

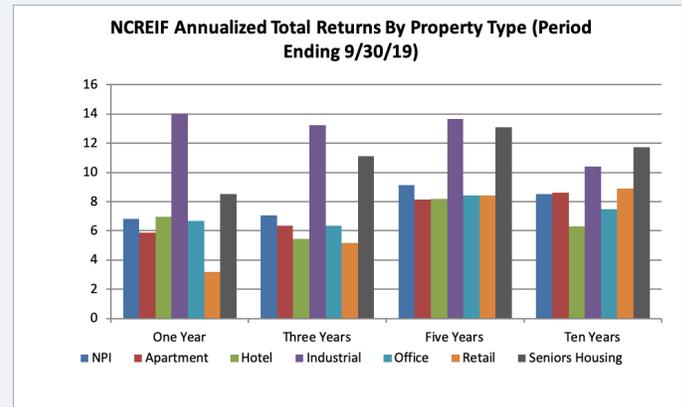
SENIORS HOUSING ANNUAL TOTAL RETURNS EQUAL 7.80% IN Q3 2019

By Beth Burnham Mace, Chief Economist, National Investment Center for Seniors Housing & Care (NIC)

Seniors Housing Capital Returns Outpace NPI. The total investment return for institutional investors as measured by the 124 properties that reported data to NCREIF in the third quarter of 2019 was 2.29%, composed of a 1.30% income return and a 0.99% capital (appreciation) return. The positive appreciation return indicates that the seniors housing properties in the NCREIF data set continue to increase in value after deducting for capital expenditures. The total return for this quarter was slightly ahead of the average quarterly return over the past four quarters, which was 1.89%. The quarterly total seniors housing return compared favorably with the 1.18% rate for apartments and 1.41% rate for the total NPI. The quarterly appreciation return for seniors housing was particularly strong compared with the NPI and apartments and was 0.99%, compared with 0.30% and 0.13%, respectively. Note that these figures reflect unleveraged returns.

The annual total return through the third quarter of 2019 was 7.80%, exceeding the NCREIF Property Index (NPI) result of 6.24% and the apartment return of 5.39%. However, at 13.64%, industrial total returns significantly outpaced seniors housing. Industrial continues to benefit 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 124 seniors housing properties, valued at \$6.5 billion in the third quarter. As recently as the second quarter of 2018, the value of seniors housing properties reported into NCREIF was \$1 billion less, at \$5.4 billion with 110 properties reported.



Cap Rate Compression. Based on NCREIF data, the value-weighted cap rate for seniors housing averaged 5.1% in the third quarter, near the mean for the year, but down from the average 5.4% rate seen in 2018 and 5.8% in 2017. Since 2017, cap rate compression has not been as significant for the overall NPI nor apartments. The risk premium is nearly one percentage point higher than for apartments (4.2% cap rate) and 78 basis points for the NPI (4.3% cap rate).

Occupancy Rates Edge Higher but Remain Low. Senior housing occupancy increased to 88.0% in the third quarter of 2019 from its lowest level in eight years (87.7%) recorded during the second quarter. During the third quarter, net absorption totaled 4,977 units in NIC's Primary 31 markets, the greatest number of new units in any quarter since NIC MAP® began reporting the data in 2006. At the same time, the quarterly change in the number of units added to existing inventory slowed to 3,832 units, the fewest since mid-2016. The data suggest a possible slowdown in new senior housing construction.

Assisted living occupancy increased to 85.4% in the third quarter, from a previous record low of 85.1% for the past three quarters as relatively robust demand outpaced new inventory growth. The occupancy rate for independent living increased to 90.2% in the third quarter, 10 basis points higher than year-earlier levels, but below its rate earlier in 2019.

Of the 31 metropolitan markets that comprise NIC's Primary Markets, San Jose (95.5%) and Minneapolis (91.3%) experienced the highest occupancy rates in the third quarter. Las Vegas (82.3%) and Houston (81.5%) recorded the lowest occupancy rates. San Antonio experienced the largest occupancy increase from a year ago, rising from 80.2% to 84.6%. Baltimore saw the largest year-over-year decrease, falling from 92.5% to 90.6%.

Meanwhile, asking rent growth increased at a slower pace than average hourly earnings for assisted living workers. As a result, some operators are having challenges growing NOI. For many operators, labor expenses amount to 60% of their expenses.

TOTAL RETURNS			
	Total NPI	Total Apartment	Total Stabilized Senior Housing
3rd Qtr 2019	1.41	1.18	2.29
2nd Qtr 2019	1.51	1.42	1.50
One Year	6.24	5.39	7.80
Three Years	6.76	5.99	10.53
Five Years	8.57	7.66	12.15
Ten Years	9.77	9.83	12.13

INCOME RETURNS			
	Total NPI	Total Apartment	Total Stabilized Senior Housing
3rd Qtr 2019	1.11	1.05	1.30
2nd Qtr 2019	1.12	1.06	1.27
One Year	4.53	4.28	5.44
Three Years	4.60	4.34	5.60
Five Years	4.75	4.49	5.70
Ten Years	5.37	4.95	6.39

APPRECIATION RETURNS			
	Total NPI	Total Apartment	Total Stabilized Senior Housing
3rd Qtr 2019	0.30	0.13	0.99
2nd Qtr 2019	0.38	0.36	0.23
One Year	1.65	1.08	2.26
Three Years	2.09	1.59	4.74
Five Years	3.69	3.07	6.20
Ten Years	4.23	4.71	5.48

Source: NCREIF, NIC Research & Analytics