ZIEGLER INVESTMENT BANKING
SENIOR LIVING FINANCE Z-NEWS
Page 1 | Week of February 7, 2022

FEATURED ARTICLE

COVID-19 IMPACT: FINANCIAL ANALYSIS OF NFP LIFE PLAN COMMUNITIES

Many of you are familiar with Ziegler's Credit Surveillance and Analytics (ZCS) team, which is comprised of financial and credit analysts committed to providing investors and the market with value-added research on select securities. One specific group monitored by ZCS are the tax-exempt borrowers of public debt with in senior living & care. This week's issue of ***Z-News*** highlights a recent report that details the financial impact on financial ratios and other measures tracked by the ZCS team.

Background

This COVID-19 impact report is a supplement to our FY 2020 CCRC Median Report, dated November 15, 2021 and available on ZieglerCreditSurveillance.com or Ziegler.com. Given that the two are positioned as sister documents in many ways, it is recommended that both should be read together. The information contained in this issue of ***Z-News*** provides a high-level summary, while the full report contains the detailed, data-backed analysis that we drew these conclusions from.

PPP Impact

Sixty-six borrowers (57% of the 116-borrower sample group) received a PPP loan during their FYE 2020, with the median amount received equating to 32.5 DCOH. Twenty-three borrowers (20% of entire sample, 35% of those that received PPP) amortized at least a portion of their PPP loan during their FYE 2020, with the median amount amortized equating to 0.45 times coverage. We found 13 additional borrowers that applied post FYE. Seventy-nine out of the 116-borrower sample (68%) received PPP eventually. The report provides a detailed breakdown of PPP amounts received and amortized.

While not all PPP recipients have reported official forgiveness, we do not expect any rejections of pending forgiveness applications.

The data suggests that borrowers with DSC below 1.20 times were more likely to amortize PPP if they received it, and that if a borrower was over 1.20 times they were no more likely to amortize, regardless of how far over. While this may be coincidental evidence on its own, the fact that the dividing point is around the 1.20 times common for covenant compliance lends some credibility to the analysis.

COVID-19 Impact on Year-Over-Year Financial Results

The chart below shows the differences in median results between FYE 2019 and 2020, for the 53 borrowers that were included in both years' reports and have a 12/31 FYE. Including borrowers with earlier FYEs would skew the impact results to look materially more favorable. Occupancy declines were a major contributor to unfavorable results. While Skilled Nursing occupancy showed the greatest decline, the negative net entrance fees from declining Independent Living occupancy had an outsized effect on certain ratios. Government aid (PPP and Provider Relief) was generally sufficient during FY 2020 to mitigate lost revenues and increased expenses, excluding entrance fees.

Same Borrower Comparison, 12/31 FYE only (53 borrowers)

Select Ratios (19 in Report)	2020 vs. 2019	Favorable/ Unfavorable
Net Operating Margin (NOM)	-4.2%	Unfavorable
Net Operating Margin – Adjusted (NOM-A)	-12.5%	Unfavorable
Operating Ratio (OR)	-1.5%	Favorable
Days Cash on Hand (DCOH)	12 days	Favorable
Days Cash on Hand (DCOH) *Excluding PPP*	0 days	
Debt Service Coverage (DSC)	-.50 times	Unfavorable
Debt Service Coverage (DSC) *Excluding PPP*	-0.63 times	Unfavorable
Unrestricted Cash and Investments to Long-Term Debt (CTD)	7.2%	Favorable
Capital Expenditures as a Percentage of Depreciation Expense (CED)	-15.0%	Unfavorable

ZIEGLER
One North Wacker Drive | Suite 2000
Chicago, IL 60606

CONTACT US
800 366 8899
askziegler@ziegler.com

Conclusions & Predictions for FY 2021/2022

Borrowers received comparatively small amounts of Provider Relief funding (PRF) in 2021, which will be amortized over FYE 2021/2022 depending on borrower FYE dates. We do not expect meaningful additional PRF going forward. Some individual borrowers have grant applications outstanding with organizations like USDA and FEMA, but we do not believe these programs will materially impact the industry as a whole.

Many borrowers will still be amortizing PPP in FY 2021 and a handful into FY 2022. ZCS will continue to include sensitivity analysis in reporting of those ratios as long as there is a material impact.

We believe that the cohort of borrowers that will show the greatest degree of financial/accounting impact from COVID in FY 2021 are those with FYE 3/31 – 6/30 due to timing. There will be no pre-COVID results mitigating losses. Occupancy recovery only started after vaccines became widely available in January of 2021, so these borrowers will only show the early months of recovery.

Going forward, with occupancy improving in recent quarters, and with restrictions generally easing, previously implemented expense reductions may no longer be in-play. In fact, we expect expenses in general, and especially labor costs, to increase significantly going forward. While many borrowers have instituted meaningful monthly fee increases, we believe that, as a group, borrowers will be challenged to raise fees to cover the entire cost of increased staffing in the near term.

There is much more detail in the full report and we encourage readers to access the full-spectrum of information.

Ziegler remains committed in the year ahead to bringing forth the most up-to-date research and trend information and feeding that back out to the sector. The ZCS team will release an updated medians report in the fall of 2022 and will continue to examine the impact of the ongoing pandemic on financial performance. If you have questions related to the topics mentioned in this article or other related items, please contact Mike Vitiello with the ZCS team or the Ziegler banker in your region.

LISA McCRACKEN
DIRECTOR, SENIOR LIVING RESEARCH & DEVELOPMENT
lmccracken@ziegler.com

MIKE VITIELLO
VICE PRESIDENT, CREDIT SURVEILLANCE AND ANALYTICS
mvitiello@ziegler.com

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF FEBRUARY 9, 2022

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Linden Ponds (MA)	Fitch	BB Positive	Rating Watch Positive	2/1/22
National Senior Communities Obligated Group fka National Senior Campuses (VA)	Fitch	A Stable	Assigned Rating Affirmed Rating Affirmed IDR*	2/1/22
NewBridge on the Charles (MA)	Fitch	BB+ Stable	Assigned Rating Affirmed Rating Assigned IDR*	2/3/22
Three Pillars Senior Living Communities (WI)	Fitch	BBB+ Stable	Affirmed Rating	2/3/22
Aldersly (CA)	Fitch	BB+ Negative	Downgraded Rating and IDR*	2/7/22
Kendal at Lexington (VA)	Fitch	BBB- Stable	Assigned Rating	2/7/22
Village on the Isle (FL)	Fitch	BB+ Stable	Affirmed Rating Assigned IDR*	2/7/22
Moorings, Inc. (FL)	Fitch	A Stable	Assigned Rating Affirmed Rating Affirmed IDR*	2/8/22
Moorings Park (FL)	S&P	A+ Stable	Assigned Rating Affirmed Rating	2/9/22

** IDR – Issuer Default Rating (FitchRatings)*
Any non-Ziegler sources referenced in this Z-News are believed to be reliable but cannot be guaranteed.

INTEREST RATES/YIELDS

WEEK ENDING FEBRUARY 4, 2022

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	1.82%	1.85%	1.57%
Senior Living 30-Yr "A"	2.65%	2.75%	2.15%
Senior Living 30-Yr "BBB"	2.95%	3.10%	2.45%
Senior Living Unrated	3.75%	4.00%	3.61%
Senior Living New Campus	5.05%	5.21%	5.34%
SIFMA Muni Swap Index	0.06%	0.06%	0.04%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
ZSLMLB Index†	4.00%	4.01%	2.14%

† Ziegler Senior Living Municipal Long Bond Index
Source: Bloomberg BVALS

FEATURED FINANCING

Presbyterian Retirement Communities

PRESBYTERIAN RETIREMENT COMMUNITIES OBLIGATED GROUP
Orlando, Florida

Orange County Health Facilities Authority,
Revenue Bonds,
Series 2023A

$142,585,000

January, 2022

MARKET REVIEW

MONEY MARKET RATES

	2/4	LAST WEEK
Prime Rate	3.25	3.25
Federal Funds (weekly average)	0.07	0.07
90 Day T-Bills	0.22	0.17
30-Day Commercial Paper (taxable)	0.08	0.07
Libor (30-day)	0.11	0.10
7 Day Tax-Exempt VRDB	0.11	0.06
Daily Rate Average	0.07	0.03

COMPARATIVE YIELDS

	TAXABLE REVENUE	
	GOVT	A
2 Year	1.19	1.74
5 Year	1.66	2.46
7 Year	1.78	2.93
10 Year	1.82	3.27
30 Year	2.14	4.04

	MMD	NR*	BB	BBB	A	AAA
1 Year	0.61	2.31	1.76	1.26	0.91	0.71
5 Year	1.17	2.92	2.37	1.87	1.57	1.31
7 Year	1.30	3.10	2.55	2.05	1.75	1.47
10 Year	1.43	3.28	2.73	2.23	1.93	1.63
30 Year	1.82	3.87	3.32	2.82	2.52	2.22

(Representative of institutional sales)*

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE
20 Bond Index	2.32	2.33	-0.01
11 Bond Index	1.85	1.86	-0.01
Revenue Bond Index	2.23	2.24	-0.01
30 Year MMD	1.82	1.85	-0.03
Weekly Tax-Exempt Volume (Bil)	6.27	3.80	+2.47
30 Day T/E Visible Supply (Bil)	5.45	7.49	-2.04
30 year “A” Rated Hospitals as a % of 30 Year Treasuries	117.7	112.4	+5.30