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A SUPPLEMENT TO INSTITUTIONAL REAL ESTATE AMERICAS, NOVEMBER 2022

The *age-restricted* APARTMENT OPPORTUNITY

Institutional-investor interest has grown in a more upscale, niche residential housing segment called 'active adult,' geared toward healthy 55-plus-year olds seeking a carefree lifestyle and community-oriented design.

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Age-restricted apartments appear to be an increasingly compelling investment opportunity within the residential real estate market. The age-restricted segment, also referred to as '55+,' is positioned between traditional multifamily apartments and senior housing on the housing spectrum, targeting the healthiest and youngest of the senior population.

> Both average age-restricted rent growth and occupancy trends have surpassed those of traditional multifamily over the past decade. The segment is also significantly undersupplied relative to the scale of potential senior renters.

Typically, age-restricted properties are lower rise and located outside of major cities, many in the Sunbelt. In recent years, this segment has emerged as a strong-performing sector and is attracting greater institutional-investor interest. The strong demographic tailwind of the baby boomer generation, now aged 58 to 76, is likely to provide robust demand well into the 2030s for various types of age-restricted rental apartments.

In recent years, many soon-to-be or fully retired Americans have opted for a higher-end niche within the age-restricted format called 'active adult,' which offers residents a low maintenance, carefree lifestyle and community-oriented living (see Exhibit 1). Compared to an average age-restricted property, active adult apartments tend to have superior amenities as well as built-in social and recreational programming, but generally exclude routine healthcare, food and housekeeping services, which are more typical of purpose-built senior housing.

The robust demand seen within the larger age-restricted apartment housing market is demonstrated by the strength of the segment's property-level fundamentals. Both average age-restricted rent growth and occupancy trends have surpassed those of traditional multifamily over the past decade. The segment is also significantly undersupplied relative to the scale of potential senior renters. Given these dynamics, we believe there is an attractive and sizeable opportunity for institutional investors in the years ahead.

Attractive demand drivers

The baby boomers, the largest generation in US history, continue to reshape the housing market. Powerful demographic and real estate supply/demand factors are expected to drive ongoing demand for age-restricted apartments.

Demographics

- The age-restricted multifamily segment serves the 55+ population, at 100 million people now comprising almost one-third of the country's population. The senior, or 65+, segment in particular is growing roughly seven times faster than the nation as a whole, and is expected to make up 20% of the US population by 2025 (see Exhibit 2).

Exhibit 1: Characteristics of traditional multifamily, active adult and senior housing segments

	Multifamily	Age restricted (AR): Active adult (AA)	Independent living (IL)	Assisted living (AL)	Nursing care (NC)
Average age	20s–60s	Low-mid 70s	Mid-80s	High-80s	High-80s/90+
Services/amenities	Housing	Offers social and sports activities/programs + a la carte dining	Includes housing, meals, transport + housekeeping	IL services + nursing	AL services + skilled nursing/memory care
Typical rent (per month)	Varies; US average is $1,875	10%–40% premium over traditional multifamily	$4,000	$5,000+	$8,000
Average length of stay (# of years)	1.5	4–6	2.5	2	<2

Note: The highlighted active adult format is a higher-end subtype in the larger age-restricted apartment category. Independent living, assisted living and nursing care are types of senior housing. The five categories here generally range by age, level of services and amenities, cost, and length of stay. Rents and timeframes provided are approximate.
Source: CBRE-EA, NIC, Clarion Partners Investment Research, June 2022.

[1] Moody's Analytics, June 2022. Note: Calculation based on 2010 to 2019.
[2] Moody's Analytics. June 2022. Note: Data is as of January 2022.

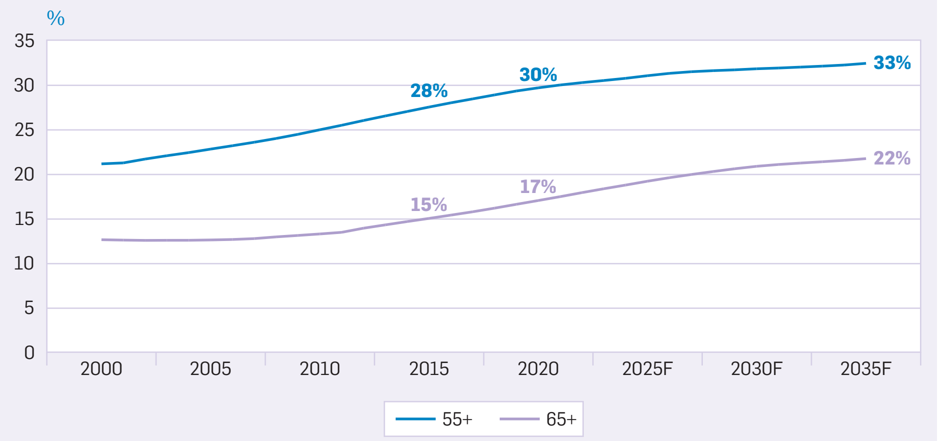
- More seniors are living longer and healthier lives, extending the span before full-time care from family or assisted living is needed. In 2022, the oldest baby boomers turn 76. The low- to mid-70s age range is often when turnkey living arrangements, with more emphasis on built-in community and social activities which age-restricted apartments can offer, become a higher priority. Age-restricted rents are typically higher than traditional multifamily due to some additional amenities, but are often lower than independent living or assisted living facilities, which are more intensive to operate and have lower margins.
- The age-restricted segment also has less turnover — a typical stay ranges between four and six years, which offers owners a steadier income stream. Seniors tend to have the highest net worth of all age cohorts and often live off ample investments, savings and social security, underscoring the durability of this tenant base.

Real estate supply/demand

The 56-million-person senior population has been the fastest growing renter household cohort since 2010. According to research agency Moody's, the senior population is expected to grow by another 16 million by 2030; there will continue to be many more renters in this group.[1]

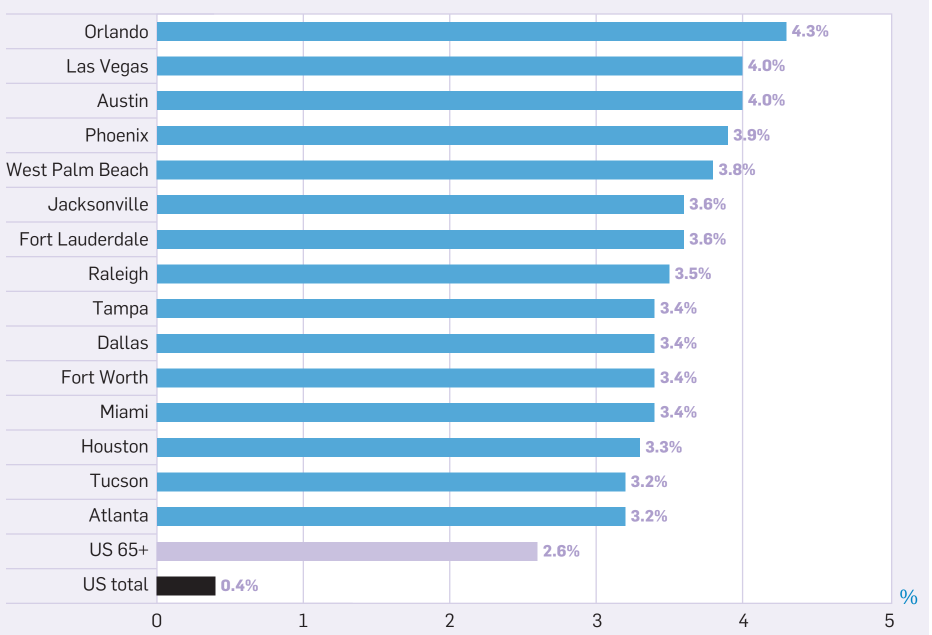
We believe there will be a significant mismatch between growth in senior renter households and the existing stock of purpose-built age-restricted facilities.

Exhibit 2: The proportion of persons aged 55+ & 65+ as a % of the US population is rising



Note: Forecast data as of Q1 2022.
Source: Moody's Analytics, Clarion Partners Investment Research, June 2022.

Exhibit 3: Sunbelt leads senior population growth (2020–2035F)



Source: Moody's Analytics, Clarion Partners Investment Research, June 2022. Data as of January 2022.

Most compelling opportunities

We favor an age-restricted investment strategy that includes acquiring stabilized assets and new development alongside an experienced operating partner. Product and location strategy should focus on:

1. *Markets with the highest senior population growth.* Sunbelt states Florida, Nevada, Arizona, Texas and North Carolina are expected to have the fastest-growing age 65+ population.[2] (See Exhibit 3)

Example 1: Avenida Cool Springs, Franklin, Tennessee

Franklin/Cool Springs in Williamson County, Nashville's high-growth, marquee submarket, is the fastest growing area within the Nashville metropolitan statistical area (MSA). Its population has increased 72% since 2000, underpinned by growing health care, public and private hospitals, and tech sectors.

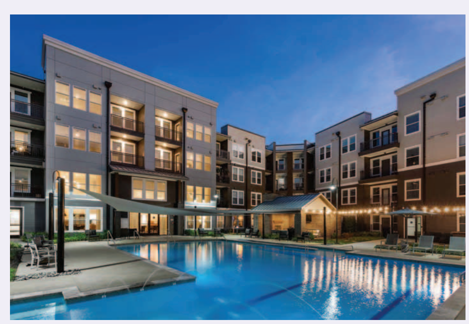
The Avenida Cool Springs property is located 10 minutes from Historic Downtown Franklin, one of the largest retail trade districts in Nashville, featuring award-winning antique shops, brick-and-mortar gift and bookstores, boutiques, art galleries, upscale restaurants, a Whole Foods and more. The area is a unique community that combines upscale suburban living and historic Southern charm with over 1,800 acres of park space. These factors contribute to a high quality of life, resulting in Franklin/Cool Springs being ranked the healthiest and wealthiest county in Tennessee. With nearly 13 million square feet of Class A office space, Franklin's incomes averaged nearly $150,000 in 2020.

The property houses 142 units catered to the active adult 55+ segment. Property amenities include two interior courtyards, an outdoor pool and spa, on-site bistro/cafe, pet park, fitness center and yoga studio. Staff at the property offer residents wellness-inspired activities year-round.

Example 2: Everleigh Halcyon Village, Alpharetta, Georgia

Located in a premier Atlanta suburb, Alpharetta in Forsyth County has long drawn an affluent demographic seeking beautiful homes, great schools, a neighborly vibe, country clubs, pastoral beauty and easy living. Known as the 'Technology City of the South,' Alpharetta is home to over 700 technology companies and over one-quarter of metro Atlanta's top 25 tech employers. Alpharetta is the sixth fastest growing city in the nation, with population growth of 19% from 2010 to 2021. The submarket has the seventh highest median household income in Georgia; within a 3-mile radius of the property, the average household income is $142,000 and average home value is $448,000.

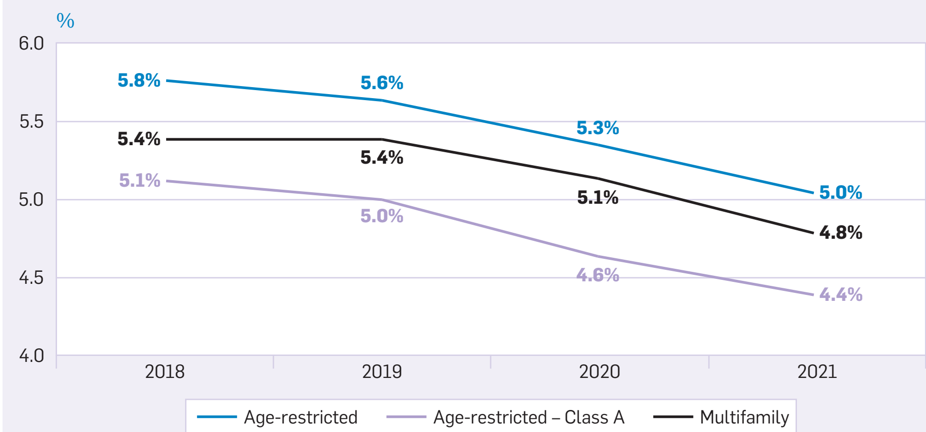
Everleigh Halcyon Village is located within the Halcyon Village, a next generation mixed-use development, offering a variety of upscale dining, retail and entertainment amenities. There are 160 units for the active adult 55+ segment, where the average resident age is 67 years old. The property is a best-in-class asset with superior, condo-quality interior finishes with high barriers to entry. Amenities include a bocce and putting green, a library, a wine room and a fitness center. Everleigh Halcyon Village commands a 30% rental premium to conventional multifamily, and 45% rental discount to comparable independent living properties.



[3] *Ibid.*

> “As the population is rapidly aging, high-quality age-restricted communities are becoming an increasingly important niche of multifamily housing.”

Exhibit 4: Cap rates for age-restricted has performed better than traditional multifamily in the US



Note: Annual data based on all transactions $2.5 million and above. Annual cap rates are the average of each quarter and Class A is based on top quartile of assets in the data set. Age-restricted refers to any multifamily apartment complex or manufactured housing communities where residents are required to be a certain age (usually age 55 or higher). These usually have few to no special amenities or resident care provided, and may be known as retirement communities, congregate living or senior apartments.
Source: Real Capital Analytics, Clarion Partners Investment Research, June 2022.

2. Underserved areas in ***proximity to large employment hubs and residential neighborhoods*** in urban fringe/suburbs/exurbs serving ‘baby chasers’ — those boomers who want to be near family.[3]
3. ***Formats offering social and recreational programs*** for more independent and single seniors, such as active adult, which have done especially well.
4. And ***luxury product in resort areas*** in warmer climates in the South and West regions.

While Class A age-restricted units now price well above multifamily (in the range of 10% to 40%), a sign of robust demand for high-quality product, there may also be a scalable opportunity in lower- to mid-tier price point age-restricted communities given the anticipated growth in the senior population, along with the ongoing housing affordability challenges nationwide.

Fit for a CRE portfolio?

As the population is rapidly aging, high-quality age-restricted communities are becoming an increasingly important niche of multifamily housing. The segment currently has little large-scale institutional ownership. Developers and operators of age-restricted communities are actively marketing active adult product to appeal to baby boomers, emphasizing an active lifestyle and a greater attention to community space.

The below characteristics of the age-restricted segment are especially attractive to institutional investors. It is generally viewed as being:

- A less operationally intensive format than senior housing.
- More recession-resistant given that it has higher retention rates than traditional multifamily.
- Serving a more affluent tenancy (especially in the active adult segment), with tenants not as tied to the job market.
- Well-priced relative to traditional multifamily; age-restricted apartment cap rates have been trending down with multifamily for years. Class A age-restricted apartments are now more competitively priced than multifamily, but age-restricted generally trades at prices comparable to traditional multifamily, even though rent growth and occupancy have been superior in recent years (see Exhibit 4).
- A competitive yield play; high-quality age-restricted core returns and development yields may potentially be higher than traditional multifamily.

Based on the recent strength of age-restricted occupancy trends and rent gains and a very favorable demographic story, we believe that the long-term potential of this high-growth commercial real estate segment represents an attractive investment opportunity. ◆

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