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Muni Bond Delinquencies Show Senior Living Industry ‘Most Poorly Positioned’ to Withstand Covid.

Senior living facilities represented the largest portion of delinquencies reported by municipal bond issuers in the first quarter of 2022, highlighting the sector’s struggles during the Covid-19 pandemic.

The majority of the 83 credit events in the first quarter of 2022, mostly among small, unrated borrowers – particularly senior living communities. In fact, the industry stands out as “the municipal bond sector most directly harmed by the pandemic,” according to an April 15 report by Moody’s Investors Service.

“Senior living was the most poorly positioned sector to withstand the pandemic,” the report read. “This is both because of the vulnerability that senior living has by nature to a health emergency that disproportionately affects the elderly, and because the inherent financial weakness of many borrowers left them with little margin to survive a disaster of any kind.”

More broadly, the senior living sector saw 24% of the 675 bond delinquencies and default events reported from April 2020 to March 2022.

“Many facilities were unable to attract new residents amid state-mandated lockdowns, and incurred greater expenses to protect residents and employees from the virus,” the report reads. “This combination pushed into delinquency numerous senior living borrowers that had previously if only barely, kept their heads above water.”

Among senior living operators – which the report defines as those with independent living, assisted living and memory care communities or CCRCs – there were 45 financings that disclosed delinquencies since the pandemic began in 2020.

The report grouped them into four categories: 16 first-time delinquencies as a result of the pandemic; nine delinquencies that may have occurred anyway, but were hastened by the pandemic; 16 operators that defaulted prior to the pandemic; and a nebulous fourth category with four financings where “public disclosure was inadequate to determine whether the pandemic was the cause.”

Delinquencies caused by the pandemic totaled $1.46 billion in outstanding debt, with two companies in Florida and Texas carrying outstanding debt of more than $200 million apiece.

Companies that appeared likely to default, Covid or not, carried total debt outstanding of more than $365 million. The category included a project still under construction, a community whose troubles stemmed from a Legionella outbreak in 2019 and a project that started drawing from its debt service reserve fund in the same year.

The Moody’s report is the latest in a pile of evidence that municipal bond defaults are a big issue in the senior living industry.

A recent Municipal Market Analytics (MMA) analysis found that the senior living industry represented about $1.6 billion of muni bonds in default in 2021, which tied the record number of senior housing defaults set the year prior.

Despite defaults in the senior living sector, investors remain aggressive and bullish on the long-term outlook. At the same time, senior living operators sold $7.4 billion in new bonds as of December 2021, which represented nearly a quarter more than they sold in 2019.

By Nick Andrews | April 15, 2022

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