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INDUSTRY INSIGHT

How Covid-19 Vaccine Timing Could Affect Senior Housing Investment Returns

By Tim Mullaney

Senior housing investors should be considering how their potential returns will be affected by the timing of a Covid-19 vaccine.

The good news is that even if a vaccine is not widely available until a year from now, and the financial performance of communities deteriorates until then, senior living still remains an attractive investment due to current debt terms and favorable market dynamics, according to a new analysis from Jones Lang LaSalle (JLL).

“The long-term tailwinds of the industry support investment today, despite the first year or two having a decline in cash flow as compared to what we think the long-term cash flow would be,” JLL Senior Director, Capital Markets Joel Mendes told Senior Housing News.

JLL created a senior housing case study to calculate how the internal rate of return might be affected, depending on when Covid-19 vaccination becomes widespread. The analysis was based on a hypothetical acquisition of a property with 100 units of independent living, 40 units of assisted living and 20 units of memory care, with pre-pandemic average occupancy of 93% and net operating income (NOI) margin of 41%.

Based on assumptions JLL made regarding valuation, debt terms and other variables for this acquisition, the firm calculated that in a pre-pandemic environment, the property would have produced a seven-year levered IRR of 13.1%.



JLL then considered a different scenario: The same property is acquired in Oct. 2020 at pre-Covid pricing but with post-Covid debt terms and operational assumptions.

In this situation, the interest rate on the debt would drop from 3.75% to 3.25%, with a new debt service reserve requirement of 12 months. Occupancy at the time of acquisition would have dropped to 85%, while the NOI margin would be down to 35%. JLL assumed that occupancy would continue to decline 1% per month until the vaccine date, with margin also declining as Covid-related expenses would remain at 3%.

After the introduction of an effective vaccine, JLL assumed that occupancy would increase 2% per month until reaching the previous stabilized rate of 93%.

With these and several other assumptions in place, the case study considered various scenarios in terms of vaccine timing. Generally, the analysis found that the pre-pandemic IRR could still be achieved with relatively modest decreases in the initial acquisition price.

For example, if a vaccine is produced and distributed as of March 2021, the seven-year levered IRR for the property would be 12.9% — meaning that a purchase price reduction of 0.35% would result in the base case 13.1% IRR.

Even if the vaccine is not widely available and in effect until September 2021 — meaning occupancy at this hypothetical community would have fallen to 75% — the 13.1% IRR could be achieved with a 2.15% reduction in the purchase price.

“It is a little surprising how modest the return impact from the short-term cash flow decline appears to be, depending on what position you take on the vaccine,” Mendes said, noting that some sellers are considering discounting more than may be necessary.



Granted, the case study paints a picture of a community that bounces back relatively quickly after the introduction of a Covid-19 vaccine. But Mendes believes that this is a realistic outlook, considering various factors.

For one, the pandemic has suppressed new development, with construction starts dropping to a 10-year-low for primary and secondary markets. This should help support demand for available units and resolve the oversupply challenges that faced senior living communities in many parts of the country prior to the pandemic. Furthermore, there is plenty of capital sitting on the sidelines to be deployed and investors continue to target larger commercial real estate allocations. Meanwhile, the population continues to age, with the long-anticipated boomer influx into senior living beginning to materialize.

There are also major unanswered questions regarding the status of a Covid-19 vaccine, but progress is being made. Around the globe, there are 36 vaccines in human trials, with trials from Moderna, Pfizer and AstraZeneca “moving quickly” and showing promise, the JLL report stated.

And in recent weeks, senior living leaders have turned their attention to vaccine availability and distribution, advocating for the industry to get priority access. A preliminary draft framework for vaccine distribution did state that health care workers and high-risk seniors should be among the first recipients of a vaccine, and industry groups Argentum and the American Seniors Housing Association (ASHA) are pushing for subsequent frameworks to specifically state that “senior living community residents and employees” receive priority status.

So, Mendes believes that there are reasons to be optimistic about vaccine timing and the subsequent pace of a senior housing recovery — and it’s a hope that is widely shared throughout the industry.

“What I think everyone agrees on is that there will be no sense of normalcy in our sector unless there is herd immunity, which is most successfully achieved through a vaccine,” he said.

Original Article:

<https://seniorhousingnews.com/2020/09/09/how-covid-19-vaccine-timing-could-affect-senior-housing-investment-returns/>

PROJECT UPDATE

The Bartlett Seniors Apartment Project

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.

Here are the recent update and pictures from the site.

- The City has commenced widening Bond Street in order to accommodate deceleration and acceleration lanes into and out of The Bartlett.
- Final paving on the site commences next week.
- Security systems, fire alarms and suite doors to the corridors are being installed.
- Work on the Bistro is underway.
- Landscaping is mobilizing next week for work to the piers and the patio.
- The elevators on the east side are being commissioned.
- Third floor kitchens have all been installed.







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