

CHANCERY MONTHLY NEWSLETTER

At the start of 2021, Cushman & Wakefield's (NYSE: CWK) Senior Housing Practice Group published their Seniors Housing Overview for Canada, with a comprehensive market review of 2020, as well as an analysis of the current state of the market, and their outlook for 2021. Excerpts from the report are included in this monthly newsletter.

Cushman & Wakefield Publish Seniors Housing Industry Overview — Part I

FUNDAMENTALS

Heading into 2020, operating fundamentals across the seniors housing sector were generally stable, notwithstanding certain sub-markets that were disrupted by excess new supply in recent years. The global pandemic introduced new disruption to the sector. COVID-19 primarily affected the earnings of seniors housing operators through a combination of (i) a decline in occupancy related to curtailed leasing during periods of government mandated shut-downs and (ii) cost escalation, including labour costs, enhanced infection control-related costs and higher insurance costs. Incremental pandemic-related expenses were not fully recoverable in many cases, however; reimbursement rates via government subsidies were generally higher for long-term care home operators than seniors housing (private pay) operators.

INVESTMENT MARKET

TRANSACTIONS

Unsurprisingly, direct property investment transaction activity in the Canadian seniors housing and long-term care sectors was relatively muted in 2020. The trend of depressed transaction activity in 2020 also played out across both the Canadian commercial real estate sector and the U.S. seniors housing sector.

In calendar 2020, we tracked over \$1.1 billion in Canadian seniors housing transaction dollar volume, down from over \$4 billion in the prior year. We note that the 2019 comparative figure includes the \$2 billion Le Groupe Maurice transaction. In a typical year, over 70% of the dollar volume is comprised of portfolio transactions. Notably, there were no major portfolio trades that occurred in 2020. Most of the Canadian seniors housing market participants are integrated owner/operators and, as such, we saw these companies devote the majority of their focus on operations in 2020 rather than pursuing new investments. We did observe positive market sentiment and momentum beginning to build through the fourth quarter of 2020 and expect the property investment market will exhibit a higher level of transaction activity in 2021.

RETURNS

Cap rates for seniors housing assets in Canada generally held at record-lows in 2019, with some late-cycle compression observed in markets like Toronto, Vancouver and Montréal. Our pre-COVID expectation was for cap rates for best-in-class product to remain steady in 2020. Although underwriting became more conservative, implied rates of return on Class “A” direct property market transactions did not shift materially given the (i) low cost of borrowing, (ii) strong availability of capital and (iii) long-term focus of most seniors housing investors, who view this as a strategic asset class over the next 20 years, an investment horizon which mirrors the expected demand-side impact from the Baby-Boom-related population growth. We believe that the scarcity of Class “A” product available for sale will continue to create strong competition for properties being sold and will set a high floor price for those assets.

Implied returns on trades in the market for Class “B” properties, which has historically featured lower transaction volume than the Class “A” market, are highly dependent on the level of product available for sale. In 2020, investor criteria exhibited a flight to quality in the face of uncertainty and, as such, the spread between Class “A” and “B” cap rates widened by as much as 25 to 50 bps in some cases.

VALUATION IN UNCERTAIN TIMES

The most common sentiment among industry participants is that the disruption to the market from the pandemic will be short-term in nature. We anticipate that the measurable impact on value will effectively be seen over the next one to two years as the sector recovers. Where applicable, we have been modelling higher short-term vacancy adjustments and/or limited or no rent growth over the short-term. As applicable, we have been evaluating the short and long-term impact on operating expenses in light of the noted cost pressures and have been reflecting that in our forecasts as well. For many properties, over the medium-term we expect operations to revert to a normalized run-rate and expect notional year five reversionary values to generally remain intact relative to expectations prior to the recent market disruption.

Consistent with our pre-pandemic underwriting methodology, we are more inclined to sensitize risk into the valuation model through our cash flow assumptions rather than through unilateral changes to discount rates. The foundation of our approach to value remains focused on underwriting the most probable cash flow projection, based on reasonable assumptions, and to then select the most appropriate market rate of return which reflects (i) the risk/return expectation we see being priced in the market, and (ii) the level of conservatism/risk reflected in our cash flow underwriting. As always, the cash flow assumptions and the selected rates of return need to be evaluated on an internally consistent basis. Subjecting each of those variables to partial (mutually exclusive) analysis will lead to incorrect conclusions overall.

Original Article:

<https://www.cushmanwakefield.com/en/canada/insights/2021-canadian-seniors-housing-industry-overview>

Bartlett Project Update

The Bartlett Seniors Housing Complex will be a 129-unit apartment building designed for active senior living, located at 550 Bond Street in Oshawa, ON. The Bartlett 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.

- Building inspectors are expected to be on site at the clinic in the week of January 18th, 2020 for the final inspection and occupancy permit.
- Construction deficiencies are being corrected throughout the building and commercial space and common areas.
- Flooring installation in the Bistro is scheduled to start in the beginning of February 2020.
- The marketing team continues to leverage digital marketing platforms to connect with prospective residents and the management team expects the lease-up to gain further traction with the opening of the bistro and clinic in the Q1 2020.
- Marketing department is in full swing and inundated with inquiries and tours. Signage, including the banners, have been installed. The marketing team receives 6-8 emails and 12-18 phone inquiries every week. On average, 3-5 prospective residents come for a tour every week.



CHANCERY MONTHLY

PROJECT UPDATE



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