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Inside the February Issue

BMO Financial Group Breaks the Financing Silos: A Conversation with Imran Javaid

Imran Javaid

Instead of separating operations and real estate into different silos, BMO Financial Group takes a one stop shop approach to healthcare financing. Why does that matter? "Clients don't have to figure out who to call," said Imran Javaid, managing director at BMO.

NIC Chief Economist Beth Mace recently caught up with Javaid to get the details and discuss the bank's long-time commitment to the senior housing and care sector. He also shared his thoughts on the current lending environment and BMO's February 1, acquisition of Bank of the West. In short, the lender is growing.

Here's a recap of their conversation:

Mace: Can you please tell us about your professional career and how you became a managing director at BMO. What does your job entail?

Javaid: It was a stroke of luck to end up in healthcare. I was looking to make a move from private equity to commercial finance and joined CapitalSource in their healthcare group. After that, I joined Capital One and built up the bank's brand and presence in senior housing and care. I moved to BMO in 2016 to lead the healthcare real estate team. But for the past year, I've been leading the healthcare finance group for the entire bank on a national basis. We provide a full array of commercial banking services to the healthcare sector, focused on middle market companies and nonprofit entities with revenue of $25 million to $1 billion. My role is to connect the silos across the bank to serve the healthcare sector. I work with the healthcare real estate group as part of the overall healthcare strategy.

Mace: That's a big distinction. Do you provide capital for operations and real estate?

Javaid: That is what differentiates us. We take an integrated approach to healthcare. Clients don't have to figure out who to call. For example, if a skilled nursing owner is expanding and needs a real estate loan and an asset-based line of credit, the owner can come to BMO. We can do all of that.

Mace: How long has BMO been lending to the senior housing and care sector? How big a group do you have lending to this sector?

Javaid: BMO is over 205 years old, so I have no doubt it has been lending into the industry for a long time. When I joined the bank in 2016, BMO was lending to the senior housing and care sector, and I was brought on to substantially increase lending to the sector. As I mentioned, I now focus on the integration of the healthcare finance strategy. My colleague Ryan Stewart focuses on the real estate side, but we work together.

Mace: How big is your operation?

Javaid: We have 13 people dedicated to the healthcare real estate space. The broader healthcare group including our not-for-profit team is over 40 people. We also have generalists at the bank who seek opportunities in the space.

Mace: What is the size of BMO's portfolio of loans to senior housing and skilled nursing?

Javaid: BMO has about $2 billion in commitments to the sector. Skilled nursing is less than 10% of that total and is limited to the best operators in that space.

Mace: There has been much discussion that the lending markets are tightening. Is that the case for BMO?

Javaid: Lending markets are tighter than they have been. Several factors are at play. We're seeing the Federal Reserve's strategy to tame inflation in action. Thinking back over my entire professional career, I've experienced several periods where the Federal Reserve eased monetary policy, but I've haven't seen true tightening. That's a switch for a lot of people. It's a big difference, and the speed at which interest rates have gone up has also made a big difference. Just over 12 months ago BMO's stress case interest rate was 6%. With interest rates still rising, it is difficult for a lot of deals to meet adequate debt service coverage ratio (DSCR) hurdles. Significant rental rate hikes are being passed through currently, but it's not realistic to assume those kinds of hikes are sustainable moving forward.

Another reason lending markets are tight is that bank portfolios have not fully recovered from the pandemic. Deals are not meeting expectations, even with revised projections. So, lenders are being judicious.

Mace: Has the regulatory environment changed for the bank? Have the reserve requirements changed?

Javaid: There are regulatory changes in capital requirements for banks, but that hasn't had the biggest impact on the lending environment. BMO meets all required capital ratios. Reforms in the BASEL regulatory framework will impact lending products in certain businesses, but real estate lending is not significantly impacted. The bigger issue is really the interest rate increases. For many of our loans, even if they are performing in line with expectations, these rate increases are causing downgrades in risk ratings. This in turn requires the risk weighted capital requirements to increase which leads to higher pricing. It's gotten to the point that some sponsors are only using equity to make purchases, instead of counting on debt as part of their capital stack, as debt has become too expensive.

Mace: How has your underwriting changed given inflation and rising interest rates?

Javaid: We are generally conservative lenders, typically not exceeding 65% on a loan-to-value basis. The stabilized debt service coverage ratio was 1.5, and that had to come down because of higher interest rates. These higher interests are impacting that size of the operating reserves as well as the risk ratings, and this has impacted lending. As I mentioned, we are looking at rent increases that are currently being passed along to residents. But it's still hard to pencil out transactions right now.

Mace: What about transaction volume?

Javaid: Fourth quarter deal activity was very light. That level of activity will continue until there is clarity on whether the Federal Reserve has stopped raising interest rates. Once the Federal Reserve pauses or backs down, we'll see more transactions. The uncertainty about rates makes it hard to underwrite and hold operating reserves when an asset is not stabilized. What is the right interest rate to

project over time? The variability is significant.

Mace: Are you lending for development deals? For acquisitions?

Javaid: We are in the market for both development and acquisitions for existing clients. Development deals haven't been penciling out due to either interest rates, rental rates, costs of construction, or a combination of all of these. Acquisitions are difficult to pencil out, due to insufficient DSCR at current interest rates.

Mace: What product does pencil out?

Javaid: Our portfolio has very strong sponsors. Good sponsors can find the proverbial needle in the haystack. I feel there could be an opportunity in the middle market going forward to acquire assets at a discount and do some rehabilitation as opposed to ground up construction. Anything that brings down the total costs per unit.

Mace: What impacts are you seeing from inflation within the industry?

Javaid: The pressures on labor costs have the biggest impact especially on the high acuity end of the sector. Construction has slowed and the increase in construction costs has slowed but the total costs per unit is still significant. New construction will be slow until the price per unit has stabilized, and rental rates catch up.

Mace: What is your outlook for the lending environment in 2023?

Javaid: The first half of 2023 will be like the last quarter of 2022. Hopefully, the situation will change in the second half of the year.

Mace: Do you plan to grow the lending platform for senior housing and care? If so, what is the growth strategy?

Javaid: We don't anticipate significant growth in the first half of 2023. On February 1, BMO will close on its acquisition of Bank of the West. We expect that, as the increase in interest rates tops, there will be increase in the number of transactions. With our new colleagues and improved environment, we expect to continue growth in the second half of 2023.

Mace: What was the advantage of the Bank of the West acquisition?

Javaid: The acquisition gives BMO a bigger U.S. presence and a larger branch network. BMO is focused on the Midwest and South, and Bank of the West had very little overlap in our footprint markets. When the acquisition is complete, we will have presence in 32 states. We also have complementary businesses. For example, BMO has a big presence in the food industry, and Bank of the West has a big wine and beverage group.

Mace: Have you seen any interesting ways the industry is solving the staffing issues? If so, what?

Javaid: Instead of trying to eliminate costly staffing agencies, creative solutions are being used to lower costs. Some staffing agencies are trying to add value to their clients by creating tech solutions that reduce the number of open positions. While not widespread, there are also scheduling solutions that allow the operator

to use their own staff before using agency personnel. The staffing shortage is a long-term problem and will need our collective will as a country to solve.

Mace: In early November, the Senior Living DEIB Coalition released the results of the industry's first DEIB survey conducted by Ferguson Partners and launched the senior living DEIB Toolkit developed by The AXELA group. BMO has a tradition of addressing DEI. Could you give us some insight into how BMO is addressing DEI within the organization?

Javaid: BMO launched its Empower initiative in November 2020. We stated that there is no middle ground on justice and inclusion. Our goal was to deploy $5 billion over five years to sectors focused on the revitalization of Black and Latinx businesses, and affordable housing. By October of 2022, we had exceeded our goal. Last November, we launched our Community Benefits Plan, a more than $40 billion commitment to local communities. The plan focuses on increasing home ownership and supporting the creation of small businesses in low to moderate income neighborhoods of color, as well as lending to support affordable housing.

Mace: Is senior housing part of the plan?

Javaid: Yes, senior housing is included. Our community lending and Empower teams work together on affordable senior housing, mostly through the tax credit program. The cost is high to build a tax credit project. We'd like to see developers come together to lower the cost basis of those projects.

Mace: Any last thoughts you would like to share?

Javaid: BMO is a bank with longevity. We've been in business for over 200 years. When we commit to an industry, we are committed to it. We are fully engaged in the senior housing space. That's our strength.

Partnering to Build a Healthier Future for America's Older Adults

Millions of baby boomers are on the verge of retirement, considering where and how they want to live their next phase. Senior housing and care leaders will need insights to meet boomers where they are and adapt to their preferences – a generation that prioritizes wellness and diverse, active lifestyles lived among peers.

The 2023 NIC Spring Conference provides a forum for leaders to come together to discuss the not-so-distant future of senior housing, one in which residents have more property choices than ever and greater options for integrating housing with healthcare services. Join hundreds of fellow C-suite leaders March 1-3, in San Diego to learn from innovators as you work to build a healthier future for America's older adults.

REGISTER NOW

Housing-Healthcare Integration & Value-Based Care is a Win-Win for Residents and Operators

To be competitive and successful in the future, senior housing and care operators will need to integrate healthcare and wellness offerings into their properties. Tomorrow's residents will want more than just a home—they want on-site services to help them stay healthy and live life to the fullest. Operators that help residents stay healthy can also improve their well-being and satisfaction.

When residents win, so do investors, owners, and operators. This is the promise of value-based care. Facilities with integrated healthcare services can be reimbursed for helping residents achieve good clinical outcomes, preventing hospitalization and hospital readmissions, and therefore helping achieve cost savings.

How can businesses with primary expertise in real estate approach senior living-healthcare integration? By partnering for the future.

Operators interested in learning more about value-based care should attend "Emerging Value-Based Care Opportunities for Seniors Housing & LTC Operators." This session is the entrée to value-based care models, explaining different partnerships options to explore.

Operators can build their knowledge of value-based care at the **"Customizing a Value-Based Care Strategy for Operators"** Innovation Lab. This hands-on workshop lets attendees work with fellow innovators to identify initial steps needed to build partnerships between housing and value-based care providers.

In the **"How to Begin Your Journey in Value-Based Care"** Innovation Lab, participants will learn about approaches for providing primary care within senior living facilities.

In **"Opportunities in Behavioral Health,"** speakers will identify gaps and opportunities in care. Operators will learn how focusing on improving behavioral health can help them make the strategic shift toward integrating housing and care in a value-based environment.

Adapting to Economic Pressures

The current economic situation—the increased cost of goods, the labor market, rising interest rates, etc.—has greatly impacted the way senior housing leaders make deals and manage their portfolios. The 2023 NIC Spring Conference is the place to be to learn from speakers and fellow attendees how to adapt—and thrive—amid these challenges.

"Keepin' It Real — Let's Talk Margin" is an Innovation Lab that will address the macro effects of the aforementioned challenges on senior housing margins, giving attendees new strategies and tactics to mitigate costs and protect operations.

A new operating environment may require a new approach to attract capital. Equity sources are increasingly seeking mission-driven operators who can deliver sustainable margin before they commit to investments. **"The Case for Pursuing Mission & Margin"** session will discuss how mission-focused operations are a win-win-win, attracting new residents, new capital sources, and allowing greater investment in facilities, services, and people.

Any successful partnership requires transparency and a shared understanding of goals. In this Innovation Lab, **"What Capital Sources Need to Know About Operators,"** capital providers will learn what qualities they should look for in an

operator partner beyond the standard capital metrics. On the flip side, operators will learn which metrics are important to potential investors.

Evolution and adaptation are not new to the senior housing and care sector. Whether you are new to housing and healthcare integration or already forming partnerships, the 2023 NIC Spring Conference is the place to be to gather the tools and relationships necessary to build a healthier future for America's older adults.

We hope you'll join us at the 2023 NIC Spring Conference at the Marriott Marquis San Diego Marina in San Diego, CA.

Join Us in San Diego

Thoughts from NIC's Chief Economist—A Tale of Two Markets and Many Influences

by Beth Burnham Mace

Beth Burnham Mace

It's a tale of two markets and many influencing factors as we move further into 2023. The capital markets remain hostage to the Federal Reserve which continues its course of tightening monetary policy and rising interest rates. Most pundits believe this course will continue through mid-year 2023 until tangible evidence emerges of decelerating inflation, and in particular service inflation. Meanwhile, market fundamentals continue to improve for senior housing, with rising occupancy rates, strong demand patterns, and limited, albeit on-going, inventory growth.

Against this background is the broader economy, beset by uncertainty and risk. Today's economy is a mixed tale of relatively strong labor markets that returned to a 50-year-low 3.5% jobless rate in December and a strong, although weakening, pace of monthly jobs continuing to be generated. At the same time, an inverted yield curve since July 2022 has been signaling recession warnings, while recent surveys of professional economists put the probability of a recession in the next 12 months at close to two-thirds. This is a very high percentage and raises a risk of a self-fulfilling prophecy if consumers believe this to also be the case. And at this point, the University of Michigan consumer sentiment survey results remain deeply in recessionary territory, despite an uptick in early January. And, lastly, the residential and commercial real estate markets have collapsed. How should one process these mixed signals and influencing factors in thinking about the near future for senior housing?

Transactions Market. The transactions market for senior housing and care was weak in 2022, roughly returning to levels seen during the pandemic in 2020, which was the lowest volume of traded deals since the aftermath of the GFC in 2010. Preliminary data suggests that closed volume for 2022 totaled $9.7 billion, down more than 50% from 2021. Like other commercial real estate property types, much of the slowdown in transactions activity occurred in the second half of 2022 as buyers and sellers reacted to the sudden and rapid shock of surging interest rates orchestrated by the Federal Reserve. Bid/ask spreads widened as both buyers and sellers reacted to a higher cost of debt capital, dramatically more limited debt availability, and underwriting that has confounded years of standard underwriting assumptions. The shift from virtually free money in a near zero-interest rate environment to more than 4.3% for short-term interest rates such as SOFR, plus widening risk spreads, has stopped many would-be deals in their tracks as preferred investment returns have become unachievable.

> *Like other commercial real estate property types, much of the slowdown in transactions activity occurred in the second half of 2022 as buyers and sellers reacted to the sudden and rapid shock of surging interest rates orchestrated by the Federal Reserve.*

It's very likely that the debt markets will remain restrained through the first several months of 2023 as lenders wait for the so-called "pivot" by the Fed when it will signal that rates are not moving higher. And without debt capital, transactions activity will remain stalled for many, although not all, deals. Those equity providers with closed-end funds that need to execute due to the fund life terms of their contracts and those investors with open-end core funds that have redemption queues may need to transact. In addition, there will be operators that can no longer meet their debt obligations and equity requirements and will be forced to sell, creating a distressed sales buying opportunity for some investors, particularly opportunistic funds. However, the landscape will remain clouded by uncertainty, and a murky environment is not one that business decision makers generally like to operate within.

Market Fundamentals. Senior housing property market fundamentals continued to improve in 2022. The overall occupancy rate for the 31 NIC MAP® Primary Markets increased 2.8 percentage points from year-end 2021 to 83.0% at year-end 2022, according to NIC MAP Vision. On a quarterly basis, the occupancy rate increased for the sixth consecutive quarter in the fourth quarter of 2022, making it 5.2 percentage points higher than at its pandemic-related nadir of 77.8% in the second quarter of 2021.

While good news, the question remains when will the overall occupancy rate returns to its pre-pandemic level of 87.1%, last seen in the first quarter of 2020, and when may it return to even higher levels? At this point, there remains a 4.1 percentage point gap between the most recent occupancy rate and its pre-pandemic level. Holding it back, at least partially, has been ongoing growth in inventory. Despite a slowdown in construction starts for senior housing, the stock of senior housing units continues to expand and has grown by 6.3% (41,000) units since the pandemic began. That has been more than the market has been able to absorb on a net basis, despite relatively strong demand patterns.

Indeed, on the demand side the equation, net absorption, or the change in occupied units, has been very impressive since early 2021, with quarterly gains averaging nearly 7,500 units, three times more than its pre-pandemic historical quarterly pattern of 2,500 units. Moreover, the number of senior housing units occupied by older adults has never been stronger and reached a record high in the fourth quarter of 2022. Pent-up need, a compelling value proposition of residing in senior housing, and a relatively strong economy have supported demand.

Notably, however, demand has not been strong enough to recover the units placed back on the market during the pandemic (45,000 units) plus the new units opened (41,000). Hence, the occupancy rate, which takes supply and demand into account, remains below pre-pandemic levels.

What's Ahead? Today's starts will translate into tomorrow's inventory growth, albeit with a lag. Fourth quarter starts in 2022 continued to moderate, especially for assisted living, but they were not zero, as some developers were still able to break ground on new projects. Indeed, starts totaled 7,230 units for assisted

living on a four-quarter basis in the Primary Markets in the fourth quarter, and 7,435 units for independent living. These ground breakings will take root and turn into openings in approximately two years and create new supply. And as this happens, inventory growth will exert downward pressure and limit the pace of occupancy rate improvement.

Regarding demand, the combination of a potential recession anticipated for 2023 (albeit a mild one), along with a collapse in residential home sales, waning consumer confidence, rising interest rates, fear of inflation and eroding purchasing power, and a plunge in the stock market all pose threats to continued strong net absorption patterns.

Further, the threat of operational reputation risk is growing. Negative performance at a few properties by a limited number of operators has the potential to hurt the entire reputation of the industry and to create ancillary risks for all operators and their financial partners. This may especially be the case for the one-third of senior housing properties in the Primary Markets (1,788 properties) that had occupancy rates below 80% in the fourth quarter. The ability of the operators of these properties to service debt (in a more stringent debt environment), maintain margins (in a very inflationary environment), grow census (in a weakening economic environment), and provide quality resident experiences (of utmost importance) is difficult. The combination of these factors will add further stress to operators despite two years to date of broad pandemic recovery.

Taken as a whole, it is likely that we will see additional stress on operators in 2023, until at least mid-year, when the Federal Reserve may slow or even stop interest rate increases. At that point, the Fed may have sufficient evidence that inflation, and especially service inflation, is moving back toward its 2% target range. The Fed has indicated that it is particularly mindful of core service inflation less housing. A slowing economy, rising joblessness, employee layoffs, and slowing wage growth will be other considerations of the Fed, should it decide to "pivot" and reverse course on rising interest rates. Already, the most interest-rate-sensitive sectors of the economy have screeched to a halt, including the manufacturing sector which has weakened sharply due to a pullback in consumer demand and the residential and commercial real estate markets.

Wage Growth Slows, Job Growth Improves. On the plus-side for the senior housing and skilled nursing sectors is evidence of slowing wage growth and improvement in hiring. Indeed, the assisted living industry had recaptured 81% of the employees who had left the sector as of November 2022 or 27,000 positions across the nation (most recent data available). For skilled nursing, employment increased during the last eleven months of 2022 for a gain of 32,000 positions. This remains well below the pre-pandemic peak, however, with another 13% of those vacated positions still needing to be hired.

Wage growth is beginning to temper a bit as hiring improves. In November, average hourly earnings for assisted living were up by 7.8% from year-earlier levels, higher than the 4.8% seen for the broader economy, but a sharp

deceleration from the 10.7% annual increase seen in May 2022. Similarly in nursing care, wage growth decelerated to 8.0% in November from year-earlier levels, down from 11.7% in March 2022.

Wrap Up. The ability of the Fed to steer the economy into a so-called "soft landing" to avoid a recession is difficult if history is any indicator. And even if a recession is averted, the pain of rising interest rates and high inflation have been evident already to most businesses, consumers, and workers. For senior housing operators and capital providers, there are certainly near-term challenges, uncertainties, and risks ahead, but there are myriad promising opportunities as well if the proverbial crystal ball can extend beyond this near-term business cycle.

As always, I appreciate and welcome your comments, thoughts, and feedback.

Senior Housing Unit Mix: An Important Factor for Better Performance

by Omar Zahraoui, Senior Data Analyst, NIC

Omar Zahraoui

INTRODUCTION

Many factors play a role in determining the performance of an individual senior housing property. **One of these considerations is unit mix, i.e., the share of studios, one-bedroom, or two-bedroom units within a single property.** The unit mix of a senior housing property is a critical aspect of a property that must be carefully planned, managed, and executed upon. Senior housing constituents, both upstream and downstream, understand that the proper unit mix of a property is a vitally important component of maximizing occupancy and minimizing resident turnover as a resident moves through the continuum of care.

In this article, NIC Analytics examines market fundamentals by unit mix across the senior housing care segments (i.e., independent living, assisted living, and memory care segments) in the 31 NIC MAP® Primary Markets. The exhibit below provides a detailed view of the unit mix distribution, occupancy recovery, supply and demand dynamics, as well asking rate growth across different unit types and care segments.[1]

ACTIONABLE INSIGHT

When planning the unit mix for a senior housing property, it is important to conduct a market analysis to understand the demand and supply factors in the area. Also, it's a good idea to keep in mind that trends and preferences can change over time. Ultimately, the unit mix should be designed to meet the current and future needs of the aging residents as well as the personal preferences and lifestyle of the target population, while also considering the local market conditions and trends. The unit mix of a property also depends on how large it sizes each care segment, and partly on the sizing of the units within each care segment.

KEY FINDINGS

Unit Mix

The exhibit below shows that unit mixes vary significantly among senior housing care segments and tend to skew toward smaller-sized units (i.e., units with fewer rooms) as acuity increases and residents move through the continuum of care. This trend of older adults in senior housing downsizing from larger units to smaller units is driven by a number of factors, including a desire for less maintenance and upkeep, an opportunity to increase efficiency for residents with mobility impairments, and the affordability aspect associated with meeting higher care expenses.

Studios are most prevalent among assisted living and memory care segments. Within the NIC MAP Primary Markets, studios account for about 56% of total

[1] Note this analysis only includes properties reporting the unit mixes within the senior housing care segments. This means that properties and segments with unknown unit mixes were excluded from the analysis. This article also uses the segment type designation from NIC MAP, meaning that the data used in this analysis are units that can be located at any type of senior housing property, with respect to segment type.

units within the assisted living segments and 85% for the memory care segments. Studios are typically the most affordable unit type in senior housing, making them a popular choice for single-person households.

The independent living segment—frequently more of a lifestyle choice than need-driven—generally offers more one- and two-bedroom units but fewer studio units than assisted living and memory care segments. Notably, independent living segments in the NIC MAP Primary Markets have the most diverse mix: 49% are one-bedroom units, 33% are two-bedroom units, and 11% are studios, with an occasional three-bedroom unit or cottage.

Occupancy Recovery

In the last decade, independent living segments have generally experienced stronger occupancy rates compared with assisted living and memory care segments. This is mainly due to more restrained supply and development pipelines, more affordable monthly rates, as well as longer length of stay as residents of independent living generally prefer to age self-sufficiently for as long as possible.

At 85.4%, occupancy for the independent living segment continued to be relatively higher than other segment types in the fourth quarter of 2022 but has the most room left to fully recover and return to its pre-pandemic level (90.0%). By comparison, occupancy for assisted living segments was lower at 81.4%, while occupancy for memory care segments was lowest at 80.7% but has the least room left to fully recover to its pre-pandemic level of 82.6%.

The exhibit shows that in independent living, as unit room count increases, occupancy rates tend to be higher. However, in assisted living and memory care segments, smaller units tend to have relatively higher occupancy rates compared with larger units.

In the fourth quarter of 2022, three-bedroom and two-bedroom units in independent living segments had the highest occupancy rates (90.5% and 88.1%, respectively), followed by one-bedroom units (84.3%), and then studios (83.8%). By contrast, in assisted living and memory care segments, one-bedroom and studio units had relatively higher occupancy rates compared with two-bedrooms. At 83.0%, one-bedroom occupancy was the highest in assisted living segments, while occupancy for studio units in memory care segments ranked first at 81.6%.

These most occupied unit types – larger units in independent living and smaller units in assisted living and memory care segments – experienced relatively smaller occupancy declines during the height of the pandemic, have maintained higher occupancy rates compared with average occupancy for each respective care segment, and now are closest to full recovery and a return to pre-pandemic first quarter 2020 levels; except for the memory care segment where two-bedroom occupancy is well-above pre-pandemic levels. (As background, occupancy for two-bedroom units in memory care segments has generally been more volatile due the relatively small number of units, but it's worth nothing that since the pandemic began, supply and demand dynamics showed increasing interest in this type of memory care unit.)

Demand Dynamics

In the fourth quarter of 2022, the difference between the occupied stock for independent living segment and that of assisted living segment was the smallest in the timeseries. In other words, **the occupied stock for the assisted living segment has been growing at a relatively faster pace than for independent living segment. The same high acuity trend applies when comparing occupied stock for memory care segment with assisted living or independent living segments.**

In independent living, occupied stock across larger units has recovered most of the units placed back in the market. Three-plus bedroom units have recovered 100% of the units vacated during the height of the pandemic, and in fact, exceeded first quarter 2020 occupied stock by 4.0%, followed by 2-bedroom units (71% of units have been reoccupied but occupied stock remained negative 1.4% relative to pre-pandemic levels). Across assisted living, one-bedroom and two-bedroom units have recovered 100% of the units vacated during the pandemic and surpassed pre-pandemic level. This was also the case for studios and two-bedroom units in the memory care segment.

Supply Dynamics

Over the period from first quarter 2020 through fourth quarter 2022, the stock of units within the independent living segment increased in all unit types but studios. Three+ bedroom units had the highest pace of inventory growth at 5.8% or 999 units, but one- and two-bedroom units added the largest number of units on a net basis (2,531 and 2,119 units, respectively). Similarly, across assisted living segments and memory care segments, larger units had the highest percentage increase, but on a net basis, smaller units had the largest number of units added to the market.

Largely due to impact of higher interest rates and capital market dynamics, a slowdown in the growth in senior housing inventory and development activity is helping to bring supply and demand into better balance. In the fourth quarter of 2022, all unit types across senior housing care segments showed a slowdown in construction as percent of inventory, in many cases below 1% and in all cases far below pre-pandemic first quarter 2020 levels.

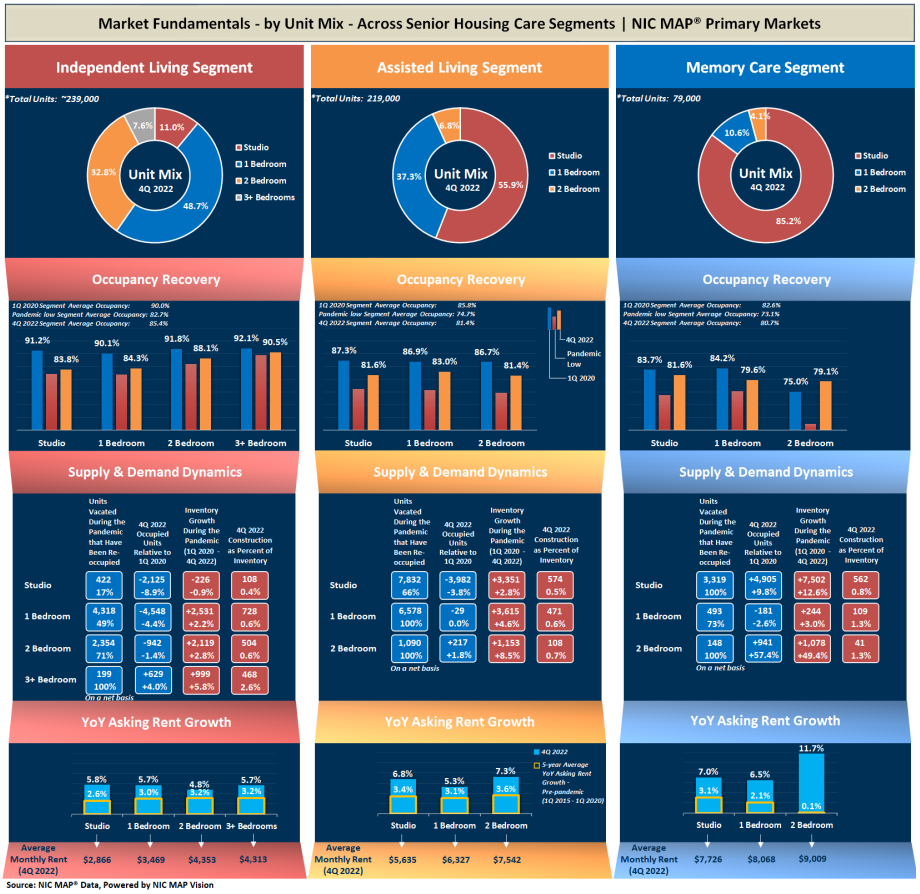
While new inventory compounded the downward pressure on occupancy during the height of the pandemic, this trend of construction starts slowing down will serve as a tailwind for the occupancy recovery. In fact, occupancy across the three senior housing care segments recorded six quarters of positive momentum and consistency, suggesting that senior housing is now on a trajectory of rising occupancy rates and better supply/demand patterns broadly. Notably, this is not the case, however, in all geographic markets.

Year-over-year Asking Rent Growth

The effects of inflation and rising costs are reflecting on asking rate growth across all senior housing care segments and unit types. From year-earlier levels, asking rates rose to the highest levels in the timeseries across all care segments

and unit types in the fourth quarter of 2022. Memory care segments recorded the largest year-over-year increases, ranging from 6.5% for one-bedroom units to 11.7% for two-bedroom units, followed by assisted living segments (ranging from 5.3% for one-bedroom units to 7.3% for two-bedroom units). Growth in asking rates was less for independent living but was still high compared with pre-pandemic year-over-year increases across all unit types. Note these figures are for asking rates and do not consider any discounting that may be occurring.

In conclusion, the layout and unit mix of a property is an important consideration in occupancy patterns and should be considered in developing or evaluating a senior housing property. The unit mix in turn is driven by market dynamics, including location, demographics, and resident income profile, as well as the vision of the senior housing property owner. **While smaller units are currently more prevalent among assisted living and memory care segments, larger units may appeal to a different resident profile in the foreseeable future i.e., middle income residents seeking to share with other residents a larger unit with multiple bedrooms to reduce monthly rates and increase efficiency and socialization.** In fact, larger units are relatively affordable (even when compared with studio units) if they house more than one resident, despite the relatively large increases in monthly rates across all care segments.



Innovation Meets Hospitality at RUI Properties

Retirement Unlimited, Inc. (RUI) Celebrates 40 years of Evolving in Step with Senior Housing Residents

by Jason Zuccari, Vice President of Business Development & External Relations, Hamilton Insurance Agency

Jason Zuccari

Doris-Ellie Sullivan

Scrolling through Retirement Unlimited, Inc.'s (RUI's) website, visitors won't find stock images. Instead, they will see images of actual residents and spaces from RUI's 20-property portfolio across Virginia and Florida.

The genuine nature of the family-owned, Roanoke-based senior living operator is just one attribute that accounts for its staying power over the last four decades. At RUI, what you see is what you get, says President Doris-Ellie Sullivan.

Since joining RUI in 2016, Sullivan's tenure has been eventful to say the least. From the COVID-19 pandemic to catastrophic Hurricane Ian, Sullivan has maintained a steadfast dedication to RUI's community of staff and residents. She credits her experience as an Army nurse for equipping her with the tools and mindset to pivot quickly, effectively, and most importantly, with compassion.

Sullivan's hands-on leadership style trickles down to her staff where the same people-first mentality applies. "We would never ask anyone to do anything we wouldn't do ourselves," Sullivan says, citing a period during the pandemic when she and other members of the leadership team helped with daily operations at properties facing staffing shortages.

A major part of RUI's longevity is its hospitality-forward philosophy. "What sets us apart is the investment and resources we put behind our programs to take them to the next level," Sullivan says, adding: "the sophistication of our active adult residents drives us forward."

Another key element of RUI's success is the team's ability to listen. For example, after implementing a robust and delicious food program, many residents gained weight, or as they humorously called it— the RUI 15. In response, the team launched a "skinny menu" to encourage healthy habits.

RUI's six signature social, educational, and cultural programs highlight their commitment to staying in stride with their residents. The offerings also illustrate the company's mission, which hasn't changed since 1982: "To deliver a lifestyle that residents have earned and deserve."

RUI University. From making ice cream to U.S. history, the program features a range of classes (in person and virtual) powered by more than 350 universities, museums, and educational institutions. An academic administrator and two coordinators implement the program across RUI's portfolio. YouTube courses are free and available to the greater public as well.

Taste of RUI. Each property operates a bistro with gourmet food offerings, and bar with a full liquor license (plus extensive wine lists) to satisfy a range of resident palates.

Leash on Life. In addition to being pet friendly, RUI runs a program to help animal lovers take extra good care of their furry family members with a range of services.

Luxe Unlimited. A full-service salon and spa to help residents look and feel their best with a host of services, from hair care to massage.

RUI Fit. Beyond the aforementioned "skinny menu," RUI Fit also includes classes from fit coaches and personal trainers.

Care Impact. Residents can access this service to maintain independence via butler services and one-on-one private duty.

With 2023 underway, RUI is focused on expanding its programs across new properties—three of which are in development currently. As she looks to the future, Sullivan is committed to strengthening RUI's community through more innovative programming that meets the evolving tastes of residents.

Senior Housing & Care Industry Calendar for January 2023

2/5-7	ECAP Summit (Miami, FL)
2/9	Senior Housing Business Interface Multifamily (Denver, CO)
2/16-17	2023 Population Health Management Summit for Payers & Providers (Nashville, TN)
2/21-22	AHIP Executive Leadership Summit (Phoenix, AZ)
3/1-3	**2023 NIC Spring Conference (San Diego, CA)**

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