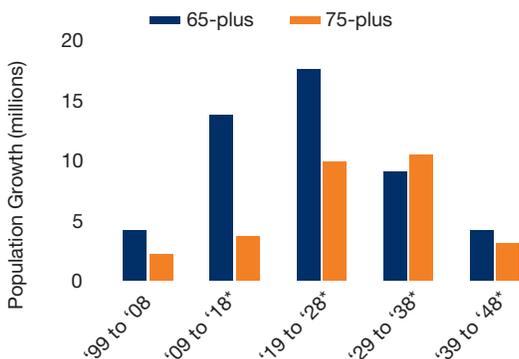


Healthcare Policies and Focus of Patient Care Will Challenge Operators

Operators leverage healthcare policy changes to drive profitability. Nursing care communities, also known as skilled nursing properties or facilities, account for the largest share of the seniors housing industry. Operators at these properties treat both long-stay custodial care patients as well as short-stay post-acute care patients. Unlike other seniors housing property types, the segment is highly dependent on Medicaid and Medicare reimbursement programs, deriving 71 percent of revenue from these sources. National and state healthcare policies have a more direct impact on the property sector and expanded managed-care and value-based care policies must be navigated by operators to maximize returns.

Trend toward short-stay post-acute care patients contributes to falling occupancy. According to the NIC MAP® Data Service, nursing care community occupancy rates have fallen from more than 90 percent in 2008 to nearly 86 percent in the third quarter. The nursing care sector has faced a number of challenges impacting demand and driving down the length of stays, thus impacting stabilized occupancy rates. The heightened emergence of assisted living facilities over the past two decades has given individuals another option to long-term care. Meanwhile, healthcare policy changes to lower costs and drive efficiency in post-acute care have resulted in shorter stays. Both have placed downward pressure on stabilized occupancy rates, forcing operators to consider other factors, such as the number of patients cared for, when looking at the health of nursing care properties.

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

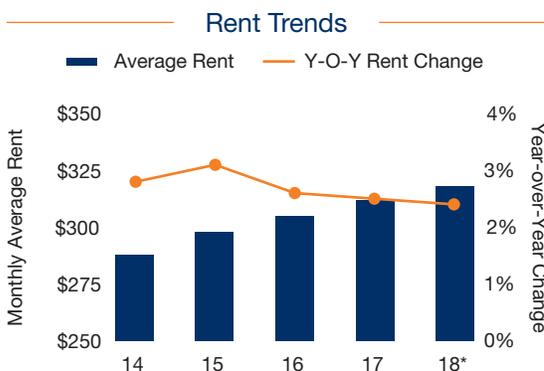
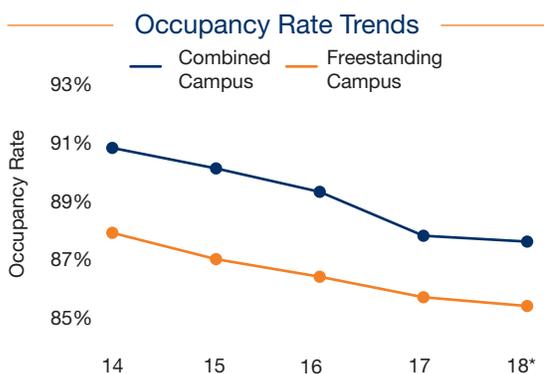
Regional Nursing Care Performance

Region	Stabilized Occupancy	Average Daily Rate
Central Plains	79.3%	\$241
Mid-Atlantic	87.5%	\$300
Midwest	82.5%	\$284
Mountain	82.4%	\$286
Northeast	90.0%	\$408
Pacific	89.3%	\$331
Southeast	88.2%	\$282
Southwest	74.9%	\$215
National	85.6%	\$318

Data in table is for 3Q 2018
 Sources: Marcus & Millichap Research Services;
 NIC Map Data and Analysis Service (www.nicmap.org)

National Trends and Challenges

- According to the Social Security Administration, a person turning 65 today will live, on average, well into his or her 80s, with 25 percent of those individuals' lives extending past age 90. As the 65 and older population is set to rise by more than 17 million individuals over the next 10 years, more than half of this growth will occur in Americans older than 75.
- Demand for seniors housing facilities is anticipated to rise substantially over the next several years, and staffing shortages for nursing aids and assistants are already posing a problem in some areas of the country. These employees have realized a slower pace of wage growth when compared with other industry segments, leading to many workers choosing employment in other economic sectors.



* Through 3Q 2018
Sources: Marcus & Millichap Research Services; NIC Map Data and Analysis Service (www.nicmap.org)

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Construction Trends

- According to the NIC MAP® Data Service, inventory among the nation's nursing care communities continues to decline, with nearly 3,600 beds pulled from service over the past year ending in September. The majority of beds coming out of service are in freestanding campuses, while nursing care beds in combined communities increased by approximately 750 beds. Nearly 90 percent of nursing care beds are in freestanding facilities.
- **Outlook:** At the end of the third quarter, there were approximately 5,500 nursing care beds under construction. Freestanding campuses make up the majority of construction, with nearly 3,300 beds underway, but stock is aging as 75 percent of all nursing care beds were built more than 25 years ago.

Occupancy Trends

- Stabilized occupancy for nursing care communities fell 20 basis points over the past four quarters to 85.6 percent. Combined campuses had a higher occupancy rate at 87.6 percent in the third quarter, down 60 basis points from one year ago.
- **Outlook:** Occupancy continues to decline among nursing care communities, with the stabilized rate dipping to 85.4 percent in 2018, a year-over-year decline of 50 basis points.

Rent Trends

- Nursing community rent growth remains healthy, rising at a steady pace for the past few years as increased healthcare costs place upward pressure on rents. Over the past 12 months, the average daily rate increased 2.4 percent to \$318 per day. According to the NIC MAP® Data Service second quarter skilled nursing report, Medicare and Managed Medicare rates are highest at \$521 and \$427 per patient day.
- **Outlook:** Costs continue to rise, pushing up rates at nursing care facilities. This year, the average reaches \$320 per day, annual growth of 2.6 percent.

Sales Trends

- Healthy demographic trends are driving investment into nursing care properties, accounting for over half of all seniors housing property sales during the past 12 months. Approximately 53 percent of nursing communities sold during the period went to private investors.
- The average price per bed over the past four quarters was \$92,500, up approximately 75 percent from 2009. Prior to the recession, investors paid between \$40,000 and \$55,000 per bed. Cap rates in the property segment often average above 10 percent due to the more complicated structure of the business environment.
- **Outlook:** Skilled nursing facilities remain a viable option for select buyers. Those who understand the operational structure of this asset class, or who have partnered with a successful operator, will find a number of quality opportunities for investment.

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