

Intelligent Investment

2022 Seniors Housing Development Costs

REPORT FIGURES

CBRE RESEARCH
SEPTEMBER 2022

Seniors Housing Development Cost Examples

First Quartile Asset Summary (Low Range)				
Location	Pacific Northwest			
Land Area (Improved)	1.62 Acres		CBRE Stabilized NOI	\$1,846,227
Gross Building Area	80,682 SF		Yield on Cost	8.59%
Units of Measure	Units	Beds		
Assisted Living	73	73		
Memory Care	21	21		
Total	94	94		
Component Costs	Cost	\$/Unit	\$/SF of GBA	% of Total
Site Acquisition Costs	\$1,475,000	\$15,691	\$18.28	6.9%
Soft Costs	\$3,850,000	\$40,957	\$47.72	17.9%
Hard Costs	\$15,700,000	\$167,021	\$194.59	73.0%
FF&E	\$475,000	\$5,053	\$5.89	2.2%
Total	\$21,500,000	\$228,723	\$266.48	100%

Median Asset Summary (Mid Range)				
Location	Central			
Land Area (Improved)	5.91 Acres		CBRE Stabilized NOI	\$3,538,226
Gross Building Area	164,000 SF		Yield on Cost	7.68%
Units of Measure	Units	Beds		
Independent Living	93	93		
Assisted Living	44	44		
Memory Care	18	20		
Total	155	157		
Component Costs	Cost	\$/Unit	\$/SF of GBA	% of Total
Site Acquisition Costs	\$1,475,000	\$9,516	\$8.99	3.2%
Soft Costs	\$5,575,000	\$35,968	\$33.99	12.1%
Hard Costs	\$38,075,000	\$245,645	\$232.16	82.6%
FF&E	\$975,000	\$6,290	\$5.95	2.1%
Total	\$46,100,000	\$297,419	\$281.10	100%

Third Quartile Asset Summary (High Range)				
Location	Central			
Land Area (Improved)	12.35 Acres		CBRE Stabilized NOI	\$7,328,601
Gross Building Area	285,906 SF		Yield on Cost	8.57%
Units of Measure	Units	Beds		
Independent Living	125	125		
Assisted Living	81	81		
Memory Care	24	28		
Total	230	234		
Component Costs	Cost	\$/Unit	\$/SF of GBA	% of Total
Site Acquisition Costs	\$5,125,000	\$22,283	\$17.93	6.0%
Soft Costs	\$18,075,000	\$78,587	\$63.22	21.1%
Hard Costs	\$60,425,000	\$262,717	\$211.35	70.7%
FF&E	\$1,850,000	\$8,043	\$6.47	2.2%
Total	\$85,475,000	\$371,630	\$298.96	100%

Figure 1

Summary

The average cost of a seniors housing development has increased by 17.8% since 2020 to \$317,400 per unit or \$333 per sq. ft. The increase is largely attributable to higher labor and materials costs, as well as operating expenses and outlays for entitlements. The average net rentable area of the 142 projects surveyed by CBRE was 59.9% of gross building area, down from 64.1% in 2020.

Hard costs represented the largest portion of total development cost at 70.2%, followed by soft costs at 18.5% and site acquisition costs at 8.2%. Return on cost, when measured as projected stabilized net operating income as a percentage of overall development costs, averaged 8.6%.

Characteristics		Summary			
Cost (\$)	Average	Year-over-Year Change (%)	First Quartile	Median	Third Quartile
Total	42,700,000		21,550,000	39,350,000	57,775,000
Per Revenue Unit	317,400	17.8%	226,600	294,200	372,100
Per Sq. Ft.	333	5.0%	241	297	380
Property Characteristics		Average			
Year of Construction		2022			
Total Revenue Units		129			
Independent Living		50			
Assisted Living		52			
Memory Care		27			
Site Area (Acres)		6.78			
Gross Building Area (Sq. Ft.)		137,000			
Net Rentable Area (Sq. Ft.)		82,000			

Source: CBRE Valuation & Advisory Services and CBRE Research, Q3 2022.

Figure 2

Site Acquisition Costs

Site acquisition costs for fully permitted projects represented a significant component of the total development cost—an average of \$30.80 per sq. ft. of the gross building area or 8.2% of the total. Site costs for most developments ranged from \$12,100 to \$33,500 per revenue unit.. Primary factors governing site costs include area density, regulatory climate and demographic trends.

	Average	First Quartile	Median	Third Quartile
Site Area (Acres)	6.78	3.75	6.30	9.47
Nominal Site Cost (\$)	3,500,000	1,400,000	2,475,000	4,250,000
Cost Per (\$)				
Site Area Sq. Ft.	32.80	5.00	8.75	19.75
Revenue Unit	27,600	12,100	20,000	33,500
Gross Building Area (Sq. Ft.)	30.75	13.75	20.75	32.25
% of Total Development Cost	8.2	5.5	7.2	10.2

Source: CBRE Valuation & Advisory Services and CBRE Research, Q2 2022. *The first quartile is the median of the values below the complete set median; the third quartile is the median of the values which are greater than the complete set median. % Change reflects variation from 2020 data.

Figure 3

Hard Costs

Hard costs represented the largest component of the development expenditure, ranging from \$173 to \$262 per sq. ft. of gross building area and 65.6% to 75.8% of total development cost. They include sitework, foundation, building shell construction, roofing, interior finishes, landscaping, signage and labor.

	Average	Y-o-Y Change	First Quartile	Median	Third Quartile
Nominal Hard Cost (\$)	29,650,000	28%	16,250,000	28,300,000	39,275,000
Cost Per (\$)					
Revenue Unit	220,200	24%	160,200	213,200	259,100
Gross Building Area (Sq. Ft.)	228.75	11%	173.25	214.75	261.75
% of Total Development Cost	70.2	5%	65.6	70.2	75.8

Source: CBRE Valuation & Advisory Services and CBRE Research, Q2 2022. *The first quartile is the median of the values below the complete set median; the third quartile is the median of the values which are greater than the complete set median. % Change reflects variation from 2020 data.

Figure 4

Soft Costs

Soft costs averaged 18.5% of total development costs and \$63.50 of gross building area. Soft costs generally cover inspection fees, construction loan costs, architectural and design costs, project management, operating deficit and any other carry cost during the construction and leasing phases.

	Average	Y-o-Y Change	First Quartile	Median	Third Quartile
Nominal Soft Cost (\$)	8,250,000	23%	3,550,000	6,675,000	11,550,000
Cost Per (\$)					
Revenue Unit	60,900	14%	35,800	51,500	87,000
Gross Building Area (Sq. Ft.)	63.50	0%	38.00	51.75	83.50
% of Total Development Cost	18.5	-5%	14.9	17.9	22.4

Source: CBRE Valuation & Advisory Services and CBRE Research, Q2 2022. *The first quartile is the median of the values below the complete set median; the third quartile is the median of the values which are greater than the complete set median. % Change reflects variation from 2020 data.

Figure 5

FF&E Costs

Furniture, fixtures & equipment (FF&E) costs averaged 3.0% of total development costs and \$9,700 per revenue unit. Although considerable, these expenditures are not always included in development costs because they are not a permanent part of the building.

	Average	Y-o-Y Change	First Quartile	Median	Third Quartile
Nominal FF&E Cost (\$)	1,275,000	16%	750,000	1,125,000	1,675,000
Cost Per (\$)					
Revenue Unit	9,700	10%	7,000	9,200	11,600
Gross Building Area (Sq. Ft.)	9.75	-11%	5.50	8.50	13.00
% of Total Development Cost	3.0	-17%	2.0	2.9	3.9

Source: CBRE Valuation & Advisory Services and CBRE Research, Q2 2022. *The first quartile is the median of the values below the complete set median; the third quartile is the median of the values which are greater than the complete set median. % Change reflects variation from 2020 data.

Figure 6

Returns on Cost

CBRE measures return on cost as stabilized net operating income as a percentage of total development costs. Cap rates on stabilized assets have compressed slightly over the past year to 6.2%. Despite a meaningful increase in the stabilized value, returns on cost fell slightly to 8.6%.

The stabilized value metrics are based on inflation-adjusted dollars as of the date of stabilization, while the construction cost metrics are based on current dollars. These costs include operating shortfalls during lease-up. Stabilized capitalization rates represent market-supported and data-driven opinions as opposed to data derived from transactions.

	Average	Y-o-Y Change	First Quartile	Median	Third Quartile
Stabilized Value (\$)	58,750,000	43%	30,300,000	52,300,000	79,375,000
Per Revenue Unit (\$)	439,200		315,000	388,600	541,800
Stabilized Capitalization Rate (%)	6.2	-7%	5.6	6.0	6.6
Lease Up Period (Months)	24	22%	18	24	30
Returns on Cost (NOI/Cost) (%)	8.6	-9%	7.5	8.4	9.5

Source: CBRE Valuation & Advisory Services and CBRE Research, Q2 2022. *The first quartile is the median of the values below the complete set median; the third quartile is the median of the values which are greater than the complete set median. % Change reflects variation from 2020 data.

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