

# CHANCERY MONTHLY NEWSLETTER

*This article focuses on the fact that investors are weighing a growing number of variables when determining the viability of senior housing, especially the operator, which has a greater impact on valuation than ever before. In addition, banks and lenders believe the standard equation needs to be adjusted, as does the definition of stabilization.*

## **Covid-19 Revealed Senior Housing Valuations Must Account for Operator Strength**

The pressures of the Covid-19 pandemic have led to many changes in the way senior living communities are operated — but it has not led to radical new ways communities are valued.

That came as a surprise to Morgan Morris, senior vice president at KeyBank.

“This equation — the way that bankers and equity investors in the market look at value — I thought this year would be the catalyst that would change it,” Morris said Wednesday during a panel discussion hosted by National Investment Center for Seniors Housing & Care (NIC). “The industry was hit so hard, yet the traditional real estate approach is still the dominant approach.”

But while the basic equation of senior housing valuation hasn’t gone out the window, investors are weighing a growing set of variables in determining the viability of a senior housing opportunity.

In particular, the role of the operator has to be taken into account more than in the past, Morris believes. Success during the pandemic was sometimes dependent on which operator was managing a community — and Morris believes that can also lend insight into whether it will be successful in the future.

“In a year like 2020, it became apparent to me that the operator is the backbone of maintaining and preserving that value for the owner,” she said.

But, some operators and owners are misaligned through third-party management structures, she noted. And, putting a number to the value of an exceptional rather than an average operator is hard.

“We’ve been respectful to the role of the operator but the quantification of that is really difficult,” Morris said.

Still, she believes that the standard valuation approach has to adjust.

“There has got to be more to the equation than just income, expense, cap rate, and a bank-set appraisal target,” she added.

Lenders are also thinking differently about the ways they benchmark stabilization and lease-up.

“For example, we used to use 85% occupancy as a baseline metric for stabilization, but now, we get a lot more granular,” Morris said. “Is the facility able to offer shared units? What type of concessions are they looking at? How do they treat companion units coming out of the pandemic? All these are questions [where] we need to dig in a little bit more.”

In thinking about underwriting during the pandemic, Freddie Mac took a stance inspired by a quote from NHL legend Wayne Gretzky.

“We underwrite where the puck is going, not where the puck is,” said Kathy Ryser, senior director of seniors housing underwriting and credit at Freddie Mac.

Today, Ryser sees the senior living industry turning a corner with regard to occupancy and stabilization as move-ins and leads continue to flow. And she sees expenses stabilizing sooner rather than later as Covid-19 cases continue to drop.

“We also are thinking things are stabilizing based on more of a [trailing three-month] look-back, or if we can make an argument that there are expenses in there that will be non-recurring,” Ryser said. “For now, it’s really a look-back closer to a [trailing three-month] or even [trailing one-month] in a collection.”

Valuations are shifting with the pandemic, a trend that is exemplified by an asset that investment firm Blue Moon Capital Partners is taking to market. Before the pandemic, the community received a broker's opinion of value that was lower than expected. Five quarters and a global pandemic later, Blue Moon started again exploring taking the property to market — and its value came back higher than expected.

What happened during those five quarters was the fact that “the capital markets’ psyche has changed a lot,” according to Blue Moon’s co-founder, managing partner and COO, Susan Barlow.

“In Q1 2020, a lot of the headlines around senior housing were how overbuilt, over supplied [it was],” Barlow said. “Now what we’re seeing is, [investors] are not asking about oversupply, they’re looking at the resiliency of these assets where the need is quantifiable.”

She agreed with Morris that operators now have more of an effect on valuation than they did before.

“The operator does really make a difference. I think people are going to start focusing on that,” Barlow said.

Taking a longer view, investors are perhaps even more interested in the fact that the baby boomer generation is marching ever closer to retirement age.

“[There is] a significant amount of core, core-plus capital out there across all different platforms, and when they look at what their options are for income-producing assets, senior housing is going to really stand out,” Barlow said. “The wave is now almost upon us, and we can now look at the last three months and see the leads, tours and leases demonstrating [that] — and the capital markets are really paying attention.”

*Original Article:*

<https://seniorhousingnews.com/2021/06/16/covid-19-revealed-senior-housing-valuations-must-account-for-operator-strength/>

## Stoney Creek Project Update

The Grandview Retirement Residence is a 159-suite building, designed to provide seniors with accommodation in a beautiful neighbourhood with a host of services and amenities. It is located in downtown Hamilton, Ontario, adjacent to the affluent Stoney Creek neighbourhood, and is at the central location with access to retail, restaurants, parks and health care providers.

- The site servicing has been completed. Exterior walls are complete, and the roof is being installed on the 7th floor. Interior wall framing is in progress on the 6th and 7th floors. The mechanical and electrical rough ins are in progress up to the 6th floor.
- The latest semi-annual distribution was made on January 7, 2021.
- Plans are underway to commence with our marketing program in the second quarter of 2021. These plans include installation of site signage, leasing of retail space for the pre-opening sales centre, launch of our website, and production of marketing materials.

## Bartlett Project Update

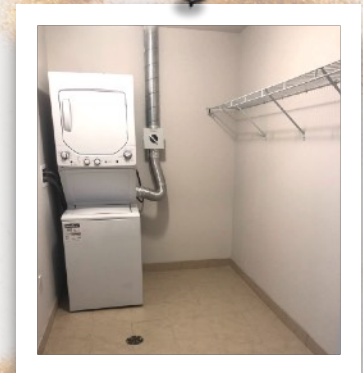
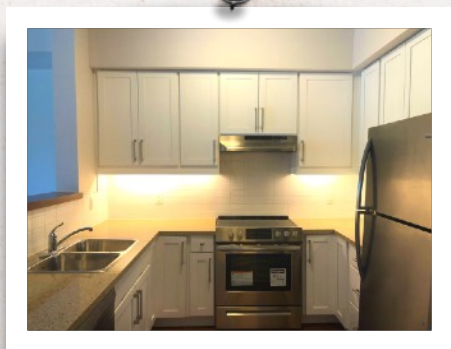
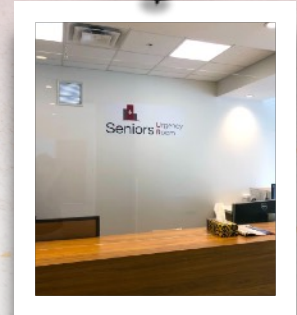
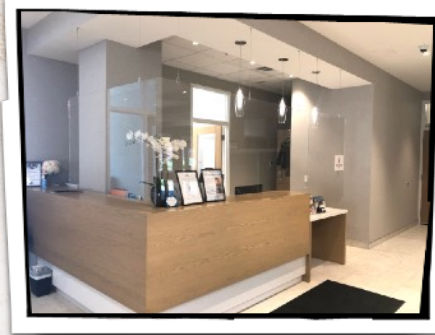
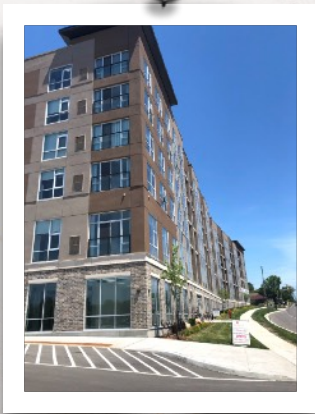
The Bartlett Seniors Housing Complex will be a 129-unit apartment building designed for active senior living, located at 550 Bond Street in Oshawa, ON. The Bartlett represents an affordable alternative to conventional seniors housing, offering services that permit seniors to live independently, on an à-la-carte basis through a concierge, in a regular apartment building, while providing the comfort to seniors and their families that care will be available in short order should the need arise.

- Earlier this month, we took a trip to The Bartlett Seniors Apartments. We had an opportunity to meet with the Marketing Manager and learn more about their on-going initiatives and tour the building. Below are some pictures from the site visit:



# CHANCERY MONTHLY

PROJECT UPDATE



*Chancery Seniors Housing Investments Inc. is a private real-estate investment firm with a focus on seniors housing. Powered by its two strong founding partners, Suske Capital Inc. and LD Capital Corp., Chancery creates a team with the expertise and experience of over 55 years in real estate and seniors housing developments with an estimated completion value of over \$5 billion.*

*For more information about our company and projects, please visit [www.chanceryseniors.com](http://www.chanceryseniors.com)*