

2022 Senior Living Issuance

Debt issued to fund senior living projects was identified as a sector in which investors had significant concern in the HilltopSecurities Hilltop High Yield 2022 and 2021 Surveys. Given the high labor costs associated with these projects, inflationary pressure on food and other operating costs, variability in occupancy exacerbated by the pandemic, competitiveness in many markets limiting the magnitude of rental increases, and the softening of the residential market affecting home sales and the decision to move into a senior community, operating margins at many communities will be compressed and an increase in technical and monetary defaults is likely in the immediate term for communities with more marginal operations.

Municipal Market Analytics reports that monetary defaults in the senior living sector exceeds 8% which is higher than any other sector in the municipal market. Of the defaults, 29% were original rated credits and 71% were unrated. In addition, according to Bloomberg data, it takes approximately 180 days from the time in which a senior living credit discloses a financial impairment to disclosure of a monetary default.

Despite challenges in the sector, the HilltopSecurities Debt Capital Markets team believes that highly liquid communities, with manageable amounts of well-structured debt, and good management teams will be best situated to weather these operating pressures. This assessment covers rated and non-rated debt. In order to better assess these factors, HilltopSecurities has calculated median credit information, including days cash on hand (median of 199), cash to debt (median of 13%), and debt per unit (median of \$248k), based off of approximately \$5 billion of nonrated debt issued over the last 18 months, providing important contextual data. We also believe that over the longer term, the continued aging of the American population will result in the increased need for congregate settings, which over time should introduce stability for well-structured senior living transactions. Therefore, investor focus in this sector is warranted.

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