SENIORS HOUSING
INDUSTRY OVERVIEW
CANADA

A Cushman & Wakefield
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CUSHMAN & WAKEFIELD

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ON THE COVER AND THROUGHOUT:

Riverwalk Retirement Residence
by Verve Senior Living
Calgary, Alberta. Opened 2023.

Don Mills Retirement Residence
by Verve Senior Living
Toronto, Ontario. Opened 2023.

INTRODUCTION

While the seniors housing sector has experienced its share of challenges over the past four years, the industry is now turning the page on the pandemic and setting its sights to the significant growth that lies ahead.

Favourable Supply and Demand Fundamentals to Drive Outperformance

The much-discussed wave of demand from Canada's aging population is now translating into meaningful growth for the sector. Despite the growing demand, we are seeing new construction starts and the rate of new supply growth slow due to soaring development costs. The higher costs have largely crowded out seniors housing construction starts, which were less than 1% of inventory last year, following years of this metric trending lower.

Rising demand and the slowing rate of new supply have been the primary drivers of the recovery in occupancy and outsized rent growth.

We have increasing confidence that these favourable supply and demand fundamentals will continue to fuel an upswing in operating results in this business, accelerating the sector beyond recovery mode into growth territory.

The projected demand growth is expected to overwhelm the existing inventory of rentals in the next few years, worsening the housing shortage felt in other parts of the market and creating a significant need for new seniors housing developments.

Strategic Importance of Seniors Housing as Part of the Commercial Real Estate Asset Mix

From a capital markets viewpoint, the expected growth and outperformance of the seniors housing sector means it can no longer be overlooked by diversified real estate investors as a minor niche. Investors will need to reconsider giving seniors housing a zero weighting in their portfolios. We expect this rebalancing will funnel net capital in-flows to the sector, which will drive pricing.

Despite the challenges encountered over the past four years, we see the asset class as having moved past the inflection point of the post-pandemic recovery and believe the best is yet to come.

SECTOR SUMMARY

OPPORTUNITIES

- ‘Post-Covid’ occupancy recovery showing sustained improvement
- Wave of Boomer population growth starting to contribute to target market demand
- Canada boasts strong population growth by global standards
- Continued slowdown in new supply due to rising construction costs, while obsolescence of existing supply is leading to greater number of building closures, creating a tighter leasing market
- Rental pricing power remains solid as operators push rates
- Given the outperformance we expect to see in this sector, investors will no longer be able to give seniors housing a zero weighting in their portfolios, driving net capital in-flows to the sector
- Massive development opportunity to house the growing seniors population

CHALLENGES

- General cost inflation continues to impact the business
- Labour market challenges persisting
- Higher interest rates have resulted in spreads between cap rates and the cost of debt narrowing below historical levels
- Supply over-hang is causing delays in occupancy recovery in certain markets. Pandemic leasing restrictions no longer to blame
- Construction cost escalation has challenged the feasibility of many prospective development projects
- Canada’s residential sector has a high barrier to entry for foreign buyers
- In certain provinces, government funding has not kept up with inflation or the increasing acuity and the needs of residents in LTC homes

OPERATING FUNDAMENTALS

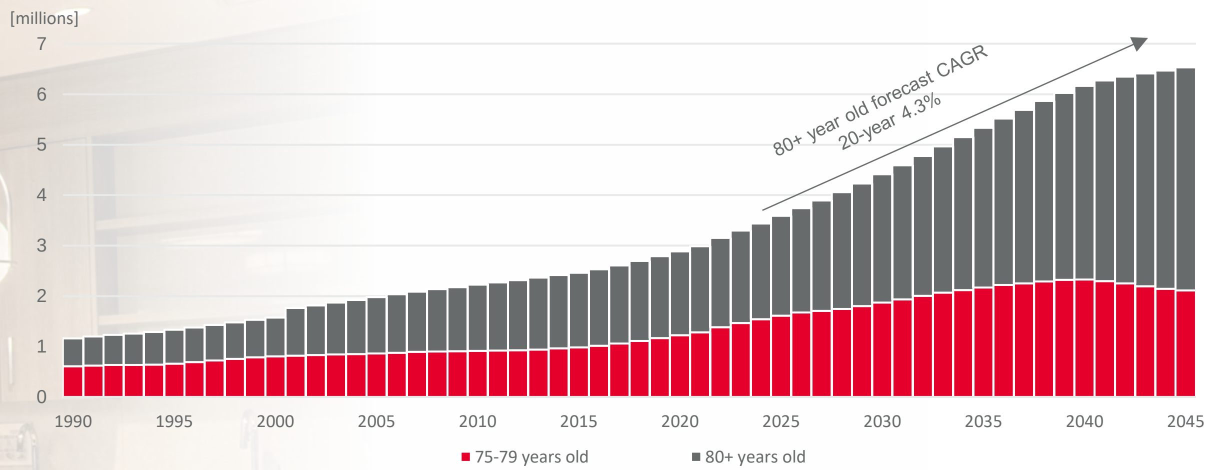
TARGET MARKET GROWTH

Demand paradigm shift is underway: Long-term conviction in fundamentals intact

» At long last, the often talked about Boomer population is impacting the sector

- Ages 75 to 79 growing at 5.1% in 2024 (was 2.2% 10 years ago)
- Ages 80+ growing at 3.8% in 2024 (was 1.7% 10 years ago)
- Age 80+ population will grow at 4.3% CAGR over next 20 years

POPULATION OF AGE 75+ YEAR OLDS



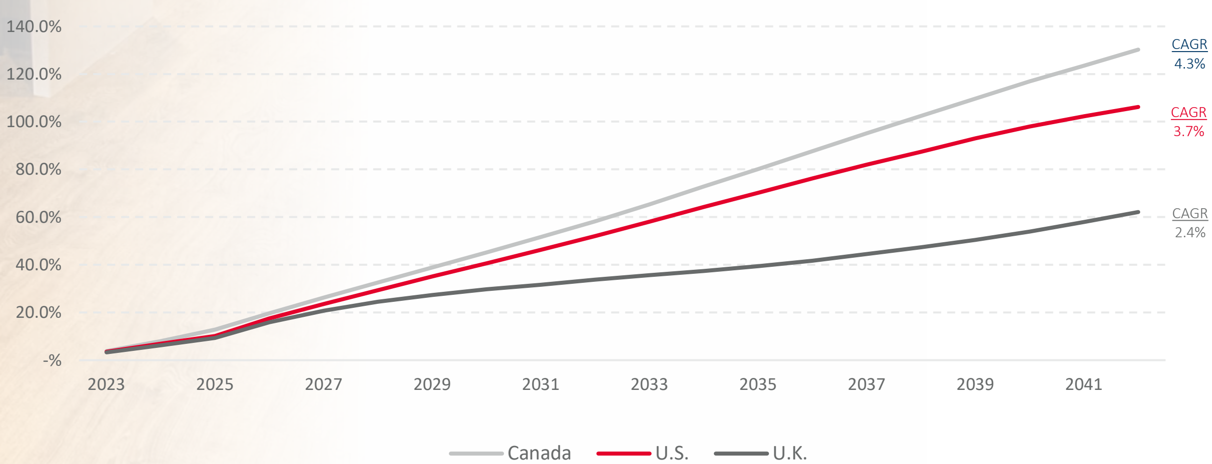
Source: Statistics Canada: StatsCAN. Table: 17-10-0057-01. Projection scenario M4: medium-growth 7 and Cushman & Wakefield ULC

Canadian population growth strong by global standards, especially for seniors

» Age 80+ population growth over next 20 years:

- Canada 4.3% CAGR
- US 3.7% CAGR
- UK 2.5% CAGR

PROJECTED CUMULATIVE GROWTH IN POPULATION AGE 80+



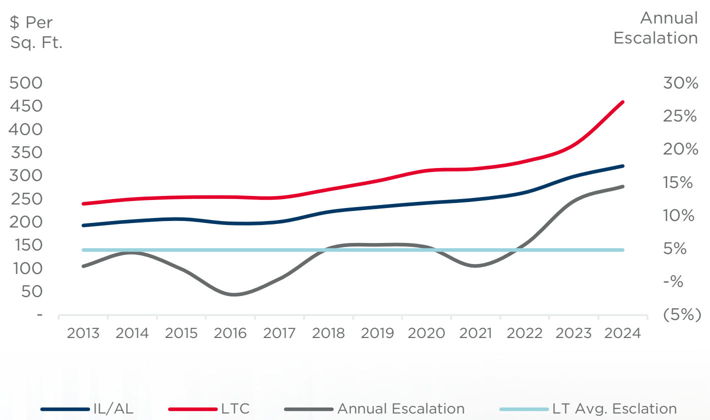
Source: Canada: StatsCAN. Table: 17-10-0057-01. Projection scenario M4: medium-growth 7
U.S. Census Bureau: 2017 National Population Projections Datasets
U.K. Office for National Statistics. 2020-based Interim National Population Projections

SLOWDOWN IN SENIORS HOUSING CONSTRUCTION STARTS

The pace of new retirement residence construction starts has fallen below the rate of required replacement.

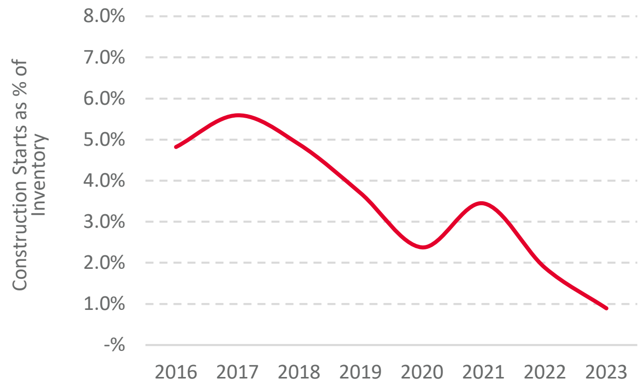
- In light of the growing demand, it is counterintuitive that we are seeing a slowdown in new construction starts and rate of new supply growth
- Construction starts have generally declined since 2017, as development is crowded out by higher costs and return requirements
- In 2023, construction starts were less than 1% of inventory and ongoing construction was ~4.4% of inventory
- We expect annual supply growth will slow to an average of less than 2% for the next three years
- Hard costs have increased by ~8% CAGR over the past five years
- Eliminating HST is a good start, but not enough to meaningfully spur new construction

HARD COST ESCALATION: Seniors Housing & Long-Term Care Residences — CANADA



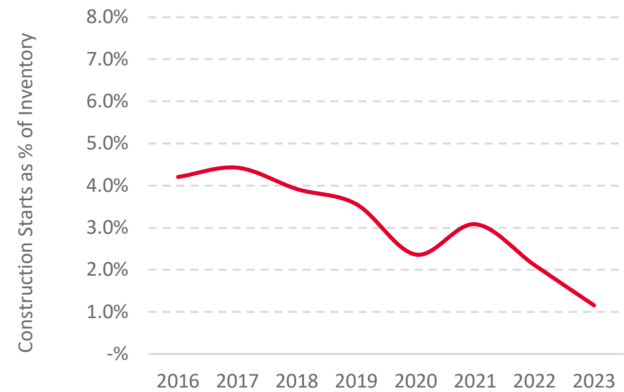
Source: Altus Group. Canadian Cost Guide

CONSTRUCTION STARTS AS % OF INVENTORY (UNITS) — CANADA



Source: Cushman & Wakefield ULC (Sample based on C&W Construction Index)

CONSTRUCTION STARTS AS % OF INVENTORY (UNITS) — UNITED STATES



Source: NIC MAP® Data Service, (Q4 2023)
Metric: Projects which commenced construction in the period (measured by units) as a percentage of the existing units of inventory (Sample based on NIC MAP, All Markets, Seniors Housing)

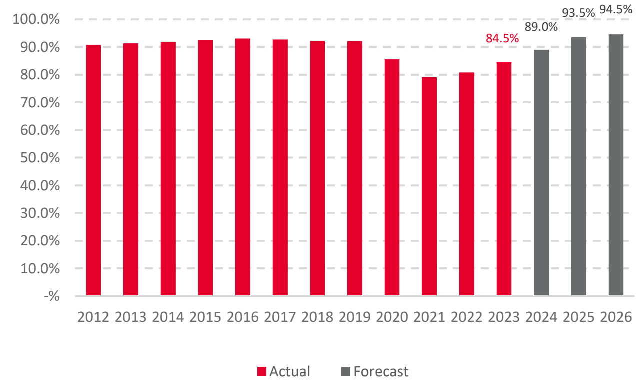
OCCUPANCY RECOVERY

‘Post-Covid’ occupancy recovery showing sustained improvement.

» The recovery in sector occupancy has been driven by a confluence of factors, including:

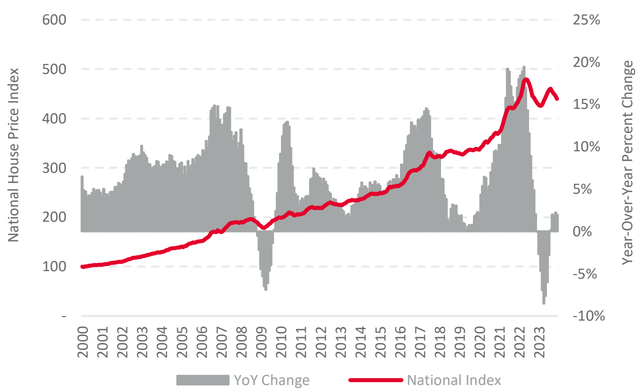
- Favourable shift in population growth
- Slowdown in new supply
- Older properties closing due to physical economic obsolescence
- Increasing need (LTC beds are full, with a waitlist, caregiver ratio declining, etc.)

OCCUPANCY FORECAST



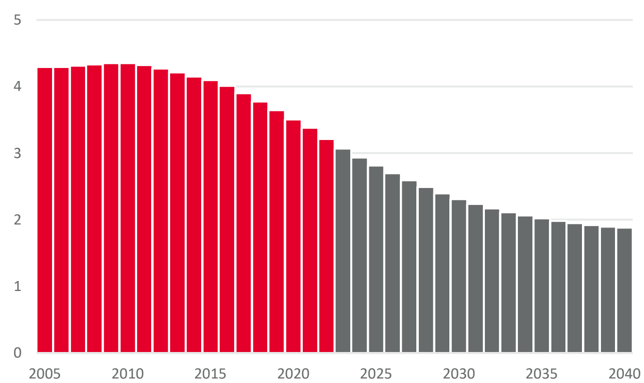
Source: CMHC Seniors Housing Report (Time period adjustment (t-1) for historical CMHC survey data lag) and Cushman & Wakefield ULC

NATIONAL HOUSE PRICE INDEX



Source: House Price Index. Teranet Inc., and National Bank. Re-indexed to 100 = January 2000 and Cushman & Wakefield ULC

RATIO OF CAREGIVER POPULATION (AGES 45-64) TO ELDERLY POPULATION (AGE 75+)



Source: Statistics Canada and Cushman & Wakefield ULC

RENT GROWTH OUTLOOK

Rents are benefitting from the same tailwinds that are driving occupancy.

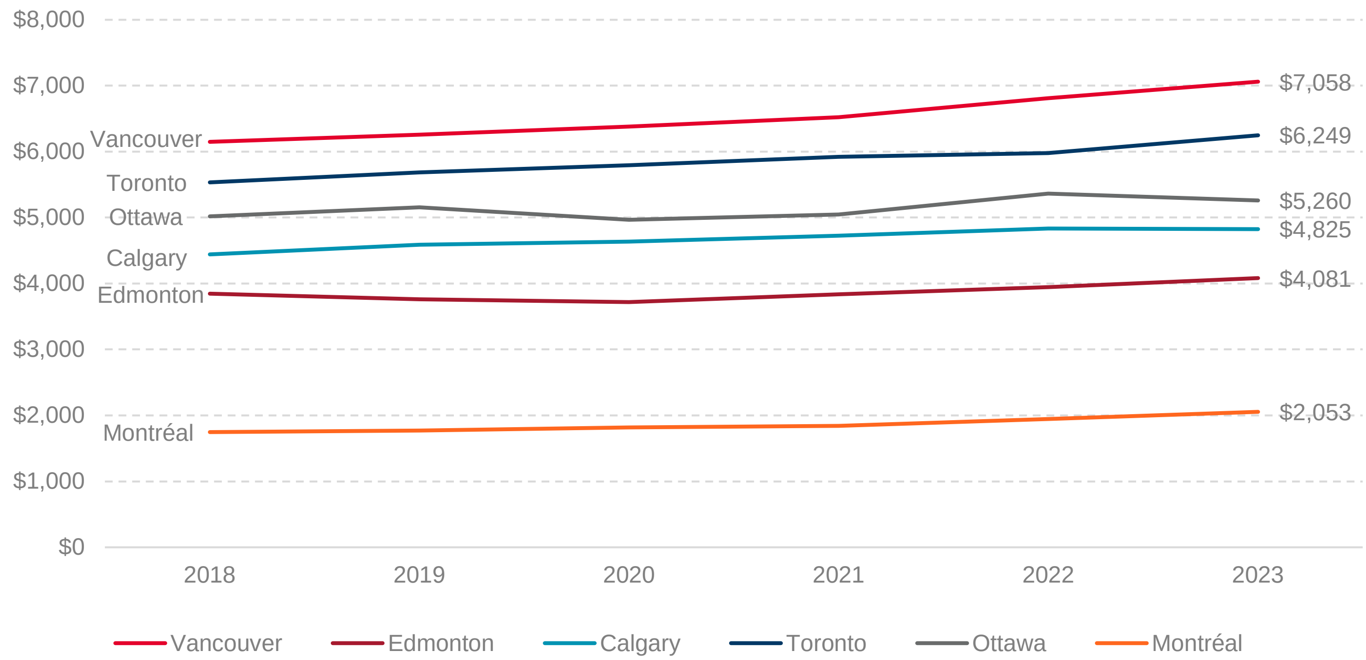
Similar to how the industrial and multifamily asset classes have distinguished themselves over the past five years with outsized rent growth, we expect seniors housing will start to distinguish itself as a rent growth leader among commercial real estate asset classes given the improving supply and demand fundamentals.

Average increases were in the 4% to 6% range year-over-year in 2023, with operators enacting similar increases for 2024.

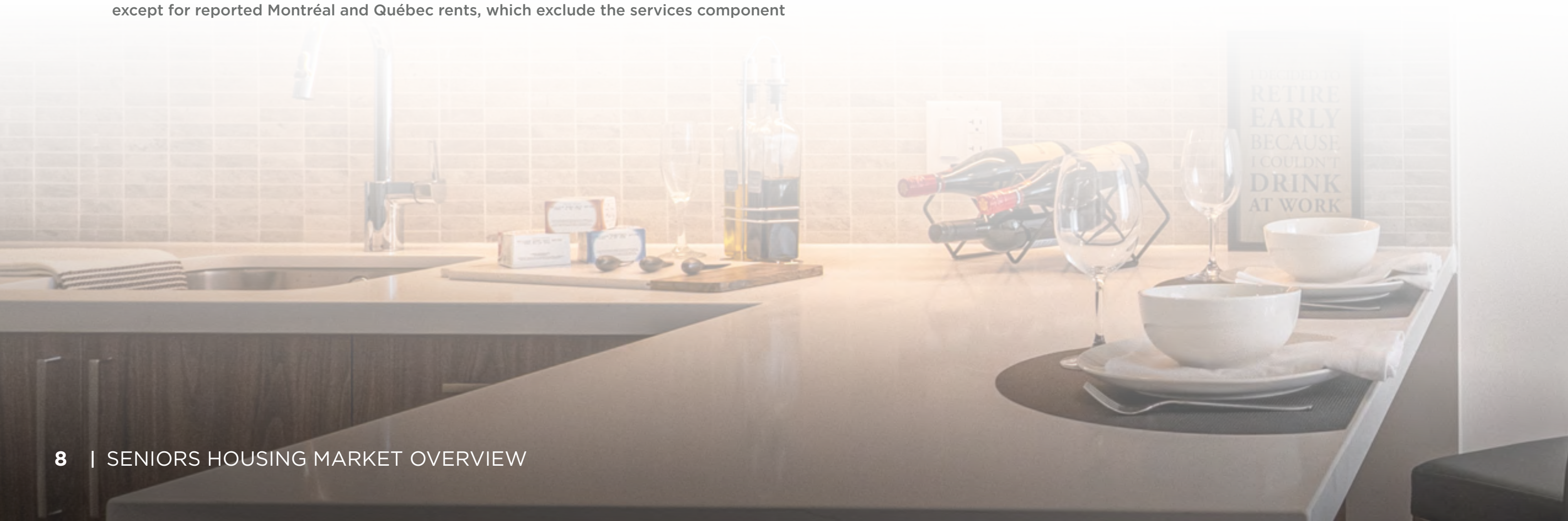
With occupancy projected to recover and surpass pre-COVID levels by 2025, tighter market conditions will enhance the ability to drive rate growth.

Given the improving supply and demand fundamentals, we expect strong rent growth to continue to be a prominent characteristic of the seniors housing asset class in the years to come.

AVERAGE IL ONE BEDROOM RENTS



Source: Cushman & Wakefield ULC. Seniors Housing Analytics 2023.
Note: Average rents reflect typical ISL service package (i.e., including daily meals and weekly housekeeping) except for reported Montréal and Québec rents, which exclude the services component



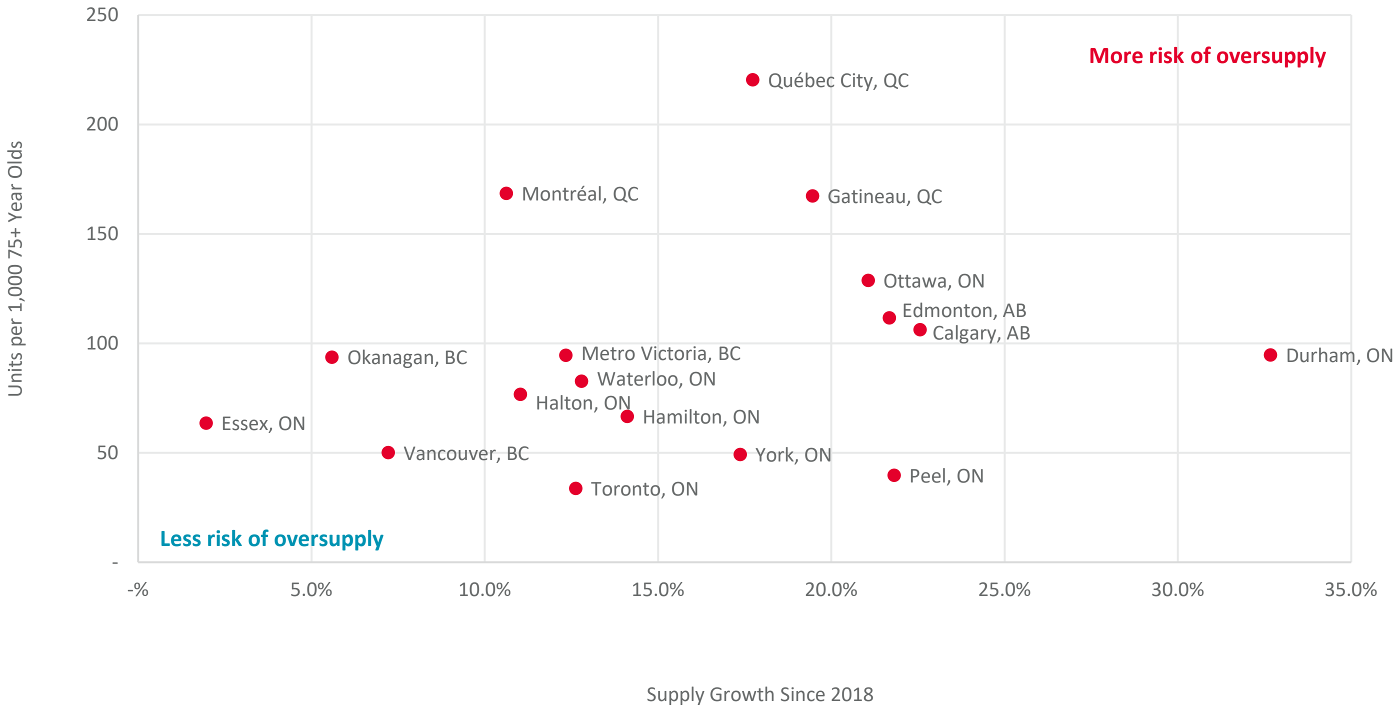
UNEVEN PACE OF RECOVERY

Supply over-hang in certain markets is the cause of delays in occupancy recovery. Pandemic restrictions no longer to blame.

Markets like Durham, Calgary and Ottawa are lagging the overall market recovery in occupancy, as these are still hovering in the mid-to-high 70s occupancy range. This is primarily attributable to the surge in new supply of seniors housing units that have opened in these markets during the past five years.

While these markets will absorb this excess supply in the coming years, this demonstrates that, while powerful, the growing demographic tailwinds have, not yet become the solution to all the sector's challenges.

SENIORS HOUSING SUPPLY PER CAPITA VS INVENTORY GROWTH



Source: Cushman & Wakefield ULC

Note: Higher number of units per capita in Quebec markets is partially attributable to the broader spectrum of product types (more active adult product) and certain tax credits which help affordability. This does not indicate higher risk per se and the Quebec markets should be evaluated taking these unique factors into account

DEVELOPMENT OPPORTUNITY OVER NEXT TWO DECADES

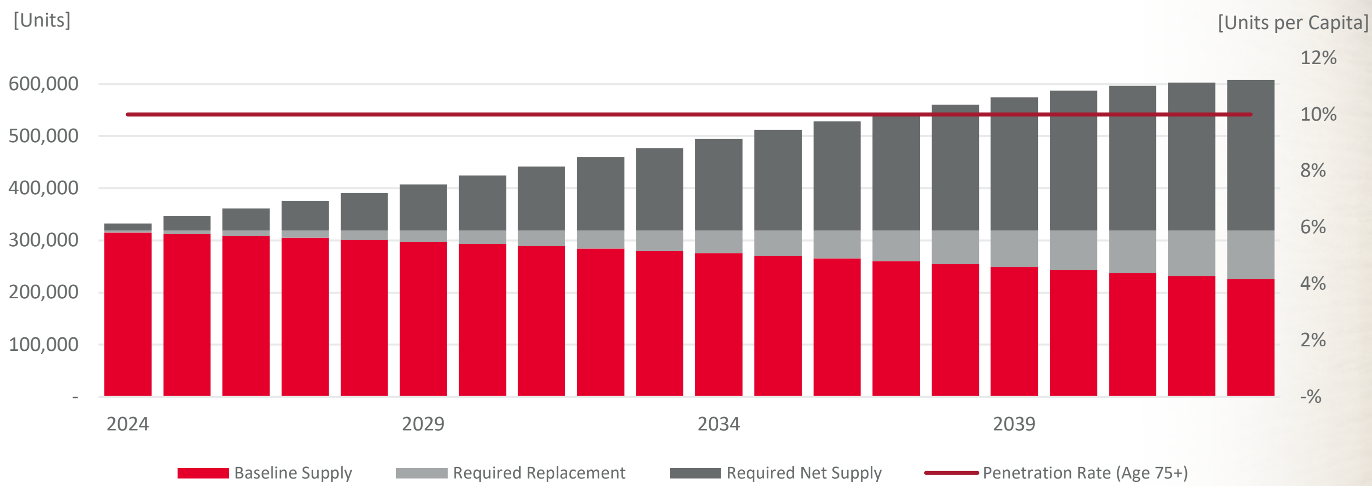
Based on the expected population growth, the demand for private-pay seniors housing is projected to double over the next 20 years.

To maintain market equilibrium, we forecast that 200,000 new seniors housing units will be required over the next 10 years (compared with less than 73,000 built over the past decade). This represents a required investment of more than $100 billion over this period. Our model assumes that the long-term care system's capacity grows at the same rate as the seniors population, which appears to be a conservative assumption given how stretched provincial health care budgets are.

Given the decline in seniors housing developers' project pipelines, and competition for resources in light of the broader housing shortage, this new supply target seems out of reach. This will only make the market tighter, providing support for sector occupancy levels and fueling rent growth. We have already seen construction starts drop over the past five years to now less than 1% of inventory.

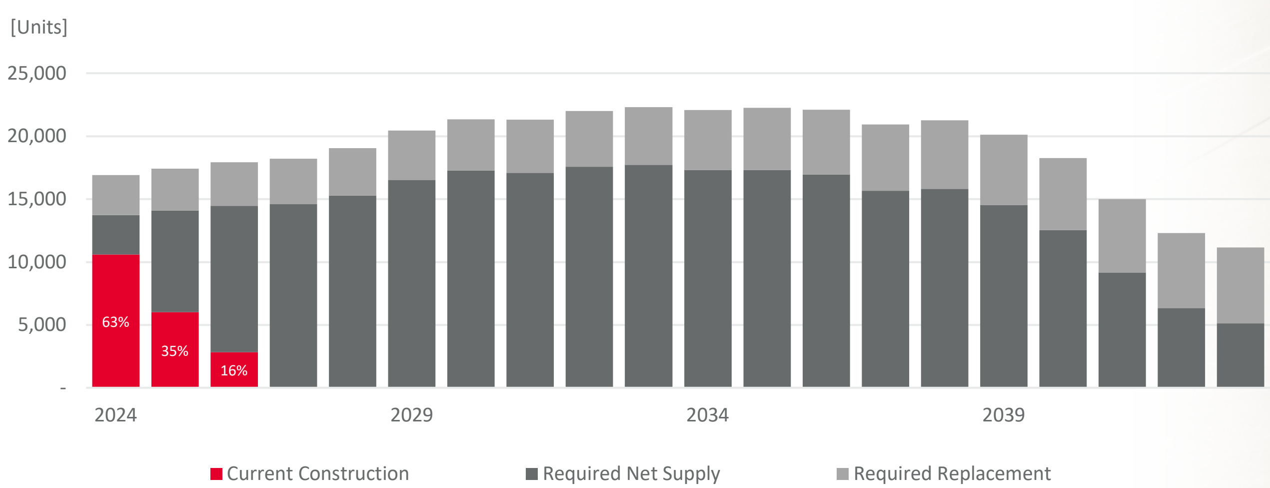
Projected demand growth is expected to overwhelm the current supply of units within the next few years and create tightening market conditions, accelerating rent growth and effectively wiping out all but frictional vacancy.

NEW SUPPLY REQUIRED TO MAINTAIN MARKET EQUILIBRIUM



Source: Cushman & Wakefield ULC

REQUIRED NET NEW CONSTRUCTION VS LIFECYCLE REPLACEMENT OF EXISTING INVENTORY



Source: Cushman & Wakefield ULC

CHANGES IN DESIGN OVER TIME AND GROWING OBSOLESCENCE

Obsolescence of older communities will put further strain on the existing supply of seniors housing units.

Newer seniors housing communities tend to have:

» Higher number of units per property
  - Better economies of scale and higher margins

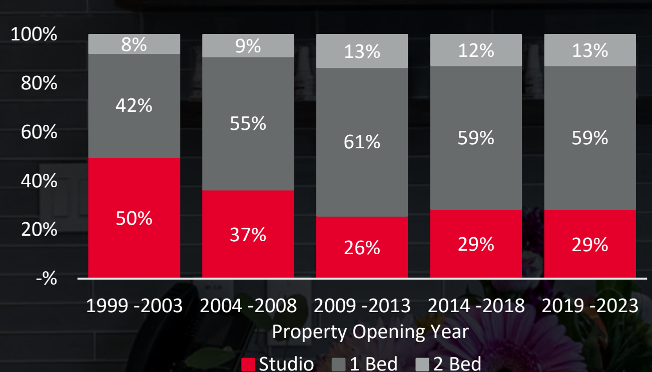
» Larger suite sizes
  - Average size of IL one bedroom units has increased by close to 100 sq. ft. over the past 20 years
  - Full in-suite kitchens and laundry also increasingly prevalent

» Configured as a continuum of care (mix of SA/IL/AL/MC)
  - Better suited to enable aging in place as resident's care needs increase
  - Greater choice; appeals to broader segment of the market
  - Extends average length of stay

» Capex per unit requirement that are ~50-60% of that of a building that is 20+ years old*

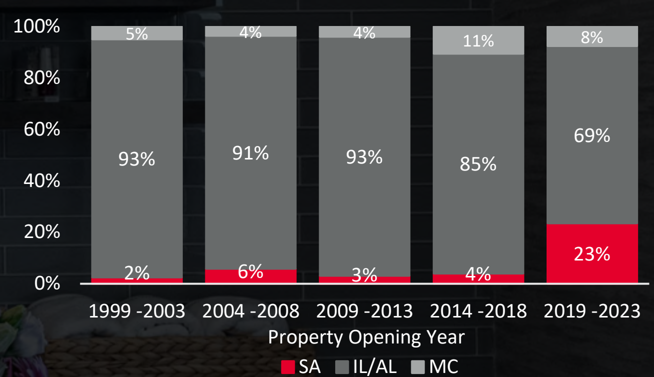
*Source: Green Street

CHANGE IN IL UNIT MIX OVER PAST 25 YEARS
ONTARIO



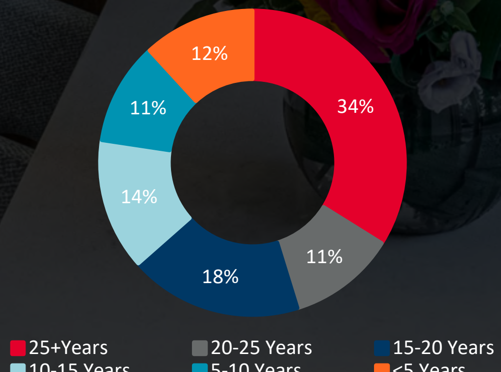
Source: Cushman & Wakefield ULC

CHANGE IN CARE MIX OVER PAST 25 YEARS
ONTARIO



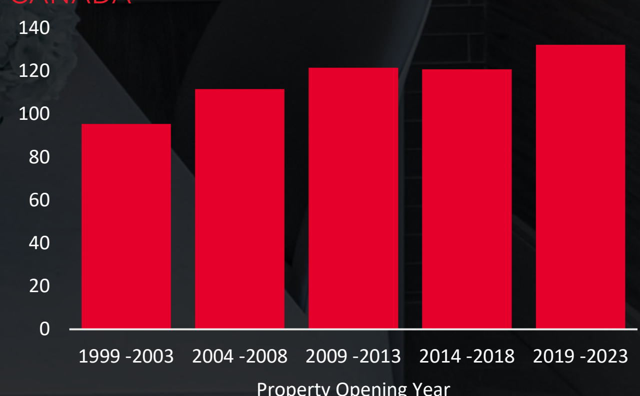
Source: Cushman & Wakefield ULC

SENIORS HOUSING SUPPLY BY AGE
CANADA



Source: Cushman & Wakefield ULC

AVERAGE NUMBER OF SUITES PER PROPERTY
CANADA



Source: Cushman & Wakefield ULC

CHANGES IN DESIGN OVER TIME AND GROWING OBSOLECENCE

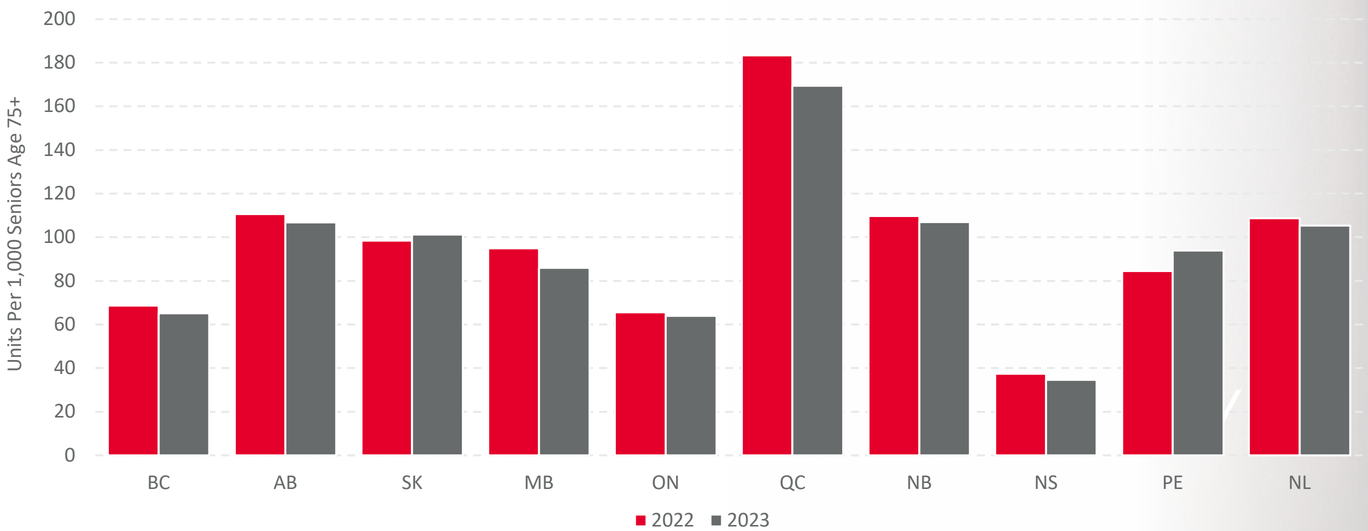
The obsolescence rate is being driven by:

- Buildings reaching end of useful life
- Properties becoming functionally obsolete by new competition (suites/ amenities lost appeal)
- Economic factors (local labour pool insufficient, operating below break-even occupancy, home size too small, etc.)

Closures and adaptive re-use of seniors housing properties resulted in total supply contracting in Vancouver, Edmonton, Hamilton, Ottawa, Gatineau and Montréal in 2023.

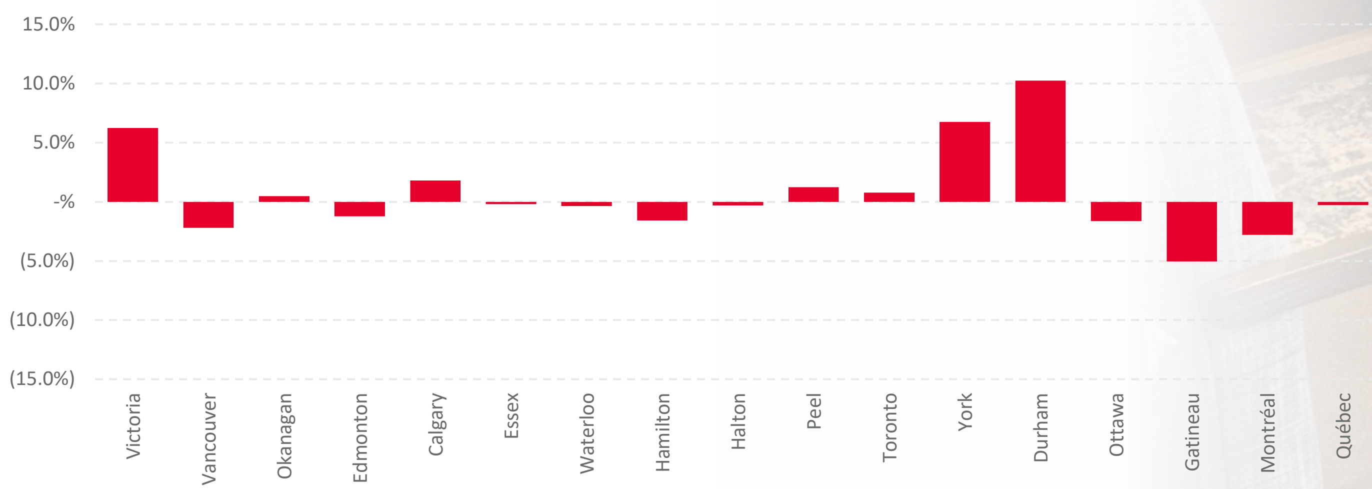
We expect the slowdown in the development cycle over the past five years will translate into less than 2% per annum net supply growth over the next three years. It is likely we could see national supply of seniors housing units actually contract in 2026/27 due to the rate of property closures exceeding the rate of new property openings.

PER CAPITA SUPPLY CONTRACTION IN CERTAIN MARKETS



Source: Cushman & Wakefield ULC

MAJOR METRO MARKET SUPPLY GROWTH YEAR-OVER-YEAR



Source: Cushman & Wakefield ULC

INVESTMENT MARKET OVERVIEW

RECAP OF 2023

» Over $2.5* billion in transaction volume in 2023, down ~15% relative to 2022

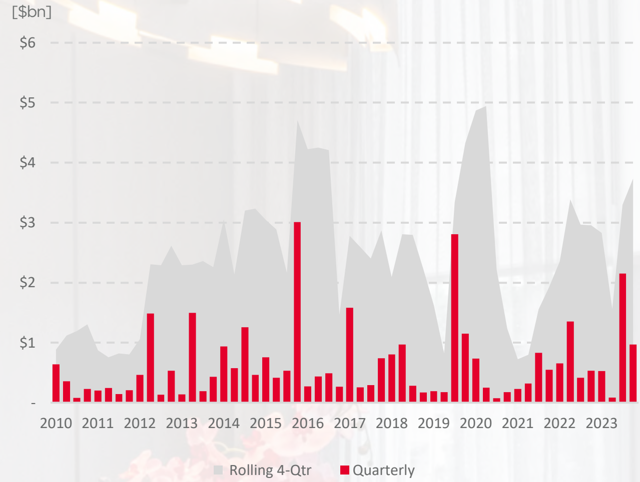
» Wave of LTC portfolio deals (Chartwell, Revera, Extendicare) closed in Q3 after being announced in 2022 and following a customary regulatory review process

» The two biggest investment market storylines from 2023 both involved Welltower:

- Welltower initiated the dissolution of their JVs with Revera and Chartwell
- Welltower and Cogir closed the year's largest transaction in October, buying 12-property portfolio in Quebec

» U.S. dollar volume at ~$10.5 billion, half of FY21 level

CANADIAN SENIORS HOUSING TRANSACTION DOLLAR VOLUME



Source: Cushman & Wakefield ULC
Note: Dollar volume in the chart reflects 100% interest in properties involved in transactions

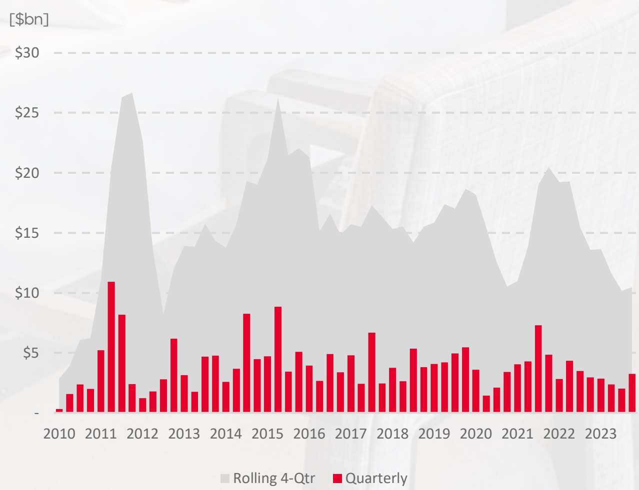
OUTLOOK

» Good value opportunities for buyers to acquire assets at a steep discount to replacement cost

» Investors will have a strong preference for assets with high occupancy, short average lease durations, and substantial mark-to-market opportunities, as these features provide income growth potential to counteract inflation's effects

* $2.5 billion economic interest exchanged at arm's length; $3.7 billion based on 100% interest
* Excludes imputed asset value of dissolved Welltower/Revera JV

U.S. SENIORS HOUSING TRANSACTION DOLLAR VOLUME

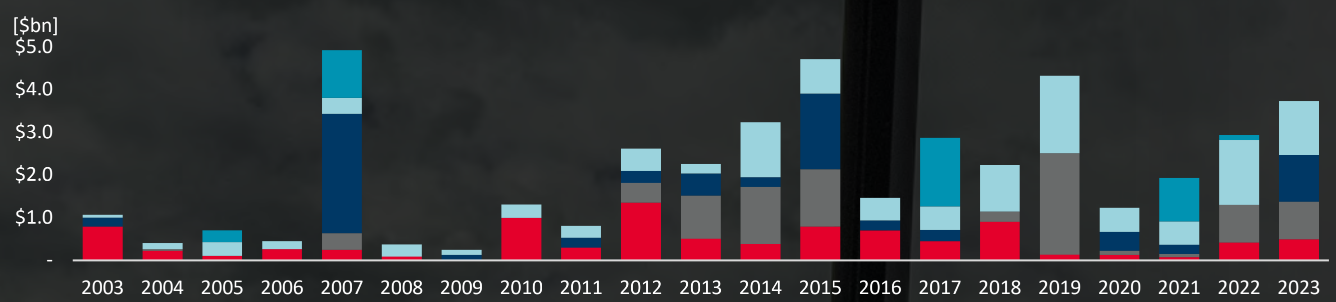


Source: MSCI Reak Capital Analytics and Cushman & Wakefield ULC

CAPITAL DASHBOARD

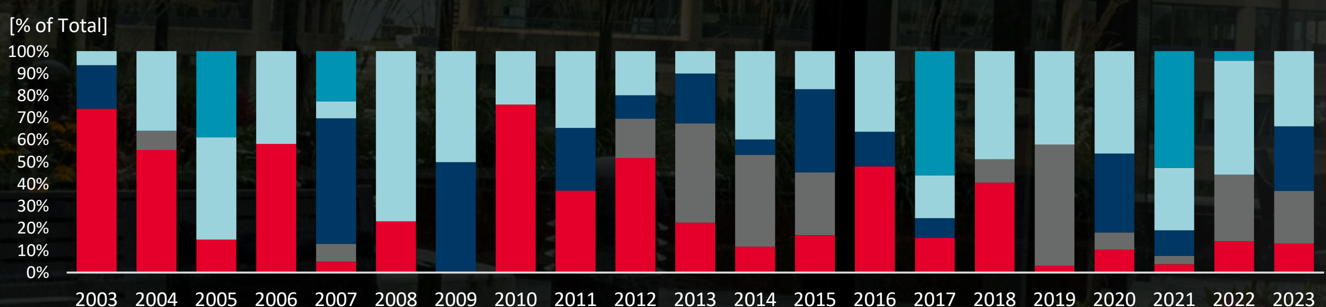
In Canada, the seniors housing market benefits from a robust set of buyers and capital providers. The buyer pool has become significantly more diversified over the past decade, contributing to the overall health of the market and underlying liquidity.

TRANSACTION DOLLAR VOLUME



SOURCES OF BUYER CAPITAL: 2023

TRANSACTION DOLLAR VOLUME BY SOURCES OF BUYER CAPITAL



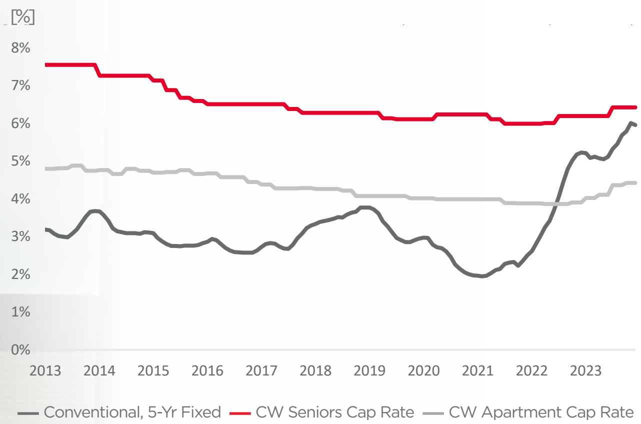
SOURCE OF BUYER CAPITAL: 2003 TO 2023

The capital in-flows associated with the growing acceptance of the seniors housing and long-term care sectors among institutional investors was a major driver of the last wave of cap rate compression between 2008 and Q1 2022. We believe this trend will continue as seniors housing and other alternative real estate asset types become more mainstream.

PRIVATE MARKET CAP RATES

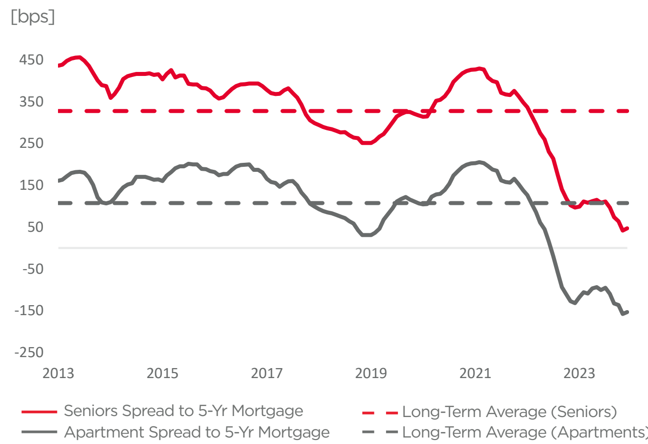
From previous highs in the mid-8s during the trough of the GFC, yields compressed by about 300 basis points (bps) nationally between 2008 and Q1 2022. Since then, private market cap rates have expanded relative to pre-COVID levels, albeit not to the same extent as the implied rates by public company valuations. Cap rates for best-in-class product in primary markets are generally up 50 bps since 2022, while the cost of borrowing was up over 200 bps during this period.

SENIORS HOUSING AND APARTMENTS CAP RATE VERSUS CONVENTIONAL MORTGAGE RATES



Source: Cushman & Wakefield ULC

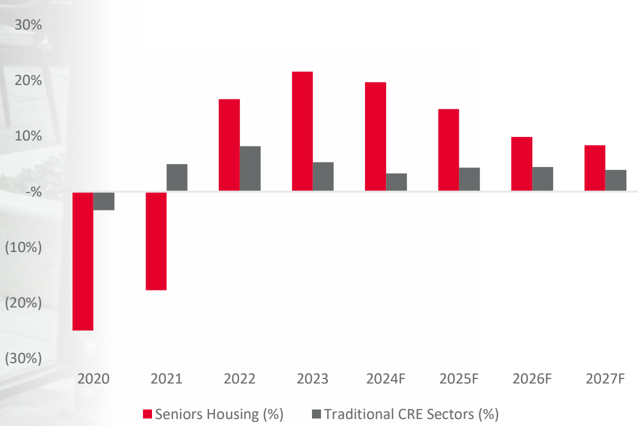
CAP RATE SPREADS TO CONVENTIONAL 5-YEAR MORTGAGE RATES



Source: Cushman & Wakefield ULC

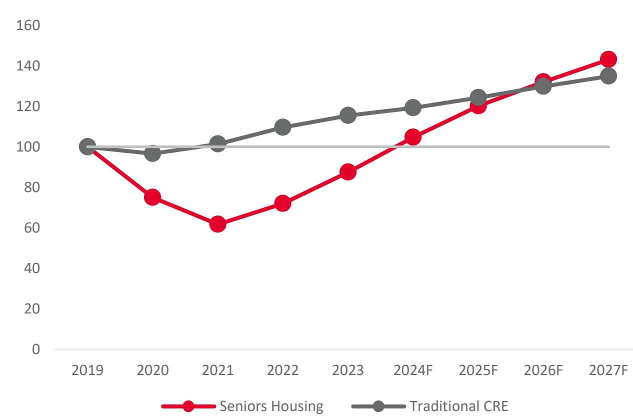
Cap rates have adjusted to the higher cost of debt, although not on a one-to-one basis, narrowing the spread between cap rates and borrowing costs. As a point of comparison, seniors housing and apartment cap rates have maintained a ~200 bps spread between one another during this most recent cycle of interest rate hikes. Similar to multifamily cap rates, the favourable outlook on seniors housing income growth partially offset the impact of a rising cost of capital, providing stability to cap rates.

SENIORS HOUSING NOI GROWTH FORECAST



Source: Green Street (January 2024) and Cushman & Wakefield ULC

INDEXED NOI (‘19 = 100)

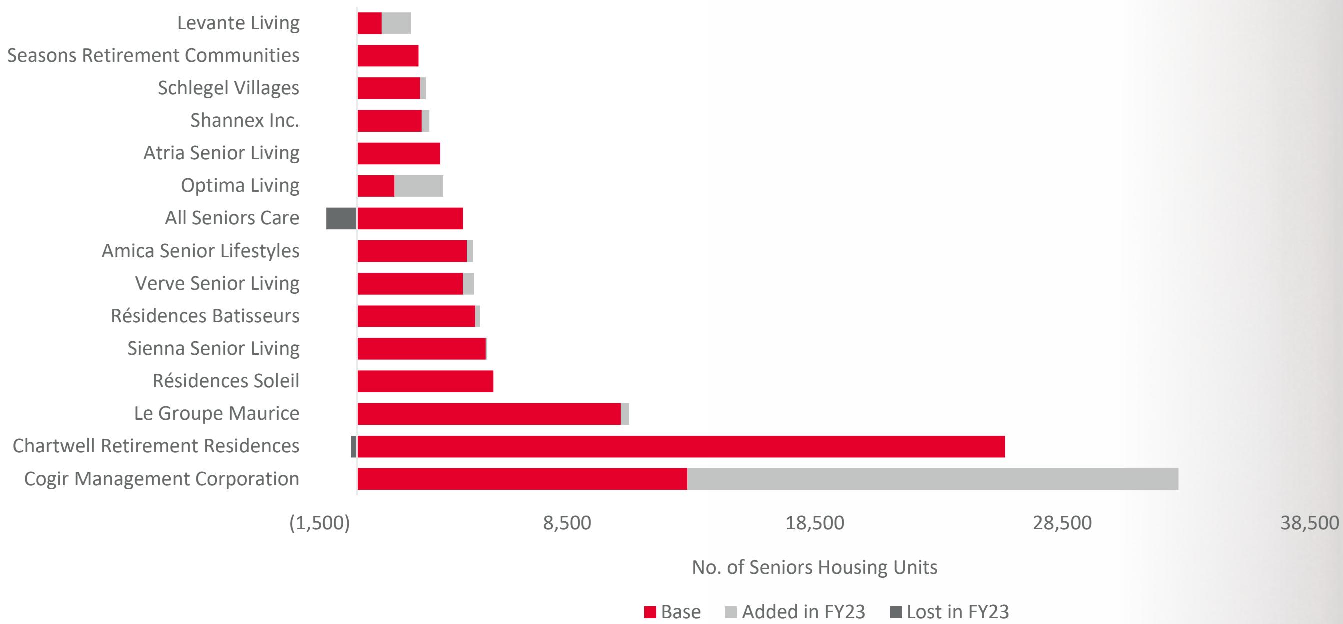


Source: Green Street (January 2024) and Cushman & Wakefield ULC

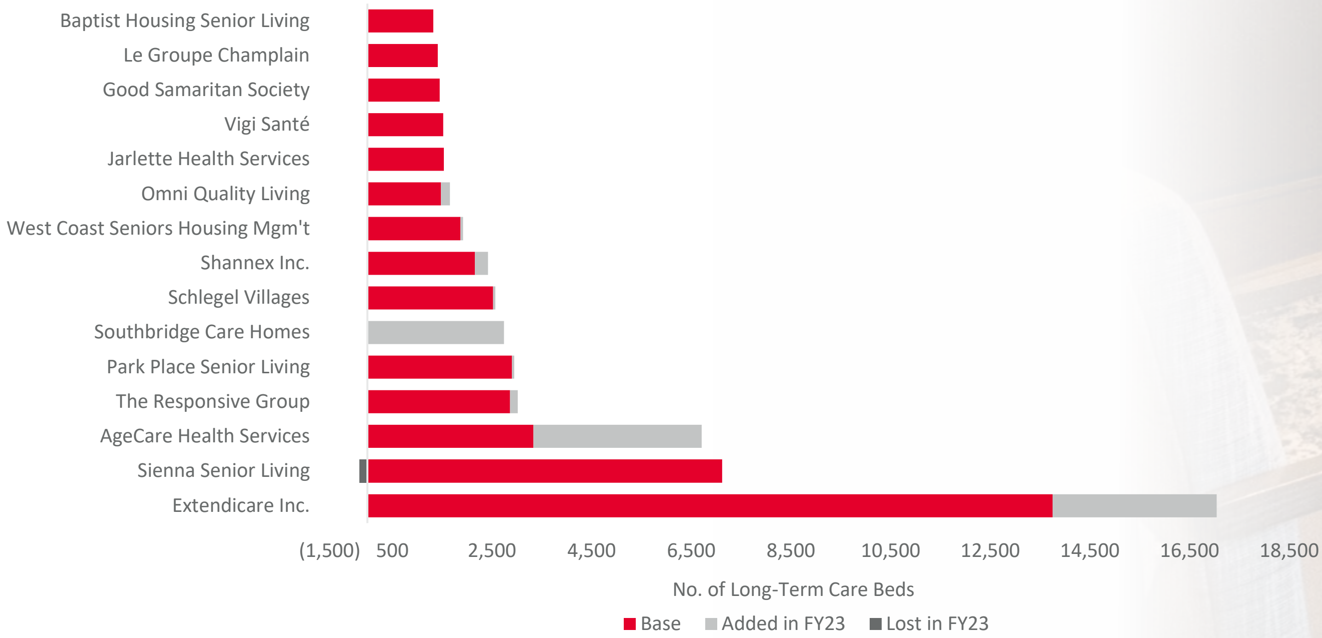
LARGEST OPERATORS

While transaction activity was relatively quiet in 2023, there were some sizable shifts in the operator landscape. Cogir, Extendicare, AgeCare, Southbridge and Optima Living all meaningfully expanded the size of their operating platforms in the seniors housing and long-term care sectors last year.

LARGEST 15 SENIORS HOUSING OPERATORS
AS OF DECEMBER 31, 2023

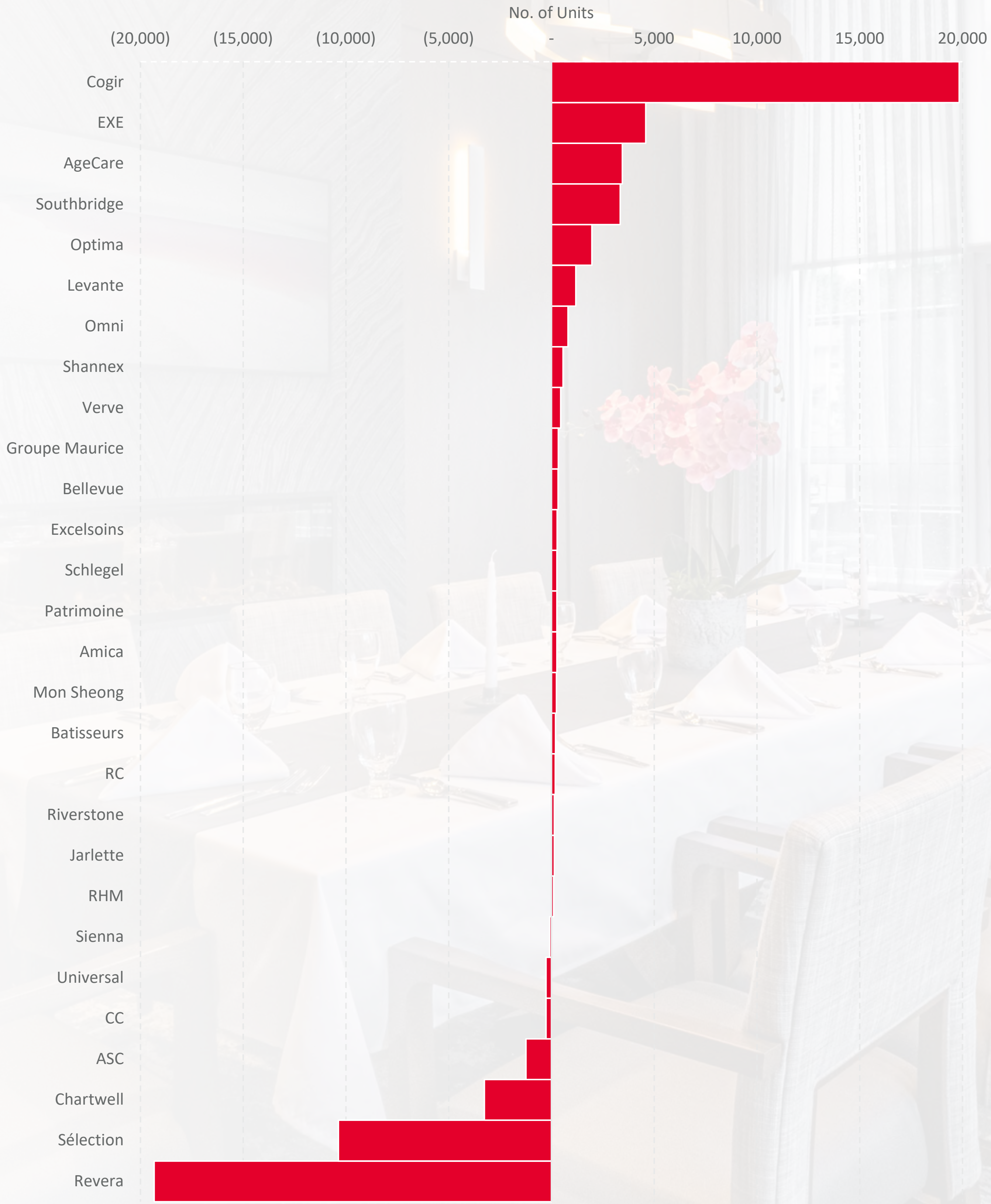


LARGEST 15 LONG-TERM CARE HOME OPERATORS
AS OF DECEMBER 31, 2023



Notes:
Includes properties owned by the noted entity and properties managed for third parties
Includes Canadian property holdings only
Excludes properties under development
Includes 3rd and 4th bed ward LTC licenses in Ontario

CHANGE IN UNITS UNDER MANAGEMENT IN 2023 AMONG THE LARGEST OPERATORS (RH+LTC)



Source: Cushman & Wakefield ULC
Note: Groups that did not add or lose units in FY23 are not shown.

MARKET OUTLOOK

We see 2024 as an inflection point. The seniors housing sector is poised to accelerate beyond recovery mode, into growth territory.

OPERATING FUNDAMENTALS

» Demand growth, driven by favourable demographics, show promise (4%+ CAGRs for 20 years)

» Slowdown in development cycle over the past five years will translate into less than 2% per annum net supply growth over the next three years, leading to total seniors housing rental supply contracting in absolute terms in 2026/27 as the rate of required replacement of older residences exceeds the rate at which new properties are opening

» Confluence of these factors will supercharge recovery in occupancy, rents, and NOI margins

- Occupancy is on track to regain its prepandemic levels by 2025
- Rent growth to continue to exceed inflation based on compelling fundamentals
- Margin recovery is expected, as pandemic-era cost escalation and sticky wage inflation is offset by compound rent growth

INVESTMENT MARKET

» Seniors housing will continue to gain favour with investors, as they rebalance portfolios and reduce exposure to office and retail

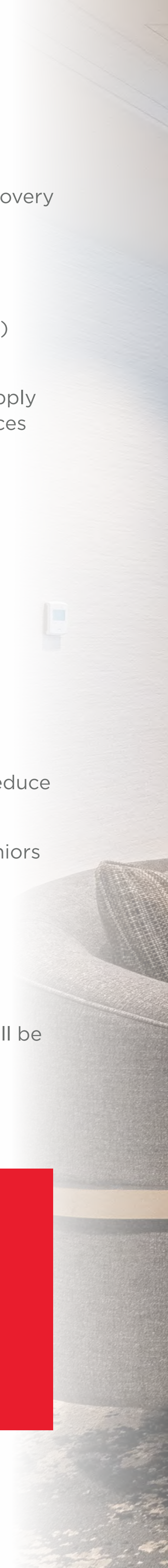
» Given the outperformance we expect in this sector, investors will no longer be able to give seniors housing a zero weighting in their portfolios

» Massive development opportunity to house the growing seniors population

» Once the investment market thaws (in the next 12 months), we expect things will move very quickly

» While cap rates may well remain flat for the next year, we predict the next tick on cap rates will be down, assuming current interest rate outlook plays out

While the sector has experienced its share of challenges over the past four years, we believe the asset class is now turning the page on the pandemic and the best is yet to come



Q4 2023 CAP RATE SURVEY

SENIORS HOUSING CAP RATES ACROSS MAJOR CANADIAN MARKETS

The following metrics are based on the premise of a fully stabilized property being sold as an individual asset, without any element of a portfolio premium. We note that many of the major transactions closing in 2023 and over the next 12 months will include an element of required lease-up due to sub-optimal spot occupancy, portfolio premium pricing or both. We therefore emphasize the key difference in premise between the following table and reported cap rate metrics on certain portfolio transactions.

	Seniors Housing "A"			Seniors Housing "B"			Long-Term Care "A"		
	Range			Range			Range		
	Low	High	Outlook	Low	High	Outlook	Low	High	Outlook
Victoria	5.75%	6.25%	Flat	7.00%	8.00%	Flat	7.00%	7.50%	Flat
Vancouver	5.50%	6.00%	Flat	6.75%	7.75%	Flat	6.75%	7.25%	Flat
Calgary	6.50%	7.00%	Flat	7.75%	8.75%	Flat	7.50%	8.00%	Flat
Edmonton	6.50%	7.00%	Flat	8.00%	9.00%	Flat	7.50%	8.00%	Flat
Winnipeg	6.75%	7.50%	Flat	8.25%	9.25%	Flat	8.00%	8.50%	Flat
Kitchener-Waterloo	6.25%	7.00%	Flat	7.50%	8.75%	Flat	7.25%	8.00%	Flat
Toronto	6.00%	6.50%	Flat	7.25%	8.25%	Flat	7.25%	7.75%	Flat
Ottawa	6.25%	6.75%	Flat	7.75%	8.75%	Flat	7.25%	7.75%	Flat
Montréal	6.25%	6.75%	Flat	7.50%	8.50%	Flat	8.00%	8.50%	Flat
Halifax	6.75%	7.50%	Flat	8.00%	9.00%	Flat	7.75%	8.75%	Flat

SENIORS HOUSING
INDUSTRY OVERVIEW
CANADA

A Cushman & Wakefield
Valuation & Advisory Publication

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