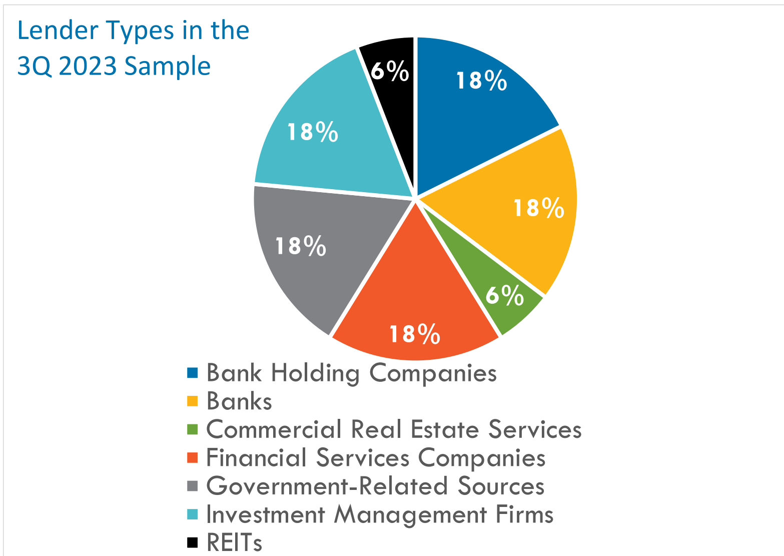
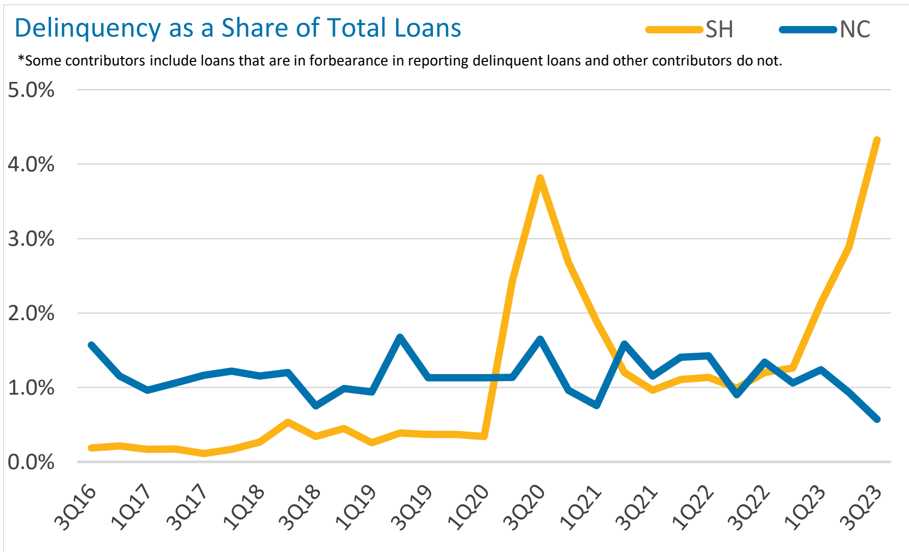
NIC Lending Trends Report

National Investment Center for Seniors Housing & Care (NIC) 3Q 2023

Current Quarter Snapshot	Senior Housing	Nursing Care	Total
1. Total Loan Volume Closed 3Q2023:	$ 1,543,855,779	$ 995,338,925	$ 2,539,194,704
1a. New Permanent Loan Volume Closed 3Q2023:	$ 1,431,992,892	$ 791,845,700	$ 2,223,838,592
1b. Mini-Perm/Bridge Loan Volume Closed 3Q2023:	$ 89,996,072	$ 203,493,225	$ 293,489,297
1c. New Construction Loan Volume Closed 3Q2023:	$ 21,866,815	$ -	$ 21,866,815
2. Total Loan Balances as of 9/30/2023:	$ 57,341,711,718	$ 29,213,423,137	$ 86,555,134,855
2a. Total Permanent Loan Balances as of 9/30/2023:	$ 45,953,466,874	$ 25,888,408,996	$ 71,841,875,869
2b. Total Construction/Mini-Perm/Bridge Loan Balances as of 9/30/2023:	$ 11,388,244,844	$ 3,325,014,141	$ 14,713,258,985
2b-i. Total Mini-Perm/Bridge Balances as of 9/30/2023:	$ 6,089,433,260	$ 2,380,525,683	$ 8,469,958,943
2b-ii. Total Construction Balances as of 9/30/2023:	$ 5,298,811,584	$ 944,488,459	$ 6,243,300,043
3. Total Balance of Delinquent Loans (60 days or more) as of 9/30/2023:	$ 2,480,297,057	$ 166,964,584	$ 2,647,261,642
4. Total Amount of Foreclosures during 3Q2023:	$ 20,248,824	$ 13,987,097	$ 34,235,921
Contributor Count	**17**	**15**	**17***



Source: NIC Lending Trends Report, NIC Analytics



Source: NIC Lending Trends Report, NIC Analytics

Key Takeaways for 3Q 2023

For the past three quarters, NIC Analytics has reached out to our network of lender data contributors to this report, asking them questions about the lending environment for senior housing and nursing care. We are asking about their strategies in response to changing capital market conditions, lending patterns with respect to existing versus new clients, and any notable trends they are observing in the market.

In the face of changing capital market conditions, the responses in the third quarter 2023 were diverse. Approximately two-thirds reported tightening lending standards, but credit requirements aligned with the first half of 2023, while a third maintained base credit standards but focused on strong sponsorship and credits opportunities due to reduced credit availability from banks. **Notably, over the past three years, there has been a decline in the share of loan volume closed by banks and other lenders, juxtaposed with a rise in the share of loan volume closed by government-related sources.** *(based on this sample of lenders captured by NIC).* **To learn more, visit** nic.org

The third quarter of 2023 also prompted greater focus on long-term relationships with many lenders extending loans predominantly to existing clients, acknowledging persisting challenges posed by rising short-term and long-term interest rates, staffing issues, slow census recovery in some cases, and inflationary increases in operating costs. Although some lenders onboarded new clients despite tightened lending standards.

Additionally, lenders noted that many properties displayed improved three-month NOI over 12-month NOI, but the surge in interest rates and cap rate trends sometime offsets potential loan proceeds. Further, the impact of higher interest rates caused some loans to become debt service constrained and resulted in adjustments to requested loan amounts to meet minimum DSCR requirements.

In conclusion, the third quarter "from the field" survey reflects the adaptability of senior housing and nursing care lenders and borrowers to new economic realities in the face of shifting market conditions. The industry grapples with a balancing act – tightening standards to navigate challenges while seeking opportunities to position themselves for the road ahead.

**Note: while there are 17 total contributors this quarter, not all of them lend for nursing care. Hence, nursing care has a lower count.*

Third Quarter 2023 and Beyond: Market Forces Recap

The Federal Reserve nudged rates higher by another 0.25 percentage points (pps) in July 2023, bringing the federal funds rate to a target range of 5.25% - 5.50%. This was the eleventh rate hike since March 2022. Concurrently, the consumer price index (CPI), has decelerated since June 2022, reaching 3.0% in June 2023 before rebounding to 3.7% in August and September of 2023.

Despite a noted easing of inflation in the past year, the Federal Reserve acknowledged its persistent elevation. Since July 2023, the Federal Reserve held rates steady for four consecutive meetings, including the most recent one in January 2024. The omission of any mention of further rate hikes in the Federal Reserve's statement suggests a more balanced outlook regarding the risks associated with reaching its employment and inflation targets. However, the central bank remains vigilant about adjusting monetary policy as needed to address emerging risks.

Looking Ahead, the expectation is for any potential rate cuts to occur gradually, involving SMALL incremental adjustments. The goal is to recalibrate and align interest rates with inflation to support overall economic health and mitigate inflationary pressures or deflationary risks.

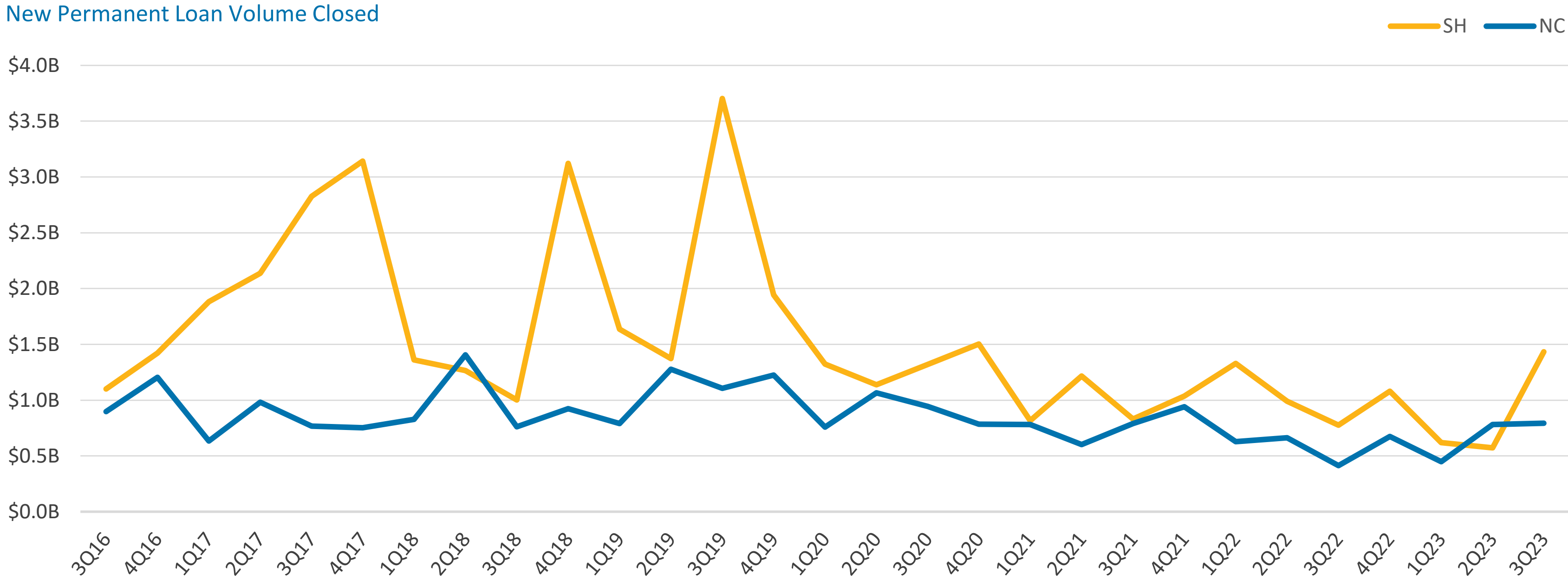
Escalating loan expenses due to higher interest rates are impacting senior housing property assets, creating challenges for many and distress in certain others. The sector anticipates billions of dollars maturing this year. **While some may endure the repercussions of high interest rates, more stability is anticipated in 2025 for those that can weather the current conditions, with an expected improvement in capital market conditions, occupancy, and NOI outlook.**

The lending environment for senior housing and nursing care in the third quarter of 2023, although tighter compared to 2020, showed relatively similar conditions to the second quarter 2023 with some adjustments from both borrowers and lenders.

Key Takeaways

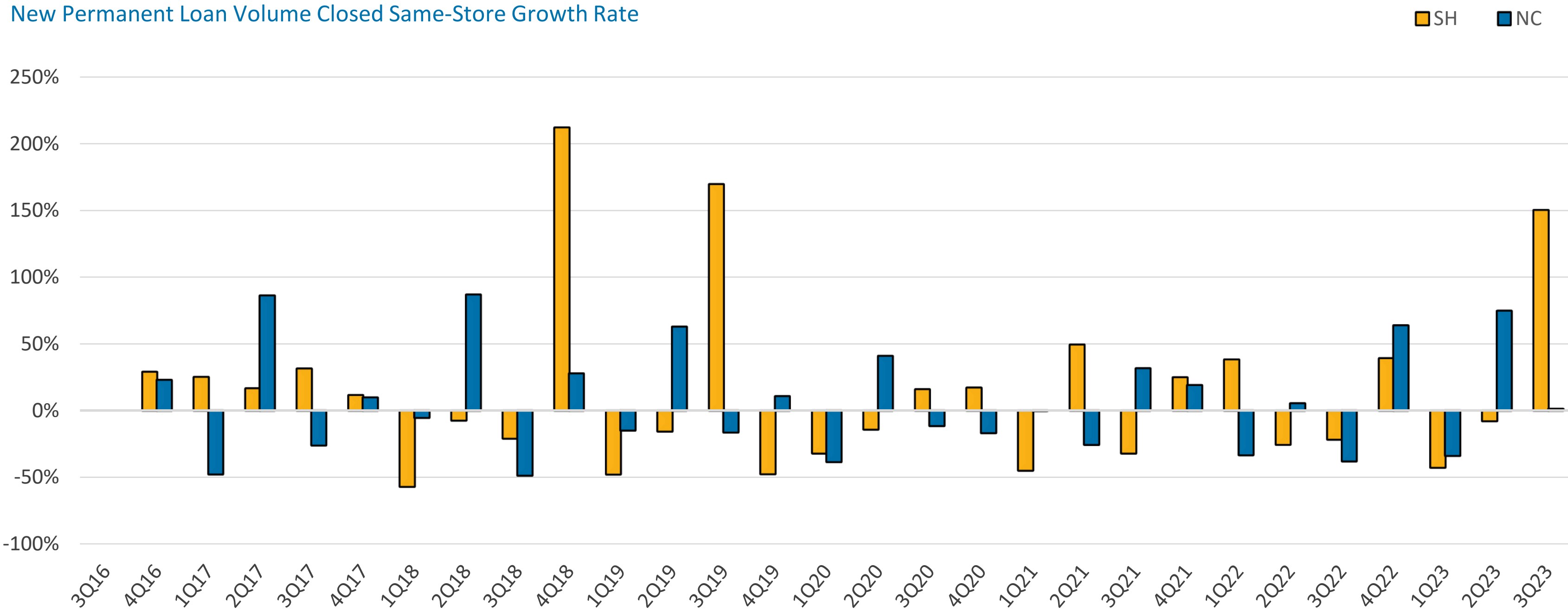
In the third quarter of 2023, there was a notable increase in closed new permanent loan volumes for senior housing, surging to $1.43B and marking a 150% increase from the prior quarter. This increase suggests that some lenders and borrowers are likely adjusting to changing capital market and credit conditions and locking in lon-term interest rates. However, the levels remained relatively lower compared to the high volumes observed pre-2020. Lending for nursing care remained relatively unchanged at $791.8M, reflecting a modest 1.4% uptick.

New Permanent Loan Volume Closed



Source: NIC Lending Trends Report, NIC Analytics

New Permanent Loan Volume Closed Same-Store Growth Rate



Source: NIC Lending Trends Report, NIC Analytics

Contributor Counts per Quarter

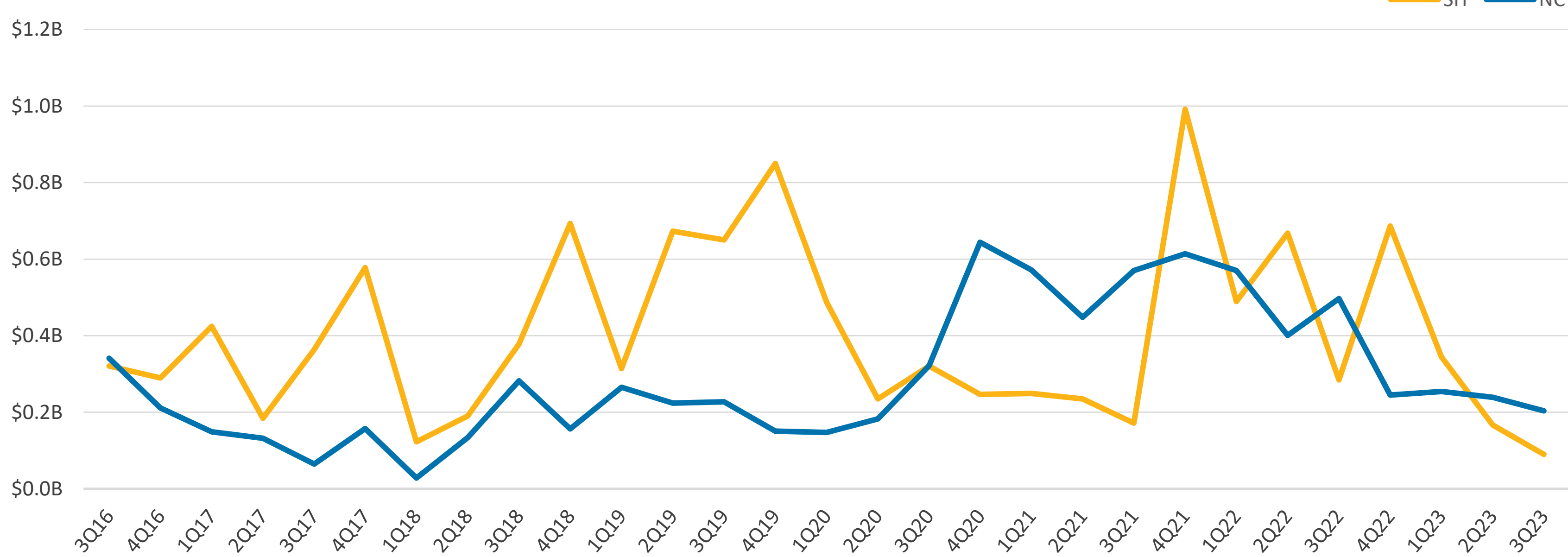
Quarter	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3
Senior Housing	19	19	19	18	18	17	19	18	19	18	19	17	17	17	17	16	15	15	14	14	14	15	14	14	14	15	15	15	15
Nursing Care	17	17	17	16	16	15	17	16	17	16	17	15	15	15	15	14	13	13	12	12	12	13	12	12	12	12	12	13	13

Source: NIC Lending Trends Report, NIC Analytics

Key Takeaways

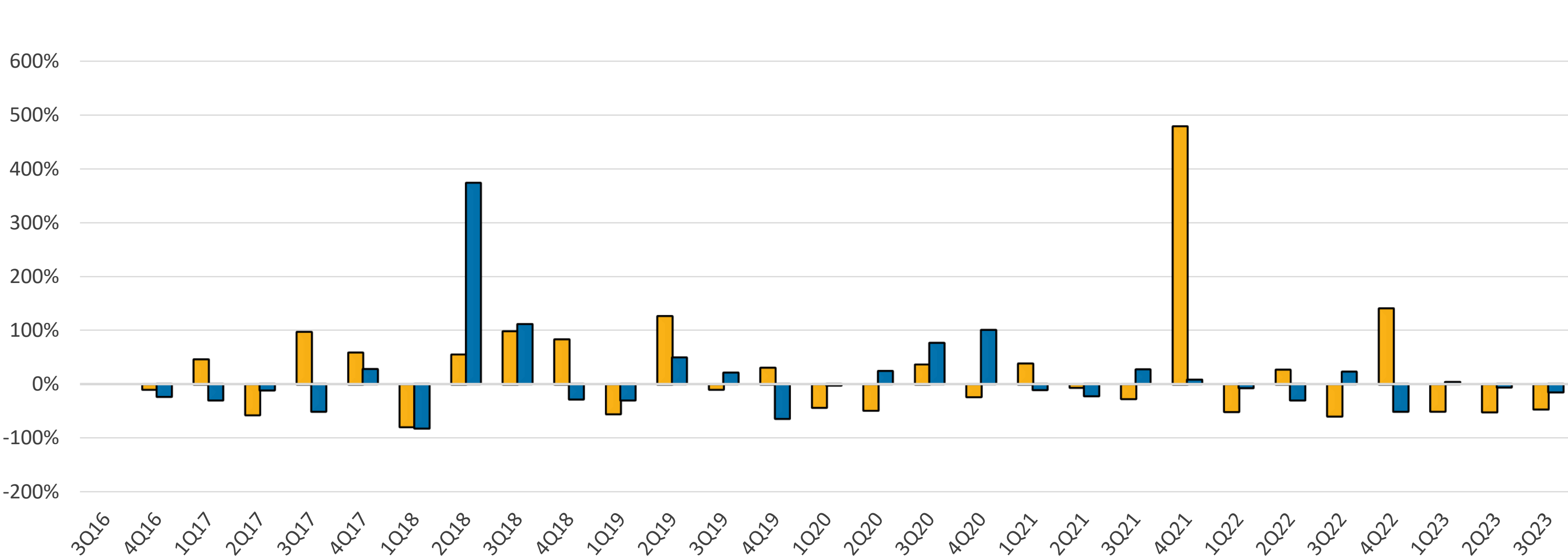
In the third quarter of 2023, the decline in mini-perm/bridge debt issuance for senior housing persisted, reaching about $90M, reflecting a further 46% decrease from the prior quarter and 87% from late 2022 levels. Similarly, nursing care mini-perm/bridge loan closings, while slightly higher than those in senior housing for the past two consecutive quarters, remained relatively low and on par with pre-pandemic levels. Borrowers continue to adjust to the prevailing "higher for longer" mindset, anticipating sustained rates without a potential decline in the near future. While short-term debt options are limited, those available often come with increased costs and additional credit enhancements e.g., the need for more equity or a repayment guaranty.

New Mini-Perm/Bridge Loan Volume Closed



Source: NIC Lending Trends Report, NIC Analytics

New Mini-Perm/Bridge Loan Volume Closed Same-Store Growth Rate



Source: NIC Lending Trends Report, NIC Analytics

Contributor Counts per Quarter

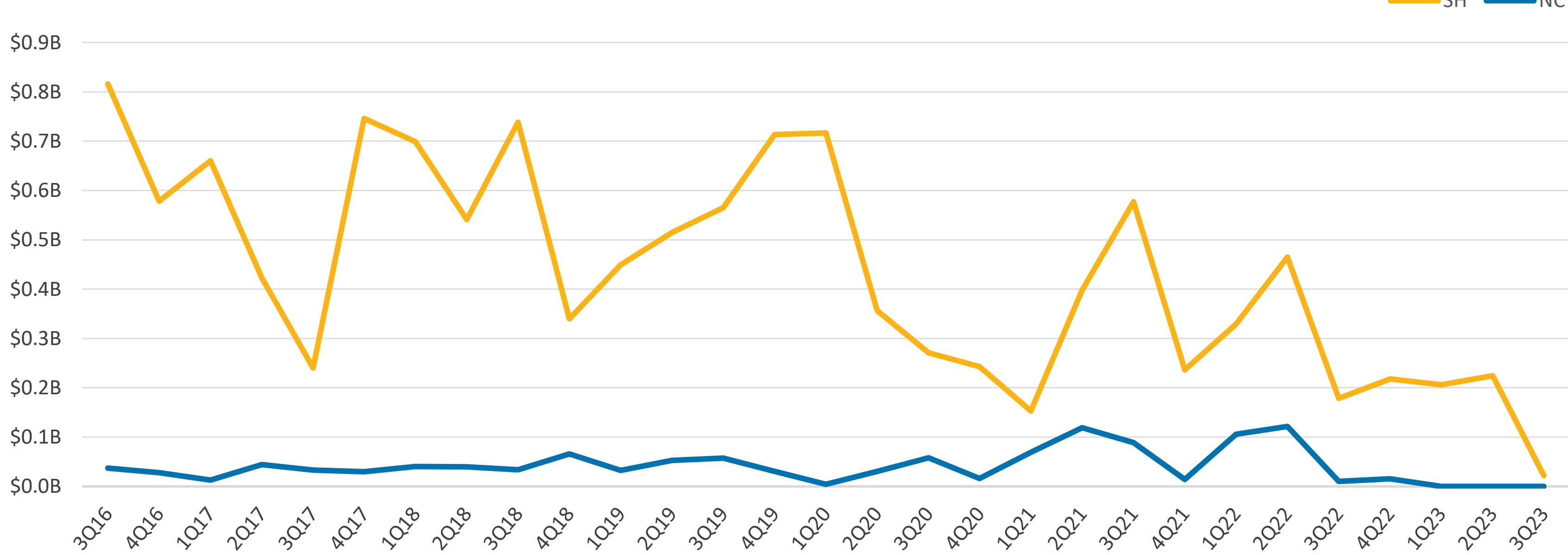
Quarter	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3
Senior Housing	17	17	17	16	16	16	18	17	18	16	18	16	15	16	16	15	14	14	13	13	13	14	13	13	13	14	14	14	14
Nursing Care	17	17	17	16	16	16	18	17	18	16	18	16	15	16	16	15	14	14	13	13	13	14	13	13	13	13	13	14	14

Source: NIC Lending Trends Report, NIC Analytics

Key Takeaways

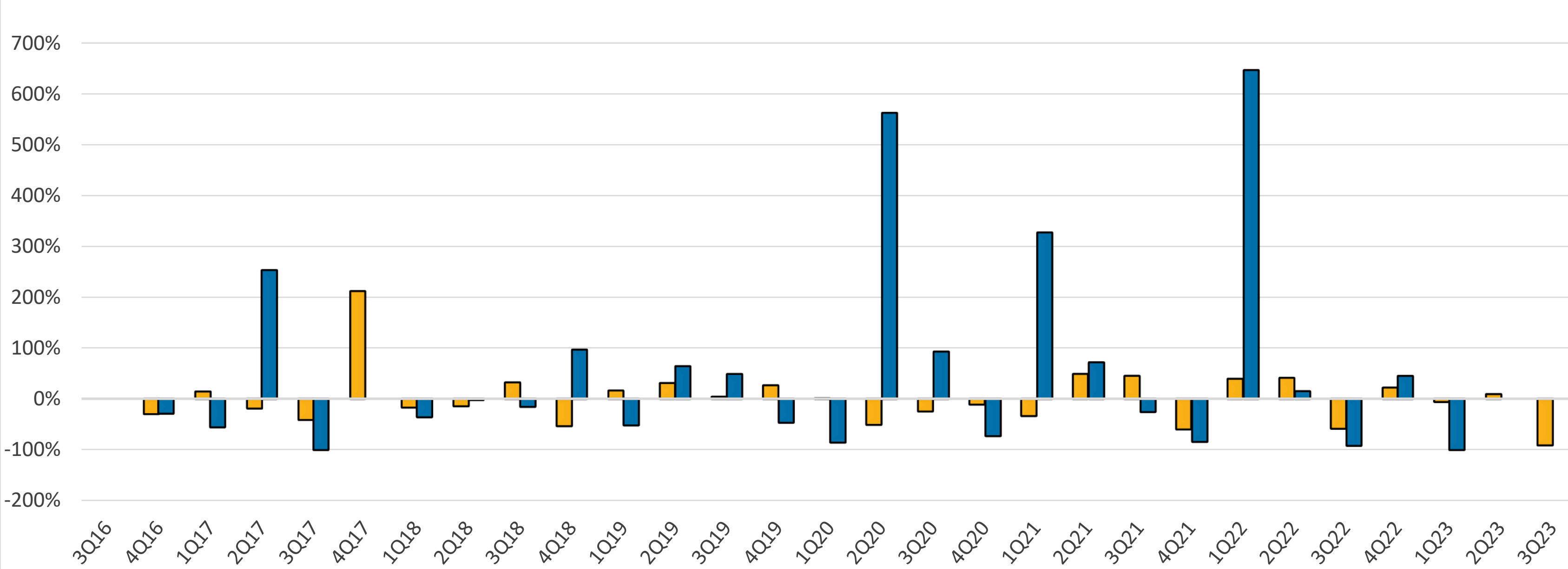
New construction loan closings for senior housing subdued to weak levels and hit a new low within the time series in the third quarter of 2023 compared with historical standards. This is evident in construction starts which remained relatively feeble in the third quarter of 2023, and the number of senior housing units under construction in the 31 NIC MAP Primary Markets which remained near its lowest level since 2015, according to data released by NIC MAP Vision. This notable decline suggests a trend of diminishing confidence in a quick construction market correction. Despite this, the consensus points towards mid- or late-2024 as the most likely period for senior housing construction starts to reach their lowest point. As for nursing care, the issuance of construction debt was virtually non-existent for the lenders sampled in the Lending Trends Report. This aligns with the observed pattern of limited debt financing for new nursing care property construction since NIC began data collection in 2016.

New Construction Loan Volume Closed



Source: NIC Lending Trends Report, NIC Analytics

New Construction Loan Volume Closed Same-Store Growth Rate



Source: NIC Lending Trends Report, NIC Analytics

Contributor Counts per Quarter

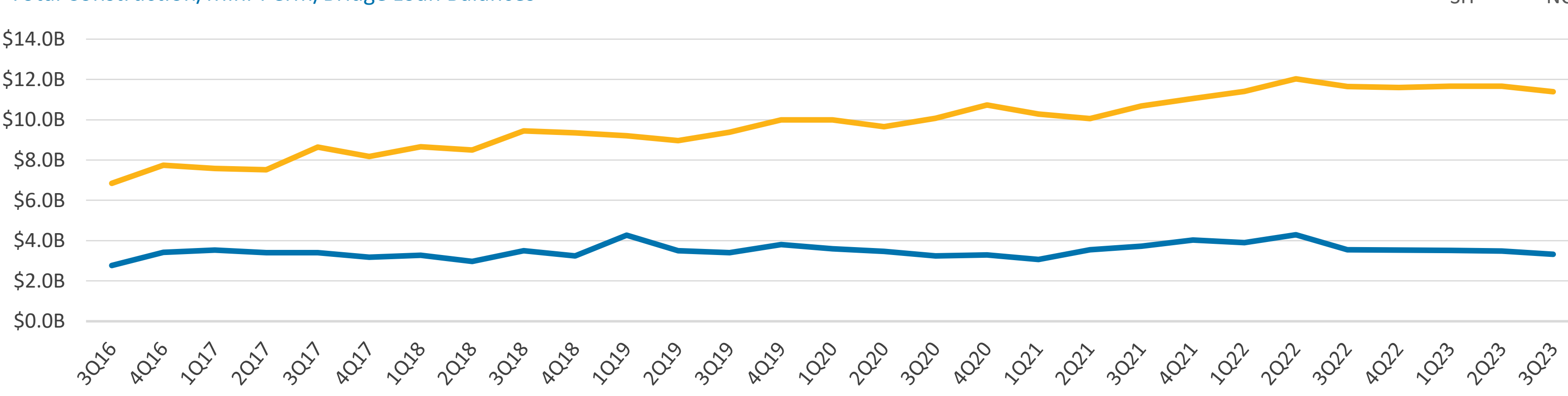
Quarter	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3
Senior Housing	18	18	18	17	17	17	19	18	19	17	19	17	16	17	17	16	15	15	14	14	14	15	14	14	14	15	15	15	15
Nursing Care	18	18	18	17	17	17	19	18	19	17	19	17	16	17	17	16	15	15	14	14	14	15	14	14	14	14	14	15	15

Source: NIC Lending Trends Report, NIC Analytics

Key Takeaways

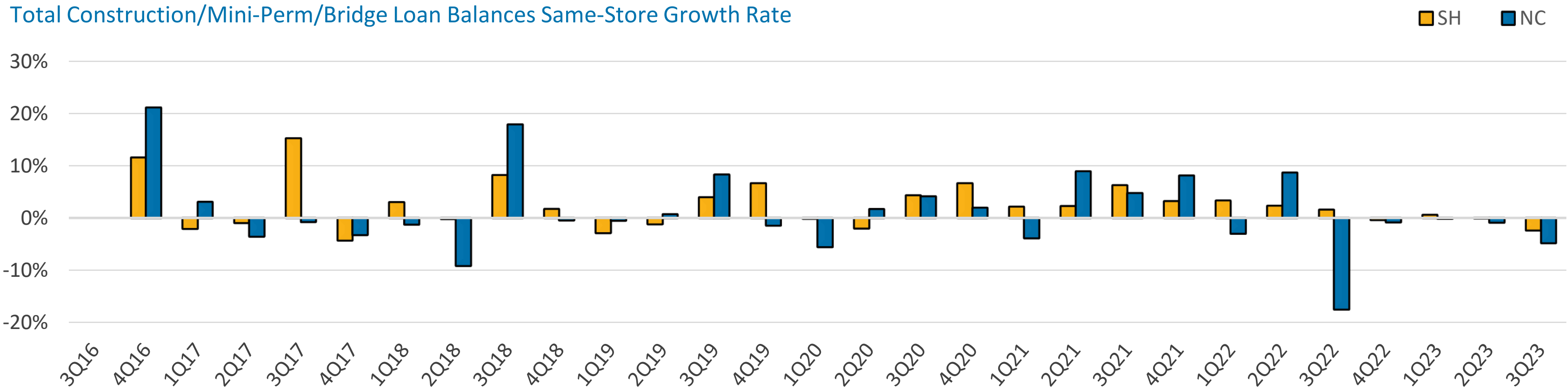
Total construction/mini-perm/bridge loan balances for senior housing were generally unchanged at relatively high levels in the third quarter 2023, off only 5.3% from their time series high in the second quarter of 2022. Nursing care loan balances slipped more than senior housing, down about 23% from their time series high in the second quarter of 2022.

Total Construction/Mini-Perm/Bridge Loan Balances



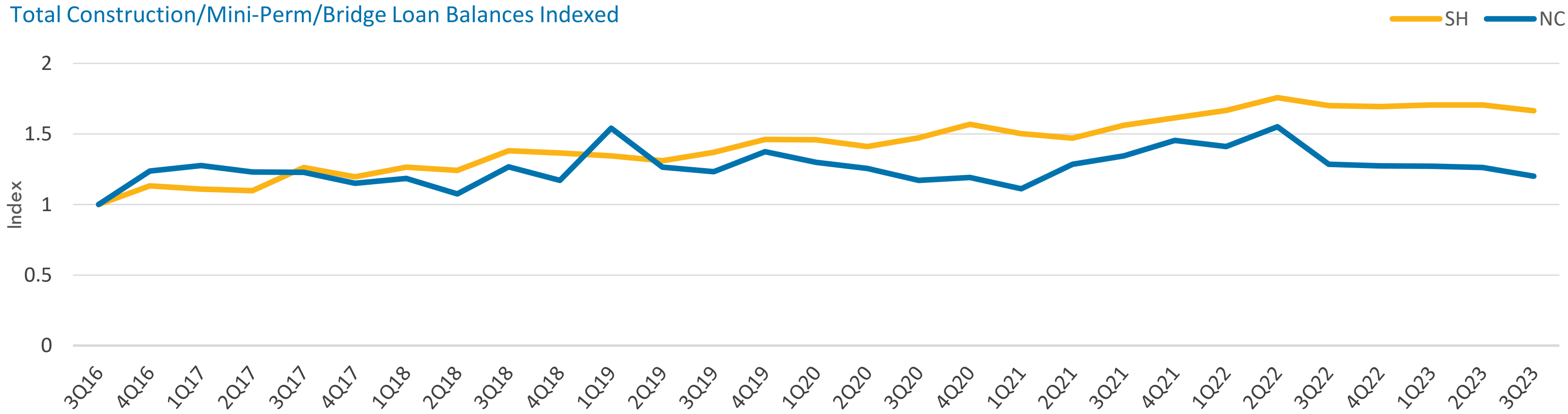
Source: NIC Lending Trends Report, NIC Analytics

Total Construction/Mini-Perm/Bridge Loan Balances Same-Store Growth Rate



Source: NIC Lending Trends Report, NIC Analytics

Total Construction/Mini-Perm/Bridge Loan Balances Indexed



Source: NIC Lending Trends Report, NIC Analytics

Contributor Counts per Quarter

Quarter	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1
Senior Housing	18	18	18	17	17	17	19	18	19	17	19	17	16	17	17
Nursing Care	18	18	18	17	17	17	19	18	19	17	19	17	16	17	17

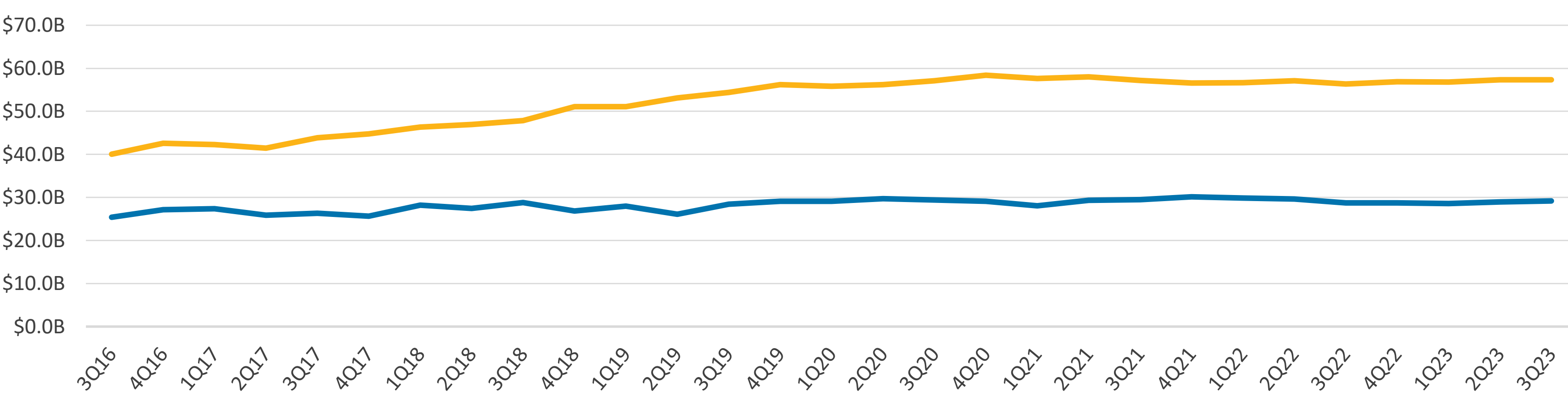
Quarter	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3
Senior Housing	16	15	15	14	14	14	15	14	14	14	15	15	15	15
Nursing Care	16	15	15	14	14	14	15	14	14	14	14	14	15	15

Source: NIC Lending Trends Report, NIC Analytics

Key Takeaways

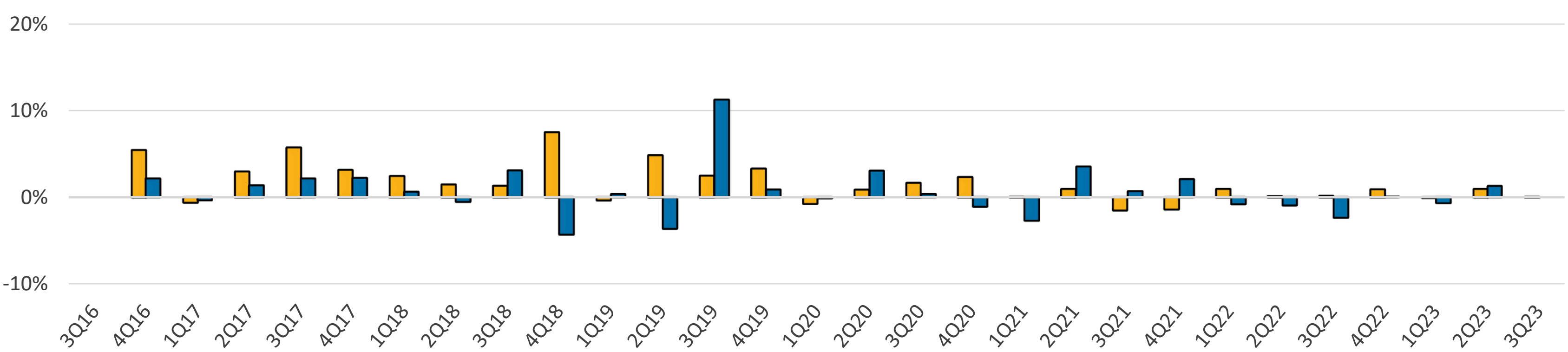
On a same-store quarter-over-quarter basis, total loan balances for both senior housing and nursing care remained relatively unchanged in the third quarter 2023.

Total Loan Balances



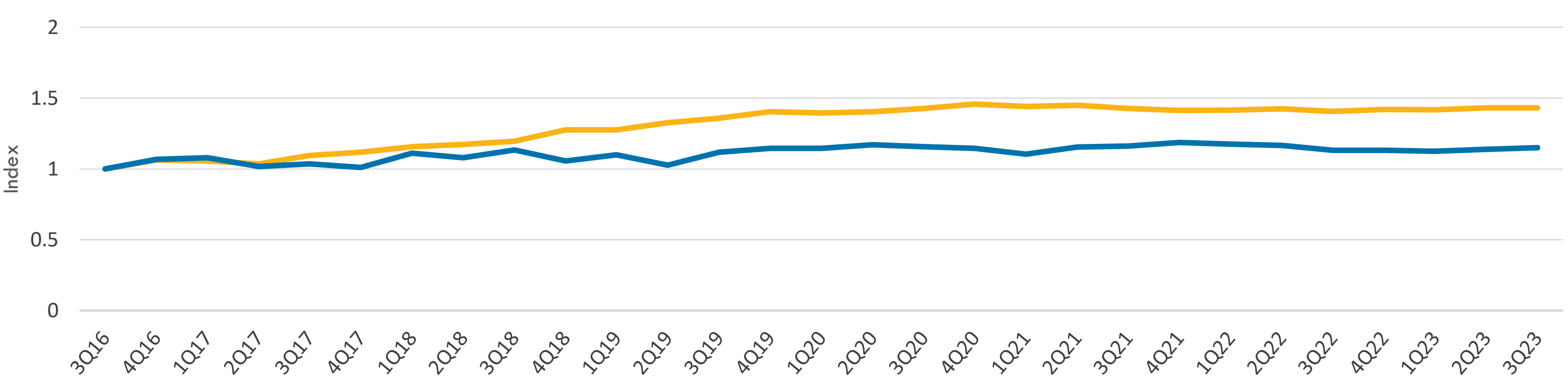
Source: NIC Lending Trends Report, NIC Analytics

Total Loan Balances Same-Store Growth Rate



Source: NIC Lending Trends Report, NIC Analytics

Total Loan Balances Indexed



Source: NIC Lending Trends Report, NIC Analytics

Contributor Counts per Quarter

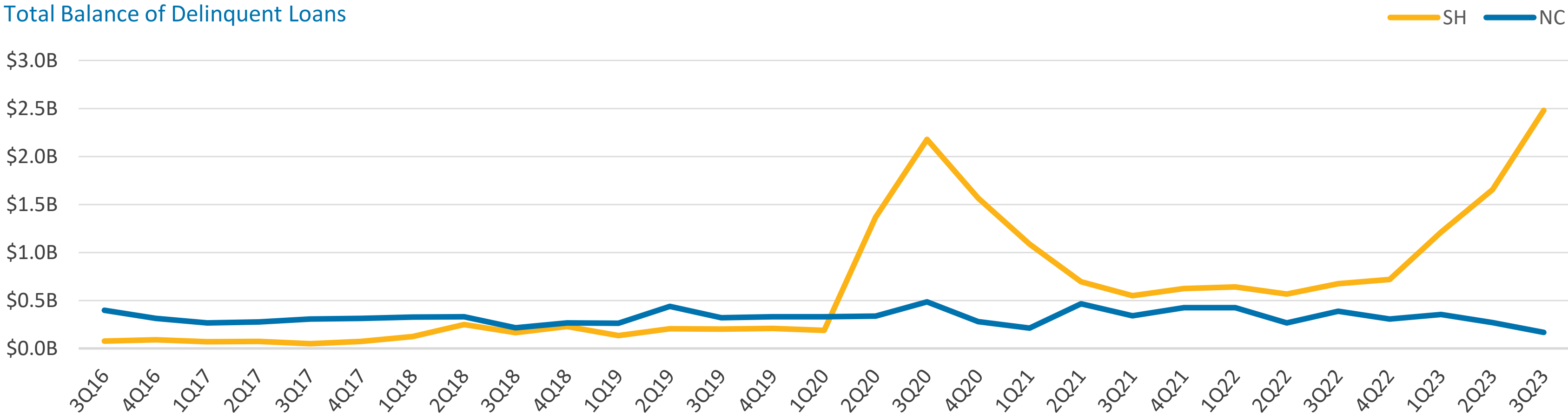
Quarter	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3
Senior Housing	20	20	20	19	19	19	21	20	21	19	21	19	18	19	19	18	17	17	16	16	16	17	16	16	16	17	17	17	17
Nursing Care	18	18	18	17	17	17	19	18	19	17	19	17	16	17	17	16	15	15	14	14	14	15	14	14	14	14	14	15	15

Source: NIC Lending Trends Report, NIC Analytics

Key Takeaways

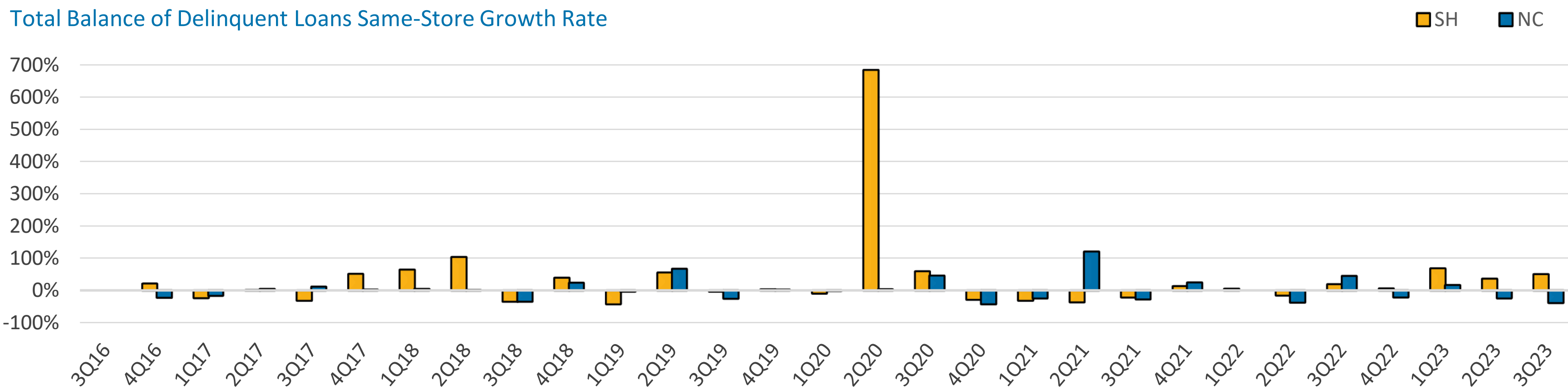
The total balance of delinquent loans for senior housing saw a notable increase to time-series high. Delinquencies in senior housing rose by 50% in the third quarter 2023 while those in nursing care declined by 38% from the prior quarter. Delinquencies as a share of total loans rose to 4.3% for senior housing, up from 2.9% in the second quarter of 2023 and 1.3% in late 2022. For nursing care, the delinquency rate edged down to 0.6% from 1.1% in late 2022. Note that loans in forbearance are reported in the delinquent loan data for some debt providers. Also of note, foreclosures were reported for the sample in third quarter 2023 for both senior housing and nursing care, $20.2M and $14M, respectively.

Total Balance of Delinquent Loans



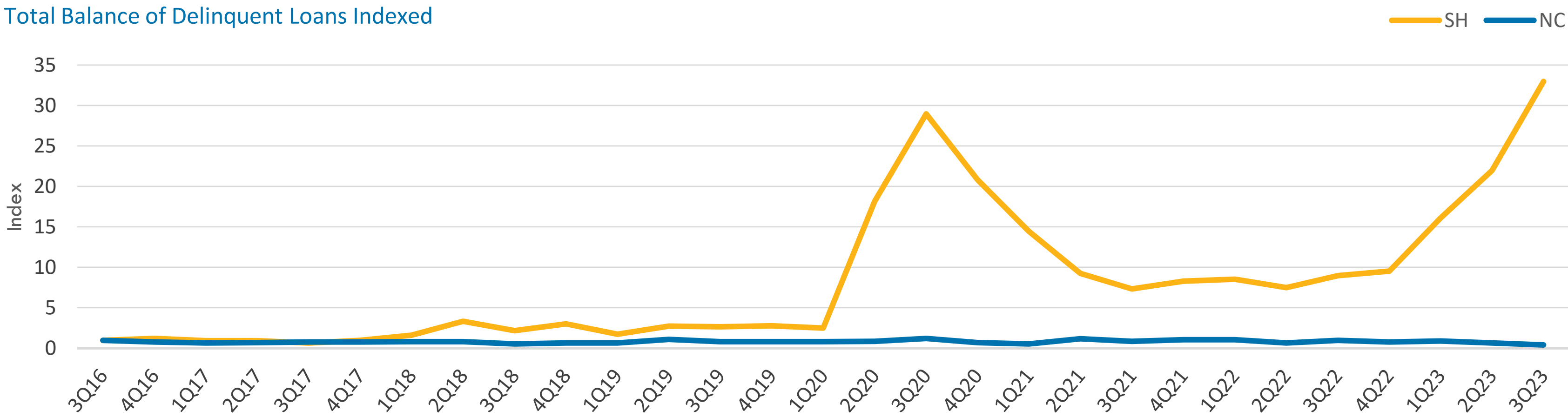
Source: NIC Lending Trends Report, NIC Analytics

Total Balance of Delinquent Loans Same-Store Growth Rate



Source: NIC Lending Trends Report, NIC Analytics

Total Balance of Delinquent Loans Indexed



Source: NIC Lending Trends Report, NIC Analytics

Contributor Counts per Quarter

Quarter	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3
Senior Housing	20	20	20	19	19	19	21	20	21	19	21	19	18	19	19	18	17	17	16	16	16	17	16	16	16	17	17	17	17
Nursing Care	18	18	18	17	17	17	19	18	19	17	19	17	16	17	17	16	15	15	14	14	14	15	14	14	14	14	14	15	15

Source: NIC Lending Trends Report, NIC Analytics

Note: some contributors include loans that are in forbearance in reporting delinquent loans and other contributors do not.

Loan Type Glossary

New Permanent Loan Volume Closed: Mortgage loans closed in a specific quarter for completed projects. These permanent loans generally have amortization periods between 15 and 30 years. These loans tend to be acquired following a construction loan or following a mini-perm loan.

Mini-Perm/Bridge Loan Volume Closed: Mini-perm/bridge loans are generally between 3 and 5 years and tend to function as an intermediary loan following a construction loan and prior to finding a longer-term mortgage loan.

New Construction Loan Volume Closed: A shorter term loan to finance the construction of a property.

Total Loan Balances: Total of all loan balances outstanding at the end of the quarter.

Total Permanent Loan Balance: Total of all outstanding permanent loans at the end of the quarter.

Total Construction/Mini-Perm/Bridge Loan Balance: The total balance of all construction loans, mini-perm, and bridge loans outstanding at the end of the quarter.

Total Mini-Perm/Bridge Loan Balances: Total of all mini-perm/bridge loans outstanding at the end of the quarter.

Total Construction Balances: Total of all construction loans outstanding at the end of the quarter.

Total Balance of Delinquent Loans: Total balances of loans that are delinquent by more than 60 days as of the end of the quarter. Note: some contributors include loans that are in forbearance in reporting delinquent loans and other contributors do not.

Total Amount of Foreclosures During the Quarter: Total amount of loans foreclosed upon during the quarter. For the current sample, this number is generally close to zero as there are relatively few foreclosures during the time that NIC has been collecting data from contributors.

Lender Type Glossary

Bank – A bank is a financial institution that accepts deposits and provides loans. Bank financing for senior housing and care properties covers a wide range of institutions and financing options. Commercial banks typically lend for new construction and acquisitions, and offer lines of credit, corporate credit lines, and shorter-term property financing options, i.e., bridge or mini perm loans.

Bank Holding Company – A bank holding company is a company that has one or more banks and possibly other assets. Generally, bank holding companies have more flexibility for methods of raising capital than traditional banks do.

Commercial Real Estate Services Company – Commercial real estate services companies can offer a range of investment services for several property types.

Financial Services Company – Financial services companies are a broad category that encompass businesses that offer a variety of services including banking, investment funds, or other services.

Government-Related Sources – Companies or organizations that are related to or funded by the government.

Investment Management Firm – Investment management firms offer their clients investment opportunities that the firm designs and manages. Investment management firms aim to create portfolios that generate returns with varying levels of risk, which can include lending services.

REIT – Real Estate Investment Trust (REIT) is a company that owns, manages, or finances income-generating real estate. To qualify as a REIT a company must: (1) invest at least 75% of its total assets in real estate; (2) derive at least 75% of its gross income from rents from real property, interest on mortgages financing real property or from sales of real estate; (3) pay at least 90% of its taxable income in the form of shareholder dividends each year among other requirements. Shareholders pay the income taxes on those dividends.

Methodology

Growth rates are calculated on a same-store basis. A data provider must have files for two consecutive quarters in order to be included in the quarter-over-quarter calculation. The same-store growth rate is a quarter-over-quarter metric that's calculated by taking the set of contributors that provided data files for two quarters back to back, summing all the values for each of the two quarters, then calculating the growth from one quarter to the next.

The indexed values for total construction/mini-perm/bridge loan balances, total loan balances, and total delinquent balances are calculated as a quarter's outstanding volume over the sum of the volume in 3Q2016, the base period for comparison. As a result, it is not same-store. Mergers account for some of the variability in contributor counts. Note: not all charts have the same axes.

About this Report

The NIC Lending Trends Report collects loan volume data for senior housing and care properties. NIC conducts this quarterly survey and generates this report to further enhance transparency of capital market trends in the senior housing and care sector. These data are not to be interpreted as a census of all senior housing and skilled nursing lending activity in the U.S. and reflect lending activty from participants included in the survey sample only. Property type is the industry's traditional categorization where each property is classified by its plurality care segment, and where: (1) memory care is considered a subset of assisted living and (2) individual CCRC/LPCs are classified according to their plurality care segment. Senior housing represents the aggregate of majority independent living and majority assisted living.

About NIC Analytics

This report was prepared by NIC Analytics at National Investment Center for Seniors Housing and Care (NIC), a nonprofit 501(c)(3) organization whose mission is to support access and choice for America's seniors. NIC's Analytics group interprets data and analyzes trends in the senior housing and nursing care sectors as they relate to and impact capital seekers (owners, operators, and developers) and capital providers (debt and equity entities).

How to Participate

If you would like to contribute your data, please contact us at analytics@nic.org.