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INDUSTRY INSIGHTS

Historic Moment for Senior Housing M&A with All Buyers in the Game

By Chuck Sudo

Investor appetite for senior housing has grown to levels that industry finance experts say is unprecedented, in terms of the variety of buyers seeking transactions. What makes this investor landscape historic is no group is sitting on the sidelines, senior living finance and transactions professionals told Senior Housing News.

Revie and six other industry experts weighed in to Senior Housing News on the level of deal making, the outlook on pricing, what is driving activity from so many different types of investors, and what the rest of 2019 could hold — which includes some large portfolio deals that could further drive M&A volume.

Deal volume compared to last year:

“Deal volume continues to be strong. Irving Levin Associates announced there were 238 [senior housing] acquisitions in the first half of 2019, which is 12% higher than the first half of 2018 — which was a record year. The second quarter of 2019 was the fifth straight quarter with more than 100 transactions announced, so volume continues to be strong across the board, driven by a variety of factors.” — Dan Revie, managing director at Ziegler, a Chicago-based specialty investment bank



"In past quarters, there has been a pretty even split between the number of acquisitions involving skilled nursing facilities and those involving senior housing communities, from assisted living and memory care to independent living and CCRCs.

"However, in Q2 there was a small surge in seniors housing transactions, which represented about 60% of the total deal flow versus 40% for skilled nursing." — Laca Wong-Hammond, managing director at OREC Securities LLC, a New York City-based institutional brokerage

Deal value compared to a year ago

"Pricing is staying consistent in senior housing, but we're seeing a number of offsetting factors. We're seeing a lot of new supply that is still in lease-up, but we're seeing a lot of new capital flowing into the space.

"We're seeing a little bit of macro uncertainty: the stock market has gone through some volatility as of late, but interest rates remain low. We're seeing cap rates remain tight. Net operating incomes [NOI] remain relatively flat as rate bumps are offset by escalating operating expenses." — Ben Firestone, co-founder and executive managing director at Blueprint Healthcare Real Estate Advisors, a Chicago-based senior housing and health care real estate advisory firm.

"Values are still higher for Class-A product. We've gotten some good numbers on lease-up and pricing is coming in at or above expectations. And we're still seeing disconnect in markets with a lot of new supply and lower-class buildings." — Lisa Widmier, executive vice president at CBRE National Senior Housing

"Based on the transactions we represent, we see current cap rates remaining consistent with 2018 levels. The range in cap rates largely depends on quality, location, market and stabilized versus non-stabilized. Since interest rates have remained so low, we don't see much movement in cap rates moving forward." — Ryan Saul, managing director at Senior Living Investment Brokerage (SLIB), a Glen Ellyn-based health care real estate brokerage



On the drivers of deal volume

"This transaction market is one of the few moments in health care real estate history wherein the major buyer types are all simultaneously active — REITs, private equity, high net worth, urban developers like Related Cos. and Hines, alternative lenders and money center banks.

"With the REITs, more than \$60 billion of shareholder equity has shifted from REIT-dedicated stock picker funds to massive index funds in the last five years. The big difference between the two being a valuation focus on premium/discount to net asset value (NAV) with the stock pickers versus quarterly earnings with index funds. The indexes are winning hands-down on attracting capital and this is all a very new phenomenon. This paradigm shift is causing REITs to push quarterly earnings through acquisitions growth momentum.

"In seniors private equity, fundraising is three times today what it was annually over the prior decade. A good example is Harrison Street's recent \$1.6 billion fund targeting 30% to 40% seniors housing." — Ted Flagg, senior managing director and healthcare practice co-head at JLL Capital Markets

"The 10-year Treasury dropped to 2.4% in April, then 1.6% in Aug. 15, compared to 3.24% on Nov. 8, 2018). Since many institutional investors are primarily focused on the spread, as base rates go down, so will their yield requirements (i.e. lease yields or cap rates). Moreover, there is still abundant capital chasing investments, so the constant quest for yield keeps propping up valuation." — OREC Securities' Wong-Hammond

On resurgent REIT activity

"We're definitely seeing the REITs more actively bidding on portfolios these days. Often it is done in conjunction with expanding an existing operator relationship or looking to create new relationships. They're looking for opportunities to buy in order to develop the relationship with a new operator." — Richard Swartz, executive managing director at Cushman & Wakefield Senior Housing Capital Markets



"We find they are selective on what they are pursuing. It must be the right asset in the right market with the right operator. They aren't going to buy just to grow." — SLIB's Saul

"In addition to cost of capital, the REITs are using their scale. REITs have an information advantage in seeing relative pricing over their entire portfolio. Also, the big balance sheets allow them to show up to an off-market deal with a good execution certainty today versus private equity or other sources." — JLL's Flagg

Source:

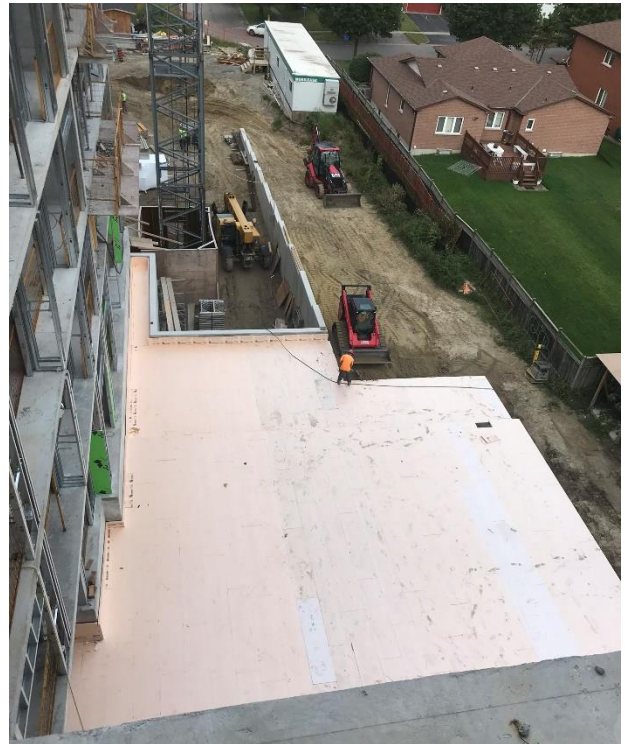
<https://seniorhousingnews.com/2019/08/23/historic-moment-for-senior-housing-ma-with-all-buyers-in-the-game/>

PROJECT UPDATE

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.

- The roofing materials have been delivered and placed on the roof. Roofing will start next week!
- The windows are being manufactured.
- Mechanical installation on the ground floor is advancing.
- Electrical wire pulls have begun.





UPCOMING PROJECT

Grandview Retirement Residence

Project Summary

- Located in downtown Hamilton, Ontario, adjacent to the affluent Stoney Creek neighborhood. Central location with access to retail, restaurants, parks and health care providers.
- Designed to provide seniors with accommodation in a beautiful neighborhood with a host of services and amenities
- 1.85 acres of development land, a 159-suite building including 132 independent supportive living units, and 27 assisted living units.
- Construction expected to start in Q3 2019 and opening in Q4 2020.



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