

GREYSTONE

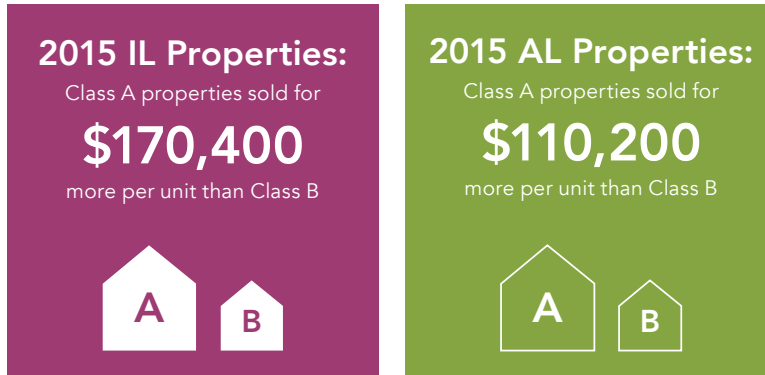
GREYSTONE REAL ESTATE ADVISORS SENIORS HOUSING

JUNE 2016 MARKET TREND REPORT



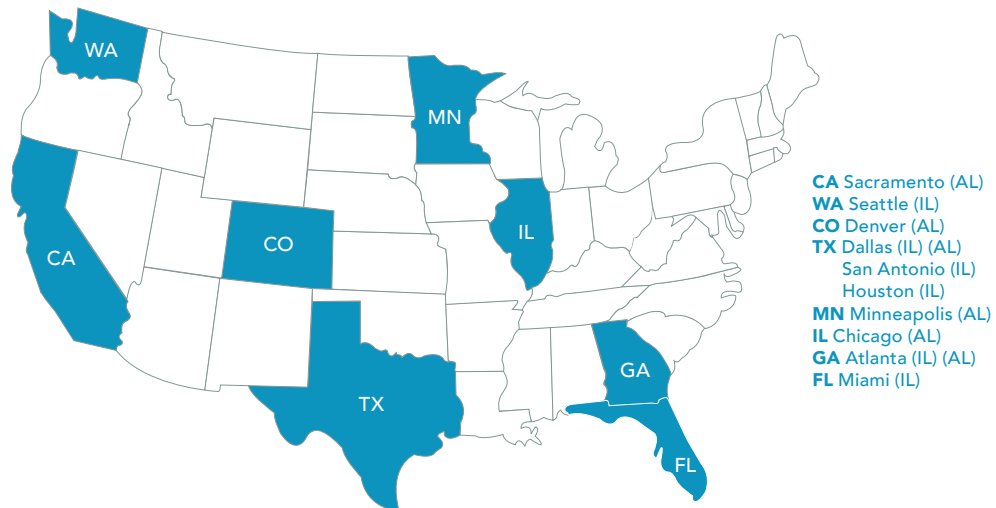
The Seniors Housing sector is constantly changing and evolving. Greystone Real Estate Advisors is in the market every day, continuously talking to buyers and sellers across the United States and Canada. In this Market Trend Report, we discuss topics that are relevant in our world today, and cover buying and selling tips that we hope our readers will find useful.

CLASS A VERSUS CLASS B PROPERTIES: CHALLENGES AND OPPORTUNITIES



SELLING IN A HIGH CONSTRUCTION MARKET

Collectively the **Top 6 Construction Markets** for each sector (IL and AL) have as many units under construction as the rest of the **top 31 MSAs Combined (1Q2016)**



PROPERTY PRICING INFLUENCERS

In 2015:



JUNE 2016



CLASS A VERSUS CLASS B PROPERTIES: CHALLENGES AND OPPORTUNITIES

The difference between selling a Class A property versus selling a Class B property can be significant. According to *SeniorCare Investor's* annual report, Class A properties garnered \$248,500 per unit for assisted living and \$243,300 per unit for independent living communities in 2015. However, Class B properties sold for less – earning only \$138,300 per unit for assisted living and \$72,900 per unit for independent living. In 2015, approximately 60% of assisted living properties sold were Class B, while 40% were Class A. In independent living, approximately one-third of the properties sold were Class A, while two-thirds were Class B.

The two property classes are generally defined by three factors: physical location, asset quality, and operational performance. The physical location of a property is key – if the community is situated in a high barrier-to-entry, major metropolitan market, the likelihood of a higher price per unit is greater. Asset quality is also important, as newer properties typically have more common space, larger units, and more amenities. Stabilized properties typically earn a higher price per unit, so operational performance is also vital.

If you are the owner of a Class B property, there are steps you can take to confront the pricing challenges you may face. If your property is situated in a less than ideal physical location, focus instead on improving the asset quality or the operational performance. For example, add more extensive amenities or more elaborate care options. By adding a memory care segment to an independent and assisted living community, or building independent living cottages on an assisted living and memory care campus, an owner can capture additional market share and increase revenue. Offering excess land for future property expansion can also increase perceived property value. Another strategy to improve unit price for a property in a Class B location is to package the property into a portfolio of other properties in more attractive locations. Buyers will often overlook the location challenges of one property in a portfolio if the remaining properties are situated in strong areas.

“ A strong operator is vital to older communities or properties in lower-quality locations. ”

If your asset is older, or of a lower quality, update the building by renovating units, refreshing common areas, or improving the building's exterior. If the property's operational performance is struggling, focus on stabilization – a stabilized property will attract more institutional buyers. A strong operator is vital to older communities or properties in lower-quality locations. An experienced, dedicated staff with low turnover, providing high-quality care, can help a property differentiate itself from others in its market area.

In our experience, the buyers of Class A properties include public and non-traded REITs, as well as large institutional private equity firms. This type of buyer is typically interested in assets of this caliber due to the higher certainty of transaction execution. The buyers of Class B assets are usually regional owner/operators, smaller private equity firms, family-owned companies, and non-traded REITs. Overall, there is a larger buyer pool for Class B properties from a volume standpoint, as not every buyer has the ability to be competitive on Class A pricing.

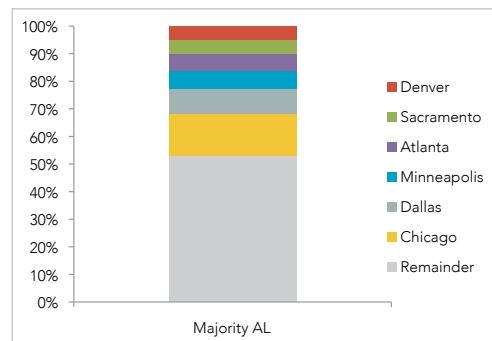
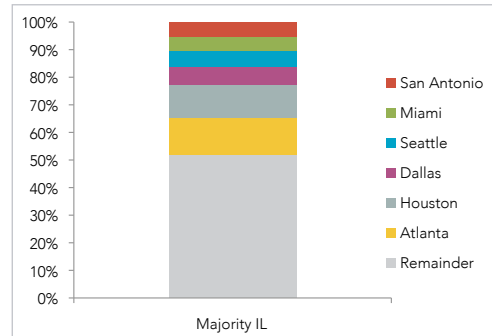
By analyzing your property's strengths and weaknesses in physical location, asset quality, and operational performance, and taking steps to reduce those weaknesses or increase those strengths, you can move closer to your pricing goals. **If you have questions about the worth of your property, or how to evaluate your strengths and weaknesses, please contact us for a broker's opinion of value.**

SELLING IN A HIGH CONSTRUCTION MARKET

According to NIC's 1Q2016 data release, seniors housing construction is still high when compared to development levels over the past ten years. For the 31 primary markets, this construction is concentrated in six major markets for both independent living and assisted living. As seen in the chart to the right, Dallas and Atlanta, with 2,419 and 2,735 total units under development, respectively, are in the top six construction markets for each segment. The Texas markets of Houston and San Antonio also have a high concentration of IL development, with 1,466 and 624 units under construction. Of note, Chicago has a disproportionate concentration of AL development, with 2,842 units under construction. Because of the publicity in the industry surrounding the construction levels in Texas, Chicago, and Atlanta, many buyers are shying away from underwriting properties in these markets altogether.

From our experience, a property's sub-market matters more than its metropolitan market when evaluating its sale potential. "Blankets" of development concern are thrown over entire metropolitan areas, causing the national buyer pool to be weary of even looking at properties in one of these "problematic" markets. However, these evaluations should be far more specific than just generalizing an entire MSA. A strong sub-location can work to a property's advantage. An experienced operator or advisor can analyze a property's local market and judge what specific advantages that one property may have over the local competition. A high-quality operator who provides stable management and low turnover at a community can assist in overcoming any market-related challenges. In addition, demographics are vital in evaluating a property's local market. If the primary market area's senior population increase projections are favorable, any high development levels may be appropriate for that specific area.

Our team recently sold a portfolio of properties in high-growth markets to a local buyer. This buyer understands the opportunities and challenges of each property's sub-market, and didn't feel pressure from the perceived threat of each MSA's high development levels. A knowledgeable investment advisor can be instrumental in sourcing these otherwise unknown local buyers in a variety of large and small markets.



Source: NIC MAP® Data and Analysis Service 1Q2016



PROPERTY PRICING INFLUENCERS

Last year, the senior care market experienced 357 reported sale transactions, for a total of \$14.2 billion, according to the *SeniorCare Investor's 2015 Acquisition Report*. Of these 357 transactions, 48 of these sales traded at a higher than \$200,000 price per unit. Of those 48 transactions, only 15 had a higher than \$300,000 price per unit. In 2015, eight of our team's sales earned price per units of above \$200,000. These transactions, as is typical, were newer-construction properties located in coastal markets. Although a property's physical location and construction quality are vital to attaining a high price per unit, other operational and transactional factors can also affect a property's pricing.

PORTFOLIO VS. SINGLE-PROPERTY

In the first quarter of 2016, there were 114 transactions in the seniors housing industry – 89 transactions were single-property transactions, and 25 were portfolio sales, according to NICMAP's first quarter data. In 2015, *SeniorCare Investor* reported a 30% price premium for properties sold as part of a portfolio (defined as sales with three or more properties). While some buyers may be willing to stretch on cap rates in order to get multiple properties concentrated in one market, we believe that this premium may be deceptive. Many portfolios sold over the past year were newer properties in major markets, which would clearly garner a higher price per unit than a portfolio of older, Class B communities. However, there are advantages in selling multiple properties as a portfolio, as some less attractive properties can be included in a group of more desirable assets and still find a buyer.

STABILIZED VS. VALUE-ADD

In 2015, stabilized communities – defined as having an occupancy of 85% or higher – earned a higher price per unit than un-stabilized properties. While this pricing difference certainly exists, our experience shows that there are a greater number of overall buyers for value-add opportunities. Public REITs are starting to be more selective, and have lately leaned more towards stabilized properties. These stabilized properties are easier to sell at a higher price, but not all buyers can be competitive at such a high price. This migration of the buyer pool has opened the door for groups who have historically missed out on buying opportunities to get into the game. Value-add properties generate higher returns; a new buyer often believes that they can increase census and control expenses. They see different opportunities to enhance the community, or simply see a chance to buy a property below replacement cost. A current owner may be seen as having a lack of sophistication, poor operations, marketing and lease-up challenges, construction challenges, or debt/maturity issues. Regardless of what type of property a seller wants to market, there is typically at least one type of buyer looking to acquire your asset.

“While some buyers may be willing to stretch on cap rates in order to get multiple properties concentrated in one market, we believe that this premium may be deceptive.”



For more information on the NIC MAP® Data and Analysis Service, please visit www.nicMAP.org or call 410-267-0504.

ABOUT GREYSTONE REAL ESTATE ADVISORS

Greystone Real Estate Advisors provides a range of services in sales and acquisitions of seniors housing property types including independent living, assisted living, memory care, and skilled nursing. We offer a full continuum of services including debt, equity, acquisition, and investment sales to funds, private equity groups, regional and national operators, not-for-profit owners, and healthcare REITs.

GREYSTONE REAL ESTATE ADVISORS
sold 44 properties
valued at nearly
\$700,000,000
in 2015

One of only three firms to
rank in the top five
for both **transaction quantity**
and **dollar volume**
in *SeniorCare Investor's*
2015 Broker Ratings

ADVISORY SERVICES

- Acquisitions and dispositions
- Individual property and portfolio sales
- Distressed asset and note sales
- Existing, new construction and presale assets
- Analyze existing capital stack
- Recapitalization
- Debt restructure
- Sale/leaseback and joint venture advisory
- Positioning to find longer term partners (REIT or other)
- Sale of assets that don't "fit" plan
- Targeted acquisitions ("off market")
- Market trends (local, regional, national)

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GREYSTONE

Where People Matter

REPRESENTATIVE CLOSINGS



AGE-RESTRICTED COMMUNITY
Fort Worth, TX
101 units – Age-Restricted



8-PROPERTY PORTFOLIO
BC, Canada
984 units – IL/AL/LTC
** Under Contract*



15-PROPERTY PORTFOLIO
Various Cities, 9 States
1,163 units – IL/AL/MC



8-PROPERTY PORTFOLIO
Various Cities, TX & OK
1,039 units – IL/AL/MC



9-PROPERTY PORTFOLIO
BC, Canada
866 units – IL



6-PROPERTY PORTFOLIO
Minneapolis MSA, MN
627 units – AL/MC



2-PROPERTY PORTFOLIO
Indianapolis & Avon, IN
99 units – IL/AL/MC



ASSISTED LIVING & MEMORY CARE COMMUNITY
Spring, TX
108 units – AL/MC



ASSISTED LIVING & MEMORY CARE COMMUNITY
Virginia Beach, VA
110 units – AL/MC

ORLANDO, FL

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