FEATURED ARTICLE

THE ANNUAL "LOOK BEHIND…AND LOOK AHEAD": 2023 RECAP & 2024 PREDICTIONS

Each year, we use the early weeks of Ziegler ***Z-News*** to reflect on the year behind us and what to anticipate for the year ahead. Throughout 2023, economic uncertainty reigned as the senior living industry cautiously planned for the much anticipated "silver tsunami" in the hopes of seeing strong occupancy gains, easing pressure on operating margins, and an increase in staffing levels.

A sharp increase in interest rates strongly impacted the lending environment and planned construction activity. The Consumer Price Index closed out the year at 3.4%, and with inflation remaining elevated, rates started creeping upward.

While we did continue to see gains in occupancy over the course of the year, workforce shortages, wage growth, and increased inflationary pressures continued to cause margin compression and forced many communities to significantly increase resident rates. Staffing pressures also caused many providers to rethink their overall unit mix. Some had no choice but to reduce nursing beds; some were forced to reposition nursing beds to assisted living; and others closed their skilled nursing facilities or sold them to another provider.

What can we expect for 2024?

As we head into 2024, the response to last year's economic challenges appears to be somewhat mixed. For some providers, the number of struggling organizations provide an opportunity for both acquisition and affiliation. Others are opting to use this time of elevated interest rates to pause planned projects and focus on organizational repositioning, increased efficiency, and revenue diversification until the lending environment softens. Still, many have opted to forge ahead with expansion and new construction activity to be prepared for the upcoming increase in demand.

So, what do we see as the hot topics and areas of greatest focus as we forge ahead in 2024? The topics below are not mutually exclusive, but represent areas of opportunity, areas in transition, and certainly some areas that will challenge us as a sector.

- **Labor:** Just as many providers were managing to decrease their dependency on agency labor and significantly decrease turnover, CMS released details of their proposed Staffing Mandate[1] and have announced a plan to finalize it in 2024. With admissions to nursing schools still down, as well as the increased competition among various healthcare settings, this mandate could force many providers to further reconsider their census. Some have already opted to reduce or remove skilled nursing units altogether. The mandate could also cause some providers to return to agency use, re-introducing payroll expense pressures. However, slowed wage growth and increased retention as the "Great Resignation" came to an end, will help communities maintain other staff such as maintenance, dining, and housekeeping employees.
- **Revenue and Expense Pressures:** Last year many providers raised their monthly fees and entrance fees to help absorb increased expenses. This, coupled with increased occupancy, helped manage heightened operating costs. This year will likely continue to be a balancing act of avoiding a deficit due to potential increased labor pressures, low reimbursement rates, and slightly elevated inflation, while being careful not to price out of the market.
- **Cost of Capital:** Refinancing will be difficult in the higher interest rate environment. Borrowers who may need to refinance and/or recapitalize loans are facing increased costs to do so, which could motivate them to sell. On the other hand, the potential for interest rate cuts this year could ease the pressure many senior living operators will face as they attempt to work out financing solutions with their lenders. Given the large number of aging senior living properties, interest rate cuts could also encourage action for those looking to renovate, expand, or build to stay relevant for the changing expectations of Baby Boomers in their retirement.
- **Technology:** There are so many ways that senior living providers can invest in technology to help ease challenges and engage in opportunities in the space. Engagement and

workforce related technologies can help recruit, retain, engage, educate, and enhance efficiency in staff. Residents can benefit from the many options to entertain, increase independence, and enhance communication and engagement. This vast space is moving quickly, especially with the recent introduction of AI on some platforms, and it is helpful for organizations to devote resources to stay on top of these technology-enabled innovations. To be competitive in 2024, communities should consider applying a portion of their budget to these technologies to enhance both the staff and resident experience.

- **Skilled Nursing Disruption:** The skilled nursing environment has been challenged for several years now. Along with the staffing shortages and potential finalization of the staffing mandate, the regulatory environment continues to become more intense. Reimbursement levels have not kept up with wage growth, inflation, and the swiftly rising cost of care. Even with several states increasing Medicare and Medicaid rates, they have not been able to keep up with operational expenses, leaving many skilled nursing operators with no choice but to shutter their doors, and continuing care communities shifting their census to reduce the number of beds available. In doing so, many have found ways to adapt, including adding assisted living units that can manage higher acuity residents, increasing the length of stay at this level. As such, many of these organizations have also partnered with nearby skilled nursing providers to provide an easy transition for residents if they need a higher level of care.

- **Continued Affiliation and M&A:** As organizations face the challenges of 2024, many will continue to find strategic ways to stay ahead of the curve. For several years, organizations have found ways to grow through acquisitions or affiliations or have assessed the advantages of a potential sale to right-size its portfolio. Ziegler has tracked nearly 900 not-for-profit communities that have gone through a change of ownership and/or sponsorship since 2015. In 2023, a record number of transactions involved a not-for-profit organization acquiring a for-profit asset. Not-for-profit organizations that have the financial capacity and the ability to work at the board level to quickly respond to these opportunities as they arise can take advantage of this kind of proactive growth. Other organizations have been able to take advantage of affiliations as a strategy for greater scale, while also finding a similar, mission focused, not-for-profit partner to be stronger in their ability to thrive during turbulent times.

The opportunities in 2024 have a lot to do with demand. The industry has long-awaited this new wave of retirees. Industry stakeholders are tasked with planning for a new consumer (including the rising number of middle-income seniors). This will include the need for innovative technology solutions, investment in renovation and building new spaces, finding more ways to serve seniors in their homes and units, as well as ways to grow that enhance the organization's ability to withstand operational pressures from inadequate reimbursement and workforce shortages.

As senior living leadership continues to find creative strategies that can strengthen its organization and mission, Ziegler remains committed to bringing the most up-to-date research, thought leadership, and trend analysis to help educate and aid your team in their 2024 strategic planning process.

If you have questions related to the topics mentioned in this article or other related items, please contact the Ziegler banker in your region.

MEGAN CUNNINGHAM
RESEARCH ANALYST, SENIOR LIVING RESEARCH
ZIEGLER
mcunningham@ziegler.com

1 CMS.gov, HHS Proposes Minimum Staffing Standards to Enhance Safety and Quality in Nursing Homes (Sept. 01.2023)

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF FEBRUARY 9, 2024

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
United Methodist Retirement Homes (UMRH) (NC)	Fitch	BBB Stable	Assigned Rating Affirmed Rating Affirmed IDR*	1/30/24
Moorings Inc. (FL)	Fitch	A Stable	Affirmed Rating Affirmed IDR*	1/31/24
Meadowlark Hills (KS)	Fitch	BB+ Stable	Affirmed Rating Affirmed IDR*	1/31/24
Three Pillars Senior Living Communities (WI)	Fitch	BBB- Negative	Downgraded Rating Rating Watch Assigned IDR*	1/31/24
Montereau, Inc. (OK)	Fitch	BBB- Stable	Affirmed Rating Affirmed IDR*	2/7/24

* *IDR – Issuer Default Rating*

Any non-Ziegler sources referenced in this Z-News are believed to be reliable but cannot be guaranteed.

INTEREST RATES/YIELDS

WEEK ENDING FEBRUARY 9, 2024

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.57%	3.42%	3.68%
Senior Living 30-Yr "A"	5.00%	4.85%	5.26%
Senior Living 30-Yr "BBB"	5.40%	5.25%	5.68%
Senior Living Unrated	6.60%	6.45%	6.59%
Senior Living New Campus	8.00%	7.85%	7.64%
SIFMA Muni Swap Index	3.24%	3.74%	3.42%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
ZSLMLB Index†	5.97%	5.98%	2.41%

† Ziegler Senior Living Municipal Long Bond Index

Source: Bloomberg BVALS

FEATURED FINANCING

PLEASANT VIEW COMMUNITIES

PLEASANT VIEW RETIREMENT COMMUNITIES

Manheim, Pennsylvania

Bank Placement / New Money

$18,900,000

February, 2024

MARKET REVIEW

MONEY MARKET RATES

	02/09	Last week
Prime Rate	8.50	8.50
Federal Funds (weekly average)	5.31	5.31
90 Day T-Bills	5.38	5.36
30-Day Commercial Paper (taxable)	5.33	5.31
Libor (30-day)	5.43	5.43
SOFR	5.31	5.32
7 Day Tax-Exempt VRDB	3.24	3.74
Daily Rate Average	2.57	2.66

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A
2 Year	4.45	4.95
5 Year	4.11	4.96
7 Year	4.15	5.30
10 Year	4.15	5.60
30 Year	4.35	6.25

	MMD	NR*	BB	BBB	A	AAA
1 Year	2.97	5.22	4.87	3.97	3.22	3.07
5 Year	2.41	4.76	4.41	3.56	2.81	2.56
7 Year	2.41	4.81	4.51	3.66	2.91	2.61
10 Year	2.43	4.88	4.63	3.78	3.03	2.63
30 Year	3.57	6.57	5.97	5.07	4.32	3.87

(Representative of institutional sales)*

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE
20 Bond Index	3.49	3.34	+0.15
11 Bond Index	3.39	3.24	+0.15
Revenue Bond Index	3.77	3.62	+0.15
30 Year MMD	3.57	3.42	+0.15
Weekly Tax-Exempt Volume (Bil)	4.89	3.00	+1.89
30 Day T/E Visible Supply (Bil)	5.52	7.38	-1.86
30 year “A” Rated Hospitals as a % of 30 Year Treasuries	99.3	100.2	-0.90

Source: Bloomberg