AEW RESEARCH & STRATEGY

Seniors Housing Research Perspective

Q4 2024

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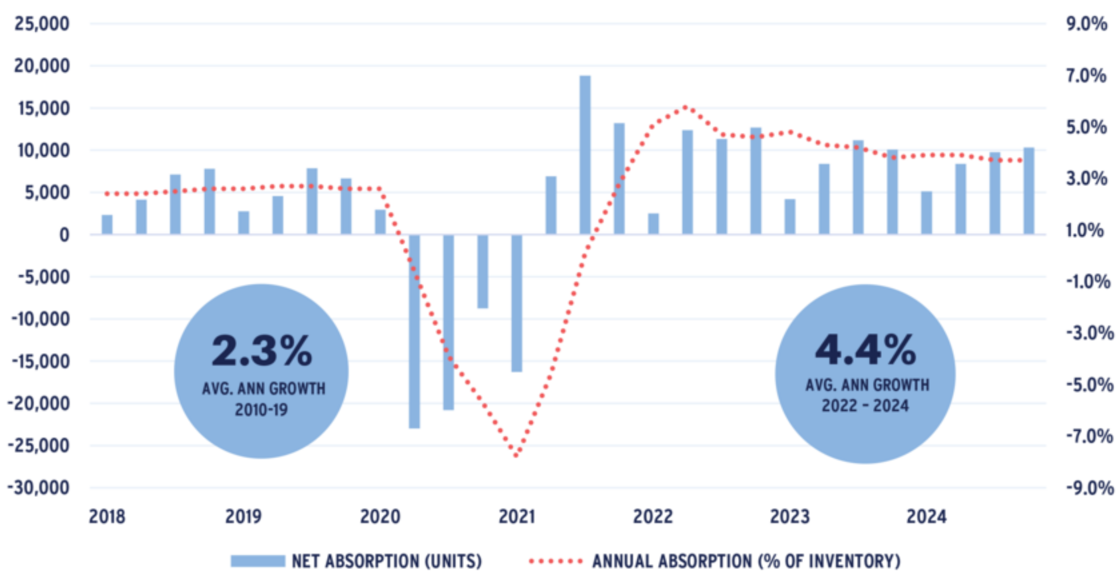
Seniors Housing 4Q Market Update

The year ended strong for seniors housing. The stars continue to align on the revenue side as strong resident demand supported operators' ability to increase rents. Occupancies climbed 70 basis points (bps) in the fourth quarter to 87.7%, eclipsing the pre-pandemic level five years ago that stood at 87.3% across the primary and secondary markets tracked by the National Investment Center for Seniors Housing & Care (NIC). From a top line revenue perspective, it is safe to say the sector has transitioned from recovery to expansion mode, while good progress is also being made from an NOI and valuation perspective.

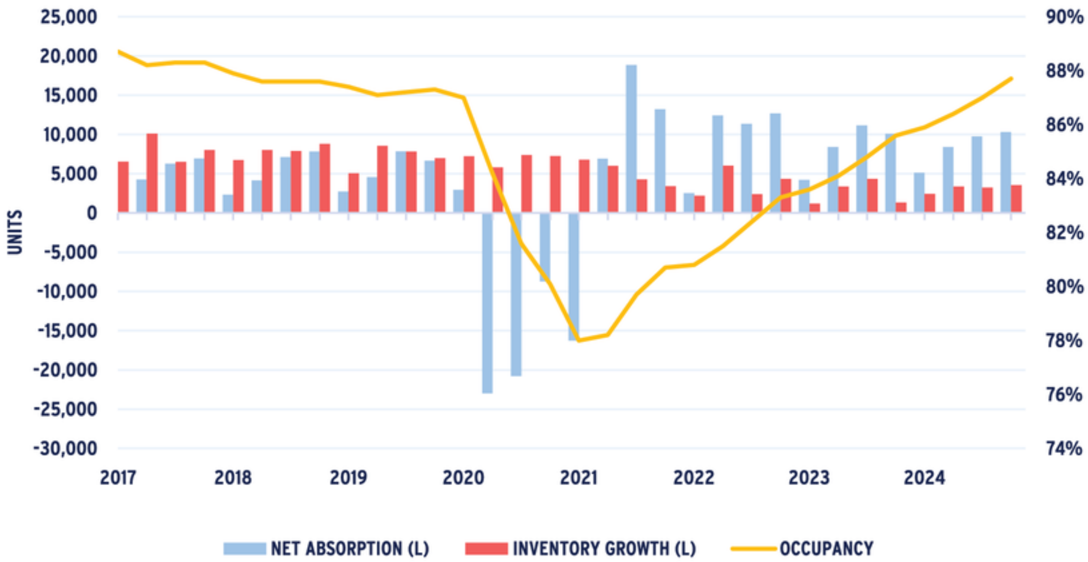
Revenue growth has been broad-based across the different acuity levels with both rent growth and occupancy gains contributing. Higher acuity assets have surpassed pre-pandemic occupancy levels by 160 bps reaching 86.3% while the lower acuity majority independent living (IL) assets averaged a higher 89.0%. This is mostly reflective of the more aggressive building in the assisted living and memory care segments that took place earlier in the cycle creating some excess despite demand growth averaging above 4% over the past year. Majority independent assets occupancies have moved to within 70 bps of pre-pandemic levels and are on pace to fully recover in the first half of 2025 with demand averaging a still-healthy 3.7% growth over 2024.

SENIORS HOUSING DEMAND GROWTH



Source: NIC Map Data Service
As of Q4 2024

SENIORS HOUSING FUNDAMENTALS TREND: PRIMARY AND SECONDARY MARKETS



Source: NIC Map Data Service
As of Q4 2024

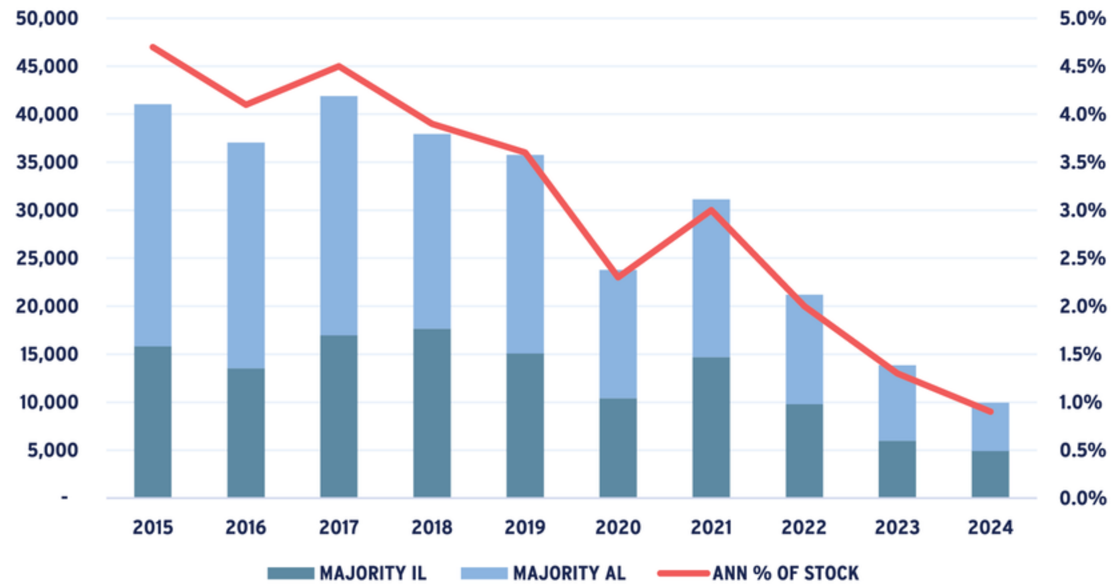
SENIORS HOUSING MARKET FUNDAMENTALS BY PROPERTY TYPE
2024Q4

	SENIORS HOUSING	INDEPENDENT LIVING	ASSISTED LIVING
Properties	8,598	2,412	6,186
Units	1,086,755	554,388	532,367
Occupancy	87.7%	89.0%	86.3%
Stabilized Occupancy	89.0%	90.0%	88.0%
Absorption	10,321	5,041	5,285
Annual Absorption	3.7%	3.1%	4.1%
Inventory Growth	3,548	1,817	1,731
Annual Inventory Growth	1.2%	1.1%	1.3%
Properties Under Construction	292	111	181
Units Under Construction	31,586	14,139	17,447
Construction vs. Inventory	2.9%	2.6%	3.3%
Average Rent	$5,207	$4,112	$6,456
Annual Rent Growth	4.2%	4.1%	4.3%

Source: NIC Map Data Service
As of Q4 2024

Inventory growth (deliveries) averaged 1.3% and 1.1%, respectively, across the higher and lower acuity assets, trailing well behind demand. The story is unchanged on development with limited new projects breaking ground as financing remains scarce and the relative return-on-cost to build versus buy remains unfavorable. The pace of new construction starts fell below 10,000 units in 2024, or 0.9% of existing inventory, representing the slowest pace since NIC has been tracking the sector.

SENIORS HOUSING CONSTRUCTION STARTS



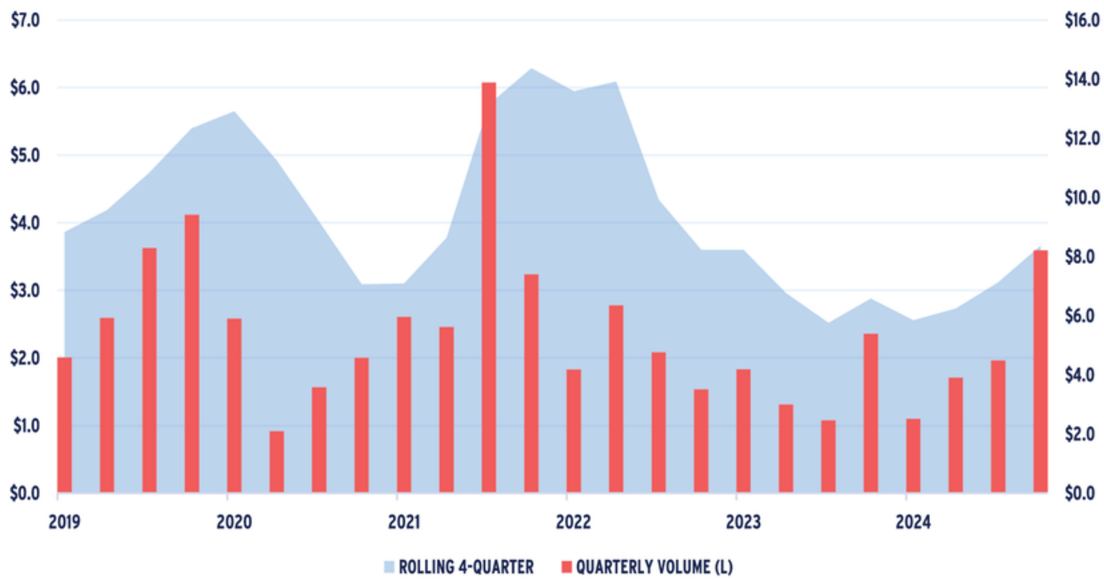
Source: NIC Map Data Service
As of Q4 2024

Rent growth has moderated from earlier in the recovery when inflationary pressures were at a peak, but operators have maintained the ability to pass through mid- to- high single-digit rate increases in 2024. Thus far, rent and revenue are meeting or exceeding budgeted levels with pricing power expected to remain solidly in place through 2025. On the expense side, operating cost pressures have moderated as labor dynamics have improved, supporting NOI growth well into the double digits. That said, wage pressures have been the most persistent headwind to driving NOI and margins higher, while insurance and other expense line items have tracked at or below general inflation.

The capital market improved further in the fourth quarter with a pickup in trading volume corresponding with more interest from lenders to place capital. Most lenders have been supportive of refinancings where there is a path forward, but are also selective looking at new business. Traditional lenders have pivoted back into the market with Fannie and Freddie actively quoting and banks reemerging while debt funds capital has also become more readily available for value and pre-stabilized, newer assets. Spreads have come in although there remains a wide disparity in risk tolerances across lenders with a deeper pool for high-quality, stabilized assets and an aversion to construction. Unsecured debt remains available to listed REITs at more attractive rates.

Transactions accelerated in the second half of the year from a decade low in 2023 to end the year at $8.4 billion. This put 2024 about 27% ahead of 2023 activity, although still about 25% off the five-year pace leading into the pandemic. Pricing on a per-unit basis has moved up with year-one cap rates ranging in the high 6% to mid-7% range. While private and institutional capital remain active buyers, in aggregate both have been net sellers. Listed REITs were the dominant net buyers in 2024.

SENIORS HOUSING TRANSACTION VOLUME



Source: MSCI/RCA
As of January 21, 2025

Overall, despite a less accommodating Federal Reserve and the 10-Year Treasury rate above 4.5%, the sector is tracking with our expectations, and remains what we believe is one of the most attractive times to put new money to work. Values appear to have bottomed with lenders becoming more accommodating to new business adding liquidity to the transaction market. Strong fundamentals are supporting top-line revenue growth while expense growth has normalized translating into double digit NOI growth. While the Federal Reserve's action of cutting rates has certainly been beneficial, the decision to hold rates steady in January, along with the long end of the yield curve hovering at or above 4.5%, presents both challenges and opportunities. Positive fundamentals should continue to support management's ability to pass through higher rents translating to outsized NOI growth and improving margins in 2025.