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Bleak Outlook for the Seniors Housing Sector in the Near Term

The sector is starting to deal with rising operating expenses, declining occupancies and fewer move-ins.

Sebastian Obando | Apr 09, 2020

With the COVID-19 pandemic hitting nursing home operators hard, a bleak outlook looms over the seniors housing sector in the short- to medium-term, according to industry sources.

“It’s very uncertain. No one really understands the depth of the COVID-19 pandemic. I think what we do believe is it’s likely to get worse before it gets better,” says Beth Burnham Mace, chief economist and director of capital markets research at the National Investment Center for the Seniors Housing & Care Industry (NIC).

The seniors housing sector was already dealing with some challenges before the virus struck. But with older people at higher risk of having complications and being hospitalized or dying from the disease, “I think that it’s a cautious outlook for the sector,” Burnham Mace notes.

In a survey of C-suite executives at 180 seniors housing and nursing facility operators collected by NIC during the last week of March, approximately half (49 percent) of nursing care facility operators reported a decline in occupancy compared to the month prior. The figure was 32 percent for independent living operators, 29 percent for assisted living operators and 26 percent of memory care facility operators.

As of the first quarter of 2020, occupancy rates averaged 87.7 percent for the seniors housing sector, down 0.3 percent from the previous quarter. The occupancy rate for independent living averaged 89.9 percent, down 0.1 percent from the previous quarter. The occupancy rate for assisted living averaged 85.3 percent, down 0.4 percent from the prior quarter. The occupancy rate for nursing care properties averaged 86.7 percent, down 0.2 percent from the last quarter.

Overall annual rent growth for the seniors housing sector sits at 2.4 percent. Annual rent growth for independent living properties averaged 2.4 percent, while annual rent growth for assisted living properties averaged 2.5 percent. Annual rent growth for the nursing care sector was 2.6 percent, according to NIC 2020 first quarter data.

In addition to declines in occupancies, 40 to 50 percent of operators in the seniors housing and skilled nursing sectors reported decelerations in the pace of move-ins during the month of March compared to February. That is partly because operators are taking preemptive measures to safeguard their properties against any outside visitors. According to Mace, “some operators by choice are starting to limit the amount of move-ins they have on their properties because of the risk of someone bringing the illness and the challenge of someone having to quarantine them.”

Overall sentiment on seniors housing has turned negative as a result of the pandemic, says Lukas Hartwich, senior analyst at Newport Beach, Calif.-based research firm Green Street Advisors. “Investors are understandably concerned about the potential near-term and long-term impact on seniors housing demand, and also cost pressure related to containment and mitigation. This sentiment shift is clear when looking at the stock price underperformance of companies that invest in seniors housing.”

“It’s too soon to know for sure, but the fear is that COVID-19 will accelerate move-out activity while also hindering move-in activity,” Hartwich adds.

About half to two-thirds of executives surveyed by NIC reported no changes in occupancy rates from one month prior to the time they responded. However, nursing home operators reported a 16 percent increase in the pace of move-outs.

With move-in rates lower, “occupancy will tick down,” notes Lisa Widmier, executive vice president of the national seniors housing capital markets practice with real estate services firm CBRE.

There is also growing concern on whether operators of seniors housing facilities will be able to pay their rent. A number of big landlords, including Ventas, are already offering rent relief to operators. Hartwich says even before the COVID-19 outbreak, “triple-net seniors housing rent coverage was generally below sustainable levels” and that the COVID-19 pandemic “will force restructurings as many tenants will not be able to pay the rent.”

So far, seniors housing residents appear to still be paying their rents, according to Burnham Mace. “As far I know, as far as anecdotal information, so far so good. The residents themselves have been able to pay the rent.”

“Now, that could get problematic potentially going forward in the sense that, we’ve seen a significant crash in the stock market, which has eroded a lot of wealth for people, and also the issue of unemployment, that might impact the ability to pay.”

Staffing expenses are also expected to rise, as operators increase overtime hours and hire temporary staff to backfill labor shortages. That will put further pressure on the sector. With the government often providing only lax oversight, many nursing home operators turned out to be ill-prepared to handle an outbreak of a new disease as contagious as COVID-19. Over the past three years, more than 9,000 of the 15,000-plus nursing homes in the U.S. were cited for one or more infection control deficiencies, according to an analysis by *Kaiser Health News*.

One mitigating factor for the fallout in seniors housing is that industry insiders have already seen a deceleration in inventory growth. Signs point to that continuing amid the pandemic.

“New supply and development have been a significant issue for seniors housing operators. I would expect that to be less of an issue going forward,” says Mace. “That’s largely because a lot of the transaction markets have closed down right now. There are still deals getting done, but less so because nobody knows where this is all going.”

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