Nov 2021 (Issue No. 48)

CHANCERY MONTHLY NEWSLETTER

INDUSTRY INSIGHT

Suske Capital hosted "The State of Seniors Housing in Canada," a presentation by CBRE's Paul Marsh and Steve Hiscox. Paul and Steve covered off several aspects of the seniors housing industry, including demographics, top markets, the impact of COVID-19 on the seniors housing industry, and cap rate and investment trends.

Suske Capital Hosts "The State of Seniors Housing in Canada" Presented by CBRE

On November 18, Suske Capital hosted "The State of Seniors Housing in Canada," a presentation by CBRE's Paul Marsh and Steve Hiscox. Paul and Steve covered off several aspects of the seniors housing industry, including demographics, top markets, the impact of COVID-19 on the seniors housing industry, and cap rate and investment trends.

Despite the industry being faced with a challenging time, Suske Capital believes that CBRE's presentation was positive. The favourable demographics, especially with Baby Boomers entering the market in the next 10 years, coupled with a strong development cycle once the industry comes back to "normal," are indicative that there is long-term high demand for our projects.

The strong transaction cycle the industry is in especially encouraging, as we believe purchasers of our brand new, state-of-the-art projects will follow the same trends as the recent transaction of Class A projects. Overall, we are in a great environment to deliver returns for our investors and partners.

Some highlights of the presentation are as follows:

The **demographics are highly favourable in the 85+ and centenarian cohorts**. In the former, the 10- and 20-year growth rate is estimated to be 32% and 117%, respectively. Notably, the latter, once a relatively uncommon phenomenon, is showing the largest growth in any age cohort with growth rate of 90% and 149%, respectively. In contrast, the 10- and 20-year growth rate for the overall population is estimated to be 8% and 18%, respectively.

Baby Boomers started to turn 75 in 2021 and are 10 years away from the 85+ cohort when they start to enter the seniors housing market. After that, there is a long growth projection of 29 years when the youngest of the baby boomers turn 85.

The industry experienced a nationwide increase in vacancy between 2020 and 2021 due to the COVID-19 pandemic. The increase in vacancy ranged approximately between 6% - 11.7% (with the exception of the Maritime provinces that were minimally impacted by COVID-19). Alberta experienced the highest increase in vacancy of 11.7%.

The major players are not starting new projects but continuing with projects already in construction. This has more to do with uncertainty in conditions such as construction pricing and the pandemic than a lack of desire to develop more new projects. For the time being, development focus has shifted to LTC from retirement with LTC (“C” beds) rebuilds still active.

The major players have also been dealing with bad press over the number of deaths in LTC residences from the COVID-19 pandemic. Despite the coverage in the regular news cycle, **CBRE pointed out two studies from Statistics Canada and the Canadian Institute for Health Information that showed that for-profit status was not statistically significant in contributing to severity of outbreaks and resident mortality rate.** In addition, though seniors homes accounted for 80% of deaths in the first wave, outbreaks occurred in about 1/3 of all LTC and retirement residences. US data showed deaths in seniors homes due to COVID were not statistically different than in the surrounding community.

The development cycle still remains strong, but is currently on hold, with a focus instead on a transaction cycle in the industry. However, the need for development is still there: currently there are approximately 300 new projects or 53,000+ suites tracking nationally. **The industry will still need approximately 650 new residences nationally over the next 10 years to keep up with the status quo**.

The COVID-19 pandemic had material impacts to occupancy. Occupancy decreased 0.5% to 1.5% per month, with decreases trending with the lockdown status of the surrounding area as it impacted marketing tours and the ability to admit new residents, which would have to include a two-week quarantine period (a requirement that has since been revised in Ontario). Despite the challenges to occupancy, rent collection remained strong throughout the pandemic.

On the expense side, CBRE is seeing labour costs as the biggest impact to its underwriting due to more staffing required to meet protocols, single-site orders, and no immigration all contributing to staff shortages and higher wages. CBRE expects higher wages are here to stay, though staffing levels may come back down to normal. There may also be improvements in technology that may offset higher staffing costs (HVAC, no-touch doors, barriers etc.). The pandemic also had an impact on PPE costs, cleaning supplies, food, and liability insurance, which is up 50% +.

Overall, it is hard to detect the permanent impact of the COVID-19 pandemic on the seniors housing. We have yet to see how impacts of the pandemic such as such as working from home and the growth of influencers in secondary and tertiary markets, high housing prices, and current staffing challenges will play out. Pent-up demand (seniors choosing not to move into a retirement residence during the pandemic) will help recovery when things return to "normal," and there will likely be a demand for quality under which best operators will outperform. "Ma and Pop"/Class C homes will continue to have challenges in the post-pandemic environment, and we may see some "attrition through demolition" with these properties exiting supply.

The overall sentiment of the highly anticipated investment and acquisition activity segment was that the market was "frothy." The industry is currently experiencing one of its most active periods, with the last 12 months possibly being the highest ever volume in Canada (potential for $4 billion + if everything closes).

CBRE reviewed the latest transactions of Class A and Class B assets. **Notable themes were cap rates lower than pre-pandemic levels**, and the preference of portfolios over standalone assets. Purchasers of Class A assets were large, well-capitalized US buyers (Harrison Street, Ventas, Blackstone, Welltower).