MARKET INSIGHT

Continuing Care Retirement Communities
Continuing care retirement communities (CCRCs), also known as life plan communities (LPCs), offer seniors the ability to live in one place for the rest of their lives by accommodating any changes in their lifestyle preferences and health-care needs. CCRC/LPCs typically offer the full range of seniors housing options, including independent living, assisted living, memory care and nursing care.

Positives

GROWTH OPPORTUNITIES
Continuing care retirement communities (CCRCs), also referred to as life plan communities (LPCs), are well-positioned for growth in the seniors housing marketplace over the next decade.

HIGHER OCCUPANCY RATES
CCRC/LPCs have higher occupancy rates than other types of seniors housing due to limited development activity in recent years, accompanied by steady demand and longer resident tenure.

RENT GROWTH
Current rent growth of CCRC/LPCs is consistent with the historical average of 2.8%, and has outpaced that of other types of seniors housing over the past few years.

DEMOGRAPHIC TRENDS
Looking ahead, demographic trends will lead to dramatic growth in seniors population and in seniors housing demand. Between 2016 and 2025, the U.S. population aged 75+ will rise by 8 million or 39% (compared to only 6% for the U.S. population as a whole).

CCRC/LPC DEMAND
These demographic trends will also lead to significant growth in CCRC/LPC demand. The typical age of move-in for CCRC/LPC residents is younger than other types of seniors housing—in the high 70s to mid-80s—and CCRC/LPCs capture a wider age range of seniors than other seniors housing. Baby boomers are generally too young for CCRC/LPCs today, but that will begin to change in only three years as the oldest baby boomers turn 75.

HOUSING MARKET
Today's healthy for-sale housing market creates a clear advantage for CCRC/LPC demand. New residents typically sell their homes and use the proceeds to buy into a CCRC/LPC.

UNIQUE CHARACTERISTICS
Two unique characteristics of CCRC/LPCs should make them particularly appealing to baby boomers. They are focused on lifestyle enhancement. They also attract “planners”—individuals and couples with a long-term outlook on their housing needs and a desire to plan for their future.

INVESTMENT INTEREST
From an investment standpoint, interest in seniors housing product has increased significantly in recent years. The traditional sources of capital, such as health-care REITs and private buyers, remain very active. New sources of capital, including institutional and foreign, are bringing more capital into the sector.

BENEFITS FOR PROSPECTIVE INVESTOR
The increased investor interest in seniors housing bodes well for CCRC/LPCs. However, the product’s unique qualities, especially entrance-fee CCRC/LPCs, appeal to a specific subset of investors. The benefits for prospective investors include a yield premium on pricing over other seniors housing product, less variability in occupancy and less risk of oversupply.
Challenges

OVERSUPPLY RISK
While CCRC/LPC development, overall, appears balanced with demand, the amount of construction in the for-profit sector is high and may be at risk of temporary saturation in a few markets.

OTHER OPTIONS
CCRC/LPCs compete somewhat with stand-alone seniors housing communities, particularly independent living and assisted living, as well as active-adult housing. Independent and assisted living have experienced considerable development in recent years and provide viable options for seniors.

INCREASED COMPETITION
The relatively high level of development activity in the non-CCRC/LPC space has created product that may be more appealing from a design standpoint than many older CCRC/LPC properties.

NEED FOR MODERNIZATION
Older CCRC/LPCs may require significant modernization, especially when baby boomers enter the market in a few years.

ENTRANCE FEE BARRIERS
CCRC/LPCs' upfront entrance fees and monthly service fees are too high for most middle-class Americans, leaving the target market mostly to upper-middle-income seniors with the ability to sell a home to generate entry-fee payment.

HOUSING MARKET DEPENDENCE
Since CCRC/LPC demand is tied to the for-sale housing market, a national economic downturn may hinder the market. However, secular and cyclical trends will likely mitigate the impact of any potential downturn or recession.

LACK OF KNOWLEDGE
The CCRC/LPC format, particularly its financial structure, is not well understood by consumers, despite being an established seniors housing option. CCRC/LPC owners and operators must continually educate prospective residents. This contributes to the long decision-making process for new CCRC/LPC residents.

SAVVY INVESTORS
Similarly, only seasoned investors have a thorough understanding of CCRC/LPCs. Others need to become educated in the financial model before they invest.

LIMITED INVESTMENT OPPORTUNITIES
Even for the knowledgeable investor interested in CCRC/LPCs, not many communities actually come to the for-sale market, thereby limiting investor opportunity.
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The CCRC/LPC Product

INTRODUCTION

Over the next decade, the seniors housing industry is well-positioned for investment opportunity and, more broadly, for increased significance within the commercial real estate industry. Rising demand, growing inventory and evolving product mix will create attractive opportunities and investment returns for owners, buyers and operators of seniors housing product.

CCRC/LPCs are well-established within seniors housing. They may be less understood than other forms of seniors housing, but the product has a favorable performance record and a generally favorable near-term and longer-term outlook.

This report focuses on the CCRC/LPC segment of the seniors housing industry, including a review of CCRC/LPC characteristics, key trends shaping demand, property market performance and investment activity and pricing.

WHAT IS A CCRC/LPC?

At the core, CCRC/LPCs are housing communities where seniors can age in place. They provide different types and levels of seniors housing and care on one campus.

WHAT’S IN A NAME?

For many decades, CCRC/LPC seniors housing has been referred to as continuing care retirement communities or CCRCs. However, in recent years there has been an industry movement to use the term “life plan community” or LPC. The term references the product’s basic philosophy and key appeal. It attracts seniors who are choosing a community for lifestyle and are planning ahead for their current and future housing and care needs.

The “life plan community” moniker also deemphasizes the “care” aspect of the product, likely making it more appealing to future and prospective new residents who come in as younger seniors not needing care.

Usage of the “LPC” term is clearly gaining momentum, but is still not dominant in the industry. This report adapts the National Investment Center’s decision to combine both acronyms.
The principal philosophy is that seniors can age within one community rather than change communities when lifestyle preferences and health-care needs evolve. Additionally, couples with health-care needs that evolve differently from each other can continue to live in one community.

By industry definition, a CCRC/LPC includes at least independent living and nursing care. Originally assisted living was not part of the product offering, but today nearly all CCRC/LPCs also provide assisted living. Many have memory care units as well.

The unit mix between the different types of seniors housing types varies greatly. For example, of the nine CCRC/LPC acquisitions year-to-date, the average mix was 37% independent living, 24% assisted living and 38% nursing care. However, there are wide variations in mix; independent living ranges between 20% and 63% of total units, and nursing care ranges between 9% and 55%.

Newer communities are typically more heavily weighted to independent living. For example, a large 510-unit CCRC/LPC community under construction today at Scripps Ranch in San Diego has a mix of 78% independent living units, 11% assisted living units and 10% nursing care units. The Legacy at Midtown Park, a proposed 318-unit upscale community in Dallas, has a mix of 57% independent living units, 16% assisted living, 10% memory care and 17% nursing care.

While CCRC/LPCs, by definition, include nursing care units, there is a trend toward developing CCRC/LPC-like communities without nursing care, at least initially.

Estimates vary on the age of entry for different products, but the consensus seems to be that CCRC/LPC newcomers are two to three years younger than stand-alone independent living newcomers.

Additionally, in recent years, some established CCRC/LPC properties have closed or significantly reduced their nursing care units.

Most residents move into a CCRC/LPC at the independent living level. The target age range for new residents is the late 70s to mid-80s.

New CCRC/LPC residents tend to be slightly younger than seniors moving into stand-alone independent living communities. Estimates vary on the age of entry for different products, but the consensus seems to be that CCRC/LPC newcomers are two to three years younger than stand-alone independent living newcomers. This is partly due to CCRC/LPCs attracting planners—individuals and couples planning for their housing and care needs for the rest of their lives.

HISTORY AND SIZE OF MARKET

CCRC/LPCs have been around for a very long time, first started by churches for their clergy more than 100 years ago. While most product is not that old, more than two-thirds of CCRC/LPC units in the U.S. are at least 25 years old.

The modern era of CCRC/LPC development began about 35 years ago. Commencing in the late 1980s and early 1990s, for-profit developers, owners and operators began to play a greater role in the industry.
Over the past 30 years, development has continued at a moderate pace by both not-for-profit and for-profit organizations. However, over the past decade, CCRC/LPC development has been more limited than stand-alone independent and assisted living housing.

The National Investment Center for Seniors Housing & Care (NIC) database tracks 1,153 CCRC/LPCs in the U.S. with a total of 380,200 units, accounting for 20% of NIC’s total seniors housing and care unit inventory. Other sources have higher estimates for the number of CCRC/LPCs, but the NIC data provides the best perspective on CCRC/LPC size and performance relative to other seniors housing product.

### Figure 2: Seniors Housing and CCRC/LPC Inventory

<table>
<thead>
<tr>
<th></th>
<th>Number of Properties</th>
<th>Total Units</th>
<th>Percent of Total Units</th>
<th>Average Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>14,891</td>
<td>1,904,100</td>
<td>100.0</td>
<td>128</td>
</tr>
<tr>
<td>Seniors Housing (IL+AL)</td>
<td>8,004</td>
<td>983,600</td>
<td>51.7</td>
<td>123</td>
</tr>
<tr>
<td>Nursing Care</td>
<td>6,887</td>
<td>920,500</td>
<td>48.3</td>
<td>134</td>
</tr>
<tr>
<td>CCRC/LPCs</td>
<td>1,153</td>
<td>380,200</td>
<td>20.0</td>
<td>330</td>
</tr>
<tr>
<td>Non CCRC/LPCs</td>
<td>13,738</td>
<td>1,524,100</td>
<td>80.0</td>
<td>111</td>
</tr>
<tr>
<td>Independent Living</td>
<td>1,603</td>
<td>242,700</td>
<td>12.7</td>
<td>151</td>
</tr>
<tr>
<td>Assisted Living</td>
<td>5,559</td>
<td>434,500</td>
<td>22.8</td>
<td>78</td>
</tr>
<tr>
<td>Nursing Care</td>
<td>6,576</td>
<td>846,900</td>
<td>44.5</td>
<td>129</td>
</tr>
</tbody>
</table>

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For all markets: primary, secondary and “additional” markets. Note that most other statistics cover only primary and secondary markets. Calculations based on unrounded figures. Active-adult properties not included in inventory totals.

The five largest owners of CCRC/LPCs, according to industry association Argentum, are Erickson Living (20,119 CCRC/LPC units), Life Care Services (19,289), Brookdale (19,132), Five Star Senior Living (9,393) and VI Living (3,610).

The 2017 Leading Age Ziegler 150 report lists the five largest not-for-profit owners and/or operators as National Senior Campuses (19,051 total units as of the end of 2016), The Evangelical Lutheran Good Samaritan Society (17,839), ACTS Retirement Services, Inc. (7,862), Presbyterian Homes & Services (7,135) and Benedictine Health System (5,270).

Only some states have policies governing certain aspects of non-nursing care CCRC/LPC operations, including disclosures of financials and entrance fee reimbursements. Currently, there is no federal oversight of CCRC/LPCs, although this may change in the future.

### Principal Types of CCRC/LPCs

There are two major ways of subdividing types of CCRC/LPCs: financial model (entrance fee or strictly rental) and entity ownership (not-for-profit or for-profit).

Entrance fee is the traditional and predominant financial model. Almost two-thirds of the total CCRC/LPC units tracked by NIC have an entrance-fee structure.
Nearly three-quarters of the CCRC/LPC units today are in not-for-profit communities. Churches and other charitable organizations continue to play the dominant role in the CCRC/LPC world.

More than two-thirds of the national inventory tracked by NIC is 25+ years old. Another 25% are in communities 10 to 25 years old, and less than 6% are under 10 years old. The age of for-profit CCRC/LPCs is younger, but not dramatically so.

Figure 3: CCRC/LPC Inventory by Type and Age

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Units</th>
<th>All Market Share</th>
<th>Number of Units</th>
<th>For-Profit Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>360,650</td>
<td>100.0</td>
<td>98,000</td>
<td>100.0</td>
</tr>
<tr>
<td>Financial Structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrance Fee</td>
<td>229,600</td>
<td>63.7</td>
<td>40,200</td>
<td>41.0</td>
</tr>
<tr>
<td>Rental</td>
<td>132,600</td>
<td>36.8</td>
<td>57,800</td>
<td>59.0</td>
</tr>
<tr>
<td>Operator Type</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-Profit</td>
<td>98,000</td>
<td>27.2</td>
<td>98,000</td>
<td>100.0</td>
</tr>
<tr>
<td>Not-For-Profit</td>
<td>264,200</td>
<td>73.3</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Community Age</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;2 Yrs</td>
<td>2,400</td>
<td>0.7</td>
<td>900</td>
<td>0.9</td>
</tr>
<tr>
<td>2 - 10</td>
<td>17,400</td>
<td>4.8</td>
<td>7,200</td>
<td>7.3</td>
</tr>
<tr>
<td>10 - 17</td>
<td>36,800</td>
<td>10.2</td>
<td>12,900</td>
<td>13.2</td>
</tr>
<tr>
<td>17 - 25</td>
<td>53,700</td>
<td>14.9</td>
<td>14,100</td>
<td>14.4</td>
</tr>
<tr>
<td>25+</td>
<td>247,600</td>
<td>68.7</td>
<td>61,600</td>
<td>62.9</td>
</tr>
<tr>
<td>Unknown</td>
<td>4,400</td>
<td>1.2</td>
<td>1,400</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets. Age of property unknown for about 1% of total.

The older age of CCRC/LPCs provides both advantages and disadvantages. One advantage is that the product is proven. The CCRC/LPC segment has also had many years to improve on the product in all aspects, including financial structure, physical campus and community and health-care services.

A disadvantage of the segment being dominated by older stock is that significant upgrades and modernization may be needed to stay competitive. This will become more prevalent as CCRC/LPCs try to attract baby boomers, many of whom may have negative connotations of seniors housing.

**COMPETITION IN THE SENIORS HOUSING WORLD**

The CCRC/LPC segment is unique in the seniors housing world due to its entrance-fee structure and the long-term commitment that residents make to the community. Other types of seniors housing communities do not effectively compete for the seniors who desire the more comprehensive and planned approach to housing and health care that CCRC/LPCs provide.

Yet there is overlap with the stand-alone and combined independent/assisted living communities, as well as stand-alone nursing care communities. Therefore, the performance of the entire seniors housing sector influences CCRC/LPCs.
Typically, CCRC/LPC residents join the community at the independent living level. Prospective residents may also consider stand-alone independent living communities. Seniors considering assisted living within a CCRC/LPC can also consider stand-alone assisted living communities.

The same is true for nursing care communities, but there is one difference. While there is considerable new development of stand-alone independent living and assisted living communities, there is minimal development of stand-alone nursing care communities due to reduced demand and some state-led moratoriums on nursing care development.

Many CCRC/LPCs and stand-alone skilled nursing facilities are reducing units—converting semi-private rooms to private rooms or converting nursing care wings into rehab centers. CCRC/LPCs stand to benefit and gain market share as nursing care supply outside the CCRC/LPC world declines.

Most CCRC/LPCs have rehab facilities as well, often converted from skilled nursing care units.

Astute CCRC/LPC operators are recognizing that an effective strategy for attracting new residents is through the formation of strategic alliances and contracts with area hospital systems. They can provide outpatient rehab services for discharged hospital patients. Often, these short-term patients then become permanent residents of the CCRC/LPC.

Active adult communities are another competitor of CCRC/LPCs. These communities (also referred to as age-restricted, age-qualified and 55+) attract younger seniors. But there is some overlap in appeal and target audience between active adult and CCRC/LPCs, and significant growth is occurring in active adult communities.

**CCRC/LPC Cost Structures**

For residents, entrance-fee CCRC/LPCs typically have two major financial aspects: the entrance fee itself and monthly service fees. Residents of CCRC/LPCs also have a third, smaller but notable set of fees for additional services.

Residents of entrance-fee CCRC/LPCs pay monthly fees for a wide variety of services, including dining, social and recreational activities, health care and wellness services. The monthly service fee typically is adjusted by the operator based on inflation, operating costs and market conditions. The third category of costs covers individual ad-hoc and regular fees for additional services, such as car services, housecleaning, laundry service and reserved parking. However, some properties do not charge extra for many of these services.

**Entrance Fees, Contracts, Complications**

The traditional CCRC/LPC model is based on residents paying an entry fee when they move into the community. Most CCRC/LPC residents move directly from their owner-occupied homes into the CCRC/LPC community. The proceeds from the home sale generally are the major source of capital for the entrance fee. The fee essentially guarantees a life-long home and health care, and is often viewed like insurance.

As of Q1 2018, the average entrance fee was $335,000, but the range is very wide depending on age and quality of the product, unit size, entity ownership style, location and type of contract.
For-profit CCRC/LPCs are typically larger, of higher quality and have more amenities than not-for-profit CCRC/LPCs. At the high end of the market, entrance fees of nearly $1 million are not uncommon in regions of the country with high housing costs.

There are three basic types of CCRC/LPC contracts for entrance-fee communities (Figure 4), along with a less-prevalent pure rental agreement option referred to as “Type D.”

Figure 4: Principal Types of CCRC/LPC Contracts

<table>
<thead>
<tr>
<th>Type</th>
<th>Short Form</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Life Care</td>
<td>Type A contract is most comprehensive and most common. It is a life care contract, designed for the resident to continue paying the same rate despite an increase in care; entrance fee is designed to offset future occupancy and health-care costs (or prepayment for future costs). Therefore, it is viewed as a kind of insurance policy. Type A contracts require the highest entrance fees.</td>
<td>46.2</td>
</tr>
<tr>
<td>B</td>
<td>Modified Life Care</td>
<td>Residents can prepay AL and/or NC costs for a set period of time without increasing monthly fees, but after that fees rise. Entrance fees and monthly service fees are typically lower than Type A.</td>
<td>17.9</td>
</tr>
<tr>
<td>C</td>
<td>Fee-for-Service</td>
<td>Residents do not prepay for AL or NC but pay market rates upon transfer to these. The contract typically includes guaranteed or at least preferred access to AL and NC. Entrance fees and monthly service fees are lower than Type A and B.</td>
<td>28.3</td>
</tr>
<tr>
<td>“D”</td>
<td>Strictly Rental</td>
<td>“Type D” is not an official type, but often used colloquially as a term to refer to strictly rental agreements. This is more common for seniors who enter a CCRC at the AL or NC level. However, it may become more common in the future.</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Source: CBRE Research, Q2 2018; Ziegler, March 2017 (percentage). Percentages represent predominant contract type used based on poll of CCRC/LPC CFOs. Note that there are many variations on the contract types.

Types A, B and C basically govern how fees may change as residents’ health-care needs evolve and they move to housing offering greater levels of care. Most communities offer more than one option with type A and C the most common combination.

In late 2017, seniors-living management company Life Care Services (LCS) announced a strategy to grow the rental side of its business. LCS’s decision, along with the development pipeline increasingly weighted to rental, provide further evidence that the industry is moving toward the rental model. While rental CCRC/LPCs may play a more prominent role in the future, the entrance-fee model remains well-entrenched.

A major component of all entrance-fee CCRC/LPC agreements is the entrance fee reimbursement when a resident moves out of the community or dies. The key elements are the percentage of the entrance fee that is returned to the resident or their heirs and the time frame over which the money is returned.

At least part of the entrance fee is usually reimbursable to the resident or their heirs. In the guaranteed reimbursement model, a pre-set percentage of the entrance fee is returned. A common level is 90%, but percentages vary greatly, and there is no industry standard. Some CCRC/LPCs are structured where the entrance fee declines in value over the CCRC/LPC resident’s tenure. Rates vary, but a common amount would be a monthly 2% depreciation.

The timing of the entrance-fee refund is usually pegged to when the unit is occupied by a new resident or within a set period of time, whichever comes first (most within three years).

The entrance fee, monthly service fee and entrance fee reimbursement policy all represent major financial considerations and possibly challenges for prospective residents.
First, there is the challenge of totally understanding the financial structure, since the entrance-fee CCRC/LPC financial structure is clearly different from both owning and renting.

Second, there are potential financial and logistical complications as residents move from one level of care to another, even if detailed in the contract. One logistical complication arises when a CCRC/LPC resident needs a nursing care unit, but none are available.

Third, future increases in monthly service fee costs are not necessarily spelled out in initial contracts. The same is true for costs of housing and health care at the higher acuity levels (relevant particularly for Type B and Type C contracts). These increases can be a real or psychological burden to residents and thereby create a challenge to a property’s ability to retain the residents when costs rise.

**RESIDENT CHARACTERISTICS**

CCRC/LPC residents typically move into a community when they are in their late 70s to mid-80s. Given that residents age during their tenure in the community (and CCRC/LPC residents typically have a long tenure in a property), the average age of existing residents is higher.

On average, CCRC/LPCs attract a slightly younger population than stand-alone independent living communities. In recent years, the average for independent living has been inching higher due to better health and more seniors housing product alternatives. The slowly rising age of residents entering independent living communities is likely characteristic of CCRC/LPCs as well.

**CCRC/LPC residents typically move into a community when they are in their late 70s to mid-80s.**

At move-in, CCRC/LPCs welcome a high percentage of couples. For example, LCS estimates that about 40% of its new residents are couples.

New CCRC/LPC residents are typically active, healthy and are looking for lifestyle enhancement—a community providing attractive social, recreational and cultural amenities. Convenience (“lock and leave”) is important for many new residents, since a sizeable portion still travel.

New CCRC/LPC residents are also typically planners. They are making decisions for the best housing option for today as well as planning for their needs for the remainder of their lives.

The planning is not only for their own well-being and life enjoyment, but also to have more control over future decisions and to remove the responsibility from children or other family members. Nevertheless, adult children very often assist in the decision-making process.

CCRC/LPC residents also tend to be more educated, sophisticated and demanding. They typically have a clearer sense of what they want. This is both an advantage and a challenge to CCRC/LPCs. Either way, successful operators cater their programming to a more sophisticated audience than many other seniors housing communities.

**CCRC/LPC RESIDENT CHARACTERISTICS**

- Average age late 70s to mid 80s
- High percentage of couples
- Active, healthy, looking for lifestyle enhancement
- Planners
- Educated, sophisticated, demanding
- Affluent
Even with thoughtful programming and a rich array of amenities, a concern for CCRC/LPCs going forward is how to cater to a set of residents that desire a very wide range of activities on and off campus. This concern will only increase with the more demanding and diverse baby boomer generation, which will be a “disruptor” in the industry.

Some industry leaders believe that one of the ways to accommodate this cultural shift is to provide programming options that cater to smaller groups and can be more customized. Likely the “shared economy” and “just in time” services will also provide some solutions to unique resident interests and demands.

CCRC/LPC residents also are typically affluent. They have been able to accumulate significant net worth and may still have generous incomes from pensions and investments. For-profit CCRC/LPC living is not affordable to most U.S. seniors. Not-for-profit communities cast a wider net, but still are a financial reach for many Americans.

Likely the “shared economy” and “just in time” services will also provide some solutions to unique resident interests and demands.

The U.S. Census Bureau's 2017 “Survey of Income and Program Participation,” based on 2013 data, found that the median net worth of households aged 65 and up was $202,950, and the median home equity was $131,709. Seniors need higher home equity and net worth to buy into most CCRC/LPC communities.

Yet the entrance-fee model can attract seniors with lower incomes but higher asset worth (such as home equity). So, not all CCRC/LPC residents need to be affluent by any means.

The decision-making process for prospective CCRC/LPC residents is often longer than for other seniors housing product for three primary reasons: understanding the financial structure, selling one's home and rest-of-life planning. LCS notes that its typical prospective resident takes about a year to decide.

With respect to future CCRC/LPC demand from baby boomers, many industry leaders believe that the product is very well suited for this generation.

Baby boomers received much higher levels of education and broader life experience than their parents.

Many industry experts also believe that baby boomers—from culture to necessity (i.e., having fewer children)—are better planners and will be more predisposed to look for housing and care options for the rest of their lives.

Additionally, baby boomers are well-known for placing a high value on lifestyle, a characteristic that is not likely to change through their senior years. This trait will help CCRC/LPCs be an attractive housing option for baby boomers.
Demand Environment

**SENIORS POPULATION OUTLOOK**

The senior population will increase rapidly in the coming years as baby boomers age. Currently, more than half of the baby boomers are in their 60s, and the oldest will turn 72 this year.

Figure 5: U.S. Seniors Population Growth to 2050

<table>
<thead>
<tr>
<th>2016</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2040</th>
<th>2045</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (M)</td>
<td>323.1</td>
<td>332.6</td>
<td>344.1</td>
<td>354.8</td>
<td>364.5</td>
<td>373.1</td>
<td>380.9</td>
</tr>
<tr>
<td>No. Increase (M)</td>
<td>9.4</td>
<td>11.5</td>
<td>10.8</td>
<td>9.7</td>
<td>8.6</td>
<td>7.8</td>
<td>7.4</td>
</tr>
<tr>
<td>Pct. Increase (%)</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>75+ Years Total (M)</td>
<td>20.6</td>
<td>23.3</td>
<td>28.6</td>
<td>34.5</td>
<td>40.5</td>
<td>44.9</td>
<td>46.8</td>
</tr>
<tr>
<td>No. Increase (M)</td>
<td>2.6</td>
<td>5.3</td>
<td>5.9</td>
<td>6.0</td>
<td>4.5</td>
<td>1.9</td>
<td>0.6</td>
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<tr>
<td>Pct. Increase (%)</td>
<td>1.3</td>
<td>2.3</td>
<td>2.1</td>
<td>1.7</td>
<td>1.1</td>
<td>0.4</td>
<td>0.1</td>
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<tr>
<td>Share of Total (%)</td>
<td>6.4</td>
<td>7.0</td>
<td>8.3</td>
<td>9.7</td>
<td>11.1</td>
<td>12.0</td>
<td>12.3</td>
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<tr>
<td>65+ Years Total (M)</td>
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<td>56.1</td>
<td>65.2</td>
<td>73.1</td>
<td>80.8</td>
<td>82.8</td>
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<tr>
<td>No. Increase (M)</td>
<td>6.8</td>
<td>9.2</td>
<td>7.9</td>
<td>7.9</td>
<td>4.9</td>
<td>2.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Pct. Increase (%)</td>
<td>1.4</td>
<td>1.6</td>
<td>1.2</td>
<td>0.7</td>
<td>0.4</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Share of Total (%)</td>
<td>15.2</td>
<td>16.9</td>
<td>19.0</td>
<td>20.6</td>
<td>21.4</td>
<td>21.7</td>
<td>21.7</td>
</tr>
</tbody>
</table>

Source: CBRE Research, U.S. Census Bureau, Q1 2018.

Seniors housing today, including CCRC/LPCs, is still predominantly oriented to the “Silent Generation” (aged 73 to 91) and the “Greatest Generation” (aged 92+).

In 2016, the U.S. had 20.6 million residents aged 75 or more (the age group most relevant for traditional seniors housing), representing 6.4% of the total population. By 2025, the 75+ population will rise to 28.6 million or 8.3% of the total population.

By 2025, the 75+ population will rise by 8 million. This is an amazing 38.7% gain, especially when compared to the modest 6.5% gain expected for the total population.

If we consider younger seniors, high rates of growth are already occurring. For seniors aged 65 and up, the aggregate population gain by 2025 will total 16 million or 32.5%.

Figure 6: 65+ Population Through 2050

Source: CBRE Research, U.S. Census Bureau, Q1 2018. Increase from prior period.
For CCRC/LPCs, the focus should be on the 75+ population and the expected growth spurt picking up momentum in the mid-2020s. From 2020 to 2035, the U.S. is expected to have a net gain of 17 million residents aged 75 and up.

**SENIORS HOUSING PENETRATION**

With the increase in older Americans, will a higher percentage of them choose to move out of their homes and into seniors housing communities? A few cultural and technological trends on the horizon point to outcomes that would either increase or decrease these levels.

Many trends could allow seniors to stay at home longer. Among the most notable are telemedicine and improved home health-care services. Ride-sharing programs allow greater mobility for seniors not able to drive or without access to public trans-portation. On-line shopping, including groceries, is another. The “shared economy” will provide many more solutions for older Americans living at home.

Other trends suggest more seniors choosing seniors housing options, including CCRC/LPCs. Possibly the most important is already well in play: empty nesters choosing multifamily housing (conventional or active adult) to enjoy new environments catering to lifestyle and interests. These include urban cores, areas rich with recreational offerings and university towns. This trend should carry over to seniors housing.

Increased appeal of seniors housing options over the near term is also based on the premise that new seniors housing product offerings and remolds will not be simply updates of the seniors housing communities where the baby boomers’ parents and grandparents lived. Assuming the industry provides modern communities with rich amenities and programming, they will likely be very appealing to a generation for which lifestyle is very important.

A third trend that may also lead to higher acceptance of seniors housing by baby boomers is a desire to have a “lock-and-leave” housing situation. Baby boomers have traveled far more than previous generations and are likely to continue to do so well into their senior years. One of the selling points of active adult communities is the “lock-and-leave” aspect. Consequently, pricing options for CCRC/LPCs with significant monthly fees for dining and other services may need revisions to appeal to seniors who travel extensively.

**ECONOMY AND HOUSING MARKET**

The health of the economy and the housing market plays a notable role in CCRC/LPC demand and property operating performance. Most CCRC/LPC residents move from an owned home, so their ability to sell their home for a price that covers the entrance fee can be very important.

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**TRENDS THAT MAY ENABLE SENIORS TO STAY HOME LONGER:**

- Telemedicine
- Improved home health-care services
- Ride sharing programs
- Online shopping
- “Shared economy”
All types of seniors housing are impacted by economic and housing market performance, but entrance-fee CCRC/LPCs are the most tied to housing and the stock market. This was evident during the housing downturn before and after the 2008 recession. The recession led to less demand and lower occupancy levels for CCRC/LPCs due primarily to prospective residents’ inability to sell their homes and a reduction in the value of their stock portfolios.

Still CCRC/LPCs were more resilient than stand-alone seniors housing, in part due to the longer tenure of their residents. The CCRC/LPC occupancy level fell less than other types of seniors housing during and after the recession.

The recession also led to some erosion of consumer confidence in the CCRC/LPC industry when financially challenged operators could not make agreed-upon reimbursement of certain entrance fees in a timely fashion. Strong operational performance since has helped to remove this blemish; consumer confidence has clearly been restored. Measures since have been implemented by most operators and state legislatures to safeguard resident entrance fee balances in the event of a financial downturn.

The CCRC/LPC occupancy level fell less than other types of seniors housing during and after the recession.

TODAY’S HOUSING MARKET

The CCRC/LPC market is closely tied to the for-sale housing market, and current market conditions are favorable for home sellers and prospective CCRC/LPC residents.

FAVORABLE FOR-SALE HOUSING MARKET POSITIVELY IMPACTS CCRC/LPC MARKET

- Average time on market in 2017 was only three weeks
- Final sales price averaged 99% of final listing price
- 4.1 average months of the for-sale inventory as of May 2018
- Single-family sales prices rising at average of 7.3% per year for the past six years

The average time on the market of homes for sale in 2017 was only three weeks, down from four weeks in 2016, and the final sales price averaged 99% of the final listing price, according to the National Association of Realtors (NAR).

Another indicator of a sellers’ market is that, as of May 2018, the number of months of for-sale housing inventory in the U.S. is only 4.1—one of the lowest levels in decades.

Single-family sales prices have been rising at an average of 7.3% per year for the past six years. The 2017 increase was 5.3%, NAR reports. May 2018 data shows a continuation of that trend, with a +5.2% gain in the median sales price for existing single-family homes year-over-year to $267,500.

There are regional differences in housing market performance, of course, and these differences provide some bearing on potential CCRC/LPC demand geographically. Currently, the West is experiencing the largest home price increase; the May 2018 median price of $395,800 reflected a 7.2% year-over-year gain. The weakest region is the Northeast, where the median home price fell by 1.8% to $275,900.
Less robust housing development than in previous cycles, combined with the overall economic expansion in the U.S., have created the backdrop for the healthy housing market.

The strong economy has inadvertently created a big challenge for CCRC/LPC operators and the entire seniors housing industry today—staffing. With very low unemployment rates and many job opportunities in most sectors, finding and retaining employees remain a key operational challenge. The seniors housing industry also has a large legal immigrant workforce, and reduced immigration to the U.S. is exacerbating the staffing shortage.

Greater use of technology is part of the solution to achieve operational efficiency, as well as delivering better medical care. Advances in telemedicine and automation can aid this effort.

**With very low unemployment rates and many job opportunities in most sectors, finding and retaining employees remain a key operational challenge.**

**FUTURE HOUSING CONSIDERATIONS**

As the national economy maintains its expansionary pace, the housing market should continue to favor sellers. Even in a climate of slightly higher mortgage rates and fewer tax advantages from homeownership, the housing market should remain a catalyst for the CCRC/LPC market.

Certainly, the next recession will impact the for-sale housing market and negatively impact CCRC/LPC demand and operating metrics. However, housing should be far less impacted by the next economic downturn than the last, and the impact on the CCRC/LPC market should be far less dramatic than a decade ago.

A small but notable portion of future CCRC/LPC residents will choose an interim housing option—either rental or for-sale—before moving into a CCRC/LPC community.

Some baby boomers are moving out of home-ownership and into rental product—conventional multifamily and age-restricted communities, as well as single-family rentals. Those who choose rental housing are no longer tethered to the housing market and have greater housing flexibility. However, these seniors may not have retained the cash they received from their earlier home sale—capital needed for the CCRC/LPC entrance fee.

Many seniors will stay in homeownership, but will downsize. By moving into smaller, presumably less-expensive homes, they will remain subject to the ups and downs of the housing market, but will have more flexibility for future moves to CCRC/LPCs. Lower-priced homes are typically more marketable than higher-priced homes in any stage of the economic cycle.

**GEOGRAPHIC ASPECTS OF DEMAND**

Understanding seniors’ locational preferences for where they live is important for understanding CCRC/LPC demand, and locational preferences vary widely.

CCRC/LPCs cater both to seniors who wish to stay in their local communities, as well as to seniors who relocate to new cities or regions of the U.S.
Most seniors stay in their home communities. So, from a broad perspective, the areas of the country with the highest existing senior populations have the highest current and potential CCRC/LPC demand. Figure 7 shows the states with the highest aggregate population of seniors. The list is led by California, Florida, Texas, New York and Pennsylvania. Over one-third (36.6%) of all U.S. seniors live in these five states.

![Figure 7: Leading States for Total Seniors Population](source)

The states with the highest percentages of senior population (seniors compared to total population) are also notable. In order, they are Florida, Maine, West Virginia, Pennsylvania, Vermont, Montana, Delaware, Hawaii, Rhode Island and Iowa. However, among these, only Florida and Pennsylvania have relatively large total populations.

In building for the resident population, a CCRC/LPC also needs to be an income match. That is, if entrance fees of the community are well above home equity levels of the surrounding neighborhoods, the CCRC/LPC may not be able to attract residents from the local area. And with the high entrance fees and monthly service fees of most new CCRC/LPCs, locations of new product generally need to be in or near affluent areas.

![Figure 8: Seniors Relocation Patterns and CCRC/LPC Demand Potential](source)

<table>
<thead>
<tr>
<th>Relocation Pattern</th>
<th>Geographic Areas with Greater CCRC/LPC Demand Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stays in home area (no inter-regional relocation)</td>
<td>High total and seniors population</td>
</tr>
<tr>
<td></td>
<td>High percentage of seniors population</td>
</tr>
<tr>
<td>Inter-regionally</td>
<td>High level/rate of population growth (following adult children)</td>
</tr>
<tr>
<td></td>
<td>&quot;Weather-friendly,&quot; focus on outdoor activities (traditional and new &quot;retirement areas&quot;)</td>
</tr>
<tr>
<td>Suburban to urban (within same metro or to new area)</td>
<td>Favorable (low) tax environment and cost-of-living</td>
</tr>
<tr>
<td>To university towns</td>
<td>Urban cores, wide range of metros</td>
</tr>
<tr>
<td></td>
<td>Urban or small towns with universities</td>
</tr>
</tbody>
</table>

Source: CBRE Research, Q2 2018.
A significant minority of seniors will make regional moves after retirement. They are motivated by three principal factors, all of which provide more perspective on CCRC/LPC demand.

First, many seniors migrate to where their adult children live. For the children who do not live where they were raised, they tend to migrate to areas with more job opportunities. Therefore, high-population and employment-growth states and metros are attracting seniors and creating CCRC/LPC demand.

Second, many seniors move to parts of the country with warm weather, providing year-round outdoor activities and amenities. Most of these areas have long attracted and catered to retirees, and therefore have a well-developed infrastructure of services for them. Other areas are new, emerging destinations.

Third, some seniors are attracted to more tax-friendly and lower-cost states, thereby curbing demand in high-tax/high-cost states and increasing demand in lower-tax/lower-cost states.

Two other types of locations are becoming more popular with seniors: urban cores and university towns. Just as with young adults, urban cores are attractive to seniors for their walkability and wide array of amenities, including restaurants, entertainment and cultural attractions. The appeal of urban multifamily product is already drawing baby boomers, and some CCRC/LPCs will do well to capitalize on this trend. One downside, however, is cost. The higher cost of new urban CCRC/LPCs will limit the potential market reach.

Even for CCRC/LPCs not in urban areas, walkability and proximity to areas with amenities are becoming a more important attribute.

The appeal of urban multifamily product is already drawing baby boomers, and some CCRC/LPCs will do well to capitalize on this trend.

Certainly, not all CCRC/LPCs need to have a high degree of walkability and proximity to urban (or urban/suburban) amenities. However, this adds value to communities and should increase demand in the future, as well as help attract employees. The growth of ride-sharing companies like Uber and Lyft is an asset for seniors housing of all types by providing an additional transportation option for residents.

Another locational draw for seniors, particularly in the CCRC/LPC target age range, is proximity to universities. Universities offer a variety of intellectual, recreational, sports, entertainment and cultural amenities. Some new CCRC/LPCs are even directly on university campuses. The university benefits from the land leases and possibly other fees from owners and operators. The availability of internships and job opportunities for its students is another benefit.

For a handful of universities with programs focused on seniors, having a “living lab” on campus is useful. A good example of this is U.C. San Diego’s Center for Healthy Aging.

One example of an on-campus CCRC/LPC is Legacy Pointe at UCF, proposed for a site at the University of Central Florida in Orlando. Dallas-based Greystone Communities plans to start construction next year on the $170 million entrance-fee community.

Another example is Medford, Oregon-based Pacific Retirement Services’ Mirabella at ASU, a 20-story CCRC/LPC under construction at Arizona State University in Tempe. The non-profit community should be completed in 2020. The partnership with ASU will provide Mirabella residents with student IDs, granting them access to classes, the library, student events and other university amenities.
Property Market Dynamics

**DEVELOPMENT**

Over the past few years, the seniors housing industry has experienced moderate overbuilding. However, this is not the case for CCRC/LPCs. Development and overbuilding have occurred primarily in the stand-alone independent care and assisted living segments.

CCRC/LPC development activity has slowly increased over the past few years, but remains moderate compared to other seniors housing segments. As of Q1 2018, 86 CCRC/LPCs were under construction in the U.S., totaling 10,200 units or only 15.8% of the total 64,500 seniors housing units under construction.

Figure 9: Seniors Housing Construction Pipeline

<table>
<thead>
<tr>
<th>Properties Under Construction</th>
<th>Units Under Construction as % of Total Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>All Types</td>
<td>594</td>
</tr>
<tr>
<td>Seniors Housing (IL+AL)</td>
<td>519</td>
</tr>
<tr>
<td>Nursing Care</td>
<td>75</td>
</tr>
<tr>
<td>CCRC/LPCs</td>
<td>86</td>
</tr>
<tr>
<td>Non CCRC/LPCs</td>
<td>447</td>
</tr>
<tr>
<td>Independent Living</td>
<td>115</td>
</tr>
<tr>
<td>Assisted Living</td>
<td>332</td>
</tr>
<tr>
<td>Nursing Care</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets. Calculations based on unrounded figures.

The ratio of units under construction to total inventory (a standard in the seniors housing industry for measuring construction momentum and overbuilding risk), was a moderate 2.8% for all CCRC/LPCs. For non-CCRC/LPC independent living communities, the ratio was much higher at 7.3%. Similarly, for stand-alone assisted living properties, the ratio was 7.8%.

About 45% of the CCRC/LPC units under construction in Q1 were not-for-profit communities and 55% were for-profit. Their respective units-under-construction-to-inventory ratios were 1.9% and 6.2%. The non-profit ratio has been fairly steady at approximately 2% for the past few years.

The for-profit ratio, however, has been rising since 2011, and the pace picked up in the past few years. In Q1 2016, the ratio was 3.2%; in Q1 2018, it was 6.2%.

Market performance statistics indicate that the acceleration of CCRC/LPC for-profit development activity has been met by increased demand. However, rising development activity is a trend to monitor for possible oversupply in the future.

Entrance-fee CCRC/LPCs are the majority of properties under construction at 55%. Yet rental communities’ 45% market share suggests a possible trend toward the rental model and away from the traditional entry-fee structure.
Rental CCRC/LPCs’ ratio of units under construction to total inventory is fairly high at 5.0%, reflecting the increased preference for the simpler structure as well as possibly some overbuilding risk. The current pipeline of entrance-fee developments is a lower 2.9% of total inventory.

Since CCRC/LPCs compete somewhat with other types of seniors housing, from a market supply/demand standpoint, it is good news that development activity is subsiding in the independent living and assisted living segments, albeit modestly. Development in these non-CCRC/LPC segments remains at high levels, but their ratios of units under construction to total inventory have been falling since reaching a peak in Q3 2016.

Figure 10: Development Momentum - Units Under Construction as Percent of Total Inventory

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets. The higher the percentage the greater the risk of overbuilding.

One aspect of seniors housing development that is not fully evident from the statistics is that a small portion of new units is coming through expansions of existing communities. The exception is nursing care. Many seniors housing communities with nursing care are taking some units offline by converting them to rehab units or private rooms.
DEVELOPMENT GEOGRAPHY

CCRC/LPC development activity is highest in the Northeast, North Central and Mid-Atlantic regions. The Mountain and Pacific regions have relatively light development activity, given their population size and/or population growth rates. Today and in the future, there may be more development opportunity in these regions than other parts of the U.S.

<table>
<thead>
<tr>
<th>Region/Metro (CBSA)</th>
<th>Number of CCRC/LPCs</th>
<th>Total Units</th>
<th>Units U.C. as % of Total Inventory</th>
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<tbody>
<tr>
<td>All</td>
<td>89</td>
<td>10,246</td>
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<td>Metro Groups</td>
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<tr>
<td>Primary</td>
<td>50</td>
<td>6,474</td>
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</tr>
<tr>
<td>Secondary</td>
<td>36</td>
<td>3,679</td>
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</tr>
<tr>
<td>Additional</td>
<td>3</td>
<td>95</td>
<td>0.5</td>
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<tr>
<td>Regions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northeast</td>
<td>22</td>
<td>2,104</td>
<td>2.2</td>
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<tr>
<td>East North Central</td>
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<td>1,689</td>
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<tr>
<td>Mid-Atlantic</td>
<td>18</td>
<td>1,573</td>
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</tr>
<tr>
<td>Pacific</td>
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<td>1,481</td>
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<td>Southwest</td>
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<td>1,361</td>
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<td>Southeast</td>
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<td>1,213</td>
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</tr>
<tr>
<td>West North Central</td>
<td>3</td>
<td>464</td>
<td>2.4</td>
</tr>
<tr>
<td>Mountain</td>
<td>3</td>
<td>353</td>
<td>1.1</td>
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<tr>
<td>Metros with 200+ Units Units Construction</td>
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<td>Philadelphia</td>
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<td>775</td>
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<tr>
<td>Los Angeles</td>
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<td>631</td>
<td>7.9</td>
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<td>Dallas/Ft. Worth</td>
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<td>604</td>
<td>8.7</td>
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<td>San Diego</td>
<td>3</td>
<td>508</td>
<td>11.1</td>
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<tr>
<td>New York</td>
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<td>497</td>
<td>3.3</td>
</tr>
<tr>
<td>Austin</td>
<td>3</td>
<td>429</td>
<td>28.2</td>
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<tr>
<td>Indianapolis</td>
<td>2</td>
<td>387</td>
<td>5.2</td>
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<td>Inland Empire</td>
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<td>367</td>
<td>17.9</td>
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<td>Raleigh</td>
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<td>317</td>
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<td>Memphis</td>
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<td>301</td>
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<td>Hartford</td>
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<td>297</td>
<td>13.5</td>
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<tr>
<td>Baltimore</td>
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<td>257</td>
<td>2.8</td>
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<td>Chicago</td>
<td>2</td>
<td>248</td>
<td>1.5</td>
</tr>
<tr>
<td>Milwaukee</td>
<td>3</td>
<td>211</td>
<td>3.4</td>
</tr>
<tr>
<td>Kansas City</td>
<td>2</td>
<td>206</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: CBRE Research, NIC MAP® Data Service, Q1 2018.

FUTURE DEVELOPMENT

The 10,300 total CCRC/LPC units currently under construction likely will be delivered over the next two years.

Construction of for-profit CCRC/LPC units has been accelerating, and this trend could continue in years ahead. But there could also be moderation if the broader industry takes a breather for demand to catch up with recent deliveries.

CCRC/LPC development requires a longer amount of time than stand-alone seniors housing, especially development of entrance-fee communities. It is a major undertaking requiring five or more years. In addition to the increasing challenges of all development (finding viable sites, land costs, construction costs, regulatory process, etc.), lenders for entrance-fee communities typically require a sizeable portion of unit pre-sales (around 60% is not atypical), which adds to the development cycle.

Another factor impacting short-term development activity is the economy. If the current economic expansion moderates significantly or moves into a recession, then starts will clearly subside. However, for demand over the next several years, secular demographic trends are stronger than cyclical fluctuations.

When baby boomers begin to reach their mid-to late-70s (early 2020s), then demand will definitely climb, and CCRC/LPC development will likely rise in response.
OCCUPANCY

CCRC/LPCs have outperformed other seniors housing product for several years, and this shows up most clearly in the occupancy data. For all types of CCRC/LPCs, stabilized occupancy averaged 91.1% in Q1 2018, the highest of the different seniors housing product types.

Figure 12: Historical Occupancy Rates by Type of Senior Housing

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets. Stabilized occupancy. Seniors housing does not include nursing care.

Contributing to the higher occupancy levels of CCRC/LPCs is the longer tenure of residents—a major advantage to this type of seniors housing.

Also, throughout the seniors housing sector, demand for non-nursing care units has been strong over the post-recession period. Demand for nursing care, however, has waned.

The large amount of new seniors housing supply added in recent years has been challenging. Occupancy levels in seniors housing overall edged down in 2015 and 2016 before moving close to stabilization in the second half of 2017.

In contrast, the CRC/LPC segment has experienced relatively stable and favorable occupancy for the past three years, hovering around the 91% mark.

During this period, occupancy in other types of seniors housing declined, largely due to oversupply in independent living and assisted living and lower demand for nursing care.

Figure 13: Historical Occupancy Rates by Type of Senior Housing - More Detailed

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets. Stabilized occupancy.
For 2018, the prospect for independent living and assisted living is unclear, but CCRC/LPC occupancy should remain stable or increase slightly. Both independent and assisted living segments have a fair bit of new supply still under construction, and it is not yet clear whether demand can keep pace.

Occupancy levels in skilled nursing care product will likely remain challenged and decline modestly in 2018. Demand has been falling for a variety of reasons, including healthier seniors, shorter time spent in nursing care due to changes in Medicare and Medicaid reimbursement policies, and more care being provided in non-nursing care seniors living, especially in assisted living. Telemedicine and other technological advances in the delivery of health care are keeping seniors with significant health-care needs in non-nursing care environments longer.

CCRC/LPC occupancy rates are higher for the not-for-profit portion of the sector than the for-profit. The latter tends to have a higher price point and slower lease-up period. But even with the lower level of occupancy, the for-profit communities have maintained stable occupancy rates over the past several years.

**VARIATIONS BY TYPE OF CCRC/LPC**

The not-for-profit CCRC/LPC category has the highest overall occupancy rate at 92.3%. For-profit CCRC/LPCs are at 87.9% occupancy.

The not-for-profit communities are generally at lower price points than the for-profit, allowing the communities to draw residents from a much wider pool of prospective residents. Additionally, development activity of not-for-profit communities is much more tempered than that of for-profit CCRC/LPCs.

The 87.9% occupancy level of for-profit communities does suggest that, in the aggregate, demand is struggling to keep pace with new supply. However, for-profit CCRC/LPC occupancy has been essentially stable for the past three years.

By financial structure, entrance-fee CCRC/LPCs are outperforming rental communities 92.1% vs. 89.3% occupancy. The latter category is the only type of CCRC/LPCs to experience downward movement in recent quarters, albeit quite modest.

The recent decline in occupancy of rental properties is likely due to the upsurge in development. Demand for rental product appears to be healthy. As noted earlier, building activity is quite robust for rental product, and this product competes more with the stand-alone independent and assisted living product than it does with entrance-fee CCRC/LPCs.
GEOGRAPHIC PATTERNS

The Mid-Atlantic, Northeast and Pacific regions have the healthiest occupancy rates—all above 92% in Q1 2018.

These two regions have experienced more development activity in recent years, thereby keeping occupancy levels at more moderate levels despite high levels of population growth and sustained demand.

The Northeast’s highest performing markets are Boston and New York. Boston had the fifth-highest occupancy rate among major markets at 94.2%, and New York was at 93.0%. While not a high-growth region, the Northeast is a high-population area with limited CCRC/LPC product (relative to population) and limited development activity. Cost is certainly one of the factors limiting construction.

In the Pacific region, several California metros are among the occupancy leaders, including San Jose, Los Angeles, San Diego and San Francisco. Other West Coast markets are performing well; Portland has a 93.6% occupancy rate and Seattle has 92.6%. The more expensive and generally more onerous regulatory environment in West Coast metros have served to moderate seniors housing development of all types in the West.

Occupancy performance in the Midwest was slightly below the U.S. average and varied considerably by metro. Minneapolis has one of the highest levels in the country (94.5%), and Cincinnati’s occupancy is above the U.S. average at 93.9%. However, most Midwest markets are under the national average, albeit in the high 80s in Q1.

The Southwest and the Mountain regions had the lowest Q1 2018 occupancy rates at 86.9% and 86.4%, respectively. These two regions have experienced more development activity in recent years, thereby keeping occupancy levels at more moderate levels despite high levels of population growth and sustained demand.
RENTAL PERFORMANCE

One of the relative strengths of CCRC/LPCs is potential rent growth. Rents have been rising at higher rates than other types of seniors housing. For the year ending Q1 2018, CCRC/LPC rent growth averaged 2.8% compared to 1.9% for non-CCRC/LPC assets as shown in Figure 16.

Between Q1 2009 and Q1 2018, annual rent growth averaged 2.3% for all non-nursing care seniors housing. CCRC/LPCs' long-term average was 2.8%, compared to the 2.1% average for non-CCRC/LPC product.

As shown in Figure 17, CCRC/LPCs' 2.8% rent growth for the year ending Q1 compared favorably to the 1.1% for stand-alone independent living and 2.5% for stand-alone assisted living.

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets. Seniors housing does not include nursing care.

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets.
Within the different types of CCRC/LPCs, rent growth is occurring at comparable rates, ranging from 2.4% for rental communities on the low side to 2.9% for both entrance-fee and not-for-profit properties. Historically, on average, both entrance-fee and not-for-profit properties have achieved higher rental increases as shown in Figure 18.

As of Q1 2018, the average monthly rent was $3,414 for for-profit communities and $3,074 for non-profit. Rents averaged $3,251 for entrance-fee communities and $2,894 for rental communities.

As of Q1 2018, standard monthly service fees averaged $3,251 at entrance-fee communities (up 2.9% from Q1 2017). The average of for-profit entrance-fee communities was $3,703 (+3.4% year-over-year), and the average of newer for-profit (10 years old or less) was $4,612 per month (+3.8%).

**Figure 18: Historical Rent Change by Types of CCRCs**

![Graph showing historical rent change by types of CCRCs.](image)

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets.

**ENTRANCE FEE TRENDS**

In Q1 2018, the average entrance fee was $335,000, according to NIC MAP® Data Service. Entrance fees have increased by an average 3.4% annually over the past 12 years.

**Figure 19: Historical CCRC/LPC Entrance Fees Change**

![Graph showing historical entrance fees change.](image)

Source: CBRE Research, NIC MAP® Data Service, Q1 2018. For primary and secondary markets. Q1 2018 is for year ending Q1.
The increases, especially in recent years, have resulted from a strong housing market and healthy CCRC/LPC demand. Additionally, new product coming on the market at higher price points has also elevated the average.

Entrance fees vary widely by size of unit, metro/region, type of location (urban, suburban, rural), age and quality of property, type of ownership and other characteristics of the community.

The differences by region provide a sense of the variation. The most expensive region—Pacific—is more than double that of the least expensive.

The regional year-over-year increases in entrance fees are also quite diverse. Whereas all are positive, a few regions clearly outperformed in 2017: Mountain with a 9.7% gain and the Southeast and Southwest with 7.8% and 7.7% increases, respectively.

Ziegler’s 2017 survey of CCRC/LPC owners and operators found that most properties have increased the entry fee within the prior two years (76.6% of survey responses). Nearly all of the remaining responses indicated no change. Less than 1% had dropped the entry fee.

The Ziegler survey also found that 87% of owners and operators plan to increase their entrance fees. The balance planned no change. This suggests that the market will continue to see entrance-fee increases. The rising level of for-profit development activity, however, may moderate increases in the short term.
Investment Environment

SENIORS HOUSING INVESTMENT

Investment activity in the broader seniors housing & care market provides a benchmark for CCRC/LPC investment. Acquisition activity in the seniors housing & care sector has been strong for several years, as shown in Figure 21.

Figure 21: All Seniors Housing & Care Historical Investment

Source: CBRE Research, Real Capital Analytics, NIC.MAP® Data Service, Q1 2018. Includes nursing care, but not active adult.

Investment totaled $16.3 billion last year, up 11.5% from 2016. Q1 2018’s $2.6 billion total was down from Q1 2017, however, buying activity of individual seniors housing assets was higher. Q1 2018 had $1.5 billion of individual asset acquisitions, up 33.2% from Q1 2017.

Portfolio and entity-level acquisitions play a dominant role in seniors housing investment activity. This investment characteristic also makes the sector’s buying statistics uneven—one factor handicapping interpretation and forecasting of investment trends.

Investor interest in seniors housing is clearly very strong and rising. The capital sources include traditional private buyers and new institutional and foreign buyers, particularly from Asia and the Middle East.

These new investors are looking for yield and hands on experience in the sector (especially true for some offshore capital sources).

They also view seniors housing as another investment avenue to take, as opportunities diminish and/or risks rise in other property sectors.

Investors are also paying attention to secular trends, particularly demographics, and are attracted to the sector for the potential of high rates of growth when baby boomers move into seniors housing.
INVESTMENT ENVIRONMENT FOR CCRC/LPCs
The higher level of interest in seniors housing investment is generally positive for CCRC/LPCs. New and existing capital sources exploring seniors housing options are also exploring—and investing in—the CCRC/LPC segment.

Despite rising interest in seniors housing investment in recent years, acquisitions of CCRC/LPCs have remained relatively modest for many reasons.

First, and likely the most important factor, is that the amount of available product on the for-sale market has been limited in recent years. Owners tend not to sell their assets, particularly entrance-fee CCRC/LPCs.

Not-for-profit communities are rarely sold. When they are, typically, either the property is underperforming or the CEO is retiring. The CEO and/or the board feels that disposing of the property is the best solution. With non-profit leadership aging, the industry may see more communities come to market for this reason. Some family-office owned CCRC/LPCs face a similar situation when the lead principals wish to leave the business.

A few for-profit CCRC/LPCs with private equity ownership may come to market when the fund reaches maturity. However, this is fairly unusual.

CCRC/LPC INVESTMENT ENVIRONMENT

**Attraction**
- Less investment competition than other seniors housing
- More favorable pricing
- Better market conditions and outlook

**Challenges/Considerations**
- Not a lot of product available on for-sale market
- Unique financial structure (for entrance-fee properties)
- Nursing care component
- Older product may require
Second, CCRC/LPCs’ cross-section of product types and diverse levels of care on one campus appeal to a specific class of seniors housing investors. Many of the existing and new investors prefer more narrow segments within seniors housing, such as independent or assisted living. Additionally, most buyers realize that nursing care has its unique operational characteristics and do not feel educated enough to make a prudent investment in this segment.

A third factor is unfamiliarity with the product. While most capital sources investing in seniors housing, or those exploring the prospect of doing so, understand the continuum-of-care core concept, many do not understand the financial model for entrance-fee communities, variations of contract types nor the unique marketing requirements. Moreover, the use of tax-exempt bonds to finance many CCRC/LPC developments adds another level of complexity.

A fourth factor for CCRC/LPC asset investment is the need for extensive capital spending at many communities to keep them competitive. While some buyers would welcome the redevelopment opportunities, others are not ready for the major capital expenditures required for some communities, especially in a few years when baby boomers begin to enter the market.

Yet given the less-competitive investment climate, CCRC/LPCs may provide truly excellent buying opportunities over the near and long terms for companies willing to do their homework.

Assuming continued economic growth in the U.S. over the near term, we expect CCRC/LPC investment to increase.

Continued rising interest in seniors housing generally, as well as declining investment risk in CCRC/LPC product (or at least better understanding of the risks), should keep the market liquid and priced well for owners and buyers.

Longer term, with increasing CCRC/LPC demand from baby boomers, capital should continue to respond to the investment opportunity.

**Mortgage capital for existing non-nursing care seniors housing assets is easily obtained today and at relatively favorable terms (moderate borrowing costs).**

**LENDING ENVIRONMENT**

The lending environment is one additional component to the CCRC/LPC investment environment—the availability of financing for new developments or for acquisition of existing communities. Currently, the environment is generally favorable, but there are some considerations.

Mortgage capital for existing non-nursing care seniors housing assets is easily obtained today and at relatively favorable terms (moderate borrowing costs). The GSEs and banks are the largest lenders; life insurance companies and alternative debt providers (such as debt funds, mortgage REITs and the EB-5 program) play a very minor role.

Mortgage capital is also available for CCRC/LPCs but, as with investors, the field of players is smaller due to the unique and complex nature of the assets. National and regional banks are the most common financing source of for-profit CCRC/LPCs.
Fannie Mae and Freddie Mac will consider entrance-fee CCRC/LPCs (usually Type C contracts). For both agencies, the nursing care portion of the asset cannot exceed 20% of net operating income and the greater the acuity level of the type of housing, the higher the minimum debt service coverage ratio (DSCR) required.

The Department of Housing and Urban Development (HUD) is also a major lending source of construction and permanent financing for seniors housing, especially through its 232/223(f) refinance programs. HUD did not disclose its total seniors housing lending volume for fiscal year 2017 (year ending September 31, 2017), but for just its LEAN Program, the total was $3.4 billion, up 8% from the prior year. However, most of the properties financed by HUD are stand-alone assisted living or nursing care. HUD is also focused on affordable seniors housing.

Obtaining construction financing for new CCRC/LPCs is more challenging, but capital sources are available. In addition to banks and HUD, tax exempt bonds are often used for financing new CCRC/LPC developments. Lending requirements for new construction typically include significant pre-sales of units for entrance-fee communities.

REITs and private equity are major sources of equity capital for CCRC/LPCs.

**Estimated CCRC/LPC dollar investment year-to-date represented about 6% of the total $4.0 billion of traditional seniors housing.**

**CURRENT CCRC/LPC ACTIVITY AND PRICING**

Good statistics on historical acquisition volumes of CCRC/LPCs are unavailable. However, a review of the 2018 year-to-date purchases provides a flavor of recent activity.

Year-to-date through May 2018, Real Capital Analytics (RCA) recorded only nine CCRC/LPC asset purchases out of a total of 277 seniors housing properties acquired (this count excludes active adult assets). Therefore, based on asset count, only 3.3% of the 2018 year-to-date total has been CCRC/LPCs.

The exact total dollar amount of the CCRC/LPC 2018 acquisitions is unknown, but estimated CCRC/LPC dollar investment year-to-date represented about 6% of the total $4.0 billion of traditional seniors housing.
The most significant and highest-priced acquisition year-to-date was Welltower’s purchase of The Colonnades, a 268-unit rental CCRC/LPC operated by Sunrise Senior Living in Charlottesville, Virginia. This was part of a four-property purchase at an estimated price of $87.8 million or $277,700 per unit, according to RCA. The property, which was constructed in 1991, reportedly will be renovated.

In terms of pricing, given the significant variation of CCRC/LPCs, the fundamental metric of the cap rate falls short of providing a good picture of pricing (IRRs, equity multiples and cash-on-cash returns may be better metrics). In the investment world, entrance-fee and rental CCRC/LPCs are viewed very differently.

In particular, for entrance-fee communities, the many complications and variations include the entrance-fee “liability” (fees that may eventually be returned to residents or their heirs). The unpredictability of entrance fee turnover adds risk to the investment.

For both rental and entrance-fee CCRC/LPCs, the mix between unit types and residents’ levels of health care is another example of pricing variability. For example, a first-generation community will have fewer residents needing health care than more mature CCRC/LPCs. It typically takes five to 10 years until some stabilization in the average age of residents occurs and cash flow somewhat normalizes. This mix has clear implications on operating costs and income streams.

Still, cap rates provide some sense of how the product type is priced compared to other types of senior housing. Investment professionals indicate that the range today falls mostly in the mid-7s to the mid-9s; rental communities are toward the lower end, while entrance-fee communities are toward the higher end. The difference in cap rates between rental and entrance-fee communities also reflects the larger number of bidders for the former product.

<table>
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<tr>
<th>Class</th>
<th>Core CCRC/LPC</th>
<th>Core Independent Living</th>
<th>Core Assisted Living</th>
<th>Core Memory Care</th>
<th>Core Nursing Care</th>
<th>Non-Core CCRC/LPC</th>
<th>Non-Core Independent Living</th>
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<td>Class C</td>
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<td>8.4</td>
<td>8.7</td>
<td>9.9</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Source: CBRE Seniors Housing & Care Investor Survey, Q4 2017. For rental CCRCs. Core properties are typically located in the denser parts of metros—areas with higher barriers to entry. They represent higher-density product, two-story-plus buildings, and are most commonly found in mature neighborhoods.

CBRE’s *U.S. Seniors Housing & Care Investor Survey, Winter 2018* provides a comparative sense of rental CCRC/LPC pricing vis-à-vis other product. Figure 24 also reflects the very wide range of pricing even for just rental CCRC/LPCs, more than one would find in other product types.
Conclusions

CCRC/LPCs play a critical role in the seniors housing industry by providing a unique and long-accepted housing option for seniors. CCRC/LPCs also represent valuable management, ownership and investment opportunities for a wide variety of capital sources and real estate operators.

The current strong market conditions—relatively high occupancy, rent growth outperforming other seniors housing sectors and somewhat limited new supply—position CCRC/LPCs for solid performance in the near term.

The CCRC/LPC world is evolving, though, possibly moving away from its core model of entrance fee and full continuum-of-care housing. This trend must be carefully monitored.

The biggest change on the horizon, however, is the first wave of baby boomers coming into the target age range within the next five years. In addition to the large increase of population at the target ages, CCRC/LPCs are expected to strongly appeal to baby boomers, given their life experiences and character.

The baby boom demographic wave should have an enormous and very positive impact on the market by creating considerable new demand for CCRC/LPC product. Initially, demand from baby boomers will rise at a slow pace, but by the mid-2020s, the increase will be much more significant.

While the CCRC/LPC segment of seniors housing must continue to evolve to meet changing demands of the consumer, the long-term outlook for CCRC/LPCs is quite positive.

Learn more about CCRC/LPCs from CBRE’s expert team of Capital Markets and Valuation specialists: www.cbre.us/seniorshousing.

Additional U.S. research from CBRE can be found here.

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