SENIORS HOUSING
INDUSTRY OVERVIEW
CANADA

A Cushman & Wakefield
Valuation & Advisory Publication

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CUSHMAN &
WAKEFIELD

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ON THE COVER AND THROUGHOUT:

Elgin Falls Retirement Community
Co-owned by Reichmann Seniors Housing & Sienna Senior Living
Managed by Glendelle Retirement Living
Niagara Falls, Ontario. Opened 2024.

INTRODUCTION

Fundamentals Continue to Tilt in Favour of Operators

The aging population in Canada is creating strong demographic tailwinds that will drive demand for seniors housing for years to come. Canada's senior population is growing rapidly, with the number of individuals aged 75+ expected to reach around 5.3 million in the next 10 years, an increase of 1.7 million people. This represents a compound annual growth rate of 4.1%. The demand for seniors housing is predominantly needs driven, making the overall demand curve very well telegraphed over the coming decades.

Despite the growing demand, we are not expecting material supply growth in this sector for at least the next five years. The supply of seniors housing units has been constrained, as developers have grappled with a combination of rising costs, interest rate hikes, and the residual effects of the pandemic, which slowed the pace of new construction projects. Since peaking in 2017, construction starts have fallen to a recent low, with starts as a percentage of total inventory dropping below 1% in 2023 and 2024. Given the current development economics, the rate of obsolescence of older rental stock and the lead time associated with development, we foresee a multi-year slowdown in the rate of supply growth, with annual net supply growth not exceeding 2% until 2030.

Operating Performance Finding a New Gear

Industry fundamentals are on solid footing, with the disruptions from the pandemic now largely in the past. Over the last 12 to 24 months, operating performance has improved significantly.

The forecast demand growth is expected to overwhelm the existing inventory of rentals in the next few years, worsening the housing shortage felt in other parts of the market and resulting in tighter rental market conditions. As a result, occupancy and rental rate growth is expected to continue its current path of impressive growth.

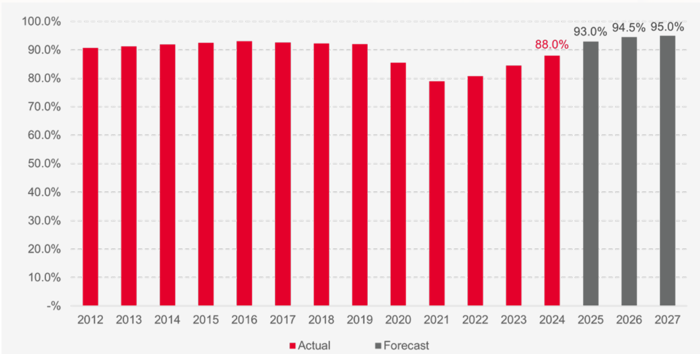
Investors Taking Notice of Asset Class Outperformance

Transaction activity dipped for obvious reasons during the pandemic, however interest in the sector has picked-up materially over the past 12 months. We expect 2025 will be a record setting year for seniors housing deal making, as investors position themselves to capitalize on the favourable fundamentals and expected outperformance of the seniors housing asset class over the next 20 years.

SECTOR SUMMARY

National seniors housing occupancy continues on a steady path of recovery. The market is poised to surpass pre-pandemic occupancy by the end of 2025

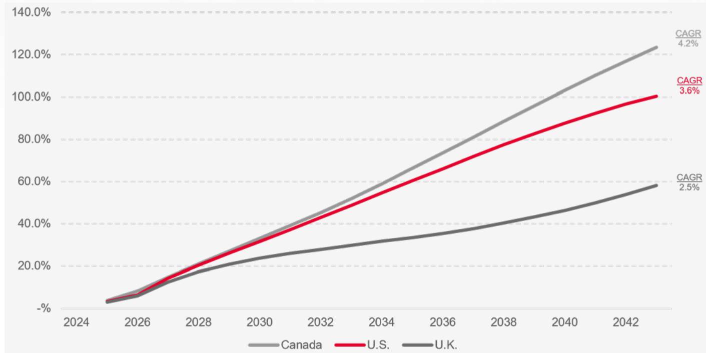
OCCUPANCY FORECAST — CANADA



Source: Cushman & Wakefield ULC and CMHC Seniors Housing Report (Time period adjustment (t-1) for CMHC survey year data lag)

Demand for seniors housing is being driven by structural shifts in the age and composition of Canada's population

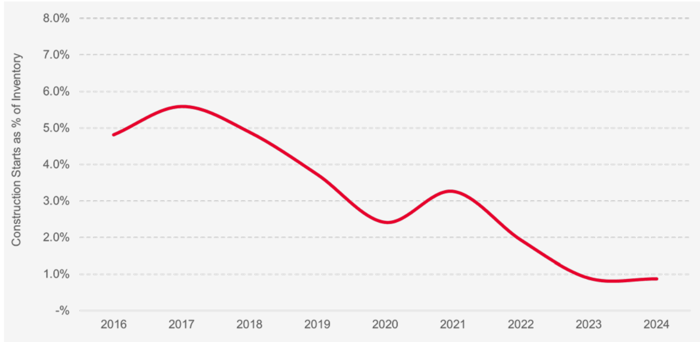
PROJECTED CUMULATIVE GROWTH IN POPULATION AGE 80+



Sources:
Canada: StatsCAN. Table: 17-10-0057-01. Projection scenario M4: medium-growth 7. January 2025
U.S. Census Bureau: 2023 National Population Projections Datasets. November 2023
U.K. Office for National Statistics. 2021-based Interim National Population Projections. January 2024

Inflation and higher interest rates have resulted in material increases in the cost to build new product, which has crowded out investment in development at a time when the increased supply is needed

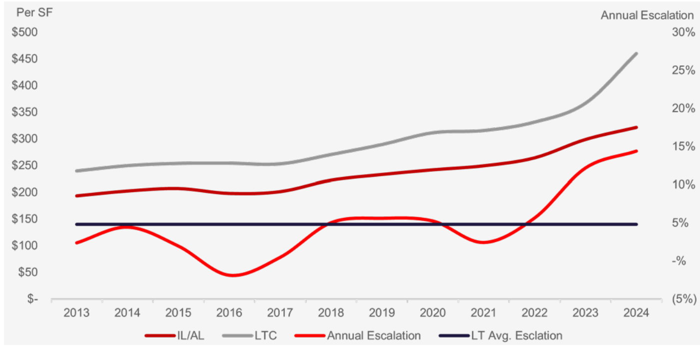
CONSTRUCTION STARTS AS % OF INVENTORY (UNITS) — CANADA



Metric: Projects which commenced construction in the period (measured by units) as a percentage of the existing units of inventory (Sample based on C&W Construction Index)
Source: Cushman & Wakefield ULC

Other than prospective interest savings, it is unlikely that material construction cost deflation will spur new development in the short term

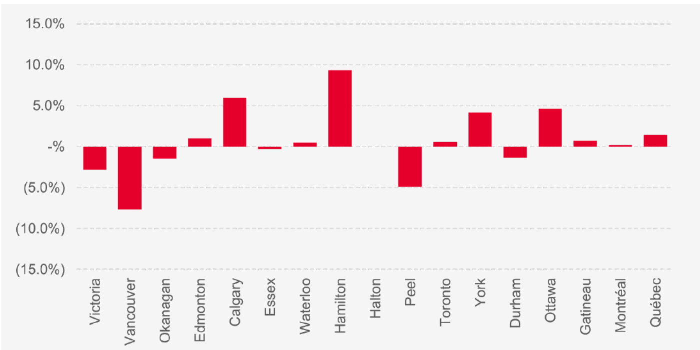
HARD COST ESCALATION: SENIORS HOUSING & LONG-TERM CARE RESIDENCES — CANADA



Source: Altus Group and Cushman & Wakefield ULC

In recent years, the absolute supply of seniors housing rental units has declined in certain markets, as property closures have exceeded new supply deliveries

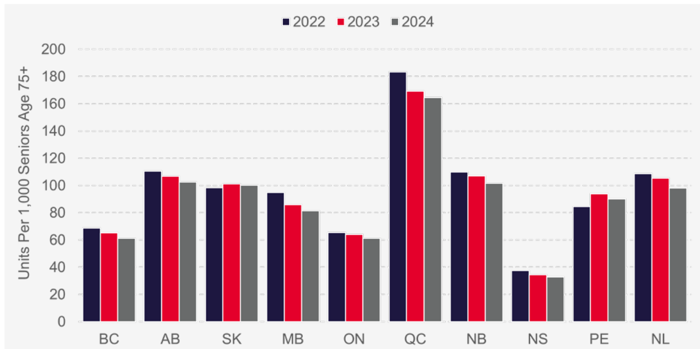
MAJOR METRO MARKET SUPPLY GROWTH YEAR-OVER-YEAR



Source: Cushman & Wakefield ULC

We expect the overall national inventory of seniors housing rental units will shrink in absolute terms in 2026/27 due to the slowdown in new development coupled with the closure of older residences

PER CAPITA SUPPLY CONTRACTION IN CERTAIN MARKETS

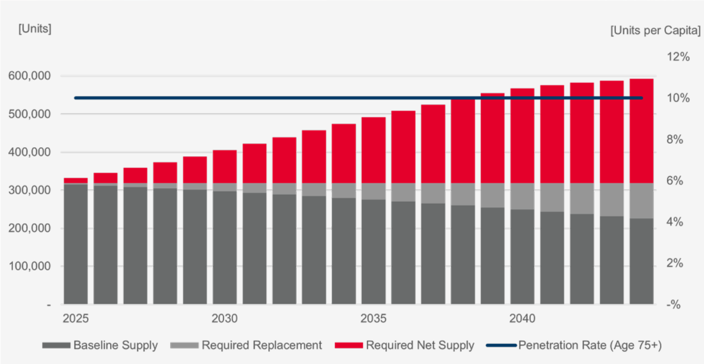


Source: Cushman & Wakefield ULC

Over the course of the next 10 years, we project about 200,000 new seniors housing suites are required to maintain market equilibrium. For context, less than 73,000 units were built during the past decade

The current rate of construction starts is not keeping pace with the rate of required replacement. It is unlikely that the rate of supply growth will keep pace with demand, leading to a tighter rental market

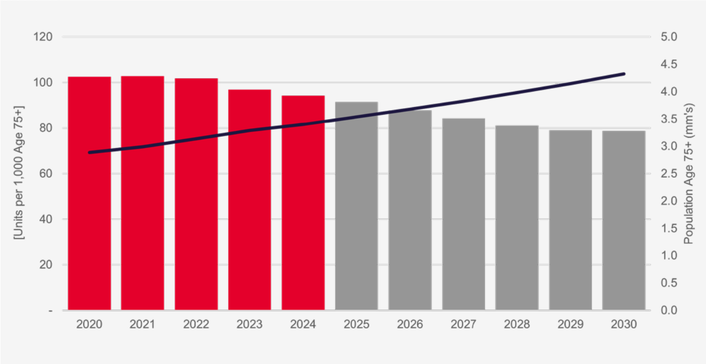
NEW SUPPLY REQUIRED TO MAINTAIN MARKET EQUILIBRIUM



Source: Cushman & Wakefield ULC

TOTAL SUPPLY FORECAST UNITS PER 1,000 AGE 75+

SENIORS HOUSING (IL/AL/MC)

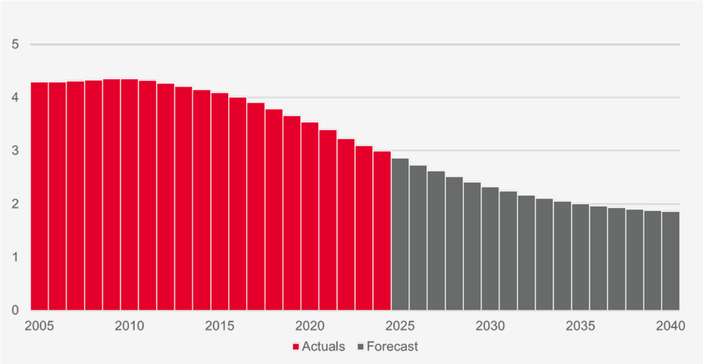


Source: Cushman & Wakefield ULC

The declining ratio of available family caregivers per senior will make it more challenging to age at home, further bolstering the needs-driven demand for seniors housing

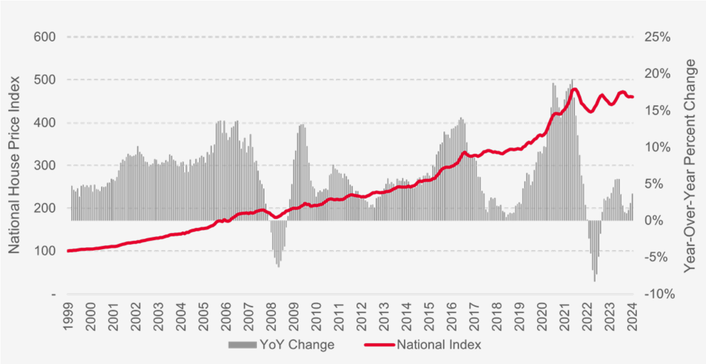
The resilient residential housing market is resulting in further wealth accumulation by the Boomer target market

RATIO OF CAREGIVER POPULATION (AGES 45-64) TO ELDERLY POPULATION (AGE 75+)



Source: StatsCAN and Cushman & Wakefield ULC

NATIONAL HOUSE PRICE INDEX

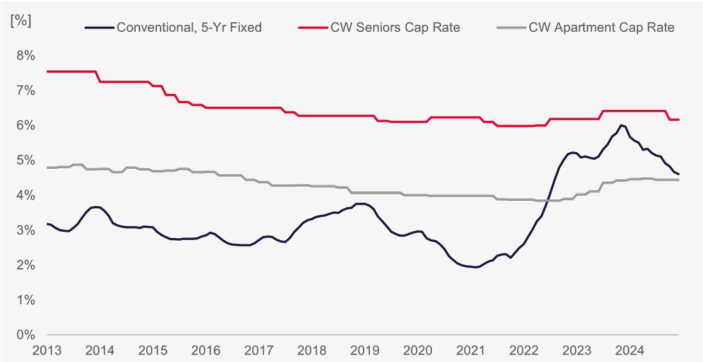


Source: House Price Index. Teranet Inc., National Bank and Cushman & Wakefield ULC.
Re-indexed to 100 = January 2000

After a relatively quiet period during the past ~24 months, the investment market is exhibiting signs that it is on a path back to normalcy

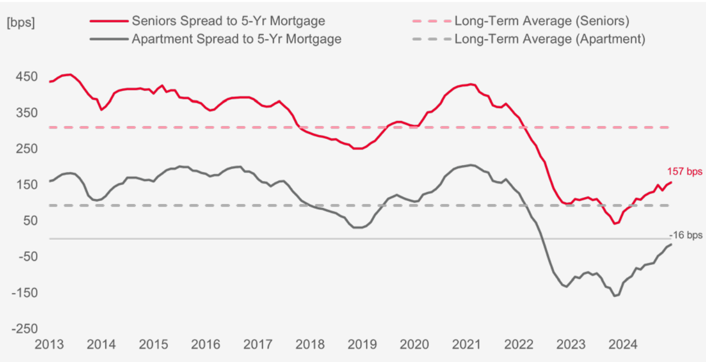
Investors' cost of capital is trending back to its historical mean as the cost of borrowing pulls back from the highest levels in over a decade

SENIORS HOUSING AND APARTMENTS CAP RATE VERSUS CONVENTIONAL MORTGAGE RATES



Source: Bank of Canada and Cushman & Wakefield ULC

CAP RATE SPREADS TO CONVENTIONAL 5-YEAR MORTGAGE RATES



Source: Bank of Canada and Cushman & Wakefield ULC

DEVELOPMENT MONITOR

SLOWDOWN IN NEW CONSTRUCTION RESULTING IN MUTED SUPPLY GROWTH

Seniors housing construction starts are currently at an all-time low, as years of rising costs, interest rate hikes and the residual effects of the pandemic pushed developers to postpone or cancel projects. As a result, developers' project pipelines have been reduced to a shadow of the rosters that existed a decade ago.

Given the long lead times associated with the development cycle from site acquisition, entitlement, construction and stabilization, the decision to add new supply is not as nimble or responsive as other investment decisions when it comes to adapting to changes in the economic environment. As a result, we expect supply growth to remain muted for the next several years.

SENIORS HOUSING SUPPLY GROWTH VS. AGE 75+ POPULATION GROWTH SINCE 2019

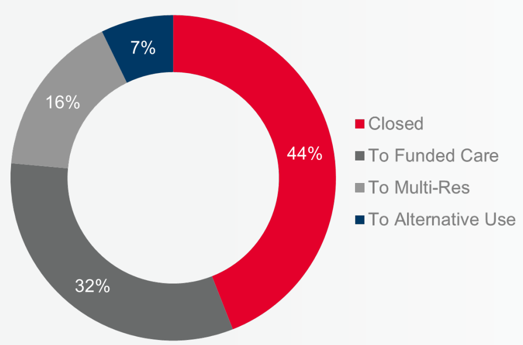
OBSOLESCENCE OF OLDER RESIDENCES AND THE IMPACT ON SUPPLY

The rate of obsolescence of older seniors housing supply is an under-appreciated component of the limited supply outlook. In 2024, 1.2% of the existing seniors housing units were removed from the private pay seniors housing inventory in Canada.

An examination of the supply removed from operation as private-pay seniors housing units in 2024 revealed that 44% of those units were closed, primarily due to physical obsolescence. However, not all the properties were deemed uninhabitable, as approximately 32% of the units were repurposed for government funded seniors care beds, 16% were converted to multi-residential apartments and 7% were repurposed to alternative housing uses including social housing, mental health facilities and student housing.

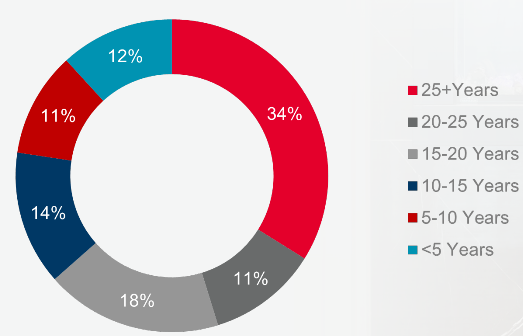
As the existing inventory continues age, with over 45% of the existing units now more than 20 years old, the impact of continuing obsolescence is expected to result in an ongoing reduction of supply at a rate of 1% to 2% per annum, which exceeds the current rate of units being replaced by new construction.

SENIORS HOUSING INVENTORY DELETIONS IN 2024



Source: Cushman & Wakefield ULC

SENIORS HOUSING SUPPLY BY AGE



Source: Cushman & Wakefield ULC

WHAT WILL IT TAKE TO STIMULATE NEW CONSTRUCTION?

Total project costs associated with seniors housing developments have increased by 40 to 60% over the past five years. Despite some relief over the past year from declining interest rates and some examples of government efforts to facilitate and expedite construction starts, the hurdle to justify new seniors housing development remains high.

If one is to assume that the cost to build will not deflate (which we think is a fair assumption in light of looming trade disputes with our neighbour and other cost pressures) then we look to the revenue side of the development equation to evaluate the magnitude of the catalyst that will be required to spur meaningful growth in new supply.

In the coming years we expect rents will continue to grow at an outsized pace due to decreasing market vacancy in the face of increasing user demand and negligible rates of supply growth. The math would suggest we are still several years away from a significant broadbased increase in the supply of seniors housing in Canada, when market rents might catch up to the rising cost to build.

The following analysis examines the hypothetical economic rent required to promote new development, varying upfront capital investment and level of required returns. Notably, a significant gap between spot market rent and the required economic rent exists, suggesting it will take a number of years before market rents accelerate to a level that can stimulate a supply shift across the sector. In practice, it will take a combination of rent growth, government support, innovation in building design, construction techniques and systems to tackle this issue.

TORONTO

REQUIRED AVERAGE MONTHLY BASE RENT (UNTRENDED)

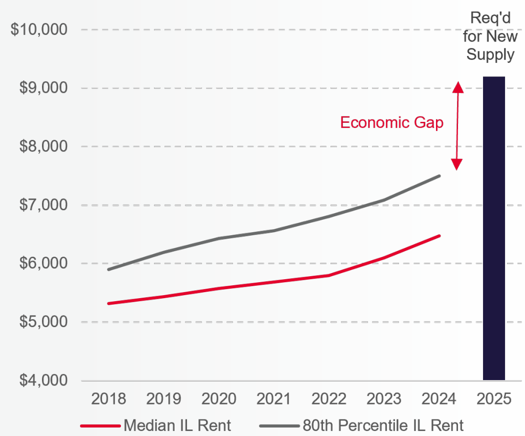
COST PER SUITE	UNLEVERED DEVELOPMENT YIELD						
	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%	8.50%
$450,000	$4,300	$4,700	$5,100	$5,500	$5,900	$6,300	$6,700
$550,000	$5,300	$5,800	$6,300	$6,800	$7,200	$7,700	$8,200
$650,000	$6,300	$6,800	$7,400	$8,000	$8,600	$9,100	$9,700
$750,000	$7,200	$7,900	$8,600	**$9,200**	$9,900	$10,500	$11,200
$850,000	$8,200	$8,900	$9,700	$10,400	$11,200	$11,900	$12,700
$950,000	$9,200	$10,000	$10,800	$11,700	$12,500	$13,300	$14,200
$1,050,000	$10,100	$11,100	$12,000	$12,900	$13,800	$14,700	$15,700

REQUIRED MONTHLY REVPOR (UNTRENDED)

COST PER SUITE	UNLEVERED DEVELOPMENT YIELD						
	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%	8.50%
$450,000	$4,800	$5,300	$5,700	$6,100	$6,600	$7,000	$7,500
$550,000	$5,900	$6,400	$7,000	$7,500	$8,000	$8,600	$9,100
$650,000	$7,000	$7,600	$8,200	$8,900	$9,500	$10,100	$10,800
$750,000	$8,000	$8,800	$9,500	**$10,200**	$11,000	$11,700	$12,400
$850,000	$9,100	$9,900	$10,800	$11,600	$12,400	$13,300	$14,100
$950,000	$10,200	$11,100	$12,000	$13,000	$13,900	$14,800	$15,700
$1,050,000	$11,300	$12,300	$13,300	$14,300	$15,400	$16,400	$17,400

Note: REVPOR stands for monthly revenue per occupied room
Assumptions: Average monthly base rent represents 90% of REVPOR, NOI margin 45%, stabilized occupancy 95%, development yield returns exhibit 100 bps spread over acquisition cap rates

BASE RENT REQUIRED FOR NEW SUPPLY



MONTRÉAL

REQUIRED AVERAGE MONTHLY BASE RENT (UNTRENDED)

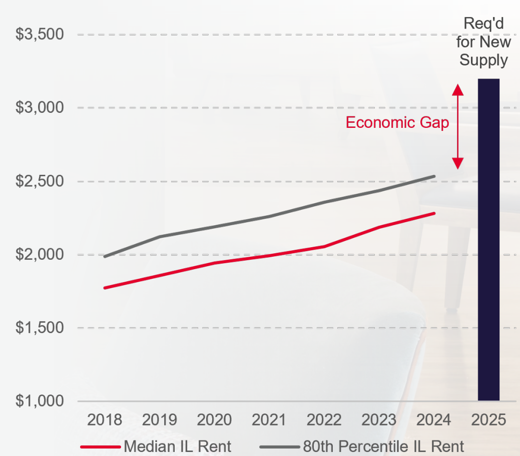
COST PER SUITE	UNLEVERED DEVELOPMENT YIELD						
	5.75%	6.25%	6.75%	7.25%	7.75%	8.25%	8.75%
$200,000	$1,500	$1,600	$1,700	$1,900	$2,000	$2,100	$2,200
$250,000	$1,800	$2,000	$2,200	$2,300	$2,500	$2,600	$2,800
$300,000	$2,200	$2,400	$2,600	$2,800	$3,000	$3,200	$3,300
$350,000	$2,600	$2,800	$3,000	**$3,200**	$3,500	$3,700	$3,900
$400,000	$2,900	$3,200	$3,400	$3,700	$4,000	$4,200	$4,500
$450,000	$3,300	$3,600	$3,900	$4,200	$4,400	$4,700	$5,000
$500,000	$3,700	$4,000	$4,300	$4,600	$4,900	$5,300	$5,600

REQUIRED MONTHLY REVPOR (UNTRENDED)

COST PER SUITE	UNLEVERED DEVELOPMENT YIELD						
	5.75%	6.25%	6.75%	7.25%	7.75%	8.25%	8.75%
$200,000	$1,800	$2,000	$2,200	$2,300	$2,500	$2,600	$2,800
$250,000	$2,300	$2,500	$2,700	$2,900	$3,100	$3,300	$3,500
$300,000	$2,800	$3,000	$3,200	$3,500	$3,700	$3,900	$4,200
$350,000	$3,200	$3,500	$3,800	**$4,000**	$4,300	$4,600	$4,900
$400,000	$3,700	$4,000	$4,300	$4,600	$4,900	$5,300	$5,600
$450,000	$4,100	$4,500	$4,800	$5,200	$5,600	$5,900	$6,300
$500,000	$4,600	$5,000	$5,400	$5,800	$6,200	$6,600	$7,000

Assumptions: Average monthly base rent represents 80% of REVPOR, NOI margin 55%, stabilized occupancy 95%, development yield returns exhibit 100 bps spread over acquisition cap rates

BASE RENT REQUIRED FOR NEW SUPPLY



INVESTMENT MARKET OVERVIEW

To achieve their growth ambitions, and with the support of some improvement in the cost of borrowing, buyers re-engaged with sellers in a meaningful way in 2024, pursing acquisitions which offered superior risk-adjusted returns relative to developments at a fraction of replacement cost.

RECAP OF 2024

- Over $2.6 billion* in transaction dollar volume closed in 2024 when measured based on a 100% interest. Looking at the value of the economic interests that were exchanged between arm's length parties, activity was down ~20% relative to the prior year.
- Notably over 50% of the 2024 transaction activity by dollar volume closed in Q4, indicating a busy end to the year. This momentum has carried over to the start of 2025.
- On the sell-side, many Canadian pension fund investors have made a move to the sidelines:
  - Despite the seniors housing asset class offering an excellent hedge on inflation and representing an ideal asset to duration match against long-dated inflation linked pension fund obligations, this class of investors have been net sellers since the pandemic.
  - Over the past 20 years, Canadian pension fund investors accounted for ~20% of the buy-side investment volume. Notable deals involving pension fund investors included PSPIB's take-private of Retirement Residence REIT in 2007 and Ontario Teachers' Pension Plan's take-private of Amica Mature Lifestyles Inc. in 2015.
  - Despite the selling pressure, the overall order book between buyers and sellers remains well balanced, as public company and private equity backed groups have stepped in to acquire the properties being divested by the pension funds.

*$2.1 billion economic interest in assets exchanged at arm's length; $2.6 billion based on 100% interest

OUTLOOK

- Both Canadian and U.S. based public company and private equity backed groups continue to be very active investors in the Canadian seniors housing and long-term care sectors.
- We expect 2025 to be a record setting year for transaction activity, as the cost of debt and increasing investment demand is being matched with high quality product available for sale and a much-improved operating fundamentals backdrop and outlook.

BUYERS

Chartwell retirement residences
Welltower
Sienna Senior Living
Delmanor
Spring Living retirement communities
Cogir
Seasons Retirement Communities
AON Inc.
Park Place Seniors Living
Omni Quality Living
Parc
United Active Living

SELLERS

Chartwell retirement residences
Revera
PSP
Amica Senior Lifestyles
Blackstone
Tapestry
Concert
Ontario Teachers' Pension Plan
QuadReal
Oxford
Batimo
BCI
OMERS
Avenir
Suske Capital
RFA Capital
Nautical Lands Group
ATL

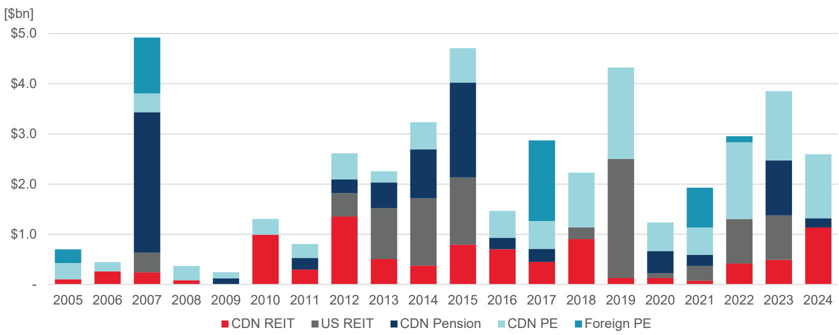
CAPITAL DASHBOARD

In Canada, the seniors housing market benefits from a robust set of buyers and capital providers. The buyer pool has become significantly more diversified over the past decade, contributing to the overall health of the market and underlying depth of liquidity.

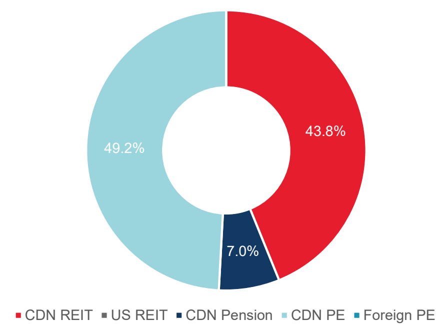
For transactions completed in 2024, Canadian public company and private equity backed investors constituted the majority of the buy-side, whereas sellers were predominantly pension fund and private equity-backed groups.

The capital inflows associated with the growing acceptance of the seniors housing and long-term care sectors among institutional investors was a major driver of the last wave of cap rate compression. We believe this trend will continue as seniors housing and other alternative real estate asset types become more mainstream.

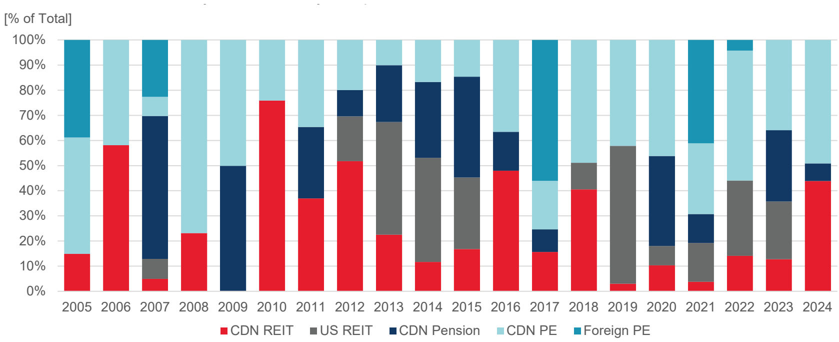
TRANSACTION TO DOLLAR VOLUME



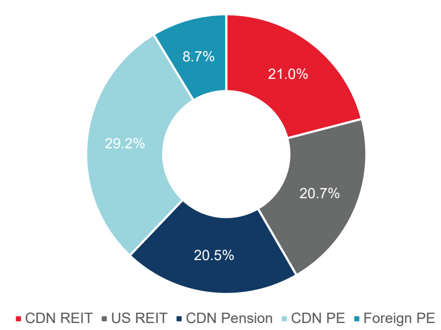
SOURCE OF BUYER CAPITAL 2024



TRANSACTION TO DOLLAR VOLUME BY SOURCE OF BUYER CAPITAL



SOURCE OF BUYER CAPITAL 2005 TO 2024



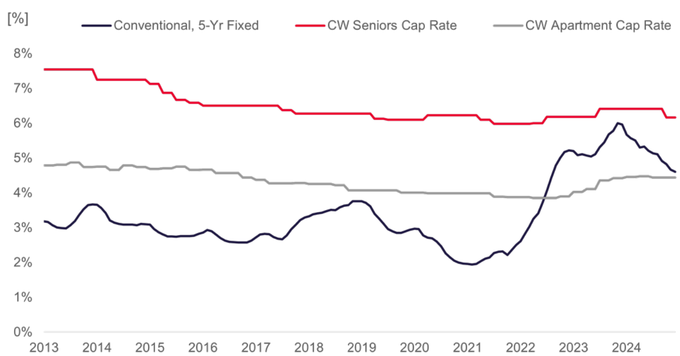
Compiled by Cushman & Wakefield ULC

PRIVATE MARKET CAP RATES

Like most other commercial real estate asset classes, cap rates on seniors housing product adjusted as the cost of borrowing increased in 2022 and 2023. While a positive correlation between cap rates and the cost of debt was observable, the adjustment was not on a one-to-one basis, resulting in a narrowing of the spread between cap rates and borrowing costs. The favourable outlook on seniors housing income growth partially mitigated the impact of a rising cost of capital over the past few years, providing some stability to cap rates.

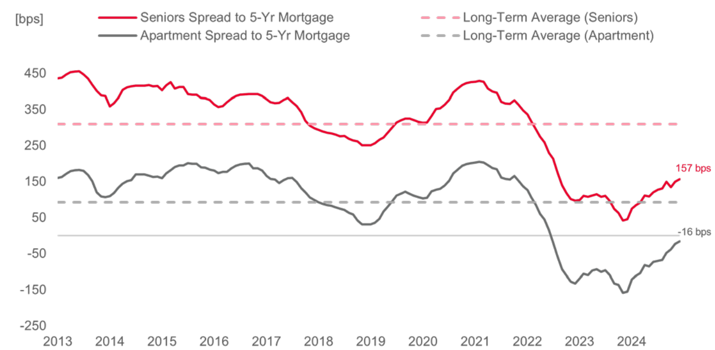
In 2024, the spread between seniors housing cap rates and interest rates on five-year conventional mortgages began to widen back out and is trending back towards its historical mean, suggesting there is growing support for an improvement in pricing going-forward.

SENIORS HOUSING AND APARTMENTS CAP RATE VERSUS CONVENTIONAL MORTGAGE RATES



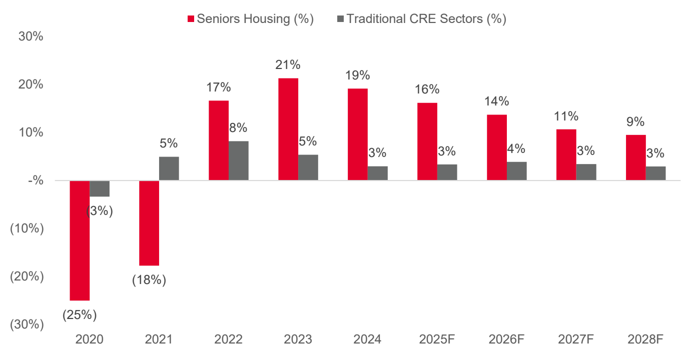
Source: Bank of Canada and Cushman & Wakefield ULC

CAP RATE SPREADS TO CONVENTIONAL 5-YEAR MORTGAGE RATES



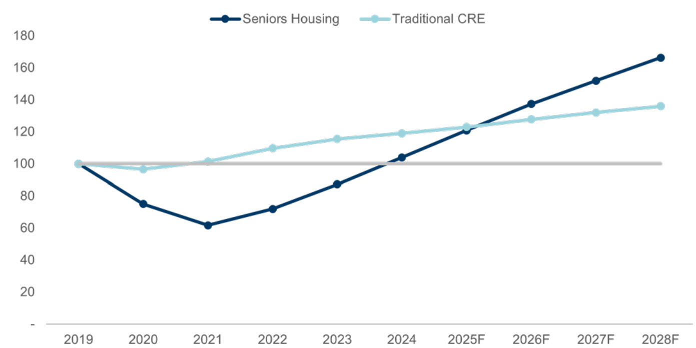
Source: Cushman & Wakefield ULC

SENIORS HOUSING NOI GROWTH FORECAST

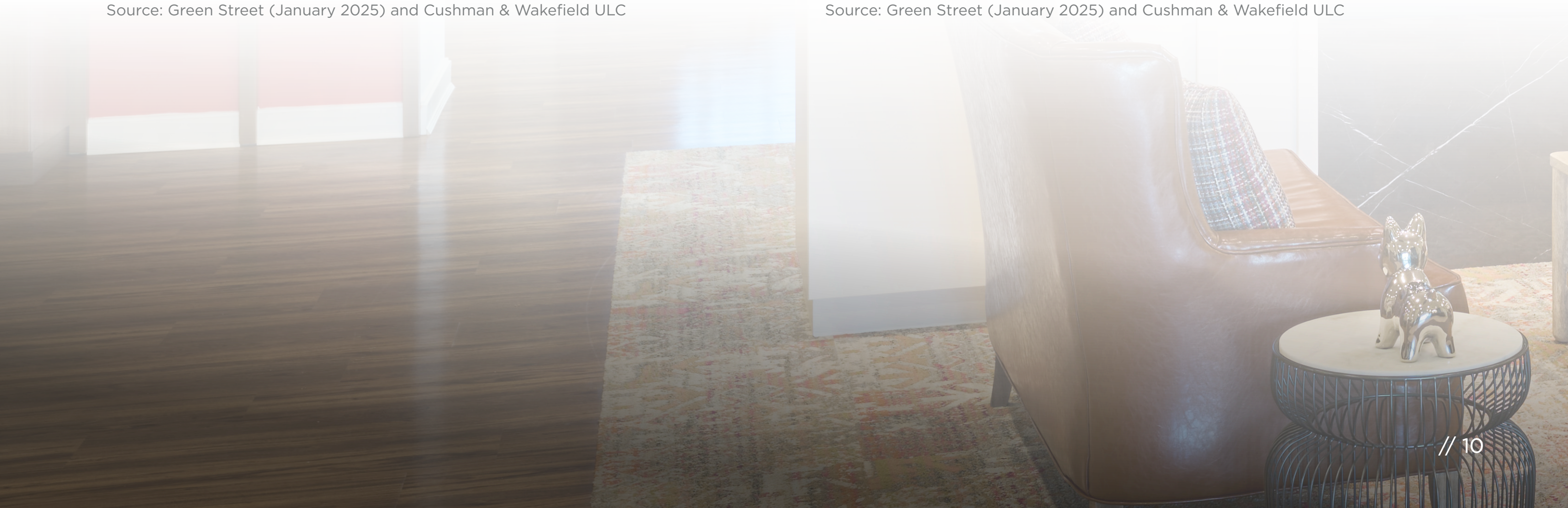


Source: Green Street (January 2025) and Cushman & Wakefield ULC

INDEXED NOI (2019 = 100)



Source: Green Street (January 2025) and Cushman & Wakefield ULC



MARKET OUTLOOK.

OPERATING FUNDAMENTALS

- » Demand growth, driven by favourable demographics tailwinds (4%+ CAGRs for 20 years).
- » Slowdown in development cycle over the past five years will translate into annual supply growth of less than 2% per year over the next five years (we think national supply will actually contract in absolute terms in 2026/27).
- » Confluence of these factors have supercharged the recovery in occupancy, rents, and NOI margins.
  - Occupancy is on track to regain its pre-pandemic levels by 2025 and is expected to reach 95% national occupancy by the end of 2026.
  - Rent growth will continue to exceed inflation over the next five years based on compelling fundamentals.
  - Margin recovery is happening, as pandemic-era cost escalation and sticky wage inflation is offset by a multi-year trend of significant compound rent growth.

INVESTMENT MARKET

- » Seniors housing will continue to gain favour with investors, as they rebalance portfolios by adding exposure to alternative real estate asset classes and reduce weighting of certain traditional real estate asset classes.
- » Given the outperformance we expect in this sector, investors will no longer be able to give seniors housing a zero weighting in their portfolios, resulting in increasing investor demand.
- » Massive development opportunity to house the growing seniors population.
- » Given the growing investment demand and availability of attractive debt financing, cap rate compression is now back on the table.
- » Seniors housing offers a compelling investment profile considering the initial yield offers ~200 bps over multi-family apartments combined with the strong underlying cash flow growth.
- » Given the weaker Canadian dollar versus the US dollar, U.S. investors may also benefit from future FX related upside should the Canadian dollar strengthen (CAD per USD currently trades near its weakest level in the past two decades).

The seniors housing market is positioned for robust growth, fueled by favourable demographic trends, a slowdown in supply growth and improving operating fundamentals.

Q4 2024 CAP RATE SURVEY

SENIORS HOUSING CAP RATES ACROSS MAJOR CANADIAN MARKETS

The following metrics are based on the premise of a fully stabilized property being sold as an individual asset, without any element of a portfolio premium. We note that many of the major transactions closing in 2024 and over the next 12 months will include an element of required lease-up due to sub-optimal spot occupancy, portfolio premium pricing or both. We therefore emphasize the key difference in premise between the following table and reported cap rate metrics on certain portfolio transactions.

	Seniors Housing "A"			Seniors Housing "B"			Long-Term Care "A"		
	Range			Range			Range		
	Low	High	Outlook	Low	High	Outlook	Low	High	Outlook
Victoria	5.50%	6.00%	Declining	7.00%	8.00%	Flat	6.75%	7.25%	Declining
Vancouver	5.25%	5.75%	Declining	6.75%	7.75%	Flat	6.75%	7.25%	Declining
Calgary	6.25%	6.75%	Declining	7.75%	8.75%	Flat	7.00%	7.50%	Declining
Edmonton	6.25%	6.75%	Declining	8.00%	9.00%	Flat	7.00%	7.50%	Declining
Winnipeg	6.50%	7.00%	Declining	8.25%	9.25%	Flat	8.00%	8.50%	Declining
Kitchener-Waterloo	6.00%	6.75%	Declining	7.50%	8.75%	Flat	7.00%	7.50%	Declining
Toronto	5.75%	6.25%	Declining	7.25%	8.25%	Flat	7.00%	7.50%	Declining
Ottawa	6.00%	6.50%	Declining	7.50%	8.50%	Flat	7.00%	7.50%	Declining
Montréal	6.00%	6.50%	Declining	7.50%	8.50%	Flat	7.75%	8.25%	Declining
Halifax	6.25%	7.00%	Declining	8.00%	9.00%	Flat	7.50%	8.50%	Declining

SENIORS HOUSING
INDUSTRY OVERVIEW
CANADA

A Cushman & Wakefield
Valuation & Advisory Publication

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