THE BOND BUYER

Construction delays choke cash flow of New Jersey senior facility

Published

June 05, 2023, 1:20 p.m. EDT

An assisted-living complex for low-income senior residents in southern New Jersey has been struggling to make timely monthly loan payments.

New Standard Senior Living said construction delays at its Village Drive campus in Millville has impeded its ability to lease units and choked its cash flow, according to a recent regulatory filing.

While such holdups have been a nationwide problem across industries, for health care they are one more added stress that can be crippling. Higher labor and supply costs, not to mention changing preferences that predate the pandemic, have made it difficult for numerous facilities to meet their financial obligations.

The senior-living industry, which includes bonds sold by retirement, nursing and assisted-living facilities, has been an outlier in the $4 trillion municipal bond market. About $5 billion of senior-living bonds are in either distress or default, roughly 11% of the sector's outstanding debt, according to data compiled by Bloomberg.

Health-care debt, which includes senior living facilities, is the worst performing sector within high-yield municipals in 2023, losing 0.13%, the only negative return.

"While muni credit is likely to remain healthy, there is a small universe of credits that will remain challenged, mostly in the senior living, health care, and industrial revenue sectors," Barclays analysts Mikhail Foux, Clare Pickering and Mayur Patel wrote in a recent note.

The New Jersey Health Care Facilities Financing Authority issued $23 million in revenue bonds in 2018 for construction of New Standard's facility in Millville. The complex, which offers 154 pet-friendly, single-occupancy studios with private baths, opened about 10 months ago and is currently 60% occupied, according to Drew Barile, president and chairman of Noble Senior Services and New Standard Senior Living. The construction challenges delayed the facility's opening and subsequent resident enrollment.

Even without construction problems, it's hard for senior-living facilities "to make the economics work," said Dora Lee, director of research at Belle Haven Investments. "There's been a very big divergence between the private-pay senior-living facilities and the ones that rely more on Medicaid and Medicare."

About 80% of residents at New Standard are Medicaid-funded, according to Barile. Facilities that have a larger number of low-income residents are scarce and struggle financially because government reimburses at a lower rate than private insurers, Lee said.

"COVID did create massive supply-chain and labor disruption contributing to serious challenges that we had to overcome," Barile said in an email. He said the delays caused "market confusion" which they are addressing "aggressively."

Barile said that currently, "all payments have been made within required parameters." According to the filing, the facility has used loans from members and related parties in order to make late payments to the Trustee.

New Standard is not alone. There were regulatory filings detailing impairments at three other senior-living facilities, in Colorado, Tennessee and Illinois this week.

"We are likely to see increased defaults from this universe," said the Barclays analysts. "Muni credit events tend to have a much longer lag from economic downturns."