



SENBRIDGE WEST

By **Goodmans** | **Victoria 2017**

On November 8-9, 2017, Chancery Seniors Housing Investments' management team - Steve Suske (Chair), Jessica Zhang (President) and Sarah Cathrae (Managing Director); Avenir Retirement's Les Craik and David Craik; and Points West Living CEO Doug Mills were in Victoria, BC to attend the 2017 Senbridge West Conference.

Senbridge West is a regional conference that focuses on local developments, transactions and regulatory overviews. This conference focused on both regional and national seniors living executives, the growing tide of Asian interest in the industry, and proposed legislative changes in BC.

Suske Capital's Managing Director, Sarah Cathrae, compiled a list of 10 key takeaways from this year's conference:

1. Land prices in Vancouver and Toronto have increased significantly despite efforts by the government to cool the markets through the introduction of the foreign buyers tax. One of the consequences of the foreign buyers tax that was launched in Vancouver was a shift in market appetite from single family homes to pre-sale condominium units (the "inversion effect"). With the increase in condominium prices, seniors can't necessarily afford to downsize from their single-family homes into a condominium.
2. Land prices have increased to the point to where seniors housing is often not the highest and best use of urban centre land. This is creating opportunities for seniors housing in secondary markets outside the city centres. There has also been a spillover effect in British Columbia, as Vancouverites shift their capital investment to secondary markets such as Victoria, Kelowna, Chilliwack, etc., or in the case of Ontario, the experience of Torontonians leaving for Hamilton and Collingwood.
3. There is a continued lack of quality seniors housing communities for sale in the marketplace and there have been a few ways of addressing the issue:
 - o Many operating companies are developing projects for themselves.
 - o Some have shifted their focus towards innovation and complimentary investments in technology.
 - o Some are refocusing their portfolios through sale of non-strategic assets.
 - o There have been many redevelopment projects in the marketplace, and not just in the LTC space.
4. Government legislation will have a significant impact on the seniors housing space in 2018. There have been several bills that have been put forward regarding care, there have been changes to the minimum wages and labour laws, there are new building codes, and this week's announcement in Ontario by the Wynne government promises a shift in focus although exactly what the consequences

will be remains to be seen. The impact of the government intervention in the seniors housing industry will include a narrowing of margins, but will also act as a barrier to entry into the industry.

5. Western seniors housing companies are focused on differentiating themselves in the marketplace through different programs and philosophies, such as the promotion of active senior living, intergenerational offerings, etc. as everyone in the industry is focused on increasing the capture rate.
6. Increased land values are causing some lenders to require cash equity investment over and above the change in value in the land from the time it was purchased to the time construction starts. All lenders are concerned about the residual value of the land and the profitability of the projects under construction.
7. Cap rates in seniors housing are averaging in the 6% range for Class A assets and in the 7% range for Class B assets. These cap rates have decreased to the point to where the lenders have shifted their focus toward debt service coverage and ability to pay.
8. There were two capital raises in the public markets – Chartwell’s unsecured revolver (CIBC) and Sienna’s \$115m bought deal which was 2.5x oversubscribed, the transactions are indicative of the public’s appetite for senior’s housing investments which lead to a panel discussion (lead CIBC and Goodman’s) on accessing the public markets through Capital Pool Companies, Reverse Take-overs and/or IPO.
9. There was a discussion on foreign investment and especially the shift in the Chinese markets away from real estate and towards technology, infrastructure and resources. It is unclear as to whether the restrictions will apply to seniors housing.
10. The key-note by Concert Properties President, Brian McCauley, reinforced the major theme of the conference which is the increasing land prices and our need as industry participants to think outside the box when acquiring land for development purposes. While Concert’s land assembly and planned communities with seniors housing at the centre approach isn’t necessarily accessible to all, it is representative of the need for developers to think outside the box in this next phase.



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