

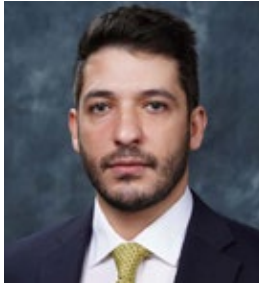
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Newsletter

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Senior Housing Actual Rates at a Time of Red-Hot Inflation

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The annual inflation rate, as measured by the change in consumer price index (CPI), increased to 9.1% in June 2022, the highest rate in four decades. Largely driven by energy prices, overall cost of goods and services, as well as rising rents, the one-year inflation expectations in the United States stood at 5.3% in June 2022, according to the University of Michigan Consumer Sentiment Index survey. By comparison, both annual inflation rate and one-year inflation expectations were 2.5% back in January 2020

before the onset of the pandemic. Inflation expectations, or the rate at which economic agents expect prices to rise in the future, remains a critical survey measure and a key influence on the trajectory of inflation.

In response to red-hot inflation, the Fed raised interest rates four times over the period from March 2022 to July 2022. The Fed's hawkish rate hikes amounted to a total increase of 2.25 percentage points and ranged from 0.25 percentage points in March 2022 to two consecutive hikes of 0.75 percentage points in June and July of 2022, the largest one-time increases since 1994. Subsequently, the annual inflation rate dropped by 0.6 percentage points to 8.5% in July 2022. Further, the one-year outlook of Michigan inflation expectations in the United States decreased to 5.0% in August 2022, down 0.3 percentage points from the June 2022 level.

Despite these recent positive signs, it remains difficult to say whether inflation will continue its downward trend in the next months, or when inflation will return to pre-pandemic trajectory. The one thing economists agree on is that inflation likely will not dissipate in the near future.

Meanwhile, senior housing asking rates rose to record highs in June 2022 from year-earlier levels across all care segments – independent living (IL), assisted Living (AL), and memory care (MC) – despite the market's still relatively low occupancy levels in general. Notably, June 2022 annual asking rates increases (i.e., about 9% across each of the three care segments) tracked with the CPI increase (i.e., 9.1% in June 2022).

The notable senior housing rent growth over the past year is the result of a multitude of compounding factors since the pandemic began to influence the senior housing sector in early 2020, including strained operating margins due to record-low occupancy rates combined with increased operating costs, namely higher wage pressures, inflated construction and maintenance costs, higher property insurance rates and utility costs, and higher care fees due to increased acuity levels among new residents.

The following analysis examines senior housing actual rates over the past two years, from June 2020 to June 2022, including asking rates, initial rates, and in-place rates across all senior housing care segments. Additionally, the analysis



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provides rankings of average initial rates for assisted living segments within select NIC MAP® metropolitan markets reported by NIC MAP Vision as of second quarter 2022.

Senior Housing Actual Rates Increases Differ Across Care Segments

The table below displays the June 2022 actual rates data and the annual rent growth figures over the 12-month periods of both June 2021-June 2022 and June 2020-June 2021.

Asking Rates. Asking rate growth accelerated during the annual period ending June 2022 and registered the largest recorded annual growth figures in the timeseries across all senior housing care segments. According to second quarter 2022 NIC MAP Vision senior housing actual rates data, asking rents grew by 9.4% to \$3,674 for independent living segments in the 12 months through June 2022, the largest annual growth rate across the three care segments, followed by assisted living segments (8.6% to \$5,775) and memory care segments (8.4% to \$7,797).

While independent living segments had the highest asking rate growth from year-earlier levels, the independent living segments reported relatively high initial and in-place rates discounting compared with memory care and assisted living segments. Some of these high discounts may be attributed to relatively slow move-ins for independent living. Notably, move-ins for independent living were 2.4% in June 2022, 1.0 percentage point below the pace of move-ins for assisted living (3.4%) and 1.4 percentage points below that of memory care (3.8%), according to second quarter 2022 senior housing actual rates data, released by NIC MAP Vision.

While senior housing operators have effectively increased rates, it is vital to understand what current and potential senior housing residents are willing to pay and the potential impact of any additional rate increases on the pace of move-ins and move-outs. Monitoring this relationship can help inform the potential for future rate increases, especially as inflation stabilizes and eventually subsides.

Initial Rates. Initial rates saw continued growth year-over-year at a notable pace, with an annual growth of 5.2% for independent living to \$3,286, 7.6% for assisted living to \$5,341, and 9.5% for memory care to \$7,114 in June 2022. The initial rate discount for independent living segments was 10.5%, or \$388 less than asking rate in June 2022, the largest discount since April 2020 and equivalent to 1.3 months on an annualized basis.

Comparatively, memory care segments had an initial rate discounting of 8.8% (\$683) in June 2022. On an annualized basis, this discount is equivalent to 1.1 months. Assisted living segments had initial rate discounting of 7.5% (\$434) in June 2022, equivalent to 0.9 month on an annualized basis.



In-Place Rates. In-place rates also grew at a rapid pace from year-earlier levels, with an annual growth of 4.4% for independent living to \$3,508, 7.3% for memory care to \$7,557, and 7.4% for assisted living to \$5,612 in June 2022. Independent living segments had a discount of 4.5% (\$166) for in-place rates compared to asking rates. This was the highest discounting of in-place rates for independent living segments since at least 2019. In-place rates also had relatively lower discounting of 3.1% (\$240) in June 2022 for memory care segments and 2.8% (\$163) for assisted living segments.

NIC Average Rates (Asking, Initial, and In-Place) and Annual Growth Rates - By Segment U.S. National - June 2022			
Segments	June 2022 ¹	June 2022 Annual Growth Rate ⁵ (June 2021 - June 2022)	June 2021 Annual Growth Rate ⁶ (June 2020 - June 2021)
Independent Living			
Asking Rate ¹	\$3,674	9.4%	0.8%
Initial Rate ²	\$3,286	5.2%	0.9%
In-Place Rate ³	\$3,508	4.4%	0.0%
Assisted Living			
Asking Rate ¹	\$5,775	8.6%	2.6%
Initial Rate ²	\$5,341	7.6%	0.1%
In-Place Rate ³	\$5,612	7.4%	1.2%
Memory Care			
Asking Rate ¹	\$7,797	8.4%	3.2%
Initial Rate ²	\$7,114	9.5%	-1.6%
In-Place Rate ³	\$7,557	7.3%	1.7%

¹Asking Rate - Street room rate and average of any care fees across units as of the end of the month
²Initial Rate - Room fee and any care fees as of the end of the month paid by residents who took occupancy during the current month
³In-Place Rate - Room fee and any care fees as of the end of the month paid by residents who took occupancy prior to the current month
⁴June 2022 average rates (Asking, Initial, and In-Place) - by care segment
⁵June 2022 annual growth rates over the period from June 2021 to June 2022
⁶June 2021 annual growth rates over the period from June 2020 to June 2021
Source: NIC MAP Data[®], powered by NIC MAP Vision
Prepared by: NIC Analytics of the National Investment Center for Senior Housing & Care (NIC)

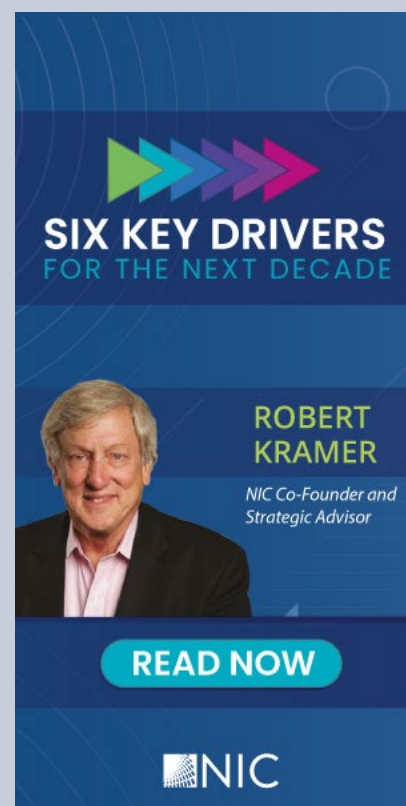
Annual Growth Rates from June 2020 to June 2021. During the prior 12-month period ending June 2021, asking rates continued to increase somewhat in line with their respective pre-pandemic trends, with memory care segments reporting the largest year-over-year increase for asking rates at 3.2% in June 2021, followed by assisted living (2.6%), and then independent living (0.8%).

Over the same period, however, the senior housing market witnessed a notable deceleration in initial rates and in-place rates annual growth figures as occupancy and demand for senior housing properties fell to record lows through this period. The memory care segments saw a large drop for initial rates (negative 1.6%) from year-earlier levels, while average initial rates for independent living and assisted living segments increased by only 0.9% and 0.1% from year earlier levels, respectively.

In-place rates remained flat for independent living segments over the period from June 2020 to June 2021, memory care and assisted living segments realized annual increases of 1.7% and 1.2%, respectively, for that period ending in June 2021.

East and West Coast Markets Reported the Highest Average Initial Rates for Assisted Living Segments

In 2022, NIC MAP Vision senior housing actual rates data releases for both first quarter and second quarter included national data as well as data from an additional 21 metropolitan markets. The actual rates data provides aggregate national data from approximately 300,000 units within more than 2,600 properties



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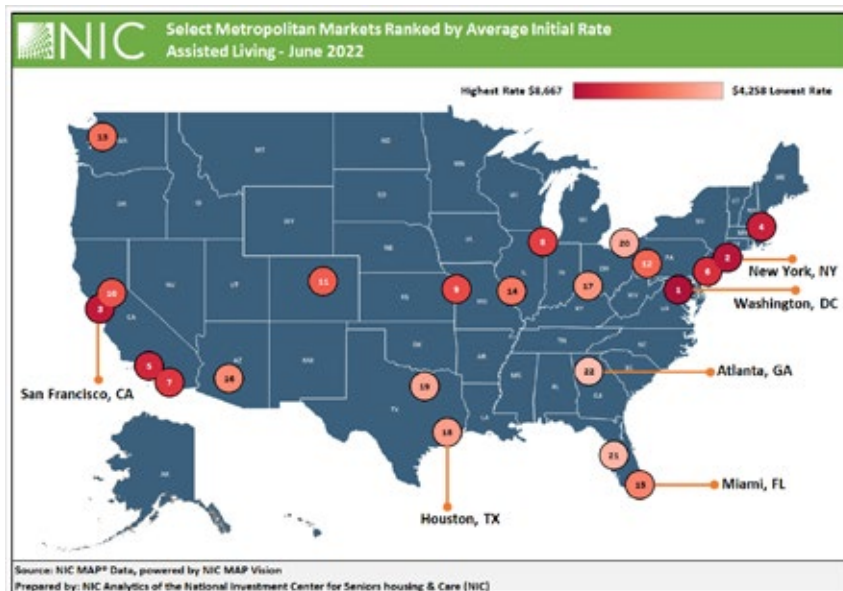
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across the U.S. operated by 25 to 30 seniors housing providers; and includes occupancy and leasing activity (as measured by move-in and move-out velocities) as well as asking, in-place, and initial rates.

The exhibit below depicts select metropolitan markets ranked by average initial rates for assisted living segments in June 2022, from the highest rate to the lowest rate. The map highlights that the East and West Coast markets have the highest rates, with Washington, DC ranking the highest with an average initial rate of \$8,667. Interestingly, the East and West Coast markets generally tend to have higher occupancy rates compared with markets in the center and the southern regions of the country. The lowest average initial rate for assisted living segments among the select metropolitan markets depicted in the map below was recorded in Atlanta, GA (\$4,258). As background, Atlanta's occupancy rate ranked the lowest among the 31 Primary Markets in second quarter of 2022, according to NIC MAP data, powered by NIC MAP Vision.



Growing the Data Set for the Actual Rates Data Initiative

NIC MAP Vision is continually working to add new properties to its actual rates data set and is working to report additional metropolitan markets in future quarters. NIC MAP Vision maintains the confidentiality of all data contributors and the contributed data. As the metropolitan markets that NIC MAP Vision will report depends upon participation rate of the individual market's seniors housing operators, your participation in contributing your properties' data to the actual rates data set is most welcomed. [Learn more](#) about the actual rates data initiative on our website.

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Senior Housing & Care Industry Calendar for September 2022

9/1/22	Skilled Nursing News RETHINK (Chicago, IL)
9/12/22	REITworks: 2022 Conference (La Quinta, CA)
9/12/22	AHIP Consumer Experience & Digital Health Forum (Nashville, TN)
9/12-9/14/22	2022 THCA 72nd Annual Convention & Trade Show (San Antonio, TX)
9/14-9/16/22	<u>2022 NIC Fall Conference (Washington, DC)</u>

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