FEATURED ARTICLE

A DEEP DIVE INTO LIFE PLAN COMMUNITY OCCUPANCY

Each quarter, we feature a more in-depth analysis on the Life Plan Community (LPC) occupancy, analyzed from a number of different angles. This quarterly feature is to the credit of the team at National Investment Center for Seniors Housing & Care (NIC) and their ability to further analyze the LPC segment. The following write-up delves deeper into their findings for Q1 2023.

The following analysis examines occupancy and year-over-year changes in inventory, and same-store asking rent growth — by care segment — within entrance fee LPCs and rental LPCs in the 99 combined NIC MAP Primary and Secondary Markets. The analysis also explores the recovery of regional occupancy rates by payment type (entrance fee LPCs vs. rental LPCs) as well as the distribution of occupancy rates by payment type across all care segments during the first quarter of 2023.

NIC MAP®, powered by NIC MAP Vision, collects primary data on occupancy, asking rents, demand, inventory, and construction for more than 16,100 independent living, assisted living, memory care, skilled nursing, and life plan communities (LPCs) across 140 U.S. metropolitan markets. The dataset includes about 1,160 not-for-profit and for-profit entrance fee and rental LPCs in these 140 combined markets, including 1,078 in the 99 combined Primary and Secondary Markets.

Occupancy Trends – Entrance Fee LPCs Lead the Way and Surge Ahead of Competition.

Entrance fee LPCs have consistently outperformed rental LPCs and non-LPCs since NIC MAP Vision began reporting data in 2005. In the 99 NIC MAP Primary and Secondary markets, the occupancy rate for entrance fee LPCs stood at 89.3% in the first quarter 2023, 4.9 percentage points (pps) higher than rental LPCs (84.4%) and 7.7pps higher than non-LPCs (81.6%).

Notably, the difference in occupancy rates between entrance fee LPCs and rental LPCs/non-LPCs has been increasing since at least 2015 as the exhibit below shows, and this gap was amplified during the height of the pandemic. In fact, the occupancy differences between entrance fee LPCs and non-LPCs reached double digits in 2020 and 2021, with entrance fee LPCs experiencing a relatively smaller decline in occupancy compared to non-LPCs and rental LPCs.

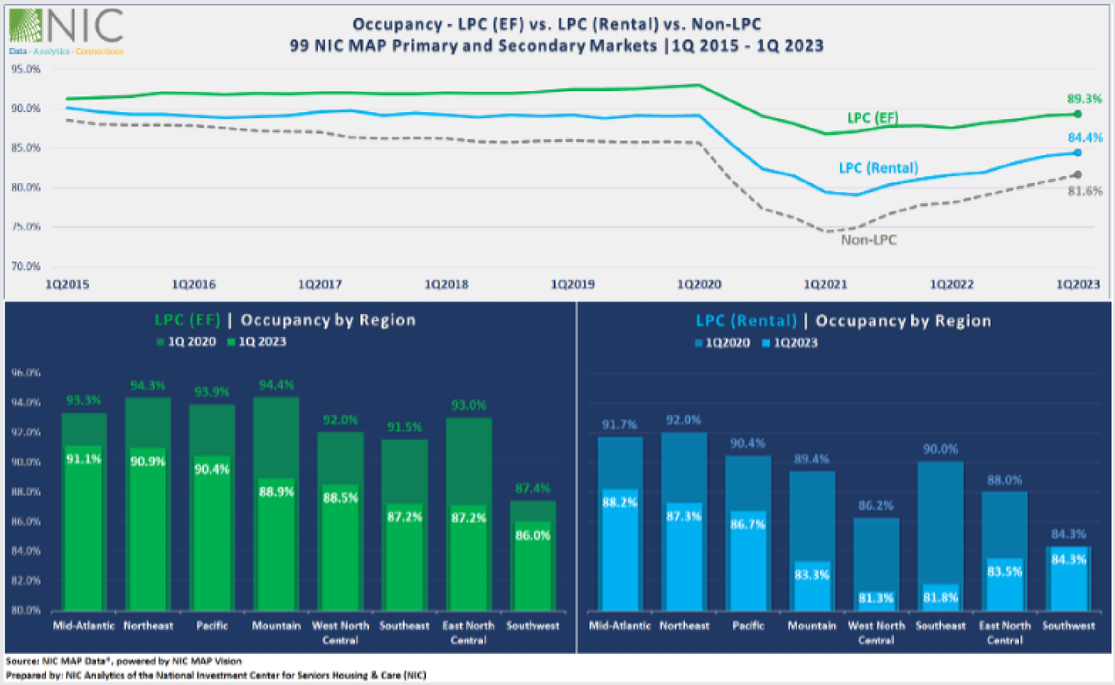
Generally, the success equation for LPCs includes the profiles and characteristics of both residents and staff as principal components.

Generally, residents of LPCs are “life planners” and have set upon this life choice carefully and with considerable savings. The unique model of care in LPCs often attracts younger residents with fewer health concerns and allows them to move through the continuum of care more seamlessly as acuity increases. Residents of LPCs tend to have fewer serious health conditions upon move in and have passed medical screenings prior to admission. This likely leads to longer length of stay and greater overall retention.

From a workforce perspective, LPCs often address staffing shortages by leveraging their ability to employ/assign workers across various levels of care, in order to fill staffing gaps. This staffing strategy can lead to improved resident experience and consistent quality of care, while also promoting a sense of community for both residents and staff.

Additionally, entrance fee LPCs tend to offer financial structure and stability to residents, and residents of entrance fee LPCs tend to have more financial resources, mainly due to the screening of financial conditions prior to admission. This can also lead to greater resident retention.

Further, operators of entrance fee LPCs often have greater access to capital compared to rental LPCs due to substantial upfront revenue generated from entrance fees, often financed through the sale of residents’ homes, and typically have access to different financing options.



Recovery of Regional Occupancy Rates by Payment Type – Entrance Fee LPCs vs. Rental LPCs

In the first quarter of 2023, entrance fee LPCs maintained higher occupancy rates than rental LPCs across all regions. The largest differences in occupancy between entrance fee and rental were reported for the West North Central region, where entrance fee LPC occupancy was 7.2 percentage points higher than rental, followed by the Mountain (5.6 percentage points), and the Southeast (5.4 percentage points).

Strong Occupancy Rates in Mid-Atlantic, Northeast, and Pacific. The Mid-Atlantic, Northeast, and Pacific regions had the strongest occupancy rates for both entrance fee and rental LPCs in the first quarter of 2023. The occupancy rates within these regions with respect to payment type were above the average occupancy rate for entrance fee LPCs (89.3%) and rental LPCs (84.4%) in the combined 99 NIC MAP Primary and Secondary Markets.

Mid-Atlantic and Southwest Regions Closest to Recovery. For entrance fee LPCs, the Southwest and Mid-Atlantic regions are the closest to fully recovering and returning to the occupancy levels of the first quarter 2020. The Southwest region has reached 86.0% occupancy, while the Mid-Atlantic regions is at 91.1%. Both regions are within 1.4pps and 2.2pps, respectively, of reaching pre-pandemic first quarter 2020 levels. As for rental LPCs, the Southwest region (84.3%) has fully recovered and returned to the occupancy level of the first quarter 2020.

1Q 2023 Market Fundamentals by Care Segment – Entrance Fee LPCs vs. Rental LPCs

The exhibit on page 3 illustrates the relative market performance of entrance fee LPCs compared with rental LPCs by care segment in the first quarter of 2023 and includes year-over-year changes in occupancy, inventory, and asking rent growth.

Occupancy. Overall, the occupancy rate for entrance fee LPCs continued to outpace that of rental LPCs across all care segments. The difference in the first quarter 2023 occupancy rates between entrance fee LPCs and rental LPCs was largest for the memory care segment (4.8pps) and the independent living segment (4.2pps), and smallest for the nursing care segment (2.0pps).

The entrance fee LPC independent living care segment had the highest occupancy (91.1%) in the first quarter of 2023, followed by entrance fee LPC assisted living and memory care segments (88.0% and 87.7%, respectively).

In terms of occupancy improvements from one year ago, the largest occupancy gains for both entrance fee LPCs and rental LPCs were seen across nursing care segments (4.1pps and 3.6pps, respectively) — partly due to supply dynamics (negative inventory growth), while the smallest gains were seen across independent living segments (0.9pps and 1.8pps, respectively).

Asking Rent. The monthly average asking rent for entrance fee LPCs across all care segments remained higher than rental LPCs. The highest year-over-year asking rent growth for entrance fee LPCs was noted in the assisted living segment (4.4% to $7,106). For rental LPCs, the largest year-over-year asking rent growth was noted in the independent living segment (5.0% to $3,450). Overall, year-over-year asking rent growth across all care segments and payment types was around 4% in the first quarter 2023.

Note, these figures are for asking rates and do not consider any discounting that may be occurring.

Inventory. From year-earlier levels, nursing care inventory for both entrance fee and rental LPCs experienced the largest declines (negative 3.4% and 2.7%, respectively). The highest year-over-year inventory growth was reported for the entrance fee LPC independent living segments (0.5%) and rental LPC memory care segments (0.3%).

Negative inventory growth can occur when units/beds are temporarily or permanently taken offline or converted to another care segment, outweighing added inventory.

NIC
Data · Analytics · Connections

1Q 2023 Market Fundamentals by Care Segment - LPC (All) | Entrance Fee vs. Rental

NIC MAP® Primary and Secondary Markets	Independent Living Segment		Assisted Living Segment		Memory Care Segment		Nursing Care Segment (Beds)*	
	LPC (EF)	LPC (Rental)	LPC (EF)	LPC (Rental)	LPC (EF)	LPC (Rental)	LPC (EF)	LPC (Rental)
Total Units (1Q 2023)	150,960	51,670	27,625	22,438	8,856	6,066	43,336	50,315
Occupancy (1Q 2023)	91.1%	86.9%	88.0%	84.2%	87.7%	82.9%	84.2%	82.2%
LPC (EF) vs. LPC (Rental) Care Segment Occupancy Difference (percentage points)	**4.2**		**3.8**		**4.8**		**2.0**	
Average Monthly Rent - Asking Rent (1Q 2023)	$3,907	$3,450	$7,106	$5,698	$8,732	$7,303	$426	$377
1Q22 to 1Q23								
YoY Change in Inventory	0.5%	-1.6%	-0.7%	-0.3%	0.0%	0.3%	-3.4%	-2.7%
YoY Change in Occupancy (percentage points)	0.9	1.8	1.8	3.0	3.0	2.5	4.1	3.6
YoY Same Store Asking Rent Growth	3.8%	5.0%	4.4%	4.3%	3.9%	3.4%	4.0%	4.2%

*YoY Change in Asking Daily Rate
Source: NIC MAP® data, powered by NIC MAP Vision
Prepared by: NIC Analytics of the National Investment Center for Seniors Housing & Care (NIC)

1Q 2023 Occupancy Distribution by Care Segment – Entrance Fee LPCs vs. Rental LPCs

Moving beyond the analysis of **average occupancy rates**, the exhibit below explores the **distribution of occupancy rates** across entrance fee and rental LPC care segments and provides deeper insight into the occupancy patterns.

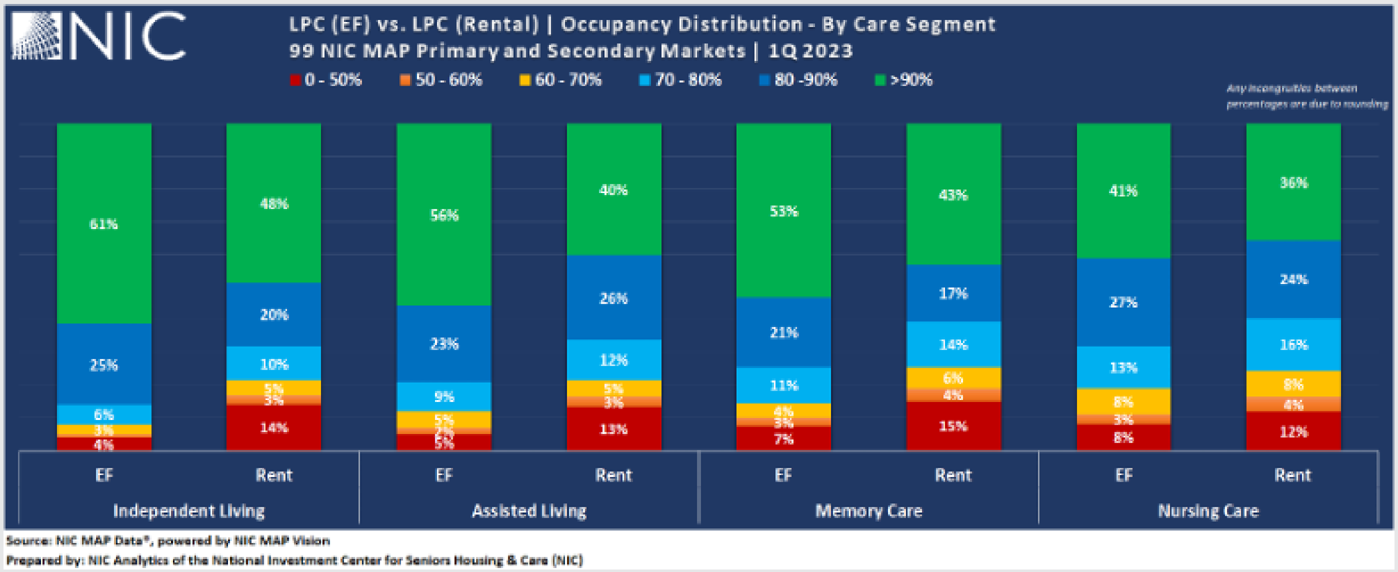
Interestingly, there is a greater prevalence of entrance fee and rental LPC care segments within the higher occupancy rate ranges. As the exhibit below shows, the most notable share is observed in the >90% occupancy range, ranging from 36% in rental LPC nursing care segments to 61% in entrance fee LPC independent living segments. The 80-90% occupancy range follows, with shares ranging from 17% in rental LPC memory care segments to 27% in entrance fee LPC nursing care segments.

Entrance Fee LPCs. The combination of the 80-90% occupancy range and >90% occupancy range shows that 86% of entrance fee independent living segments reported an occupancy rate above 80% in the first quarter of 2023. This represents the largest share across all care segments and payment types. Assisted living follows closely at 79%, while memory care stands at 74%, and nursing care stands at 68%.

For Rental LPCs, 68% of independent living segments reported an occupancy rate above 80%, followed by assisted living segments at 66%, and memory care and nursing care segments both at 60%.

While these positive figures are encouraging, there are still segments within both entrance fee and rental LPCs that report relatively low occupancy rates. The largest shares of low occupancy were noted in rental LPC memory care segments (15% below 50% occupancy, 4% within the 50-60% occupancy range, and 6% within the 60-70% occupancy range) and rental LPC nursing care segments (12% below 50% occupancy, 4% within the 50-60% occupancy range, and 8% within the 60-70% occupancy range). It is worth mentioning that there are fewer entrance fee care segments within these relatively low occupancy cohorts.

In conclusion, the unprecedented challenges posed by the pandemic have had a profound impact on the senior housing and care industry. To ensure financial stability and sustainability as the sector navigates through recovery, it may be strategic to aim for a higher occupancy rate, even above pre-pandemic levels (this analysis showcased the higher occupancy ranges' dominance across all care segments). This takes into account the need to mitigate the lingering effects of the pandemic, adapt to changing market dynamics, and address the rising costs of operations. Properties with an occupancy rate above 80%, which are depicted as the majority in this analysis, are likely better positioned to maintain a healthy bottom line and navigate the evolving market conditions.



If you have questions related to Ziegler's latest research or other related topics, we encourage readers to reach out to the Ziegler representative in the region. Additionally, readers can look for future blog posts from NIC to delve deep into the performance of LPCs. If interested in learning more about NIC MAP Vision data, and about accessing the data featured in this article, schedule a meeting with a product expert today.

Guest Contributor:

OMAR ZAHRAOUI
PRINCIPAL, RESEARCH & ANALYTICS
NIC

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF JUNE 12, 2023

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
The Village at Germantown (TN)	Fitch	BB+ Negative	Downgraded Rating Downgraded IDR*	6/6/23
Fox Run at Orchard Park (NY)	Fitch	BBB Stable	Review – No Action	6/7/23
Acts Retirement-Life Communities Obligated Group (PA)	Fitch	A- Stable	Affirmed Rating Affirmed IDR*	6/9/23
The Highlands at Wyomissing (PA)	Fitch	BBB Stable	Affirmed Rating Affirmed IDR*	6/9/23
RiverWoods at Exeter (NH)	Fitch	A- Stable	Review – No Action	6/12/23

** IDR – Issuer Default Rating*

Any non-Ziegler sources referenced in this Z-News are believed to be reliable but cannot be guaranteed.

INTEREST RATES/YIELDS

WEEK ENDING JUNE 9, 2023

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.50%	3.50%	3.42%
Senior Living 30-Yr "A"	5.35%	5.35%	4.99%
Senior Living 30-Yr "BBB"	5.75%	5.75%	5.38%
Senior Living Unrated	6.50%	6.50%	6.15%
Senior Living New Campus	7.40%	7.40%	7.08%
SIFMA Muni Swap Index	2.84%	3.56%	2.39%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
ZSLMLB Index†	5.95%	5.94%	2.44%

† Ziegler Senior Living Municipal Long Bond Index

Source: Bloomberg BVALS

FEATURED FINANCING

LIVING BRANCHES

Live & Grow – Together

LIVING BRANCHES

Souderton, Pennsylvania

Construction Loan

New Money

$20,000,000

May, 2023

MARKET REVIEW

MONEY MARKET RATES

	06/09	Last week
Prime Rate	8.25	8.25
Federal Funds (weekly average)	5.07	5.07
90 Day T-Bills	5.23	5.36
30-Day Commercial Paper (taxable)	5.10	5.08
Libor (30-day)	5.22	5.16
SOFR	5.05	5.07
7 Day Tax-Exempt VRDB	2.84	3.56
Daily Rate Average	2.42	3.48

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A
2 Year	4.51	5.61
5 Year	3.85	5.30
7 Year	3.79	5.39
10 Year	3.72	5.57
30 Year	3.89	6.34

	MMD	NR*	BB	BBB	A	AAA
1 Year	3.07	5.32	4.87	4.22	3.47	3.17
5 Year	2.66	5.01	4.56	3.91	3.26	2.81
7 Year	2.57	5.02	4.67	4.02	3.27	2.77
10 Year	2.59	5.29	4.84	4.29	3.39	2.84
30 Year	3.50	6.40	6.00	5.40	4.50	3.95

(Representative of institutional sales)*

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE
20 Bond Index	3.67	3.67	0.00
11 Bond Index	3.57	3.57	0.00
Revenue Bond Index	3.95	3.95	0.00
30 Year MMD	3.50	3.50	0.00
Weekly Tax-Exempt Volume (Bil)	6.36	0.98	+5.38
30 Day T/E Visible Supply (Bil)	4.67	9.25	-4.58
30 year “A” Rated Hospitals as a % of 30 Year Treasuries	115.6	119.4	-3.80

Source: Bloomberg