ZIEGLER/NIC LENDER SURVEY RESULTS

Q1 2021

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 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 Q1 2021 data, along with the prior quarterly surveys. Data collection for the most currently survey period was held between April 22 and May 10, 2021.

We have expanded this Q1 2021 report with the addition of a new section focusing on the impact of bank consolidation on the senior housing and care industry. We outline the lender consolidation that has occurred over the past several years and discuss the implications of that consolidation on financing availability and lending terms. Ziegler and NIC hope you find this new section to be informative and meaningful.

EXECUTIVE SUMMARY

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

- *Q1 activity remained strong. We are actively pursuing strong stabilized communities.*
- *Q1 2021 has been robust - some overflow from Q4 2020.*
- *Very active and spreads are going back up on loan volume due to limited number of lenders in the senior space.*
- *Activity is slowly picking up, but we are being highly selective and working with existing clients.*
- *Robust start to 2021 as communities rebound with vaccinated residents and (to a lesser extent) staff. Many opportunistic borrowers in the market.*

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

- After an increase in participation last quarter, this quarter's number of responses fell from 35 to 16. We modified our distribution approach, which we believe may have contributed to this. We will return to our prior approach in Q2 2021. If interested in participating please indicate so by emailing Don Husi, at **dhusi@ziegler.com**.
- There were two very large deals over $200 million and 6 deals over $100 million – the largest deal volume we have seen in terms of transaction size since the inception of the report.
- Stabilized senior bridge lending and new construction continue to be the leading types of loans according to the respondents in this survey.
- Deal size appears to be increasing over prior quarters with more lenders indicating loan sizes in the $16-$40 million range, which could be one signal of the market bouncing back.

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%	66-70% / 71-75%	71-75%	60-65%
Base Rate Floor[2]	0.6-1.0% w/Base Rate of 1-Month LIBOR			
Spread	3.1-3.5%	3.1-3.5%	3.6-4.0%	2.6-3.0%
All-In Rate[3]	4.25%	4.25%	4.75%	3.75%
Min. DSCR	1.26-1.35x	1.26-1.35x	1.26-1.35x	-

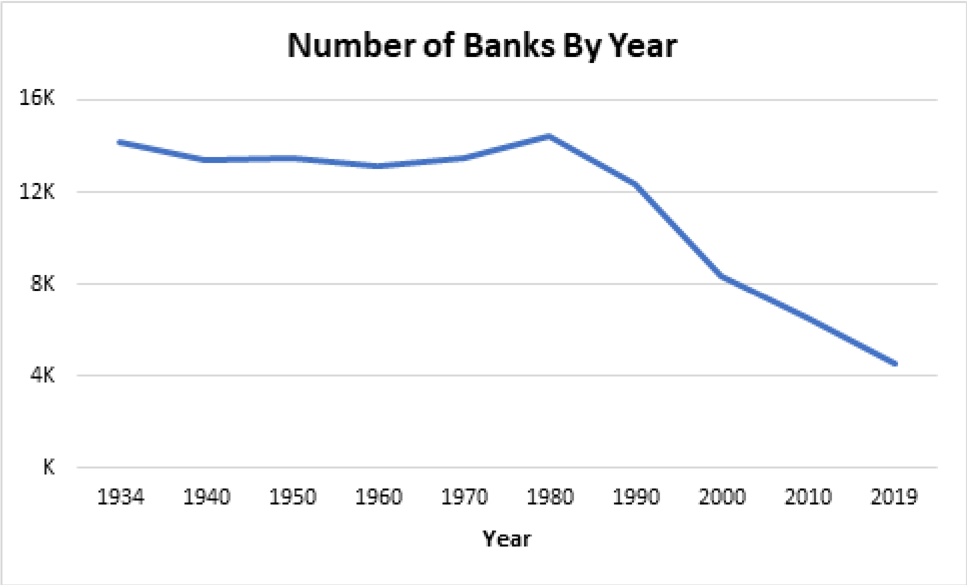
(1) - Information above is illustrative of a "typical" deal given current market conditions determined by survey responses.

(2) - Base Rate Floor survey question not specific to acuity level. 1-Month LIBOR as of 6/28/21: 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.

LENDER CONSOLIDATION TREND

An unnoticed, but truly impactful trend throughout the industry is the consolidation that has occurred between banks and other lending institutions that have typically been large players in the senior housing & care industry. A look at broader bank trends shows that from 1934 to present, the number of banks has reduced from 14,136 to 8,315 in 2000 to just 4,518 as of 2019 (see graph below). In the last 20 years almost half of all banks have been acquired or gone out of business.



Source: FDIC.

While there is no single data source that tracks all lenders or senior housing and care loans, the majority of loans of any size originate from approximately 115 different banks and lending institutions across the country (those banks are included in our outreach for this report). Our research indicates that from 2019 to present, twenty-five (25) entities have dwarfed into twelve (12) (see table outlining this consolidation below).

What we do know is that the reduction in the number of banks generally means a reduction in the total available bank lending universe and dollars available to the industry, at least in the short term. As an example, as banks are going through the consolidation process, which typically takes 12-24 +/- months, lending is typically frozen, other than for the best credits and the best customers. It is also interesting to note that four of the top 10 largest banks, Chase, U.S. Bank, Santander and Citibank have no formal vertical that sources and underwrites senior housing and care. These four leave the credit decisions to local and regional decision makers. Sometimes loans are underwritten by the commercial real estate teams, sometimes by the commercial and industrial ("C&I") teams and sometimes by another specialty vertical in the bank (eg. Not-For-Profit) teams. These three teams within banks typically view credit very differently.

As an example, Ziegler recently went to market requesting a non-recourse or limited recourse, 80%-LTV loan collateralized by two properties with a strong corporate credit profile (Ziegler's underwriting view). One property maintained 90% plus occupancy throughout COVID, the other property fared well until December 2020 when a COVID outbreak reduced occupancy from 89% to the mid-70% range, but since recovered to 78% as of April 2021. Although Ziegler received three very aggressive offers, a number of banks declined due to the recourse requests, and yet others declined as they viewed the two properties as "troubled assets." It will interesting to monitor this trend and its impact on lending metrics going forward.

Recent Bank Consolidations and Financial Partnerships		
Announcement Date	**Transaction**	**Notes**
6/7/2021	**Greystone** and **Monticello** to form JV	• JV to provide capital finance products and services to the senior housing & care space • Greystone has originated over $3B overall in the space across FHA/HUD, Fannie Mae, and Freddie Mac loans • Monticello services ~$1.8B in senior housing & care loans
6/1/2021	**Old National Bank** merging with **First Midwest Bank**	• $6.5B in deal value • Old National brand to survive, not First Midwest • $45B in consolidated AUM
2/22/2021	**M&T Bank** acquired **People's United Bank**	• $7.6B in deal value • Combined 1,100-location, 11-state footprint • $200B in consolidated AUM
12/13/2020	**Huntington** acquired **TCF Bank**	• $22B in deal value • Huntington brand to survive, not TCF • $168B in consolidated AUM
12/2/2020	**Fifth Third Bank** acquired **Hammond Hanlon Camp LLC**	• Expands Fifth Third's IB/M&A group to 110+ professionals • Founded in 2011, H2C is a boutique healthcare IB focused on hospitals and health systems

11/16/2020	**PNC** acquired **BBVA**	• $11.6B deal value • Combined branch presence in 29 of top 30 US markets • $563B in consolidated AUM
10/20/2020	**ORIX** combined **RED Capital Group, Lancaster Pollard,** and **Hunt Real Estate Capital** to form **Lument**	• RED acquired in 2016 • LP acquired in 2017 • Hunt acquired in 2019 • Combined, the largest FHA/HUD senior housing & care lender
10/16/2020	**Citizens Bank** acquired **CIT Bank**	• $2.2B deal value • Combines 2 of the industry's most acquisitive companies in recent years • $110B in consolidated AUM
8/28/2020	**Dwight Capital** acquired **Love Funding**	• Undisclosed deal value • Combines 2 of the most prominent FHA/HUD senior housing & care lenders
12/20/2019	**Colliers International** acquired **Dougherty & Company LLC**	• Dougherty provides mortgage banking, brokerage, and IB services and is HQ'ed in Minneapolis, MN w/250+ professionals
3/19/2019	**JLL** acquired **HFF**	• ~$2B deal value • 2 of the largest multifamily and commercial RE brokers • JLL closed 14 senior housing & care M&A transactions in 2020 for $319MM
2/7/2019	**BB&T** and **SunTrust's** merger into **Truist** includes **Grandbridge Real Estate Capital**	• Grandbridge is a top FHA/HUD, Fannie Mae, and Freddie Mac senior housing & care lender

Sources: Bank Press Releases, Ziegler Investment Banking.

RESPONDENT DEMOGRAPHICS

A total of 115 lenders, including both traditional banks and alternative lenders, were solicited for participation in the Q1 2021 survey. Sixteen (16) organizations participated in the survey, which was lower than previous quarterly surveys. This may have been due to a modified distribution approach. Next quarter the distribution approach will revert to our original practice. Additionally, there were a number of lender consolidations announced, which may have had a slight impact. As detailed below, regional banks represented of the largest portion of participating lenders in the most recent survey. This is consistent with the largest representation of respondents from the 2020 surveys.

What type of lender describes you best?	Q1 2021 Responses	Q2-Q4 2020 Aggregate Percentage (N=78)
National Bank	**2**	13%
Regional Bank	**10**	55%
Community / Local Bank	**1**	15%
Finance Company / Alternative Lender	**3**	17%

While the largest number of respondents represented regional banks, 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. The number of participating lenders from the Midwest increased across the past two quarterly surveys.

In which geography do you conduct the majority of your lending for seniors housing & care?	Q1 2021 Responses	Q2-Q4 2020 Aggregate Percentage (N=79)
National	8	46%
Midwest	4	20%
Southeast	1	11%
Northeast	1	11%
Mid-Atlantic	0	3%
Southwest	1	3%
Mountain States	0	3%
West	0	3%
Northwest	1	<1%
Total	**16**	**79**

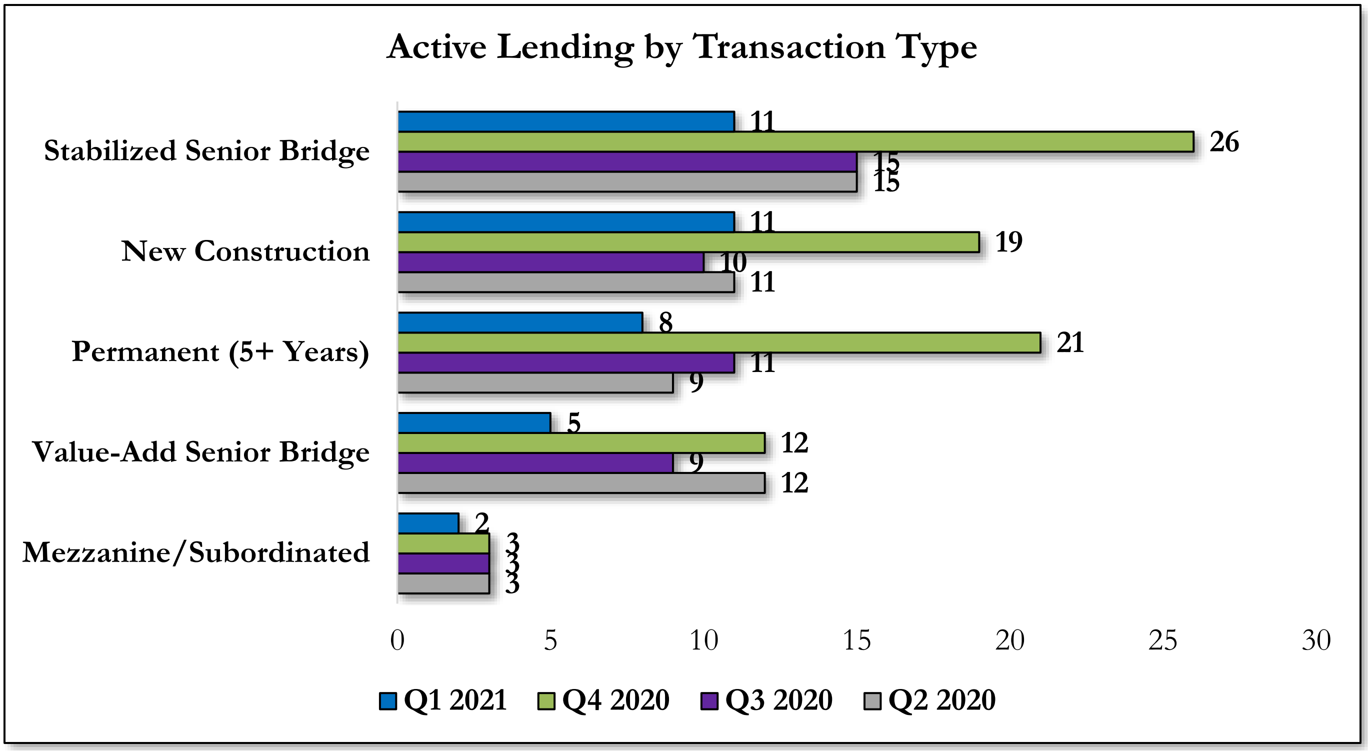
The share of respondents offering both loan types is lower than reflected in the Q4 2020 survey results and may be due to the lower response rates."

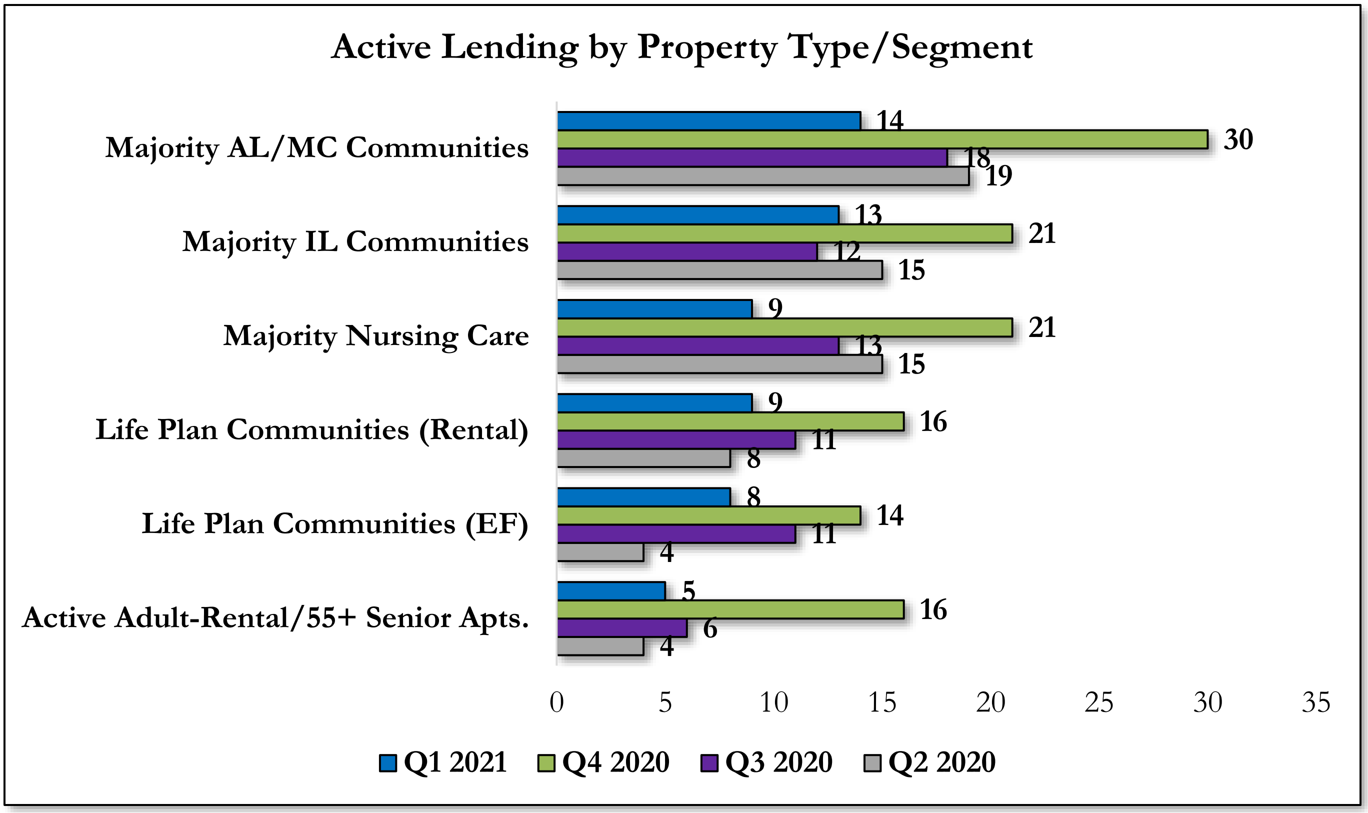
LENDING ACTIVITY

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 that 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 56% (9) of the respondents reported lending to both the private and tax-exempt sectors, with roughly another 38% (6) indicating that they have only lent to private sector owners and operators. Only one respondent reported lending only to tax-exempt (Not-For-Profit) providers.

The graphs below show the number of respondent organizations that are actively lending for particular financing types as well as property types/segments. 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: Q1 2021 = 16, 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	Q1 2021 Majority IL (N=15)	Q1 2021 Majority AL/MC (N=14)	Q1 2021 Majority Nursing (N=9)	Q1 2021 LPC-EF (N=8)	Q1 2021 LPC-Rental (N=9)
1.0-1.5%	0	0	0	0	0
1.6-2.0%	0	0	0	1	0
2.1-2.5%	**2**	1	1	**3**	1
2.6-3.0%	3	**5**	**2**	2	**4**
3.1-3.5%	**8**	**5**	**2**	1	1
3.6-4.0%	0	0	1	0	0
4.1-4.5%	0	1	1	0	1
4.6-5.0%	0	0	1	0	0
5.1-5.5%	0	0	0	0	0
5.6-6.0%	0	2	1	1	2
Greater than 6%	0	0	0	0	0

Highlighted cell reflects category with largest number of respondents.

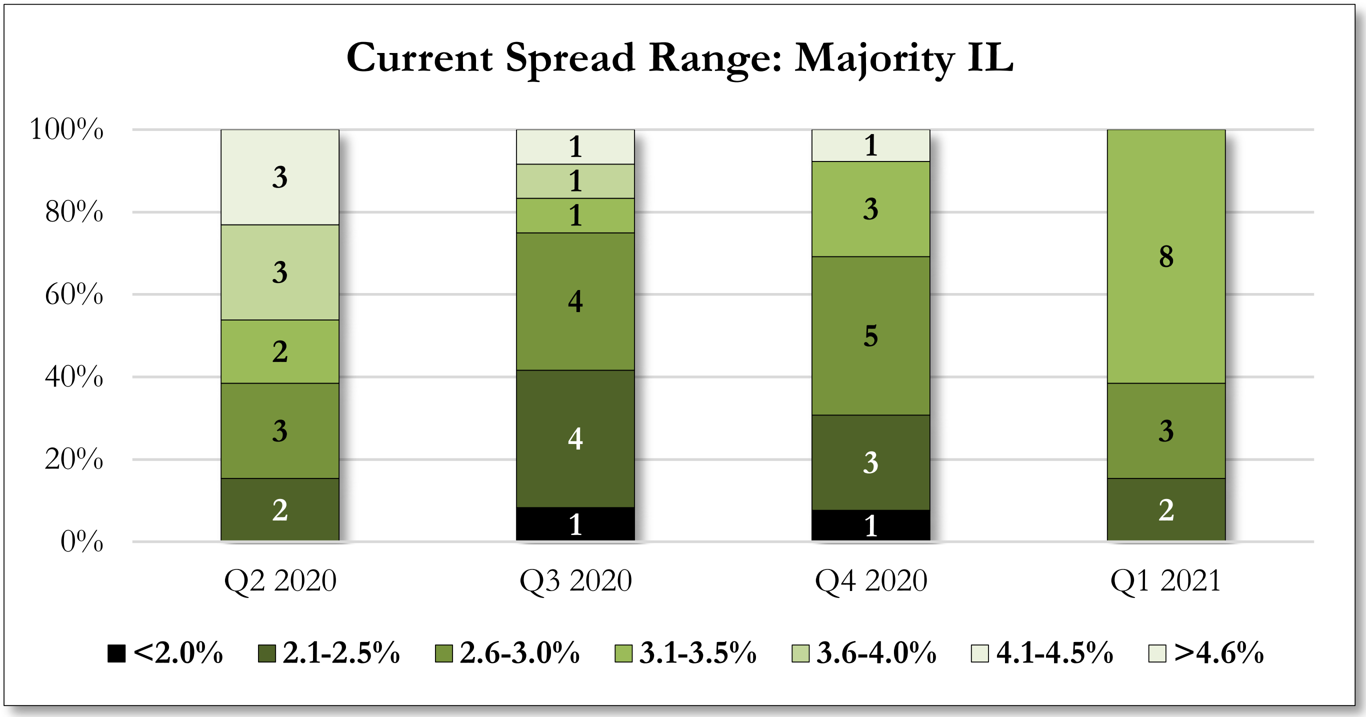
The LTV figures below show that most respondents report having a 71-75% maximum loan-to-value requirement across the majority of property types, with those lending for Majority IL also trending lower in the 60-65% range.

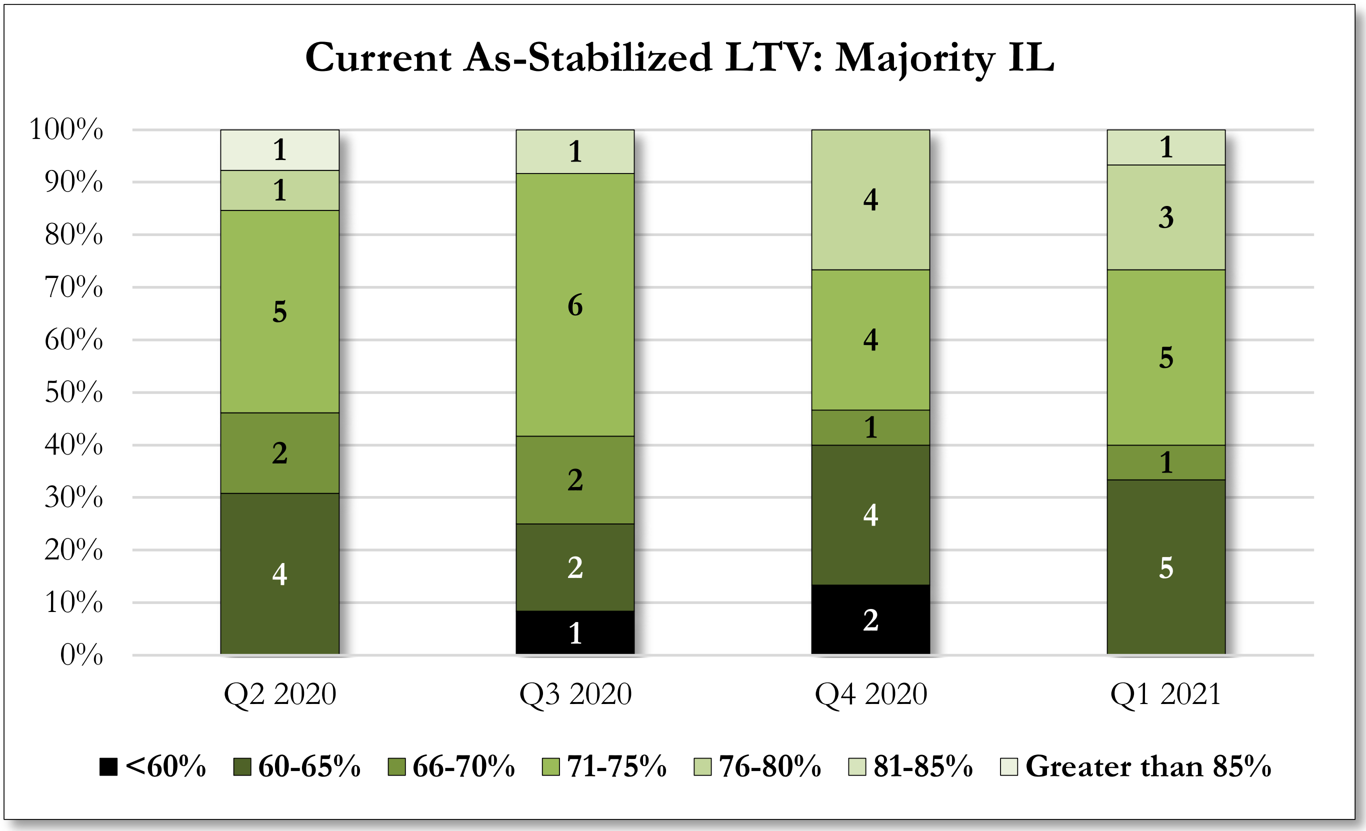
LTV Range	Q1 2021 Majority IL (N=15)	Q1 2021 Majority AL/MC (N=14)	Q1 2021 Majority Nursing (N=9)	Q1 2021 LPC-EF (N=8)	Q1 2021 LPC-Rental (N=9)
<60%	0	2	0	0	0
60-65%	**5**	2	1	1	1
66-70%	1	**4**	2	**3**	**3**
71-75%	**5**	**4**	**4**	1	1
76-80%	3	2	2	1	2
81-85%	1	0	0	1	1
86-90%	0	0	0	1	1
Greater than 90%	0	0	0	0	0

Highlighted cell reflects category with largest number of respondents.

Majority Independent Living

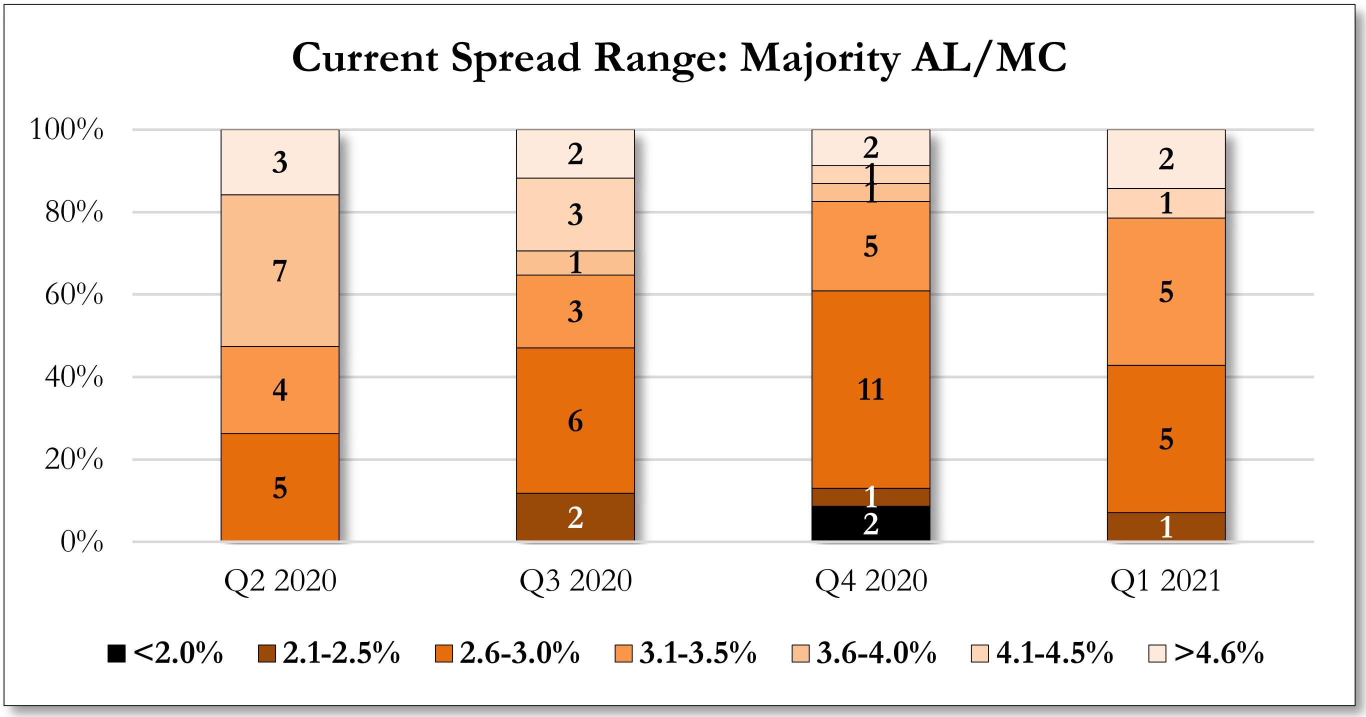
The charts below reflect the findings for majority independent living communities only with comparisons between Q1 2021 and the previous surveys from Q2-Q4 2020.

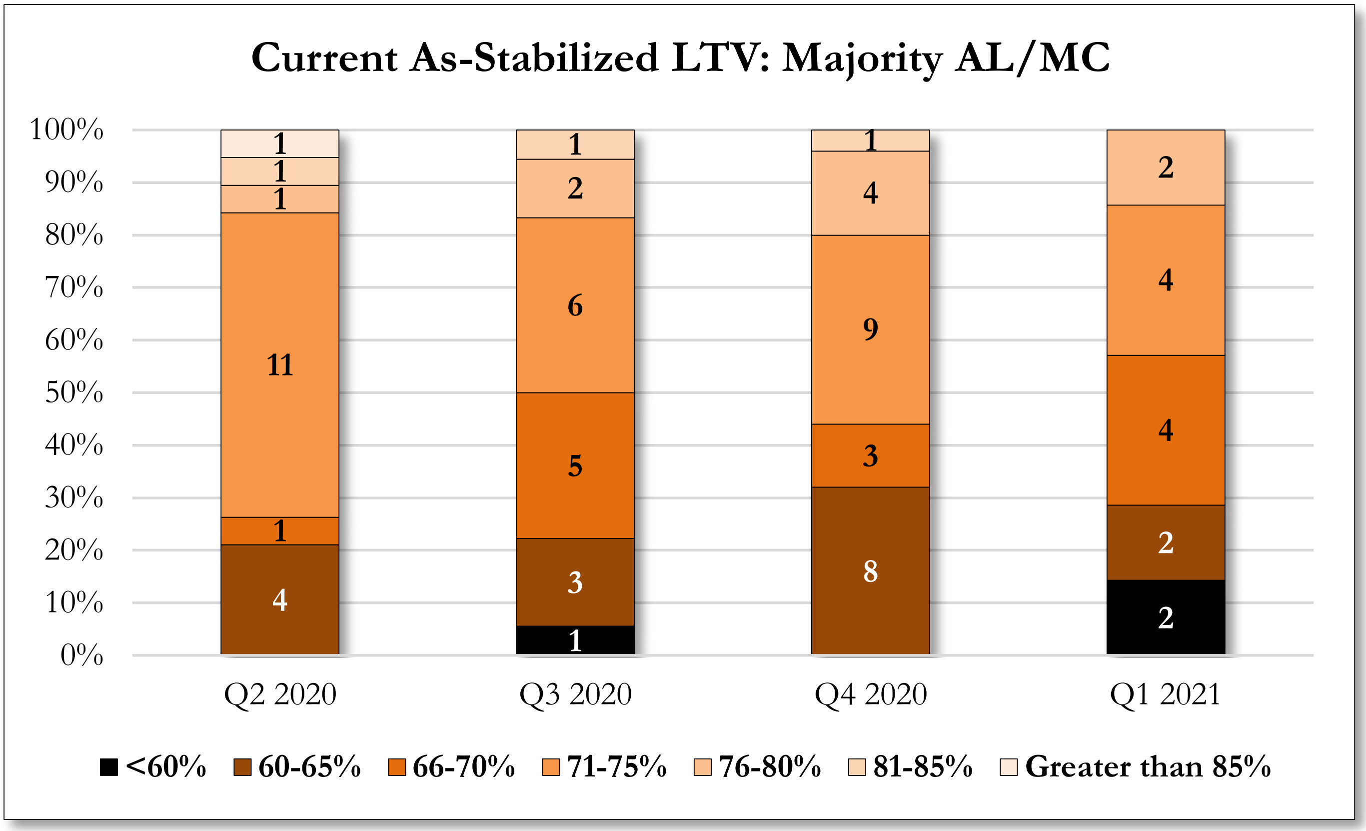




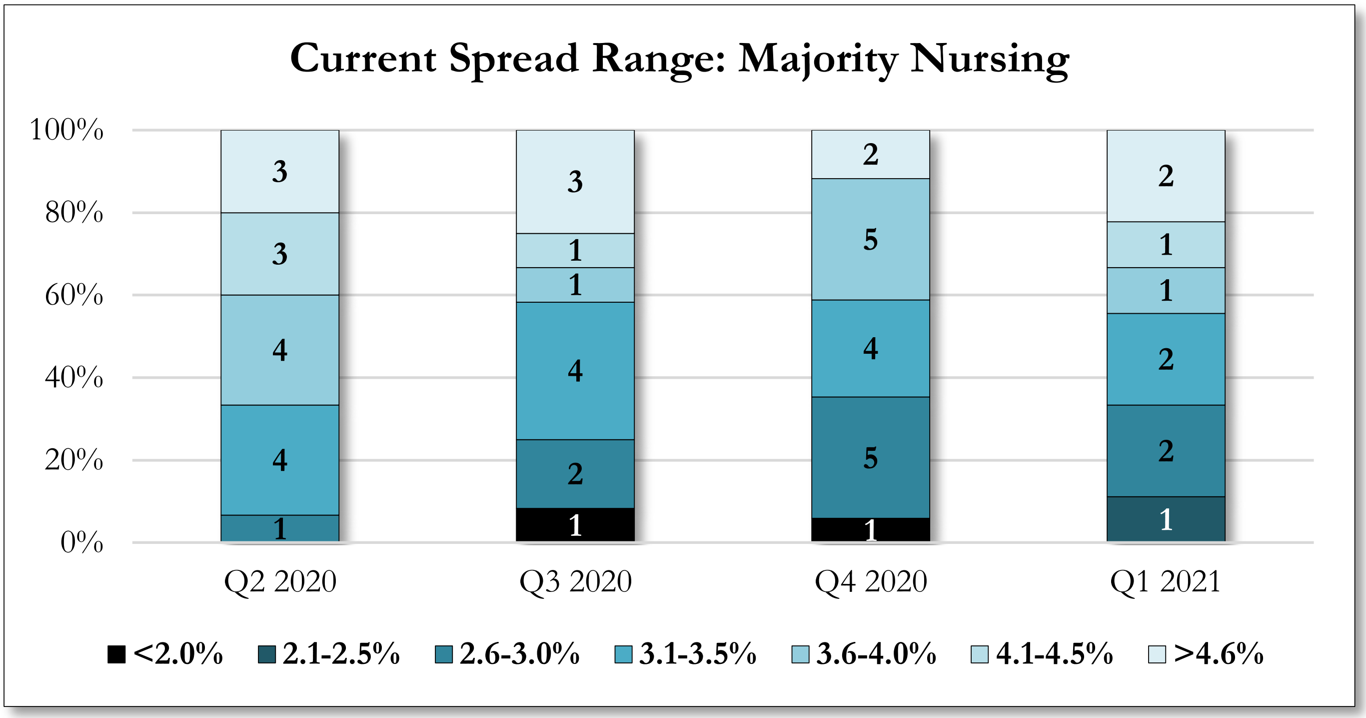
Majority Assisted Living/Memory Care

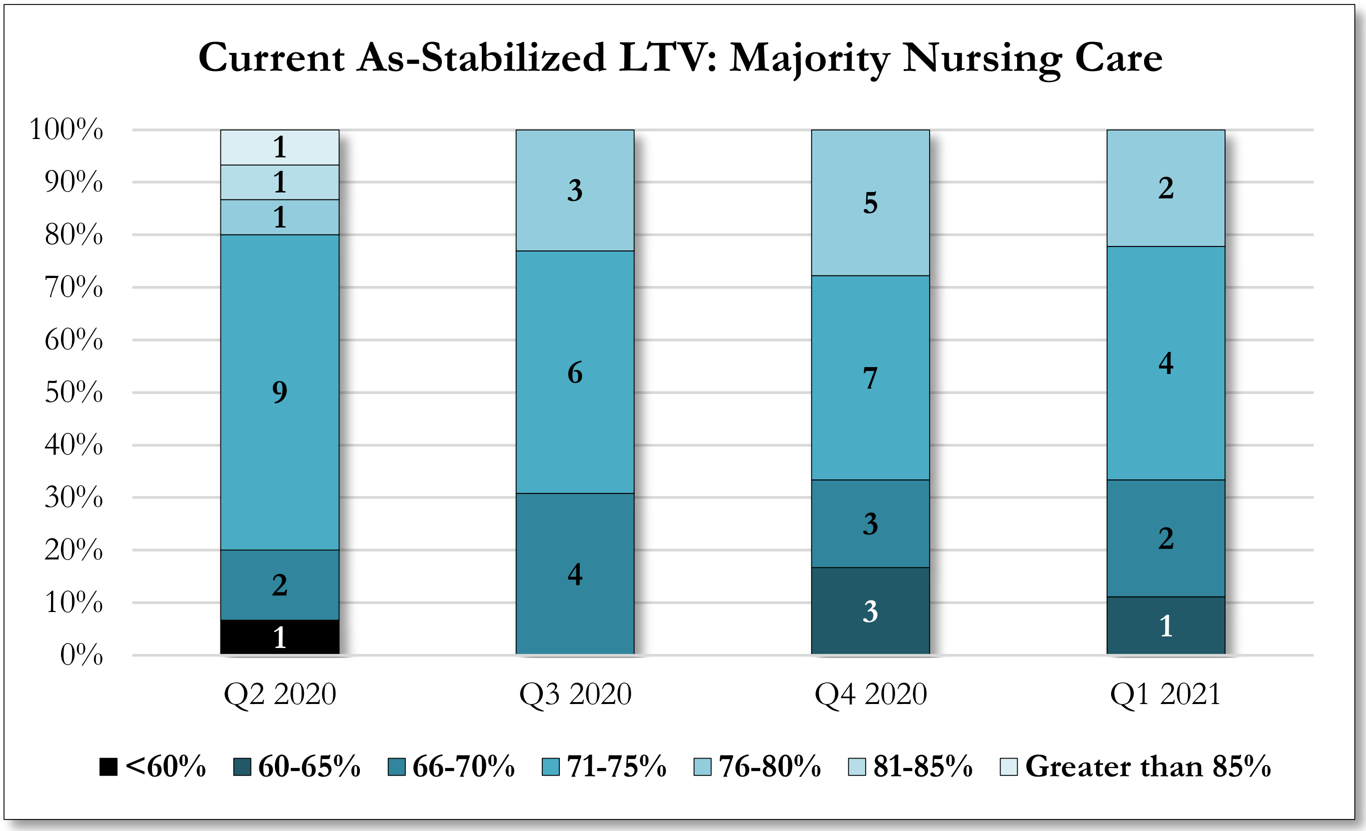
The charts below reflect the findings for majority assisted living/memory care communities only with comparisons between Q1 2021 and the previous surveys from Q2-Q4 2020.





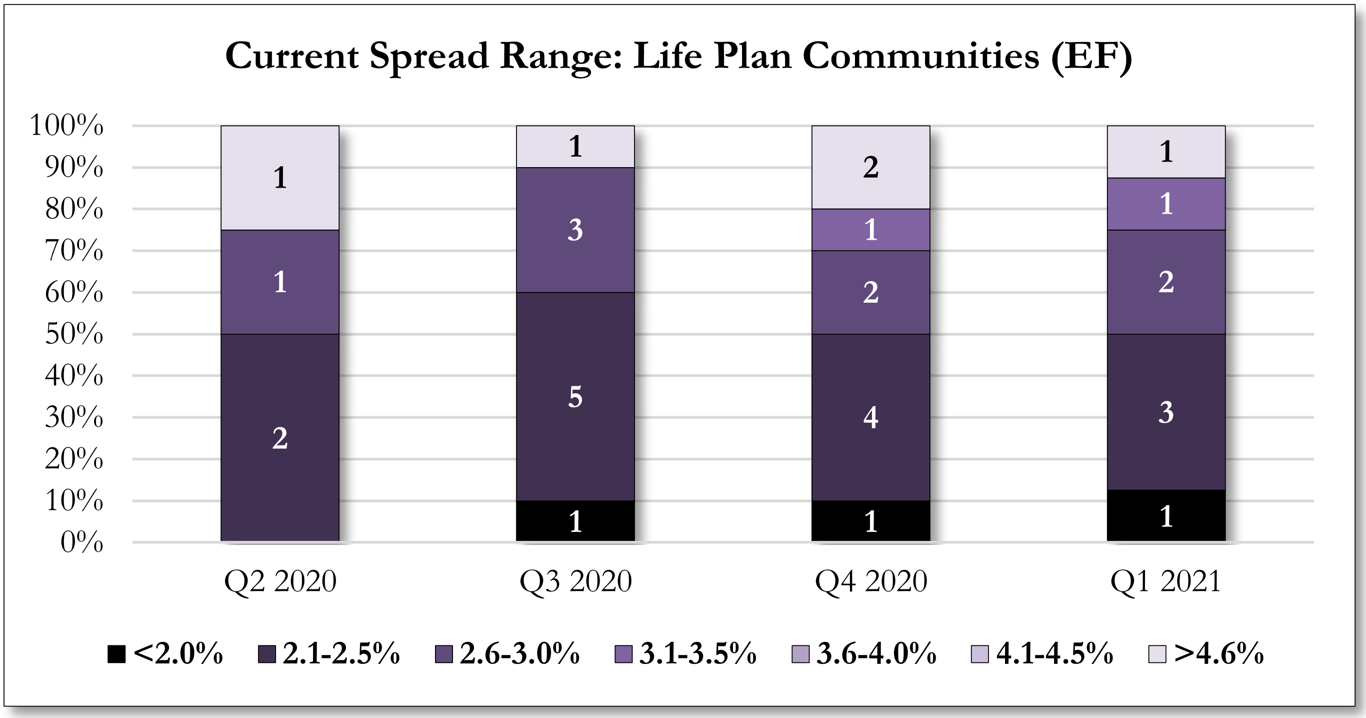
Majority Nursing Care
The charts below reflect the findings for majority nursing care communities only with comparisons between Q1 2021 and the previous surveys from Q2-Q4 2020.

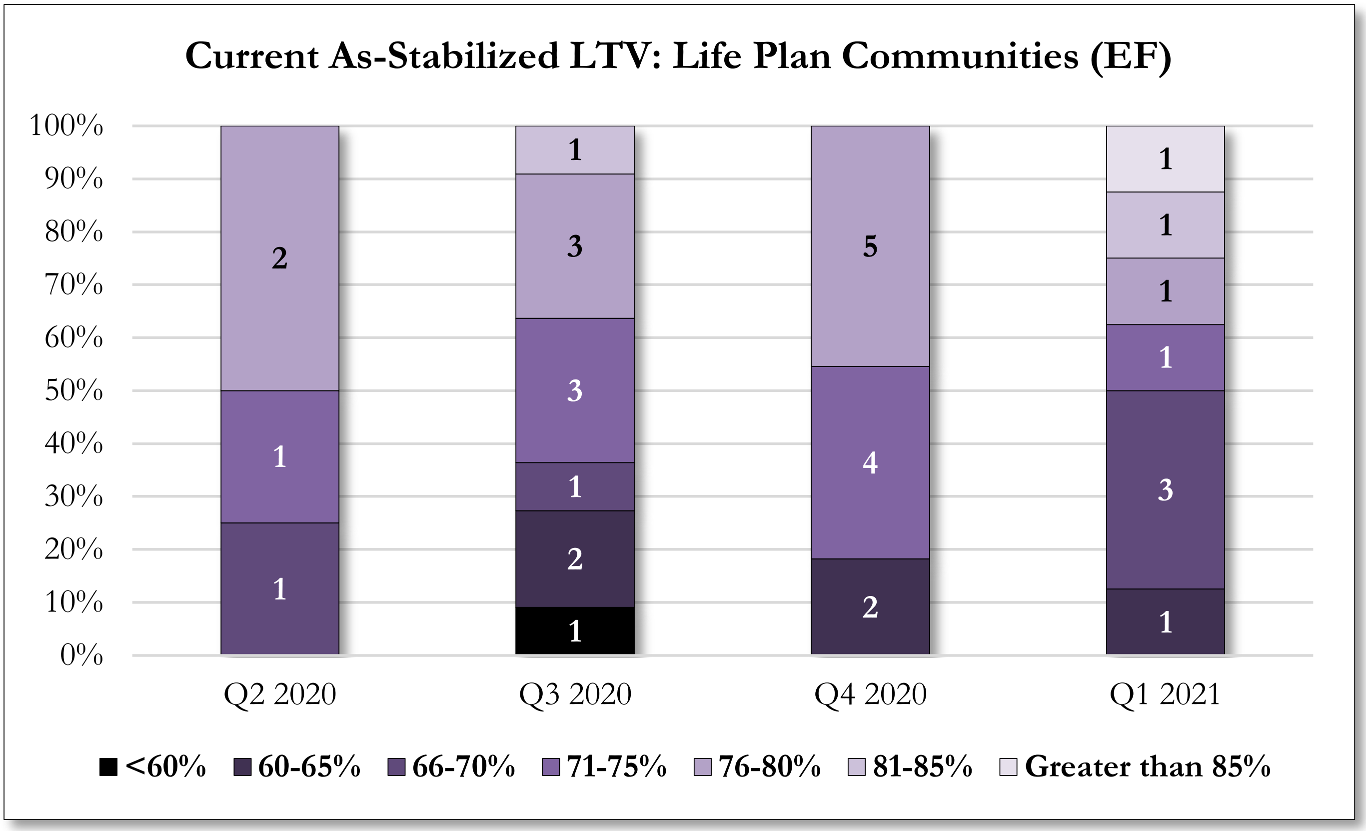




Entry-Fee Life Plan Communities

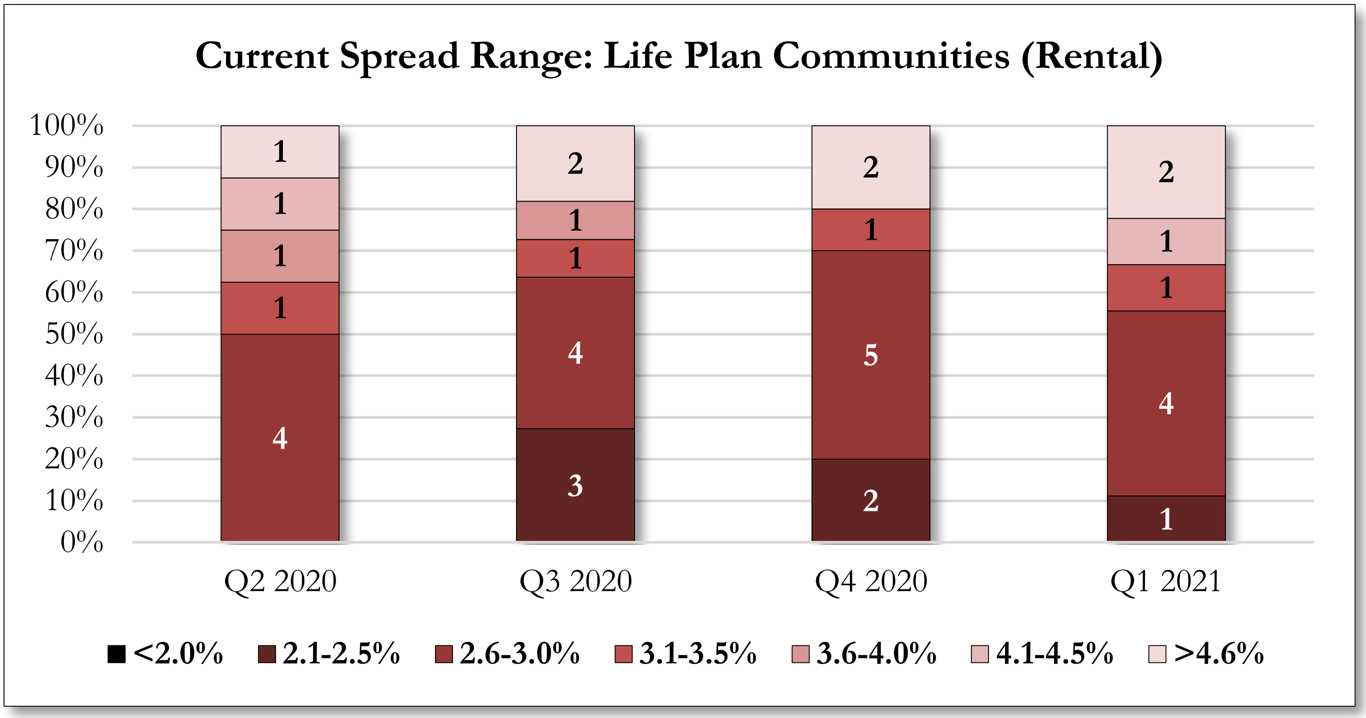
The charts below reflect the findings for Entry-Fee Life Plan Communities only with comparisons between Q1 2021 and the previous surveys from Q2-Q4 2020.

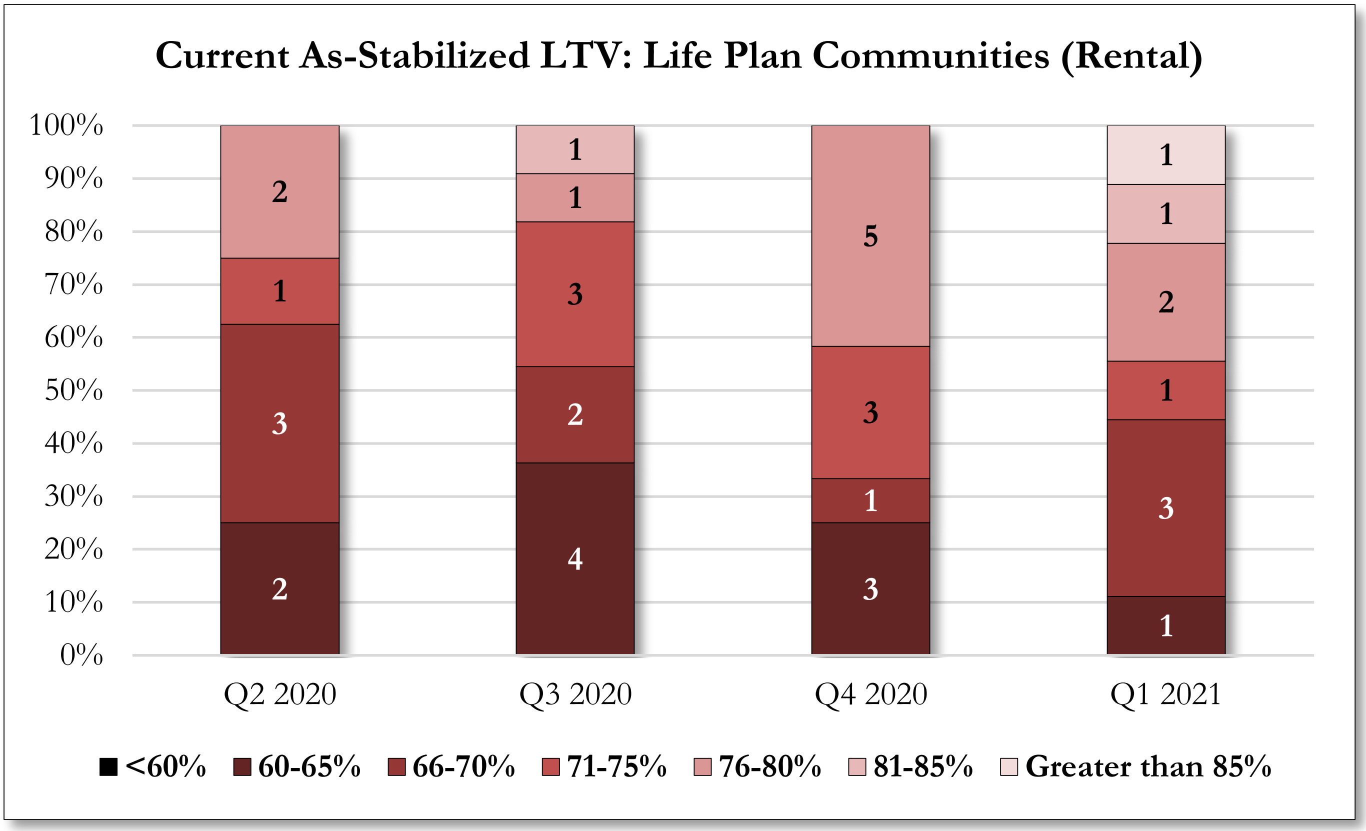




Rental Life Plan Communities

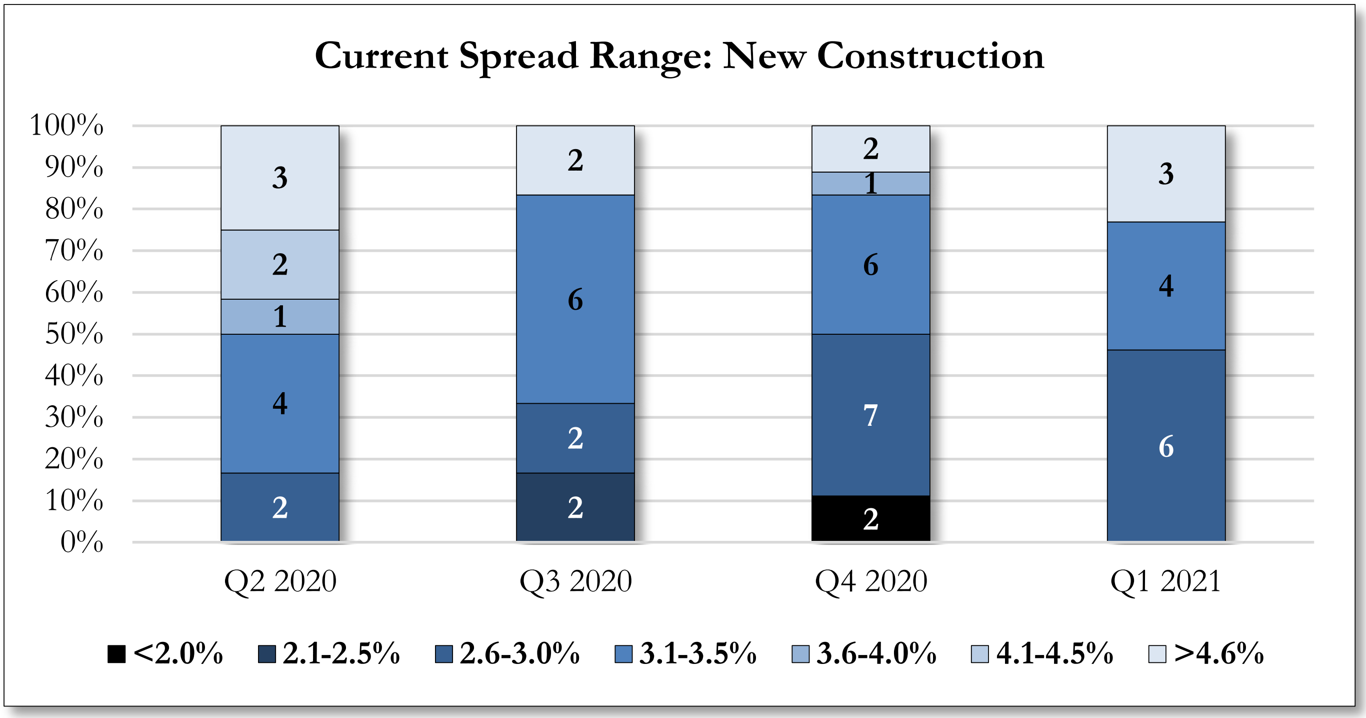
The charts below reflect the findings for Rental Life Plan Communities only with comparisons between Q1 2021 and the previous surveys from Q2-Q4 2020.

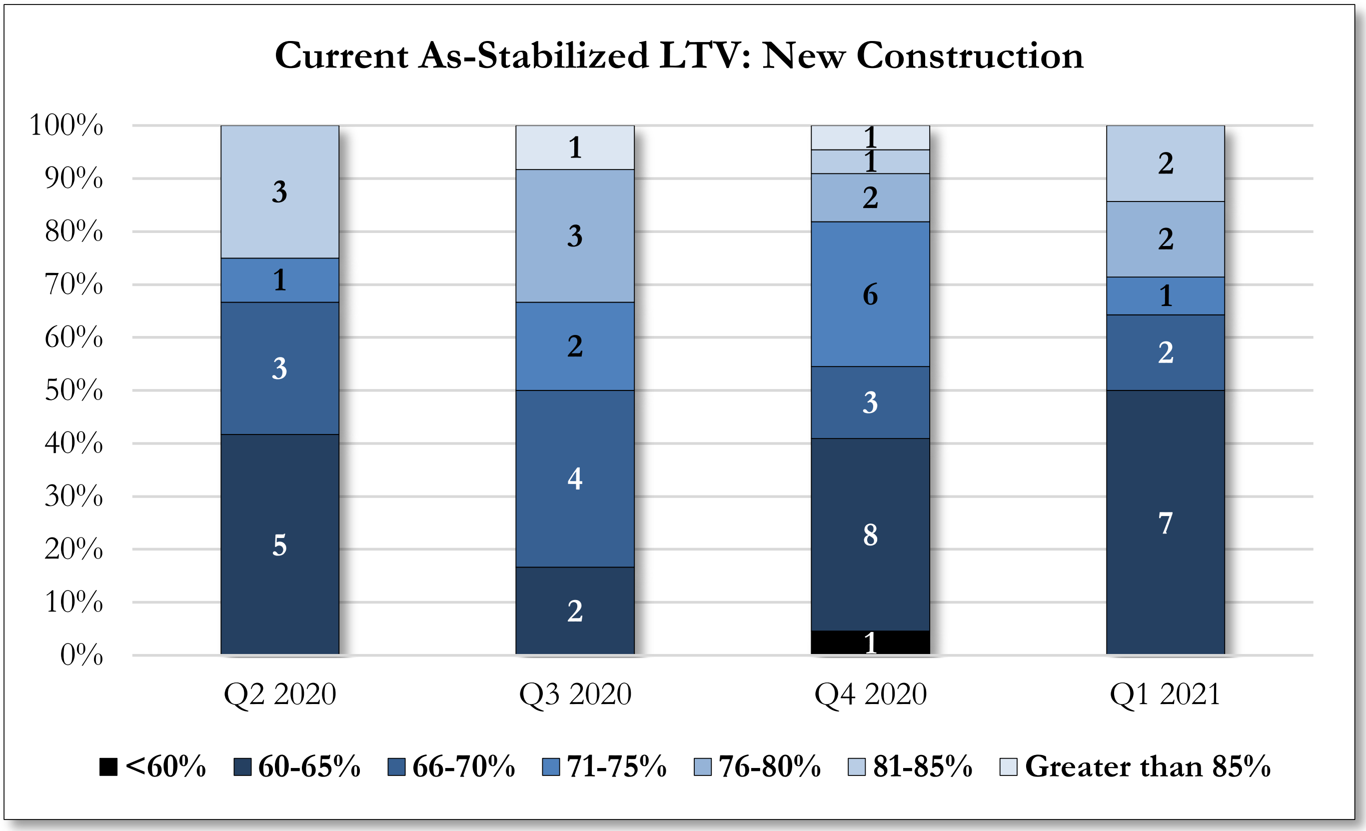




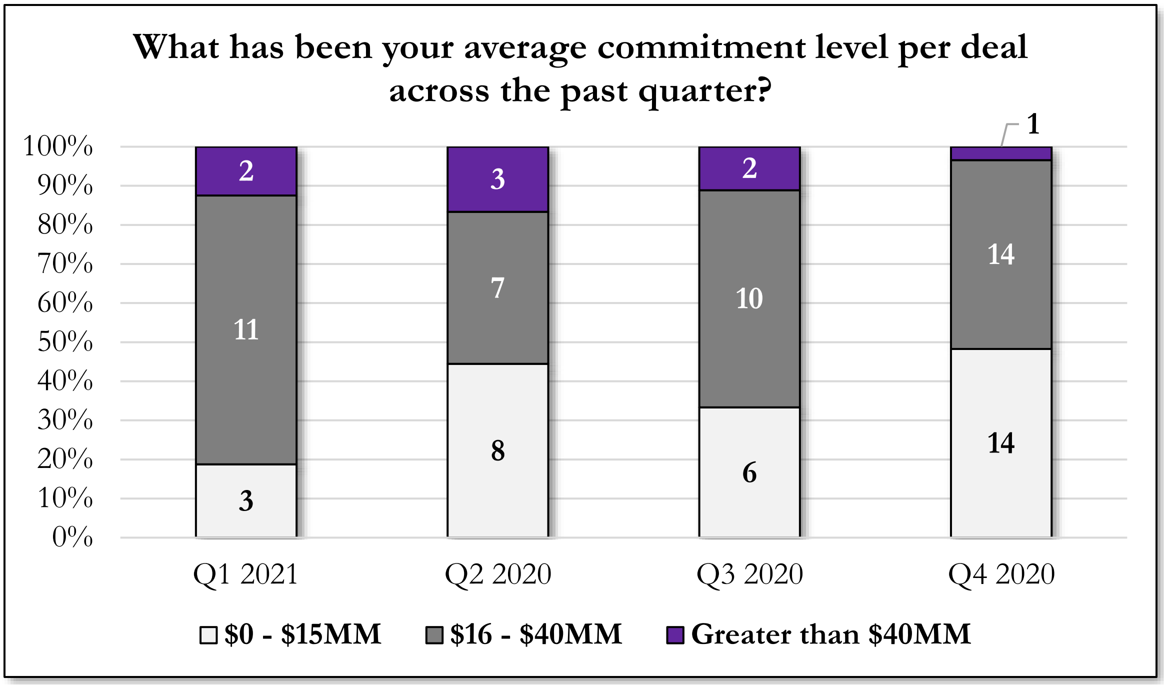
New Construction

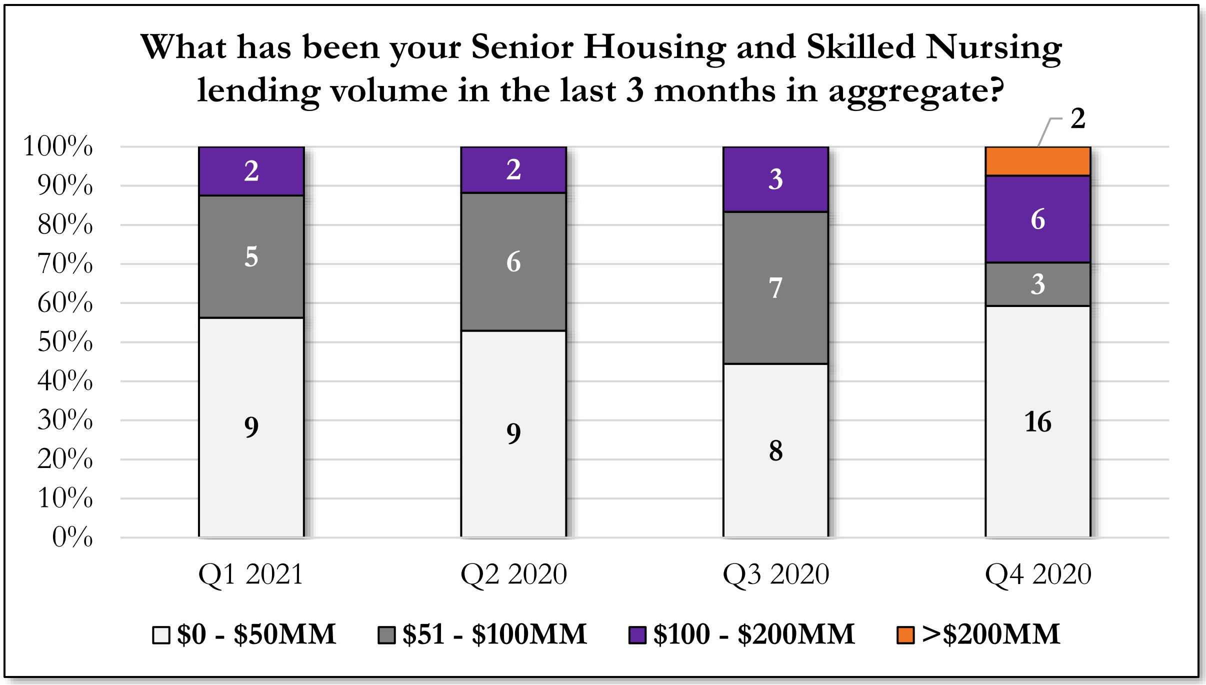
The charts below reflect the findings for new construction lending only with comparisons between Q1 2021 and the previous surveys from Q2-Q4 2020.



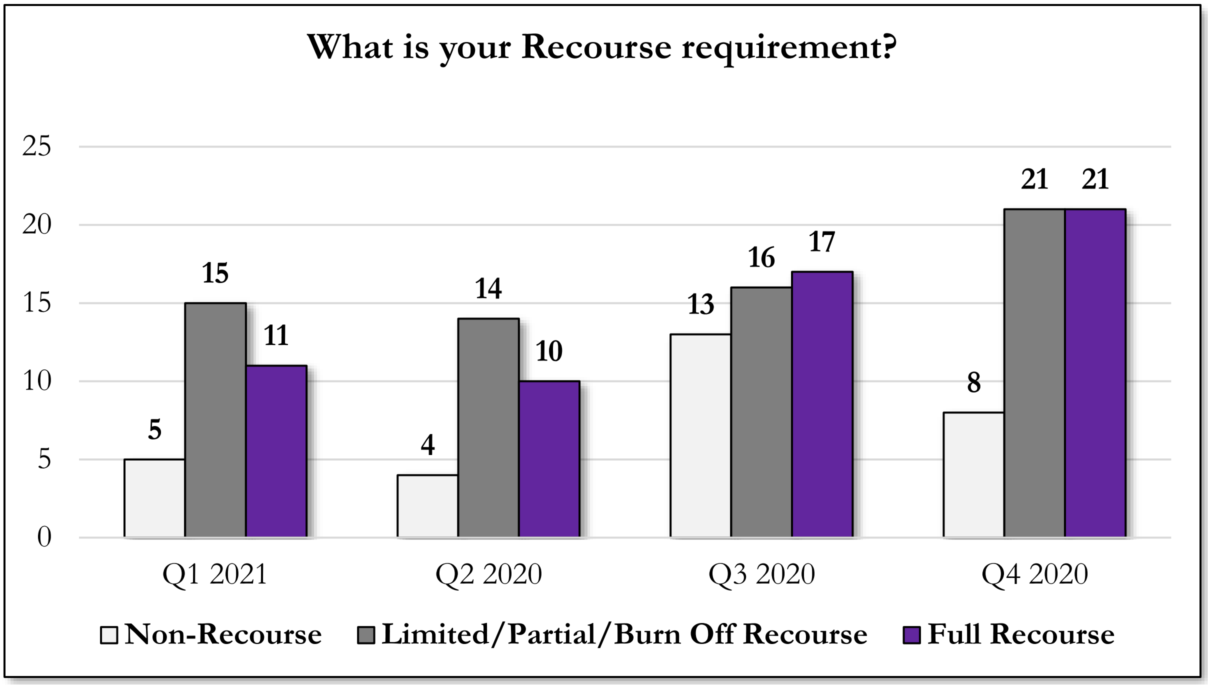


Additional questions were asked related to overall commitment level per deal, base rate floors, etc. For Q1 2021, the vast majority of lenders indicated average deal commitments between $16-40MM. Proportionally fewer respondents reported average commitment levels below $16MM compared to previous quarters. Total lending volume for Q1 was fairly similar to previous quarters.



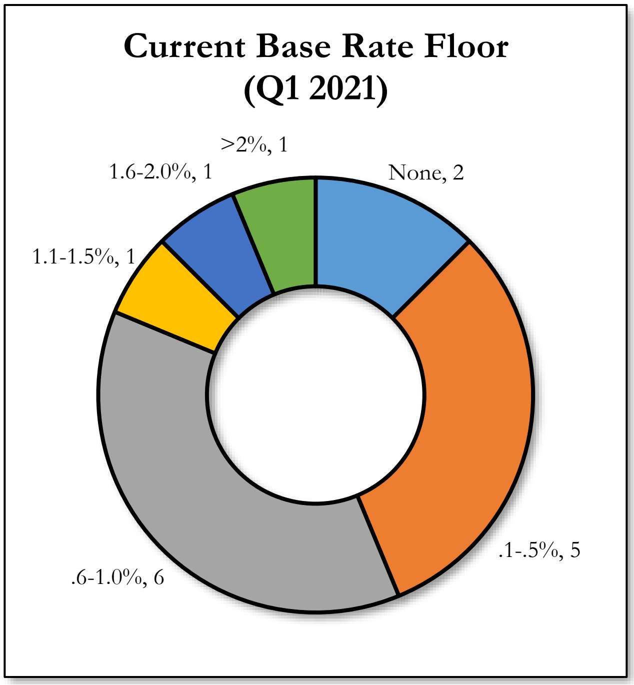


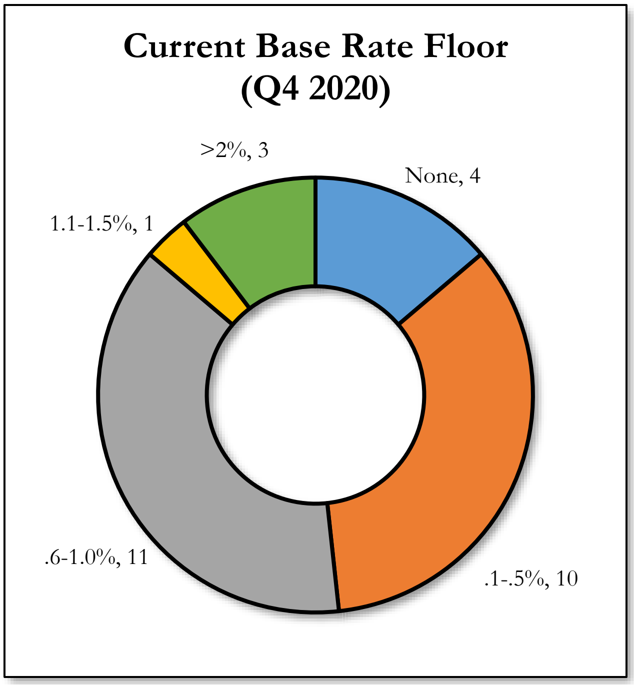
As detailed during the first quarter of this year, providers were less likely to have a full recourse requirement compared to the end of 2020. A limited/partial/burn off recourse was the most common. This is similar to the Q2 2020 findings.



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

Current Base Rate Floors for Q1 2021 were also fairly similar to Q4 of 2020 with the largest proportion in the 0.1% to 1.0% range.





An additional series of questions was asked regarding EBITDA underwriting requirements as well as debt service reserve funds. The table below details the Q1 2021 results by property type.

EBITDA Debt Service Coverage Ratio Requirements by Property Type: Q1 2021

	Majority IL (N=13)	Majority AL/MC (N=14)	Majority Nursing (N=9)
<1.0X	0	0	0
1.0-1.10X	0	0	0
1.11-1.25X	3	2	0
1.26-1.35X	**8**	**8**	**7**
1.36-1.50X	2	4	2
Greater than 1.5X	0	0	0

Highlighted cell reflects category with largest number of respondents.

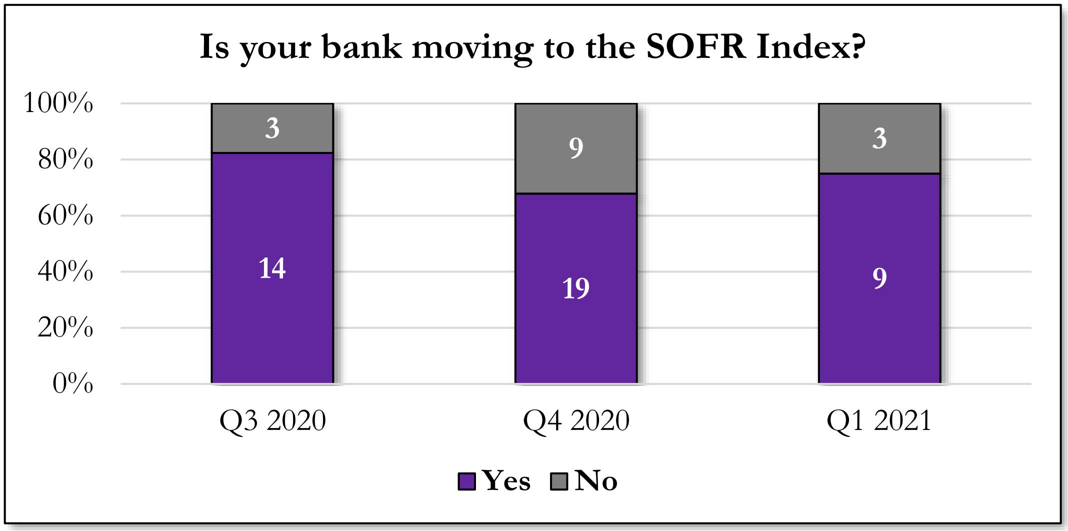
The table below details the requirements for debt service reserve funds. Notably, the largest proportion of lenders do not require these reserve funds altogether. Among the few that do, 6-month and 12-month reserve requirements were mentioned.

Debt Service Reserve Fund Requirements by Property Type: Q1 2021

	Majority IL (N=11)	Majority AL/MC (N=13)	Majority Nursing (N=9)
N/A - Do not require a DSRF	**9**	**9**	**5**
3 months	0	0	1
6 months	1	3	2
9 months	0	0	0
12 months	1	1	1
18 months	0	0	0

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 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 respondents were largely split between a transition by the end of 2021 versus "TBD."



ACTIVITY IN THE FIRST QUARTER

The final question on the survey asked about activity in Q1 2021 compared to Q4 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:

- *Q1 activity remained strong. We are actively pursuing strong stabilized communities.*
- *We are seeing borrowers press on with projects.*
- *Q1 2021 has been robust - some overflow from Q4 2020.*
- *Very active and spreads are going back up on loan volume due to limited number of lenders in the senior space.*
- *Activity is slowly picking up, but we are being highly selective and working with existing clients.*
- *We have seen a significant uptick in opportunities on new projects vs prior year.*
- *Robust start to 2021 as communities rebound with vaccinated residents and (to a lesser extent) staff. Many opportunistic borrowers in the market.*

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) – Also referred to as Continuing Care Retirement Communities (CCRCs), these communities include Independent Living and Skilled Nursing, and often include Assisted Living and Memory Care. They may be rental communities, or they may require an Entrance Fee or other large 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 and NIC.

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About Ziegler:
Ziegler is a privately held, national boutique investment bank, capital markets, and proprietary investments firm. It has a unique focus on healthcare, senior living, and education sectors, as well as general municipal and structured finance. Headquartered in Chicago with regional and branch offices throughout the U.S., Ziegler provides its clients with capital raising, strategic advisory services, fixed income sales, underwriting, and trading as well as Ziegler Credit, Surveillance, and Analytics. Disclaimer Statement Information contained or referenced in this document is for informational purposes only and is not intended to be a solicitation of any security or services.

About NIC:
The National Investment Center for Seniors Housing & Care (NIC) is a nonprofit 501(c)(3) organization whose mission is to support access and choice for America's seniors by providing data, analytics, and connections that bring together investors and providers.