

March 2021

Seniors Housing Fundamentals Severely Impacted in 2020

Seniors housing fundamentals were greatly impacted by the ongoing COVID-19 pandemic in 2020, with the occupancy rate falling to an unprecedented record low due to remarkable levels of negative net absorption, according to data from the National Investment Center for Seniors Housing & Care’s NIC MAP Data Service. Rent growth on an annual basis managed to remain positive for the year despite the market environment, though the pace of growth slowed each quarter.

The pandemic continued to greatly impact the seniors housing sector throughout 2020, especially when infections hit new record highs late in the fourth quarter. The continued decline in occupancy was attributable to both a high level of move-outs and continued delivery of new units despite the weak demand. The rollout of vaccines late in the fourth quarter was a positive step for the sector, particularly since its workers and residents have generally been given priority in receiving them, and recent data shows that infections have declined sharply in skilled nursing homes. However, seniors housing operators are expected to have higher expenses for protective equipment and weaker-than-expected demand for most of 2021, and even into 2022.

Seniors Housing Rental Market Fundamentals

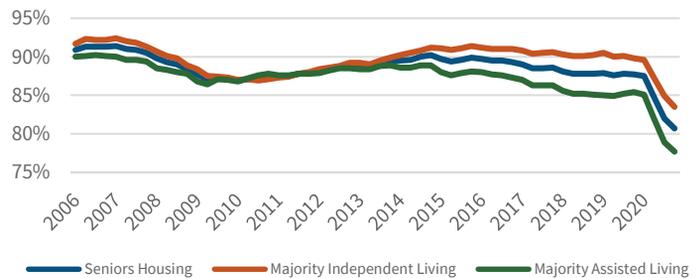
According to data from NIC, seniors housing occupancy fell to another record low in fourth quarter 2020, though the rate of decline eased from earlier in the year: Occupancy declined 7.0% in 2020 to 80.7%. Underlying segment trends were similar: Majority Assisted Living (AL) declined 7.7% to 77.7% and Majority Independent Living (IL) declined 6.3% to 83.5%.

Annual rent growth slowed as well, declining 1.6% from 2019 to 1.4% for 2020. The underlying quarterly trends for IL and AL were also similar: Majority IL rent growth slowed 1.8% to 1.4% and Majority AL slowed 1.5% to 1.3%.

Quarterly data from NIC on rent levels indicate that seniors housing overall, as well as Majority IL, managed to maintain positive quarter-over-quarter rent growth throughout 2020. But Majority AL experienced quarter-over-quarter rent contractions in second and fourth quarter 2020, though both contractions were under 0.1%.

Total seniors housing absorption was negative during most of 2020, according to NIC, though the size of the decline eased after the initial shock in the second quarter. Total seniors housing absorption was -30,319 units over the course of the year. The underlying segments experienced similar trends: Majority IL absorption was -13,907 units, while Majority AL contracted by -16,412 units.

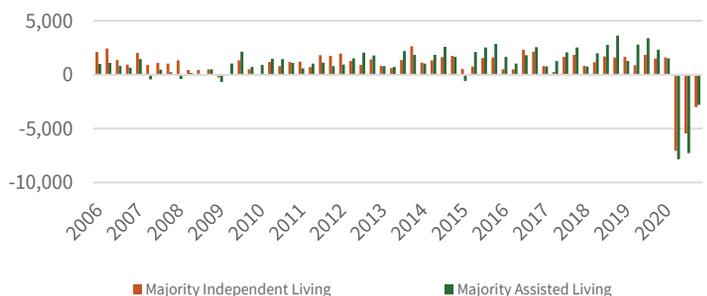
Occupancy Levels by Property Type – Q4 2020



Annual Rent Growth by Property Type – Q4 2020



Quarterly Absorption by Property Type – Q4 2020

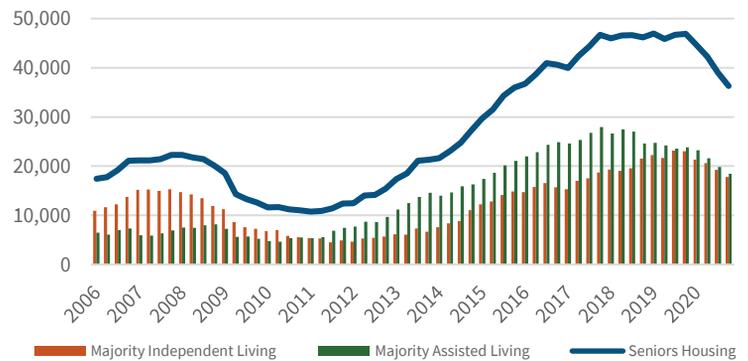


Source: NIC MAP Primary Markets

Multifamily Economic and Market Commentary

The number of units under construction decreased over the course of 2020 to 36,254 at year end, the lowest level since fourth quarter 2015, based on data from NIC. The total number of units under construction is down 22.7% from the end of 2019. Underlying segments both decreased, with the decline continuing to converge: the number of AL units under construction is down 22.6% compared to 2019, while IL units are down 22.7%. The overall number of units added to seniors housing inventory in 2020 decreased only slightly, to 18,373 units, down from 18,470 units in 2019.

Units Under Construction by Property Type – Q4 2020

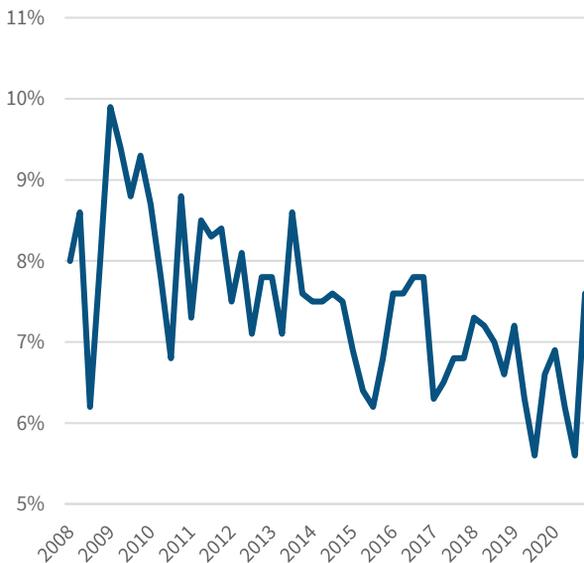


Source: NIC MAP® Data Service Primary Markets

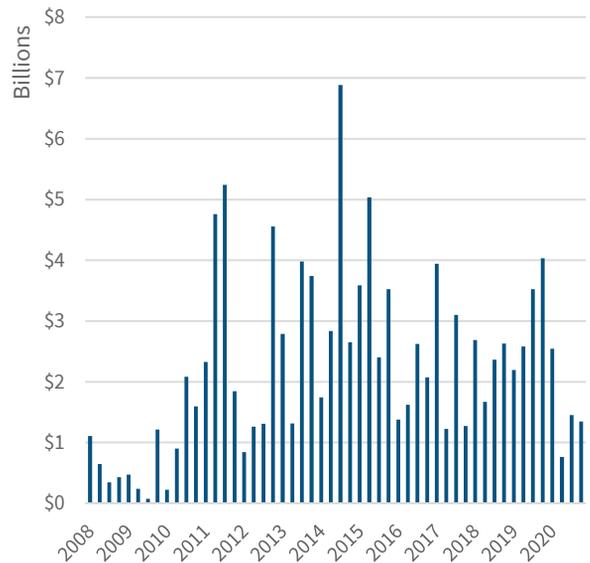
Subdued Transaction Activity in 2020

According to Real Capital Analytics, total 2020 sales volume was \$6.1 billion, a decrease of 51% over 2019 and the lowest annual volume since 2010. Fourth quarter 2020 seniors housing sales volume was down 7.1% from the prior quarter, to \$1.3 billion, and down a stunning 67% from a year ago. The preliminary seniors housing average cap rate increased to 7.6% in fourth quarter 2020, up from a revised 5.6% in the prior quarter and 6.6% for 2019, and the highest-level since the end of 2016. The average cap rate for the full year of 2020 was 6.5%, which is an increase from 6.0% for 2019, but down from 6.9% in 2018.

Cap Rate/Yield – Q4 2020



Sales Volume – Q4 2020



Source: Real Capital Analytics

Buyer composition shifted toward private entities in 2020, according to Real Capital Analytics. Private buyers saw the largest increase in share, accounting for 61% in 2020, up from 44% in 2019. Publicly traded entities saw a modest decrease at 17% of 2020 transactions, down from 22% in 2019. Institutional buyers, like pension funds, were 19% of sales volume after accounting for 30% in 2019.

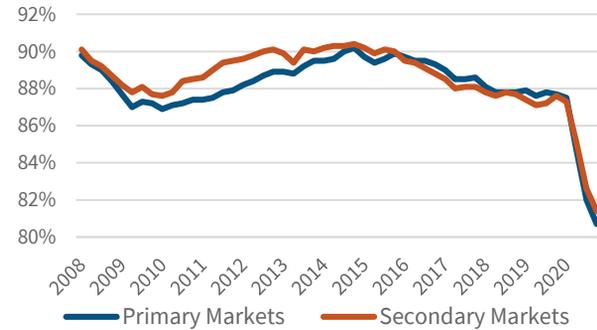


Multifamily Economic and Market Commentary

Primary-Secondary Market Performance Similar

Occupancy levels in secondary markets (32nd to 100th in size according to NIC MAP) declined 6.2% in 2020 to 81.4%, the lowest level on record, though the rate of decrease slowed after the initial shock in the second quarter. Rent growth in the secondary markets in 2020 eased but remained positive, with the secondary markets decreasing 1.1% from the 2019 growth rate to 1.8%.

Occupancy - Primary vs. Secondary - Q4 2020



Rent Growth - Primary vs. Secondary - Q4 2020



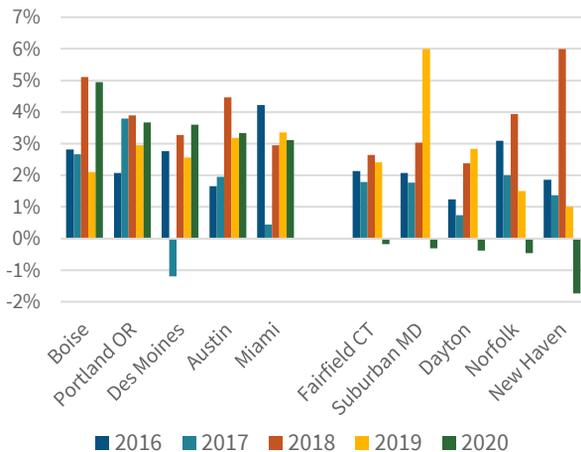
Source: NIC MAP® Data Service

Metro-Level Assisted Living Performance Mixed

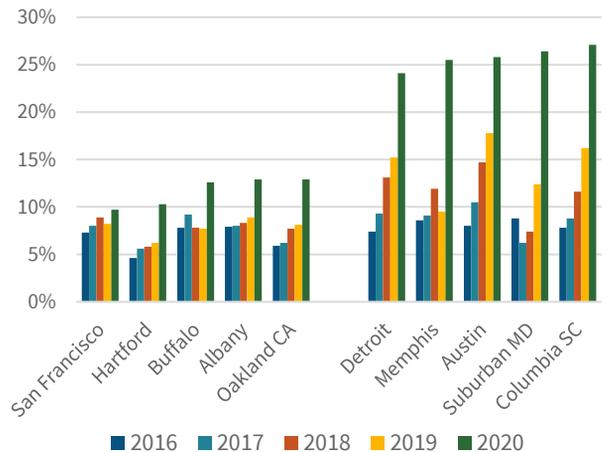
According to data from Moody's/REIS, Inc., majority AL performance was surprisingly mixed among the nation's larger inventory AL metros. Despite the pandemic, numerous metros, such as Boise, Portland OR, Des Moines, and Austin managed to show slightly improved rent growth compared to 2019. But several metros, such as Fairfield CT, Suburban Maryland, Dayton, Norfolk, and New Haven, experienced overall rent contractions in 2020.

From a vacancy perspective, each of the 80 largest markets in the country experienced an increase in vacancy in 2020, but as can be seen in the chart below, to very different degrees. San Francisco experienced only a modest increase compared to 2019. The remaining top five most highly occupied markets -- Hartford, Buffalo, Albany, and Oakland -- saw more noteworthy increases but had vacancy rates below 15%. The five most vacant markets, including Detroit, Memphis, Austin, Suburban Maryland, and Columbia SC, all had significant increases of more than 7.5%.

Select Metro AL Rent Growth - 2016-2020



Select Metro AL Vacancy - 2015-2020



Source: Moody's/REIS, Inc. - select metros include 80 highest AL inventory metros



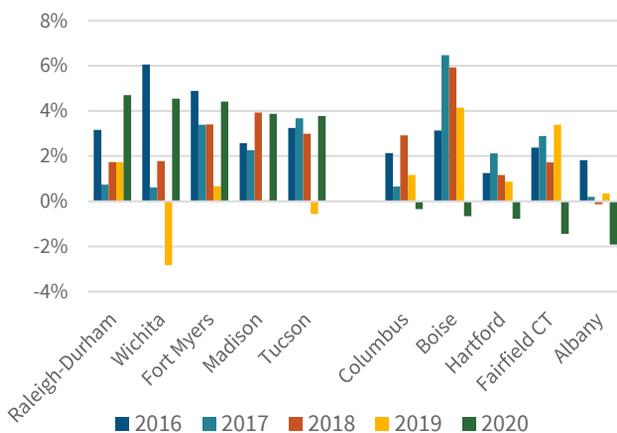
Multifamily Economic and Market Commentary

Metro-Level Independent Living Performance Also Varied

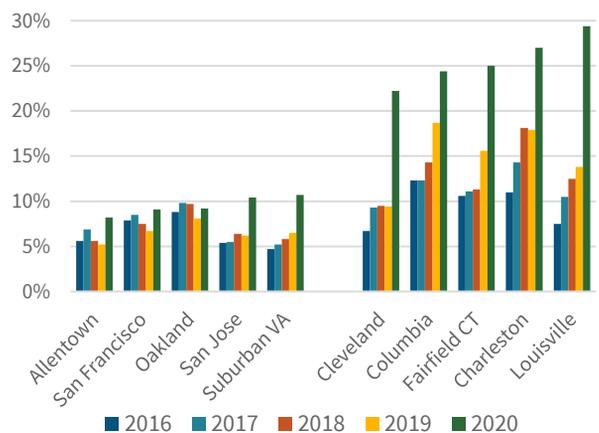
Majority IL rent performance was also mixed among the nation's 80 highest inventory IL metros, according to data from Moody's/REIS, Inc. Raleigh-Durham reported the highest rent growth rate in 2020, with a significant improvement over 2019 results. Wichita KS, Fort Myers, Madison, and Tucson were the other Majority IL rent growth leaders, with each reporting substantial improvements. Among the lagging metros, Columbus, Boise, Hartford, Fairfield, and Albany each experienced modest rent contractions.

As was the case for Majority AL, each of the 80 largest markets in the country experienced an increase in Majority IL vacancy in 2020, but again to very different degrees. Allentown, San Francisco, and Oakland saw just modest increases in vacancy in 2020, while San Jose and Suburban Virginia saw more notable increases, though they were among the five lowest vacancy markets. Cleveland, Columbia SC, Fairfield, Charleston SC, and Louisville recorded the highest vacancy rates at the end of 2020, all of which saw substantial increases over the course of the year, and all of which experienced vacancy rates of over 20%.

Select Metro IL Rent Growth – 2016-2020



Select Metro IL Vacancy – 2016-2020



Source: Reis, Inc. – select metros include 80 highest IL inventory metros

Outlook

Seniors housing was battered by the COVID-19 outbreak in 2020. Negative absorption throughout the year resulted in the weakest occupancy on record, though the rate of decline eased somewhat later in the year. Rent growth slowed throughout 2020, but the growth rate was positive in every quarter, indicating that there remains some foundational demand for the housing type. Construction activity further eased from the highs achieved several years ago but remains elevated from a historical perspective. The pandemic, and the virus' particularly high mortality rates for older people, coupled with images of seniors housing being invaded by the virus while isolating the residents from their loved ones, is still expected to have a dramatically negative impact on the sector in the near-term. While there appears to be progress in combating the pandemic (vaccinations, for example, are well underway for much of the senior citizen population) we expect that many seniors may be reluctant to move into facilities in the near term, with occupancies falling and rent levels facing strong downward pressure over the next 12-18 months.

The demographic wave of aging baby boomers entering their 80s continues to be a potentially powerful engine for longer-term seniors housing demand. But the beginning of that wave is likely still several years away. Once the seniors housing industry makes its way through the current pandemic, we expect it could be entering some of its strongest ever years of demand, with the population of people over 80 expected to double over the next 20 years. However, we believe that the industry will have to contend with the fallout of the current crisis before its long-term prospects can be realized or more accurately forecasted.



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