ZIEGLER INVESTMENT BANKING
SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY
FROM A CAPITAL MARKETS PERSPECTIVE

Despite the holiday shortened week, stock prices increased and began 2017 in positive territory. Good economic data and the expectation of strong quarterly earnings reports helped all major indexes finish the week on a strong note. In a reversal of post Trump victory investor sentiment, the technology-heavy Nasdaq Composite Index outperformed the broader market. The blue chip focused Dow Jones Industrial Average, which had outperformed strongly since the November elections, dawdled and again failed to eclipse the psychological 20,000 milestone—the DJIA peaked at 19,999 late Friday before fading back.

The dovish Fed's minutes resulted in prices of Treasuries moving higher a reduction in their yields lower on the week. The investment-grade corporate bond market calendar was large. There was a slew of new deals that beat estimates and resulted in the biggest first week of issuance on record. Overall, the new issues were well received, as investor demand kept pace with the swell in supply. Despite some oil price volatility and weakness in other sectors, debt instruments from energy-related issuers had strong price performance. The high yield corporate bond market traded with a positive tone, unlike the high grade market volume was light in the absence of new issuance, which is expected to increase next week.

As for municipals, light new issue supply resulted in gains on the week. The 10-year MMD closed the week eight basis points lower at 2.24%, while 30-year MMD was five basis point higher, finishing at 3.00%. Cash outflows continued, tax-exempt mutual funds experienced outflows of $911 million, resulting in the four-week moving average of $1.63 billion out.

ADAM J. BUCHANAN
SENIOR VICE PRESIDENT

See pages 4-5 for current market rates
Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.

FEATURED ARTICLE

THE ANNUAL "LOOK BEHIND...AND LOOK AHEAD": PART II - 2017 KEY TRENDS

In last week's issue of ***Z-News***, we took a look behind at 2016; what the state of the capital lending market presented itself to be for those seeking tax-exempt bond financings or those opting for bank credit. This week's issue takes a strategic look at what key issues we see on the horizon for providers in 2017. Without a doubt, there are many significant trends that are impacting senior living organizations, from the uncertainty over the future of the Affordable Care Act to workforce challenges to the increasing consolidation of our sector. The key themes that Ziegler is tracking for the not-for-profit senior living sector includes:

- **Competition**-The number of choices for today's seniors is greater than ever
- **Technology**- It is shaping how and where we provide services
- **Post-acute**- The post-acute space has becoming increasingly complex
- **Workforce**- Providers are working hard to negate staffing shortages through innovative recruitment and retention strategies
- **Consolidation**- The affiliation activity remains high and will continue throughout 2017
- **Competitive borrowing rates**- Not-for-profit senior living organizations continue to benefit from favorable borrowing rates
- **Push not pull**: Gone are the days where senior living providers are going to be pulled by others toward growth

Competition: There is little doubt that today's consumer, whether it is an older adult in need of support or a family member/caregiver looking for alternatives, there is a plethora of choices from residential to non-residential options. Growth of new residential locations among for-profit developers and operators has been significant in recent years and this pace is expected to continue into 2017. Additionally, with evolving technologies and additional at-home services, today's older adult has a wide array of non-residential options to meet their needs as well.

Technology: One could argue that we are still on the cusp of technological innovation around solutions for aging. We know that in 2015, one of the top positions added among not-for-profit senior living organizations was a Chief Information/Technology Officer. Organizations need to have a strategic owner of the technology demands and needs within their organization. This area is also a great opportunity for providers to foster relationships with the technology innovators and entrepreneurs.

Post-acute: This topic could be an entire ***Z-News*** on its own. A ***Ziegler CFO Hotline***SM poll from 2016 showed that the vast majority of providers are feeling significant pressures in their post-acute business including shorter length of stays, increased patient acuity, and in many cases, decreased reimbursement. This business is increasingly complex and with the uncertainty around the future of the Affordable Care Act, we anticipate that the tumult will continue into 2017.

Workforce: As the population ages and the number of qualified staff decreases, many fields will experience shortages in the number of potential workers. This is compounded by low unemployment rates in many areas of the country and rising wage pressures (minimum wage hikes). Providers are forging relationships with educational institutions and colleges to increase awareness of career possibilities in senior living and develop a stream of future staff to the field. Throughout 2017, organizations will need to commit resources to effective recruitment and retention strategies and will need to think about innovative partnerships to mitigate workforce shortages.

Consolidation: In 2016, the not-for-profit sector set another record for the number of affiliations, acquisitions and dispositions. While the year-end transactions are still coming in, the number of not-for-profits that changed sponsorship/ownership is well over 80. Many of these continue to be dispositions to the for-profit side of senior living, but we are observing a shift in the number of not-for-profit to not-for-profit affiliations. These strategic affiliations are increasing in proportion to the number of dispositions to for-profit purchasers. The drivers are related to the many items outlined in this particular article (technology, pressures from competition, post-acute stressors).

Competitive borrowing rates: Without a doubt, 2016 delivered a period of phenomenal borrowing rates for senior living providers. While the historic rates of the summer of 2016 may not replicate in 2017, January rates are showing that the cost of capital for not-for-profit providers remains very competitive against historical figures. Providers will continue to tap into bank and fixed-rate bond debt to refinance or access new money for expansion and repositioning projects. We will see what the Trump-Pence administration delivers to the economy, but we feel that 2017 will continue to provide healthy capital options for the senior living sector.

Push not pull: The final trend, to make note of, is the inherent need for providers to drive growth from within. Many not-for-profit senior living organizations grew out of grassroots efforts to build a local community or from congregations reaching out to existing organizations and saying, 'build in our town.' Those situations are rare today for many reasons. Growth is coming from existing not-for-profits and when not-for-profits do not fill the void, for-profits are quick to move in and do it. There needs to be intentional growth from the not-for-profit sector. Organizations cannot sit back and wait to be pulled to growth. That approach results in a game of catch-up and missed opportunity

Without a doubt, 2016 was a dynamic year in many ways. Many of the 2016 trends will continue to evolve throughout 2017 and we will track each of them as they develop. We are optimistic about what the future holds for the not-for-profit sector in the year ahead.

For more information on Ziegler, or anything included in this article, please contact the Ziegler banker in your region.

LISA MCCRACKEN
SENIOR VICE PRESIDENT
SENIOR LIVING RESEARCH & DEVELOPMENT

PARTICIPATE IN A STUDY OF RESIDENT ENGAGEMENT IN DECISION-MAKING AND TRANSPARENCY IN LIFE PLAN COMMUNITIES

Mather LifeWays Institute on Aging is conducting a study of the ways in which Life Plan Community staff experience and respond to resident interest in transparency and involvement in decision-making within their communities. We'd like to learn from you and others in our industry to identify best practices. We suggest the survey be completed by an Executive Director or someone in a similar role. As a "thank you" for participation in our brief survey, **a complimentary copy of the final aggregate report will be provided to those who take part in the study**.

Click this link to access the survey.

We'd like to thank American Seniors Housing Association, LeadingAge, Ziegler, and Novare for their support of this study. Novare is a consortium of single-site and small-system Life Plan Community providers, whose mission is to accelerate member potential through peer-inspiring, collaborative leadership. If you have any questions, please contact Cate O'Brien at 847-492-6803 or cobrien@matherlifeways.com. Thank you in advance for your time.

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

JANUARY 2-6, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
No Ratings to Report This Week				

This ratings table represents review of the reports released by Fitch Ratings, Standard & Poor's, and Moody's Investors Service and has been compiled by Ziegler Investment Banking.

INTEREST RATES

FOR THE WEEK ENDING JANUARY 6, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.00%	3.04%	2.55%
Senior Living 30-Yr "A"	4.40%	4.50%	3.49%
Senior Living 30-Yr "BBB"	4.75%	4.85%	3.84%
Senior Living Unrated	5.45%	5.50%	4.70%
Senior Living New Campus	6.75%	6.75%	6.39%
SIFMA Muni Swap Index	0.68%	0.72%	0.43%

Source: Ziegler Capital Markets

MARKET REVIEW

MONEY MARKET RATES

	1/6/17	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	3.75	3.75	3.50	3.25
Federal Funds (weekly average)	0.62	0.62	0.41	0.35
90 Day T-Bills	0.51	0.51	0.50	0.19
30-Day Commercial Paper (taxable)	0.62	0.63	0.54	0.31
Libor (30-day)	0.76	0.77	0.65	0.42
7 Day Tax-Exempt VRDB	0.68	0.73	0.57	0.02
Daily Rate Average	0.65	0.75	0.50	0.01

COMPARATIVE YIELDS

	GOVT.	TAXABLE REVENUE		BAB
		NR*	A	A
1 Year	0.82	2.25	1.55	1.60
5 Year	1.92	4.00	3.90	3.95
7 Year	2.22	4.50	4.40	4.45
10 Year	2.41	4.75	4.50	4.60
30 Year	3.00	6.25	4.60	4.65

	TAX-EXEMPT REVENUE					
	MMD	NR**	NR*	BBB	A	AAA
1 Year	0.97	2.50	2.00	2.05	1.65	1.10
5 Year	1.72	3.85	3.75	3.15	2.75	2.10
10 Year	2.24	4.75	4.75	3.95	3.60	2.85
15 Year	2.63	5.10	5.25	3.40	4.05	3.35
30 Year	3.00	5.45	6.00	4.75	4.40	3.55
5 year EXTRA			4.25			

(Representative of recent non-rated issues underwritten by Ziegler retail sales); (** Representative of institutional sales.)*

TAX-EXEMPT MARKET INDICATORS

				2017	
Bond Buyer	THIS WEEK	LAST WEEK	CHANGE	HIGH	LOW
20 Bond Index	3.78	3.78	.00	3.78	3.78
11 Bond Index	3.31	3.31	.00	3.31	3.31
Revenue Bond Index	3.90	3.90	.00	3.90	3.90
30 Year MMD	3.00	3.04	-.04	3.00	3.00
Weekly Tax-Exempt Volume (Bil)	2.92	.40	+2.52	2.92	2.92
30 Day T/E Visible Supply (Bil)	13.37	7.85	+5.52	13.37	13.37
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	146.66	147.05	-.39	146.66%	146.66%

Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.

INTEREST RATE COMPARISON

DATE	7-DAY T/E VRDB	PRIME RATE	FED FUNDS WEEKLY AVG.	13-WEEK T-BILL RATE	C.P.RATE TAXABLE	LIBOR (30-DAY)	30-YEAR T/E BONDS (A-AAA)
01/06/17	0.68	3.75	0.62	0.51	0.62	0.76	4.40 - 3.55
12/30/16	0.72	3.75	0.62	0.51	0.63	0.77	4.50 - 3.60
12/23/16	0.73	3.75	0.66	0.50	0.43	0.76	4.65 - 3.70
12/16/16	0.55	3.75	0.47	0.50	0.66	0.70	4.60 - 3.70
12/09/16	0.57	3.50	0.41	0.50	0.54	0.65	4.55 - 3.60
12/02/16	0.56	3.50	0.38	0.47	0.50	0.62	4.80 - 3.85
11/25/16	0.55	3.50	0.41	0.48	0.25	0.60	4.55 - 3.60
11/18/16	0.55	3.50	0.41	0.42	0.43	0.55	4.35 - 3.45
11/11/16	0.55	3.50	0.41	0.46	0.41	0.53	3.90 - 3.10
11/04/16	0.56	3.50	0.38	0.37	0.40	0.53	3.55 - 2.85
10/28/16	0.63	3.50	0.41	0.28	0.41	0.53	3.70 - 2.90
10/21/16	0.74	3.50	0.40	0.33	0.41	0.52	3.30 - 2.80
10/07/16	0.87	3.50	0.40	0.31	0.39	0.52	3.30 - 2.75
09/02/16	0.56	3.50	0.38	0.32	0.39	0.52	2.75 - 2.40
08/05/16	0.44	3.50	0.40	0.26	0.36	0.49	2.90 - 2.45
07/01/06	0.41	3.50	0.39	0.25	0.37	0.46	2.85 - 2.35
06/03/16	0.39	3.50	0.35	0.27	0.38	0.46	3.20 - 2.70
05/06/16	0.39	3.50	0.37	0.18	0.34	0.43	3.30 - 2.90
04/01/16	0.40	3.50	0.35	0.22	0.33	0.43	3.60 - 3.10
03/04/16	0.02	3.50	0.35	0.26	0.36	0.43	3.85 - 3.30
02/05/16	0.02	3.50	0.37	0.28	0.34	0.42	3.65 - 3.15
01/08/16	0.02	3.50	0.35	0.35	0.31	0.42	3.85 - 3.20

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