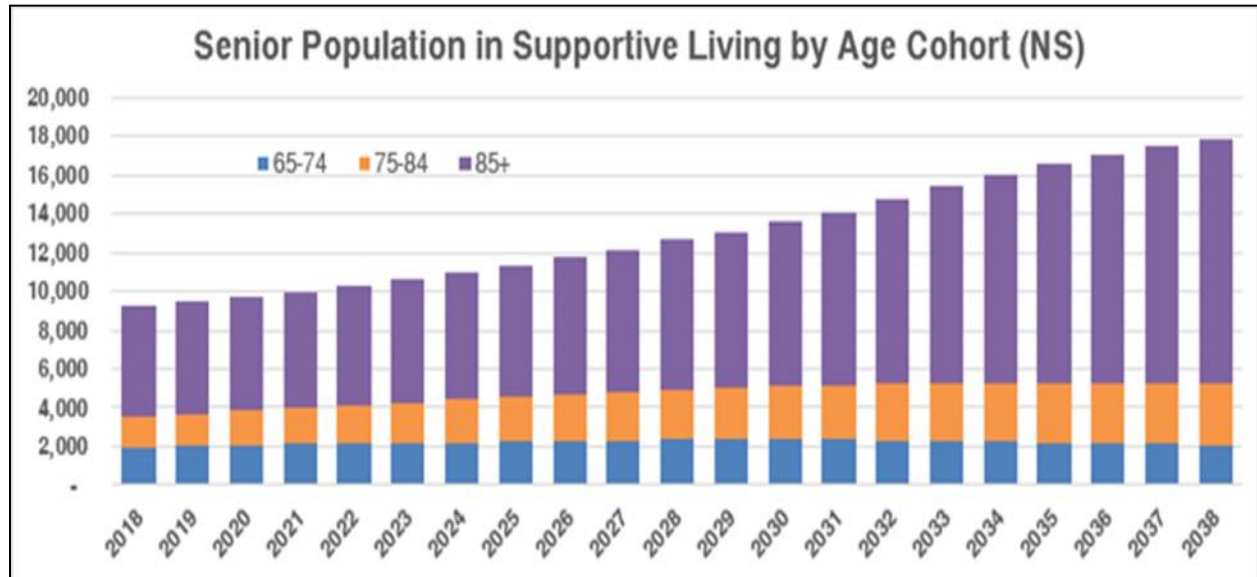


SENIORS' HOUSING

Seniors' Housing



Source: TDP Economic Intelligence Unit .

Men and women in Canada have one of the highest average life expectancies in the world. More Canadians are living past the age of 80 than ever before and our aging population is projected to quadruple by 2051. This “longevity wave” is fuelled too by the baby boomer generation as it ages. A direct result of the Second World War, this 10 million strong cohort was born between 1947 and 1966 as the boys returned home and family formation flourished. Unique to Canada, the United States, Australia and New Zealand, the cohort is a disruptive force that moves real estate demand like no other. The leading edge of the wave reached age 65 in 2011 and the last baby boomer will mark this milestone in 2030. Nearly 80% of demand for healthcare related housing comes from the 65 and older age groups according to the 2016 Census, especially those in the eldest range. Seniors’ residences, nursing homes and mixed facilities house roughly 5% of the total senior population, but 25% of those aged 85+. Our Economic Intelligence Unit has investigated the impact on one province, Nova Scotia, taking these 2016 proportions as constant and applying Statistics Canada’s M1 Medium Growth Projection to create the Senior Population graph above. Demand for supported living facilities will increase significantly over the next two decades, averaging 4.7% per year, to roughly double its current level by 2038.

Measuring and Adding Value

Potentially, there are three ways to determine property value (and during that process identify value adding or risk minimising opportunities). Colloquially referred to as the “Three Approaches to Value” they comprise the *Income*, *Cost* and *Direct Sales Comparison* approaches. The mechanics of each Approach are not complex: purpose designed software and spreadsheets have reduced them to a mechanical process. This apparent simplicity encourages anybody with a firm grasp of math to apply the Approach for which they have data and/or professional bias. Accountants and loans officers prefer the *Income (fiscal) Approach* when considering seniors’ housing partly because it falls within their comfort zone, but also because the property itself appears to generate the required revenue and expense data... and the Capitalisation Rate necessary to convert the resultant net operating income into the capital (market) value can be selected from the rates freely published by commercial brokers. The other two Approaches are usually sacrificed on the altar of expediency: reliable Cost and Sales information is not accessible without considerable cost and both require a level of expertise in comparative analysis which is only available through specialised education, training and experience. *Unfortunately valuing a commercial property using a single Approach is a method of last resort, and is expressly prohibited by the International Valuation Standards except in extenuating circumstances because it can result in an erroneous conclusion.* The three Approaches are not simply different methods for measuring value, they are interdependent. Rather like a blind man describing an elephant, each Approach considered in isolation misses vital information necessary to (1) arrive at a reliable value and (2) identify value adding opportunities. The belief too that the *Income Approach* fulfills requirements for data integrity because the seniors’ housing generates the information

necessary to calculate the net operating income, and that an accurate Capitalisation Rate can be chosen from secondary sources such as the commercial brokers, is unrealistic. The revenue and expense data generated by a specific seniors' housing property, as an input to calculating the property value, is meaningful only when validated by benchmarking it against similar properties. Similarly the appropriate Capitalisation Rate is a function of the risk inherent in the property's cash flow and is property specific. The narrow range of capitalisation rates published by the commercial brokers are not representative of a marketplace which encompasses a broad range of properties. At best their midpoint represents an "average". The Capitalisation Rates have to be extracted from the sales of comparable properties and adjusted appropriately for property specific factors influencing cash flow.

Seniors' Housing

Seniors' housing falls along a continuum from independent living accommodation to hospital care. For valuation and data analysis purposes we categorise it into the following four groups recognising that there will be overlap in terms of the level of care provided:

Independent Living – designed for the over 55s with a healthy, active lifestyle this accommodation is similar to conventional accommodation albeit with wider doorways, accessibility hardware, emergency call buttons and grab bars in the bathrooms. Optional services may include housekeeping, meals and laundry and may be arranged and paid direct by the senior without involvement by the complex's management company. This type of housing is usually provided in the form of adult apartments, individual, row or semi-detached housing in active adult communities. Easy access (preferably on foot) to retail shops, hair salons, fitness centres, swimming pools, golf courses, parks and other recreational facilities is required. No government funding is available nor do the provinces licence this type of accommodation.

Assisted Living – designed for seniors who need some assistance with daily tasks it provides supportive housing with services such as housekeeping, meals, laundry, access to basic nursing care, transportation and social activities. This type of housing is usually provided in the form of studio, one-bedroom, two bedroom units and shared suites and is typically smaller than comparable accommodation in Independent Living facilities. The accommodation typically includes a kitchenette for light meals: main meal service is provided in a dining room (no bar yet but they are common in Europe, so we can but hope). Some "in unit" supervision is provided even if the senior is capable of taking medication, bathing, dressing, toileting, walking, and eating without assistance. Corridors and doorways are wide enough to accommodate wheel chair access, corridor lengths are typically shorter than those in Independent Living facilities to assist residents who are less mobile. Bathrooms are designed with larger shower areas and low thresholds for improved access and there are the usual accoutrements of accessibility hardware, emergency call buttons and bathroom grab bars. There is an onsite nurse to dispense medication and visiting professionals such as doctors, physiotherapists, audiologists, hairdressers, etc. Transportation is provided to retail shops and recreational facilities and there is usually a structured program of outings. No government funding is available nor do the provinces licence this type of accommodation.

There is a common perception that Independent and Assisted Living projects both run at full occupancy. However these types of property have to compete with conventional, non-profit or other independent and assisted living accommodation for tenants and we are aware of some facilities that have struggled to achieve a 75% occupancy since opening.

Retirement Home (Residential Care Home) – designed for seniors who need some assistance with daily tasks, they perform a similar function to Assisted Living although the level of care varies by facility and can include dementia care. The care is offered in a residential setting usually in former private residences (Victorian homes are popular) that have been adapted and extended. The group of residents is usually small (15 would be typical) housed in private or semi-private rooms. They may be owned and/or operated by a nurse and offer similar care to a Nursing Home albeit in a more residential environment. "Live in" care providers prepare meals and provide assistance with daily living. Housekeeping, laundry, medication management, social programs, transportation and outings are provided. Government funding is available on an income test basis and the provinces licence the operator and facility. Since the worth of this type of property hinges on its licence, and hence ability to access Provincial funds, the challenge is determining the likelihood of that continuing particularly if the building is old and adapted from a residential use. It may be necessary, or physically impossible, to upgrade rooms, amenity areas and exterior components to remain licenced. The building may no longer be adequate in terms of modern requirements such as corridor widths, accessibility, common areas or physical repair.

Nursing Homes – designed for seniors who need assistance with everyday tasks such as medication, bathing, dressing, toileting, walking and perhaps eating. They provide 24 hour nursing care in addition to shelter, dietary, housekeeping, laundry and social needs. Nursing Homes provide a higher level of nursing care than Retirement Homes but less care than a hospital and can include clients suffering from dementia, stroke, Alzheimer’s or other debilitating conditions. Housekeeping, laundry, medication management, social programs, transportation and outings are provided and the Nursing Homes are generally in landscaped grounds to give clients the opportunity to enjoy the outdoors “on site”. Exercise and physical therapy programs, together with social activities, are available to stimulate the patients’ cognitive faculties. Pain management and hospice care are available. Three nutritious daily meals, housekeeping, laundry service and medication management are provided. The foregoing dictates that the facilities be much larger than Retirement Homes and they typically fall within the 50 to 200 bed range. The residents are housed in private or semi-private rooms. Government funding is available on an income test basis and the provinces licence the operator and facility. Since the worth of this type of property hinges on its licence, and hence ability to access Provincial funds, the challenge is determining the likelihood of that continuing particularly if the building was constructed more than 20 years’ ago. It may be necessary, or physically impossible, to upgrade rooms, amenity areas and exterior components to remain licenced. The building may no longer be adequate in terms of modern requirements such as corridor widths, accessibility, common areas or physical repair.