Healthcare REITs See Signs of Recovery

Occupancy Still Below Pre-COVID Levels

■ By KAITLIN AQUINO

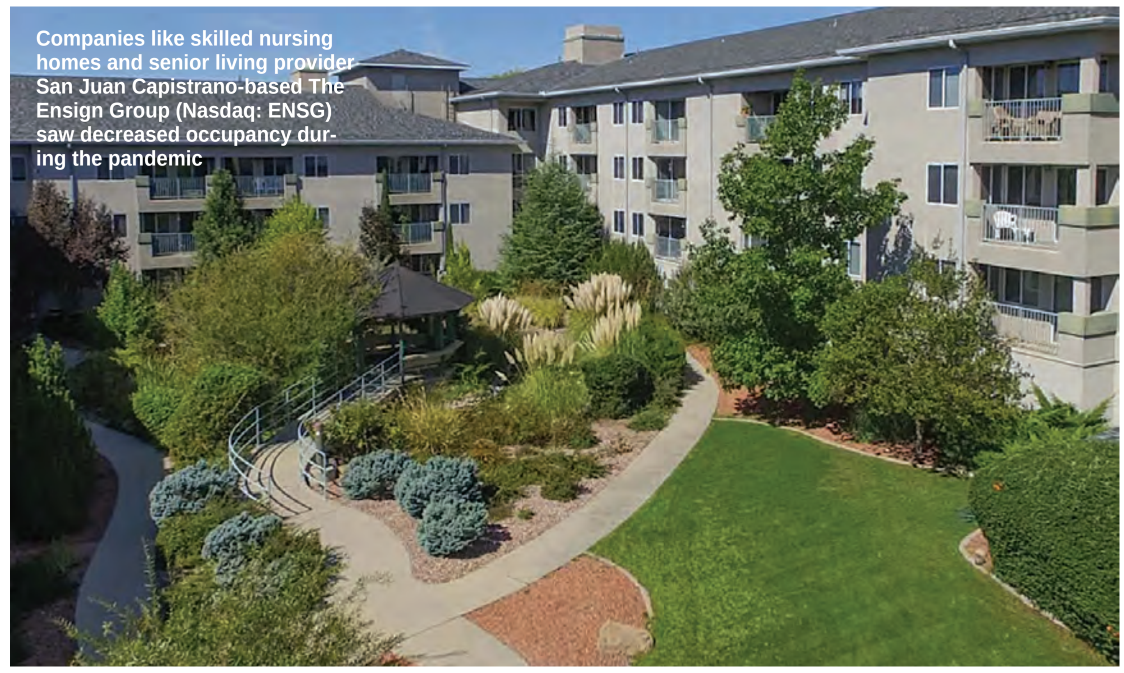
Companies that manage senior living and skilled nursing facilities are showing signs of recovery after they were hit hard during the pandemic.

"Everything's moving in the right direction with occupancy levels and labor," **Sabra Health Care REIT Inc.** (Nasdaq: SBRA) CEO **Rick Matros** told the Business Journal. "It's just taking longer than we would like," added the chief executive of the investor in skilled nursing, assisted living and other healthcare properties.

Barry Port
CEO
Ensign Group

San Juan Capistrano-based **The Ensign Group Inc.** (Nasdaq: ENSG), the most valuable publicly traded real estate investment trust in Orange County, last month reported revenue in the second quarter jumped 26% from the year prior to $921 million, beating the Zacks Consensus Estimate. Net income increased 11% to $64 million.

The company also boosted its 2023 outlook on both earnings and revenue. Ensign now expects annual EPS to range between $4.70 to $4.78 per share, up from its prior estimate of $4.64 to $4.77 per share. Anticipated annual revenue for Ensign now ranges from $3.69 billion to $3.73 billion, up from $3.68 billion to $3.73 billion. By comparison, revenue for 2022 totaled $3 billion.



Companies like skilled nursing homes and senior living provider San Juan Capistrano-based The Ensign Group (Nasdaq: ENSG) saw decreased occupancy during the pandemic

"We also see enormous growth opportunities in same store occupancy, which is still below pre-COVID levels," CEO **Barry Port** told analysts during an earnings call following the results.

Pre-COVID occupancy for the firm's 293 healthcare facilities averaged 80.1%.

Ensign counts roughly 29,900 employees across California, Arizona and Colorado, among 10 other states.

As of last week, shares in the company were $97.07 a share for a $5.5 billion market cap.

Pandemic Recovery

Companies like Ensign faced headwinds during the pandemic, when skilled nursing and assisted living sectors saw declining occupancy levels and staffing shortages. The industry is still recovering, as operators look to regain occupancy and staffing losses.

"Staffing issues are so severe still," Matros said. "Even though they're better than they were during the pandemic, that restricts how quickly you can admit patients."

Matros attributes facilities' staffing shortages to burnout. Sabra's operators lost about 15% of its workforce to burnout, though more than a fourth of that labor loss has since returned, Matros said.

Easing labor pressures and increasing occupancy levels are driving growth for Sabra, OC's second largest healthcare REIT, which was valued at $3 billion as of last week.

"While our operators are not yet where they want to be, these encouraging operating trends underpinned a sense of optimism" at Sabra's recent operators' conference, Matros said in a statement.

Like Sabra, Ensign's occupancy took a hit in 2020 and has yet to fully recover. Total occupancy for the company in 2020 was 73.5%, down 5.7 percentage points from the year prior. It dipped even further the following year to 72.8%.

Last year, Ensign's occupancy took a turn for the better, when it rose to 2.5 percentage points to 75.3%.

The company's second-quarter occupancy, however, at 76.2%, declined 1.7 percentage points from its first quarter occupancy of 77.9%.

Officials attributed the decrease to seasonal factors, as Ensign in the summer months typically sees fewer admissions than the rest of the year.

"Historically, Q4 is our strongest quarter," CFO **Suzanne Snapper** told analysts in a conference call last month. "Q2 and Q3 tend to be weaker."

Growth Opportunity

Driving part of Ensign's growth in occupancy and revenue are the 45 operations it acquired over the past year.

Some of Ensign's recent acquisitions produced "quicker than average contributions"