Apr 2024 (Issue No. 75)

CHANCERY MONTHLY NEWSLETTER

INDUSTRY INSIGHT

With the incoming baby boomer generation, favorable demographics are poised to elevate demand for senior living. Nevertheless, industry growth might be limited by a low rate of new supply and aging properties. Accelerating new constructions is imperative for the industry to match the projected demand. While occupancy rates are anticipated to increase, regional disparities pose ongoing challenges.

Higher Demand Spells Senior Living Upswing, But Risk of New Supply Shortfall

Favorable demographics and demand spell good news for senior living operators in the months and years ahead, but a low rate of new supply and quickly aging properties could limit how many residents the industry can ultimately serve.

The incoming baby boomer generation is expected to bring with it more demand for senior living services. A current low rate of new supply and a sizable number of obsolete and aging senior housing properties are expected to buoy occupancy rates across the country. As such, the industry is “on the cusp of a notable upswing,” according to NIC Principal Omar Zahraoui.

But low supply is a double-edged sword, and Zahraoui noted that the industry risks undershooting resident demand if the pace of new supply doesn’t accelerate.

“Will senior housing stakeholders capitalize on these trends and proactively prepare for the future, or will they maintain a passive wait-and-see stance?” he wrote in a recent update on the industry’s roughly next two years.

Construction, supply lag behind demographics, demand

Construction of new senior living communities has thus far not kept pace with the number of older adults expected to move into senior housing in the years ahead.

Projected senior living inventory is expected to grow by 44,000 units, or a rise of just over 4% between 2023. But that represents just half to one-third of the projected demand, according to Zahraoui. The industry's lack of new supply is made worse by the aging nature of current properties, as 44% of all properties in NIC markets are over 25 years old.

As properties age, some will no doubt be taken out of senior housing community stock for better uses or redevelopment. And that represents "a challenge that the sector is going to have to grapple with," Head of Research and Analytics at NIC Lisa McCracken told Senior Housing News.

"What are the implications of the functionally obsolete communities in particular? With limited new inventory growth, proportionally we're going to see the percentage of communities 25 years or older continue to grow," she said.

In demographic shifts that the NIC report calls "staggering" as an estimated 1 million 80+ households between 2023 and 2026, and will double to two million between 2026 and 2029 with a compounded annual growth rate (CAGR) of 3.4% and 5.8%, respectively.

Over the next three years, NIC projects senior housing occupied stock will grow by 8% to 14%, two-or-three times more than the projected inventory growth representing a "new normal rather than pent-up demand," the report notes.

New NIC metric shows opportunities for operators to capture occupancy

Last year, NIC unveiled a new metric aimed at capturing the health of a given market area, absorption-to-inventory-velocity (AIV).The metric is calculated by dividing the number of recently-occupied units within a time frame by the number of newly-added units to the market during the same time frame.

Across the board, the two-year AIV ratio from 2021 to 2023 has consistently shown markets are consistently able to absorb new units well above what is coming available by way of new development.

While 2024 could “mark the end” of a three-year occupancy recovery,with the AIV ratio “significantly exceeding” the AIV threshold having been the driving forces behind the occupancy returns in 2022 and 2023, according to Zahraoui.

With anticipated “strong momentum” in the AIV ratio over the next three years, the trend could set new occupancy records and lead to “most regions” netting mid-90% occupancy by 2026.

Occupancy gains recently reported for the industry’s assisted living and memory care segments were the longest uninterrupted rebound in census since NIC Map Vision reported data starting in 2005.

“The dampened inventory growth is going to have some real implications on occupancy growth, which we project to be in the low-to-mid 90s by 2026,” McCracken said.

In an interview with SHN in September, Zahraoui said it was “essential” for operators to recognize the “regional differences and regional nuances” for tailoring their operations and sales tactics accordingly.

“I think in the ever-evolving world of senior housing, being attuned to such regional insights and resident providers could very well be the key to future success,” Zahraoui said at the time.

Across all markets, for every 10 new units coming onto the market, the industry is able to absorb 28, which indicates that “demand is double the amount of new inventory available,” McCracken said.

Original Article:
https://seniorhousingnews.com/2024/04/12/higher-demand-spells-senior-living-upswing-but-risk-of-new-supply-shortfall/