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Senior Living Muni Bond Defaults Reach \$1.6B in 2021, With More Pain Coming.

Thirty-one senior living borrowers have missed a payment on their municipal bond debt for the first time in 2021, representing about \$1.6 billion of muni bonds in default and tying the record number of senior housing defaults set last year.

That's according to the latest statistics from Municipal Market Analytics (MMA). The findings build on previous MMA reports, including one last month that [showed](#) 27 senior housing muni bond defaults this year.

Distress in the sector is likely to worsen before the sector stabilizes and rebounds, according to MMA Partner Matt Fabian.

"Covid has made labor costs much higher, made staffing much more difficult and made occupancy more volatile," Fabian told Bloomberg. "Longer term it's a sector with good prospects, medium term, we're probably going to see more defaults."

The senior housing bonds in default represent 4.3% of the sector's \$37.6 billion of debt, as of Jan. 1, 2021.

Senior living has been hit harder by Covid-19 than any other U.S. public finance sector, Moody's Investor Service noted in May 2020, predicting a wave of bond defaults.

"No other sector has seen the singular confluence of both revenue and expenditure difficulties as the elder housing sector," Moody's Vice President Dan Seymour wrote in a commentary at the time.

The latest default numbers from MMA indicate that despite recent occupancy gains and the widespread vaccination of residents and staff against Covid-19, the senior living sector is still particularly vulnerable to financial distress, particularly for operations that already were in a tenuous position pre-pandemic. One CCRC that recently defaulted had a 2019 debt service coverage ratio of 0.0x, the MMA report noted.

Labor issues have become especially pressing, with assisted living employment falling by 38,000 workers since the start of the pandemic, according to recent data from the American Health Care Association/National Center for Assisted Living (ACHA/NCAL).

While some senior living providers have expressed confidence that they can raise monthly rates to largely compensate for higher labor costs, operators that are less stable could flounder.

Indeed, more "spectacular failures" are almost certain to occur in the sector, Shankh Mitra, CEO of Welltower (NYSE: WELL), said on the real estate investment trust's most recent quarterly earnings call.

Mitra and other senior living leaders have predicted that as financial distress comes to a head,

industry consolidation will occur, with properties moving into the control of more stable owners and operators.

Such consolidation is already coming to pass among providers with muni bond debt. Today, a judge with the U.S. Bankruptcy Court of New Hampshire approved the sale of Hillside Village Keene to Covenant Living.

Faced with Covid-related pressure, Hillside Village Keene — a 222-unit life plan community — was unable to meet its obligations related to long-term tax-exempt bond debt and filed for Chapter 11 bankruptcy protection. Skokie, Illinois-based Covenant in August 2021 agreed to pay \$33 million to acquire the distressed community, if no higher bids emerged through a stalking horse process.

Covenant adds Hillside Village to its existing portfolio of 18 communities in nine states.

Senior Housing News

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