

2018 Seniors Housing Symposium – Wrap-up Notes (II)

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Our Friends to the South

- Prediction that next year will be active in deals / transactions.
- Over-building was not seen as a concern given the strong growth in the seniors' population (i.e. temporary condition).
- An interesting discussion on a national operating scale and the challenges therein. The quote, "Amalgamation of assets isn't necessarily a portfolio" (Tim Sanders, Ventas).

Investment

- Seniors housing continues to be more mainstream with lots of new players to the industry.
- There is a flight to quality assets; urban quality deals are in demand but there is a very limited supply.
- More availability / supply in B class assets.
- Seniors housing cap rate trends – depends who you ask. The response was nearly equally divided amongst the panelists and the audience (50% up – 50% down).
- How to you get apartment cap rates for seniors' apartments? The answer (and cap rate) really depends on who will be the buyer (i.e. a retirement operator or an apartment owner). There is a trade-off between higher rental rates and higher cap rates (seniors' apartment) and lower rental rates and lower cap rates (traditional apartment building).

Money Talks

- Consensus that we are in a rising interest rate environment.
- There is no shortage of capital. However, with the rising interest rates, debt serviceability may be an issue.
- Lenders are protecting themselves against the high land costs and rising construction costs by requiring that a minimum of 65% of construction costs be fixed.
- There were several discussions about interest rates hedges by using interest rates swaps (i.e. good upside and limited downside).
- Land loans are growing. The key question lenders ask is whether the land is entitled (zoned) or/and the likelihood that it will be entitled. Typically loans for land are 60% loan to value.
- Large loans for campus and larger projects (\$100m+) are growing. Lenders are increasing looking to syndication to reduce/spread their risk.
- The panel also gave advice to the audience to only use the best consultants (cost consultants, appraisal, and feasibility studies).