

SENIORS HOUSING INVESTMENT RETURNS IMPROVE IN Q4, BUT REMAIN LOW

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The total investment return for the seniors housing sector was a positive 0.71% in the fourth quarter of 2020. This marked the second consecutive quarterly gain after one quarter of negative returns in the second quarter of 2020 when total returns were negative 1.00%; that marked the first negative total return since 2012 and prior to that in 2009.

The income return remained positive in the fourth quarter, but at 0.91% it was the smallest increase on record as far back as 2003. The appreciation (capital/valuation) return fell 0.20%, the fifth consecutive quarterly decline. This contrasts with the NPI and apartments, where the valuation return turned positive in the fourth quarter. Many investors have reduced their appreciation expectations for seniors housing as the impact of the coronavirus has weighed heavily on their view of the sector. The valuation return is the change in value net of any capital expenditures incurred during the quarter.

Further, the one-year valuation return for seniors housing was a negative 2.89%; worse than in the NPI (-2.52%), apartments (-2.02%), or office (-2.73%). Retail was a negative 11.17% and hotel had a shockingly large negative appreciation return of 24.10%. Meanwhile, investors' darling--the industrial sector--enjoyed a 7.04% appreciation return on a one-year basis.

Note that the performance measurement cited above for seniors housing reflects the returns of 145 seniors housing properties valued at \$7.8 billion in the fourth quarter. This was the highest property count and market value in the NCREIF time series for seniors housing.

At the time of this writing in February 2021, it remains challenging to look ahead with any certainty. New mutations of the coronavirus and the seemingly greater risk of contagion and fatality associated with the new variants cloud the outlook. That said, the successful administration and

distribution of vaccines among the nation’s most vulnerable elderly population is promising. NIC analysis of the early impact of the vaccines on case counts and fatalities for skilled nursing indicate that the vaccines are indeed being effective in reducing COVID-19 risks for seniors (see blog post: <https://blog.nic.org/covid-19-case-counts-falling-in-skilled-nursing-properties-following-vaccine-rollout>).

If this remains the case, the outlook for the sector will continue to improve as 2021 unfolds into 2022. Confidence among decision-influencing adult children as well as potential new residents will shift as the incidence of infection gradually fades. The industry has a long way to go, however. In the fourth quarter of 2020, the occupancy rate for assisted living had fallen 7.4 percentage points since the pre-pandemic first quarter rate to 77.7%, while the occupancy rate for independent living had declined 6.2 percentage points to 83.5%--nadir for both property types. One way to track the pace of the sector’s recovery on a relatively real-time basis is to review the results of NIC’s Executive Survey Insights. The survey is conducted once every two weeks and has been being administered since late March. It provides a good pulse on the sector from the point of view of operators as it tracks vaccination distribution, move-in and move-out rates, occupancy and more (<https://www.nic.org/executive-survey-insights-wv21>).

TOTAL RETURNS			
	Total NPI	Total Apartment	Total Stabilized Senior Housing
4th Qtr 2020	1.15	0.99	0.71
3rd Qtr 2020	0.74	0.51	0.39
One Year	1.60	1.83	1.33
Three Years	4.89	4.45	5.59
Five Years	5.91	5.37	8.50
Ten Years	9.00	8.56	11.52

INCOME RETURNS			
	Total NPI	Total Apartment	Total Stabilized Senior Housing
4th Qtr 2020	1.01	0.88	0.91
3rd Qtr 2020	1.02	0.92	0.94
One Year	4.20	3.91	4.32
Three Years	4.43	4.16	5.04
Five Years	4.55	4.30	5.33
Ten Years	5.06	4.72	6.01

APPRECIATION RETURNS			
	Total NPI	Total Apartment	Total Stabilized Senior Housing
4th Qtr 2020	0.14	0.11	-0.20
3rd Qtr 2020	-0.28	-0.40	-0.55
One Year	-2.52	-2.02	-2.89
Three Years	0.44	0.29	0.53
Five Years	1.32	1.04	3.06
Ten Years	3.80	3.72	5.28

Source: NCREIF, NIC Research & Analytics

