How covid-19 has impacted US senior housing

While long-term prospects remain healthy given demographic trends, the sector has seen record-low occupancy rates and slumping returns during the pandemic.

By Kyle Campbell - 4 August 2020

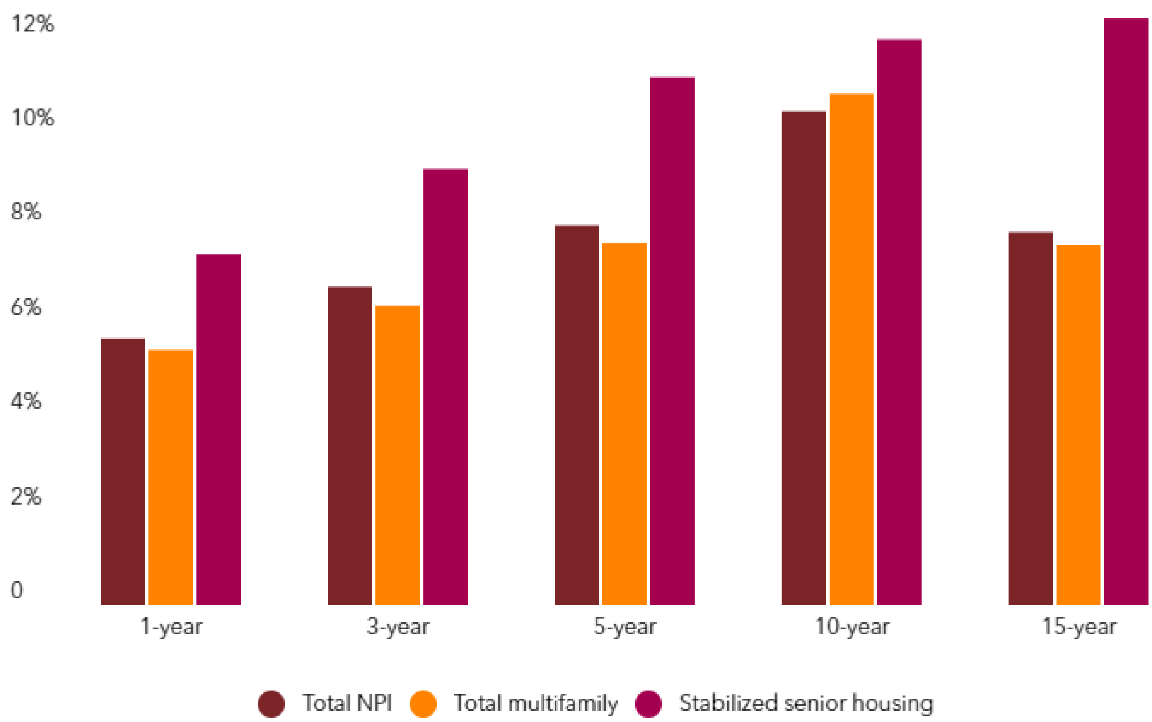
Covid-19 and its acute impacts on older adults has created issues for US senior housing, a sector that has long been a bastion for steady growth and reliable returns.

As of July 11, more than 30,000 people had died from covid-19 in nursing homes or long-term care facilities, according to the Centers for Disease Control, accounting for nearly a quarter of the US death toll. Since March, a rash of fatal outbreaks in several Washington senior-living communities have made national news, while the handling of these facilities in other states has been politicized.

Private equity managers have led the charge into senior housing in recent years, accounting for 42 percent of the market in 2018 and 45 percent last year, according to Real Capital Analytics. These investments have typically paid off well, with stabilized seniors housing outperforming the broader National Council for Real Estate Investment Fiduciaries Property Index on a one-, three-, five-, 10- and 15-year basis.

KING OF THE RETURN

Senior housing has consistently outperformed multifamily and the broader NCREIF Property Index



Source: NCREIF

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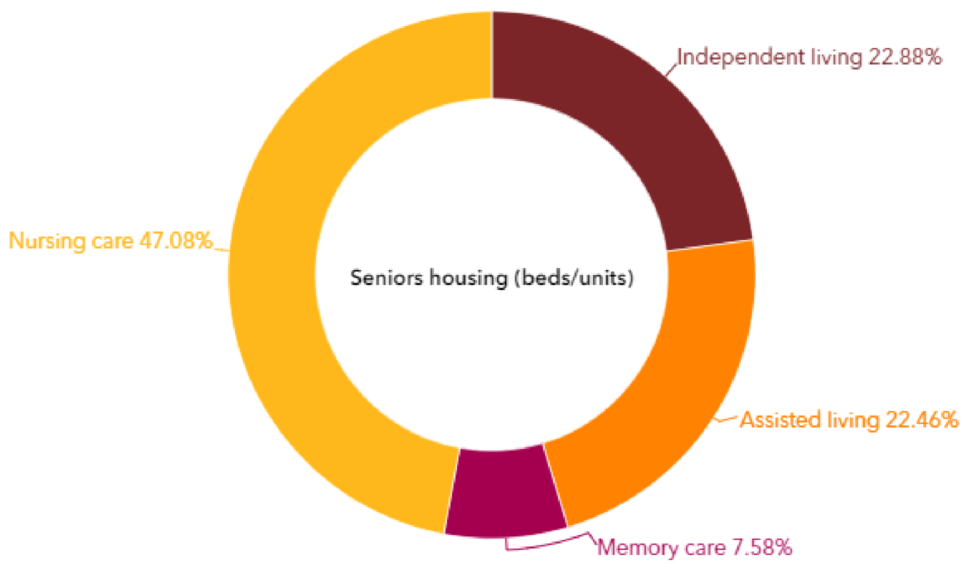
However, covid-19 quickly changed that. Some senior housing residents have chosen to move out, citing coronavirus concerns, and most facilities had to pause new move-ins. In fact, occupancy levels fell to record lows during the second quarter, according to the National Investment Center for Seniors Housing. Assisted living facilities dipped from 85.3 percent to 82.1 percent, while nursing care facilities fell nearly 7 percentage points, settling at 80.2 percent. Both were the lowest rates since at least 2005. Independent living, meanwhile, fell from 89.8 percent to 87.4 percent.

Against this backdrop of falling occupancy rates, stabilized senior housing registered a -0.37 percent return on appreciation during the first quarter of 2020, according to NCREIF. It was the first time the property type faltered against the broader NPI – which depreciated by 0.3 percent – since 2012.

AS NEEDED

Facilities focused on specialized care make up more than half the US senior housing market



Source: CBRE

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Yet, as specialists in this space are quick to point out, the worst-hit properties were public facilities catering to residents reliant solely on Medicare or welfare programs to cover their costs. Most institutionally-owned facilities, on the other hand, serve private-pay residents. These upscale communities feature more private rooms and better-trained staff, *PERE* understands. They were also able to secure greater stocks of personal protective equipment and, eventually, tests to help contain the virus.

“High-quality senior housing operators have experience dealing with infectious diseases inside their communities, whether it’s the flu or Legionnaire’s Disease or anything like that, generally, they handle them very, very well,” Lisa Widmier, executive vice-president for CBRE’s national seniors housing platform, told *PERE*. “For covid, initially, they did not have protocols because it’s a new disease, but they have now developed those protocols.”

Bridge Investment Group, one of the largest managers in the space with close to $4 billion of assets under management, had just 10 covid-related deaths across its 12,500-unit portfolio, and eight of those individuals were previously receiving hospice care.

“There’s always been a considerable difference between public and private facilities,” Bridge’s executive chairman Robert Morse, said. “During covid, we significantly restricted the presence of outsiders, had our caregivers tested regularly and greatly restricted the movement of our residents. With that conservative approach, we were able to limit exposure but, sadly, a lot of public facilities were not able to do that as well.”

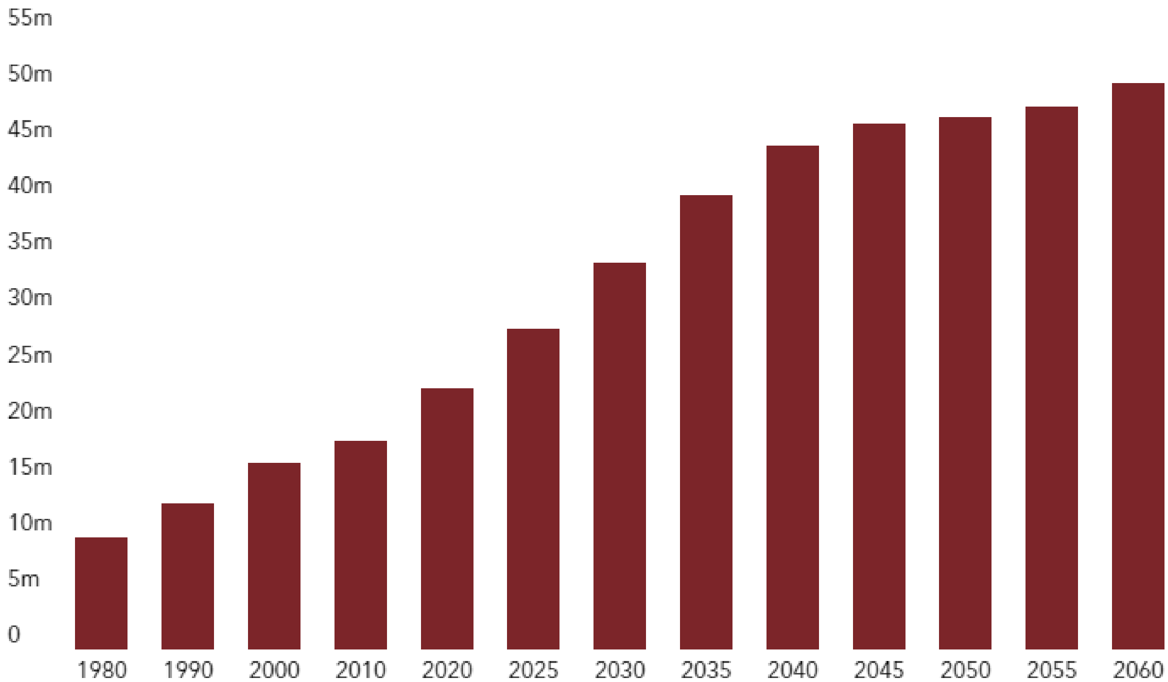
Demographics driven

Between 2014 and 2019, $17.2 billion was invested in senior housing and care, making it the leading alternative real estate sector during that period, according to a CBRE analysis. The next most popular niche property type over that stretch was medical office at $12.2 billion.

Driving this investment in senior housing is the belief that an aging US population will increase demand for these products over time. After all, one of the country’s largest age cohorts is the so-called Baby Boomers, the youngest of whom are about to turn 75, the target age for senior living entry. As this generation moves into old age, the 75-plus population is expected to double from approximately 23 million today to nearly 46 million by 2045, according to US Census Bureau forecasts.

AGING BY THE DAY

The US's 75-plus population is set to increase rapidly in the coming decades



*Forecasted
Source: US Census Bureau

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Given this demographic trend, Chris Merrill, chairman and chief executive of Chicago-based alternatives specialist Harrison Street, said he remains confident in the long-term viability of senior housing. He views the growing pool of prospective residents as proof that secular demand remains strong and recent occupancy declines are only temporary.

"The important thing to note is how big the waiting lists have gotten," Merrill told *PERE*. "Across our portfolio we have 400 to 500 people on waiting lists trying to get in. There has been a short-term dip in occupancy, but it's not a result of a change in local demographics or a change in supply. It's due rather to the anomaly that the front door was closed because of covid while we also experienced natural attrition."

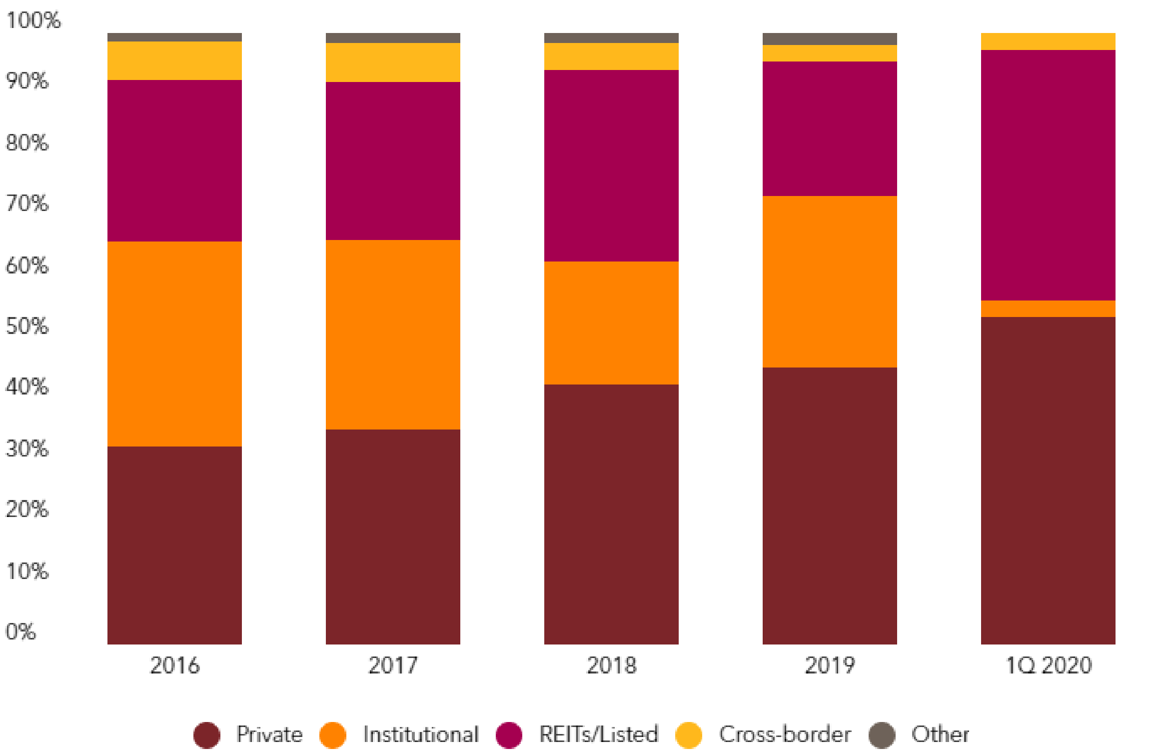
Sitting on the sidelines

For now, however, the crisis has led many in the senior housing sector to hit pause on new investment activity.

Todd Lindblom, Marcus & Millichap's national director for senior housing, expects most developers to finish existing projects, but said it remains to be seen when new starts will resume. "Financing is one of the biggest hurdles right now to move projects forward," he said. "It should tighten up the market a little bit, but there are a lot of numbers showing we're going to need a lot more supply over the next several years when the demand increases, which is definitely coming."

PRIVATE POWER

Private equity and institutions have dominated the seniors housing market during the past five years



Source: Real Capital Analytics

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Similarly, transactions in the space have largely been on hold as sellers wait for the market to stabilize. An exception to this has been forced sales by buyers in need of liquidity, such as Welltower's sale of a Florida senior housing facility to Los Angeles-based Kayne Anderson in May. The REIT let the asset go for $55.7 million after purchasing it for $78 million in 2015.

Max Newland, a managing director for Kayne Anderson, said the broader transaction market remains "choppy." He said his firm, which saw a monthly occupancy decline of 1-1.5 percent from April to June, is taking a measured approach to new investment.

"The public markets have slowed dramatically and, while the stocks of the big three healthcare REITs have all rebounded in recent months, the huge sell-off earlier this year has kept them largely out of the buying market during the pandemic," Newland told *PERE*. "On the more institutional private equity side, by and large, most investors are still on the sidelines waiting to see how the full impact of the pandemic shakes out."