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# The Trajectory of the Seniors Housing Market Recovery

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Multifamily Research Center

## Seniors Housing Market Summary

The Seniors Housing market was one of the hardest hit rental housing types during the COVID-19 pandemic, which is intuitive seeing that seniors housing populations were among the most vulnerable age groups. Prior to the pandemic, the Seniors Housing market was relatively healthy and stable and was adapting to moderating occupancy levels due to an influx of new supply. While conventional multifamily rentals saw greater impacts to rent levels, by comparison, Seniors Housing saw much greater changes to occupancy levels – a notable decrease of more than 10%.

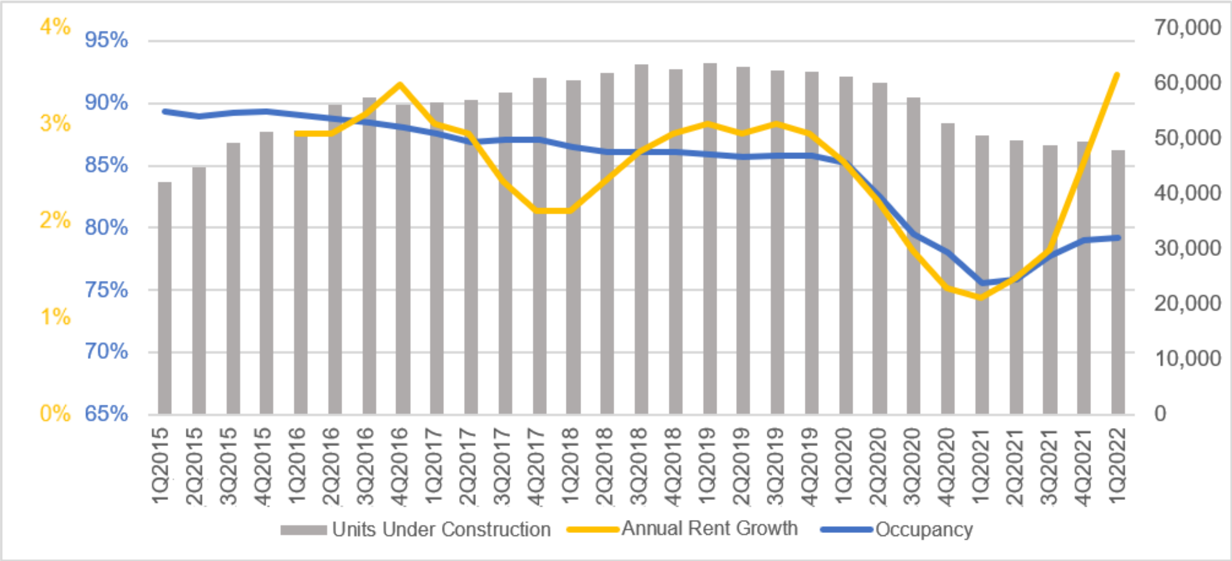
The Seniors Housing market started to rebound in the second quarter of 2021 – the same time as the conventional multifamily rental market. Whereas the conventional market, on average, has recovered lost rents since the onset of the pandemic, the Seniors Housing market has continued to lag pre-pandemic occupancy levels.

In this paper, we examine the supply and demand characteristics of the Seniors Housing market over the next few years to trend occupancy rates back to a pre-recession average. Given what we know about the Seniors Housing market and based on historical demand and demographic trends over the next couple of years, we expect market conditions to improve. Post recovery, we look at demographic trends through the end of the decade and how they may affect Seniors Housing.

Seniors Housing is typically broken up by level of care available to the tenants, with monthly costs increasing as the level of care provided goes up. Independent Living typically offers relatively limited health-related services but does offer many amenities and services intended to increase the quality and enjoyment of life of tenants and help with ease of daily living. These can include prepared meals, resident activities, cleaning and laundry service, and local transportation. On the other end of the care spectrum is Skilled Nursing, which is focused on the health of the tenant with very few amenities provided outside of daily care. In between those two extremes are Assisted Living and Memory Care, which offer increasing levels of specialty medical care, safety and assistance with day-to-day tasks. The bulk of the properties that Freddie Mac finances fall into the Independent Living and Assisted Living categories, with fewer Memory Care units and little to no Skilled Nursing units in our portfolio.

Prior to the pandemic, Seniors Housing was on solid ground, although it was absorbing a large amount of new supply in the years leading up to 2020. From 2016 through 2019, an average of nearly 29,000 units were added to the inventory annually, while absorption averaged just over 19,000 units per year, according to national data defined as primary and secondary markets from the National Investment Center for Seniors Housing & Care (NIC). As a result, occupancy fell from about 89% in 2015 to just below 86% at the end of 2019. However, despite these sagging occupancy levels, rent growth was relatively strong, averaging 3.0% per year over the same period as shown in Exhibit 1.

**Exhibit 1: All Seniors Housing Rent Growth, Vacancy and Units Under Construction**




Sources: NIC, Freddie Mac

The pandemic threw the Seniors Housing market into turmoil. By the first quarter of 2021, occupancy had fallen more than 10% to 75.6%. Absorptions over the prior 12 months declined more than 50,000 units. Despite seeing the worst effects of the pandemic during 2021, rent growth proved quite sticky and grew 1.6% from the first quarter 2020 through first quarter 2021. Although the entire Seniors Housing market suffered, the properties with majority Assisted Living units saw an even greater decline in occupancy, a higher overall vacancy rate but slightly more rent growth than the majority Independent Living sector.

Conditions in the Seniors Housing market improved markedly in the past 12 months as of the first quarter 2022. During that time, occupancy increased 360 bps to 79.2% and demand was record-setting, averaging nearly 12,000 units per quarter – more than double the 2016-2019 quarterly average. At the same time, rent growth totaled 4.3%, 80 bps above the 2019 level. As of the first quarter of 2022, the number of units under construction has fallen 20% from 2021 and is now at 48,000 units. As conditions in the Seniors Housing market have improved, so has investment activity. Sales volume totaled $12.3 billion over the past 12 months, which is nearly double the 2020 level and just $100 million below the 2019 level of $12.4 billion, as reported by Real Capital Analytics.

## Supply and Demand Projection for All Seniors Housing

Even though the Seniors Housing market experienced robust growth over the past year, the market is still not back to pre-pandemic levels. To assess when the Seniors Housing market may return to the pre-pandemic 2019 occupancy level of 85.8%, we performed an in-depth supply and demand analysis. As seen in Exhibit 2, as of the first quarter 2022, the occupancy rate was 79.2%. To return to the 2019 occupancy level, the market would need to absorb over 52,000 units, not accounting for new supply entering the market. Currently there are roughly 48,000 units under construction, which we assume will be delivered equally over the next eight quarters, increasing new supply by 5,995 units each quarter. Because not all new supply is absorbed, we apply the 2019 occupancy rate to get about 5,150 units per quarter of additional supply to be absorbed at the 2019 averaged occupancy level.

**Exhibit 2: All Seniors Housing Supply**

| Occupancy Supply | |
|---|---|
| Occupancy 1Q22 | 79.2% |
| 2019 Average Occupancy | 85.8% |
| **Difference** | **6.6%** |

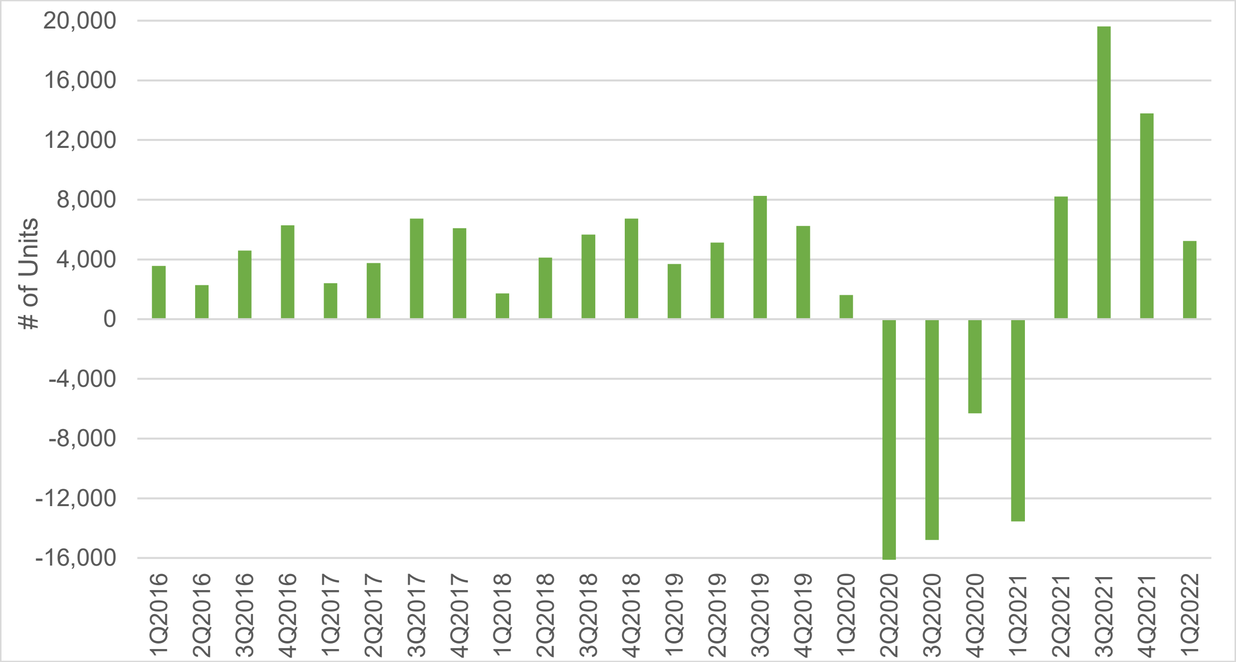
| Inventory Supply | |
|---|---|
| Inventory 1Q22 | 793,448 |
| Vacant Units at Current Occupancy Rate (79.2%) | 165,037 |
| Vacant Units at 2019 Average Occupancy Rate (of 85.8%) | 112,670 |
| **Difference** | **52,368** |

| New Quarterly Supply | |
|---|---|
| Under Construction New Supply (2 Year) | 47,956 |
| Quarterly | 5,995 |
| **At 85.8% Occupancy Rate** | **5,143** |

Sources: NIC, Freddie Mac

Meanwhile, during the last four quarters, the Seniors Housing market saw tremendous growth in demand. As seen in Exhibit 3, positive net absorption returned starting in the second quarter of 2021 and the third quarter saw the highest absorption rate on record at 19,617 units, in a data set that goes back to second quarter 2015. Although new absorptions declined in the first quarter of 2022 from the prior three quarters, performance of the Seniors Housing market is cyclical and the roughly 5,200 units absorbed was the highest first-quarter total reported by NIC in the data set going back to 2016.

**Exhibit 3: All Seniors Housing Quarterly Absorptions**




Sources: NIC, Freddie Mac

To estimate quarterly demand, we looked at two factors: the average demand during the recovery so far (four quarters from 2Q 2021 to 1Q 2022) and the Seniors Housing capture rate for those aged 80 years old and up (80+).

Nationally, Seniors Housing absorption has averaged 11,714 units per quarter over the past four quarters. We assume we will see a similar rate over the next few years as the market continues to recover from the pandemic, although quarterly performance may fluctuate.

To calculate the capture rate, we take the ratio of annual absorptions over the net change in the population aged 80+. We used the 80+ cohort as a proxy for when most seniors will start to move into Seniors Housing. In 2019, an additional 244,000 people entered the 80+ age cohort, while absorptions totaled 23,315 units. This equates to a 9.5% capture rate in 2019, which was the highest level observed from 2016 through 2021, but not significantly higher than the average of 8.8%, as seen in Exhibit 4. This 9.5% capture rate is then applied to the population growth of seniors in the 80+ years age cohort over the next few years. This estimation indicates that 12,662 seniors will move into Seniors Housing quarterly.

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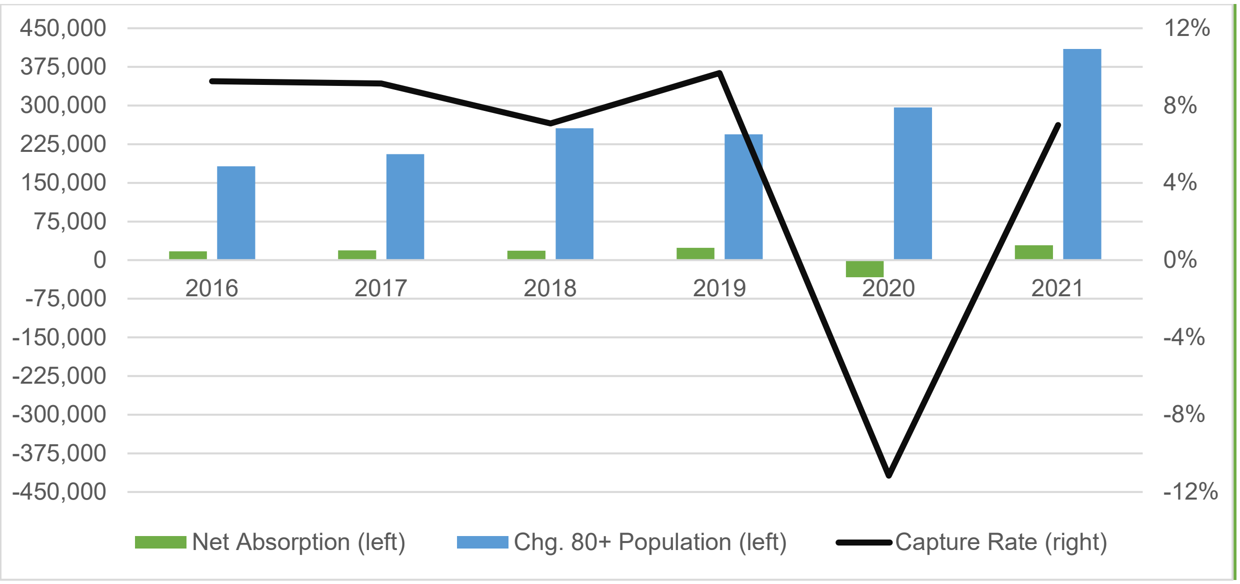
**Exhibit 4: Age 80+ Population Growth, Annual Net Absorption and Capture Rate**




Sources: NIC, Moody's Analytics, Freddie Mac

Taking the average of these two measures, we estimate annual Seniors Housing demand to total about 12,200 units per quarter, as shown in Exhibit 5. Given the strong rebound since the second quarter of 2021 and the consistent capture rates prior to the pandemic, we believe these quarterly demand estimates represent an appropriate trend in demand as tenants again feel safe returning to Seniors Housing facilities.

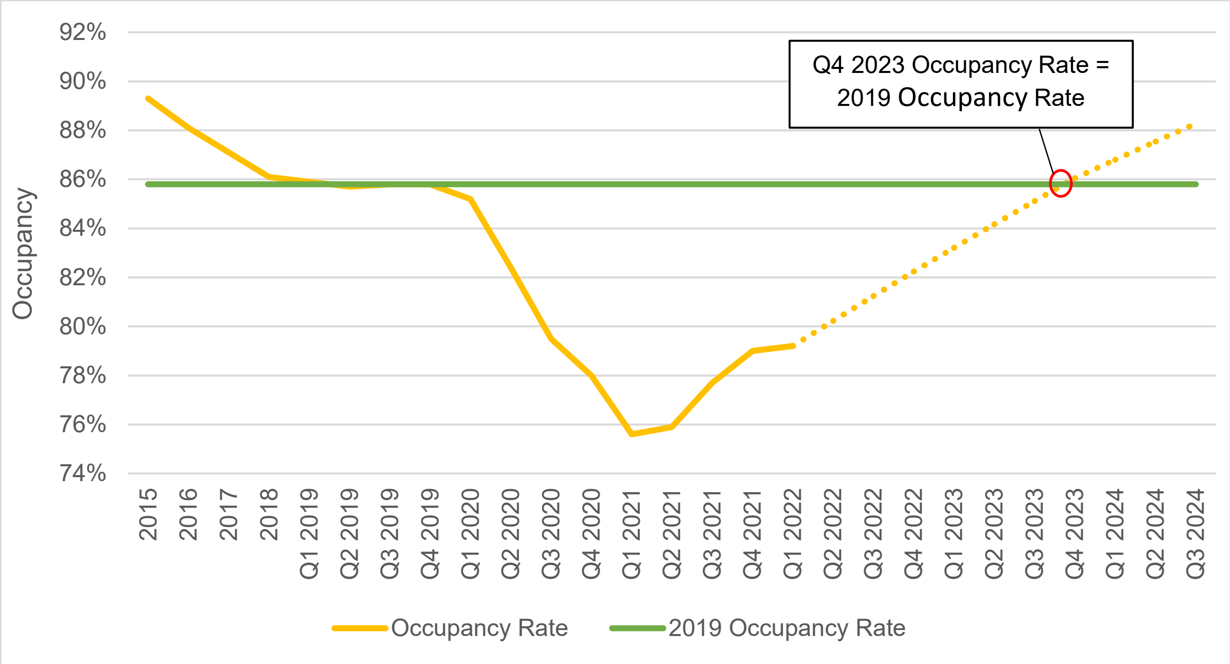
**Exhibit 5: All Seniors Housing Quarterly Demand**

| Quarterly Demand | |
|---|---|
| Average Last 4 Quarters | 11,714 |
| 80+ Capture Rate | 12,662 |
| **Average** | **12,188** |

Sources: NIC, Moody's Analytics, Freddie Mac

Given these supply and demand estimates, we believe that over the next two years, quarterly demand will exceed supply by approximately 7,050 units per quarter, and as a result, occupancy will increase rapidly. As seen in Exhibit 6 below, we believe that the overall Seniors Housing occupancy rate will return to the 2019 occupancy level by the end of the fourth quarter of 2023. This analysis gets the market back to pre-pandemic occupancy, but as previously mentioned, the occupancy rate had been declining in the years leading up to the pandemic. If we measure the length of time needed to get back to the longer-term occupancy rate from 2010 through 2019 of 87.8%, it will likely take until mid- to late 2024, assuming the pace of new construction does not change significantly.

**Exhibit 6: All Seniors Housing Occupancy 2015 – 2024 Projected**




Sources: NIC, Freddie Mac

Overall, given the strong demand anticipated along with new supply below pre-pandemic levels, we believe the Seniors Housing market will return to pre-pandemic performance in late 2023 to early 2024.

## Independent and Assisted Living Supply and Demand Projections

After looking at the supply and demand relationship for all of Seniors Housing, we have further broken the market down into its Independent Living and Assisted Living components. We use the same methodology for each market segment: the new supply currently under construction, along with the same demand indicators compared with the 2019 and long-term occupancy levels.

Breaking down the two most prominent segments of the roughly 790,000-unit Seniors Housing market, the Independent Living segment is smaller than the Assisted Living segment. Independent Living units account for nearly 297,000 units, as of the first quarter of 2022, or about 37% of all Seniors Housing units, while Assisted Living comprises about 56% of all Seniors Housing units. As of first quarter 2022, occupancy among facilities comprising most Independent Living units is 170 bps higher than Assisted Living, at 80.3% and 78.6%, respectively. During 2019, Independent Living units maintained a higher occupancy level, averaging 87.3% compared with 85.2% for Assisted Living. The decline in occupancy from 2019 through the first quarter of 2021 was slightly greater among Independent Living units at 7.0% compared with 6.6% for Assisted Living. Even though Independent Living units currently have a higher occupancy rate compared with Assisted Living, they have a larger gap to close to return to their 2019 pre-pandemic occupancy level.

Current construction of Independent Living units is higher than Assisted Living at nearly 25,500 units, which equates to quarterly new supply of about 3,200 units over the next eight quarters. Adjusting those new units to the 2019 occupancy level, we determine that about 2,800 new Independent Living units would need to be absorbed each quarter. Despite Assisted Living units' larger composition in the market, new supply of Assisted Living units is lower than that of Independent Living units. Over the next 24 months, NIC estimates new supply to total 21,000 units, which equates to 2,625 new units per quarter, or about 2,225 per quarter at the 2019 occupancy level of 85.2%.

**Exhibit 7: Independent Living and Assisted Living Housing Supply**

| | Independent Living | Assisted Living |
|---|---|---|
| **Supply** | | |
| Current Occupancy 1Q22 | 80.3% | 78.6% |
| 2019 Average Occupancy | 87.3% | 85.2% |
| **Difference** | **7.0%** | **6.6%** |
| | | |
| Inventory 1Q22 | 296,778 | 443,916 |
| Vacant Units at Current Occupancy | 58,465 | 92,335 |
| Vacant Units at 2019 Average Occupancy | 37,691 | 65,589 |
| **Difference** | **20,774** | **26,746** |

| | | |
|---|---|---|
| **New Quarterly Supply** | | |
| Under Construction New Supply (2 Year) | 25,472 | 20,986 |
| Quarterly | 3,184 | 2,623 |
| **At 2019 Occupancy Rate** | **2,780** | **2,236** |

Sources: NIC, Freddie Mac

Using the same demand metrics as the overall Seniors Housing market to estimate quarterly demand, we estimate 4,600 units of net absorption quarterly for Independent Living and about 6,600 units per quarter for Assisted Living over the next few years, shown in Exhibit 8.[1] Over the past year, Independent Living averaged 5,000 units of demand per quarter, while Assisted Living absorbed about 5,900 units. The capture rate for Independent Living in 2019 was 3.4%, which, when applied to growth in the 80+ age cohort from 2022 through 2024 equates to demand of about 4,200 units per quarter. The Assisted Living capture rate was much higher than Independent Living at 5.4% in 2019, and consequently the estimated demand for Assisted Living is much higher at about 7,225 units per quarter.

[1] The combined demand estimates for independent Living and Assisted Living are about 1,000 units per quarter below the overall Seniors Housing estimate because they do not include Skilled Nursing and Memory Care unit demand.

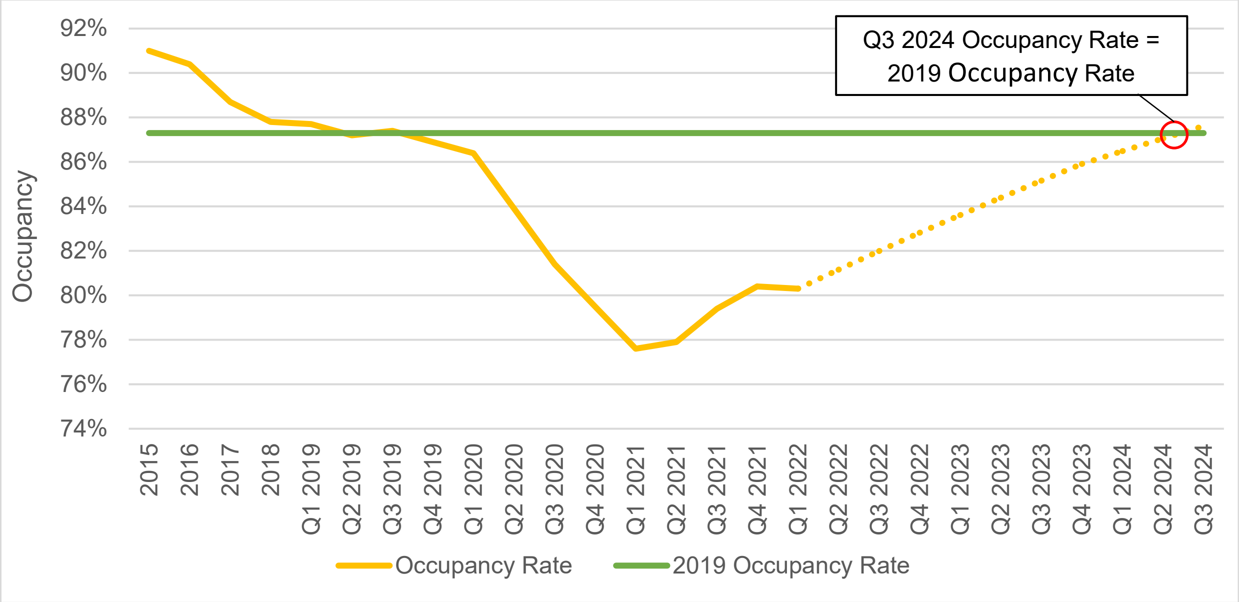
**Exhibit 8: Independent Living and Assisted Living Quarterly Demand**

| Quarterly Demand | Independent Living | Assisted Living |
|---|---|---|
| Average Last 4 Quarters | 4998 | 5,941 |
| 80+ Capture Rate | 4,214 | 7,224 |
| **Average** | **4,606** | **6,582** |

Sources: NIC, Moody's Analytics, Freddie Mac

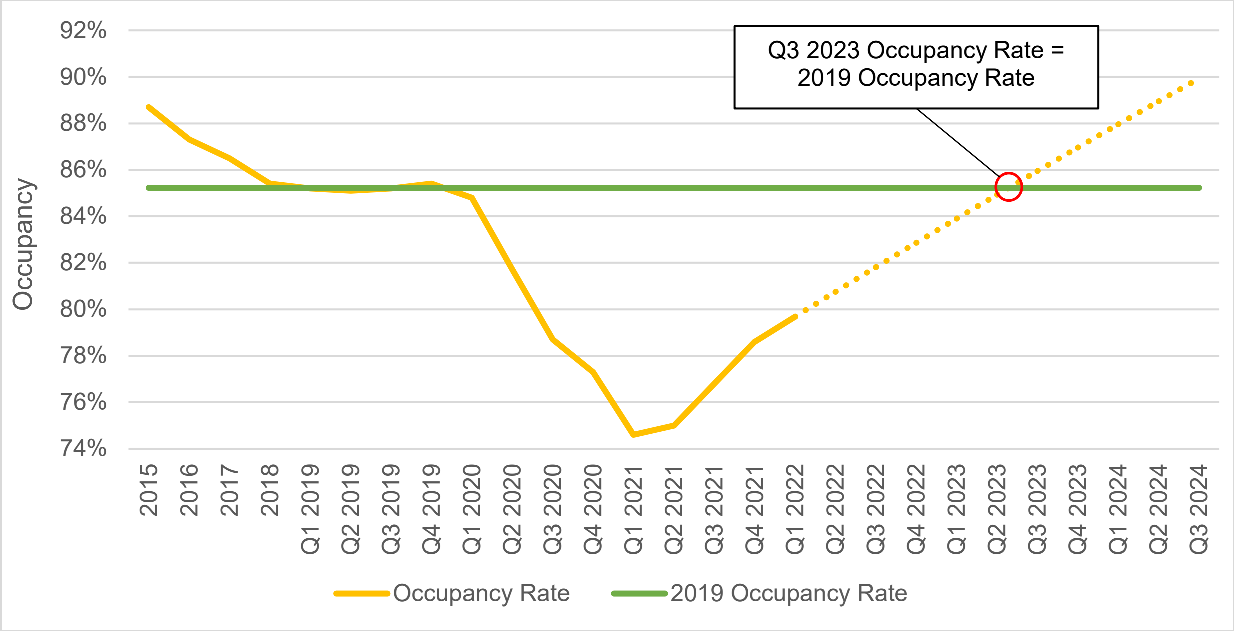
Using these supply and demand projections, we calculate that the Independent Living sector will reach its 2019 occupancy level during the third quarter of 2024 as seen in Exhibit 9a below. Exhibit 9b shows the recovery for the Assisted Living sector, which we anticipate will return to its 2019 occupancy level by third quarter 2023. It would take an additional two quarters for the Independent Living sector to reach its longer-run occupancy rate from 2015 through 2019 of 88.5% given the anticipated demand, and assuming the supply of new units doesn't change meaningfully. The Assisted Living average occupancy rate from 2015 through 2019 of 87.8% would be reached by the first quarter of 2024, two quarters later than the 2019 occupancy level. We believe the Assisted Living segment will return to pre-pandemic market conditions slightly faster than the Assisted Living sector, possibly because the residents of Assisted Living may require a higher level of care than can be administered at home, leaving them fewer housing options than Independent Living residents.

**Exhibit 9a: Independent Living Seniors Housing Occupancy 2015 – 2024 Projected**




Sources: NIC, Freddie Mac

**Exhibit 9b: Assisted Living Seniors Housing Occupancy 2015 – 2024 Projected**




Sources: NIC, Freddie Mac

## Seniors Housing Demographics: 2024 and Beyond

Looking beyond the near-term recovery, the demographics for Seniors Housing are very favorable through the end of the decade. The rate of growth in the 80+ age cohort has been accelerating annually since 2013. With the aging population looking to downsize their housing and ease the challenges of aging, Seniors Housing provides more assistance with day-to-day living without the upkeep of a traditional home. The baby boomer generation born from 1946 through 1964 comprises a population of 72 million people and is the second largest generation behind millennials.

In 2026, the first of the baby boomer generation will turn 80 years old, and in that single year, the net change of additional people in the 80+ age cohort will more than double – up to 670,872 compared with 303,339 the year before. It will then increase by another 38% in 2027 before moderating to an average of nearly 750,000 net change in population through the end of 2030, shown in Exhibit 10.

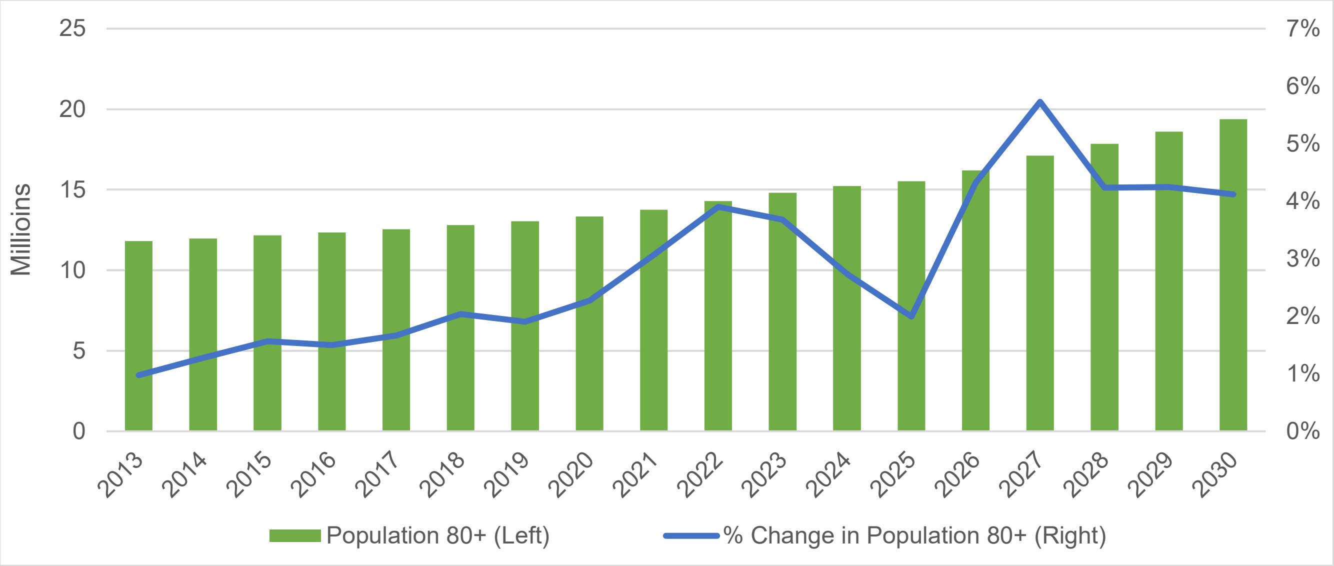
**Exhibit 10: Annual Net Change in Population for 80+ Age Cohort**

| 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|
| 536,259 | 526,027 | 405,155 | 303,339 | 670,872 | 927,584 | 724,875 | 757,467 | 766,472 |

Sources: Moody’s Analytics, Freddie Mac

This translates into an additional 1.75 million people who will be in the 80+ age cohort by 2025, and more than 6 million by 2030. As seen in Exhibit 11, from 2013 through 2019 the growth of the 80+ age cohort averaged 1.8% annually. Projected growth from 2022 through 2030 will be more than double that, averaging 3.9% per year.

**Exhibit 11: Total Population of Those 80+ Years Old and Annual % Change**




Sources: Moody's Analytics, Freddie Mac

No matter how the data is analyzed, the nation's population is aging, with one of the largest generations reaching 80 years of age in less than five years. Many of them will likely have to alter their living situations, creating unprecedented levels of demand for Seniors Housing.

## Conclusion

The Seniors Housing market has been greatly affected by the COVID-19 pandemic. Prior to 2020, the market, although facing a lot of new supply, was relatively stable with modestly declining occupancy, steady rent growth and robust investment volume. By early 2021, vacancy rates approached 25% and investment volume plummeted, however rents continued to grow, albeit modestly. Throughout the rest of 2021 and into early 2022, growth returned to the Seniors Housing market with occupancy, rent and investment volumes all increasing meaningfully.

In general, if we run one scenario to put numbers with intuition, and if we trend out supply and demand, we project the Seniors Housing market will be back to pre-pandemic occupancy levels in late 2023 to mid-2024. Over the longer term, given the strong anticipated demographic trends, if the capture rates seen prior to the pandemic hold, the Seniors Housing market could be in line for increased demand through the end of the decade. The uncertainty in the economy could push Seniors Housing performance either way, but we project that the longer-term trends will continue to be favorable.

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