

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

CONFERENCE RECAP: THE 2023 STATE OF NOT-FOR-PROFIT SENIOR LIVING & CARE

Last week, Ziegler hosted its **26th Annual Senior Living Finance + Strategy Conference** at the Omni Orlando Resort at Championsgate in Florida. In Thursday's opening general session, Ziegler team members presented the annual "State of Senior Living & Senior Living Capital Markets." In this issue of **Z-News**, we recap the key trends, latest industry research, market and economic indicators that were highlighted in this opening session.

The session is divided into two core sections, the trends portion and then the capital markets segment. Ziegler's Dan Hermann and Lisa McCracken presented on the key sector trends such as demographics, workforce trends, sector growth and technology among others. Highlights from these trends are summarized below.

- Demographic Trends:** Across the next 10 years, the U.S. population 75 and older will grow by another 11.7 million individuals, furthering the wave of Baby Boomers who will be accessing housing and services in the years to come. Providers will need to be on top of the changing consumer preferences and characteristics in order to pivot accordingly.
- Senior Living & Care Workforce:** While the workforce headwinds continue, many providers are reporting decreased agency usage and improvements in the rate of wage escalation compared to one year ago. Nonetheless, demographic trends will necessitate ongoing innovation with new staffing models and technologies that make us operationally smarter.
- Not-for-Profit Sector Growth:** During this section, multiple key growth trends were detailed. For not-for-profit provider organizations, the primary growth strategies in recent years have been community expansions and merger/acquisition/affiliation activity. The sector has been gradually consolidating over the past decade, while at the same time, new community development among not-for-profits has slowed down considerably. This is the reverse trend to what is being observed among the for-profit owners and operators whereby much of the growth has been through the development of new communities primarily comprised of Independent Living, Assisted Living and Memory Care.
- Skilled Nursing Environment:** There have been a significant number of freestanding, not-for-profit nursing homes sold to the for-profit sector. At the same time, many Life Plan Communities have downsized their skilled nursing footprint, with greater rotation to IL, AL and MC offerings. This particular service line has been impacted by workforce pressures, an increasingly difficult regulatory environment, changing hospital referral patterns and reimbursement shortfall among others. The aging population will demand services, but when, how and where they receive those services is indeed shifting.
- Ancillary Service Lines:** The emergence of home and community-based services continues to unfold as roughly 45% of not-for-profit providers have some type of commitment to these services. Additionally, as providers continue to look for additional revenue and complementary services to core businesses, providers have invested in ancillary businesses such as pharmacy, technology, physician practices, third-party management, and more.
- Technology:** Technology is the over-arching trend that aligns with every other trend unfolding in the sector. Attendees were encouraged to align technology adoption and innovation with the organization's strategic goals.

The *State of the Senior Living Capital Markets* section was presented by Ziegler's Kevin Strom, Mary Muñoz and Brandon Powell. The highlights of the activity in the bank marketplace, fixed-rate tax-exempt bond environment, and overall economic landscape are noted below.

- Senior Living Bank Market:** The overall volume for senior living financings this year have been down compared to recent years and the bank market has been no exception. The rising interest rates have obviously led to higher borrowing rates, but in addition to that, for some provider organizations, it has been difficult to access capital with banks. Nearly all banks today have stricter lending policies and select banks are only lending to existing customers or have temporarily stopped lending. As banks are looking to increase cash reserves, there

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is a big focus on deposits. The past five years has also seen consolidation in the banking world, thus there are fewer banks participating in the senior living & care sector than in years' past. Banks will continue to remain a viable alternative for senior living organizations, but the structure of the deals and work to get the deals done is more complex in today's interest-rate environment.

- **Financial Performance & Credit:** Ziegler's Mary Muñoz reviewed recently released financial medians. Across the past year, liquidity declined on average as most stimulus funding ended and capital markets were volatile. There is increased focus on profitability, refocusing on the basics. Muñoz emphasized that track record and performance history are critical topics in today's environment where capital is less plentiful, and at a higher cost, than in recent years. Roughly 20% of Life Plan Communities are rated, with roughly the same number of rated organizations as one year ago.
- **Tax-Exempt Bond Market:** Similar to the bank marketplace, fixed-rate, tax-exempt volume is down significantly. The municipal bond market has experienced significant cash outflows this past year, which leads to more scarce capital and higher borrowing costs. The highest borrowing costs, roughly in the 7.7% range for a 30-year maturity, are for unrated borrowers and new campus projects.
- **Economic Outlook:** The capital markets in the U.S. is clearly a function of the global marketplace as well. Ziegler's Strom

provided perspective on other key markets such as Europe and Japan related to growth and inflationary trending. The Federal Reserve, at their meeting last week, held rates for now, however it is anticipated, but debated, whether one additional increase lies ahead before the end of the year. Uncertainties such as the potential government shutdown and striking auto workers, among other influences on the market, can shape future activity by the Federal Reserve. Strom also noted that while current rates are above record-lows seen in the past several years, we are at 30-year averages and still below record double-digit borrowing costs from decades' past.

Ziegler attendees will have full access to the conference materials for this opening general session, as well as the 20+ breakout sessions from the conference. Once again, we thank the more than 75 guest speakers who partnered with the Ziegler team members to make this year's educational component among the best.

If you have any questions regarding this year's conference or other related matters, we encourage you to reach out to the Ziegler representative in your region.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF SEPTEMBER 25, 2023

| ORGANIZATION | RATING AGENCY | RATING/ OUTLOOK | TYPE OF ACTION | DATE |
|---------------------------|---------------|-----------------|---|---------|
| EHM Senior Solutions (MI) | Fitch | BB Stable | Affirmed Rating Affirmed IDR* Revised Outlook | 9/18/23 |
| Plymouth Place (IL) | Fitch | BB+ Stable | Affirmed Rating Affirmed IDR* | 9/20/23 |
| Friendship Village (MO) | Fitch | BB+ Stable | Affirmed Rating Affirmed IDR* | 9/25/23 |

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* 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 SEPTEMBER 22, 2023

| | CURRENT | LAST WEEK | 52-WK AVG |
|---------------------------|---------|-----------|-----------|
| 30-Yr MMD | 4.07% | 3.94% | 3.56% |
| Senior Living 30-Yr “A” | 5.73% | 5.60% | 5.19% |
| Senior Living 30-Yr “BBB” | 6.13% | 6.00% | 5.60% |
| Senior Living Unrated | 6.93% | 6.80% | 6.40% |
| Senior Living New Campus | 7.83% | 7.70% | 7.35% |
| SIFMA Muni Swap Index | 4.31% | 2.97% | 3.00% |

| | CURRENT | WEEKLY AVERAGE | SPREAD TO MMD |
|---------------------------|---------|----------------|---------------|
| ZSLMLB Index [†] | 6.26% | 6.17% | 2.10% |

[†] Ziegler Senior Living Municipal Long Bond Index

Source: Bloomberg BVALS

MARKET REVIEW

MONEY MARKET RATES

| | 09/22 | Last week |
|-----------------------------------|-------|-----------|
| Prime Rate | 8.50 | 8.50 |
| Federal Funds (weekly average) | 5.31 | 5.31 |
| 90 Day T-Bills | 5.47 | 5.46 |
| 30-Day Commercial Paper (taxable) | 5.29 | 5.28 |
| Libor (30-day) | 5.43 | 5.44 |
| SOFR | 5.30 | 5.31 |
| 7 Day Tax-Exempt VRDB | 4.31 | 2.97 |
| Daily Rate Average | 4.47 | 2.73 |

COMPARATIVE YIELDS

TAXABLE REVENUE

| | GOVT | A | | MMD | NR* | BB | BBB | A | AAA |
|---------|------|------|---------|------|------|------|------|------|------|
| 2 Year | 5.14 | 5.89 | 1 Year | 3.42 | 5.67 | 5.37 | 4.77 | 3.72 | 3.52 |
| 5 Year | 4.62 | 5.67 | 5 Year | 3.10 | 5.45 | 5.15 | 4.55 | 3.60 | 3.25 |
| 7 Year | 4.58 | 5.88 | 7 Year | 3.09 | 5.54 | 5.24 | 4.64 | 3.74 | 3.29 |
| 10 Year | 4.49 | 6.19 | 10 Year | 3.16 | 5.86 | 5.41 | 4.81 | 3.91 | 3.46 |
| 30 Year | 4.57 | 6.82 | 30 Year | 4.07 | 7.07 | 6.47 | 5.87 | 5.07 | 4.57 |

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

| | THIS WEEK | LAST WEEK | CHANGE |
|--|-----------|-----------|--------|
| Bond Buyer | | | |
| 20 Bond Index | 3.90 | 3.87 | +0.03 |
| 11 Bond Index | 3.80 | 3.77 | +0.03 |
| Revenue Bond Index | 4.18 | 4.15 | +0.03 |
| 30 Year MMD | 4.07 | 3.94 | +0.13 |
| Weekly Tax-Exempt Volume (Bil) | 3.58 | 1.24 | +2.34 |
| 30 Day T/E Visible Supply (Bil) | 7.45 | 6.09 | +1.36 |
| 30 year "A" Rated Hospitals as a % of 30 Year Treasuries | 110.9 | 112.7 | -1.80 |

Source: Bloomberg