Seniors Housing Investment Opportunity

The aggregate U.S. population continues to get older led by the baby boomer generation, which is seeing approximately 10,000 people turn 65 each day.

EXECUTIVE SUMMARY

AEW has been an active investor in private-pay seniors housing since the mid-1990s. Since we first began investing in seniors housing the sector has migrated further into the investment mainstream for investors and has become more accepted by the seniors demographic as the range of housing and service offerings has evolved to better match the lifestyle preferences of today’s seniors. At its essence, seniors housing is an expanding real estate product type that provides a mix of real estate, hospitality and care services. AEW believes private-pay seniors housing is an attractive investment opportunity for many reasons, including:

- **Compelling demographic trends.** The demographic trends driving demand are attractive today and will become even more compelling over the next 20 years. The aggregate U.S. population continues to get older led by the baby boomer generation, which is seeing approximately 10,000 people turn 65 every day. America’s aging baby boomers and their parents are the demographic force behind many of the changes in the types of services and products being offered to the seniors housing consumers. In aggregate, the number of seniors (people age 75 and older) is expanding at roughly twice
Seniors housing has evolved to better match the new demands and lifestyle of seniors and their adult children by offering a broader spectrum of alternatives, as well as a continuum of care that allows seniors to age in place without the upheaval of a potential move.

- **Performance stacks up well relative to the other property sectors.** The seniors housing sector has proven to be recession-resilient. While occupancy rates declined approximately 450 basis points to just below 87% during the great recession, annual net absorption and rent growth remained in positive territory throughout the downturn. This is very different than the other property types where rent declines were significant and cash flow was more severely affected. According to NCREIF, over the past ten years seniors housing has generated annualized total returns of 14.7% versus 8.1% for apartments and 8.4% for the NCREIF NPI. The outperformance has become more pronounced recently with one-year total returns of 19.5%, 10.3% and 11.8% for seniors housing, apartments and the NPI, respectively.

- **Very attractive supply and demand fundamentals.** Occupancies moved above the 90% mark in 2014 to within 110 basis points of their pre-recession peak supported by healthy demographics and the expanding national economy. Solid demand continued to outpace new supply by a healthy margin with absorption averaging 2.7% in 2014 versus supply growth of 1.7% for the year. Although construction is responding to strong demand, these favorable dynamics are expected to continue. The broader U.S. economic expansion is benefitting the sector as well through a stronger labor market, an improved housing market and better wealth metrics where household net worth is now back above pre-recession peaks. In addition to a senior’s income, each of these metrics is an important component to the senior’s ability to pay for seniors housing care.

- **Acceptance supports future demand.** Prospective residents and their adult children (age 45-64) have a better understanding of the range of seniors housing options available as evidenced by rising penetration and acceptance rates. Today’s seniors are very different from their predecessors – they live longer, are more active, have lower rates of disability, have achieved higher levels of education and are more affluent. Seniors housing has evolved to better match the new demands and lifestyle of seniors and their adult children (decision makers) by offering a broader spectrum of alternatives, as well as a continuum of care within a community that allows seniors to age in place without needing to move.

- **Increasingly accepted by institutional investors.** Much like the evolution of the multifamily sector as an institutional investment in the 1970s and 1980s, seniors housing is evolving from an “emerging” component of commercial real estate to one that is increasingly accepted. Analyst coverage of publicly-held seniors housing companies is extensive – three of the dozen largest REITs are now health care REITs – and performance data for tracking privately-held institutional product is now available through multiple sources. The seniors housing and nursing care market has also grown to a material size with an estimated market value of over $300 billion encompassing roughly 2.9 million units with transaction volume increasing 45% in 2014 to $18.5 billion.
COMPPELLING DEMOGRAPHIC TRENDS DRIVING DEMAND

The typical senior today is more active, lives longer and is in better health with fewer functional limitations than the previous generation. As a result, seniors have been able to delay their need to move into seniors housing product. Not surprisingly, the age of the typical resident entering a seniors housing community has been increasing; the average age of a resident in seniors housing is 82 years or older. Over the past several years, this trend appears to have accelerated, accompanied by an increase in the level of care required. Most likely, the more pronounced increase was a reflection of the severity of the recent financial downturn, as seniors (and their adult children) delayed the more discretionary decisions until acuity needs were higher. In addition, the longer life spans and better health of seniors is also driving this average age higher.

For people born in 1935, the time that Social Security for seniors was put into place, life expectancy was 65 years old; today it is 79 (76 for men and 81 for women). For those already 65 years old, life expectancy is an additional 15 to 20 years. Hence, a man reaching age 65 today can expect to live, on average, until 84, while a woman turning 65 can expect to live, on average until age 86. Moreover, about one out of every four 65-year-olds today will live past age 90 and one out of 10 will live past age 95. In 1950, there were 2,300 American centenarians; today in the United States, there are almost 72,000.

As life expectancy has risen, so too has the demand for communities that can accommodate the needs of these seniors. The general aging of America increases the demand for assistance with activities of daily living such as eating, bathing, dressing, personal hygiene or medication management – services that are provided in many seniors housing communities. Indeed, in 2010, 37% of older persons\(^1\) reported some type of disability (i.e., difficulty in hearing, vision, cognition, ambulation or self-care). Some of these disabilities may be minor, but others may require assistance in order to meet important daily needs. Demand for seniors housing, especially the assisted living and memory care sectors, is more closely linked to individuals that need assistance with one or more Activities of Daily Living\(^2\) (ADL), while nursing care caters to individuals with four or more ADLs. The share of seniors aged 65 and older that need assistance with one or more ADL is 16%. These needs increase with age to 24% for persons 75+ and 30% for those over 80 years old.\(^3\)

Most seniors housing analysts define seniors as the age cohort that is 75 and older to gauge aggregate demand. Today there are about 20.3 million of these individuals. While there are younger residents, a typical resident in a seniors housing community is 80 years or older. The U.S. Census Bureau estimates that in 2015 there are 12.1 million people in the U.S. who are 80 and older. Indeed, the 80+ age cohort is estimated to have grown by roughly 25% from 2000 to 2010, increasing from 9.2 million to roughly 11.5 million people. By 2020, that number will reach nearly 13.2 million, and by the time baby boomers begin to reach their 80th birthday in 2030, (the first boomers will begin to turn 80 in 2026) there will be roughly 20 million Americans aged 80 and older – 5.5% of the nation’s population. Overall, the 80+ age cohort is expected to grow by 3.5% per year through 2030, nearly four times the 0.8% growth rate projected for the total U.S. population by the U.S. Census.

\(^1\)Department of Health & Human Services; ‘A Profile of Older Americans: 2012’

\(^2\)Activities of Daily Living (ADLs) are defined as routine activities that people tend do everyday without needing assistance. There are six basic ADLs: eating, bathing, dressing, toileting, transferring (walking) and continence. An individual’s ability to perform ADLs is important for determining what type of long-term care (e.g. nursing-home care or home care) and coverage the individual needs (i.e. Medicare, Medicaid or long-term care insurance).

The real acceleration in demand growth, as shown in Figure 2, is just starting for the seniors housing sector. Independent living communities tend to attract a lower acuity demographic given its more active senior profile requiring fewer health service needs while the assisted living communities attract a higher acuity resident.
Impact and Influence of Adult Children on Demand for Seniors Housing

Demand for seniors housing is frequently driven by the location of adult children, who are increasingly recognized as an important and often critical decision maker for assisted living in most instances, and for independent living in some instances. The influence of the adult child often increases with higher acuity needs. Typically seniors in their early- to mid-80s relocate to be near their children after having initially retired to other locations, frequently in the warmer climate regions of the country. However, family dynamics have been shifting gradually over the past several decades influencing the availability of the adult children (or caregiver) to provide on-going direct support at home. The rise in dual-working or dual-income families is reducing the time available for an adult child (often times the oldest daughter) to provide the necessary care giving services directly to their parents. In 1950, the labor force participation rate for females was 33% while today that number is roughly 57%, and for females with children the rate is almost 70%4. In many cases, however, ability to provide some level of financial support to the parent has increased.

The adult children cohort – the population between the ages of 45 and 64 – is growing, but at a slower pace than the overall population as this cohort straddles the baby bust (GenX) and baby boomer generations. However, both their sheer numbers – 84 million adult children – and financial well-being are important as adult children create additional demand as they assist in the provision of housing for their aging parents. From an investor perspective, the demographics of both age cohorts factor into the feasibility analysis in determining the depth of demand in a particular location for seniors housing, especially in the assisted living and memory care segments where the adult child more heavily influences decision making.

Seniors Housing Performance Stacks Up Well Relative to Other Property Sectors

Seniors housing has consistently outperformed other property types with regard to income, appreciation and total return5. According to NCREIF, the seniors housing sector has generated an annualized total return over the past ten years of 14.7%, versus 8.1% for apartments and 8.4% for the NCREIF NPI. Over the near-term, the outperformance has become more pronounced with one-year total returns of 19.5%, 10.3% and 11.8%, for seniors housing, apartments and NPI, respectively. Returns for seniors housing have also been less volatile than other property types. Over this past real estate cycle, total return peak-to-trough losses for seniors housing equaled 8.6% and spanned two quarters, compared to a decline of 23.9% for the NPI that lasted six quarters.

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5The seniors housing data currently resides in NCREIF’s “other category” and is not part of the NPI index. For NCREIF purposes, seniors housing does not include traditional institutional “nursing home” facilities, but rather it is comprised assisted living and independent living facilities that make up the narrower definition of senior housing. AEW believes the senior housing assets in NCREIF are reflective of the broader institutional private-pay market.
The seniors housing sector has also proven to be recession-resilient as occupancy rates fell and rent growth remained positive throughout the most recent downturn. While occupancy rates declined approximately 450 basis points to just below 87% during the great recession, annual net absorption and rent growth remained in positive territory throughout the downturn. This is very different than the other property types where rent declines were significant and cash flow was more severely affected. Additionally, the sector had lower volatility during the recent economic downturn.

While there has been capitalization rate compression among all real estate property types, the relative cap rate spread between seniors housing, multifamily and other property types continues to be attractive. Today, the spread ranges from 100 basis points to 200 basis points. These spreads result in a 50 to 150 basis point premium on an unleveraged IRR yield assuming a 5- to 7-year hold and an exit capitalization rate that is 75 to 125 basis points higher than multifamily. Unlike most other property types, seniors housing investments are much more operationally intensive requiring an operational expertise in the sector that warrants a wider spread. Even accounting for this difference, these spreads are quite attractive for investing in existing assets. In addition, the return on cost for seniors housing development can be 300 to 400 basis points greater than multifamily development opportunities. As demonstrated in the data below, seniors housing capitalization rate spreads relative to other property types, multifamily in particular, have remained fairly consistent over the last five years.

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The seniors housing return data described here is based on all 69 stabilized seniors housing properties included in NCREIF and valued at $2.4 billion. Relative to the universe of properties that exist in the U.S., this is a relatively small group, although it does represent the universe of institutional investors reporting into NCREIF.
While the pace of new construction has picked up, the net change in inventory has remained relatively restrained across the nation’s largest 100 metro areas.

Figure 5: Private Cap Rates By Property Type

<table>
<thead>
<tr>
<th>NCREIF Cap Rates</th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>5.5%</td>
<td>5.7%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Office</td>
<td>4.9%</td>
<td>5.1%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Retail</td>
<td>5.3%</td>
<td>5.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Apartments</td>
<td>4.7%</td>
<td>4.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Seniors Housing</td>
<td>6.2%</td>
<td>6.0%</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

Source: NCREIF Trends Report Q4 2014 NCREIF Database
Note: Seniors housing cap rates reflect all SH properties reporting

ATTRACTION SUPPLY AND DEMAND FUNDAMENTALS

New Supply Remains in Check

Not surprisingly, strong demand for seniors housing has led to a supply response. While the pace of new construction has picked up, the net change in inventory has remained relatively restrained across the nation’s largest 100 metro areas. According to the National Investment Center for the Seniors Housing and Care Industry (NIC), the net growth in seniors housing units was pretty modest during 2014 at 14,111 units or about 1.7% of existing inventory. Over the past ten years, development has remained relatively constrained and below the long-term average of about 20,000 unit deliveries per year. This compares favorably to the late 1990s when significant levels of new supply, especially assisted living product, were brought on line at a rate of more than 40,000 units per year over multiple years. In contrast, the nursing care market has actually experienced a net decline in inventory across the top 100 markets tracked by NIC as new construction has not kept pace with obsolescence and removals.

Today there are more than 2.8 million seniors housing and nursing care units in the United States with an estimated market value of over $300 billion and growing. Currently nursing care communities represent roughly half of the units and about one third of the value for all seniors housing communities although their share has been falling over time. As independent living and assisted living communities have become more popular as a lifestyle choice, the majority of net new construction has occurred in these property sectors. These trends are likely to continue going forward.

Figure 6: Seniors Housing & Care Market Private-Pay Investment-Grade Universe

<table>
<thead>
<tr>
<th>Property Type</th>
<th>U.S. Properties</th>
<th>U.S. Units</th>
<th>Top 100 Properties</th>
<th>Top 100 Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority Independent Living</td>
<td>3,700</td>
<td>825,000</td>
<td>2,149</td>
<td>480,660</td>
</tr>
<tr>
<td>Majority Assisted Living</td>
<td>7,500</td>
<td>579,000</td>
<td>4,412</td>
<td>343,032</td>
</tr>
<tr>
<td>Majority Nursing Care**</td>
<td>10,900</td>
<td>1,443,000</td>
<td>6,502</td>
<td>880,698</td>
</tr>
<tr>
<td>Total</td>
<td>22,100</td>
<td>2,847,000</td>
<td>13,063</td>
<td>1,704,390</td>
</tr>
</tbody>
</table>

Source: NIC Research & Analytics, NIC MAP; As of 4Q2014
*Includes investment-grade properties with at least 25 units/beds that charge market rates for housing and services.
**One nursing care bed is equivalent to one unit

Over the near term the pace of seniors housing inventory growth is expected to rise somewhat as the pipeline of projects under construction are delivered at a faster pace. Across the largest 100 markets tracked by NIC, there were 30,539 seniors housing units under construction at the end of 2014. Assuming an 18- to 20-month time frame to complete a typical property, the pace of deliveries will likely climb from the current pace of about 1.7% of existing inventory to between 2% and 2.5% in 2015 and 2016, which equates to less than 20,000 units annually. While this will be the highest percentage of supply growth since early 2010, demand which is currently expanding at 2.6% is expected to exceed these levels. These trends hold true for both the Top 31 markets and the Top 100 market universe tracked by NIC, although there may be pockets of potential overbuilding in select individual sub-markets.

**FIGURE 7: New Supply of Seniors Housing (1985-2014)**

One observation worth noting is the relative age of existing inventory. The median age of a seniors housing community is 17 years and the median age of a nursing care community is 36 years according to NIC. In markets where there are higher levels of construction and the majority of inventory is fairly new, the potential for overbuilding is certainly higher (e.g. many Texas markets). In other markets, where the level of construction appears elevated, there is a material need for new or updated inventory (e.g. Florida and the Northeast). However, the majority of markets are seeing relatively low levels of construction in absolute unit count or as a relative share of existing inventory.
Unlike other property types, rent growth in the seniors housing sector remained positive throughout the financial crisis.

**Occupancy Rates Fell and Rent Growth Remained Positive Throughout the Most Recent Downturn**

Since the Great Recession, seniors housing market fundamentals have continued to improve, including higher occupancy rates, strong absorption, increased construction and rising rents. In 2014, average seniors housing occupancies in the Top 31 markets tracked by NIC moved above 90% ending the year at 90.5%, which is within 100 basis points of their pre-recession peak. The median occupancy rate was higher closing the year at 93.8%, which reflects both outperformance for better quality assets and the lesser impact of newly delivered projects still in lease-up. Demand growth remained positive throughout the recession demonstrating the needs-based aspect of the sector and its resilience during the recession. From its low in 2008, demand growth has been accelerating steadily with annual net absorption growth reaching 2.7% in 2014, which is a healthy margin over the pace of supply growth of 1.7% for the year. These favorable dynamics are expected to continue despite a slight rise in the pace of deliveries.

**FIGURE 8: Seniors Housing Market Fundamentals**

Annual Performance: Primary Markets*

No one is being left behind as the more discretionary independent living sector, as well as the needs-based assisted living and memory care sectors, continue to see strong demand. Average occupancy rates for majority independent living (IL) properties reached 91.3% at the end of 2014, an increase of 125 basis points over the year. Demand has steadily ramped up over the year reaching an annual pace of growth of 2.0% in the fourth quarter, while supply growth was limited at 0.6%. Majority assisted living properties (AL) achieved overall occupancy of 80%

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*As defined by NIC MAP 31: Source: NIC

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*Occupancy and rent trends reflect the Top31 or primary market series from NIC. The Top31 is discussed because rent and occupancies are not available for Top 100 prior to 2008 therefore missing pre-recession performance.

*Seniors housing occupancy rates have traditionally exhibited characteristics of a skewed distribution, causing some spread between the average and median occupancy rates; lower quality properties tend to pull down the average occupancy rates. As a result, AEW Research often cites median occupancy rates since they may be more representative of the investable universe of properties that would be of interest to AEW.
89.3% in 2014 ending the year slightly below independent living. Demand for need-based AL units has been consistently strong throughout the recovery with a notable acceleration over the past two years; however, the supply response has been stronger in this sector. In fact, demand growth for 2014 was 3.8%, which is the strongest growth since NIC began keeping track in 2006. That said, supply expanded 3.3% with developers becoming more focused on the assisted living segment of the market. Assets in lease-up are also weighing on the overall average occupancy rate, but it should be noted that the median occupancy remains high at 93.5%, consistent with the trends we noted previously.

Unlike other property types, rent growth in the seniors housing sector remained positive throughout the financial crisis, although growth slowed to approximately 1% annually from a robust pace of more than 4% per year until early 2008. Due to strong demand and need for higher quality product, rents have experienced steady growth over the past several years, averaging 2.4% in 2014.

**FIGURE 9: Annual Asking Rent Growth By Property Type**

![Graph showing annual asking rent growth by property type.]

*Source: Costar Portfolio Analytics, Smith Travel, NIC MAP*

**ACCEPTANCE SUPPORTS FUTURE DEMAND**

Seniors housing is evolving into a sector that offers a broad spectrum of alternatives that align much better with what is demanded from prospective residents and their adult children. While not easily quantified, evidence points to greater awareness, understanding and acceptance of today’s seniors housing communities, which provide the appropriate housing and services that better match current lifestyle and health needs. Rising penetration rates,¹⁰ which assess the number of seniors housing units in the market relative to the number of seniors, along with strong net absorption of units and rising occupancies provide some level of quantitative support. A survey conducted by NIC (the National Housing Survey of Adults Age 55+) found that 13% of households age 75-plus view independent living as a very desirable form of housing. In 2014, the occupied penetration rate for independent living was only 5.7% implying the market has a great deal of potential for further growth.

¹⁰There are multiple definitions of a penetration rate. Unless otherwise noted, the NIC definition which is the total number of units divided by the number of seniors age 75 and older is utilized. An occupied penetration would reflect occupied versus total units.
Incorporating assisted living and memory care into the penetration measure, NIC estimates the penetration rate to be 10.5% or about one seniors housing unit per ten seniors aged 75 years and older. The potential for acceptance of the product to move beyond 10.5% seems reasonable and realistic since there are already a significant number of metro areas that have penetration rates well in excess of this rate today. Major markets where penetration rates have moved above 15% include Portland, Seattle, Minneapolis, Denver, Indianapolis and Dallas. In all but Dallas, stabilized occupancies are at or above the national average suggesting a high acceptance rate. There may be more opportunity in markets with lower penetration rates and high occupancy rates such as New York, Los Angeles, San Francisco and Boston. In each of these markets it has been harder to build new product, given the high barriers to entry, and demand has been strong with occupancies above 90% in all of these markets. Broadly speaking, the penetration number is a tricky measure to use on its own, but it does provide a quantitative starting point for measuring acceptance when used in conjunction with other market measures. However, perhaps the best measures of acceptance come from what is observed in practice or shared anecdotally.

SECTOR INCREASINGLY ACCEPTED BY INSTITUTIONAL INVESTORS

The seniors housing and nursing care sector continues to expand its footprint within the institutional investment community and makes a compelling case for further acceptance. At about $300 billion, the market is still relatively small at about half the size of the institutional hotel market, but it is difficult to ignore its performance. Transaction volumes were up considerably with seniors housing increasing 46% to $18.5 billion versus 25% for hotels to $34.1 billion according to Real Capital Analytics (RCA). In aggregate, the sector accounted for roughly 4.4% of the commercial real estate market in 2014 with the potential of increasing it share based on the long term outperformance of the sector.

FIGURE 10: Relative Size of the Institutional Investment Market

Source: NIC Research, AEW Research

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11These penetration rates are for the top 100 markets and do not include nursing care. The nursing care penetration rate is 11.3%.
12The 4.4% is based on the share of 2014 transaction volume reported by Real Capital Analytics for senior housing and care, office, industrial, retail, apartments and hotel (collectively the commercial real estate market).
FIGURE 11: 2014 Transaction Volume by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Volume ($B)</th>
<th>Share (%)</th>
<th>Annual Chg. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>$118.8</td>
<td>28.4%</td>
<td>15%</td>
</tr>
<tr>
<td>Apartment</td>
<td>111.1</td>
<td>26.6%</td>
<td>9%</td>
</tr>
<tr>
<td>Retail</td>
<td>83.0</td>
<td>19.8%</td>
<td>32%</td>
</tr>
<tr>
<td>Industrial</td>
<td>52.7</td>
<td>12.6%</td>
<td>11%</td>
</tr>
<tr>
<td>Hotel</td>
<td>34.4</td>
<td>8.2%</td>
<td>26%</td>
</tr>
<tr>
<td>Seniors Housing &amp; HC</td>
<td>18.4</td>
<td>4.4%</td>
<td>46%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$418.5</strong></td>
<td><strong>100%</strong></td>
<td><strong>17%</strong></td>
</tr>
</tbody>
</table>

Source: Real Capital Analytics

INVESTMENT CONSIDERATIONS

There are several considerations that should be taken into account by investors when making the decision to invest in seniors housing, including, but not limited to:

Operating Business: Seniors housing is an operating business and choosing, incentivizing and managing the joint venture partner/operator are critical to the success of the investment. With a broader spectrum of product offerings, aligning the proper operator with the asset and market is perhaps the most important variable for success. Working with best-in-class operator/joint venture partners is more critical in the smaller markets where the strength of the asset’s executive director and sales manager often dictate operating success.

Market: Understanding the demographics, depth of demand and competitive market fundamentals are critical to ensure that the property attributes are suitable for the resident profile. Assets in older mature markets with high concentrations of senior residents have a different demand profile than strong growth markets dominated by the adult child. Markets can dictate a ceiling on margins based on achievable rents and underlying demographic. A good feasibility analysis can provide the necessary insight to mitigate market missteps.

Asset Type Distinction: Asset type distinction is becoming blurry with traditional independent living properties offering assisted living options, such as external home health care. The lack of ability to control the separation of residents with varying degrees of acuity can be detrimental to the appeal of a community and ultimately its value. Especially for assets with independent living units, a distinct continuum of services by unit within a community is optimal.

Physical Real Estate: Purpose-built seniors housing communities are the best option for optimizing the services and for more customized medical attention for its residents. Working with proven seniors housing developers and avoiding the influx of developers with ancillary experience (e.g. multifamily) is critical. Conversions from other property types are often difficult with an end result that is less than optimal. Achieving the proper mix of units between the different levels of service (independent, assisted living and memory care) is another important element along with the size of an asset. While bad real estate is often difficult to fix, situations where these issues can be fixed provide attractive opportunities for experienced investors. Overall, operating efficiency is best achieved in communities with between 85 and 250 units that deliver a full continuum-of-services.
CONCLUSION

In summary, a strong case can be made for investing in seniors housing. The demographic trends driving demand present one of the most attractive opportunities today and will become even more compelling over the longer term as the U.S. population gets older. The number of seniors (people age 75 and older) is expanding at roughly twice the pace of the general population and the front edge of the baby-boom generation – 80 million strong – is starting to have an even more positive influence on seniors housing demand than what is in place today. This sets the stage for an attractive demand environment long-term. With the economic expansion underway, supply has not kept pace with demand and these favorable dynamics are expected to continue. Moreover, seniors housing has evolved to better match the new demands and lifestyle of seniors and their adult children by offering a broader spectrum of alternatives, as well as a continuum of care that allows seniors to age in place without the upheaval of a potential move. While not easily quantified, evidence points to greater awareness, understanding and acceptance of today’s seniors housing community which only solidifies the demand story.

Much like the evolution of apartments as an institutional investment in the 1970s and 1980s, seniors housing is evolving from an “emerging” component of property investment to one that is increasingly accepted by institutional investors. Not only has the sector grown to a material size with an estimated market value of over $300 billion, it has proven to be more recession-resistant while still delivering return performance that has stacked up well relative to the other property types. Overall, AEW believes seniors housing continues to present attractive investment opportunities going forward.

Prepared by AEW Research, May 2015

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