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New Year Brings No Respite to Muni Senior Living Sector Turmoil.

- **Senior living among riskiest muni investments due to pandemic**
- **Texas non-profit issued $400 million of muni debt to buy homes**

The coronavirus pushed three dozen municipal-debt issues for senior living communities into default last year and another five have already missed payments in 2021, sowing distress in one of the nation's safest bond markets.

The securities deals that defaulted for the first time in January included one for a retirement community in the Chicago suburbs that needed to preserve cash as regulations imposed to combat the pandemic curbed move-ins and left about one quarter of it unoccupied.

"The surge in Covid-19 cases following Thanksgiving and Christmas suggests further disruption lies ahead," said Beth Burnham Mace, chief economist at the National Investment Center for Seniors Housing & Care. "That said, the recent distribution of the vaccines should soon provide some relief."

The coronavirus, especially lethal to the elderly, has made the senior-living industry the riskiest segment of the $3.9 trillion municipal-bond market, where defaults are extremely rare because states and cities have broad power to raise taxes to cover their debts. But it's also open to non-profits, including those that run retirement communities, that can sell debt through local government agencies. These facilities are facing increased costs for staff and protective equipment as well as move-in restrictions from state health agencies. As a result, many are unable to repay what they've borrowed.

Falling Occupancy

Residency at assisted and independent living facilities fell to 80.7% in the fourth quarter, a record low and an almost seven percentage point decline since the first quarter, according to data from the National Investment Center. Moreover, the data shows wide disparities geographically. The San Jose market had the highest occupancy rate of 31 metro areas at 88.5% and Houston, the lowest, at 73.5%.

The resulting financial pressure drove five senior living communities in Georgia, New York, New Hampshire and Illinois into default this year.

Hillside Village, a 221-unit continuing care retirement community in Keene, New Hampshire, failed to make a Jan. 1 interest payment on $73 million bonds and has hired a chief restructuring officer. Through November, the facility collected $2.3 million less revenue than projected. Glen Arden, Inc., in Goshen, New York defaulted because of financial difficulties that preceded the pandemic.

Preserving Cash

In Schaumburg, Illinois, about 20 miles (32 kilometers) west of of O'Hare International Airport,

occupancy at Friendship Village of Schaumburg fell to 78% as of Sept. 30 from 84% at the end of March.

Despite obtaining a Paycheck Protection Program loan, the community had to spend half its cash reserve in the last nine months to make up for lost revenue. The retirement community suspended payment on $122.6 million of debt to preserve cash, its chief financial officer said in a letter to bondholders.

“The action we take today is a step toward fulfilling our goal, which is to preserve the ability of FVS to operate until the health and economic crises caused by Covid-19 have abated,” wrote Michael A. Flynn, Friendship Village’s CFO.

Highly Leveraged

The Emmaus Calling, a non-profit senior living owner run by an Austin, Texas family that has issued $400 million of municipal bonds to acquire two dozen communities, has 12 in the Houston area. The highly leveraged purchases — financed entirely with debt — left little room for error amid the pandemic, which forced TEC to restrict move-ins and cancel live tours.

That’s threatening to tip more than a quarter of the bonds into default. About $115 million of the bonds issued by TEC affiliates are distressed and $36 million of them had their ratings withdrawn after the company needed to tap reserves to cover debt, according to data compiled by Bloomberg.

TEC’s Glen Hope Harbor Inc. portfolio of nine assisted-living facilities in the Houston and San Antonio were struggling even before the pandemic. In August 2019, S&P cut the ratings on $38 million bonds issued by Glen Hope Harbor to junk after it drew on reserves to pay debt. The rating company cited “very low” occupancy rates and competition from new Alzheimer’s care facilities, which forced management to discount rents to attract tenants.

Glen Hope Harbor defaulted on a $3 million portion of its bonds last February, before the virus cut occupancy to around 70% by the end of June. Some of the non-defaulted Glen Hope bonds due in 2039 are trading for about 32 cents on the dollar, down from 106 cents when they were first issued five years ago.

Mission Fees

TEC has supported and will continue to support its facilities by deferring fees and providing loans, according to an email from Jennifer Rodriguez, president of Choice Management Services, LLC, which oversees TEC’s assisted living facilities. Robbie Wittner, TEC’s president, didn’t respond to emailed questions.

The debt burden on TEC’s assisted living portfolios is even higher because it has taken upfront payments of as much as 1.4% from its bond sales as “mission contribution fees,” used to help pay the salaries of Wittner, her husband Lloyd Kitchen, and son Lloyd Kitchen III.

“They’ve borrowed to pay themselves, which means you need to cover that borrowing in addition to what you paid for that facility so that would make things more difficult,” said Lisa Washburn, a managing director at Municipal Market Analytics.

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