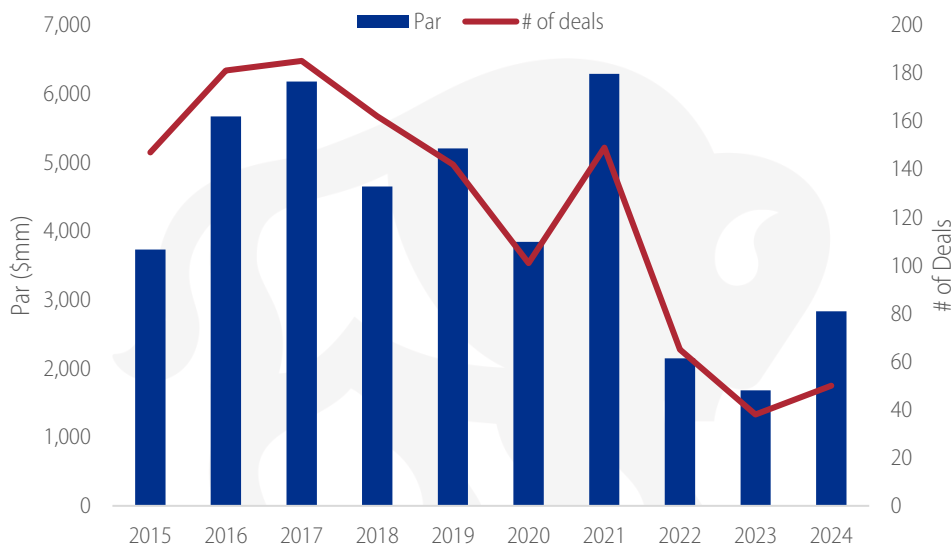


## U.S. Municipal High Yield Market

# Stable Outlook for Senior Living into 2025

HilltopSecurities has revised its outlook on the senior living sector to stable from cautionary. This change is due to reported increases in occupancy approaching pre-COVID levels, higher monthly community revenue, and stabilized expense pressures, including labor and food costs. This update is especially relevant given the 68% growth in senior living issuance in 2024 (year to date through Dec. 11, 2024), a trend that is expected to continue into 2025.

## Annual Senior Living Issuance



Source: SDC Data and HilltopSecurities.

As of Dec. 11, 2024, \$2.8 billion in senior living debt has been issued across 50 transactions. Non-rated issuance saw a significant increase, growing by 45% to \$1.2 billion from \$552 million in 2023. In addition, average non-rated deal size virtually doubled to \$53 million from \$23 million in 2023.

## Comparison of Annual Senior Living Issuance by Rating

	2023	%	2024	%	% change YOY
Not Rated	552.77	33	1273.04	45	12
BBB	379.28	23	1078.54	38	16
BB	423.48	25	122.52	4	-21
A	186.86	11	300.02	11	-1
AA	139.28	8	59.45	2	-6
<b>Total</b>	<b>1681.67</b>	<b>100</b>	<b>2833.56</b>	<b>100</b>	

Source: SDC Data and HilltopSecurities.

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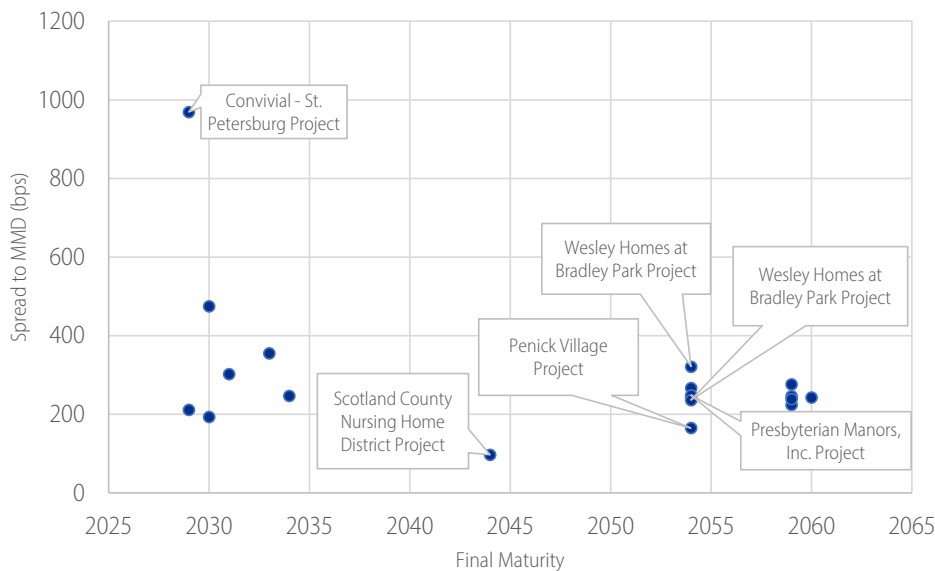
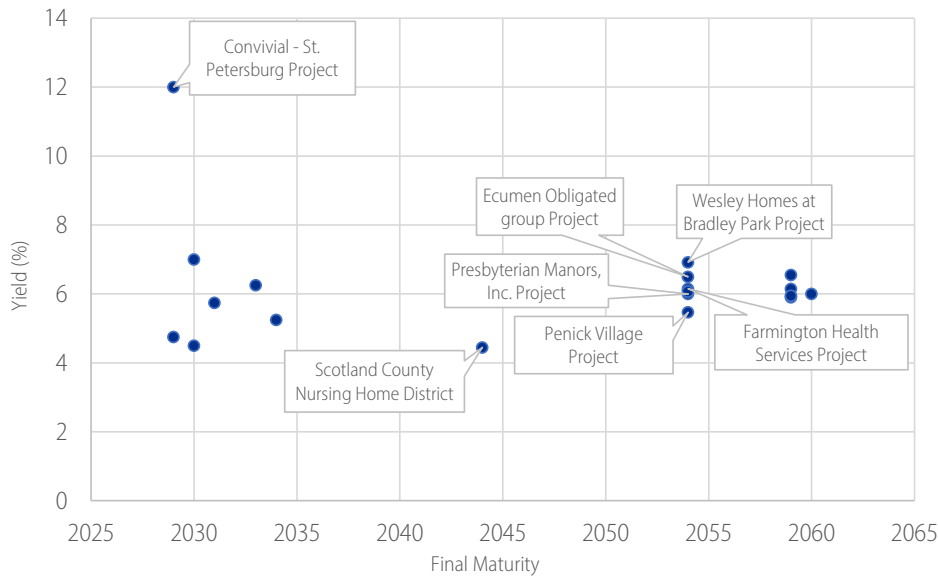
*HilltopSecurities has revised its outlook on the senior living sector to stable from cautionary.*

## Pricing Divergence

Given the rise in non-rated debt issuance, it is crucial to remain vigilant on deal credit features. We underscore that credit assessment of each project remains vital for determining security pricing as reflected in the scatter graph below.

*Given the rise in non-rated debt issuance, it is crucial to remain vigilant on deal credit features.*

### 2024 Non-Rated Senior Living Negotiated Transactions



Source: SDC Data, Bloomberg, and HilltopSecurities.

The scatter charts illustrate that even when focusing on the same final maturity, such as 2054, spreads can range from +100 to +380 basis points. Credit distinctions can include the type of project, operator, and location. The highest-yielding senior living transaction in 2024 was issued for a new project in Florida and was structured as a bond anticipation note.

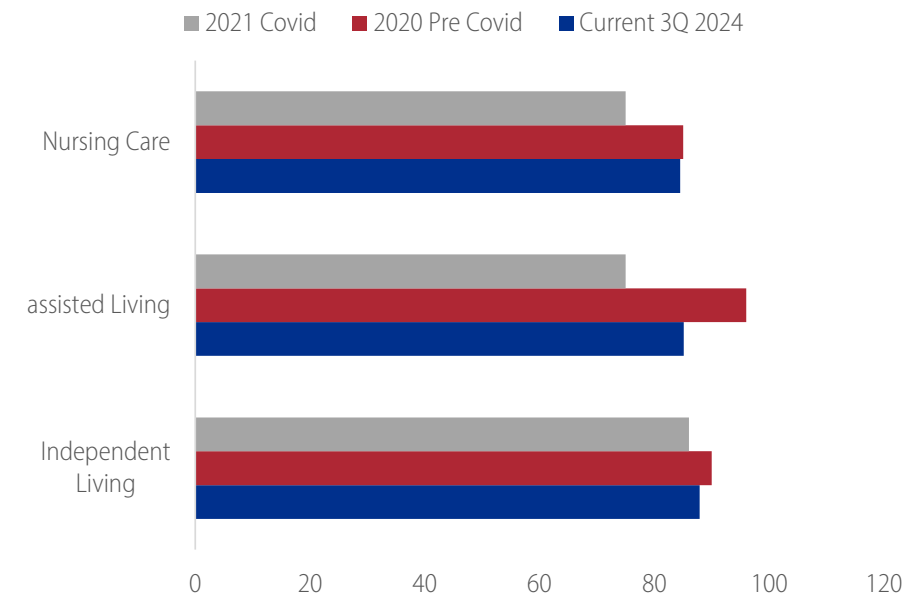
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Occupancy

Occupancy data from the National Investment Council shows that as of Q3 2024, independent living occupancy is at 87.9%, assisted living at 85.1%, and nursing at 84.5%. These figures have significantly improved from the COVID lows of 86%, 75%, and 75%, respectively, but have not yet returned to the pre-COVID highs of 90%, 96%, and 85%. It is important to note that demand for senior housing will vary based on regional availability and individual preferences. Additionally, decreasing mortgage rates, which can boost buyer demand for houses, may also positively impact demand for senior housing.

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Senior Housing Occupancy



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Source: NIC Map Vision and HilltopSecurities.

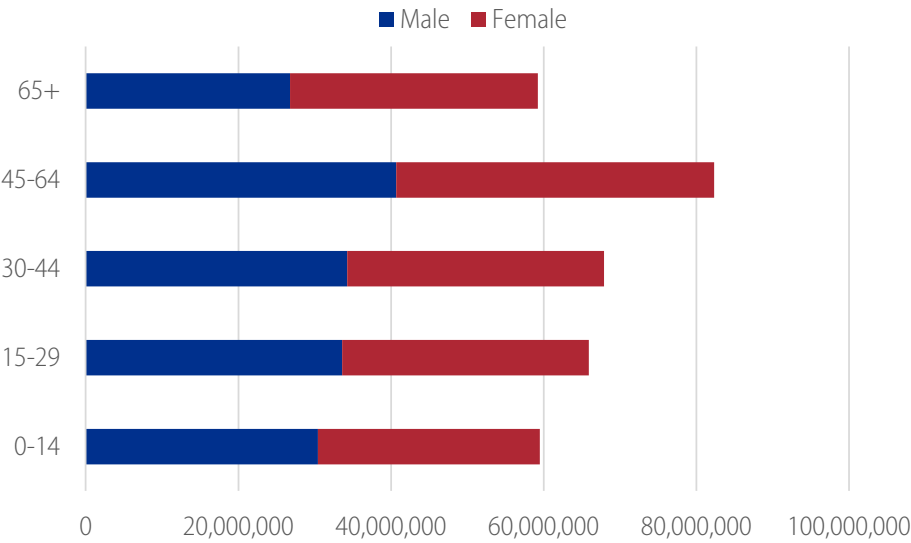
Simultaneously, NIC data shows a -0.5% growth in new senior living inventory, while annual absorption is at 2.1%. This scenario presents an opportunity for more substantial revenue growth, exceeding the current average of 4.2%, as demand continues to recover. According to Senior Housing News, operators anticipate margins to stabilize between 25-40%, depending on the type of care provided, with independent living communities achieving the highest margins.

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Aging of American Population

The American population is aging rapidly. From 2010 to 2020, the U.S. population aged 65 and over grew by 38.6%, the fastest rate since 1900. In the past three years, this demographic has increased by 9%, now comprising nearly 60 million people.

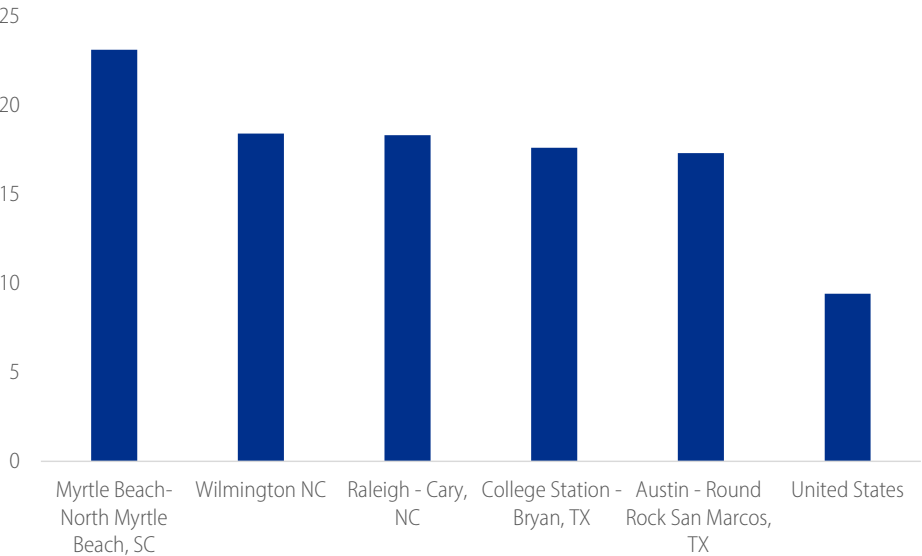
Population By Age Group



Source: U.S. Census Bureau and HilltopSecurities.

As demonstrated by the chart below, the number of adults aged 65 or older grew nationally in the last three years with this segment of older adults growing in virtually every US metro area.

% Growth of The Five Fastest US Metro Areas for Older Populations 2020-2023



Source: U.S. Census Bureau, Vintage 2023 Population Estimates. Note: Older population includes age 65 and over.

At the same time, fewer children were born from 2010 to 2020, leading to a future with more older adults and fewer younger adults available for home care. The US dependency ratio, which compares the population under 15 or over 64 to the working-age population (15-64), continues to rise. It increased from 49 in 2010 to 53.7 in 2019 and is projected to reach 64 in 2024. As this ratio grows, there are fewer working adults to care for the very old or very young, driving the need for more congregate care facilities for American seniors.

*The US dependency ratio, which compares the population under 15 or over 64 to the working-age population (15-64), continues to rise.*

*However, the effects of the current immigration policy, to our knowledge, are not factored into these numbers.*

## Conclusion

Although Hilltop's outlook for senior living is stable, reflecting expectations of sustained higher occupancy, stabilized expenses, and experienced management teams, there are still risks in this sector. According to Bloomberg data, approximately \$473 million in impairments (8 deals) and \$443 million in defaulted debt (9 deals) were reported in 2024. These figures are an improvement compared to 2023, which saw \$654 million in defaults and \$308 million in impairments. Hilltop recommends focusing on key fundamentals such as management, location, leverage, occupancy, competition, and financial modeling to distinguish between potential project successes and pitfalls, especially in the non-rated senior living bond arena.

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