NIC INSIDER
Newsletter

December 2021

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LibertySBF

Three Scenarios: Estimating the Recovery in Senior Housing

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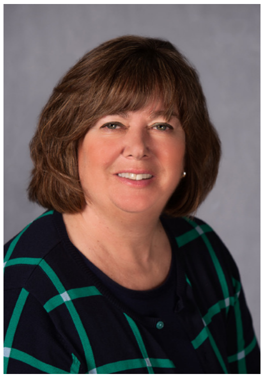

Beth Mace

Quick Glance

Most senior housing stakeholders want to know when market fundamentals will return to pre-pandemic levels and what that path will look like. While neither NIC Analytics nor NIC MAP Vision generate forecasts per se, we can provide some context from which to consider the path of recovery by market and property type. This article presents one way to look at recovery timelines by creating three scenarios of possibilities based on recent and historic demand patterns. We conclude that market and product type recovery depend upon three things: how much net demand was lost due to the pandemic, the level of construction that occurred during the pandemic, and the current development pipeline. As a result, the recovery timeline is different for independent living versus assisted living, and by metropolitan market, and could possibly occur as quickly as one or two years, or as long as seven or more.

Introduction

It was welcome relief by many to see that third quarter data from NIC MAP Vision showed an uptick in senior housing occupancy following the previous five quarters of pandemic-related weakness. The occupancy rate for senior housing increased by 1.4 percentage points to 80.1%. By majority property type, assisted living occupancy rose from its record low of 75.4% in the first and second quarters of 2021 to 76.9% in the third quarter, while independent living rose from a higher but still low rate of 81.9% to 83.2%. The occupancy rate for assisted living remained 4.9 percentage points below its pre-pandemic first quarter 2020 level of 85.0%, while independent living was well below its prior recent peak of 89.7%. The question remains on how quickly a fuller recovery will occur.

Global Health Emergency

The pandemic was an incredibly difficult and challenging time for virtually all businesses in the U.S. as well as across the world. Business leaders loathe uncertainty, and the COVID-19 health crisis wins the penultimate gold medal prize for uncertainty. Unfortunately, with the uncertainty of the new Omicron variant, the COVID-19 health crisis continues to hold on to that title.

During this global health emergency, operators of senior housing properties reacted as fast as they were able and proved themselves to be reliable care givers of their stewards as well as agile, flexible, and nimble to adjust to the often-daily-changing protocols and rules being promulgated by federal, state, and local government agencies. Further, many operators of senior housing properties self-imposed moratoriums to limit the entry of new residents to prevent outside contamination to existing in-place residents.

As a result, between the second quarter of 2020 and the second quarter of 2021, these move-in restrictions contributed to the largest fall-off in the number of occupied units to ever be recorded for senior housing. Occupied units plummeted to levels last seen in mid-2017 as 42,344 senior housing units were placed back on the market across the 31 NIC MAP Primary Markets.

Three Buckets of Recovery Units

For this analysis, we will define three categories or buckets of units that will comprise the senior housing units that need to be recovered or "absorbed" on a net basis within the Primary Markets if pandemic conditions are to be reversed.

1. Vacated Units

This first tranche of recovery units is comprised of 42,344 previously occupied units that were placed back on the market between first quarter of 2020 and first quarter of 2021 due to the pandemic and were not filled as they became vacant. For senior housing in the Primary Markets, this can be seen in the table below as the first row. Between the second quarter of 2020 and the second quarter of 2021, move-in restrictions contributed to the largest reduction in the number of occupied senior housing units ever recorded by NIC MAP.

Lana Peck

2. New Inventory

The second tranche of units that need to be absorbed are those units that opened during the pandemic from the first quarter of 2020 to the third quarter of 2021. New inventory offers a fresh competitive set for many existing properties, thereby impacting the ability to rent stabilized units in the marketplace. As the table below shows, for senior housing in the Primary Markets, this totals 30,773 units.

Notably, senior housing inventory growth slowed during the pandemic but remained relatively robust, with 3,441 units added to inventory in the third quarter alone. That said, inventory growth has generally trended down from its high point of 6,100 units in mid-2019. Growth in the stock of senior housing is likely to continue to be moderate for the next year or longer due to a pandemic-related slowdown in construction starts in the past 18 months.

3. Units Under Construction

In addition to those units that opened during the pandemic, there are still units that are currently under construction that will be opened in the coming two years. These development units are estimated to total 33,014 for senior housing in the Primary Markets. The number of units under construction moderated during the pandemic due to uncertainty as well as cautious lending by banks and other lenders. In fact, by the third quarter, senior housing saw the fewest units under construction since 2015.

How quickly will these three buckets of unoccupied potential demand be filled? The pace of recovery by market and by property type will depend upon several factors which will be enumerated further below. Foremost among them are the degree of pent-up demand. During the pandemic, many potential new residents simply did not move into senior housing properties. At times this was due to moratoriums imposed by a government entity or by the property managers/owners themselves to limit the spread of infection. In other instances, fears of quarantine and isolation and economic insecurity kept potential new residents away. And lastly, with many adult children unable to work due to furloughs and layoffs, some family members decided to care for their aging parents themselves.

Once the vaccine became available in January 2021 and as more properties "re-opened" to new residents in the second and third quarters of 2021, a flurry of move-ins occurred as this pent-up demand was released. Indeed, in the second and third quarters of 2021, there were 15,682 units absorbed on a net basis. Notably, net unit absorption reached a record high of more than 12,000 for senior housing in the third quarter of 2021 for the Primary Markets. This rapid pace of demand allowed total occupied units to move back to their year-earlier levels seen in the third quarter of 2020—a sharp improvement from where they stood in the second quarter at mid-2017 levels.

Recovery Scenarios

Considering the three buckets of recovery units, below are a few scenarios that may help you think about senior housing recovery timelines for benchmarking your own projections. The table shows the number of senior housing units put back into the marketplace as well as those that have been newly opened and those currently in development. These are the same three buckets of units for occupancy recovery that were previously defined.

- As shown in the table, for senior housing there were 42,344 units placed back on the market from the second quarter of 2020 to the first quarter of 2021 for the Primary Markets. There were also 30,773 units added to inventory from the first quarter of 2020 to the third quarter of 2021, and there are currently 33,014 units under development. Now consider that 15,682 units were absorbed during the second and third quarters of 2021, leaving 90,450 units to be absorbed. If those units were absorbed at the very rapid pace of the third quarter of 2021, this would take 7.3 quarters or 1.8 years. Hence a full recovery could occur by the third or fourth quarter of 2023.
- If, however, you believe that the third quarter pace of demand is not sustainable and a weaker, albeit still strong, pace of net absorption that mirrored that of the second and third quarters of 2021 were to occur, then aggregate units occupied could be achieved within 11.5 quarters, or 2.9 years. This suggests, a full recovery could occur by the third quarter of 2024.
- If, however, the pace of net lease-up was more in line with historic patterns of the past ten years, then it could take 30.7 or 7.7 years for full recovery. This suggests, a full recovery could occur by the third quarter of 2028.

Resulting in a wide range of recovery timelines, these three senior housing demand scenarios provide a framework that can be fine-tuned according to your views on the pace of market demand. Indeed, other demand assumptions could also be applied; perhaps using a five-year historical look back or a three-year look back. These scenarios can also be applied to property type and metropolitan markets as well using data from NIC MAP Vision.

Factors That Will Affect the Timing of a Full Recovery

In addition to factors such as varying the pace of absorption that was previously demonstrated in the recovery scenario table, there are many other factors that may speed up or slow down recovery from the pandemic:

Projected Occupancy Recovery Time*
Seniors Housing | Primary Markets | 3Q21

1 2 3

Occupied Units Vacated (2Q20 – 1Q21)		42,344	
New Inventory Added (1Q20 – 3Q21)	+	30,773	
Current Units Under Construction (3Q21)	+	33,014	
Units Absorbed (2Q21 – 3Q21)	−	15,682	
Remaining Units to be Absorbed	=	90,450	
Pace of Absorption (3Q21)	÷	12,318	= 7.3 Quarters OR **1.8 Years**
Pace of Absorption (Avg. 2Q21 – 3Q21)	÷	7,841	= 11.5 Quarters OR **2.9 Years**
Pace of Absorption (Avg. 1Q10 – 1Q20)	÷	2,942	= 30.7 Quarters OR **7.7 Years**

- **Pent-up demand:** Will past performance predict future results? Has the pent-up demand that recently swept into properties in the second and third quarters been spent, or will absorption continue at the third quarter record-breaking pace?
- **Demographics:** Are the baby boomers finally on the doorstep of senior living? The growth in the age 80-plus cohort will expand rapidly before the end of the decade. Just this year, the age 80-plus cohort increased by 325,000 people. By 2025, it will increase 500,000, and by 2027—one million people. Many will have mobility limitations and chronic conditions that necessitate safe and social congregate care environments.
- **Consumer confidence:** Will senior housing capitalize on the value proposition of safety, security, health, wellness, and engagement? Or will there be growing interest in alternatives to senior housing? The better the value proposition of senior housing and care is accepted by prospective residents and their adult child influencers, the faster the industry will recover.
- **Affordability:** According to the NIC-sponsored Forgotten Middle Market Study, the middle-income cohort is a large and growing demographic with huge market potential. Will senior living remain out of reach for a significant and growing portion of the market—the middle-income resident—or will product segmentation strategies and lower cost alternatives enable more access and choice for the nation's elders?
- **Rents:** One of the myriad challenges brought on by the pandemic was the pinch to operator margins, which came at a time when expenses were increasing due to growing costs to attract and maintain staffing levels, rising insurance costs and vacancies due to the pandemic. Will operators need to offer rent concessions to support occupancy, or will rents need to be increased to counter expense growth?
- **Competition:** Prior to the pandemic, some senior housing markets had excess supply, which resulted in increasing competition putting downward pressure on occupancy rates. However, oversupply had already begun to slow new construction in some markets, especially for assisted living. Starts are down

since the beginning of the pandemic. Could the moderation in construction activity release some pressure on refilling occupancy in the short term?

- **Appeal:** The nation's aging senior housing stock may not be adequate to meet the needs and desires of younger baby boomers entering retirement. Will developers have access to capital sources to construct new buildings and reposition older buildings to appeal to the lifestyles of new consumers? Will investor interest in lower acuity settings such as active adult (also known as 55-plus communities) expand the market for senior housing to younger consumers?
- **Technology:** At a time when all sectors of the labor market are experiencing shortages, deliberate use of time-saving and supportive care technologies may give senior housing caregivers more time to spend one-on-one with residents. Will senior living embrace supportive technologies to allow caregivers to efficiently care for residents, or will staffing and labor shortages continue to put a drag on occupancy in high acuity care settings and challenge lower acuity settings to provide services?

There will be different rates of occupancy recovery across metropolitan markets and within primary market areas. According to third quarter NIC MAP data, across the Primary Markets there is an 11-percentage point difference between the best and worst performing markets, and not every property within those markets will recover at the same pace. For example, some properties that managed to largely maintain their occupancy during the pandemic will recover faster than those that were new or still in lease-up when the move-in moratoriums started early in the pandemic and then when the pandemic drug on.

Indeed, individual market recovery timelines depend on many factors—macro economic conditions, housing market conditions, consumer preferences, local demographics including the influence of adult children, the competitive landscape, and more. Assumptions on the pace of move-ins and move-outs are also important considerations. These considerations can shape your view on the pace of demand and how quickly existing and new inventory will be leased.

To subscribe to best-in-class market analysis tools and the data that supports our recovery scenarios, schedule a meeting with a NIC MAP Vision product expert today.

Reaching Recovery

The degree to which demand bounced back in the last six months will shape the immediate response, while the amount of new inventory created in the past 18 months as well as current supply pipelines will dictate how quickly pre-pandemic "equilibrium" conditions can be achieved. Notably, even a recovery to pre-pandemic levels may not be the correct "endgame" because occupancy rates were challenged and trending lower for many markets prior to the pandemic. This was particularly the case for assisted living properties.

The necessary ingredients for a fuller recovery include an industry-wide push to grow penetration rates. NIC estimates that 11% of households over 75 years of age reside in senior housing. What's up with the other 89%?

Senior Housing & Care Industry Calendar 2021 & 2022

12/7 - 12/9/2021	AHIP 2021 Consumer Experience & Digital Health Forum (Virtual)
12/9/2021	HHCN Home Care Conference (Chicago, IL)
1/23 - 1/26/2022	Lutheran Services in America CEO Summit 2022 (Tampa, FL)
1/24 - 1/26/2022	IREI VIP Americas (Carlsbad, CA)
1/24 - 1/26/2022	ASHA 2022 Annual Meeting (Phoenix, AZ)

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