SENIORS HOUSING BUSINESS

# Plenty of Room for Optimism: The State of Seniors Housing and Strategies to Forge Growth

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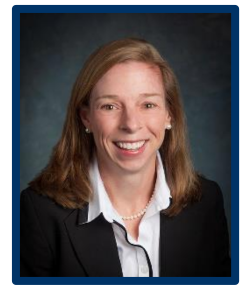

The senior living sector was among the hardest hit industries of the COVID-19 pandemic. COVID resulted in the double whammy of a rapid drop in occupancy followed by labor shortages that have caused rapidly escalating labor costs.

As a result, senior living facilities in even the strongest markets have faced financial challenges, with Moody's estimating that were 675 municipal bond delinquencies related to senior living facilities over the past two years representing approximate 25 percent of all municipal bond delinquencies.

Several high-profile stories early in the pandemic of COVID racing through senior care facilities with devastating effects followed by strict isolation policies caused residents to flee facilities and move back in with families. Seniors housing occupancy reached a record low of 78 percent in first-quarter 2021, according to NIC MAP data, down from historical average of approximately 90 percent and marking six consecutive quarters of declines. Assisted living occupancy was even lower, hitting 75.5 percent in first-quarter 2021.

In addition, senior care facilities have faced rapidly rising labor costs due to the great resignation, with high turnover rates and significant wage inflation among hourly healthcare workers. In fact, staffing turnover was rated as the top issue for industry operators.

Employment in assisted living, CCRCs and nursing homes each decreased by more than 10 percent from February 2020 to November 2021, according to the Bureau of Labor Statistics. Assisted living facility employment fell by 38,000 since the beginning of the pandemic, or 8.2 percent, according to the American Health Care Association.

Senior care operators have faced aggressive competition for hourly workers from both health systems and other industries as companies aggressively seek to draw workers with higher pay or more flexible work conditions than can typically be offered in a senior care facility

As a result of the occupancy and turnover dual challenges, the long-term care industry reached a record high default rate of municipal bonds at the end of 2021. Approximately $1.6 billion of muni bonds issued for senior living facilities defaulted in 2021, representing 4.3 percent of the sector's $37.6 billion of debt as of Jan 1, 2022, according to Municipal Market Analytics. Thirty-one borrowers missed a debt payment for the first time, tying the full-year record set in 2020.

**There's some good news**

Regardless of how long it takes the senior housing sector to regain pre-pandemic occupancy levels, the demographics of an aging U.S. population ensure that a recovery is imminent, and the seniors housing market will continue to trend in a positive direction.

There are now an estimated 9.3 million Americans over the age of 85, the most common move-in age for residents of seniors housing. Industry analysts project that more than 2 million Americans will live in senior care communities by 2030, double the number that were in seniors housing in 2016. CBRE estimates that 40,000 new seniors housing units will need to be added to the national inventory every year for several years in order to meet demand from baby boomers.

Occupancy is edging up. Seniors housing occupancy during the first quarter of 2022 was up 20 basis points from the fourth quarter of 2021 and reached 80.6 percent, marking the third consecutive quarterly increase in occupancy.

For perspective, this was a 2.5 percentage point increase from the pandemic-related low of 78 percent recorded in Q2 2021, but was 6.7 percentage points below its pre-pandemic level of the first quarter of 2020, according to NIC MAP data. Continued demand and weak inventory growth associated with the slowdown in construction starts in 2020 contributed to the occupancy increase in recent months.

Margins will likely take even longer to recover than occupancy rates, given that expenses are rising faster than revenue, despite operators' efforts to drive rates.

Senior living operators continue to face staffing challenges. More than 50 percent report that their overall workforce situation has further worsened since January, according to a recent survey from the National Center for Assisted Living. Additionally, very high turnover among RAs, RNs, CNAs and even dining service workers is resulting in fast wage growth and sign-on bonuses to attract and retain staff.

Creativity and flexibility will be key in attracting and retaining staff without continuing to increase wages. Some operators have implemented same-day pay, flexible scheduling, paying for training or education, internal promotions and other methods to attract and retain workers.

**Bring occupancy back up**

With more than six percentage points needed for occupancy to recover to pre-pandemic levels, the sector's recovery is going to take time. Stabilization could take 12 to 18 months. A few of strategies for facilities to get occupancy back up include:

- ✓ *Embrace digital marketing*: With many senior living facilities having robust occupancy and long waiting lists prior to COVID, marketing was often not a priority. Operators must put a strong emphasis on digital outreach, including videos about staff and culture with multimedia ad campaigns through video testimonials with residents. Advertising spend in various online formats from social media to online advertising is critical as many families now turn first to digital search to research and evaluate housing options for elderly family members.

- ✓ *Selective capital improvements*: Investment is critical given that 42 percent of communities for older adults are more than 25 years old. Common spaces and landscaping are often dated. Similar to marketing, capital investment in common areas and amenities was often deferred when there were waiting list for residents. Communities must now offer the market a product that a new generation of elders will want to move into.
- ✓ *Strengthen clinical capabilities*: Fully aligned healthcare partnerships with high-quality healthcare and ancillary service providers can help create better resident outcomes, longer length of stay and added revenue streams. Adult children want to know how mom and dad will be kept safe.
- ✓ *Protect against future pandemics*: Operators must consider ways to reduce the social and community impacts of future pandemics. New technologies, such as air scrubbers and biological threat detection systems will likely become a part of new property design and community differentiators
- ✓ *Overhaul recruitment process*: Staff is key to a successful resident experience and operators must view its talent recruitment process like a sales process. A company's recruiting team must make finding new, qualified staff a top priority akin to the same way communities approach prospective residents. Operators must redesign new employee orientation programs to better onboard newcomers, while also offering an educational leadership program and providing tuition assistance for those looking to deepen their career in senior living. Employees that love working in a particular community keep people coming back to work.

The seniors housing industry has no shortage of challenges, but there is more optimism looking into the future as occupancy gains continue and new best practices with regard to labor and technology take root. Demographics remain poised to drive demand.

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