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Inside the September Issue

Addressing challenges in today's capital markets, MSCI chief economist Jim Costello provides perspective on the current credit crunch and where senior housing is headed. Beth Mace adds her views on what's affecting senior housing operators' P&L statements, from strong market fundamentals and stabilizing expenses, to rising insurance concerns. Omar Zahraoui's regional analysis of AIV ratios reveals notable trends and shifts in the senior housing supply and demand dynamics.

The upcoming 2023 NIC Fall Conference offers solutions for senior living's pain points. NIC Talks speakers will offer practical solutions and thought-provoking perspectives on the future of senior living, and former speaker of the house, Paul Ryan, will share scenarios for how pivotal policy decisions may play out and action steps for developing solutions for tomorrow's issues, today.

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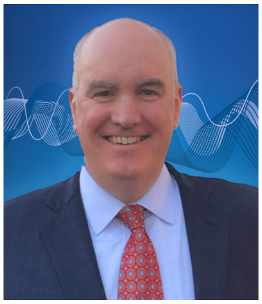
When Will the Credit Crunch Ease? A Conversation with MSCI's Jim Costello



Jim Costello

Economist Jim Costello sometimes keeps a rubber band in his pocket. He uses it as a prop during his high-profile talks to demonstrate what's happening to the economy. The initial shock of the pandemic stretched out the economy like a rubber band. When the rubber band was let go, it reverberated back and forth. Likewise, economic data and property investment measures are zig zagging as conditions continue to react to that first big shock.

As Chief Economist on the MSCI Real Assets team, Costello was recently a guest on the NIC Chats podcast hosted by NIC Senior Advisor Beth Mace. With deep experience analyzing the commercial property markets, Costello provided his insights into the current credit crunch and where senior housing is headed. What follows is an edited summary of their podcast conversation.

Mace: Tell us about your role at MSCI and your unique window into the capital and transactions markets.

Costello: MSCI is a global index provider helping capital sources worldwide understand performance across a wide range of asset classes, both public and private. MSCI has been moving into real estate and, in 2021, bought the company I was working for—Real Capital Analytics (RCA). RCA has performance measures on sales and asset pricing. MSCI is bringing data sources together to help people understand the current risks and investment opportunities. Everything we do is to make real estate more transparent.

Mace: Looking at the big picture, a lot has happened in the capital markets since the Federal Reserve began raising interest rates in March of 2022. Today, the Fed funds rate is in a range of 5-1/4% to 5-1/2%, up virtually from zero 17 months ago. The Fed has hiked interest rates an unprecedented eleven times to slow overall economic growth to check inflation. Inflation is now about 3%, down from 9% a year ago. We've made a lot of headway, but as a result, there's been a lot of disruption in the capital markets. Can you comment on what's going on?

Costello: I've been giving talks about this using a rubber band. In 2020, with the initial shock of the lockdowns, the effect was like a rubber band that gets stretched out and then let go, reverberating back and forth. That's what's been happening with every economic data series, every price measure, and every investment market. There's this zigging and zagging back and forth as conditions react to the initial shock and follow-up shocks. For instance, the commercial property deal market is down 70% from a year earlier.

Mace: Wow, 70%.

Costello: Yes, that's a big percentage change, but it's a big change from a base that was elevated the year before. Investors are caught up in this weird transition period of zigging and zagging. They hear a 70% decline and think it's the end of the world. But it's the up and down in response to that initial shock. And at some point, it should settle out to something that's more normal.

Mace: How would that compare to pre-COVID transaction volume in 2019?

Costello: Deal volume is down on average. It's not like the happy days from 2015 to 2019 when deal volume was at a healthy level. Also, it varies by property sector. Some sectors are doing worse than others, and it's all about uncertainty. The office sector, particularly in core business districts (CBDs) has dropped the most from that period. Other sectors are better. The industrial sector is at a higher level than where it was in the 2015 to 2019 period. Apartments are pretty close to that. But generally speaking, investors have been focusing on asset classes that have a demographic-driven strategy because they're more predictable in this environment.

Mace: Does that include senior housing?

Costello: Senior housing transaction volume and pricing are down like every other segment. The capital side is challenged with the 10-year Treasury rate above 4%. That's not necessarily the end of the world, so long as you have some income. It's the uncertainty around what capex will be like moving forward versus tenant demand versus the ability to secure financing. In the face of complications and uncertainty, buyers step back. Nobody wants to take that risk.

Mace: When will this settle out?

Costello: Current owners will give up when they're forced to. When the lender says the loan is coming due and the appraisal comes in 20% lower, then something must be figured out. The low interest rate environment allowed some borrowers to extend their loans. But now we're tracking about $1.5 trillion of commercial property loans maturing between 2023 and 2025. When all that comes due, there will be some very uncomfortable conversations between borrowers and lenders which will drive activity.

Mace: Haven't the regulators been mindful of that, giving new guidance to lending institutions on when to be tough on borrowers?

Costello: Regulators have issued guidance which is important for the banks. But the banks aren't all of the commercial lending world. The debt funds hold the riskiest loans with the highest loan-to-value ratios, the fewest covenants, and shortest terms. No regulator is telling them what they can do at that level.

Mace: A lot of the debt financing for senior housing comes from the regional banks, and the GSEs, Fannie Mae and Freddie Mac. What are you seeing in senior housing?

Costello: The GSEs give senior housing and apartments a cushion that doesn't exist for other property types. Senior housing represents about 3% of the total investment market. Current outstanding loans in distress are about 1.5% of the senior housing market. So, it's not a big portion of senior housing so far.

Mace: What's the dollar value?

Costello: We're tracking sales of around $5.6 billion for the senior housing and care sectors. The total market for 2023 across all property types is around $205 billion. With 1.5% of outstanding distress, senior housing hasn't been impacted much yet.

Mace: The focus is on office properties, right?

Costello: Yes, the office sector is the dominant sector for outstanding distress. There are issues around tenant demand and ongoing capex requests driving a lot of uncertainty and challenges in the office sector.

Mace: What other sectors would benefit from the demographic trends you mentioned?

Costello: Student housing, apartments, medical offices, labs and life science facilities, and self-storage buildings. There's more investor interest in those segments because there's some certainty about the demographic changes taking place.

Mace: When will we start to see some green shoots in the transaction markets?

Costello: First, we need to see the distress start to ease. The other important factor is the availability of debt. We've seen a decline in mortgage originations over the last year, and that mirrors the decline in deal volume. The worry is that if it gets harder and harder to find a loan, it'll be harder and harder for deal volume to recover. Some preliminary second quarter figures show that those declines may have retreated a bit.

Mace: What about debt funds?

Costello: There are debt funds out there, but when downturns take away the debt portion of the capital stack, it hits harder than if properties are repriced because of lower income. The savings and loan crisis is an example of that. Banks wouldn't lend at any price because there was so much uncertainty. That's what spurred the CMBS market originally to fill that illiquidity. So, if debt doesn't disappear this time, even if it's more expensive, those are the green shoots I'd be looking for to find a stable level on prices and deal volume.

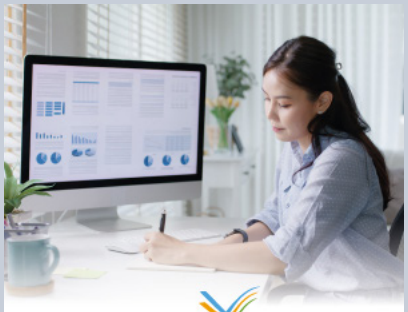
Mace: Regional banks are no longer really providing as much debt as they once were because they haven't increased interest rates on their deposits. So, their deposit base is shrinking. We used to call it a bank run though this is more like a bank walk. Since a lot of the debt for senior housing comes from the regional banks, what's your view on that bank walk concept?

Costello: At least senior housing has the GSEs as an alternative. Senior housing also has leases as another source of stability. We are watching whether regional banks can continue lending or need to reserve more capital because of the additional risk.

Mace: There's a lot of private equity on the sidelines waiting to buy distressed properties. What is your sense of the volume of money there or, what role will private equity play to help us break the capital markets cycle we are in?

Costello: It's going to be tricky. The problem with dry powder is that a breeze can blow it away. I'm old enough to remember people talking about dry powder at the start of the global financial crisis. It's going to protect the downside and keep prices from falling. But once everybody saw the writing on the wall for price declines, a lot of that money pulled back.

But there's also an opportunity to get into the sector by buying on the cheap. That's what happened last time. And I think investors will try to do that this time too.



But the distress in the aftermath of the global financial crisis involved properties bought at too high of a leverage ratio. The debt coverage was abysmal. And, once everything reset, there was no way to make that loan mature into a new kind of loan. So, they had to give up the property. By and large, the distress today is more fundamental. With office buildings the fundamental economic need has changed, and nobody has come to the realization yet as to what needs to happen.

Mace: What about the other sectors?

Costello: Retail has had a lot of distress over the last 15 years not just because of the internet but because of obsolete buildings. We overbuilt retail tremendously from the 70s to the 90s. Throw in some technological change, and the buildings become obsolete faster.

Mace: What about senior housing?

Costello: The big difference is that this crisis started with the pandemic. The market fundamentals for senior housing are improving pretty sharply. You've had almost two years of improvement in occupancy rates. Demand has never been stronger. Inventory growth has been slowed down. So, the market fundamentals are looking good. It's the capital markets that are being clobbered.

Mace: In wrapping up, where do you think we're heading? What's going to cause a shift, and how long will the capital markets be in turmoil?

Costello: The pandemic is over, but the pandemic isn't done with us yet. You know, we're still seeing the after-effects of some excess spending and a little bit of excess liquidity. And now we're getting the pullback in the other direction. I think we are still dealing with the aftereffects of what was a high level of deal volume in 2022. By the end of 2023 and into early 2024, I think that's when we'll get a really good reading on just where the commercial property market is.

Two Parts to the P&L Statement: The Good and the Less Than Good

By Beth Burnham Mace, NIC Special Advisor focused on the economy and capital market trends and implications

Beth Mace

Second quarter data on senior housing trends released by NIC MAP Vision continued to show solid improvement in occupancy rates, relatively strong demand, languishing inventory growth, and steady rate increases. Or said another way—strong market fundamentals. These are welcome indicators for operators, investors, and debt providers and continue a positive trend seen since the middle of 2021 once the recovery from the pandemic began to take root. The combination of rising occupancies and growing rates provides positive revenue growth and revenue per occupied/available unit metrics (REVPOR and REVPAR), supporting the typical profit and loss (P&L) statement for senior housing operators.

Unfortunately, this is only half the story for an operator's financial performance. Expenses have risen quickly and often not commensurate with revenues, which in turn has squeezed operating margins. And while some components of expenses are improving, others are not. This is due to several factors, as described below.

- Inflation
  - o There is good news on the inflation front with the consumer price index (CPI) decelerating to 3.2% in July from year-earlier levels, down sharply from the 9.1% pace experienced in June 2022. That said, inflation remains above the Federal Reserve's preferred 2% pace, which suggests that there is further room for improvement in price growth. If inflation continues to taper, businesses will benefit from a lower cost of food, energy, and other materials.
- Labor, Staff Turnover and Wage Growth
  - o There is good news on the labor front as well, with indications that the labor market is starting to soften at least a bit. Fewer workers are quitting their jobs, the hiring rate is slowing down, and the unemployment rate has likely hit bottom at close to 3.5% in July 2023. This should translate into more workers seeking jobs and less upward pressure on wage rates. Indeed, average hourly earnings for assisted living workers decelerated to a still very strong 6.0% in the second quarter of 2023, but down from a record high of 10.2% in the second quarter of 2022. Further, asking rent growth for assisted living (6.4%) exceeded this pace, albeit mildly, providing the foundations for some margin expansion.

"Asking rent growth for assisted living (6.4%) exceeded this wage growth, albeit mildly, providing the foundations for some margin expansion. "

- o At 6.0%, wage growth is also outpacing inflation (3.2% in July), which is good news for workers and the overall economy as consumer spending accounts for 60% of GDP and will potentially add a boost to overall economic growth.
- o The use of temporary agency workers is also shrinking as payrolls in assisted living eclipse the levels seen prior to the pandemic. Today, there are 13,000 (2.9%) more workers employed in the assisted living industry than at the peak prior to the pandemic in February 2020. This should help control labor expenses since agency workers are typically paid exceptionally high wage rates.
- o On the less favorable front is high staff turnover which remains a challenge for the industry, as high staff churn affects onboarding and training costs and has a negative effect on resident satisfaction, reputation, and often length of stay.

- Insurance
  - o Among expense items, the cost of insurance has typically not been top of mind. Unfortunately, that is changing as catastrophic climate-related disasters affect greater geographic areas and leave years of disaster recovery in place. Coastal states have been especially vulnerable, but few regions have been entirely spared and virtually every group insured has been affected by higher premiums. Green Street estimates that annual commercial insurance expense growth has doubled that of other real estate expenses on average since 2018.
  - o In the **NIC Executive Survey Insights report from May**, when operators were asked to compare the cost of their property insurance currently to one year prior, between 86% and 95% of operators across all care segments – independent living, assisted living, memory care, and nursing care – reported it to have increased (either significantly or slightly). More than one-third of independent living (37%) and assisted living (36%) operators report the change in the cost of their property insurance to have increased significantly, followed by memory care (32%) and nursing care (32%). No owners or operators reported a decrease in the cost of property insurance.
- Cost of Capital
  - o The cost of capital as measured by interest rates has risen sharply in the past 18 months as the Fed's new targeted fed funds rate is now in a range of 5.0% to 5.25%, up from virtually zero in March of 2022. Since that time, the Fed has hiked rates eleven times to raise borrowing costs in an effort to slow economic activity and reduce inflation. Short-term borrowing rates, such as SOFR, cue off the fed funds rate.
  - o Looking ahead, the Fed has not ruled out further rate hikes in 2023 as it continues to examine inflation data. Despite the great progress achieved in reducing the pace of inflation, a further deceleration is needed to get to the Fed's preferred 2% target range. The question is if an additional rate hike will occur at its upcoming FOMC meeting on September 19th to

20th. Beyond the September meeting, market analysts are now debating the timing of when the Fed may reverse course and begin to lower interest rates, while other prognosticators wonder if a higher interest rate environment is likely the new status quo.

- For borrowers, it's best to assume higher rates and a higher cost of capital for the foreseeable future. Even if the Fed reverses course, the pace of reduction will be slow as it watches for signs of damage to the economy such as a recession. Recent data suggests that a deep recession is not likely in the coming year. In fact, many economists now think that a recession may be avoided entirely. That said, the rapid and significant increase in interest rates in the last 18 months has and will continue to have consequences for economic growth. It's a matter of timing: there is a typical 18-month or longer response lag between the time the Fed raises interest rates and its impact on the broader economy.
- The yield curve remains inverted but has flattened a bit in recent weeks as the yield on the 10-year Treasury bond climbed above 4.0% to 4.32% as of August 22nd, making it the highest rate since 2007. The difference between short-term rates and long-term rates is now 138 basis points (10-year Treasury bond vs. 3-month T-Bill), down from 180 basis points in June, but still very wide. Under more typical circumstances, bonds with longer maturity dates yield more, represented by an upward sloping yield curve. This makes sense since investors should earn a return premium for the greater uncertainty associated with lending money over a longer time frame. The current environment is unusual, as yields along the maturity spectrum no longer reflect this logic. Further, it is the case that a recession is always associated with an inverted yield curve, but an inverted yield curve does not always presage a recession. Notably, the jump in long-term interest rates suggests investors are anticipating a higher inflation environment for longer.

- Availability of Capital
  - The higher cost of capital reflects intentional efforts by the Federal Reserve to slow the economy and tame inflation. Its effects also limit the availability of capital, which is evident in the higher scrutiny of lenders toward borrowers and the slowdown seen in the issuance of debt. NIC's recent lender survey of seniors housing and care borrowers shows these trends.

"The higher cost of debt and debt service has been crippling for many borrowers."

- The higher cost of debt and debt service has been crippling for many borrowers. Borrowing for new construction, capex, acquisitions, and recapitalizations is challenging even for best-in-class sponsors. And borrowers who need to refinance existing loans are facing significant challenges as paydowns on principle are often needed and loan proceeds are often lower. Further, borrowers with adjustable-rate debt face unsurmountable debt service costs as adjustable-rate mortgages are changing to significantly higher rates and often include a costly interest rate cap or hedge.

- A further discussion of capital market trends and their implications can be seen in this issue of the NIC Insider newsletter and listened to on the most recent episode of the **NIC Chats podcast** focused on markets with me and my guest, Jim Costello, chief economist for MSCI Real Assets.
- Also, note that a more rigorous analysis of many of the points discussed in this commentary will be possible once the upcoming issue of the 2023 State of Senior Housing (SOSH) is released this fall.

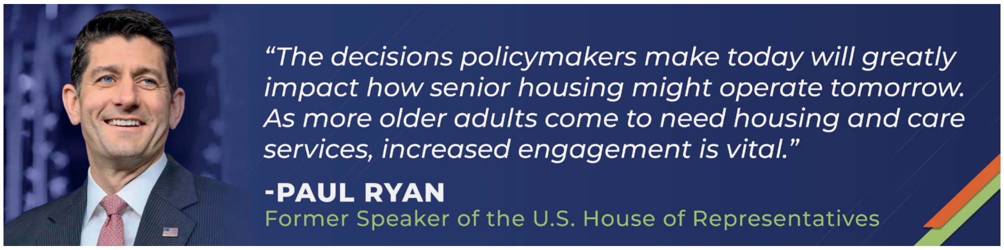
"Just as labor scarcity has been a thorn in the side for senior housing operators for a very long time, it's worth a moment to consider if the availability and costs of insurance will become a new thorn."

Taken as a whole, it's likely that the P&L statement for many operators will remain challenged as 2023 continues to unfold. However, it is heartening to recognize that the top part of the statement is positioned nicely for many operators as demand and rate growth support revenue expansion. Further, there is some relief emerging on the expense portion of the statement as inflationary pressures rescind and as labor markets start to loosen. That said, a growing concern centers on costs of insurance, its availability, and its coverage. Just as labor scarcity has been a thorn in the side for senior housing operators for a very long time, it's worth a moment to consider if the availability and costs of insurance will become a new thorn.

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

Beth

Former U.S. House Speaker Paul Ryan to Headline 2023 NIC Fall Conference



The devastating impact of COVID-19 on skilled nursing properties has led policymakers to consider new regulations for infection control and staffing. The latter is particularly top of mind, as the Centers for Medicare and Medicaid Services **issued a proposed rule** on September 1 that will impose minimum staffing requirements on facilities.

Industry experts, including NIC, have discussed the possible unintended consequences for residents and staff members stemming from these requirements, which include hiring and retention challenges due to the difficult capital markets conditions and the continued weak labor market for skilled nursing care workers.

Now more than ever, success in senior housing and care requires owners and operators to keep up to speed on policies that impact property operations.

NIC is fortunate to have the ultimate Washington, D.C. insider, former speaker of the U.S. House of Representatives, Paul Ryan, as the economic keynote during the 2023 NIC Fall Conference. Ryan is no stranger to "the NIC," having last spoken in 2017. He will once again share valuable insights on the economy and capital markets, with a focus on senior housing and care.

Ryan will also speak to the issues that will be top of mind during the upcoming election cycle. He'll talk about labor and immigration reforms that can address the labor challenges, as well as policies to address the affordability of senior housing properties to aid the millions of middle-income Americans for whom senior housing currently will be beyond their reach.

You won't want to miss the opportunity to hear the perspectives of the former House speaker and walk away with fresh insights to help address today's challenges.

The 2023 NIC Fall Conference is October 23-25 in Chicago.

Registration is open here.

How to Ease Senior Living's Pain Points
NIC Talks offers innovative perspectives, practical cures.

Industry stakeholders are well familiar with its pain points. Workforce issues, COVID exhaustion, compressed margins, and disruption in the capital markets are some of the challenges faced today by senior living operators, owners, and investors.

NIC Talks

Senior living's pain points will provide context for the NIC Talks session at the upcoming **2023 NIC Fall Conference.** Four speakers will give 12-minute TED-style talks, offering practical solutions and thought-provoking perspectives on the future of senior living amid its current challenges.

"With so many issues facing the industry, it's easy to get overwhelmed," said Bob Kramer NIC co-founder/strategic advisor and founder at Nexus Insights, who will moderate the NIC Talks session. "But today's pain can point the way to tomorrow's gain."

As the industry's thought leader, NIC debuted **NIC Talks** in 2015. It quickly became an attendee favorite by provoking discussion at a national level with speakers from both inside and outside of the industry.

The 2023 NIC Fall Conference is being held October 23-25 at the Sheraton Grand Hotel in Chicago. NIC Talks will be a featured Main Stage session on Tuesday, October 24.

Kramer encourages industry executives to attend the 2023 NIC Fall Conference and the NIC Talks session. Participants can expect to hear ideas that challenge established ways of thinking about the future of senior living. "Be inspired to change, rather than scared to change," said Kramer.

Here's a preview of the dynamic speaker lineup at NIC Talks:

Caroline Pearson

Bringing Together Healthcare and Housing to Stimulate Move-Ins and Margins.

Regaining occupancy and restoring margins is a top priority. Speaker Caroline Pearson will detail how linking healthcare and housing can boost move-ins and margins. Pearson is already familiar to the NIC audience. She was formerly the Head of Healthcare Strategy at NORC at the University of Chicago, a research organization, and led NIC's seminal study, "The Forgotten Middle." She is currently the Executive Director of the Peterson Center on Healthcare. She believes the artificial divide between housing and healthcare has caused senior living providers to miss a big opportunity to grow their business. She will share how thoughtfully integrating medical services into senior housing properties can attract new residents and deliver better health outcomes.

Pearson says no group is more poised to become future customers than those in the middle market. Few people will have the resources to remain at home as their health, mobility, and cognition decline. Pearson will share a personal anecdote about how the apartments, condos, and single-family homes of today are not built for those with health and mobility challenges. Middle-market seniors will need an affordable congregate setting. One way to develop and deliver that product is to integrate housing and healthcare by using some healthcare dollars to pay for the supportive services of senior living. Pearson will explore the enormous opportunity to capture this middle market by partnering with healthcare.


Gerard van Grinsven

Exploring Lifestyle-Centric Housing.

A radical customer-first approach can attract and delight residents to earn their long-term loyalty. Speaker Gerard van Grinsven, COO of Waterstone Properties Group, will describe how to create a hospitality-inspired strategy—an experience blueprint—for every project to yield remarkable financial gains, improved resident wellbeing, and thriving staffing results. Forget focus groups. People don't always know what they want. Instead, the key is to anticipate the needs and desires of customers that they can't yet even express. Van Grinsven's successful track record spans The Ritz-Carlton, Henry Ford Hospital, and the dynamic Rock Row mixed-use development in Portland, Maine. He will share insights gained throughout his career on how to proactively deliver an exceptionally positive customer experience.


Dhaval Patel

Smart Technology Isn't Everything. Believe Me, I'm an Apple Inventor.

Overwhelmed with new technologies, owners and operators don't always know how to make the best choices for their business, or for residents. Dhaval Patel, former organization leader at Apple for iPhone, Watch and AirPods, will coach attendees on how to wade through new technology offerings to find the best solutions. Patel is the founder and CEO at Lotus Labs, which designs tech solutions usable by all. Exciting new technology may sound great, but residents and staff members may not know how to use it, or just don't bother, finding it a burden rather than a help. Patel will share his personal frustrations with technology and explain how tech products are developed. Attendees will learn the right questions to ask about new technologies. Was it really designed for people with mobility or cognition issues? Is this technology really going to work? Will it be adopted by residents and staff?

Hanh Brown

The Digital Transformation of Senior Living Through Generative AI.

Hanh Brown was a Performance Integration Manager at General Motors working on Corvettes, but her mother's battle with dementia redefined her understanding of senior living. So now she's under the hood navigating the complex algorithms of Artificial Intelligence (AI). Founder of the Boomer Living Podcast, Brown will address how AI can transform three major pain points in senior living: the resident experience; the workforce challenge; and sales and marketing. What we're witnessing with AI is more than just incremental change, it's a transformation. Hahn will provide five key tips on how to apply AI to the senior living environment. Her inspiring message: AI-powered systems can redefine care, merging cutting-edge technology with the human touch to provide seniors with a life rich in personalized experiences.

Mark your calendar to attend NIC Talks on Tuesday, October 24 at 1:15pm, during the [2023 NIC Fall Conference.]

Regional Insights into AIV Ratios: A Pre-Pandemic, Pandemic Peak, and Recovery Phase Assessment

By Omar Zahraoui, Principal, NIC

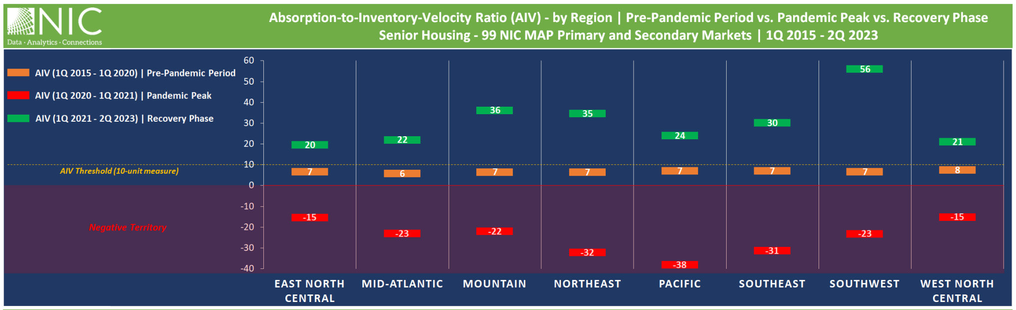

Omar Zahraoui

In last month's NIC Insider, NIC Analytics embarked on an in-depth exploration of the AIV (Absoprtion-to-Inventory Velocity) ratio as a way to monitor senior housing supply and demand dynamics. We illustrated the different scenarios that can unfold and how these scenarios play out across various senior housing property types, as well as potential occupancy outlooks.

Building on that foundation, this article shifts the lens to AIV ratios across all U.S. regions. As geographical variations often lead to unique market dynamics, this regional analysis aims to highlight specific market conditions, differences in supply and demand, occupancy recovery trends, and the unique challenges and opportunities inherent to each region.

The exhibit below presents the AIV ratios for senior housing by region, tracking its changes from 1Q 2015 to 2Q 2023. This time frame covers three distinct periods: the **pre-pandemic** period (1Q 2015 to 1Q 2020), **the pandemic's peak** (1Q 2020 to 1Q 2021), and **the recovery phase** (1Q 2021 to 2Q 2023). Additionally, the data table shows occupancy changes in percentage points (pps) over the same periods as reflected in the AIV ratios but also presents the occupancy rates for 2Q 2023 and the remaining gap to achieve a full recovery to the pre-pandemic occupancy levels seen in 1Q 2020.

Regional analysis of AIV ratios reveals notable trends and shifts in the senior housing supply and demand dynamics. These regional variations in the AIV ratios provide valuable insights for future development and investment strategies in the industry.



Senior Housing Occupancy Changes (in Percentage Point)

	EAST NORTH CENTRAL	MID-ATLANTIC	MOUNTAIN	NORTHEAST	PACIFIC	SOUTHEAST	SOUTHWEST	WEST NORTH CENTRAL
Occupancy Changes (1Q 2015 - 1Q 2020) | Pre-Pandemic Period	-3.2	-4.5	-3.9	-2.2	-1.1	-2.9	-3.1	-2.5
Occupancy Changes (1Q 2020 - 1Q 2021) | Pandemic Peak	-7.7	-8.5	-8.4	-9.1	-10.0	-9.1	-8.6	-10.1
Occupancy Changes (1Q 2021 - 2Q 2023) | Recovery Phase	4.6	6.8	7.8	5.9	4.9	7.3	8.6	6.5
2Q 2023 Occupancy (%)	83.1%	85.2%	83.5%	86.1%	84.2%	84.0%	83.5%	85.0%
2Q 2023 Occupancy Relative to 1Q 2020	-3.1	-1.7	-0.7	-3.2	-5.1	-1.8	0.0	-3.6

[1]Senior Housing is the aggregate of majority independent living and majority assisted living properties
Source: NIC MAP® Data, powered by NIC MAP Vision
Prepared by: NIC Analytics of the National Investment Center for Seniors Housing & Care(NIC)

Regional AIV ratios during the pre-pandemic period (1Q 2015 – 1Q 2020)

The AIV ratios in the five years leading up to the pandemic (from 1Q 2015 to 1Q 2020) averaged around 7:10 across all U.S. regions. This falls below the AIV threshold, indicating a **moderate scenario** where a decline in occupancy was observed as inventory growth was exceeding the positive absorption.

Regional AIV ratios during the pandemic peak (1Q 2020 – 1Q 2021)

Negative AIV ratios were observed across all U.S. regions during the pandemic peak, implying a **challenging scenario** where inventory growth continued and coincided with negative absorption across all U.S. regions.

- The Pacific region faced the most notable impact, with an AIV ratio of -38:10, the lowest among all regions. This was mirrored in its occupancy change, which decreased by 10pps, the highest decline compared to other regions.

- The Northeast and Southeast regions also experienced notable impacts, with AIV ratios of -32:10 and -31:10, respectively, and comparable decreases in occupancy (9.1pps).

- Mid-Atlantic, Mountain, and Southwest regions showed similar trends, with negative AIV ratios in the low twenties and occupancy declines around 8.5pps. The East North Central and West North Central regions had a negative AIV ratio of -15:10.

Regional AIV ratios during the recovery phase (1Q 2021 – 2Q 2023)

The AIV ratios in all U.S. regions turned positive and surpassed the AIV threshold, indicating a shift to an **optimistic scenario** where absorption outpaced inventory growth. This led to an increase in occupancy across all regions, a notable improvement compared to the pandemic peak.

Despite the occupancy improvements, by 2Q 2023, all regions, with the exception of the Southwest, remained below their pre-pandemic occupancy levels, highlighting the prolonged impact of the pandemic. The Mountain, Mid-Atlantic, and Southeast regions were the nearest to achieving recovery, while the Pacific region lagged the furthest behind.

- The Southwest region experienced the most robust recovery with an AIV ratio of 56:10, the highest among all regions, and subsequently saw the most substantial increase in occupancy (8.6pps). Interestingly, **the Southwest was the only region that reached its pre-pandemic occupancy level by 2Q 2023.**

- The Mountain and Northeast regions also had high AIV ratios (36:10 and 35:10, respectively), and consequential significant occupancy recoveries (7.8pps and 5.9pps, respectively).

- The Pacific region had an AIV ratio of 24:10. Its occupancy recovered 4.9pps but remained the farthest from reaching its pre-pandemic occupancy level by 5.1pps.

- The East North, Mid-Atlantic, and West North Central regions recorded AIV ratios in the low twenties and increases in occupancy rates (ranging from 4.6% to 6.8%).

In conclusion, through this regional analysis of supply and demand trends, it becomes evident that the senior housing market's arena is not homogenous. Distinct regional trends, influenced by factors such as demographics, economic conditions, and even historical patterns, shape the AIV ratios we observe today. Some regions have shown resilience, moving closer to pre-pandemic occupancy levels, while others still grapple with the ramifications of the pandemic years. As we move forward, it is essential for stakeholders to recognize these regional nuances, tailoring strategies that cater to specific regional needs, opportunities, and resident profiles. **In the ever-evolving world of senior housing, being attuned to such regional insights could very well be the key to future success.**

Senior Housing & Care Industry Calendar for September 2023

9/11-12......................THCA Annual Convention & Trade Show (Dallas, TX)
9/13-14......................Skilled Nursing News RETHINK Conference (Chicago, IL)
9/13-14 ....AHIP Consumer Experience & Digital Health Forum (Nashville, TN)
9/18-20 ....ASHA 2023 Chairman's Circle Event (Austin, TX)
9/19-20 ....Oregon Health Care Association (OHCA) Annual Convention (Portland, OR)
9/20-22 ....Ziegler Annual Senior Living Finance & Strategy Conference (Orlando, FL)
9/27 ....RockHealth Summit (San Francisco, CA)
9/27 ....NIC Senior Housing Boot Camp (Minneapolis, MN)
9/27-28 ....NIC Data & Analytics Conference (Minneapolis, MN)
9/27-28 ....Aging 2.0 Optimize Conference (Louisville, KY)
10/1-4 ....AHCA/NCAL Convention & Expo (Denver, CO)

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