Investing in Seniors Housing

Housing Opportunity, 2013

March 22, 2013
Investing in Seniors Housing

Vi at Palo Alto
Palo Alto, CA
CCRC
Investing in Seniors Housing

Vi at La Jolla Village
La Jolla, CA
CCRC
Today’s seniors housing is a mix of real estate, hospitality and care.
Institutional Interest in Seniors Housing High

Relative Attractiveness of Property Types for New Investments by Year 2010 – 2013 (Ratings: 1 = least attractive, 5 = most attractive)

Source: 2013 Plan Sponsor Survey; Kingsley Associates; Institutional Real Estate, Inc.
Key Takeaways

- Seniors housing and care’s market value is $300 billion and growing.
- Seniors housing private and public investment returns outperformed other commercial real estate property investments during the past five years.
- Three of the 10 largest REITs are now health care REITs.
- Seniors housing was a resilient real estate sector during the economic recession.
- Strong outlook for seniors housing market fundamentals.
Seniors Housing Continuum
## Size of the Property Market

### Estimated National Counts as of 2012Q4

<table>
<thead>
<tr>
<th></th>
<th>Number of Properties</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority Independent Living</td>
<td>4,048</td>
<td>878,315</td>
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<tr>
<td>Majority Assisted Living</td>
<td>7,118</td>
<td>534,081</td>
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<tr>
<td>Majority Nursing Care</td>
<td>11,206</td>
<td>1,505,944</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>22,372</strong></td>
<td><strong>2,918,340</strong></td>
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*Source: NIC Research*
Rents Vary by Care Segment

Average Monthly Rent by Care Segment as of 2012Q4

- **Independent Living**: Housing, Laundry, Meals, Socialization
- **Assisted Living**: Housing, Laundry, Meals, Socialization, Personal Care
- **Memory Care**: Housing, Laundry, Meals, Socialization, Personal Care, Memory Support
- **Nursing Care**: Housing, Laundry, Meals, Socialization, Personal Care, Skilled Nursing Care

Source: NIC MAP® Data & Analysis Service
$9.6B in SH&C Properties Trade in 2012

Seniors Housing & Care Transaction Volume ($B)
2008Q1 – 2012Q4

Source: NIC MAP® Data & Analysis Service; RCA
REITs Still Driving Transaction Activity

SH&C Transaction Activity by Buyer Composition ($B)
2008Q1 - 2012Q4

Source: NIC MAP® Data & Analysis Service; RCA
Health Care REITs Outperform Other REITs

Annualized Total Returns (%)  
1-, 3-, 5- and 7-year Periods  
September 30, 2012

Source: SNL; Green Street Advisors
Seniors Housing Total Returns Outpaced NPI*

Annualized Total Returns (%)
1-, 3-, 5- and 7-year Periods
December 31, 2012

Source: NCREIF; AEW Research

*NCREIF Property Index (NPI)
Seniors Housing Rents Less Volatile

Year-over-Year Asking Rent Growth Trends (%)
2007Q1 – 2012Q4

Source: NIC MAP® Data & Analysis Service; MBAA; REIS; STR

[Graph showing year-over-year asking rent growth trends for Apartment, Office, Retail, Hotels, and Seniors Housing from 2007Q1 to 2012Q4.]
Seniors Housing Occupancy Held Up Well

Year-over-Year Occupancy Trends (Basis Points)
2007Q1 – 2012Q4

Source: NIC MAP® Data & Analysis Service; MBAA; REIS; STR
Demand Drivers for Seniors Housing

- Strengthening demographics
- Rising penetration rates and product acceptance
- Affluence
- Improving health care and longer life expectancy
- Higher education levels
- Fewer informal family care givers available
Strong Demographic Growth

Population Growth (%), 2013-2020

2013-2020 CAGR (%):

- 75+ Cohort: 2.2
- 25-34 Cohort: 0.6
- U.S. Population: 0.8

Source: U.S. Census Bureau
Demographics Will Remain Strong for Decades

Population Growth (%), 2013-2040

Source: U.S. Census Bureau
Pace of New Supply is Now Tempered

Distribution of Existing Units by Year Property Opened (%), 1985 - 2012

Source: NIC MAP® Data & Analysis Service
Construction Activity Has Been Tempered

Construction vs. Inventory (%); MAP31
2005Q4 – 2012Q4

Source: NIC MAP® Data & Analysis Service
Moderating Supply Growth to Aid Recovery

Seniors Housing Historical and Forecast Supply-Demand; MAP31
2006Q1 – 2013Q4’F

Source: NIC MAP® Data & Analysis Service
Seniors Housing Average Cap Rates Higher

Rolling Four-Quarter Cap Rate/Yield (%)  
2008Q1 – 2012Q4

Source: NIC MAP® Data & Analysis Service; RCA; FRED
Implementation Strategies

• Intermediated Investments
• Direct Investments:

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<thead>
<tr>
<th>Public</th>
<th>Equity</th>
<th>Debt</th>
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<tr>
<td>Public Equity Investments</td>
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<td>• CMBS Debt</td>
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<tr>
<td>• Public High Yield Debt (Nursing Care Only)</td>
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<tr>
<td>• Preferred Investments – REITs</td>
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<tr>
<td>• Joint Venture with Operators or REITs</td>
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<tr>
<td>• Direct Ownership in Properties Leased to or Managed by Operators</td>
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<tr>
<td>Private Debt Investments</td>
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<tr>
<td>• Secured and Unsecured Credit Facility Participation</td>
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<tr>
<td>• First Mortgage Loans Secured by Seniors Housing Properties</td>
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<tr>
<td>• Mezzanine Debt / Second Mortgage</td>
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Conclusions

- Strong outlook for market fundamentals
- Solid and relatively stable investment returns
- Increasing presence of institutional investors
- A range of investment strategies that potentially also diversify a multi-asset portfolio
- Variety of avenues for investment available
- Experienced, quality operator is key to mitigating risks and achieving success through various cycles
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