

CBRE

SENIORS HOUSING MARKET OVERVIEW & VALUATION METHODOLOGY

JULY 24, 2019

PREPARED FOR

 **Appraisal
Institute®**

SENIORS HOUSING VALUATION & ADVISORY SERVICES

VAS PLATFORM OVERVIEW



INDUSTRY OVERVIEW

MARKET TRENDS

VALUATION METHODOLOGY & RESOURCES

INDUSTRY OVERVIEW

INDUSTRY OVERVIEW

INDEPENDENT LIVING COMMUNITY (ILC)



INDUSTRY OVERVIEW

ASSISTED LIVING RESIDENCE (ALR)



INDUSTRY OVERVIEW

SKILLED NURSING FACILITY (SNF)



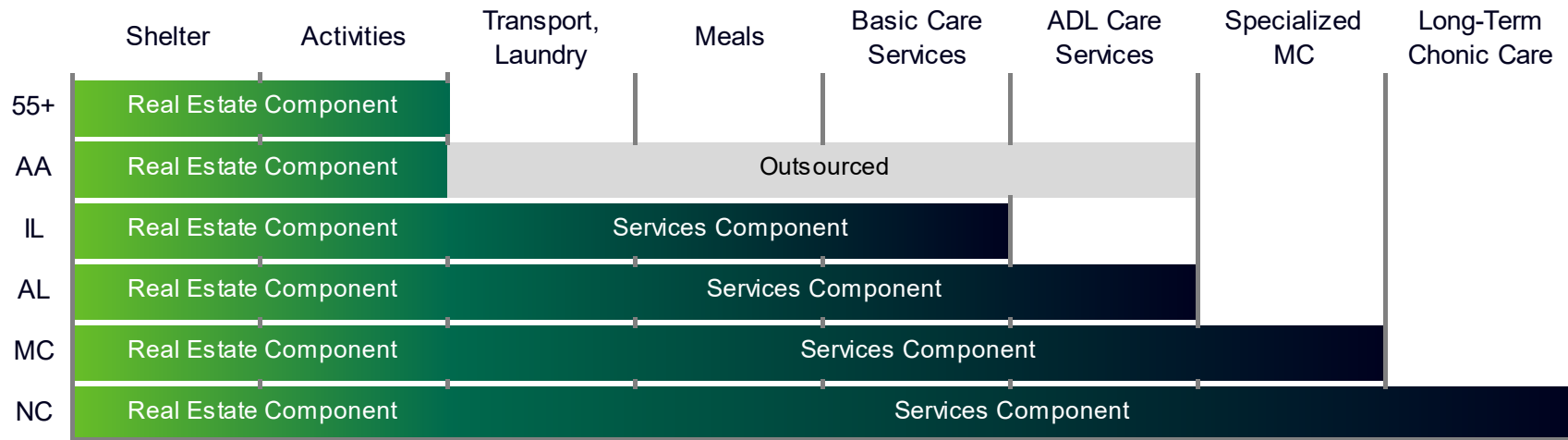
INDUSTRY OVERVIEW

CONTINUING CARE RETIREMENT COMMUNITY (CCRC/ LPC)



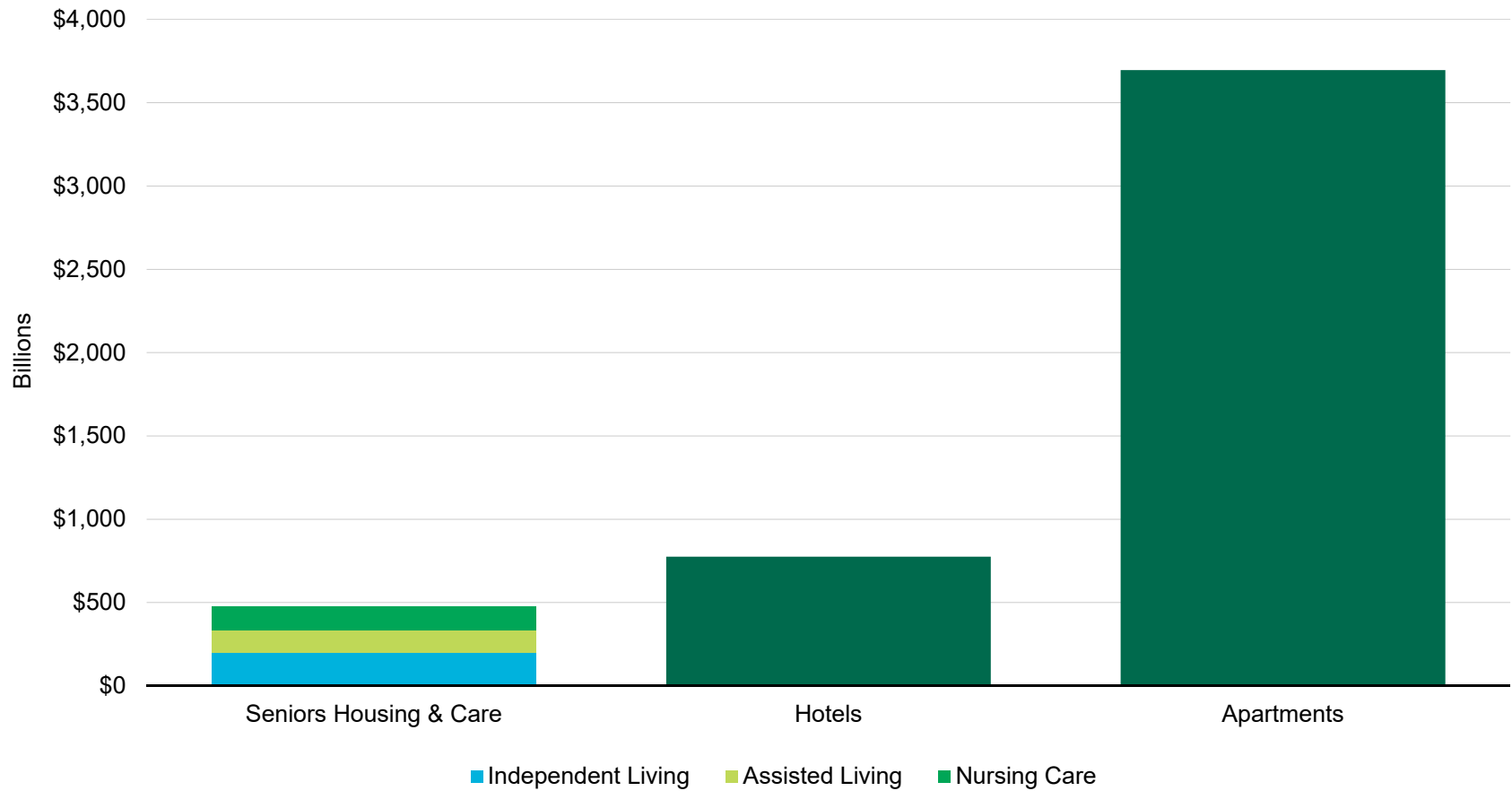
INDUSTRY OVERVIEW

CONTINUUM OF CARE



INDUSTRY OVERVIEW

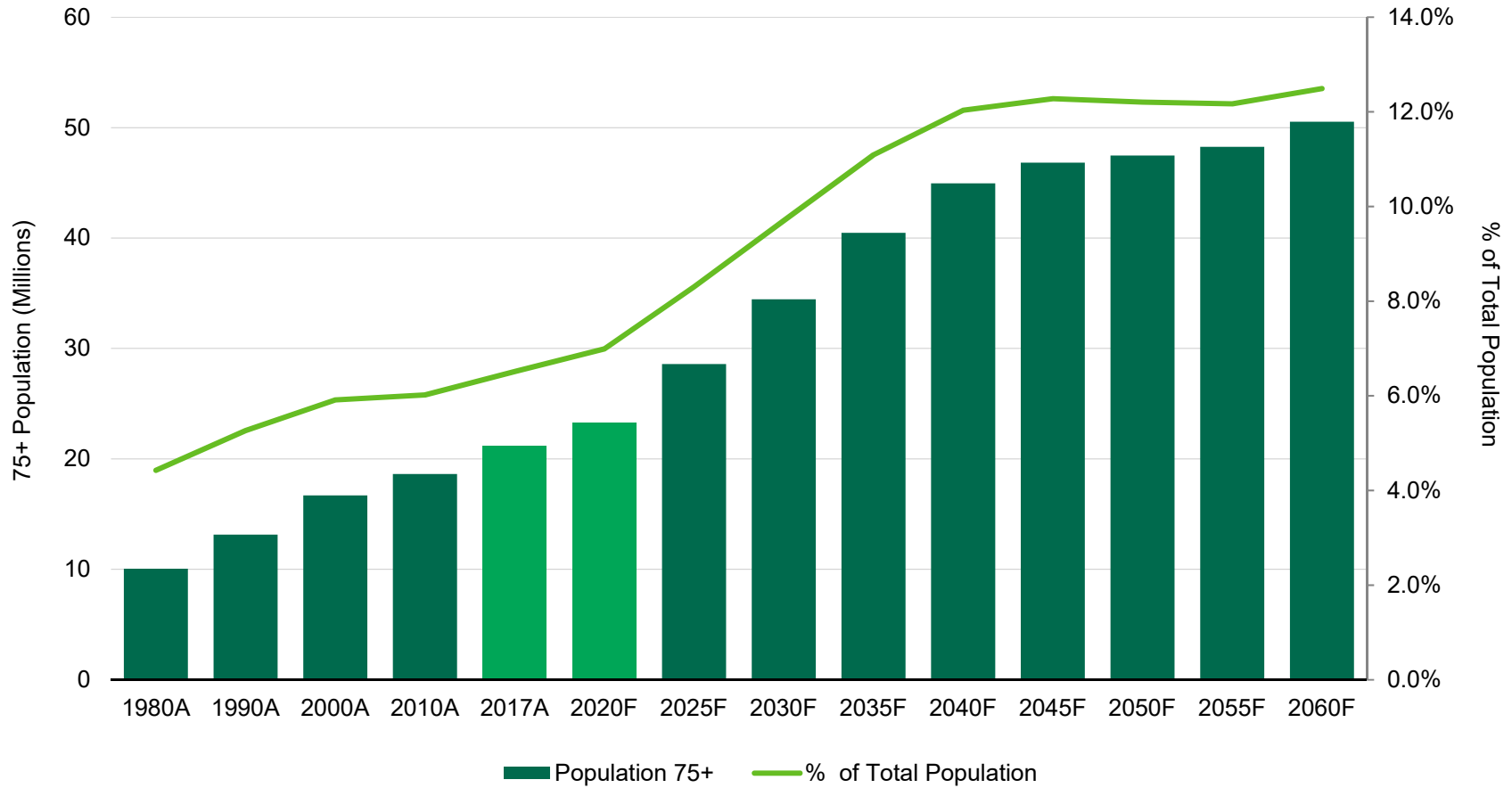
IMPLIED MARKET VALUES



Source: ©2019 National Investment Center, NCREIF, & NMHC

INDUSTRY OVERVIEW

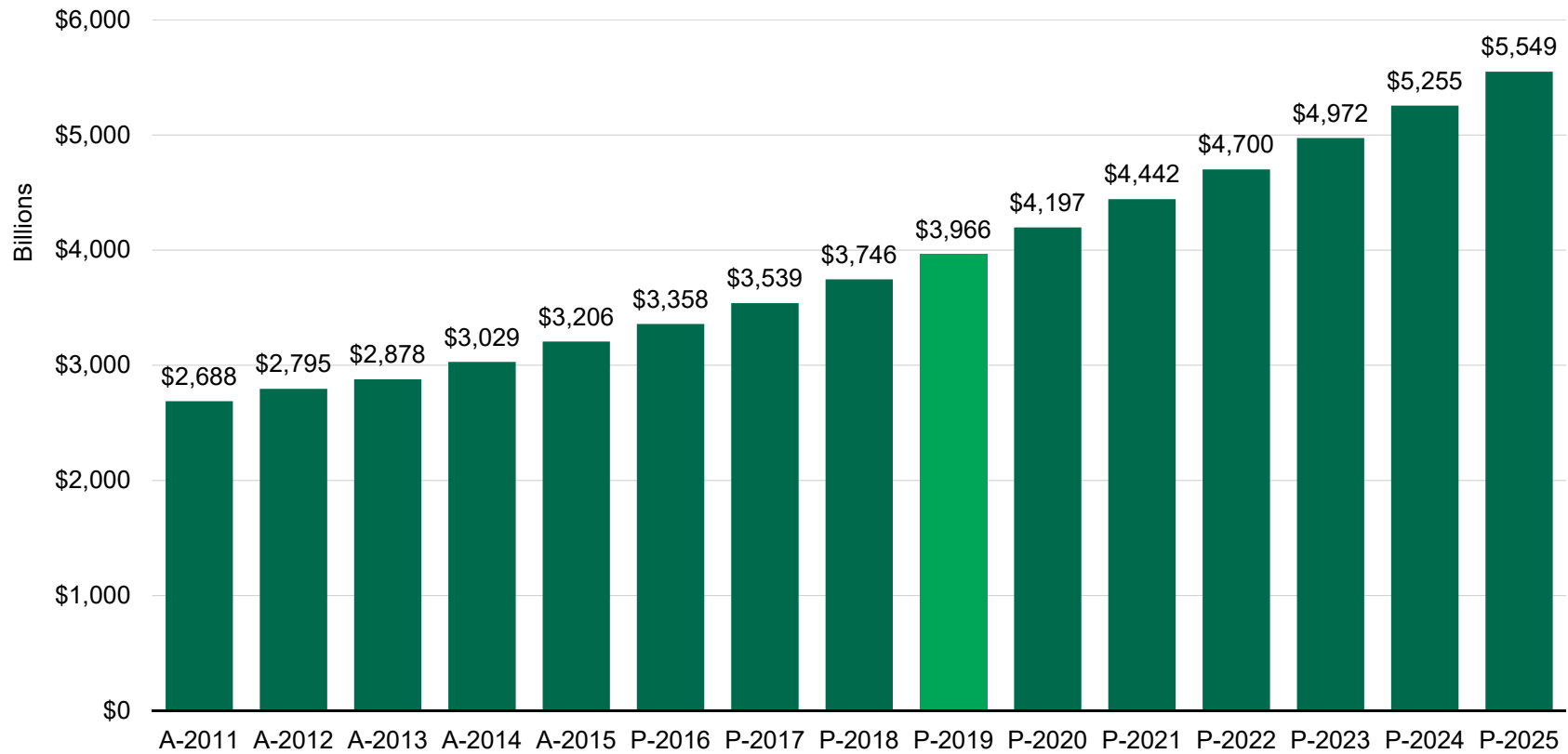
PROJECTED POPULATION GROWTH



Source: U.S. Census Bureau

INDUSTRY OVERVIEW

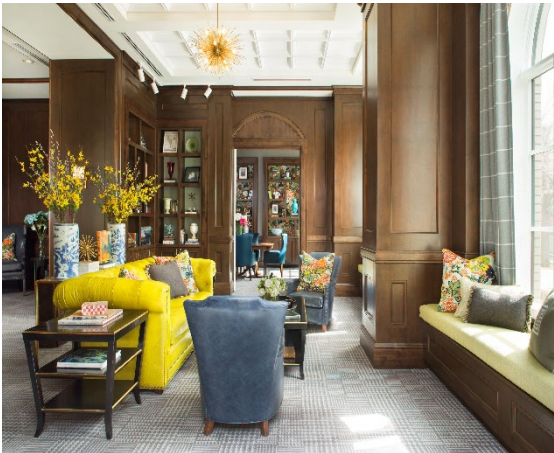
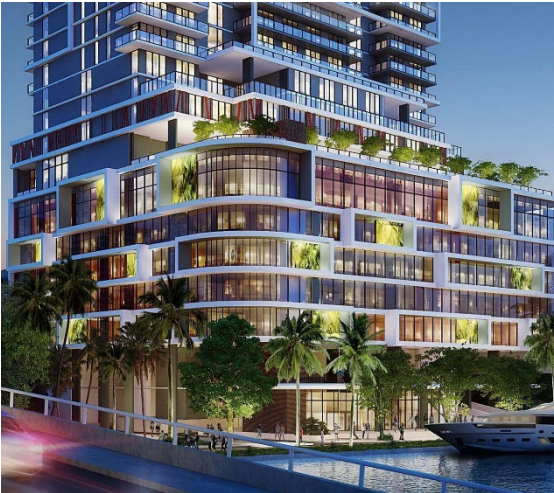
NATIONAL HEALTH EXPENDITURES



Source: Centers for Medicare & Medicaid Services

INDUSTRY OVERVIEW

RAPIDLY EVOLVING SECTOR



INDUSTRY OVERVIEW

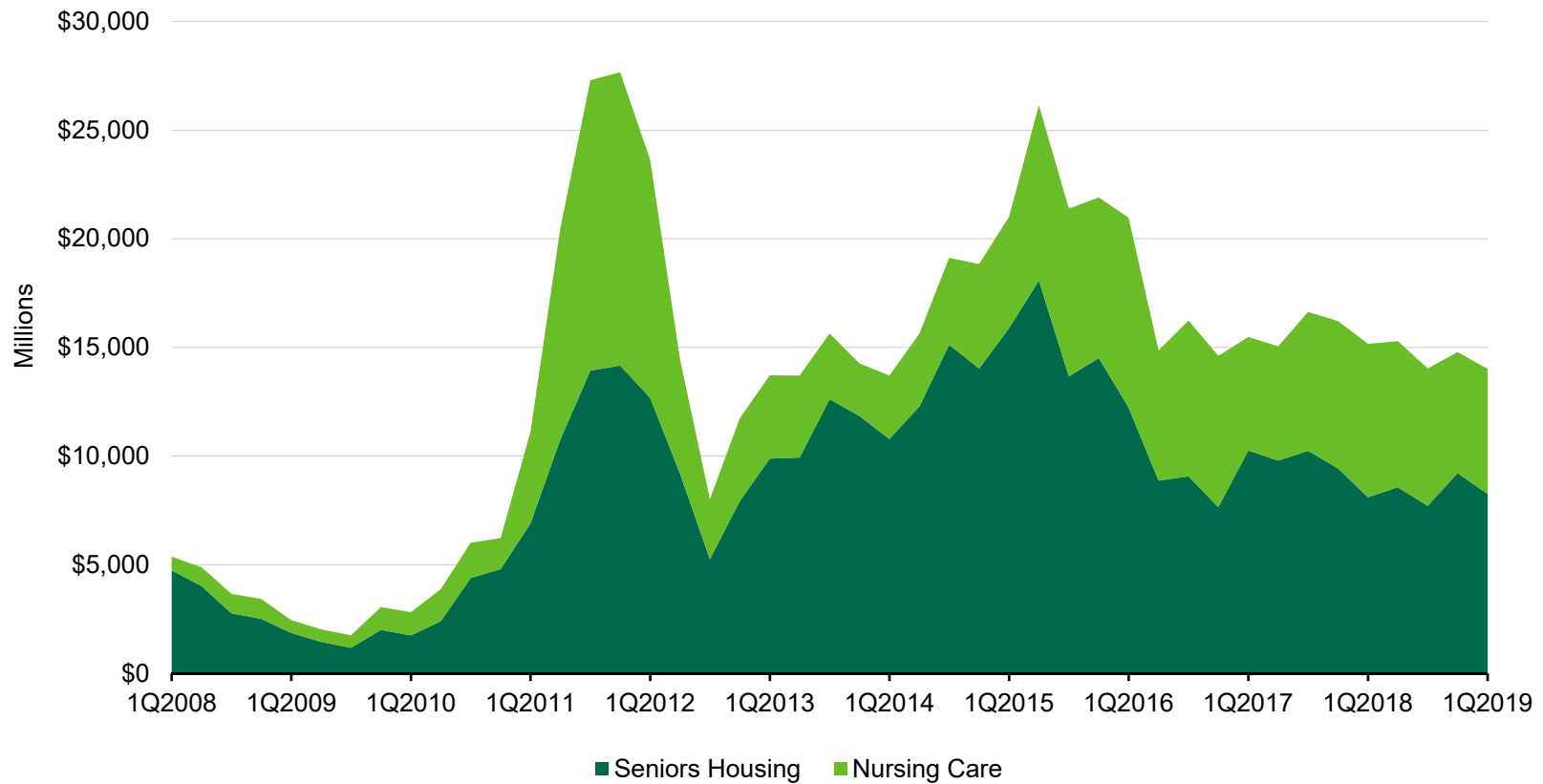
INCREASING COMPETITIVE LANDSCAPE



SENIORS HOUSING MARKET TRENDS

SENIORS HOUSING MARKET TRENDS

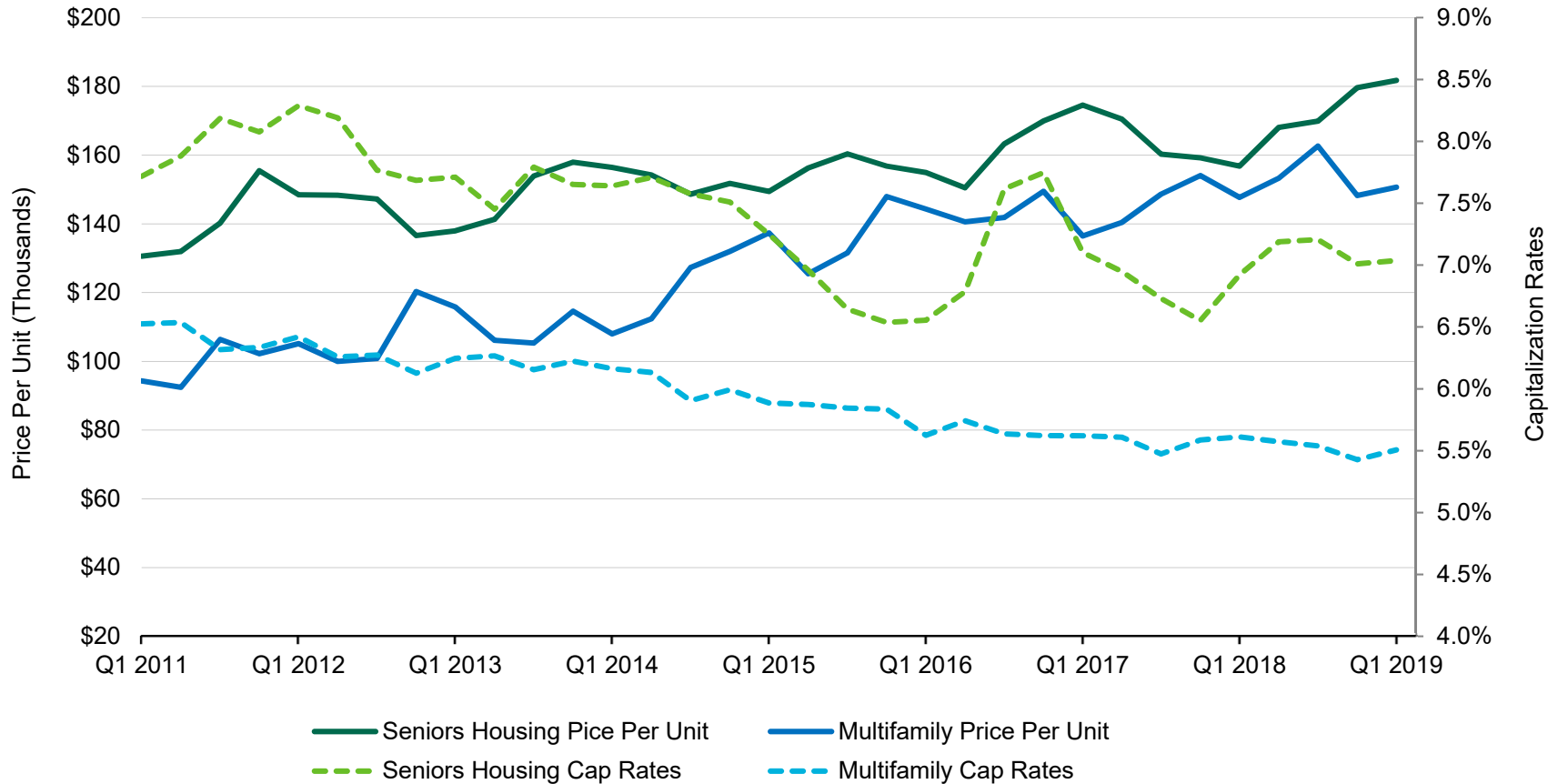
FOUR-QUARTERS ROLLING TRANSACTION VOLUME



Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q1 2019

SENIORS HOUSING MARKET TRENDS

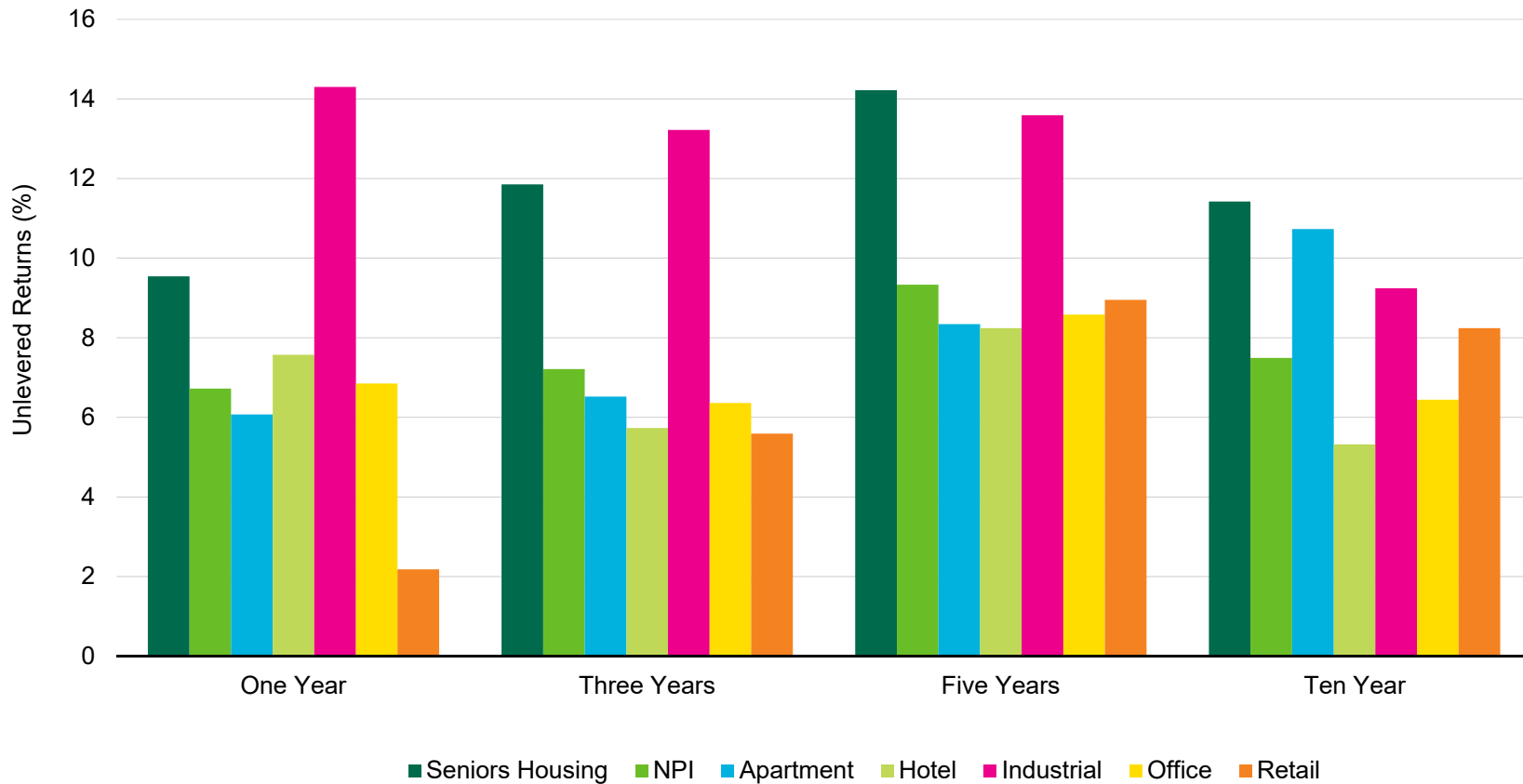
FOUR-QUARTERS ROLLING VALUATION TRENDS



Source: ©2019 National Investment Center for Seniors Housing & Care, CBRE Research, U.S. Department of the Treasury

SENIORS HOUSING MARKET TRENDS

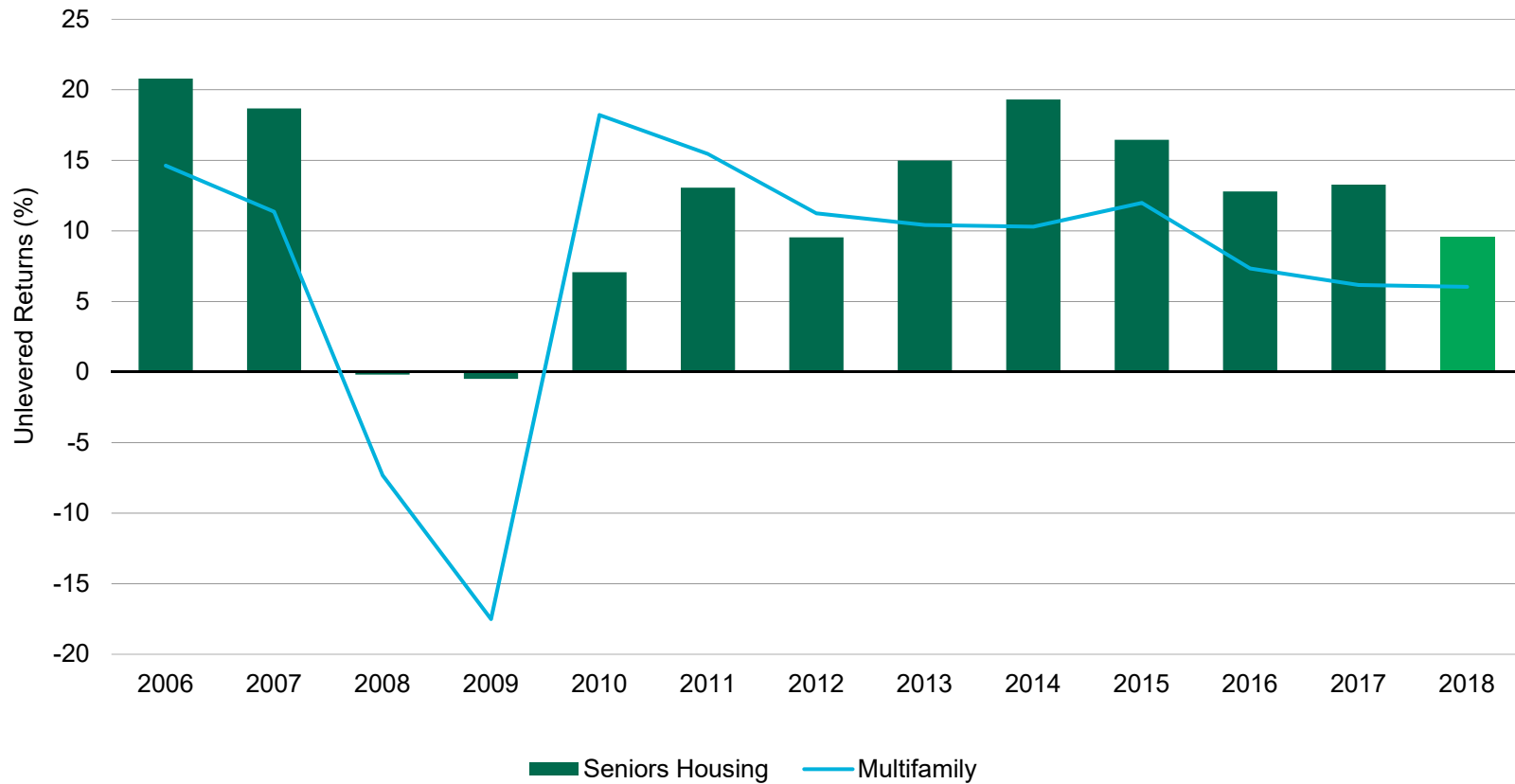
UNLEVERED RETURNS BY ASSET CLASS



Source: NCREIF Property Index Q4 2018

SENIORS HOUSING MARKET TRENDS

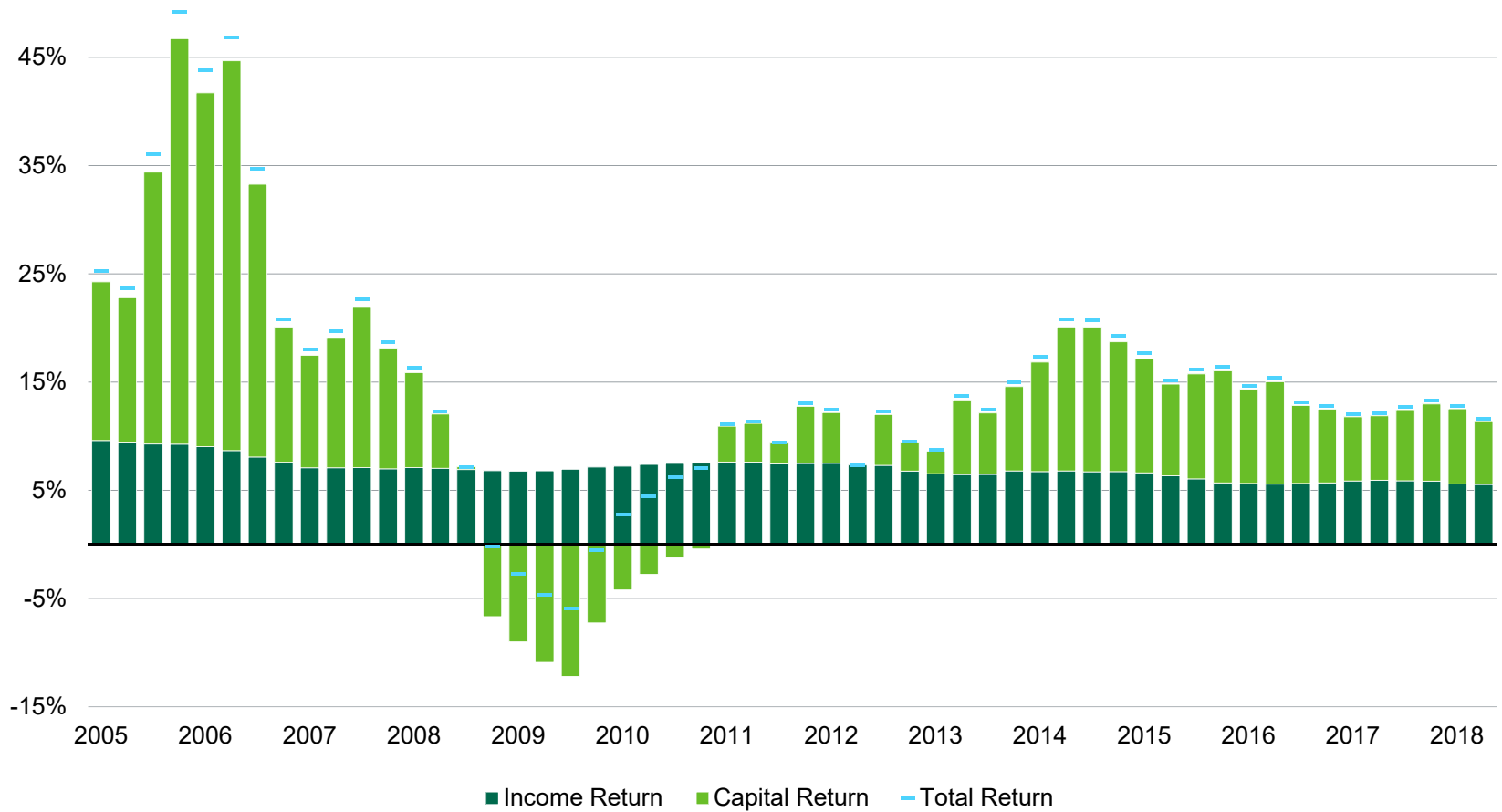
SENIORS HOUSING POSTS FAVORABLE YOY RETURNS



Source: NCREIF Property Index Q4 2018

SENIORS HOUSING MARKET TRENDS

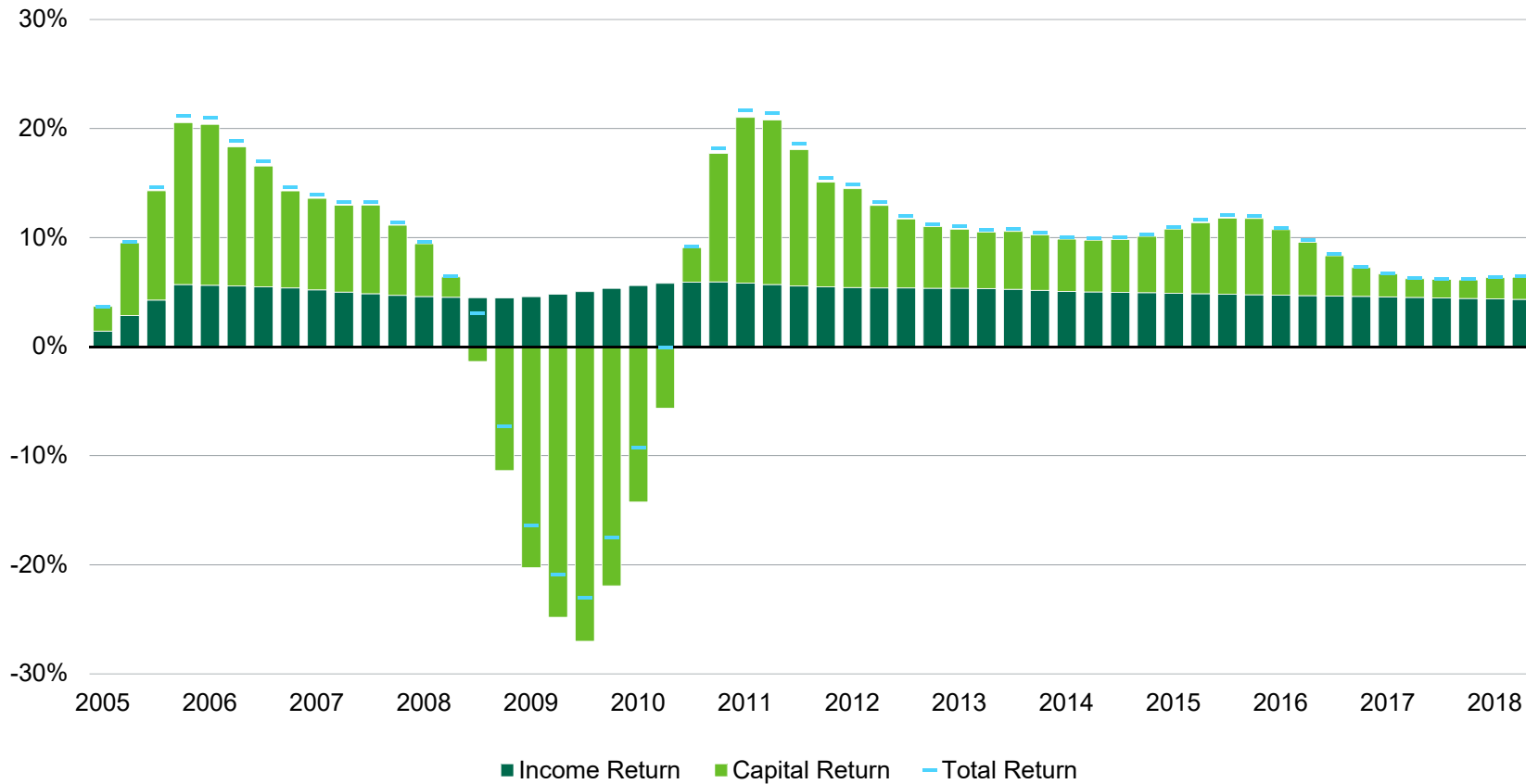
TIME SERIES RETURNS - SENIORS HOUSING



Source: NCREIF Property Index Q4 2018

SENIORS HOUSING MARKET TRENDS

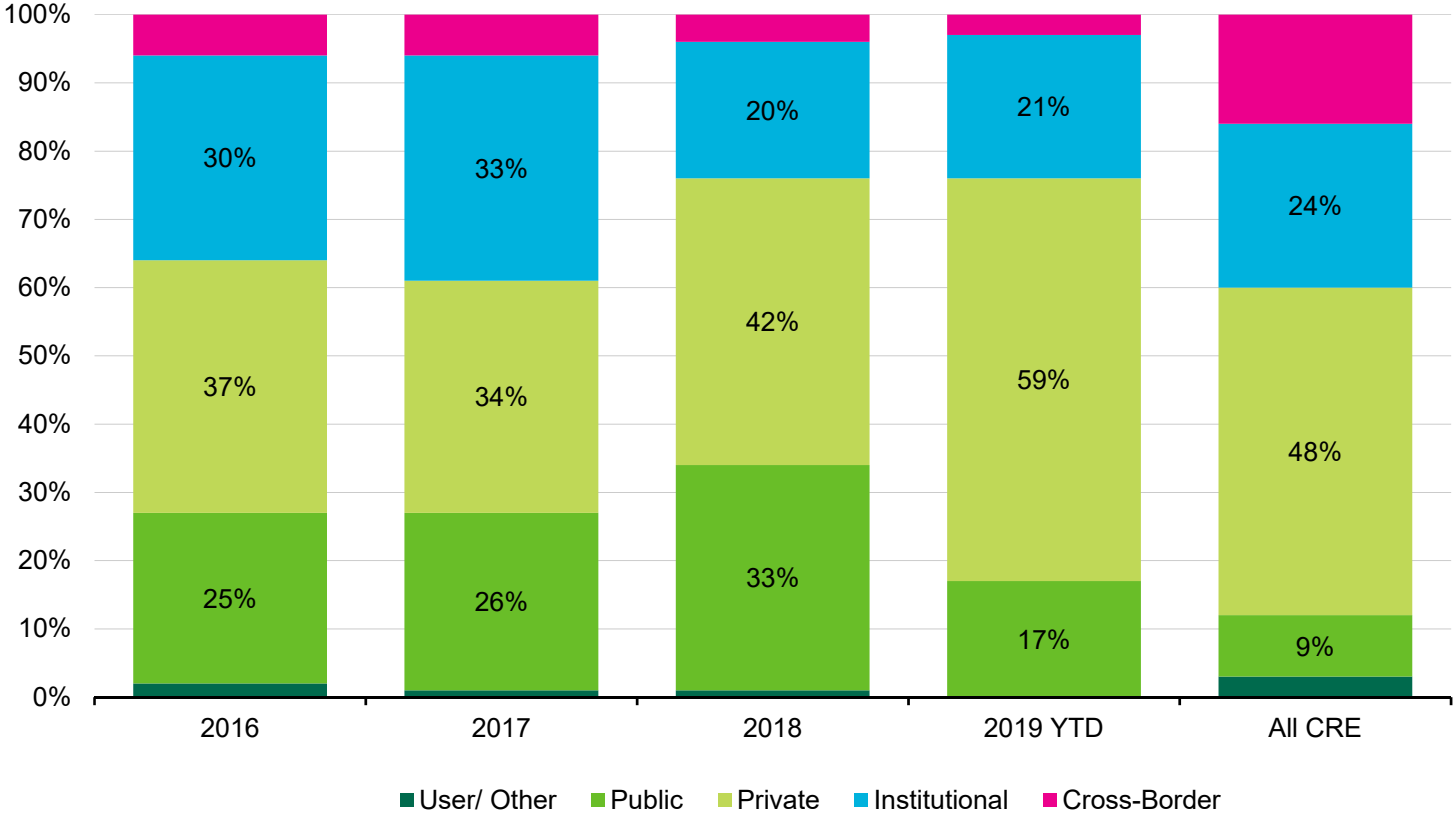
TIME SERIES RETURNS - APARTMENT



Source: NCREIF Property Index Q4 2018

SENIORS HOUSING MARKET TRENDS

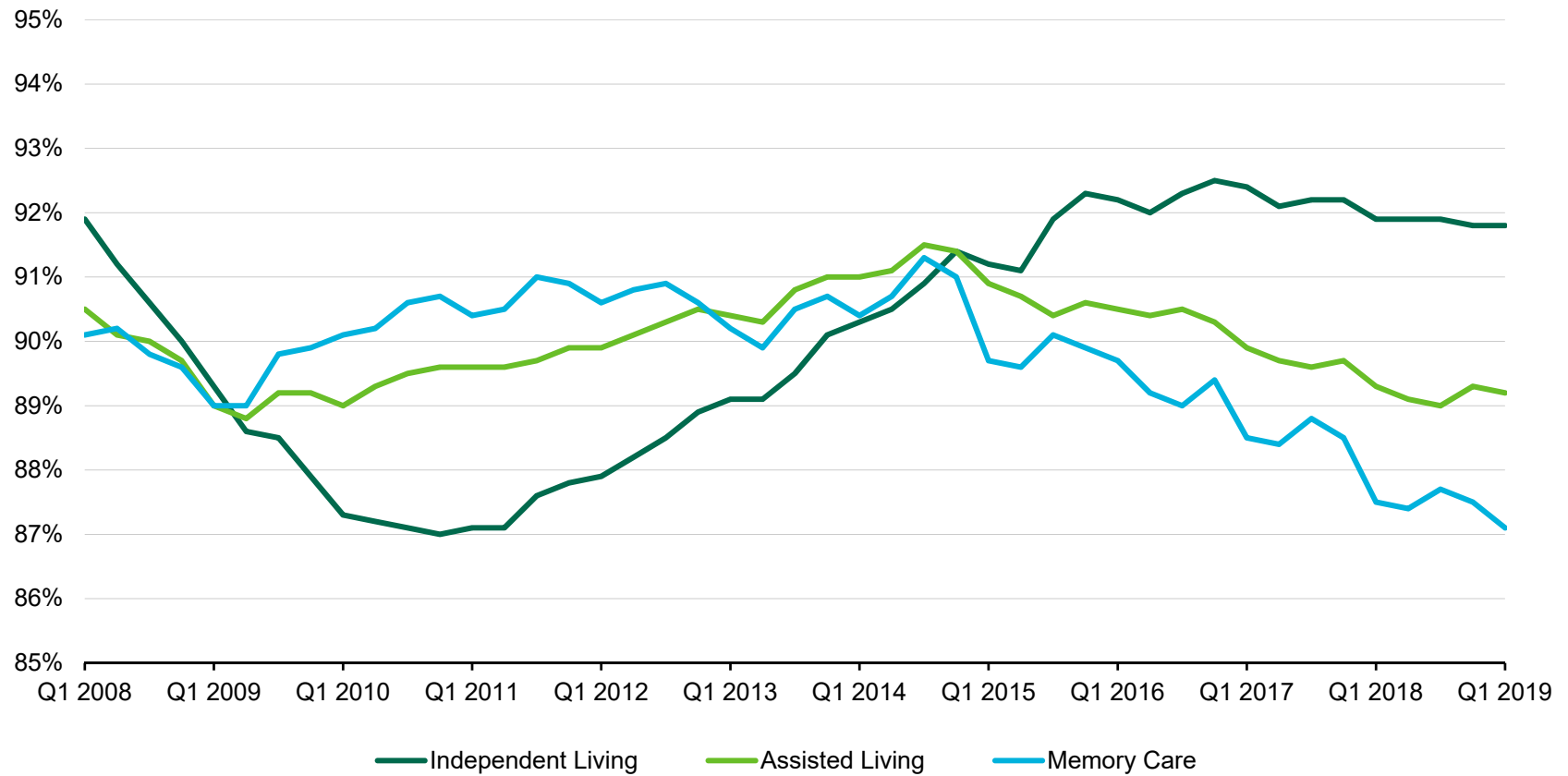
BUYER COMPOSITION



Source: ©2019 Real Capital Analytics, Inc. ©2019 National Investment Center

SENIORS HOUSING MARKET TRENDS

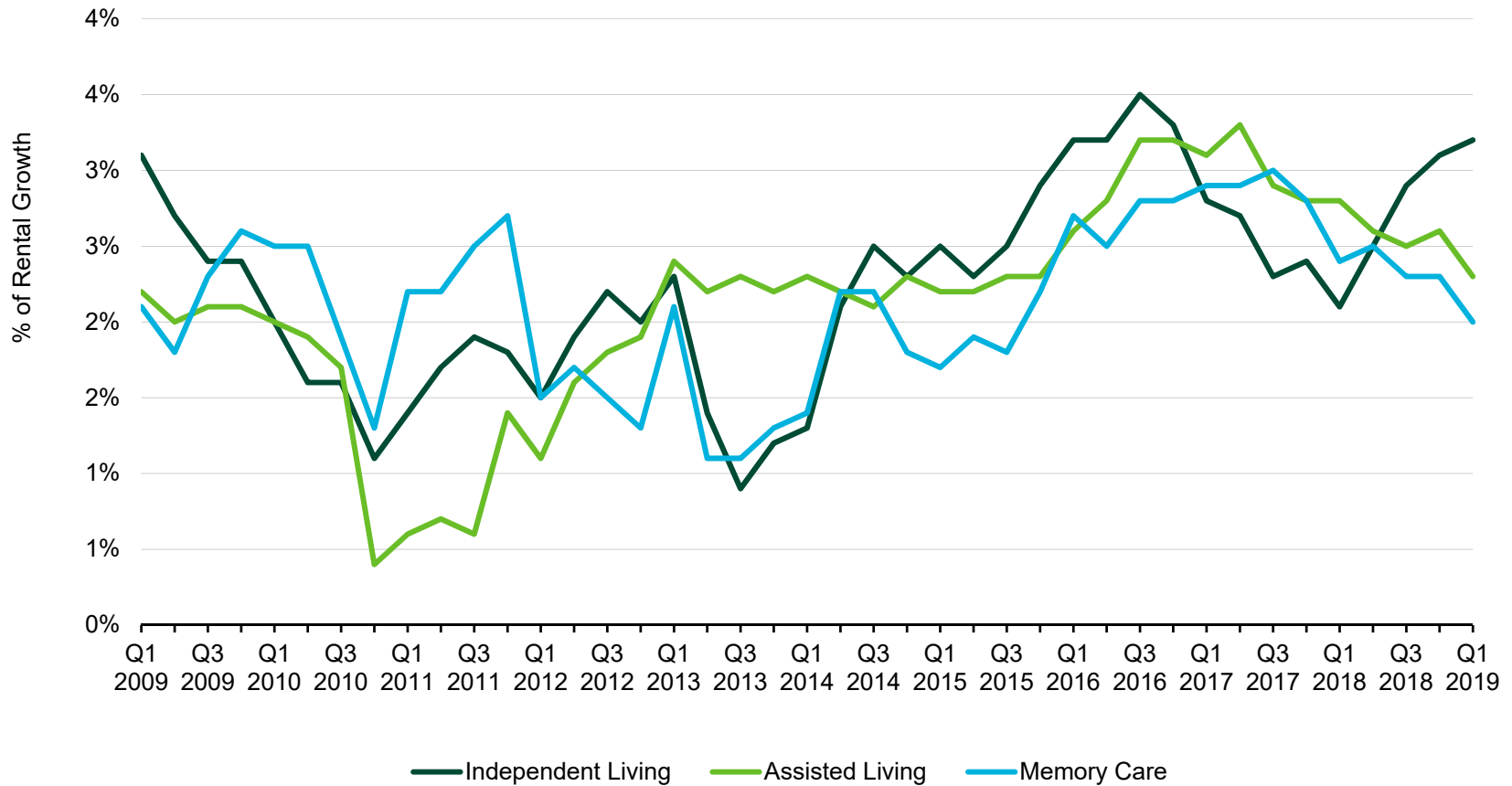
STABILIZED OCCUPANCY TRENDS



Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q1 2019

SENIORS HOUSING MARKET TRENDS

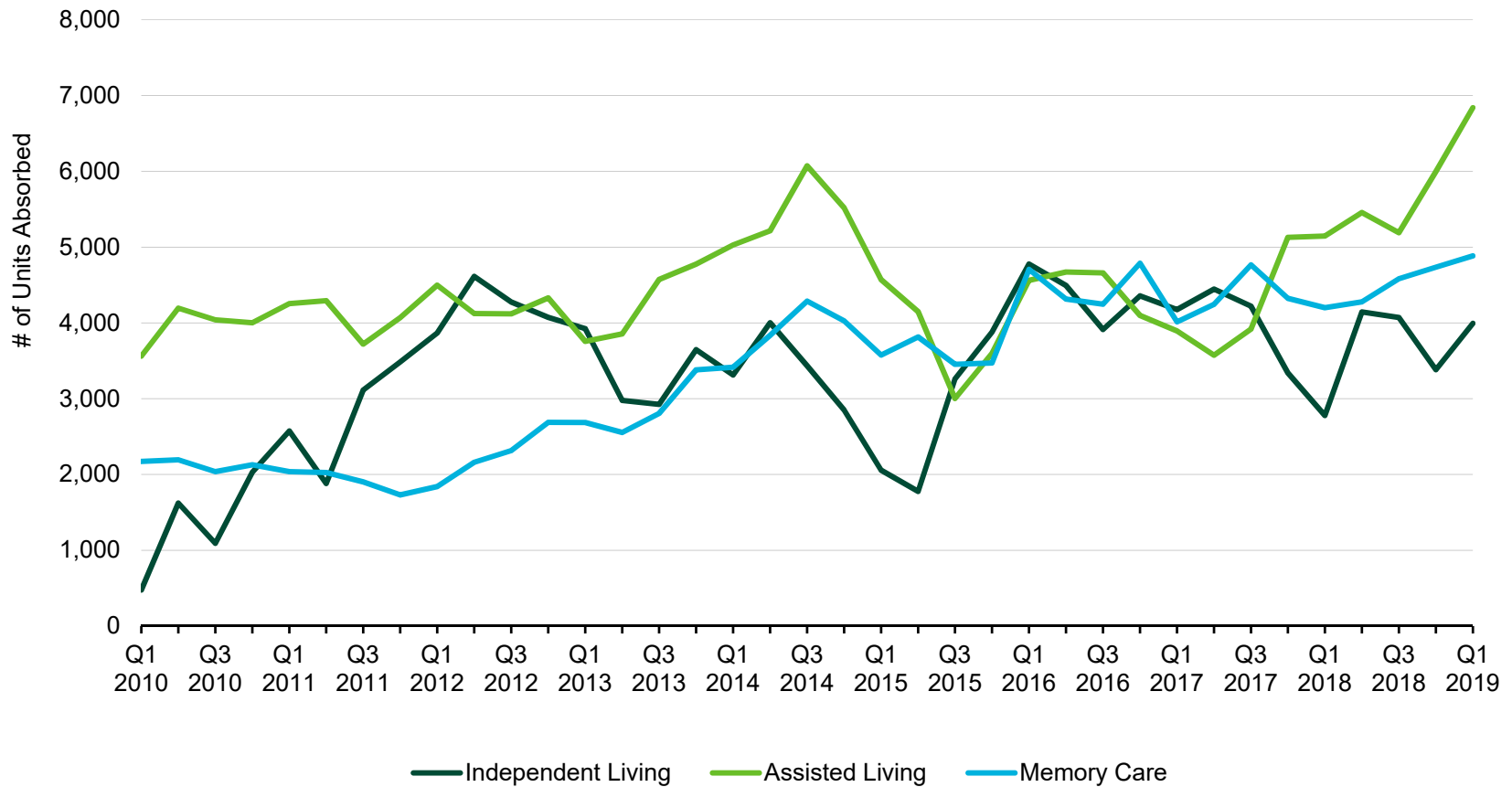
RENT GROWTH TRENDS



Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q1 2019

SENIORS HOUSING MARKET TRENDS

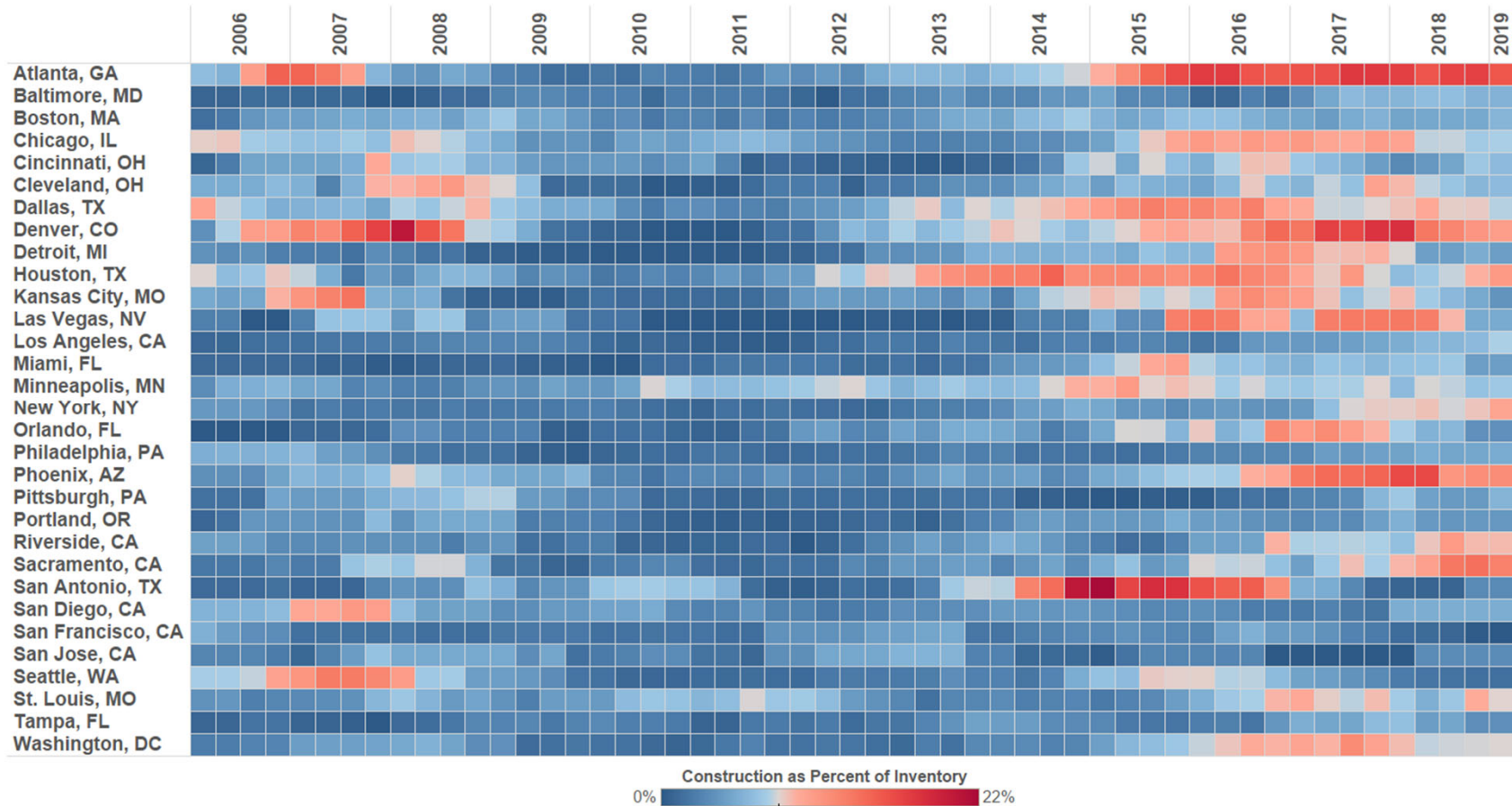
FOUR-QUARTERS ROLLING ABSORPTION TRENDS



Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q4 2018

SENIORS HOUSING MARKET TRENDS

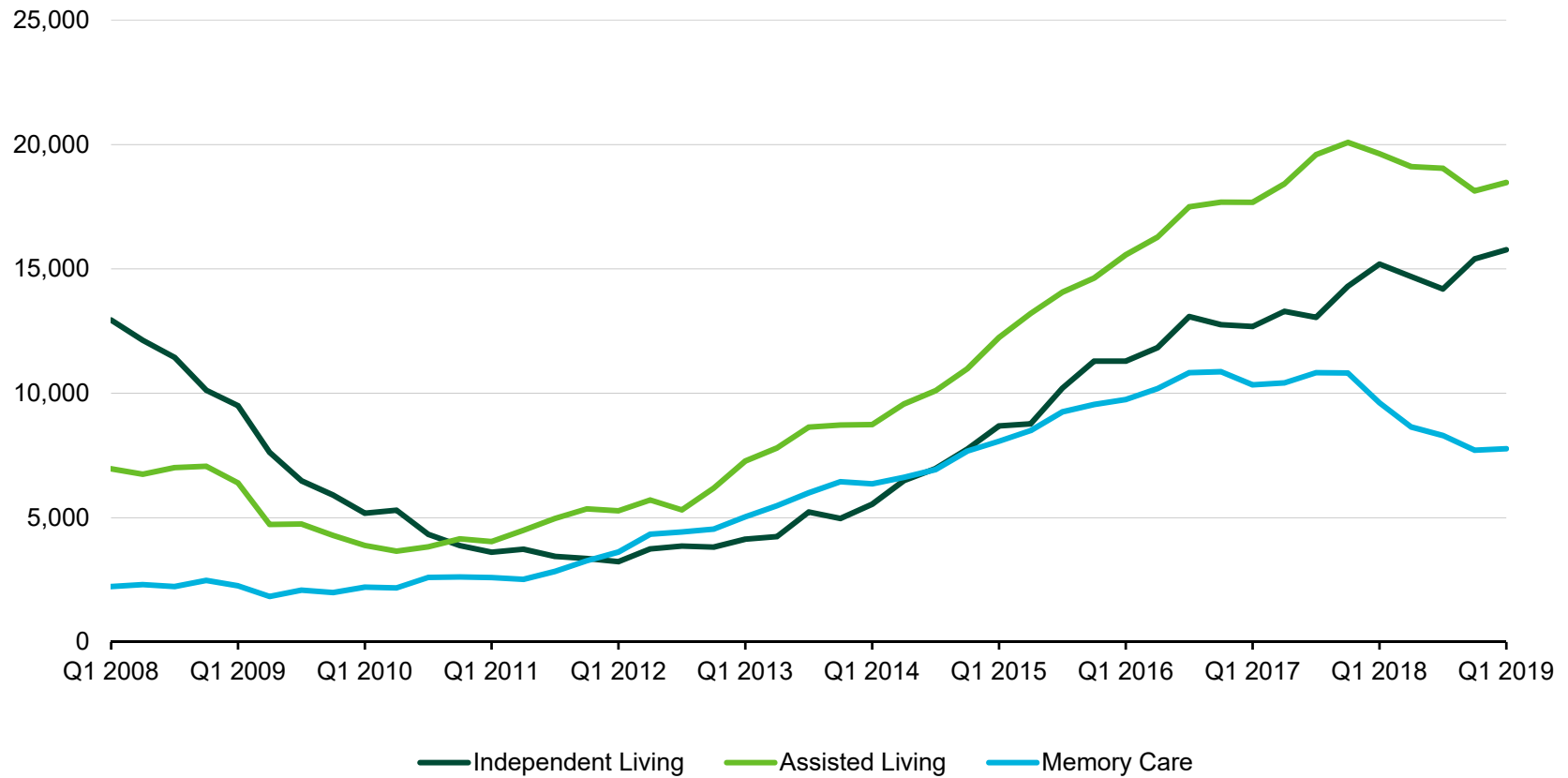
CONSTRUCTION AS PERCENTAGE OF INVENTORY



Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q1 2019

SENIORS HOUSING MARKET TRENDS

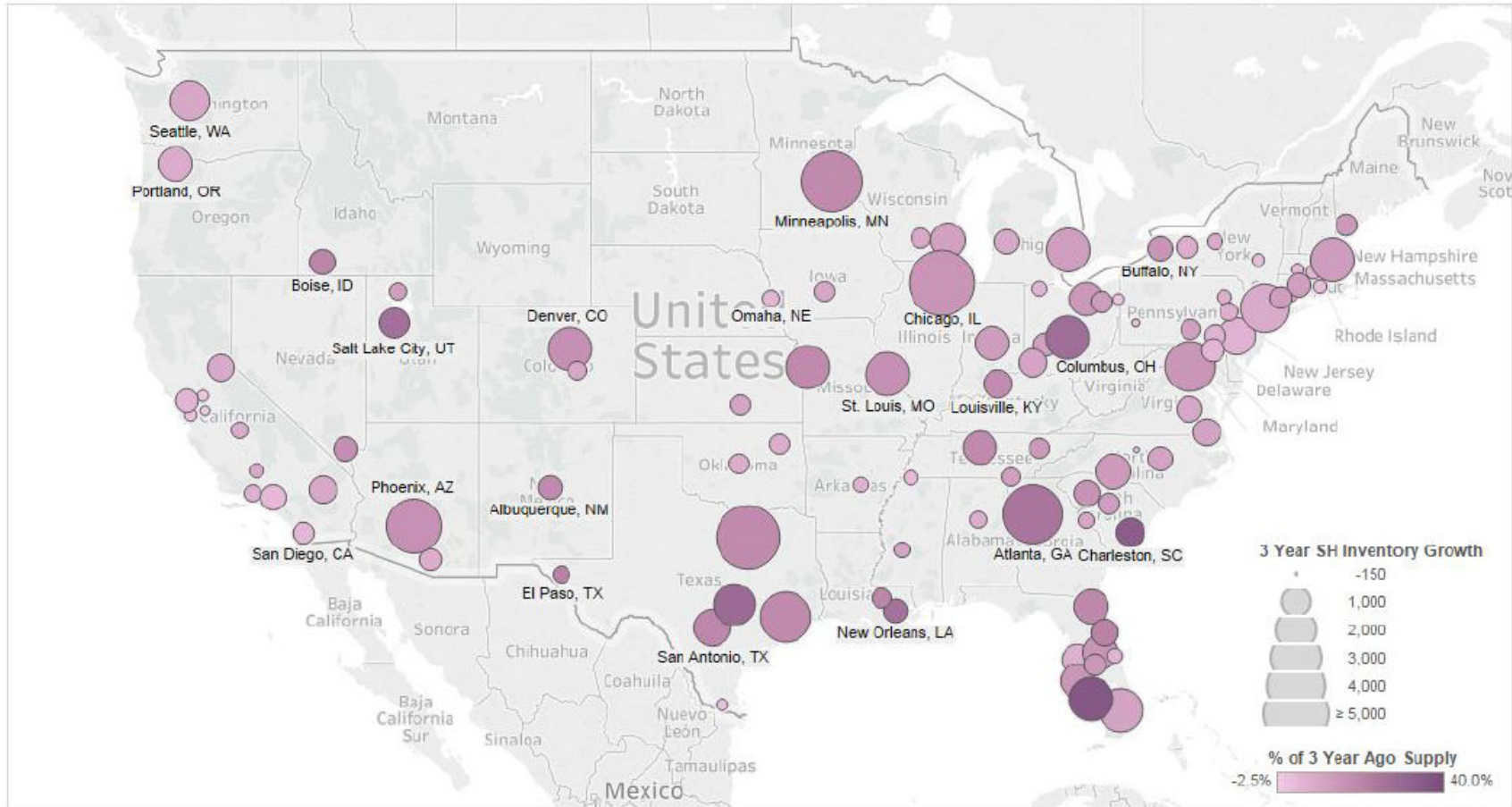
UNITS UNDER CONSTRUCTION



Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q1 2019

SENIORS HOUSING MARKET TRENDS

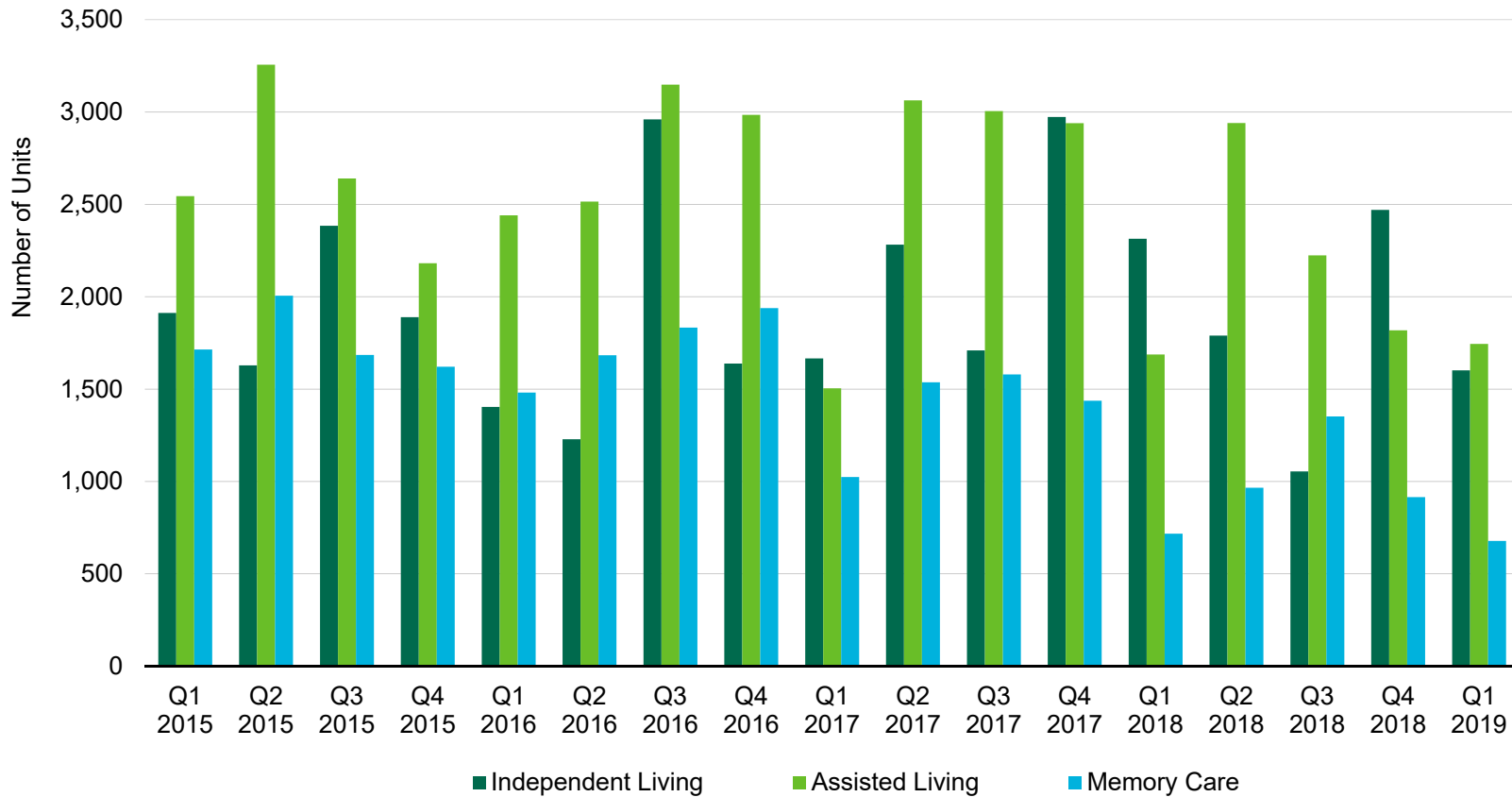
ANNUAL INVENTORY GROWTH SINCE Q4 2015



Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q4 2018

SENIORS HOUSING MARKET TRENDS

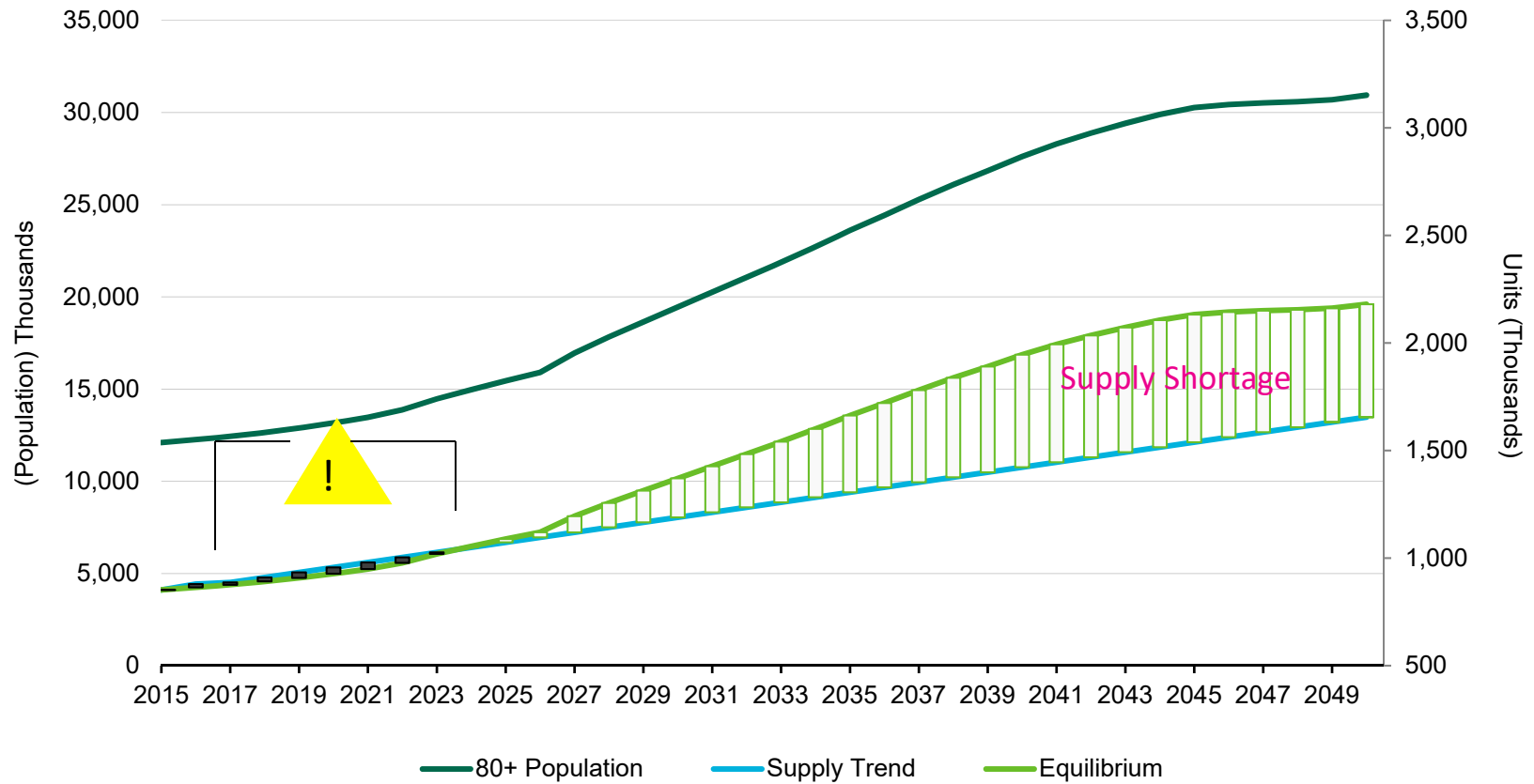
CONSTRUCTION STARTS



Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q1 2019

SENIORS HOUSING MARKET TRENDS

SUPPLY AND DEMAND OUTLOOK



Source: NIC MAP & U.S. Census Bureau

TRENDS - OPPORTUNITIES - RESOURCES

TOP TRENDS – AFFORDABILITY CRISIS

What does the landscape look like for middle income seniors in 2029 (peak demand is 2045)?

- Number of middle income seniors will double to 14.4 million
 - 60% will have mobility limitations
 - 20% will have high health care and functional needs
- 75–84 - annuitized financial resources of \$25,001 to \$74,298
- 85+ - \$24,450 to \$95,051
- Average monthly rent for assisted living is \$4,577, or \$50,000 per year, before care

Over half of middle income seniors will not have adequate finances.

Source: The Forgotten Middle

TRENDS - OPPORTUNITIES - RESOURCES

TOP TRENDS – AFFORDABILITY CRISIS

Still Not Convinced?

NIC Investment Guide Reports a total of 874,000 assisted living and memory care units. 1,569,000 if you include independent living.

- 14.4 million Middle Income Seniors
- 8.64 million at 60% with mobility needs
- 2.88 million at 20% with high health care and functional needs

Total Demand = 2.88m Middle Income Seniors

Total Supply = 1.80m seniors housing units (trended for supply growth)

Net Demand = 1.08m total units

Conclusion = Crisis

Source: The Forgotten Middle & NIC MAP Investment Guide 5th Edition

**VALUATION
METHODOLOGY &
RESOURCES**

VALUATION METHODOLOGY & RESOURCES

APPRAISAL PROCESS

Definition of the Problem

Scope of Work

Data Collection and Analysis
Market Analysis

Highest and Best Use

Application of Approaches to Value
Income Approach

Sales Comparison Approach

Cost Approach

Reconciliation of Value Indicators and Final Value Opinion

Report Defined Value Opinions

Allocation of the Going Concern

VALUATION METHODOLOGY & RESOURCES

MARKET ANALYSIS

A Level “B” or “C” or Fundamental Market Analysis is typically expected.

Defined Primary Market Area – Where 80% of residents lived prior to moving.

Penetration Analysis

- Competitive Supply / Age Qualified Households
- Simple, yet allows for apples-to-apples comparison to other markets
- Requires comparable local, regional, and national data-points
- Penetration must be considered with occupancy
- Identifies market depth and impact of future supply on market balance

Demand Coverage Analysis

- Delineates PMA by age and income qualified population
- Recognizes healthcare requirements IADLs and ADLs (utilization factors)
- Identifies Net Demand in terms of actual number of units by property type
- Identifies impact of state subsidies and +/- net immigrations
- PMA specific

VALUATION METHODOLOGY & RESOURCES

MARKET ANALYSIS

Penetration Rates Alone Have Multiple Meanings:

Low Penetration/ High Occupancy: Local population is accepting the subject's product type, significant room for expansion. Expect strong occupancy levels, stable rent growth, and healthy absorption for proposed properties. Most favorable.

Low Penetration/ Low Occupancy: Local population is either not accepting the subject property type or are traveling outside the defined PMA due to preference. Market opportunity does exist, but will likely require additional marketing efforts in order to achieve favorable occupancy levels.

High Penetration/ High Occupancy: Competitive market, yet presumes the local population is generally receptive and well educated with the property type. Requires less marketing efforts in terms of product education, but may require more resources from an overall competitive standpoint or the offering of something unique to the market, such as superior quality or affordable rents. Prevalence of state subsidies are also common in this market (MA).

High Penetration/ Low Occupancy: Competitive market; this combination is the least favorable and depicts a saturated market. Decreasing rental rates, prevalence of concessions, and less than favorable occupancy can be expected.

VALUATION METHODOLOGY & RESOURCES

MARKET ANALYSIS

SENIORS HOUSING MARKET STATISTICS				
Category	Subject's PMA		Subject MSA	MAP Primary
Assisted Living				
Stabilized/Average Occupancy	87.39%	↔	92.20%	↔ 90.40%
Average Monthly Rent	\$4,726		\$4,251	\$4,304
Property Count	22		54	2,545
Inventory (Units)	1,746		4,686	200,044
Construction (Units)	90		526	10,750
Projected 3-Year Inventory Growth	5.15%		2.40%	2.10%
Penetration	10.30%	↔	5.70%	↔ 4.80%

Source: NIC MAP

MARKET PENETRATION		
	2014	2019
Assisted Living		
Age Qualified Households (75+)	16,949	19,280
Total AL Supply	1,746	1,836
Indicated AL/MC Penetration Rate:	10.30%	↔ 9.52%

Compiled by CBRE

VALUATION METHODOLOGY & RESOURCES

MARKET ANALYSIS

DEMAND COVERAGE	
2014	AL
Total Demand	1,181
Frictional Vacancy	12.61%
Total Adjusted Demand	1,352
Total Supply	1,746
Net Surplus Demand (Units)	-394
Market Balance	Over Supply
2019	AL
Total Demand	1,437
Frictional Vacancy	12.61%
Total Adjusted Demand	1,644
Total Supply	1,836
Net Surplus Demand (Units)	-192
Market Balance	Over Supply
Compiled By: CBRE	

VALUATION METHODOLOGY & RESOURCES

APPROACH TO VALUE

Income Approach

- The underlying operations of the business are what drives overall value of the real estate. Highly intensive operating model.
- Most appraisals will assume experienced and capable management.
- Utilized as primary determinant of value.

Sales Comparison Approach

- Primarily utilized to extract market pricing and as a test or reasonability for the conclusions derived from the income approach
- Comparable Sales, NOI Analysis, and EGIM Analysis
- Comparables are selected from a regional if not national geography

Cost Approach

- Least reliable and often omitted
- Primarily utilized as a method of allocating the Going Concern or project feasibility

VALUATION METHODOLOGY & RESOURCES

APPROACH TO VALUE

The income capitalization approach reflects the subject's income-producing capabilities.

- The “active management” component is viewed as adding incremental risk and complexity versus the conventional commercial real estate asset classes. Property Management will make or brake market value.
- Market value appraisals involving not-for-profit or government, and poor operators should reflect the likely buyers' perspective, and in most cases, this would be for-profit entities.
- Proper rental comparables and operating expense comparables are essential in achieving accurate underwriting.
 - Per resident day is the most accurate unit of measure for underwriting purposes.
 - % of EGI can have multiple meanings depending on property specific operating format and should only be used as a secondary test of reasonableness.
- The market derived capitalization rate is applied to the subject's stabilized EBITA, which includes replacement reserves and management fees.

VALUATION METHODOLOGY & RESOURCES

REVENUE LINE ITEMS

SUBJECT OPERATING SUMMARY

Reporting Year	CBRE Stabilized Estimate			
	Rev. Units	Occ.	AMR	Res Days
<i>Active Adult</i>	-	-	-	-
<i>Independent Living</i>	-	-	-	-
<i>Assisted Living</i>	-	-	-	-
<i>Memory Care</i>	-	-	-	-
<i>Nursing Care</i>	-	-	-	-
Total	-	-	-	-

	Total	% EGI	\$/Rev. Unit	\$/RD
Income				
Age Restricted Rent	-	-	-	-
Independent Living Rent	-	-	-	-
Assisted Living Rent	-	-	-	-
Memory Care Rent	-	-	-	-
Level of Care Fees	-	-	-	-
Nursing Care - Private Pay	-	-	-	-
Nursing Care - Medicaid	-	-	-	-
Nursing Care - Medicare	-	-	-	-
Nursing Care - Other	-	-	-	-
Ancillary Income	-	-	-	-
Second Resident Fees	-	-	-	-
Community Fees	-	-	-	-
Entrance Fees	-	-	-	-
Other Income	-	-	-	-
Effective Gross Income	-	-	-	-

Occupancy

90.2% - IL

85.1% - AL

86.7% - NC

Monthly Rent

\$3,283 - IL

\$4,927- AL

\$327 (per day)- NC

Rent Growth YoY

3.2% - IL

2.5% - AL

2.5% - NC

Source: ©2019 National Investment Center for Seniors Housing & Care; NIC MAP Q2 2019 & CBRE Property Insights

VALUATION METHODOLOGY & RESOURCES

OPERATING EXPENSE LINE ITEMS – PROPERTY INSIGHTS

Expenses (Per Resident Day)	Independent Living			Assisted Living			Skilled Nursing		
	Lower Quartile	Average	Upper Quartile	Lower Quartile	Average	Upper Quartile	Lower Quartile	Average	Upper Quartile
Real Estate Tax	\$3.4	\$7.1	\$8.7	\$3.0	\$6.0	\$7.4	\$1.1	\$2.8	\$3.4
Property Insurance	1.1	1.7	2.2	1.2	2.0	2.5	1.6	2.9	4.0
Total Utilities	4.2	5.2	6.2	4.0	5.0	6.0	3.7	4.7	5.5
Admin & General	3.0	4.5	5.6	4.0	6.0	7.0	6.0	9.4	10.1
Marketing	1.6	2.3	2.9	1.6	2.5	3.3	0.3	0.7	1.0
Culinary Services	6.6	8.0	9.0	6.8	8.2	9.2	7.2	8.7	9.5
Culinary Food	5.7	6.5	7.5	6.0	6.9	7.8	5.8	6.7	7.6
Culinary Supplies	0.9	1.6	1.6	0.8	1.6	1.5	1.1	2.3	2.0
Laundry & Housekeeping	0.3	0.6	0.7	0.5	0.8	0.9	1.3	2.7	2.9
Resident Care	0.3	2.4	1.5	0.5	3.7	1.5	20.0	33.6	40.7
Maintenance	2.8	3.9	4.7	2.7	3.7	4.5	2.6	3.4	4.0
Programing & Activities	0.6	0.9	1.2	0.5	1.0	1.2	0.3	0.7	0.8
Total Payroll, Taxes & Benefits	20.3	36.4	49.7	38.7	54.7	63.3	91.2	108.9	114.8
Admin Payroll	4.6	6.1	7.2	5.4	7.1	8.0	7.3	9.5	10.4
Marketing Payroll	1.5	2.3	2.8	1.5	2.3	3.0	1.0	2.3	2.5
Culinary Payroll	6.5	8.3	9.7	6.0	8.2	10.0	6.5	8.1	8.8
Laundry & Housekeeping Payroll	1.9	2.6	3.0	1.7	2.6	2.9	5.0	5.6	6.4
Resident Care Payroll	12.8	20.2	25.5	17.2	27.4	31.5	59.0	73.1	80.0
Maintenance Payroll	1.4	1.9	2.3	1.4	1.9	2.3	1.5	2.0	2.5
Programing Payroll	1.3	2.1	2.7	1.5	2.4	3.0	2.6	3.8	4.9
Payroll Taxes	2.0	3.5	4.6	3.4	5.1	6.2	6.9	8.3	9.0
Employee Benefits	2.0	4.2	5.5	3.0	5.5	7.0	5.0	9.4	11.6
Other	0.3	2.8	2.8	0.3	12.4	1.3	0.1	1.2	0.6
Operating Expenses	\$53.1	\$75.5	\$89.6	\$73.3	\$99.5	\$111.9	\$163.8	\$198.2	\$215.0
Net Operating Income	\$39	\$58	\$73	\$40	\$62	\$75	\$39	\$50	\$57
Management Fee	4.7	6.5	7.9	5.8	8.0	9.2	10.2	12.3	13.4
Reserves for Replacement	1.0	1.2	1.1	1.0	1.1	1.1	1.1	1.2	1.2
Adjusted Operating Expenses	\$58.5	\$82.9	\$98.0	\$79.9	\$107.8	\$121.8	\$175.1	\$211.7	\$229.4
Adjusted Net Operating Income	\$33.0	\$50.8	\$64.2	\$32.9	\$52.6	\$64.3	\$26.0	\$36.8	\$43.4

VALUATION METHODOLOGY & RESOURCES

APPROACH TO VALUE

Sales Comparison

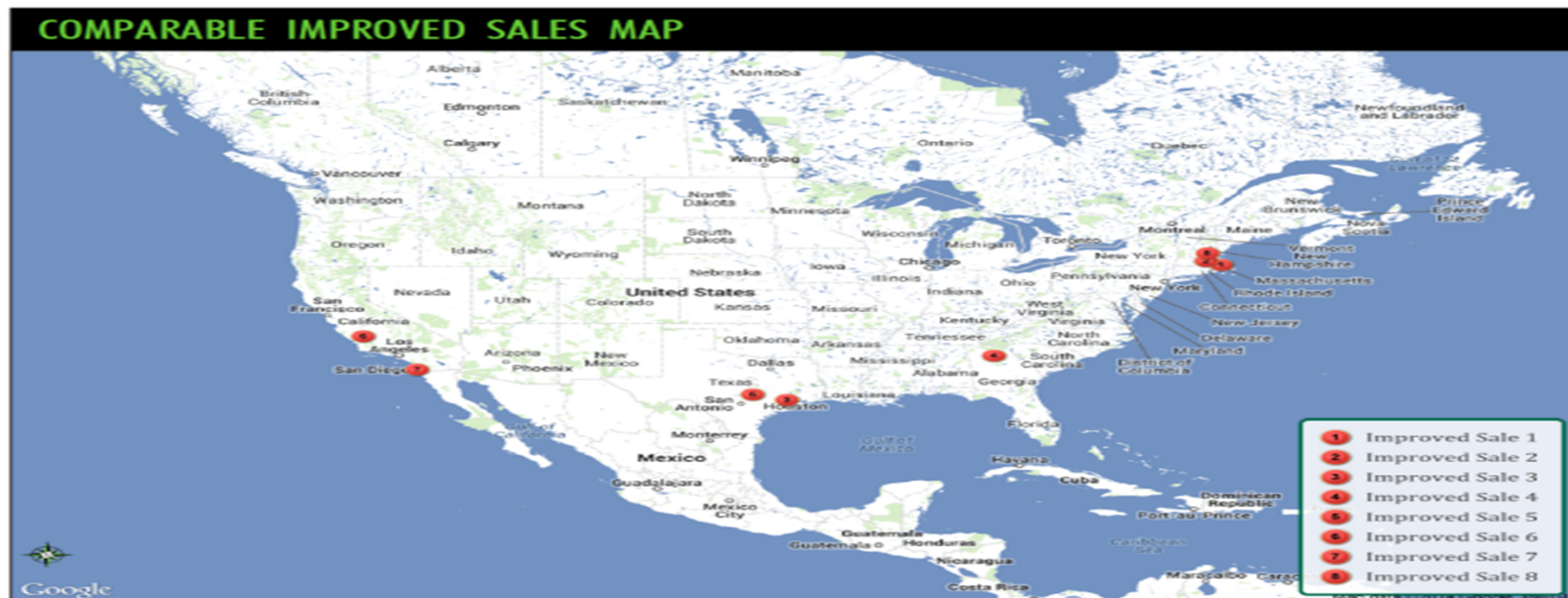
- Regional/ national comp set is acceptable
- Adjustments are mostly qualitative and challenging to support
- Not utilized by market participants
- **Do not** overlay NOI adjustments

NOI Analysis

- Provides most realistic pricing utilized by market participants
- Infers all physical property and locational differences
- Utilizes regression analysis to estimate a per unit/ bed indication

EGIM Analysis

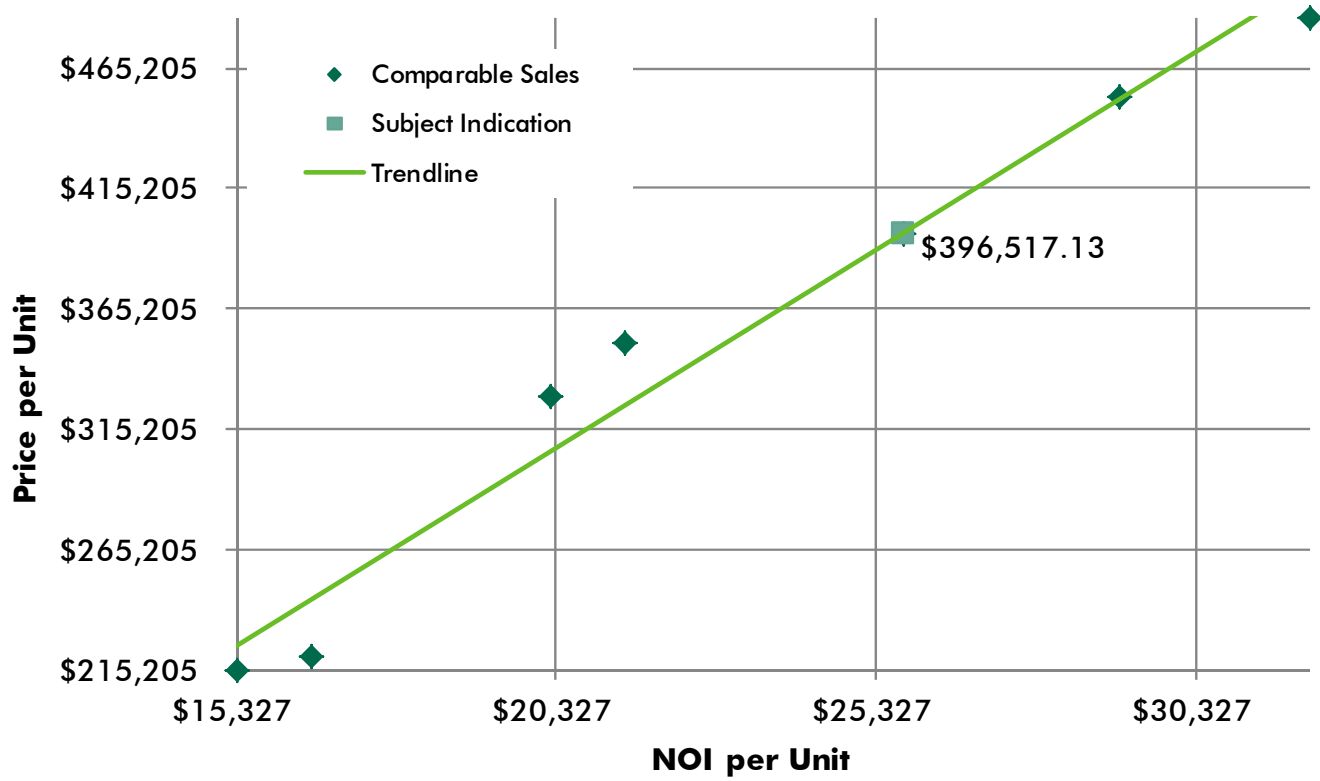
- Easy to extract from market
- Does not include operating expenses in pricing
- Select EGIM for subject by analyzing expense ratio of subject respective of comparable set



VALUATION METHODOLOGY & RESOURCES

APPROACH TO VALUE

NET OPERATING INCOME ANALYSIS



Compiled by CBRE

VALUATION METHODOLOGY & RESOURCES

ALLOCATION OF THE GOING CONCERN

Cost Residual: The value of the business is estimated by taking the market value of the subject and deducting the estimated personal property, land and real estate values. The remaining value represents the contribution of the business.

- Straight forward approach and widely accepted in the appraisal industry
- Utilizes estimates contained in the Cost Approach which is considered the less reliable indication of value and often omitted
- Not utilized by market participant

Management Extraction: Business Value is calculated based upon the capitalized value of the management fee. The concluded business value and FF&E are deducted to get to the real estate only allocation.

- Additional BEV is inherent in the operations
- Capitalization rates applied to the Management Fee are difficult to accurately extract from the market with the applied rate considered to be highly subjective
- Not utilized by market participants

VALUATION METHODOLOGY & RESOURCES

ALLOCATION OF THE GOING CONCERN

Lease Coverage Analysis: A market derived lease coverage ratio is applied to the concluded net operating income. The result is an indicated market lease payment for the subject, or real estate only cash flow. A net lease cap rate is applied to the estimated lease payment in order to obtain the value attributed to the real estate only.

- Lease Coverage Ratios and Net Lease Cap Rates are easily and accurately extracted from the market.
- Only arm's length leases should be utilized.
- Know where FF&E fits. Part of Lease or owned separately by tenant
- Market lease coverage ratios will range from 1.10 to 1.30 for IL and AL, and 1.50 to 2.00 for SNFs.
- Net lease cap rates typically fall 200 to 300 bps below a going concern cap rate.
- Higher the coverage, higher the spread (lower risk).
- Utilized by market participants.

VALUATION METHODOLOGY & RESOURCES

ALLOCATION OF THE GOING CONCERN

LEASE COVERAGE ANALYSIS	
	As Is February 20, 2019
Concluded Stabilized NOI	\$3,146,480
Divided Lease Coverage Ratio	1.30
Cash Flow to the Real Estate	\$2,420,369
Real Estate Only Cap Rate	8.00%
Indicated Real Estate Value	\$30,254,616
Market Value of the Going Concern	\$33,900,000
FF&E	\$1,177,500
Indicated Real Estate Value	\$30,254,616
Indicated Business Value	\$2,467,884
Compiled by CBRE	

VALUATION METHODOLOGY & RESOURCES

CBRE PROPERTY INSIGHTS - VALUATION INDEX

Investment Class A	Lower Decile	Lower Quartile	Average	Upper Quartile	Upper Decile
Independent Living					
Capitalization Rate	5.7%	6.0%	6.6%	7.0%	7.0%
Expense Ratio	41.9%	49.3%	52.0%	62.0%	65.0%
Net Operating Income/Rev. per Unit	\$12,467	\$18,868	\$22,873	\$27,029	\$33,442
Market Valuation/ Rev. per Unit	\$129,011	\$245,833	\$324,902	\$374,150	\$484,110
Assisted Living & Memory Care					
Capitalization Rate	5.9%	6.0%	6.9%	7.0%	7.0%
Expense Ratio	56.0%	60.0%	60.8%	64.0%	71.0%
Net Operating Income/Rev. per Unit	\$18,525	\$21,082	\$26,428	\$28,031	\$36,922
Market Valuation/ Rev. per Unit	\$210,462	\$262,832	\$344,784	\$381,132	\$492,013
Investment Class B/C					
Independent Living					
Capitalization Rate	6.2%	6.8%	7.2%	7.0%	8.3%
Expense Ratio	41.3%	59.0%	59.4%	60.3%	66.7%
Net Operating Income/Rev. per Unit	\$6,353	\$8,668	\$13,258	\$17,099	\$21,430
Market Valuation/ Rev. per Unit	\$61,667	\$106,803	\$163,973	\$218,022	\$269,465
Assisted Living & Memory Care					
Capitalization Rate	6.5%	7.0%	8.2%	9.0%	10.0%
Expense Ratio	61.0%	62.7%	63.0%	72.0%	75.0%
Net Operating Income/Rev. per Unit	\$7,682	\$10,416	\$16,647	\$20,854	\$25,685
Market Valuation/ Rev. per Unit	\$62,500	\$98,684	\$181,502	\$235,368	\$309,098

Source: Source: CBRE Econometric Advisors, Seniors Housing Property Insights

VALUATION METHODOLOGY & RESOURCES

CONSTRUCTION COST INDEX – CBRE PROPERTY INSIGHTS

SENIORS HOUSING DEVELOPMENT COSTS SUMMARY									
Cost (\$)	Average	YOY Change (%)	First Quartile	Median	Third Quartile				
Total	35,750,000		23,200,000	30,975,000	43,525,000				
Per Revenue Unit	270,200	↑ 5.5	227,200	261,500	316,000				
Per Sq. Ft.	298	↑ 5.3	226	298	346				
Property Characteristics	Average	Development Cost Breakout (%)							
Year of Construction	2018-2019	<p>A donut chart illustrating the development cost breakout. The largest portion is 'Hard' costs at 66.6%, followed by 'Soft' costs at 19.7%, 'Site' costs at 10.1%, and 'FF&E' (Fees, Fringe, and Excise) at 3.6%.</p>							
Total Revenue Units	128								
Independent Living	41								
Assisted Living	50								
Memory Care	37								
Site Area (Acres)	7.74								
Gross Building Area (Sq. Ft.)	129,000								
Net Rentable Area (Sq. Ft.)	75,100								
Returns on Costs	Average					YoY Change	First Quartile	Median	Third Quartile
Stabilized Per Revenue Unit (\$)	366,000					6.8	302,900	365,900	414,600
Stabilized Capitalization Rate (%)	6.6	0.0	6.5	6.5	6.8				
Lease Up Period (Months)	22	14.3	18	24	24				
Returns on Cost (NOI/Cost) (%)	8.9	0.0	7.7	8.5	9.9				

Source: CBRE Seniors Housing Development Costs Report, December 2018

VALUATION METHODOLOGY & RESOURCES

SENIORS HOUSING INVESTOR SURVEY – CAP RATES

		Class A				Class B				Class C			
		Low (%)	High (%)	Avg. (%)	Change (bps)	Low (%)	High (%)	Avg. (%)	Change (bps)	Low (%)	High (%)	Avg. (%)	Change (bps)
Core	Independent Living	4.0	8.0	5.4	-5	5.0	8.0	6.4	-7	6.0	10.0	7.7	-4
	Assisted Living	5.0	8.0	6.1	-7	6.0	9.5	7.1	-8	6.0	10.5	8.5	-2
	Memory Care	5.0	9.5	7.0	11	6.0	9.5	7.7	-3	7.0	11.0	9.0	8
	Nursing Care	9.0	14.0	11.3	-12	9.5	14.5	12.2	-1	12.0	15.0	13.6	0
	CCRC/LPC	6.0	10.0	7.3	9	6.0	10.5	8.0	-7	7.0	12.0	9.3	-9
Non-Core	Independent Living	5.0	9.0	6.5	-3	6.0	10.0	7.2	-13	7.0	11.0	8.5	-9
	Assisted Living	5.5	9.0	6.9	2	6.0	10.0	7.6	-9	7.0	11.0	8.9	-4
	Memory Care	6.0	10.0	7.4	3	7.0	11.0	8.1	-3	8.0	11.0	9.2	-5
	Nursing Care	10.0	14.0	12.1	1	11.0	16.0	12.8	5	13.0	16.0	14.3	19
	CCRC/LPC	6.0	10.0	7.9	15	7.0	11.0	8.6	-5	8.0	12.0	9.8	4

		Investment Class Spreads (bps)					
		A - B	Change	B - C	Change	A - C	Change
Core	Independent Living	102	-1	131	3	232	2
	Assisted Living	97	-1	138	6	236	5
	Memory Care	77	-14	122	11	200	-3
	Nursing Care	96	10	137	1	233	12
	CCRC/LPC	72	-15	134	-2	206	-17

Non-Core	Independent Living	70	-10	125	4	195	-6
	Assisted Living	78	-10	125	4	203	-6
	Memory Care	65	-6	112	-2	177	-8
	Nursing Care	73	4	146	14	219	18
	CCRC/LPC	66	-20	121	9	187	-11

		Location Spreads - Core vs. Non-Core (bps)					
		A	Change	B	Change	C	Change
Independent Living		113	2	81	-6	75	-5
Assisted Living		75	9	55	-1	42	-2
Memory Care		45	-8	33	1	23	-12
Nursing Care		78	12	56	6	65	19
CCRC		65	7	60	2	47	13

Source: CBRE Spring 2019 Investor Survey

VALUATION METHODOLOGY & RESOURCES

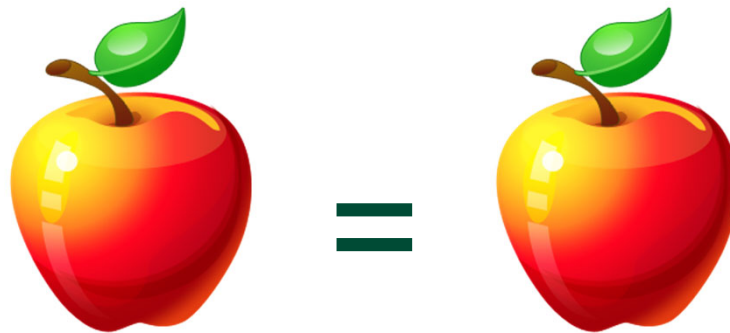
FINAL CONSIDERATIONS

- Understand the property specific operations and local market attributes; understand where your property fits in the market; current property trend lines may not be telling the whole story. There is no one size fits all.
- Have boots on the ground and take the time to speak with the competition. The most sophisticated analysis is useless if your inputs are not accurate, well researched, and properly understood.
- The appraisal report should identify the assets being valued and distinguish the assets not being valued. This should reflect actions taken by market participants.
- Multiple entities often control the total assets of the business. Ownership structure must be fully understood in order to reflect value appropriate cash flows.
- Market value appraisals involving not-for-profit entities or governmental entities should reflect the likely buyers' perspective, and in most cases, that would be from the perspective of for-profit entities, which may take a different view of future operations.
- Comparable sales should be verified directly with source. Purchase price reported on deeds rarely reflect the total consideration with only the allocated real estate value being reported.

VALUATION METHODOLOGY & RESOURCES

FINAL CONSIDERATIONS

- Only the sub-property type should be utilized for comparable purposes. I.e: don't use independent living sales to compare to memory care. This is even more critical SNF to assisted and independent living sales, and applies to all comparable purposes (sales, operations, rents, etc).
- Standard commercial adjustments do not always apply and may in-fact be counterintuitive to what we are taught as general commercial appraisers. I.e: size adjustments, expense ratios as an indication of market operations.
- Market participants do not contemplate the value by adding the value of the real estate to the separate values of the tangible and intangible personal property; they focus on the overall value which is derived by their expectations of cash flow and applied return requirement. In place cash flow is considered, but often adjusted by the buyer for pricing purposes. The magnitude of the adjustment will be reflected in the capital market assumptions.



VALUATION METHODOLOGY & RESOURCES

RESOURCES

- NIC (National Investment Center for the Seniors Housing & Care Industry)
- ASHA (American Seniors Housing Assoc.)
- Irving Levin & Assoc.
 - SeniorCare Investor
 - Senior Housing News
 - Annual SeniorCare Investor Report
- CBRE Seniors Housing | Valuation & Advisory Services
 - Bi-annual Cap Rate Survey & Market Outlook
 - Annual Construction Cost Report
 - Seniors Housing Property Insights
 - Please take full advantage of our platform



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THANK YOU

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