

Senior Living Financial and Performance Indicators Show Assisted Living Occupancy Down in the First Quarter 2003

Loan Performance Figures Also Show Skilled Nursing Delinquency Up

ANNAPOLIS, Md. – The first quarter of 2003 showed many assisted living properties struggling with their occupancy levels, according to [Key Financial Indicators™](#) released today by the National Investment Center for the Seniors Housing & Care Industries (NIC). These financial and performance indicators, reported quarterly to NIC by the nation's leading lenders, owners/operators and appraisal professionals in the senior living industry, have been gathered and posted free of charge on www.NIC.org since 1999.

The loan volume placed in the first quarter was down about \$300 million compared to the fourth quarter of 2002. But a discussion by lenders participating in a recent, quarterly NIC Executive Circle conference call confirmed that this is a normal seasonal decline, due to lenders rushing to close deals by the end of the year.

[Loan performance](#) – that is, for loans that are performing, as opposed to those that are restructured, delinquent or foreclosed – showed improvement at 96.3 percent for the quarter and was up substantially compared to a year ago, when the first quarter of 2002 was at 89.3 percent.

But Anthony J. Mullen, executive-in-residence for the Johns Hopkins/NIC Seniors Housing & Care Program, noted two areas of caution. “First, the overall, industry-wide delinquency rate of 2.3 percent is still higher than the 1.75 percent or lower that the secondary market would like to see for other real estate asset classes,” he said.

Second, he noted that when broken down by property type, skilled nursing is still experiencing significant delinquencies in both permanent (at 9.75 percent) and short-term debt (doubling from 3.75 to 7.22 percent since the previous quarter), and is predominately responsible for driving up the overall delinquency rate.

In fact, the numbers for permanent debt for congregate and assisted living were good. “Congregate with zero delinquencies and assisted living under 1 percent are actually exceptional,” said Mullen. “That would stack up better than virtually all the other real estate asset classes, meaning that Fannie Mae and Freddie Mac, which represent the majority in our sample, are doing an excellent job of underwriting the permanent loans.”

Although assisted living did well in [loan performance](#), the sector saw a sizeable drop in [occupancy rates](#) during the quarter, with the median declining three percentage points from 86 to 83 percent and the mean dropping from 85 to 83.5 percent.

NIC speculates that this drop could be attributed to several factors.

The first is seasonal. “Our collected data has shown a drop in assisted living occupancy rates from the fourth to first quarters ever since our indicators have been tracked,” said Robert G. Kramer, president of NIC. “Although this drop is unprecedented in terms of its size, we have seen a 1 to 1.5 percent absolute decline in the first quarter several times before.”

Another likely factor was the economic and international climate. “The combination of the poor economy and war with Iraq, which took place during the first quarter, could have meant that people were delaying the decision to move mom into an assisted living facility or, in some cases, deciding to move mom out,” explained Mullen.

Lastly, this drop provides further evidence that there are still a number of distressed properties pulling down the median. Half of the properties reported occupancy rates below 83 percent – a number considered inadequate to be able to generate any kind of equity return. “They may be covering debt service, but only if they’ve been able to take advantage of the low variable-rate interest environment,” observed Kramer.

On the other hand, the top quartile of properties showed healthy performance, with occupancy rates at 89 percent and above.

[Move-in rates](#) for new assisted living properties open less than 24 months were higher this quarter with an average of 2.4 net (move-ins less move-outs) compared to 2.2 the previous quarter. Although this slight uptick seems to be good news, it is still a rate that is going to be hard for operators to realize fill up within a reasonable period of time to avoid financial difficulty.

Not surprisingly, the [capitalization rates](#) for skilled nursing reflected the high degree of risk investors still assign to these investments, with a wide spread between the high and the low, and a significant increase of 110 basis points in the mean. As well, the sector was up 170 basis points compared to the same period in 2002.

Founded in 1991, the National Investment Center for the Seniors Housing & Care Industries is a nonprofit organization providing information about business strategy and capital formation for the senior living industry. Proceeds from its annual conference – scheduled next for October 15-17, 2003, in Washington, D.C. – are used to fund research on issues of importance to the industry. For more information, visit www.NIC.org or call (410) 267-0504.

#

***Attention seniors housing and care, business and financial editors: To register for conference media credentials, contact Renee Tilton at (410) 626-0805 or rtilton@crobymarketing.com. ***

NIC Press Contact:

Renee Tilton

(410) 626-0805 Phone

(410) 268-4620 Fax

rtilton@crobymarketing.com

Close This window