

## Experts Bullish on Senior Housing Market Recovery in 2021

Plagued by State Restrictions and Negative Perceptions in 2020, Senior Housing Is Ready for a Resurgence



The Residence at Penniman Hill in Hingham, Massachusetts, designed by The Architectural Team (Andy Ryan).

By all accounts, 2020 was a tough year for the senior housing sector. But the availability of COVID-19 vaccines, reduced state restrictions, and strong safety measures can help guide the success of the market moving forward — and provide renewed opportunities for investors to add senior housing properties to their portfolios.

First, it's important to understand the impact of the last 12 months on the industry. Senior housing encompasses a broad range of property types, including independent living, assisted living, memory care, and skilled nursing. But in the early days of the pandemic, the public perceived all sectors of senior housing as one and the same — to the detriment of the industry, said Scott Stewart, founder and managing partner of [Capitol Seniors Housing](#) (CSH), a private equity-backed real estate acquisition, development and investment management firm based in Washington, D.C.

Think of senior housing as a spectrum. On one end is independent living, which offers hospitality services to active seniors. In the middle is assisted living (which includes memory care), designed for seniors who need assistance with activities of daily living such as eating, dressing, and ambulation. On the other end is skilled nursing, which specializes in providing seniors with intensive health care and personal services.

While there were many cases of COVID-19 in skilled nursing facilities, the same was not true across the range of independent living, assisted living, and memory care communities, Stewart explained.

"The biggest thing we had to deal with early on was the perception of senior housing," he explained. "The numbers were being promoted as a proving point that senior housing was not the place for your loved ones."

### A Double Whammy for Senior Housing

The industry also felt the impact of the pandemic through a loss of occupancy and revenue as well as an increase in expenses — what Stewart called a "double whammy."

"We got hit on both sides of the equation," affirmed Julie Ferguson, senior vice president of senior living for [Ryan Companies](#),

a national builder, developer, designer, and real estate manager based in Minneapolis. "Because we had to shut down our communities, our lease-up velocity was slowed. We also incurred a lot of

unanticipated expenses related to personal protective equipment as well as hero pay [for employees working during the pandemic]."

Mark Ivancic, Ryan Companies' vice president of asset management for senior living, noted a spike in move-outs in their independent living properties as a result of seniors seeking freedom from burdensome quarantine restrictions. That exodus did not extend to assisted living and memory care residents, for whom senior living is more need-based, he said.

Still, without the ability to welcome new residents after former residents moved or passed away, senior housing communities nationwide experienced a significant decline in occupancy. According to the

[National Investment Center for Seniors Housing & Care](#)

(NIC), U.S. senior housing occupancy fell by 6.8% from Q1 to Q4 in 2020. In fact, senior housing occupancy in the fourth quarter of 2020 was the lowest on record at 80.7%. The occupancy rate for independent living properties, assisted living properties, and nursing care properties averaged 83.5%, 77.7%, and 75.3% during Q4, respectively.

## Prioritizing Safety in Senior Living

After a particularly difficult year for senior housing, there is reason for hope: The sector posted more than \$2.28 billion in sales in the fourth quarter of 2020 when the vaccines were announced, according to CoStar data.

"The industry is in full recovery and, in some cases, resurgence," Stewart said. "Senior housing is actually the safest place for seniors to be — it's just a matter of making sure there are protocols in place to make sure folks are safe."



The Chelsea at Greenburgh, developed by CSH (Courtesy of Meyer Senior Living Studio).

Prior to COVID, senior living communities were emulating a hospitality vibe with open floor plans, said Michael Liu, senior partner and design principal at

[The Architectural Team](#)

, a master planning, architecture, and interior design firm based in Massachusetts.

Now, senior housing design solutions reflect the need for advanced health and safety features.

"There's a struggle to maintain that hospitality character and yet try to compartmentalize more," Liu said. He explained that compartmentalization can happen literally, with individual rooms or an open plan with transparent dividers, or by compartmentalizing mechanical systems to provide localized air supply and return in an open space.



Anthology of Blue Ash (Rendering courtesy of The Architectural Team).

For example, the visitation suite at [Anthology of Blue Ash](#), an Ohio senior living community set to open this summer, features a design solution utilizing glass partitions and separate mechanical systems to limit the potential for transmission of airborne pathogens, thereby fostering safer interactions between residents and family members.

## A Dip in the Pipeline

While many senior housing projects that were already in progress have been able to open successfully amid the pandemic, new construction starts have dropped significantly, Ferguson said.

"The pipeline took a dip during the recession that was brought about by the pandemic, so there has been a decrease in the supply for senior housing," Stewart affirmed.

For developers who are well-positioned in the market, decreased competition is good news.

"We love the fact that when we open projects 18 to 24 months from now — our life cycle on construction — there will be less competition in the market," Ferguson said. "Consumer demand still exists."



Stone Hill at Andover, developed by CSH (Courtesy of Meyer Senior Living Studio).



## Finding Top Senior Housing Markets

Over the last 10 years, senior housing returns have consistently outperformed other types of real estate, according to data from the [National Council of Real Estate Investment Fiduciaries](#). But when it comes to finding good markets, strategies vary.

Capitol Seniors Housing, for instance, operates in the suburbs of major markets such as Boston, Chicago, New York City, and Seattle because that's where the adult children of seniors typically reside, Stewart said. During the pandemic, he didn't see much migration out of these suburbs.

At Ryan Companies, Ferguson said her team looks for projects and markets based on two fundamental factors: competition and population. They look at other senior housing communities in the area to see if they're struggling to get occupied or if they're fully leased up in a short period of time. They also consider the population to ensure they're building in a market that has income-qualified seniors who can afford to pay for the services they provide.

"We don't think there's any one magical place for senior living, because there are seniors everywhere," Ferguson explained. "We prefer to keep our asset types diverse to reduce our risk."



Atria McCandless, designed by The Architectural Team (Matt Dula).

### [According to the latest NIC data](#)

, three metropolitan markets have seen more than a 10 percentage point decline in stabilized occupancy for independent living since March 2020 — St. Louis, Tampa, and Las Vegas. Miami had the largest decline for assisted living during this period. On a positive note, the smallest stabilized occupancy declines since the pandemic began have been in San Antonio for independent living, and Kansas City for assisted living.

## Managing Senior Housing Investments

With such an array of investment opportunities, are senior housing properties best managed through a portfolio of similar properties, or is it advantageous to buy one or two as an entrepreneurial, non-institutional investor?

"The key is the operator, and the capital structure is secondary to that," Ferguson said. "Unlike some other asset types where real estate is the primary component, ours is really about the performance of the community as it relates to leasing it up and keeping it full, and then managing expenses to hit your net operating income."

Of course, all senior living operators are not created equal.



"We do best when we're working with regional operators, where the operator can drive by the communities if they need to. It's a rubber-meets-the-road perspective," Stewart explained. "They

know their key employees at each of the communities, and they know what their competitors are offering."

In the end, the need for senior housing remains, and experts are hopeful about the market moving forward.

"With the vaccine, I'm optimistic that 2021 will be a very good year," Ivancic said.

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