LCP LIND CAPITAL PARTNERS

Senior Living Sector

Senior living facilities often issue bonds through municipal entities to finance projects. Continuing Care Retirement Communities ("CCRCs") are a common type of senior living facility and are typically comprised of some combination of independent living, assisted living, memory care, and skilled nursing units. CCRCs are designed in this way so as to accommodate elderly individuals given the progression of their state of health. Other senior living facilities include those that are predominantly skilled nursing or memory care, and 142D rental facilities, which house an IRS-prescribed proportion of low-income residents. Furthermore, senior living facilities can be either for-profit or not-for-profit. Senior living is a complex space, the credit risk of which depends on a wide range of factors. While LCP invests in all of the types of facilities mentioned above, the CCRC is largest category and therefor is the focus of this piece.

There are a number of structural issues that may affect the credit risk of a senior living bond. If the project is a start-up, then construction risk will be present throughout the development of the facilities. Post-construction risks include potentially slow progression toward stable occupancy levels and higher initial overhead costs. Nurses are in short supply, and a senior living facility may initially find it difficult to find full-time nurses to hire. In certain instances, they must rely on temp-nurses, which can often be more expensive than their full-time counterparts. The costs associated with each new additional resident tend to diminish over time, meaning that initially additional expenses per patient are often high, but can decrease as the unit approaches stable occupancy. This means that until occupancy is stabilized, senior living facilities may see higher operating expenses as a percentage of revenue.

Within CCRCs, independent living units typically represent the largest source of revenue and see the highest immediate occupancy levels. Units reserved for individuals that require more intensive support typically fill as those living in independent living units age and require higher levels of individual care. Most CCRCs also contain several skilled nursing units that can house temporary residents referred by hospitals for short durations. Unlike independent living units, skilled nursing units are filled sporadically with a higher degree of uncertainty. Relationships with local hospitals can strongly influence skilled nursing facility occupancy levels, as they can depend on referrals from hospitals to fill up units.

Individuals are typically required to pay a large entrance fee to secure long-term independent living units in CCRCs in addition to an advanced deposit for future services. A portion of the entrance fees and advanced deposits are often partially refundable to the individual or their estate upon termination of occupancy. Refundable entrance fees can be the greatest liability on a CCRC's balance sheet, and when dealing with an elderly population, lenders must recognize the reality of those obligations. CCRCs typically have an interest in maintaining high resident-retention rates in order to realize the full value of entrance fees and advanced deposits. Quality of care and services offered, as well as factors affecting the longevity of residents, will typically influence a CCRCs ability to maintain occupancy and fully realize these revenues. Seniors often finance these large entrance fees and advanced deposits by selling their homes. The local housing market can be an important factor in determining potential demand for CCRCs. The speed with which individuals can sell their homes, whether they are able to sell at fair value, and whether the value of their homes will be sufficient to cover entrance fees and service fees will typically affect the percentage of the age-eligible population that will have access to CCRCs, and how quickly vacancies in the CCRC will be filled. Often, units in a CCRC are reserved prior to construction in order to justify development. While these figures can indicate the general interest in the CCRC, they can sometimes be unreliable since a multitude of factors may change an individual's decision prior to the official move-in date.

Senior living is a complicated sector that will likely continue to see substantial growth in coming years. The wide range of care options available within most CCRCs, coupled with the quality and variety of residences and care options they can offer, make them an attractive option for an aging U.S. population. The complexity of factors that impact the viability of CCRCs means that investors like LCP can potentially generate high levels of tax-exempt income.