

January 15, 2010

FEATURED ARTICLE

A RATINGS UPDATE

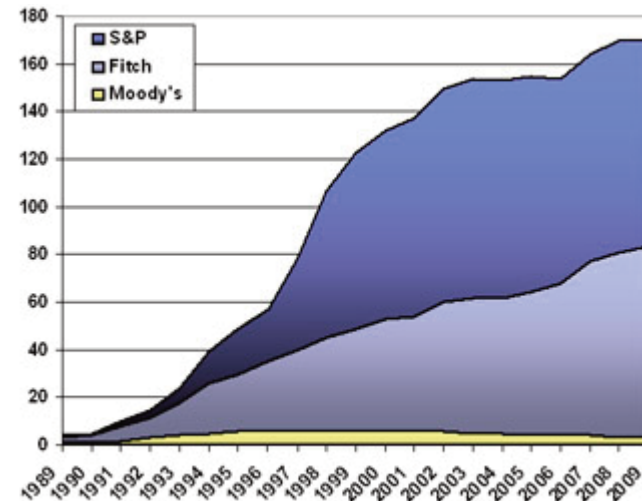
As the release of many year-end economic indicators rounds out 2009, we use this time to reflect on key indicators in the senior living sector. This week, we review ratings activity in 2009, including: (1) the number of new ratings, (2) how existing senior living debt ratings fared during the year (i.e., upgrades and downgrades), and (3) the ratings outlook for the future.

The number of senior living organizations with rated debt continues to grow, though the pace of growth has definitely slowed, clearly reflecting the current economic climate. While there are generally five to ten new senior living debt ratings per year, in 2009 there were just two ratings issued. New ratings in 2009: Atherton Baptist Homes (CA) and La Vida Llena (NM). Atherton Baptist Homes received a “BB” rating and La Vida Llena, a “BBB” rating. As we’ve noted before, the rating agencies want to see a history of strong performance before giving an investment grade rating (“BBB” category or above) so ratings are typically reserved for mature, stable communities, not newly opened communities. Today, approximately 30 percent of the senior living ratings are in the “A” category; 61 percent of the ratings are in the “BBB” category.

The total number of senior living organizations with rated debt as of December 31 was 153, although **Standard & Poor’s (S&P)**, **Fitch Ratings** and **Moody’s** have 171 active ratings as of this date: 18 organizations have their debt rated by more than one rating agency. S&P and Fitch continue to dominate senior living ratings as the chart below shows. Both of the new ratings in 2009 were from Fitch Ratings. Moody’s, an active rating agency for hospital and health system ratings, continues to maintain just three senior living ratings; it hasn’t issued a new senior living rating since 1995.

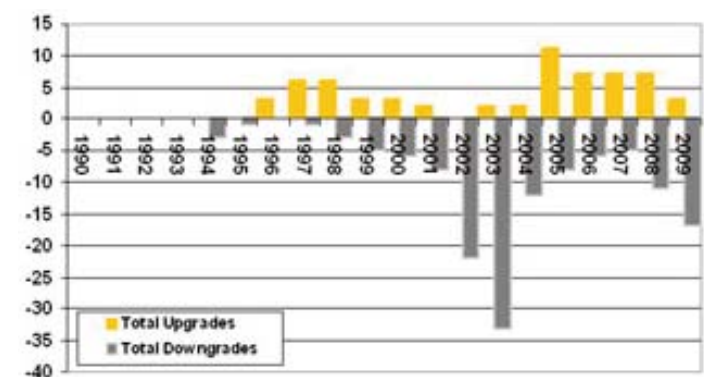
The economic climate is impacting not only new ratings but also the ratings of existing organizations. The vast majority of senior living organizations with rated debt, both single-site and multi-site, operate primarily CCRCs (as opposed to primarily stand-alone nursing or assisted living). While most CCRCs experienced solid operating results in 2007, investment returns, liquidity and operating performance of senior living providers were challenged in 2008 and 2009, and the downgrades shown below reflect this. Per Dan Hermann, Senior Managing Director & Group Head of Senior Living for Ziegler Capital Markets, “As we’ve worked with the rating agencies through the past 18 months, the importance of communication between bankers and rating agencies—always important, of course—is paramount.” Monitoring performance so that rating agencies can be notified if covenants are in danger of being tripped is critical. Declining liquidity, poor investment returns, and/or other negative operating performance may or may not impact a rating and a combination of factors will ultimately determine whether the rating is actually affected.

Not-For-Profit Senior Living Credit Rating Trends Cumulative Senior Living Ratings



A large number of downgrades occurred in the late 1990’s and early 2000’s, but 2005 had marked a reversal of the trend. Unfortunately, the pattern is once again changing so that downgrades have outpaced upgrades for two consecutive years. The increasing number of downgrades shown on the chart below isn’t a surprise given the economic climate; however, many senior living providers have taken decisive steps and made tough decisions to ensure that the quality of care is maintained while the negative impact of the current economy on operating results is minimized.

Not-For-Profit Senior Living Credit Rating Trends Incremental Upgrades and Downgrades



Ziegler closely monitors ratings activity and we will continue to convey to **Z-News** readers trends that we observe throughout the year. We encourage you to contact the Ziegler banker in your region if you have any questions or comments.

We’ve learned that many senior living providers have staff with family ties to Haiti. Our hearts go out to those in Haiti and all those affected by this horrible tragedy. We encourage all to respond with prayers and support, if possible.

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