U.S. Municipal High Yield Market

HilltopSecurities' Senior Living Outlook for 2026

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HilltopSecurities affirms its stable outlook on the senior living sector which was upgraded in 2025 to stable from cautionary. The maintenance of our stable outlook reflects sustained increases in occupancy exceeding pre-COVID levels, higher monthly community revenue, and stabilized expense pressures, including labor and food costs. This outlook is especially relevant given the 65% growth in sector debt issuance in 2025 adding to the almost 60% growth in senior living issuance in 2024, a trend that is expected to continue into 2026. Our stable outlook also reflects the 72% reduction in year over year senior living related defaults as the sector continues to benefit from revenue growth and expense stabilization.

Annual Senior Living 2015 – 2025

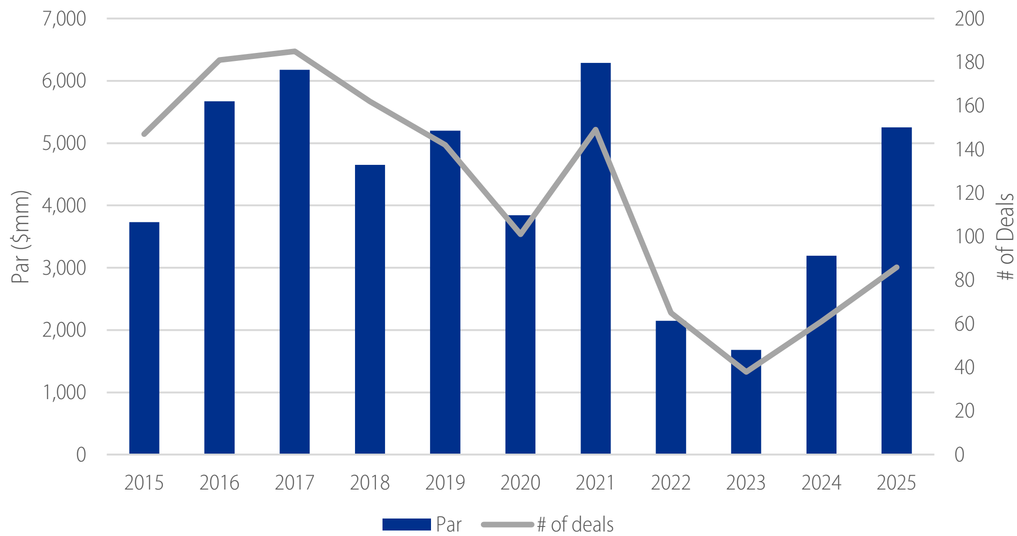

Figure 1: Bloomberg and HilltopSecurities

For calendar year 2025, a total of $5.3 billion in senior living debt was issued across 67 transactions. Non-rated issuance saw a significant increase, more than doubling to $3.4 billion from $1.2 billion. In addition, average non rated deal size increased to $67 million from $52 million in 2024.

	2023	%	2024	%	2025	%	24-25 % Change YOY
NR	552.77	33%	1441.90	52%	3408.49	63%	136%
BBB	379.28	23%	1269.59	31%	1140.62	23%	-10%
BB	423.48	25%	122.52	7%	80.00	1%	-35%
A	186.86	11%	300.02	8%	590.87	9%	97%
AA	139.28	8%	59.45	2%	34.85	3%	-41%
Total	**1681.67**	**100%**	**3193.48**	**100%**	**5254.83**	**100%**	**65%**

Figure 2: Bloomberg and HilltopSecurities

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 specific transactions in determining security pricing.

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Occupancy

Occupancy data from the National Investment Council (NIC) shows that as of Q4 2025, independent living occupancy is at 90.6%, assisted living at 87.7%, and nursing at 86.5%. These figures have significantly improved from the COVID lows of 86%, 75%, and 75%, respectively and have all essentially returned to their respective pre-covid (2019) peaks. Additionally, decreasing mortgage rates, which can boost buyer demand for houses, may also positively impact demand for senior housing.

Senior Housing Occupancy

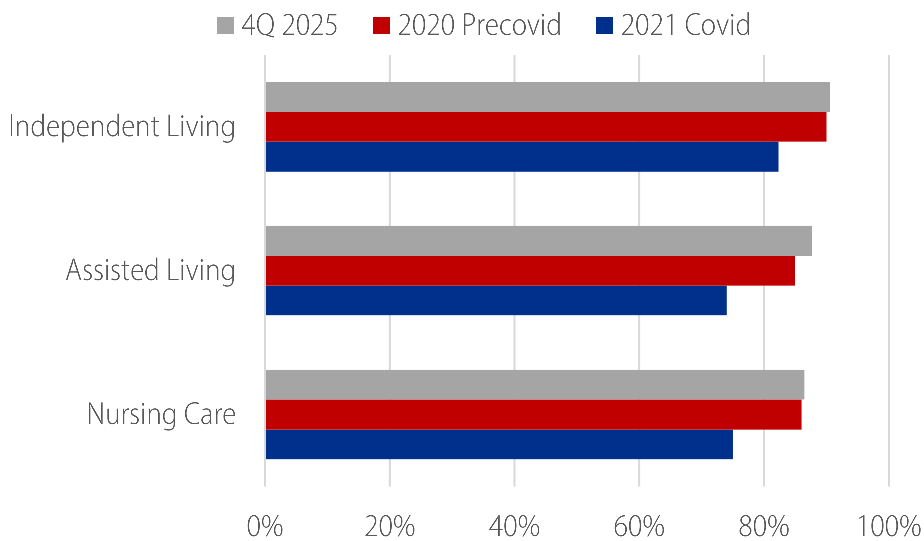

Figure 3 info.nicmap.com/rs/016-QJL-848/images/4Q25-NIC-MAP-Market-Fundamentals.pdf

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Stabilization of Financial Profile

In addition to the occupancy growth, it is important to also point out that the average annual rental growth is also increasing, According to NIC data, growth in monthly rents have increased 3.9% for independent living communities, 4.9% for assisted living communities and 5.3% for nursing home communities as of the fourth quarter 2025. At the same time, labor costs, the predominant operating cost, typically over 40% of facility expenses (according to MMCG Invest, a feasibility study consultancy) are expected to moderate to approximately 3% a year which can be accommodated by the revenue increase. Similarly inflationary pressures for food are expected to stabilize at approximately 3% according to the USDA. Together, higher occupancy, higher rents, and stabilizing expenses should enhance the financial profile of senior living communities as a sector.

Aging of American Population

Together, higher occupancy, higher rents, and stabilizing expenses should enhance the financial profile of senior living communities as a sector.

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. Furthermore, this population grew by 9.4% from 2020-2023 according to, the U.S. Census.

Although Hilltop's outlook for senior living is stable, reflecting expectations of sustained higher occupancy, increasing rent, stabilized expenses, and experienced management teams, there are still risks in this sector.

At the same time, the number of children in the U.S. declined 3.3% nationally from 2020 to 2023, leading to a future with more older adults and fewer younger adults available for homecare. The U.S. dependency ratio, which compares the population under 15 or over 64 to the working-age population (15-64), continues to rise. The ratio increased from 49 in 2010 to 54% 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.

Conclusion

Although Hilltop's outlook for senior living is stable, reflecting expectations of sustained higher occupancy, increasing rent, stabilized expenses, and experienced management teams, there are still risks in this sector. According to Bloomberg data, there were approximately $151 million in defaults in 2025 a sharp reduction from the $555 million in defaulted debt reported in 2024. While the amount of impaired par increased in 2025 to $724 million, it represented only eight deals. To compare, impairments in the senior living sector totaled $638 million in 2024; however, 14 deals were affected. Hilltop continues to underscore the need to focus on key fundamentals such as management, location, leverage, occupancy, competition, expense management, and financial modeling to distinguish between potential project successes and pitfalls, especially in the non-rated senior living bond arena.