

REAL ESTATE INSTITUTE OF BC EDUCATION SYMPOSIUM 2012

SENIORS HOUSING

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Westbridge Group



SENIORS HOUSING

- Brief Overview of the Industry
- Industry Sectors & Models
- Income Approach
 - Revenues
 - Expenses
 - Capitalization Rates

Brief Overview of Industry

- * Demographics

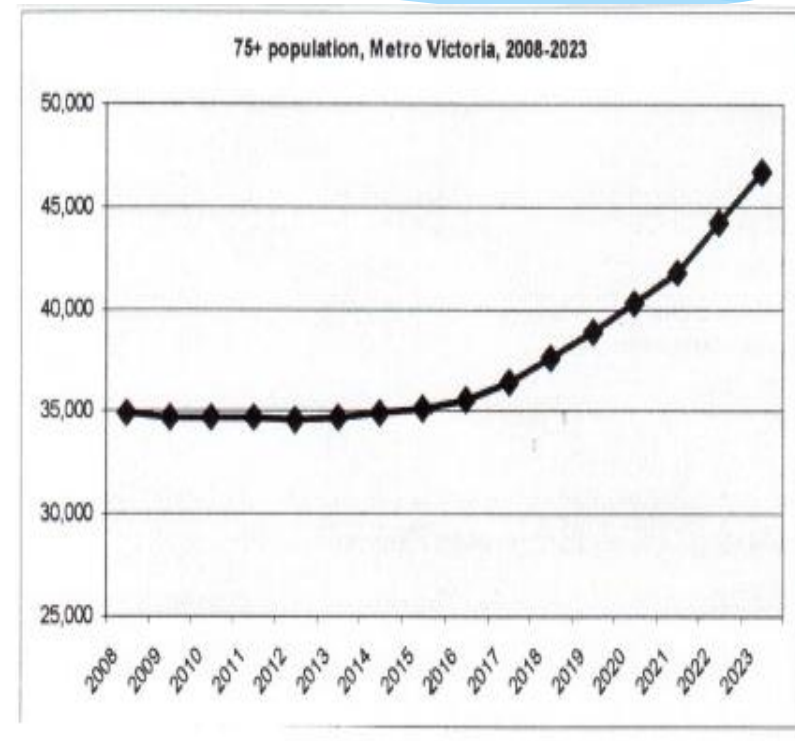
- * Vacancy

- * Players in the Industry

Brief Overview of Industry Demographics

- * Average age 85+
- * Oldest boomer 65
- * Slow growth for 20yrs
- * Annual turnover rates 25% to 40%

Graph: Lumina Group



Brief Overview of Industry Vacancy

- * Localized & wide ranging
- * Westbridge Group Private-Pay Vacancy Survey
 - * 6.7% to 23%
- * One community approximately 60% vacancy
- * Studios typically higher vacancy rates & lower absorption rates

Brief Overview of Industry Players in the Industry

- Small families with one project
- Large organizations (REITs)
- Local to international interests
- Privately-owned or publically traded
- For-profit and not-for-profit

Industry Sectors

* Continuum of Care

Independent Living



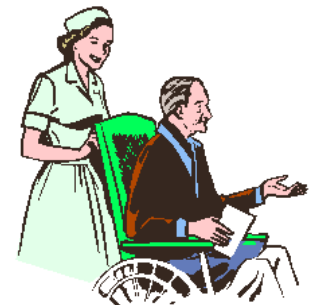
Supportive Living



Assisted Living



Long Term Care
(Residential Care)



Industry Sectors



* Independent Living

- * Own or rent
- * No assistance
- * Apartment/unit with full kitchen
- * No services
- * No funding



Industry Sectors



- * **Supportive Living**
- * Private Pay
 - * Accommodation & Hospitality Services
 - * Meals
 - * Activities
 - * Housekeeping/laundry
 - * 24/hour response
- * Strata/Condo Component



Industry Sectors



- * **Assisted Living**
- * Private Pay & Funded
 - * Extension of supportive living
 - * Require additional assistance – personal care or prescribed services



Industry Sectors



* Long Term Care

- * Funded & Private Pay
- * No longer able to live independently
- * Require 24 hour nursing care
- * Licensed beds

Industry Sectors



- * Campus of Care
 - * Independent Living
 - * Apartments
 - * Duplexes
 - * Supportive Living
 - * Assisted Living
 - * Long Term Care

Seniors Housing



Seniors Housing Models

- * **Significant Diversity**
 - * Private-Pay or Funded
 - * Subsidized Operations
 - * Mixture of Both

Seniors Housing Models

Factors Affecting Value

- * Staffing models
- * Project size
- * Constant changes in funding levels
- * Age and physical condition
- * Renovations/upgrades
- * Market orientation
- * Local market conditions
- * Suite and/or bed mix
- * Average suite sizes
- * Stand-alone vs campus of care
- * Building design
- * Common areas
- * Management structure

Seniors Housing

- * Appraisal Methodology
 - * Income Approach
 - * Income capitalization method – most common
 - * Direct Comparison Approach
 - * Used as support for the income approach
 - * Cost Approach
 - * Only used for proposed developments

Seniors Housing

- * Income Approach – Capitalization Method
- * Revenues
 - * Sources of revenues
 - * Vacancy
- * Operating Expenses
 - * Types of Expenses
- * Overall Capitalization Rate

Seniors Housing Sources of Revenues

* **Accommodation**

- * Private-pay suites
- * Funded beds
- * Miscellaneous
- * Second occupants

* **Other Sources**

- * Strata fees and/or mandatory service package
- * Guest suite and meals
- * Recoveries
- * Refunds/discounts
- * Commercial space
- * Investment revenues

Seniors Housing Sources of Revenues

* **Vacancy**

- * Before arriving at an EGI – you need to consider a vacancy factor
- * Localized
- * Strong demand is a myth
 - * Seniors waiting longer to move – usually 80+
 - * Decision to move is needs-based
 - * Economic issues defer/delay move into private-pay, especially private-pay long term care

Seniors Housing Operating Expenses

- * **General Categories of Operating Expenses**
 - * Salaries/Wages and Benefits
 - * Repairs and Maintenance
 - * Administration
 - * Hospitality Services

Seniors Housing Operating Expenses

- * **Salaries/Wages and Benefits**

- * Can range range from 25% to 45% of EGI
- * Significant impact if you don't have this right!
- * Example:
 - * 1 x RN wage of \$35/hr – 7.5 hr shift – 365 days coverage
 - * $\$35 \times 7.5 \text{ hrs} \times 365 = \$95,815$
 - * Apply a cap rate of 8.5%
 - * **Value impact of \$1,127,205**
 - * **And that's without considering relief and benefits of 20% to 40% in some cases**

Seniors Housing Operating Expenses

* Repairs and Maintenance



Seniors Housing Operating Expenses

- * **Administration**

- * **Typical expenses for operations**

- * **Bank charges**
 - * **Courier/postage**
 - * **Computer**
 - * **Office supplies**
 - * **Marketing**
 - * **Etc**

Seniors Housing Operating Expenses

- * **Hospitality Services**

- * **Costs associated with delivering the basic service platform**

- * **Meals**

- * **Housekeeping**

- * **Activities**

Seniors Housing

- * **Total Revenues**
 - * Minus Vacancy
- * **Effective Gross Income (EGI)**
- * **Total Operating Expenses (OE)**
- * **Net Operating Income (EGI-OE)**

Seniors Housing Overall Capitalization Rate

- * **Typical Range of Capitalization Rates**

- * 7.5% to 11%+

- * **Issues around determining capitalization rate**

- * Few sales if any occur in a given year
 - * Myriad of operational types
 - * Accurate details seldom available
 - * Final sale adjustments can be substantial



THANKS FOR YOUR
ATTENTION!