CHANCERY MONTHLY NEWSLETTER

INDUSTRY INSIGHT

This article shows that since the senior living industry is a needs-based industry with a low dependence on GDP or economic cycle, the industry earned a reputation as being "recession-proof" among the real estate product types.

Looming Downturn Could Test Senior Living Industry's Recession-Proof Reputation

Alarms are sounding that the U.S. will enter an economic recession in the foreseeable future, and many operators are preparing for a range of outcomes, from a bumpy landing to business as usual.

Rising interest rates, slumping financial markets, and inflation are all causes for concern at a time when operators are already grappling with beleaguered supply chains and a tight labor landscape.

Senior housing was among the real estate product types thought to have withstood the last major recession well, given that it is still largely a needs-based industry. At the same time, many operators are hoping to grow rates in 2023 and increase net operating income (NOI). Should residents and their families suddenly find themselves with fewer dollars to spend, that could impact their willingness to pay higher rates down the road.

But in general, many senior living operators remain optimistic that strong home prices, coupled with favorable demographics and the industry's needs-based nature will stave off the kind of challenges seen during the financial downturn of 2008. For instance, HumanGood President and CEO John Cochrane said he believes that the industry has the benefit of certain trends that would help prop it up during an economic downturn.

"We've seen such a run up in equities over the last decade, such a run up in home values, that you can have a fairly significant pullback and understand your bases and still be ahead of where you were that unless the bottom falls out of everything, I think it will be painful, but it will be survivable," he said.

Indeed, many senior living residents rely on home equity to fund a move into senior housing. And provided they can still sell their homes for a decent price, logic follows that they can afford the senior living services they want and need.

While nobody benefits from a recession, the industry still has some tailwinds, such as relatively high home prices and social security payment increases, that could help weather tough economic times, according to National Investment Center for Seniors Housing and Care (NIC) Economist Beth Mace. Rising interest rates — though a headache for dealmaking — could also benefit older adults if they are holding onto savings in the form of certificate of deposits (CDs) or treasury bonds.

"Senior housing is more needs-based, so it's a little less dependent upon the economic cycle," Mace told SHN. "And then there are these other secondary effects that would come through higher interest rates and a slower economy.

Operators remain confident

Although all of the senior living operators SHN talked with for this story said they were tracking the market closely and watching for signs of a recession, they also were not concerned that it would have a large negative impact on the industry. That includes operators of entry-fee continuing care retirement communities (CCRCs), many of which encountered stiff challenges as home prices fell during the economic downturn in 2008.

One such company is Maxwell Group, which is the parent entity of Senior Living Communities (SLC). Although Maxwell Group's exposure to full-continuum communities is large with 11 life plan communities in its portfolio, President Ben Thompson is not overly worried about a recession, at least not one where home prices tumble in a calamitous way.

"I don't believe we're going to see … a true market crash," Thompson told SHN.

SLC has the benefit of the fact that its communities are high-end, and that it caters to a more affluent crowd. The company's communities are also located in the Sun Belt region, where Thompson said demographic growth and demand are robust.

There is also the fact that CCRCs contain units of all types, meaning demand is diversified across the different senior housing product types. And an economic downturn would likely cool down the labor market — which would be bad news for workers, but not for senior housing staffing budgets — meaning operators might not have to raise rates so aggressively in the future to keep up with expenses.

"What we do today is set up to fare well in a recession," Thompson said.

High presales and long waitlists for independent living units give Ohio Living CEO Larry Gumina comfort that a recession is not worthy of being a top worry, at least for now.

"In terms of a recession in our industry segment I'm not seeing it," Gumina told SHN. "Demand for care and services is almost 'unlimiting' but yet it's our talent pressures that are going to hinder our ability to meet demand."

Cochrane said he felt it was "likely" the economy would enter a recession, though that it was "not a surprise" either.

"Depending on how hard and fast the correction is will influence how successfully we come through this and how stressed we are as we come through it," he said.

HumanGood is already drawing up "what-if" plans to manage costs and protect revenues in the event of a wider downturn.

"We're starting to look at all of those things and say, 'How does a recession affect those aspects of the company and what plans do we need to have in place to go if we need to pull back here or push forward with something else?," Cochrane said.

Recession-proof reputation

Over the years and particularly through the Great Recession, the senior living industry earned a reputation as being "recession-proof" — or at least, recession-resilient.

While the senior living industry has significantly changed since 2008 and 2009, many of the factors that gave it that reputation in past years still apply, according to Argentum CEO James Balda.

Rising occupancy and the industry's needs-based nature are the "two elements that give me optimism for our ability to steer through a recession," Balda told SHN.

"But we are in a unique market environment," he added.

Unlike during the Great Recession when entry-fee CCRCs faced the most challenges as home prices fell, operators of primarily or solely independent living communities could see the biggest impact from a similar kind of recession now. But CCRCs are still vulnerable, said Lisa McCracken, director of senior living research and development with Ziegler.

"While nationally we are seeing very healthy numbers and figures, and people being able to sell their house for way more than what they ever probably anticipated that they could, there's going to be some market dynamics and changes," McCracken told SHN.

Mace echoed analysts at Ziegler, and said that assisted living providers "are a little bit better positioned because it's so needs-based versus independent living."

Ziegler is watching for "economic volatility" in the weeks and months ahead, and CEO Dan Hermann told SHN he was still more concerned about the tight labor market, given the dire need for more workers.

He added that labor in the senior living market would be a lagging indicator in a recession, meaning that even if there was a recession that affected jobs nationwide, the senior living industry would still likely not have filled every open position.

There are currently over 11 million job openings in the country, according to the U.S. Bureau of Labor Statistics. Unemployment sits at around 3.6%, and new jobless claims for last month were at a low of 202,000. In April, the bureau reported that 34,000 jobs entered the health care sector — but only 900 of those new jobs were within senior living. For perspective, there are 6% fewer assisted living workers in the industry today then there were in February of 2020.

Should a recession impact hiring elsewhere, senior housing operators could thus suddenly find more workers flocking to their communities and companies, according to Mace.

“But my only pause with that would be that not everyone is suitable to work in senior living,” she added. “It’s very personal, it takes passion to care for individuals.”

Still, at the end of the day, leaders including Cochrane believe the industry will get through another economic downturn the same way it did the last one: with thoughtfulness and strategy.

“I think those of us who are strong today and have shown a propensity for planning and thinking through these issues will come out of it fine,” Cochrane said.

Original Article:
https://seniorhousingnews.com/2022/05/19/looming-downturn-could-test-senior-living-industrys-recession-proof-reputation/

Stony Plain Project Update

Stony Plain Active Adult Lifestyle Community is located just west of Edmonton, Alberta. When complete, the residence will be a 6-storey apartment building with 85 Active Adult Lifestyle Community suites. It will offer In-suite 24-hour emergency call systems, a recreation facility, housekeeping, laundry services, on-site management and maintenance. A main floor of commercial and retail space will provide residents with easy access to amenities such as a doctor's office, pharmacy, bistro or coffee shop. Below is the progress update and pictures from the site.

- Stony Plain hosted an open house on June 9th to celebrate their Grand Opening of their wonderful community!

PROJECT UPDATE

Chancery Seniors Housing Investments Inc. is a private real-estate investment firm with a focus on seniors housing. Powered by its two strong founding partners, Suske Capital Inc. and LD Capital Corp., Chancery creates a team with the expertise and experience of over 55 years in real estate and seniors housing developments with an estimated completion value of over $5 billion.

For more information about our company and projects, please visit www.chanceryseniors.com

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