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INDUSTRY INSIGHT

The senior living industry stands on the cusp of potential rejuvenation, but operators must navigate uncertainty and hardship in the meantime. While labour conditions and occupancy rates show signs of improvement, the industry faces substantial loan maturities, a challenging capital market, and the need for extensive refurbishment of aging communities. These factors are expected to result in increased distress and declining valuations. However, amidst these difficulties lie opportunities for agile operators to capitalize on the market. By creatively addressing challenges and leveraging lower costs in the middle market, operators can pave the way for a period of renewal.

Debt a Big Concern as Senior Living Industry Nears Period of 'Creative Destruction'

The senior living industry is standing at the precipice of a period of potential renewal — but to get there, operators will have to put up with more uncertainty and hardship in the meantime.

On the one hand, labor is improving and many operators have eliminated or nearly eliminated the usage of staffing agencies. Margins are slowly improving with the number of occupied units at an all-time high, and demand for senior living is relatively robust in 2023.

On the other hand, the industry has billions worth of loans coming due in 2023 and 2024 amid a tough capital markets environment where the cost of capital is higher and — thanks to recent bank uncertainties — there are fewer willing lenders.

At the same time, about two-thirds of the senior housing communities in the 31 primary markets tracked by NIC MAP Vision are old and in need of a major refresh or new use.

For senior living operators, this cross-current of operational difficulty and tougher capital markets will likely amount to rising distress and falling valuations in the year ahead, according to NIC Chief Economist Beth Mace.

“We’re likely to see distress increasing, and we’re likely to see valuations declining from where they were at least prior to March of 2022,” Mace said during a NIC webinar Tuesday.

But those conditions could also lead to a period of “creative destruction” for operators agile enough to take advantage of the current market’s opportunities, she said.

Loan maturities a ‘significant concern’ in 2023

Like the rest of the world, the senior living industry has had a rough go during the pandemic. Those pressures have continued this year, but for many operators there is light at the end of the tunnel in the form of slow and steady growth.

But for operators with outstanding loans, that light in the tunnel may actually be a freight train. According to a recent analysis from Cushman & Wakefield Research and RCA, the senior living industry has about $10 billion worth of debt maturities coming due in 2023.

Commercial banks, particularly smaller regional ones, are grappling with a higher cost of capital that has shut off the tap for many new loans. And the lenders that are still doling out money are now more concerned with lending terms, making borrowing potentially harder.

For senior living operators, this could prompt some tough questions in 2023 and 2024.

“If a loan matures and as debt needs grow, where are borrowers going to get funding to step in? Is it going to be private equity debt funds, sovereign wealth funds, pension funds?” Mace said. “So, significant concern here.”

But Mace noted that banks are not keen to “have the keys given back to them,” and thus will look to work things out with borrowers the best they can.

“They want to talk, they want to hear what you have to say,” Mace said.

Transaction volumes have also fallen as a result of the capital market difficulties. According to data from NIC MAP Vision, the first quarter of 2023 saw about $800 million in transactions for senior housing — a “really low” total relative to past quarters, Mace said.

"There are a lot of businesses that are just waiting on the sidelines to see where transaction values are going to end up, with the expectation that there's been an adjustment in valuations," Mace said. "If for no other reason than the change that we've seen in interest rates, and how that typically relates to cap rates."

'Creative destruction' may be around the corner

While the current period is tough for many senior living operators, those challenges may well serve the industry's long-term health.

Specifically, the industry's near-term pain may affect valuations to the point that they lead to new opportunities.

"I think we're going to see so-called creative destruction," Mace said.

Mace foresees a potential "price reset" ahead that creates a new relative floor for transactions. That might pave the way for new opportunities going forward, especially related to the middle market, she said, where a lower cost basis can help such operators keep monthly rents low.

The fact that as much as 66% of the country's senior housing stock is already substantially old — in some cases, obsolete — will also help fuel a period of renewal.

"There are different architectural engineering designs that have come to roost today because of the [pandemic]," she said. "So, a lot of new designs have been developed to make today's inventory that much more obsolete as we go forward. "

She added that the senior living industry's value proposition is currently at a peak, and that operators have demonstrated agility and creativity in dealing with the pandemic so far. There are also opportunities for improvement in operating efficiencies, and she noted this "might be an opportunity for a better alignment with operators in their capital providers."

"When there's opportunity, you take the existing conditions and, through imagination, through creativity, you create something new, — sort of a phoenix rising out of the ashes," Mace said.

Original Article:
https://seniorhousingnews.com/2023/05/02/debt-a-big-concern-as-senior-living-industry-nears-period-of-creative-destruction/

Stony Plain Project Update

Three Robins Stony Plain is a seven-storey building with a total of 85 one-bedroom, one-bedroom plus den, and two-bedroom plus den suites. The ground floor of the building houses the Stony Plain Public Library, Ladybugs Flowers, and other residence amenities.

- The commercial tenant, Ladybugs Flowers, opened their doors on April 13th, and had their Grand Opening celebration on June 7th. Mayor William Choy attended the opening celebrations. Ladybugs has seen a steady flow of customers, including many excited residents of Stony Plain. The next stage is to open their food counter, which will provide coffee, soups and sandwiches to patrons.
- The marketing team, along with the General Manager, have continued to regularly update Stony Plain's social media, showing the world how active and lively the community and its residents are.
- The management team continues to seek out new ways to improve the resident experience.
- Both the management team and residents continue to organize group events, including a community treat day to celebrate Easter, and participation in the Community Bird Box Program, in which residents helped grade 1 students from the Stony Plain Francophone School build their own blue bird houses.
- Management is working on making some final adjustments to the landscaping and parking areas of the building in order to satisfy the requirements of the Development Permit.
- Management continues to look into solutions for the condenser fan system that is currently in the parkade, whose machinery makes the surrounding areas hot in the summer, as well as submetering solutions for the building to manage utilities expenses.

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