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INDUSTRY INSIGHT

52% of Senior Housing Leaders Say Operating Expenses Will Be Permanently Higher

By Tim Mullaney

A majority of senior living professionals believe that the Covid-19 pandemic will result in permanently higher operating expenses.

That's according to the 2020 Seniors Housing Investor Sentiment Survey from National Real Estate Investor and the National Center for Seniors Housing & Care (NIC). This year's survey garnered responses from 167 participants from a range of companies, including investors, lenders, developers, brokers and owners/operators. Most respondents identified as an owner or C-suite executive.

Ninety percent of respondents said that Covid-19 drove up operating expenses between March 1 and Aug. 1 of this year, with an estimated mean increase of 9.2%. And 57% of respondents said they anticipate a permanent increase in expenses as a result of the pandemic.

Operators have been spending more on equipment and supplies, labor, insurance and other items during the Covid-19 pandemic, although executives have in the past expressed mixed opinions to Senior Housing News about whether expenses will remain permanently elevated and compress margins.

Rising expenses and squeezed margins are only one of several challenges facing senior living communities, which could discourage investors, NIC Chief Economist Beth Burnham Mace said Thursday during a webinar discussing the survey findings.

Covid-19 continues to present headline risk and infection control concerns, although most operators have now adapted their operations to maximize resident safety, she noted. Other potential challenges include labor costs; the fact that existing senior housing stock consists largely of older buildings; and a shortage of high-quality operators.

However, Mace also sees many reasons why senior housing continues to be a good opportunity for investors, including the fact that the industry remains ripe for consolidation, has proven resilient in past economic downturns, and is a growing sector with increasing transparency and rising interest from institutional capital. Finally, there are the compelling demographics as the large baby boomer generation ages. Coupled with factors such as a lack of family caregivers, rising rates of divorce, and an increased focus on lower-cost sites of care, the demographic trend should result in healthy demand in the coming years.

"We're all drinking out of the same hose with regard to demographics," Mace said.

Investors do appear to find senior housing compelling, but pandemic-related pressures are compromising near-term prospects for the asset class.

In the five years between 2015 and 2019, the NREI/NIC survey respondents ranked senior housing as the most attractive property type for investment; this year, industrial and apartment properties ranked higher. This comes on the heels of the NCREIF Property Index showing a total return for senior housing investments at -1% in Q2 2020 — the first negative quarter for senior housing on this index since 2012.

Yet, the long-term picture is decidedly brighter than the near-term picture, with 52% of respondents saying that they have not changed their long-term investment plans for senior housing. And, although 36% of investors said they plan to invest less in the near term, 34% said they plan to invest more in the long term.

Transaction activity has been sparse, with about $4.4 billion of volume through the second quarter, Mace said. That compares to about $17 billion of volume in that time period a year earlier.

PGIM Real Estate hoped to have 45% of its $996 million senior housing fund committed by the end of this year, but only about 20% had been committed as of late August, NREI reported.

"Because of Covid, there is a lot of pricing discovery going on and a lot of transactions were pulled off the market with a significant bid-ask spread," said Steve Blazejewski, managing director and senior portfolio manager for PGIM Real Estate's seniors housing strategies.

About half of the survey respondents said cap rates are likely to rise over the next 12 months, while 24% expect no change and 23% expect them to decline. So far during the pandemic, Cushman & Wakefield has not seen a "broad correction" on cap rates, but underwriting has gotten more conservative, Managing Director and co-head of the Senior Housing Capital Markets Group Jay Wagner told NREI.

Indeed, 80% of survey respondents anticipate underwriting standards to tighten in the next 12 months.

However, the future is difficult to predict, with prospects for a Covid-19 vaccine still uncertain, and the possibility of a fall or winter resurgence in infections possible. Operating and expense fundamentals at the property level do seem to be improving, though, with 44.9% of respondents expecting occupancy to increase within the next year, and 55.3% saying that they expect rental rates to increase.

"Although respondents appear surprisingly optimistic that occupancies will rise, the overall average expectation is for a slight increase of 25.5 basis points," NREI reported. "In addition, the results show a clear deterioration in confidence when compared to past surveys. Notably, 72% of respondents had predicted an increase in occupancies in the 2019 survey."

Whenever the Covid-19 pandemic does pass, Mace is confident that the senior housing industry will recover, given how these communities meet consumers' needs for shelter, care and life enrichment.

"The value proposition of senior housing, in my mind, has not gone away," she said.

Original Article:

https://seniorhousingnews.com/2020/09/17/52-of-senior-housing-leaders-say-operating-expenses-will-be-permanently-higher/

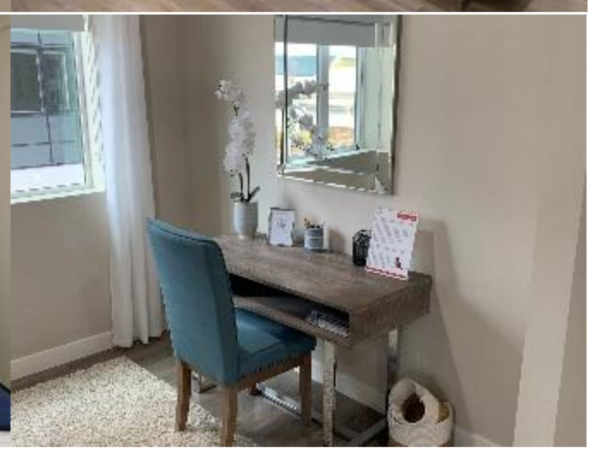
PROJECT UPDATE

Stony Plain Project Update

Stony Plain Active Adult Lifestyle Community is located just west of Edmonton, Alberta. When complete, the residence will be a 6-storey apartment building with 83 Active Adult Lifestyle Community suites. It will offer In-suite 24-hour emergency call systems, a recreation facility, housekeeping, laundry services, on-site management and maintenance. A main floor of commercial and retail space will provide residents with easy access to amenities such as a doctor's office, pharmacy, bistro or coffee shop. Below is the progress update and pictures from the site.

- The work on the building exterior is extremely close to completion.
- The work on flooring is advancing well on all floors.
- The appliance installation has progressed to floor 3.
- The model suite was completed on August 17, 2020 and ready for tours.
- We completed the 14th draw of the senior loan on October 1, 2020.
- Our building is scheduled to open for our residents on November 1, 2020.
- We continue to receive tremendous interest from residents around town and have now attracted 66 reservations for our 85 suites, out of which 29 have already signed the leasing agreement.


To All The Healthcare
Workers On the Front
Lines Of This Pandemic
THANK YOU!



Surprise Project Update

Chancery is partnered with long time Suske Capital partner, Avenir Senior Living, in the development of this 32-bed geriatric behavioral hospital in Surprise, Arizona. The Surprise Behavioral Hospital will benefit from its proximity to Surprise Memory Care, which is located on the adjacent land. The Surprise Memory Care community will provide referrals to the hospital, and the hospital will allow for higher level of care for the existing residents of Surprise Memory Care. Below is most recent project update.

- In July and August, our behavioral hospital continued to operate in a conservative manner with half of the beds open for patient intake, to ensure the ultimate safety of the patients and staff. During which, the occupancy continued to remain steady with an average daily occupancy of 13.6 and 12.8 patients in July and August, respectively.
- In late August, upon the management's careful consideration and thorough inspection, the hospital returned to normal operations and opened all beds for patients. While the September average daily occupancy remained at 12.8 patients, we have witnessed a surge in patient inflow in October and recorded an average daily occupancy of 22.1 patients to-date.
- In the meantime, the hospital continues to submit bills to and collect funding from the Federal/State health care systems as wells as private insurers. By September 2020, the hospital has incurred a total receivable of $4.0m and collected $1.66m.
- The Q3 2020 distribution has been issued to our investors on October 8, 2020.

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