HEALTHCARE & SENIOR HOUSING

Anticipating the boom in Boomer needs

The Baby Boomers are not here yet, but their shadow is looming over senior housing. The 85+ demographic is the largest consumer of Senior Housing and is expected to grow by 1.30% per year for the next five years. The 75+ demographic is projected to grow at 5% per year for the next five years. All projections indicate demand for senior housing, skilled nursing and hospitals is increasing and will continue.

INDUSTRY PERFORMANCE

In 2019, senior housing inventory grew at 2.9% but construction vs. inventory is trending down after all-time highs in 2016 to 2018. The National Investment Center for senior housing and Care (NIC MAP) data service reported occupancy was flat: 87.8% in the third quarter of 2019 vs. 87.8% in 2018. Rent growth slowed to 2.7% from 2.9%. Public companies, like Brookdale and Capital Senior Living, who provide greater transparency and up-to-the-quarter insights, have experienced occupancy declines, as ever-increasing, older buildings compete with an increasing supply of newer, superior properties. RevPOR figures continue to increase.

INDEPENDENT LIVING

New construction increased in 2019 over 2018, driven by anticipation of a wave of baby boomers now entering their early 70s. Construction vs. inventory is at an all-time high. Market occupancies have trended downward since 2015, largely driven by new property absorption. Existing properties have maintained occupancies in most markets, and significant oversupply has not yet appeared while senior-restricted housing without dining services is rapidly growing and encroaching on traditional independent living demand.

ASSISTED LIVING

New construction continues in most major markets, but the pace has slowed compared to the peak construction years of 2016 and 2017. Absorption has not kept up with supply, and occupancies continue to trend downward in most markets, especially in markets where development costs are relatively low and developable land is readily available. Most major markets are now oversupplied with occupancies dropping into the mid-80s. Resident entry age and acuity continue to rise. Wage increases continue to place pressure on net incomes despite rent increases.

TRANSACTIONS

According to Real Capital Analytics, transaction volume for senior housing declined 22% in 2019 after a decline of 36% in 2018 and declined 28% for nursing homes after a decline of 6% in 2018. Capitalization rates for senior housing properties compiled by IRR have been relatively stable for the last year but are showing signs of increases.

SKILLED NURSING FACILITIES

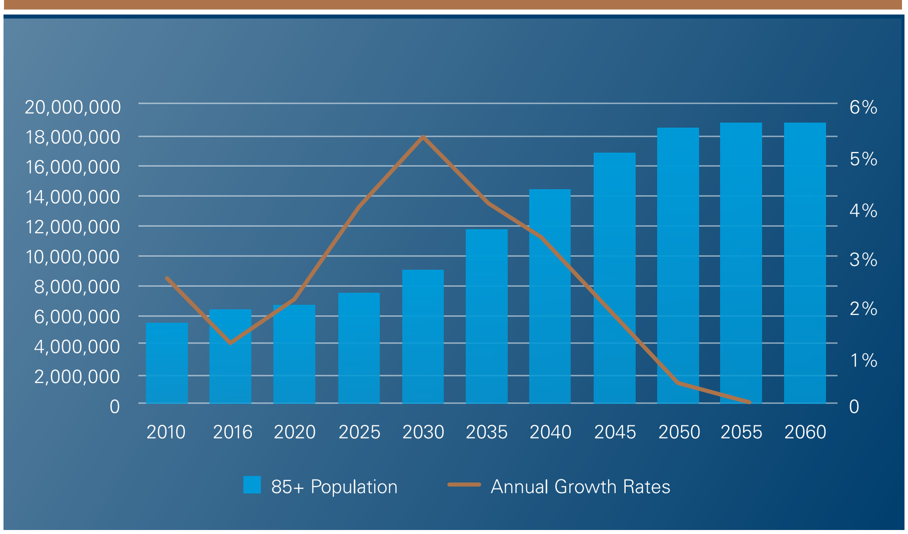
OUTLOOK

Demand for senior housing will continue to increase. New supply volume is likely to decrease until occupancies recover in many markets. Lenders have shown additional caution. Until the oversupply is absorbed, transaction volume is expected to maintain its current volume or decrease, and capitalization rates are expected to increase slightly if interest rates rise.

INDUSTRY PERFORMANCE

Nursing home occupancy has been declining for years. Many factors have kept occupancy compressed, including a shift to greater home health and hospice use, rising managed care utilization, the influence of value-based care, and immense pressure to shorten the length of stay for rehab-based care. The population now aged 85+ is known as the "Silent Generation." They experienced the Great Depression and were born in an era of lower birth rates. The Baby Boomers will not reach the 85+ bracket until 2029, when annual growth rates in this bracket are expected to be around 5.0% and demand for nursing home services are expected to increase as a result.

85+ POPULATION AND GROWTH RATES



Until the oversupply is absorbed, transaction volume is expected to maintain its current volume or decrease.

ACTIVITY

New construction volume is likely to remain modest until Baby Boomer demand changes the trajectory of nursing home occupancy. Wage increases and difficulty staffing continue to place pressure on facilities, especially those with slim margins. The number of facility closures is on the rise due to these pressures. Demand for skilled nursing will eventually increase with an aging population; however, advances in technology and the growing emphasis on value-based care will be offsetting forces.

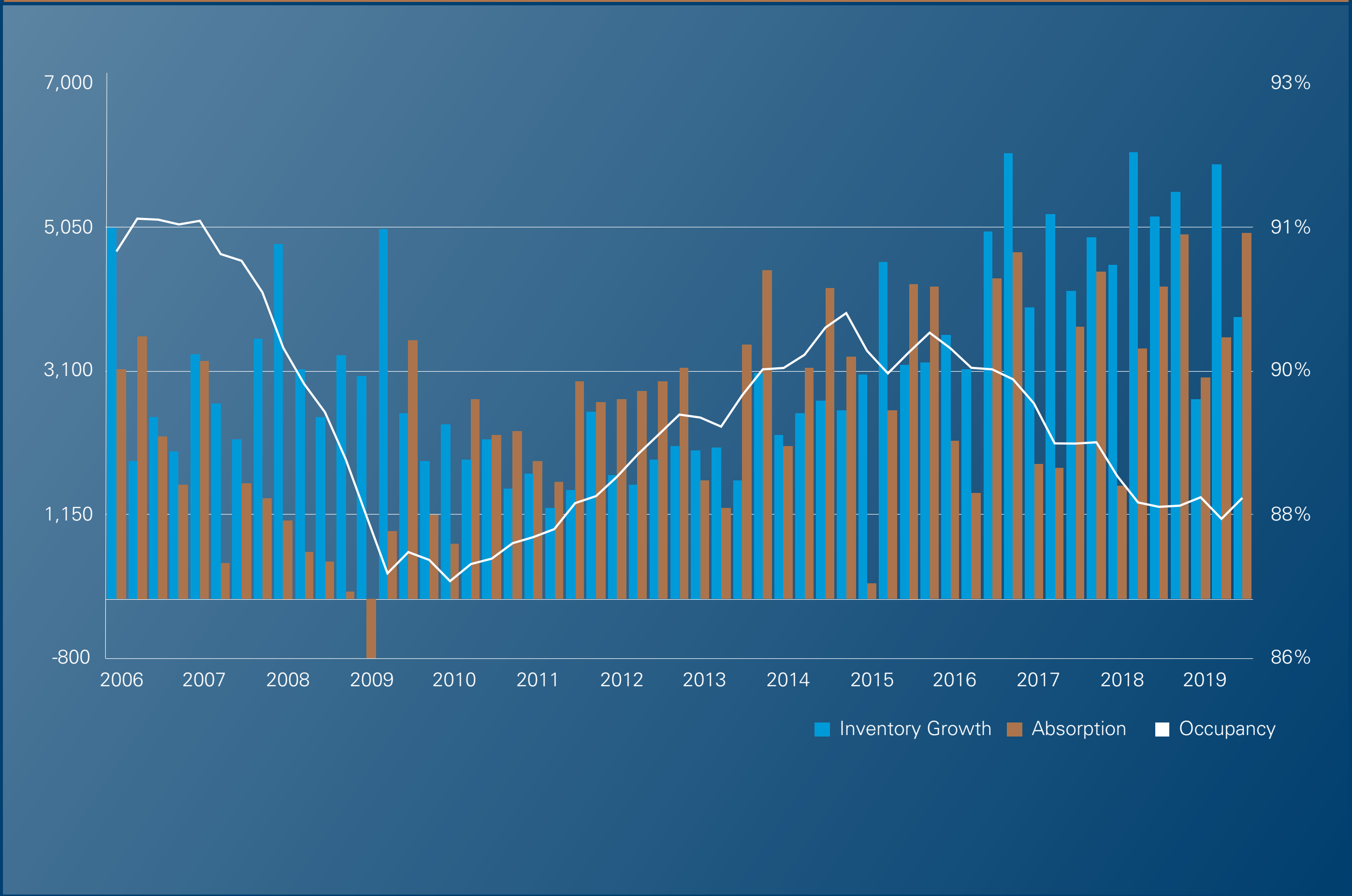
TRANSACTIONS

Transaction volume remains steady with many of the recent sales being smaller scale operators or underperforming facilities. Capitalization rates for skilled nursing compiled by IRR have been relatively stable for the last year. Even with the mounting pressures, investors seeking higher potential yields in this sector is resulting in transaction activity.

OUTLOOK

A new payment model for Medicare (PDPM) began in October 2019. Initial reports are positive with similar to increased payments and savings on the expense side. The payment model is geared to more appropriately reimburse facilities based on resident needs. Sophisticated, better-positioned companies will likely gain from this change and transaction volume will likely consist of less-sophisticated owners getting out of the market.

SENIORS HOUSING SUPPLY-DEMAND; PRIMARY MARKETS



HOSPITALS

MERGERS & ACQUISITIONS

The Health Care M&A Report, published by Irving Levin Associates, reported 78 transactions in 2017, 79 in 2018, and 64 through the 3rd quarter 2019.

Industry consolidation via mergers and acquisitions, a decade-long trend, continues to occur at a strong pace. Affilitions and partnership, although not as widely tracked, are also occurring at a strong pace. Independent hospitals continue to join larger systems for access to professional, IT, and financial resources. Buyers with profits and proven care models strive to capitalize on their strengths and gain footholds in secondary service areas. More-distressed hospitals are sometimes compelled to sell to smaller private companies with limited track records and investment capital. Most metro hospital markets are highly concentrated, limiting the potential for future like-kind M & A transactions. Rural markets are less concentrated and most hospitals and systems prefer to remain independent if they can.

CLOSURES

Rural hospital closures, as tracked by UNC's Rural Health Research Program, hit a 15-year record high in 2019, at 18, through the end of November. The average annual number of rural hospital closures from 2013 through 2019 is near 15. Of the 18 closures in 2019, eight had critical access hospital designations, two had sole community hospital designations, three had Medicare-dependent designations, and five were reimbursed by Medicare on the standard prospective payment system.

Demand for housing, skilled nursing and hospitals is increasing and will continue.

SOURCES & REFERENCES

Property Reports

Healthcare & Senior Housing

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IRR–Healthcare & Senior Housing

85+ Population and Growth Rates
Source: U.S. Census Bureau, Population Division: Washington, DC.

Seniors Housing Supply-Demand; Primary Markets
Source: NIC MAP Data Service

ABOUT VIEWPOINT

Integra Realty Resources (IRR) is one of the largest independent commercial real estate valuation and consulting firms in North America, with over 180 MAI-designated members of the Appraisal Institute among over 600 professionals based in our more than 50 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments. For more information, visit www.irr.com.

COMPREHENSIVE COMMERCIAL REAL ESTATE MARKET RESEARCH, VALUATION AND ADVISORY SERVICES

ABOUT IRR

For over 20 years, Integra Realty Resources, Inc. (IRR) has grown to become one of North America's largest independent CRE market research, valuation, and counseling firms. Our clients tell us that our 600+ professionals in 50+ offices deliver extraordinary insight, unbiased advice, and excellent service. In 2019, IRR valued over $102 billion in real estate assets across more than 60 metro markets comprising over 24,000 assignments.

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