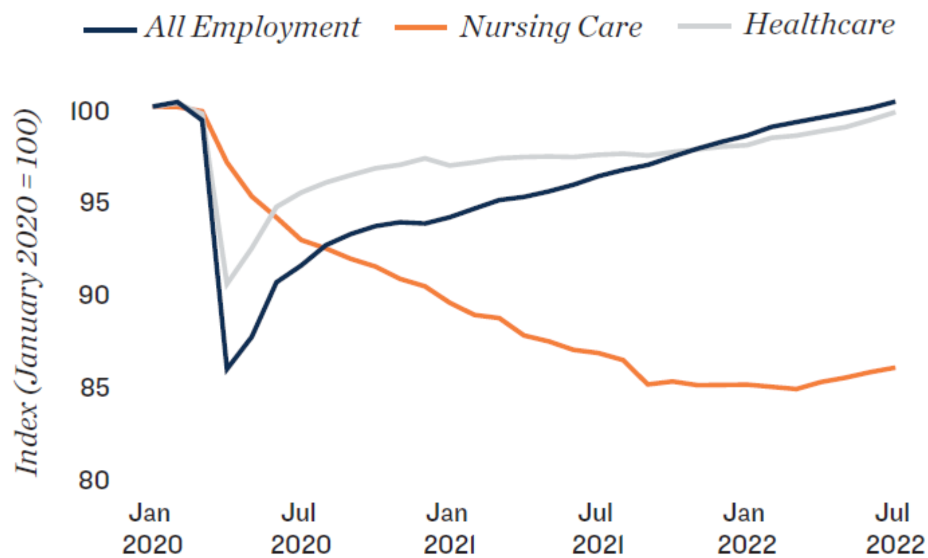
Nursing home rent growth that has averaged only 2.6% during the past 12 months ended in June. This, together with significantly shortfalls in state Medicaid reimbursements, has made it nearly impossible to boost compensation enough to restore a workforce that, according to Marcus & Millichap, remains 15% below February 2020 levels.

Skilled Nursing Faces Greater Labor Shortage

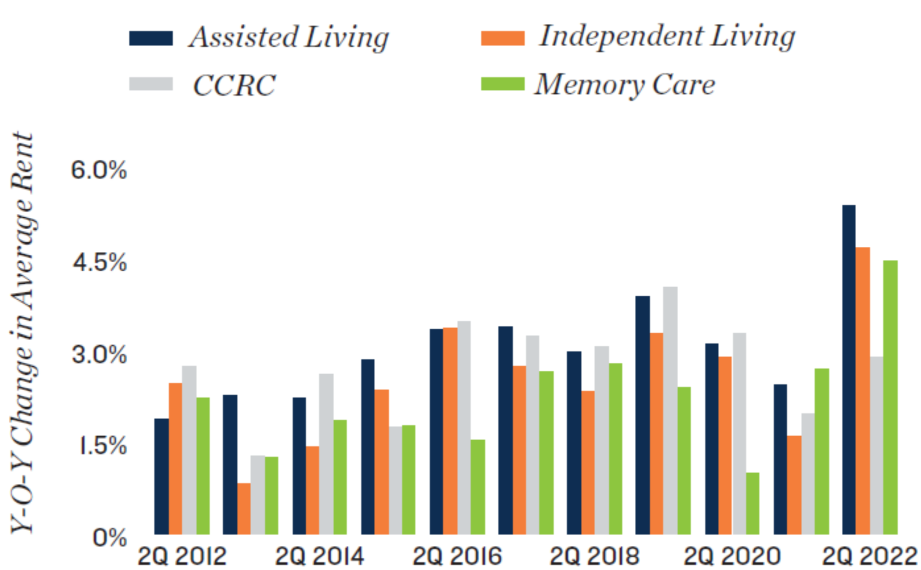


Source: Marcus & Millichap 2H22 Skilled Nursing National Report

The average increase in monthly fees for **independent living** was 4.70% according to one major industry poll, but at least 29 operators reported that they were forced to increased rates mid-year as annualized inflation surged to 7.5% in January and hit 9.2% by June.

Assisted living and memory care each posted their fastest annual rent gains in more than a decade, eclipsing 4.5%, but still not accelerating in line with inflation.

Rents Are Improving at Every Service Level



Source: Marcus & Millichap 2H22 Senior Housing National Report

Happy or Unhappy New Year

Some life plan community, independent living and assisting living resident contracts clearly **limit the number of increases** that can be imposed in a given year and may leave no flexibility to management on the timing (e.g., effective date of January 1, or anniversary date). In other cases, residents and families panic that **sizable increases** will start coming every six months. In one recent industry survey of chief financial officers, 140 saw the possibility of needing a mid-year adjustment in 2023 as a result of continuing wage and other inflationary pressures. Any further downturns in the economy would add a whole new layer of financial pressure on both senior living providers and residents, while COVID outbreaks continue, labor shortages persist, and home sales slow.

Moving Forward Amid Uncertainty

All of this is to say that we do not know how long this environment of inflation and labor shortages will exist but the bills keep coming, the cost of training and retaining key staff increases, and occupancy at about 82.2% is still well below the pre-pandemic level of 87.2% while brand new inventory may be rolling out in the area.

The latest **NIC Executive Survey Insights** showed that the latest 30-day pace of move-ins fell in independent living and skilled nursing; assisted living properties have been reporting declines for the past three months but memory care move-in rates have recently picked up. The families of new patients urgently requiring memory and skilled care-based services will undoubtedly seek discounts in asking rents, and managers looking across empty floors may have no choice but to provide them. Notices on the new entrance and monthly fees to take effect on January 1 typically are sent at this time of year.

Resistance

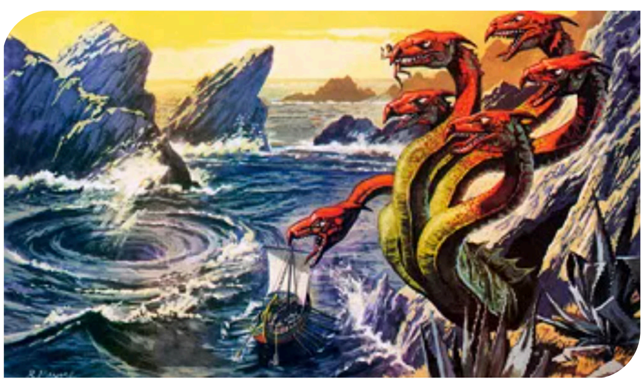
Since the vast majority of residents or prospects are retired and living on fixed incomes, they find themselves paying more and, given the phenomenon of "**shrinkflation**", getting less. This includes residents who have fewer staff to attend to them and, given the average turnover, fewer quality relationships with their caregivers. Those looking to sell their homes in order to pay entrance fees and monthly charges, are seeing sales and prices fall in most parts of the country as mortgage rates have doubled; this can delay or forestall planned moves and present the kind of hazards for operators that they did in 2008.

Those in every bracket relying on investment income have seen the market value of their portfolios plummet this year and no doubt some worry that they will not be able to afford to stay where they are. Adult children often called upon to fill financial gaps are in the same boat. Market experts say the current household wealth losses from financial markets could total $10 trillion. Even those managers in communities with little competition and long wait lists face major resistance to significant back-to-back hikes given economic conditions and universal declines in net worth.

The Need to Educate and Engage with Residents

Of course, some providers have their hands tied by municipalities that impose caps on annual rent increases. For those not so limited, many have already held at least one educational forum with current residents on forthcoming fee increases said to be averaging 5.38% but running as high as 22%. Several more sessions may still be necessary to lay out management's justifications to understandably angry and fearful residents.

In order to reduce the planned increase, some communities may be able to strike an agreement to cut or eliminate various services or activities. Other operators may be able to impose a surcharge for services like utilities, fine dining, housekeeping, high personal care levels, or recreational activities that residents can elect to opt out of. Many providers have had success putting the increase in rates in perspective on what is needed to keep the staff whom the residents have come to know, respect and love. That personalization may have the most impact in placing the need for increases in perspective.



Rehabilitating Public Understanding on The Cost of Living and Care

Senior living industry leaders have long been advocating for a coordinated industry focus that takes into account not only this and future pandemics but also the myriad of changing demands from residents, the evolving needs of workers, the heightened regulatory environment, construction challenges, and the new active roles that providers must assume as lobbyists for local, state and federal attention and support.

The intense kind of rehabilitation that is already a critical component of senior care now needs to apply to the education of life care residents, legislators, regulators, and the general public as our population ages and the harsh realities of how truly high the costs of living and care are for our senior population.

We at HJ Sims invite you to contact us to begin or continue a conversation on how our investment banking, trading, analytic and sales teams can assist your boards and management teams in identifying the best ways for you to navigate between the rocks and hard places challenging your communities.
https://hjsims.com/investment-banking

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