

March 2020

Seniors Housing Fundamentals Steady in 2019

Seniors housing fundamentals remained steady during 2019, with occupancy levels showing modest improvement compared to the prior year but rent growth easing slightly, based on primary market data from the National Investment Center for the Seniors Housing & Care Industry (NIC), a leading provider of seniors housing data.

The level of new units under construction declined modestly during the year, but the supply of new units continues to be elevated. The competitive pressure from the new supply likely stifled rent growth during 2019, as solid levels of absorption continue to show that demand for seniors housing remains strong. The seniors housing industry remains steady overall, with underlying demand from an aging population continuing to support absorption and positive rent increases, though the ongoing supply surge may mute out-sized rent growth due to increased competition.

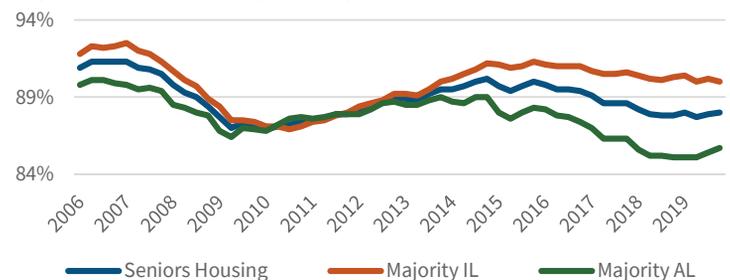
Rental Market Fundamentals

Overall occupancy for seniors housing improved slightly in 2019, increasing 0.2 percent from year-end 2018 to 88.0 percent. Majority Independent Living (IL) declined a modest 0.3 percent from 2018, to 90.0 percent, while Majority Assisted Living (AL) improved a notable 0.6 percent to 85.7 percent.

Rent growth for seniors housing eased during 2019, though performance was steady in the second half of the year. Fourth quarter 2019 rent growth was 2.8 percent, down from 3.1 percent for fourth quarter 2018. The underlying trends for IL and AL were similar during the year: Majority IL decreased 0.3 to 3.0 percent, and Majority AL decreased 0.4 percent to 2.5 percent.

According to NIC data, total seniors housing absorption achieved a record level for the year, with approximately 15,600 units absorbed, a 9.3 percent increase from 2018. The underlying segments experienced similar trends: Majority IL absorption was 18 percent higher than 2018 at approximately 6,000 units, while Majority AL was up by just 4 percent, to approximately 9,700 units.

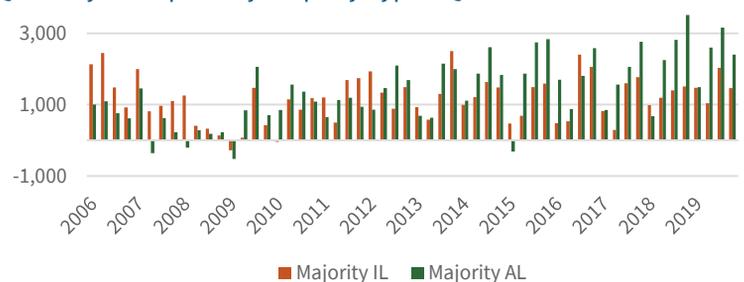
Occupancy Levels by Property Type – Q4 2019



Year-over-Year Rent Growth by Property Type – Q4 2019



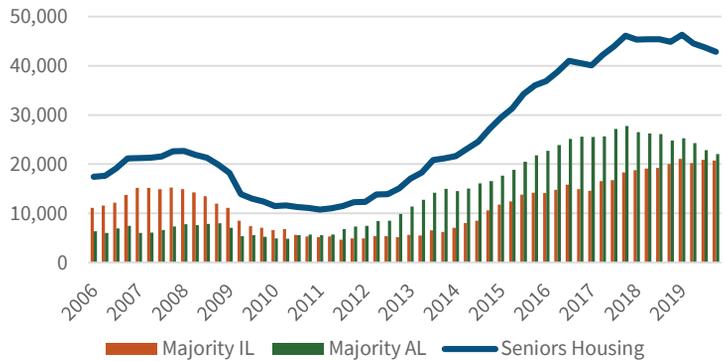
Quarterly Absorption by Property Type – Q4 2019



Multifamily Economic and Market Commentary

The number of seniors housing units under construction decreased in 2019 to approximately 42,800 units at year end, which is the lowest level since the second quarter 2017. The total number of units under construction is down 4.6 percent from the end of 2018. Trends differ for the underlying segments: The number of AL units under construction is down 11.2 percent compared to the prior year, while IL units are up 3.6 percent. The overall number of units added to seniors housing inventory in 2019 decreased to approximately 16,750 units, down from approximately 21,500 units in 2018.

Units Under Construction by Property Type – Q4 2019

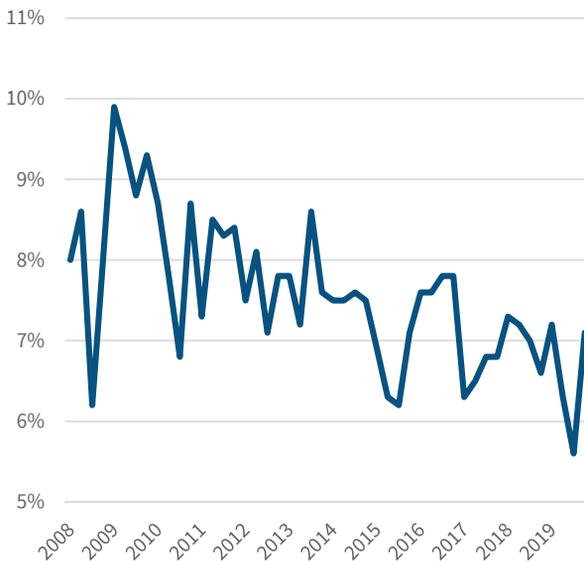


Source: NIC MAP® Data Service Primary Markets

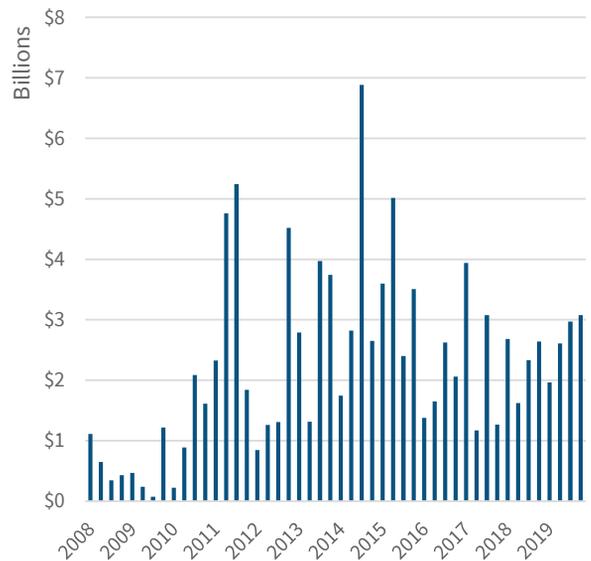
Transaction Activity

Total 2019 seniors housing sales volume was up 14 percent from 2018 to \$10.6 billion, according to data from Real Capital Analytics. The 2019 sales involved 551 properties, down from 737 properties the prior year. Cap rates increased to 7.1 percent for fourth quarter 2019, up from 5.6 percent in third quarter 2019 and 6.6 percent a year ago. The mix of properties sold in any given quarter can significantly influence national cap rate averages, so it is likely too early to determine if this is the beginning of a trend or normal volatility.

Cap Rate/Yield – Q4 2019



Sales Volume – Q4 2019



Source: Real Capital Analytics

Buyer composition for seniors housing properties shifted toward private entities in 2019. Private entities saw the largest change in share, accounting for 49 percent in 2019, up from 42 percent in 2018. Institutional entities accounted for 26 percent of 2019 buyer volume, up from 20 percent for 2018. Public buyers saw a diminished share, accounting for 20 percent of transactions in 2019, compared to 32 percent in 2018.

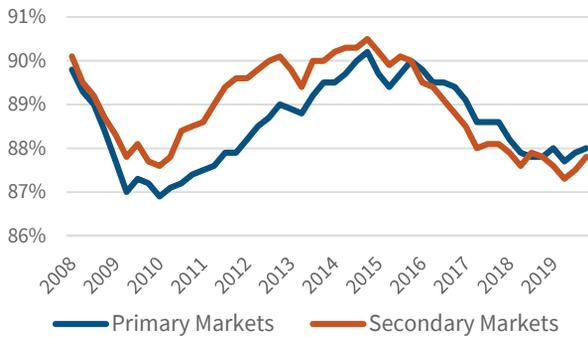


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Primary-Secondary Market Performance

According to NIC data, occupancy levels in secondary markets (32nd to 100th in size) ended the year unchanged compared with year-end 2018 at 87.8 percent. Occupancy levels in the secondary markets dipped during the middle of the year but recovered by year end. Rent growth in the secondary markets at year-end 2019 eased from the prior year, decreasing to 2.6 percent, down from 3.1 percent at the end of 2018.

Occupancy - Primary vs. Secondary – Q4 2019



Rent Growth - Primary vs. Secondary – Q4 2019



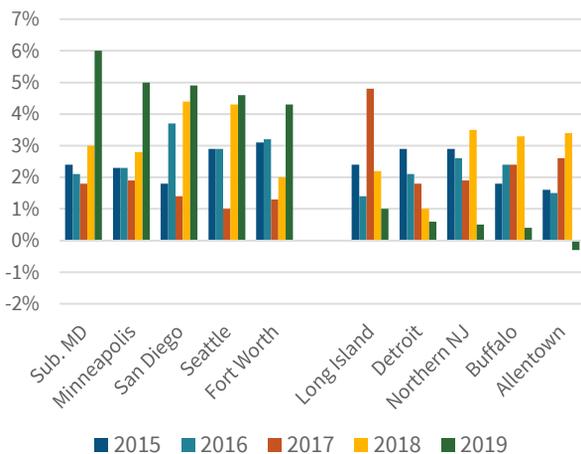
Source: NIC MAP® Data Service

Metro Level AL Performance

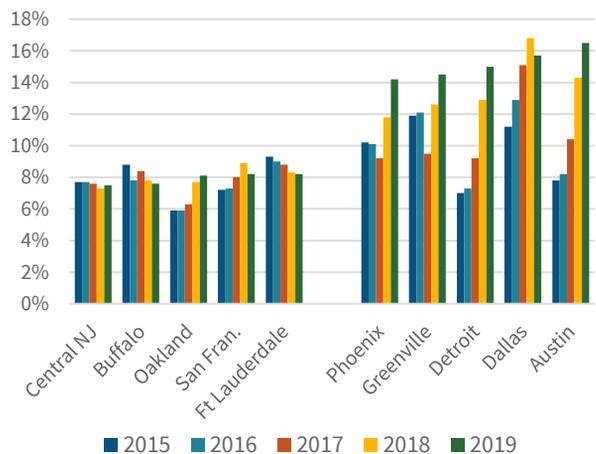
According to data from Reis, Inc., majority AL performance was mixed among the nation’s 50 highest inventory AL metros. Among the better-positioned metros, such as suburban Maryland, Minneapolis, and San Diego, there was solid rent growth, as well as marked growth improvement. But other metros, such as northern New Jersey, Buffalo, and Allentown, saw a significant decline in rent growth rates, with Allentown reporting an outright contraction in rent levels. Detroit reported both a significant decline in rent growth and a rising vacancy rate.

From a vacancy perspective, central New Jersey, Buffalo, and Ft. Lauderdale have been experiencing a modest tightening for several years. Oakland and San Francisco, while being among the five tightest metros, have seen a slow but steady increase in vacancy over the past few years. A similar increase in vacancy has been occurring in Phoenix, Greenville, Detroit, Dallas, and Austin, though the increases in many of the Texas metros are largely attributable to surging supply there.

Select Metro AL Rent Growth – 2015-2019



Select Metro AL Vacancy – 2015-2019



Source: Reis, Inc. – select metros include 50 highest AL inventory metros



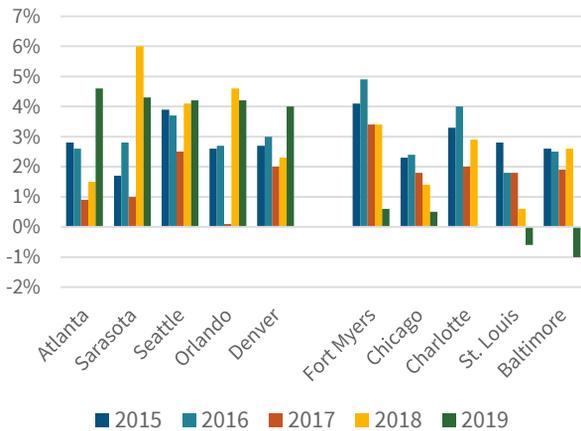
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Metro-level IL Performance

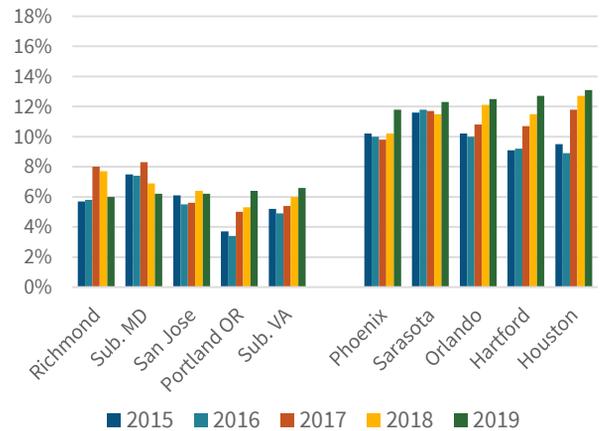
Majority IL performance was also mixed among the nation’s 50 highest inventory IL metros, according to data from Reis, Inc. Atlanta reported the highest rent growth rate in 2019, with a significant improvement over 2018 results. Sarasota, the second best in 2019, reported a modest decline from the prior year. The other leaders, Seattle, Orlando, and Denver, all had more consistent annual performance compared to 2018. Among the weaker metros, Charlotte recorded zero rent growth for 2019, while St. Louis and Baltimore both experienced a rent contraction.

Vacancy rates for the tightest Majority IL metros were generally stable in 2019, though Richmond and suburban Maryland reported slight improvements. San Jose has continued to have a stable vacancy rate, while suburban Virginia and Philadelphia were the other vacancy rate leaders (though they have both seen modest increases in vacancy over the past several years). Sarasota is among the five highest vacancy metros, but it has seen relative stability compared to the other four high vacancy metros. Those metros, Phoenix, Orlando, Hartford, and Houston, have seen steadily increasing vacancy rates. Phoenix is notable as it is the only metro that is in the top five highest vacancy metros for both IL and AL.

Select Metro IL Rent Growth – 2015-2019



Select Metro IL Vacancy – 2015-2019



Source: Reis, Inc. – select metros include 50 highest IL inventory metros

Outlook

Seniors housing market conditions were generally steady over the course of 2019, with the continuing trend of solid absorption amid generous supply. Rent growth eased during the first half of the year, but overall it remained stable considering the ongoing supply surge. Construction activity continued to moderate compared to the prior years, though we believe that trend could be short-lived. We expect overall occupancy levels to remain stable over the next year. Steady absorption levels should continue, which we expect should allow for moderate ongoing rent growth. As long as there is a generally healthy economy coupled with a stable single-family housing market, we expect the seniors housing sector to remain fairly steady over the near term. Since many seniors typically sell their home to afford the transition into seniors housing, single-family prices can, and do, have an impact on demand. Indeed, we expect existing single-family housing prices to increase 4.8 percent in 2020 before easing to approximately 2.8 percent in 2021.

Robust levels of new supply are likely an ongoing, long-term characteristic of the seniors housing sector, and while there were recent signs of moderation, we believe activity may start to rise again soon. Robust development in many markets is likely necessary to prepare for the vast number of baby boomers that will be crossing into their 80s in the coming decade, which is the peak age for entering seniors housing. Supply growth may prevent significant occupancy tightening in the long term, but continued steady absorption and positive rent growth appears likely to be sustainable.



Multifamily Economic and Market Commentary

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