HEALTHTRUST
Seniors Housing & Healthcare Real Estate Advisory Services

TRENDS IN SENIORS HOUSING

Market Update with Alan Plush, MAI

IS IT 1999 ALL OVER AGAIN?

Well, thankfully not for a number of reasons, but with that as a headline I was hoping to catch some interest. In reality, for six months I've been trying to author our quarterly newsletter and for six months we've been too busy or events have moved too fast. I offer the following industry overview with the same concerns that one has when jumping from a fast-moving train. The landscape seems to change quickly these days.

Fall NIC/ASHA Recap: While the NIC/ASHA meetings are well in our rear-view mirror, I think they form a backdrop for events that continue to unfold. For years it was common to hear conversations start with "*I have a $25m acquisition line from a REIT.*" These days the line has changed in terms of aggregate dollar amounts, and there are fewer players with whom the large three REITs are conducting business; however, the second-tier REITs are very active and continue to acquire and fund new development.

Both events were a sellout, with the NIC capping attendance as with past years. What's encouraging is the number of "new players," especially from the institutional equity side. Recent transactions have evidenced the in-migration of both domestic and foreign capital into our space as investors continue to scramble for yield, taper or not. Interest rates remain low, and as a Northern Trust banker told me recently when I asked "*who loses in this market?*" the response was "*savers.*" Money continues to come in from the sidelines, as "savers" of all stripes grow weary of sub 1% returns on safe assets.

Is this good for senior housing? Absolutely. Continued increases in transparency as well as the strong performance of the sector through the great recession have certainly augmented the asset class among other real estate sectors, especially as many predict the doom of big box retail at the expense of online retail. That being said, our sector should remain in favor as the population continues to age, operators continue to improve, and capital becomes increasingly knowledgeable and available.

In summary, the annual NIC/ASHA events serve as industry barometers and my read was that market activity is strong, participants are enthused and optimistic, and given the continued availability of capital most expect the level of market activity to continue.

ASHA/Stiffel Nicholas Recap: Offering a very similar tone was the annual ASHA meeting held a few weeks back in South Florida. ASHA is a smaller but equally impactful group of industry insiders, and also serves as a barometer for the sector. Colleen Blumenthal led a roundtable discussion and offers her insight below. Stiffel Nicholas has a single-day healthcare real estate investor conference following ASHA that I found very beneficial. Presentations from the leadership of two of the big three REITs, as well as smaller REITs and operators provided excellent insights into the direction of the industry. ASHA had its usual group of excellent speakers as well as challenging golf (NO more on that later), and I sensed the mood is similar to that of the fall meetings. Continued focus on cap ex by larger operators with older physical plant (much of which was deferred during the downturn and now needs to be tended to urgently), operations, marketing and new development. One comment I found telling was "*If every project that is being discussed is built, we will have substantial oversupply. Fortunately many will not be built.*" For me that really sums up the approach the market is taking this go-around, much more

discipline on the part of operators, lenders, equity and consultants. This business, with its capital intensive nature, has proved that it can create as well as destroy large fortunes fast. However, as usual, patience and quality typically result in long-term satisfaction.

Construction Update: New development is all the rage, somewhat dampened by lender requirements (65-70% loan to total project costs are typical), equity caution, and the scarcity of available, quality operators. Speaking from personal experience, these projects take TIME to do right. As construction start numbers continue to increase, the statistics to watch will be absorption rates, overall market occupancy, construction costs, and loan terms. Signs of a bubble will be when the former decrease and the latter increase…

Capital Markets: If our appraisal client list is any clue, capital availability is increasing for the sector. Being in this business for many years, we've been fortunate enough to have a very diverse client base; however, I've noticed in the past six months that the volume of new clients is increasing. This is a leading indicator (or has been in the past) of sector acceptance by the broader lending market. Loan terms remain conservative for lower-tier borrowers, but for those with a track record and clean assets the market is relatively competitive. This doesn't include the REITs, whose cost of capital remains near their lowest levels ever. This allows for continued competitiveness to traditional lenders, not counting agency (Fannie Mae/Freddie Mac) sources. In addition, we recently completed a portfolio for an insurance company (no…that is not a typo). While nowhere near the halcyon days of the mid 2000s, a dearth of available quality product for purchase, coupled with strong operational performance and capital availability has resulted in cap rates remaining at some of their lowest levels ever despite worries about interest rate increases. Fundamentally, the acquisition market has absorbed both fear of and actual interest rate increases thus far.

WHAT'S NEW AT HEALTHTRUST?

After finishing the busiest 4th quarter I can remember, and as a way to make a general apology to ALL of the clients we were unable to assist due to volume, I have a few important announcements:

HealthTrust Canada: For those that missed the announcement, Peter Matteson and Michelle Carvalho has re-established our presence in Canada, opening an office in Toronto. I have always valued our Canadian relationships and am glad to be returning, especially with the assistance of two well-respected market leaders.

Staff: Recognizing that we were under-staffed; I am pleased to announce additional personnel in Birmingham, Boston, Los Angeles and Sarasota. I remain very apologetic that we did not staff up in the 3rd quarter and regret any inconvenience caused to our clients. Currently, we employ six appraisers who have received the MAI designation. In addition, all of our appraisal staff are either Practicing Affiliates or Candidates for Designation in the Appraisal Institute.

Technology: Where would we be these days without technology? For over a decade, HealthTrust has been at the forefront of process management and enhancement in the appraisal industry. Because of our size, we are able to adapt quickly to new technologies without them being cost prohibitive. We are



currently upgrading our proprietary database HealthComps™ to provide faster searching and greater detail than ever before. With our Canadian office integrated into the system, we can ensure our clients in Canada receive the same level of service we provide in the U.S.

While I am not usually one to brag, I would put our process, and its resultant quality, as well as our team, up against any in the industry and I would dare say we have the best, brightest and largest concentration of trained specialists you will find.

Industry Insight with Colleen Blumenthal, MAI

ASHA ANNUAL MEETING RECAP

The sunny skies and alluring upper 70s temperature prompted strong attendance at the ASHA Annual Meeting. HealthTrust was well represented with three Partners (Alan Plush, David Salinas and Colleen Blumenthal) present. David Salinas played in the tournament-winning foursome, while Colleen Blumenthal stayed indoors and led a well-attended, roundtable discussion on valuation trends.

Industry participant discussions, both formal and informal, focused on the following themes:

Amount of New Construction Proposed: Nearly everyone had a story about an investor from another sector looking to develop a seniors housing project. One capital markets panelist indicated there were a lot of tire-kickers in the market while another called on lenders to act as gatekeepers, pointing out the risk to the entire industry if bad care or performance outcomes followed development by one of these newcomers. Anecdotally, at HealthTrust, we are also seeing tremendous development interest from both experienced industry and new-to-the-scene folks. With more construction capital available, the competitive landscape will definitely be changing in some areas.

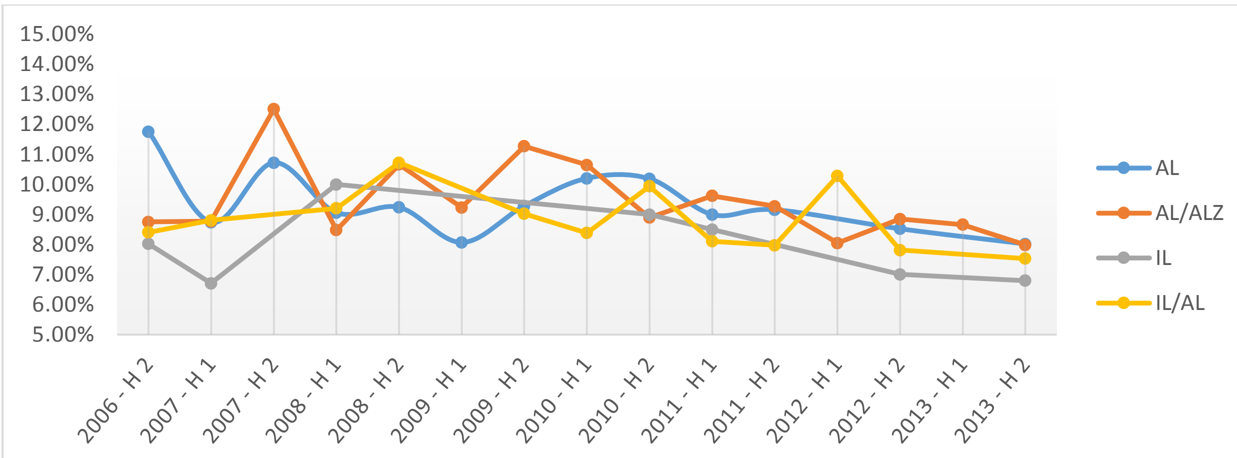
Capital Investment: In the face of the new development and recognizing that the median age of seniors housing properties is 15 years, many participants were asking about capital expenditures: how much is enough? Where is the money best spent? What impact can one expect on occupancy and rates?

Technology: Panelists in more than one session described increasing reliance on technology in their communities. Some of the investment promoted family relations with residents (Wi-Fi, central computers with Skype abilities) while others reduced staffing and paperwork with paperless resident care and better monitoring.

Cap Rates: It is simply impossible to hold a conference of industry executives without the future of cap rates being raised. The general consensus was that after a spike in rates last spring, capitalization rates in seniors housing remained stable due to an increased number of potential investors and a limited amount of product available. While all acknowledged that a rise in the cost of capital will ultimately have a similar impact on capitalization rates, the short-term outlook is for more of the same with highly

desirable properties trading at rates beginning with a “6” or “7”, while the rest of the product being 100 to 200 basis points higher.

The table below exhibits trends across all segments over the last seven years:



Source: HealthTrust

In summary, this year’s meeting was quite informative and a more relaxed start to the 2014 conference year. I enjoyed speaking with many of you, but if we couldn’t connect, I can always be reached at colleen.blumenthal@healthtrust.com or 941-363-7502.

Housing Trends in Canada with Peter Matteson

The Demand for Congregate Living in Canada

The baby boomers began turning 65 in 2011 and many extol the impact the boomers will have on the residential retirement, assisted living and long-term care sectors in Canada.

Consider the following. The baby boomer birth cycle covered 16 years, and throughout their life cycle they’ve had a significant impact at various stages in their aging process. In Canada, the boomers turning 65 will come to an end around 2027. The cycle in which they turn 75 will commence in 2021 and end in 2037. Turning age 85 will start in 2031 and end around 2047.

The baby boomers will likely impact senior living, assistance and care throughout the first half of the 21st century.

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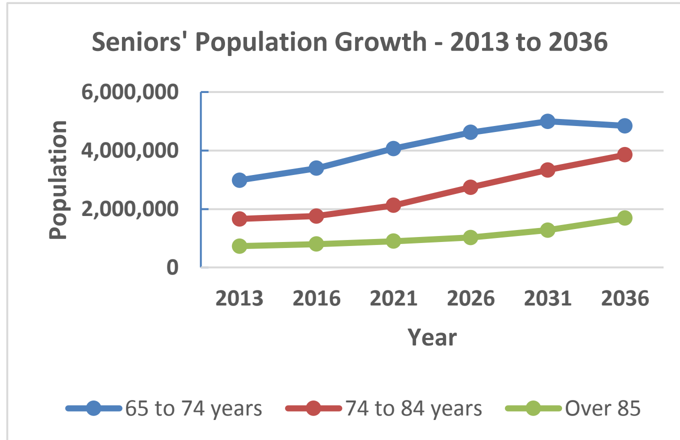

This chart illustrates the impact of seniors' population growth through 2036.

The boomers are becoming grandparents. This event is welcomed by most, however, for many early boomers whose parents are now over 85 this brings the responsibility of care.

In Canada, health care is overseen by the Federal government. Transfer payments are made to the provinces to fund health care, but the provinces are responsible for the implementation and delivery of that health care. Provincial budgets are strained and as such, the provincial governments are seeking means to stretch their health care dollars and maximize the impact.

Long-term care demands are increasing significantly. For many provincial governments, expansion of the long-term care supply poses a significant financial impact on the provincial budgets. As a result, supply growth may be slow or non-existent in future years. Supply growth that does not keep pace with seniors' population growth will increase delays of admission to long-term care, except in medical emergencies.

As seniors' projected population growth outpaces projected long-term supply growth, seniors and/or their support network may have to seek accommodation and care through private-pay assisted living and memory care residences.

The following table illustrates our projections of the impact of seniors' population growth on long-term care as well as residential retirement, assisted living and memory care capacities.

PROJECTED CANADIAN MARKET SUPPLY & DEMAND

Year	2013	2016	2021	2026	2031	2036
Population - 75 years & over [1]	2,387,300	2,563,400	3,024,000	3,766,200	4,614,900	5,537,400
LONG TERM CARE [2]						
Supply	198,000	**Occupied beds per thousand of population:**				
Occupied beds	194,000	**81.3**				
Projected Cumulative Add'l Supply @ 81.3 beds/1000		13,600	50,900	111,100	179,800	254,500
# of Residences @ 200 beds/residence		68	255	556	899	1,273
RETIREMENT [2]						
Supply	159,866	**Occupied beds per thousand of population:**				
Occupied Suites	143,400	**60.1**				
Projected Cumulative Add'l Supply @ 60.1 beds/1000		10,700	38,300	82,900	134,000	189,400
# of Residences @ 140 units/residence		76	274	592	957	1,353
Total Cumulative Supply Required		**144**	**529**	**1148**	**1856**	**2626**

Source: Statistics Canada & HealthTrust Canada

The market absorption rate is the calculation of occupied beds / units in relation to the population over the age of 75 years. We have calculated individual market absorption rates for long-term care as well as for residential retirement, assisted living and memory care.

The current market absorption rate for Long-term Care is 81.3 beds per thousand of population over 75 years of age. By 2036, over 250,000 additional beds will be needed to maintain that absorption rate. If the average long-term care centre accommodated 200 beds, this will translate to over 1,270 new residences.

With respect to private-pay residential retirement, assisted living and memory care, we estimate a need for over 189,000 additional units through 2036 in order to maintain a market absorption rate of 60.1 units per thousand of population over 75 years of age. If the average residential retirement centre is 140 units, this will translate to over 2,600 new residences.

Based on these projections, the combined supply growth amounts to over 135 new residences per year.

Upcoming Events

March 4 - 6, Herbert J. Sims Late Winter Conference - More Info
March 10 - 12, Eastern Lenders Association Annual Meeting - More Info
March 16 - 18, NIC Regional Conference - More Info
March 31 - April 2, Together We Care (OLTCA / ORCA) - More Info
April 9 - 11, ULI Spring Meeting (Senior Housing Council) - More Info
April 27 - 30, Leading Age Future of Aging Services Conference - More Info
April 30 - May 2, BOMA MOB and Healthcare Facilities Conference - More Info

Contact us today to schedule a meeting.

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