



ZIEGLER/NIC LENDER SURVEY RESULTS

SUMMER 2020



Ziegler

CAPITAL :: INVESTMENTS :: ADVICE

INTRODUCTION

Ziegler, in partnership with NIC (National Investment Center for Seniors Housing & Care), elected to undertake an industry-wide study among lenders within the seniors housing and care sector. The overarching purpose of the study 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 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 to be distributed to a wider network of developers, owners, and operators of seniors housing and care properties. Please refer to the glossary at the end of the document for definitions. The data collection period for the current survey was July 28 through August 15, 2020.

Per the request of the majority of respondents, **Ziegler/NIC, will repeat this survey on a quarterly basis, beginning the 15th of the month following each quarter end.** Over time, the survey will provide trend data that will assist developers, owners, and operators in understanding the current state of lending to the seniors housing and care industry as well as the differing observed risk profiles by property and product type as viewed by banks and other financial institutions.

EXECUTIVE SUMMARY

The following quote from one of the survey respondents summarizes the current state of lending for seniors housing and care.

“[The] Current lending environment is tough across all asset classes. It's very difficult to underwrite as there is no way to possibly know or reasonably assume what the future is going to look like.”

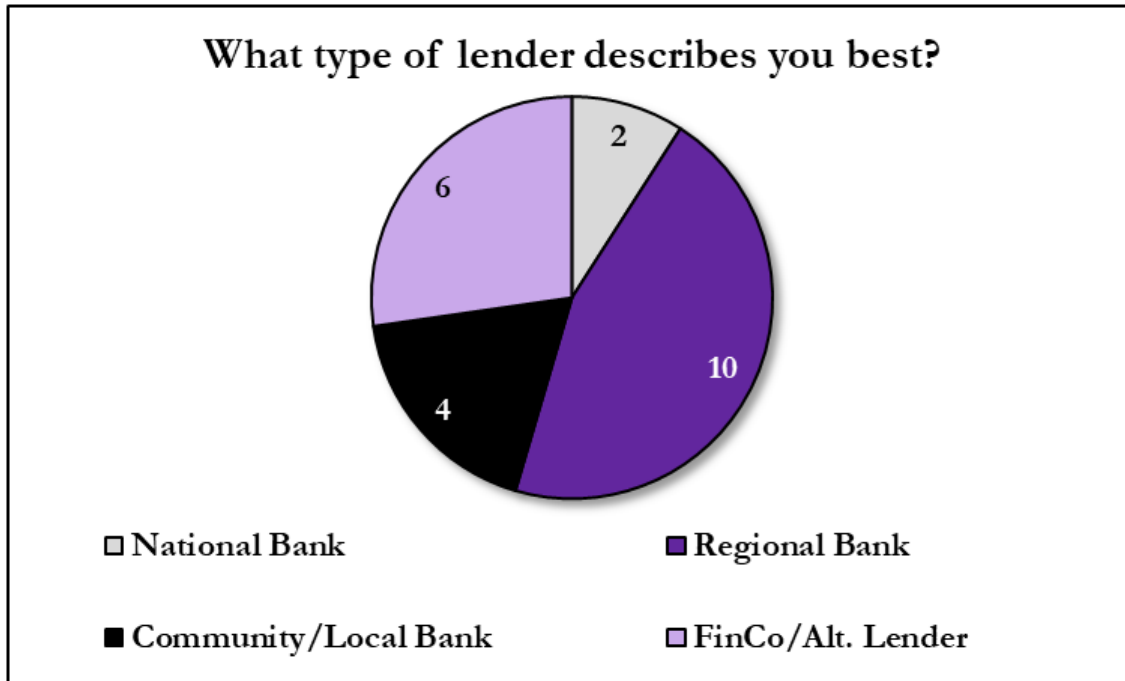
Given this current environment, it is the ideal time to begin tracking seniors housing and care lending characteristics. Detailed information is included in the full report that follows; however several interesting trends are worth noting:

- Regional Banks (10) were the largest cohort of respondents, followed by Finance Company/Alternative Lenders (6), Community Banks (4) and National Banks (2).
- Not-For-Profit Life Plan Communities (“LPCs”) have the lowest spreads (“spread range”), followed by rental LPCs, and then majority Independent Living (IL) communities. The spreads are primarily 2.0%-3.0% over the base rate (“base rate”).
- Spread differentials between majority Assisted Living/Memory Care (AL/MC) and majority Nursing Care (NC) communities are remarkably similar with the majority of respondents quoting spread ranges of 3.0%-4.0% over the base rate.
- More lenders, likely Finance Company/Alternative Lenders, are willing to lend at 75%-90% Loan-To-Value ratios (“LTV/LTC”) for AL/MC and NC communities than Rental LPCs and majority IL communities.
- LTV ratios for new construction loans are primarily in the 60%-70% LTV range with 11 respondents (or 50%) indicating they are currently providing construction lending.

Both Ziegler and NIC appreciate the firms that took the time to complete this survey and look forward to including additional lenders over time. With each subsequent quarterly survey the goal will be to maximize participation and improve data and trend information along the continuum of care and risk profiles.

RESPONDENT DEMOGRAPHICS

Roughly 98 lenders, including 81 banks and 17 alternative lenders, were solicited for participation in the survey. A total of 22 organizations participated in the survey, yielding a response rate of 23%. As detailed in the chart below, regional banks represented the largest portion of participating lenders.



While the largest percentage of respondents represented regional banks (45.5%), 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.

In which geography do you conduct the majority of your lending for seniors housing & care?	# of Responses	% of Responses
National	12	54.6%
Northeast	3	13.6%
Southeast	3	13.6%
Midwest	3	13.6%
Southwest	1	4.5%

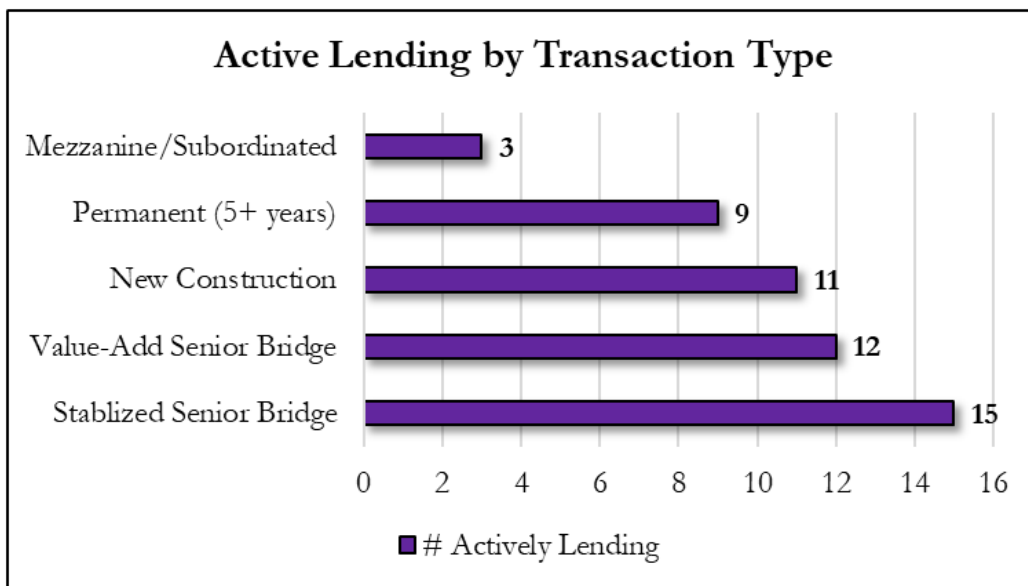
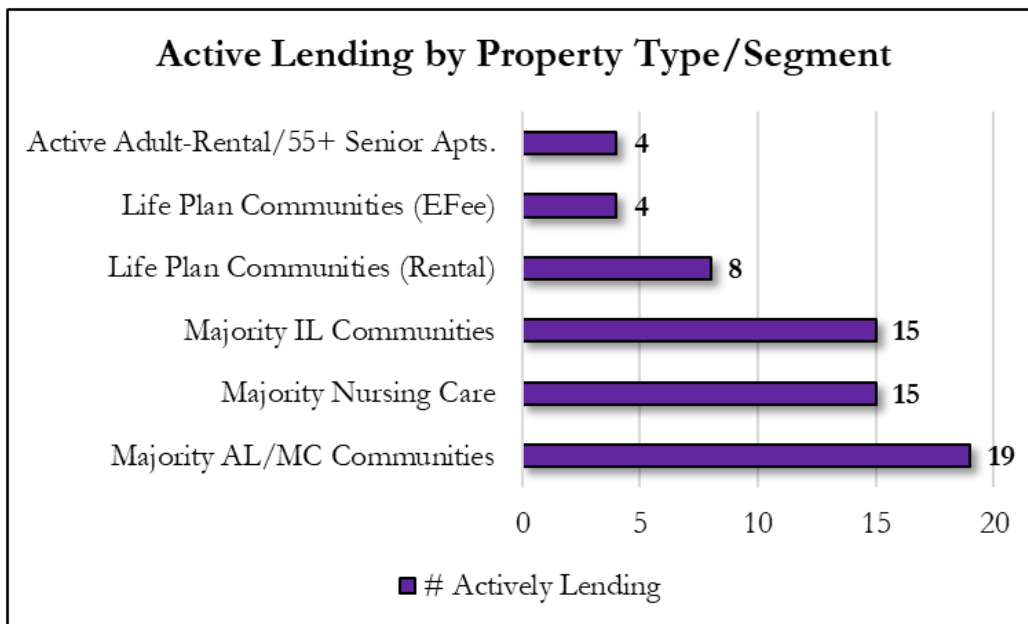
Regions with zero respondents for primary lending area: Mid-Atlantic, Mountain States, Northwest, West

Roughly 70% of respondents indicated that they offer both fixed-rate and floating-rate loans. The remaining respondents noted that they only provide floating-rate loans. There were no institutions that responded that they offer only fixed-rate loans.

LENDING ACTIVITY

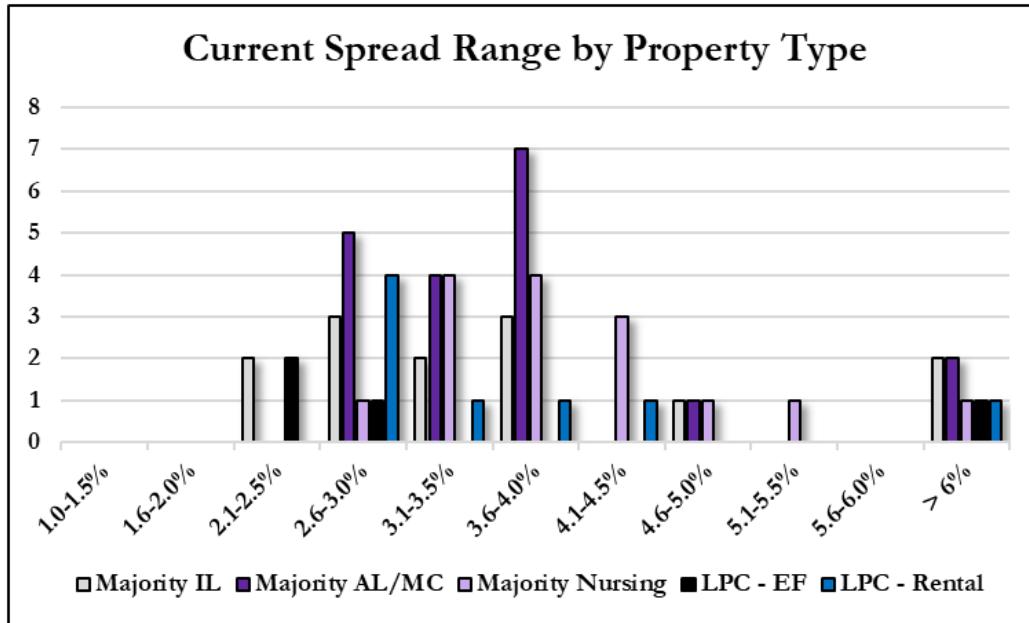
Individual respondents were asked to comment on their lending activity in the past year as well as the sectors and property types they are currently lending in. It should be noted that for those organizations who reported no lending activity in the past year, they were redirected to the end of the survey.

All but one organization had lent in the sector across the past year. Among those organizations roughly half lent in the for-profit seniors housing and care sector solely, while the other half reported lending to both for-profit and not-for-profit provider organizations. The graph below shows the number of respondent organizations that are actively lending for particular property types/segments.



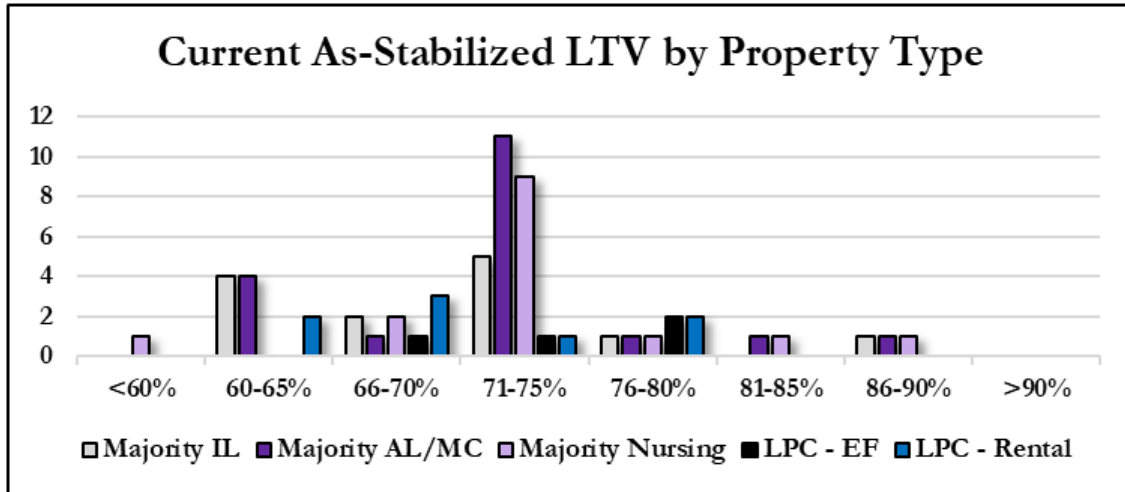
LENDING TERMS

For each of the property types the respondents were asked questions related to spread range and LTV. The respondents were only asked questions for those property types where they were actively lending. The following graphs and tables detail the results by property type.



Spread Range	Majority IL (N=13)	Majority AL/MC (N=19)	Majority Nursing (N=15)	LPC-EF (N=4)	LPC-Rental (N=8)
1.0-1.5%	0.0%	0.0%	0.0%	0.0%	0.0%
1.6-2.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2.1-2.5%	15.4%	0.0%	0.0%	50.0%	0.0%
2.6-3.0%	23.1%	26.3%	6.7%	25.0%	50.0%
3.1-3.5%	15.4%	21.1%	26.7%	0.0%	12.5%
3.6-4.0%	23.1%	36.8%	26.7%	0.0%	12.5%
4.1-4.5%	0.0%	0.0%	20.0%	0.0%	12.5%
4.6-5.0%	7.7%	5.3%	6.7%	0.0%	0.0%
5.1-5.5%	0.0%	0.0%	6.7%	0.0%	0.0%
5.6-6.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Greater than 6%	15.4%	10.5%	6.7%	25.0%	12.5%

Highlighted cell reflects category with largest number of respondents.

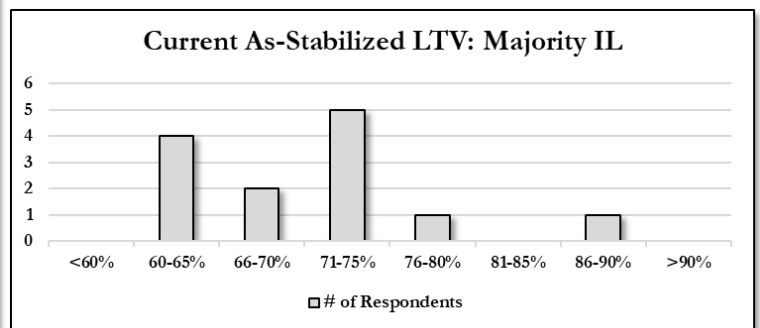
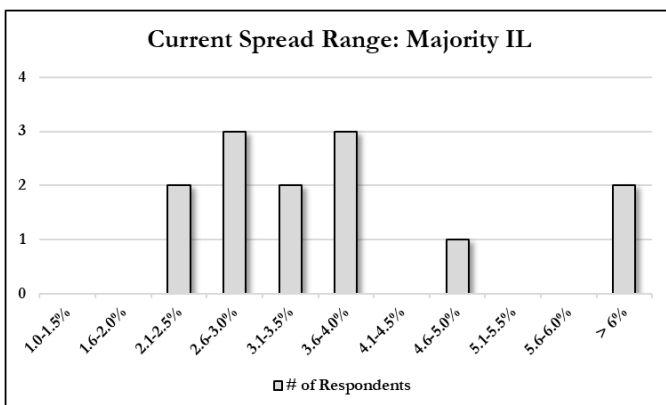


LTV Range	Majority IL (N=13)	Majority AL/MC (N=19)	Majority Nursing (N=15)	LPC-EF (N=4)	LPC-Rental (N=8)
<60%	0.0%	0.0%	6.7%	0.0%	0.0%
60-65%	30.8%	21.1%	0.0%	0.0%	25.0%
66-70%	15.4%	5.3%	13.3%	25.0%	37.5%
71-75%	38.5%	57.9%	60.0%	25.0%	12.5%
76-80%	7.7%	5.3%	6.7%	50.0%	25.0%
81-85%	0.0%	5.3%	6.7%	0.0%	0.0%
86-90%	7.7%	5.3%	6.7%	0.0%	0.0%
Greater than 90%	0.0%	0.0%	0.0%	0.0%	0.0%

Highlighted cell reflects category with largest number of respondents.

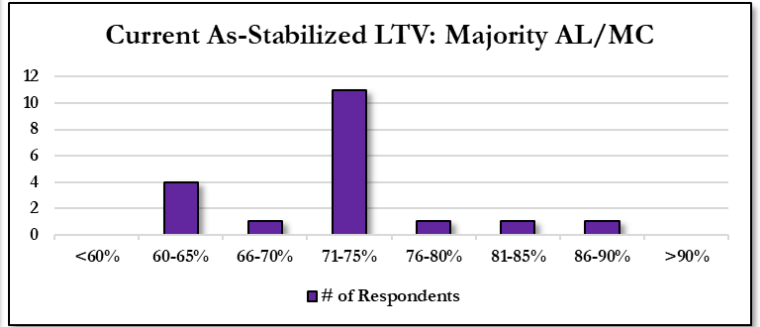
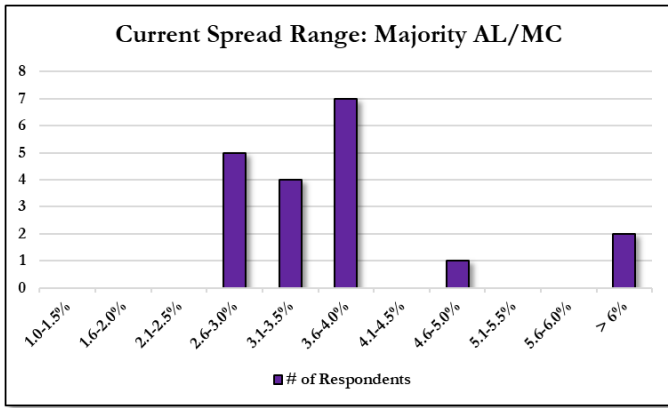
Majority Independent Living

The charts below reflect the findings for majority independent living communities only.



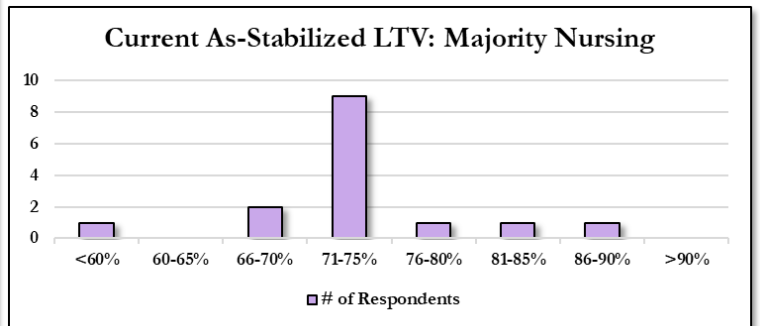
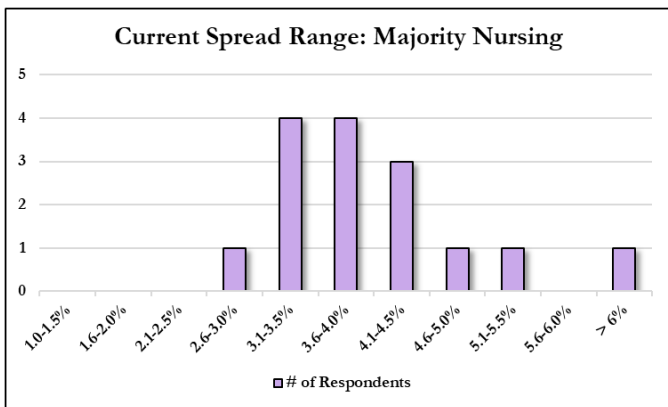
Majority Assisted Living/Memory Care

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



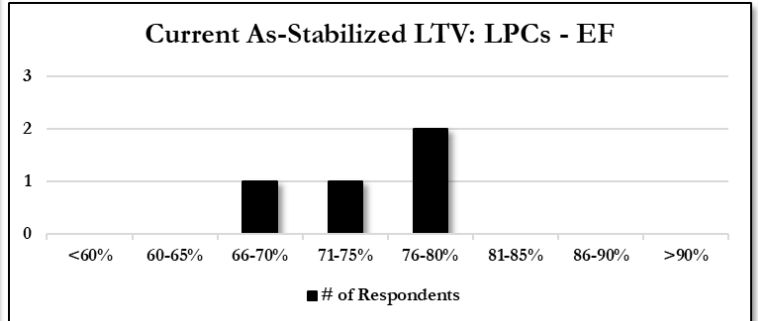
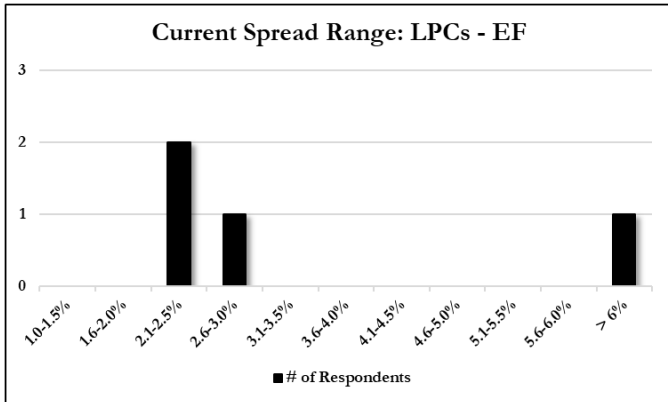
Majority Nursing Care

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



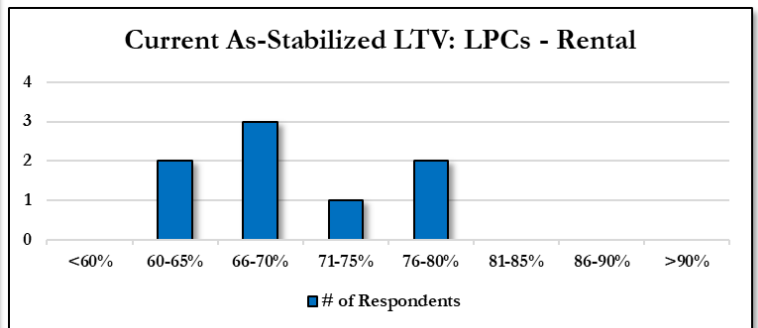
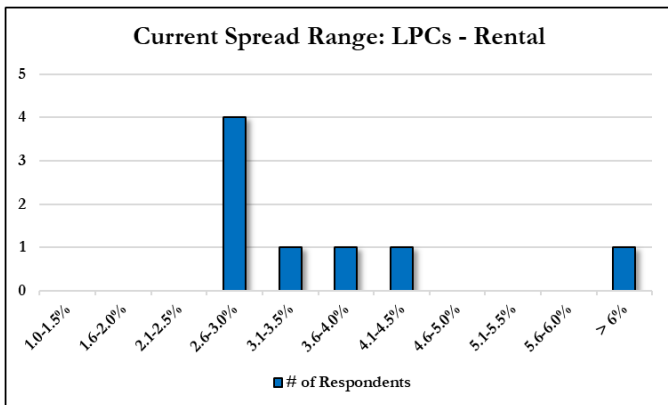
Entry-Fee Life Plan Communities

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



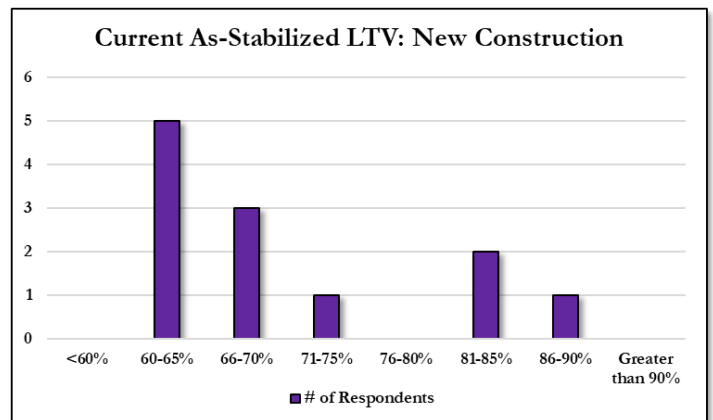
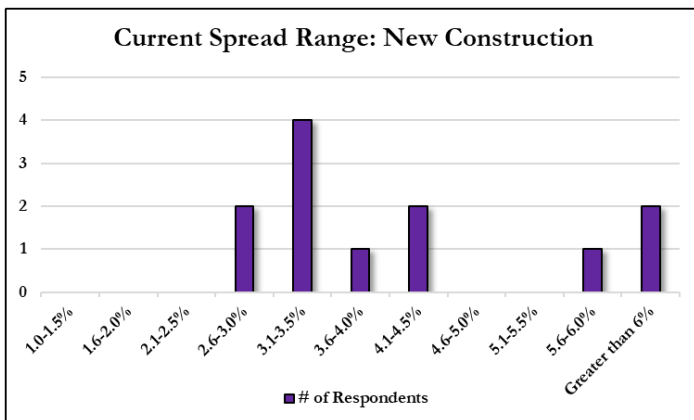
Rental Life Plan Communities

The charts below reflect the findings for Rental Life Plan Communities only.

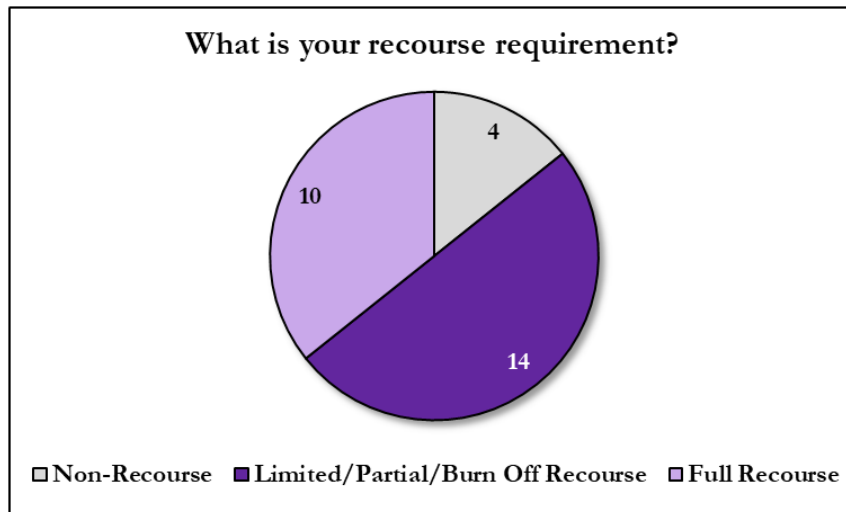
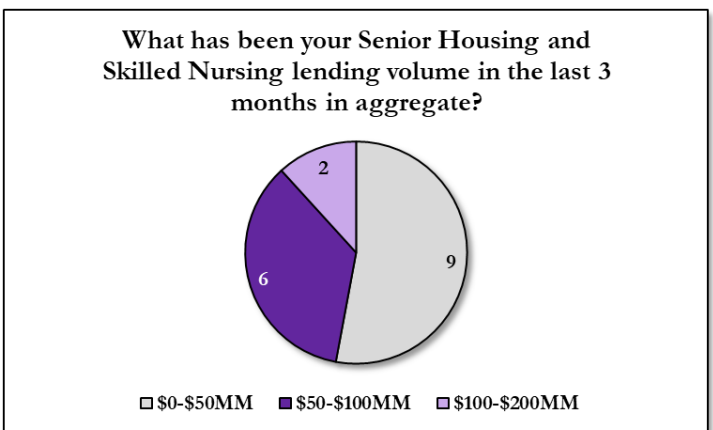
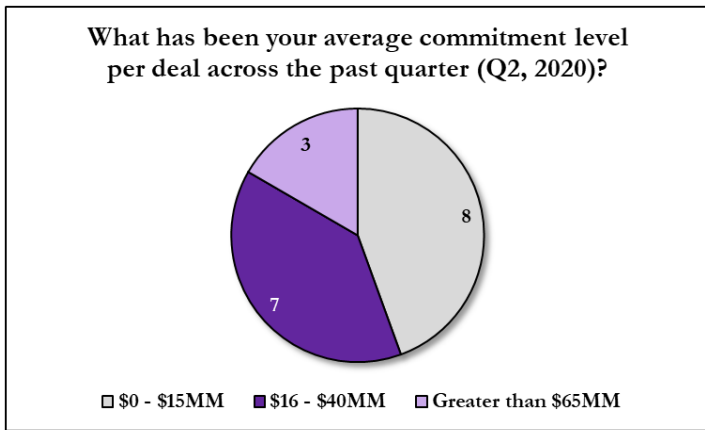


New Construction

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 (“base rate floor”), etc. The majority of the respondents reported average commitment levels per deal of less than \$40MM. Nine out of 10 lenders also indicated that their primary base rate index (“base rate”) is 1-Month LIBOR (however, note that it is anticipated LIBOR will be phased out over coming years due to a multitude of high-profile scandals. Expect this subject to be detailed in forthcoming quarterly iterations of this lender survey.). With regard to base rate floors, roughly 60% of respondents (11) indicated that their floor is between 0.6-1.0% with an additional 22% (4) reporting 1.1-1.5% floors. The vast majority of the respondents also indicated that their recourse requirement is limited/partial/burn-off recourse.



The # of respondents > 22 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 these results by property type.

EBITDA Debt Service Coverage Ratio Requirements by Property Type

	Majority IL (N=14)	Majority AL/MC (N=16)	Majority Nursing (N=13)
<1.0X	0.0%	0.0%	0.0%
1.0-1.10X	0.0%	0.0%	0.0%
1.11-1.25X	28.6%	25%	15.3%
1.26-1.35X	28.6%	43.8%	30.8%
1.36-1.50X	42.9%	25%	23.1%
Greater than 1.5X	0.0%	6.2%	30.8%

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, particularly for majority independent living and majority assisted living/memory care communities.

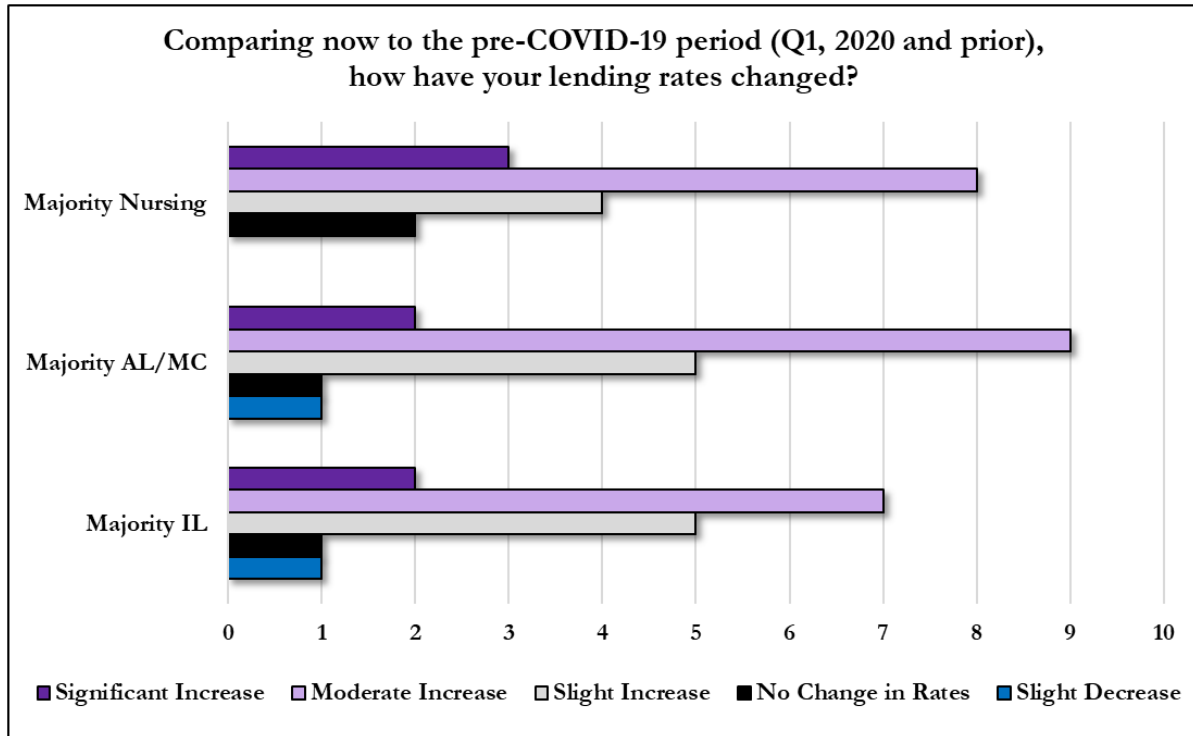
Debt Service Reserve Fund Requirements by Property Type

	Majority IL (N=14)	Majority AL/MC (N=15)	Majority Nursing (N=14)
N/A - Do not require a DSRF	50.0%	46.7%	35.7%
3 months	7.1%	13.3%	21.4%
6 months	28.6%	20.0%	31.4%
9 months	0.0%	6.7%	0.0%
12 months	14.3%	13.3%	14.3%
18 months	0.0%	0.0%	0.0%

Highlighted cell reflects category with largest number of respondents.

LENDING RATES: IMPACT OF COVID-19

There was a section of the survey devoted to addressing changes in lending rates and terms since the onset of the COVID-19 pandemic. The largest portion of respondents indicated that there has been slight to moderate increases in interest rates. The table below details these findings by property type.



Respondents provided additional, verbatim comments related to various lending changes put in place as a result of COVID-19:

- Typically, more equity, stronger recourse, higher spread and LIBOR floor requirement.
- Structures have tightened up somewhat from pre-COVID levels. i.e., levels of recourse may have changed, burn-off provisions may have changed, leverage levels may be down slightly, etc. From an underwriting perspective, credit is focused on additional stress testing or focus on underlying operations and COVID impact both short and longer-term on the facility and area/region. The one item that is not getting a lot of attention but should be right now is the litigation risk for the industry if there is not federal immunity granted to providers.
- Shorter tenure, minimum interest rate floors.
- Structural terms have gotten tighter and more required to underwrite to any COVID-19 outbreaks across the global holding company and how they were remediated.
- Some level of recourse is required regardless of LTC or LTV %s.
- Yes, more guaranty requirements, and more focus on cash flowing properties that can adequately cover if property is under distress.
- We are requiring more cash in up front on most all deals.
- More reliance on portfolio transactions. Single assets deals are tougher.
- Greater reserves/ balance sheet to withstand construction and/ or lease up delays potentially associated with COVID.
- Established a LIBOR floor rate.
- Lower LTC and LTVs. No turnaround assets. More recourse. Higher spreads.
- Limits on distributions until certain DSC's are hit. Funding of DS reserves. More recourse. We won't lend for an all-in rate below 4.00%. We are looking for updated budgets that include current rent roll revenue run rate with in-place COVID expenses.

CLOSING REMARKS

The survey concluded with the opportunity for organizations to make additional comments regarding the current lending environment. A few respondents shared additional perspective, which is included below.

- *A lot less players in the space and terms have normalized since April.*
- *Tracking COVID-19 related expenses that are in the aggregate for this year and also tracking those expense increases that are permanent due to COVID-19 is a challenge.*
- *Uncertain due to the uncertainty related to COVID-19. Primary focus is lending to customers. More difficult to bring in a prospect.*
- *Current lending environment is tough across all asset classes. It's very difficult to underwrite as there is no way to possibly know or reasonably assume what the future is going to look like.*

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 Range 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 Range to arrive at 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 loan proceeds a bank is willing to fund based upon Value (typically 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 (CCRCs), these communities typically include all levels of housing and care (Independent Living, Assisted Living, Memory Care and Skilled Nursing), however, not all LPCs have skilled nursing components. LPCs may be rental communities or they may require an Entry Fee or other large upfront fee in lieu of or in addition to monthly rent.*

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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