Senior Housing Transactions in 2017

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Through the first three quarters of 2017, the market has continued to see steady deal flow in senior housing, with some sluggishness over the summer months. The dollar value of senior housing transactions for the first half of 2017 alone was over $11 billion.[1] This article discusses recent trends in the senior housing industry from financial and transactional standpoints.

Senior housing already has experienced several different economic phases since the beginning of the 21st century. First, a boom market. Second, a recession characterized by falling occupancy and falling values. Then, a recovery phase with rising values tied to an expansion phase marked by still-rising occupancy, increasing rents, rising values and new construction.[2] Many experts believe we may have begun to enter a hyper-supply phase marked by declining occupancy, continued rapid construction and possible overbuilding.[3]

Overall occupancy in senior housing is at around 88.8%, with 90.6% occupancy in independent living, 86.6% occupancy in assisted living and 86.2% occupancy in nursing care. Annual inventory growth is the highest in assisted living at 5.9%, 2.5% in independent living and almost no inventory growth in nursing care, just 0.1%. While assisted living inventory growth is more than double that of independent living, its occupancy levels are much lower than independent living. Perhaps troubling is the fact that annual absorption, the year-to-year percentage change in occupied units, in nursing facility units was -0.6%, which indicates excess supply in the market.[4]

Another metric that demonstrates growth in non-nursing facility senior housing is ?construction versus inventory,? the number of units under construction divided by the inventory currently in the market. That metric reflects 3.9% in independent living, 8.2% in assisted living, but only 0.7% in nursing care. The overall construction as a percentage of inventory in senior housing is very high at 5.8%, again suggesting too much supply. With both independent living and assisted living, annual inventory growth is outpacing annual absorption. Twelve markets have more than 10% of their inventory under construction, including: Fort Myers, Florida; Orlando, Florida; Jacksonville, Florida; Charleston, South Carolina; Atlanta, Georgia; Austin, Texas; Colorado Springs, Colorado; and Columbus, Ohio.

Not only are the number of assisted living and independent living beds growing, but so are the average rents with these units. Annual rent growth in independent living is 3.5%, annual rent growth in assisted living is 3.3% and annual rent growth in nursing care is only 2.6%. The cap rate, the net operating income divided by the property asset value, continues to be significantly higher for nursing facility beds compared to assisted living beds, and the price for assisted living beds continues to be significantly higher than nursing facility beds. In the first quarter of 2017, the average nursing facility price per bed was $97,900, and the cap rate was 11.9% (down from 12.2% in the previous quarter). The average assisted living price per bed was $216,700 per unit with an 8.2% cap rate. Independent living was $222,200 per unit with a 6.9% cap rate.

Those who follow the senior housing market note certain prevalent themes in 2017: (i) regardless of the possible over supply across senior housing, the values remain high particularly because of the low interest rates; (ii) with this transactional volume, bridge-to-HUD lending continues to experience massive growth; (iii) private operators, as a group, continue to be a large class of purchasers (41% of buyers were private operators, 28% were private equity groups, 26% were REITS and 2% were public companies in the last quarter); and (iv) growth continues to be strong in Florida, Texas and California, with notable growth in the D.C. and Hampton Roads markets. [5]

With the cost of capital remaining low, and rents remaining high, 2017 continues to be a busy year for senior housing transactions even if there may be too much supply in the market. Assisted living facilities and independent living facilities continue popping up, and rental rates continue to rise. Even without much portfolio change in the third quarter, 2017 will surpass the $14.4 billion of announced transactions in 2016. Regardless of the participant or the size of the transaction, Williams Mullen is ready to partner with market players ready for their next deal.

[1] However, the third quarter transaction value was only around $2.54 billion.

[2] Peck, Lana, *2017 NIC Fall Conference: Investing in Senior Housing & Care Properties*, 26 Sept. 2017, Sheraton Grand Hotel, Chicago, IL. Pre-Conference Workshop.

[3] *Id*.

[4] NIC MAP Data Service, 3Q17 NIC MAP Market Fundamentals.

[5] *Acquisition Values Remain High and Stable*, Aug. 2017, Vol. 29, Issue 8, The Senior Care Investor.

Related People

- James T. "Jim" Bailey ? 804.420.6358 ? jbailey@williamsmullen.com

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