

Daily Rates Advance Despite Unparalleled Adversity; Supply Reduction Sets Stage for Future Occupancy Boost

Rates sustain growth momentum. Mass vaccination is beginning to ease prospective residents' fear of COVID-19 transmission inside facilities. Still, the sector will endure an occupancy recovery beyond 2021, with significant ground to make up. Roughly 104,000 beds were vacated during the past year ended in the first quarter. According to NIC Map® Data Service, the national stabilized occupancy rate plummeted 1,270 basis points year over year to 73.8 percent in March. The sharpest contractions were in areas that had pronounced initial virus outbreaks and prolonged lockdowns, like the Pacific and Northeast regions. Nevertheless, average daily rates increased annually in every U.S. region, led by a 2.8 percent hike in the Pacific region. Daily rates are bolstered by forces beyond occupancy, such as reimbursement via government healthcare programs. Ample federal stimulus also provided a buffer for skilled nursing operators while enduring lower revenue. Headwinds remain, though, with assistance drying up and an exacerbated labor shortage requiring providers to offer aggressive wages to attract staff.

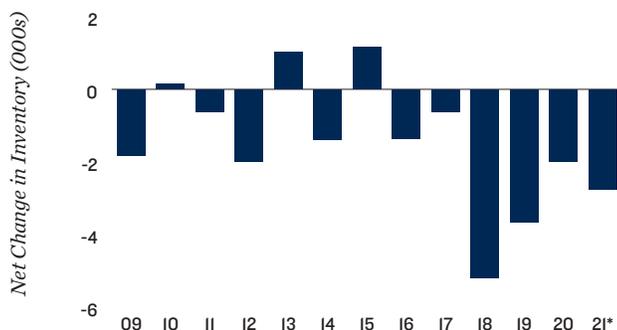
Stock recalibration presents long-term upside. National inventory decreased by 2,060 beds over the past four quarters ended in March and attrition will continue in 2021. Only 1,600 beds were under construction at the end of the first quarter, well below the trailing-five-year quarterly average of 6,480 beds. The Mountain region is recording one of the fastest supply reductions, while robust retiree in-migration should help restore demand there longer term. National stock depletion has been ongoing for most of the past decade, including an acceleration in 2018 prior to the challenges of the health crisis. As more of the baby boomer generation advances past the age of 75, demand for beds will escalate. There are significant hurdles to overcome in the near term, but on the horizon looms occupancy momentum from demand realigning, and potentially overtaking supply.

Regional Nursing Care Performance

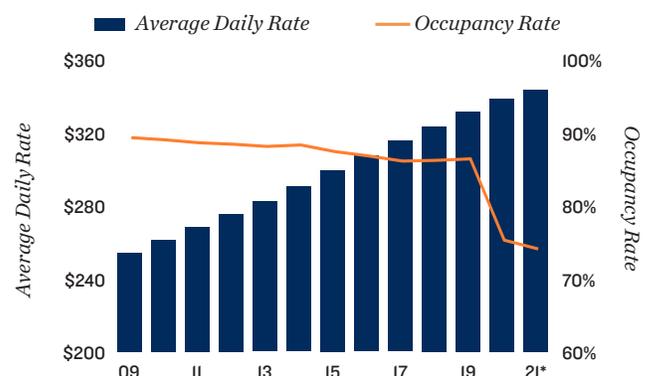
| Region | Stabilized Occupancy | Y-0-Y Change (Basis Points) | Average Daily Rate | Y-0-Y Change |
|----------------------|----------------------|-----------------------------|--------------------|--------------|
| Great Lakes | 72.9% | -1,030 | \$301 | 1.3% |
| Great Plains | 69.4% | -1,120 | \$263 | 2.3% |
| Gulf Coast | 63.0% | -1,200 | \$228 | 0.9% |
| Mid-Atlantic | 75.7% | -1,260 | \$321 | 1.6% |
| Mountain | 74.1% | -1,080 | \$311 | 0.6% |
| Northeast | 76.8% | -1,370 | \$427 | 1.2% |
| Pacific | 76.6% | -1,440 | \$372 | 2.8% |
| Southeast | 75.4% | -1,370 | \$301 | 1.3% |
| United States | 73.8% | -1,270 | \$340 | 1.5% |

As of 1Q 2021
Source: NIC Map® Data and Analysis Service (www.nicmap.org)

Skilled Nursing Supply Shrinking



Lower Occupancy Not Weighing on ADR



* Forecast

Source: NIC Map® Data and Analysis Service (www.nicmap.org)

Buyers Intrigued by Long-Term Dynamics Despite Temporary Challenges

2021 Forecast

U.S. POPULATION (75+)

4.0% increase Y-O-Y

- The number of adults in the U.S. that are 75 years of age or older will increase by 932,000 people in 2021. The pace of growth is accelerating from the trailing-10-year annual average of 2.2 percent.

U.S. INVENTORY

2,750 Beds net reduction Y-O-Y

- National inventory will shrink by 0.3 percent in 2021 after 1,995 beds were removed from U.S. stock last year. Fewer projects were underway at the beginning of this year than at the end of any quarter dating back to at least 2008.

U.S. OCCUPANCY

120 basis point decrease Y-O-Y

- Demand will improve in the second half as pent-up move-ins play out with mass vaccination suppressing concerns. However, 12,100 beds were released in the first quarter, dictating a decline in occupancy in 2021 to 74.0 percent.

U.S. AVERAGE DAILY RATES

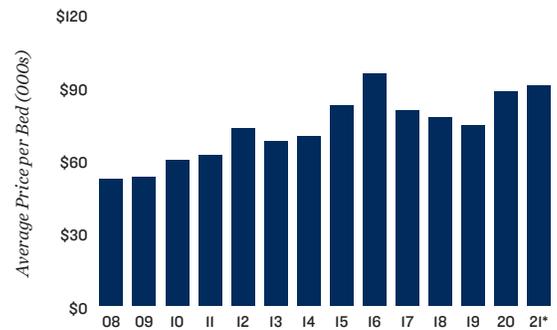
1.5% increase Y-O-Y

- In 2021 the average daily rate per bed will increase to \$343, remaining on a positive growth trajectory but falling below last year's 2.1 percent advance. Over the past three years daily rates have jumped 7.3 percent.

2021 Investment Outlook

- Top-tier preference drives pricing.** Nursing care assets that traded during the past four quarters ending in March had an average sale price of \$90,700 per bed, the highest since 2016. Buyers concentrated on stabilized facilities with well-capitalized providers during the uncertain stretch, a factor behind the uptick in pricing. Smaller properties traded more frequently as well, with few large-scale facilities on the market. Vaccination efforts and pent-up move-ins may shift investors' risk tolerance back to pre-pandemic levels, supporting deal flow that more closely resembles past periods.
- Positive momentum will revert buyer pool to typical mix.** Transaction velocity over the past year subsided by one-third relative to the previous 12 months. Nevertheless, trades in Florida doubled on an annual basis and comprised nearly 25 percent of national deal flow, anchored by big portfolio deals. Private investors accounted for 90 percent of buy-side activity with most favoring Sunbelt markets. After pausing acquisitions, preliminary data indicates that REITs and institutions are becoming more active as 2021 progresses, bolstering competition for quality assets.

Pricing Trends



* Through 1Q 2021
Source: NIC Map® Data and Analysis Service (www.nicmap.org)

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Price: \$1,000