

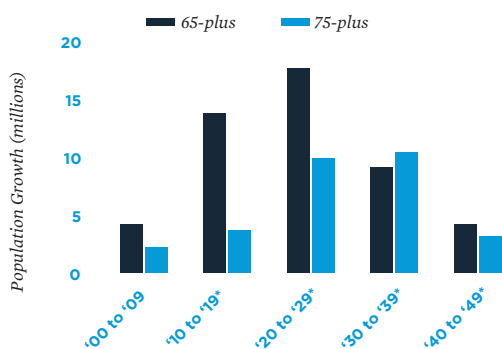
Managing Costs Key to Skilled-Nursing Operations

Operating fundamentals stabilize, encouraging efficiency to generate new revenue. According to NIC MAP® Data Service, occupancy increased in 2019, reversing a long trend of declining occupancy despite a reduction in beds. Developers have slowed the pace of construction to just 0.4 percent of existing inventory, keeping the threat of oversupply at bay despite relatively flat demand. Reimbursement, meanwhile, has been stabilizing, bringing the rise in daily revenue near the inflation rate. As a result, operators are searching for alternative methods to increase revenue, including managing labor costs, which have skyrocketed in recent years and moved to the forefront of issues facing skilled-nursing performance. Another potential strategy employed by operators is shifting the census to include more attractive payor sources.

REITs and institutions step aside for private buyers.

Although the number of transactions declined sharply during the past year, activity among private investors slipped less than 10 percent relative to an overall reduction of 40 percent. Meanwhile, Publicly traded REITs reduced acquisitions by nearly 80 percent last year and are expected to remain on the sell side of deals again this year. A resurgence in portfolio transactions is not expected this year, with most transactions consisting of a single or handful of properties. The average cap rate, meanwhile enters the year in the high-11 percent range as net operating income moved in step with prices, which are close to \$80,000 per bed entering the year.

Population Growth Among Older Americans



* Forecast

Sources: Marcus & Millichap Research Services; NIC Map® Data and Analysis Service (www.nicmap.org); Social Security Administration; U.S. Census Bureau

Regional Nursing Care Performance

Region	Stabilized Occupancy	Average Daily Rate
Central Plains	83.1%	\$293
Mid-Atlantic	88.0%	\$310
Mountain	84.2%	\$311
Northeast	90.5%	\$418
Pacific	90.5%	\$361
Southeast	88.5%	\$292
Southwest	75.1%	\$223
West North Central	80.5%	\$253
United States	86.3%	\$331

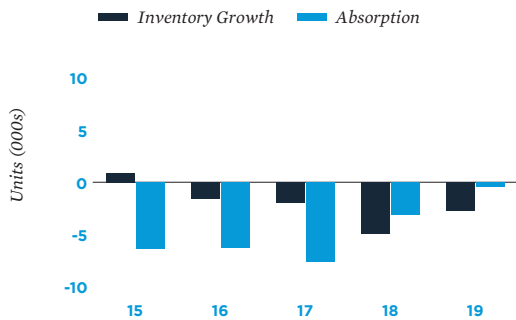
Data in table is for 4Q 2019

Sources: Marcus & Millichap Research Services; NIC Map® Data and Analysis Service (www.nicmap.org)

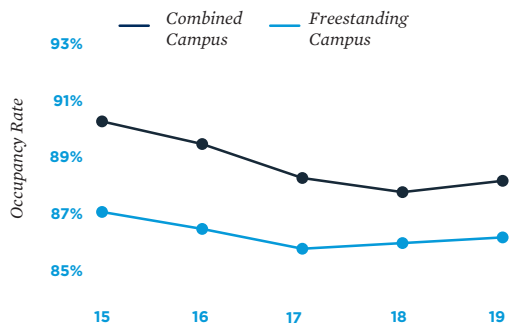
National Trends and Challenges

- The front end of the baby boomer generation is approaching the average age of skilled-nursing residents, and will constitute the largest generation to reach that age thus far. Actuarial tables state a man born in 1950 will, on average, reach the age of 84, while a woman born that year will live to reach 87. As the older generation ages, more pressure will be placed on the system.
- Wages remain a primary concern for operations as low unemployment is depleting the worker pool. Nationally, nursing assistants at skilled-nursing facilities average \$14.22 per hour while occupational therapists command \$31.36 per hour.

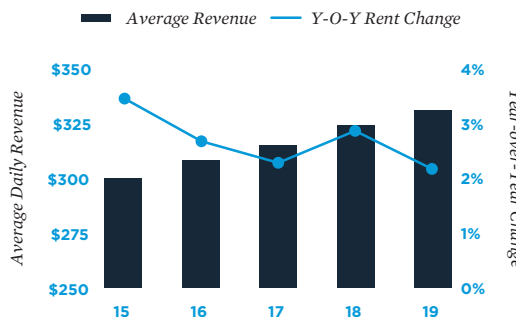
Inventory Growth and Absorption



Occupancy Rate Trends



Revenue Trends



Sources: Marcus & Millichap Research Services;
NIC Map Data and Analysis Service (www.nicmap.org)

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Construction Trends

- Overall inventory continues to decline as more beds are removed than constructed, according to the NIC MAP® Data Service. Last year, inventory dipped by 0.3 percent, while the number of beds has declined 1.3 percent over the past five years.
- **Outlook:** The pace of development continues to fall. In the fourth quarter, only 3,600 units were underway, representing 0.4 percent of existing supply. New construction relative to existing inventory is at the lowest level in more than 10 years, indicating a decline in supply again this year.

Occupancy Trends

- Last year, stabilized occupancy maintained an upward trend, increasing 20 basis points to 86.3 percent as the removal of dilapidated stock outpaced modestly softening demand. During the prior year, occupancy ticked up 10 basis points.
- **Outlook:** Demand for skilled-nursing beds will remain relatively in line with supply this year. By year-end 2020, stabilized occupancy is forecast at 86.2 percent, up 10 basis points over 12 months.

Rent Trends

- The pace of income growth has been abating over the past year. In the fourth quarter, average revenue was \$331 per occupied bed, per day, up 2.2 percent annually. In the prior 12-month period, average revenue advanced 2.9 percent.
- **Outlook:** Although occupancy has stabilized, average gains in the daily rate will remain relatively modest this year. Average rates are anticipated to climb 2.0 percent to \$338 per occupied bed, per day. This year's increase represents the slowest growth in the skilled-nursing sector since 2011.

Sales Trends

- A shift away from large portfolio transactions and less acquisition activity from REITs resulted in a nearly 40 percent decline in skilled-nursing transactions last year. The number of properties that changed hands dipped by 35 percent.
- Deals involving smaller, older assets resulted in an increase in the average cap rate last year to the high-11 percent range, up approximately 60 basis points since 2018. For the second consecutive year, the average transaction size has been below two properties, down from 2.6 properties per deal in 2017.
- **Outlook:** Skilled-nursing acquisitions will require astute due diligence this year as operators manage rising labor costs, slower income growth, and the patient driven reimbursement model. REITs will continue to pare assets to create efficiencies across their portfolios.