ZIEGLER/NIC LENDER SURVEY RESULTS

Winter 2022

Ziegler

CAPITAL :: INVESTMENTS :: ADVICE

INTRODUCTION

As a result of the Covid-19 pandemic and tumultuous market conditions, 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 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 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 the second half of 2021 data, along with the prior survey reflecting Q4 2020 data for comparison. Initially, the survey was conducted quarterly, but has since been changed to bi-annually. Data collection for the most current survey period was held between January 13 and January 28, 2022.

EXECUTIVE SUMMARY

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

- *2021 picked up meaningfully from 2020. Particularly during the 2nd half of 2021. More banks seem to have returned to the market during the 2nd half of 2021.*
- *Volume was similar but project execution and advances were slowed due to COVID.*
- *Experienced higher volume and increased activity.*
- *Entered the senior housing/LTC space in 2021. Expect to further increase exposure in 2022.*
- *Debt markets remain extremely competitive.*
- *Activity increased somewhat from 2020 to 2021.*
- *$700MM closed in 2021 vs. $600MM closed in 2020; lending environment started to become more competitive.*
- *Our 2021 activity doubled over 2020 as market acceptance and knowledge of COVID impact stabilized.*

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

- If interested in participating in the next survey, please indicate so by emailing Don Husi, at **dhusi@ziegler.com**.
- Bank consolidation continues: With the number of FDIC-insured institutions dropping from 5,002 Q4 2020 to 4,839 in Q4 2021 (*Source: FDIC QBP Graph Book*). Just recently, it was announced that TD Bank will be acquiring First Horizon (f/k/a First Tennessee).
- There appears to be different methods for underwriting Covid-19 related revenues and expenses, thus when looking for debt it is important to understand how each entity underwrites these.
- There are essentially three different options for underwriting revenues and expenses, at least according to this Survey tool.
    - Exclude all COVID-related Revenues and Expenses;
    - Exclude all COVID-related Revenues, but include all COVID-related Expenses;
    - Include all COVID-related Revenues and Expenses;
    - Note all appear to compare results to 2019 if stabilized and 2021/2022 progress.
- The most interesting comment is "Sensitizing margins in particular below historical norms. There likely will be greater scrutiny around as stabilized operating margins as occupancy begins to increase toward stabilization."

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

Lending Terms Snapshot(1)				
	IL	AL/MC	SNF	New Const.
LTV	71-75%	71%-80%	76%-80%	60-65%
Base Rate Floor(2)	0.1%-1% w/Base Rate of 1-Month LIBOR			
Spread	2.6%-3.0%	2.6%-3.5%	2.6%-3.5%	2.6-3.0%
All-In Rate(3)	**3.75%.**	**4.00%**	**4.00%**	**3.75%**
Min. DSCR	1.11x-1.35x	1.11x-1.35x	1.11x-1.25x	-

(1) - Information above is illustrative of a "typical" deal given current market conditions determined by survey responses.
(2) - Base Rate Floor ranges from none to 2.00% with the majority 0.10% - 1.00%. 1-Month LIBOR as of 12/31/21 is 0.10%.
(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 131 lenders, including both traditional banks and alternative lenders, were solicited for participation in the Q4 2021 survey. As detailed below, regional banks represented the largest portion of participating lenders in the most recent survey. This is consistent with the largest representation of respondents from the 2020 and 2021 surveys.

What type of lender describes you best?	Q4 2021 Responses	Q4 2020 Responses
National Bank	**4**	3
Regional Bank	**5**	21
Community / Local Bank	**0**	6
Finance Company / Alternative Lender	**4**	4
Other	**3**	N/A

Roughly 57% of the Q4 2021 respondents indicated that they offer both floating- and fixed-rate loans and another 21% indicated that they offer floating-rate loans only.

While the largest number of respondents represented regional banks, over half of the current respondents 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?	Q4 2021 Responses	Q4 2020 Responses
National	**10**	11
Midwest	**2**	4
Southeast	**2**	2
Northeast	**1**	4
Mid-Atlantic	**1**	10
Southwest	**0**	1
Mountain States	**0**	0
West	**0**	2
Northwest	**0**	1
Total	**16**	**35**

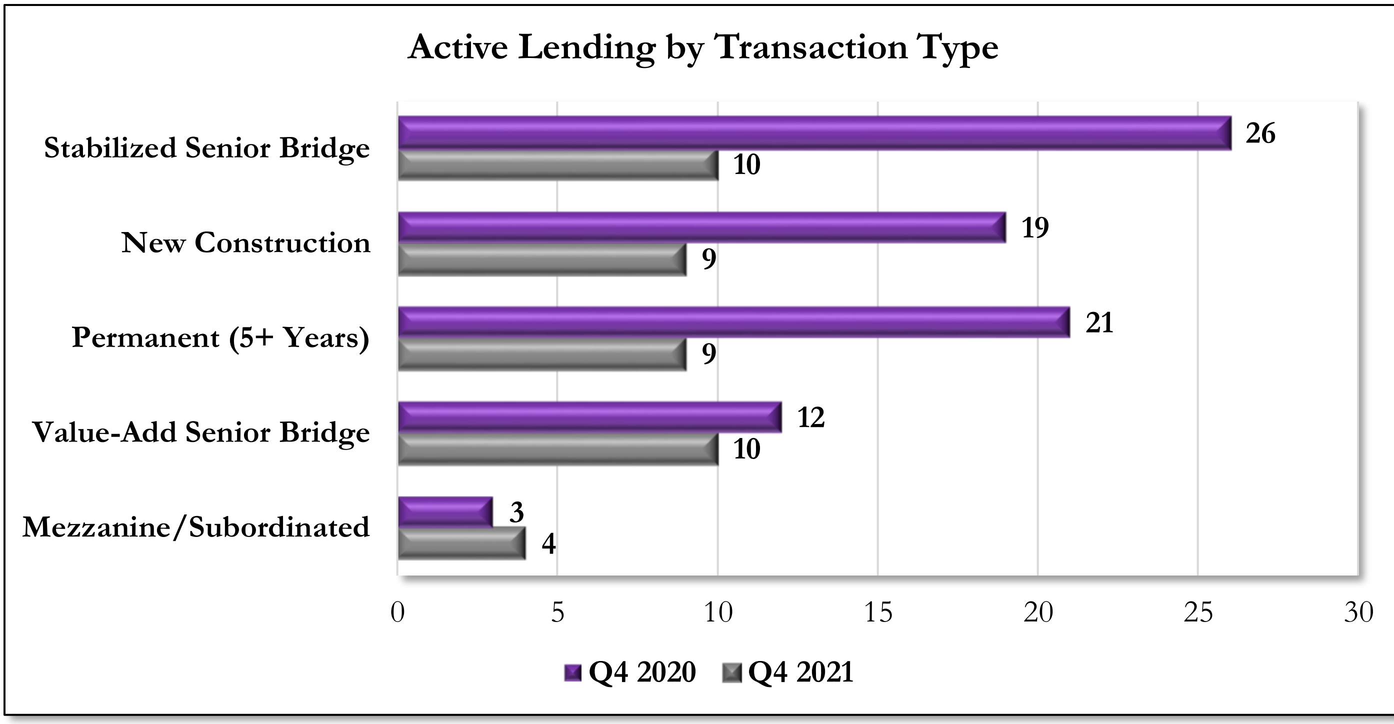
LENDING ACTIVITY

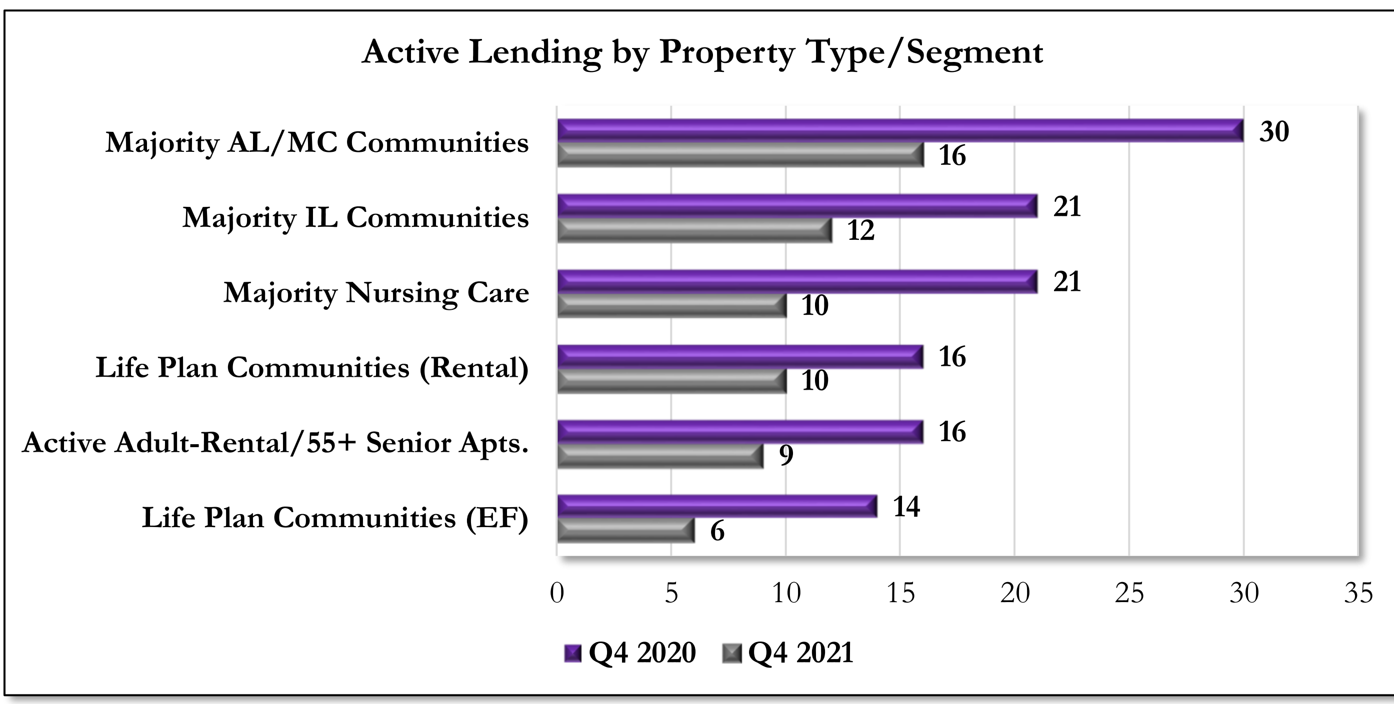
Individual respondents were asked to comment on their lending activity as well as the sectors and property types they target. It should be noted that those organizations who reported no lending activity in the past year were redirected to the end of the survey. All respondents reported active lending within the seniors housing & care space in the past year in this iteration of the survey.

Roughly 44% (7) of the respondents reported lending to both the private and tax-exempt sectors, with another 44% (7) indicating that they have only lent to private sector owners and operators. Two respondents reported lending only to tax-exempt (Not-For-Profit) providers.

The graphs below shows the number of respondent organizations that are actively lending for particular financing types as well as property types. Stabilized senior bridge funding is the most common form of debt instrument currently available from this lender subset. The largest proportion of lenders are active with Majority IL and Majority AL/MC communities.

Recall, the "N" for each iteration of the survey thus far is as follows: Q4 2020 – 29 / Q4 2021 – 15.





LENDING TERMS

For each of the property types the respondents were asked questions related to spread range and loan-to-value percentage. 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 2.6-3.5% for most property types. The largest variation occurs in the Majority Nursing subset. However, there are lenders that fall above and below those ranges.

Spread Range	Q4 2021 Majority IL (N=12)	Q4 2021 Majority AL/MC (N=15)	Q4 2021 Majority Nursing (N=10)	Q4 2021 LPC-EF (N=7)	Q4 2021 LPC-Rental (N=10)
1.0-1.5%	0	0	0	1	1
1.6-2.0%	0	0	0	0	0
2.1-2.5%	1	1	0	1	0
2.6-3.0%	**3**	**3**	**2**	**2**	2
3.1-3.5%	2	**4**	**2**	1	2
3.6-4.0%	1	2	1	0	1
4.1-4.5%	0	0	**2**	0	0
4.6-5.0%	2	1	0	0	0
5.1-5.5%	2	**3**	0	1	**3**
5.6-6.0%	1	0	**2**	0	1
Greater than 6%	0	1	1	1	0

Highlighted cell reflects category with largest number of respondents.

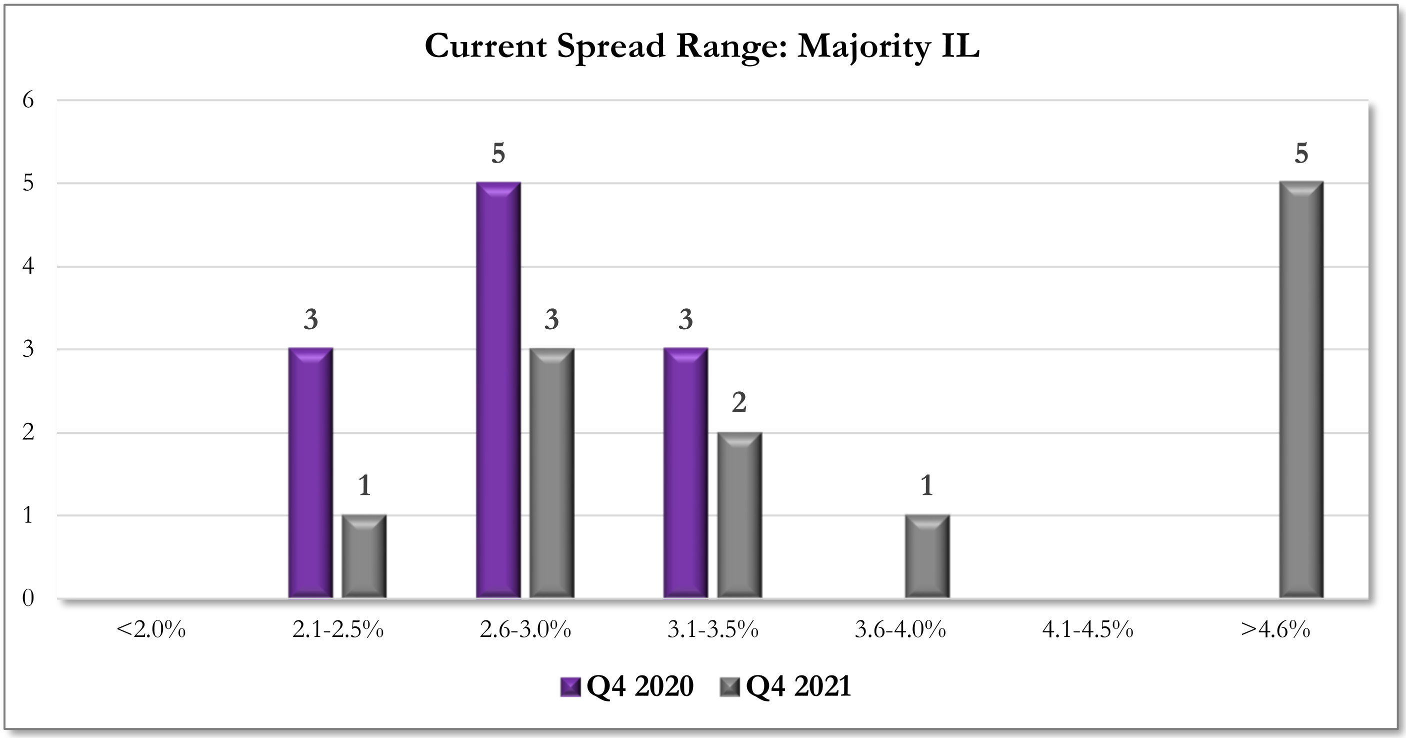
The LTV figures below show that most respondents report having a 71-80% maximum loan-to-value requirement across the majority of property types.

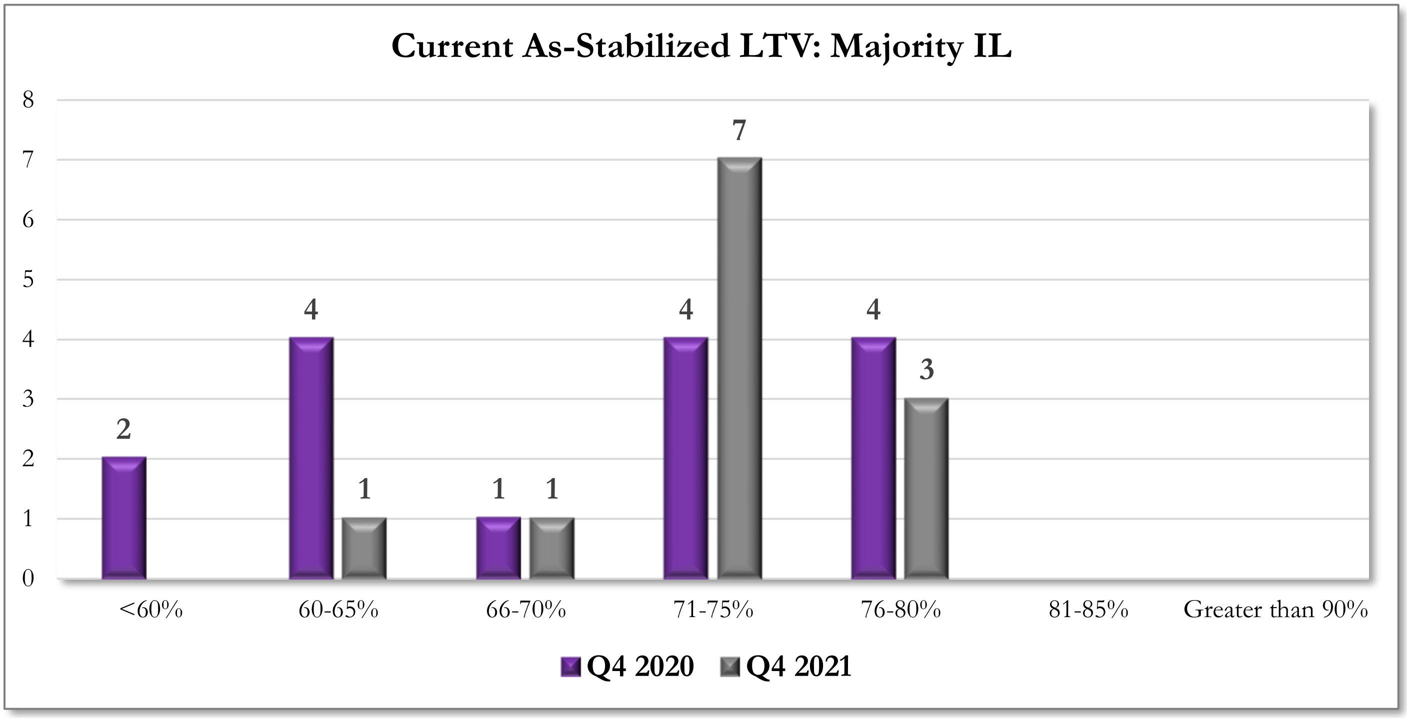
LTV Range	Q4 2021 Majority IL (N=12)	Q4 2021 Majority AL/MC (N=15)	Q4 2021 Majority Nursing (N=10)	Q4 2021 LPC-EF (N=7)	Q4 2021 LPC-Rental (N=10)
<60%	0	0	0	0	0
60-65%	1	1	0	1	0
66-70%	1	1	2	1	1
71-75%	**7**	**7**	3	1	**6**
76-80%	3	**6**	**4**	**4**	2
81-85%	0	0	1	0	1
86-90%	0	0	0	0	0
Greater than 90%	0	0	0	0	0

Highlighted cell reflects category with largest number of respondents.

Majority Independent Living

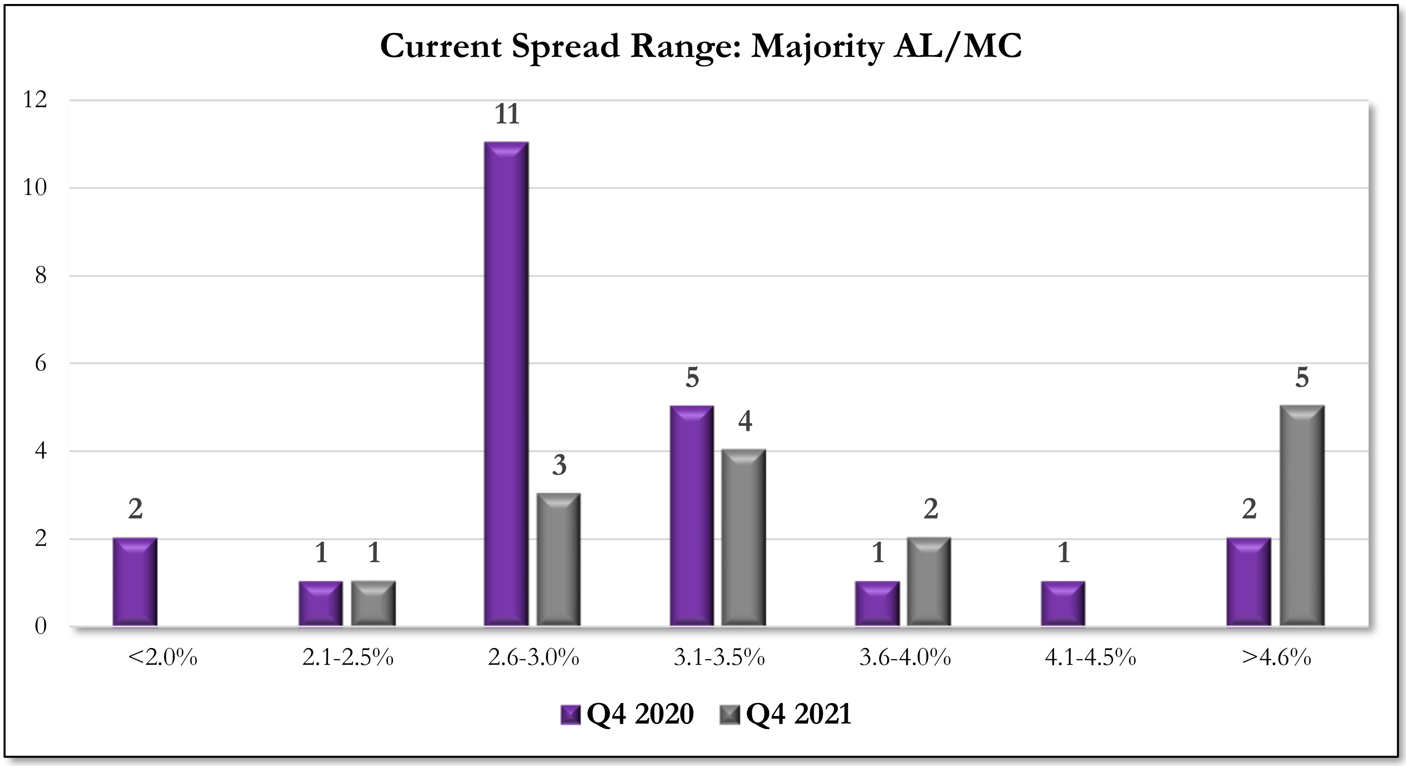
The charts below reflect the findings for majority independent living communities only with comparisons between Q4 2021 and the previous survey from Q4 2020.

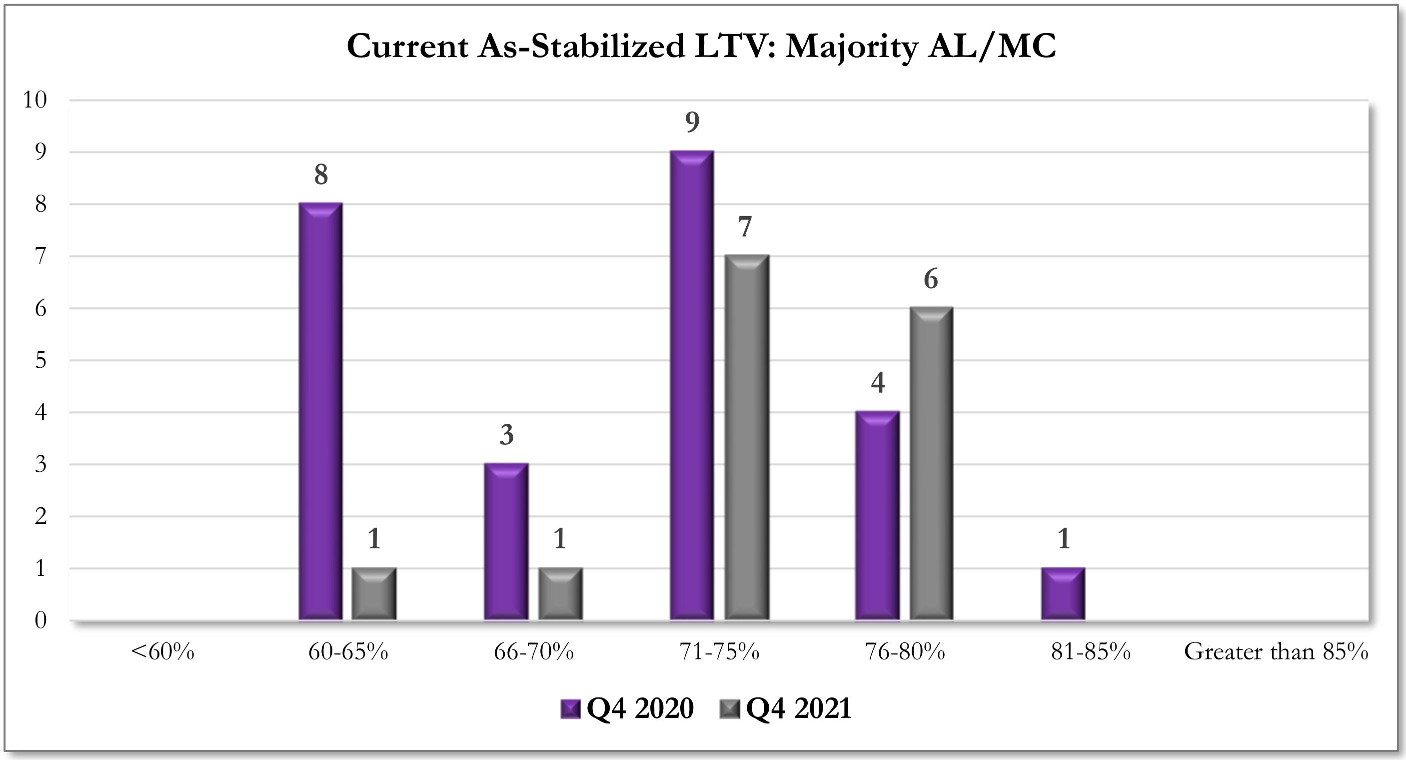




Majority Assisted Living/Memory Care

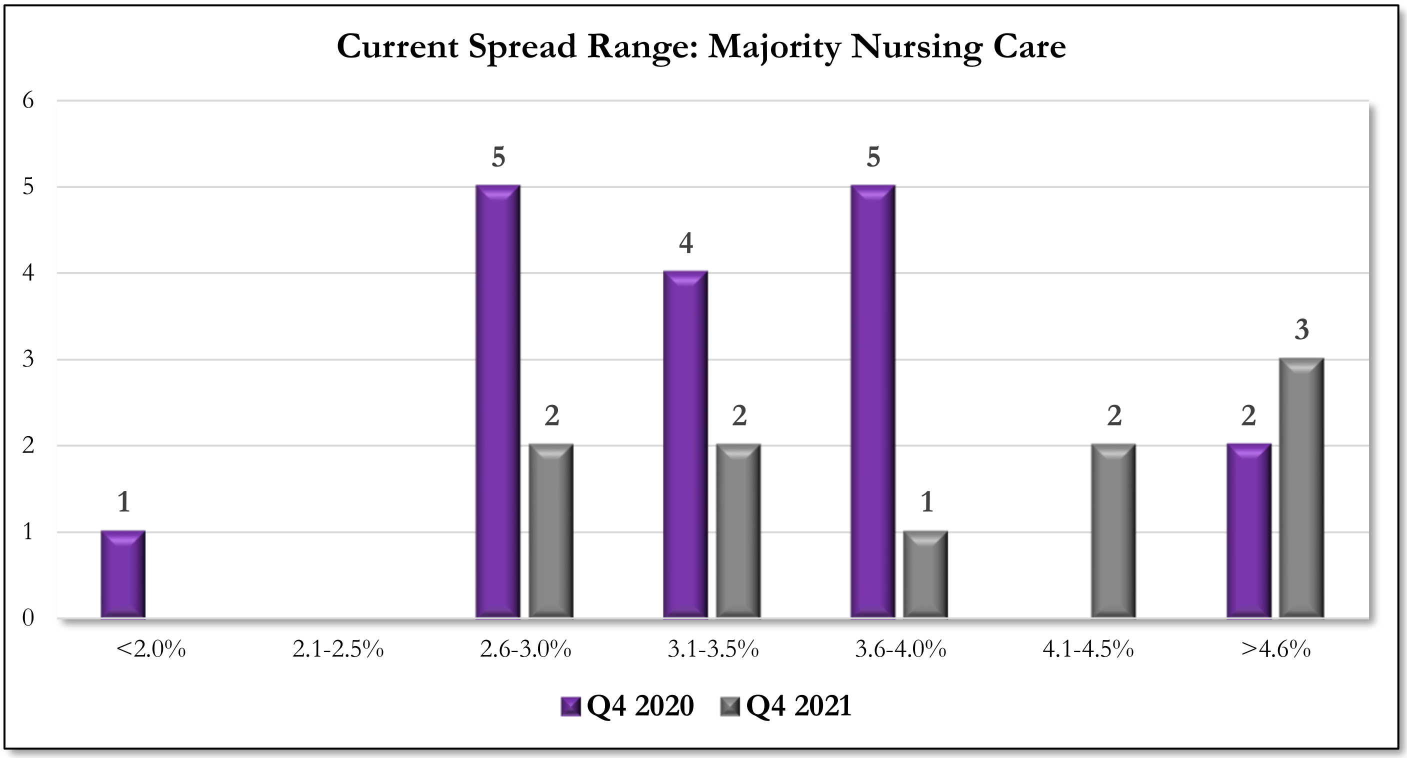
The charts below reflect the findings for majority assisted living/memory care communities only with comparisons between Q4 2021 and the previous survey from Q4 2020.

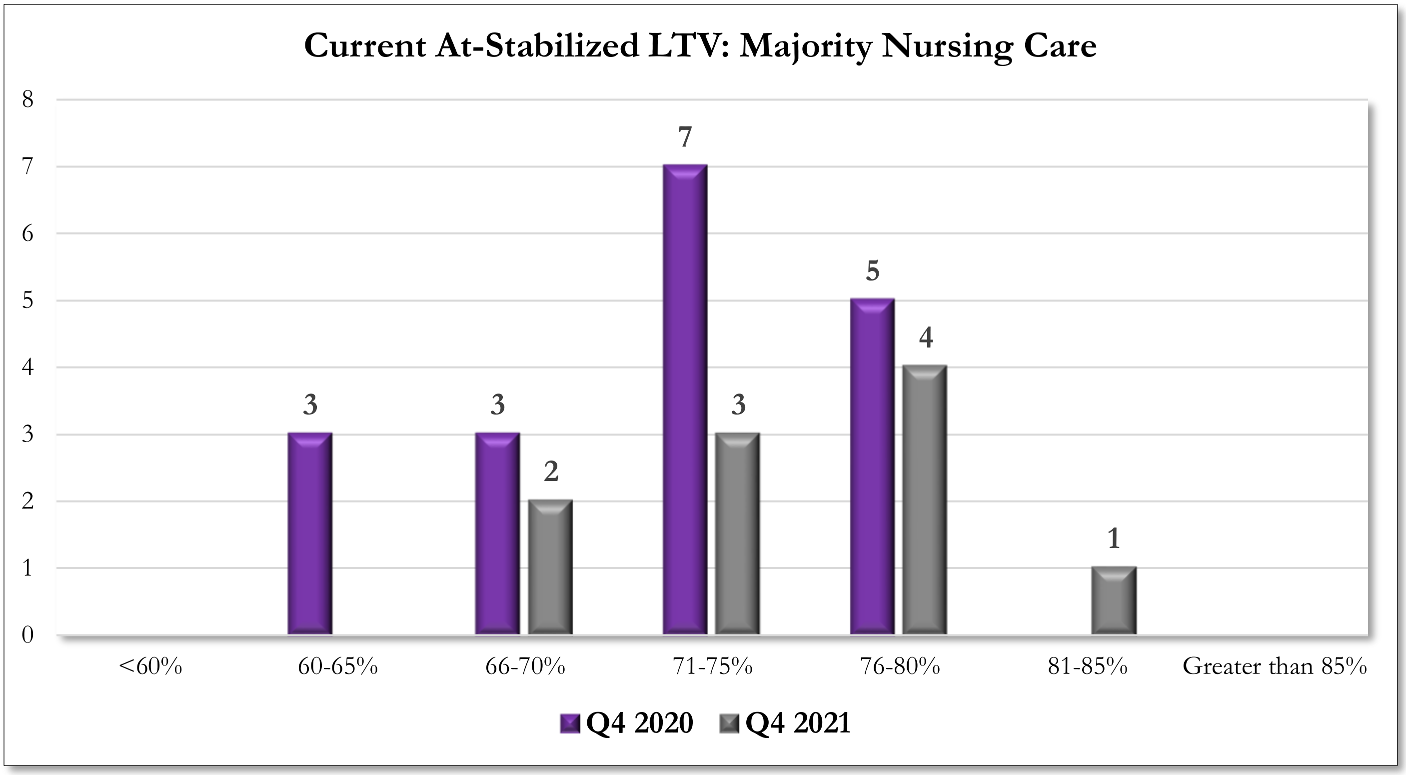




Majority Nursing Care

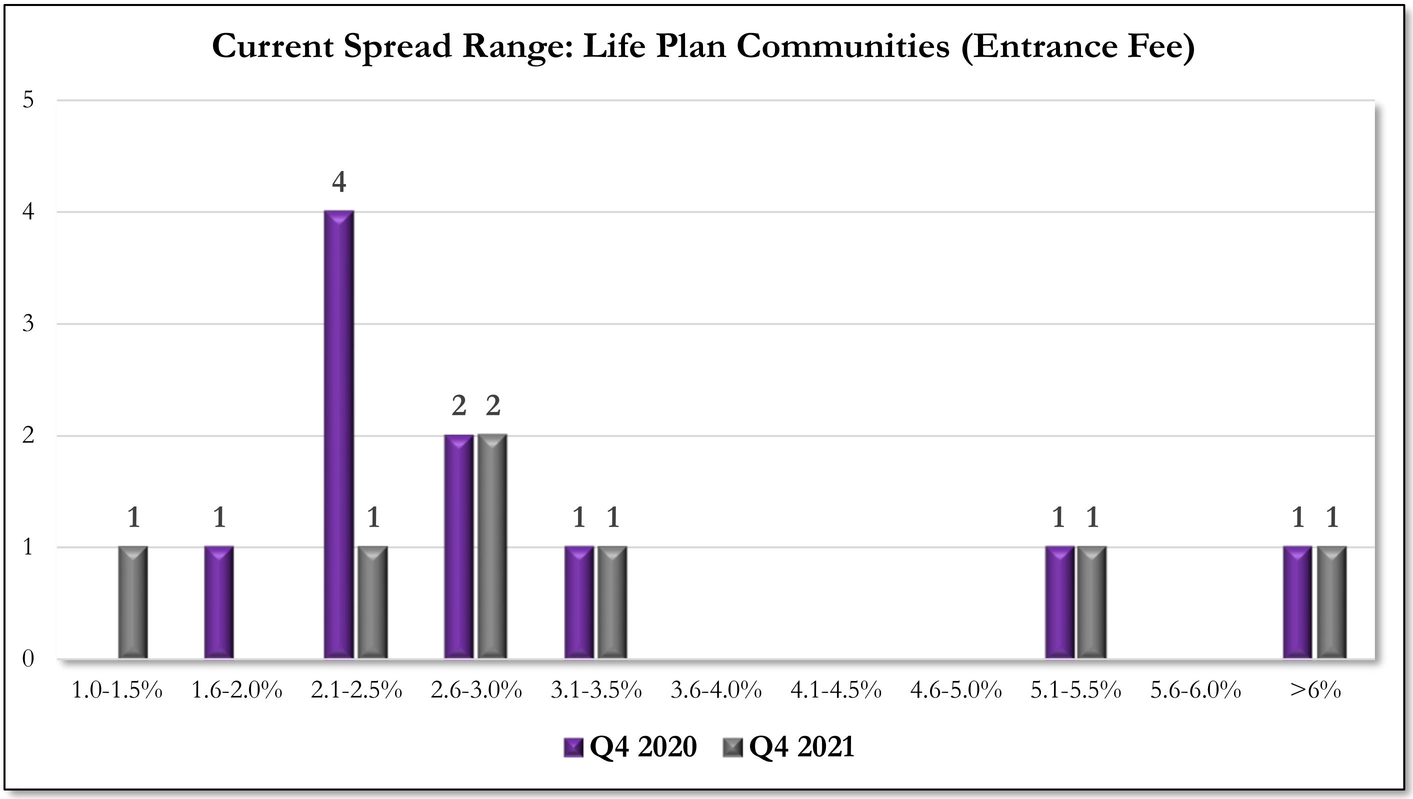
The charts below reflect the findings for majority nursing care communities only with comparisons between Q4 2021 and the previous survey from Q4 2020.

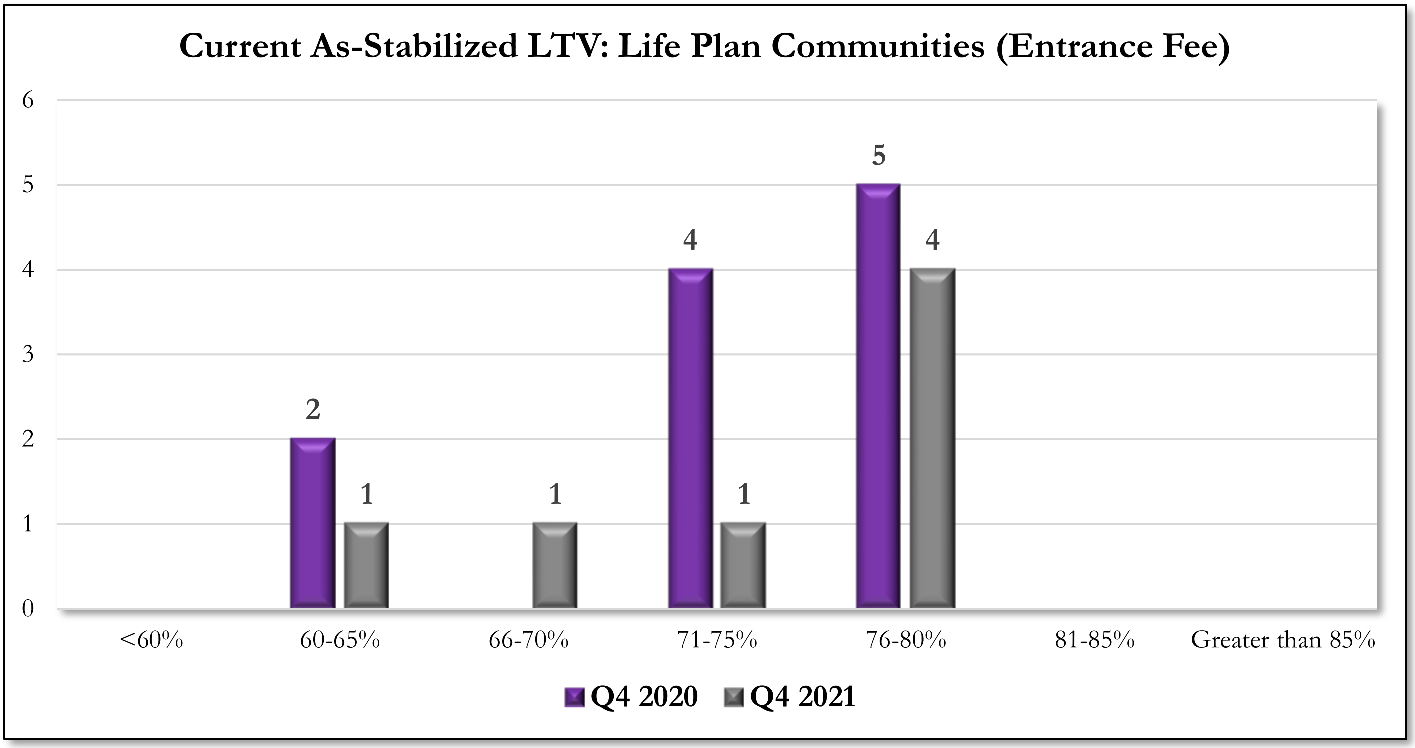




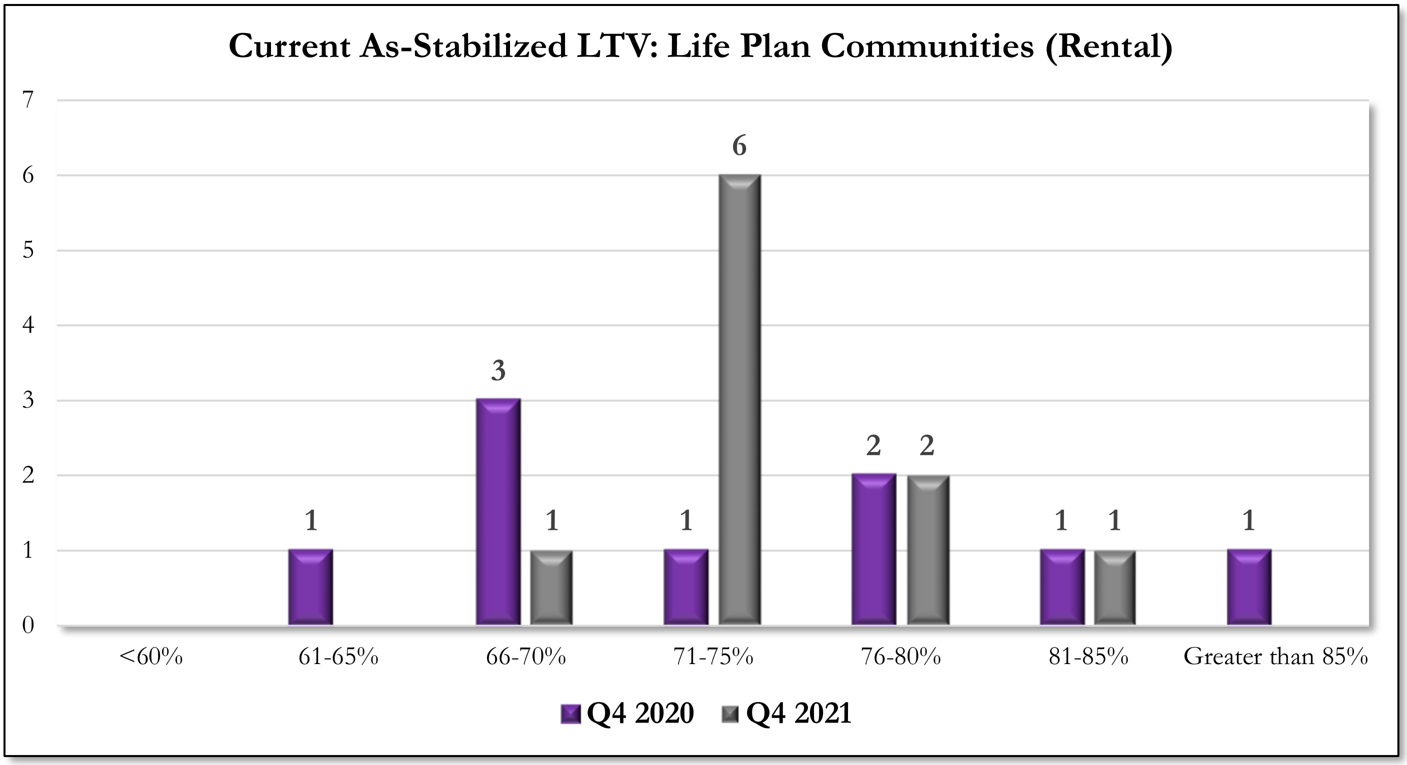
Entry-Fee Life Plan Communities

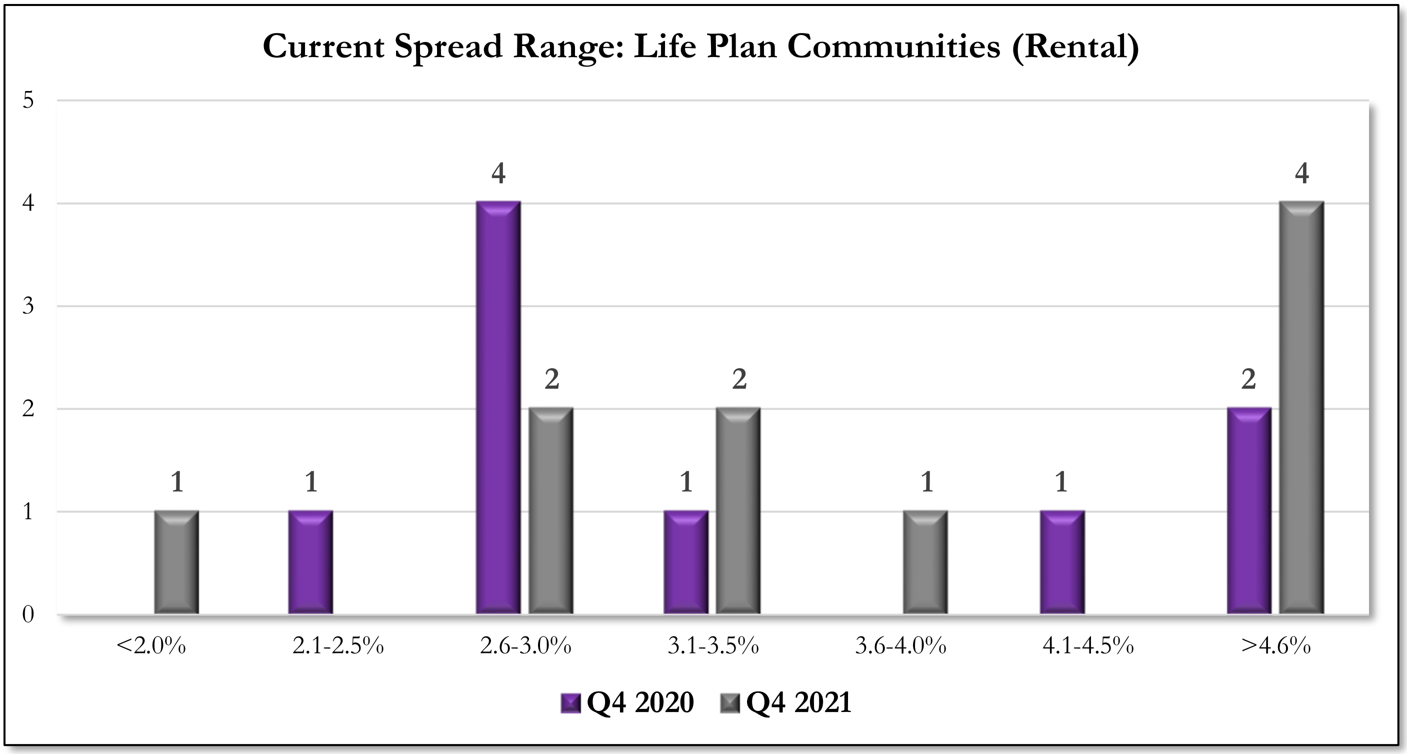
The charts below reflect the findings for Entry-Fee Life Plan Communities only with comparisons between Q4 2021 and the previous survey from Q4 2020.





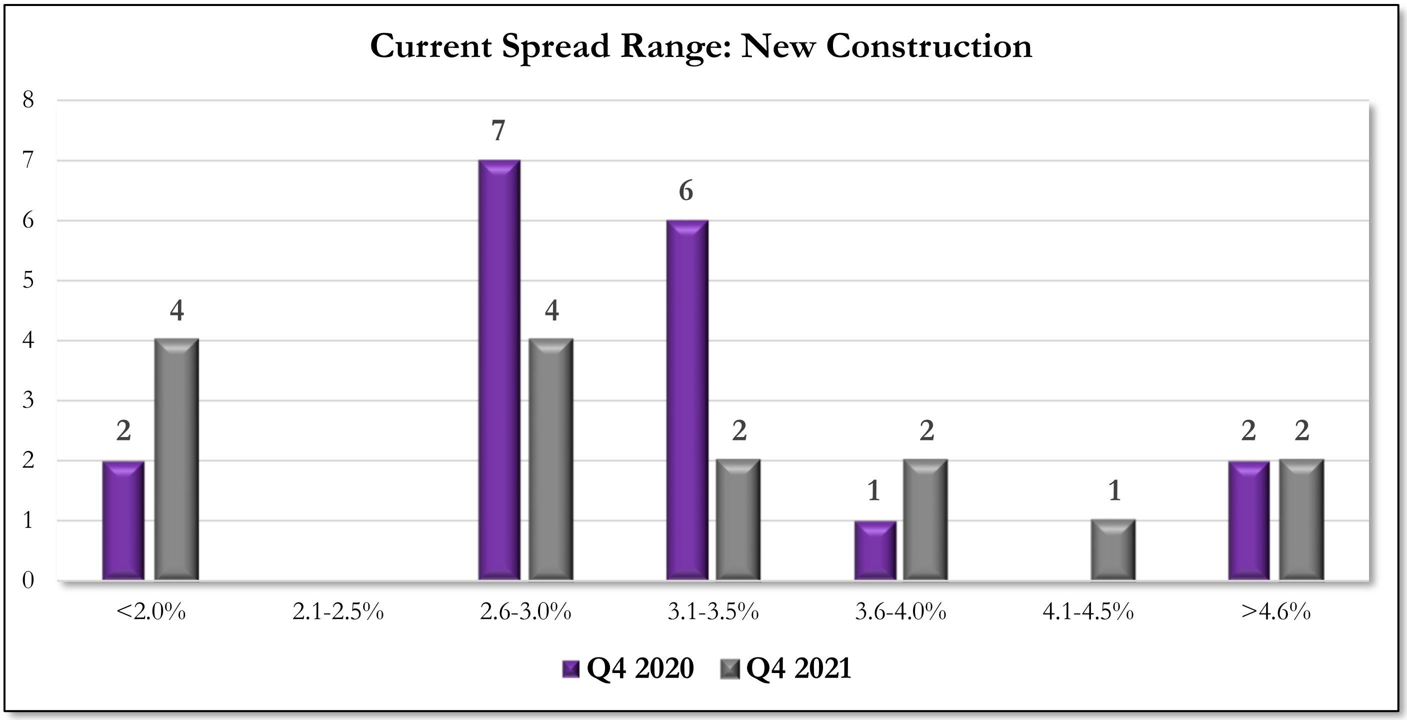
Rental Life Plan Communities
The charts below reflect the findings for Rental Life Plan Communities only with comparisons between Q4 2021 and the previous survey from Q4 2020.

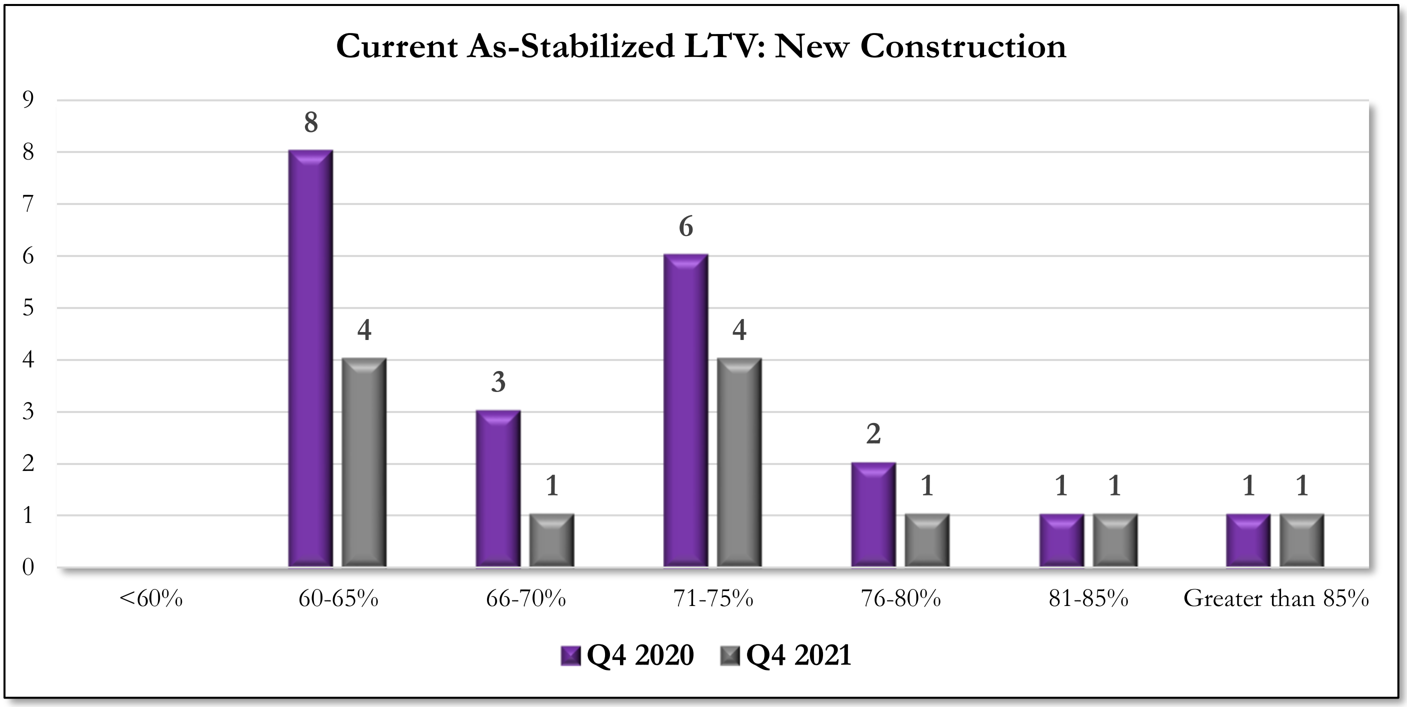




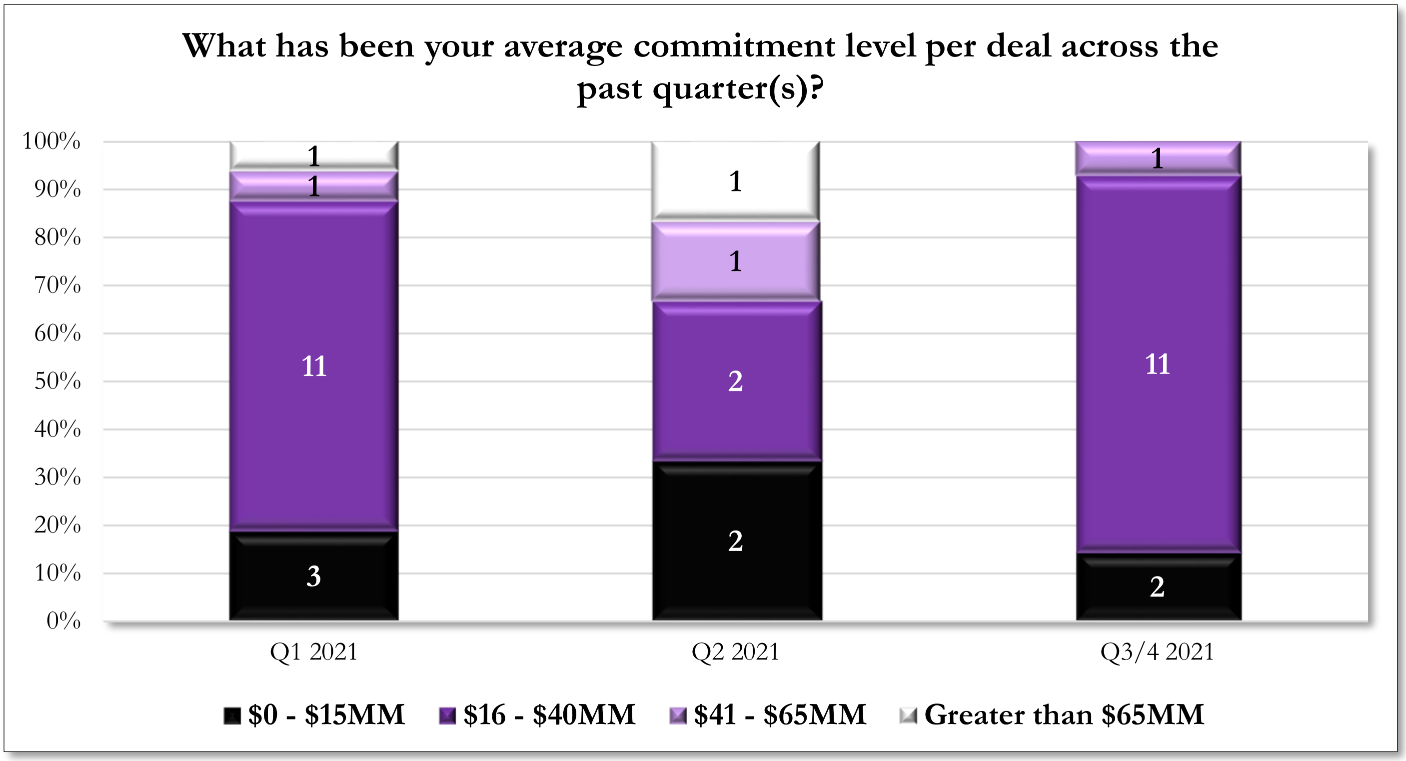
New Construction

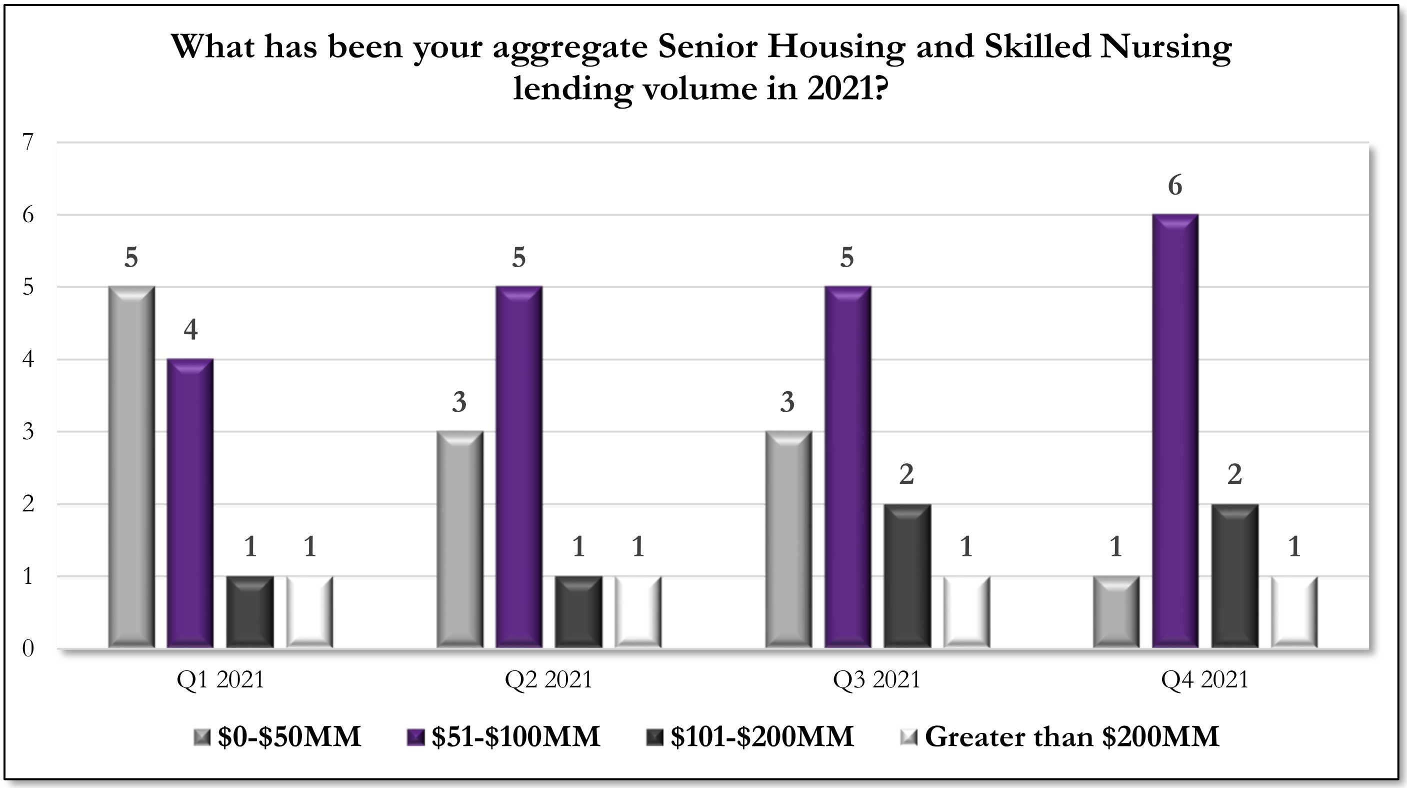
The charts below reflect the findings for new construction lending only with comparisons between Q4 2021 and the previous survey from Q4 2020.



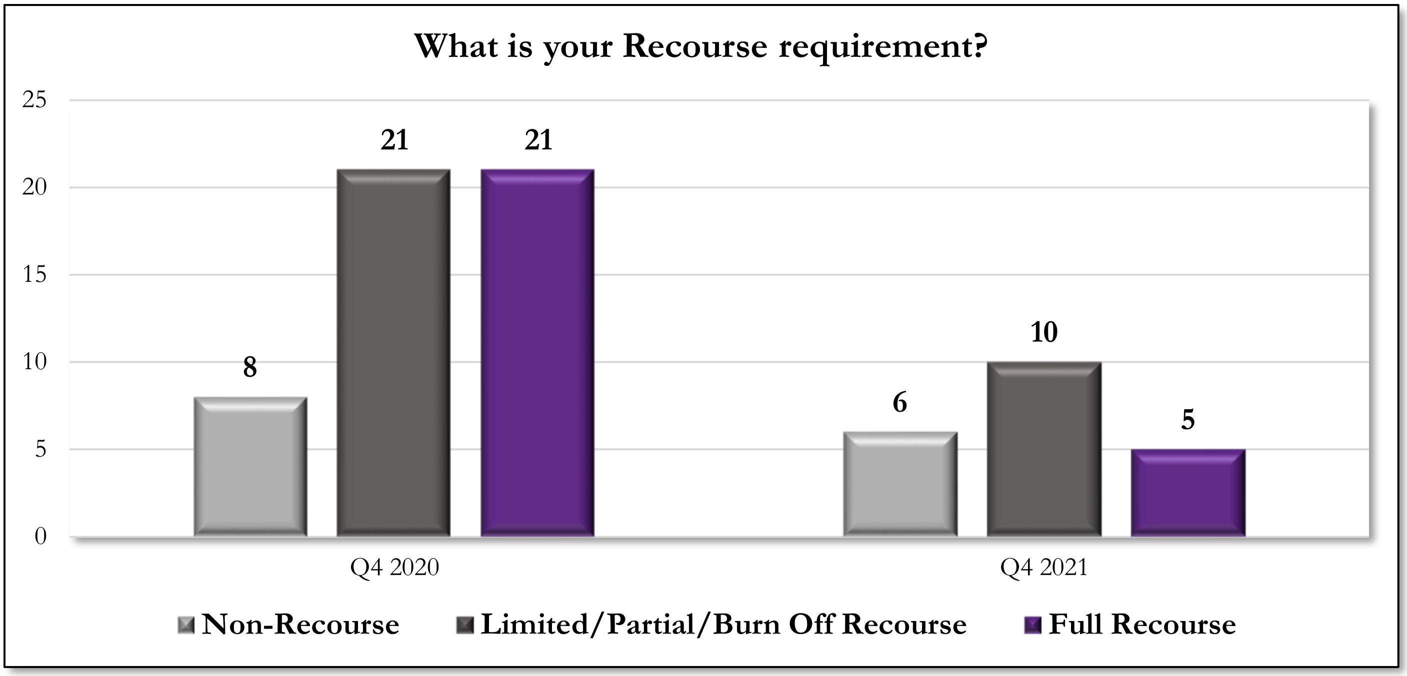


Additional questions were asked related to overall commitment level per deal, base rate floors, etc. for the survey, reflecting on Q4 2021 data. The vast majority of lenders indicated average deal commitments between $16-40MM. Proportionally fewer respondents reported average commitment levels below $16MM compared to previous quarters.



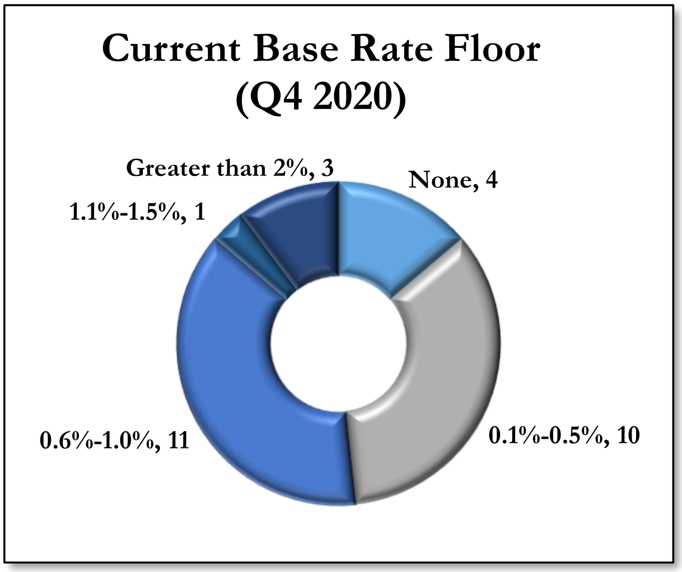


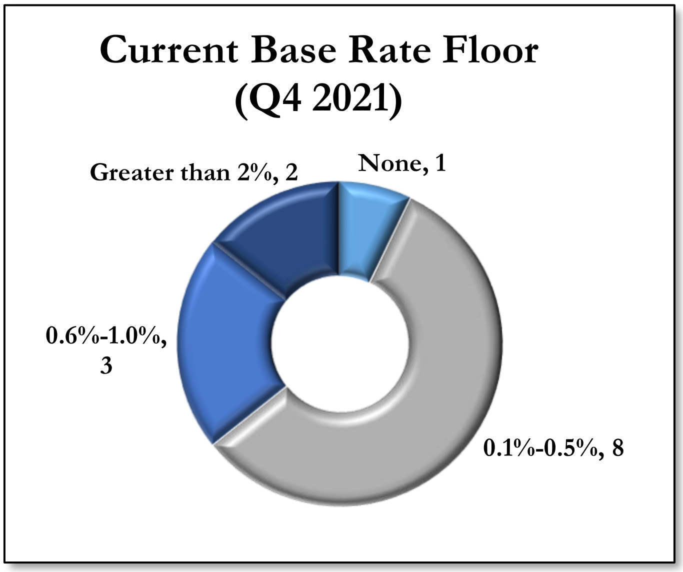
There has been little change over time concerning recourse requirements.



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

Current Base Rate Floors for Q4 2021 were also fairly similar to Q4 of 2020 with the largest proportion in the 0.10% to 1.00% range.





An additional series of questions was asked regarding EBITDA underwriting requirements as well as debt service reserve funds. The table below details the Q4 2021 results by property type.

EBITDA Debt Service Coverage Ratio Requirements by Property Type: Q4 2021

	Majority IL (N=13)	Majority AL/MC (N=14)	Majority Nursing (N=10)
<1.0X	2	2	0
1.0-1.10X	0	0	1
1.11-1.25X	**5**	**5**	**4**
1.26-1.35X	**5**	**6**	2
1.36-1.50X	1	1	3
Greater than 1.5X	0	0	0

Highlighted cell reflects category with largest number of respondents.

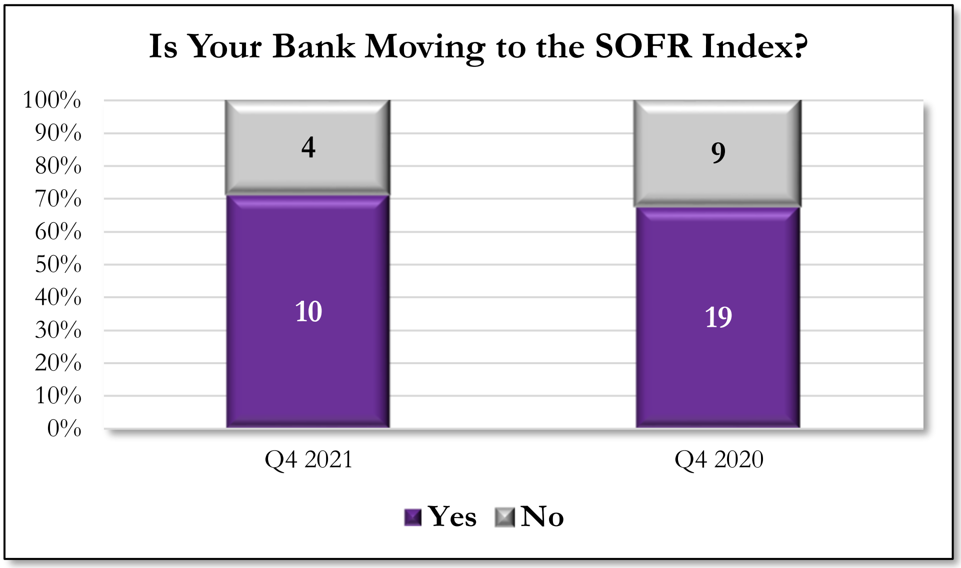
The table below details the requirements for debt service reserve funds. It should be noted, however, that the largest proportion of lenders do not require these reserve funds altogether. Among those who do, 3-month and 6-month reserve requirements were reported as the most common.

Debt Service Reserve Fund Requirements by Property Type: Q4 2021

	Majority IL (N=14)	Majority AL/MC (N=14)	Majority Nursing (N=10)
N/A - Do not require a DSRF	**7**	**5**	**5**
3 months	2	3	1
6 months	4	3	1
9 months	0	1	0
12 months	1	2	2
18 months	0	0	1

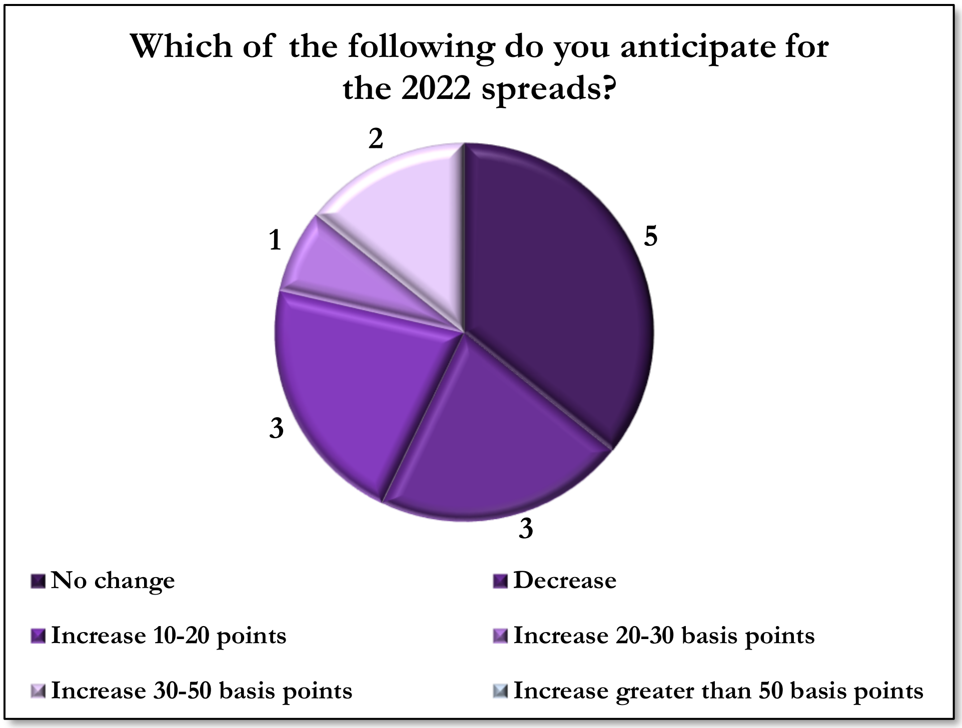
Highlighted cell reflects category with largest number of respondents.

A question was added to the Q3 2020 survey and was asked again since then regarding the transition to the SOFR index. As shown below, the vast majority of lenders indicated that they are moving to the SOFR index.



FORECAST FOR 2022

A question was added for Q4 2021 regarding spreads in 2022. The majority of respondents believe they will increase (9), while only 5 believed they would decrease.



ACTIVITY IN 2021 RELATIVE TO 2020

A question on the survey asked about activity in 2021 compared to 2020. In general, the lenders noted an uptick in activity, although the pace of the increase seemed to vary. Below are select comments from this inquiry:

- *Volume was similar but project execution and advances were slowed due to COVID.*
- *More active.*
- *Experienced higher volume and increased activity.*
- *Entered the senior housing/LTC space in 2021. Expect to further increase exposure in 2022.*
- *Debt markets remain extremely competitive.*
- *It was a record year.*
- *2021 picked up meaningfully from 2020, particularly during the 2nd half of 2021. More banks seem to have returned to the market during 2nd half of 2021.*
- *Activity increased somewhat from 2020 to 2021.*
- *$700MM closed in 2021 vs. $600MM closed in 2020; lending environment started to become more competitive.*
- *Similar.*
- *Our 2021 activity doubled over 2020 as market acceptance and knowledge of COVID impact stabilized.*

CURRENT LENDING ENVIRONMENT

A question was asked regarding the current lending environment, with particular regards to any potential changes in 2022.

- *Very aggressive competition and thin pricing in the non-for profit CCRC space. Lot of SN facilities going from Not for Profit to For Profit. Lots of Skilled Nursing facilities changing hands.*
- *Leverage is down and spreads are tighter for good deals.*
- *Increasing concern regarding raising interest rates with additional emphasis on stressing financials to higher rate environment. Also, inflationary concern regarding new construction projects rising rates and expense pressure on borrowers.*
- *Increased scrutiny on labor expenses and sustainable rental rate increases coupled with ability to increase occupancy (for any value-add properties).*
- *More refinancing and opportunistic buying.*
- *Risk seems mispriced currently, as spreads have compressed while banks attempt to put money to work.*
- *We are in a rising rate environment and will likely no longer provide forward rate commitments as a result or if so there would be a fee for the lock.*
- *Anticipate lending becoming more competitive; more focus on labor challenges.*
- *Cautiously optimistic, but monitoring COVID and equity investments.*
- *Competition will increase as previous and new entrants come off the sidelines. Flight to quality sponsors will remain. New to bank customers and newer sponsors will face harder underwriting metrics.*

UNDERWRITING

Lenders were asked to give a brief description of underwriting criteria for COVID related revenues and expenses.

- *Trying to underwrite by stripping out the disruptive CF impacts of CARES/PPP money. Difficult to determine what stabilized expenses will be going forward. Taking greater occupancy discounts for pro-forma stress testing.*
- *Do not include.*
- *Little weight placed on COVID related revenues/expenses. Greater weight on how recent performance with less COVID pressure compares to pre-COVID.*
- *No stimulus revenues can be included. All COVID expenses are initially included (and potentially adjusted depending on the "story").*
- *Include a portion of it on a go forward basis.*
- *Sensitizing margins in particular below historical norms. COVID relief revenues removed from analysis. COVID specific expenses are increasingly difficult to separate – things like PPE can be normalized however side effects such as higher labor, supply, food costs are deemed to be potentially permanent and must be underwritten.*
- *Deduct COVID revenue, addback onetime COVID expenses (increasingly difficult to support onetime COVID addbacks).*
- *DSCR is determined with and without COVID related revenues and expenses. Pure operating cash flow is critical, depending on the credit request type.*
- *Back it out – show it both ways. Hyper focus on quality mix to ensure Medicare rates not inflated by COVID.*

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.*

Please be advised that past results does not predict future performance.

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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About Ziegler:

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