Multifamily Economic and Market Commentary

Fannie Mae®

MARCH 2024

Seniors Housing Sector Recovery Slowed, Though Demand Remained Strong in 2023

The seniors housing industry’s recovery continued in 2023, but the rate of improvement slowed relative to the strong rebound in 2022. According to NIC MAP Data, Powered by NIC MAP Vision LLC, rent growth rates slowed marginally during the year after reaching record highs in 2022, though they remained quite high compared to pre-pandemic performance. Absorption throughout the year remained above pre-pandemic levels and occupancy again increased, albeit modestly.

Improvement in the seniors housing sector slowed in 2023from the record rent increases it reported in 2021 and 2022, though it continued to experience strong absorption throughout the year. The sector continued to achieved new records for the total number of units occupied each quarter in 2023, though occupancy improvements slowed relative to 2022. Higher financing costs and persistently higher staffing costs continued to cause financial stress for many individual properties in the sector, and there remains a small segment of properties that are yet to experience a post-pandemic recovery. The industry may face some headwinds through the remainder of 2024 with the economy expected to slow, but a continued expansion is still expected after short-term volatility subsides, driven by the enormous wave of aging baby boomers.

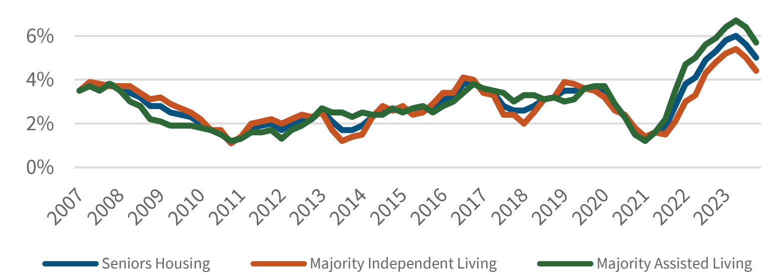
Rental Market Fundamentals

Annual rent growth slowed modestly in 2023 according to NIC MAP, slowing by 0.3 percentage points from the prior year to a still-strong 5.0% for the year. The underlying segment trends remained similar, with both types slowing just as modestly: Majority Independent Living (IL) decreased by 0.4 percentage points from the prior year to 4.4%, and Majority Assisted Living (AL) decreased by 0.2 percentage points to 5.7%.

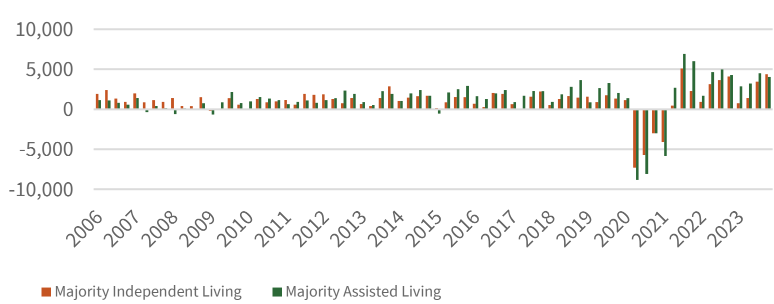
Overall, seniors housing absorption decreased in 2023, after hitting a record level in 2022, declining to 24,658 units, down 10.1% from 27,441 units in 2022. The underlying segments saw similar trends for the year, though to different degrees: Majority IL decreased 15.6% from the prior quarter to 9,994 units, while Majority AL absorption decreased 6.0% compared to 2022 to 14,664 units. However, in any other year, these levels would have been new records.

Occupancy levels continued to steadily increase through 2023, though it remained below pre-pandemic levels. Occupancy rose to 85.1% at the end of 2023, improving 2.3 percentage points from 2022. Underlying trends were similar for the year: Majority IL increased 1.8% to 86.8%, and Majority AL increased 3.0% to 83.4%.

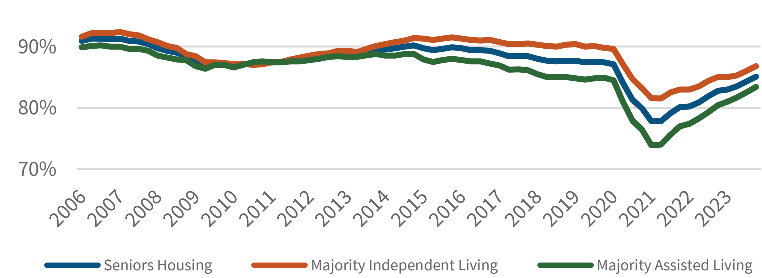
Year over Year Rent Growth by Property Type – Q4 2023



Quarterly Absorption by Property Type – Q4 2023



Occupancy Levels by Property Type – Q4 2023



Source: Primary Markets, NIC MAP Data, Powered by NIC MAP Vision LLC

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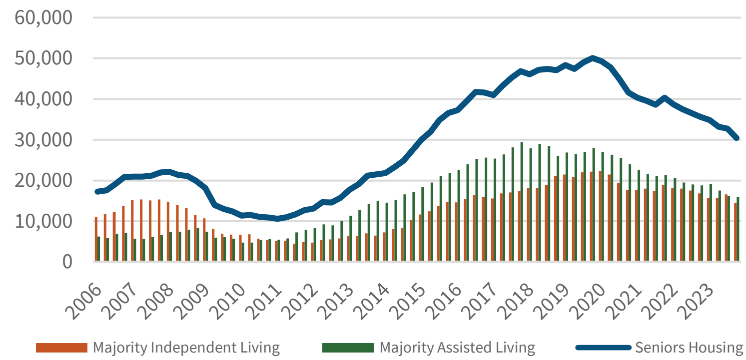
The number of units under construction further declined throughout 2023 according to NIC MAP, decreasing to 30,441 units at year end. The total number of units under construction was down 14.5% from 2022. Both segments decreased, with the scale of the decline converging: The AL units under construction were down 15.3% compared to 2022, while IL units were down 13.6%. The overall number of units added to seniors housing inventory in 2023 decreased modestly to 9,552 units, down 13.8% from 11,078 units added in the prior year.

Units Under Construction by Property Type – Q4 2023



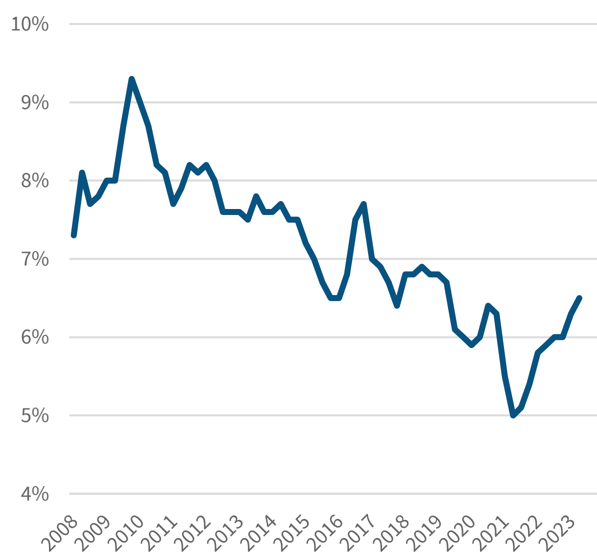
Source: NIC MAP Primary Markets

Transaction Activity

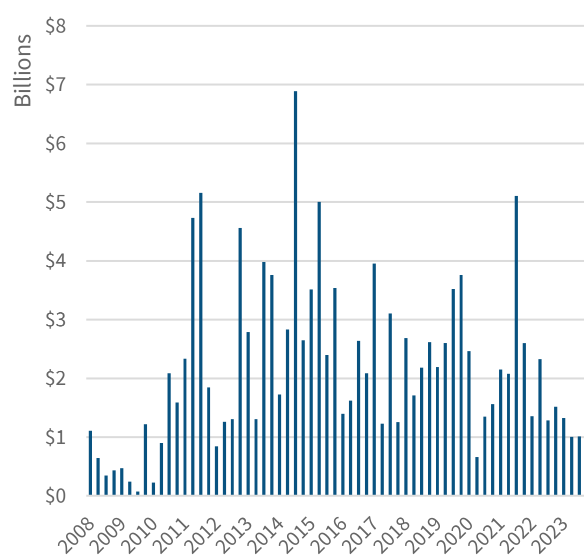
Due to limited transaction data and a small number of cap rates being disclosed, a 2023 year-end annual average cap rate was unavailable. According to NIC MAP data for second quarter 2023, the annual cap rate over the prior year ending in the second quarter was 6.5%, which is an increase from 6.0% for full-year 2022 and is more in line with what we anecdotally believe to be current market trends.

Total 2023 seniors housing property sales volume (preliminary) decreased to its lowest level since 2009 at just $3.8 billion, according to NIC MAP, down from $6.5 billion 2022 and $11.9 billion in 2021. The 2023 sales transactions involved 408 properties, which was up from 389 in 2022. The average transaction price per unit during 2023 declined to $111,868, down 38% from 2022.

Four Quarter Cap Rate/Yield – Q4 2023



Sales Volume – Q4 2023



Source: NIC MAP

Buyer composition for seniors housing transactions continued to be dominated by private entities in 2023, according to NIC MAP, with their share at 71.0% of transactions, up from 67.4% for 2022. Institutional buyers increased to 25.4% in 2023, compared to 19.8% in 2022. Cross-border buyers did not account for any of the activity, and public entities accounted for 3.6%.

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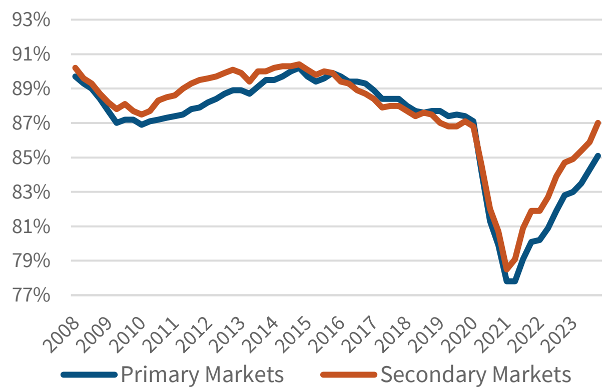
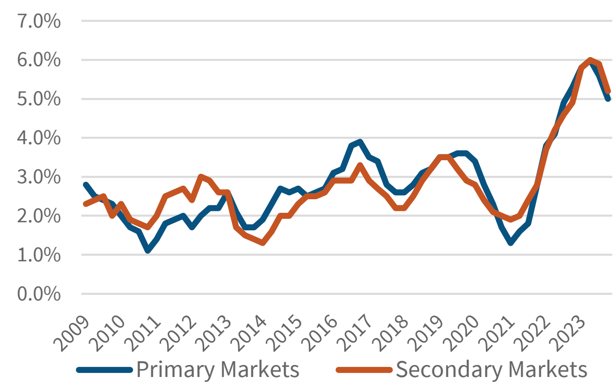
Market Performance

Occupancy levels in NIC MAP's secondary markets (32nd to 100th in size) increased to 87.0% at the end of 2023, a 2.3 percentage points increase from the end of 2022. While annual rent growth in the primary markets declined in 2023, annual rent growth in the secondary markets accelerated, increasing to 5.2%, up from 4.9% for 2022.

Occupancy - Primary vs. Secondary – Q4 2023



Rent Growth - Primary vs. Secondary – Q4 2023



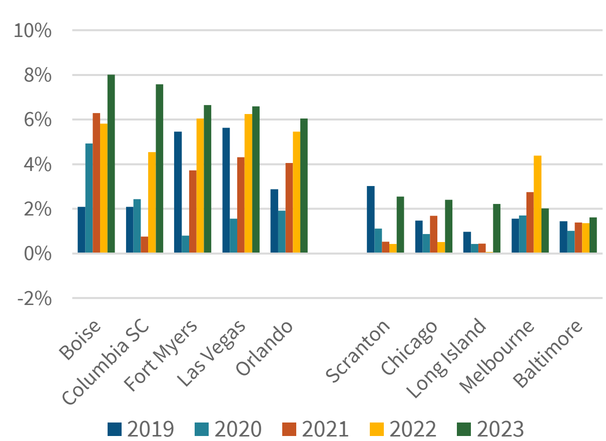
Source: NIC MAP

Metro-Level Assisted Living Performance Further Recovers

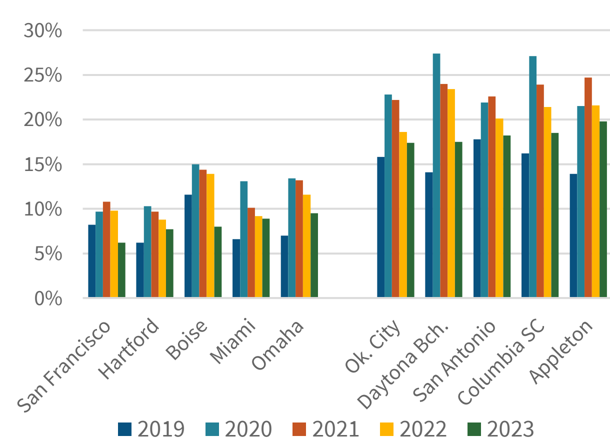
According to data from Moody's Analytics CRE, majority AL conditions further recovered for most of the nation's larger inventory AL metros. For the second consecutive year, all metros had positive rent growth in 2023. Boise, Fort Myers, Las Vegas, and Orlando were again rent growth leaders, as they were in 2021 and 2022, with Columbia, SC, joining them in 2023 While Scranton, Chicago, Long Island, and Baltimore lagged the market from a rent growth perspective, each showed higher growth than in 2022, as seen in the chart below. Only Melbourne, FL, had a deceleration.

From a vacancy perspective, 79 of the 83 largest markets in the country experienced a decrease in vacancy rates in 2023, according to Moody's Analytics CRE. And all of the metros among the five highest and lowest vacancy rates in 2023 saw a decline compared to 2023, as seen in the chart below. San Francisco, Hartford, Miami, and Omaha were again among the five lowest vacancy rate markets for AL properties, with Boise joining them in 2023. Appleton, WI, Columbia, SC, and Daytona, FL, were among the higher vacancy rate markets in 2022 and 2023, with San Antonio and Oklahoma City joining them this year.

Select Metro AL Rent Growth – 2019-2023



Select Metro AL Vacancy – 2019-2023



Source: Moody's Analytics CRE – select metros include areas with > 1,500 AL units in market

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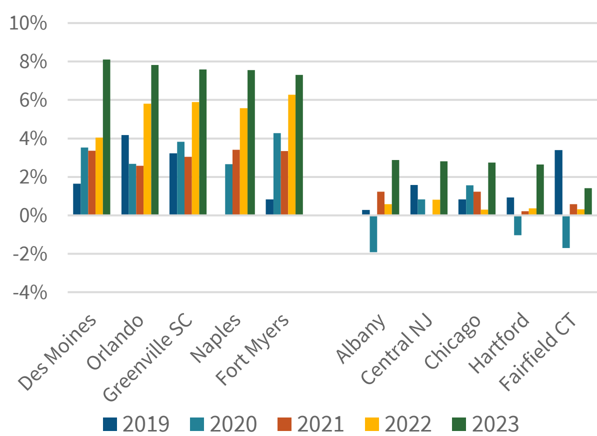
Metro-Level Independent Living Performance Improves

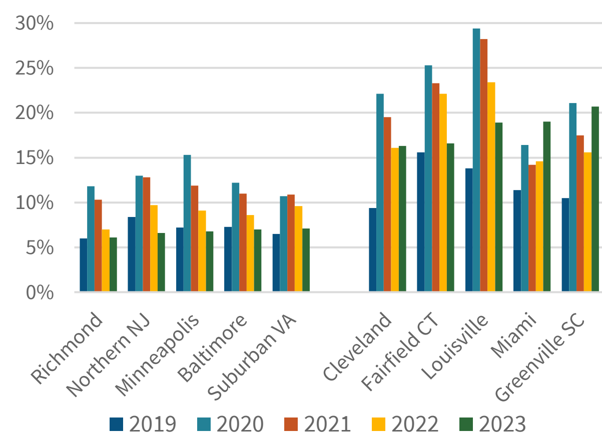
Majority IL rent growth rates in 2023 increased in 80 of the nation's 88 highest inventory IL metros, according to data from Moody's Analytics CRE, which is a slight increase from 2022, when 16 of the largest markets slowed, though all had positive rent growth. Des Moines reported the highest IL rent growth rate in 2023. Orlando and Fort Myers remained among the top five for the second consecutive year. Greenville, SC, and Naples, FL, were the other Majority IL rent growth leaders, with each reporting substantial growth over 2023. Among the slower rent growth metros, all reported a higher rate of rent growth compared to 2022.

Majority IL vacancy decreased in 82 of the 88 largest markets in the country, though the lagging markets shown in the chart below continued to have a remarkably high level of vacancy of over 15%. Richmond and Baltimore continued to be among the tightest vacancy markets with northern New Jersey, Minneapolis, and suburban Virginia joining them this year. Among the markets with the highest IL vacancy rates, Fairfield, CT, and Louisville reported a decline in vacancy compared to 2022, but Cleveland, Miami, and Greenville, SC, each reported increases in vacancy for 2023.

Select Metro IL Rent Growth – 2019-2023



Select Metro IL Vacancy – 2019-2023



Source: Moody's Analytics CRE – select metros include areas with > 1,500 IL units in market

Outlook

Short Term: The seniors housing recovery continued in 2023, though as the year progressed rent growth slowed from its recent record-breaking and unsustainable pace, and rent growth rates remained well above pre-pandemic levels. The total number of occupied units reached new record highs each quarter of the year and a modest slowdown in new unit deliveries allowed for the improvement in occupancy to persist throughout the year. The sector continued to see individual properties adjust to higher operating and financing costs, and a segment of older properties are yet to experience the sector-wide recovery. We believe that conditions in the seniors housing sector remain favorable for growth, given the continued robust absorption rates, the decline in the level of new construction underway, a slowdown in deliveries, and recent rent growth trends remain favorable conditions for investors, owners, and operators. However, elevated home prices and higher mortgage rates could be a headwind for the sector over the next year if those seniors who plan to sell their homes to free up funds for a transition into seniors housing have difficulty doing so.

Long Term: We believe the burgeoning population of people entering their 80s remains an underlying engine of the sector's future growth prospects, though it is still several years before the industry is likely to begin experiencing the full strength of the surge. We continue to believe that the sector is undergoing an established fundamentals recovery, and it could soon be entering some of its strongest periods of growth in terms of demand. Still, it must navigate the next few years of potential economic volatility before a long-term industry expansion is firmly entrenched.

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