NIC

NIC INSIDER
Newsletter

May 2022

Inside the May Issue

On the Job: A Conversation with Veteran Lender Jim Thompson of BOK Financial

Jim Thompson

Jim Thompson may be the only senior housing lender who's actually lived in an assisted living community. While completing his MBA at Vanderbilt University in 1986, Thompson was looking for a summer internship and called a former customer he had previously helped to arrange a construction loan for a relatively new type of property, an assisted living building. Thompson got the internship but also needed a place to live. So, he moved into the assisted living community he had financed, a choice that helped to anchor his understanding of an industry that he's devoted his career to for more than 35 years.

NIC Senior Principal Bill Kauffman recently caught up with Thompson to learn more about BOK Financial and get his thoughts on the industry and its future.

Here is a recap of their conversation.

Kauffman: Can you give us some background on your professional career and how you became Senior Vice President, Director of Senior Housing Investments, at BOK Financial?

Thompson: I began my banking career in 1983 at SouthTrust Bank in Birmingham, Alabama. After completing their commercial lender training program, I joined the equivalent of a large corporate banking group. Shortly thereafter, veteran senior housing lender Bill Shine returned to Birmingham and SouthTrust, and I began working with him. We teamed up to prepare a white paper on skilled nursing lending that was approved by the bank's board, and we began lending to the industry. I made my first skilled nursing loan in 1985 and my first stand-alone assisted living construction loan in 1986, back when assisted living was just emerging. At the time, we wanted to make sure the buildings were built to skilled nursing specifications in case the assisted living model didn't work. I had a brief stint at a consulting firm and six years at a bank, where I did both commercial and industrial and long-term care lending. But I spent most of my career with Bill Shine, and the team he assembled over the years. In 2019, I was recruited to BOK Financial, a regional bank based in Tulsa. The bank has been lending to skilled nursing, senior housing, and hospitals for more than 25 years, but didn't establish a specialized healthcare vertical until nine years ago. I was hired to bring 30-plus years of senior housing and healthcare experience to what was then a relatively young division to support loan growth, personnel development, and strategic planning.

Kauffman: Does BOK Financial specialize in certain areas of lending?

Thompson: The bank serves commercial and corporate clients across the country but has developed a high degree of expertise in specialized industries like energy and healthcare. Within healthcare, we focus on skilled nursing and private pay senior housing but have significant exposure to hospitals and health systems, physician practices, and ancillary medical services, such as ambulatory surgery and dialysis

centers. This platform gives us broad experience with a view into a large portion of the U.S. healthcare system.

Kauffman: What is the growth plan for the bank?

Thompson: As a large regional bank with a diverse revenue stream, BOK Financial has the capacity to significantly expand all of the healthcare sectors covered by the combined teams of the Healthcare and Senior Housing Groups.

Kauffman: How big is the staff?

Thompson: BOK Financial's Healthcare Group is made up of 40 professionals that support origination, underwriting, asset management, and administrative activities. This does not include the Senior Housing Group, whose focus is primarily on lending for construction of investment-grade private pay senior housing properties. This group is smaller because average transaction sizes are larger, and the number of loans and relationships is smaller than the more diversified healthcare portfolio.

Kauffman: What is the size of BOK Financial's portfolio of loans to the sector?

Thompson: Our healthcare commitments total $3.6 billion, with private pay senior housing comprising the largest segment, followed closely by skilled nursing.

Kauffman: Do you plan to grow lending for senior housing?

Thompson: Yes. The pause in new development on the senior housing side and pent-up demand during the pandemic has created an expectation of strong absorption combined with rental rate increases that seem to be sticking. The opportunity for senior housing to benefit from both value-based care initiatives and a focus on home- and community-based services add to our positive view in the medium- to long-term. The growing conversation that private pay senior housing is the resident's home will also benefit the sector.

Kauffman: What about skilled nursing?

Thompson: We are still bullish on skilled nursing and intend to keep lending in the space, as we did throughout the pandemic. We expect more consolidation among experienced owners/operators with equity backing. We are also starting to see options for skilled nursing properties to finally prosper under value-based care, along with the growth of Institutional Special Needs Plans (I-SNPs) and opportunities under the ACO REACH model to spur coordinated care. In addition, the higher acuity of residents in skilled nursing is likely to offset a lower post-pandemic stabilized occupancy.

Kauffman: Has your view changed over the last few years given the challenges faced by the sector?

Thompson: Our long-term view has not changed. But there are headwinds that will impact skilled nursing. The COVID-19 challenges persist. There are potential Patient Driven Payment Model (PDPM) claw-backs, along with the expiration of the Public Health Emergency (PHE) and additional regulatory burdens. But, as I mentioned, there are a lot of reasons why skilled nursing properties are attractive. And we are only now passing that inflection point where the growth of the senior population accelerates, and more higher acuity people need care.

Kauffman: How has underwriting changed, and what are key factors that have changed for you?

Thompson: BOK Financial has always had a conservative underwriting culture. With skilled nursing, in particular, we are willing to lean in with operators who are best suited to succeed with value-based care. These operators tend to have their own I-SNPs or most of their buildings in I-SNPS, so they are getting clinical and revenue benefits from those arrangements. These operators also have really solid data systems to develop the relationships that you need to be successful. By learning from NIC and other data sources, our credit culture is moving away from looking strictly at historical cash flow to looking at what it means to be successful. For example, we were able to adapt 2020 to 2021 results to the cash flow impacts of the pandemic to continue to support our skilled nursing clients and the industry with new loans. Data from CMS and NIC allowed our credit partners to maintain a higher level of confidence in what our customers and prospects were telling us during the pandemic.

Kauffman: How do you factor the staffing/labor shortages into underwriting a deal?

Thompson: Staffing is the most difficult underwriting issue we currently face. There are big questions: How long will this labor crisis last? Where will labor costs settle compared to pre-pandemic levels? How much additional state funding will be available to support increasing wages? We are starting to get answers to some of those questions. States are beginning to step up to fill the void as federal support for pandemic-related expenses wains. Florida has some newly approved monies directed at wages. We're watching Medicaid rates and which states are supporting higher wages to get a sense of the new normal. When underwriting, we start with a conservative approach, structuring lower initial loan amounts with earn-outs as we get clarity on some of these questions and the operator reaches a stabilized level of labor costs and occupancy.

Kauffman: Do you believe that senior housing is an operating business in a real estate setting?

Thompson: We view senior housing as an operating business with a focus on the experience and capabilities of the operator and sponsor.

Kauffman: How do you evaluate the operating business?

Thompson: The focus of our lending is on operating cash flow, with the real estate as a backstop.

Kauffman: How do you evaluate the real estate?

Thompson: We use traditional metrics such as loan-to-value, appropriateness of cap rate assumptions, etc. But, also in terms of physical plant, we look at adaptability to unforeseen revenue opportunities and the value implications of three- and four-bed wards that go beyond the traditional view of market competitiveness.

Kauffman: Skilled nursing property prices have been increasing despite very low occupancy and cash flow pressures. What is driving this pricing?

Thompson: A combination of factors: availability of capital combined with continued historically low debt costs; the clear upswing in demand for senior housing and care; the expectation that skilled nursing acuity will rise at levels not seen since PPS/DRGs

were introduced; the federal government's support for the skilled nursing industry; and early indications that states are stepping up on the Medicaid side to fill the void left by waning federal pandemic support. We routinely get questions from credit committees about the big risk if Medicaid goes away. But look back over 30 years, it has not gone away. The upward trend of reimbursements has continued to drive value in skilled nursing. One thing the pandemic did was cement skilled nursing into the post-acute continuum and potentially, as Medicare Advantage grows, as a hospital replacement. The expectation is for higher acuity and higher revenue.

Kauffman: Do you lend in the emerging active adult sector?

Thompson: Yes, we see active adult as a viable product – with a limited capacity at this time. We will be underwriting it more like senior housing than multifamily properties. We are still identifying sponsors, markets, and underwriting elements, such as expense ratios and cap rates. We are figuring out the cost differential for underwriting between traditional independent living, active adult, and multifamily properties.

Kauffman: Jim, you've been on panels discussing what NIC has identified as the "Forgotten Middle." Do you provide debt to the senior housing middle-income market?

Thompson: We do not see a big opportunity to do loans for middle-market new development. Re-purposing an existing property seems to be the only viable way, from a capital cost perspective, to keep overall costs affordable.

Kauffman: Finally, and in wrapping up, I would like to thank you, Jim, for all you have done over the years to help grow and develop NIC's Spring Conference. Your volunteer hours have been many, and your contributions and leadership continue to be very significant. You attended the NIC Spring Conference this year, what were your key takeaways?

Thompson: This conference felt more like pre-pandemic conferences. Just getting out and meeting with everyone is starting to happen. This is my 13th year volunteering on the Program Committee for the NIC Spring Conference. The Spring Conference brings together people with diverse interests and companies that affect the industry. It's a unique experience and allows a lender to have more exposure to what is impacting the business beyond what I can get sitting in my office evaluating deals. I want to thank NIC for the opportunity to be part of the planning process and to continue to learn about this business.

Thoughts from NIC's Chief Economist—Inflation, Higher Interest Rates, & the Impact on the Senior Housing Industry

by Beth Burnham Mace, NIC Chief Economist

Beth Burnham Mace

After dropping short-term interest rates to zero in response to the onset of the pandemic in March 2020, the Federal Reserve reversed course two years later in March 2022 and raised the fed funds rate by 25 basis points. More rate increases are nearly guaranteed, with a projected end game of 1.88% by year-end 2022 and 2.75% by year-end 2023 according to the Fed's so-called "dot plot." The Fed's actions are an attempt to tame inflation which has hit a 40-year high by some measures. At the same time, the Fed is expected to reverse its bond buying program (QE) as it attempts to remove liquidity out of the financial system to slow overall economic growth.

What do high inflation and rising interest rates mean for the senior housing industry? Well, many things. This is a new world for most operators, developers, and financiers of senior housing since the industry as we currently know it did not really exist 40 years ago. We cannot go back to look at history to glean insights into the impact of inflation on our relatively nascent industry.

"The steady rise in prices for each of the last 12 months has diluted the purchasing power of a single dollar by more than 8% in a single year."

First, there has already been an immediate effect, with the rate on a 30-year fixed residential mortgage floating above 5.2% in mid-April 2022, up from 3.75% as recently as late January and reaching its higheslolt level since April 2010. This has resulted in a slowdown in mortgage applications and consequently the velocity of home sales. The pace of sales and price of homes often influence the decisions of older adults in choosing to move into senior housing.

Second, the steady rise in prices for each of the last 12 months has diluted the purchasing power of a single dollar by more than 8% in a single year. The rapidly accelerating increase in the costs of materials for most operators of senior housing has added to the burden of already rising pandemic-related expenses associated with the use of agency staffing, insurance costs, and PPE, and directly impacted their ability to maintain margins.

Partly offsetting this impact has been the social security cost of living adjustment (COLA) many senior housing residents saw in January 2022 that has provided the means for a rent bump and revenue growth for some operators. As a result of rising inflation last autumn, social security monthly checks for nearly 70 million Americans increased by 5.9% this past January, the highest increase in 40 years. COLAs for social security recipients are pegged to a specific consumer price index (CPI-W) in the third quarter of the prior year. Based on recent inflation patterns and looking ahead to January 2023, it is likely that another significant COLA may be in the cards.

Third, as rising expectations of inflation become embedded in the minds of businesses and consumers, the potential for a wage-price spiral like that of the 1970s becomes a possibility. Already, average hourly earnings of workers in the assisted living industry are accelerating at a 9% clip from year-earlier levels, further contributing to escalating expenses for many operators of senior living.

"Supply chain bottlenecks have led to significant delays in delivery schedules and to rising prices for construction materials used in the development of new housing options for the older adults."

Fourth, consumers are particularly sensitive to the price they pay at the pump for gasoline. The recent Ukrainian-war-related surge in gasoline prices from $2.95 a gallon a year ago to a near-time record high of $4.23 in April 2022 (significantly more at $5.44 per gallon in some California markets) has directly led to a drop in consumer confidence as measured by the University of Michigan's measure. When accounting for inflation, however, today's prices are still about 20% below the 2008 peak on the national level. Waning consumer confidence often influences move-related decisions for seniors and their families. The volatility and decline in the stock market is also influencing consumer confidence. And much of the recent pattern in the stock market is tied to the broader macro-economy, inflation, and interest rates.

Fifth, supply chain bottlenecks have led to significant delays in delivery schedules and to rising prices for construction materials used in the development of new housing options for the older adults. Deals that may have penciled out a year ago may no longer meet the proforma required return on costs to support development activity, leading to a slowdown in starts and subsequently inventory growth. Labor shortages in the construction trades are additional challenges in growing inventory.

That said, slower inventory growth is probably a positive outcome in the near-term because it reduces the entry of new competition and supports further gains in overall occupancy. Longer term and more broadly, however, when done in a rational way that provides a measured pace of inventory growth, new development projects are welcome and are a very positive indicator as new designs and product offerings bring more living and care options for seniors. And alas, the recent slowdown in inventory growth is probably a temporary phenomenon related to slower construction lending during the first year of the pandemic in 2020. Weaker development pipelines are not universal, however, across all markets. Indeed, first quarter 2022 data from NIC MAP Vision shows that units under construction are at or near all-time highs in Miami and Portland, Oregon.

As an economist with two hands, the flipside is that the well-choreographed and communicated comments of rising interest rates by many Federal Reserve officials, including Chair Jay Powell, may also actually accelerate development plans as the cost of debt capital will be rising in the upcoming months.

Lastly, higher interest rates also have the potential to affect the valuation and transaction price of senior housing. Historically, cap rates often rise in tandem with increasing interest rates, keeping the risk premium consistent and constant. The risk premium for senior housing since 2003 has averaged about 350 basis points according to a comparison of the risk-free 10-year Treasury yield and historical NCREIF cap rate data for senior housing. The question becomes if this premium will widen, narrow, or stay the same as interest rate move in the months ahead, and if cap rates will follow suit..

"Strong investment demand for senior housing could offset the impact of higher interest rates on cap rates, as robust demand supports stable prices or even pressures prices higher."

One argument against rising cap rates is the significant amount of investable capital of institutional and private investors sitting on the sidelines that wants to invest in senior housing. Such strong investment demand for senior housing could offset the impact of higher interest rates on cap rates, as robust demand supports stable prices or even pressures prices higher.

All in all, a lot to consider in the months ahead as the broad macro-economy changes around us. Policies by the Federal Reserve, rising interest rates, inflation, and of course the still emerging effects of the war in Ukraine on millions of lives, food supplies, and energy prices add uncertainty to planning for all of us. And further beyond our control and adding additional doubt are the effects of the pandemic-related lock downs in China on supply chains, the emerging threat of a recession in 2023/2024 period, and unprecedented labor challenges. But of course, on a more optimistic note, we need to consider the rapid improvement the U.S. economy has undergone with nearly all the 22 million jobs lost in the early months of the pandemic now nearly fully recovered.

In wrapping up and as always, I appreciate and welcome your comments, thoughts, and feedback.

Beth

Fostering Meaningful Engagement: Industry Staffing and Labor Needs

Key Takeaways

- Recruit from within.
- Tap nontraditional talent pools.
- Create a culture of mutual care.
- Encourage engagement—the difference between commitment and compliance.

How to Engage Employees and Win the Staffing Battle

Today, the biggest issue facing the senior housing and care industry is the labor shortage. Competition from other industries, fallout from the pandemic, and other factors have led to unfilled job openings and high turnover rates that hurt the bottom line and resident care.

What's the best approach to address the issue? How can owners and operators retain and recruit workers who share a commitment to the care of elders?

Answers to those questions were explored at the 2022 NIC Spring Conference in Dallas. The session, "Fostering Meaningful Engagement: Industry Staffing and Labor Needs," brought together a panel of experts to offer their insights on employee recruitment and retention. In an innovative session format, speaker presentations were followed by small breakout groups of attendees to take a deep dive into successful workforce strategies and to share new approaches.

"The labor market is not going back to the way it was," said panelist Myra Norton, CEO, Arena Analytics. "We have to navigate the new reality."

Not surprisingly, most industries are struggling to find workers. There are 11.3 million job openings nationwide, according to the most recent report from the U.S. Department of Labor. While some industries are regaining workers, job openings in healthcare and social services have actually increased over the last year.

Attracting community and caregiving staff continues to be a significant challenge for operators, according to NIC's Executive Survey Insights (March 7-April 3). All survey respondents (100%) are paying overtime hours, and three-quarters (75%) are currently tapping agency or temp staff to fill the gaps.

Putting the Spring Conference session in context, discussion moderator Jacquelyn Kung, CEO, Activated Insights, provided data on workforce trends in senior living. Her company runs the Great Place to Work certification program for senior care. Based on data from 500,000 resident and family members collected over the last six months, Kung noted that the annual turnover rate among senior living workers is 85%, compared to 65% prior to the COVID outbreak.

"We have a problem," said Kung. High turnover affects the resident experience and impacts net operating income. She figures the cost of employee turnover to operators at about $275,000 per building.

Kung breaks the problem into three parts: recruitment, retention, and growth.

On recruitment, senior living is not getting enough applicants. Other industries with hourly pay—hotels, hospitals, and retail—receive 21 to 25 applicants per job posting. Senior living averages 13 to 15 applicants. But winners of the Great Place to Work program average more candidates. "In order to get great candidates, your company has to standout and be great," said Kung.

Retention is linked to worker engagement. Many operators spend 80% of their time on emergencies at 20% of their buildings. "What results do you want to achieve with your time?" asked Kung. Prioritize employee engagement. Spend more time on the other 80% of properties, she suggested, adding that it may require investing time upfront to create systems for when emergencies inevitably arise.

Growing companies promote from within. But only 17% of promotions in senior living come from within, compared, for example, to 46% at hospitals. "Set a goal to fill 40% of promotions internally," advised Kung. "That is how you grow a pipeline of leaders."

Five Strategies for Workforce Success

Panelist Norton offered five ideas to recruit, retain, and grow talent:

1. **Tap non-traditional talent pools.** Think outside the industry. Diversify the organization by considering applicants with different backgrounds, experience, and education.
2. **Support work/life integration.** It's not about remote work but understanding how to help people integrate meaningful work into their lives.
3. **Hire for outcomes.** Focus on the qualities you want to bring to your organization to produce the desired outcomes for residents.
4. **Rethink staffing mix.** About 40% of part-time workers want more hours. Take advantage of that reality.
5. **Co-create solutions.** Look for answer to problems from your staff. Tap into the wisdom of the people in your organization.

Tips for Leaders

Leadership matters, according to panelist Ed Frauenheim, co-founder of The Teal Team, an organization of consulting executives. He highlighted three tactics for leaders that can improve employee recruitment and retention.

Know and care for yourself. Know your strengths and weaknesses. Understand your blind spots. Be aware when you are burned out. Personal stress can ripple through an organization. Take time off.

Care for people. Understand what your employees want and need, along with their fears. Encourage them. Support them as people, and they will produce great ideas.

Help them know and care for each other. Create a culture of mutual care. Host happy hours, staff recognition events, and virtual coffee hours. Start meetings with

a check-in. How are they feeling? Frauenheim cited the example of Hilton Hotels that provides plush break rooms for their housekeepers. "It creates a culture of camaraderie and caring," he said.

How to Boost Engagement

The last speaker, Craig Deao, noted that worker engagement and satisfaction are not the same thing. Satisfaction is a measure of what the worker is getting from the relationship. Engagement is about giving discretionary effort when no one is watching. "Engagement is the difference between commitment and compliance," said Deao, managing director at Huron Consulting Group. He explained that the only way to get worker commitment is to build a foundation of trust. "You can create an environment that encourages workers to engage," he said.

Senior leaders can boost engagement by promoting the company's mission and values. They can also design competitive compensation and benefits packages.

Direct supervisors can use a strategy called "rounding for outcomes." Supervisors meet monthly with direct reports to create a feedback loop. The conversation is used to collect information, reward, and recognize the worker, and build relationships. "Ask what is working well," said Deao.

Other strategies include encouraging teamwork and helping workers find their own solutions to problems. "Relight the flame so people realize they can bring their best selves to work," said Deao.

Actionable Insights

The breakout group discussions following the thought-provoking panelist remarks were led by the speakers themselves, who acted as group facilitators. Specific

questions prompted deep conversations and idea sharing on how to recruit and retain good workers. The goal was for attendees to walk away with three actionable insights.

Participants offered suggestions on how to tap into nontraditional labor pools and how to care for workers respectfully. Many of the ideas focused on investing in current employees to boost their job engagement and grow talent internally. Here are some examples of successful programs and approaches:

- ***Short skill sessions.** One operator holds 20-minute sessions for workers to learn a new skill.
- ***Educational scholarships.** Employees contribute $1 per paycheck to raise money for scholarships for workers.
- ***Mentorships.** Operators successfully link leaders and workers, creating a cohesive culture while highlighting potential career paths.
- ***Internships.** Work with local high schools, colleges, and trade schools to recruit workers and leaders.
- ***Tell workers about the organization.** The more they know about the organization, the more they can see themselves growing into another role.
- ***Focus on culture. Show appreciation.** Give workers the tools they need to succeed.

Wrapping up, the speakers emphasized how the greater mission of senior living drives workforce engagement. The profession is rewarding because it makes a difference in people's lives by caring for the elderly and helping families ease their caregiving duties. "Everyone is here for intrinsic reasons," said Deao. "You can unlock that energy."

Leadership Huddle Webinar Series Returns

In March of 2020, senior housing and skilled nursing operators, capital providers, and industry leaders were navigating the changing dynamics of the public health crisis and their shifting businesses — while many of them were on the frontlines of the COVID-19 pandemic helping to keep frailer and more immunocompromised older adults safe. The lack of information about the virus in the early days of the pandemic meant many leaders were operating without the data and knowledge they needed to adequately respond.

As move-ins slowed, move-outs increased, and unprecedented staffing shortages impacted senior living facilities across the United States, owners, operators, and capital providers needed a way to share knowledge with fellow industry leaders and learn new strategies to respond to the rapid change and disruption.

NIC responded to this data and information drought by launching the Leadership Huddle webinar series in April 2020. It was a huge success, with dozens of stakeholders tuning in to the one-hour live webinars with questions and leaving with answers and insights they needed to move their businesses forward.

That's why the extremely popular NIC Leadership Huddle webinar series is returning in 2022—with thought leaders and innovative strategists offering insights and practical takeaways, data, and information that leaders have come to expect at NIC events.

These twice-monthly live webinars all take place on **Wednesdays from 1:00 PM to 2:00 PM ET**, and provide a forum for senior housing, skilled nursing and healthcare leaders to stay informed about pressing issues facing the senior living industry with topics including analyses from prominent commercial real estate directors on market trends and the economic outlook, a state of the industry update with NIC's chief economist, Beth Mace, a conversation with CEOs from operating companies about leading through change and fostering a stronger company culture, and shifting consumer preferences. Attendees are encouraged to share their own insights and pose questions to the panelists through a live chat feature.

The 2022 NIC Leadership Huddles kick off on **Wednesday, May 11, 2022.** Registration for the webinar series is open. Even if you cannot attend at the designated time, if you register, you'll have complimentary access to the on demand recording from the webinar to watch at your convenience.

Here's a look at the first event in the upcoming webinar series:

Senior Housing and Skilled Nursing: The State of the Market

May 11, 2022, 1:00 PM ET

Join us to hear from industry veterans on the state of the market for both senior housing and skilled nursing. Hear experienced executives compare the recovery to date in occupancy and the factors that will influence a more robust recovery going forward.

- What role did the federal government have in supporting these sectors during the worst of the pandemic?
- What does the transactions market look like for senior housing and nursing care?
- Are distressed deal opportunities showing up?
- What is the relationship of clinical care to financial performance?

Speakers include Brian Beckwith, CEO of Arcus Healthcare Partners and Craig D. Hanson, founder and chief executive officer of Omega Senior Living. The webinar will be moderated by Beth Mace, NIC's chief economist and director of research and analytics.

Click here to register today!

Additional huddle topics will be announced over the next few weeks.

Visit our website to learn more and view previous NIC Leadership Huddle webinars.

NIC is extending opportunities for partner recognition and sponsorship to be incorporated into Leadership Huddle presentations, as well as promotional materials, advertising, communications, and verbal acknowledgments.

We invite you to explore these opportunities on a per-event basis, or, for maximum visibility, across the entire Leadership Huddle platform. To learn more and inquire please visit our sponsorship page.

Four Metropolitan Markets Saw Occupancy Rates for Independent Living Fall to New Pandemic Lows in First Quarter 2022

by Anne Standish, Research Statistician, and Beth Mace, Chief Economist

Introduction. Senior members of NIC's Research and Analytics group presented the most recent data, trends, and insights associated with NIC MAP Vision's First Quarter 2022 NIC MAP® Data Release in a mid-April webinar. First quarter data showed several signs of continued recovery for the senior housing sector after many metropolitan markets hit their pandemic-related low points for occupancy in early 2021, although there were a few markets that saw occupancy rates fall to new lows. This article provides details on the occupancy recovery by majority property type for aggregated and individual metropolitan markets and wraps up with a discussion of things to consider in looking at the pace of future recovery.

Assisted Living Recovering Faster. Generally, majority assisted living (AL) property occupancy has recovered more than majority independent living (IL) property occupancy. In the first quarter, senior housing occupancy increased 0.2 percentage point to 80.6% for the NIC MAP 31 Primary Markets. This was an impressive uptick given the virulent and pervasive Omicron variant that was circulating in the beginning of this year and is a testament to the success of the vaccine, as well as the diligent efforts by operators to keep their residents safe.

Occupancy improved in the more needs-based assisted living, while it slipped a bit in the more choice-based independent living. However, the improvement in majority assisted living occupancy was not as strong as in the prior two quarters.

First quarter occupancy for majority assisted living was up 3.7 percentage points from its low point (pandemic trough) but is still 6.7 percentage points below its pre-pandemic levels. Majority independent living occupancy was 1.4 percentage points above its respective pandemic trough but still a full 6.6 percentage points below its pre-pandemic peak.

While the more-needs based assisted living has seen stronger recovery, we hear anecdotally that the socialization aspect of independent living is attracting new residents after the extended experience of isolation and loneliness from the pandemic. Future quarters will show if the more needs-based draw of assisted living will continue to drive its occupancy to recover more quickly or if the lifestyle component of independent living ultimately will result in faster recovery for independent living.

All Primary Markets are up from their recorded lows for majority assisted living occupancy rates. The graphs below demonstrate greater detail on the occupancy patterns over the course of the pandemic for each of the 31 NIC MAP Primary Markets by majority independent living and majority assisted living. The top of the gray bars show the pre-pandemic first quarter 2020 occupancy rate and the bottom of the gray bars show the pandemic-related occupancy trough (which occurred in first quarter 2021 for many markets, but some did not reach their respective low points until later.)

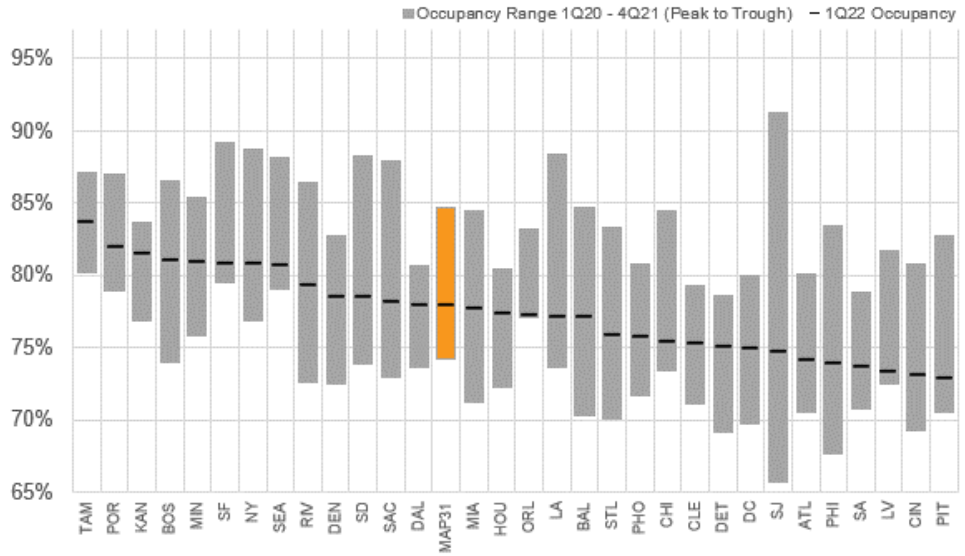
A few things to note: First, all of the 31 Primary Markets are above their pandemic troughs for majority assisted living occupancy and have realized some recovery as

of first quarter 2022. Across all of the 31 NIC MAP Primary Markets the majority assisted living occupancy averaged 77.9% during first quarter 2022. Thirteen of the 31 Primary Markets had higher first quarter 2022 occupancy rates than the Primary Markets, with Tampa, Portland, and Kansas City as the highest occupied markets, and Pittsburgh, Cincinnati, Las Vegas, and San Antonio being the least occupied with occupancies below 74%. Orlando's assisted living occupancy rate was 77.2% in first quarter 2022, just 20 basis points above its pandemic trough.

Second, looking at the best-performing market (Tampa, 83.7% occupancy) and worst-performing market (Pittsburgh, 72.9% occupancy) among the 31 Primary Markets, there is a 10.8 percentage point difference in 1Q2022.

Third, San Jose also is a notable market in the graph below, with what is clearly the largest range. San Jose's assisted living occupancy plunged 25.6 percentage points from 91.2% in first quarter 2020 to a mere 65.6% in first quarter 2021. Part of the occupancy decline is explained by new units that came online in San Jose during this time. Since then, majority assisted living occupancy has increased in San Jose by 9.1 percentage points to 74.7% as of first quarter 2022.

Majority AL Pandemic Occupancy by Metro Market | Primary Markets | As of 1Q22



Source: NIC MAP® Data, powered by NIC MAP Vision

Not all independent living markets have recovered from their pandemic troughs. A similar chart for majority IL shows that recovery for majority independent living has been more challenged. Most notably, not all metropolitan markets have seen recovery.

Four markets' majority independent living occupancies hit new pandemic low points during first quarter 2022. Those markets are Sacramento (76.4%), Cincinnati (83.2%), Seattle (84.3%), and Chicago (79.9%). Sacramento's occupancy fell 5.3 percentage points for majority independent living from 4Q2022 to 76.4% (a record low.) This was the result of nearly 600 units of new inventory coming into the market in the last three quarters in combination with relatively weak demand.

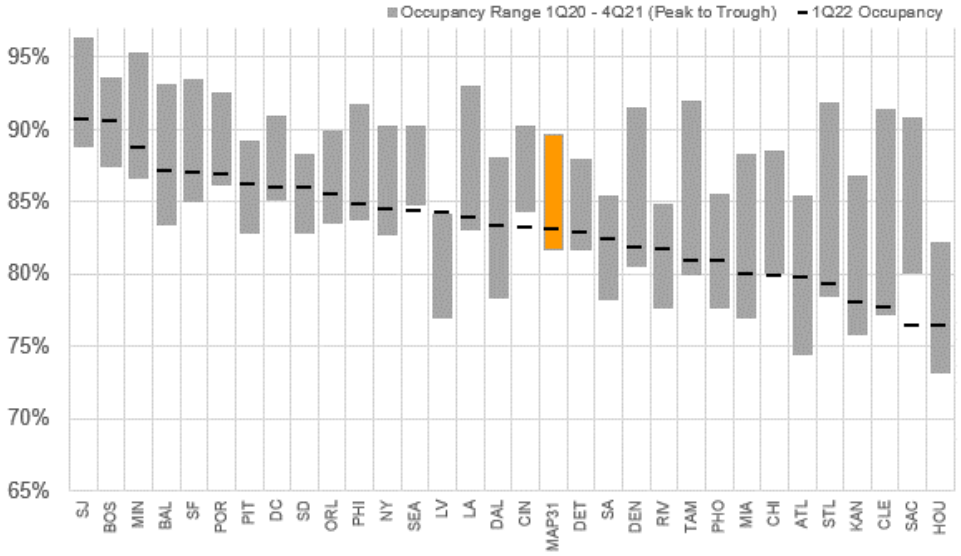
Cincinnati's inventory growth is only part of the story for the sub-par occupancy level, as Cincinnati's inventory growth was less than half Sacramento's at nearly 300 new units between first quarter 2020 and first quarter 2022. Another challenge for Cincinnati's majority independent living occupancy was a decrease of over 200 occupied units from first quarter 2020 to first quarter 2022.

Seattle's challenges are also primarily on the demand side as it only had 200 new units come online between first quarter 2020 and first quarter 2022. Demand in Seattle, as measured by the change in occupied units, dropped by nearly 500 units from first quarter 2020 to first quarter 2022.

Chicago had 400 net new units come online at majority IL properties from first quarter 2020 to first quarter 2022, but more notably, Chicago experienced a decline of nearly 1,800 occupied units during that same period. Chicago has only had two quarters with positive absorption since first quarter 2020, with a mere 15 net units being absorbed in first quarter 2022 (there were also 200 units absorbed in third quarter 2021).

A market that has a better current picture for independent living is Las Vegas, which has seen strong recovery and has risen above its pre-pandemic majority independent living occupancy (84.1%), reaching occupancy of 84.3% in first quarter 2022.

Majority IL Pandemic Occupancy by Metro Market | Primary Markets | As of 1Q22



Source: NIC MAP® Data, powered by NIC MAP Vision

Summary. With the exception of just a few metropolitan markets, most are enjoying recovering occupancy rates. The recovery is generally stronger for majority assisted living properties than for majority independent living in the NIC MAP Primary Markets. Inventory growth is a contributing factor to slower recovery in many markets, but slow demand has also been a limiting factor.

Looking ahead, factors that will shape the future pace of recovery include the broad performance of the U.S. economy, consumer confidence, the rate of inflation (the CPI increased by 8.5% from year-earlier levels in March 2022 in the

largest increase since 1981), interest rates (the Fed recently began to raise short term interest rates), the pace of sales for residential housing, the stock market, pent-up demand for senior living settings, development currently underway, new competition in the form of recently opened properties since the pandemic began, and local market area demand and supply pressures. Importantly, labor is also a key consideration with an increasing number of operators citing labor shortages as a potential limiting constraint on growth. In March, the jobless rate fell to 3.6%. The jobless rate is now only 0.1 percentage point above the pre-pandemic level of 3.5% seen in February 2020, and well below the 14.7% peak seen in April 2020. Further, tight labor market conditions are pushing wage rates up quickly, especially for workers in skilled nursing and assisted living.

Clearly, the path forward is not without its challenges, but the underlying value proposition of senior housing – safety, security, socialization, engagement, room and board, care coordination and lifestyle—will likely win the day. Moreover, as the effects of the pandemic recede, strengthening demographics will support the sector's recovery. Based on the most recent U.S. Census Bureau projections, the 80-plus population cohort will increase by 325,000 in 2021, 500,000 in 2025, and 1 million in 2027.

Note that the data presented are believed to be accurate, but not guaranteed, and are subject to future revision.

To learn more about NIC MAP® data, powered by NIC MAP Vision, and about accessing the data featured in this article, schedule a meeting with a product expert today.

Senior Housing & Care Industry Calendar for May 2022

5/1-5/4/2022	Milken Institute Global Conference (Los Angeles, CA)
5/3-5/4/2022	LeadingAge Maryland Conference (Ellicott City, MD)
5/5/2022	Skilled Nursing News (SNN) Clinical Conference (Chicago, IL)
5/6/2022	Aging 2.0 Boston – Age Friendly Foundation "Revolutionize" 2022 Conference (Boston, MA)
5/16-5/18/2022	Argentum 2022 Senior Living Executive Conference (Minneapolis, MN)
5/16-5/18/2022	AHCA/NCAL 2022 Quality Summit (Kissimmee, FL)
5/17-5/18/2022	8th Annual Population Health Payer Innovations for Medicaid, Medicare, & Duals (Virtual)
5/18-5/20/2022	LeadingAge Arizona Conference (Scottsdale, AZ)
5/22-5/25/2022	LTC 100 Leadership Conference (Amelia Island, FL)
5/22-5/25/2022	The Healthcare Innovation Congress (Baltimore, MD)
6/2/2022	InterFace Active Adult 2022 Conference (Dallas, TX)

NIC Partners

We gratefully acknowledge our partners:

Premier Partners

Official Partners