SENIORS HOUSING
INDUSTRY OVERVIEW
CANADA

A Cushman & Wakefield
Valuation & Advisory Publication

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CUSHMAN &
WAKEFIELD

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On the cover:
Westney Gardens by Revera.
Ajax, Ontario. Opened 2018.

INTRODUCTION

Market volatility in the face of uncertainty was one of many themes that emerged in 2020. Social and economic impacts from the COVID-19 global pandemic were far-reaching. The initial market shock extended to global markets, Canadian markets and the commercial real estate market. The Canadian seniors housing & healthcare sector was certainly no exception.

Seniors have been at the greatest risk for severe illness and complications from COVID-19. Given the level of community transmission and spread of the virus, COVID-19 unavoidably made its way into retirement residences and long-term care homes. Despite the operators of seniors housing and long-term care homes taking extraordinary measures to protect residents and staff from the virus, the pandemic's impact across the sector has been significant. Over the past 12 months, the industry—and most notably the community residents, residents' families and frontline staff—have endured heartache, turbulence and loss. In spite of the challenges, there are countless examples of how the sector was galvanized during this period and appropriately prioritized resident and staff well-being above all else, sometimes with competitors sharing scarce supplies and resources to help one another through the most difficult times of the pandemic.

As we present our outlook for 2021 and beyond, we note that multiple vaccines are currently being implemented globally. We have renewed optimism for the future of this sector, which provides an essential service for those who require access to services and support within a residential setting.

YEAR IN *REVIEW*

FUNDAMENTALS

Heading into 2020, operating fundamentals across the seniors housing sector were generally stable, notwithstanding certain sub-markets that were disrupted by excess new supply in recent years. The global pandemic introduced new disruption to the sector. COVID-19 primarily affected the earnings of seniors housing operators through a combination of (i) a decline in occupancy related to curtailed leasing during periods of government mandated shut-downs and (ii) cost escalation, including labour costs, enhanced infection control-related costs and higher insurance costs. Incremental pandemic-related expenses were not fully recoverable in many cases, however; reimbursement rates via government subsidies were generally higher for long-term care home operators than seniors housing (private pay) operators.

INVESTMENT MARKET

TRANSACTIONS

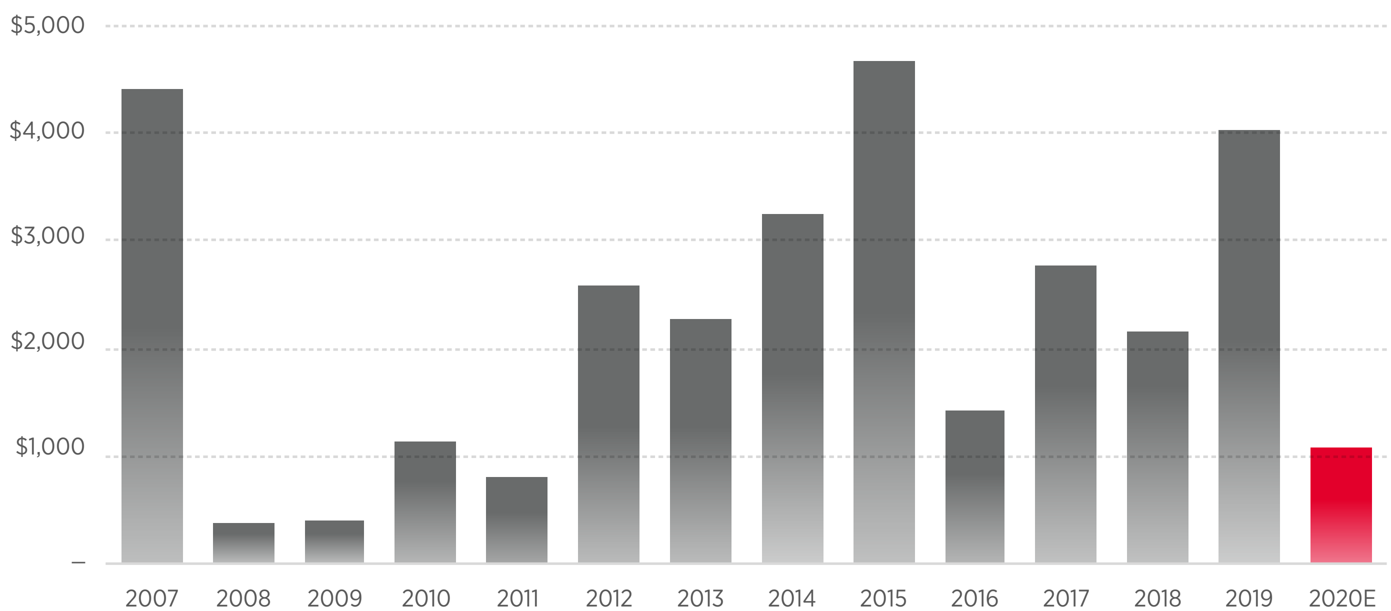
Unsurprisingly, direct property investment transaction activity in the Canadian seniors housing and long-term care sectors was relatively muted in 2020. The trend of depressed transaction activity in 2020 also played out across both the Canadian commercial real estate sector and the U.S. seniors housing sector.

In calendar 2020, we tracked over $1.1 billion in Canadian seniors housing transaction dollar volume, down from over $4 billion in the prior year. We note that the 2019 comparative figure includes the $2 billion Le Groupe Maurice transaction. In a typical year, over 70% of the dollar volume is comprised of portfolio transactions. 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.

We did observe positive market sentiment and momentum beginning to build through the fourth quarter of 2020 and expect the property investment market will exhibit a higher level of transaction activity in 2021.

TRANSACTION DOLLAR VOLUME

[$mm]



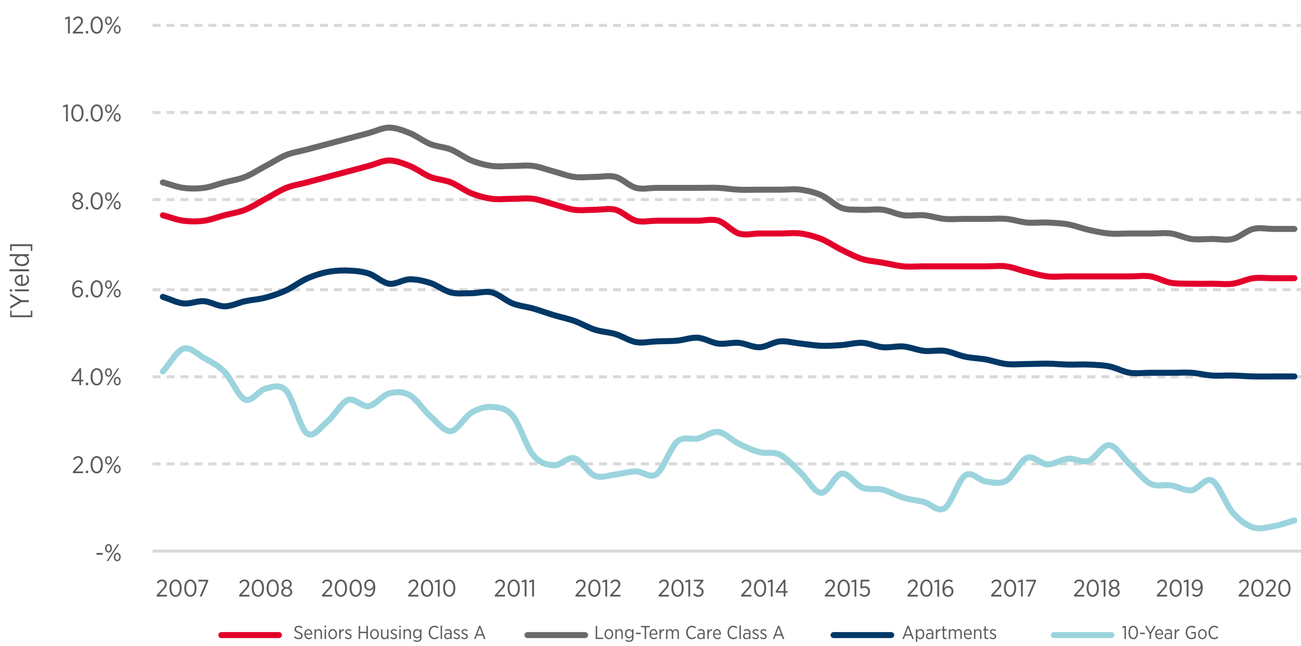
Compiled by Cushman & Wakefield ULC

RETURNS

Cap rates for seniors housing assets in Canada generally held at record-lows in 2019, with some late-cycle compression observed in markets like Toronto, Vancouver and Montréal. Our pre-COVID expectation was for cap rates for best-in-class product to remain steady in 2020. Although underwriting became more conservative, implied rates of return on Class “A” direct property market transactions did not shift materially given the (i) low cost of borrowing, (ii) strong availability of capital and (iii) 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. We believe that the scarcity of Class “A” product available for sale will continue to create strong competition for properties being sold and will set a high floor price for those assets.

Implied returns on trades in the market for 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. In 2020, investor criteria exhibited a flight to quality in the face of uncertainty and, as such, the spread between Class “A” and “B” cap rates widened by as much as 25 to 50 bps in some cases.

SENIORS HOUSING CAP RATE VS. 10-YEAR GOC YIELDS



Cap Rates: VECTOM Simple Average
Compiled by Cushman & Wakefield ULC

VALUATION IN UNCERTAIN TIMES

The most common sentiment among industry participants is that the disruption to the market from the pandemic will be short-term in nature. We anticipate that the measurable impact on value will effectively be seen over the next one to two years as the sector recovers. Where applicable, we have been modelling higher short-term vacancy adjustments and/or limited or no rent growth over the short-term. As applicable, we have been evaluating the short and long-term impact on operating expenses in light of the noted cost pressures and have been reflecting that in our forecasts as well. For many properties, over the medium-term we expect operations to revert to a normalized run-rate and expect notional year five reversionary values to generally remain intact relative to expectations prior to the recent market disruption.

Consistent with our pre-pandemic underwriting methodology, we are more inclined to sensitize risk into the valuation model through our cash flow assumptions rather than through unilateral changes to discount rates. The foundation of our approach to value remains focused on underwriting the most probable cash flow projection, based on reasonable assumptions, and to then select the most appropriate market rate of return which reflects (i) the risk/return expectation we see being priced in the market, and (ii) the level of conservatism/risk reflected in our cash flow underwriting. As always, the cash flow assumptions and the selected rates of return need to be evaluated on an internally consistent basis. Subjecting each of those variables to partial (mutually exclusive) analysis will lead to incorrect conclusions overall.

For many properties, over the medium-term we expect operations to revert to a normalized run-rate

DEVELOPMENT MONITOR

In this installment of our Development Monitor series, we examine macro development trends in the Canadian seniors housing industry by analyzing the extent of seniors housing construction activity over the past five years.

IMPACT FROM NEW SUPPLY

Prior to 2020, oversupply was a theme in the private-pay seniors housing sector in certain markets. Excess new supply in these markets contributed to a sequential decline in national occupancy from 2018 to 2020.

The following segment of the report examines the macro opportunity for development and historical levels of construction in the Canadian seniors housing market over the past five years.

CANADIAN HISTORICAL OPERATING STATISTICS: 2010 TO 2020

YEAR	SUPPLY % CHANGE	DEMAND % CHANGE	OCCUPANCY	OCCUPANCY CHANGE	RENT GROWTH
	[%]	[%]	[%]	[PP]	[%]
2010	5.0%	5.6%	90.1%	(1.2)	5.4%
2011	5.0%	4.7%	90.3%	0.2	3.7%
2012	2.9%	3.5%	90.5%	0.2	2.7%
2013	1.9%	1.5%	90.8%	0.3	3.3%
2014	5.2%	6.6%	91.3%	0.5	1.8%
2015	2.4%	2.9%	91.9%	0.7	1.6%
2016	3.6%	4.5%	92.5%	0.6	4.3%
2017	1.9%	2.3%	93.0%	0.5	2.7%
2018	4.6%	4.6%	92.7%	(0.4)	3.2%
2019	2.9%	2.4%	92.3%	(0.4)	3.3%
2020 [1]	2.8%	3.0%	92.1%	(0.2)	2.8%
10-YEAR CAGR	3.3%	3.6%		2.0	3.0%

Source: CMHC Seniors Housing Report (2020) Tables 1.4 and 3.1, Cushman & Wakefield
Demand defined as the number of residents living within a seniors residence, as reported by CMHC

Note: *[1] Reflecting pre-COVID CMHC survey data approximating January/February 2020*

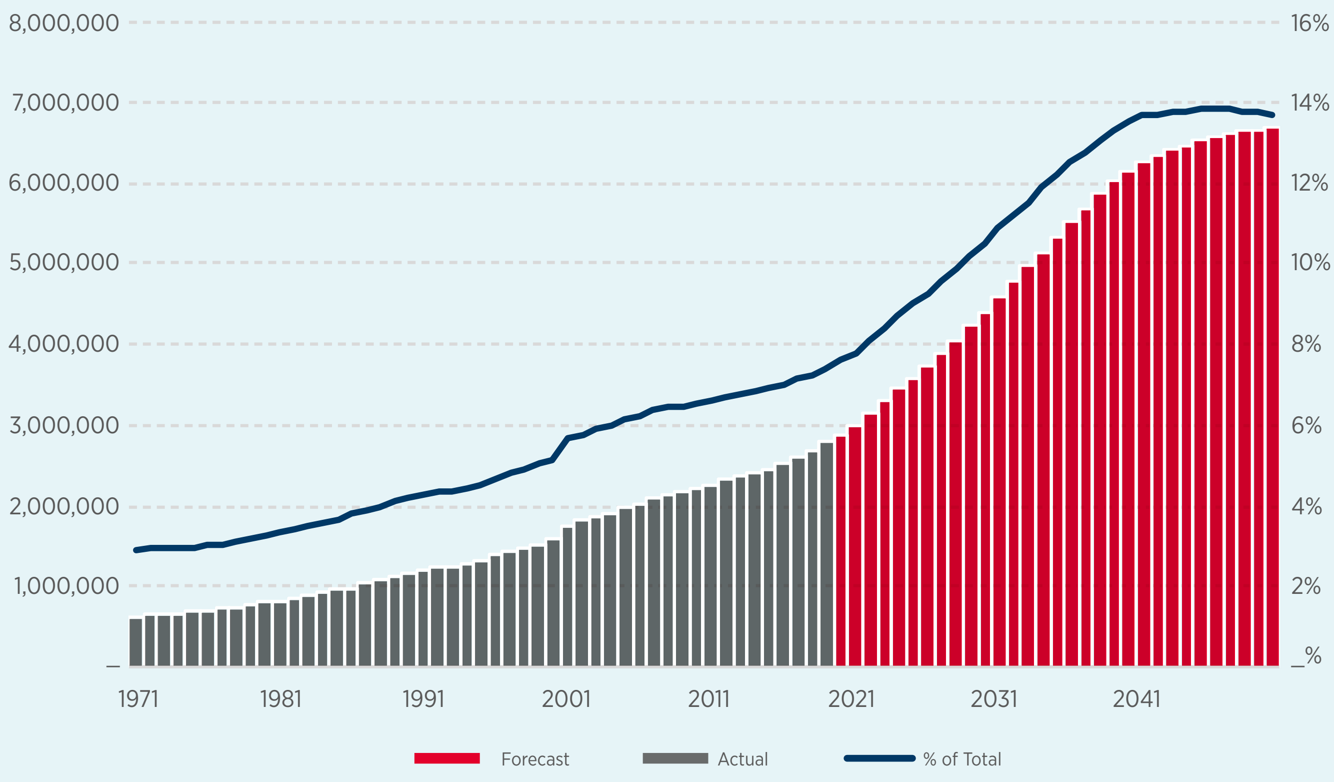
AGING POPULATION AND THE EXPECTED IMPACT ON DEMAND

Consumer demand for seniors housing & care properties is primarily driven by older adults who require convenient access to services and support within a residential setting.

Over the next 20 years, the 75-plus segment of the Canadian population is expected to grow by almost 4.0% per year and will account for 13.5% of the total population by 2040. In order to maintain the current level of seniors housing inventory per capita, total supply will need to more than double over the next 20 years.

This projection conservatively assumes that the current inventory of retirement residences remains serviceable and assumes the long-term care system capacity expands at the same rate. In practice, a portion of the current

POPULATION AGE 75+

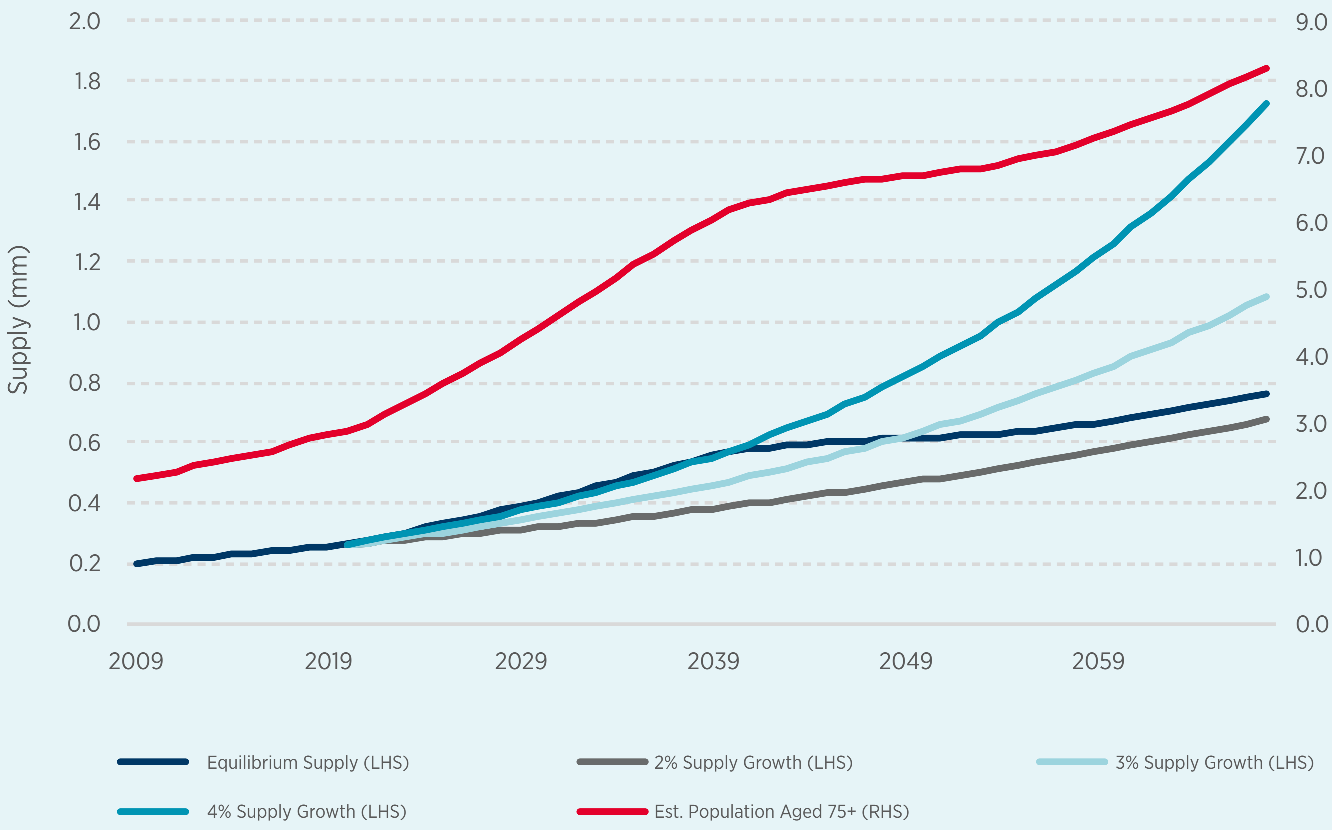


Source: StatsCan. Tables 17-10-0005-01 and 17-10-0057-01 Projection scenario M4: medium-growth seniors housing inventory will become obsolete and will need to be replaced. Additionally, fiscal constraints will likely limit the government's ability to finance such growth in the long-term care system.

In addition to the number of seniors in the 75-plus segment, we know that, in general, Canadians are living longer. According to Statistics Canada's most recent data on life expectancy, between 1992 and 2009, the life expectancy at age 65 increased by over two years.

Combined, these factors are expected to result in greater consumer demand for seniors housing.

SENIORS HOUSING SUPPLY GROWTH SCENARIOS



Source: Cushman & Wakefield ULC

Note: *Equilibrium supply forecast is predicated on maintaining a ratio of 1 retirement suite for every 10.8 seniors age 75 and older (current ratio based on 2020 data)*

CUSHMAN & WAKEFIELD CONSTRUCTION INDEX

In order to analyze macro development trends in the Canadian seniors housing industry, Cushman & Wakefield has compiled data related to the construction activity involving the largest owners, operators and developers of seniors housing properties in the country (the "C&W Construction Index").

The focus of this segment of the report relates to our analysis of the trends exhibited by the following two key metrics:

1) **Construction as a percentage of inventory**
2) **Construction starts as a percentage of inventory**

The C&W Construction Index includes private-pay seniors housing rental units only and specifically excludes government funded long-term care home projects or for-sale condo inventory. To eliminate any subjective assessments, the definition of a 'construction start' is based on the commencement of site excavation and intentionally excludes properties in pre-development phases, including site acquisition, re-zoning or design.

The organizations that constitute the C&W Construction Index include the following companies:

- Chartwell Retirement Residences
- Revera
- Sélection Retraite
- Cogir
- Le Groupe Maurice
- Résidences Soleil
- All Seniors Care
- Amica Senior Lifestyles
- Sienna Senior Living
- Verve Senior Living
- Atria Senior Living
- Seasons Retirement Communities
- Résidences Batisseurs
- Schlegel Villages
- Shannex
- Connecting Care
- Points West Living
- Retirement Concepts
- Baptist Housing Senior Living
- Château Bellevue
- Good Samaritan Society
- Park Place Senior Living
- AgeCare Health Services
- Sunrise Senior Living
- Horizons Retirement Management
- The Responsive Group
- Oxford Living
- V!VA Retirement Communities
- Signature Retirement Living
- Extendicare
- Greenwood Retirement Communities
- Berwick Retirement
- Regency Retirement Resorts
- PARC Retirement Living
- Hawthorn Retirement Group
- Steeves & Rozema
- Tapestry Retirement Communities
- Delmanor
- Jarlette Health Services
- Bria Communities
- MTCO Holdings
- Optima Living
- KMK Capital
- Brightwater Senior Living
- PeopleCare
- Bâtimo Group
- Fieldgate Commercial
- Rockport Group
- Succession Development Group
- Milliken Developments
- Campion Developments
- 103 Street Developments
- ONE Properties

CANADA

CONSTRUCTION ACTIVITY

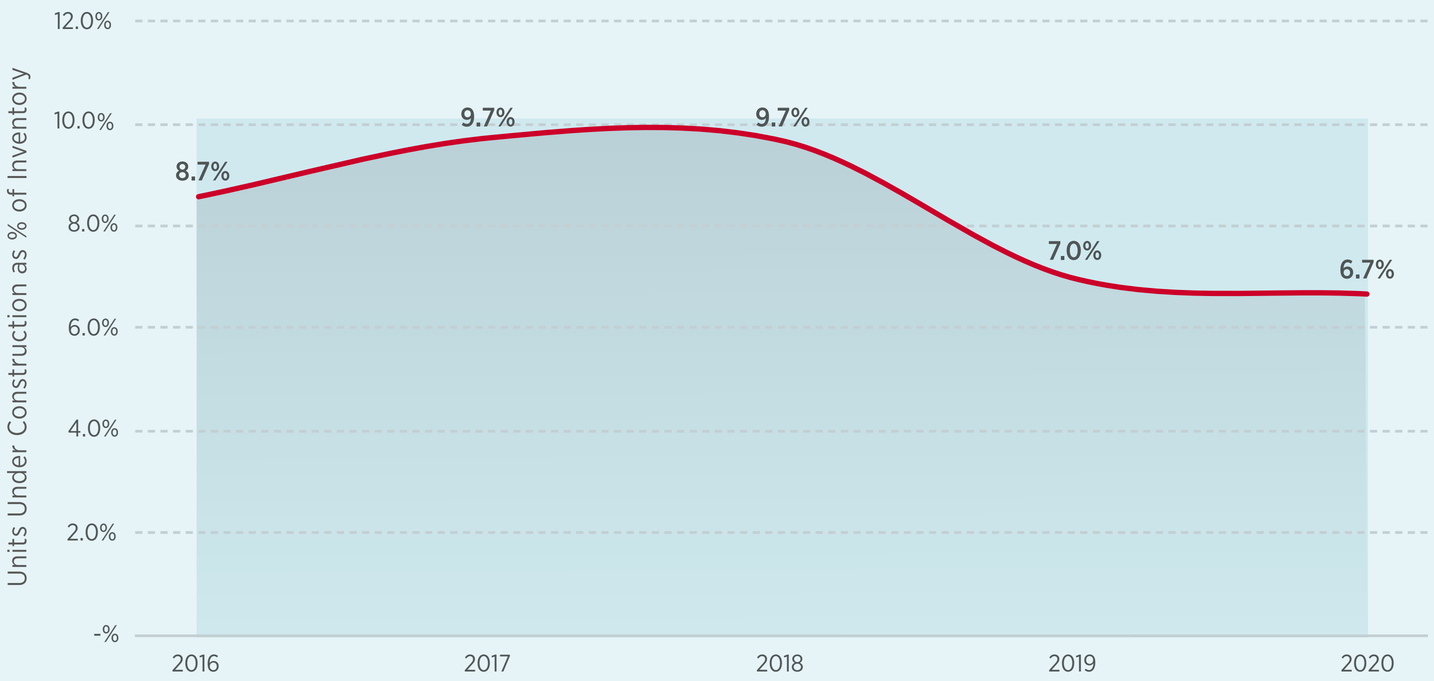
→ The 'construction as a percentage of inventory' measure tracks the number of units under construction in a given period by the Index constituent companies as a percentage of the number of existing suites managed by those companies (i.e., existing income-producing property portfolios).

→ Based on the C&W Construction Index, construction activity increased by ~11% (1.0 pt) between 2016 and 2018 and, since then, the level of construction has tapered off.

→ CMHC has reported declines in national seniors housing occupancy annually since 2018. Excluding the impact from COVID-19 (which will not be reflected in CMHC data until 2021) we primarily attribute this historical decline in occupancy to short-term disruption in various sub-markets from new developments/ competition. Many developers took note of these changes in market conditions and began to scale back the pace of new construction, starting in 2018.

→ Between 2018 and 2020, the number of units under construction as a percentage of the existing inventory had decreased by ~31% (3.0 pts).

CONSTRUCTION AS % OF INVENTORY (UNITS)



Metric: Units under construction as a percentage of the existing units of inventory (Sample based on C&W Construction Index)

Source: Cushman & Wakefield ULC

CONSTRUCTION STARTS

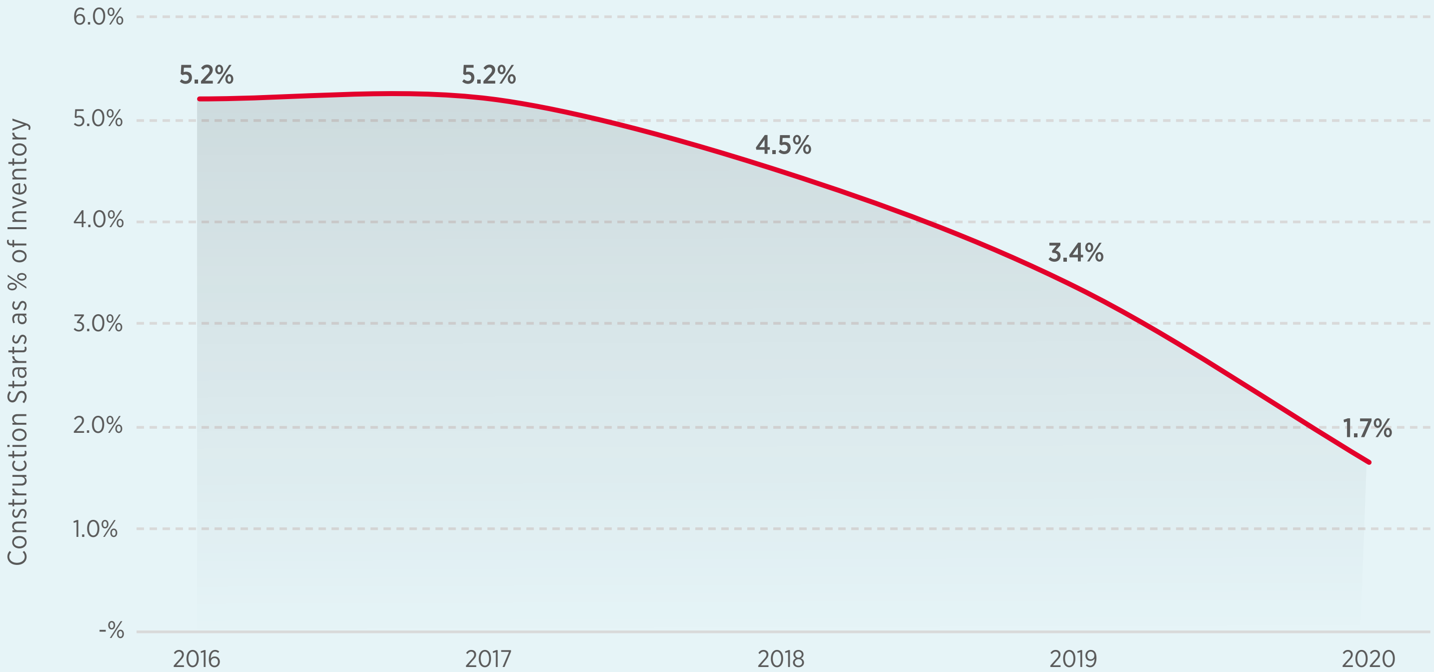
→ We continue to observe a slowdown in construction starts, which has been compounded due to the COVID-19 pandemic.

→ In the first half of 2020, many developers decided to temporarily pause new growth projects which were in the pre-development stage to (i) focus corporate efforts on operations, (ii) preserve liquidity and (iii) wait to re-evaluate project economics for a post-COVID environment.

→ For the 12 months ending December 31, 2020, construction starts slowed to 1.7% of inventory versus 5.2% in 2017. The absolute number of starts (by units) in 2020 decreased by 64% relative to the peak starts observed in 2017.

→ We note that the projects reflected in the 'construction as percentage of inventory' metric will not all be added to supply in a single year, given projects typically take 24 to 36 months to complete. On that basis, the metric can be a useful forecast indicator for future supply 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)
Source: Cushman & Wakefield ULC

UNITED STATES

CONSTRUCTION ACTIVITY

→ Directionally, data from U.S.-based National Investment Center for Seniors Housing & Care shows that similar themes are playing out south of the border.

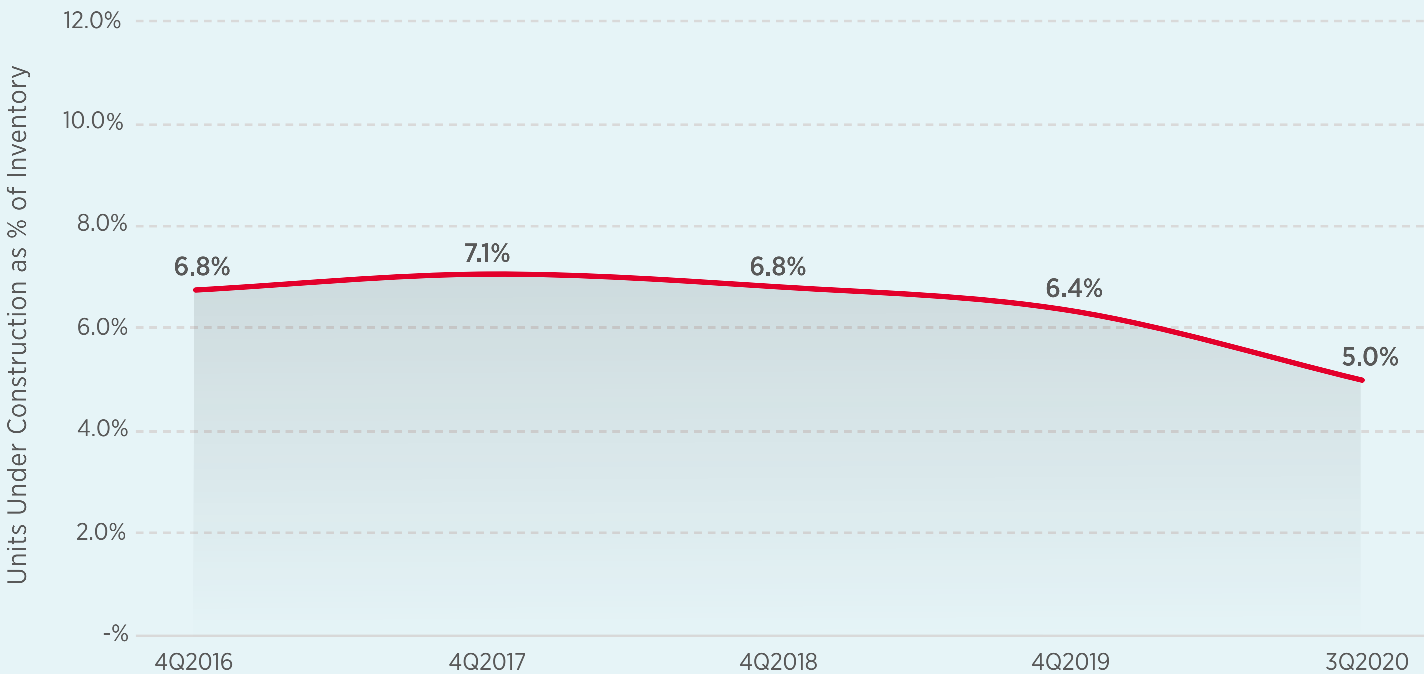
→ According to the NIC MAP® Data Service, the level of construction as a percentage of inventory as of Q3 2020 has declined by ~30% since the peak that occurred as of Q3 2016.

→ In an October 2020 survey of 165 U.S.-based operators and developers conducted by Seniors Housing News and architecture and design firm LWDA, 65% of respondents reported postponing certain projects as a result of the pandemic and 40% had canceled projects altogether.

→ Those who canceled or postponed projects cited a variety of reasons. Notably, 43% expressed a need to preserve capital and liquidity as the pandemic continues and 34% were prioritizing their focus on operations over growth projects.

→ The surveyors indicated that most providers are using the pandemic as an opportunity to go back to the drawing board with architects and designers, revising plans in order to incorporate enhanced safety and sanitation protocols implemented in recent months, which will have added benefits for future use and improved infection control.

CONSTRUCTION AS % OF INVENTORY (UNITS)

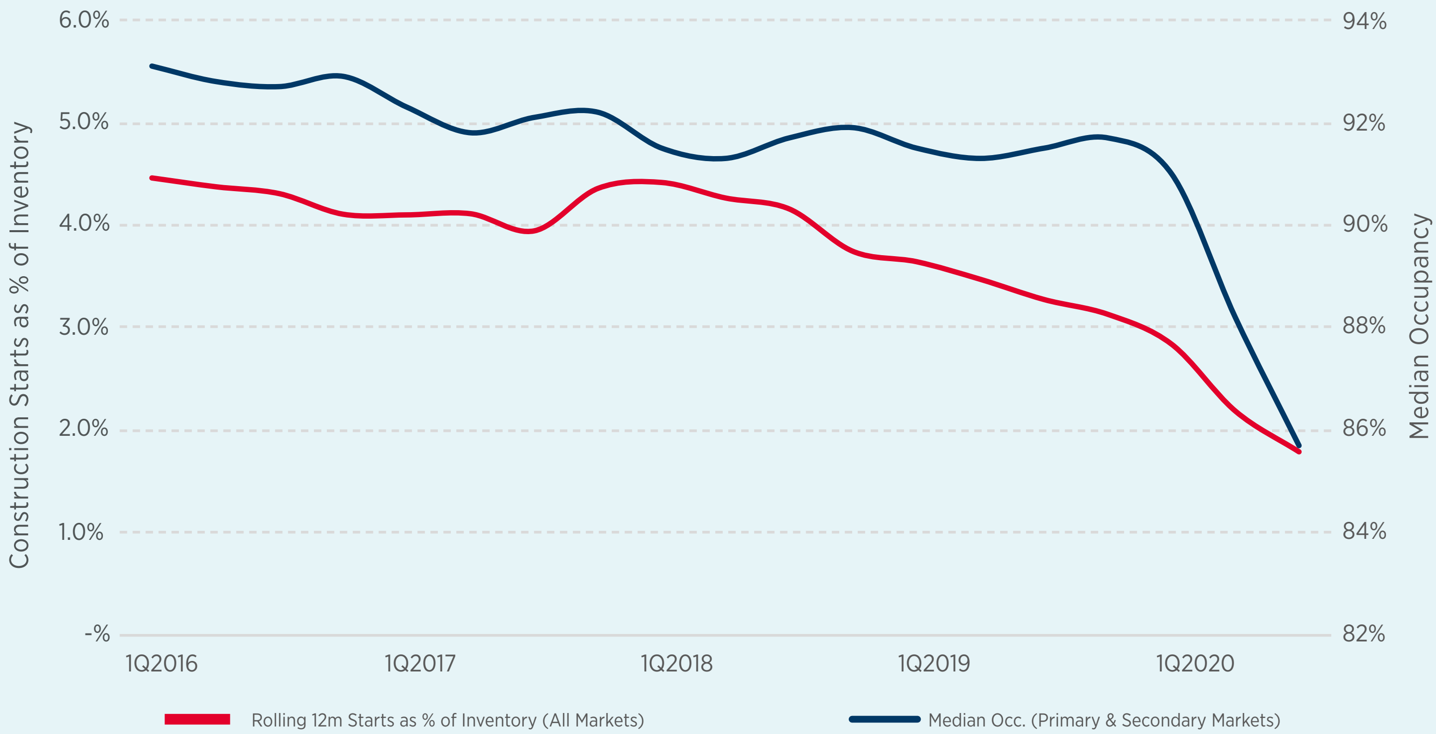


Metric: Units under construction as a percentage of the existing units of inventory (Sample based on NIC MAP, All Markets, Seniors Housing)
Source: NIC MAP® Data Service, (Q3 2020)

CONSTRUCTION STARTS

→ According to the NIC MAP® Data Service, seniors housing construction starts in the U.S. had declined to 1.8% of inventory for the 12 months ending September 30, 2020. During the past five years, this rate, measured on a trailing 12 months basis, had peaked in Q1 2016 at 4.5% and has exhibited a fairly consistent decline in construction starts since Q1 2018.

CONSTRUCTION STARTS AS % OF INVENTORY (UNITS)



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, (Q3 2020)

Source: *NIC MAP® Data & Analysis Service. For more information on the NIC MAP® Data Service, please visit www.NIC.org/NIC-map*

IMPORTANT CONSIDERATIONS

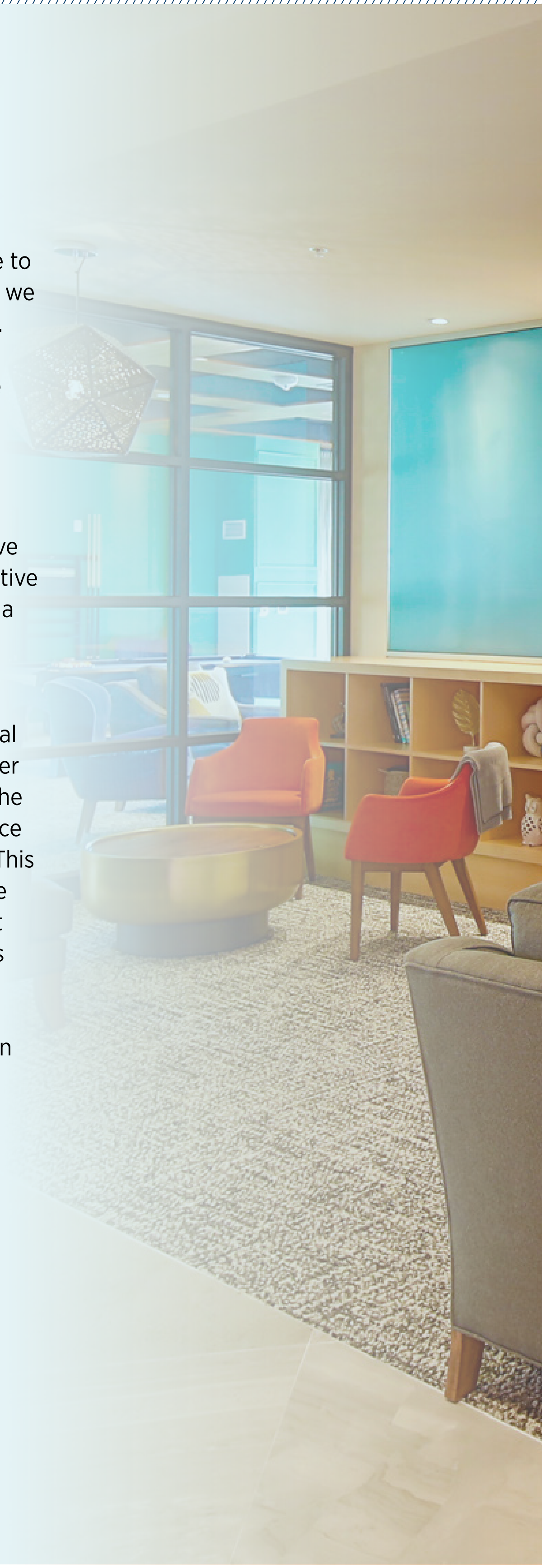
Analysis of the C&W Construction Index is useful for sequential year-over-year trending on a national or provincial basis, but we caution against extrapolating 'construction as percentage of inventory' metrics industry-wide. The organizations that constitute the C&W Construction Index represent close to 50% of the national retirement residence inventory in Canada, by units, which we believe to be a representative sample, but a margin of forecast error will exist. The selected sample of the operators that constitute the Index are among the most active developers of seniors housing, and therefore the reported sample statistics relating to construction may differ from the population data.

CONCLUSIONS

As a result of the declining number of construction starts in Canada, we believe the market will be less concerned about new supply in the next few years relative to the headwinds and risks the market faced pre-COVID, which could provide a favourable backdrop for the recovery in occupancy exiting the pandemic.

The development opportunity in this sector over the next 20 years will be significant. According to the CMHC Seniors Housing Report, since 2011 the total number of seniors housing spaces in Canada has increased by 7,300 spaces per annum on average, implying a historical 10-year CAGR of ~3.3%. To maintain the current Capture Rate[1] over the next 20 years, the national retirement residence supply will need to grow by an estimated 14,000 to 16,000 units per annum. This projection assumes the long-term care system capacity will expand at the rate of age 75+ population growth and this estimate does not include replacement for the existing inventory of retirement residence units (i.e., implicitly assumes the economic useful life of the existing properties can be extended and ignores functional obsolescence). In light of the assumptions, this should be a conservative estimate of the requirement for new seniors housing construction over the next 20 years.

[1] Capture Rate defined as the number of residents as a percentage of the population age 75+




Over the next 20 years, the national retirement residence supply will need to grow by an estimated 14,000 to 16,000 units per annum
CUSHMAN & WAKEFIELD

OUTLOOK

FUNDAMENTALS

The pandemic will eventually end. As the industry sets its sights on recovery, there is a lot of work to be done to correct misconceptions about the seniors housing sector which have been reinforced through misleading portrayals of the entire industry in the media. Going forward, consumers will pay closer attention to infection control measures implemented within a residence and place a higher value on ongoing and transparent communication with the operator of their community. Most operators are well positioned to meet and exceed these expectations. Any operators who do not meet these reasonable standards will not last.

The short-term impacts on occupancy from COVID-19 have been widespread. The pandemic also introduced new cost pressures and the potential for increased government regulation. On a positive note, the implementation of an effective COVID-19 vaccine is underway, with the first doses administered in Canada in December 2020. The prospect of a fully implemented vaccine is expected to restore a sense of normalcy to the sector and will provide the foundation for a recovery in fundamentals.

Once properties are permitted to re-commence leasing in earnest, we expect residences will benefit from some pent-up demand and believe occupancy will recover within a reasonable timeframe for most properties that had previously been stabilized pre-pandemic, considering (i) the demand for seniors housing is primarily needs-driven and (ii) population demographics and projections suggest that the ‘Baby Boom’ inflection point will begin to meaningfully contribute to demand in 2021. Today we find ourselves at the leading edge of a major structural shift in Canadian population demographic trends. The age 75-plus segment of the population is poised to grow at a ~4% CAGR for the next 20 years. Few businesses have such a well-telegraphed potential demand curve.

Aside from the occupancy recovery related to COVID-19, we remain focused on monitoring development activity. In recent years, certain markets faced an excess of new supply, which contributed to a sequential decline in national occupancy from 2018 to 2020. While many developers have slowed the pace of construction starts, we can still expect a wave of deliveries from properties currently under construction which will continue to disrupt occupancy in select markets through 2021. Due to a decline in construction starts, over the short-term, we do not expect the impact from new supply to be as disruptive on a national basis as it has been over the past four years. Over the long-term, developers will have to closely match the timing of new supply with the demand curve in order to avoid ‘overbuilding’ certain markets, as we have seen in the recent past.

INVESTMENT MARKET

The degree of competitive tension in the market and the demand for property sales in 2020 was generally lower than it was in 2019. Many of the public REITs in North America traded at depressed valuations for most of the year, making the economics of completing Class “A” deals very challenging for them. While pension and private equity funds had plenty of capital available for investments, most of the capital was focused on deep-value opportunities. In retrospect, there were not many distressed assets for sale or bargains to be had in the Canadian market in 2020.

At this point, it is unclear how long it will take for property transaction activity to return to historical levels, however; we believe the investment thesis for seniors housing & care properties remains firmly intact. In terms of transaction dollar volumes, we expect 2021 to be more active than the prior year as investors look to increase allocations towards alternative real estate asset classes. For investors who have longer investment horizons or can manage some short-term volatility, we believe that this period of disruption will mark the last ‘value’ buying opportunity in this sector for the next two decades.

Q4 2020 CAP RATE SURVEY REPORT

SENIORS HOUSING CAP RATES ACROSS CANADIAN MARKETS

	SENIORS HOUSING "A"			SENIORS HOUSING "B"			LONG-TERM CARE "A"		
	RANGE			RANGE			RANGE		
	LOW	HIGH	OUTLOOK	LOW	HIGH	OUTLOOK	LOW	HIGH	OUTLOOK
VICTORIA	**5.50%**	**6.50%**	◀ ▶	**6.75%**	**7.75%**	◀ ▶	**6.75%**	**7.50%**	◀ ▶
VANCOUVER	**5.25%**	**6.25%**	◀ ▶	**6.50%**	**7.50%**	◀ ▶	**6.50%**	**7.25%**	◀ ▶
CALGARY	**6.00%**	**6.75%**	◀ ▶	**7.25%**	**8.25%**	◀ ▶	**7.00%**	**7.75%**	◀ ▶
EDMONTON	**6.00%**	**7.00%**	◀ ▶	**7.25%**	**8.50%**	◀ ▶	**7.00%**	**8.00%**	◀ ▶
WINNIPEG	**6.25%**	**7.00%**	◀ ▶	**7.50%**	**8.50%**	◀ ▶	**7.50%**	**8.00%**	◀ ▶
KITCHENER/ WATERLOO	**6.00%**	**6.75%**	◀ ▶	**7.25%**	**8.25%**	◀ ▶	**7.00%**	**7.75%**	◀ ▶
TORONTO	**5.75%**	**6.50%**	◀ ▶	**7.00%**	**8.00%**	◀ ▶	**7.00%**	**7.50%**	◀ ▶
OTTAWA	**5.75%**	**6.75%**	◀ ▶	**7.00%**	**8.25%**	◀ ▶	**7.00%**	**7.75%**	◀ ▶
MONTREAL	**6.00%**	**6.75%**	◀ ▶	**7.25%**	**8.25%**	◀ ▶	**7.50%**	**8.00%**	◀ ▶
HALIFAX	**6.25%**	**7.25%**	◀ ▶	**7.50%**	**8.50%**	◀ ▶	**7.50%**	**8.25%**	◀ ▶

LEGEND » OUTLOOK: UP: ▲ DOWN: ▼ FLAT: ◀ ▶

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This report has been prepared solely for information purposes. It does not purport to be a complete description of the markets or developments contained in this material. The information on which this report is based has been obtained from sources we believe to be reliable, but we have not independently verified such information and we do not guarantee that the information is accurate or complete.

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