

MARCH 2023

Seniors Housing Sector Fundamental Recovery Continued in 2022, Although Sector Faces Headwinds

The recovery of the seniors housing sector's fundamentals continued through much of 2022. Although seniors housing occupancy rates have not fully recovered to pre-pandemic levels, according to data from NIC MAP Vision LLC, occupancy rates for seniors housing increased in 2022 and the industry achieved its highest number of occupied units on record as of the fourth quarter. Rent growth rates reached historical highs later in the year, with absorption robust for most of the year after an early stumble.

The rise in interest rates and financing costs in the second half of 2022, as well as inflation and a significant rise in staffing costs, negatively impacted the industry's financial performance during the year, while, in contrast, the fundamental demand environment remained strong. In addition, there continues to be a wider range of property-level rent growth and occupancy than there was before the pandemic. But in the second half of 2022, the industry experienced remarkable rent growth and high levels of absorption, continuing a recovery that was briefly interrupted in late 2021 through early 2022 when an enormous wave of COVID-19 Omicron variant infections temporarily paused new residents from moving into seniors housing facilities. With a recession still expected in 2023, as well as a slowing of home sales, we expect the seniors housing sector will face headwinds in 2023, but we still expect a continued expansion in the sector over the longer term.

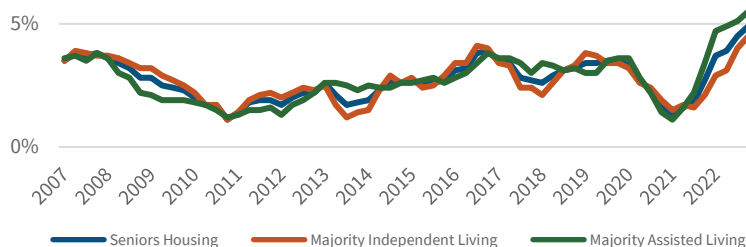
Rental Market Fundamentals

According to NIC MAP Vision, annual rent growth for seniors housing reached a new quarterly record in the fourth quarter of 2022, increasing 2.2 percentage points from 2021 to 4.9% for the year. The underlying segment trends continued to be similar, and both achieved new annual records: Majority Independent Living (IL) increased 2.1 percentage points from 2021 to 4.5% for 2022, and Majority Assisted Living (AL) increased 3.4 percentage points to 5.5% for the year.

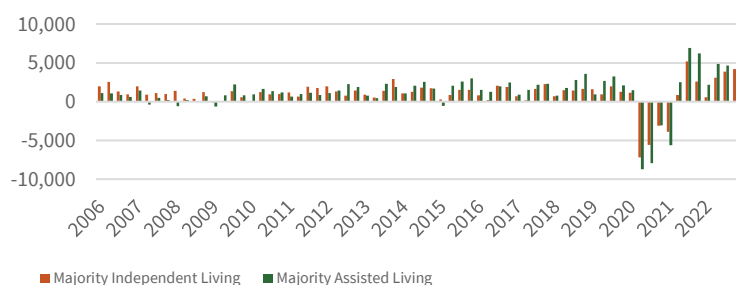
Overall, seniors housing absorption continued to be robust during late 2022, with the level rising to 8,631 units for the fourth quarter, the third-highest level on record. The underlying segments had slightly different underlying trends: Majority IL absorption again rose to its second-highest level on record to 4,180 units, while Majority AL saw a slight easing to 4,451 units.

Occupancy rates for seniors housing increased in 2022, though the measures overall remained below pre-pandemic peaks. Occupancy rose to 83.0% at the end of 2022, improving 2.8 percentage points from the prior year. Underlying segment trends were generally consistent: Majority AL increased 3.8 percentage points to 80.7%, and Majority IL increased 2.0 percentage points to 85.2%.

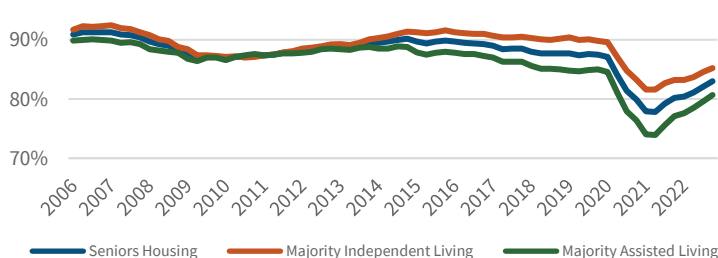
Year-over-Year Rent Growth by Property Type – Q4 2022



Quarterly Absorption by Property Type – Q4 2022



Occupancy Levels by Property Type – Q4 2022

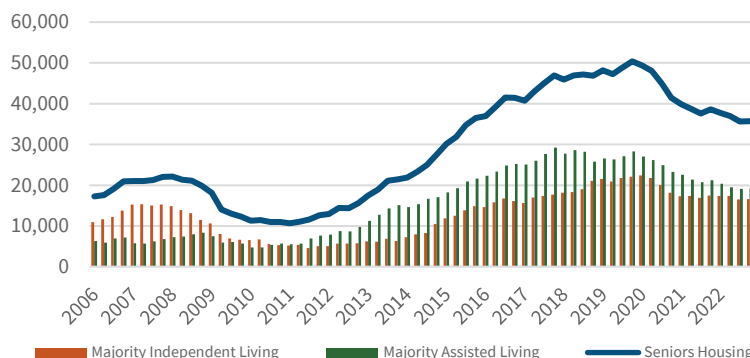


Source: Primary Markets, NIC MAP Data, Powered by NIC MAP Vision LLC

Multifamily Economic and Market Commentary

The number of seniors housing units under construction continued to ease throughout 2022, declining to 35,719 as of year-end. The total number of units under construction is down 7.5% from 2021. Both segments decreased compared to 2021, with the scale of the decline somewhat diverging: The number of AL units under construction is down 9.6% compared to 2021, while IL units are down 5.0%. The overall number of units added to the seniors housing inventory in 2022 decreased to 10,992 units, down from 15,808 units added in the prior year.

Units Under Construction by Property Type – Q4 2022



Source: NIC MAP Vision

Transaction Activity

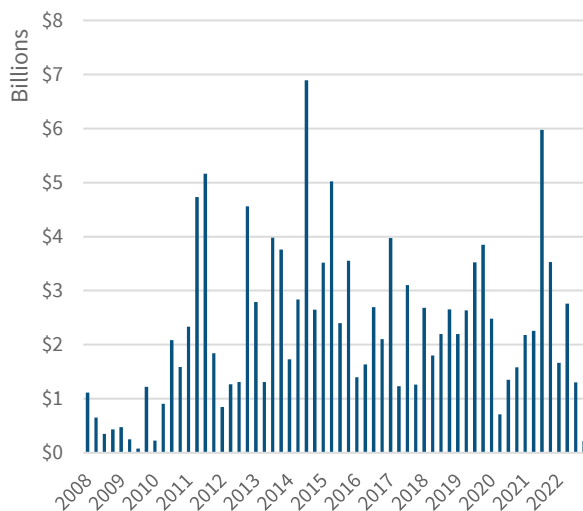
According to NIC MAP Vision, total seniors housing property sales in 2022 are estimated to have totaled \$5.9 billion, down significantly from \$13.9 billion for 2021. Sales volume declined over the course of the year, and fourth quarter 2022 sales volume is estimated to have decreased to its lowest level since Q3 2009 at \$216 million, down from \$1.3 billion in third quarter 2022 and \$3.5 billion in the fourth quarter of 2021.

The preliminary seniors housing annual average capitalization rate increased to 8.4% in fourth quarter 2022, up from a revised 7.4% for the year ending third quarter 2022 and up from 8.0% for 2021. It is important to note that these cap rates can be volatile and are often significantly revised as more data is gathered, sometimes months after the close of the transactions. On a very limited number of deals, the average transaction price per unit during fourth quarter 2022 declined to \$139,545. Although that was up 9% from 2021, it was still lower than the pre-pandemic price per unit of \$168,442 in fourth quarter 2019.

Four Quarter Cap Rate/Yield – Q4 2022



Sales Volume – Q4 2022



Source: NIC MAP Vision

Buyer composition shifted significantly toward private entities in 2022, with the share rising to 80% of transactions, up from 53% for 2021. Public buyers represented just 8% of transactions, down from 29% for 2021. Institutional buyers were down modestly at 11% for 2022, compared to 13% in 2021. Cross-border buyers accounted for less than 1% of 2022 activity, down from 4% in 2021.

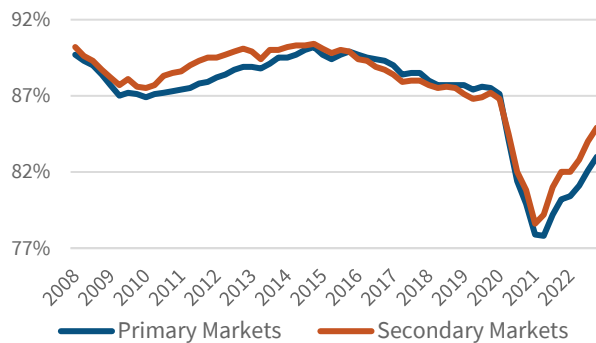


Multifamily Economic and Market Commentary

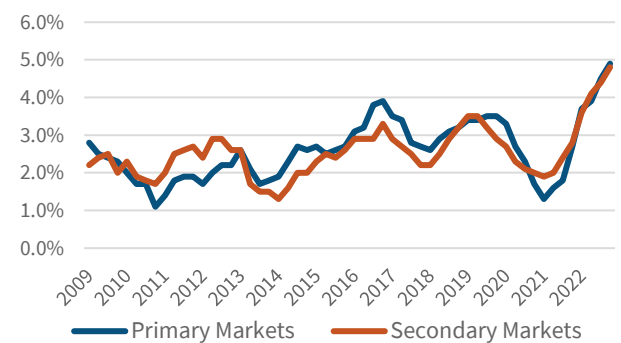
Market Performance

According to NIC MAP Vision, occupancy levels in secondary markets (32nd to 100th in size) rose to 84.9% at the end of 2022, a 2.9 percentage point increase from 2021. Annual rent growth in the secondary markets continued to rise throughout 2022, increasing to 4.8% for the fourth quarter, which was the highest level on record. Compared to 2021, annual rent growth rose slightly higher in the primary markets: rent growth was up 2.2% in the primaries, compared to 2.0% in the secondaries.

Occupancy - Primary vs. Secondary – Q4 2022



Rent Growth - Primary vs. Secondary – Q4 2022



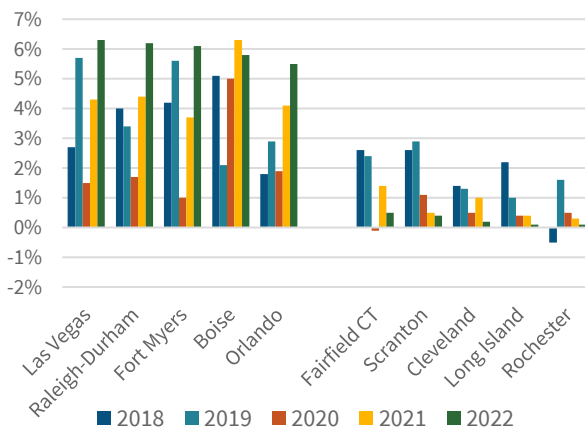
Source: NIC MAP Vision

Metro-Level Assisted Living Performance Continues to Recover

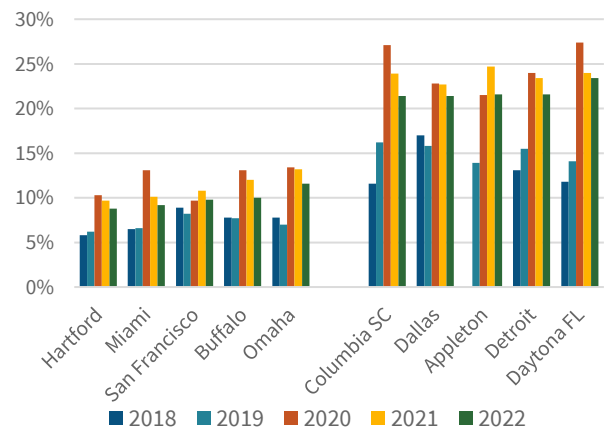
According to data from Moody's Analytics CRE, majority AL conditions continued to recover for most of the nation's larger inventory AL metros. Among these metros, all had positive rent growth in 2022. Las Vegas, Raleigh-Durham, and Boise were again rent growth leaders, as they were in 2021, with Fort Myers and Orlando following. All but Boise experienced an increase in rent growth compared to 2021. While Fairfield, CT, Scranton, Cleveland, Long Island, and Rochester lagged the market from a rent growth perspective and showed slower rent growth in 2022 than in 2021, all of them still reported positive rent growth for 2022, as seen in the chart below.

From a vacancy perspective, 79 of the 82 largest markets in the country experienced a decrease in vacancy rates in 2022, according to Moody's Analytics CRE. And all of the metros among the five highest and lowest vacancy rates in 2022 saw a decline compared to 2021, as seen in the chart below. Hartford and Miami were again among the five lowest vacancy rate markets for AL properties, with San Francisco, Buffalo, and Omaha joining them in 2022. Columbia, SC, Dallas, Appleton, WI, and Detroit were among the higher vacancy rate markets in 2021, with Daytona, FL joining them in 2022.

Select Metro AL Rent Growth – 2018-2022



Select Metro AL Vacancy – 2018-2022



Source: Moody's Analytics CRE – select metros include areas with > 1,500 AL units in market



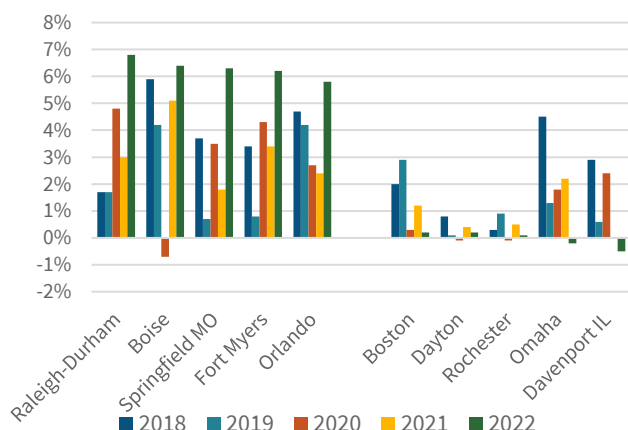
Multifamily Economic and Market Commentary

Metro-Level Independent Living Performance Eased Slightly

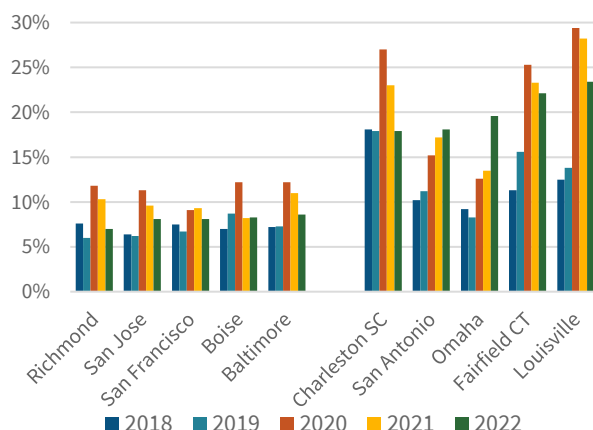
Majority IL rent growth rates in 2022 increased in 71 of the nation's 86 highest inventory IL metros, according to data from Moody's Analytics CRE, which is a slight decline from 2021 when just one of the largest markets slowed. Raleigh-Durham reported the highest IL rent growth rate in 2022, followed by Boise. Springfield, MO, Fort Myers, and Orlando were the other Majority IL rent growth leaders, with each reporting substantial growth over 2021. Among the slower metros, all reported a decline compared to 2021, though none of them were among the lowest the prior year.

Majority IL vacancy decreased in 77 of the 86 largest markets in the country, though several of the lagging markets continued to have a remarkably high level of vacancy of over 20%. Richmond, San Jose, San Francisco, Boise, and Baltimore ended the year with vacancy under 10%, though Boise had a modest increase during the year, as seen in the chart below. Among the markets with the highest IL vacancy rates, Charleston, SC, Fairfield, CT, and Louisville reported a decline in vacancy compared to 2021, but San Antonio and Omaha each reported increases for 2022.

Select Metro IL Rent Growth – 2018-2022



Select Metro IL Vacancy – 2018-2022



Source: Moody's Analytics CRE – select metros include areas with > 1,500 IL units in market

Outlook

In 2022, the seniors housing sector continued recovering, seeing noteworthy levels of demand that arrived after the depths of the pandemic. The total number of occupied units in the industry achieved a new record at the end of the year, and although the occupancy rate improved throughout most of 2022, it is still below pre-pandemic levels. Rent growth reported several quarterly records, which is further evidence of significant demand. We believe a potential headwind for the industry in 2023, however, could be seniors' reluctance to sell their current homes in light of uncertain home prices and higher mortgage rates. Additionally, individual property financial performance may continue to be held back by a mix of higher operating costs and higher financing costs that are still present in today's environment.

The burgeoning population of people entering their 80s remains the underlying engine of the sector's future growth prospects, although we are still years away from seeing the full strength of that surge. We believe the sector is experiencing a recovery, and in several years it could be entering some of its strongest-ever years of demand. But it must navigate the next several quarters years of potential economic volatility (and the resulting uncertainty from higher operating and financing costs) before a long-term industry expansion is more firmly entrenched.



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