Multifamily Economic and Market Commentary

Fannie Mae®

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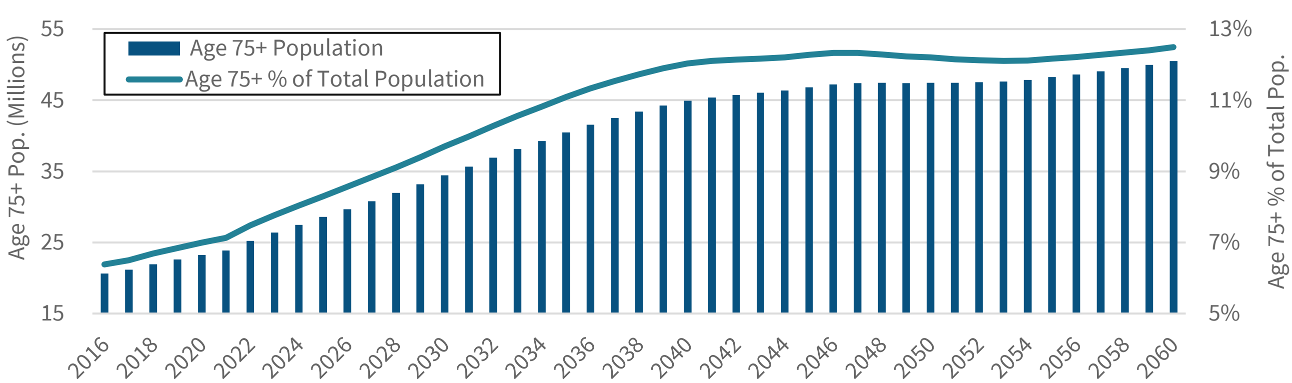
Seniors Housing Demographics and Construction Outlook

The Baby Boomers have been an engine of social change for more than 50 years. Born in the years following World War II, their population is estimated at over 70 million in 2021. While Millennials have recently taken over as the largest generational group in the country, the Baby Boomers will continue to have substantial influence on society, including because the Boomers are expected to live longer than any generation before them due to the notable advances in healthcare over the past half-century.

The longer lifespan of the Boomers is expected to result in a remarkable shift in the composition of the nation's population over the next several decades. According to estimates from the U.S Census Bureau, the number of people aged 75 and older in the U.S. stood at approximately 23.2 million at the end of 2020, or 7.0% of the nation's population. Over the next 10 years, the population in this age group is expected to grow by 11.2 million people, rising to 34.5 million or 9.7% of the population. By 2050, this aged population is expected to comprise 47.5 million people, and account for over 12% of the population. As this demographic ages, it will very likely need new – and different – forms of housing.

Forecasted Age 75+ Population in the United States



Source: U.S. Census Bureau

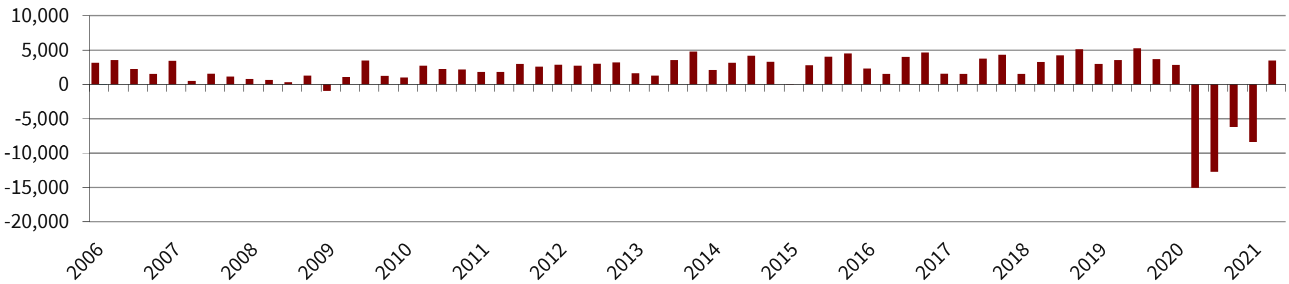
The Institutional Seniors Housing Industry

Prior to the COVID-19 pandemic, the seniors housing sector was experiencing noteworthy expansion. The sector had been building record numbers of units, according to data from the National Investment Center for Seniors Housing & Care's NIC MAP Data Service. While the pandemic dramatically interrupted conditions in the sector, the expected surge of likely future residents remains. Because many commercial real estate projects often take many years to go from idea to occupancy, the sector was already positioning itself to meet the expected demand, though the surge may materialize later than was previously expected due to the pandemic. But even if the appetite for seniors housing diminishes modestly after the pandemic subsides, we believe there will still be a substantial quantity of people seeking seniors housing facilities in the foreseeable future.

Seniors Housing Demand Strong Prior to Pandemic

Prior to COVID-19, the seniors housing sector was experiencing unprecedented levels of demand. Quarterly absorption of new units in the NIC MAP's primary markets (the 31 largest markets in the country, as defined by NIC) achieved historical highs, as seen in the chart below.

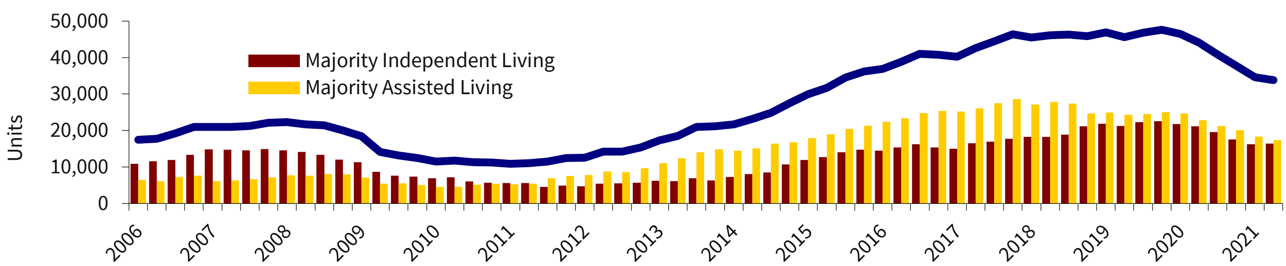
Quarterly Seniors Housing Absorption



Source: NIC MAP® Data Service Primary Markets

This strong demand resulted in developers increasing their building activity. In the fourth quarter of 2019, nearly 48,000 seniors housing units were under construction, with activity levels having grown steadily since the end of the Great Recession, from fewer than 11,000 units that were under construction in the first quarter of 2011, as seen in the chart below.

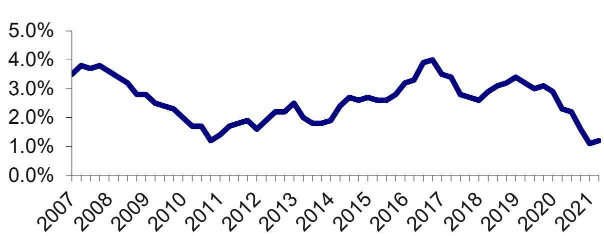
Seniors Housing Units Under Construction



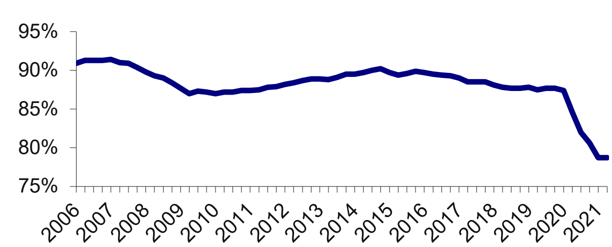
Source: NIC MAP® Data Service Primary Markets

Of course, seniors housing is not immune to the dynamics of imbalanced supply and demand, and during 2016 through 2019 the sector experienced moderately declining occupancy rates due to the wave of new units that were being added to the primary markets, as seen in the chart below. But throughout this period, and likely due to the strong levels of demand and absorption, rent growth remained positive and stayed above 2.5% on an annual basis for the entire time, as seen in the chart below.

Seniors Housing Annual Rent Growth



Seniors Housing Occupancy



Source: NIC MAP® Data Service Primary Markets

Construction Elevated but Needed in Some Metros

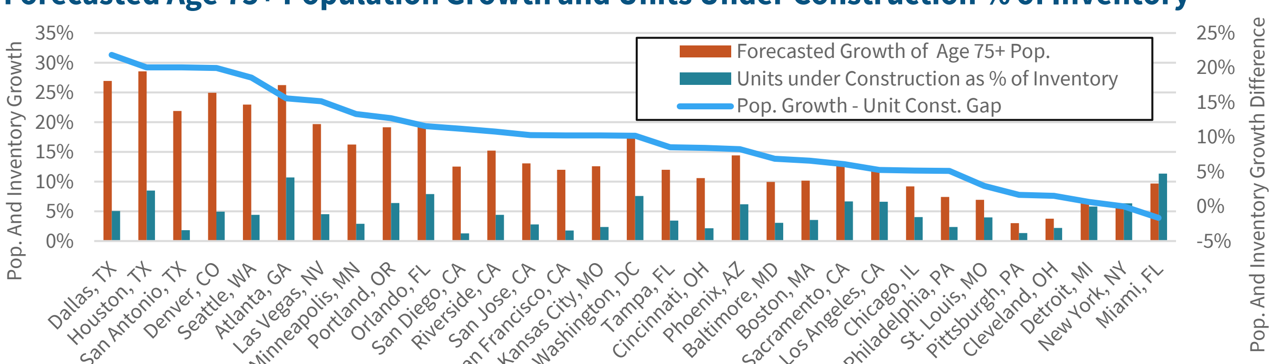
Both on a national and metro-level basis, seniors housing experienced an unprecedented exodus of residents due to the pandemic, resulting in significantly lower occupancy rates. While this weakened performance is concerning in the near term, longer term the wave of Boomers that we expect will be seeking out seniors housing remains a powerful source of future demand. But like all real estate, location matters, and some markets are expected to see more favorable conditions than others.

According to NIC MAP, as of the second quarter 2021 in the Primary 31 markets, nearly 34,000 seniors housing units were under construction. With nearly 672,000 units existing in these 31 markets, that constitutes a 5% increase. According to demographic and marketing data specialist firm Claritas, Inc., 9.8 million people aged 75+ live in these markets. NIC MAP forecasts this population to grow by 13% in these markets over the next five years.

Seniors housing occupancy fell significantly during the pandemic, from 87.7% at the end of 2019 to 78.7% for second quarter 2021. Considering that the 8% gap between the units underway and the forecasted growth of the age 75+ population is similar to the 9% decline in occupancy that is largely the result of the pandemic, in these primary markets future supply and demand look to be relatively balanced.

However, a more nuanced view shows that at the market level, about half of the Primary 31 metros could be quite undersupplied, while others might be significantly oversupplied. For example, as seen in the chart below, **Dallas** is forecasted to have its population of people aged 75+ grow by nearly 27% in the next five years, while the market currently has only 5% of its market inventory underway. **Houston** and **San Antonio** both have a 20% gap between units under construction and expected population growth. Four more markets, **Denver**, **Seattle**, **Atlanta**, and **Las Vegas**, all have gaps of more than 15%, though lower occupancy levels in **Las Vegas**, **Atlanta**, and **Houston** as of the second quarter 2021 indicate that inventory expansion may not be necessary.

Forecasted Age 75+ Population Growth and Units Under Construction % of Inventory



Source: NIC MAP® Data Service Primary Markets and Claritas

On the other hand, several markets have either lower population growth forecasted, or have significant inventory underway. For example, **Miami** has a market expansion of 11% currently underway, but just 9.6% growth of the age 75+ cohort forecasted. Similarly, **New York** and **Detroit** have nearly evenly matched population growth rates forecasted compared to the units underway. Considering these markets have seen pandemic-related occupancy declines, further seniors housing inventory expansion in these metro areas may not be necessary.

Smaller Metros – Mixed Levels of Need for New Inventory

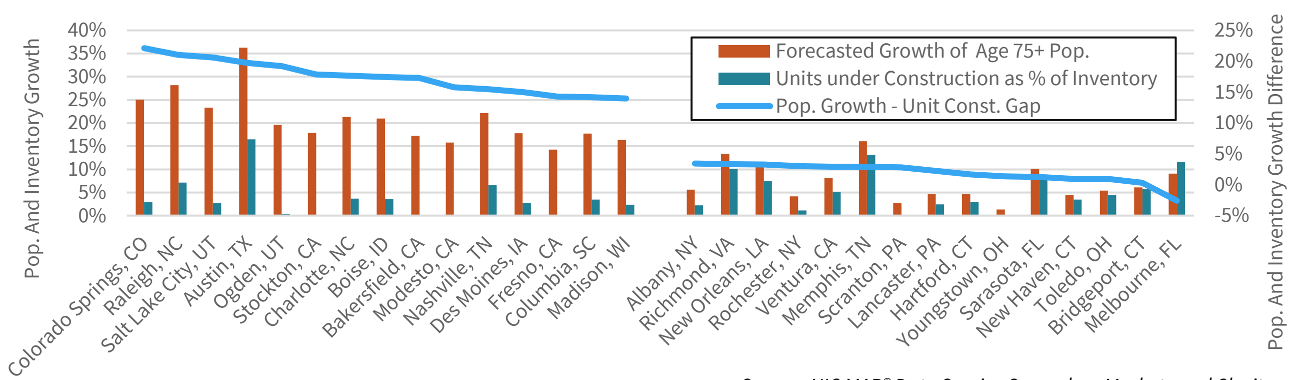
Smaller metros – those 68 markets defined as secondary by NIC MAP – have widely varied levels of need for seniors housing market expansion. According to NIC MAP, as of the second quarter 2021 nearly 14,900 units were under construction in these secondary markets. With nearly 360,000 seniors housing units already part of the overall housing inventory, that constitutes a 4.1% inventory increase. According to Claritas, Inc., 4.7 million people aged 75+ live in these markets. And this population is forecasted to grow by 12% in these markets over the next five years.

As was the case in the primary markets, seniors housing occupancy in secondary markets declined significantly during the pandemic, though to a slightly lesser extent. In the secondary markets, occupancy fell from 87.5% at the end of 2019 to 80.0% for second quarter 2021, after recovering slightly in 2021. With the 8% gap between the units underway and the forecasted growth of the age 75+ population, and a 7.5% decline in occupancy in the secondary markets, future supply and demand also looks to be nearly balanced.

At the market level, the metros with significant under- and over-supply appear to be more pronounced. **Colorado Springs**, **Raleigh**, and **Salt Lake City** all have forecasted population growth for the age 75+ cohort of more than 20%, with **Raleigh** forecasted to have a 28% increase. Each of the markets only has a single-digit percentage of the current market inventory under construction, with each having a gap between the two measures of over 20%. And among all the secondary markets, **Austin** has the greatest population growth forecasted for this cohort at 36%, but it only has 16% new construction units underway, resulting in a gap of just under 20%, as seen in the chart below.

Forecasted Age 75+ Population Growth and Units Under Construction (% of Inventory)

Select Secondary Metros



Source: NIC MAP® Data Service Secondary Markets and Claritas

In these smaller metro areas, there are a good number of markets that could possibly face a period of oversupply, especially if occupancy recovers to pre-pandemic levels. In particular, **Melbourne, Florida** currently has a market unit increase of 12% currently under construction, but with the population of people aged 75+ forecasted to grow 9.1%. **Bridgeport**, **Toledo**, **New Haven**, **Sarasota**, and **Youngstown** face similarly concerning trends: All have a gap in their population growth and seniors housing units under construction of about 1%, before accounting for units that are currently available due to reduced occupancy. These markets are concerning, as low occupancy could persist here longer than elsewhere in the country, and competitive pressures could diminish future rent growth.

Shortage Likely Even Before Increasing Penetration

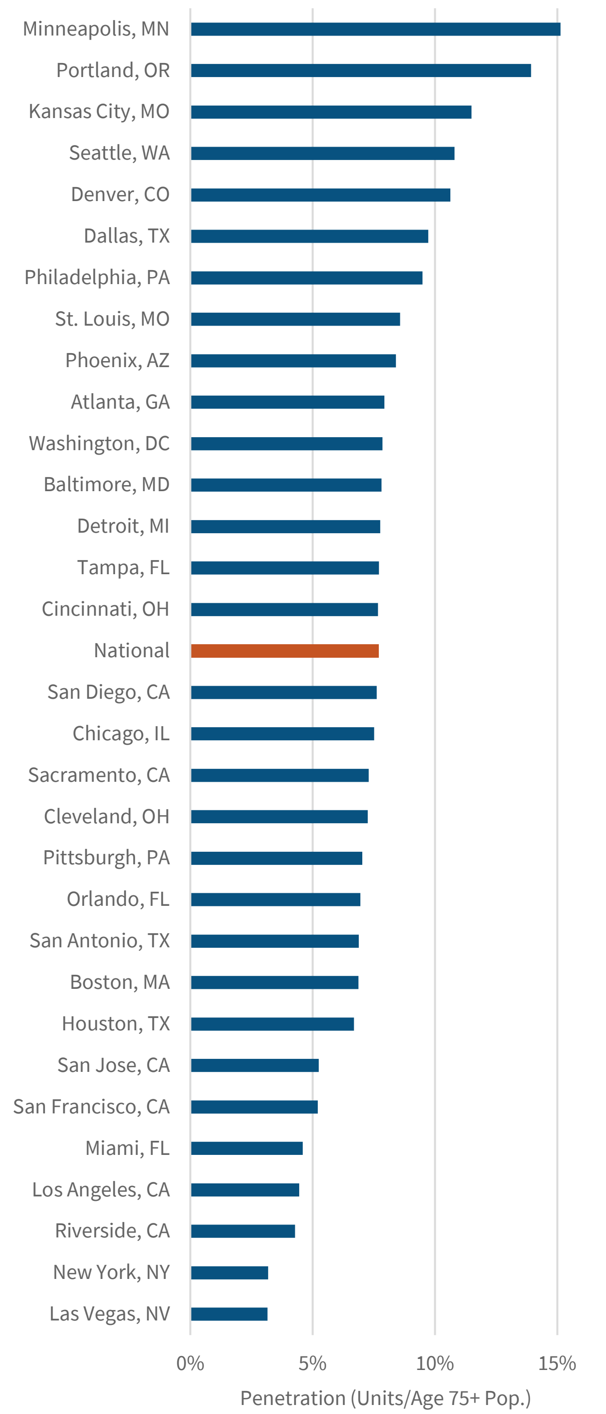
With such remarkable growth of the age 75+ cohort on the horizon, a dramatic expansion of the seniors housing sector seems very likely, and probably necessary. And that's before accounting for the current levels of penetration, a measure that relates the number of seniors housing units to the actual seniors population.

According to the NIC MAP, the seniors housing industry had a 7.7% penetration rate. Seniors housing industry participants are endeavoring to make seniors housing facilities more accessible to residents with lower income levels than they have historically served, which could dramatically increase the number of seniors housing units needed to serve the Boomers, even if penetration is increased by just a few percentage points.

In nearly all metros, increasing market penetration will likely result in the need for a significant expansion of inventory. Even in the metros that have above-average penetration rates, most seniors aged 75+ do not live in seniors housing facilities. As seen in the chart to the right, at 15%, **Minneapolis** has the highest penetration rate among the NIC primary 31 markets. Just four more markets, **Portland**, **Ore.**, **Kansas City**, **Seattle**, and **Denver**, have penetration rates over 10%.

Another five metros have penetration rates that could allow for significant seniors housing expansion. **Las Vegas**, **New York**, **Riverside**, **Los Angeles**, and **Miami** all have penetration rates below 5%, though as noted previously, **Miami** already has a significant expansion of units already under construction in the market.

Seniors Housing Penetration – Select Metros



Source: NIC MAP® Data Service Primary Markets and Claritas

Post-COVID-19 Seniors Housing Inventory Expansion May Be Necessary

The wave of aging Baby Boomers on the horizon continues to be a potentially powerful engine for medium- and long-term seniors housing demand, even though the full force of that wave is likely years away. As the pandemic runs its course and the seniors housing industry recovers, we believe it may enter some of its strongest years of demand, due in part because the population of people aged 75+ is expected to double over the next 25 years. The seniors housing sector had been preparing for this eventuality prior to the pandemic by significantly ramping up development activity, but as market conditions followed their usual softening and tightening cycles, and new supply moderately outweighed demand, occupancy levels declined, and construction activity declined as well in response. In order to serve future demand, even if the sector fails to penetrate further into the elderly population, significant levels of new development will likely need to begin.

It is important to note that the seniors housing sector will have to contend with the fallout of the pandemic before its long-term prospects can be realized. Some of the earlier pressure on the sector from the pandemic appears to have eased due to relatively high vaccination rates among the elderly. The remarkable rebound in absorption during the second quarter of 2021 was also a positive sign for the sector, and the continued delivery of new units, along with the static performance of the occupancy rate, indicates to us that, after the pandemic subsides, typical supply-and-demand market forces should positively influence the sector. Rent growth also stabilized in mid-2021, after easing during the pandemic, and, remarkably, has remained positive through the pandemic, indicating that there remains solid foundational and demographic demand for the housing type. However, due to the Delta variant, we expect the sector to remain in its current stasis for several more quarters before a more sustained recovery can begin.

Overall, we continue to believe seniors will be somewhat reluctant to move into seniors housing facilities over the next 9 to 15 months, possibly resulting in moderately falling occupancy rates and downward pressure on rent levels. Post-pandemic, there appears to be sound fundamental reasons for the seniors housing sector to expand. Of course, as is often the case in real estate, performance will vary across metro areas, and there will likely be bumps along the way, but the rising tide of seniors aging into the 75+ aged cohort should provide plenty of demand for the long-term expansion of the seniors housing sector.

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