

# ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

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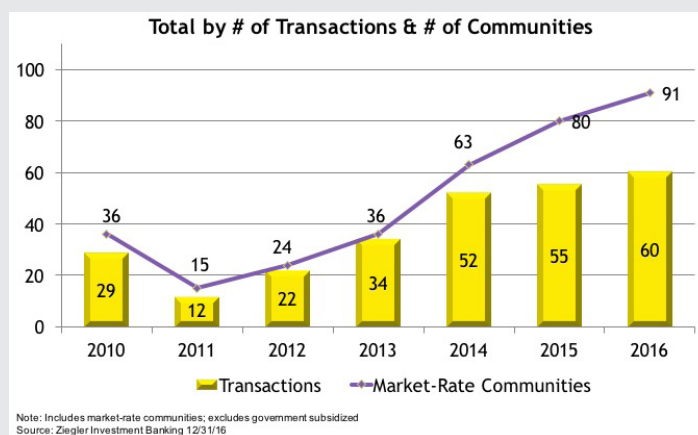
## FEATURED ARTICLE

### 2016 SETS NEW RECORD FOR NOT-FOR-PROFIT SPONSORSHIP TRANSITION ACTIVITY

Although the final numbers are still being tallied, overall merger and acquisition activity in 2016 for seniors housing was at a slightly lesser pace than in 2015. Conversely, the not-for-profit senior living sector saw record activity by year's end. Sponsorship transitions, the term utilized to explain the unique characteristics of not-for-profit affiliations, acquisitions and dispositions, exceeded last year's levels by the fall and several year-end transactions lifted 2016 totals beyond any recent years. It is also anticipated that additional sponsorship transitions will be identified in the coming months and added to the 2016 year-end totals, pushing the final figures even higher.

As shown below, more than 91 not-for-profit communities changed sponsor/owner status in 2016. This does not include government-subsidized properties or those owned and operated by local governments (e.g. the county homes). When looking at the graph below, the number of transactions stands at 60. Of those 60 transactions, roughly half (49%) were not-for-profit dispositions to the for-profit sector. That is a smaller percentage than in recent years as the proportion of not-for-profit to not-for-profit transactions is increasing. Additionally, 2016 saw a larger number of not-for-profit organizations acquiring for-profit assets. (Note that one transaction can represent more than one community. In the instance of a multi-site affiliation, that would count as one transaction, but would represent multiple communities, as evidenced by the purple line.)

NOT-FOR-PROFIT CHANGE OF OWNER/SPONSOR AFFILIATIONS, DISPOSITIONS, ACQUISITIONS, CLOSURES



#### Why the Increased Activity?

This increased activity is not necessarily a surprise as many of the drivers from recent years remain in place and are arguably exerting greater pressures than in previous times. Additionally, not-for-profit senior living has often followed several years behind the hospital and health system trends, which saw its consolidation activity peak a few years ago. There are a few key drivers that are contributing to the increased pace in the not-for-profit sector.

- **Complexities of healthcare:** The ongoing implementation of healthcare reform, payment reform, and the changing skilled nursing landscape is putting increased pressure on providers. Scale and the ability to have in-house experts related to this service line are increasingly important.
- **Leadership turnover:** As the Boomers enter retirement age, many C-suite executives are among them. Retirements of a tenured CEO are often triggering affiliation conversations in conjunction with an executive search.

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- **Competition:** The reality is, today's consumer has more choices than ever. The pace of for-profit growth in recent years has been significant and has placed added competitive pressures on some not-for-profits for both residents and staff.
- **Ability to attract talent:** Larger organizations generally have more resources to devote to competitive compensation and benefits packages. Additionally, as young prospects search for professional development opportunities and an internal career ladder, they are more likely to look to the larger organizations that can offer those opportunities.
- **Technology demands:** Technology not only requires financial resources, but it also demands in-house expertise, particularly at the strategic level.
- **Hospital consolidation pressure:** The consolidation of local hospitals and health systems is having a ripple effect in senior living. Regional health systems will look to partner with regional post-acute providers.
- **Growth capital:** Growth requires capital. This can be built-up over a number of years, but if an organization has a constrained organizational structure and limited ability to transfer cash to a growth fund, the ability to grow will be limited.

It is important to note that today's not-for-profit affiliations are increasingly driven by strategic motives rather than financial distress. While some may be feeling financial pressures, the forced sales or affiliations because of poor financial performance are less than during the height of the recession. This is evidenced by the increase in the percentage of not-for-profit to not-for-profit affiliations as well as an increasing number of not-for-profits who are acquiring for-profit facilities.

Ziegler will continue to track and push-out additional information on not-for-profit sponsorship transitions throughout the coming months, digging deeper into setting types (e.g. Life Plan Communities, Assisted Living, etc.) and geographic distribution.

For questions about not-for-profit sponsorship transitions or anything included in this article, please contact the Ziegler banker in your region.

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SENIOR VICE PRESIDENT  
SENIOR LIVING RESEARCH & DEVELOPMENT

**NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS**

JANUARY 24-30, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Covenant Retirement Communities (IL)	Fitch	BBB+ Positive	Affirmed Rating	1/26/17
East Ridge Retirement Village (FL)	Fitch	BB Negative	Affirmed Rating Revised Outlook	1/26/17
Active Living & Wellness Communities dba Aberdeen Heights (MO)	Fitch	BB Stable	Assigned Rating	1/27/17

*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.*

**FEATURED FINANCING**

**\$3,587,673**

Refunding, Bank Direct Purchase

**EDGEWOOD SUMMIT**

Charleston, West Virginia

**INTEREST RATES**

FOR THE WEEK ENDING JANUARY 27, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.08%	3.06%	2.56%
Senior Living 30-Yr "A"	4.35%	4.30%	3.52%
Senior Living 30-Yr "BBB"	4.70%	4.70%	3.87%
Senior Living Unrated	5.30%	5.35%	4.71%
Senior Living New Campus	6.75%	6.75%	6.38%
SIFMA Muni Swap Index	0.66%	0.66%	0.47%

*Source: Ziegler Capital Markets*

## MARKET REVIEW

**MONEY MARKET RATES**

	<u>1/27/17</u>	<u>1 WEEK AGO</u>	<u>1 MONTH AGO</u>	<u>1 YEAR AGO</u>
Prime Rate	3.75	3.75	3.50	3.50
Federal Funds (weekly average)	0.67	0.67	0.62	0.35
90 Day T-Bills	0.50	0.50	0.51	0.31
30-Day Commercial Paper (taxable)	0.63	0.65	0.63	0.34
Libor (30-day)	0.77	0.77	0.77	0.42
7 Day Tax-Exempt VRDB	0.66	0.66	0.72	0.02
Daily Rate Average	0.65	0.65	0.75	0.01

**COMPARATIVE YIELDS**

	GOVT.	TAXABLE REVENUE				TAX-EXEMPT REVENUE					
		<u>NR*</u>	<u>A</u>	<u>BAB</u>		<u>MMD</u>	<u>NR**</u>	<u>NR*</u>	<u>BBB</u>	<u>A</u>	<u>AAA</u>
1 Year	0.79	2.25	1.50	1.55	1 Year	0.90	2.55	2.00	2.00	1.65	1.05
5 Year	1.96	4.00	3.90	3.95	5 Year	1.66	3.70	3.75	3.05	2.70	2.10
7 Year	2.30	4.50	4.40	4.45	10 Year	2.33	4.65	4.70	3.95	3.50	2.85
10 Year	2.50	4.75	4.50	4.55	15 Year	2.75	5.00	5.00	4.40	4.00	3.35
30 Year	3.08	6.25	4.55	4.60	30 Year	3.08	5.30	5.25	4.70	4.35	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**

	<u>THIS WEEK</u>	<u>LAST WEEK</u>	<u>CHANGE</u>	<b>2017</b>	
				<u>HIGH</u>	<u>LOW</u>
Bond Buyer					
20 Bond Index	3.87	3.83	+0.04	3.87	3.72
11 Bond Index	3.37	3.35	+0.02	3.37	3.25
Revenue Bond Index	4.02	3.96	+0.06	4.02	3.83
30 Year MMD	3.08	3.06	+0.02	3.10	2.88
Weekly Tax-Exempt Volume (Bil)	4.67	7.39	-2.62	7.39	2.92
30 Day T/E Visible Supply (Bil)	6.24	7.87	-1.63	13.37	7.87
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	141.23	141.44	-.12	147.05%	141.44%

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)		
01/27/17	0.66	3.75	0.67	0.50	0.63	0.77	4.35	-	3.55
01/20/17	0.66	3.75	0.67	0.50	0.65	0.77	4.30	-	3.50
01/13/17	0.67	3.75	0.66	0.51	0.61	0.76	4.20	-	3.40
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
10/07/16	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

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