SPECIAL REPORT
CANADA SENIOR HOUSING

IPA INSTITUTIONAL PROPERTY ADVISORS
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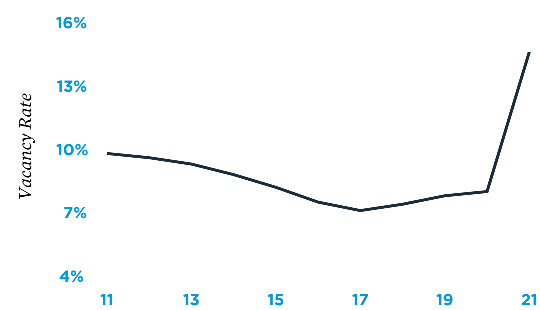
Accelerated Aging of Population a Demand Driver for Canada's Senior Housing Sector

Senior housing sector experiencing a delayed recovery. As long-term care facilities and retirement homes became the epicenters of COVID-19 infections at the onset of the global health crisis, demand for senior housing fell significantly, which caused vacancy to climb to 14.5 per cent by the end of May 2021. Although the pandemic now appears to be in the rear-view mirror, demand has yet to recover to the 2019 level, and the occupancy rate is estimated to remain below the pre-pandemic high until at least 2025. Despite this cyclical headwind, which is impacting the senior housing sector for a longer period of time compared to other property types, Canada's increasing elderly population will be a structural tailwind that should aid demand over the upcoming decade.

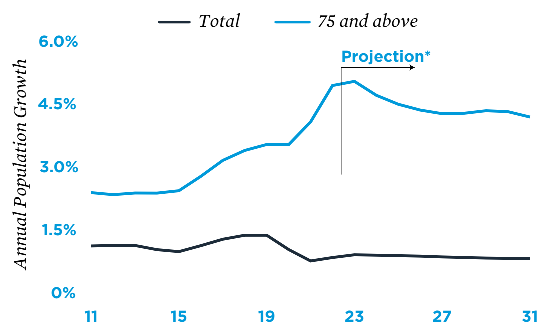
Fast-rising elderly population to drive future demand. From 2021 to 2031, as more baby boomers enter their retirement age, Canada's population above 75 years old is projected to increase 4.4 per cent annually, a much faster pace compared to the previous 10-year period. At the end of 2031, this age cohort will be 54 per cent larger than the 2021 level, accounting for 11 per cent of Canada's total population. With this rate of increase, the dependence ratio in the 75-plus group — the ratio of the 75-plus population divided by total working population — will rise from 12 per cent in 2021 to an unprecedented level of 18 per cent in 2031. This increasing dependence ratio means that the elderly population will require more social services from the economically active population, as well as the overall economy. With senior housing being one of the key care providers, the sector will therefore likely experience fast-rising demand over the coming years.

Current pace of construction to result in supply shortfall. With a slightly higher rate of increase in total inventory compared to elderly population growth, the percentage of the 75-plus cohort covered by total senior housing stock climbed steadily from 8.2 per cent in 2011 to 9.1 per cent in early 2020. Despite this increase, the vacancy rate registered a 180-basis-point drop, which signaled a much more heightened demand expansion. In order to maintain a healthy level of availability, inventory will need to increase by at least the same rate as the elderly population, which, in turn, translates to a requirement of approximately 148,000 new units from 2021 to 2031. With a net delivery pace of roughly 73,000 units over the past 10 years, however, total inventory at the end of 2031 is projected to be 18 per cent below the needed stock, which will put downward pressure on the vacancy rate.

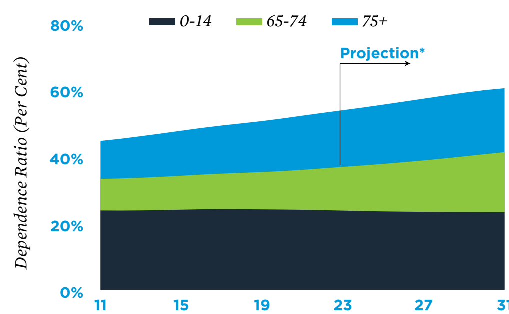
Senior Housing Vacancy Spiked in 2021



Canada's Elderly Population Growing Faster



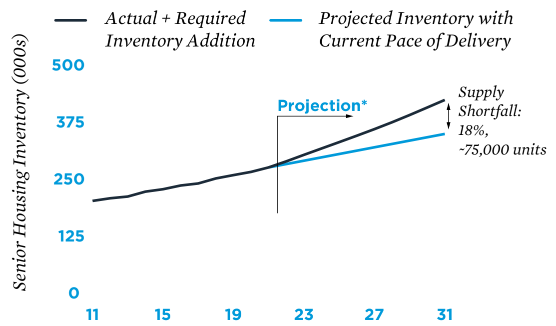
Dependence Ratio in 75+ Cohort Climbing Quickly



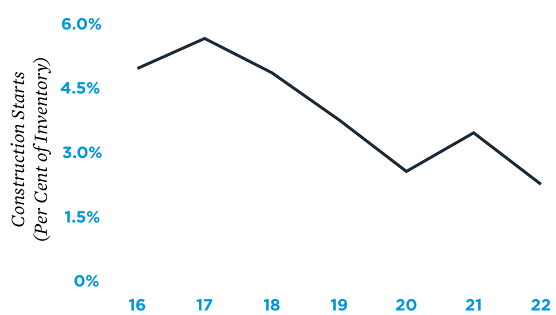
* Projection from United Nations

Sources: Marcus & Millichap Research Services; Canada Mortgage and Housing Corporation; United Nations World Population Prospects

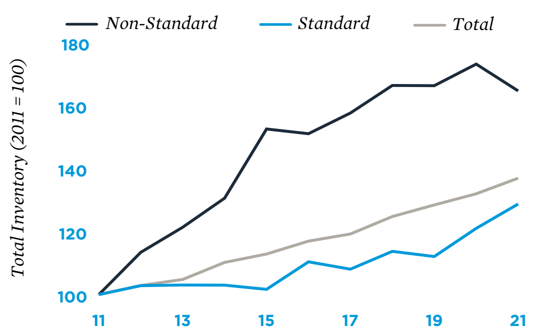
Senior Housing to Face Supply Shortfall



Senior Housing Construction Pace Slowing



Developers Focus on Non-Standard Projects



** Projections are calculated using future population growth from United Nations and 2011-2021 inventory increase from CMHC*

Supply-side challenges further strengthen sector fundamentals. Development activity in the senior housing sector has already been on the descent since 2016, which is reflected by declining construction starts. In recent years, elevated construction costs, due to supply chain bottlenecks and fast-rising interest rates, further hindered the pace of delivery. Developers have also been discouraged by the sector's lagged recovery relative to other core assets. This means that future inventory expansion will likely be more muted relative to the level seen between 2011 and 2021, which could lead to a more serious supply shortage than anticipated over the next decade. As a result, senior housing operators may see more robust rent growth materialize over the long-term.

Demand for better-quality service on the rise. Currently, 77 per cent of total senior housing stock is standard spaces that provide less than 1.5 hours of care per day, or do not require an extra payment to provide high-level care. With a larger elderly population, demand for better-quality care, which is often offered in non-standard facilities, will likely increase at a faster rate. This shifting preference has already prompted more completions in non-standard properties. Between 2011 to 2021, non-standard inventory expanded by 65 per cent, while standard spaces rose by just 29 per cent. This demographic tailwind may further drive this diverging trend, resulting in more heavy-care facilities that often charge higher rents.

Sound sector fundamentals bode well for investors. With a clear future of Canada's demographic profile, prospective demand in the senior housing sector over the next decade is more predictable compared to other core-asset sectors. While the occupancy rate bore the brunt of the pandemic impact during 2020 to 2021, rents did not soften in most Canadian metros. In Vancouver, for instance, the monthly median rent rose close to $7,000 in 2022, which was 13.5 per cent higher than the 2019 level. Investment sentiment, as a result, improved swiftly on the back of this robust rent growth. Despite rapidly-rising interest rates, total dollar volume transacted in 2022 jumped over 40 per cent compared to the prior year, driven by a large increase in investment from domestic private equity funds. This was in stark contrast to a drop in transaction volumes seen in some core-asset sectors. As demand tailwinds are expected to strengthen senior housing's long-term fundamentals, investment activity should continue to improve over the upcoming years.

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