at 87.9%, remaining at the lowest rate in seven years. In general, and for many, but not all, metropolitan area markets, inventory growth continues to exceed net absorption. This is evident in the very wide disparity between the best performing markets and the poorest performing markets with a 13.8 percentage point difference between the most occupied market (San Jose: 94.6%) and the least occupied market (Houston: 80.8%) in the third quarter. Indeed, Houston, Atlanta, San Antonio and Dallas have all experienced inventory increases of 20% or more in the past three years, while Minneapolis, Kansas City, Denver and Orlando have seen a 15% gain in stock. In all these markets, occupancy has fallen as the pace of new inventory growth has exceeded that of demand. The flip side is metropolitan areas that have not seen much inventory growth and have seen occupancy improvement in the past three years. These include Riverside, Sacramento, Philadelphia, San Diego and New York.

In general, construction as a share of inventory for seniors housing remains high at 6.0%, with 37,000 units under way in the NIC MAP Primary 31 metropolitan markets. As this new development comes on line, downward pressure on occupancy rates is expected to continue for many locations across the country.

TOTAL RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
3rd Qtr 2018	1.67	1.55	2.27
2nd Qtr 2018	1.81	1.54	2.18
One Year	7.16	6.35	11.13
Three Years	7.75	7.00	12.32
Five Years	9.57	8.58	14.72
Ten Years	6.42	6.44	10.62

INCOME RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
3rd Qtr 2018	1.11	1.04	1.29
2nd Qtr 2018	1.14	1.06	1.37
One Year	4.62	4.30	5.47
Three Years	4.70	4.46	5.67
Five Years	4.92	4.63	5.96
Ten Years	5.50	5.03	6.54

APPRECIATION RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
3rd Qtr 2018	0.56	0.50	0.97
2nd Qtr 2018	0.67	0.48	0.81
One Year	2.46	1.98	5.45
Three Years	2.95	2.46	6.40
Five Years	4.92	3.82	8.41
Ten Years	5.50	1.36	3.89

Source: NCREIF, NIC Research & Analytics