March 2022

Seniors Housing Fundamentals Rebounded in 2021

After deteriorating since the onset of the COVID-19 pandemic, seniors housing fundamentals began to improve in the middle of 2021, with the industry experiencing a noteworthy rebound, according to data from NIC MAP Vision LLC. During the summer of 2021, the average occupancy rate began to rise due to record levels of absorption, and annual rent growth reversed its declining trend and began to stabilize in the spring, before rising during the middle of the year.

The stabilization and improvement in the industry's fundamental measures look to be a continuation of a post-pandemic recovery that began in the second quarter of 2021. Ongoing high levels of absorption later in the year are likely attributable to accumulated pent-up demand, as we believe that many seniors likely postponed moving to institutional seniors housing during the height of the pandemic. It is still premature to declare if the industry will return to its pre-pandemic growth trajectory, and it will likely take several more quarters to determine if that growth has returned, or if the sector will still need to adjust to diminished demand for the housing type, but we continue to believe that the former is more likely.

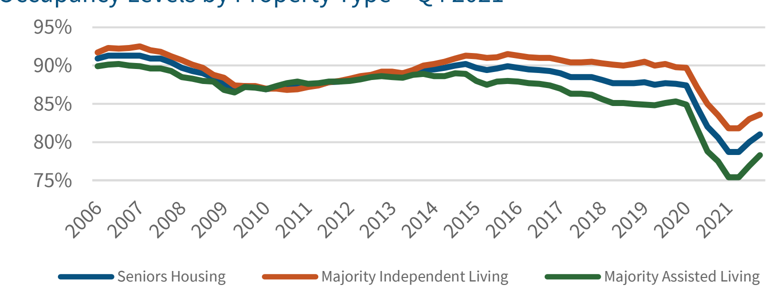
Occupancy and Absorption Rose

According to NIC MAP Vision, the overall occupancy rate for seniors housing rose to 81.0% at the end of 2021, improving 0.4% from the end of 2020. Underlying segment trends were both positive, though to notably different degrees: Majority Assisted Living (AL) increased 0.8% during the year to 78.3%, and Majority Independent Living (IL) increased just 0.1% to 83.6%.

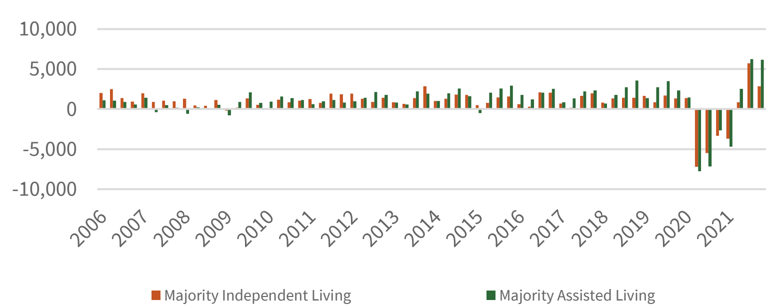
Total seniors housing absorption began rebounding in the second quarter of 2021 according to NIC MAP data, with the industry achieving a new record high level of quarterly absorption of nearly 12,000 units in the third quarter. While overall absorption levels moderated slightly in the fourth quarter, the level of absorption remains at historically high levels. And both underlying AL and IL segments achieved quarterly records in the third quarter of 2021.

Measures of annual rent growth increased steadily over the course of the year, according to NIC MAP data, rising 0.7% from 2020 to 2.3% for 2021. The underlying quarterly trends for IL and AL both showed increases, though to somewhat different degrees: Majority IL increased 0.4% from 2020 to 2.2%, and Majority AL increased 1.1% to 2.4%.

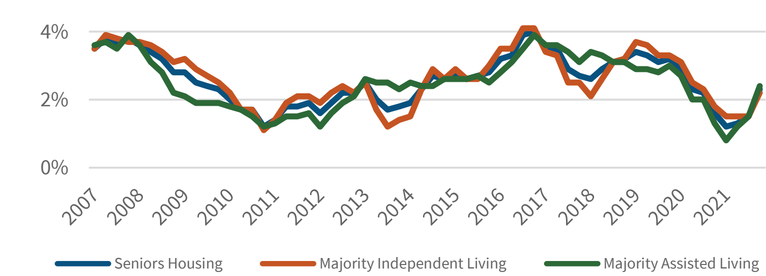
Occupancy Levels by Property Type – Q4 2021



Quarterly Absorption by Property Type – Q4 2021



Year over Year Rent Growth by Property Type – Q4 2021

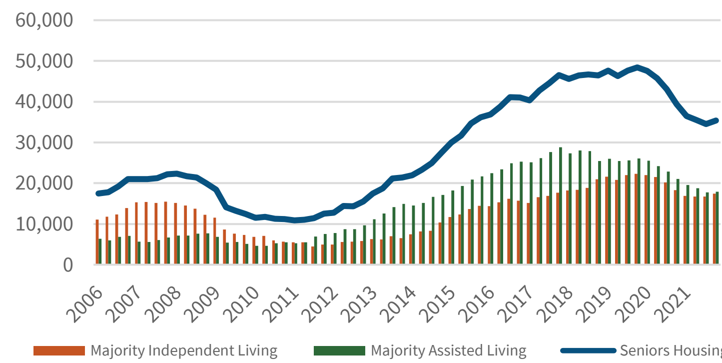


Source: Primary Markets, NIC MAP Data, Powered by NIC MAP Vision

Multifamily Economic and Market Commentary

According to NIC, in the fourth quarter of 2021 the number of units under construction increased for the first time since third quarter 2019, rising to 35,340. Nevertheless, the total number of units under construction is down 10.2% from the end of 2020. Both segments decreased compared to 2020, though the scale of the decline differed: The number of AL units under construction is down by 15.1% compared to the end of 2020, while IL units are down by a lesser 4.7%. The overall number of units added to seniors housing inventory in 2021 decreased to 16,103 units, down from 18,292 units in 2020.

Units Under Construction by Property Type – Q4 2021

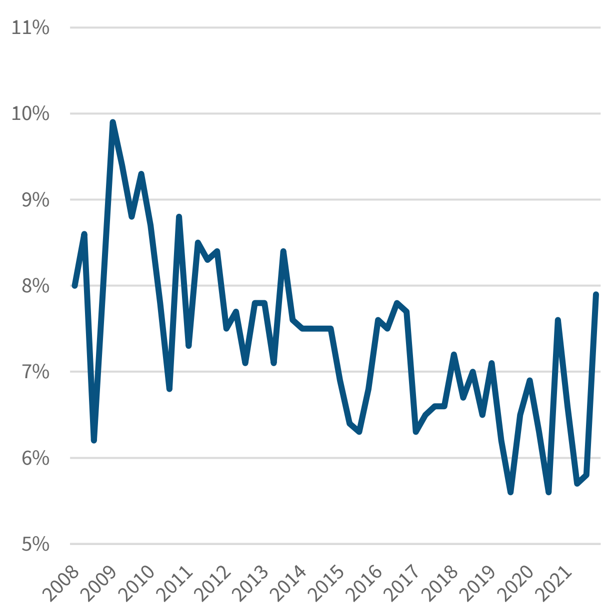


Source: Primary Markets, NIC MAP Data, Powered by NIC MAP Vision

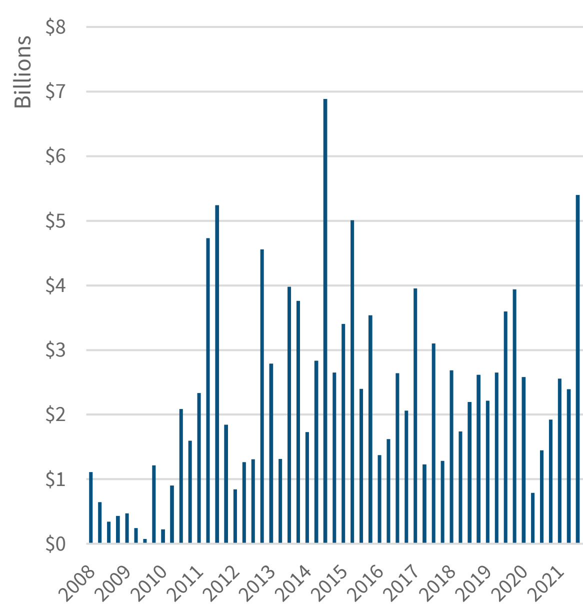
Cap Rates Fall Slightly and Transaction Activity Increases

According to NIC and Real Capital Analytics, the preliminary average cap rate for 2021 was 6.4%, which is a slight decrease from 6.6% for 2020 but an increase from 6.0% for 2019. Cap rates were somewhat volatile over the course of the year. The preliminary seniors housing average cap rate increased to 7.9% in fourth quarter 2021, which is up from a revised 5.8% in third quarter 2021 and 7.6% a year ago, and the highest level since the third quarter of 2013 (though we believe there will likely be a revision). For 2021, total volume was $12.1 billion, which is an increase of 81% over 2020 volume. A total of 678 properties transacted in 2021, up from 385 in 2020.

Cap Rate/Yield – Q4 2021



Sales Volume – Q4 2021



Source: Real Capital Analytics and NIC MAP Vision

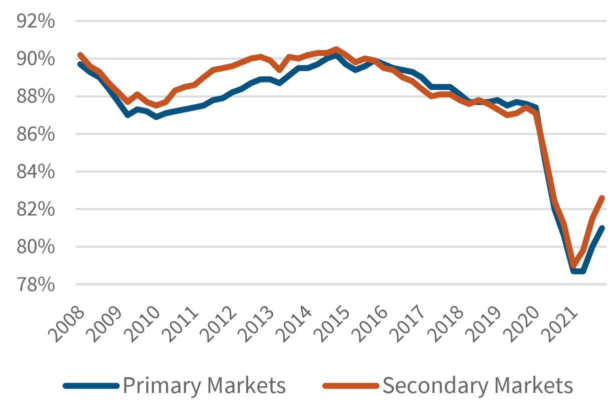
Buyer composition shifted toward public entities in 2021, with their share rising to 33% of 2021 transactions, up from 16% for 2020, according to NIC and Real Capital Analytics. Cross-border buyers are experiencing a modest share increase at 5%, up from 2% in 2020. Institutional buyers were down notably at 14%, compared to 23% in 2020, and private buyers continued to have the largest share at 46%, though that is down from 59% in 2020.

Multifamily Economic and Market Commentary

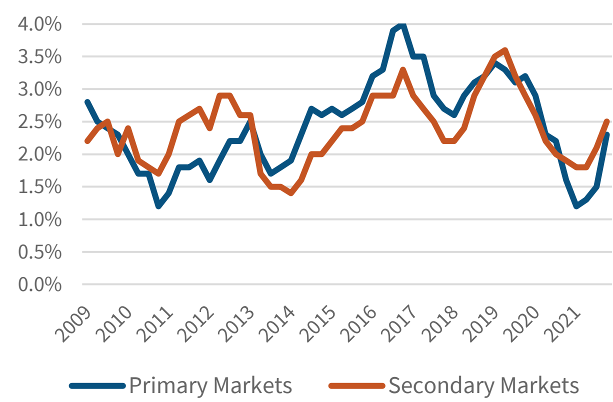
Secondary Market Performance Improves

According to NIC MAP, occupancy levels in secondary markets (32nd to 100th in size according to NIC) increased in 2021 to 82.6% at year-end, increasing 1.4%, which continues an almost two-year-old trend of secondary markets having higher occupancy than the primaries. The annual rent growth rate in the secondary markets rose during the year, with the secondary markets increasing 0.6% from the end of 2020 to 2.5% for fourth quarter 2021.

Occupancy - Primary vs. Secondary – Q4 2021



Rent Growth - Primary vs. Secondary – Q4 2021



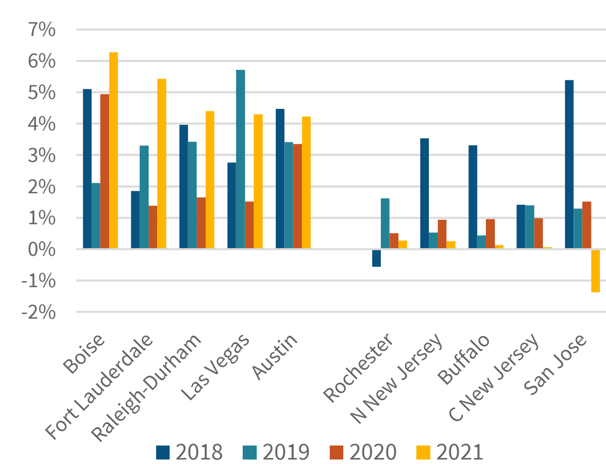
Source: NIC MAP Data, Powered by NIC MAP Vision

Metro-Level Assisted Living Performance Improves

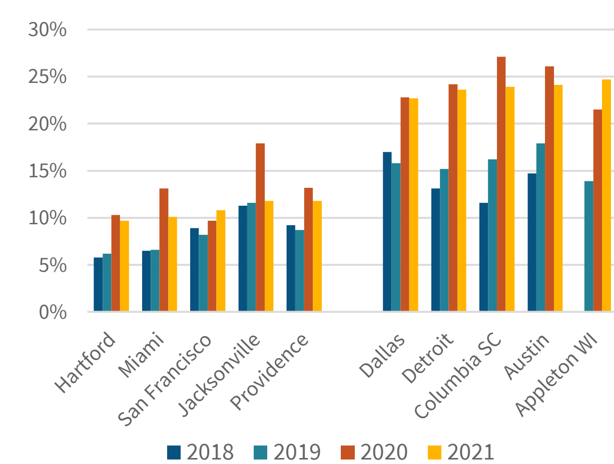
According to data from Moody's/REIS, Inc., majority AL performance generally improved among the nation's larger inventory AL metros. Among these larger markets, all but one (San Jose) had positive rent growth in 2021. Boise was once again a rent growth leader, with Fort Lauderdale, Raleigh-Durham, Las Vegas, and Austin following; each of these metros experienced an increase in rent growth compared to growth in 2020. In addition to San Jose, Central New Jersey, Buffalo, Northern New Jersey, and Rochester saw rent growth rates fall compared to 2020.

From a vacancy perspective, 55 of the 80 largest markets in the country experienced a decrease in vacancy rates in 2021, but there was a wide variance in the changes across markets, as can be seen in the chart below. San Francisco experienced a modest increase compared to 2020, but the remaining top five most highly occupied markets - Hartford, Miami, Jacksonville, and Providence - saw decreases. The five most vacant markets showed a decrease in vacancy compared to 2020, apart from Appleton, Wisconsin, although Dallas and Detroit saw just modest declines in vacancy. Columbia, South Carolina and Austin saw slightly more significant decreases.

Select Metro AL Rent Growth – 2018-2021



Select Metro AL Vacancy – 2018-2021



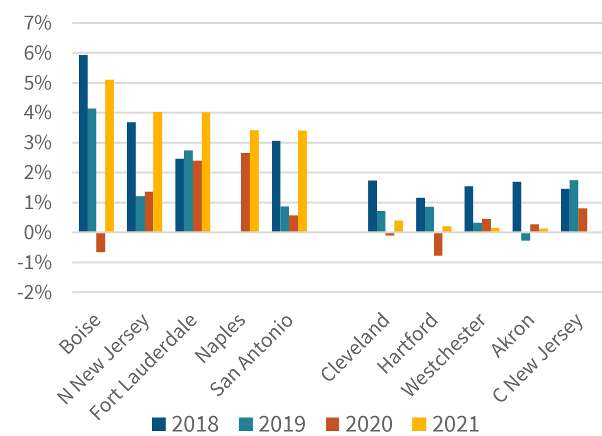
Source: Moody's/REIS, Inc. – select metros include 80 highest AL inventory metros

Metro-Level Independent Living Performance Also Improves

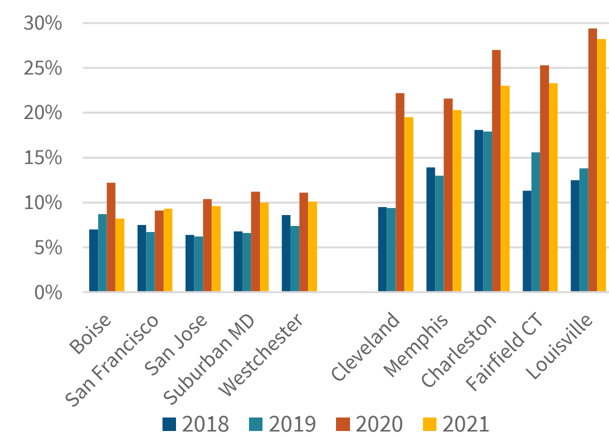
Majority IL rent performance in 2021 increased in all but one of the nation's 80 highest inventory IL metros, according to data from Moody's/REIS, Inc. Boise reported the highest rent growth rate in 2021, continuing a market expansion that began before the pandemic. Northern New Jersey, Fort Lauderdale, Naples, and San Antonio were the other Majority IL rent growth leaders, with each reporting substantial growth. Among the lagging metros, Cleveland and Hartford reported an improvement compared to 2020, while Westchester, Akron, and Central New Jersey reported a decline compared to 2020.

Majority IL vacancy decreased in 64 of the 80 largest markets in the country, though several of the lagging markets continue to have a concerningly high level of vacancy. Boise, San Francisco, and San Jose ended the year with vacancy under 10%, though San Francisco had a modest increase during the year. Suburban Maryland and Westchester were the other top markets from a vacancy perspective, with both getting tighter in 2021. Though the five highest vacancy markets are concerning due to the overall level of vacancy, all five recorded a decline in vacancy in 2021, after experiencing exceptional spikes in 2020.

Select Metro IL Rent Growth – 2018-2021



Select Metro IL Vacancy – 2018-2021



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

Outlook

Short-Term: Seniors housing conditions further rebounded in much of 2021. While the level of absorption was somewhat volatile later in the year, it remained above pre-pandemic historic high levels, and the ongoing slowdown in supply additions again allowed occupancy to rise. Rent growth also increased, and its relative stability through the pandemic continues to indicate solid foundational demand. Construction activity showed signs of increasing later in 2021 and remains elevated from a historical perspective. Ongoing vaccinations and declining infection rates appears to have helped spur a renewed interest in seniors housing. Although these are very positive signs, it is still too soon to declare the recent rebound as the start of a new era of expansion, but it may be, in part, the continued release of pent-up demand from people who postponed moving into seniors housing during the height of the pandemic. So, although mid-2021 may have been a trough for industry fundamentals, the scope of future trends remains unknown. And it will take several more quarters to determine if seniors housing demand will return to its pre-pandemic growth trend over the short run, or if the outbreak has indefinitely scaled back overall demand from seniors.

Long-Term: The surge of seniors entering their 80s continues to be a potentially powerful engine for future seniors housing demand. But the beginning of that surge is still several years away. To the extent the seniors housing industry makes its way into a firmly established recovery, we believe that 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. But the sector will have to carefully navigate the next few years and reassure seniors that it is a safe housing choice before a long-term industry expansion can commence.

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