



SENIOR HOUSING

SECTOR OVERVIEW

January 8th, 2024

CONTENTS

INTRODUCTION

3

KEY METRICS

Demographic Dynamics
Short & Long Term Demand Outlook
Supply Pressures
Investment Gap
Occupancy & Rent Growth
Obsolete Inventory

4

MAIN CHALLENGES

Staffing Costs
Tight Capital Markets

10

OPPORTUNITIES

Untapped Secondary Market Potential
Strong Differentiators & Blue Oceans

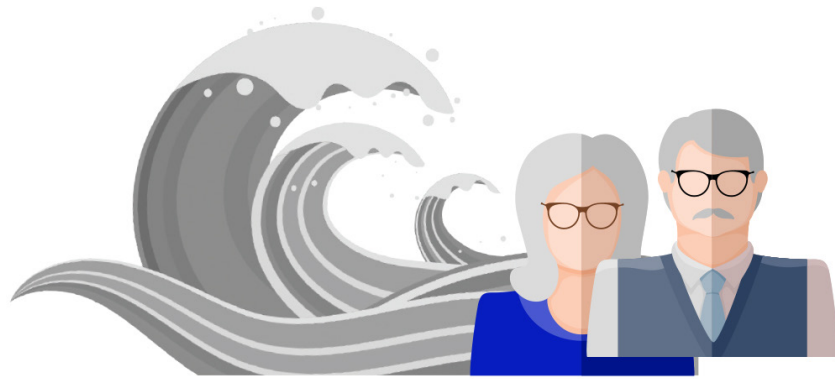
12

CONCLUSIONS

14

OUR COMPANY

15



INTRODUCTION

NAVIGATING THE URGENT NEED FOR ADEQUATE HOUSING OPTIONS IN THE FACE OF AN AGING POPULATION

The senior housing sector is at a critical juncture, wrestling with the escalating demand from an aging population and the pressing need for innovative solutions. According to NIC MAP Vision, the 80+ population is on a swift rise, with a projected increase of 3.7% this year alone and an anticipated growth of over 40% by 2030. This demographic shift, referred to as the 'aging wave', emphasizes the urgent need for the industry to prepare for a surge in demand for senior housing and care facilities. The challenge intensifies as the aging population evolves, living longer and healthier lives but with increasing care and acuity needs. With a growing gap between the current investment pace and the required investment to meet this demand, there's an urgent call for substantial growth in senior housing inventory. The industry must rapidly accelerate development efforts to bridge this gap and prevent a future where many seniors face housing challenges. Our unique approach, integrating senior housing within church settings, aims to create environments where seniors can live their best years, challenging the prevailing notion of these facilities. As we navigate challenges in staffing shortages, tight capital markets, and the increasing need for affordable options, our innovative concept stand as an opportunity to meet the evolving needs of seniors, establish a strong differentiator, and contribute to the sector's sustained growth.

KEY METRICS

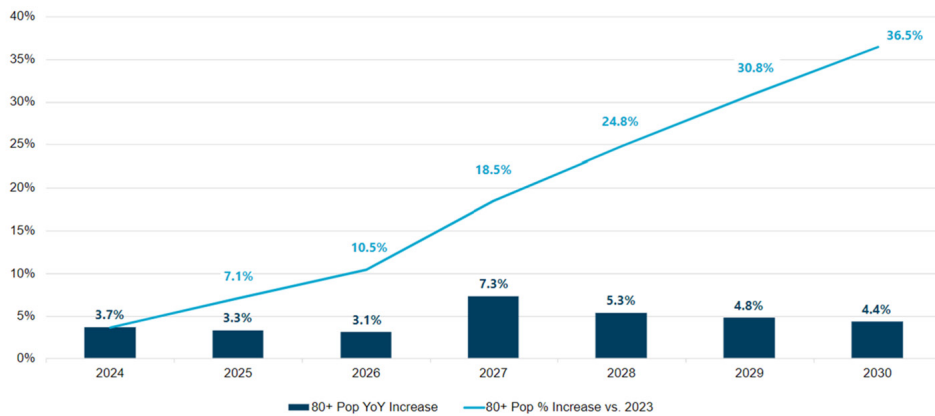
DEMOGRAPHIC DYNAMICS

80+ Population Growth:

A recent article from NIC MAP Vision, an authority in the senior housing sector, reveals a significant and rapid rise in the senior population. This demographic shift is due to the first wave of Baby Boomers entering the 80+ age group in 2024. According to the source, the 80+ population is projected to increase by 3.7% in 2024, setting the stage for a continuous upward trend. By 2025, the senior population is expected to grow by 12%, nearly 25% by 2027, and surpass 40% by 2030. The term “aging wave” is used to emphasize that this demographic shift is not a distant scenario but is swiftly approaching, posing a substantial impact on the senior living industry. The growth rate of this age group is predicted to surpass that of every other demographic, emphasizing the urgent need to prepare for a surge in demand for senior housing and care facilities.

The Aging Wave is Rapidly Approaching

80+ Demographic Growth Rates | Census Bureau Projections 2023 - 2050





Shifting Needs:

It's crucial to recognize that the aging population isn't just expanding but also evolving. Today's seniors are experiencing longer and healthier lives compared to previous generations. However, there is a concurrent increase in care and acuity needs due to chronic conditions and age-related ailments. This necessitates specialized care, prompting a shift from traditional support systems.

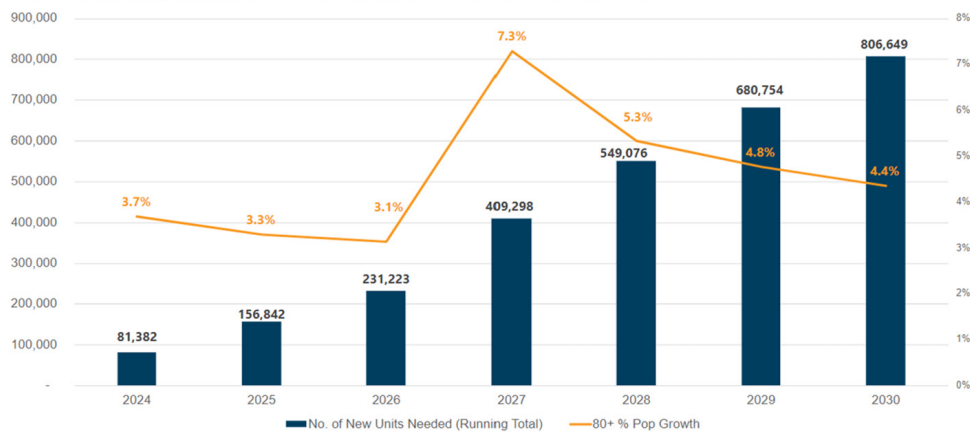
In the past, adult children or spouses typically took on the responsibility of caregiving. However, present-day societal dynamics, such as smaller family sizes and increased geographic mobility, have resulted in fewer available caregivers within families. This shift underscores the importance of congregate care environments that can cater to seniors' needs for support and community. As NIC MAP Vision puts it, "The industry must focus on creating environments that are not just residences but holistic communities that prioritize health, well-being, and social connectedness".

SHORT & LONG-TERM DEMAND OUTLOOK

To sustain the existing market presence in the senior housing sector, substantial growth in the senior housing inventory is imperative in the near term. Examining the current penetration rates within the 80+ age group, NIC MAP data anticipates a demand for 156,000 more senior housing residences by 2025, 549,000 additional residences by 2028, and a substantial 806,000 more residences by 2030. The outlook is concerning, given the observed record-low construction starts in 2023. This situation creates a noteworthy gap between the available and required senior housing units. This trend holds true whether we analyze the 75+ or 80+ population.

Major Near-Term Inventory Growth Needed to Keep Pace

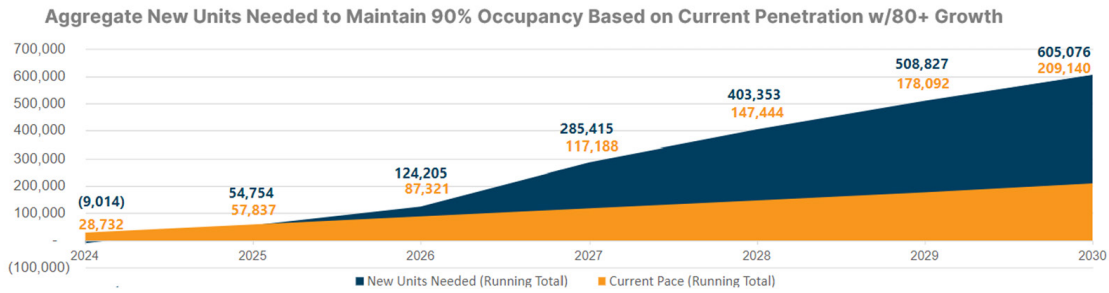
Units Needed to Maintain Current Penetration Based on 80+ Growth



NICMAP VISION

SUPPLY PRESSURES

To maintain current market penetration rates in senior housing, there's an immediate pressing need for substantial growth in housing inventory. However, solely sticking to these rates may not suffice due to the narrowing ratio between the senior population (80+) and potential caregivers (45-64). The senior housing industry faces a decline in new construction starts, with a shortfall of 5,000 units per quarter in 2023. This slower pace, coupled with the one to two years required for project completion, creates a significant gap in meeting the rising demand.

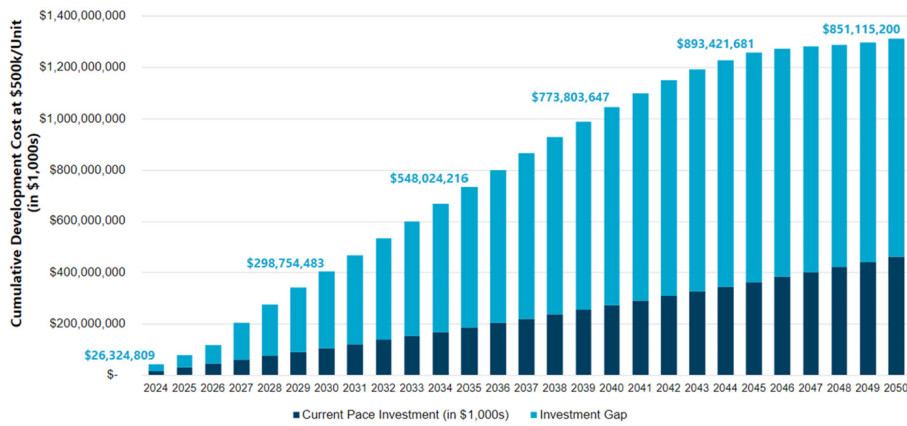


The above graphic illustrates the concern, depicting a substantial contrast between the current development pace and the necessary speed to accommodate the growing 80+ demographic. The gap shown, portrayed as a deep chasm, suggests a potential \$300 billion shortfall by 2030. The industry must accelerate development efforts to prevent a future where many seniors struggle with housing challenges, impacting affordability, accessibility, and quality of care.

INVESTMENT GAP

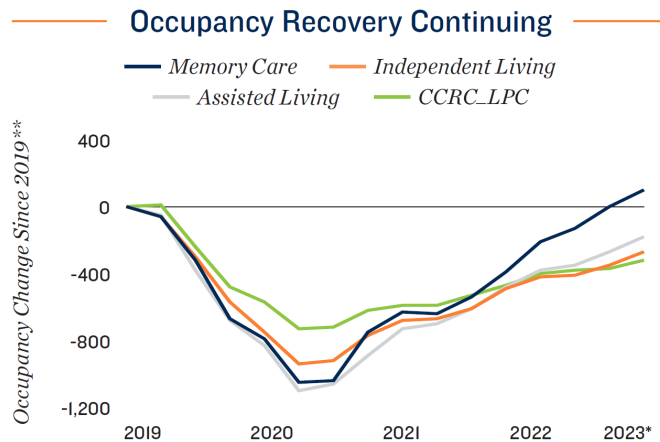
The graph below highlights a pressing concern within the senior housing industry: a growing disparity between the current rate of investment and the escalating investment needed to accommodate the rising demand from an aging population. According to NIC MAP, the sector is facing an increasing investment requirement, with projections indicating that by 2030, approximately \$400 billion will be necessary to meet the anticipated demand through new developments. However, the current investment pace is on track to fulfill less than 40% of this requirement. This challenge is expected to intensify as the aging population continues to grow, with estimates suggesting that by 2040, the current investment pace will barely cover a quarter of the required amount. While investments in senior housing are indeed rising, the graph data illustrates a widening gap between the existing investment pace and the imperative investment level. The projected investment needed to sustain current market penetration rates exceeds \$1 trillion, and a significant portion of this requirement is anticipated to go unmet.

~\$1T+ in Inventory Needed to Maintain Current Penetration



OCCUPANCY & RENT GROWTH

The 2023 National Report by Marcus & Millichap indicated widespread demand positively impacting both occupancy levels and rent growth in the sector. Across the care spectrum, senior housing occupancy rates are on the rise, as shown in the graph below. Memory care centers, in particular, have witnessed an increase in overall occupancy levels, surpassing pre-pandemic highs. The reduced availability resulting from increased occupancy is driving robust rent growth. Year-over-year rent rates have seen a significant increase, ranging between 6.0 and 6.7 percent by the type of care, approximately double the pace observed before the pandemic.

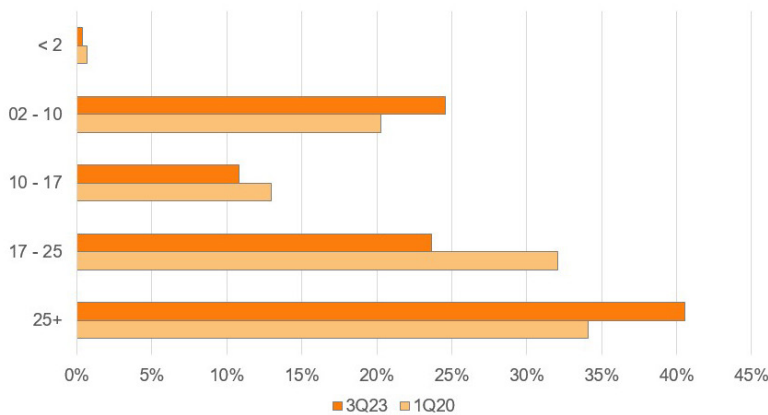


OBSOLETE INVENTORY

A growing portion of the senior housing inventory in the US is now obsolete. The chart below indicates that the percentage of properties aged 25 years or more has increased from 34% to 41% over the past three and a half years. This older segment notably features a higher proportion of properties with occupancies at 80% or lower. Potential factors influencing this trend could include outdated floor plans that no longer align with consumer needs in terms of unit size or mix.

Conversely, the share of properties aged 10 to 17 years has slightly decreased from 13% to less than 11%. This younger cohort stands out with the highest percentage of occupancy rates at 90% or higher. The notable high occupancy rates in the younger cohort indicates the ability of newer properties not only to meet the current needs of seniors effectively but also to expand their market share, reflecting seniors' preference for newer facilities.

Stabilized Senior Housing Distribution by Age | Primary Markets | 1Q20 & 3Q23



Source: NIC MAP® Data, powered by NIC MAP Vision

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MAIN CHALLENGES



STAFFING COSTS

Drawing from a recent survey by the National Investment Center for Seniors Housing & Care (NIC), staffing shortages continues to be a pain point and a driver of increased operating expenses for owners and executives in the senior housing sector. As development of senior housing properties expand to serve the growing demand pressure of an aging wave, labor shortage may lag even further.

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In order to attract and retain talent, wages have been increasing. As stated in the 2023 National Report by Marcus & Millichap “average hourly sector earnings have climbed by 26% since 2019, compared to about 19% for the total workforce.” We have recently learned that proposed legislation is currently under consideration in Congress to expand the scope of state-sponsored 529 savings plans, enabling the use of funds for senior care certification expenses. Although it won't provide an instant remedy, alleviating the financial strain associated with training costs could potentially contribute to a gradual growth in the labor supply over time. Furthermore, creating healthy and supportive work environments becomes key for talent retention.

TIGHT CAPITAL MARKETS

Amidst the challenges posed by the capital markets due to the Federal Reserve's tightening monetary policy, characterized by higher lending rates and stringent underwriting, closing transactions has become a more intricate process. However, despite these hurdles, the senior housing sector remains resilient. Strong market fundamentals and a steadily improving economic outlook are poised to counterbalance the impact of the tightened monetary policy. The inherent strength of the sector, coupled with positive economic indicators, is expected to contribute to an enhanced performance and stability in the future.

OPPORTUNITIES



UNTAPPED SECONDARY MARKET POTENTIAL

Often overlooked, secondary markets present unique opportunities, especially considering the escalating need for senior housing options at more affordable prices. By addressing an underserved niche, projects in this underserved market are positioned for sustained success given the already supply and demand pressures and the strong demographics dynamics present in the sector.



STRONG DIFFERENTIATORS & BLUE OCEANS

Recent data from a survey by the American Seniors Housing Association (ASHA) underscores the potential of the senior living market, with nearly 60% of respondents considering a move to a senior living community within the next four years. The majority expressed a strong desire to remain independent and self-sufficient, which doesn't precisely align with the current care methodology in the sector. That same report suggested that catering to Baby Boomers and capturing that potential demand will require a change of paradigm and the creation of communities that provide the highly skilled attention needed while delivering an attractive product.

In the rapidly evolving landscape of the senior housing sector, there lies a significant opportunity. Often associated with the term "blue ocean," unique concepts present a pathway to easily penetrate the market, establish stronger brands, cultivate more enriching communities, provide a superior level of service, and retain talent. Importantly, these strong differentiators not only enhance the operational aspects of senior housing but also exert a positive influence on asset valuations. In an environment where debt markets are becoming increasingly discerning, projects with clear and unique differentiators are more likely to secure favorable capitalization. This competitive advantage becomes crucial as the capital markets have grown more selective, emphasizing the importance of innovative concepts that not only meet the evolving needs of seniors but also offer a compelling proposition to potential investors and financiers.

CONCLUSIONS



Closing 2023, Senior Housing News conducted an interview with Cushman and Wakefield* Senior Managing Director, Zach Bowyer. He expressed “we all know the current interest rate environment is having an impact on all asset classes of commercial real estate...what’s unique about seniors housing right now is while we have the challenges on the debt side, on the capital market side, the property market fundamentals are probably stronger than we’ve ever seen them”.

Despite the challenges faced during the Covid-19 pandemic and the resulting unstable economic environment, Senior Housing continues to be one of the top performing assets of the real estate industry. The unique dynamics of this sector, coupled with a steady improvement of the economic outlook, is expected to drive increased transaction activity in 2024 and moving forward. However, selective debt markets and high capitalization rates may continue to be present, which highlight the importance of designing and developing projects with clear and unique differentiators. Clever utilization of technologies like AI may prove to be key to bring new trends and innovation in many areas alleviating challenges; and, the ever-strong market fundamentals will help maintain valuations and create opportunities for all stakeholders in the sector.

**Cushman and Wakefield: a leading global real estate services firm with approximately 50,000 employees in over 400 offices and 60 countries.*

OUR COMPANY

A SINGLE-SOURCE SOLUTION FOR REAL ESTATE DEVELOPMENT

N21 Group LLC is a company focused on the acquisition and development of real estate assets with a geographical focus primarily in the Southeastern United States. The principals have over 50 years of experience in the development, finance, design, and construction of a wide range of project types including senior housing, residential high-rise condominiums, multifamily residential, commercial, retail and institutional projects.

N21 Group provides single source integrated services to respond immediately to individual opportunities and execute a complete project more quickly and economically than anyone else in the sector. Our skill for rapid execution and completion of each project, along with stringent cost and operational controls produce above sector investment returns.

As developers, experts in the senior housing and religious sectors, we created a unique approach integrating senior housing projects within church settings, fostering a faith-based environment that transcends traditional senior living facilities. This distinctive fusion not only caters to the immediate needs of communities but also creates a supportive and caring atmosphere that aligns seamlessly with the evolving preferences of today's seniors. This faith-based concept not only meets the demands of a growing market but also establishes a powerful differentiator, positioning our projects at the forefront of innovation in the senior housing sector.

The overarching goal of our innovative concepts is to challenge the prevailing notion of senior housing facilities as places where elders go merely to spend their final years. Instead, our vision centers on creating environments where seniors can truly live their best years. This shift towards de-institutionalization is pivotal in addressing a sector-wide challenge and necessitates a commitment to offering seniors a product that not only looks appealing but also caters to all their needs.



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