

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

Equities markets recorded gains for the week, with the Nasdaq Composite leading the way to the tune of an 8.5% week-over-week return. The Standard & Poor's 500 Index continued its record-breaking run without a daily change of plus or minus 1%. The swelling expectations for the Fed to adjust rates higher, sooner rather than later, lifted the financial sector to solid returns. Depository banks that would benefit the most from higher interest margins led the way. Strong performance from biotechnology and pharmaceutical stocks drove gains for the health care sector. U.S. economic data releases were predominantly positive. Retail sales increased 0.6% in January and the core consumer price index rose 0.3% during the first month of 2017. The tone from the Janet Yellen and the FOMC was hawkish, raising the odds of a rate increase at a Fed policy meeting before June.

The bond markets were mixed, U.S. Treasury yields finished the week a little changed as a Friday rally drove yields lower, offsetting yield increases earlier in the week. Treasury yields inside three years were mostly unchanged, while the rest of the Treasury yield curve was only 1 to 3 basis points higher. Tax-exempts significantly underperformed Treasuries last week. 10-year MMD finished the week 13 basis points higher at 2.41%, while 30-year MMD moved 8 basis points higher to finish at 3.14%. Total new issuance for this holiday shortened week is estimated at only \$3.6 billion. Tax-exempt bond fund flows were reasonably strong again with \$480 million of inflows reported last week.

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.

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FEATURED ARTICLE

ZIEGLER CFO HOTLINESM POLLS: A YEAR IN REVIEW

For more than 10 years, Ziegler has conducted *Ziegler CFO Hotline*SM surveys that focus on issues affecting the senior living sector and topics of importance to senior living providers and industry specialists. This issue of *Z-News* recaps the CFO Hotline surveys conducted in 2016. There were a total of six different polls ranging from Resident Financial Assessments to Staffing Pressures to Community Investment Policies. Below is a list of the surveys and topics covered this past year, along with a snapshot of some of the key takeaways.

- ***Ongoing Resident Financial Assessments***
Overall, 7 out of 10 organizations use an internal/self-developed assessment tool; 27% use software from an external source; and the remainder use some other approach. There are mixed observations among providers relating to changes in Independent Living residents' ongoing financial status: 46% do not see a change; 43% feel resident financial assets are down; and 11% see an increase from prior generations. On average, 54% of residents are estimated to come in with a pension -- this is less than 10 years ago.
- ***Staffing Pressures***
In the last year, senior living organizations have felt the impact of staffing shortages and the lack of talent. Roughly 73% indicated moderate to significant staffing pressures while 57% reported a similar impact from minimum wage increases. In order to fill vacancies, 53% of senior living organizations work with temp agencies and 16% have been forced to limit resident admissions.
- ***Community Investment Policies***
Nearly 98% of organizations have a formal investment policy. More than 40% have a Board Finance Committee; 30% have a formal Investment Committee; and 6.7% have an Investment Committee or Finance Committee with the board having oversight and the final say. The majority of organizations (93%) prefer balanced mix or lower-risk investments; 6.7% prefer aggressive mix; and 27% favor lower-risk.
- ***Post-Acute Activity***
Providers estimated that they spend nearly 34% of their overall time on post-acute activities compared to 21% three years ago. In the past two years, 69.2% of providers have increased focus on measurement and data while 62.6% have attended post-acute educational events. Providers have experienced a decrease in the post-acute length of stay (74.3%) while 61.0% have reported patients with higher acuity levels than in the past.
- ***Resident Monthly Fee Increases***
This survey is conducted annually and reports the monthly fee increases for the current year and projected year ahead. The 2016 increase was nearly 3.10%, which was less than 2015, but slightly higher than prior years. The 2017 projected increase is roughly 3.13%. A number of providers noted the increased pressure on monthly fees is due, in part, to the rising costs of healthcare insurance for staff, overall compensation packages, and the increase in wages.
- ***Technology Spending***
The final survey of the year focused on technology activities. Nearly 81% of providers reported investing in ICT during 2016. At least 40% invested in some sort of electronic monitoring/ electronic records technology. In general, providers are budgeting 2%-3% in their total operating budget, with multi-sites at a slightly higher percentage than single-sites providers.

We want to thank all of the CFOs who took the time to participate in these surveys. We know how valuable your time is and appreciate all of the financial professionals who take the time to respond to the questions. We are grateful for your input and look forward to another year of interesting topics and important issues to survey!

For questions related to this issue of *Z-News* or other related items, please contact the Ziegler banker in your region. To access the individual reports for each of the *Ziegler CFO Hotline*SM polls, [click here](#).

CATHY OWEN
ASSISTANT VICE PRESIDENT
SENIOR LIVING RESEARCH

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

FEBRUARY 17 - 21, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Carleton-Willard Village (MA)	S&P	A- Stable	Affirmed Rating	2/16/17
Edgemere (TX)	Fitch	BBB- Negative	Assinged Rating Downgraded Rating Revised Outlook	2/16/17
Mercy Ridge (MD)	S&P	A- Stable	Affirmed Rating	2/16/17

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.

INTEREST RATES

FOR THE WEEK ENDING FEBRUARY 17, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.14%	3.08%	2.59%
Senior Living 30-Yr "A"	4.23%	4.16%	3.55%
Senior Living 30-Yr "BBB"	4.63%	4.56%	3.90%
Senior Living Unrated	5.31%	5.21%	4.73%
Senior Living New Campus	6.75%	6.75%	6.39%
SIFMA Muni Swap Index	0.65%	0.65%	0.51%

Source: Ziegler Capital Markets

FEATURED FINANCINGS

\$122,450,000

The Industrial Development Authority of the City of Kirkwood, Missouri, Retirement Community Revenue Bonds, Series 2017A

ABERDEEN HEIGHTS

Kirkwood, Missouri


\$52,070,000

Refunding/Bank Direct Purchase

COVENANT RETIREMENT COMMUNITIES

Skokie, Illinois

MARKET REVIEW

MONEY MARKET RATES

	<u>2/17/17</u>	<u>1 WEEK AGO</u>	<u>1 MONTH AGO</u>	<u>1 YEAR AGO</u>
Prime Rate	3.75	3.75	3.75	3.50
Federal Funds (weekly average)	0.66	0.66	0.67	0.34
90 Day T-Bills	0.51	0.53	0.50	0.29
30-Day Commercial Paper (taxable)	0.59	0.61	0.65	0.35
Libor (30-day)	0.77	0.77	0.77	0.43
7 Day Tax-Exempt VRDB	0.65	0.65	0.66	0.02
Daily Rate Average	0.56	0.56	0.65	0.01

COMPARATIVE YIELDS

	GOVT.	TAXABLE REVENUE			TAX-EXEMPT REVENUE					
		<u>NR*</u>	<u>A</u>		<u>MMD</u>	<u>NR**</u>	<u>NR*</u>	<u>BBB</u>	<u>A</u>	<u>AAA</u>
1 Year	0.80	2.25	1.50	1 Year	0.86	2.25	2.25	1.38	1.18	0.98
5 Year	1.90	4.00	2.75	5 Year	1.60	3.50	3.50	2.40	2.05	1.74
7 Year	2.21	4.50	3.15	10 Year	2.41	4.53	4.50	3.56	3.18	2.69
10 Year	2.41	4.75	3.56	15 Year	2.81	5.00	5.00	4.30	3.90	3.30
30 Year	3.02	6.25	4.37	30 Year	3.14	5.31	5.25	4.63	4.23	3.73
5 year ADJ RATE							4.25			

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

Tax-exempt market indicators

Bond Buyer	<u>THIS WEEK</u>	<u>LAST WEEK</u>	<u>CHANGE</u>	2017	
				<u>HIGH</u>	<u>LOW</u>
20 Bond Index	3.94	3.88	+0.06	3.94	3.72
11 Bond Index	3.45	3.38	+0.07	3.45	3.25
Revenue Bond Index	4.11	4.03	+0.08	4.11	3.83
30 Year MMD	3.14	3.06	+0.08	3.14	2.88
Weekly Tax-Exempt Volume (Bil)	4.08	6.12	-2.04	7.39	2.92
30 Day T/E Visible Supply (Bil)	4.64	6.14	-1.50	13.37	5.55
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	140.06	120.39	-19.67	147.05%	120.39%

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)		
02/17/17	0.65	3.75	0.66	0.52	0.59	0.77	4.23	-	3.73
02/10/17	0.65	3.75	0.66	0.54	0.61	0.78	4.16	-	3.66
02/03/17	0.65	3.75	0.64	0.49	0.61	0.78	4.35	-	3.55
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
11/04/16	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
07/01/16	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.