Securitized Products Special Topics

Senior Housing: Focus on Segment Selection Amid Pandemic Impact

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Agency CMBS Senior Housing Exposure Merits Attention

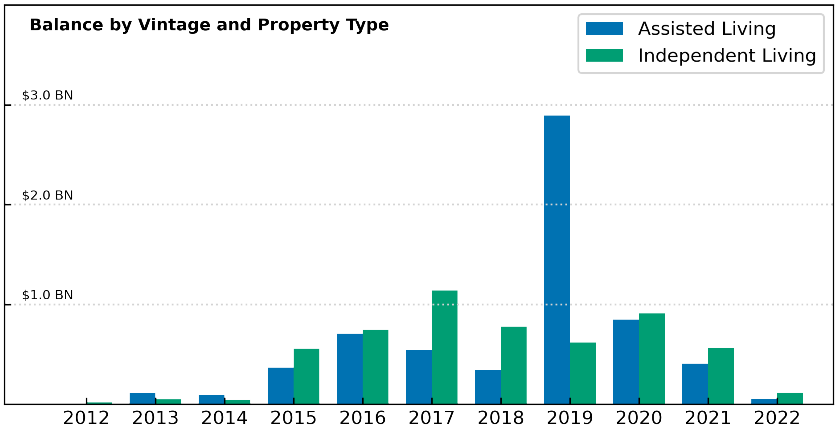
The performance of senior housing properties in the near future could be uneven. The sector is facing some pandemic-driven headwinds, though it should still benefit from supportive longer-term secular trends. Senior housing spotlights real estate segments that do not directly fall into the so-called covid "winners" or "losers" categories (industrial and life science are notable cases of the former, urban office in San Francisco or Chicago, or full-service business hotels, are examples of the latter). Aging population and supply constraints should continue to support existing senior housing properties. But over the past couple of years facilities have also seen occupancy drops, job growth stagnation, and NOI pressures, casting doubt over post-pandemic recovery.

Freddie Mac K deals' senior housing loans reflect some of the challenges, and the pandemic direct impact on residents. For example, in the $48 million Village Park Peachtree Corners (FREMF 2019-KF69) occupancy has dropped to 83%, compared to 91% at YE 2019. The lower occupancy is because of Covid-19 and attrition of residents with higher acuity needs, according to the servicer. In the $41 million Palo Alto Commons (FREMF 2021-K741), recent commentary notes that multiple residents and staff contracted Covid, which resulted in a net decrease of over 20 residents.

To be sure, delinquencies and special servicing transfers remain very low across the senior housing sector. Healthcare and multifamily – the main property types that typically include senior housing segments – reported 0% and 1.42% delinquency levels as of March remittance, according to MCIA. (We also find some senior housing is categorized as mixed-use). Anecdotally, many of the senior housing loans we saw reporting occupancy drops and Covid-related issues are only watchlisted, rather than delinquent.

But with large exposure of Freddie K deals to a potentially more precarious segment, at least compared to the more resilient multifamily and student housing sectors, we find senior housing merits attention. We identified $11.8 billion overall exposure (620 loans) of Freddie K deals to senior housing (Figure 1). The exposure comprises of $6.3 billion assisted living and $5.5 billion independent living properties.

Figure 1. Freddie Mac K Deals Senior Housing Exposure by Vintage



Source: MCIA and Academy Securities

Some of the large senior housing loans include The Gatesworth At One Mcknight Place ($142.3 million, FREMF 2017-KS09), a 297-unit independent living complex in St. Louis, MO, and Morningstar at Ridgegate ($95.0 million, FREMF 2020-KF75), an independent living facility in Lone Tree, CO (Figure 2).

Figure 2. Freddie K Large Senior Housing Loans

Loan	Deal	Property Type	Occupancy Most Recent	Occupancy At Issue	Loan Balance[1]	Maturity
The Gatesworth At One Mcknight Place	FREMF 2017-KS09	Independent Living	77% (Sep 2021)	94%	$142.3 MM	September 2027
Morningstar At Ridgegate	FREMF 2020-KF75	Independent Living	93% (Sep 2021)	97%	$95.0 MM	December 2029
Touchmark At Meadow Lake Village	FREMF 2017-KS09	Independent Living	75% (Sep 2021)	94%	$89.9 MM	April 2027
The Tradition Prestonwood	FREMF 21K-F118	Independent Living	91% (Dec 2021)	91%	$83.0 MM	July 2028
The Summit	FREMF 2020-KS14	Assisted Living	95% (Dec 2021)	94%	$80.9 MM	April 2030
The Kenwood By Senior Star	FREMF 2020-KS14	Independent Living	83% (Sep 2021)	84%	$79.0 MM	June 2030
Ponte Palmero Retirement Village	FREMF 2019-K92	Assisted Living	98% (Sep 2021)	100%	$73.0 MM	February 2029
Touchmark On South Hill	FREMF 2018-K84	Independent Living	91% (Dec 2020)	90%	$65.0 MM	August 2028
Brightview Annapolis	FREMF 2020-K104	Independent Living	99% (Dec 2021)	98%	$63.0 MM	November 2029
Brookdale Glen Ellyn	FREMF 2021-K123	Independent Living	77% (Dec 2021)	74%	$62.3 MM	September 2030

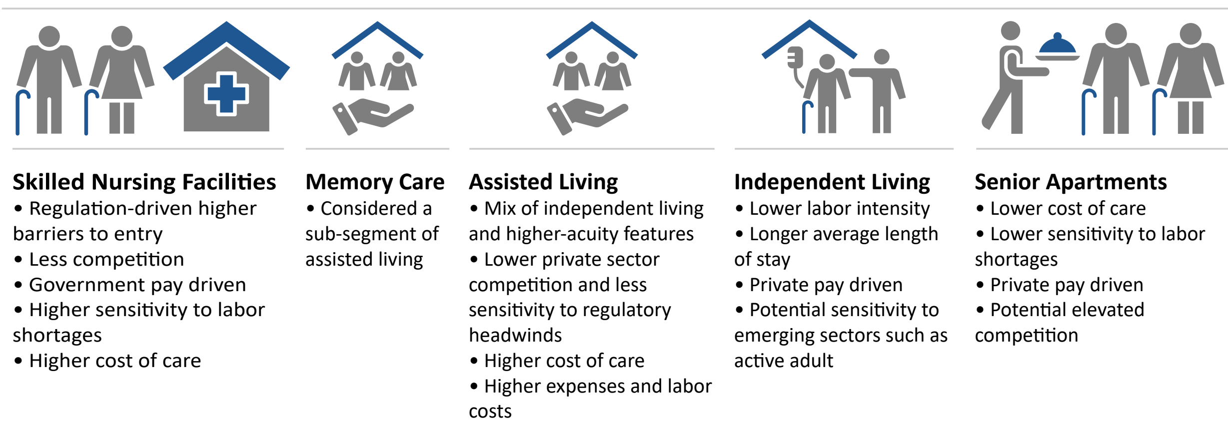
(1) Loan balance as of April 2022
Source: MCIA and Academy Securities

Analyzing Senior Housing Exposure

We suggest investors consider the following aspects as they analyze senior housing exposure:

- **Greater Segmentation.** We see growing diversification across senior housing, a sector that traditionally already comprised of quite distinct segments, such as independent living (IL), assisted living (AL), and skilled nursing facilities (SNF). Recently emerging segments include, for example, active adult, middle-market, and affordable senior housing. The distinction across the property sub-types is important. Different dynamics drive segment performance (Figure 3). For example, segments differ in their source of payments – private-pay versus Medicaid or Medicare reimbursements. Properties that depend on government payments, such as SNF, would be much more sensitive to regulatory policy. In turn, properties that offer limited or no care, such as independent living, could more closely reflect CRE fundamentals of the multifamily sector. Specifically, IL may see lower barriers to entry, and greater competition, but also less sensitivity to healthcare job market pressures. Interestingly, investors can now get direct exposure to specific segments via securitization deals. For example, a recent Freddie transaction – FHMR 2022-P013 – is backed mostly by affordable senior housing. The deal falls into Freddie's social bonds program.

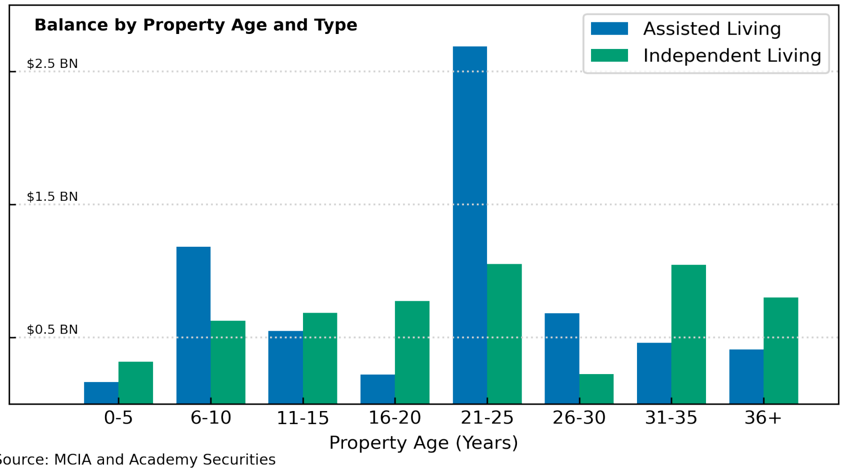
Figure 3. Senior Housing Comprise Multiple Distinct Sub-segments



Source: Healthcare REIT Presentations and Academy Securities

- **Aging Properties.** About 60% of the current building inventory in the primary markets is more than 17 years old, according to the National Investment Center for Seniors Housing & Care (NIC). This may present an opportunity for new development, but also a challenge for existing properties currently backing outstanding deals. Property age may become a key parameter to track, similar to how we now approach office property analysis. Many of the properties backing Freddie K deals were built more than 20 years ago (Figure 4).

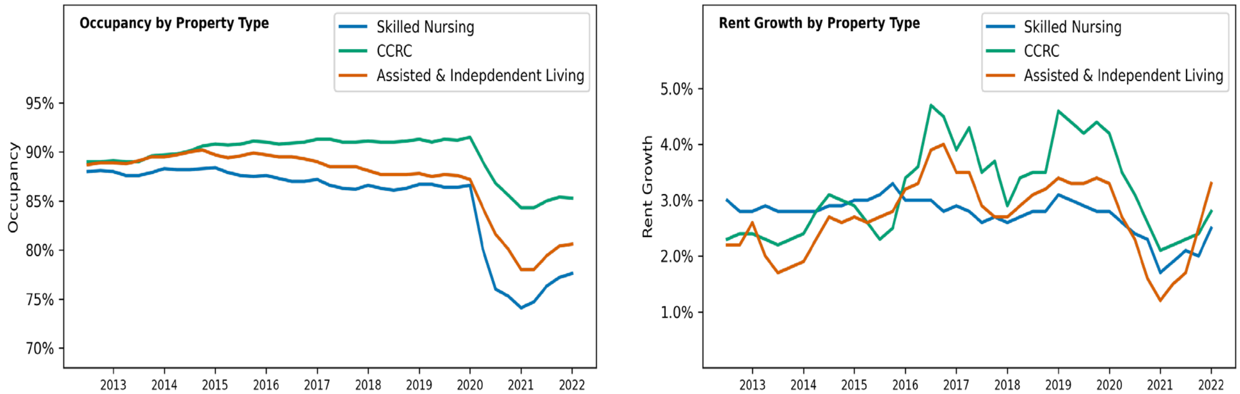
Figure 4. Senior Housing Property Age Breakdown



Source: MCIA and Academy Securities

- **Ongoing pandemic-driven headwinds.** Deal commentary suggest that senior housing may continue to see unique challenges to leasing pace, even as other commercial real estate sectors recover post-pandemic. For example, in the $142.3 million Gatesworth at One Mcknight Place, the largest senior housing exposure we identified (FREMF 2017-KS09), the borrower reports that would-be residents are anxious about the progress of Covid-19 and its impact on limiting visitations and accessibility of residents. This reportedly prevented the borrower from reversing the sharp occupancy drop the property saw during the pandemic (79% 3Q 2021 vs. 94% UW). Overall senior housing occupancy dropped to 78% at its low point, compared to pre-pandemic 87%, according to NIC (Figure 5). Occupancy somewhat rebounded to 81% in Q4 2021, but market participants stress there's a long way to go to a sustained recovery.

Figure 5. Senior Housing National Occupancy and Rent Growth Trends



CCRC: Continuing Care Retirement Community
Source: NIC and Academy Securities

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