

Boston Hospitality Review

www.bu.edu/bhr

Published by the Boston University School of Hospitality Administration

Seniors Housing 101: Where Are We Now & Where Do We Go from Here?

By Serena Lipton & Zach Bowyer, MAI

Issue April 2021 – Real Estate

Seniors Housing 101: Where Are We Now & Where Do We Go from Here?

By: Serena Lipton & Zach Bowyer, MAI

Seniors housing, while still a highly niche sector, is quickly evolving to become a core investment. According to JLL Research, there are approximately 24,500 properties, comprised of 1,687,000 senior living units and 1,461,000 nursing care beds. “Seniors housing” is an umbrella term that encompasses approximately four diverse care types, including active adult, independent living, assisted living, and memory care, while “nursing care” refers to skilled nursing and long-term acute care services.

According to NIC Map research, independent living is defined as properties that “typically include services such as communal dining, housekeeping, transportation, emergency call, and social programming services in the monthly fee.” On the other hand, assisted living is defined as communities where “residents receive personal care services such as assistance with bathing, dressing, eating, walking, and toileting. 24-hour protective oversight is provided, but 24-hour medical care is not.” In most states, both Assisted Living and memory care communities typically have the same levels of licensure; however, memory care communities are equipped with specialty-trained staff and additional security measures to ensure the safety of uniquely vulnerable residents. As for nursing care, these types of communities are “licensed long-term health care and residential properties that serve persons who require constant medical supervision and/or who require significant physical assistance in transferring, management of continence and use of medical devices.”

According to research done by the American Seniors Housing Association (ASHA), the top five owners in 2020 were Welltower, Inc, Ventas, Inc, Brookdale Senior Living, Healthpeak Properties and Boston Capital, respectively. In terms of operators, the top five in 2020 were Brookdale Senior Living, LCS, Holiday Retirement, Five Star Senior Living and Sunrise Senior Living, respectively. Brookdale Senior Living earns it’s first place title by managing a total of 62,562 units, while LCS comes in as a close second, managing 40,001 units. In all, there was a total of 528,794 units that were collectively managed by the 50 largest seniors housing operators in 2020.

The industry is currently undergoing a massive transition, due to the disruption brought on by the COVID-19 pandemic. Occupancies have reached record lows, labor shortages are urging operators to turn to innovative and tech-centric staffing solutions and the threat to resident health and safety is as significant as ever. According to long-time industry real estate advisor, Mel Gamzon, Principal, Senior Housing Global Advisors, “The industry is going through an unexpected, but much-needed, transformation process. Lodging industry investors and operators have an opportunity to capitalize on this growth sector while valuations are down. Lifestyle and wellness focused ventures with healthcare access will become increasingly important for the burgeoning baby boomer generation.” There is an entirely new reality that is beginning to evolve for the industry, and the key players going forward will be a function of who is most innovative in working to create value-add platforms for the future. This innovation is being initiated at all levels of the sector, from design and development to operations.

Development is constrained by capital, and although the cost of capital remains reasonable, only premier ventures are currently being funded. Underwriting criteria has become more stringent, and lenders and investors alike are focused on their core clientele and on developers who are aligned

with the highest caliber operator. In this new generation within the industry, only the best deals are being financed. Marginal sponsors will not receive capital in this tight investment marketplace.

As we enter an entirely new phase of the industry, we can reflect on one of the few positive changes that the COVID-19 pandemic has brought about: it has forced a new way of thinking and has allowed for new approaches to emerge. The COVID-19 pandemic has affected the seniors housing industry dramatically across the board and has sparked widespread recognition of the need for change. Operationally, most properties hit record lows towards the end of the fourth quarter of 2020 in terms of occupancy and have higher per-resident day operating expenses. Such disruptions are likely to persist for some time, and industry professionals are seeking change in order to pave the road to recovery. The industry is in the process of creating new realities on all fronts; from development to operations, the norms of the past no longer exist, and those who do not recognize and adapt to this new reality are highly vulnerable. In terms of recovery, we can expect to see occupancy growing stronger with time.

While occupancies reached all-time lows during the COVID-19 pandemic, and will likely continue to endure these lows in the following year as well, there is reason to believe that the two-year plus outlook for the industry could be bring healthier metrics to the industry than ever before. According to a recent publication on Senior Housing News, “New construction starts could ‘crash to zero or near zero’ as a result of Covid-19...with new supply growth likely to be less than 1% even two years out. This would be due to Covid-19 fears as well as the pandemic’s impact on capital markets. Yet, the pandemic will not change the basic demographic makeup of the country, which includes a huge wave of aging baby boomers. If demand growth of 2% to 3% per year holds steady, occupancy could increase by 150 to 200 basis points per annum for ‘several years’ starting in 2022 or 2023, with net operating income growing ‘well north’ of 5% in that timeframe...Transactions could be abundant in the aftermath of Covid-19...as the pandemic is likely to motivate mom-and-pop operators to sell.”

Although we have experienced many struggles in 2020, we now know that the pandemic will eventually pass, and the lesson for our industry is clear: providers must accept that their communities are home to a population with highly significant care needs and a high vulnerability to infectious diseases. JLL research states, “Now over twelve months since the onset of COVID-19, the pandemic continues to manifest change and challenges to all commercial real estate. Across the seniors housing and care sector, owners and operators have faced these unprecedented challenges head-on, and are increasingly adapting to apply learned best practices that insure the health and wellbeing of their residents and staff. Although the sector still faces meaningful challenges, we are beginning to see a transition back to offensive operations as operators once again look to attract new residents, while employing a gained understanding of the additional operational burdens. With vaccinations now available, the next few months will be critical for the direction of the industry throughout 2021, a viewpoint that is expected to curtail transaction volume in the first quarter.” As the senior living industry battles the latest wave of infections and starts to combat the pandemic through mass vaccination strategies, it is more important than ever to look ahead and try to identify which trends will help, hinder or further complicate efforts to recover from the worst calamity that the sector has ever endured.

The COVID-19 pandemic has created great momentum for the technology movement that had already started transforming the industry a number of years ago. This technological acceleration is not only going to demand newer and more innovative technologies, but senior living professionals

are now faced with a moral imperative to usher them in as quickly as possible, as resident health and safety are now more important than ever. In 2021, it is certain that the speed of innovation will continue to accelerate and adapt to vulnerable clientele in this ever-evolving market. Industry-wide disruptions brought about by the pandemic, such as staffing shortages and the increased need for sanitation, can also be easily mitigated by technological advances within communities. Technology is no longer an amenity, but rather, a necessity. In response to the evolving tech ecosystem, senior living professionals will likely increase their technology budgets in 2021 and beyond, as technology is a key component of the new value-add business models that are being created for this new era of the industry.

In terms of operations, the industry is more focused today on healthcare-related operating platforms rather than lifestyle and hospitality-oriented models. The industry, going forward, will have a very defined balance between hospitality services and the need for healthcare programming. To be successful, the seniors housing operators and developers will need to be flexible, capital-capable and focused on innovative solutions to create more affordable and wellness-centric service packages. According to JLL research “in a sector already poised for disruption, we are seeing an acceleration of existing trends with the emergence of new innovations such as technology, infrastructure and design. Healthcare leaders are hyper-focused on the health and safety of their residents, as they reopen to meet the demands of this burgeoning population.” In 2021, the industry will leave behind older and under-capitalized operating models that are no longer acceptable to the modern consumer nor to the sophisticated investor of the future. Senior living professionals are quickly learning that the only way to be successful is to have a strategic alliance with the most capable healthcare and wellness-oriented providers in a specific market.

Given the overall condition of the hospitality industry, there is a huge opportunity to convert existing hotels to senior communities. In hotels, common areas are extensive, kitchen facilities are typically more than adequate and many of the amenities which senior living operators seek to replicate are already in existence. The real challenge is the room configurations and whether they can be converted to larger, more residential space. For example, if a hotel is built with cinder block walls between rooms, this can limit the ability to change the internal configuration. The ability to reconfigure walls and room spacing is essential and is typically the main downfall in trying to convert hotels for senior living purposes.

These under-performing hotels offer an attractive opportunity for lodging and hotel professionals to break into the senior living space as outlook on supply and demand metrics is favorable for the sector. Additionally, there is ample availability of acquisitions for possible adaptive re-use ventures, despite possible construction-related limitations. Such conversion trends, which have been accelerated by the pandemic, represent a new wave of long-term opportunity within the industry. One must keep in mind that this is an operating business much like a hotel. The seniors housing consumer has numerous alternatives and there is no margin for error in business planning, capital structure and execution.

While the seniors housing industry continues to endure the disruption brought on by the COVID-19 pandemic, there are enormous opportunities for the motivated hotel investor within the seniors housing space. For the hospitality community, focusing on active adult and independent living, both of which have strong lifestyle components akin to the hotel industry, is likely the best approach. These types of developments will also minimize the need for additional licensing. The

communities need to be amenity-rich while still affordable to the specific market and maintain a heavy focus on health and wellness services.

There is no doubt that the residual effects that the COVID-19 pandemic has had on the industry will be encouraging to prospective investors. The future return on investment that the industry has to offer can benefit those in the hotel, multifamily and even the student housing space. For well-capitalized investors and developers, the time is ideal to consider possible ventures within this sector.

Bibliography

2020, ASHA. “ASHA 2020.” ASHA 2020 50, doi:<https://editions.mydigitalpublication.com/publication/?m=58467&i=673345&p=26>

“NIC Map Monitor - An Analysis of 4Q20 NIC Map Data.” NIC Map Data Service, 2020

Chandler, Brian, MAI, CRE, FRICS, Lockard, Bryan, MRICS, Bowyer, Zach, MAI. Seniors Housing & Care Valuation Trends. Fourth Quarter, 2020. PowerPoint Presentation.

Chandler, Brian, MAI, CRE, FRICS, Lockard, Bryan, MRICS, Bowyer, Zach, MAI. Seniors Housing & Care Valuation Trends. Fourth Quarter, 2020. PowerPoint Presentation.

Mullaney, Tim. “3 Covid-19 Predictions for Senior Housing: Occupancy, Pandemic Duration, Industry Recovery.” Senior Housing News, 30 Mar. 2020, seniorhousingnews.com/2020/03/29/3-covid-19-predictions-for-senior-housing-occupancy-pandemic-duration-industry-recovery/.

Authors



Zach Bowyer, MAI is a Managing Director and member of JLL’s Executive Committee for Valuation & Advisory Services. His focus is driving growth initiatives through the advancement of data analytics, product development and talent recruitment. As an executive committee member Zach helps support a team of over 250 professionals with offices in 26 major metro markets. Specializing in the seniors housing sector for over fifteen years, Zach has completed over \$50 billion in third-party valuation assignments throughout the U.S. other services provided include underwriting due diligence, asset management, market studies, and feasibility analyses of single-asset to large portfolio transactions. Zach is a regular panel contributor at industry events such as the Appraisal Institute, NIC, NCREIF and ULI. He served as Co-Chair of ULI’s Seniors Housing Council and is on the Advisory Committee for the American Seniors Housing Association. He has authored numerous research reports and white papers that have been quoted in the Wall Street Journal, Real Estate Alert, Senior Care Investor, Seniors Housing News and others. Zach currently serves on the Board of Directors and served as the Government Relations Chair for the MA Chapter of the Appraisal Institute. He is an approved instructor for the Valuation of Seniors Housing Properties for the Appraisal Institute. Zach began his professional career in commercial banking with First National Bank. In 2004, he began specializing exclusively in the appraisal of seniors housing and healthcare real estate. Zach joined CBRE in 2012 to start a seniors housing & healthcare specialty practice and grew that group into

the largest valuation & advisory service provider in the U.S. Zach holds a B.A. in Business Administration/Finance and Economics from the University of Florida.



Serena Lipton is an Analyst for JLL Valuation & Advisory Services Specializing in the seniors housing and healthcare practices. Ms. Lipton provides a wide array of advisory services including third-party valuations, market studies, and feasibility analysis throughout the United States. Her primary focus includes the market research and financial analysis of active adult, independent living, assisted living, memory care, and nursing care properties located throughout the northeastern United States. Prior to joining JLL, Ms. Lipton served as a member of CBRE's Valuation & Advisory Services within the Seniors Housing & Healthcare Specialty practice. Serena holds a Bachelor of Science in Hospitality Administration from the Boston University School of Hospitality Administration.