



Multifamily Market Commentary – March 2019

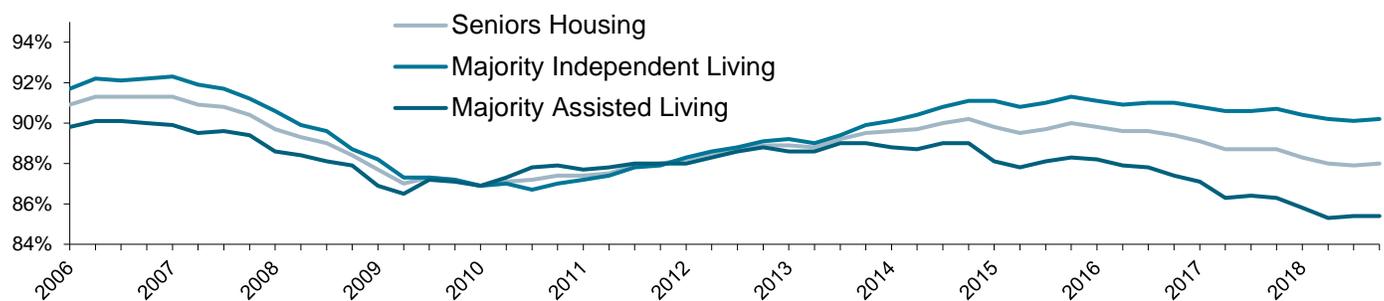
Seniors Rental Housing: Steady Fundamentals in 2018

Seniors housing fundamentals were generally stable in 2018. Rent growth and occupancy remained quite comparable to results from the prior year, based on data from the National Investment Center for the Seniors Housing & Care Industry (NIC.). Fundamentals improved modestly in fourth quarter 2018, with rent growth and occupancy both showing slight improvement compared with the prior quarter. While there are preliminary signs that construction activity is moderating, demand for new units has stayed remarkably strong – including a new record level of quarterly absorption achieved in fourth quarter 2018. In addition, after easing for much of 2016 and 2017, overall fundamentals appear to have leveled off in 2018, with minimal deterioration and some signs of improvement.

Occupancy and Rent Growth Improve Slightly

Historically strong absorption coupled with ongoing inventory additions resulted in occupancy for seniors housing properties rising by 0.1 percent in fourth quarter 2018 to 88.0 percent, as seen in the chart below. Majority Independent Living (IL) was up 0.1 percent from the prior quarter but down -0.5 percent from a year ago to 90.2 percent. Majority Assisted Living (AL) occupancy was unchanged during the quarter at 85.4 percent but down 0.9 percent from a year ago.

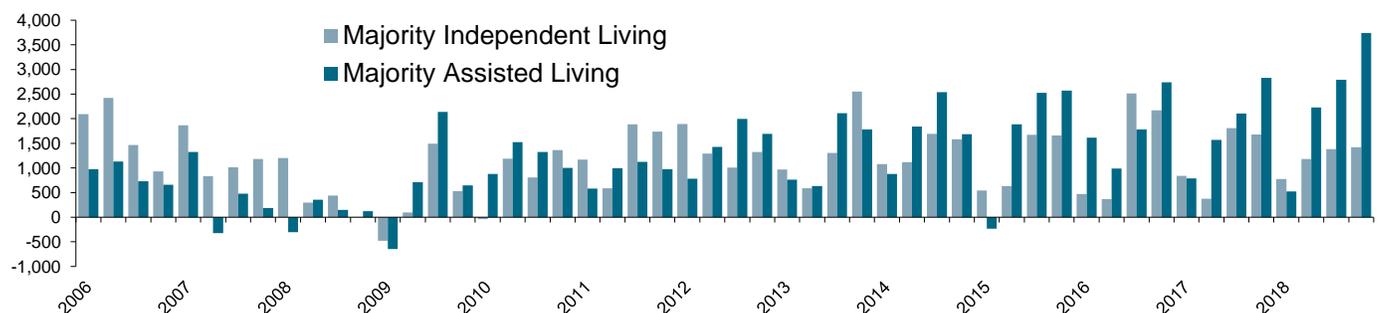
Occupancy by Property Type



Source: NIC MAP Data Service

Total seniors housing absorption reached its highest level on record in fourth quarter 2018, rising to 5,163 units, as seen in the chart below. For 2018, absorption rose to its highest level on record, increasing 17 percent from the prior year to approximately 14,000 units. The underlying segments both showed improvement in the fourth quarter, although to different degrees: Majority IL absorption was up 2.5 percent compared with the third quarter 2018, while Majority AL had another record quarter with absorption up 34 percent from the prior quarter.

Absorption by Property Type

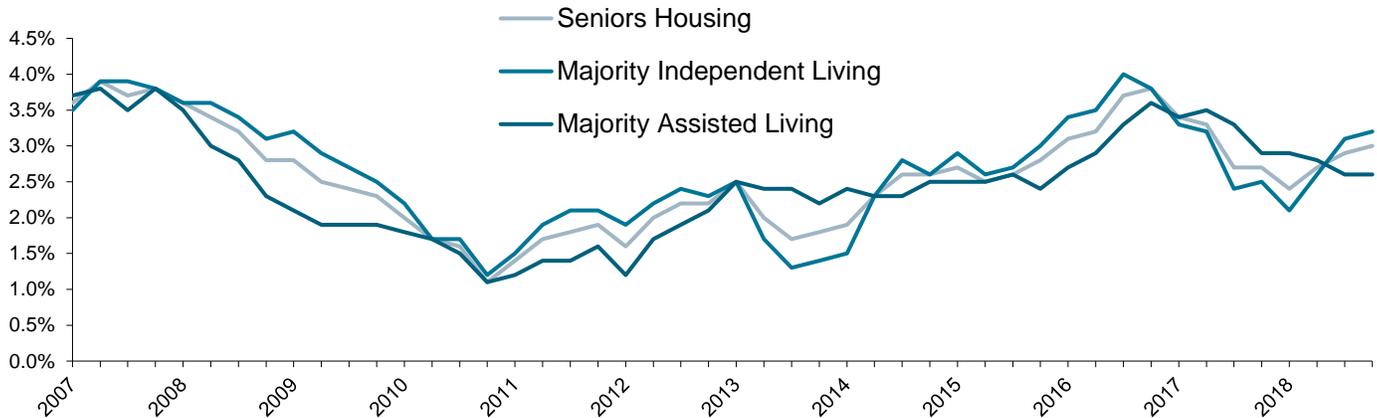


Source: NIC MAP Data Service



Annual rent growth for seniors housing rose to its highest level since the second quarter 2017, increasing slightly from the prior period during fourth quarter 2018 to 3.0 percent, as seen in the chart below. Overall, seniors housing annual rent growth improved compared to a year ago, increasing 0.3 percent from fourth quarter 2017. The underlying trends for IL and AL rent growth differed during 2018: Majority IL improved by 0.7 percent during the year to 3.2 percent; while Majority AL declined 0.3 percent to 2.6 percent for the year.

Annual Rent Growth by Property Type

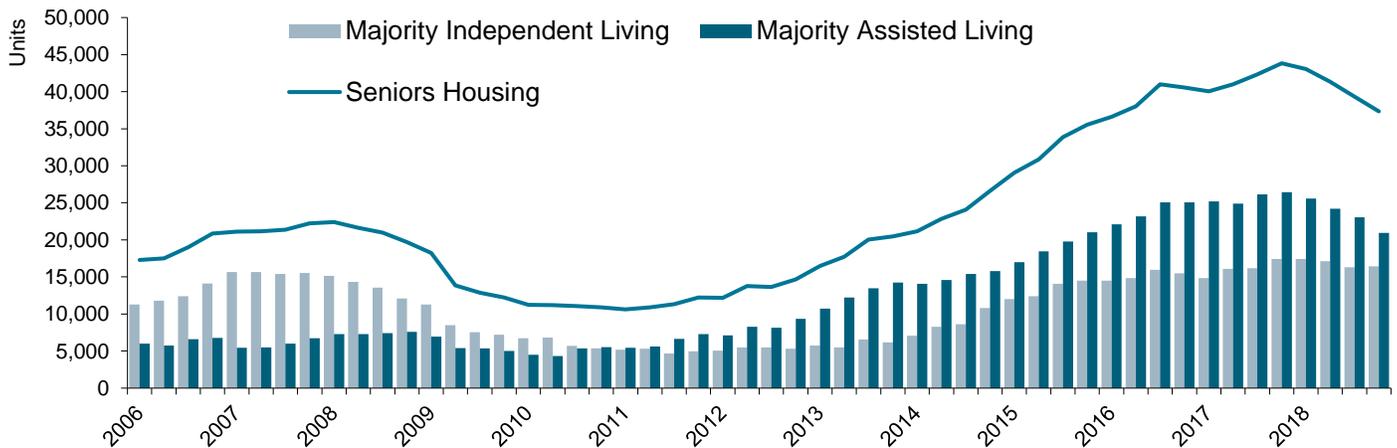


Source: NIC MAP Data Service

Construction Eases Further

The number of seniors housing units under construction continued to fall through most of the year, as seen in the chart below. In fourth quarter 2018, the number of units under construction declined to 37,355 units, which is the lowest level since first quarter 2016. The total number of units under construction is down 15 percent from the end of 2017. In this case as well, trends differ for the underlying segments: the number of Majority AL units under construction in fourth quarter 2018 was down 21 percent compared with fourth quarter 2017, while the number of Majority IL units was down 5.7 percent.

Units Under Construction by Property Type



Source: NIC MAP Data Service

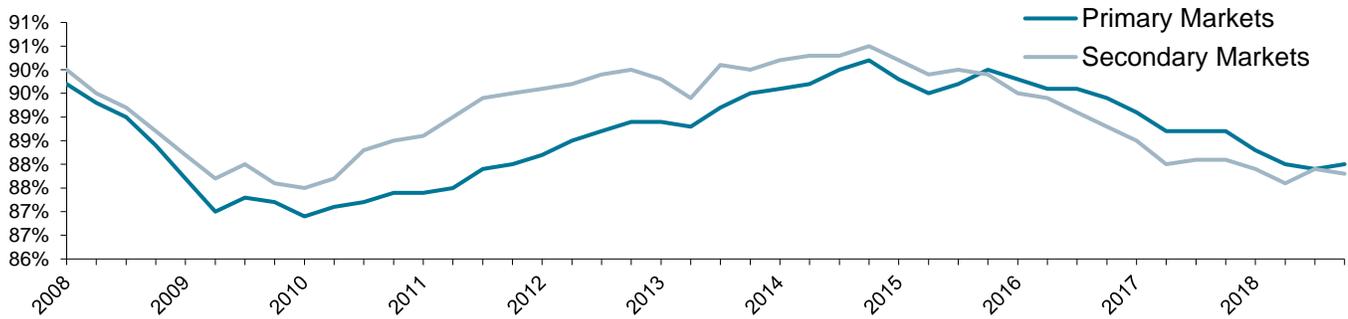


Primary Markets Mostly Steady, although Performance Varies

Rent growth was positive in nearly all of NIC's Primary 31 Markets throughout 2018 (with the exception of Dallas, which had a minor contraction in the first quarter). In the fourth quarter of 2018 San Jose returned to its position as the strongest primary market, a title it held for many periods prior to third quarter 2018. It had the highest rent growth and tightest occupancy in fourth quarter 2018. Portland had the second highest rent growth in fourth quarter 2018, as well as the third highest occupancy. Houston continued to report the weakest occupancy, just behind San Antonio, which reported the second lowest.

Occupancy for seniors housing in the nation's secondary markets (32nd to 100th in size, as defined by NIC) declined slightly from the prior quarter to 87.8 percent in fourth quarter 2018, decreasing 0.1 percent, compared with the 0.1 percent occupancy increase in the primary markets, as seen in the chart below.

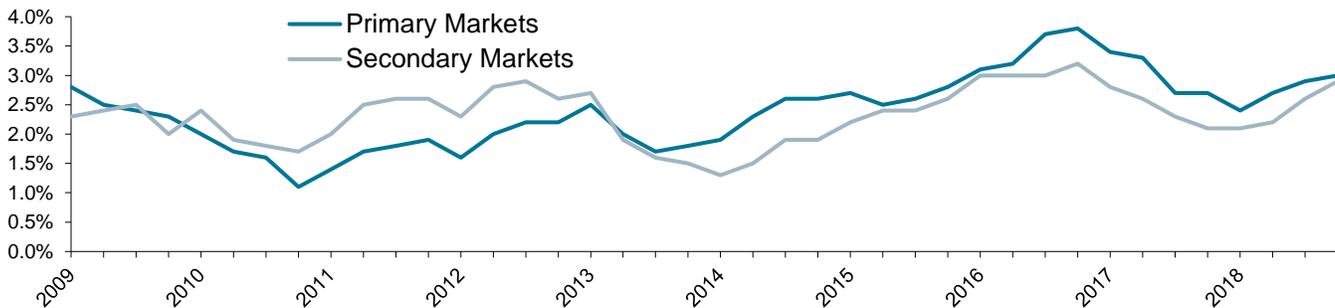
Seniors Housing Occupancy Levels – Primary vs. Secondary Markets



Source: NIC MAP Data Service

Annual rent growth in the secondary markets in fourth quarter 2018 improved from the prior quarter, with the secondary markets increasing to 2.9 percent, as seen in the chart below.

Seniors Housing Annual Rent Growth – Primary vs. Secondary Markets



Source: NIC MAP Data Service

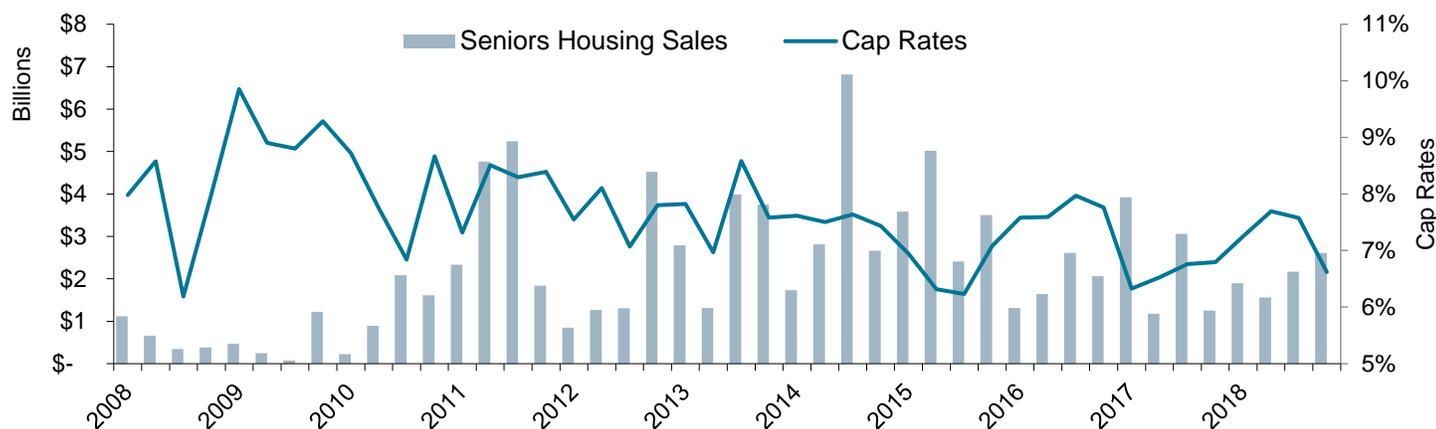
The gap between primary and secondary market performance for senior housing narrowed in 2018: rent growth was just 0.1 percent lower in the secondary markets in 2018 compared with the primary markets; for 2017, rent growth was 0.6 percent lower in the secondary markets. Occupancy in the secondary markets was just 0.2 percent lower than the primary markets at the end of 2018, compared with occupancies 0.6 percent lower in the secondary markets at the end of 2017.



Sales Rise and Cap Rates Decline

Total fourth quarter 2018 seniors housing sales volume was up 20 percent from the prior quarter to \$2.6 billion, as seen in the chart below. Compared with 2017, total industry sales volume for 2018 was down 13 percent. The fourth quarter 2018 sales involved 139 properties, down from 153 properties in the prior quarter. Cap rates fell to their lowest level since second quarter 2017, declining to 6.6 percent for fourth quarter 2018, down from (a revised) 7.6 percent for third quarter 2018 and 6.8 percent for fourth quarter 2017.

Seniors Housing Sales Volume and Cap Rates



Source: NIC MAP Data Service

Buyer composition shifted away from institutional buyers and toward public and private entities in 2018. Institutional buyers accounted for 20 percent of transactions in 2018, down from 33 percent in 2017. Publicly owned entities, such as publicly traded real estate investment trusts, accounted for 30 percent of 2018 buyer volume, up from 25 percent in 2017. Private entities saw the largest change in share, accounting for 44 percent in 2018, up from 34 percent in 2017.

Outlook Remains Steady Short-Term and Stable Long-Term for Seniors Rental Housing

Seniors housing market conditions were generally steady in 2018, as the ongoing supply surge was met with similarly robust demand, particularly in fourth quarter 2018 when a new record level of absorption was achieved in the primary markets. Rent growth in 2018 improved from 2017 levels, although majority AL properties lagged overall industry performance. As construction activity is showing signs of moderating, occupancy levels are expected to remain steady over the next several quarters. Healthy absorption levels should continue, which should also allow for moderate rent growth. As long as there is a generally healthy economy coupled with a stable single-family housing market, seniors housing is expected to remain steady over the near term. Since many seniors typically sell their home to afford the transition into seniors housing, single-family prices can, and do, have an impact on demand.

Although construction levels appear to be moderating, we believe robust levels of new supply are likely to be an ongoing characteristic of the seniors housing industry. Robust development is needed for the vast number of baby-boomers that will be crossing into their 80s in the next decade, which is the peak age for entering seniors housing. Supply growth may prevent significant occupancy tightening in the long term, but continued strong absorption and positive rent growth appears to be sustainable, again, as long as the national economy and single-family housing market remain stable.



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