

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

The major equity indexes ended varied for the week. A late week sell off brought about a quick change in market dynamics, as headline stocks such as Amazon, Facebook, and Apple sold off. In a reversal, a rally in smaller-cap benchmarks catapulted other indexes in record territory. However, small-caps continued to lag noticeably year-to-date, with much of the stock market's 2017 gains coming in the giant, technology-related shares that are held in the Nasdaq Composite Index—a function of internet behemoth's seizing increasing market share in an otherwise stagnate economy.

The economic calendar for the week was relatively light. Positive news on the labor market drove longer-term Treasury yields off the quarterly bottoms they had touched the previous week. On Tuesday, the Labor Department reported that U.S. job openings hit a record high last month and were one million ahead of hiring's in an indication of sustained strength in the labor market. On Thursday, the Department reported that initial jobless claims dropped in the previous week and remained near generational lows. The four-week jobless claim average reached 1.915 million, levels not seen since the early 1970s when the labor force was roughly half its current size.

Municipal bonds produced modestly positive returns for the week, outperforming U.S. Treasuries. Municipal / Treasury ratios are worth keeping an eye on, with the front end of the curve in 68%-85% range and the long end at 95%, ratios that often time signal less buyers will be willing to participate. However, the momentum in the municipal market will correlate to the new issuance calendar, as the dearth of quality bonds remained a primary theme. In credit news, a Chicago judge gave the state of Illinois fourteen days to pay a backlog in its Medicaid payments (a roughly \$2 billion liability). This ruling gave investors with exposure to Illinois general obligation bonds a cause for concern. With payment resources extremely scarce, this required payment, will put more pressure on the state and add another layer to the budget impasse.

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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

ESTABLISHING A WELLNESS-CENTRIC SENIOR LIVING ORGANIZATION

A study published last year by Senior Housing News reported that roughly half of prospective residents indicated they would be less likely to move into a senior living community if that community did not have a wellness program. During next week's LeadingAge Pennsylvania's Annual Conference & Exposition, Ziegler's Lisa McCracken and Perkins Eastman's Emily Chmielewski will be presenting on the topic of wellness and "Centers for Healthy Living."

It is clear that investing in creating a culture of wellness, supported by a robust set of programming and related amenities, will pay off when looking to be relevant for the next generation of residents. Each year that goes by, the wellness aspect of senior living are becoming a "must have" and not a "nice to have." It is important that providers spend time thinking broadly about how they define wellness as it is much more than a well-stocked fitness center in the community. Below are some key points that providers should consider when assessing their current wellness offerings.

- **Consider Design Elements:** There are important elements of design that facilitate wellness. This can be the integration of outdoor living areas or even the creation of walkable paths throughout the community. When communities are able to designate a specific wellness center, it is important to effectively integrate fitness facilities, social settings (e.g., cafes, lounges), hobby settings (e.g., the arts), and opportunities for lifelong learning. Design is also important for the residences when thinking about the number of retirees who will continue to work. It is important to create offices or working spaces within the cottages or units to support these individuals who benefit greatly from the vocational aspects of wellness.
- **An Expanding View of Spirituality:** We know that a large proportion of not-for-profit senior living providers are faith-based and many have wonderful chapels and places of worship within the community. It is important to also consider how future generations of residents may define spirituality different than previous generations. It may not be in the traditional sense, but the Boomer generation is committed to purpose and it is important that communities help support their definition of purpose and wellness.
- **Policy Alignment:** The worst thing an organization can do is create a strong wellness program and invest in significant amenities to support a culture of wellness and have policies that counter these efforts. Smoking policies are an easy example of this. A 2015 *Ziegler CFO HotlineSM* poll revealed that 75% of communities have designated themselves as smoke-free, a policy that would align with a community's efforts to be more wellness-centric. Other policies might revolve around staff earning additional time off for participating in certain wellness offerings or the ability for residents to store items such as bicycles or kayaks on campus.
- **Lifelong Learning:** Generally speaking, individuals have a desire to continue to grow and learn in their years after retirement. How is your community fostering that? Learning a new skill or hearing a guest speaker on a topic that you are passionate about can do wonders for overall wellness. Communities need to foster this level of learning through guest lecturers, through enhanced technology offerings to residents, and through intergenerational opportunities to name a few.

It is also important not to forget the staff wellness initiatives in this discussion. Nearly all providers are facing issues of staff recruitment and retention and a commitment to staff wellness is a key part of employee engagement. A healthier staff is also known to be more productive, are less likely to call out sick and are less likely to contribute to increased health insurance costs for the organization. Additionally, a happier staff can also translate into happier residents.

Approaches can vary across organizations as to how they build-up and enhance their wellness offerings. Some hire internally and create Director of Wellness positions. Others partner with an outside consultant or firm such as Masterpiece Living. Regardless of the approach taken, it is important to have a disciplined approach to fulfilling the wellness expectations of your staff and your residents.

There is no one-size fits all approach to effective wellness programming. Organizations need to have the discussion about how they define wellness and what they are doing to grow and enhance the lives of their residents and individuals they employ. The returns will be well worth it.

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

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SENIOR LIVING RESEARCH AND DEVELOPMENT

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

JUNE 6-12, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Blakeford at Green Hills (TN)	Fitch	BBB Stable	Affirmed Rating	6/6/17
Orchard Park CCRC d/b/a/ Fox Run at Orchard Park (NY)	Fitch	BBB- Stable	Affirmed Rating	6/8/17
Emerald Heights (WA)	Fitch	A- Stable	Affirmed Rating	6/9/17

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 JUNE 9, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.69%	2.75%	2.71%
Senior Living 30-Yr "A"	3.69%	3.75%	3.73%
Senior Living 30-Yr "BBB"	4.19%	4.25%	4.11%
Senior Living Unrated	4.79%	4.85%	4.83%
Senior Living New Campus	6.75%	6.75%	6.53%
SIFMA Muni Swap Index	0.74%	0.76%	0.66%

Source: Ziegler Capital Markets

FEATURED FINANCING

\$232,345,000

Tarrant County Cultural Educational Facilities
Finance Corporation Retirement Facility
Revenue Bonds, Series 2017

BUCKNER SENIOR LIVING - VENTANA
Dallas, Texas

MARKET REVIEW

MONEY MARKET RATES

	6/09/17	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.00	4.00	4.00	3.50
Federal Funds (weekly average)	0.91	0.89	0.91	0.35
90 Day T-Bills	1.00	0.95	0.85	0.25
30-Day Commercial Paper (taxable)	1.01	0.86	0.84	0.46
Libor (30-day)	1.09	1.08	0.99	0.44
7 Day Tax-Exempt VRDB	0.74	0.76	0.79	0.39
Daily Rate Average	0.68	0.74	0.67	0.03

COMPARATIVE YIELDS

TAXABLE REVENUE				TAX-EXEMPT REVENUE							
	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.18	2.25	1.68	1 Year	0.80	2.30	2.20	2.20	1.70	1.30	1.05
5 Year	1.77	4.25	2.63	5 Year	1.19	3.09	3.10	2.79	2.34	1.94	1.59
7 Year	2.01	4.75	3.23	7 Year	1.42	3.42	3.54	3.22	2.82	2.32	2.02
10 Year	2.20	5.00	3.42	10 Year	1.85	3.95	4.15	3.75	3.35	2.85	2.45
30 Year	2.86	6.25	4.33	30 Year	2.69	4.79	4.90	4.59	4.19	3.69	3.29
				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

	THIS WEEK	LAST WEEK	CHANGE	2017 HIGH	LOW
Bond Buyer					
20 Bond Index	3.53	3.61	-.08	4.02	3.53
11 Bond Index	3.04	3.12	-.08	3.53	3.04
Revenue Bond Index	3.70	3.79	-.09	4.17	3.70
30 Year MMD	2.69	2.75	-.06	3.24	2.69
Weekly Tax-Exempt Volume (Bil)	5.12	3.28	+1.84	7.81	2.23
30 Day T/E Visible Supply (Bil)	5.70	6.93	-1.23	13.37	5.50
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	128.12	133.45	-5.33	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)		
06/09/17	0.74	4.00	0.91	1.00	1.01	1.09	3.69	-	3.29
06/02/17	0.76	4.00	0.89	0.95	0.86	1.08	3.75	-	3.35
05/26/17	0.78	4.00	0.91	0.91	0.86	1.03	3.87	-	3.42
05/19/17	0.78	4.00	0.91	0.91	0.83	1.00	3.92	-	3.47
05/12/17	0.79	4.00	0.91	0.85	0.84	0.99	4.06	-	3.61
05/05/17	0.85	4.00	0.91	0.88	0.83	0.99	4.08	-	3.63
04/28/17	0.90	4.00	0.90	0.79	0.84	0.99	4.06	-	3.61
04/21/17	0.92	4.00	0.90	0.78	0.83	0.98	3.95	-	3.50
04/14/17	0.89	4.00	0.90	0.79	0.81	0.99	4.01	-	3.51
04/07/17	0.88	4.00	0.90	0.81	0.86	0.98	4.09	-	3.59
03/31/17	0.91	4.00	0.88	0.76	0.80	0.98	4.13	-	3.63
03/24/17	0.79	4.00	0.90	0.76	0.82	0.98	4.17	-	3.67
03/03/17	0.62	3.75	0.64	0.69	0.65	0.83	4.26	-	3.76
02/03/17	0.65	3.75	0.64	0.49	0.61	0.78	4.35	-	3.55
01/06/17	0.68	3.75	0.62	0.51	0.62	0.76	4.40	-	3.55
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
07/01/06	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