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Thoughts from NIC's Chief Economist

By Beth Burnham Mace



Beth Mace

And the beat goes on as the new normal of living in a world of COVID-19 becomes our reality. However, the beat is not like any rhythm we have ever known. The pandemic has changed the pace of virtually every aspect of our lives and, for those of us involved in caring for America's elders who reside in seniors housing and skilled nursing properties, the challenge has been formidable, although not insurmountable. Despite impaired supply chains and a lack of federal coordination, operators are increasingly acquiring the personal protective equipment (PPE)

that is needed to keep their staff and residents better protected from this invasive virus. While heroic stories of frontline care workers seldom make frontpage headlines, stories of carefully implemented safety protocols that limit the spread of the virus within properties abound. Images of well-planned opportunities for staff and residents to interact, socialize, exercise, and be engaged are common, yet little publicized. When we look back on this time, we will be proud of what the industry has collectively achieved in protecting our seniors in this difficult period. But we will also look back and be frustrated that circumstances were such that many people in the public at large as well as in congregate settings did become ill and, in some cases, did die from this perilous virus. To prevent further spread of the COVID-19 virus, we continue to seek PPE. And of critical importance, the industry seeks reliable testing protocols, for the general public, and for the staff working in and the vulnerable residents living in congregate settings.

Against this background is the economy and the anguish it is unleashing on millions of workers. In just six weeks, 30 million Americans filed initial claims to collect unemployment insurance in the period ending April 25, 2020. That is more than all the jobs created in the national economy since its recovery from the 2008/09 recession. Moreover, the figure does not consider the millions of workers who have not yet or will not file claims. We can expect more of these record-setting events ahead. Indeed, the Commerce Department recently reported the steepest monthly drop in retail sales on record going back 30 years while the Federal Reserve said industrial production fell the most since 1946.

The outlook is difficult to project because we still do not know when the pandemic will retreat and if it will return in the future. Its only once we discover a vaccine and people become immunized that we will really be able to put the pandemic behind us. Until then, we will gradually try to re-open parts of the economy, but the opening will be sputtered, and large groups of businesses may never re-open.

The federal government and the Federal Reserve have worked hard to mitigate the damage. Congress and the Administration have now allocated approximately \$3 trillion on programs (equivalent to roughly 14% of U.S. GDP) within the CARES Act, the Small Business Administration Paycheck Protection Program (PPP), and other programs. Meanwhile, the Fed has worked hard to keep the economy functioning and the credit markets liquid. It pushed the federal funds rate down by 150 basis points in mid-March to effectively zero, lowered the cost of discount window lending, introduced multiple facilities to support the flow of credit, and launched the Main Street Lending Program to purchase new or expanded loans to small and mid-sized businesses including seniors housing. Fannie Mae and Freddie Mac have also announced assistance to borrowers, including seniors housing operators, by providing mortgage forbearance for 12 months and waiving related late fees.

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Only in time will we know the success of these programs, but what we do know at this time is that much of the economy remains open, the credit system is still functioning, and relief is being provided to millions of jobless workers. Nevertheless, real GDP is still projected to drop by up to 40% at an annualized rate in the second quarter of this year and the jobless rate is expected to reach more than 15% by May.

The great uncertainty wrought by the pandemic and the economy has virtually shut down commercial real estate transactions markets, with few deals getting done. Price discovery between buyers and sellers is opaque, at best, and capital is sitting on the sidelines waiting to see how these circumstances unfold.

All eyes are on operations. Move-ins have largely stopped as operators strive to prevent contagion in their properties from the virus. And occupancy rates are starting to decline as the weekly [NIC Executive Survey](#) results show. In the week ending April 19, 2020, approximately one-half to two-thirds of organizations reporting on their independent living, assisted living, and memory care units saw a decrease in occupancy from the prior month, while organizations with nursing care beds reported the largest declines in occupancy. The "survey" results also show that move-in rates have slowed as well, with two-thirds to three-quarters of organizations reporting on their independent living, assisted living, and memory care segments reporting a deceleration in move-ins.

Where it will end is hard to say, with the virus once again largely dictating the extent of business impact and disruption. Meanwhile, operators remain fully diligent in their efforts to prevent further contagion, with strict protocols to prevent and limit the spread of the illness across properties. Extra cleaning and contact prevention protocols, limitations on visits, restrictions on group activities, travel restrictions and other rules have been implemented. And for staff, safety protocols, flexible schedules, and accommodations to the new reality of social distancing rules with school closures are all in place.

So, how do you operate in this environment? Contingency planning, scenario analysis, best case-worst case plans all need to be implemented to address the myriad paths that may unfold. From an investor's point of view, property valuations may be pressured lower, but how much lower? What is the impact on investment returns? From a borrower's point of view, banks will be looking for lower loan-to-values, stricter covenant agreements, and higher interest reserve requirements, but how much higher? From a broker's point of view, fewer deals will be coming across desks at least for now, until distressed properties that require capital infusions and recapitalizations emerge, but when? From an operator's point of view, occupancy rates will be pushed lower, but by how much? If you are among the half of all properties that had an occupancy rate of 90% or greater as of the first quarter of 2020 by NIC MAP® metrics, the challenge may be large but not impossible. If you are among the 22% of properties with occupancy rates below 80% and in a market with generally low stabilized occupancy rates, the challenges may be greater.

In this time of unprecedented uncertainty and to be best prepared, one step forward would be for all businesses—capital providers and capital seekers—to create a worst-case scenario and then ease up on the assumptions to identify the impact on the bottom line. Once there, better informed decisions can be thoughtfully considered.

In the meanwhile, on behalf of NIC, we continue to laud the industry's frontline workers and those behind the scenes in management and decision-making roles. Cooperation has never been stronger between capital providers and operators, demonstrating that together, we can fight and overcome this pandemic.

As always, I welcome your comments and feedback.



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Seniors Housing & Care Industry Calendar

- 5/7.....NIC Leadership Huddle Webinar Series: Confronting the New “Normal”: A Conversation Between Operators, Lenders, and Private Equity Providers During a Pandemic
- 5/7.....Argentum Growth Strategies Series; Middle Market Success Stories Webinar
- 5/18 – 5/19.....Population Health Payer Innovations for Medicaid, Medicare, & Duals; Virtual Conference

May 2020 Postponements

- 5/6.....Senior Housing News BUILD Conference; Chicago, IL (**Postponed to October 15, 2020**)
- 5/6 – 5/7.....LeadingAge Iowa Spring Conference Expo; Altoona IA (**Postponed to July 9-10, 2020**)
- 5/7 – 5/8.....McKnight’s Women of Distinction Awards Dinner and Forum; Chicago, IL (**Postponed TBD**)
- 5/9/2020.....Oregon Health Care Association Emerging Trends & Innovations: Executive Think Tank; Portland, OR (**Postponed TBD**)
- 5/31 – 6/2.....Senior Living Innovation Forum; Destination TBA, (**Postponed to November 15-17, 2020**)

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