22 May 2020

Fund Update for Spire USA ROC Seniors Housing and Medical Properties Fund II (AUD)

(Incorporating the underlying fund, Bridge Seniors Housing and Medical Properties Fund (BSH II))

Spire Capital has this week attended the Q1 2020 Fund Update for Bridge Seniors Housing and Medical Properties Fund II, representing the interests of Spire clients invested in Bridge Seniors Housing and Medical Properties Fund II, either directly or via the Australian feeder fund Spire USA ROC Seniors Housing and Medical Properties Fund II (AUD).

Excerpts from the Q1 2020 Fund Update are as follows:

COVID-19 Actions and Impacts

- Resident health and safety have been Bridge's utmost priority, and safety protocols have largely contained the negative impact of COVID-19, with less than 2% of the residents in Bridge seniors housing properties contracting the virus.
- At the peak of the pandemic, Bridge closed 30% of the portfolio to new resident move-ins. The majority of these properties were located in cluster locations in the North-East of the United States.
- Eight communities previously closed to new move-ins have now reopened, and the remaining communities closed to new move-ins (less than 15% of the portfolio) are expected to reopen by the end of May.
- Media reports on issues within the US seniors housing community have been focused on issues within the publicly funded skilled nursing (i.e nursing home) sector of the market. This sector has much higher percentages of populations with pre-existing medical conditions and hospice facilities. Being publicly funded, they are also less well-resourced than the private pay sector of the market where Bridge operates.
- Bridge also operates in the Independent Living (IL) and Assisted Living (AL) and Memory Care (MC) sectors of the market, where residents typically are much healthier physically than residents of skilled nursing facilities.

Operations

- April occupancy fell 1.5% to 83.8%, less than the 2% drop previously projected.
- May occupancy is expected to fall less than previously projected, with 116 move-ins already confirmed for May.
- While new leads have fallen by nearly 40% of pre-COVID levels, conversion of new leads to tours, including virtual tours, has increased, further highlighting the needs-based characteristic of seniors housing, even during this challenging time.
- Net Operating Income (NOI) grew by 4.2%, and occupancy grew by 0.3% in Q1 2020, outpacing industry trends.
- There has been no decline in rent collections, and therefore there are no credit losses. Private pay seniors housing residents typically pay their rent on or ahead of the due date, and this has not been impacted, a reflection of the excellent credit quality of private pay seniors housing residents.
- A short-term increase in labour and other costs has been experienced during the pandemic. However

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longer-term, access to good employees and rising labour costs, which had been a headwind prior to COVID-19, are expected to improve as many former service industry employees, particularly from hospitality, and thus with skills that are adaptable to seniors housing, seek re-employment in the sector. Thus, Bridge has seen a dramatic spike in the number of quality potential employees for open positions, meaning that it will need to rely a lot less on labour market introduction intermediaries, which will add to margins.

Financing

- There has been an increase in the portfolio's valuation of approximately US$4M for QI, which will be reflected in the upcoming Partner package and QI NAVs. (Note this valuation increase will be reflected in the May unit price for the Spire feeder fund). This valuation increase was after a downward valuation adjustment was made by Bridge due to forward-looking cash flow projections based on the impact of COVID-19.
- All loans continue to be serviced and no forbearance (i.e mortgage relief) has been applied for.
- The delayed Q4 and Q1 distributions will be paid in June.
- The fund currently has US$130M in uncalled capital, and Bridge anticipates one to two additional capital calls totaling 3-5% in the near future.

Silver Linings

- 2020 is right at the beginning of the anticipated baby boomer wave moving into seniors housing, which will underpin demand for many years to come.
- COVID-19 is expected to have a significant impact on the availability of development financing, and thus there is expected to be a dramatic downward shift in competitive new supply coming to market, which has been a headwind for the fund.
- A more balanced labour market and a tempering of rising labour costs, which has been another headwind.

As all Spire Capital staff are currently working remotely, please address any queries to:

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