Seniors Housing Capital Markets Overview

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Seniors Housing Capital Markets

Debt Capital

The industry has attracted the attention of several capital providers in recent years mainly due to **favorable changing demographics**, **industry positive performance** and the **acceptability of the asset among investors**.

Traditional sources of debt capital for seniors housing include:

- **Fannie Mae**
- **Freddie Mac**
- **Federal Housing Administration (FHA)**
- **Commercial banks**
- **Life insurance companies**
- **Commercial finance companies and**
- **Tax exempt bonds**

Freddie Mac and **Fannie Mae** are **Government-Sponsored Enterprises (GSEs)** and have been seniors housing lenders since the late 1990s. Their stature as the largest holders of seniors housing mortgage debt in the country gives them a critical role in the industry. Serving the secondary mortgage market, the GSEs use similar underwriting standards and financing terms. Both GSEs finance properties that provide independent living, assisted living, and memory care services. Neither agency finances standalone nursing care properties, but a small component of nursing care is acceptable as a continuum of care in a large combined property.

The GSEs are regulated by the **Federal Housing Finance Agency (FHFA).** Both GSEs securitize most of their loans, an activity that FHFA strongly supports. Fannie Mae issues mortgage-backed securities (MBS) for each loan and guarantees 100% of the loan in partnership with their select lenders who share in the risk. Freddie Mac aggregates each loan into a large pool that is then securitized with Freddie Mac's guarantee of about 85% of pool and a third party investor taking the "first loss piece," usually the top 15%.

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The GSEs provide a wide range of **nonrecourse debt** solutions. Their financing involves single-asset or multi-asset loans, structured credit facilities with fixed and floating interest rates and terms of 5–30 years.

Fixed-rate terms are the most popular with investors who have long-term horizons or for those who seek to limit interest rate risk in their portfolios.

Variable-rate options involve more rate risk but provide flexibility for early repayment of the loan. Other features of GSE financing include supplemental (second) mortgages and assumability.

The GSEs have also created instruments that allow repeat borrowers to lock in interest rates early to take advantage of low interest rates.

HUD finances assisted living, memory care, nursing care, and combined properties with no more than 25% of the total units dedicated to independent living. HUD continues to be a consistent source of long-term, nonrecourse financing, in particular for nursing care properties, which are not eligible for Fannie Mae or Freddie Mac financing. Like Freddie Mac and Fannie Mae, HUD is a key provider of debt to the seniors housing and care industry.

Seniors Housing Capital Markets

Commercial Banks typically lend for new construction, acquisitions, lines of credit, corporate credit lines, and shorter-term property financing (i.e., bridge or mini perm loans). Historically, commercial banks have been the largest source of new construction financing to the seniors housing and care industry. Recourse financing is a major component of bank programs, and generally 60% Loan-to-Value/Loan to Cost (LTV/LTC) or lower is needed to remove or lower recourse terms.

Banks have become selective in terms of where they lend and to whom they provide construction financing.

Life Companies and CMBS

Some **life insurance companies** are competing strongly for high quality opportunities, generally with top owners and operators on lower leveraged deals (65% LTV or less).

As of 2019, **commercial mortgage-backed securities (CMBS)** lenders appeared to be out of the lending market for seniors housing and nursing care. Volatility with CMBS spreads combined with aggressive pricing from other seniors housing lenders has generally made CMBS noncompetitive.

Seniors Housing Capital Markets

- Commercial and multifamily originators closed a record $574 billion in mortgage transactions in 2018, nearly **8 percent** increase over 2017 levels*.

- By investor group*:
  - ❖ Commercial bank and savings institutions served as the largest contributor with $174.0 billion (30% of total volume)
  - ❖ Government Sponsored Enterprises (GSEs – Fannie Mae and Freddie Mac) and life insurance companies/pension funds originated $142.3 billion (25%) and $83.4 billion (15%), respectively.
  - ❖ CMBS, CDO, and ABS issuers – which ranked third – had a combined origination tally of $97.4 billion for a market share of 17%.

- 2018 GSEs Seniors Housing Finance Volumes:
  - ❖ Freddie Mac: $4.1 billion
  - ❖ Fannie Mae: $2.3 billion

- In FY 2019 FHA made initial endorsements of $3.819 billion for health care and hospital properties.

- In 2019 JLL closed over $11.50 billion of Agency/GNMA transactions:
  - ➢ $3.0 billion in Fannie Mae
  - ➢ $300 million in FHA/HUD and
  - ➢ $8.2 billion in Freddie Mac.

*Source: MBA. 2018 is most recently available annual data

Seniors Housing Active Lenders

	AGENCIES				AGENCY CREDIT FACILITY	LIFE COMPANIES	BRIDGE LENDERS	BANKS
LOAN TERMS	7 Years	10 Years	7 Years	10 Years	5+ Years	3 - 30 Years	2 - 5 Years	3 - 7 Years
Max LTV	75% LTV				75% LTV	50-65% LTV	60-80% LTV	55-75% LTV
DSCR/DEBT YIELD	Majority IL: 1.30x DSCR Majority AL: 1.40x DSCR				1.30x - 1.50x	1.35x DSCR / 8-9% DY	1.00 - 1.25x / 5.0-6.0%+ DY	1.25x / 8.0%+ DY (for Non-Recourse) Can go lower with repayment gty
STRUCTURE	Floating		Fixed		Can include both Fixed and Floating or either	Fixed (All in rate floor of 3.25%)	Floating (1.0% - 1.75% LIBOR Floor)	Floating (Min. LIBOR Floor of 1.0%)
INDEX	1.69%		1.79%	1.84%		1.66% - 1.75%	1.69%	1.69%
SPREADS					varies			
50-55% LTV	1.95% - 2.35%	2.05% - 2.45%	1.85% - 2.15%	1.90% - 2.20%		1.75% - 1.90%	2.75% - 2.95%	1.75% - 2.00%
60-65% LTV	2.00% - 2.40%	2.10% - 2.50%	1.95% - 2.25%	1.95% - 2.25%		1.90% - 2.00%	2.90% - 3.10%	1.90% - 2.15%
70-75% LTV	2.10% - 2.50%	2.35% - 2.75%	2.05% - 2.40%	2.00% - 2.30%		1.95% - 2.15%	3.00% - 3.75%	2.25% - 2.75%
PREPAYMENT	1 Yr Lockout then 1% Thereafter		Defeansance and/or Yield Maintenance		Customized for business plan	Yield Maintenance (Flexible Prepayment Available with Pricing Premium)	12 month lock-out; Open thereafter (typically exit fee)	Open
AMORTIZATION	Partial I/O at Max Leverage Full I/O at Lower Leverage 30 Year Amortization				Partial I/O at Max Leverage Full I/O at Lower Leverage 30 Year Amortization	Partial or Full I/O at Max Leverage Amount of I/O is debt yield driven 30 Year Amortization	Interest-Only	Interest Only 25-30 Year Amortization
FEES	0.10% Application Fee				0.10% - 0.15% Origination Fee; Other fees may apply	0.10%-25% Origination Fee	0.75-1.0% Origination Fee 0.50-1.0% Exit Fee	0.50-1.0% Origination Fee 0.50-1.0% Exit Fee
RECOURSE	Non-Recourse				Non-Recourse	Non-Recourse	Non-Recourse	Non-Recourse; Repayment Guaranty required if DCR is less than 1.0x.
COMMENTS	Q419 - 2020 Freddie/Fannie lending caps - $100B each with 37.5% minimum being allocated for mission driven housing. Uncapped business including "Green" properties and communities with high level of affordability are being priced aggressively.				Credit facilty allows for maximim flexibility by staggering maturities, substitutions and additions, fixed and floating tranches, etc.	Life Companies remain active and are providing strong competition to the Agencies for high quality and lower leverage opportunities.	The bridge lending market is active with many different buckets of capital, most of which are seeking yield by going up the risk curve with higher leverage or business risk plan (lease-up, acuity conversion, capital improvements).	Banks are an active source for cash flowing and value add properties and are also the primary source for construction loans.

Thank you

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