

### Framework in Place for Seniors Housing Sector to Combat COVID-19 Contagion; Additional Aid From CARES Act to Maintain Operations Through Challenging Time

**Pandemic dramatically shifts operations.** As the COVID-19 pandemic rapidly evolves and substantially impacts markets and the economy, the seniors housing sector has come under pressure, facing steep challenges. The industry may be one of the hardest hit as elderly populations are some of the most vulnerable to COVID-19, creating concerns that operations might be affected and occupancy could decline. Historically, operators are well suited to manage infectious diseases, though, and have procedures in place that are being enhanced to match the current pandemic. Staffing and supply shortages are a significant hurdle, however, leading some operators to offer pay raises, provide childcare services and adopt new sick leave policies. Some are also tapping into the recently laid-off workforce to fill positions.

**Census deterioration concerns countered with stable or rising demand.** Across the industry, occupancy rates have remained steady so far, while some properties have registered an increase in census. Hospitals are moving fast to free up beds for patients with COVID-19, which could drive move-ins to assisted living communities as a reshuffling of residents through the healthcare continuum occurs. With an increase in patients moving from hospitals to skilled nursing facilities, those with fewer medical needs will be relocated to facilities with available beds. Demand is also still in place from new residents as families recognize they are not well positioned to care for their elderly parents at a time of crisis.

**CARES Act to bolster seniors housing owner-operators.** The \$2 trillion CARES Act will support senior living providers impacted financially by the COVID-19 pandemic with emergency funds to maintain operations. The Paycheck Protection Program (PPP), a \$350 billion provision of the bill, provides companies with fewer than 500 employees with loans to cover payroll and other expenses. Providers can apply through the Small Business Administration or participating banks, which will forgive the loan as long as provisions are met. To qualify, all employees must be kept on payrolls for eight weeks and the funds must be applied toward employee payroll, rent, mortgage interest, or utilities. At least 75 percent of the loan must be used to cover payroll to be fully forgiven. As operating costs rapidly rise in response to the pandemic, the PPP will help to buoy the industry and provide much needed funds.

**Strong investor sentiment carries sector through economic turmoil.** The seniors housing market exhibited greater strength prior to the novel coronavirus with approximately \$1.3 billion in transactions in February. Sales volume over the trailing 12-month period ended in the same month was up 18 percent from the prior stretch, lifted by healthy investor perceptions and attractive acquisition targets. Asset values have remained stable amid greater uncertainty as a deep pool of buyers continues to focus on the sector. REITs are eyeing new construction as large portfolio deals have slowed in the market, while private buyers now comprise a greater share of deal flow.

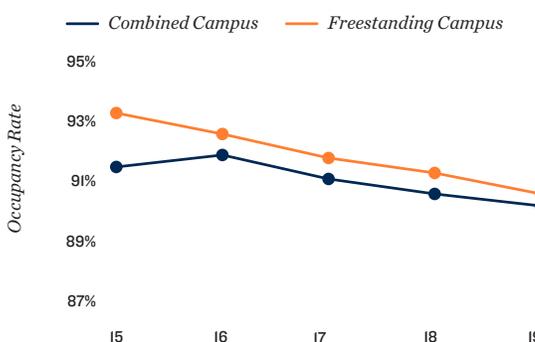
#### Economic Injury Disaster Loans & Paycheck Protection Program

- **Senior living providers have \$600 billion in grants and loans available:** As part of the final stimulus package, more cash will be infused into seniors housing, including a \$100 billion fund allocated to healthcare providers that provide care, diagnose or test for COVID-19.
- **Loans for small businesses are available through the SBA:** An Economic Injury Disaster Loan (EIDL) is an existing SBA program that is currently accepting loan applications through the [agency's website](#). Loans are capped at \$2 million. Some business owners that apply for EIDLs are eligible for a \$10,000 cash advance that can be converted to a grant.
- **Paycheck Protection Program available for business owners:** As part of the CARES Act, nearly \$350 billion in federally guaranteed loans of up to \$10 million are provided to eligible businesses. The loans are forgivable if they are used to cover payroll costs and most mortgage interest, rent and utilities for the eight-week period following the completion of the loan. Payroll costs are capped at \$100,000 per employee and must account for at least 75 percent of expenditures.
- **Qualifying companies for Paycheck Protection Program:** All businesses, including nonprofits, with fewer than 500 workers can apply. Though many seniors housing operators are large businesses, it is common for individual properties to be structured as a limited liability company, making more communities eligible to receive funds under the program.

Independent Living Inventory and Absorption



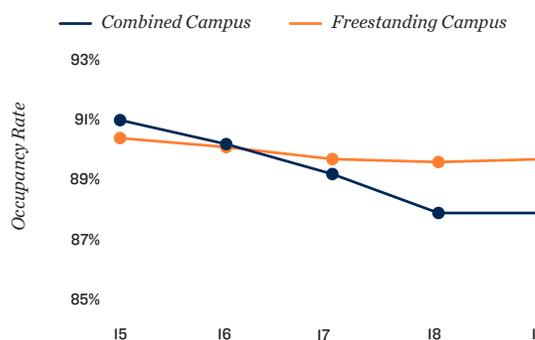
Independent Living Occupancy Trends



Assisted Living Inventory and Absorption



Assisted Living Occupancy Trends



## Independent Living

**Minimal medical needs limit challenges faced in the sector.** Independent living communities may be the least exposed to disruption from the coronavirus as residents are often younger and require little to no daily assistance or medical care. The outbreak is changing the technological landscape across the industry, though, driving a faster adoption of digital solutions including telehealth and video platforms that connect residents with staff and family. Rising expenses could challenge operators to meet obligations, leading the GSEs to suspend evictions in order to provide relief over the coming weeks. Independent living stands to endure the crisis with relatively minimal challenges and commonly outperforms the multifamily market during an economic downturn due to strong underlying demand factors.

**Overbuilding remains a concern.** Entering 2020, occupancy levels softened at independent living facilities, falling 50 basis points year over year to 90.3 percent in the fourth quarter last year. More than 11,000 beds were added in 2019, nearing the cyclical peak registered two years earlier as developers worked to grow inventory in anticipation of higher demand. While new supply has been a challenge for the independent living segment, more construction projects will be delayed until next year as COVID-19 forces sites to shut down. This could help some regions, including the Mid-Atlantic and West North Central, both areas of robust development, to find greater balance and maintain a healthy outlook.

## Assisted Living

**Lawmakers could reexamine operations.** The coronavirus has shown up in many assisted living facilities, forcing operators to increase their response and ensure appropriate protocols to guard against contagion. Operating expenses are surging as the costs of labor and supplies climb, which could impact the industry financially by upward of \$40 billion. While well-capitalized operators can absorb these expenses, smaller caregivers will need to tap into the provisions of the CARES Act available to healthcare providers. The outbreak has illustrated how many communities are not positioned to provide additional levels of medical care, which could place the sector under scrutiny as oversight has historically been relaxed.

**Outlook brightens as development begins to wane.** Occupancy held stable at 88.3 percent last year following a wave of supply that added nearly 13,600 beds. The novel coronavirus will likely set off a flow of patients through the healthcare continuum as hospitals work to open up beds for those infected, sending some in stable condition to nursing homes and assisted living communities. Development has slowed from the highs of 2018 with nearly 23,500 units underway at the start of the year, representing 6.1 percent of inventory. While demand could soften over the near term, an uptick in occupancy should occur by year end as some projects are delayed.

## Memory Care

**Sector faced with complex challenges to ensure resident safety.** As the needs of the elderly population grow and more Americans suffer from Alzheimer's or dementia, memory care communities may be better positioned to withstand an economic downturn than other sectors. Like all property types, though, this segment faces increased challenges from COVID-19 to maintain a safe and secure environment and stem contagion. Restricting the movement of residents to limit exposure is increasingly difficult for the caregivers of those with cognitive impairments, leading operators to adopt new guidance, including ceasing communal dining. Over the near term, occupancy could fall as move-ins and tours slow, though the rate will likely bounce back as communities often record a boost in census following a crisis. At times such as these, families recognize they are unable to deliver the higher quality of life provided by memory care facilities.

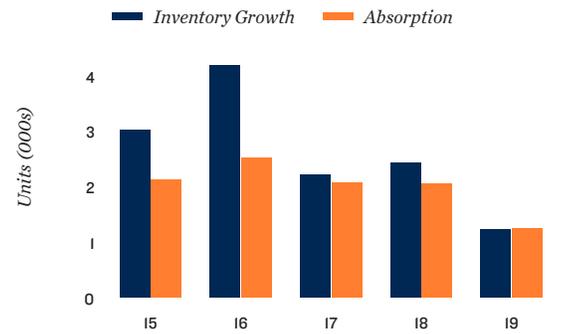
**Pipeline shrinking for memory care facilities.** Inventory growth last year was cut in half from the previous year with just over 1,200 units completed. Despite the decline in supply growth, demand remains below new construction, dropping occupancy 30 basis points year over year to 86.2 percent. The sector has contended with overdevelopment in recent years. However, as more projects hit pause this year because of the coronavirus, fundamentals may begin to improve, particularly with a potential post-pandemic spike in occupancy.

## CCRC/LPC

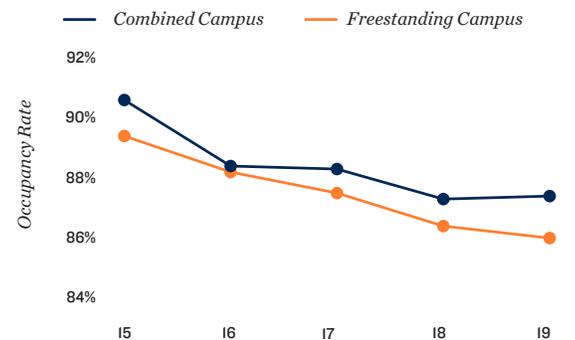
**Size of CCRCs and resident needs create unique challenges.** Continuing care retirement communities are presented with complex problems as they work to stem the spread of COVID-19. The size of many of these facilities is an additional hurdle in ensuring social distancing measures and limiting visitors. CCRCs are compounded by the varying level of care provided and government regulations they face, though the sector remains in a strong position and well prepared to manage the crisis. Many operators in the sector have strong credit ratings and an abundance of liquidity, providing a cushion against the surge in expenses being recorded across the industry.

**CCRCs on solid foundation to withstand current economic crisis.** CCRCs entered the current crisis with robust fundamentals, positioned to weather headwinds. Occupancy climbed 30 basis points from the previous period to 91.6 percent in the fourth quarter of 2019, making CCRCs the highest-performing seniors housing sector. Stock market declines and a possible slowdown in residential sales could weigh on move-in rates over the short term, though, as many prospects sell their homes to move into CCRCs, impacting occupancy. More than 2,100 units were delivered last year, with another 9,250 working their way through the pipeline, representing 2.5 percent of inventory.

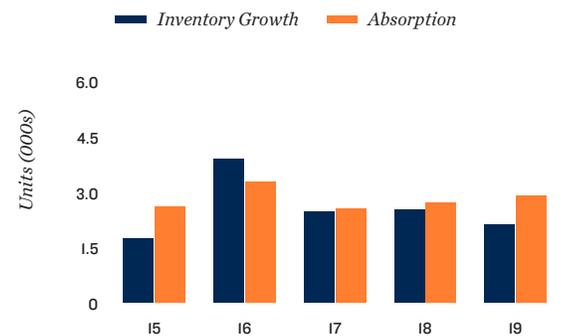
Memory Care Inventory and Absorption



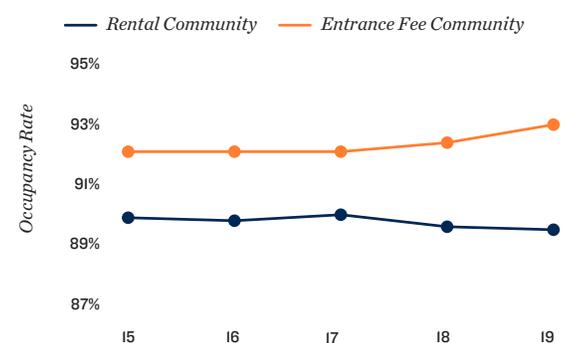
Memory Care Occupancy Trends



CCRC/LPC Inventory and Absorption



CCRC/LPC Occupancy Trends



## Skilled Nursing

**Sector well positioned to manage the outbreak.** With more equipment and infrastructure in place than other property types, skilled nursing communities are better prepared during the COVID-19 pandemic. Nursing homes still face an uphill battle as infections have climbed and supplies of personal protective equipment are falling. The Centers for Medicare and Medicaid Services outlined new guidance aimed at slowing the spread, including measures to isolate infected residents and the universal masking of staff. Residents of nursing homes are particularly susceptible as many require around-the-clock medical care for a variety of preexisting conditions, encouraging providers to act aggressively.

**Skilled nursing utilized to manage flow of patients.** The care capabilities and capacity of skilled nursing facilities have led hospitals to move more patients to these communities as the need for beds climbs. In New York, which is currently the most affected state, an order was issued by authorities requiring nursing homes to take patients from hospitals assessed as medically stable, an approach that could be adopted in future hard-hit areas. Over the near term, this will bolster occupancy levels, which have struggled nationally as development activity remains strong. As nursing homes take on new residents, those with fewer medical needs could be transferred to assisted living facilities that are still able to provide the level of care that is necessary.

**Operations likely to strengthen in some areas through the health crisis.** Stabilized occupancy rose 20 basis points last year to 86.3 percent as the removal of dilapidated stock outpaced demand. The pace of construction in the fourth quarter of last year slowed considerably, down two-thirds from the cycle high recorded in 2012 with more than 3,600 beds in the pipeline. Along with increased demand due to COVID-19, this will bolster operations through the remainder of the year.

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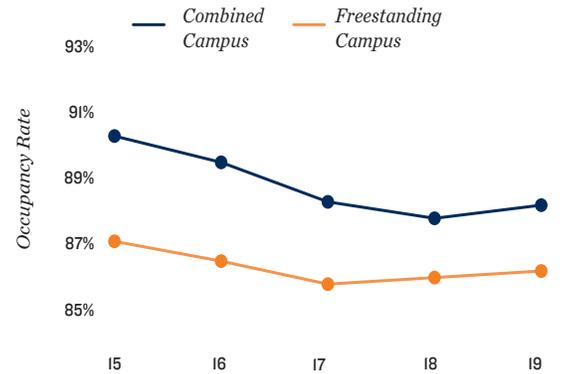
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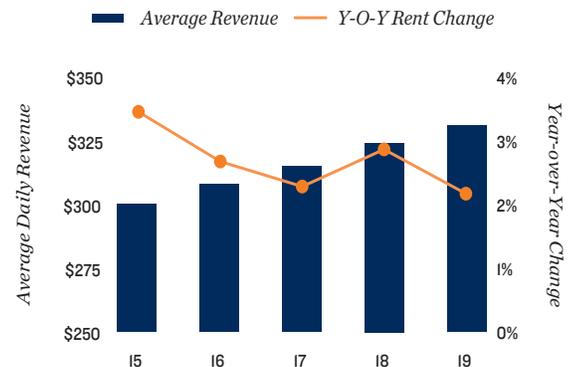
### Inventory Growth and Absorption



### Occupancy Rate Trends



### Revenue Trends



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