CHANCERY MONTHLY NEWSLETTER

INDUSTRY INSIGHT

This article provides a summary of how senior living communities across the care continuum have fared under the impact of the epidemic, predicts their future trends, analyzes how supply impacts occupancy and recovery, and illustrates the shifts in capital markets.

Mid-Year Senior Living Report: Uneven Recovery Proceeds, Struggling Operators Face Trouble

The senior living industry is slowly marching back to normalcy as move-ins and leads return — but the remainder of 2021 is make-or-break for some operators, particularly those who are already struggling.

Operators who were already in good financial standing before the pandemic likely have resources to weather the remainder of the storm and recover. But the back half of 2021 could also drive some operators to bring struggling properties to market as buyers come off the sidelines, according to the midyear outlook for senior housing that Marcus & Millichap released Friday.

"Many operators were able to stay afloat over the past 15 months, buoyed by government assistance," wrote Benjamin Kunde, the research associate who prepared and edited the report for Marcus & Millichap. "As the economy recovers, the likelihood of additional support will dwindle."

The ongoing labor crunch is also driving some providers to raise wages to attract new workers. While this is becoming a necessary cost of doing business in the pandemic age, it's also expensive for operators, as is complying with new regulations or ordinances, according to the report.

"Adapting to rising costs will be key going forward," said John Chang, senior vice president and national director for Marcus & Millichap Research Services. "Operators will have to grapple with safety and infrastructure upgrades, rising labor costs and increased insurance costs at a time when occupancy rates and rent growth are challenged."

The good news for operators is that many of the country's older adults are vaccinated, the number of outbreaks in senior living communities remains low, and there may be a demand tailwind ahead as more people return to offices. The report also noted that "robust demand" is likely to materialize in the Sun Belt region of the U.S. as the 65-plus cohorts in those areas continue to grow.

"The pace of the recovery will not be uniform across the country," Chang told Senior Housing News. "Demographic trends will favor markets in the Sun Belt, a trend that was unfolding prior to the health crisis that has been accelerated as retirees increasingly prioritize space and cost of living considerations."

And on top of that, a slower construction and development pace this year is helping to put a cap on the rate of new supply coming to market down the road.

"There is light at the end of the tunnel," the report noted. "Still, occupancy will likely take beyond this year to recover, with intense competition for residents as many facilities are competing to fill units simultaneously."

Halftime report

The second half of 2021 will have opportunities for operators with communities across the care continuum to add census, but recovery will not be the same for every provider and property type.

For independent living communities, "unbalanced conditions will produce an uneven recovery," the report noted. While independent living fared better than some other senior living property types, negative absorption of at least 2,500 units in the last year, coupled with the addition of 10,250 new units, had led to a 70% increase in vacancies, according to the report, which cited NIC MAP Vision data. Despite taking a hit to occupancy, average monthly independent living rent has grown by a rate of 1.3%, to $3,315.

"Incoming supply could impede recovery momentum in 2021 as 21,680 units, or 8.3 percent of inventory, was under construction in March," the report's author added.

Occupancy declines have similarly weighed on assisted living communities, which saw negative net absorption of 28,000 units in the past four quarters and new inventory growth of 12,600 units. There are about 18,490 units of assisted living currently under construction, which is the lowest level since 2014. That relatively slower rate of new construction could aid those providers' recovery in the months ahead, according to the report.

"Recuperating occupancy and returning to the pre-crisis pace of rent growth will take multiple years, though waning supply-side pressure should aid the recovery," the report noted.

Memory care providers are also seeing a slower construction and development landscape, with just 1,570 memory care units under construction as of March — the lowest quarter-ending volume in almost a decade, according to Marcus & Millichap.

Operators of continuing care retirement communities (CCRCs) and life plan communities were less affected by occupancy disruptions, with average rates registering at 84.3% in the first quarter of 2021. Average monthly rent grew 1.9% to $3,527 per month, with "notable jumps" in secondary and tertiary markers that have recently garnered larger shares of household growth, such as in Louisville, Kentucky; Phoenix, Arizona; Charlotte, North Carolina; and Milwaukee.

"Limited construction should help accelerate the recovery with only 6,650 units under construction as of March, a seven-year low for the segment," the report noted.

Chang added that more recent occupancy numbers illustrate how many communities are at an inflection point with regard to performance in 2Q21.

"Positive absorption in 2Q 2021 reflects the momentum created by vaccinations and how their effect on infections is beginning to filter through to increased seniors housing demand as behavior begins to normalize," he said. "If not for surprisingly robust inventory growth, occupancy rates would have begun to climb in 2Q."

On the senior housing investment side, deal flow is still down in most parts of the country, with all but six states reporting year-over-year declines in senior housing trading activity. But private buyers are also taking advantage of that slowdown in trading activity to acquire assets.

While publicly traded real estate investment trusts (REITs) mostly froze their acquisition activity during the pandemic, some are starting to come off the sidelines.

For instance, Toledo, Ohio-based Welltower (NYSE: WELL), has invested billions of dollars into the sector this year alone, including a nearly $1.6 billion deal to buy 86 properties in conjunction with Atria Senior Living's acquisition of Holiday Retirement. Chicago-based Ventas (NYSE:VTR) is also putting its money where its mouth is with its $2.3B acquisition of New Senior Investment Group (NYSE: SNR).

As REITs look for acquisition targets, that could increase competition for assets in the latter half of the year, according to the report.

"The increased REIT buying activity signals confidence in the trajectory of the recovery," Chang said. "REITs tend to wait for more clarity that the market is on the upswing before making purchases, whereas private buyers can be more opportunistic with acquisitions during periods of market disruption."

Meanwhile, average pricing for communities has dipped as cap rates increased.

"Seniors housing properties that changed hands during the past 12 months ending in the first quarter had a five- year-low average sale price of $153,000 per unit, a result of lower-quality assets comprising a bigger share of overall deal flow," read the report.

On the capital market side, operations have largely resumed, and "a majority of lenders are now active and anticipating larger volume after 2020's slowdown," according to the report.

Lenders are also now showing more favor to borrowers with which they have a good relationship, and they are also scrutinizing potential borrowers on property performance, credit history and track record. In general, properties with stabilized operations and a long runway for growth can still obtain financing.

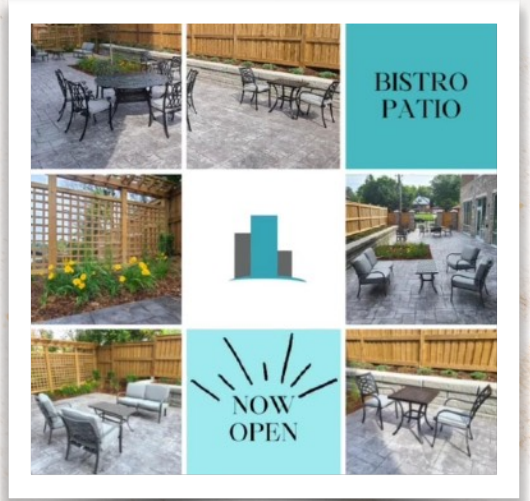
"Overall, while lending volume is not anticipated to recover to 2019 levels, the impact of the health crisis on capital availability is expected to be less severe than that of the global financial crisis," the report said.

Original Article:
https://seniorhousingnews.com/2021/07/11/mid-year-senior-living-report-uneven-recovery-proceeds-struggling-operators-face-trouble/

Bartlett Project Update

The Bartlett Seniors Housing Complex will be a 129-unit apartment building designed for active senior living, located at 550 Bond Street in Oshawa, ON. The Bartlett represents an affordable alternative to conventional seniors housing, offering services that permit seniors to live independently, on an à-la-carte basis through a concierge, in a regular apartment building, while providing the comfort to seniors and their families that care will be available in short order should the need arise.

- The Bistro construction is complete, and furniture has arrived. we are waiting for only the kitchen appliances to be delivered and installed. Once the appliances are installed, the representative from the city come for a final inspection.



- Staff are being hired and menus tested.
- The Seniors Urgency Room has been receiving a positive response from the community. It is currently open from 10 AM to 6 PM and plans to stay open till 9 PM from fourth quarter onward. The team is also working on launching a virtual care portal that will allow Seniors to contact a physician whenever they need one.
- The patio is now open.

Chancery Seniors Housing Investments Inc. is a private real-estate investment firm with a focus on seniors housing. Powered by its two strong founding partners, Suske Capital Inc. and LD Capital Corp., Chancery creates a team with the expertise and experience of over 55 years in real estate and seniors housing developments with an estimated completion value of over $5 billion.

For more information about our company and projects, please visit www.chanceryseniors.com