LeadingAge PA 2023
FALL FINANCE
CONFERENCE

SENIOR LIVING FINANCING:

Navigating the Capital Markets & Exploring Financing Options

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LUMENT

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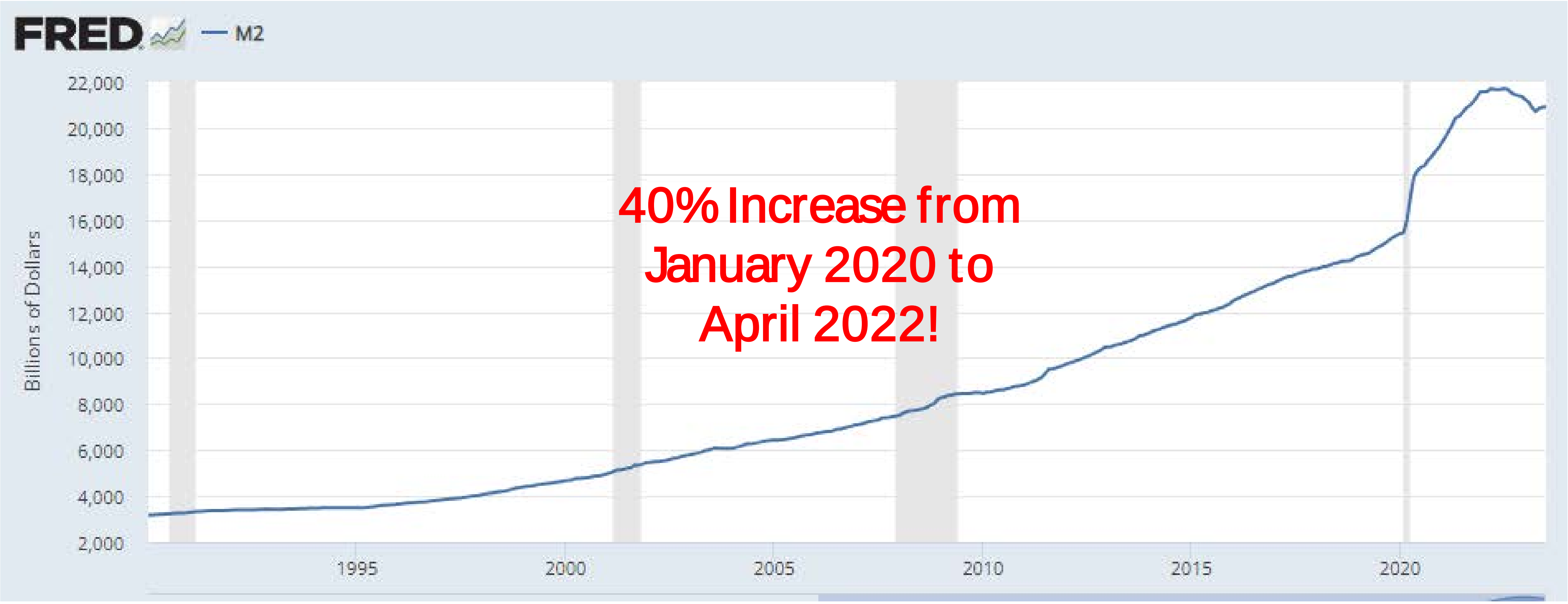
ECONOMIC DRIVERS & CAPITAL MARKETS

Section I

HOW DID WE GET HERE? *AFTERMATH OF THE COVID PANDEMIC*

- Many factors contributed to the current state of the capital markets:
  - *Lockdowns / Employment Pressures*
  - *Supply Chain Disruptions*
  - *"Non-Transitory" Inflation*
  - *Historic Rate Hike Pace*
  - *And more…*
- What was the primary catalyst for all of these factors? **Expansion of the Monetary Supply**



Source: Board of Governors of the Federal Reserve System (US)

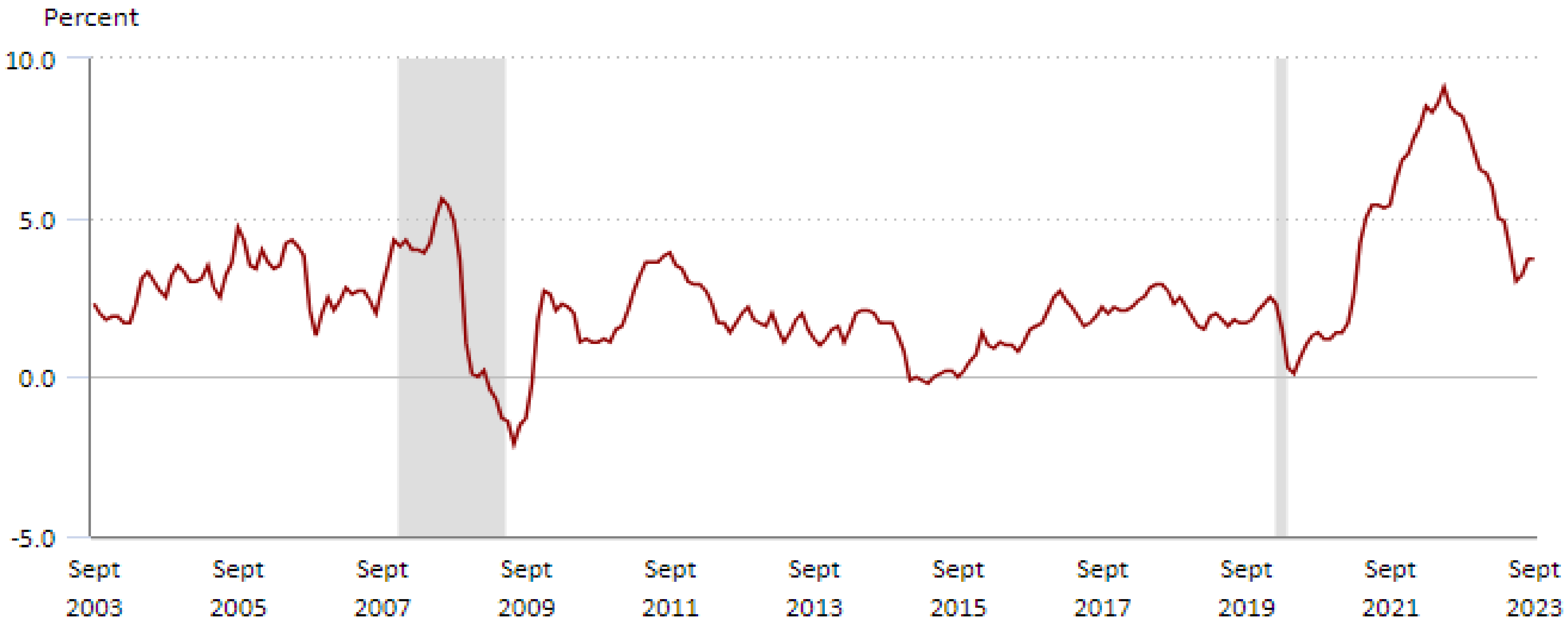
THE PATH TO TODAY'S CAPITAL MARKETS

- Monetary Expansion
- Increased Liquidity
- Demand for Assets/Goods
- Inflation
- Higher Interest Rates

Today's Capital Markets

- ➢ Monetary expansion led to an unprecedented increase in liquidity in the market
- ➢ The increased liquidity put demand pressure on all assets and goods (exasperated by supply chain issues)
- ➢ This demand led to a sharp inflation of prices
- ➢ FED's only logical lever was to increase rates, which has been done at an historic pace

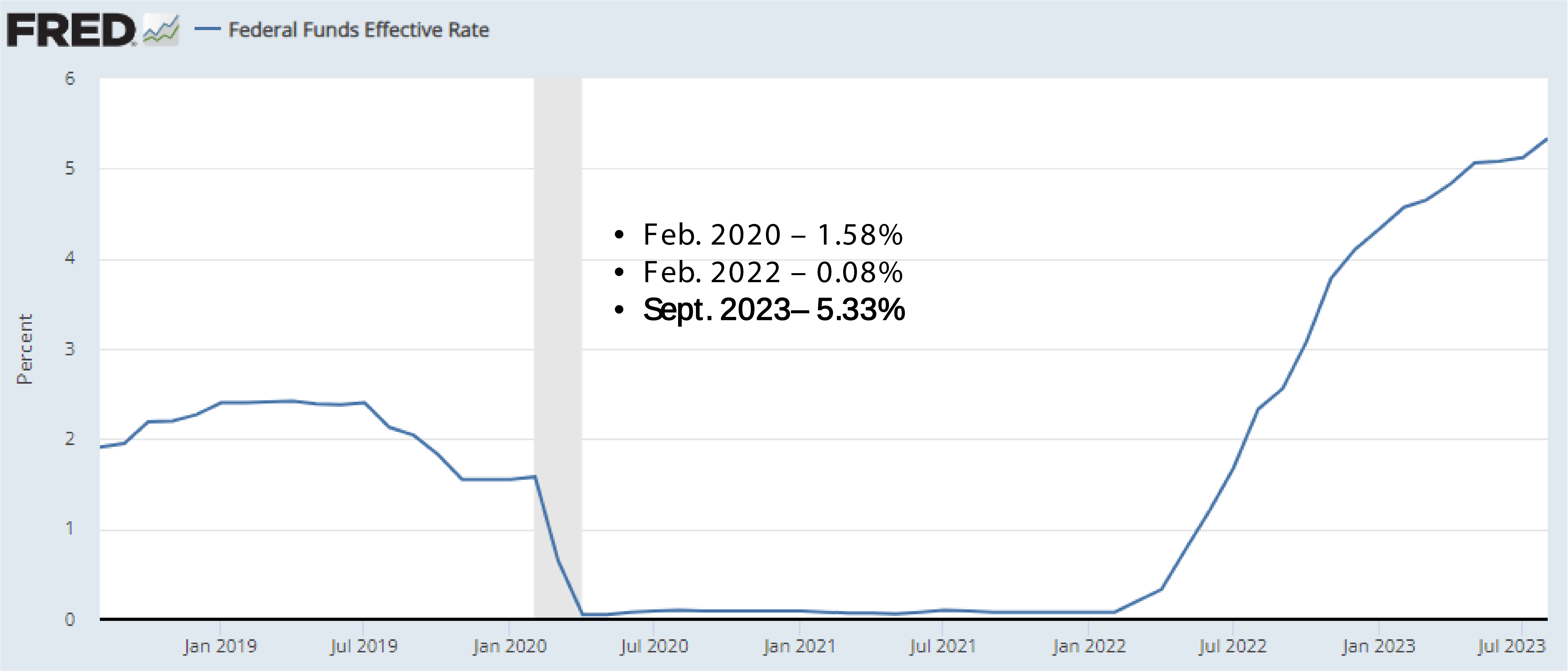
INFLATION TREND – CONSUMER PRICE INDEX *(ALL ITEMS)*



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

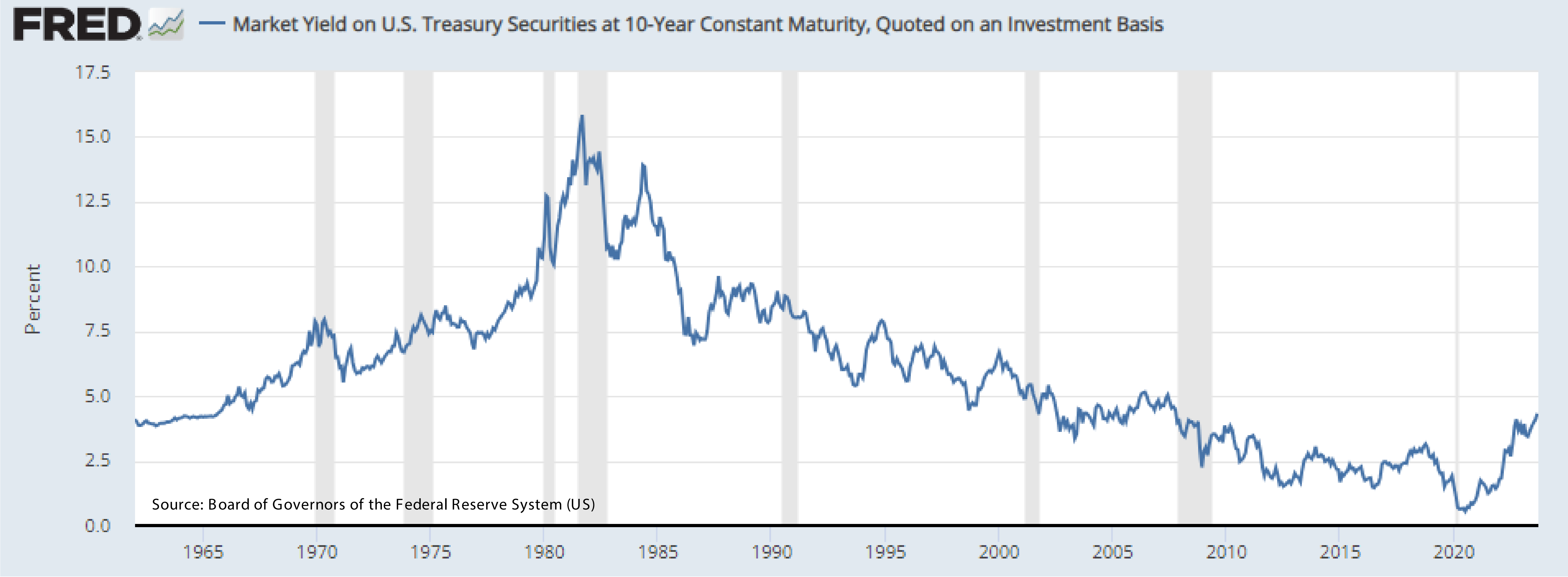
- Inflation sharply rose in 2021 and peaked in June 2022 at 9.1%
- CPI trended downward to 3.0% in June 2023 but has since risen to 3.7% YoY as of September 2023
- FED's target is 2.0%
- Continued high inflation is a compounding problem

FED FUNDS RATE – LAST 5 YEARS



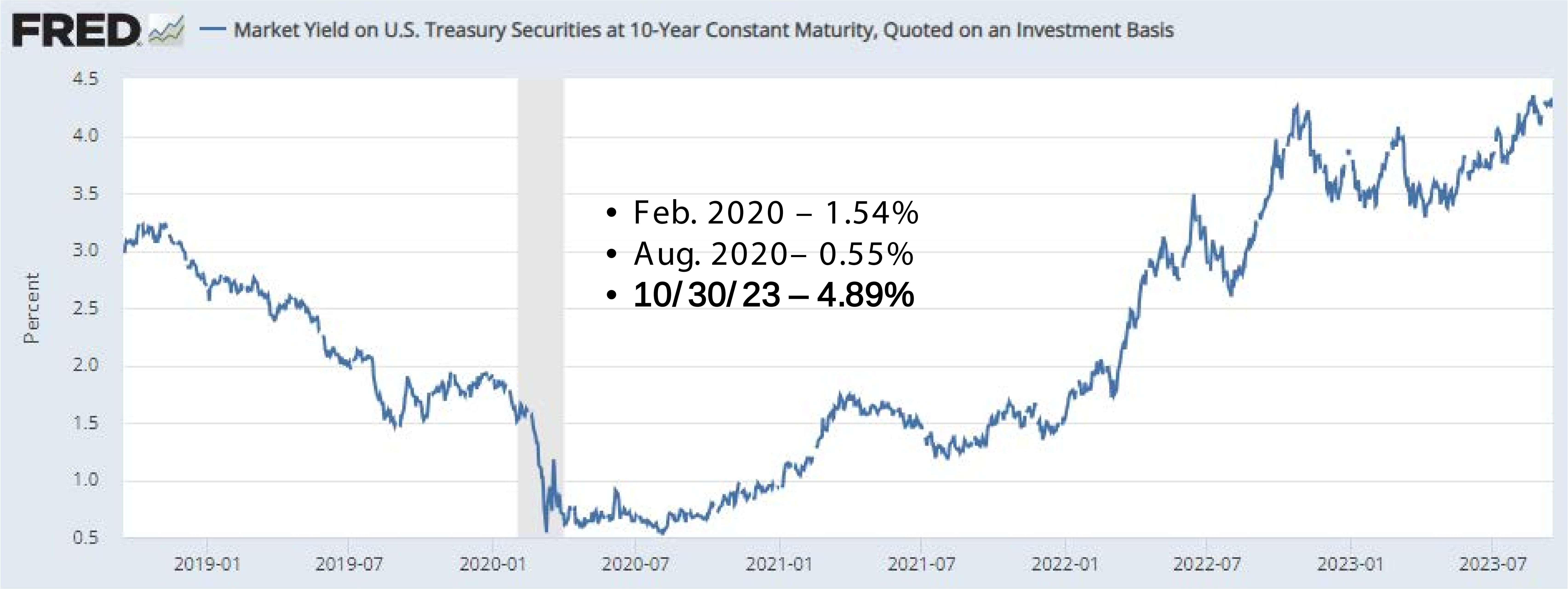
Source: Board of Governors of the Federal Reserve System (US)

10-YEAR TREASURY RATES – HISTORIC TREND



- US 10-Year Treasury Rates had been in a declining trend for the last 40+ years until 2022
- Being the "risk-free" benchmark to global spreads, this has helped fuel growth both domestically and internationally (notably since the GFC in 2008)
- Pace of increases since 2020 has put significant strain on the capital markets

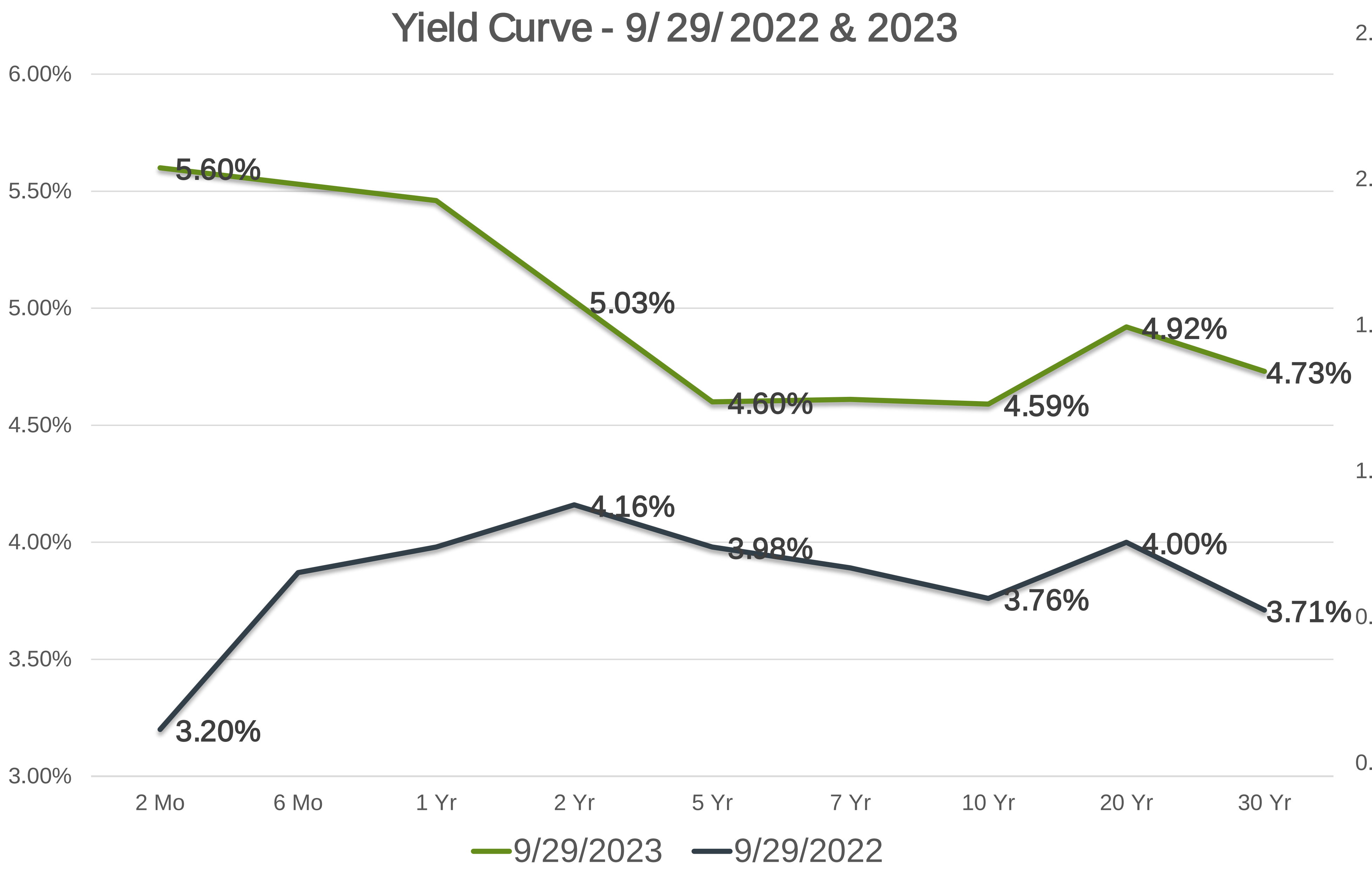
10-YEAR TREASURY RATES – CLOSER LOOK AT LAST 5 YEARS

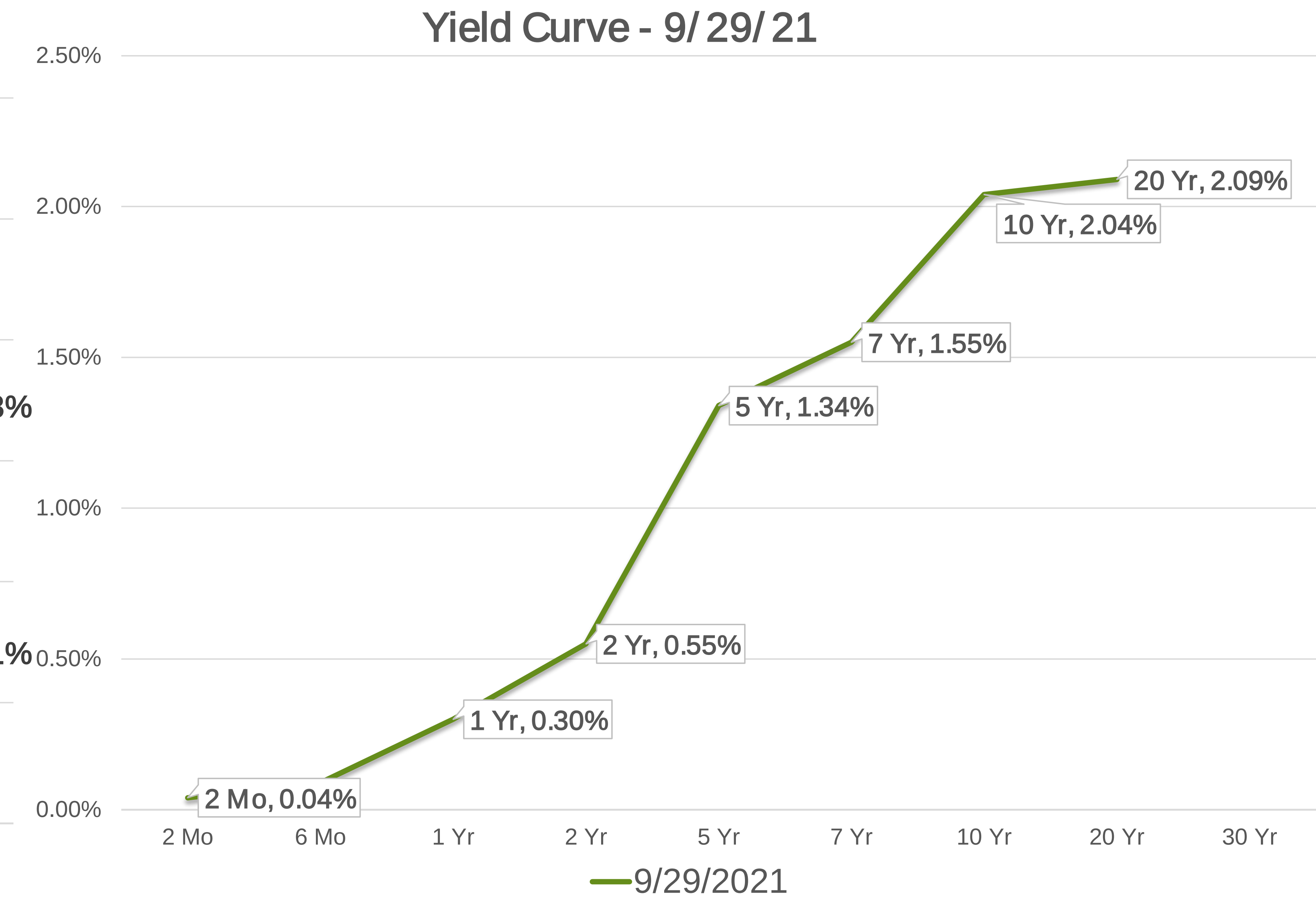


- Feb. 2020 – 1.54%
- Aug. 2020– 0.55%
- **10/30/23 – 4.89%**

Source: Board of Governors of the Federal Reserve System (US)

YIELD CURVE





Source: Bloomberg

EFFECTS ON SENIOR LIVING FINANCING OPTIONS

- Drastic Increase in Interest Rates
  - *Refinance pressure for shorter term maturities*
  - *Lower loan amounts due to debt service requirements*

- Compressed margins due to inflation pressures
  - *Expense line-item increases have put downward pressure on Net Operating Income*
  - *Rental rate increases have helped offset increases*
  - *Impact on valuations using income capitalization method*

- Wider credit spreads due to increased risk
  - *Realized throughout all lending products*
  - *Lower investor demand contributing to spread increase*

- Pullback on lending appetite by various lenders
  - *Lower leverage / Increase equity*
  - *Higher reserve requirements*
  - *Stricter Covenants*
  - *"Pencils Down" from some lenders*

OPPORTUNITIES FOR NON-PROFIT PROVIDERS

- Ability to Qualify for All Lending Products
  - *Non-profit borrowers have the ability to access loan products that their for-profit counterparts cannot (i.e. Tax-Exempt Market; USDA CF Direct Loan; 85% LTV HUD Loan)*
  - *Allows for "Plan B's" and dual-tracked lending strategies*
  - *Understanding all options will be important while navigating the current environment*

- Lower Leverage Borrowers
  - *Historically non-profit providers have foregone maximizing leverage on their properties. This lower leverage allows borrowers to absorb higher rates more capably.*
  - *Current under levered properties may be able to access that equity to bolster liquidity*

- Lower Time Preference / Current Yield Curve
  - *Given their mission-driven focus, non-profit providers have a lower time preference versus a for-profit provider.*
  - *This allows providers to focus on the longer end of the yield curve, which currently is offering more favorable rates*
    - *Coupling this with a loan structure that allows refinance, if warranted, within a reasonable timeframe can be a strong hedge to a volatile rate environment*

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SENIOR LIVING FINANCING OPTIONS

Section II

SENIOR LOANS (BANK & FINANCE COMPANIES)

Eligible Projects	• Skilled nursing, assisted living, memory care, board and care, and independent living
Opportunities	• Refinance Maturing Debt • Acquisition Financing • Provide capital and time for property upgrades and repositioning projects
Uses	• Refinances and acquisitions with some renovation and/or expansion • Cash out permitted subject to sponsor strength • New Construction
Recourse	• Recourse, non-recourse, or partial recourse determined based on the transaction profile
Loan Sizing	• Equal to the net proceeds underwriting to LTV takeout from agencies and HUD on permanent financing; or • Indicative LTV of 65-70% for mini-permanent debt (widely varying across lenders)
Term & Amortization	• Shorter term for bridge-to-permanent – typically 36 months; Interest only amortization • Up to 5 years for mini-permanent loan; typical max 25-year amortization
Interest Rate	• Pricing is a function of term, leverage, and sponsor and project credit profile • SOFR plus a spread or Shorter Fixed Rates (5 Years or Less)
Timing	• Typically 3-4 months
Other Considerations	• First mortgage and pledge of operating lease • Qualified owner/operator with strong track record given property type and experience • SAE borrowing entities required for permanent takeout • Agency acceptable Key Principal(s)/Guarantors in terms of credit profile, experience, and net worth/liquidity

FREDDIE MAC & FANNIE MAE ("AGENCY")

Eligible Projects	• Independent living, assisted living, memory care and any combination thereof • Skilled nursing generally limited to 25% of net operating income • **Cash out loans permitted**
Opportunities	• **Control process and timing** • Additional options for key terms (floating rate and interest only possible for example) • **Customized loan structuring to meet borrower goals**
Uses	• Refinances, including partner buy-outs and moderate rehab • Acquisitions
Recourse	• Non-recourse except for standard carve-outs for fraud and other "bad acts"
Loan Sizing	• Debt service coverage > 1.30x for independent living, 1.40x for assisted living • Maximum loan-to-value 75%
Term & Amortization	• Fixed and floating rate options available • Minimum term 5 year but typically 10-12 years, amortization up to 30 years
Interest Rate	• Varies based on loan program and term • 10-year term currently 10-Year Treasury + 225-275 bps (6.85% - 7.35%) *Indicative pricing as of 10/12/23*
Timing	• Typically close 60 days after loan application (2-3 months total)
Other Considerations	• Loans are assumable, subject to lender review and approval • Supplemental loans available after 12 months from loan closing • Structured loan programs available for large loans or crossed loan pools • No typical "bank like" loan covenants for standard loans

FHA / HUD FINANCING

Eligible Projects	• Skilled nursing, assisted living, memory care, board and care, and up to 25% unlicensed independent living • No entry fee collecting units
Opportunities	• **Low fixed rate with long term/amortization** • Can fund repairs and replacement reserve with loan proceeds
Uses	• Refinances and acquisitions with some renovation and/or expansion • New construction loans allowed through different program than refinances (limited volume)
Recourse	• Non-recourse except for standard carve-outs for fraud and other “bad acts”
Loan Sizing	• Up to 70% LTV if equity is extracted, 80% LTV for refinance of existing debt, or 85% if non-profit willing to restrict cash distribution • Up to 15% of appraised value can be used for renovation and repair work (no new units) • Min 1.45x Debt Service Coverage, based on actual T12 NOI
Term & Amortization	• Matching term and amortization up to 35 years (determined by PCNA)
Interest Rate	• Not credit dependent • Fixed rate, currently 6.75% note rate plus 0.65% annual Mortgage Insurance Premium paid to HUD *(indicative pricing as of 10/12/23)*
Timing	• Typically 8 – 10 months
Other Considerations	• Loans are assumable, subject to lender review and approval • New construction debt can be refinanced with HUD no earlier that three years after Certificate of Occupancy (HUD has discussed waiver guidelines allowing quicker refinances) • Supplemental financing available for expansion or renovation of existing HUD financed facilities • Ability to reduce rate through Note Modification or 232/a7 Program in the event rates decline • HUD master lease required for three or more properties over $15MM

USDA COMMUNITY FACILITIES PROGRAM (DIRECT LOAN)

Eligible Projects	• Healthcare projects that at least 50% of the proceeds are being used for new construction / renovation • *Program is flexible on uses and definition of healthcare* • Lument facilitated the first healthcare acquisition loan under this program providing precedent for those type of transactions
Opportunities	• **Low fixed rate with term** • **No prepayment penalties** • **Only for non-profit borrowers**
Uses	• New construction or major renovation • Acquisitions
Recourse	• Non-recourse except for standard carve-outs for fraud and other “bad acts”
Loan Sizing	• Limited to 100% Loan-to-Value
Term & Amortization	• Fixed for the term of the loan (up to 40 years) • Matching amortization with ability to build in initial Interest-Only period
Interest Rate	• Resets quarterly. **3.875% as of 10/1/2023.** • *Borrower gets lower of rate at time of application approval or at time of funding.*
Timing	• Approximately 12-months
Other Considerations	• Long deal process • Required to publicly bid the project (no prevailing wage requirement) • Requirement for Financial Feasibility Report • Only available in rural areas (population less than 20,000; based on census data)

TAX-EXEMPT PUBLIC BOND OFFERING

Eligible Projects	• Independent living, assisted living, memory care and any combination thereof
Opportunities	• Ability to get funds for new construction project or major renovations • Refinance of debt to a longer fixed term/amortization
Uses	• New construction • Major renovation • Refinance
Recourse	• Full faith of the Borrower
Loan Sizing	• Based on project and Borrower metrics and supported by Agency Rating
Term & Amortization	• 30-years
Interest Rate	• Based on Credit Rating and Market Dynamics
Timing	• Historically 4 – 6 months (timelines have been extended in the current market)
Other Considerations	• Rating requirements • Higher Deal Costs • Financial Covenants • On-going reporting requirements • Prepayment Limitations (Call Protection)

FINANCING OPTIONS COMPARISON

	Bank / Finance Co.	Agency	HUD/ FHA	USDA	Public Bond
Purpose	Refi / Construction	Refinance	Refi / Construction	Const. (w/ Refi)	Construction / Refi
Rate Type	Floating or Fixed	Fixed or Floating	Fixed	Fixed	Fixed
Loan-to-Cost/Value	Max 80% (Lower Today)	60-65% Today	80%	Up to 100%	Up to 100%
Pricing[1]	FinCo - SOFR + 400 bps Bank - 7.25-7.50% (Fixed)	10-Year Treasury plus (225-275 bps)	6.75% + 0.65% MIP (7.40% All-In)	3.875% (As of 10/1/23)	Based on Credit Rating & Market
Term	5 Years or Less	Variable[2] (10-12 Years is Typical)	Up to 35 Years	Up to 40 Years	30 Years
Amortization	20 Years	30 Years	Up to 35 Years	Up to 40 Years	30 Years
Prepayment Penalty	Yes (if Fixed)	Yes (Yield Maintenance)	Yes (10 Years Declining)	No	Call Protection (10-Year Typical)
Covenants	Yes	No	No	No (May Change)[3]	Yes
Recourse[4]	Yes	No	No	No	Yes
Timing	3 – 4 Months	3 – 4Months	8 – 10 Months	12 Months	4 – 6 Months

1. *Pricing is indicative and subject to change (last updated as of 10/30/23)*
2. *Agency loan terms are selected by the Borrower. Typically, best execution is completed in the 10-12 year fixed products.*
3. *Historically USDA CF Direct Loans did not include debt covenants. Recently we have seen covenants added, but missing them does not trigger default, but rather the ability for USDA to require a 3rd party to be hired to provide a consult on operational performance.*
4. *Not applicable for single non-profit entities. For entities that have their facilities or campuses in separate entities, then they would not need the entirety of the organization to guarantee the debt.*

FINANCING OPTIONS COMPARISON (CONTINUED)

	Bank / Finance Co.	Agency	HUD/ FHA	USDA	Public Bond
Pros:	*Timing* *Cost of Capital* *New Construction* *Lower Deal Costs*	*Timing* *Term/ Amort Flexibility* *Non-Recourse* *Cash-Out Option* *No Covenants*	*Fixed Term (up to 35 Years)* *No Covenants* *Programmatic Approval* *No Credit Based Pricing* *Negotiable Prepayment Penalty*	*New Construction* *Fixed Term (Up to 40 years)* *Low Cost of Capital* *Minimal Covenants* *No Prepayment Penalty*	*Fixed Term (30 years)* *Cost of Capital (If Investment Grade)* *New Construction & Refinance* *Timing versus other permanent options*
Cons:	*Short Term* *Maturity Risk* *Credit Based Approval / Pricing*	*Yield Maintenance* *No Construction* *Credit Based Pricing*	*Timing* *Deal Costs* *Distribution Limitations*	*Timing* *No Refinance Only* *Geographic Limitations* *Public Bid Requirements*	*Prepayment Limitations* *Rating Requirements* *Higher Deal Costs* *Financial Covenants* *On-going reporting requirements*

QUESTIONS / CONTACT INFORMATION

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