SENIORS HOUSING
INDUSTRY OVERVIEW
CANADA

A Cushman & Wakefield
Valuation & Advisory Publication

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On the cover and throughout:
Tapestry at Victoria Harbour
Victoria, British Columbia. Opened 2021.

Throughout:
Seasons Cambridge
Cambridge, Ontario. Opened 2020.

INTRODUCTION

For a second year in a row, the COVID-19 pandemic shaped nearly all facets of life in Canada. While several encouraging new developments in 2021 brought about renewed optimism for a return to 'life as normal', pandemic-related challenges remained pervasive throughout the year and into the start of 2022.

Last year began with the implementation of a newly developed COVID-19 vaccine on the horizon. Although the rollout of vaccines was initially slower in Canada than in other developed countries due to limited supply, by August 2021 Canada claimed one of the highest population immunization rates in the world. Following almost a year-and-a-half of a downward trend, national seniors housing occupancy reached an inflection point in the summer of 2021 and positive leasing momentum and occupancy gains began to build through the remainder of the year. High resident and staff vaccination rates bolstered consumer confidence and propelled leasing lead generation and tour activity back to pre-COVID levels for many communities. Improved visibility into the path to recovery in fundamentals provided the foundation for a resounding return of investors, who completed several benchmark-setting transactions during the year.

In November 2021, the emergence of the highly transmissible 'Omicron' variant of concern and the resulting rise in community infection rates led to labour shortages in Canada as isolation guidelines to help limit transmission of the virus resulted in higher staff absences. While the leasing momentum built through the second half 2021 may slow on a seasonal basis, we remain optimistic that the needs-driven demand that characterizes this asset class will continue to drive net leasing gains in 2022 and beyond. Over the medium-term, as demand is expected to outstrip supply growth, we expect higher rent growth will more than offset the effects of increasing inflation due to tight labour markets and lingering costs related to mitigating impacts from the pandemic.

Despite the persisting near-term headwinds, the investment thesis for seniors housing remains intact, with many investors actively positioning themselves to capitalize on the next 20 years of expected strong growth in this asset class.

YEAR IN REVIEW

The pandemic seems to have accelerated the rate of change when it comes to market fundamentals and investment activity in the seniors housing sector. To summarize the evolving market sentiment over time, we have provided a review of the state of the Canadian seniors housing market in 2021 on a more granular quarterly basis.

First Quarter

Despite challenges posed by the 'third wave' of the COVID-19 pandemic, seniors housing investor sentiment started to improve relative to 2020. Although community spread of the virus and its variants continued to increase in Canada through the first quarter of 2021, related outbreaks and case counts in retirement residences and long-term care homes began to decrease materially following the rollout of vaccines. The implementation of vaccines bolstered consumer confidence, a key pre-requisite for a turnaround in operating performance. From a leasing perspective, lead generation improved significantly and began to return to pre-COVID levels for many communities. As vaccinations reached critical mass, we began to predict an inflection point in occupancy would occur later in the year, kicking off an ensuing recovery.

Second Quarter

Seniors housing occupancy data from the U.S. and the U.K., countries which initially had higher vaccination rates than Canada, began to suggest an inflection point in same-property seniors housing occupancy trends occurred in Q2 2021. With improving vaccination rates, continued strength in the housing market and general stability in the overall economic outlook, we anticipated seniors housing occupancy in Canada would follow the path set by the U.S. and U.K. data albeit on a lagged basis, commencing in the second half of 2021.

Third Quarter

Leasing indicators suggest that a recovery in seniors housing operating fundamentals in Canada commenced in Q3. The seniors housing investment market also started to rebound, with the level of investor interest in 'best-in-class' properties pushing cap rates for triple-A quality assets lower than pre-COVID levels in the Greater Toronto, Montréal and Lower Mainland markets. On a national basis, the total number of COVID-19 cases, related-hospitalizations and deaths during the 'fourth wave' of the pandemic remained well below prior waves. High community and staff immunization rates coupled with targeted public health measures contributed to an environment of improving consumer confidence and market sentiment for this asset class which caters to a clientele who are particularly vulnerable to the COVID-19 virus.

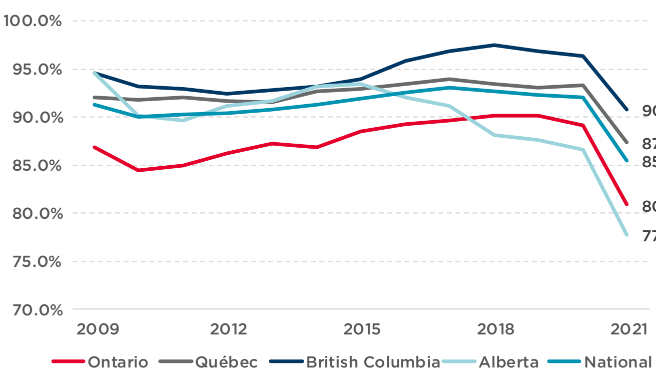
Fourth Quarter

Building off the momentum from major transaction announcements in Q3, activity in the direct property investment market continued to increase to close out the year, with prospects of more deal announcements to come in early 2022. The improving outlook for the investment market was tempered by the emergence of the highly transmissible 'Omicron' variant of concern, which sparked a resurgence of concerns regarding COVID-19 related outbreaks, labour shortages and increased pandemic related expenses. The latest wave of the pandemic could potentially weigh on the leasing momentum and the occupancy recovery which continued to show progress during the fourth quarter of 2021. Notwithstanding the current challenges associated with the pandemic, some infectious disease experts are looking beyond the 'fifth wave' and are hopeful that the new year could see a downgrade from pandemic to endemic disease status in most parts of North America. The emergence of new variants that manage to evade vaccine-induced immunity could pose a risk to this hopeful outlook.

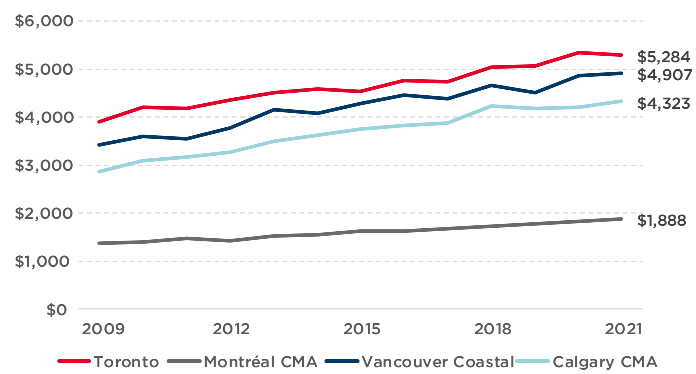
OPERATING FUNDAMENTALS

Since the COVID-19 outbreak was declared a global pandemic in March 2020, the virus has had a material impact on occupancy in seniors housing communities. As illustrated by the CMHC Seniors Housing Survey data, national seniors housing occupancy decreased by more than six points year-over-year as of Q1 2021. CMHC statistics represent a point estimate of each statistic from data collected in Q1 of the survey year. Therefore, the reported 2020 statistics largely reflected the market conditions pre-COVID. We primarily attribute the decline in reported occupancy to the government mandated leasing restrictions placed on operators during certain periods of lockdowns during this period. We note that despite the impact on occupancy, rent growth remained robust during the first year of the pandemic.

Occupancy



Average One Bedroom Rent



Note: Average rents reflect typical ISL service package (i.e., including daily meals and weekly housekeeping) except for reported Montréal rents, which exclude the services component

Canadian Historical Operating Statistics: 2012 to 2021

Year	Pop. Age 75+	Pop. % Growth	Inventory	Supply Change	Supply % Change	# of Residents	Demand Change	Demand % Change	Occupancy	Occupancy Change	Base IL Rents	Rent Growth	Rent Growth
		[%]	[Units]	[Units]	[%]	[%]	[Residents]	[%]	[%]	[pp]	[$]	[%]	[CAGR %]
2012	2,346,041	3.2%	204,496	5,757	2.9%	202,092	6,830	3.5%	90.5%	0.2	$2,158	2.7%	2.7%
2013	2,399,240	2.3%	208,301	3,805	1.9%	205,112	3,020	1.5%	90.8%	0.3	$2,230	3.3%	3.0%
2014	2,462,464	2.6%	219,052	10,751	5.2%	218,650	13,538	6.6%	91.3%	0.5	$2,271	1.8%	2.6%
2015	2,513,989	2.1%	224,342	5,290	2.4%	224,962	6,312	2.9%	91.9%	0.7	$2,307	1.6%	2.4%
2016	2,584,397	2.8%	232,478	8,136	3.6%	234,989	10,027	4.5%	92.5%	0.6	$2,406	4.3%	2.7%
2017	2,648,745	2.5%	236,980	4,502	1.9%	240,383	5,394	2.3%	93.0%	0.5	$2,472	2.7%	2.7%
2018	2,746,162	3.7%	247,983	11,003	4.6%	251,323	10,940	4.6%	92.7%	(0.4)	$2,552	3.2%	2.8%
2019	2,822,028	2.8%	255,295	7,312	2.9%	257,360	6,037	2.4%	92.3%	(0.4)	$2,636	3.3%	2.9%
2020	2,880,911	2.1%	262,338	7,043	2.8%	265,178	7,818	3.0%	92.1%	(0.2)	$2,711	2.8%	2.9%
2021	2,993,582	3.9%	272,179	9,841	3.8%	253,340	(11,838)	(4.5%)	85.5%	(6.6)	$2,815	3.8%	3.0%
10-Year CAGR		**2.8%**			**3.2%**			**2.6%**		**(4.8)**		**3.0%**	

Source: CMHC Seniors Housing Report

SECTOR TAILWINDS

Once conditions permit sustained re-leasing activity, we think occupancy will bounce back within a reasonable timeframe for most communities. We remain constructive on the long-term outlook for the sector for the following reasons.

Demand From Baby Boomers

While we have been hearing this one for the past 15 years, the time has finally come. Over the next 20 years, the age 75-plus segment is expected to grow by almost 4.0% per year and will account for 13.5% of the total population by 2040. We expect demand from the age 80+ cohort to pick up materially starting in 2022.

To maintain the current level of seniors housing inventory per capita, total supply will need to more than double over the next 20 years.

Decline in New Retirement Residence Construction Starts

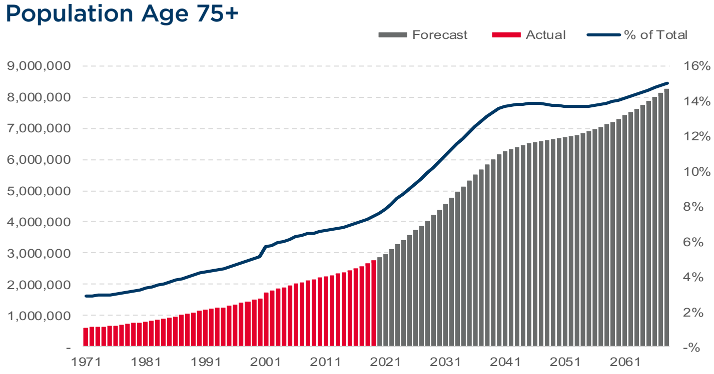
Seniors housing construction starts increased marginally in 2021 and remain at historically low levels, as developers remain more selective about starting new projects.

Pre-COVID, the market was deep into a development cycle, with several major regions across the country facing headwinds from oversupply due to overbuilding. Today, the outlook on new supply is favourable as the decrease in development activity between 2018 to 2021 will result in less disruption from new competition in the coming years.

Higher Barriers to Entry

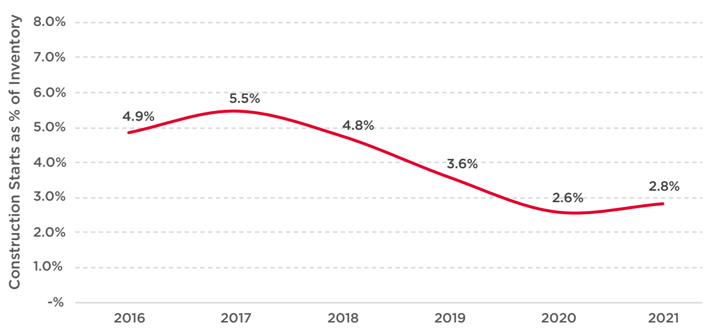
In the past 18-months we have seen material increases in the cost of development for all property types, including seniors housing. Rising construction costs have resulted in higher barriers to entry and have contributed to the trend of lower supply growth and fewer construction starts.

Population Age 75+



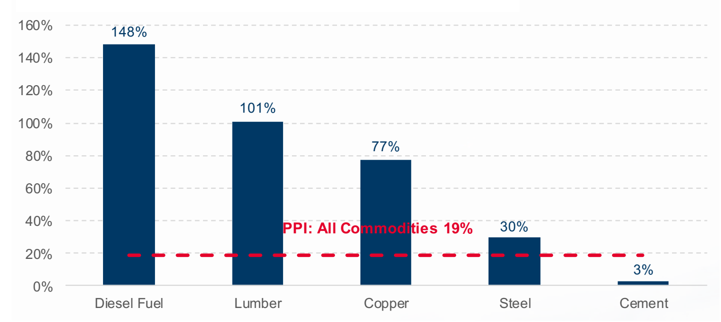
Source: StatsCan. Tables 17-10-0005-01 and 17-10-0057-01 Projection scenario M4: medium-growth

Construction Starts as % of Inventory (Units)



Metric: Projects which commenced construction in the period (measured by units) as a percentage of the existing units of inventory (Sample based on C&W Construction Index)
C&W Construction Index sample of market participants has been expanded to over 60% of total market supply for 2021 statistics. Prior periods restated for the expanded data set
Source: Cushman & Wakefield ULC

Year-over-Year Increase, Q2 2021



Source: U.S. Bureau of Labor Statistics (BLS), Moody's Analytics Forecasted, Cushman & Wakefield ULC

Extended Residential Housing Market Rally

The seniors housing rental market continues to benefit from rising house prices, which is a primary driver of the net worth of future seniors housing residents. Price appreciation over the past 20 years exceeds a 6% CAGR based on the National Bank and Teranet Inc. House Price Index.

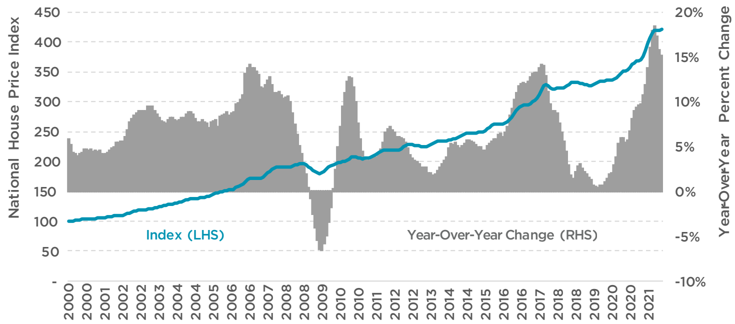
Increasing Investor Allocations to Real Assets

Brookfield estimates that institutional investors' allocations to alternatives, including real estate, private equity and infrastructure, could reach 60% by 2030[1]. We also expect real estate alternatives[2] to grow as a proportion of the overall real estate asset mix. Net capital inflows should continue to support strong asset pricing in the seniors housing space.

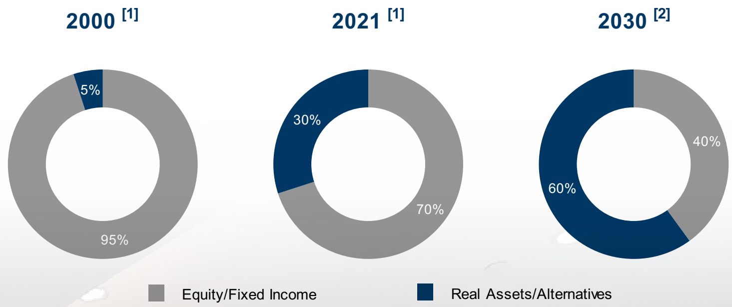
[1] Brookfield Asset Management 2021 Investor Day presentation

[2] Including but not limited to seniors housing, life science, single family rentals, manufactured housing, student housing, self-storage, data centres, parking, etc.

National House Price Index



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



[1] Willis Towers Watson Global Pension Assets Study, 2020

[2] Brookfield Asset Management estimate

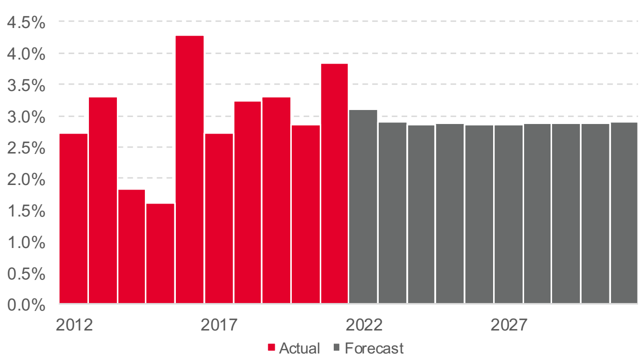
MACRO OUTLOOK

We believe the sector benefits from strong demographic-driven trends which sets up for a recovery in fundamentals in the coming years.

While the recovery in occupancy may not be linear for all communities due to intra-year seasonality in leasing trends, C&W projects a return to pre-COVID national occupancy (~92.5%) by early 2024 and further growth to ~95% by the end of 2026 as the prime age 85+ cohort begins to grow exponentially. This projection conservatively assumes no expansion in the pre-COVID capture rate.

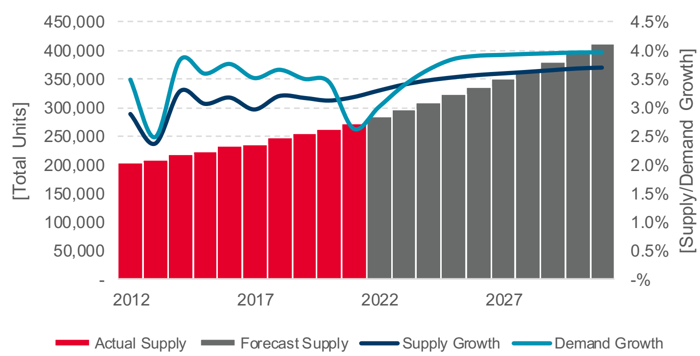
Over the medium-term, as demand is expected to outstrip supply growth, we expect higher rent growth will more than offset the effects of increasing inflation due to tight labour markets and lingering costs related to mitigating impacts from the pandemic.

Average Rent Growth



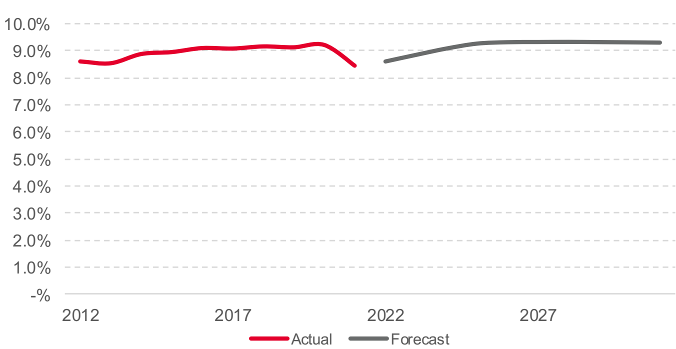
Source: Cushman & Wakefield ULC and CMHC Seniors Housing Report

Supply & Demand Growth



Source: Cushman & Wakefield ULC and CMHC Seniors Housing Report
Note: Supply and Demand Growth represent a CAGR since 2011

Capture Rate Forecast

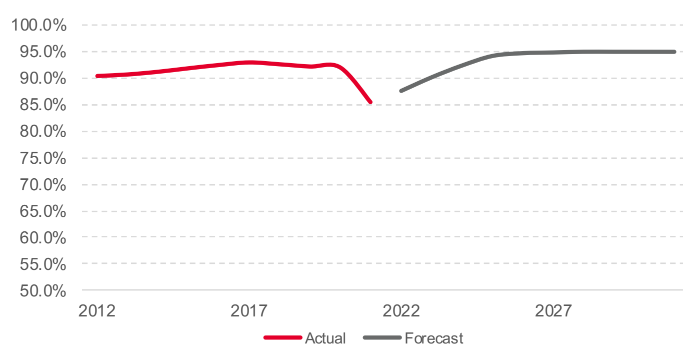


Source: Cushman & Wakefield ULC and CMHC Seniors Housing Report

Capture rate: Ratio of the total number of residents living in the survey universe divided by its estimated 75+ population

Note: References to time on the x-axis is consistent with the Q1 timing reflected in CMHC's data collection and reporting cadence

Occupancy Forecast



Source: Cushman & Wakefield ULC and CMHC Seniors Housing Report

DEVELOPMENT MONITOR

NEW CONSTRUCTION

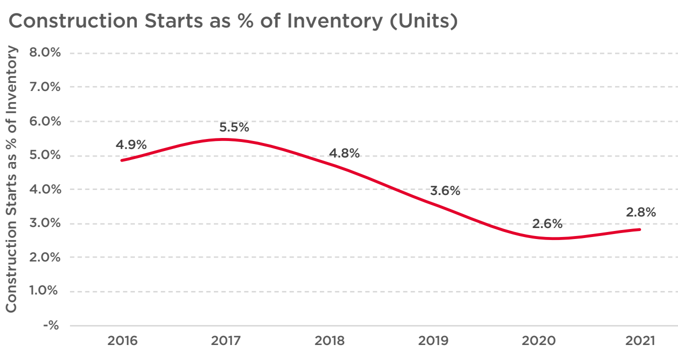
The key takeaways from our annual update on reported construction starts are as follows:

1. The trend of (historically) lower construction starts holds
    - Seniors housing construction activity increased slightly in 2021 but remained at historically low levels, as developers remain more selective about new projects
    - For the 12 months ending December 31, 2021, construction starts represented 2.8% of inventory, up 20 bps from 2020 (2017: 5.5% peak)
    - The absolute number of starts (by units) was ~38% lower than the peak construction starts observed in 2017

2. Regional Differences
    - Construction activity remains very low in B.C. (2021: starts are 1.2% of inventory; 2020: 2.8%) and Quebec (2021: 2.1%; 2020: 2.4%)
    - Quebec construction has cooled the most 'peak-to-trough' vs. other Canadian regions (2018 peak: 6.5%)
    - Alberta construction has remained elevated relative to other regions, as a government program to build additional subsidized assisted living (DSL) beds is being worked through (2021: 3.6%; 2020: 3.7%)
    - Activity in Ontario is increasing, despite rising construction costs (2021: 4.6%; 2020: 2.7%). Many of the projects which commenced in 2021 were planned for 2019 but were delayed last year due to the pandemic as developers pressed pause. Some developers are making the decision to move forward with their project pipelines, particularly for projects in primary/secondary markets where rents can support the higher capital investment hurdle

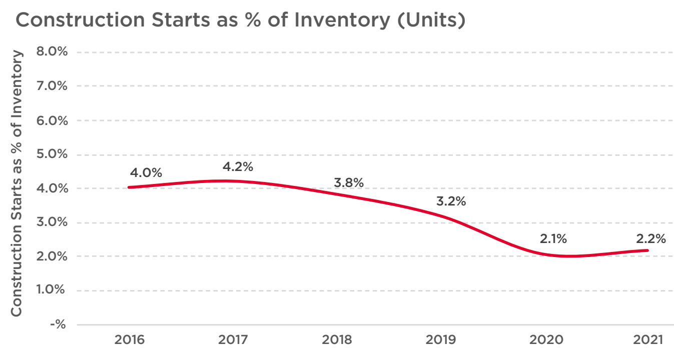
3. We expanded the number of constituent companies reported as part of the 'C&W Construction Index' this year, and stats for prior periods have been restated for the larger sample size. The Index now includes over 60% of total market supply by units. We note that the 'C&W Construction Index' is comprised of the most active developers in the sector, and therefore sample statistics relating to construction may not be representative of the population data (i.e., total market construction starts for 2021 may well be less than 2.8% of inventory)

Canada



Metric: Projects which commenced construction in the period (measured by units) as a percentage of the existing units of inventory (Sample based on C&W Construction Index)
C&W Construction Index sample of market participants has been expanded to over 60% of total market supply for 2021 statistics. Prior periods restated for the expanded data set
Source: Cushman & Wakefield ULC

United States



Metric: Units under construction as a percentage of the existing units of inventory (Sample based on NIC MAP, All Markets, Seniors Housing)
Source: NIC MAP® Data Service

DESIGN TRENDS

At the onset of the pandemic, many integrated operator/developer companies shifted their entire focus to operations to help navigate through the early days of the pandemic. As a result, for many organizations land acquisition and new construction starts slowed through most of 2020.

In 2021, many developers were able to turn some of their attention back to planning and executing on new projects. Developers now face new challenges including significant increases in hard costs, development delays due to supply chain issues and labour shortages, as well as rapidly rising land costs which further slowed the pace of new construction. Developers continue to work within the narrow confines of ensuring that new residences are cost effective while also meeting new market expectations in a post-pandemic world. Key aspects of this are the ability to provide a full range of hospitality and care services in an inclusive environment, all while ensuring a higher level of resident and staff safety.

We anticipate that developers will also look to redesign amenities areas as well as incorporate new technology throughout the building to give residences the ability to adapt as operating practices evolve. This may include a range of items such as improved air quality and lighting controls, better communication and tracking systems and a range of new care service items to provide greater support for staff.

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INVESTMENT MARKET OVERVIEW

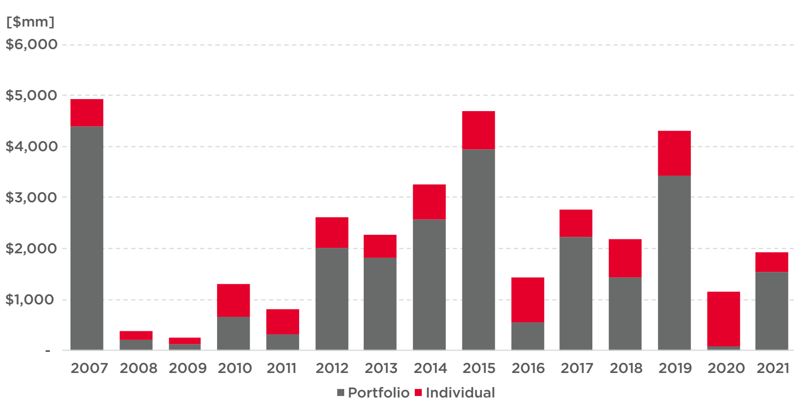
TRANSACTION ACTIVITY

In calendar 2020, we tracked over $1.1 billion in Canadian seniors housing transaction dollar volume, down from $4.3 billion in the prior year. Notably, there were no major portfolio trades that occurred in 2020. Most of the Canadian seniors housing market participants are integrated owner/operators and, as such, we saw these companies devote the majority of their focus on operations in 2020 rather than pursuing new investments.

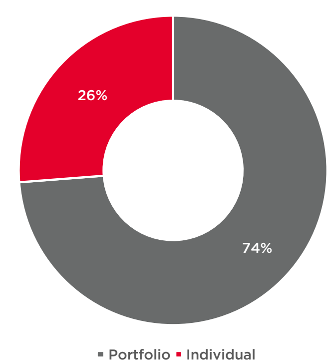
Following a quiet start to 2021, investment market activity picked up in the second half of the year, marked by major investments by Blackstone, Ventas and Harrison Street. As a result, the total dollar volume of Canadian-based seniors housing transactions in 2021 nearly doubled the volume of transactions which closed in 2020.

We expect to see the Canadian seniors housing transaction activity and overall momentum continue to increase in 2022. Portfolio transactions will continue to drive most of the transaction volume. We also think foreign sources of capital will increasingly play a role in the Canadian market. Historically, portfolio trades have accounted for most of the Canadian seniors housing investment market activity. On average, portfolio sales represent over 70% of the total transaction dollar volume in the Canadian market (with the remainder attributable to single asset deals). Since 2001, of the ~$40 billion in Canadian seniors housing assets which have transacted, over 40% of the volume can be attributed to the largest 15 transactions, demonstrating the concentration in larger 'mega-deals'. The market is also increasingly appealing to investors based outside of Canada, with foreign capital accounting for over 28% of the dollar volume over the past 20 years and over 35% of the volume since 2011. We predict these trends will continue over the next decade.

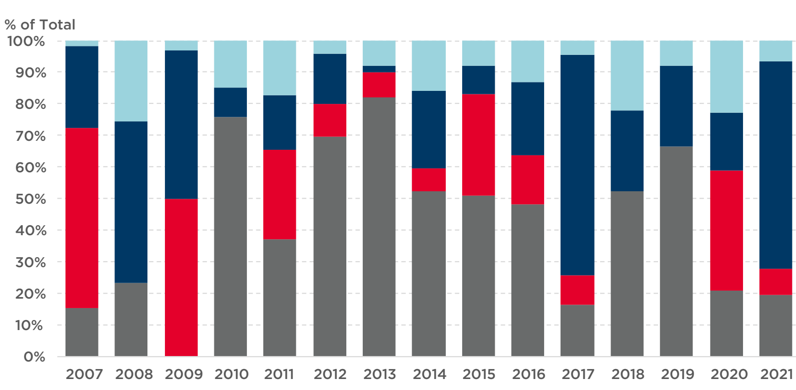
Transaction Dollar Volume



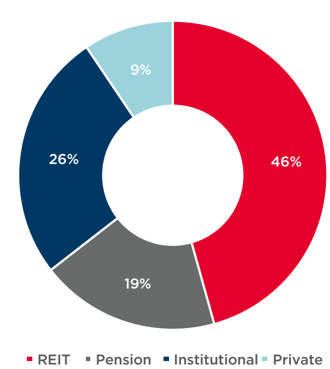
Transaction Composition



Transaction Dollar Volume by Sources of Buyer Capital



Sources of Buyer Capital: 2007 to 2021

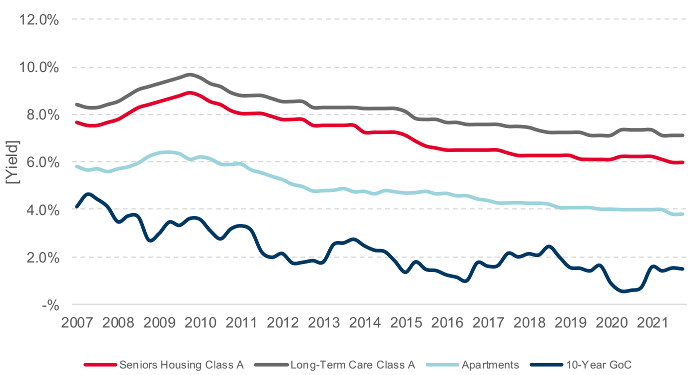


Compiled by Cushman & Wakefield ULC

RATES OF RETURN

Implied cap rates on Class "A" seniors housing investments have steadily declined over the past decade. From previous highs in the mid-8s following the Global Financial Crisis, yields have compressed by over 300 bps nationally. Asset pricing continues to benefit from strong availability of capital, a historically attractive cost of borrowing and long-term focus of most seniors housing investors, who view this as a strategic asset class over the next 20 years, an investment horizon which mirrors the expected demand-side impact from the Baby-Boom-related population growth. Cap rates at the higher quality end of the seniors housing spectrum continue to hold steady across most markets in Canada. Implied returns on Class "B" properties, which has historically featured lower transaction volume than the Class "A" market, are highly dependent on the level of product available for sale but have remained stable despite the pandemic.

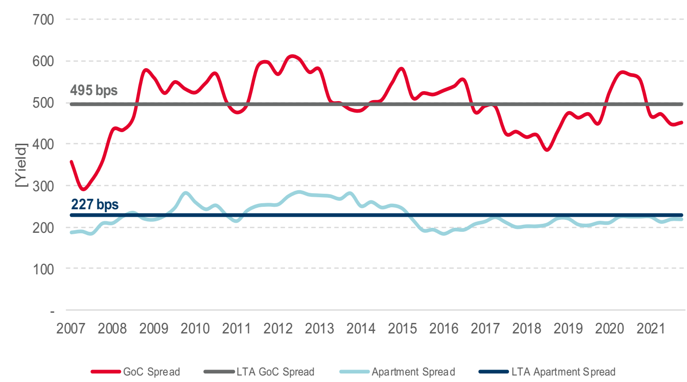
Seniors Housing Cap Rate vs. 10-Year GoC Yields



Cap Rates: VECTOM Simple Average

Source: Cushman & Wakefield ULC

Seniors Housing Spreads



Cap Rates: VECTOM Simple Average

Source: Cushman & Wakefield ULC

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Q4 2021 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 2021 and Q1 2022 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		LOW	HIGH		LOW	HIGH	
VICTORIA	5.25%	6.00%	◄ ►	6.50%	7.25%	◄ ►	6.75%	7.25%	◄ ►
VANCOUVER	5.00%	5.75%	◄ ►	6.25%	7.00%	◄ ►	6.50%	7.00%	◄ ►
CALGARY	6.00%	6.50%	◄ ►	7.25%	8.25%	◄ ►	6.75%	7.50%	◄ ►
EDMONTON	6.00%	6.75%	◄ ►	7.25%	8.50%	◄ ►	6.75%	7.75%	◄ ►
WINNIPEG	6.25%	7.00%	◄ ►	7.50%	8.50%	◄ ►	7.50%	8.00%	◄ ►
KITCHENER/ WATERLOO	5.75%	6.50%	◄ ►	7.00%	8.25%	◄ ►	6.75%	7.50%	◄ ►
TORONTO	5.50%	6.00%	◄ ►	6.50%	7.50%	◄ ►	6.75%	7.25%	◄ ►
OTTAWA	5.75%	6.50%	◄ ►	7.00%	8.25%	◄ ►	6.75%	7.50%	◄ ►
MONTREAL	5.75%	6.25%	◄ ►	7.00%	8.00%	◄ ►	7.25%	7.75%	◄ ►
HALIFAX	6.25%	7.00%	◄ ►	7.50%	8.50%	◄ ►	7.50%	8.00%	◄ ►


OME
A FAN FOR ALL SEASONS

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