CHANCERY MONTHLY NEWSLETTER

INDUSTRY INSIGHT

This article focuses on the fact that although the senior living industry is facing increasing costs and rising interest rates this year, investors are still very interested in investing in the senior living industry and the outlook for the sector is still promising due to the following reasons: investors are willing to view high-quality senior living homes as a safe investment; operators have pricing power and can increase revenues through increased rents and management fees; and due to the aforementioned difficulties, fewer new homes are being built and the change in supply and demand has led to increased occupancy.

Interest Rates, Cost Headwinds Prompt Investors to Seek Out Senior Living 'Safe Havens'

The senior living industry has faced challenges from multiple sides this year, from cost inflation to rising interest rates. As a result, some investors are becoming more choosy about the communities they back as deals are becoming more complicated.

Cap rates for newer, higher-quality and lower-acuity communities such as active adult or independent living have risen between 25 to 50 basis points this year. Lower-quality, older assets were impacted more severely, with cap rates rising between 100 and 150 basis points.

This is occurring amid a "flight to quality," with investors seeking newer shiny-penny assets rather than reinvesting in older properties, according to Greystone Managing Director Chris Clare.

"There's still a ton of capital on the sidelines wanting to be invested in this space," Clare said. "Investors will view those super-high quality assets as a safe haven and are willing to invest there and accept a lower return on investment."

Chicago-based Investment management firm Harrison Street continues to invest in what Managing Director Elliot Pessis called "recession resilient, demand-driven" real estate.

"We're hopefully going to prove now for the third time that during economic shocks our sectors, senior housing included, should perform well," Pessis said.

Phoenix Senior Living CEO Jesse Marinko said there's still a "boatload of demand" for senior living despite challenges from wage increases and cost inflation.

"We're dedicated to understanding this new environment and how we trudge through it and still accomplish all our goals of being a best-in-class operator," Marinko said.

While interest rates have spiked this year, historically, they remain low, Pessis noted, while stressing that conflating where interest rates are at now and some of the ongoing disruption in capital markets, specifically debt capital markets, is misguided.

"I would trade a short-term disruption with a long-term good prognosis any day," Pessis added.

While it was "a little hard to get deals done" given current outward pressures, Marinko contended that all property transactions must be viewed with sustained inflationary pressures in mind. While interest rates have made transactions a bit more complex, he added that the process was "to be expected" given the stiff headwinds.

A major drag on returns this year has been the need for buyers needing to bring "40% to 50% equity" to the table, Clare noted. That's caused some investors to renegotiate and get a lower price, which in-turn means a higher capitalization rate.

A spike in resident rental rates has offset some worry in the space, Pessis continued, noting that Harrison Street's active adult portfolio is "growing" and off-market inquiries and evaluations would suggest "very little impact" on the sector. He also equated the strength to the sector being more similar to multifamily housing development.

On Harrison Street's IL side, cap rates have increased but what he termed as "down the fairway" properties have held up "very well" and are commanding "pretty strong valuations," Pessis added.

"We're certainly continuing to play the long game and continue to deploy and now we're going to get through these moments of economic shock like we've done the last 17 years," Pessis said.

Coming out of the Covid-19 pandemic, investors were keen on occupancy figures, Clare said. That's shifted to Clare being "more bullish" on private pay, needs-based assets like AL and memory care, as he believes operators will have pricing power to raise their revenues through increased rent hikes and care charges while maintaining margins.

"That ability to raise revenues more quickly than say a Medicaid-supported building is really, really important," Clare said.

Pessis said the challenges in the economy have injected "a lot of emotion" in the market, which has caused investors to "seize up." But if the short-term waves can be sustained, lending activity in senior housing will return strong in 2023 and beyond.

"I do see the debt markets coming back," Pessis noted. "I don't know when, but I am hoping soon because I think the equities are really quick to follow.

"With high construction costs and it more costly to borrow, new senior living projects have declined. That's naturally led to supply and demand for senior housing changing, Marinko said. He added that he was "extremely encouraged" at where occupancy levels stood, which bode well for long term investment success in the sector.

"The demand has been starting to be met and we're having absorption," Marinko said. "That's why you see a lot of communities with record highs in occupancy."

With a supply-demand imbalance looming as the country's aging population booms, Pessis said that imbalance gives him great optimism for the sector in the years ahead.

"That's why if we can just get through these months ahead of us, I think we'll all be sitting pretty," Pessis said.

Original Article:
https://seniorhousingnews.com/2022/10/11/interest-rates-cost-headwinds-prompt-investors-to-seek-out-senior-living-safe-havens/

Bartlett Project Update

The Bartlett Seniors Housing Complex will be a 129-unit apartment building designed for active senior living, located at 550 Bond Street in Oshawa, ON. The Bartlett represents an affordable alternative to conventional seniors housing, offering services that permit seniors to live independently, on an à-la-carte basis through a concierge, in a regular apartment building, while providing the comfort to seniors and their families that care will be available in short order should the need arise.

- The staff at The Bartlett recently hosted a British High Tea event in the bistro that was very popular and a big draw for our marketing efforts.

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