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Two Economic Cycles: How Did They Affect Market Fundamentals for Seniors Housing?

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In this article, NIC Analytics presents a look at how the seniors housing market performed during the 2007-09 Global Financial Crisis (GFC) and details how this has differed from the impact COVID-19 has had on seniors housing market fundamentals during the past year using NIC MAP® Data, powered by NIC MAP Vision.

Economic Background. At the outset, it is important to acknowledge the very significant differences between this economic cycle and the last. The causes for the GFC were complex and related to financial deregulation, the use of derivatives and a crisis stemming from overleveraged financial institutions who had extended sub-prime residential home mortgages to those who did not qualify. This led to a large drop in housing prices (29%-plus), an explosion of single-family residential mortgages delinquencies (delinquency rates jumped to nearly 12% in January 2010), and a surge in joblessness (the unemployment rate jumped 5.1 percentage points from 4.9% in February 2008 to 10.0% in October 2009).

The COVID-19 recession stemmed from a health crisis and the actions taken to combat the spread of a deadly virus. There was an unparalleled lockdown of all "non-essential" workers as global and national government entities at all levels of jurisdictions sought to limit the spread of the very contagious novel coronavirus. This started as a supply-side shock and then morphed into a demand shortfall and resulted in a surge in unemployment (the jobless rate jumped 11.3 percentage points from 3.5% in February 2020 to 14.8% in April 2020 and has subsequently fallen back to 6.1% in April 2021), limited retail sales and services activity, and an increase in the savings rate as consumers stayed at home. It is considered the worst global economic crisis since the Great Depression in the 1930s.

Seniors Housing Occupancy Losses. The timing of the GFC coincided with a period of relatively strong inventory growth in seniors housing which resulted from flush capital markets and low interest rates. While high by today's standards, the yield on the 10-year Treasury bill was at then-historic lows of less than 4% which fueled borrower's appetites for development capital. Development deals that had been financed during the months leading up to the GFC broke ground and continued to be constructed, resulting in multiple years of strong supply growth at the worst possible time because demand was also slowing sharply as the recession took root.

Indeed, the recession caused demand for seniors housing residences to slow as jobs were lost, consumer confidence eroded, home equity disappeared, and home sales volume across the country collapsed. The inability or loss of desire to sell homes bled over into weakened demand for seniors housing as would-be future residents had little choice but to delay placing their homes on the market. In fact, seniors housing net absorption turned negative in early 2009, one of the only times this had occurred until the recent crisis.

During the GFC, the seniors housing market experienced a prolonged occupancy decline for two and one-half years. In fact, the 31 NIC MAP Primary Markets' occupancy rate for seniors housing properties fell 4.0 percentage points from a record high of 90.4% in 3Q 2007 to a then-record low of 86.9% in 1Q 2010.

By contrast during the pandemic, the occupancy rate for seniors housing properties fell 8.7 percentage points from 87.5% in 1Q 2020 to a record low of 78.8% in 1Q 2021 according to NIC MAP Data. The 8.7 percentage point decline during the pandemic was more than twice as severe as the occupancy drop during the GFC. Moreover, the precipitous drop in occupancy occurred quickly over the course of one year as opposed to two and one-half years during the GFC.

Like the GFC, development going into the pandemic was strong for seniors housing, with inventory growth in 2020 just shy of the all-time high levels of 2019 and comparable to that of 2018 and 2017. Compounding this was the unprecedented loss in demand, with four consecutive quarters of negative net absorption. The drop in demand was a result of lock-down measures self-imposed by some operators as they sought to limit the risk of contagion to their residents and staffs as well as a patchwork of government regulations that restricted move-ins. Also, prospective residents and their adult children influencers were cautious of moving into congregate settings given the perceived risks of vulnerability and contagion as well as visitation limitations.

During the COVID-19 crisis, between 1Q 2020 and 1Q 2021, 42,000 seniors housing units were placed back on the market in the Primary Markets. Combined with 18,000 units that opened during the same one-year period, the occupancy rate fell 8.7 percentage points. By contrast, during the GFC, a mere 949 units were placed back on the market on a net basis during 1Q 2009. Moreover, for the one-year period of 2009, there were a positive 4,700 units absorbed.

Independent Living Vs. Assisted Living. There were disparate effects on independent living and assisted living during the GFC and the pandemic. During the GFC, the crushing drop in home prices and home equity dissuaded would-be residents from moving into a choice-based, hospitality-focused care and living option. In contrast, because assisted living is generally a more need-based option and less choice-based, it may have been less sensitive to the economic cycle in 2008 and 2009. Independent living is perceived as less need-based and more choice-based, so it may be more easily postponed. This may have been particularly the case during the Great Recession, since that recession was largely housing-related and significant amounts of home equity were eroded, reducing the dollars available to move into a preferred housing option.

As a result, during the GFC there was a larger drop in occupancy rates for independent living (IL) than for assisted living (AL). For assisted living, the occupancy rate in the Primary Markets fell 3.2 percentage points from 89.6% in 3Q 2007 to 86.4% in 2Q 2009, a then-record low rate of occupancy. Once the recession officially ended in the second quarter of 2009, occupancy for assisted living began to improve as those residents with pent up demand for activities of daily living (ADLs) and Instrumental activities of daily living (IADL) support could no longer delay a move into seniors housing.

Independent living lost 4.3 percentage points of occupancy during this same period (91.8% in the 3Q 2007 to 87.5% in the 2Q 2009) and continued to slip further until 3Q 2010 when it fell to a low of 86.9% for a total decline of 4.9 percentage points. Independent living, a more discretionary housing choice than assisted living, saw occupancy decline over a longer period, and the decline was more significant than that of assisted living.

In contrast, during the pandemic, the occupancy drop in assisted living exceeded that of independent living. Between 1Q 2020 and 1Q 2021, occupancy fell by 7.9 percentage points from 89.7% to 81.8% in independent living, while it fell 9.5 percentage points from 85.0% to 75.5% in assisted living. These are both record low occupancy rates. Said another way, one in four assisted living units were vacant as of 1Q 2021 and for independent living one in five units were vacant.

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Indeed, during the pandemic, assisted living occupancy suffered more than independent living. This is likely because the pandemic was more than just an economic event—it was a health event that was most dangerous to the oldest and most frail seniors and those reside in assisted living. Nevertheless, the 7.9 percentage point in occupancy in independent living was huge by any measure, just less severe than for assisted living.

The Recovery. In the aftermath of the GFC and by Spring 2010, seniors housing occupancy took steps toward recovery as rising demand exceeded new supply, reflected by 17 out of 23 quarters of relatively higher demand between 2010 and 2015. The seniors housing market saw positive absorption of 63,000 units over this period. Inventory grew by a lesser 54,000 units, which allowed the occupancy rate to climb 3.0 full percentage points to 89.9% by 4Q 2015.

Since late 2015 and up until the time of the pandemic in 1Q 2020, the seniors housing occupancy rate had been pressured lower as supply generally exceeded demand (this was especially the case for assisted living). Net absorption totaled 56,000 units, while inventory grew by a larger 80,000 units, pushing the occupancy rate down 2.4 percentage points from 89.9% in 4Q 2015 to 87.5% in 1Q 2020.

Hence, when the pandemic started, seniors housing was already in a stressed position in terms of aggregate occupancy for the Primary Markets. Notably, not all markets followed this pattern as the supply and demand dynamics varied across the nation.

What's Ahead? As of this writing, there are anecdotal reports as well as evidence in NIC's Executive Survey Insights reports that lead generation and inquiries about seniors housing are increasing, the pace of move-ins is rising, and occupancy is beginning to tick up for many operators. The introduction and nearly full implementation of COVID-19 vaccines has been nothing less than miraculous (kudos to all the scientific efforts executed to allow this to happen) and has proven to be the catalyst for the beginning of a very likely recovery in the seniors housing sector (there remains a risk associated with variants). The removal of lockdowns across the broader economy should further jumpstart the economic recovery, supporting consumer confidence, home sales, and income growth. These factors will provide the means as well as support the desire to move into both choice-based and need-based senior living.

That said, it is important to remember that all markets do not behave the same and some markets continue to have a significant supply overhang. For a full recovery, the demand lost during the pandemic must be recouped, the inventory that was added to the market during the past year must be fully absorbed, and the pipeline of new properties currently in development has to be matched by equally strong demand and move-ins.

Summary. Taken in its entirety, during the GFC, the seniors housing proved that while it was not recession resistant, it was recession resilient. This was particularly the case for assisted living. As we move through 2021, we will soon find out if this statement continues to hold true.

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