



Chancery Monthly

January 2019 (Issue No.15)

INDUSTRY TREND

5 Keys to Senior Housing Finance and Investment in 2019

By Chuck Sudo

Well before 2019 was on the horizon, experts were speculating on the health of the senior housing industry. In order to determine what trends to keep an eye on in the new year and get a sense of how the markets will respond, Senior Housing News caught up with Calvin Schnure, senior vice president of research and economic analytics for the National Association of Real Estate Investment Trusts (NAREIT), and Don Husi, managing director of Chicago-based speciality investment bank Ziegler, to paint a picture of the year to come.

A pullback on lending

Even before the Federal Reserve started raising interest rates, banks were tightening their real estate lending, particularly on construction loans. The past six months have seen banks do significant pullback on lending terms, so that they are not overleveraged. The new year may see a contraction of the total pool of debt available to borrowers. This will put significant pressure for buyers to finance properties lacking existing cash flow. Sponsorship strength will become more critical to secure financing.

“On construction loans, banks are moving their loan-to-cost ratio to the 55%-60% range,” Husi said.

The Fed’s rate hikes have also impacted the yields on three- and five-year bonds, which Schnure predicts will have an impact on mezzanine loan volume.

“The majority of deals will still be attractive,” he said. “But interest rate hikes will make some deals that were touch and go, less attractive.”

That said, lending still favors the borrowers, Schnure said. The rate on the 10-year Treasury note remains low and attractive for borrowers.



And expect equity to remain plentiful. “There is still plenty of equity looking at deals,” Husi said. “It’s already placed in funds and being more cautious about where to deploy capital. There is a fair amount of new money out there that is very active. Some of that seems to be moving to distressed properties, and some into new development.”

Active adult will grow in popularity

Active adult is a contributing factor in the low occupancy rates for independent and assisted living the past year.

Husi said the active adult trend is the latest he has seen in his 30 years in the industry.

Schnure sees this active adult trend sticking, driven by the desires of the silent and boomer generations moving into active adult and age-restricted communities. Schnure believes the earnings potential of Gen X and millennials hold the key to any explosion of growth in active adult.

“For a generation, one big factor in moving into senior housing is the employment status of the child living closest to a parent,” Schnure said. “If we see higher wages among workers in their 30s, 40s and 50s, it will make it easier for seniors to make the transition to active adult.”

Home sales will be another contributing factor, as the revenue from those sales paves the way for seniors to transition to active adult. Husi said there is no indication housing values are declining, but the rate of increase appears to be slowing, depending on the market.

Affordable housing pressures

The pressure to provide quality affordable housing for seniors mirrors the pressures being felt in multifamily real estate. Those pressures will only grow as developers expand their marketplace.

A lack of quality operators

The mergers and acquisitions in the senior housing market have widened the gap between operators with scalable national platforms and regional operators struggling to maintain quality of care as their portfolios grow.



“What is clear is there are fewer high-quality operators with scale that can be effective working with multiple owners and geographies,” Husi said.

Husi added that it is hard to find regional operators that can operate a portfolio exceeding 50 properties efficiently. As these operators expand, it is harder to maintain focus and manage company culture, even with advancements in technology.

REITs remain a wild card

After a heavy period of trading a few years ago, real estate investment trusts (REITs) have stayed on the sidelines the past couple years, when the cost of capital increased, Schnure said. Instead, the trusts have focused on restructuring portfolios and developing strategies for when the cost of capital becomes more favorable.

“Any uptick in acquisitions will depend on stock returns,” Schnure said. “There were some promising numbers in Q3 2018. If prices continue to rise and trading increases, we could see them return to the market.”

Original article:

<https://seniorhousingnews.com/2019/01/15/5-keys-to-senior-housing-finance-and-investment-in-2019/>



PROJECT UPDATE

Bradford Project Update

The Middleton will be a 122-unit apartment building designed for active senior living. It represents an affordable alternative to conventional seniors housing, offering services that permit seniors to live independently, on an à-la-carte basis through a concierge, in a regular apartment building, while providing the comfort to seniors and their families that care will be available in short order should the need arise.

- The Series 1 Preferred Units and the land acquisition loan have been successfully closed in Q4 2018, and the project land has been successfully transferred to Chancery (Bradford) The Middleton Limited Partnership.
- After a considerable amount of work, we have filed our second round of Site Plan Approval comments with the Town of Bradford.
- Our team is initializing the raise of Series 2 Preferred Units and the debt financing to fund the construction and lease-up of the project.
- All progress is in line with our expectations and we anticipate the start of construction as early as March 2019!

Stony Plain Project Update

Stony Plain Active Adult Lifestyle Community is located just west of Edmonton, Alberta. When complete, the residence will be a 6-storey apartment building with 83 Active Adult Lifestyle Community suites. It will offer In-suite 24-hour emergency call systems, a recreation facility, housekeeping, laundry services, on-site management and maintenance. A main floor of commercial and retail space will provide residents with easy access to amenities such as a doctor's office, pharmacy, bistro or coffee shop.

- The builders are working hard on the substructure and they are getting ready to pour the final walls and the floor slab of the underground parking.
- Architectural and engineering drawings have been resubmitted to the Town of Stony Plain for final review. The developer is expecting the full building permit in early February.
- The senior loan commitment letter was received in early January. The mezzanine lender and senior lender are working together to ensure their loan documents are complementary.
- 26 deposits for the suites have been received to date, and the developer will resume the open houses in February.



Upcoming Project

Vista Independent Living, Assisted Living & Memory Care

- Located a few minutes west of downtown Victoria, BC, with excellent view and walking distance to the ocean
- Offer a continuum of care and the rare opportunity to age-in-place, aiming to become the leading retirement home destination in the local market
- 181 suites in total, including: 1) 38 Independent Living condos (for sale); 2) 95 AL/IL rental suites; 3) 48 Memory Care rental suites
- Construction expected to start in Q2 2019, and opening in Q2 2021



Chancery Seniors Housing Investments Inc. is a private real-estate investment firm with a focus on seniors housing. Powered by its two strong founding partners, Suske Capital Inc. and LD Capital Corp., Chancery creates a team with the expertise and experience of over 55 years in real estate and seniors housing developments with an estimated completion value of over \$5 billion.

For more information about our company and projects, please visit www.chanceryseniors.com