



# Capital Market Conditions and Influencing Factors 2018 McKnight's Online Expo

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# Today's Presentation

- The ULI/PwC Survey Results: Seniors Housing Is Attractive
- Demographic Trends: Yet, Another Slice
- The Economy: Rising Wage Rates, Rising Interest Rates
- Seniors Housing and Care Transactions: Relatively Robust
- Seniors Housing Market Fundamentals: Occupancy Flat
- Skilled Nursing Market Fundamentals: Falling Occupancy Rates

# **The 2018 ULI/PwC Survey Results: Seniors Housing is Attractive**

# Seniors Housing as an Investment Opportunity



## Emerging Trends in Real Estate®

United States and Canada 2018



***“Since this (seniors housing) has been considered a specialized investment segment, many are not aware of the rising liquidity (more than \$14 billion in transactions in the year ending second-quarter 2017) and returns outpacing the NCREIF NPI benchmark by 400 basis points. Housing for seniors topped the list of all residential segments in this year’s survey in terms of its development and investment prospects for 2018.”***

Source: *Emerging Trends in Real Estate 2018*, A Publication from Urban Land Institute and PwC, published October 2017

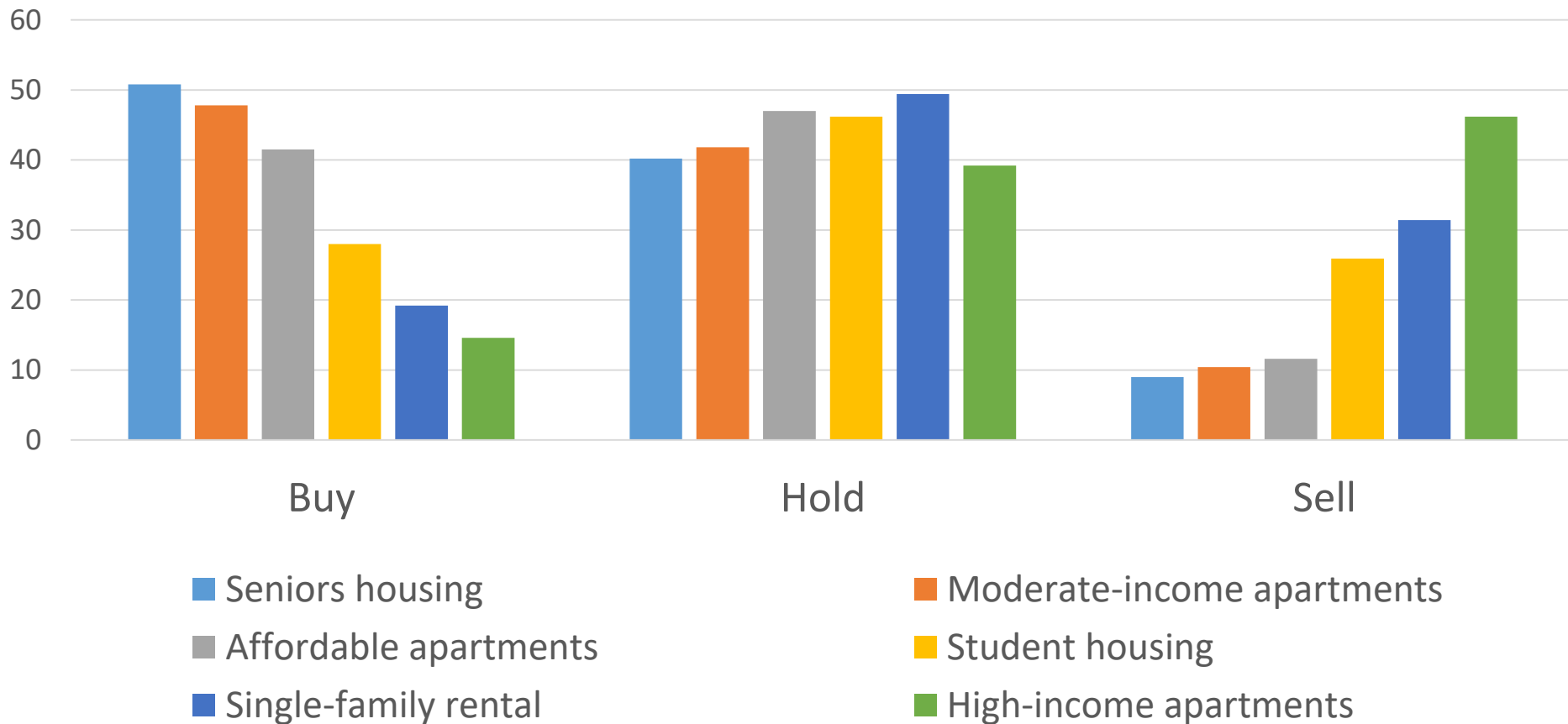
# ULI Emerging Trends 2018

## Key Takeaways Regarding Seniors Housing:

- Seniors housing ranks third among 24 commercial/multifamily subsectors in 2018 for best investment prospects and development prospects, behind fulfillment and warehouse
- Seniors housing ranks first among seven residential property types in 2018 for best investment prospects and development prospects.

# Investor Preference For Buying and Holding Seniors Housing

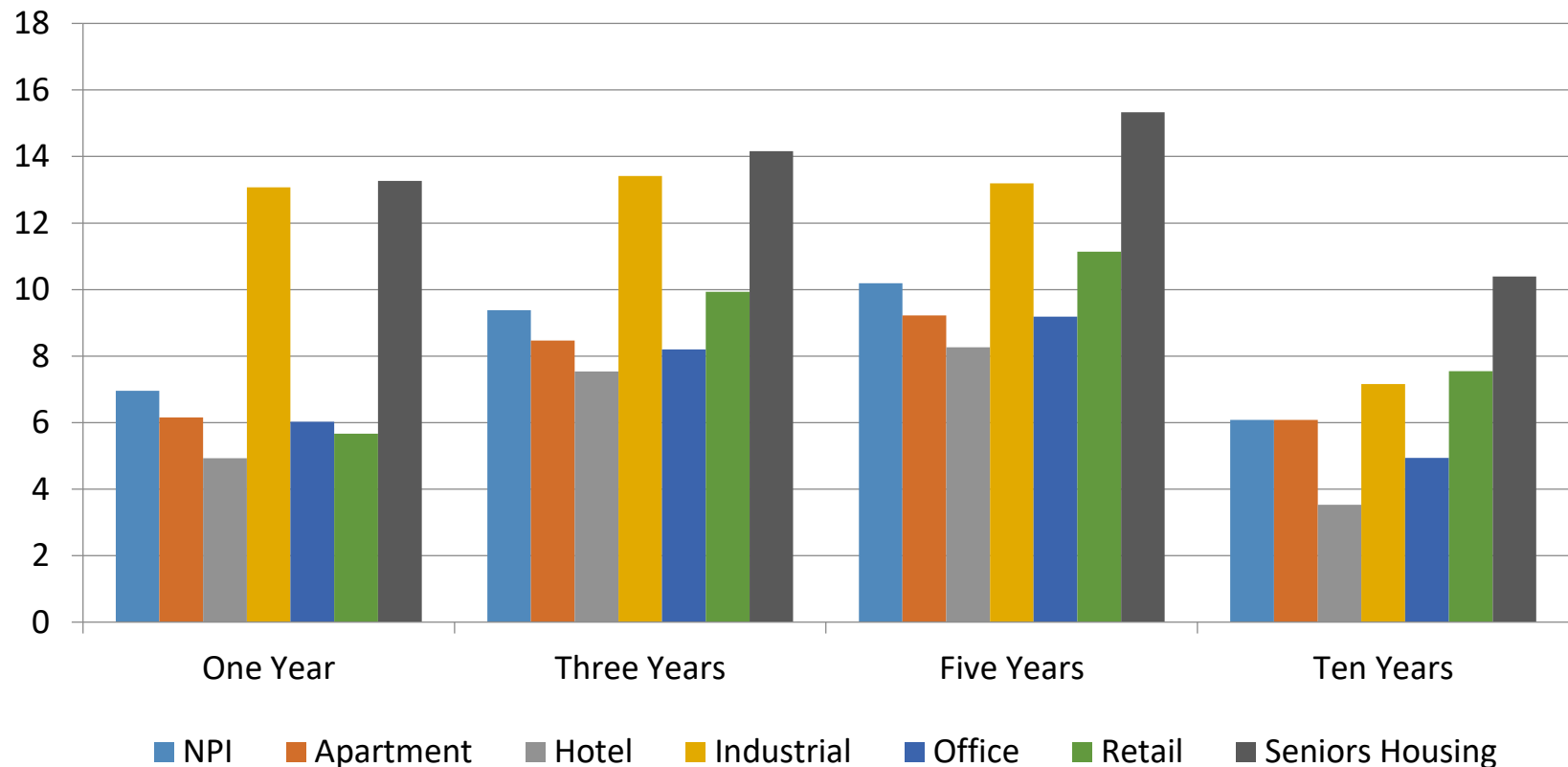
## Buy/Hold/Sell Recommendations



Source: ULI Emerging Trends, 2018

# Seniors Housing Investment Returns Are Relatively Strong

**NCREIF Annualized Total Returns by Property Type**  
Period Ending 12/31/17



Source: NCREIF

# **Demographic Trends: Yet, Another Slice**



# Demographics Are Destiny

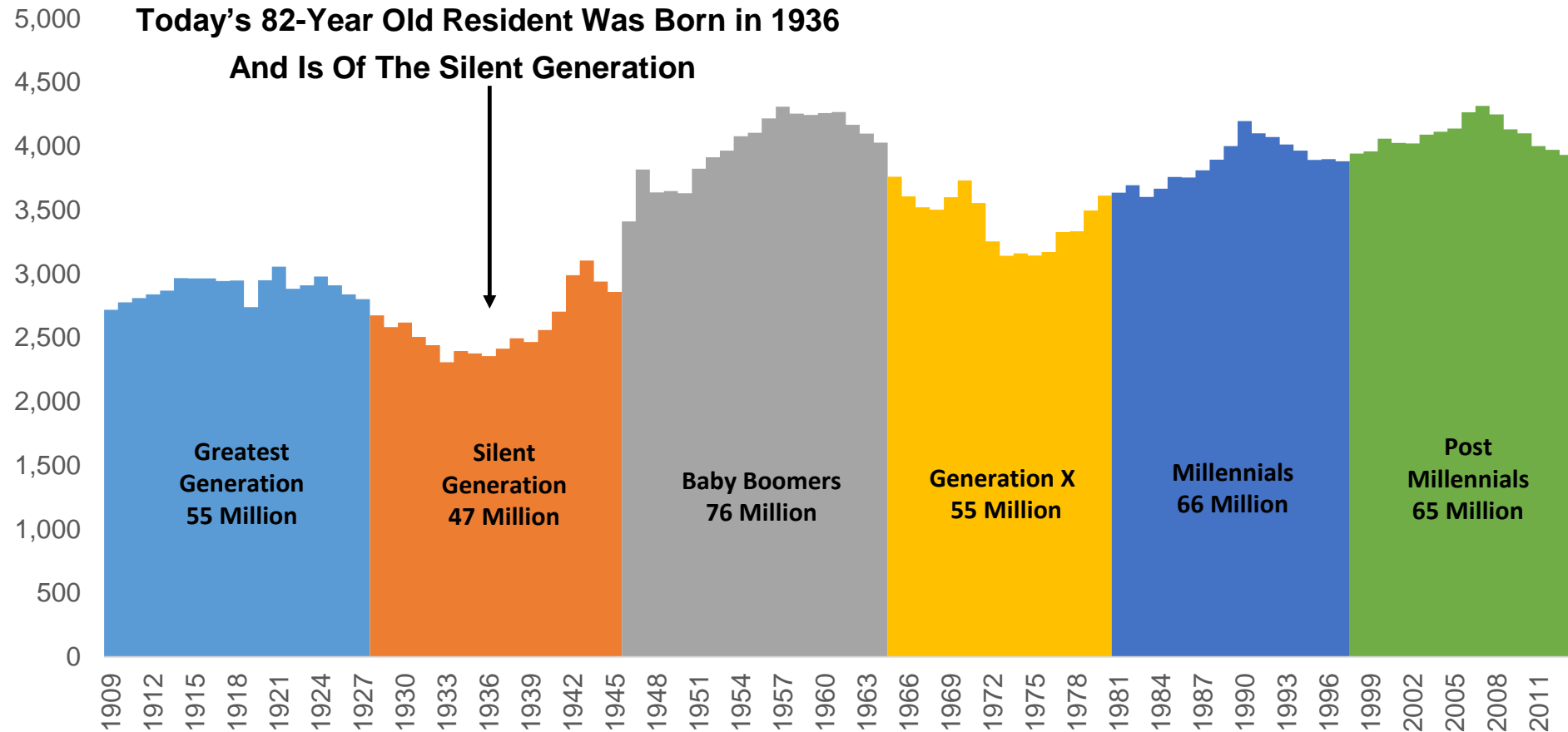


Source: Cartoon Bank

*“Good news, honey—seventy is the new fifty.”*

# Near and Long-term Demographics Are Getting Better

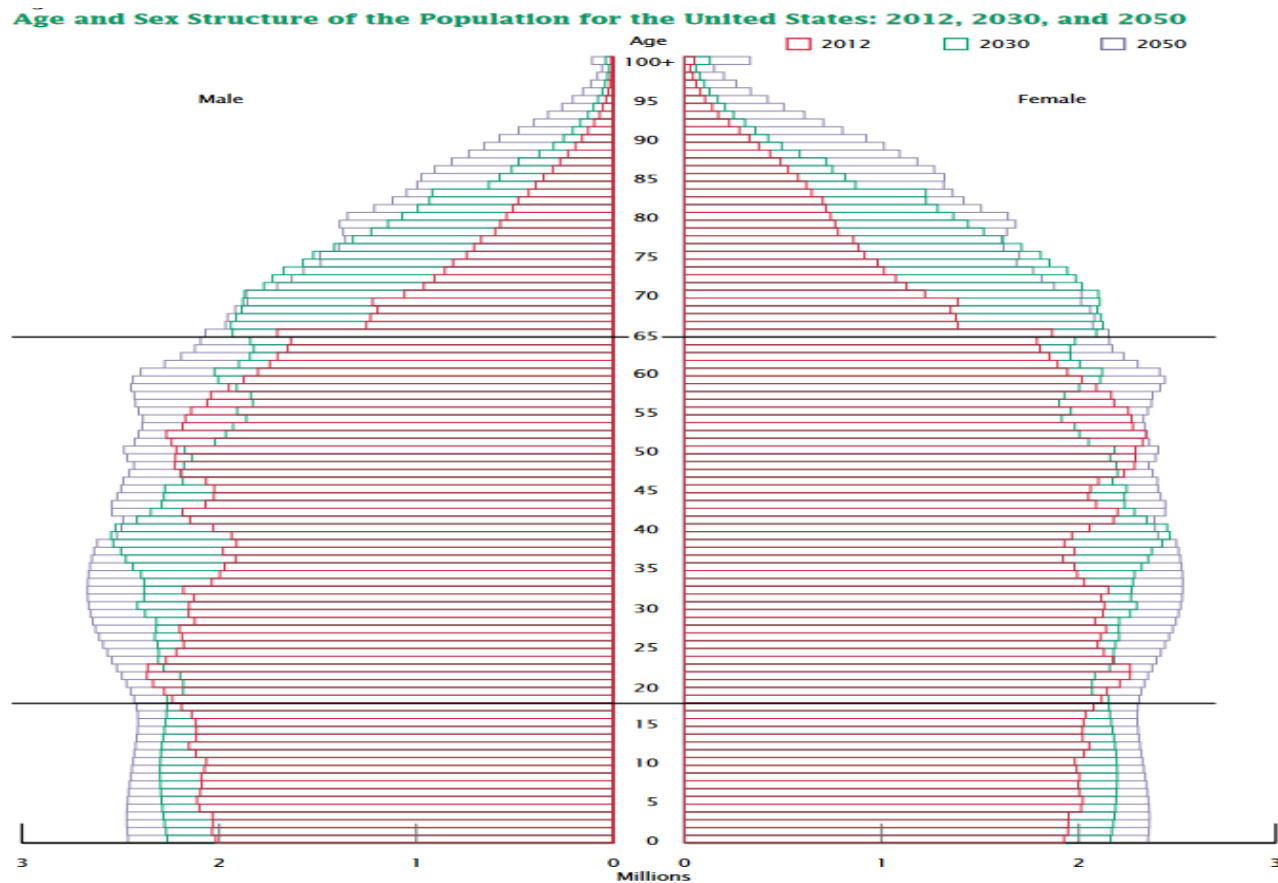
Number of Live Births (1909 to 2013, 000s)



Source: U.S. Census, NIC MAP® Data Service

# Population Pyramid for the U.S.

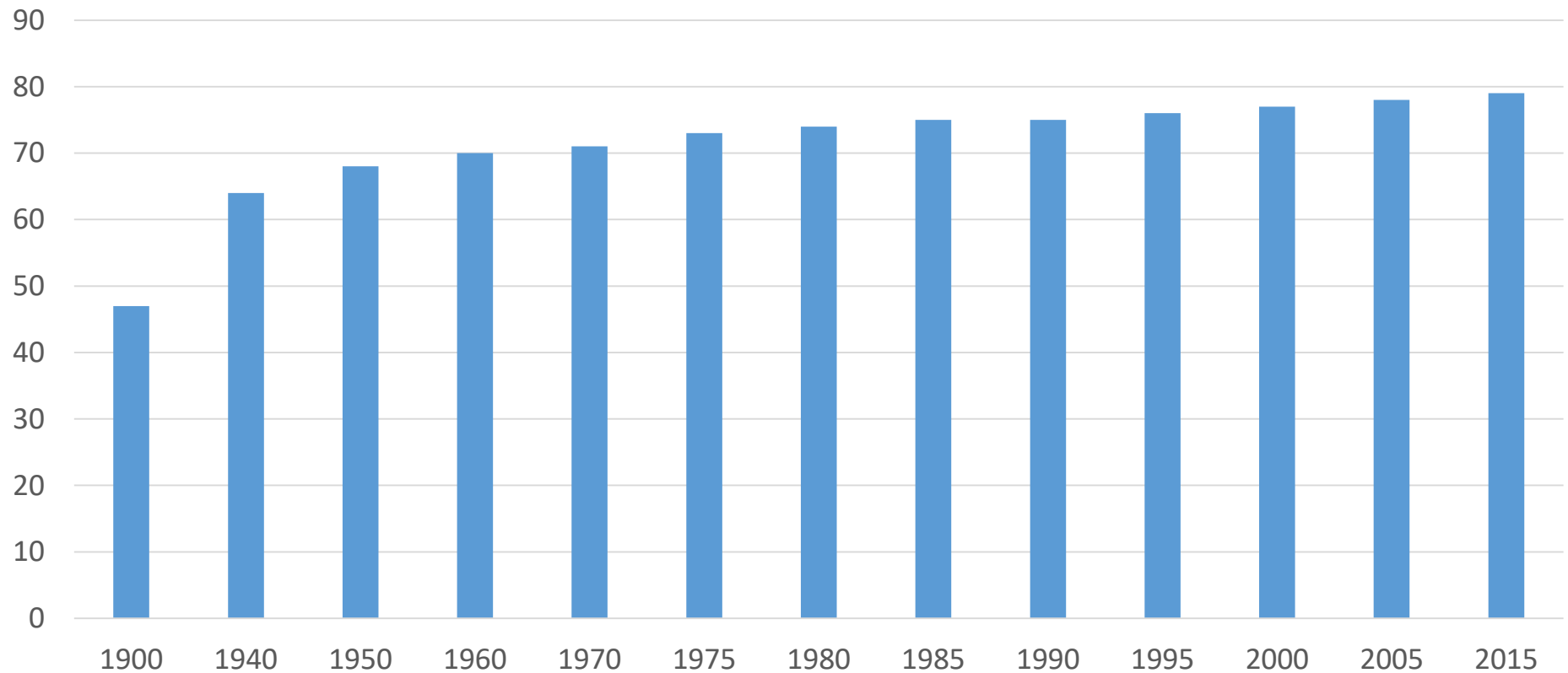
## Age and Sex Structure of the U.S. 2012, 2030, 2060



Source: CDC—National Center for Health Statistics

# Life Expectancy Keeps Increasing

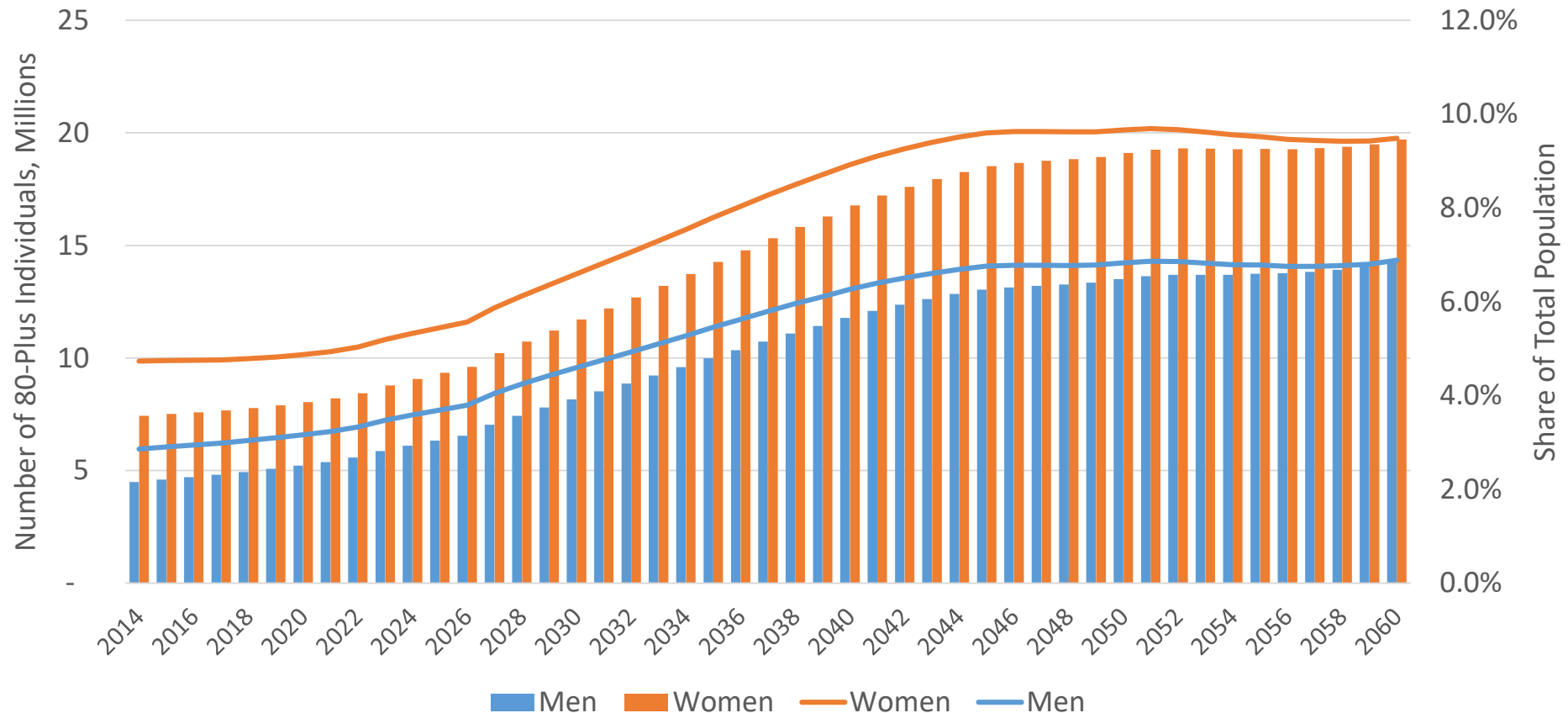
## U.S. Life Expectancy At Birth (Years)



Source: CDC—National Center for Health Statistics

# Significantly More 80-Plus Women than Men

Number of 80-Plus Persons and Share of Total Population

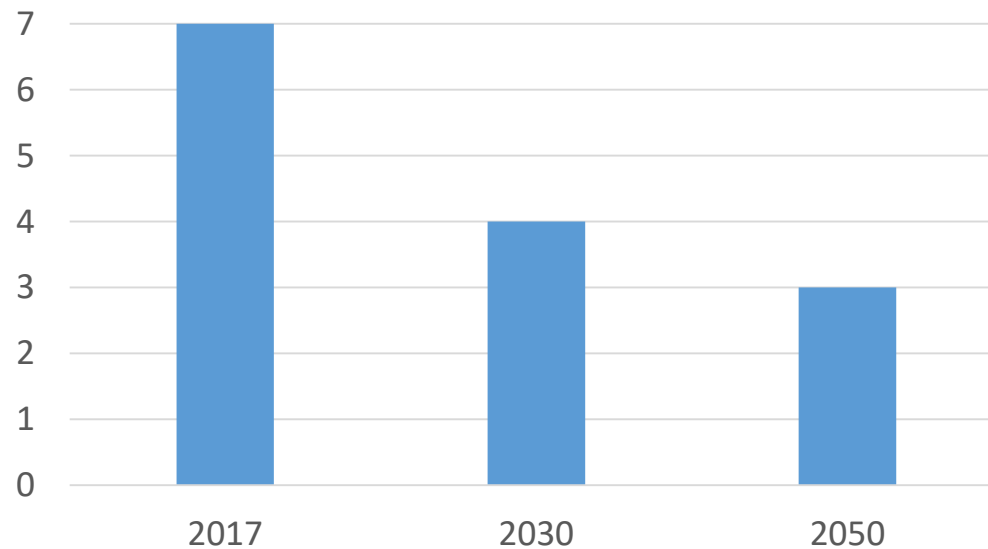


Source: U.S. Census Bureau Projections, 2014

# Fewer Caregivers To Support Seniors

Ratio of Caregivers (45-64 year olds) To Those Over 80 Will Shrink From 7:1 Today to 4:1 in 2030

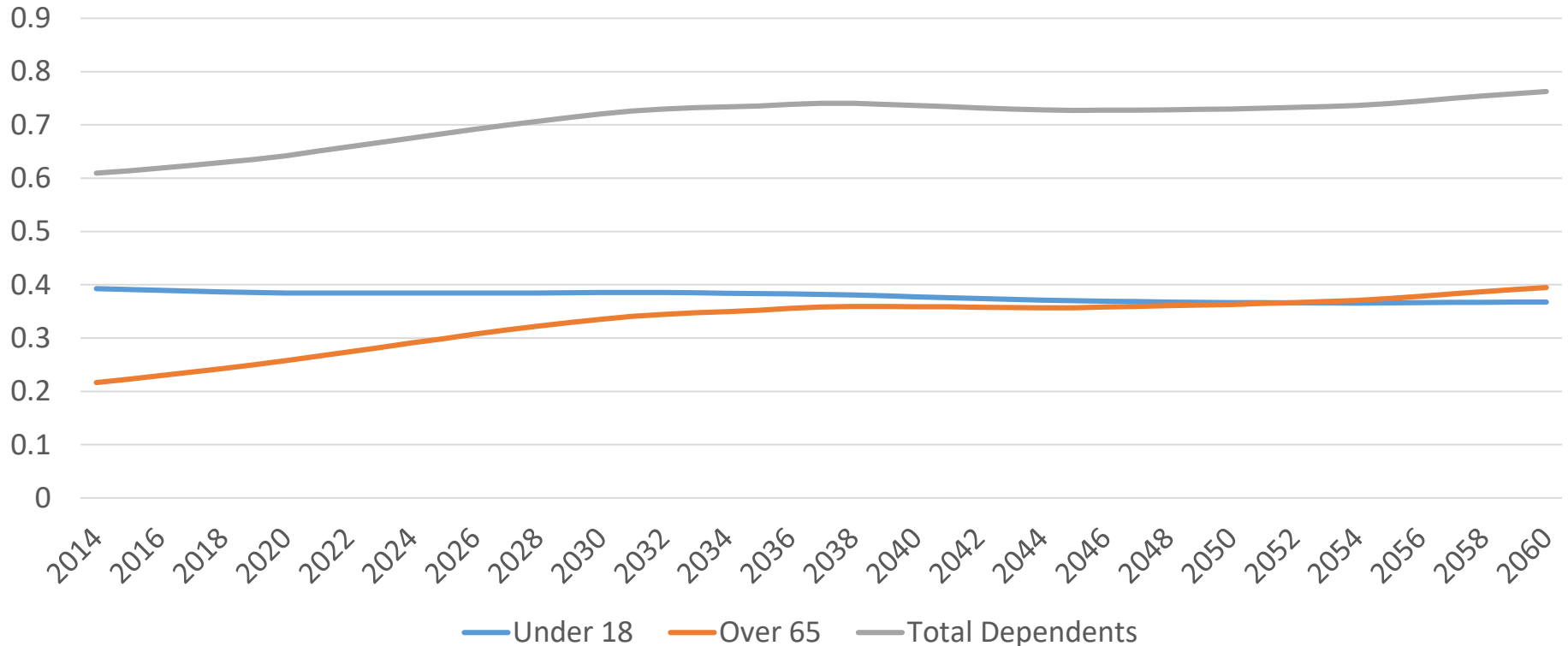
- Declining Fertility Rates Among Baby Boomer Women
- Baby Boomers Shift from Being the Caregivers to being the Receivers of Care



Source: U.S. Census

# Growing Burden on Working Age Population

**Dependency Ratio—Share of Over 65 and Under 18 to Working Population  
2014 - 2060**



Source: U.S. Census Bureau Projections, 2014

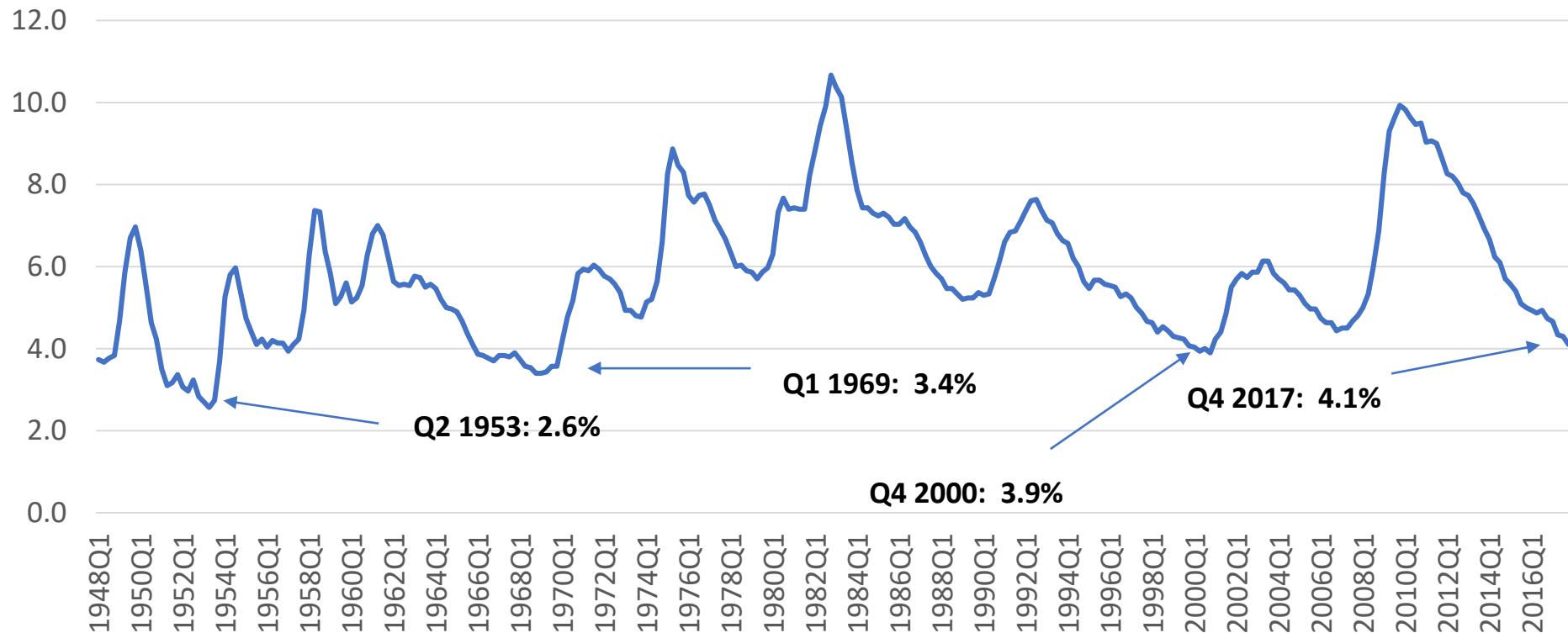
# **The Economy:**

## **Rising Wage Rates, Rising Interest Rates**



# Getting Closer to Record Low Jobless Rates...

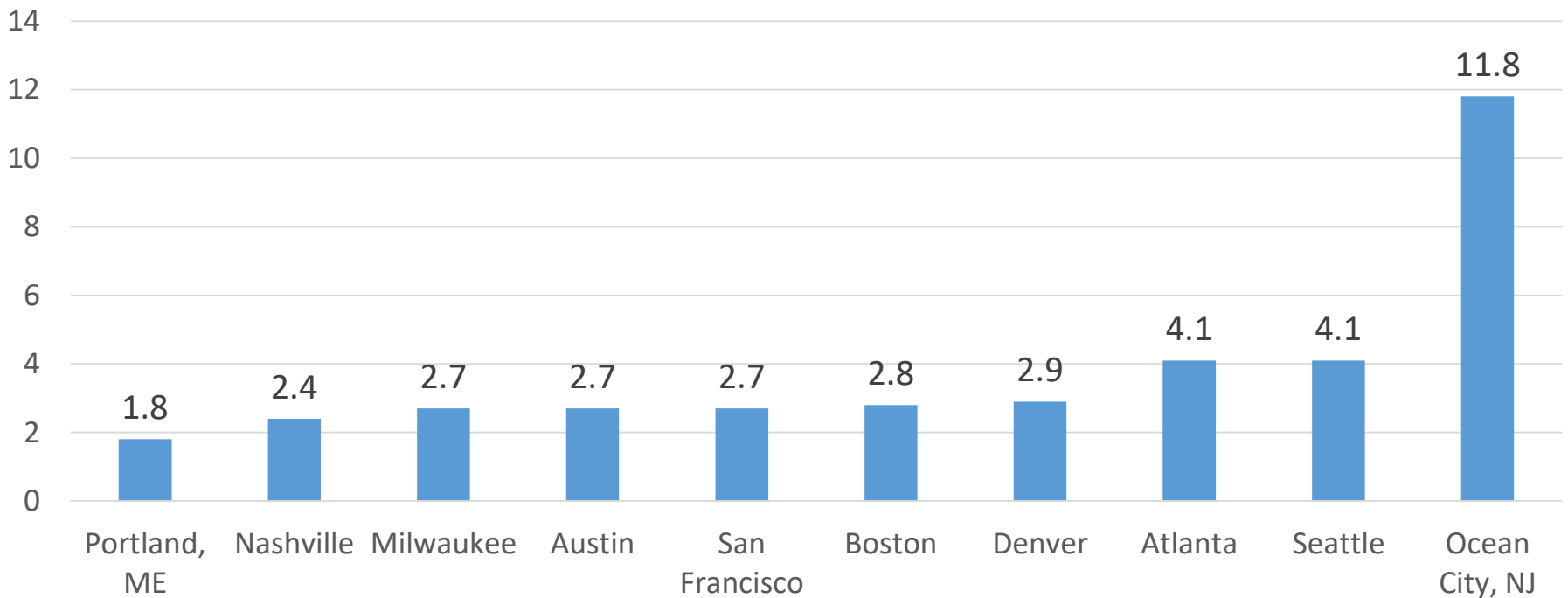
**U.S. Unemployment Rate (%)**  
**Q1 1948 – Q4 2017**



Source: US Bureau of Labor Statistics, Moody's Analytics

## ...And Some Labor Markets Are Even Tighter

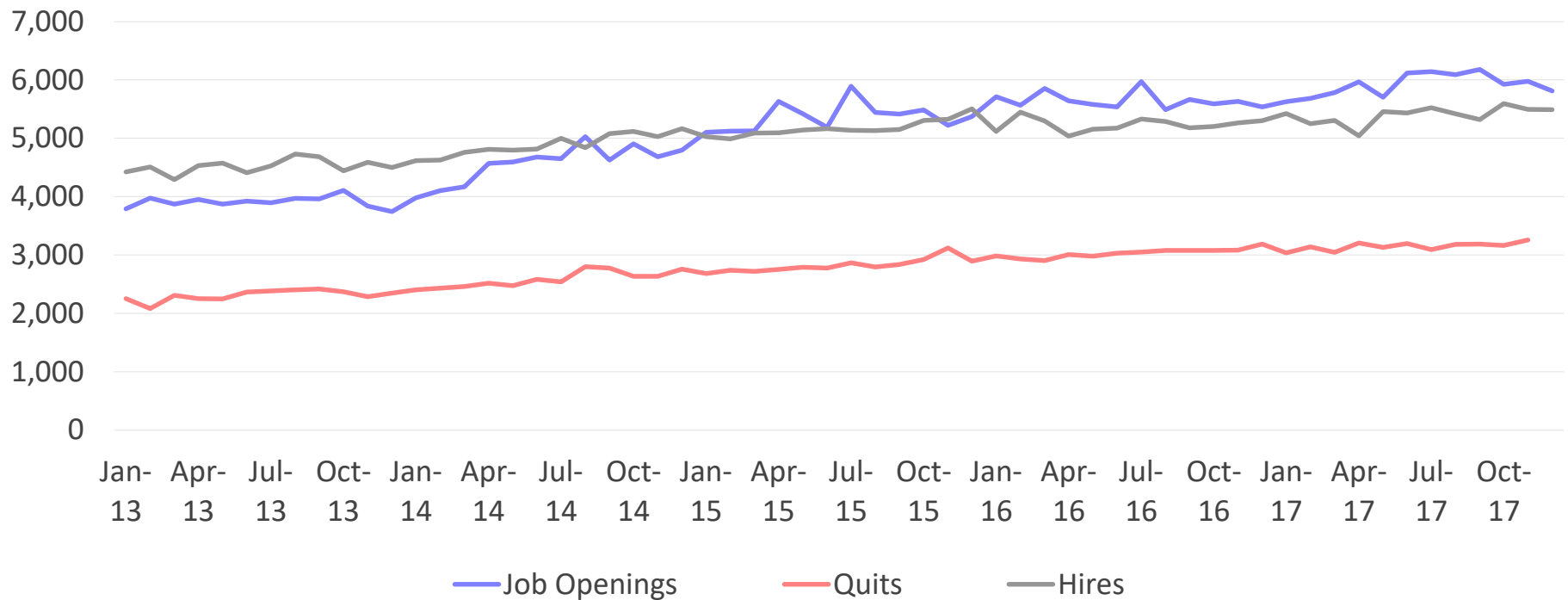
**Metropolitan Area Unemployment Rates (%), Low to High  
December 2017**



Source: U.S. Department of Labor

# Strong Labor Demand...

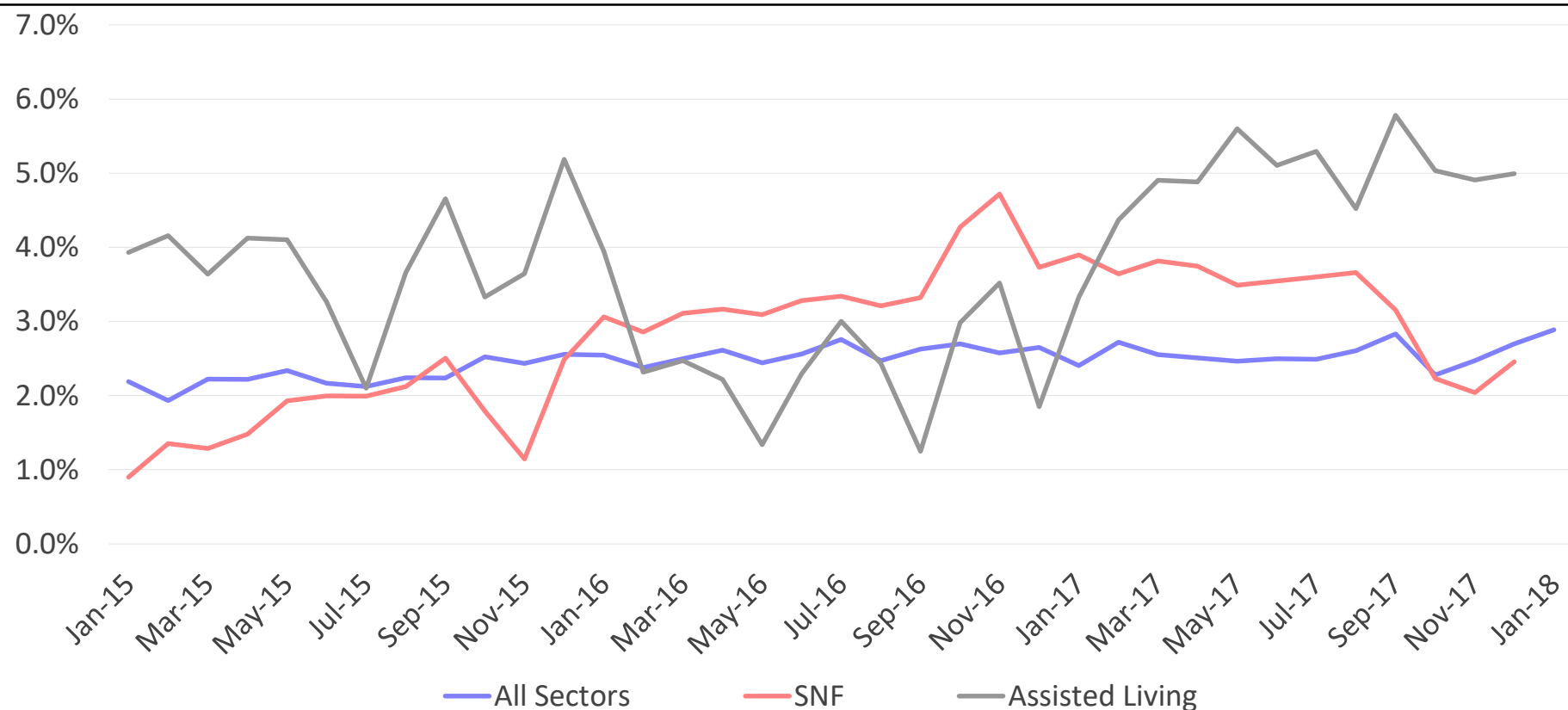
**JOLTS Data: U.S. Job Openings, Quits and Hires (000s)**  
**January 2013 – December 2017**



Source: US Bureau of Labor Statistics, Moody's Analytics

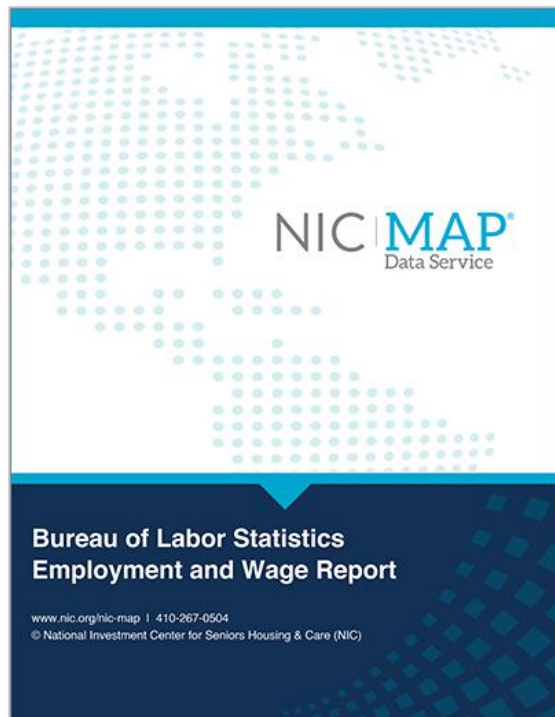
## ...Leading to Mounting Wage Pressures

**Average Hourly Earnings (Percent Change from Year Ago)**  
**January 2015 – December 2017**

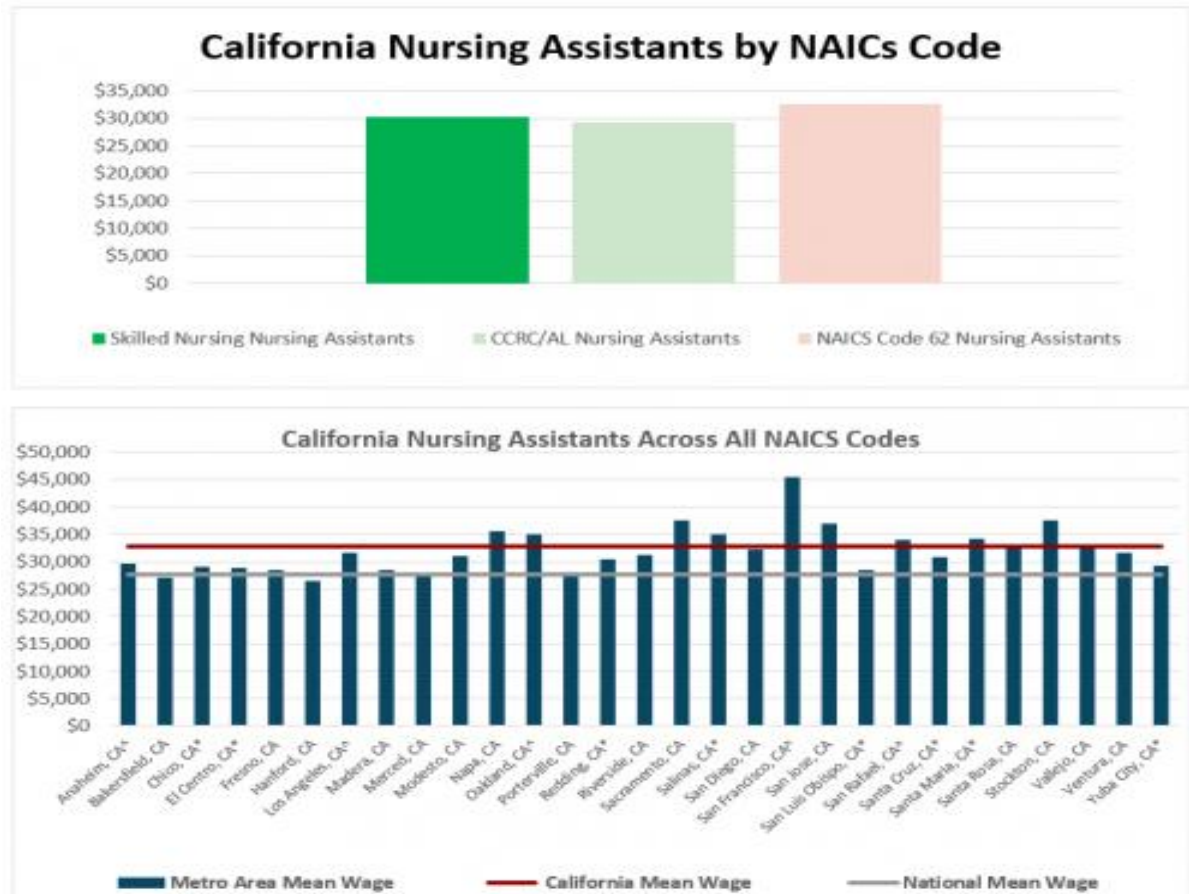


Source: Moody's Analytics, U.S. Department of Labor

# The New NIC MAP® Bureau of Labor Statistics Employment and Wage Data Report



Source:, U.S. Bureau of Labor Statistics



# And This Recovery Is Getting Long...Is It Time to Worry?

## HISTORY OF U.S. RECESSIONS AND EXPANSIONS

Recessions	Duration (Months)	Expansions	Duration (Months)
1945	8	1945-48	37
1948-1949	11	1949-53	45
1953-54	10	1954-57	39
1957-58	8	1958-60	24
1960-61	10	1961-69	106
1970	11	1970-73	36
1973-75	16	1975-80	58
1980	6	1980-81	12
1981-82	16	1982-90	92
1990-91	8	1991-2001	120
2001	8	2001-07	73
2008-09	18	2009-	104*
Average 1945-2009	11		58

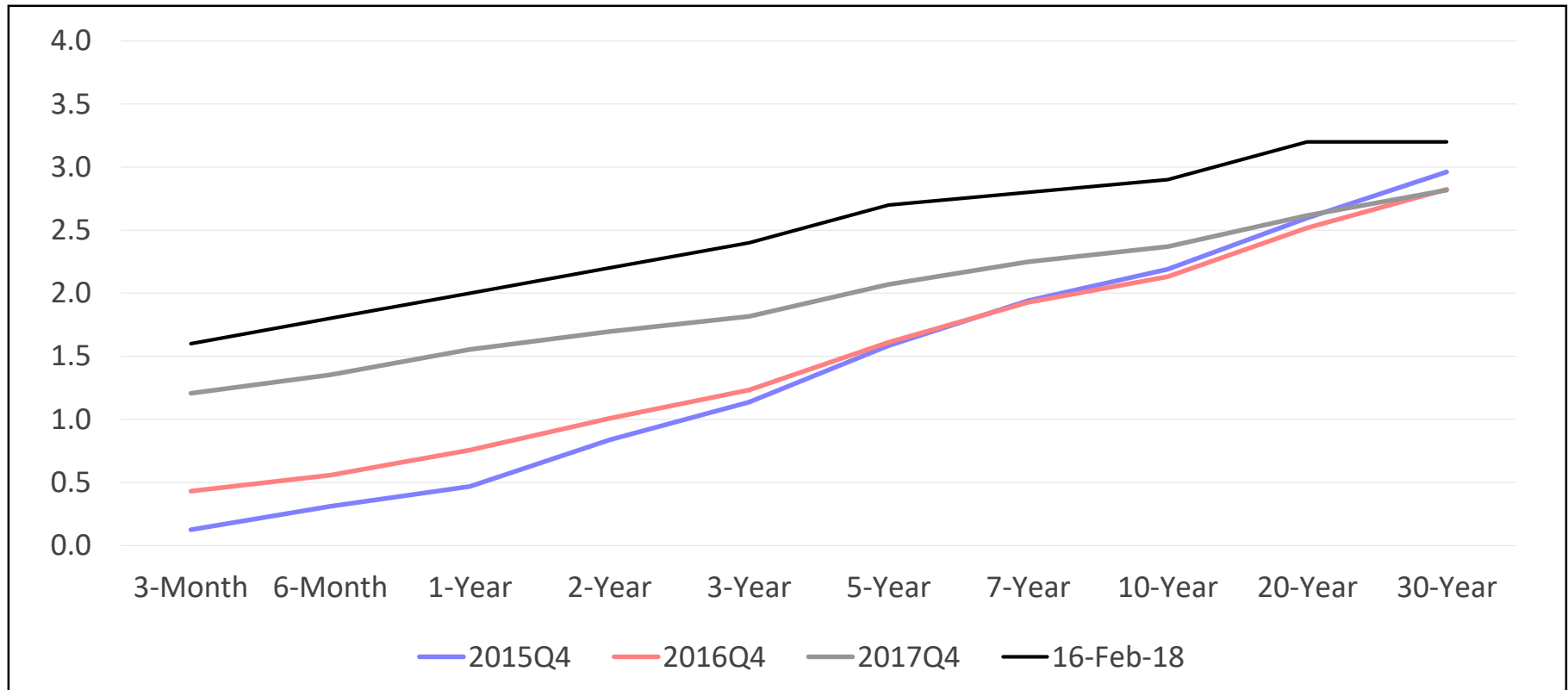
Source: NBER

\*As of March 2018

# Rising Interest Rates

## Yield Curve for U.S. Treasuries

Q4 2015, Q4 2016, Q4 2017 and Feb 16, 2018

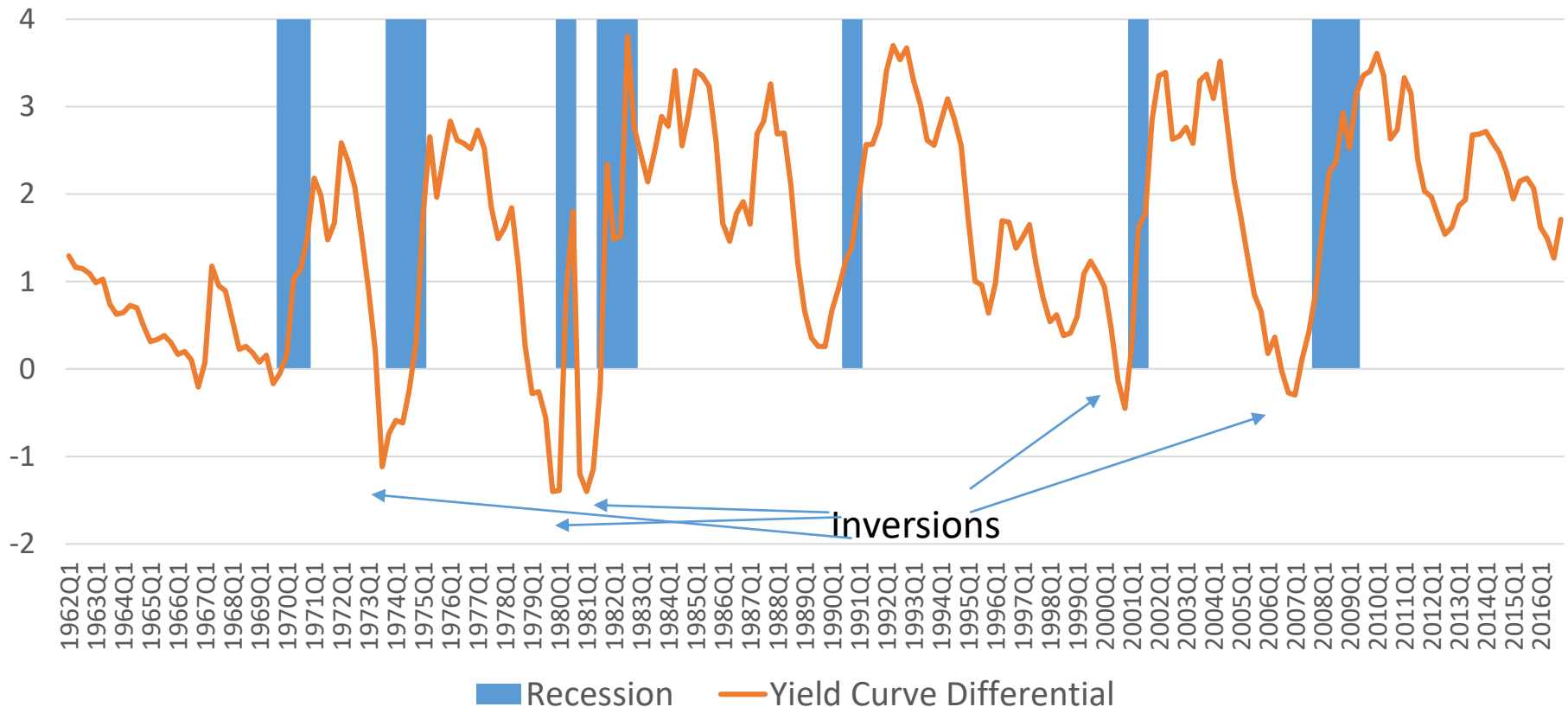


Maturity Length of U.S. Treasuries

Source: Moody's Analytics

# Yield Curve Inversions Lead Recessions

Yield Curve Differential Between 10-Year Treasury Yield and 3-month Treasury  
1962Q1– 2016Q4

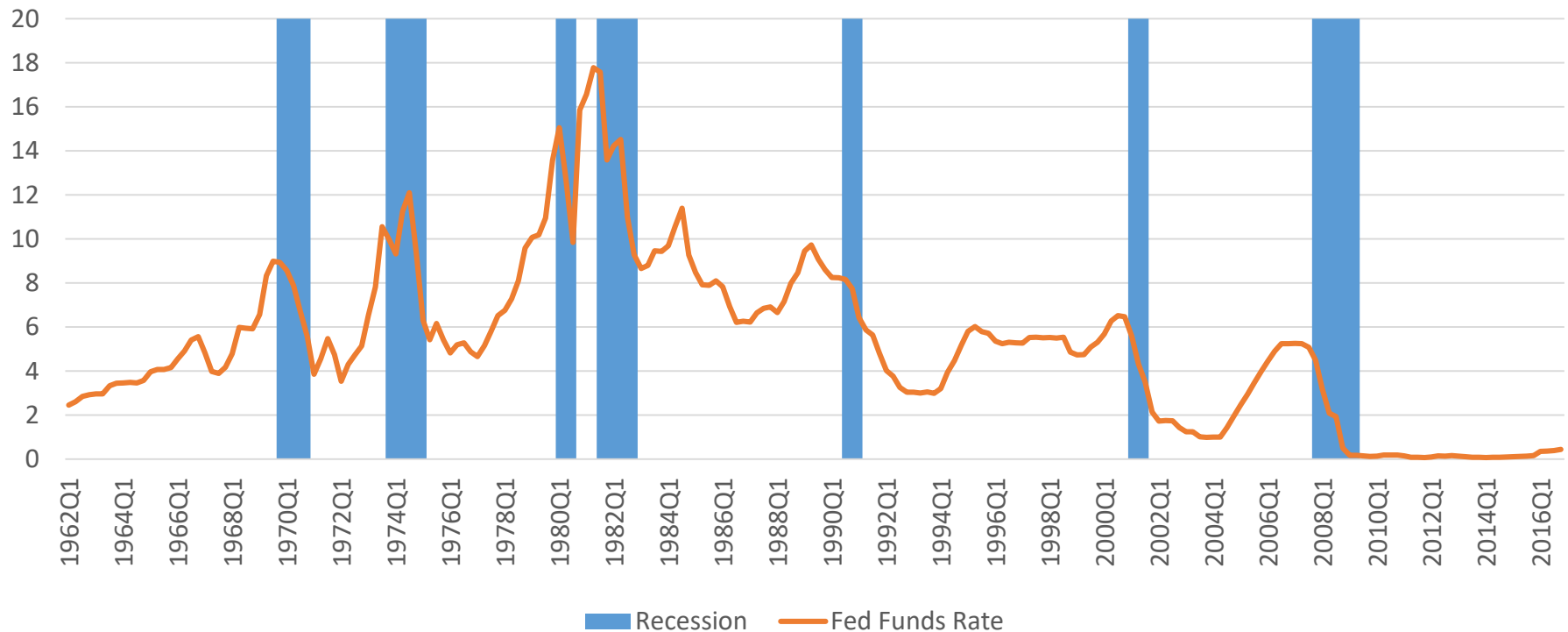


Source: NBER, Federal Reserve, Moody's Analytics



# Recent Recessions Have Been Preceded by Fed Tightening

## Fed Funds Rate and Recessions 1962Q1– 2017Q1



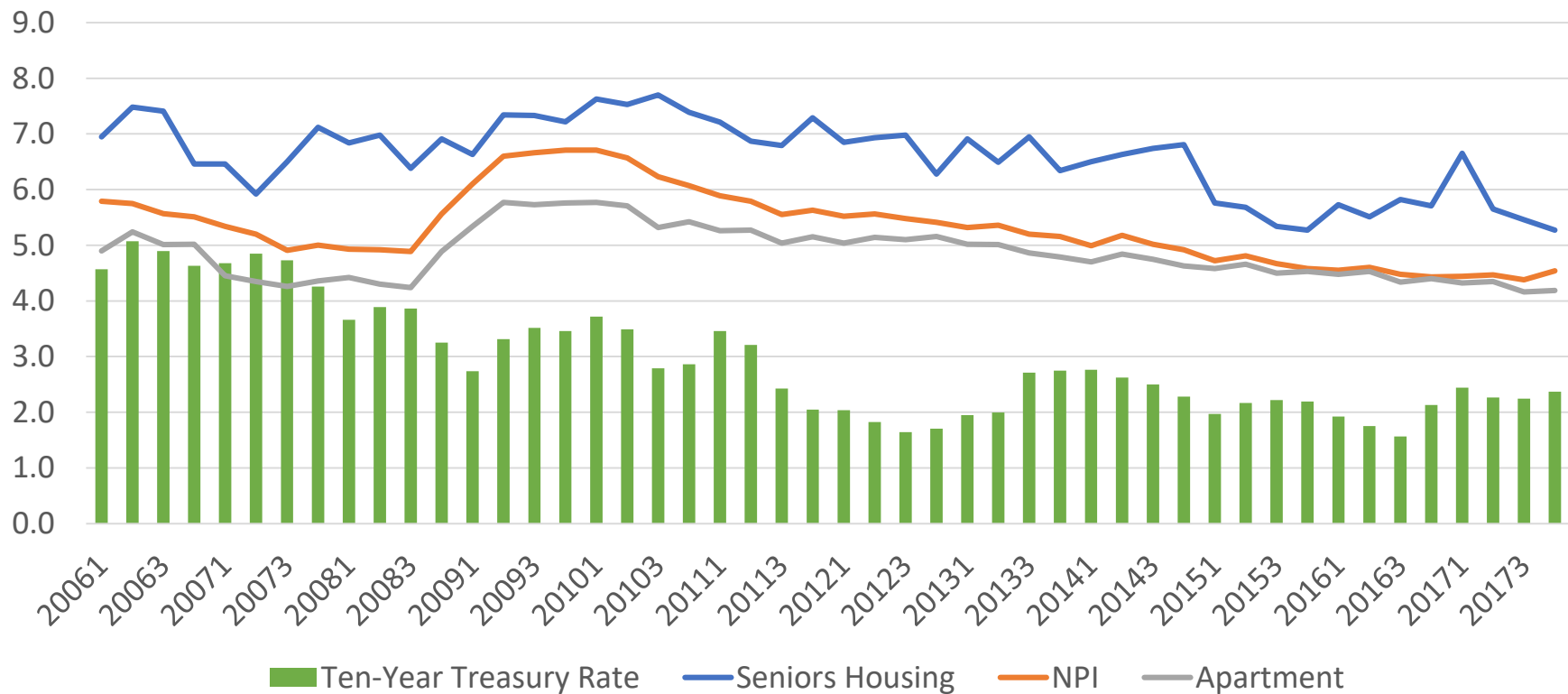
Source: NBER, Federal Reserve, Moody's Analytics

# **Seniors Housing and Care Transactions: Relatively Robust**

# How Do Seniors Housing Cap Rates Stack Up?

## Cap Rates

Seniors Housing, Apartment, NPI and Ten-Year Treasury Q1 2006 – Q4 2017

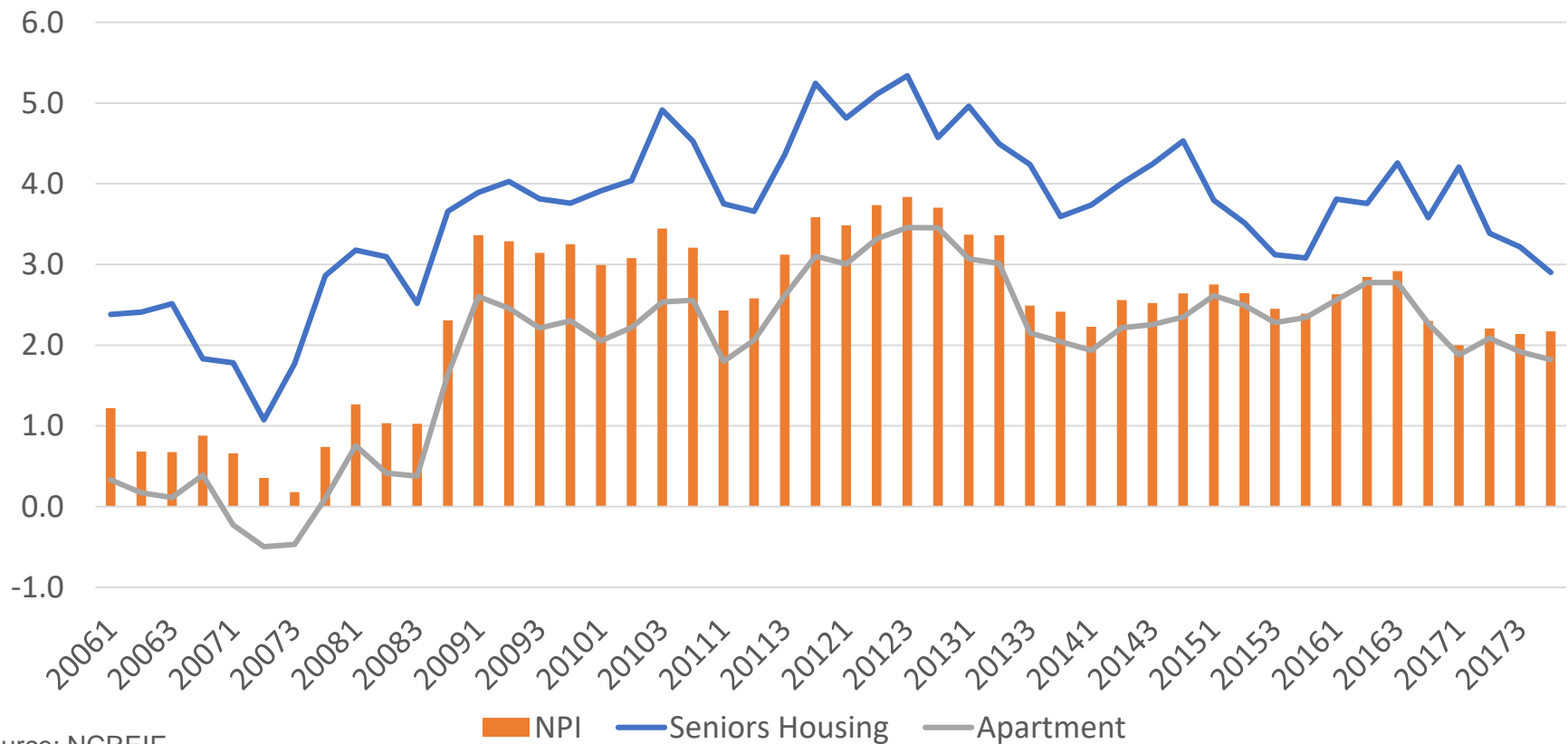


Source: NCREIF

# As Interest Rates Have Fallen, Risk Premia Have Fallen

## Risk Premium

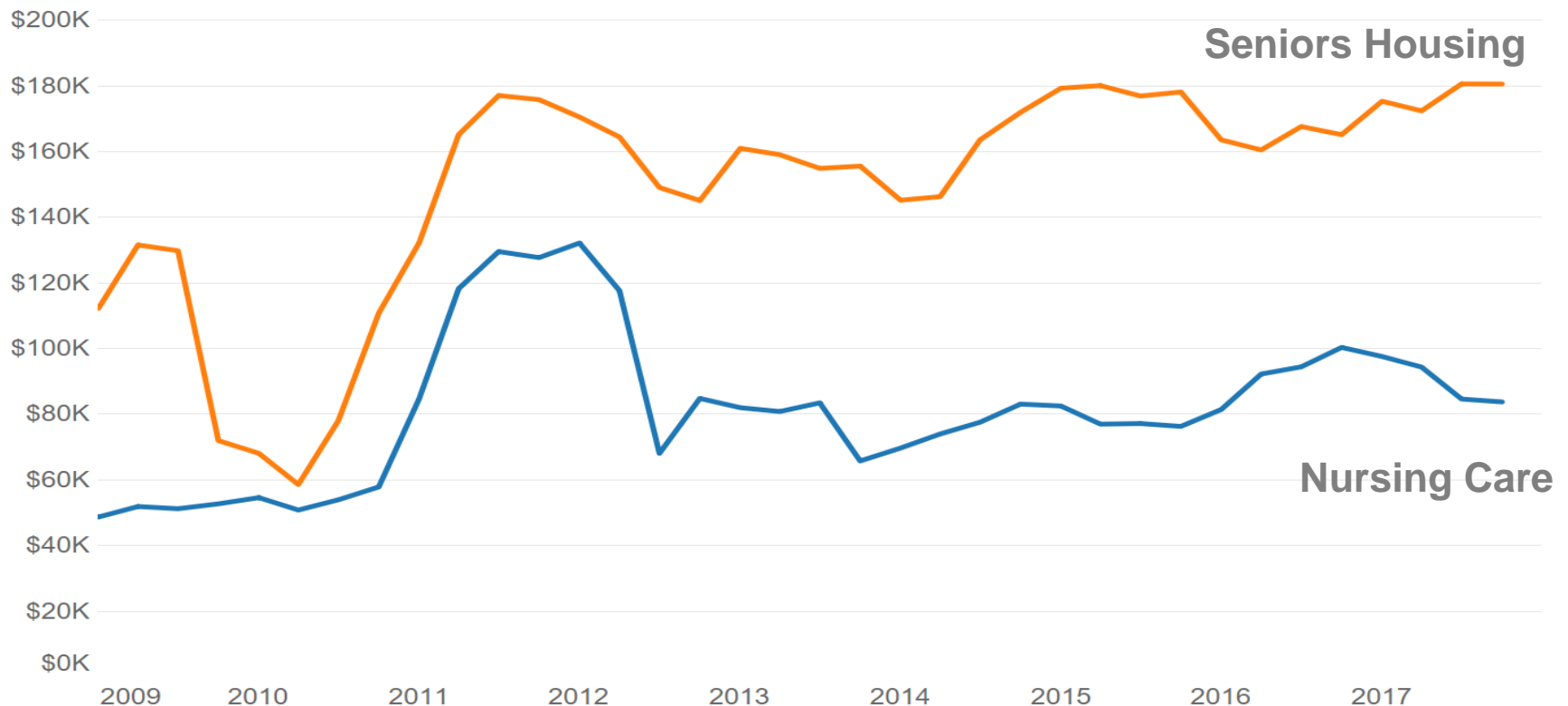
Difference Between Seniors Housing, Apartment, NPI and Ten-Year Treasury  
Q1 2006 – Q4 2017



Source: NCREIF

# Seniors Housing Pricing Hovering at Peak

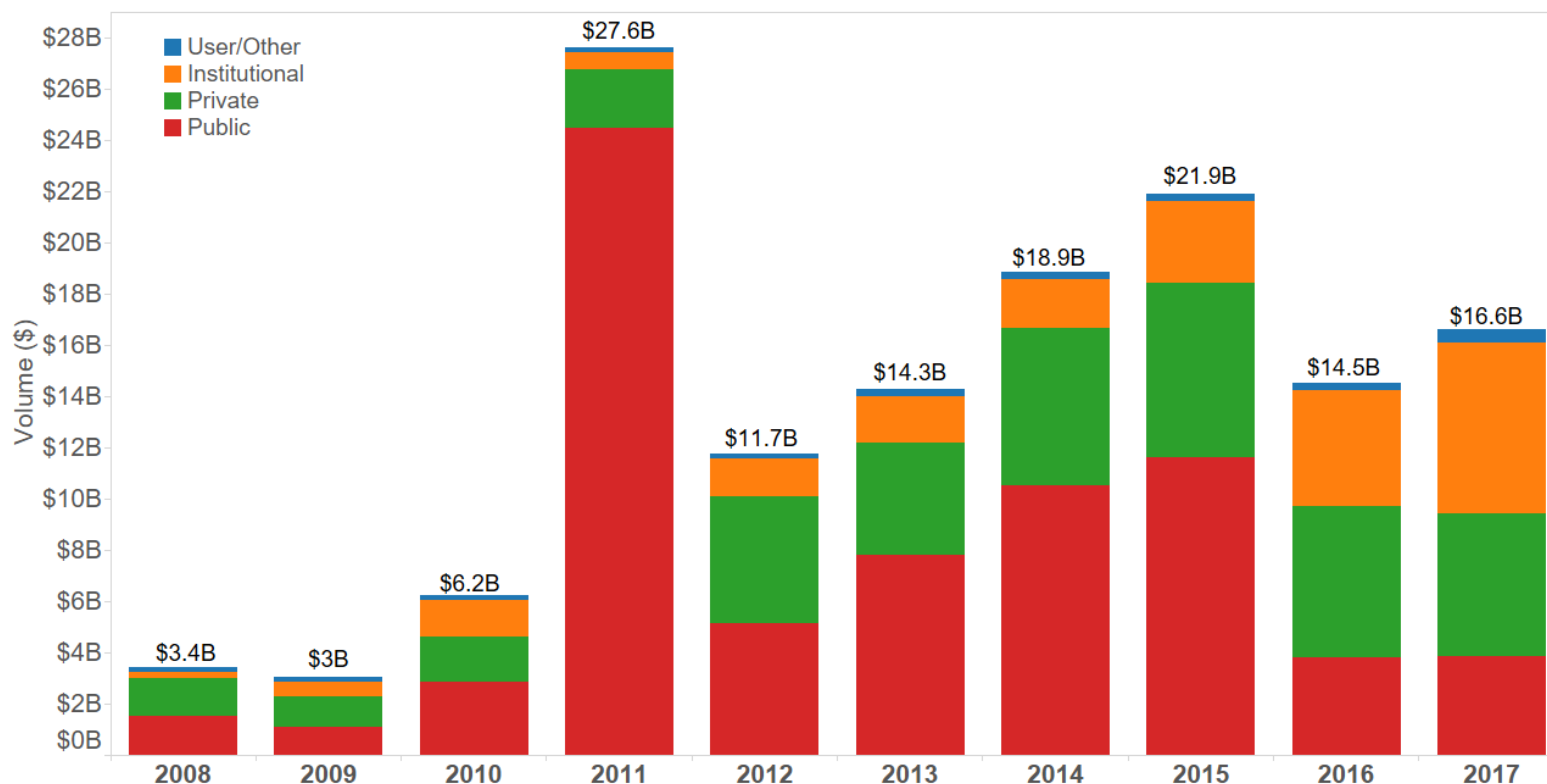
## Seniors Housing & Care Transactions Rolling 4-Quarter Price Per Unit U.S. | 1Q08 – 4Q17



Source: NIC MAP® Data Service

# Buyer Type Shifting as Public Buyers' Share Falls

## Closed Transactions for Seniors Housing & Care by Buyer Type\* 2008 – 4Q 2017



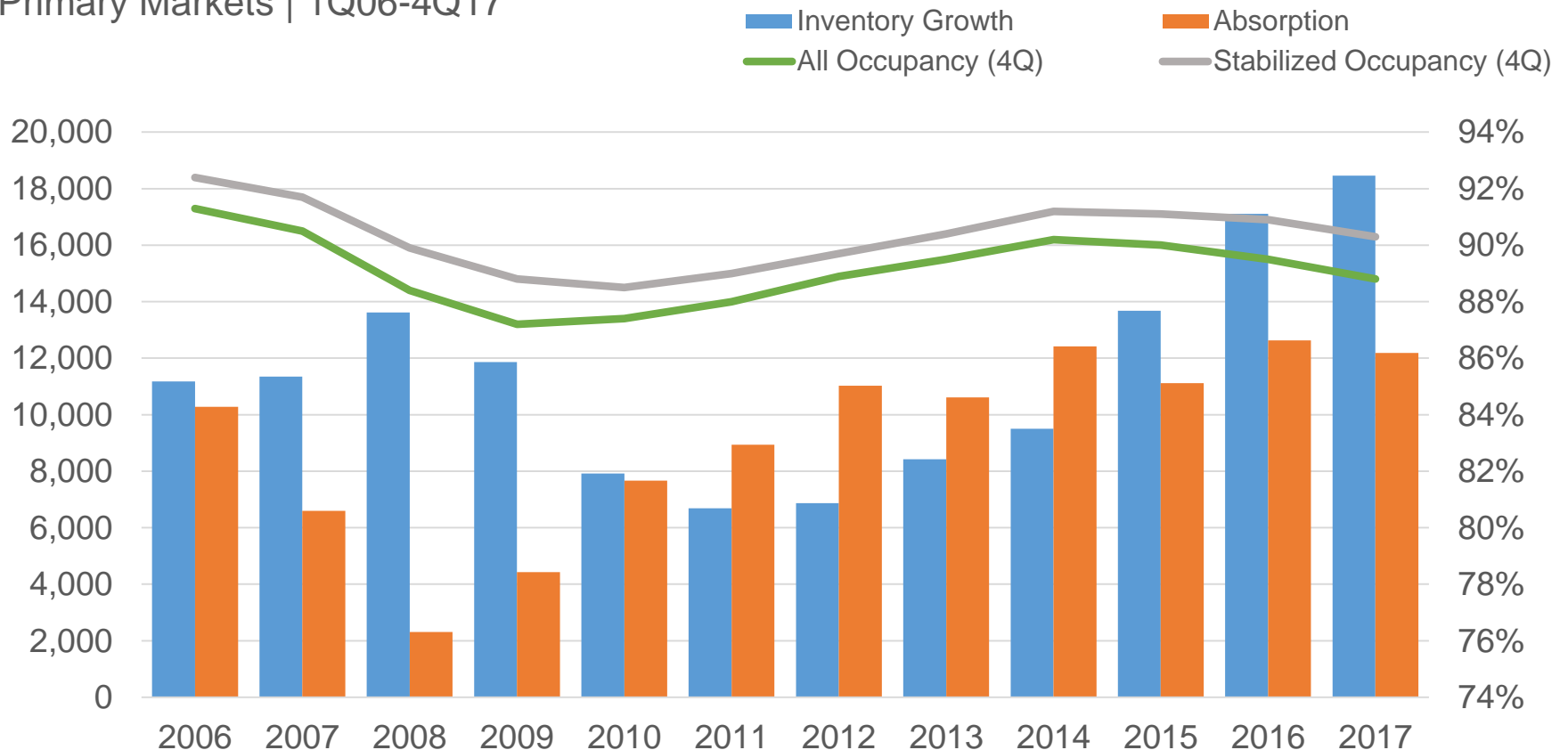
Source: NIC MAP® Data Service

\* Preliminary Data

# **Seniors Housing Market Fundamentals: Occupancy Flat**

# Seniors Housing Occupancy Slips Further

## Seniors Housing Fundamentals Primary Markets | 1Q06-4Q17

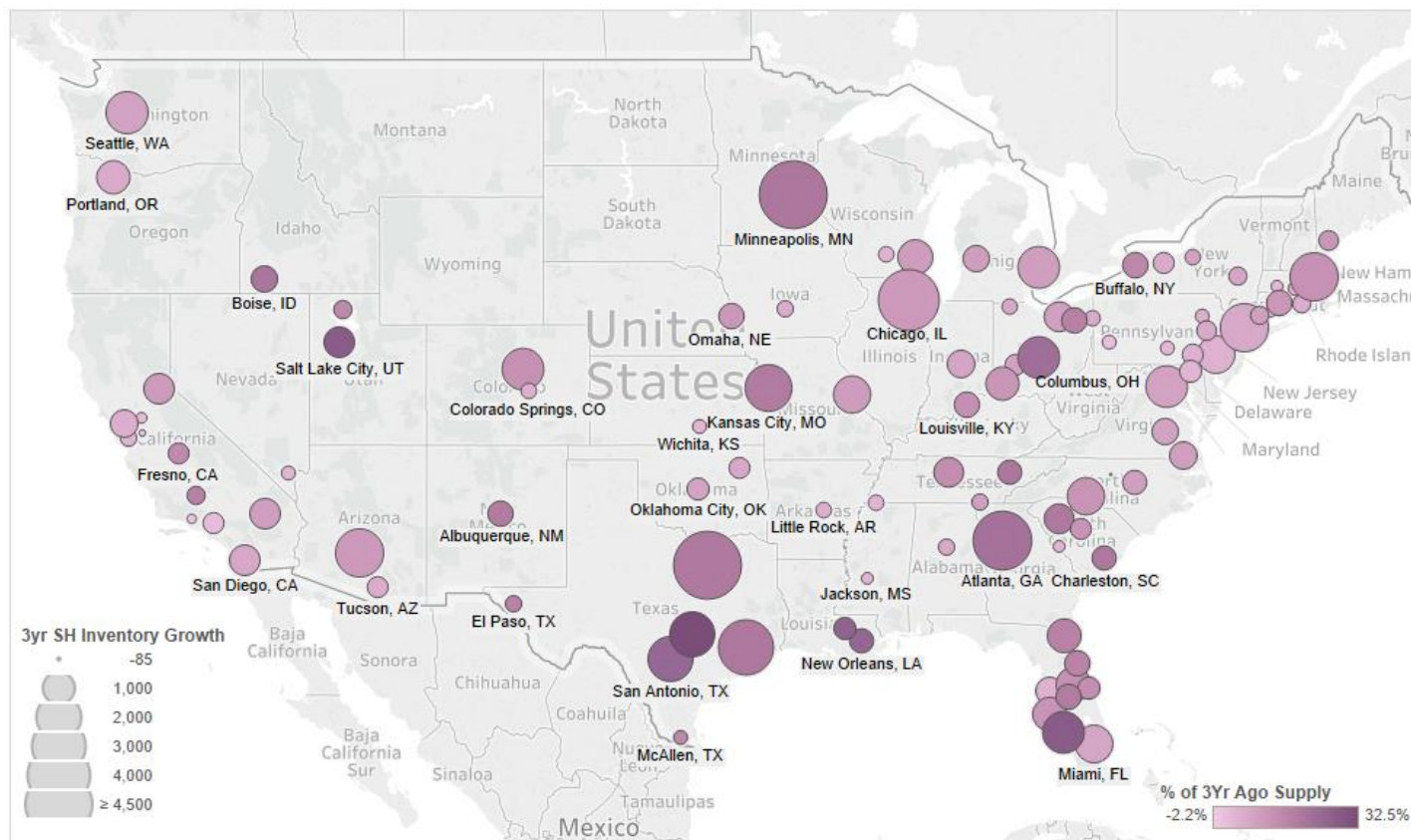


Source: NIC MAP® Data Service



# Where Did Inventory Growth Occur in Last Three Years?

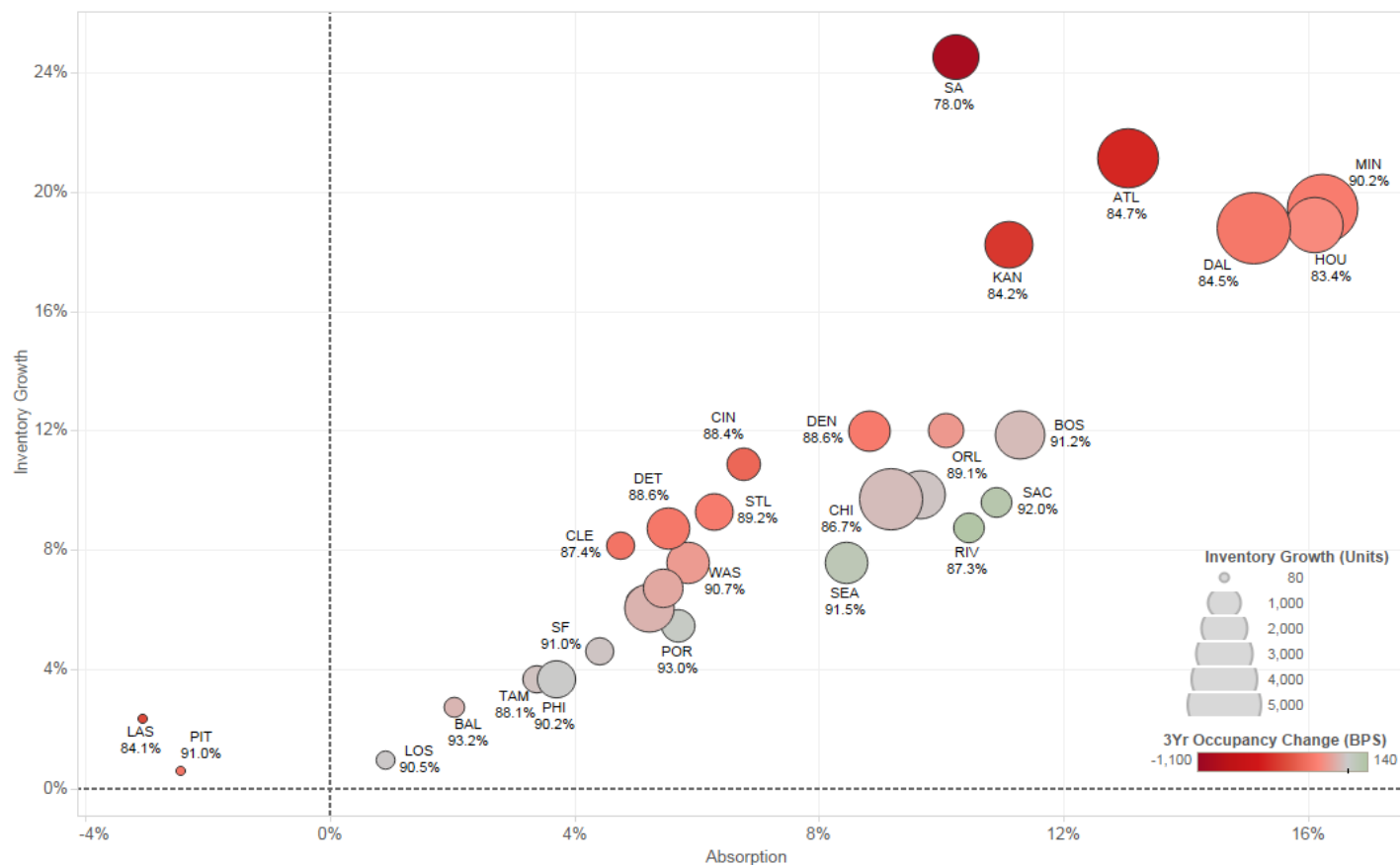
## Seniors Housing Annual Inventory Growth Primary & Secondary Markets | 4Q14 – 4Q17



Source: NIC MAP® Data Service

# A Three-Year Look Back at Supply and Demand by Market

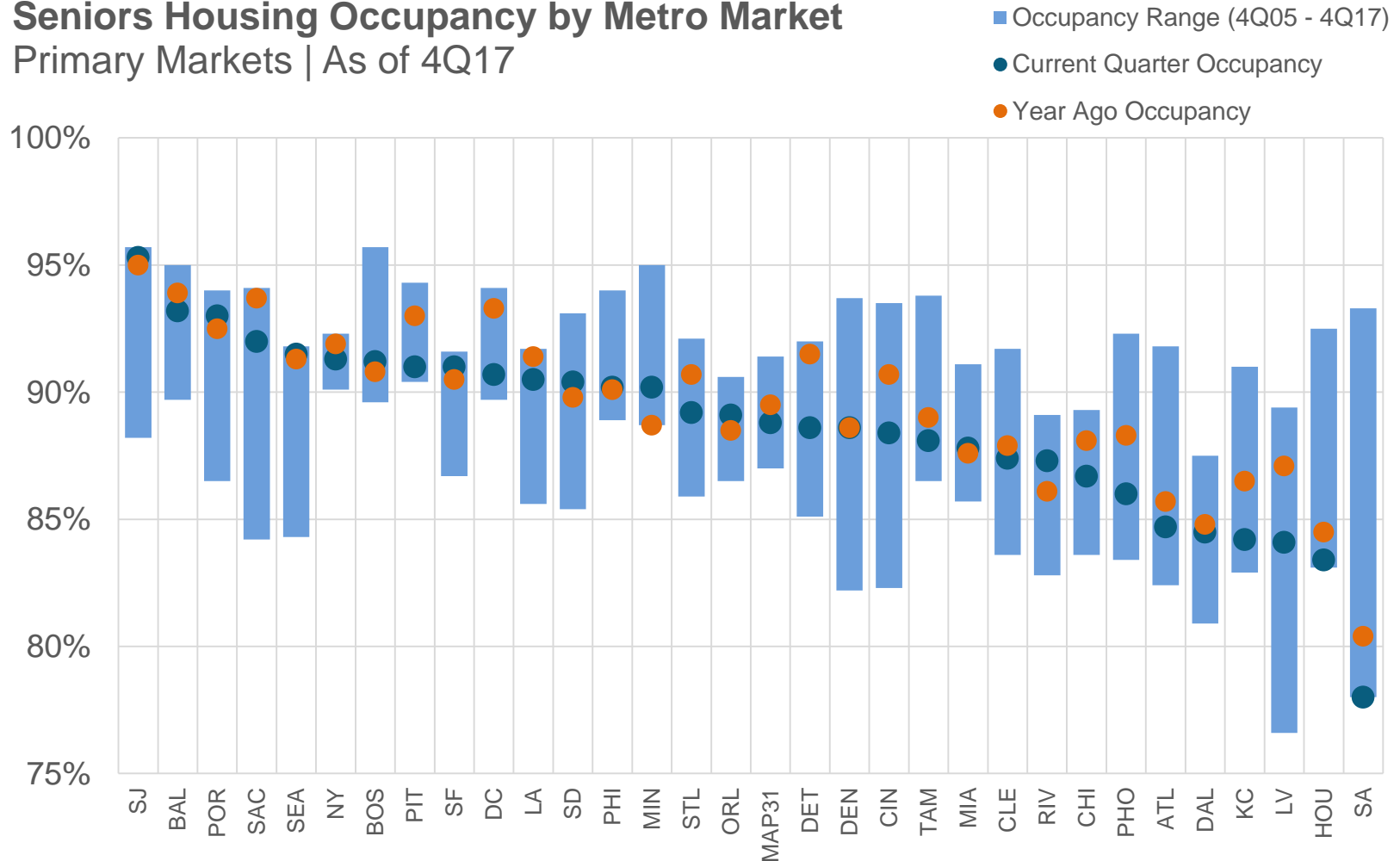
## Seniors Housing Supply-Demand Primary Markets 4Q14 – 4Q17



Source: NIC MAP® Data Service

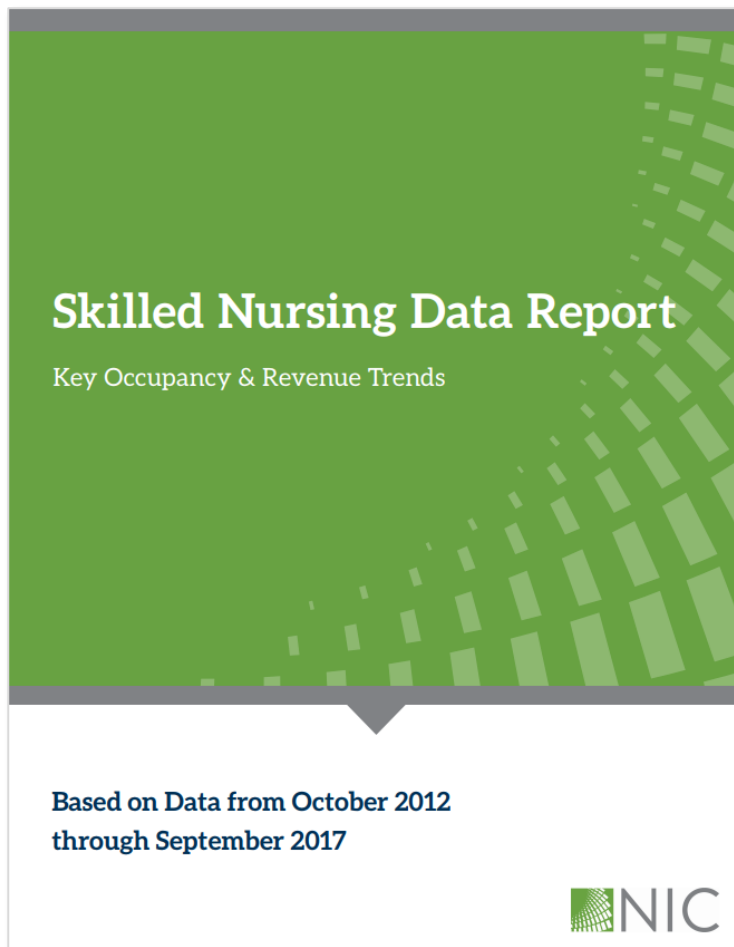
# Seniors Housing Occupancy By Market

## Seniors Housing Occupancy by Metro Market Primary Markets | As of 4Q17



Source: NIC MAP® Data Service

# Skilled Nursing Update



1. Occupancy reached a new low in the third quarter of 2017.
2. Medicaid patient day mix continues to make up a growing share of occupancy, reaching its highest point in the five-year series.
3. Medicare patient day mix still driver of lower occupancy, hitting a new low.
4. Managed Medicare revenue per patient day declined from the prior quarter.

Accessible through the Reports page in the NIC MAP® Client Portal

Source: NIC Skilled Nursing Data Initiative



Upcoming NIC Events:

## 1Q18 NIC MAP® Data Release

Thursday, April 12, 2018, 4:15 PM ET

## 1Q18 NIC MAP® Client Webinar

Thursday, April 19, 2018, 11:00 AM ET