CHANCERY MONTHLY NEWSLETTER

INDUSTRY INSIGHT

The NIC anticipates a strong development phase in senior housing by 2025 due to demand outpacing supply. Historical and recent data suggest that first-year lease-up success is critical for long-term property performance. The sector's projected occupancy trends show high stabilization potential in coming years.

Current Supply, Demand Dynamics Could Help Create 'Lucrative' New Development Phase in 2025

Renewed interest from investors and current supply-demand fundamentals may help create a "lucrative phase for new development" for senior living operators in 2025, according to NIC Principal Omar Zahraoui.

Those findings were included in a newly updated Senior Housing Analyst Review and Outlook (SHARK). The report from the National Investment Center for Seniors Housing and Care (NIC) analyzed senior housing market trends between 2010 and 2015, along with 2014 to 2019.

Between 2010 and 2015, demand exceeded supply, similar to current market conditions in 2024. Inventory growth increased 0.6% with an absorption rate of 0.4%, along with an absorption to inventory velocity (AIV) ratio of 11 units absorbed in a market compared to 10 units of new supply added.

Between 2014 and 2019, inventory growth was 0.7% with absorption of 0.6%, with an AIV ratio of 7 new units absorbed to 10 new units added. This showed that supply outpaced demand. The imbalance present between 2015 and 2019 shows the importance operators must pay toward current market conditions when considering growth.

Based on historical trends, current data shows that the industry is in another period of strong demand and lower supply. Earlier this month, NIC reported average occupancy across 31 primary markets of 86.5% in the third quarter, as operators have reported strong lease up trends and some approaching or exceeding pre-pandemic census.

“We anticipate a resurgence in development activity by 2025,” Zahraoui told Senior Housing News.

Zahraoui added that senior living operators also should take note of the importance of prioritizing first-year lease up momentum.

Establishing lease-up and occupancy trends that could propel new properties to stabilization is important, and operators risk jeopardizing future performance if emphasis isn’t placed on that key first year in operations, he noted.

“The trends show that a strong start not only accelerates stabilization and drives sustained performance, but also helps properties reach critical mass in net move-ins,” Zahraoui told SHN on Monday. “Failing to achieve this high momentum in the first year, a property may risk falling behind in the second year as initial residents begin to turn over.”

NIC MAP Vision data showed that in both time periods studied, occupancy for new communities started slowly before accelerating in the second year and stabilizing in the third and fourth year after opening. This shows that regardless of market conditions in the last 10 years, lease-up trends “typically followed a similar S-shaped curve.”

A key factor that determines the shape of this occupancy curve is the lease-up ability of a community in its first year, with Zahraoui noting the first year is “decisive” in determining the trajectory for a property’s future performance on occupancy, with properties in both periods with stronger lease-up momentum in the first year “consistently saw better long-term stabilization outcomes,” the report states.

“Strong first-year occupancy is a game-changer. If trends hold in the coming years, properties that meet early lease-up targets will set the standard in the competitive landscape and differentiate themselves with a clear trajectory for growth and stabilization,” Zahraoui told SHN.

Over the next three years, the senior living industry could see a dramatically imbalanced AIV ratio with a projection of 23 units being absorbed in a market compared to 10 new units coming online in that same market, demonstrating a supply and demand imbalance due to lack of new development starts en masse.

While properties in 2022 and 2023 face a "slower start" in recovering occupancy, NIC data shows that newer properties are "on track to stabilize faster" than compared to past cycles. Moving forward, NIC researchers forecast a quicker lease-up period and faster stabilization of new communities with half of new communities to reach or go beyond 97% occupancy by the fourth quarter of 2027.

Original Article:

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