

AEW RESEARCH

Seniors Housing Research Perspective

Q4 2023

For more information, please contact:



RICK BRACE, CFA®
Director, AEW Research
rick.brace@aew.com
617.261.9170

Prepared by AEW Research, February 2024

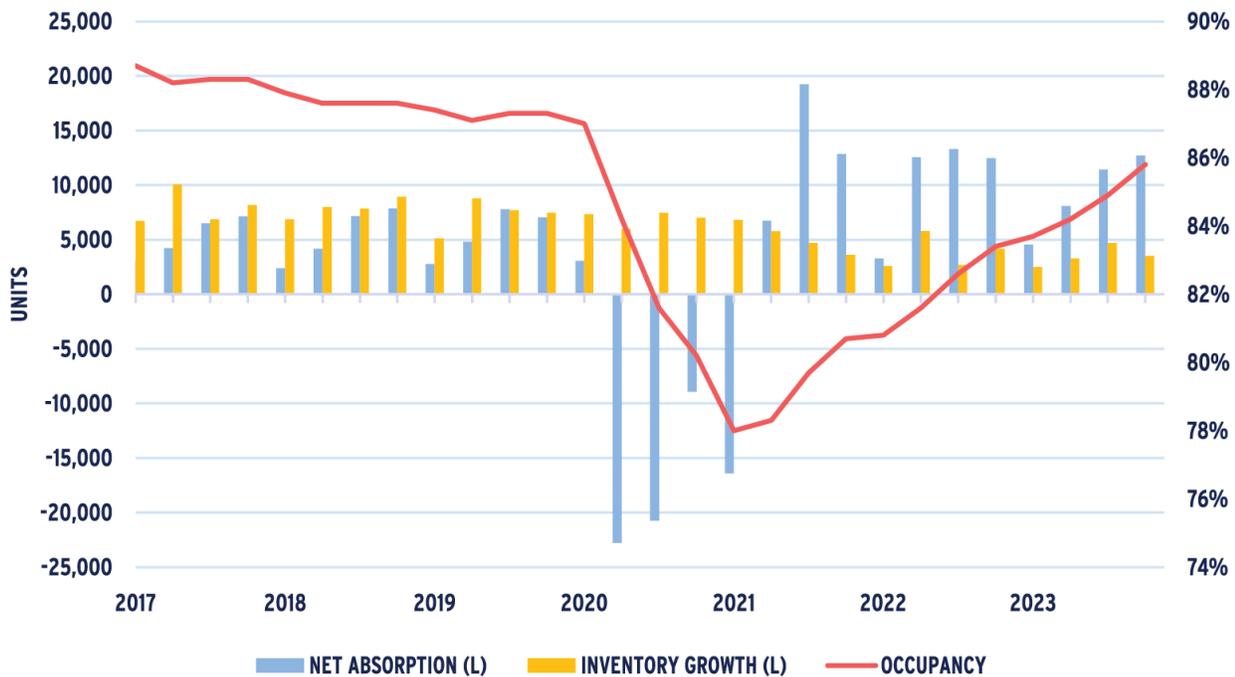
This material is intended for information purposes only and does not constitute investment advice or a recommendation. The information and opinions contained in the material have been compiled or arrived at based upon information obtained from sources believed to be reliable, but we do not guarantee its accuracy, completeness or fairness. Opinions expressed reflect prevailing market conditions and are subject to change. Neither this material, nor any of its contents, may be used for any purpose without the consent and knowledge of AEW. There is no assurance that any prediction, projection or forecast will be realized.

Seniors Housing 4Q Market Update

It's difficult not to be excited about the prospects for seniors housing in 2024. While capital market dynamics continue to weigh on assets and portfolios that were constructed at peak valuations with variable rate debt when borrowing costs reflected a different rate environment, the strength of the underlying fundamentals driving top-line revenue growth are difficult to ignore. Demand remained robust though 2023 with momentum expected to carry forward over the long term as the push from demographics and the need for third-party (non-family) care persists, all at a time when building new product remains constrained. Acceptance of the product has proven out after a health crisis that few anticipated would be so severe supported by new studies¹ helping confirm the health benefits of living in a seniors housing community. Capital market pressures have clearly altered the current valuation landscape presenting challenges for owners lacking time and/or the resources to fully participate in the recovery. Correspondingly, an attractive opportunity exists for putting new capital to work. These dynamics became more evident in the fourth quarter as the underlying demand recovery continued, expense growth normalized and transaction activity showed renewed signs of life.

Resident demand maintained its healthy recovery for the tenth consecutive quarter with occupancies adding 90 basis points (bps) in the fourth quarter to 85.9%, rising to within 140 basis points of pre-pandemic levels across the primary and secondary markets tracked by the National Investment Center for Seniors Housing & Care (NIC). Tightening conditions provided operators the ability to pass through 8%-10% rental increases in 2023 and to budget for additional increase in the 6%-8% range for 2024. With inflation and expense growth moderating to the 3%-4% range, real rent increases are being achieved with NOI growth well into the double digits leading to margin compression. Expense growth will likely remain the governor to driving NOI and margins with top-line revenue showing continued strength.

SENIORS HOUSING FUNDAMENTALS TREND: PRIMARY AND SECONDARY MARKETS



Source: NIC Map Data Services
As of Q4 2023

¹Source: NORC at the University of Chicago; National Investment Center for Seniors Housing and Care (NIC). "Vulnerability to Adverse Health Outcomes Amongst Senior Housing Residents", September 2023

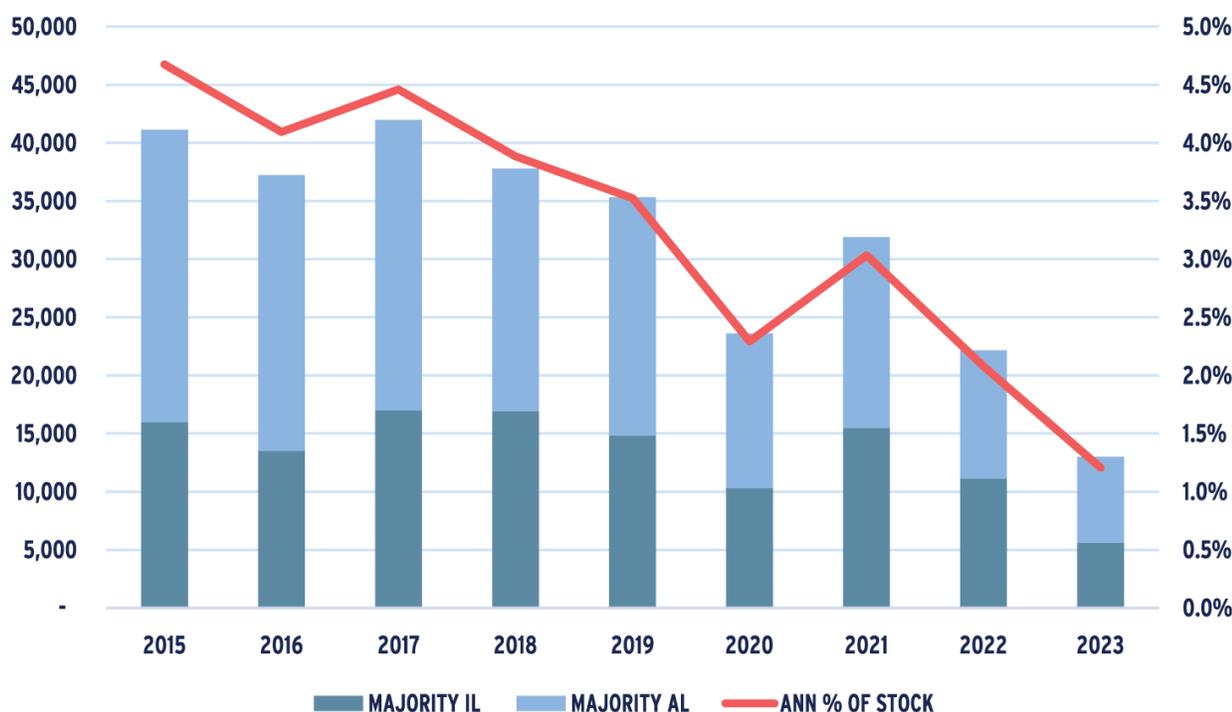
SENIORS HOUSING MARKET FUNDAMENTALS: PRIMARY AND SECONDARY MARKETS

	2023Q4	2023Q3	2022Q2
Properties	8,634	8,606	8,546
Units	1,079,878	1,076,364	1,065,914
Occupancy	85.8%	84.9%	83.4%
Stabilized Occupancy	87.0%	86.0%	85.0%
Absorption	12,702	11,421	12,453
Annual Absorption	3.6%	4.2%	5.1%
Inventory Growth	3,514	4,680	4,154
Annual Inventory Growth	1.3%	1.4%	1.4%
Properties Under Construction	384	408	496
Units Under Construction	43,088	45,924	53,149
Construction vs. Inventory	4.0%	4.3%	5.0%
Average Rent	\$4,932	\$4,900	\$4,671
Annual Rent Growth	5.0%	5.7%	5.2%

Source: NIC Map Data Services

The positive trend in supply-side dynamics continues to improve with the pipeline of new supply ratcheting lower. Roughly 43,000 units, or 4.0% of existing inventory, were under construction at year end with the pace of new projects breaking ground (new starts) at ~1.2%. Thus far, there has been little indication of a reversal in this trend as the FOMC maintains its hawkish stance on inflation by keeping interest rates at current levels at least through 2024 Q2. Financing for new construction remains scarce with tight lending standards adding another governor to new projects breaking ground. From an investment perspective, it remains difficult to justify the return-on-cost to build relative to buying existing product. AEW is experiencing the ability to access quality assets at below replacement cost.

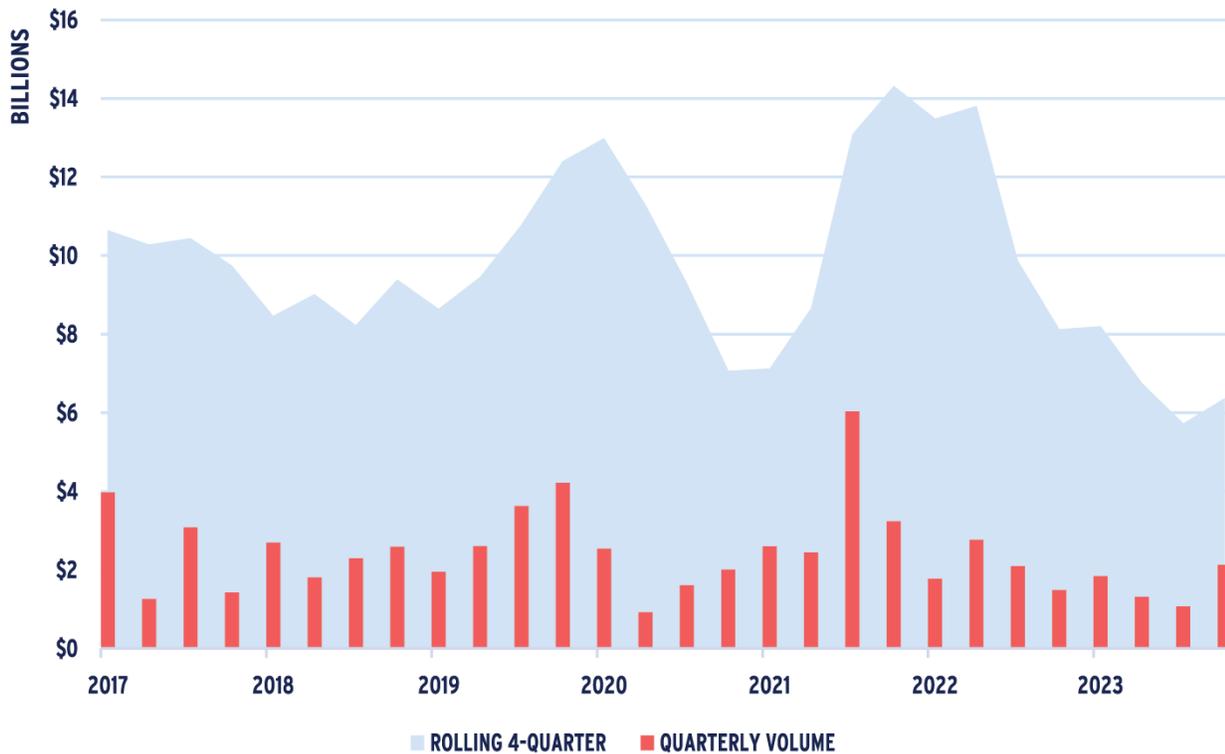
SENIORS HOUSING CONSTRUCTION STARTS



Source: NIC Map Data Services
As of Q4 2023

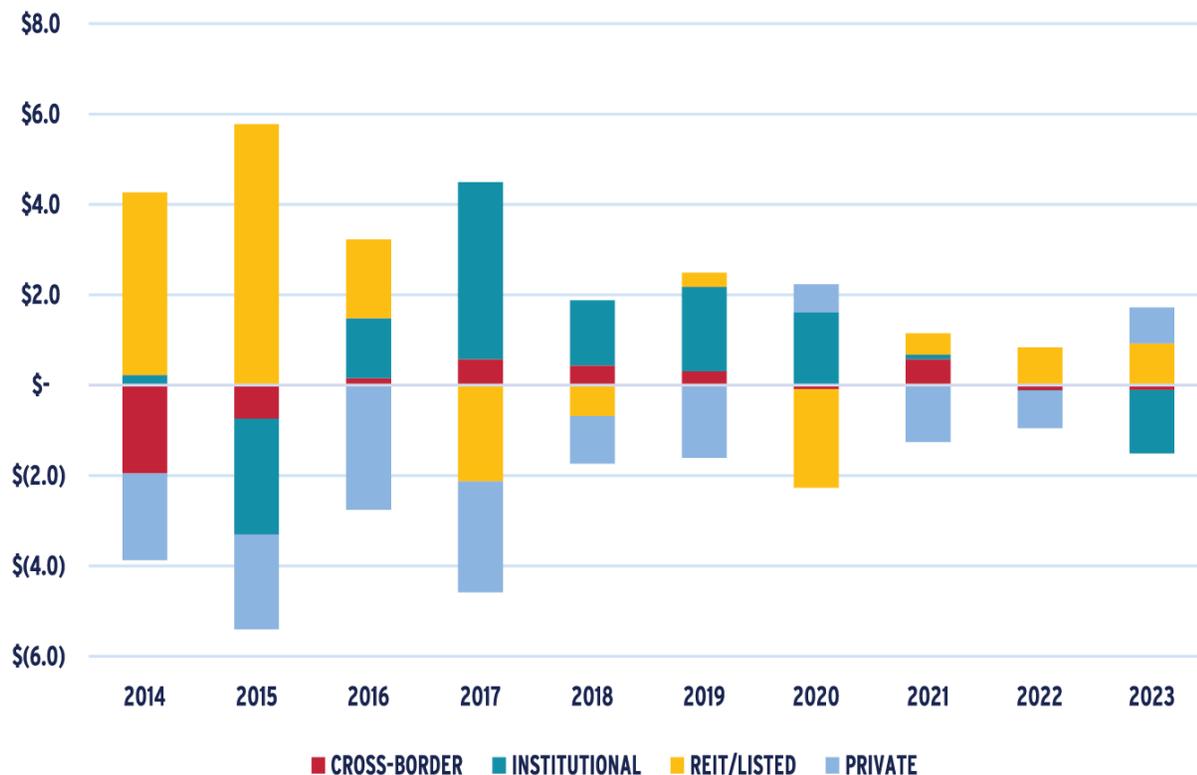
Aggregate transaction volume was \$6.4 billion in 2023, down ~22% for the year although roughly the same number of assets changed hands. That said, the fourth quarter registered a notable uptick in momentum both in terms of dollars and number of deals. Public REITs were the most active net buyers along with private owners while institutional capital remained a net seller. Smaller portfolio trades (2+ assets) accounted for most of the increase driven by maturing debt, fund life pressures and transient owners reducing their exposure. Covenant defaults remain prevalent on existing loans and, while lenders have been flexible in return for credit support, the extended recovery and evolving bank stress is adding a layer of difficulty to modifying loans that often require some level of paydown or credit support from borrowers. Select deals are transacting typically on an all-cash basis or with assumable financing. Top sponsors working with quality operators remain in the pole position in the eyes of banks and insurance companies, while bridge financing from the debt funds remains costly.

SENIORS HOUSING TRANSACTION VOLUME



Source: MSCI/RCA
As of Q4 2023

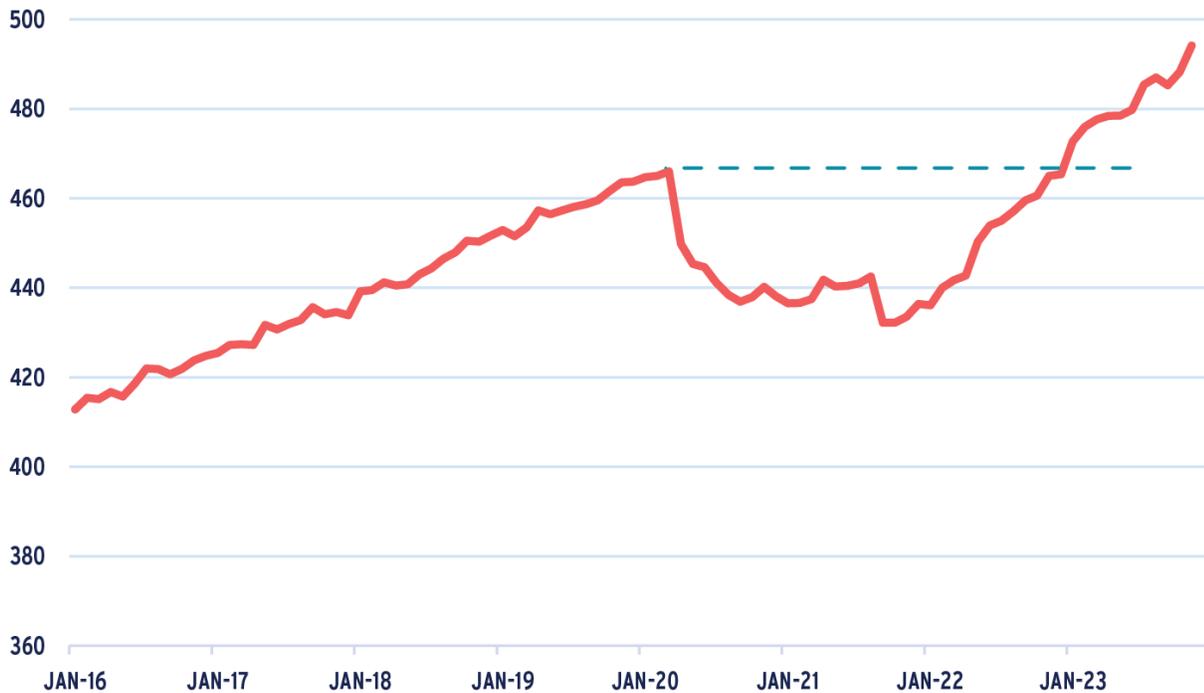
NET TRANSACTION VOLUME BY TYPE (\$BILLIONS)



Source: MSCI/RCA
As of Q4 2023

Operationally, both labor availability and cost dynamics continue to improve with operators reporting limited need for contract labor that is in-line with pre-pandemic levels outside of select situations, adding stability to managing expenses. Combined with the ability to push rents, this is allowing operators to drive higher NOIs and margins. This is especially true for communities where occupancies are approaching or have moved above previously stabilized levels.

ASSISTED LIVING FACILITIES EMPLOYMENT (THS.)



Source: Bureau of Labor Statistics
As of Q4 2023

Overall, the underlying fundamentals continue to improve with solid demand, rising occupancies and a reduced supply pipeline all benefitting rents and top-line revenue growth. The sector remains in recovery mode with margins still under pressure as NOIs work their way back toward previously stabilized levels. That said, with each passing quarter the income picture improves. Those without the luxury of time or the ability to manage their capital stack face a higher level of urgency. The FOMC’s posture of holding firm on rates, especially with the economy surprising to the upside remains one of the biggest disruptors for seniors housing and CRE more broadly. That said, seniors housing continues to differentiate itself with measured improvement in fundamentals and healthy demand tailwinds. Leveraged assets with misaligned capital structures remain the biggest challenge for owners in the current environment, but we believe these dynamics can also present the most attractive opportunities to place for new capital as values and margins adjust.

Additional Notes

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

To obtain a summary of investor rights in the official language of your jurisdiction, please consult the legal documentation section of the website (im.natixis.com/intl/intl-fund-documents)

In the E.U.: Provided by Natixis Investment Managers International or one of its branch offices listed below. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. **Germany:** Natixis Investment Managers International, Zweigniederlassung Deutschland (Registration number: HRB 129507): Senckenberganlage 21, 60325 Frankfurt am Main. **Italy:** Natixis Investment Managers International Succursale Italiana, Registered office: Via San Clemente 1, 20122 Milan. **Netherlands:** Natixis Investment Managers International, Nederlands (Registration number 00050438298). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Spain:** Natixis Investment Managers International S.A., Sucursal en España, Serrano nº90, 6th Floor, 28006 Madrid, Spain. **Sweden:** Natixis Investment Managers International, Nordics Filial (Registration number 516412-8372- Swedish Companies Registration Office). Registered office: Cavendrum Stockholm City AB, Kungsgatan 9, 111 43 Stockholm, Box 2376, 103 18 Stockholm, Sweden. **Or,**

Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Belgium:** Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (FCA firm reference no. 190258) - registered office: Natixis Investment Managers UK Limited, Level 4, Cannon Bridge House, 25 Dowgate Hill, London, EC4R 2YA. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom:** this material is intended to be communicated to and/or directed at investment professionals and professional investors only; **in Ireland:** this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; **in Jersey:** this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10, ICDD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd. Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No.425. Content of Business: The Company conducts investment management business, investment advisory and agency business and Type II Financial Instruments Business as a Financial Instruments Business Operator.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore Limited (NIM Singapore) having office at 5 Shenton Way, #22-05/06, UIC Building, Singapore 068808 (Company Registration No. 199801044D) to distributors and qualified investors for information purpose only. NIM Singapore is regulated by the Monetary Authority of Singapore under a Capital Markets Services Licence to conduct fund management activities and is an exempt financial adviser. Mirova Division (Business Name Registration No.: 53431077W) and Ostrum Division (Business Name Registration No.: 53463468X) are part of NIM Singapore and are not separate legal entities. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to professional investors for information purpose only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only.

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Colombia: Provided by Natixis Investment Managers International Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Latin America: Provided by Natixis Investment Managers International.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

In Brazil: Provided to a specific identified investment professional for information purposes only by Natixis Investment Managers International. This communication cannot be distributed other than to the identified addressee. Further, this communication should not be construed as a public offer of any securities or any related financial instruments. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.

Natixis Investment Managers may decide to terminate its marketing arrangements for this product in accordance with the relevant legislation