ZIEGLER/NIC LENDER SURVEY RESULTS

FALL 2020

Ziegler

CAPITAL :: INVESTMENTS :: ADVICE

INTRODUCTION

In July 2020, Ziegler, in partnership with NIC (National Investment Center for Seniors Housing & Care), initiated an industry-wide study among lenders within the seniors housing and care sector. The overarching purpose of the study was to provide transparency to seniors housing and care owner/operators accessing debt financing regarding types of debt available, interest rates, recourse levels, and other bank measures affecting access to capital for the industry. The target respondents for the survey included the major banks and finance companies lending to the industry, with the findings distributed to a wider network of developers, owners, and operators of seniors housing and care properties. The current report reflects findings from the second quarterly survey period for 2020, representing Q3 2020 data. Data collection was held between October 19 and November 13, 2020. The survey results included in this report include both Q2 and Q3 2020 findings to illustrate emerging trends as the industry attempts to stabilize among the ongoing COVID-19 pandemic.

EXECUTIVE SUMMARY

The following select quotes from survey respondents summarize the current state of lending for seniors housing and care:

- *We will not make any exceptions to credit policy. Interest only on stabilized assets has been suspended. Construction loans are for existing customers, lower LTCs and must have some form of recourse until stabilization, regardless of LTC. (Our) focus is on those operators and owners who have deep experience. Few, if any, broker transitions are being considered;*
- *(We) have lowered LTV requirements (70-75% / no more than 85% R/E value only), are not currently pursuing new construction financing, have a limited appetite on IL communities, now require recourse in some capacity on most transactions.*

Detailed information is included in the full report that follows; however several interesting trends are worth noting:

- Generally speaking, there has been a trend towards conservatism from Q2 to Q3 as evidenced by lower maximum LTC/LTV%'s, wider spreads, and more stringent reserve and recourse requirements. While it's believed that more lenders are returning to the space and are expected to continue to do so into 2021, it appears the terms that they're offering may be more lender-friendly than borrowers are used to. It will be interesting to see when competitive forces cause these conservative trends to ease. We hope to gather feedback on this topic in future quarterly iterations of this survey.
- From the last quarter, lending activity and interest has increased for Life Plan Communities, both Rental and Entrance-Fee models;
- There was a notable increase in the number of lenders selecting "Non-Recourse" as their recourse requirement during Q3 compared to Q2;
- The vast majority of lenders appear to be migrating towards the SOFR Index. While a number of the institutions indicated that the exact timing is uncertain, quite a few indicated that this transition would likely occur in Q2 or Q3 of 2021;

For a full glossary of defined terms please see page 13.

- It is interesting to note that Independent Living occupancy tends to follow the housing market which is very strong, yet lenders, at least in this survey, are more likely to lend to higher acuity providers (AL, MC, SNF). Nine lenders reported they are not lending to IL communities, while only 2 are not lending to AL/MC, and 7 not lending to SNF;
- While 10 banks, or roughly half of respondents, will lend on new construction, the maximum LTC%, spreads, and recourse requirements have become more onerous than in Q2. Roughly 33% of respondents indicated they are not lending for new construction projects;
- Approximately 50% of lenders are requiring debt service reserve funds. For those that do require such funds, the overwhelming majority require twelve (12) months of reserves;

Both Ziegler and NIC appreciate the firms that took the time to complete this survey and look forward to including additional lenders in future quarters.

RESPONDENT DEMOGRAPHICS

98 lenders, including both traditional banks and alternative lenders, were solicited for participation in the Q3 2020 survey. A total of 22 organizations participated in the survey, yielding a response rate of 23%. As detailed below, regional banks represented the largest portion of participating lenders, while the number of national bank respondents grew from 2 to 5 from Q2 to Q3 representing the second highest percentage of participating lenders.

What type of lender describes you best?	Q3 2020 # of Responses	Q2 2020 # of Responses
National Bank	5	2
Regional Bank	12	10
Community / Local Bank	2	4
Finance Company / Alternative Lender	3	6

While the largest number of respondents represented regional banks, more than half indicated that they cover the national landscape for the majority of their lending in the sector. The table below highlights this detailing the various geographies where respondents execute the majority of their lending. Results are consistent with Q2 findings.

In which geography do you conduct the majority of your lending for seniors housing & care?	Q3 2020 # of Responses	Q2 2020 # of Responses
National	13	12
Midwest	3	3
Southeast	2	3
Northeast	2	3
Northwest	1	0
West	1	0
Southwest	0	1

Regions with zero respondents for primary lending area: Mid-Atlantic, Mountain States.

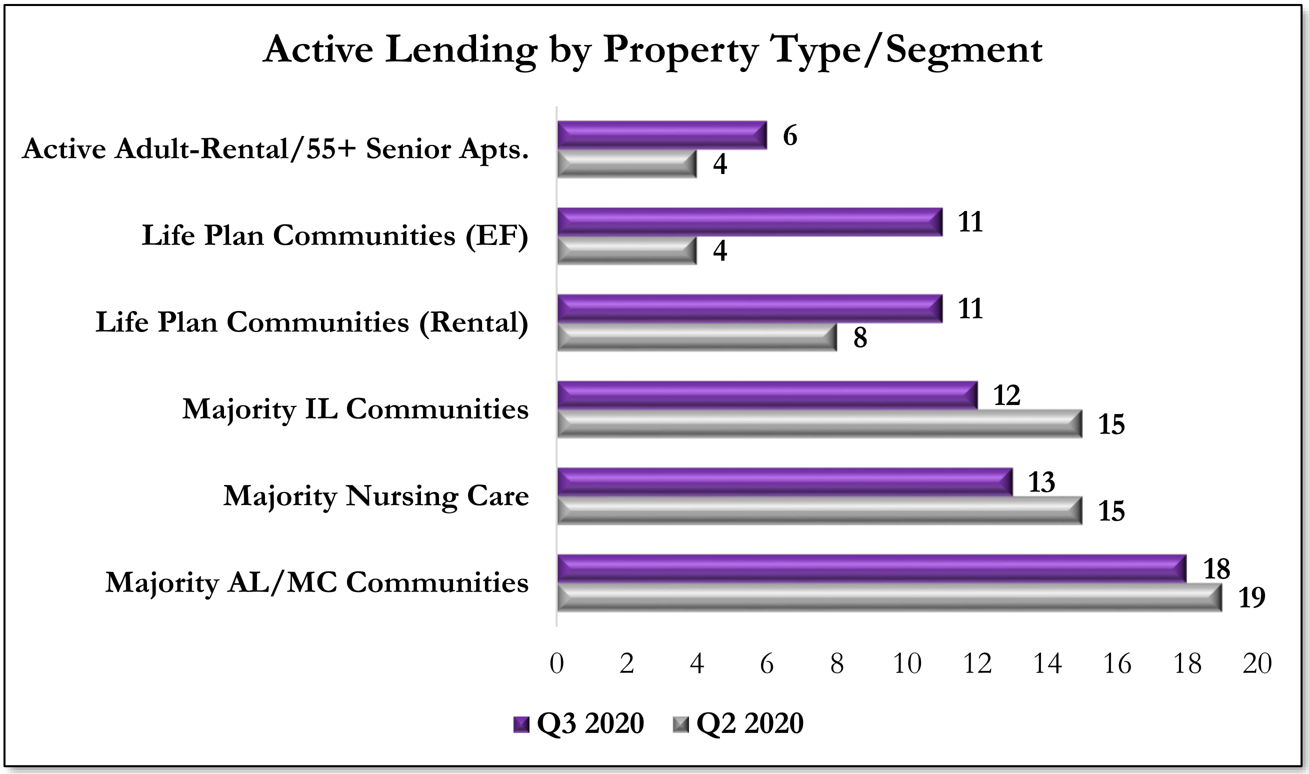
Roughly 72% of respondents indicated that they offer both fixed-rate and floating-rate loans, fairly similar to the 70% reported in the previous quarter. All but one of the remaining respondents noted that they only provide floating-rate loans.

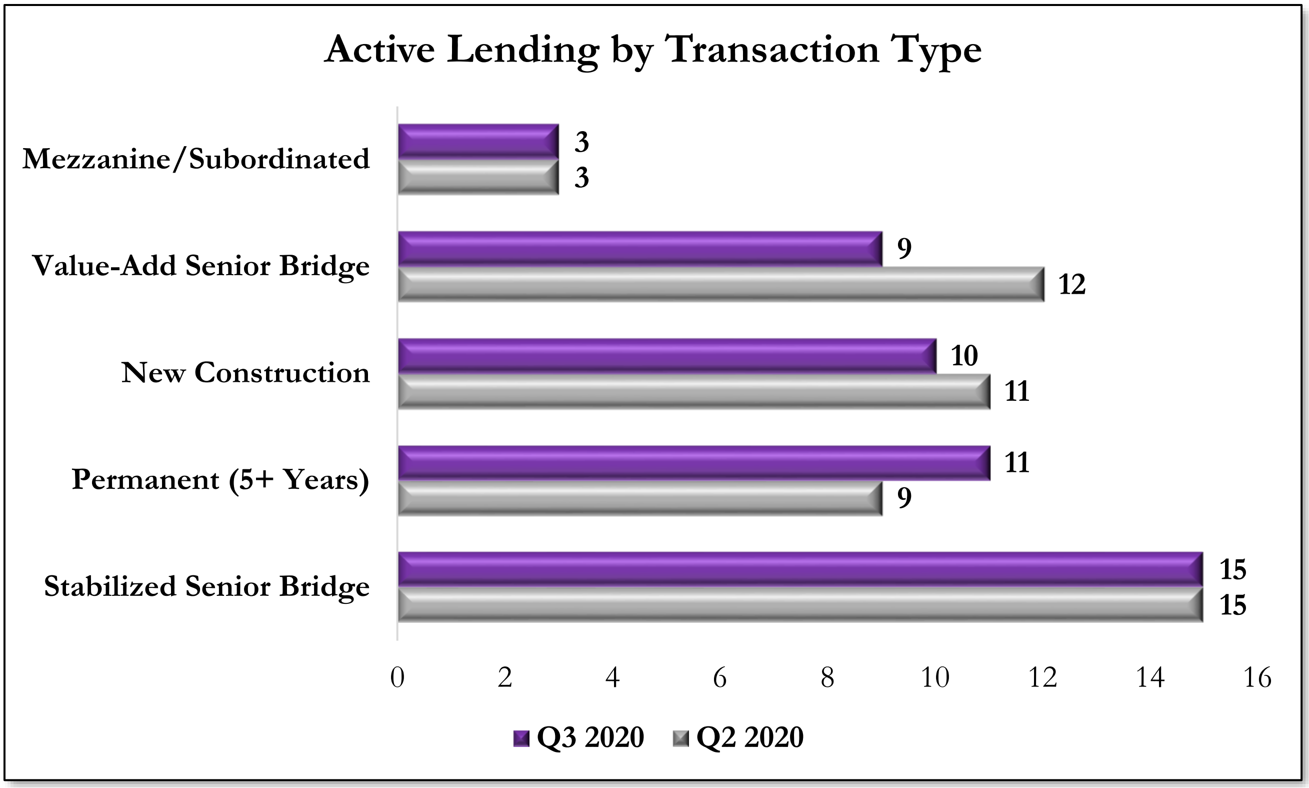
LENDING ACTIVITY

Individual respondents were asked to comment on their lending activity as well as the sectors and property types they target. It should be noted that those organizations who reported no lending activity in the past year were redirected to the end of the survey. One Q3 respondent indicated lending in the past year, however no active lending within the seniors housing & care space. That respondent was also redirected to the end of the survey.

Half of the respondents (11) reported lending to both the private and tax-exempt sectors, with roughly another third indicating that they have only lent to private sector owners and operators. Just two respondents lend only to tax-exempt providers. The graph below shows the number of respondent organizations that are actively lending for particular property types/segments. With the exception of lending for Life Plan Communities, the results are relatively unchanged from Q2 2020. Lending for both Entrance-Fee and Rental Life Plan Communities increased significantly from last quarter (albeit within a small sample size). The largest proportion of lenders are active with Majority AL/MC

Communities (90%). Stabilized Senior Bridge funding is the most common form of debt instrument current available from this lender subset.





LENDING TERMS

For each of the property types the respondents were asked questions related to spread range and Loan-to-Value percentage (LTV%). The respondents were only asked questions for those property types where they were actively lending. The following tables detail the results by property type. The typical spread range is between 2.1-3.5% for most property types. There are, however, lenders, that fall above and below those ranges.

Spread Range	Q3 2020 Majority IL (N=12)	Q3 2020 Majority AL/MC (N=17)	Q3 2020 Majority Nursing (N=12)	Q3 2020 LPC-EF (N=10)	Q3 2020 LPC-Rental (N=11)
1.0-1.5%	0	0	0	0	0
1.6-2.0%	1	0	1	1	0
2.1-2.5%	**4**	2	0	**5**	3
2.6-3.0%	**4**	**6**	2	3	**4**
3.1-3.5%	1	3	**4**	0	1
3.6-4.0%	1	1	1	0	1
4.1-4.5%	0	3	1	0	0
4.6-5.0%	0	1	2	0	1
5.1-5.5%	0	0	1	0	0
5.6-6.0%	0	0	0	0	0
Greater than 6%	1	1	0	1	1

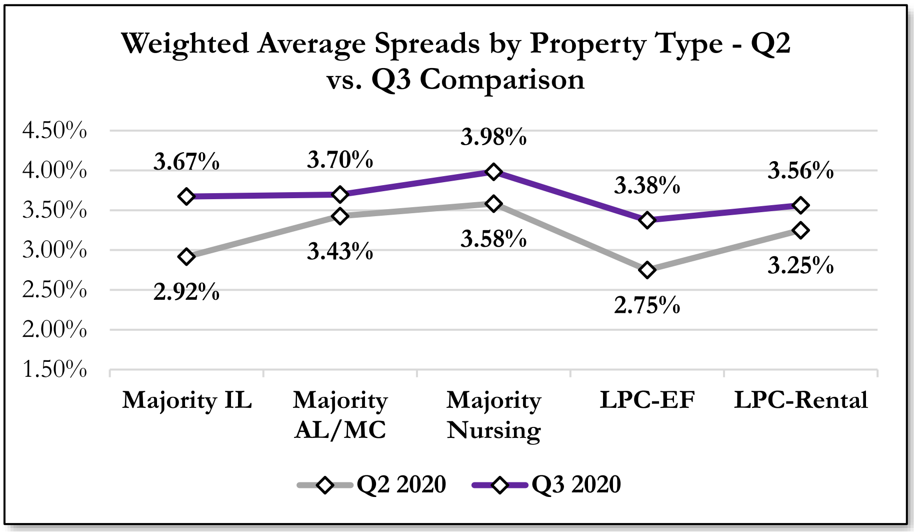
Highlighted cell reflects category with largest number of respondents.

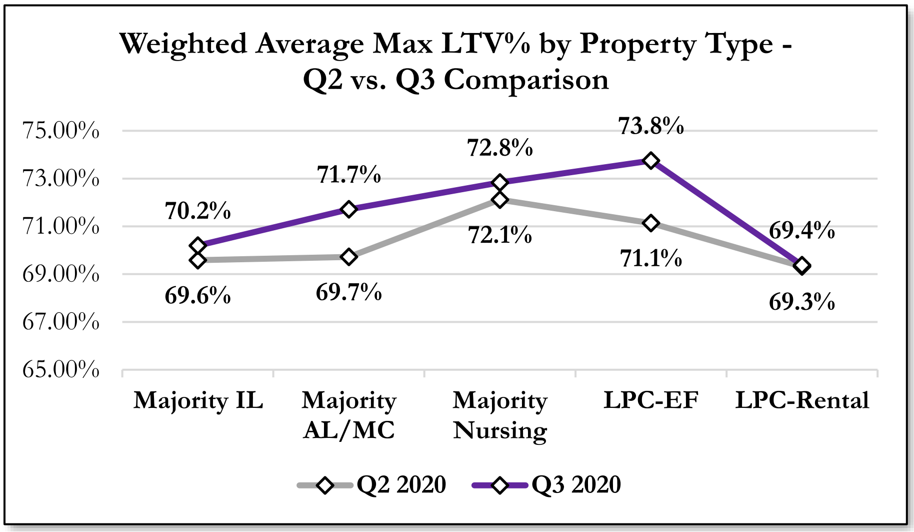
The LTV figures below show that with the exception of Rental Life Plan Communities, most respondents report having a 71-75% maximum Loan-to-Value requirement across the majority of property types.

LTV Range	Majority IL (N=12)	Majority AL/MC (N=18)	Majority Nursing (N=13)	LPC-EF (N=11)	LPC-Rental (N=11)
<60%	1	1	0	1	0
60-65%	2	3	0	2	**4**
66-70%	2	5	4	1	2
71-75%	**6**	**6**	**6**	**3**	3
76-80%	0	2	3	**3**	1
81-85%	1	1	0	1	1
86-90%	0	0	0	0	0
Greater than 90%	0	0	0	0	0

Highlighted cell reflects category with largest number of respondents.

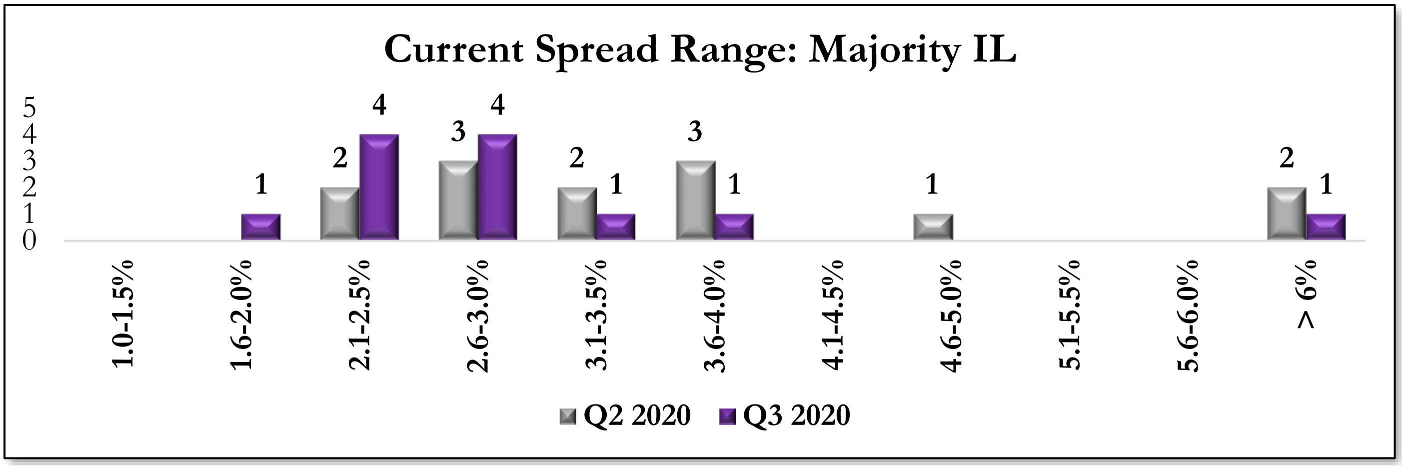
The two charts to the right illustrate the changes from Q2 to Q3 in the lending parameters analyzed above – spread range and LTV%. It's apparent that as more clarity surrounding the COVID-19 pandemic has emerged, lenders have become somewhat more comfortable extending loans with higher maximum LTV% though borrowers are having to pay for this additional leverage through higher credit spreads. This trend was consistent across all property types though it was most extreme for LTV%'s within the Majority IL asset class and for spread ranges with the Entrance Fee Life Plan Community assets. It will be intriguing to monitor these trends going forward as the pandemic continues to evolve and with it, the lending landscape. It is important to note that the sample of responding institutions differed from Q2 to Q3, or in other words, is no a "same store" sample. It is likely this variance is responsible for some of the difference in data reported between the two periods.

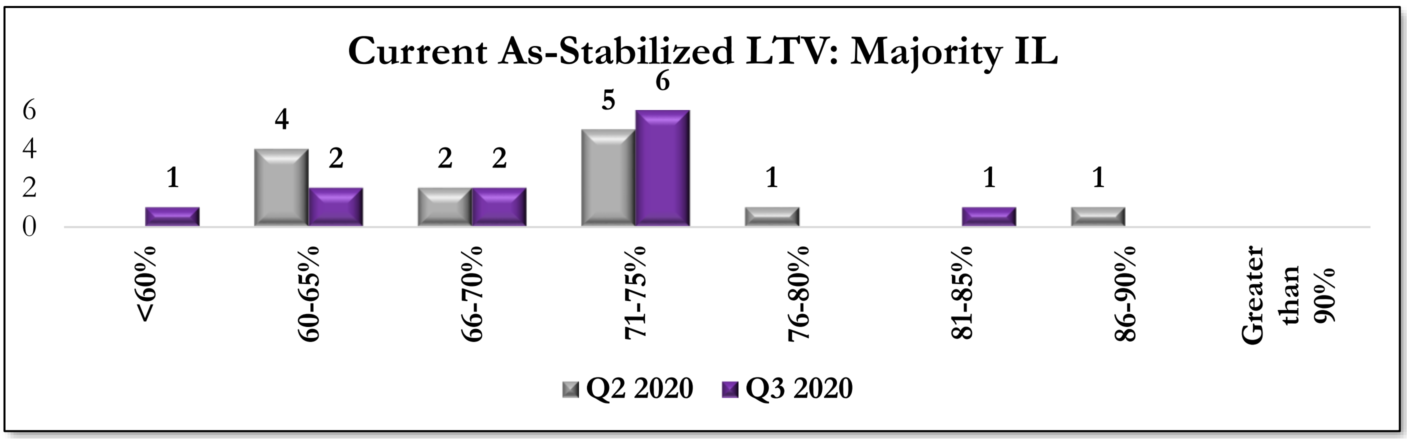




Majority Independent Living

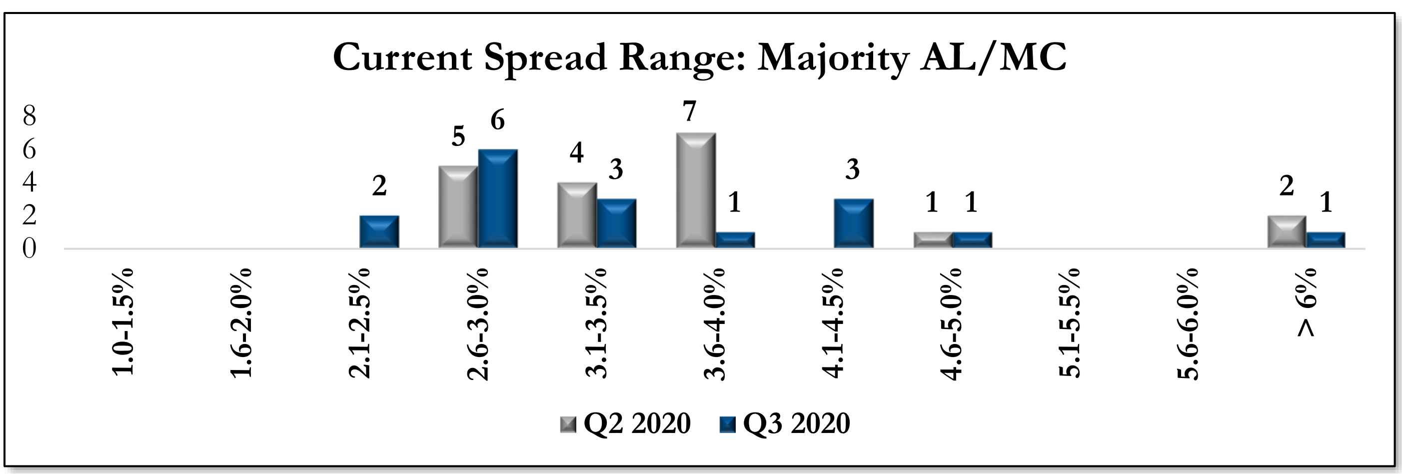
The charts below reflect the findings for majority independent living communities only with comparisons between Q2 and Q3 2020 results.

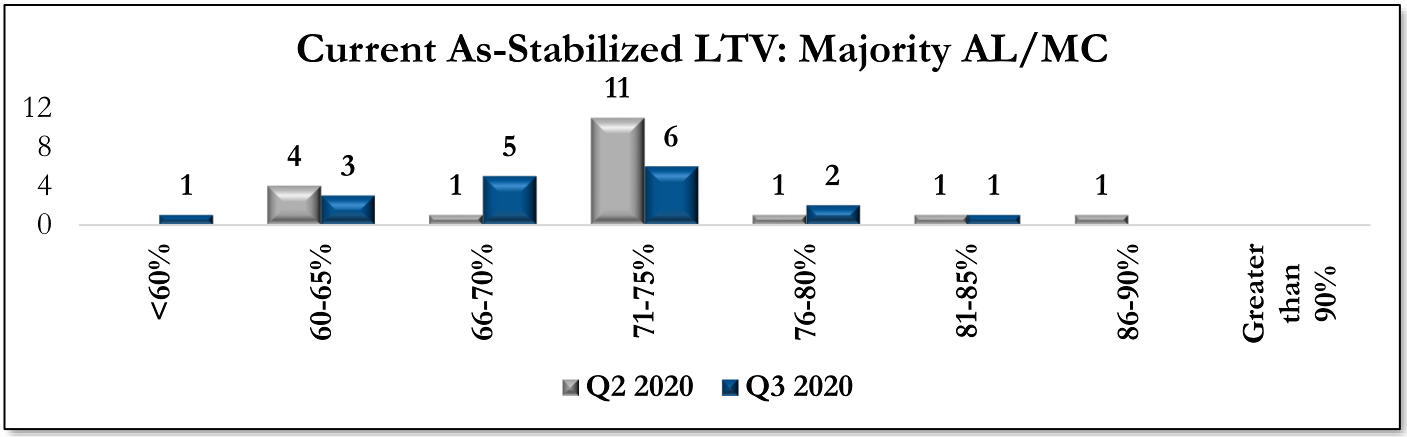




Majority Assisted Living/Memory Care

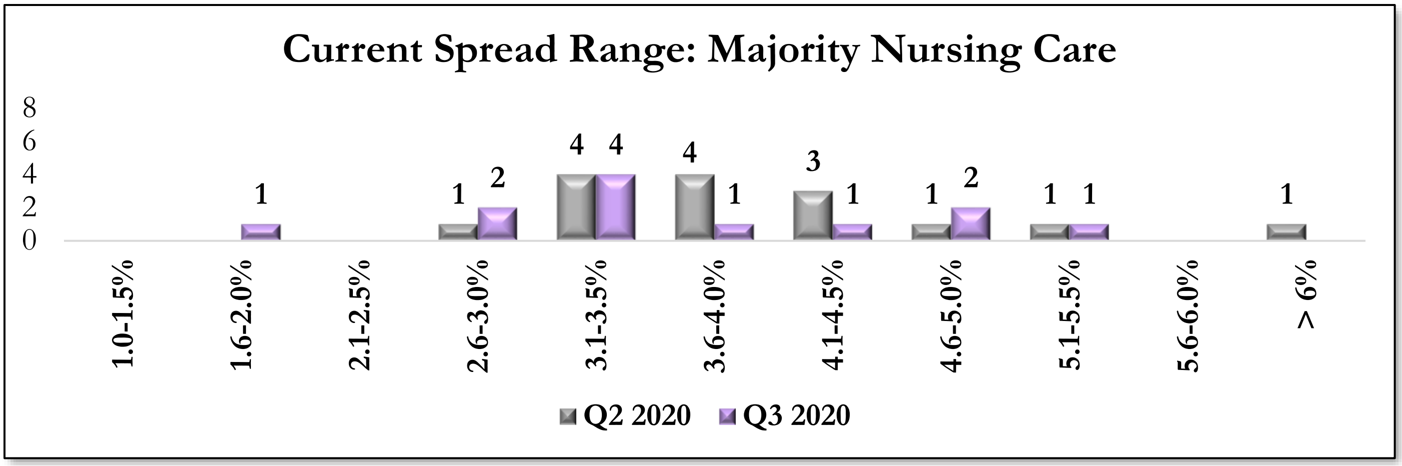
The charts below reflect the findings for majority assisted living/memory care communities only.

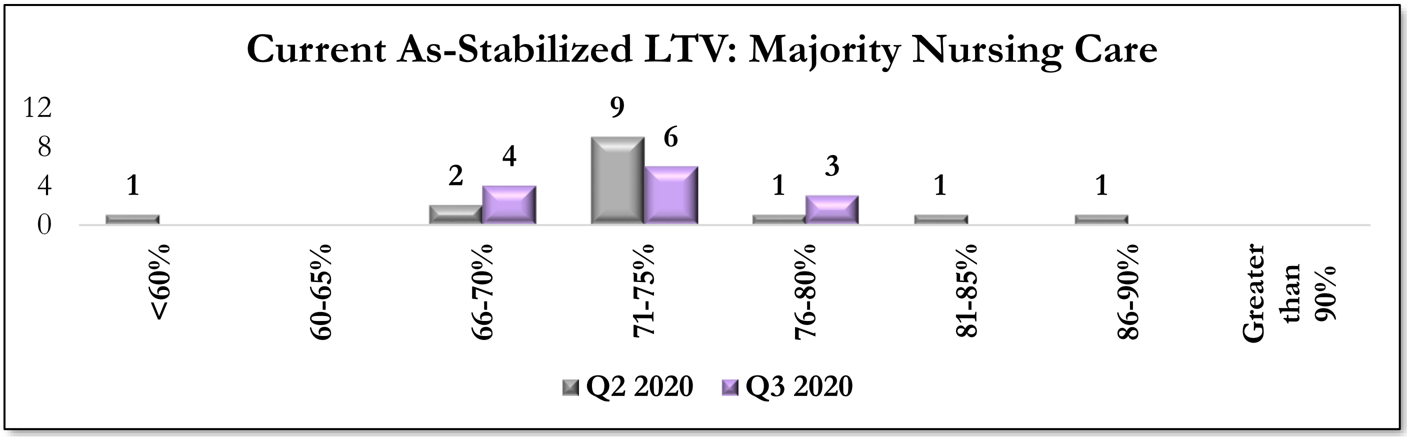




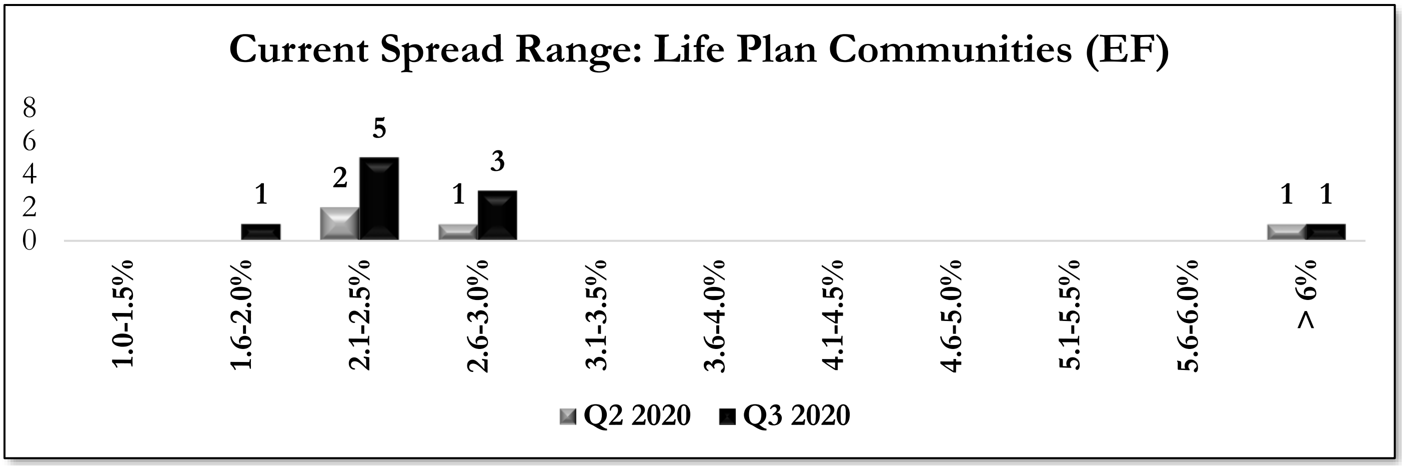
Majority Nursing Care

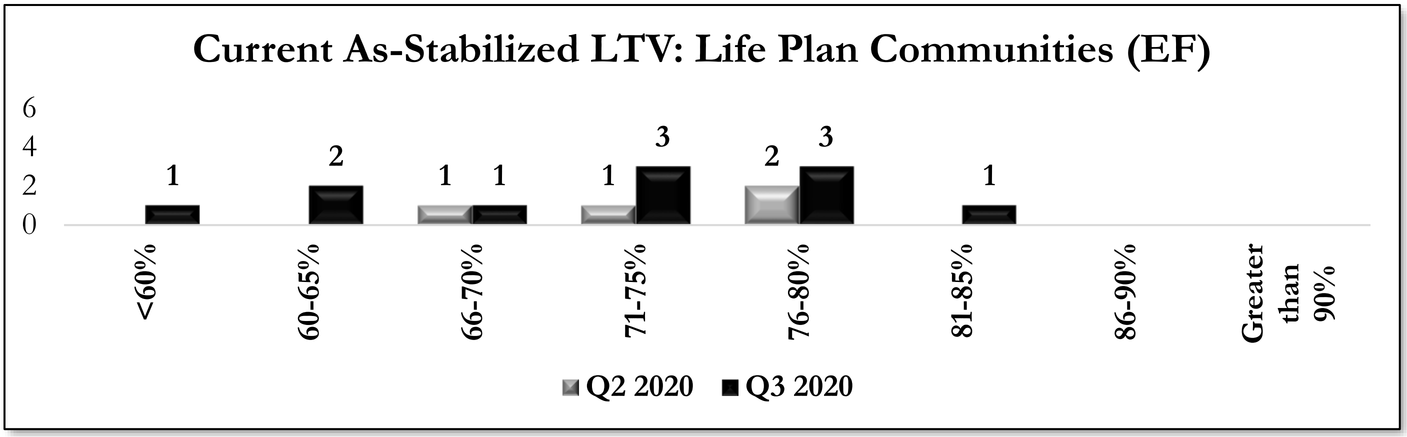
The charts below reflect the findings for majority nursing care communities only.





Entry-Fee Life Plan Communities
The charts below reflect the findings for Entry-Fee Life Plan Communities only.





Rental Life Plan Communities
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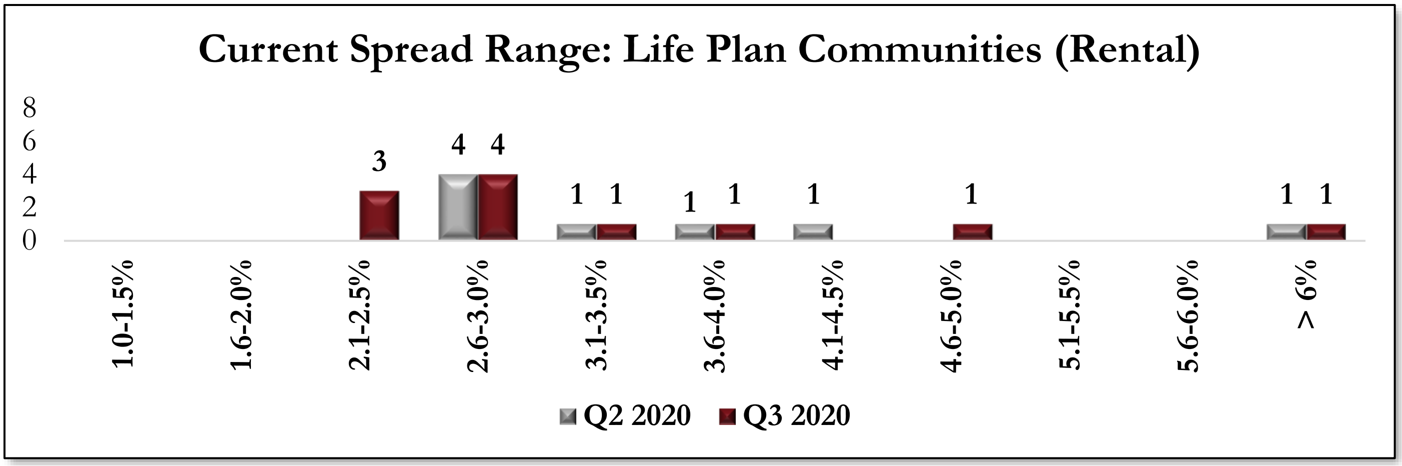
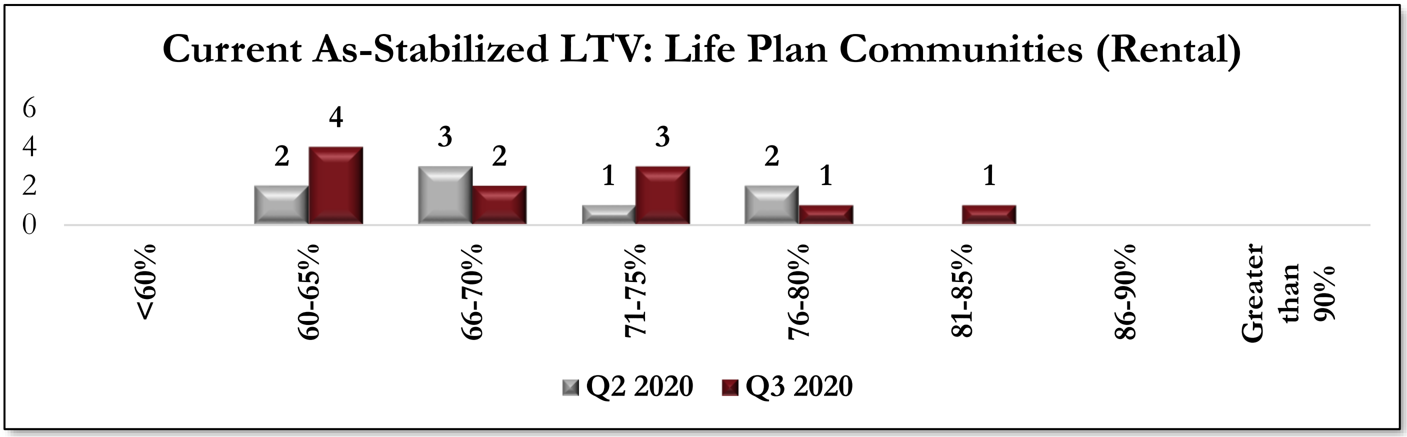
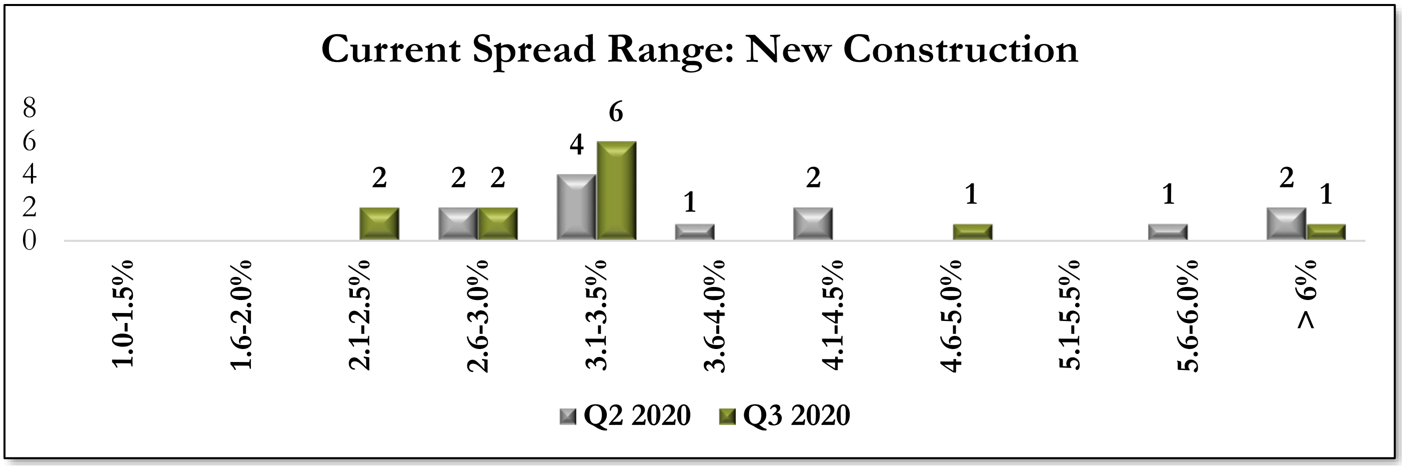
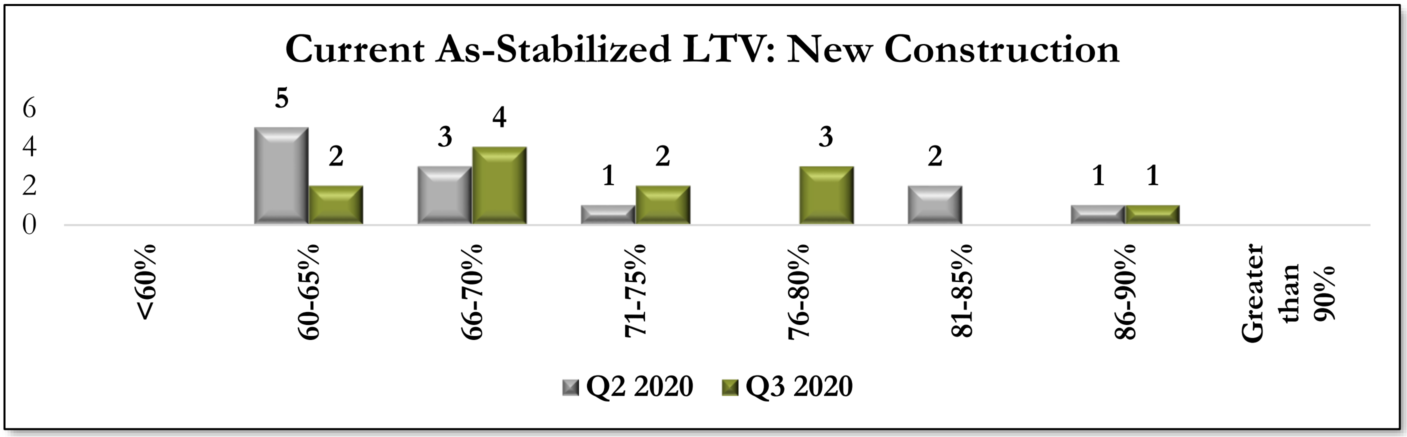




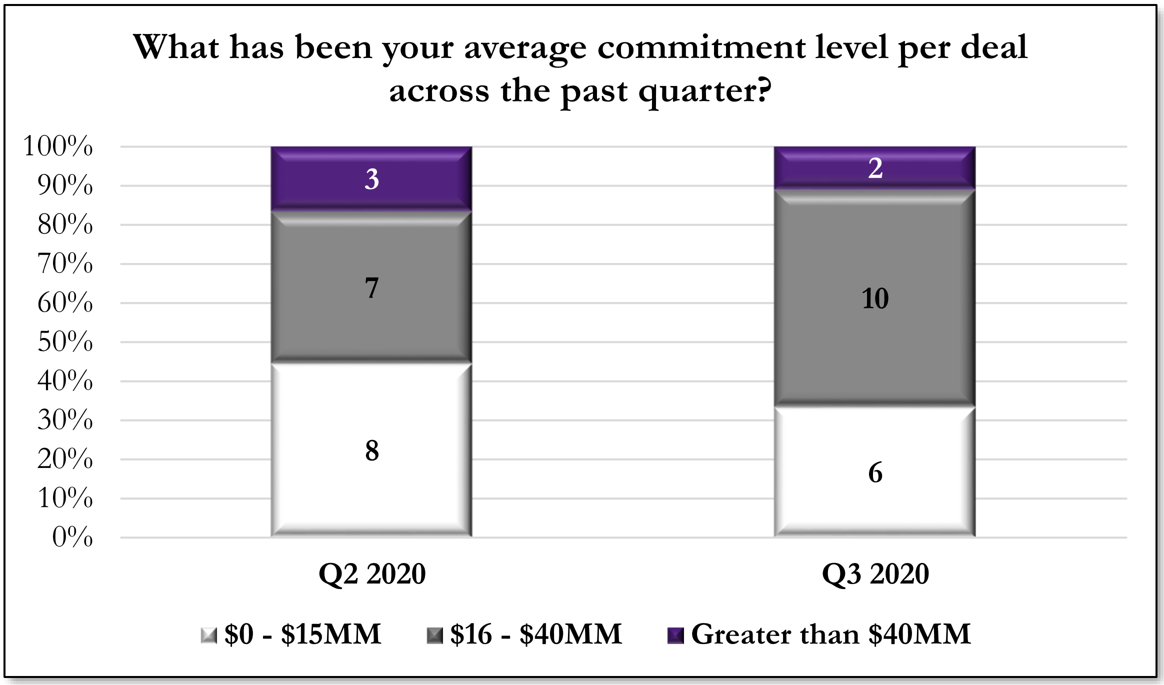
New Construction

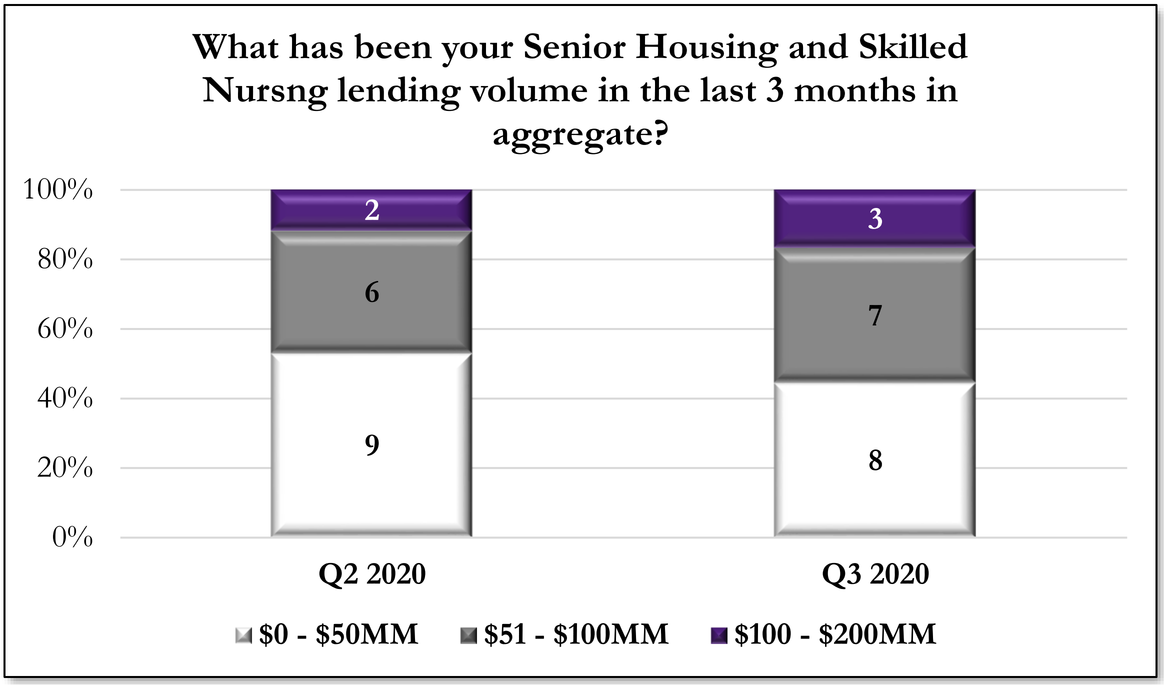
The charts below reflect the findings for new construction lending only.

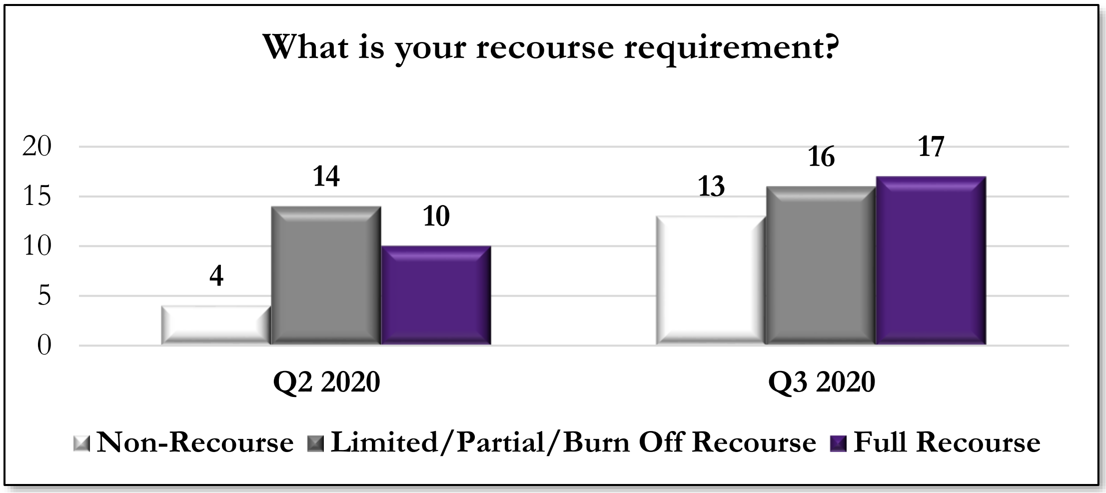




Additional questions were asked related to overall commitment level per deal, base rate floors, etc. For the third quarter, the largest proportion of lenders indicated average deal commitments between $16 - $40MM. Total volume for the past quarter was fairly similar to Q2 volume, with most reporting aggregate volume of less than $100MM.







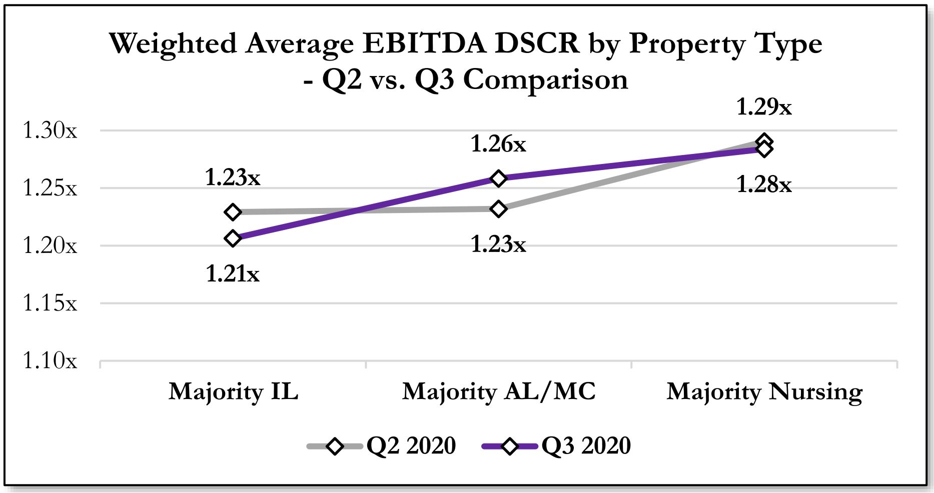
The # of respondents is greater than the "N" as the question was a "check all that apply" format.

An additional series of questions was asked regarding EBITDA underwriting requirements as well as debt service reserve funds. The table immediately below details the Q3 2020 results by property type and the following table compares Q2 and Q3 results. Thus far, there are no discernable trends in the data from quarter to quarter though that could change as we move into 2021.

EBITDA Debt Service Coverage Ratio Requirements by Property Type: Q3 2020

	Majority IL (N=14)	Majority AL/MC (N=16)	Majority Nursing (N=12)
<1.0X	1	0	0
1.0-1.10X	0	0	0
1.11-1.25X	0	1	1
1.26-1.35X	**7**	**8**	**7**
1.36-1.50X	5	4	1
Greater than 1.5X	1	3	3

Highlighted cell reflects category with largest number of respondents.



The table below details the requirements for debt service reserve funds. It should be noted, however, that a number of lenders do not require these reserve funds. Among those who do, a 12-month reserve as the most common.

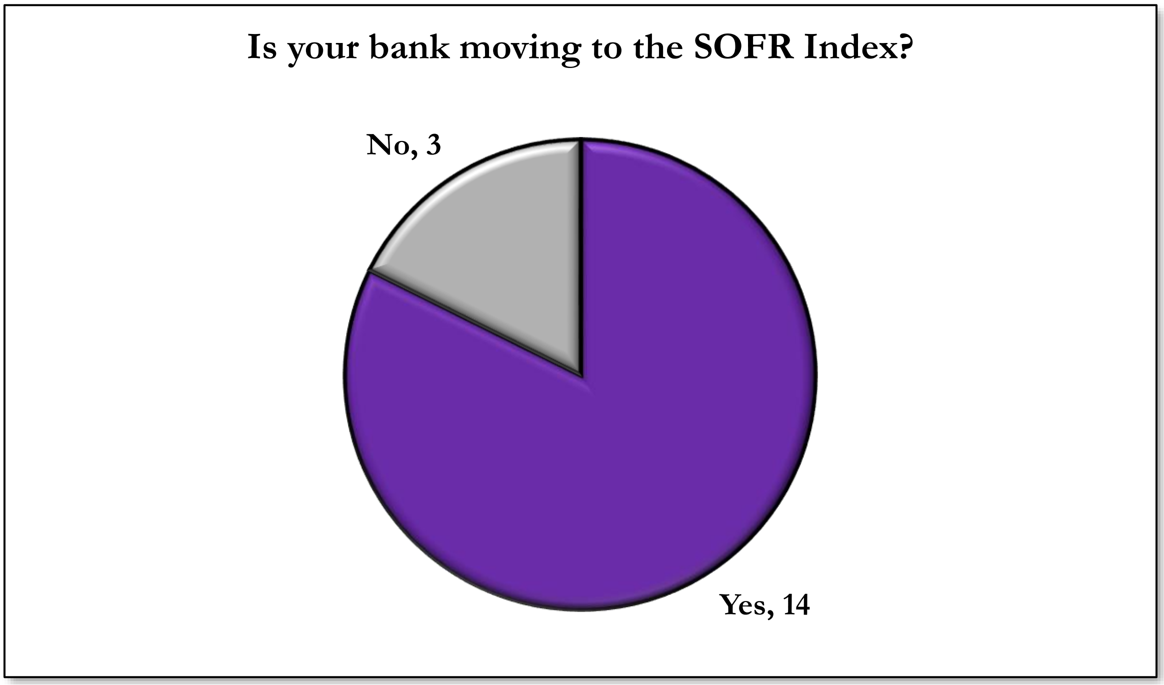
Debt Service Reserve Fund Requirements by Property Type: Q3 2020

	Majority IL (N=12)	Majority AL/MC (N=16)	Majority Nursing (N=10)
N/A - Do not require a DSRF	**7**	**10**	**6**
3 months	0	1	1
6 months	1	0	2
9 months	0	0	0
12 months	4	5	2
18 months	0	0	0

Highlighted cell reflects category with largest number of respondents.

LIBOR TRANSITION

A question was added to the Q3 survey that was not asked in the Q2 assessment regarding the transition to the SOFR index. As shown below, the vast majority of lenders indicated that they are moving to the SOFR index. Those responding "yes" to moving towards that index were asked about the timing of this transition. Half of the respondents indicated that they were uncertain when they would fully adopt SOFR. The next largest proportion indicated a full transition in Q2 or Q3 of 2021.



We expect the discussion around base rates will continue into 2021 as banks begin to transition to base rate index's other than LIBOR.

COVID-19 PRESSURES ON LENDING

The survey concluded with an open-ended question pertaining to changes in terms or requirements since the onset of COVID-19. Most agreed that terms and requirements have indeed been impacted. The comments below is a sampling of the feedback.

- *Lower leverage, higher spreads, establishment of DS reserves; basically, anything we can to mitigate unforeseen COVID risks.*
- *Spreads are 75 basis points higher and floor rates are now added to the deals (75 -100 bps). LTV's are 5-10% lower and we are staying away from value-add deals. Also, gravitating to the newer product (2010 or newer).*
- *Lower leverage, higher pricing, more selective with respect to sponsor*
- *Terms haven't changed necessarily; however we are looking for well-healed developers and structure our financings to include ample reserves given the potential uncertainty*
- *Lower leverage; turnarounds/re-positionings are more challenging to underwrite. Single asset deals extremely challenging.*
- *Have lowered LTV requirements (70-75%/no more than 85% R/E value only); not currently pursuing new construction financing; limited appetite on IL communities; require recourse in some capacity on most transactions*
- *Increase underwriting requirements, smaller holds, increased spreads*
- *We will not make any exceptions to credit policy. Interest only on stabilized assets has been suspended. Construction loans are for existing customers, lower LTCs and must have some form of recourse until stabilization, regardless of LTC. Focus on those operators and owners who have deep experience. Rare, if any, broker transitions considered.*
- *Rates have gone up and LTV/LTC on acquisitions has lowered.*
- *Structure is tighter to protect/monitor downside; recourse burn-offs are being delayed, leverage down a little, delays in cash out, not all out day 1... etc.*
- *Shorter terms, greater liquidity, LIBOR floors*

GLOSSARY OF TERMS

The following terms were mentioned throughout this document. Here are their definitions in greater detail:

- *Base Rate – This rate, typically an index, such as LIBOR, SOFR, WSJ Prime Rate, etc., is added to the spread rate to get the "All-In-Rate."*
- *Base Rate Floor – Due to the current low rate environment, Bank Term Sheets often include a Bank Rate Floor, which is typically, above the current "Base Rate." This is the minimum rate added to the Spread Rate to get to the "All-In-Rate."*
- *Spread Range – This is the Range of Rates added to the Base Rate to determine the All-In-Rate.*
- *Loan-to-Value (LTV) / Loan-to-Cost (LTC) – This is the maximum amount of proceeds a bank is willing to Fund, based upon Value (typically as determined by an Appraisal) or Cost (typically, the total Cost of a new construction project."*
- *Life Plan Communities (LPCs) – Sometimes referred to as Continuing Care Retirement Communities, these communities include all levels of housing and care, Independent Living, Assisted Living, Memory Care and/or Skilled Nursing. However, not all communities include skilled nursing or memory care. They may be rental communities, or they may require an Entrance Fee or other larger up-front fee.*

The senior living organizations' responses included in this report have been collated without verification of the accuracy of the data/comments therein. The results provided do not express an opinion of nor can they be guaranteed by Ziegler.

PREPARED BY:
LISA McCRACKEN
Director, Senior Living Research & Development
Ziegler
Direct: 312-705-7253
e-mail: lmccracken@ziegler.com

CONTACT INFORMATION:

ZIEGLER
One North Wacker Drive, Suite, 2000 Chicago, IL 60606
800-366-8899
askziegler@ziegler.com

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