COVID-19 and the impact on senior living facilities

Has there been any direct impact of the virus on any of Ecofin’s collateral holdings?

We have gone to extreme lengths in a short period of time and have contacted every borrower on our platform to proactively determine if there are any current or perceived issues in the portfolio as a result of COVID-19. Our only exposure to COVID-19 to date in our portfolio has been on the jobsite of a project. That project shut down, sanitized, and was back to work within 48-hours.

Given the impact of COVID-19, on nursing homes, should investors be concerned about the senior living facilities on Ecofin’s social infrastructure platform?

It is important to note that there are significant differences between senior assisted living facilities and nursing homes, although they are quite often used interchangeably, nursing homes are not part of Ecofin’s social infrastructure strategy.

Nursing homes, also called skilled nursing facilities, provide higher acuity care services. Their services focus on medical care more than other assisted living facilities. These services typically include nursing care, 24-hour supervision, three meals a day, and assistance with everyday activities. Rehabilitation services, such as physical, occupational, and speech therapy, are also available. Nursing homes are also used as a transition location from the hospital back to a lower level of care. That said, most live there permanently due to conditions that require constant care or supervision.

Studies have shown that mean duration in a nursing home is roughly 1.2 years and approximately one third of occupants die annually. There are approximately 1.3 – 1.4 million occupants in nursing homes in the U.S. While the death rates that are in the headlines for nursing homes might sound alarming, it is unfortunately more normal than one might imagine. It is simply underreported in the average media outlets unless it is attached to something like a pandemic that grabs headlines.

Given the congregate nature and demographics of residents served (e.g., older adults often with underlying chronic medical conditions), higher acuity nursing home populations are at the highest risk of being affected by COVID-19, according to the CDC’s website. According to China’s CDC their analysis has shown that COVID-19 patients aged 70 to 79 have 3x the mortality rate and for those older than 80 it’s more than 6x.

What are some key statistics regarding the senior living sector?

Currently there are more than 3 million senior living units in America. The majority of these units are within nursing homes, while the other 1.6-1.7 million are in independent living, assisted living, memory care, or continuing care retirement communities (CCRCs), which also happen to be Ecofin’s primary financing targets.

The average age of residents in seniors housing is typically mid-80s, with a move-in age in the low- to mid-80s. The population estimate of individuals aged 80 years or older for 2016 was 12.2 million, which represented 4% of the U.S. population. The 82- to 86-year-old age group, which best captures the average move-in age of seniors housing residents, is projected to expand through the next several years, 4.3% per year from 2021 through 2025. The latter part of the 2020s will see the beginning of significant acceleration in this population, with the 80+ population growth rate averaging roughly 4.8% per year from 2026 through 2030.
Can you better define the remaining elements of the senior living space?

Many older adults are able to live independently but choose not to do so for various reasons. Perhaps the cost of living in a single-family home or the upkeep of that home has gotten to be too much. Or, perhaps they are craving more social interaction with people of a similar age with common interests. Moving into an independent living community can allow for them to relinquish cooking, yardwork, laundry, and other day-to-day obligations and fill that free time with more social opportunities.

In an assisted living community, adults can have their own living space, but they are typically cognitively or physically unable to be independent. Assisted living facilities will have many similarities regarding the living spaces to independent living but with access to additional care such as restroom assistance, dressing, grooming, appointment scheduling and transportation. Most of these communities tend to staff one or more full-time medical personnel. So, while the occupants have access to assistance, they are encouraged to be as independent as possible.

As an extension to assisted living, some communities also offer memory care units for cognitive disabilities such as Alzheimer’s and dementia. Typically, these wings have secured entry and exit and additional surveillance. In these units, the primary difference is that the kitchen is removed to keep the occupants from placing themselves in harm’s way.

Lastly, CCRCs, are places where individuals have access to multiple levels of care on a single campus. The primary benefit of this kind of community is the continuum of care. The draw to this type of community is that an individual can stay in the same place with familiar faces even if their health changes down the road. Typically, these communities house a continuum of independent living to assisted living to memory care to skilled nursing.

How has the senior living space handled the COVID-19 pandemic?

There is a common perception that this type of pandemic is new to the senior living community as a result of some of the sad headlines of what has taken place at isolated nursing homes and has caught national media attention. In reality, dealing with illness and disease in this type of business is relatively commonplace. In a business where the average tenure is close to 18 months, dealing with turnover in occupancy is an unfortunate part of the business model.

Additionally, the senior living industry has previously enacted quarantines due to other illnesses and diseases, such as influenza and pneumonia, which should be a solid framework for responding to COVID-19. From 2012-2018, according to the CDC, the U.S. averaged 38,562 influenza related deaths. The estimated portion of those deaths attributed to the 65+ community is roughly 82%. This has been an ongoing reality in this community for years, and yet absorption has remained steady at 42,000-43,000 units every year.

COVID-19, similar to other illnesses and diseases, has a greater impact on seniors and the community aspect of senior living facilities; therefore, facilities have limited visitors and are taking extra measures to keep the facilities clean and safe. This includes checking essential employees for any symptoms upon arrival to work. Facilities have also canceled large group events and have begun delivering meals to residents’ rooms.
What is your biggest concern regarding COVID-19?

Our biggest concern is the inability for facilities to market and do walk-thrus for prospective occupants. For however long it takes for COVID-19 to subside as an issue, there will potentially be some cash flow disruption as occupants move out or pass away without backfilling those occupants. This is a typical issue in the senior living space, and one we try to mitigate through underwriting of our facilities that currently have residents. We don’t believe that this will be a major disruption unless this pandemic lasts for an extremely long time.

Recently, BMO published a piece with a headline that indicated that senior housing occupancy could drop to as low as 50%. However, readers could quickly deduce that this was their worst-case scenario and that their base-level expectation was closer to a 14% reduction, which is in line with our break-even analysis on most projects.

The other major concern we have is simply the economic impact that COVID-19 could have on the industry at large. The industry has lobbied Health and Human Services for a portion of the $100 billion Cares Act healthcare stimulus. Senior living appears eligible and the industry is pushing for a $20 billion allocation to offset a good portion of COVID-19 related expenses.

How is Ecofin protected from occupancy drops or cash flow interruption?

At the onsite of the pandemic, we researched if the business interruption insurance that we require of our facilities covered pandemics like COVID-19. Unfortunately, in most cases, unless you have true pandemic insurance, “acts of God” like this are not covered.

The structure for each of our deals differs based on the transaction and the risk. However, below are some different ways we protect ourselves from potential cash flow disruption.

• In many cases, we have operating reserves and debt service reserves that are funded on day one and capitalized into the loan amount. In other cases, we have operating reserves that build from cash flow over time and allow for use in times when cash flow is interrupted.

• In many cases, we also have liquidity support agreements. We would tap the guaranties prior to doing any type of protective advances for interest carry or allowing for relief from payment that would then accrue to the loan balance to be paid at maturity or upon refinance.

• Many of our projects are new construction or in lease-up. The deals under construction will likely not feel an impact from COVID-19 because of the long build cycle. So with the exception of construction delays, which we have yet to see aside from the aforementioned facility, there would be little impact on these. For those in lease-up, we do have capitalized interest in our deals through stabilization. For senior living, the typical lease-up is 2-3 years, so COVID-19 should be long gone by the time we anticipate stabilization.

• The last step for us in most cases will be to either provide some level of additional capitalized interest or allow the deferred debt service payment to accrue to the loan balance. We do not see liquidation as anything but a dire last resort. If a project is struggling simply from cash flow interruption due to COVID-19, we would use these methods to get our facilities back to normal or stabilization so that they would then have a chance of full asset value recovery.
Aside from the COVID-19 interruption, how has senior living fared on a national scale?

According to the National Investment Center for Seniors Housing and Care (NIC), which is particularly focused on for-profit communities, the national market occupancy for senior housing decreased slightly to 87.7% in the first quarter of 2020, after rising to 88.0% in the fourth quarter of 2019. After years of oversupply, data suggests assisted living occupancy is beginning to find balance, and will eventually favor demand as the baby boomers enter the senior housing space and age into assisted living. The absorption rate is around 86%, the highest in the past 10 years. Inventory growth also slowed this past year after seven years of growth.

Regardless of its status as a for-profit or non-profit senior living provider, the local variation between market supply/demand seems to be widening. On the supply front, national construction continues to slow after seven years of growth. We believe this should help the markets with oversupply over the long term. Additionally, senior housing construction timelines are extending from approximately 18 months in 2015 to almost 24 months at the end of 2019. Clearly, rising costs, competition and complexities are weighing on construction timelines, and we must structure our loans accordingly to accommodate the longer timeline.

Has COVID presented any new opportunities?

Yes, given most economists project we are headed into a recession, there will undoubtedly be future opportunities to finance “turnaround” projects at a discount from developers or lenders looking to exit underperforming properties. Ecofin financed a senior living facility in late 2019 using a similar structure and we foresee more of these opportunities in the coming months.

We remain bullish in the senior living space, with demographic trends in our favor. NIC estimates that 881,000 additional units of senior housing inventory will be needed to serve seniors between 2019 and 2030. If you consider the typical senior living facility size of approximately 100 units, that equates to 8,810 projects. We believe we are well positioned to take full advantage of the growth and provide key financing where it is currently lacking.

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