SENIORS HOUSING TOTAL RETURNS DECLINE IN SECOND QUARTER

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The Backdrop. Like many property types, seniors housing investment returns fell in the second quarter of 2020 as the effects of the COVID-19 global pandemic and the utter collapse of the economy took their toll. Two to three months of virtual lockdown for all but "essential" workers caused a temporary lay-off of 40 million Americans--more than one in four working individuals. And, for those who are essential workers, the challenges have been sizeable, especially for those on the frontline of healthcare provision, including staff who have cared for elders in America's seniors housing and skilled nursing properties around-the-clock. While many businesses closed in the second quarter, it is notable and laudable that seniors housing and nursing care remained open as their core mission of caring for the elderly continued unabated.

The virus has been most severe for older individuals and those with underlying or chronic health conditions. This has been most evident in the share of cases and fatalities seen at skilled nursing properties, where the frailest seniors often live, followed by those in assisted living. The initial challenges of preventing contagion were exacerbated by a lack of a coordinated national effort to provide adequate personal protective equipment (PPE), testing, and contact tracing protocols. Many operators were on their own to secure PPE, and stories abound of the incredible efforts undertaken by virtually all operators to provide safe housing and care to residents.

Many operators also voluntarily closed their properties to new move-ins which caused occupancy rates to fall sharply. NIC MAP® data from 2Q 2020 show the pandemic took its greatest toll on nursing care occupancy in the second quarter, with a drop of 6.5 percentage points from the first quarter to 80.2% in the second quarter. Assisted living was next most affected with a 3.2 percentage point decline in occupancy to 82.1%, driving the occupancy rate to a new record low. Independent living saw a 2.4 percentage point decline to 87.4%, pushing it back to its level in the first quarter of 2011. In general, residents in independent living tend to be healthier than those in assisted living and nursing care, hence the lesser decline in occupancy.

Seniors Housing Investment Returns on Par With NPI. With this environment as a backdrop, the total investment return for the seniors housing sector was a negative 1.00% in the second quarter of 2020, the first negative return since 2Q 2012. The income return remained positive but was the smallest increase on record as far back as 2003. The appreciation return fell 2.04%, the third consecutive quarterly decline, making the valuation return a negative 2.43% since 4Q 2019. Many investors reduced their appreciation expectations in the first half of the year as the impact of the coronavirus weighed heavily on their view of the sector.

Comparatively, the total negative return of 1.0% was on par with the NPI which fell by -0.99%, but was slightly worse than the apartment sector performance, which dropped by -0.63%. Hotels plunged by a whopping 16.59%, retail by 3.85% and office by 0.50%. The only sector that did not see declines was industrial, but even there, the appreciation return was negative, albeit slightly (-0.07%). Its notable, that like other property types, transaction volumes were very limited in the second quarter, making price discovery challenging.

At the time of this writing in late July 2020, it is nearly impossible to look ahead with any certainty. The direction forward for the pandemic as well as for the economy depends upon the path of the virus and the discovery of a replicable vaccine that can be widely distributed across the globe. That said, for seniors housing, strict protocols for visitation, sanitation, and move-ins have been implemented by virtually all institutional-grade operators which has allowed many to begin to open their doors again for new residents. Anecdotal stories suggest that there are waiting lists for many operators, especially for best-in-class operators who operate assisted living. And new monthly intra-quarterly data from NIC suggests that the largest impact on occupancy at this point occurred in the immediate aftermath of the pandemic in the month of April, followed by lesser occupancy declines in May and June.

Longer term, the general investment thesis for investing in seniors housing remains. This includes the basic need for congregate living settings associated with an aging population, including middle income seniors. Other considerations include the sector's long-term attractive investment returns (11.79% on ten-year basis compared with 9.70% for the NPI and 9.71% for apartments) and portfolio diversification benefits. Additionally, the sector offers compelling and emerging opportunities in both healthcare collaboration and population health management, critical elements to stave off staggering societal healthcare costs. And lastly, there is a better understanding of the sector by institutional capital providers who hold significant amounts of investable and targeted capital.

Note that the performance measurement cited above for seniors housing reflects the returns of 123 seniors housing properties, valued at $6.3 billion in the second quarter.

TOTAL RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
2nd Qtr 2020	-0.99	-0.63	-1.00
1st Qtr 2020	0.71	0.95	1.24
One Year	2.69	2.98	3.52
Three Years	5.44	5.06	7.59
Five Years	6.77	6.77	10.02
Ten Years	9.70	9.71	11.79

INCOME RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
2nd Qtr 2020	1.01	1.01	1.04
1st Qtr 2020	1.10	1.05	1.36
One Year	4.40	4.23	5.04
Three Years	4.52	4.28	5.34
Five Years	4.63	4.40	5.50
Ten Years	5.19	4.83	6.20

APPRECIATION RETURNS

	Total NPI	Total Apartment	Total Stabilized Senior Housing
2nd Qtr 2020	-2.00	-1.64	-2.04
1st Qtr 2020	-0.39	-0.10	-0.12
One Year	-1.65	-1.21	-1.46
Three Years	0.89	0.76	2.18
Five Years	2.97	1.77	4.35
Ten Years	4.35	4.72	5.34

Source: NCREIF, NIC Research & Analytics