ZIEGLER/NIC LENDER SURVEY RESULTS

WINTER Q4 2020

Ziegler

CAPITAL :: INVESTMENTS :: ADVICE

INTRODUCTION

In July of 2020, and in response to the Covid-19 pandemic, Ziegler, in partnership with NIC (National Investment Center for Seniors Housing & Care), initiated an industry-wide study among seniors housing and care lenders. The overarching survey purpose is 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 the industries access to debt capital. 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 seniors housing and care developers, owners, and operators. The current report reflects findings representing Q4 2020 data, along with the prior two quarterly surveys. Data collection was held between January 15 and January 31, 2021. We are beginning to see trend data that will avail itself to greater analytics post-pandemic.

EXECUTIVE SUMMARY

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

- *"Pricing, advance rates, recourse/burn-off provisions, covenant structure, reserves (working capital not DSRF), fill-up assumptions/sensitivities, etc. are all higher/tightened to account for increased risk, higher costs, slower fills, etc."*
- *"… we are staying mostly with existing customers and looking for 5-10% more equity than prior to COVID."*
- *"… pricing has increased approx. 200 bps on bridge loan products. However, pricing is beginning to improve."*
- *"… paused taking on new exposure while digesting current exposure."*

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

- Participation has increased to 35 lending institutions. We look forward to continued support from our approximately 115+/- lending institutions we reach out to quarterly. If interested in participating please indicate so by emailing Don Husi, at **dhusi@ziegler.com**.
- Regional banks continue to be the largest respondents to the survey.
- We asked the question, "What was your total lending volume for all of 2020 (26 of 35 respondents)?"
  - 15 banks were less than $100 million;
  - 7 banks were between $100 and $200 million;
  - 4 banks were in excess of $200 million.
- The vast majority of lenders appear to be migrating towards the SOFR index. With greater participation from bank partners, it is a bit surprising that 9 of the 35 respondent banks are not moving to the SOFR index.
- Lenders are demanding full recourse with 21 of 35 respondents requiring such.
- Note that 19 of the 35 respondents indicated they will lend on new construction, which may only reflect the increase in respondents. This figure is up significantly from prior quarters, albeit at lower loan to cost. This is a trend worth continued monitoring as we enter 2021.
- Roughly half of the banks are requiring some form of debt service reserve fund.
- Preliminarily, AL/MC spread ranges appear to be decreasing, but this will need to be monitored over the next several quarters to confirm that trend.

As we enter the second quarter of 2021, the impact of vaccinations and communities re-opening admissions will be top of mind for all. We look forward to providing data that can drive stabilization and growth in all of our seniors housing and care subsectors.

Below are typical snapshot deal terms by acuity level based upon survey responses:

Lending Terms Snapshot[1]				
	IL	**AL/MC**	**SNF**	**New Const.**
LTV	60-65% / 71-75%	71-75%	71-75%	60-65%
Base Rate Floor[2]	0.6-1.0% w/Base Rate of 1-Month LIBOR			
Spread	2.6-3.0%	2.6-3.0%	3.6-4.0%	2.6-3.0%
All-In Rate[3]	3.75%	3.75%	4.75%	3.75%
Min. DSCR	1.11-1.25x	1.11-1.25x	1.26-1.35x / >1.50x	-

(1) - Information above is illustrative of a "typical" deal given current market conditions determined by survey responses.
(2) - Base Rate Floor survey question not specific to acuity level. 1-Month LIBOR as of 4/5/21: 0.11%.
(3) - Base Rate Floor assumed to be 1.00% and mid-point of Spread response used for purposes of All-In Rate calculation.

RESPONDENT DEMOGRAPHICS

A total of 115 lenders, including both traditional banks and alternative lenders, were solicited for participation in the Q4 2020 survey. A total of 35 organizations participated in the survey, yielding a response rate of 30%, our highest participation rate to date. As detailed below, regional banks represented the largest portion of participating lenders, while the number of national bank respondents shrunk from 5 to 3 from Q3 to Q4 representing the smallest percentage of participating lenders. Community/local bank participation jumped significantly with 6 lenders responding, matching the aggregate number of firms in this category that responded across both Q2 and Q3.

What type of lender describes you best?	Q4 2020 Responses	Q3 2020 Responses	Q2 2020 Responses
National Bank	**3**	5	2
Regional Bank	**21**	12	10
Community / Local Bank	**6**	2	4
Finance Company / Alternative Lender	**4**	3	6

While the largest number of respondents represented regional banks, roughly one-third 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. The number of participating lenders from the Midwest increased sharply from previous quarterly surveys.

In which geography do you conduct the majority of your lending for seniors housing & care?	Q4 2020 Responses	Q3 2020 Responses	Q2 2020 Responses
National	**11**	13	12
Midwest	**10**	3	3
Southeast	**4**	2	3
Northeast	**4**	2	3
Mid-Atlantic	**2**	0	0
Southwest	**2**	0	0
Mountain States	**1**	0	1
West	**1**	1	0
Northwest	**0**	1	0
Total	**35**	**22**	**22**

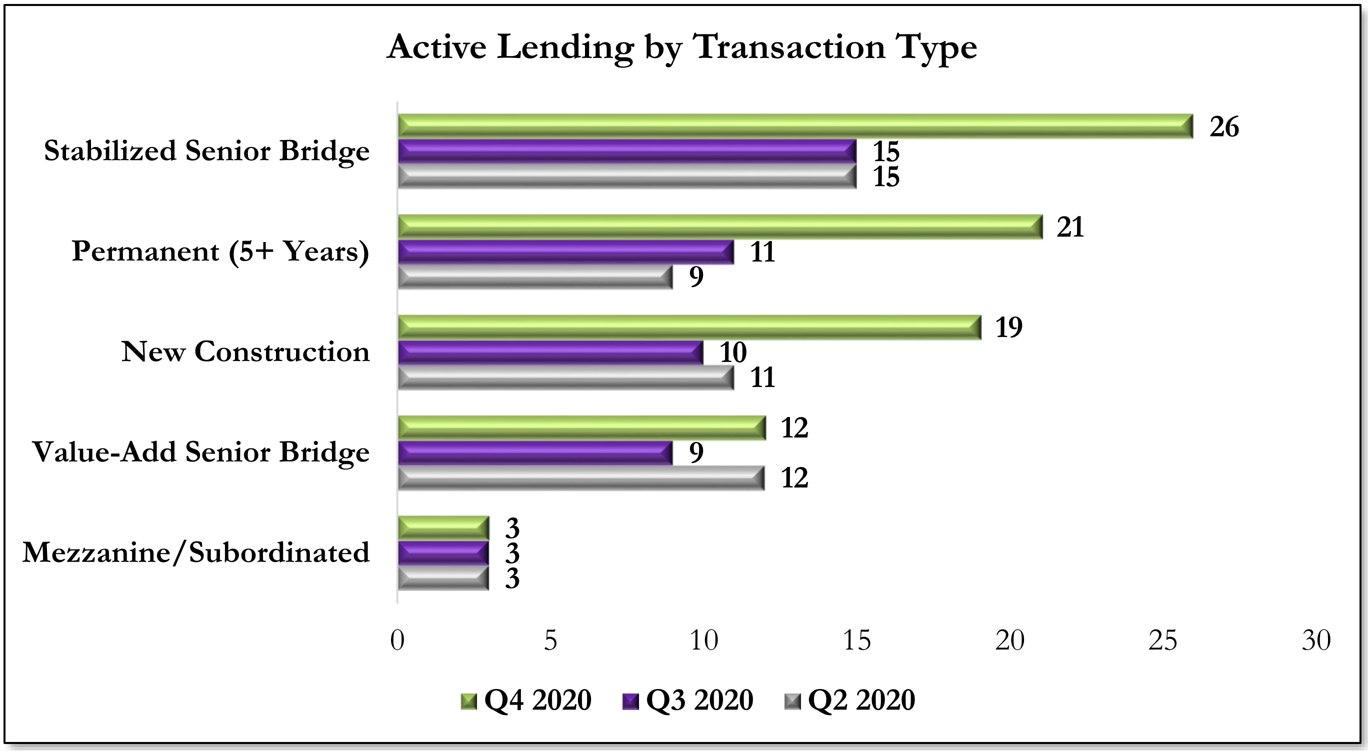
Roughly 72% of respondents indicated that they offer both fixed-rate and floating-rate loans, fairly similar to the Q2 and Q3 2020 results. All but two of the remaining respondents noted that they only provide floating-rate loans.

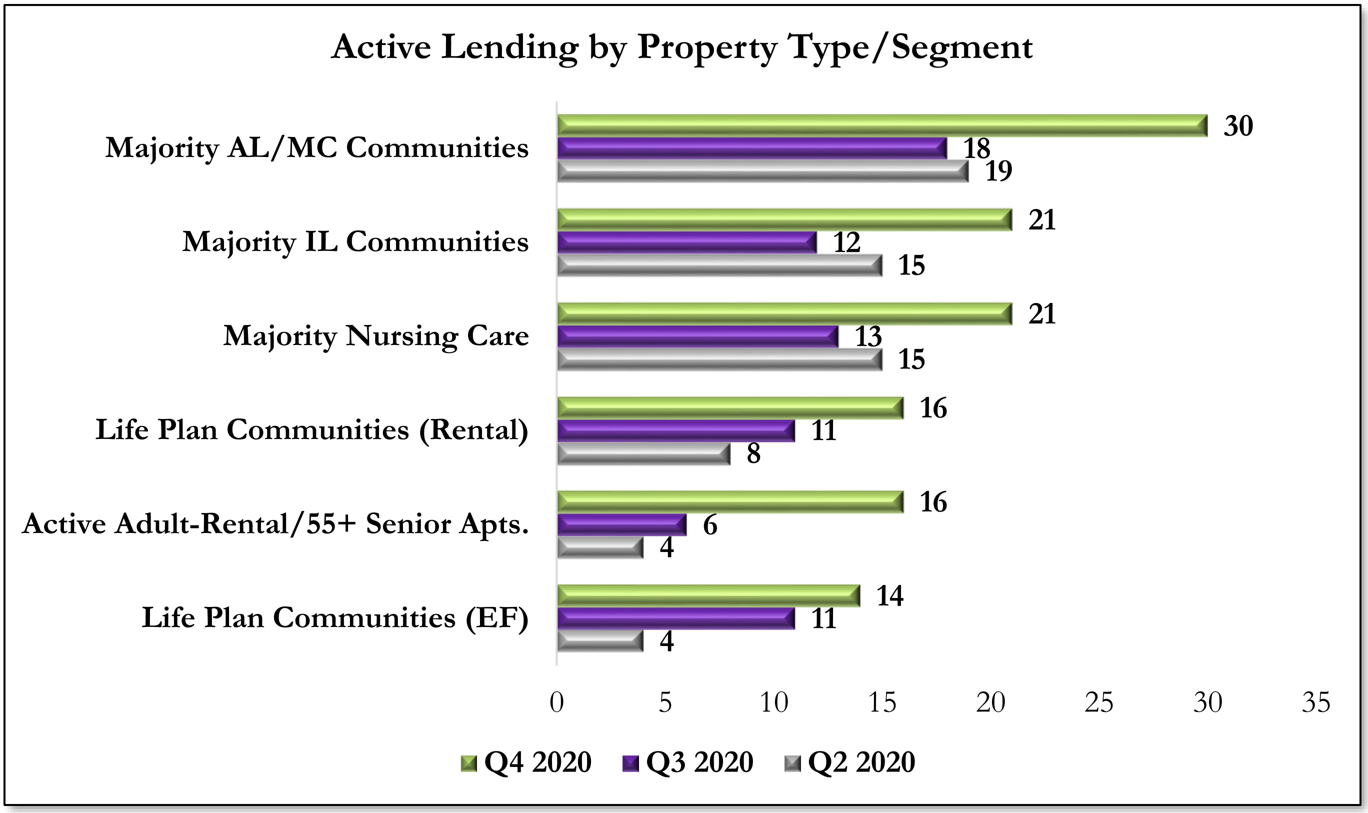
LENDING ACTIVITY

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. Only one Q4 respondent indicated no active lending within the seniors housing & care space in the past year who was then redirected to the end of the survey.

Roughly 57% (20) of the respondents reported lending to both the private and tax-exempt sectors, with roughly another 37% (13) indicating that they have only lent to private sector owners and operators. Only one respondent reported lending only to tax- exempt providers.

The graph below shows the number of respondent organizations that are actively lending for particular property types/segments. The largest proportion of lenders are active with Majority AL/MC communities. Stabilized Senior Bridge funding is the most common form of debt instrument currently available from this lender subset. Recall, the "N" for each iteration of the survey thus far is as follows: Q4 2020 – 35, Q3 2020 – 22, Q2 2020 – 22.





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. However, there are lenders that fall above and below those ranges.

Spread Range	Q4 2020 Majority IL (N=13)	Q4 2020 Majority AL/MC (N=23)	Q4 2020 Majority Nursing (N=17)	Q4 2020 LPC-EF (N=10)	Q4 2020 LPC-Rental (N=11)
1.0-1.5%	1	1	1	0	0
1.6-2.0%	0	1	0	1	0
2.1-2.5%	**3**	1	0	**4**	2
2.6-3.0%	**5**	**11**	**5**	2	**5**
3.1-3.5%	3	5	**4**	1	1
3.6-4.0%	0	1	**5**	0	0
4.1-4.5%	0	1	0	0	0
4.6-5.0%	0	0	0	0	0
5.1-5.5%	0	1	1	1	1
5.6-6.0%	0	0	1	0	0
Greater than 6%	1	1	0	1	1

Highlighted cell reflects category with largest number of respondents.

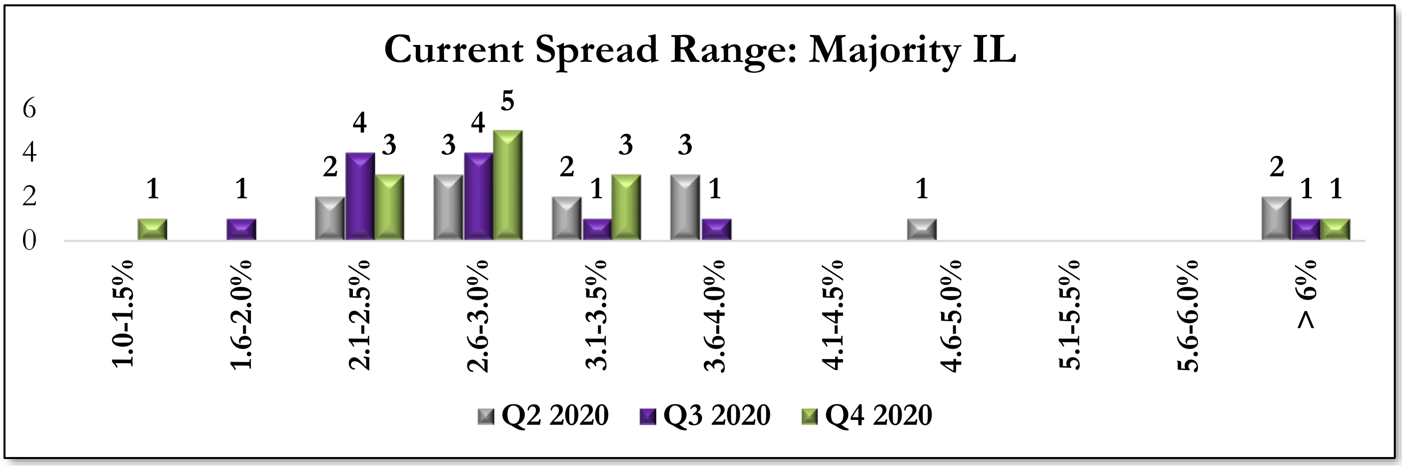
The LTV figures below show that with the exception of Life Plan Communities, most respondents report having a 71-75% maximum loan-to-value requirement across the majority of property types.

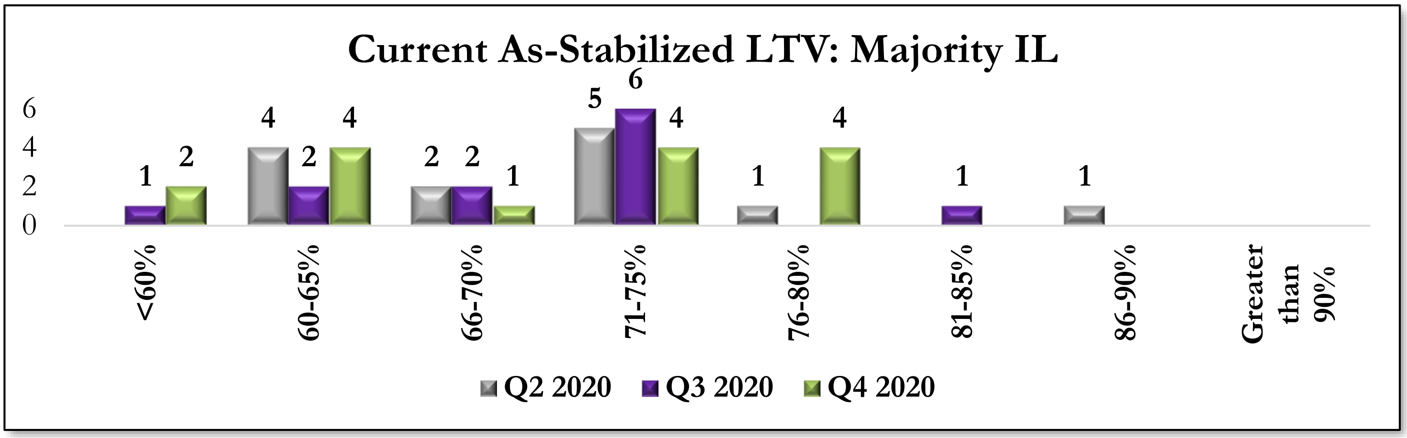
LTV Range	Q4 2020 Majority IL (N=15)	Q4 2020 Majority AL/MC (N=25)	Q4 2020 Majority Nursing (N=18)	Q4 2020 LPC-EF (N=11)	Q4 2020 LPC-Rental (N=12)
<60%	2	0	0	0	0
60-65%	**4**	8	3	2	3
66-70%	1	3	3	0	1
71-75%	**4**	**9**	**7**	4	3
76-80%	4	4	5	**5**	**5**
81-85%	0	1	0	0	0
86-90%	0	0	0	0	0
Greater than 90%	0	0	0	0	0

Highlighted cell reflects category with largest number of respondents.

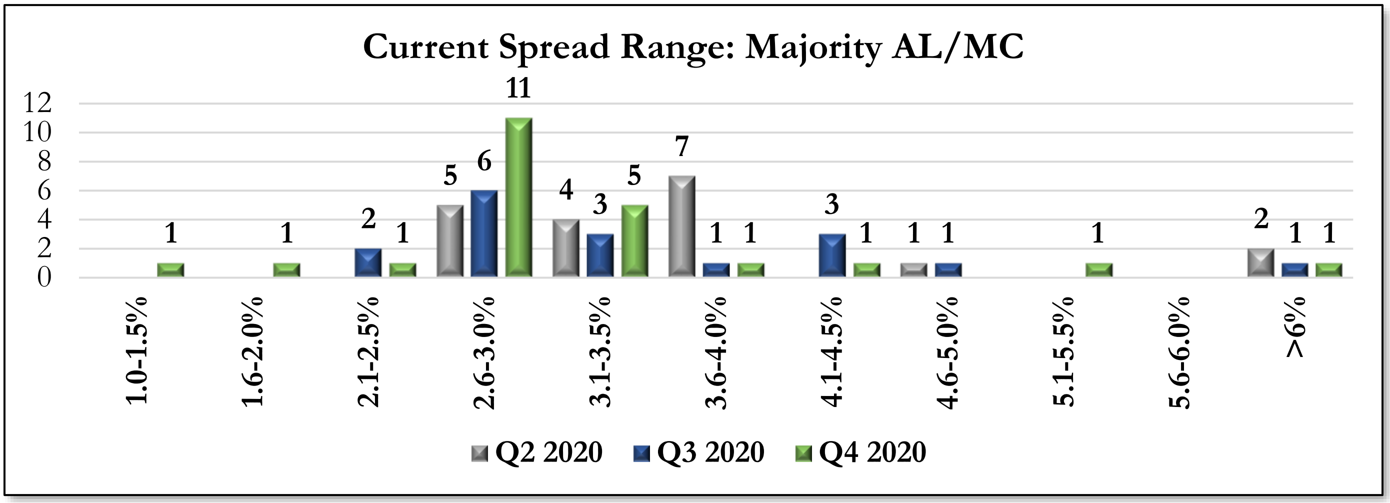
Majority Independent Living

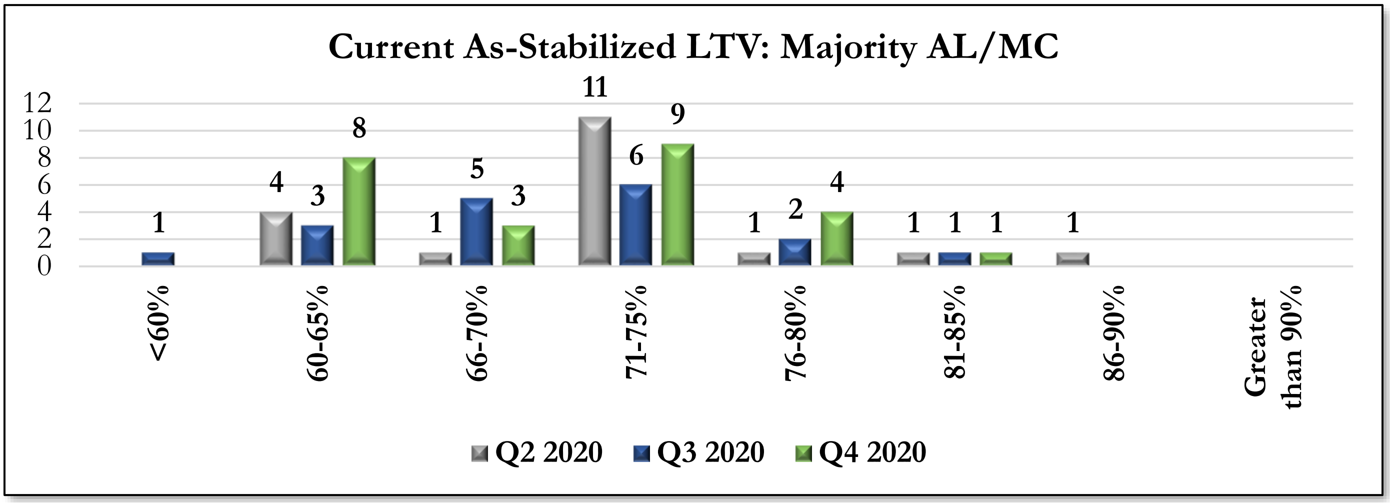
The charts below reflect the findings for majority independent living communities only with comparisons between Q2, Q3, and Q4 2020 results.





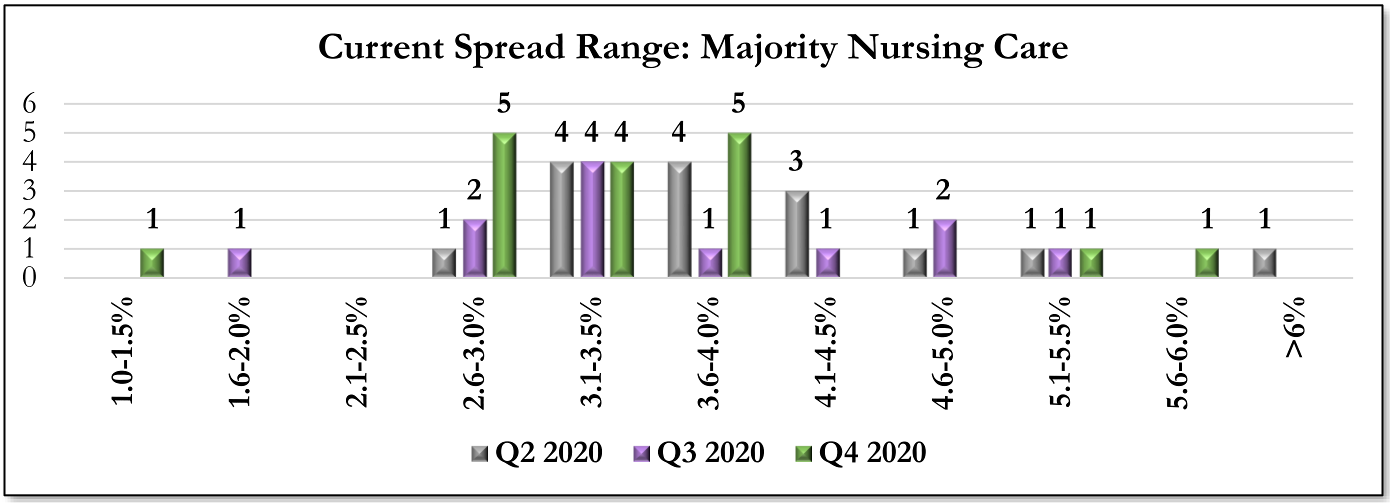
Majority Assisted Living/Memory Care
The charts below reflect the findings for majority assisted living/memory care communities only again comparing Q4 results against previous Q2 and Q3 2020 findings.

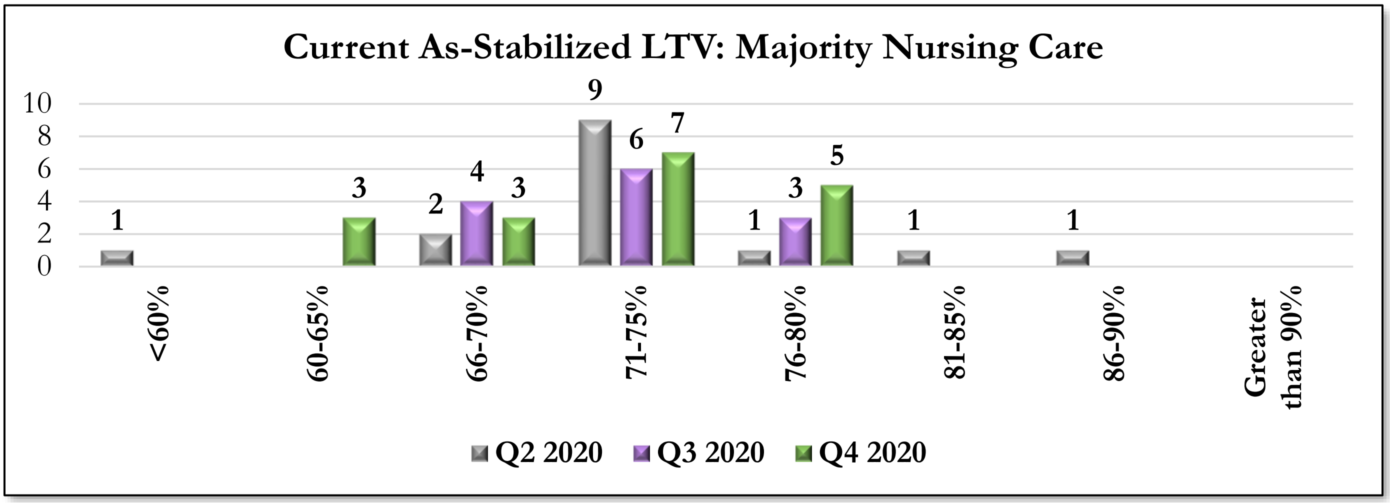




Majority Nursing Care

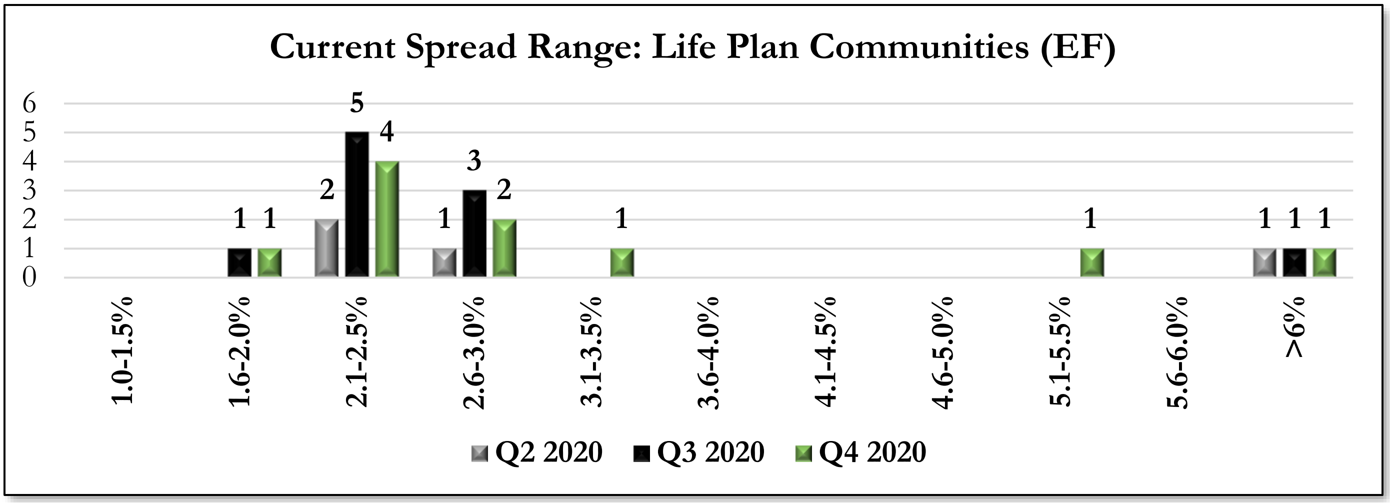
The charts below reflect the findings for majority nursing care communities only comparing Q2, Q3, and Q4 2020 results.

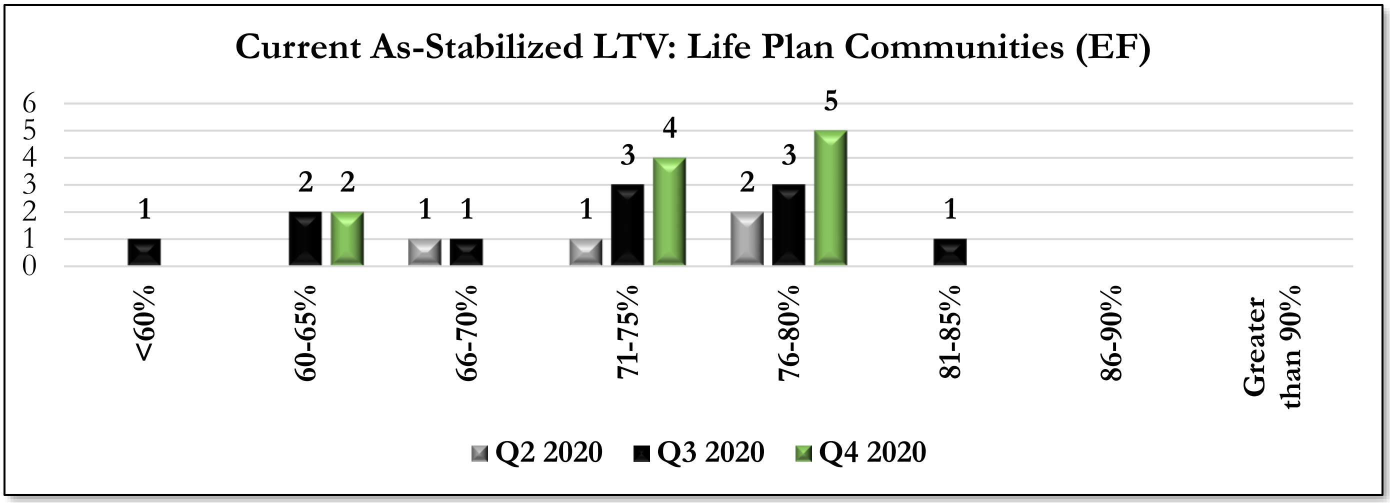




Entry-Fee Life Plan Communities

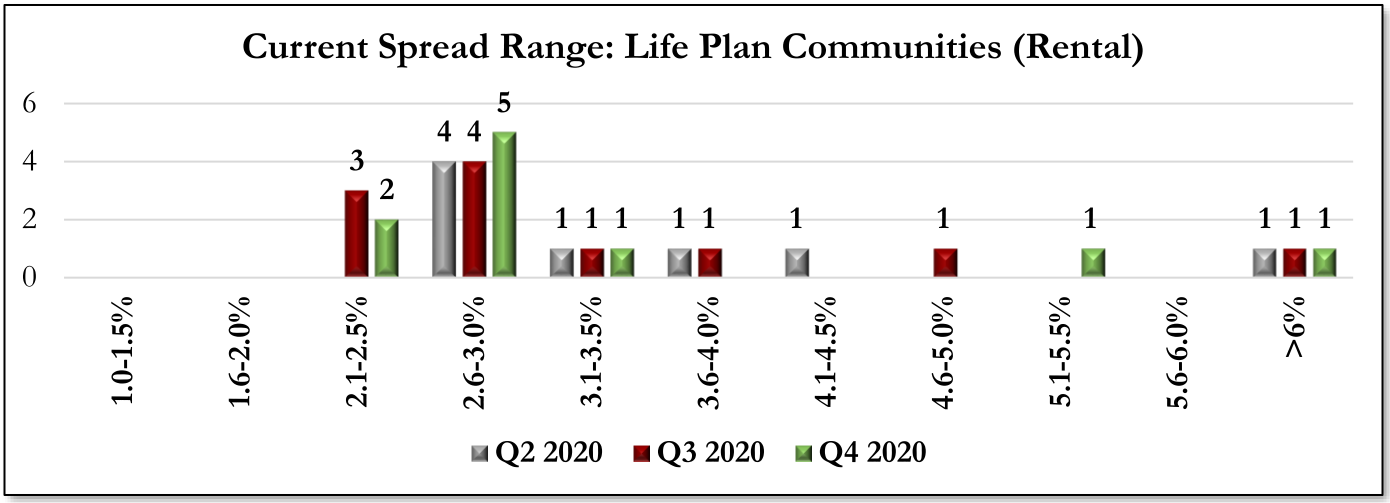
The charts below reflect the findings for Entry-Fee Life Plan Communities only comparing results across the last 3 quarters of 2020.

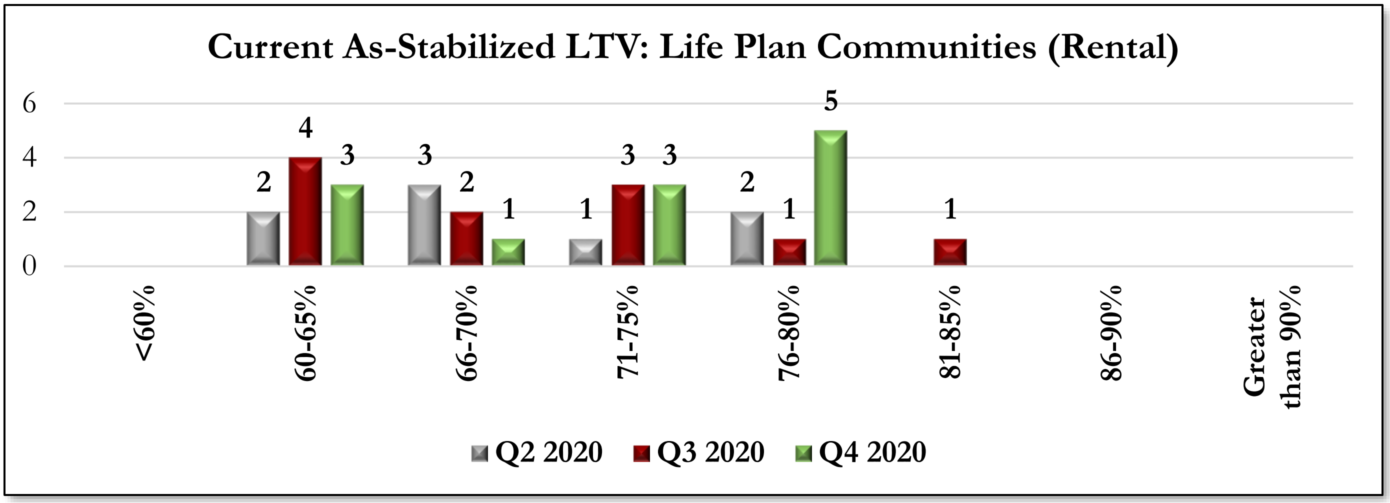




Rental Life Plan Communities

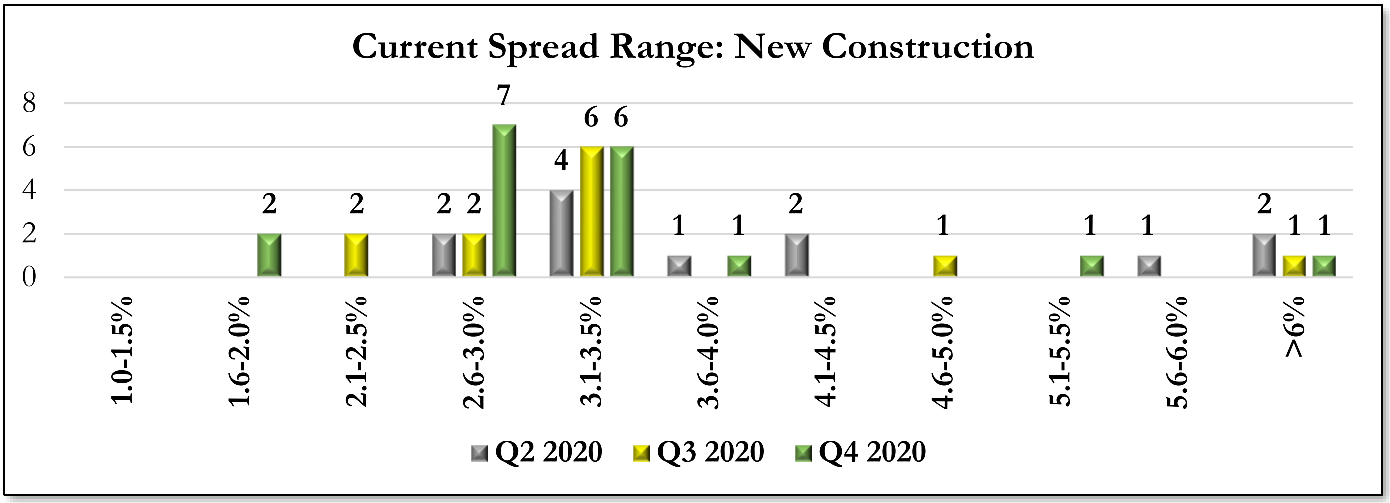
The charts below reflect the findings for Rental Life Plan Communities only again comparing results across the last 3 quarters of 2020.

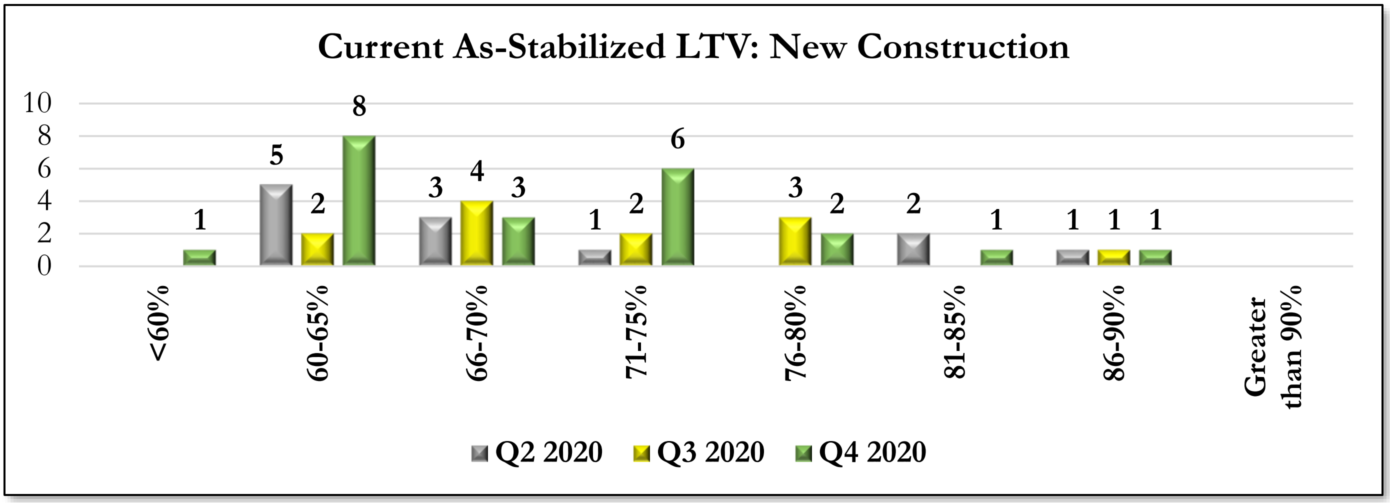




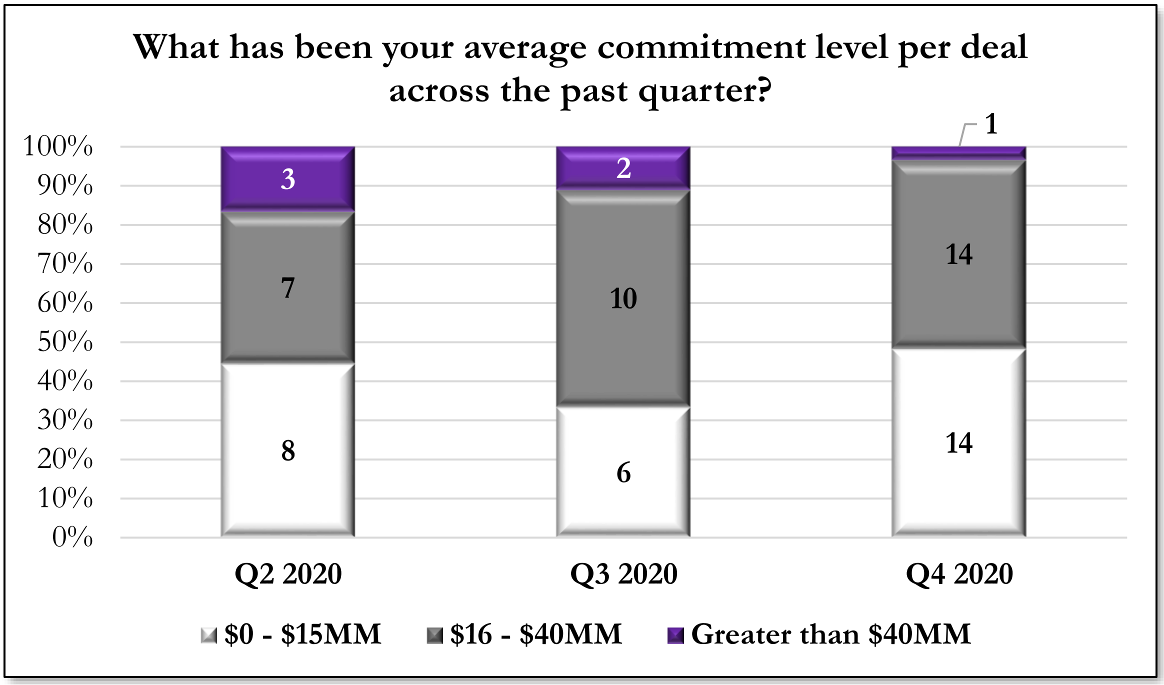
New Construction

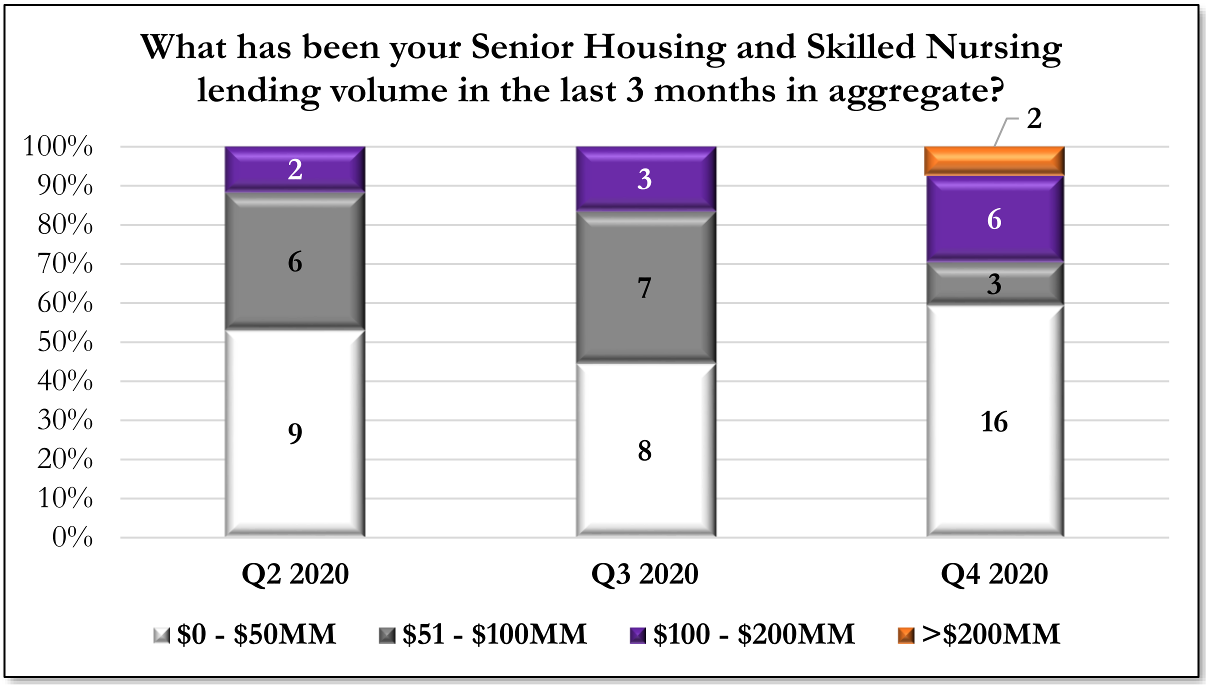
The charts below reflect the findings for new construction lending only with comparisons between Q2, Q3, and Q4 2020 results.

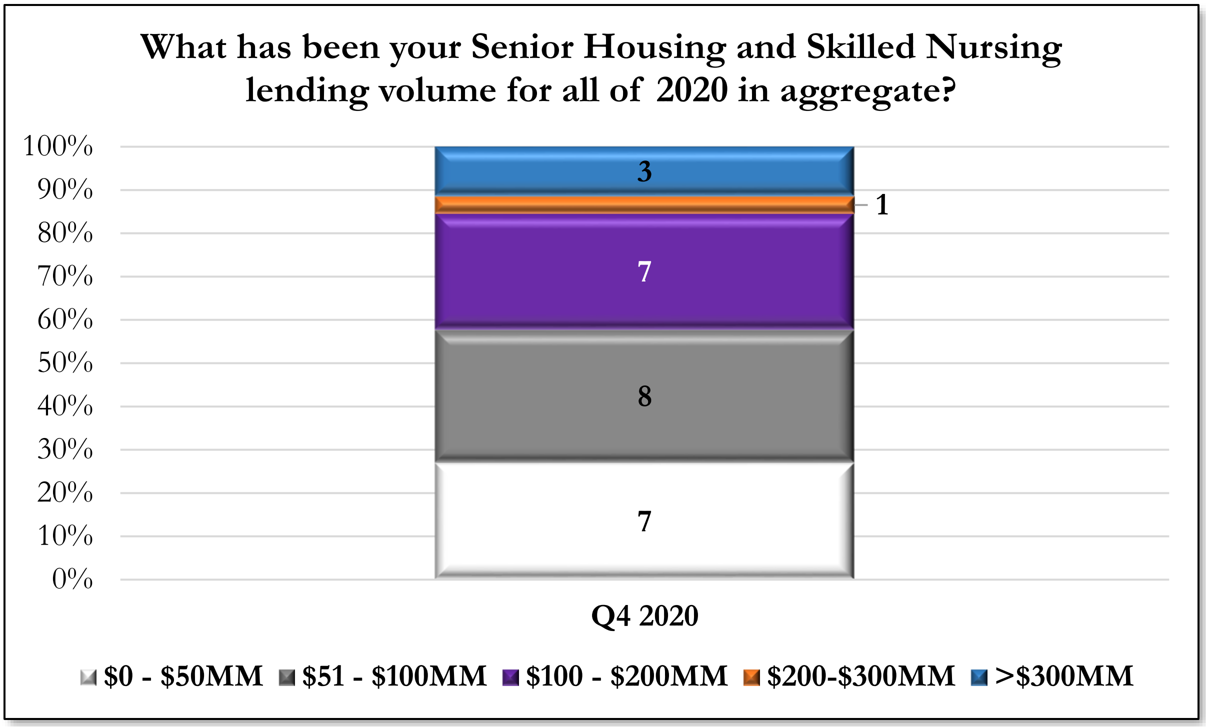


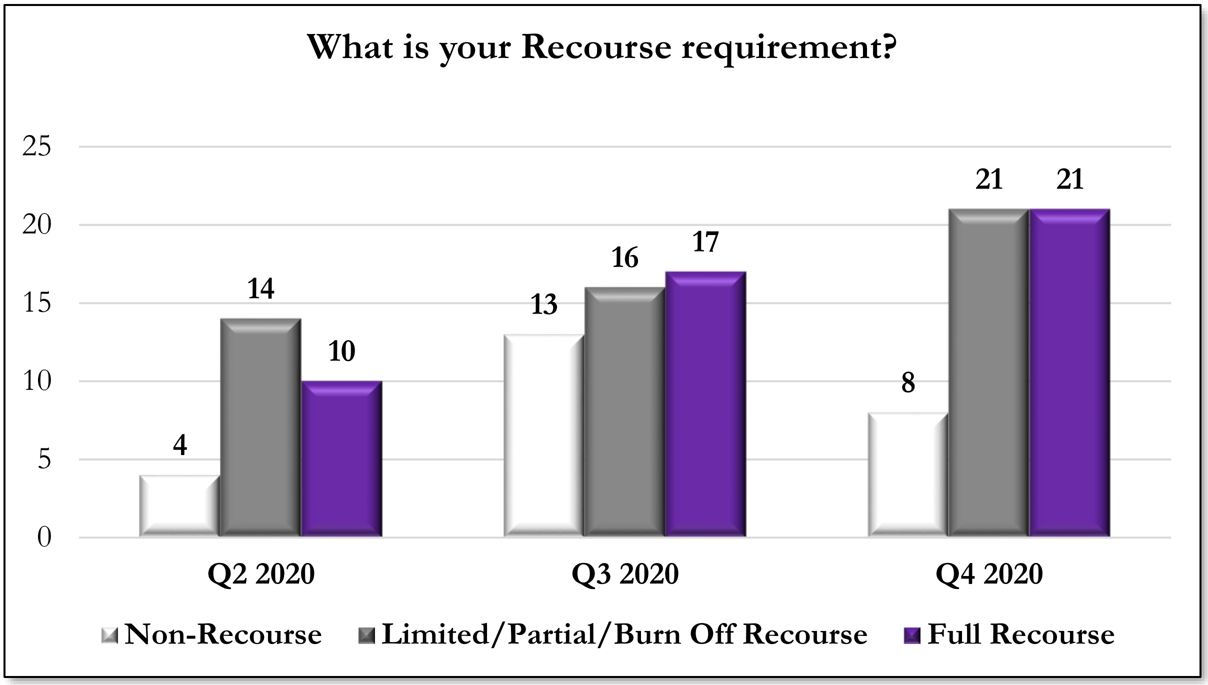


Additional questions were asked related to overall commitment level per deal, base rate floors, etc. For Q4 2020, an equal number of lenders indicated average deal commitments between $0-15MM and between $16-40MM. Total lending volume seemed slightly below previous quarters with the vast majority reporting aggregate volume under $50MM. Total volume for 2020 was fairly evenly split among the categories below $200MM.

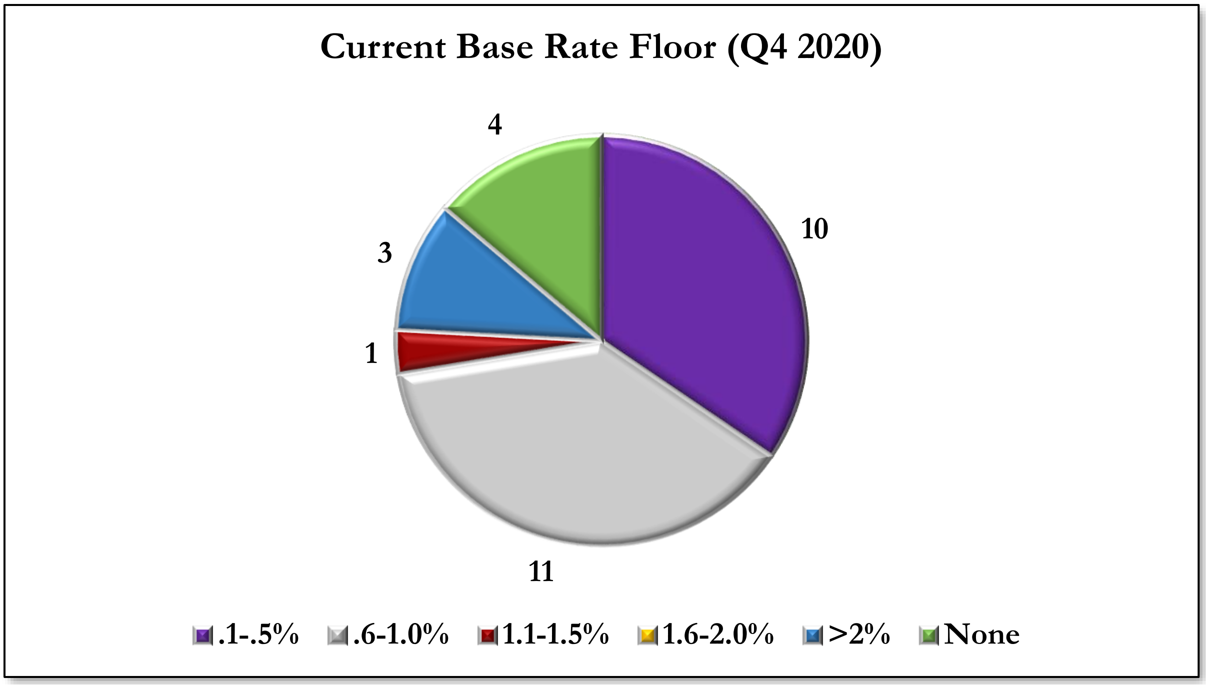








The number of responses is greater than the "N" as the question was a "check all that apply" format.



An additional series of questions was asked regarding EBITDA underwriting requirements as well as debt service reserve funds. The table below details the Q4 2020 results by property type.

EBITDA Debt Service Coverage Ratio Requirements by Property Type: Q4 2020

	Majority IL (N=20)	Majority AL/MC (N=25)	Majority Nursing (N=18)
<1.0X	0	0	0
1.0-1.10X	1	1	1
1.11-1.25X	**7**	**9**	3
1.26-1.35X	5	7	**6**
1.36-1.50X	5	4	3
Greater than 1.5X	2	5	**6**

Highlighted cell reflects category with largest number of respondents.

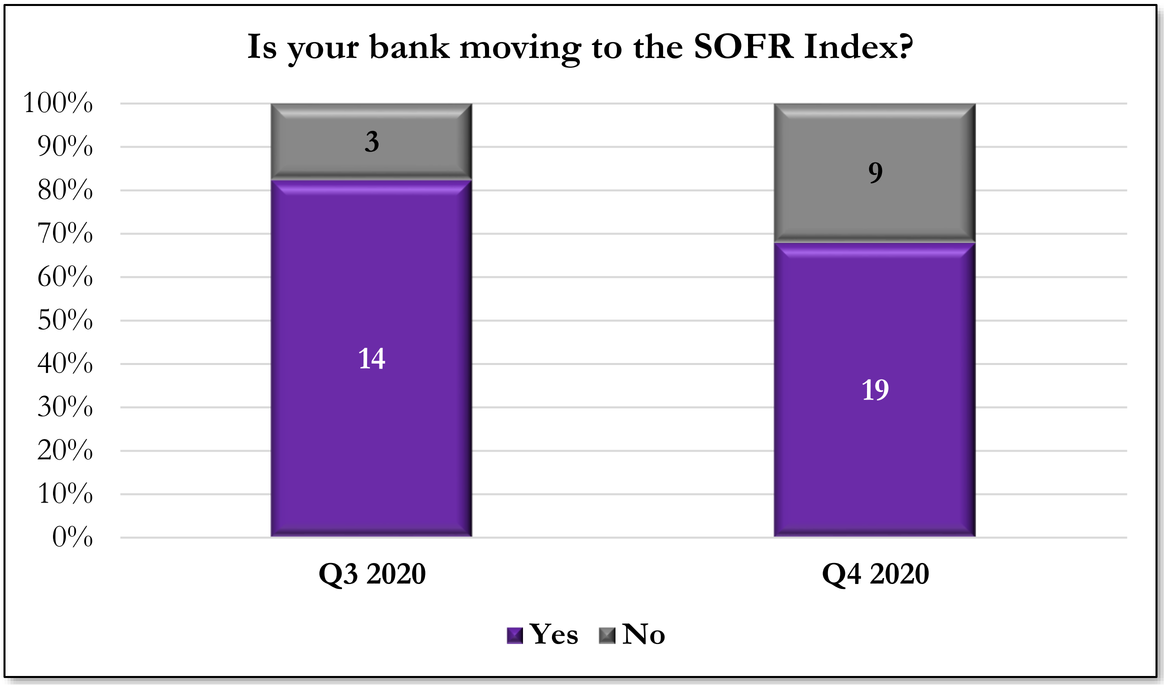
The table below details the requirements for debt service reserve funds. It should be noted, however, that a number of lenders (slightly more than half) do not require these reserve funds altogether. Among those who do, 3-month and 12-month reserve requirements are the most common.

Debt Service Reserve Fund Requirements by Property Type: Q4 2020

	Majority IL (N=19)	Majority AL/MC (N=16)	Majority Nursing (N=10)
N/A - Do not require a DSRF	**13**	**18**	**16**
3 months	3	2	2
6 months	1	3	1
9 months	0	0	0
12 months	3	3	2
18 months	0	0	0

Highlighted cell reflects category with largest number of respondents.

A question was added to the Q3 survey and was asked again in the Q4 survey 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. The largest proportion of the respondents indicated that they were uncertain when they would fully adopt SOFR. The remaining respondents were evenly split between sometime in 2021 or 2022.



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 are a sampling of some of the feedback.

- *Yes. Pricing, advance rates, recourse/burn-off provisions, covenant structure, reserves (working capital not DSRF), fill-up assumptions/sensitivities, etc. are all higher/tightened to account for increased risk, higher costs, slower fills, etc.*
- *Yes, we are staying mostly with existing customers and looking for 5-10% more equity than prior to COVID.*
- *Yes, pricing has increased approx. 200 bps on bridge loan products. However, pricing is beginning to improve.*
- *Yes, paused taking on new exposure while digesting current exposure.*
- *Yes - more restrictive.*
- *Yes - more detailed projections on how mortgage will be paid through operations and how operations projects growth going forward.*
- *Yes - higher spreads. Lower leverage. Emphasis on premier sponsorship and operators.*
- *Tightened up on whom we deal with. Lower LTV and/or higher liquidity requirement of operator/guarantor. More likely to be pledged. More apt to require DSRF presale/prelease requirements. Bump down term/earliest call date.*
- *More conservative LTVs, recourse at the onset. Only lending to existing customers and prospects that are known to us with experience and large portfolios of facilities, or liquid balance sheets for NFP borrowers.*
- *DS reserve requirements, more recourse, trying to push for lower leverage, incorporating LIBOR floors to try to get a minimum all-in rate of 4.00%.*
- *Credit parameters have gotten tighter. LTC has lowered a bit to approx. 75% max deals and asking for more recourse and lighter burn-downs. Spreads are slightly up since beginning of 2020.*

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, 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 Skilled Nursing. However, not all communities include skilled nursing. They may be rental communities, or they may require and 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.

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