

# ZIEGLER INVESTMENT BANKING

## SENIOR LIVING FINANCE Z-NEWS

## FEATURED ARTICLE

## ZIEGLER SENIOR LIVING FINANCE + STRATEGY CONFERENCE: THE STATE OF SENIOR LIVING 2017

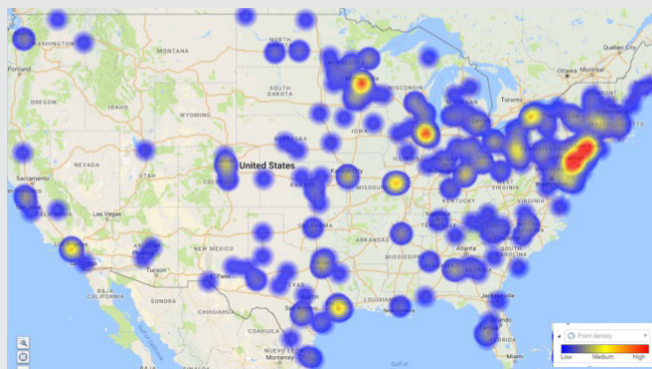
As part of the last several issues of *Z-News*, we highlighted the various educational sessions at the annual Ziegler Senior Living Finance + Strategy Conference. This week, we would like to take the opportunity to share insights from our opening general session, **The State of Senior Living and Capital Markets**. The purpose of this opening session is to provide a broad-based overview of the general environment within the not-for-profit senior living sector. How are not-for-profit providers behaving? How are they growing (or not)? What is having the greatest influence on how they do business? How are the senior living capital markets supporting, or hindering, growth? The summary that follows is intended to touch on several of the key items that were presented.

In the senior living trends portion of the session, the following key areas were highlighted, along with data that provides additional insight into these trends.

- **Who is your Customer?** We would argue that your staff is equally your customer as is your resident/customer/member base. Additionally, the consumer characteristics and preferences are requiring providers to change traditional ways to ensure viability with the Boomer and Millennial workforce generations.
- **Not-for-profit Provider Growth:** The number of new not-for-profit locations is well below pre-recession levels. The majority of not-for-profits are growing through expansions to existing communities and affiliations. However, more are considering new locations, but not all are doing so with the full continuum. Given the complexities of the healthcare marketplace, the most common level of care being left out of growth plans is skilled nursing. The concept of satellite campuses also appears to be gaining more traction within the not-for-profit provider group.
- **Affiliations, Mergers & Acquisitions:** Sponsorship transition activity remains high among not-for-profits. The heat map below shows where most of the level activity has occurred since 2010, wherein roughly 380 not-for-profit communities have changed owner/sponsor. A large proportion of these, particularly freestanding nursing homes and distressed properties, have been disposed of to the for-profit, private sector.

### NFP SPONSORSHIP TRANSITIONS

Approximately 380 Not-for-Profit communities changed sponsor/owner between 2010 and YTD2017



Source: Ziegler Investment Banking (9/1/17)

- **Post-Acute Pressures:** Regardless of the degree of skilled nursing exposure within the organization, all providers are feeling the pressures brought about by the changing healthcare and reimbursement landscape. An August 2017 *Ziegler CFO Hotline<sup>SM</sup>* poll revealed that approximately 27% of not-for-profit providers are considering a reduction in the number of skilled nursing beds.
- **Competition Continues to Rise:** There is no shortage of competitive pressures in senior care and services today, whether it be the pronounced for-profit growth in recent years or the increase in technological solutions to support older adults aging in place within their own homes.

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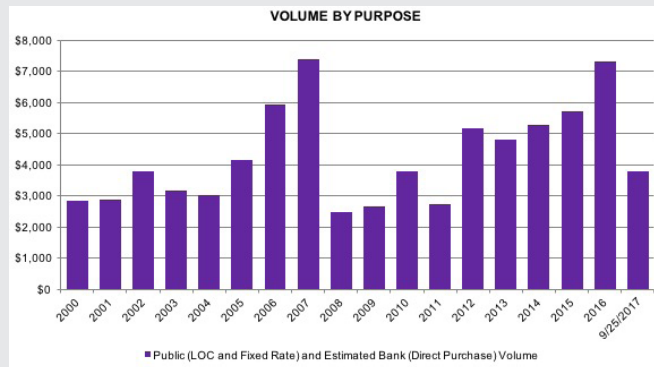


CAPITAL :: INVESTMENTS :: ADVICE

- Health of the Sector:** Overall, since the early 2000s, the financial ratios of not-for-profits have improved as evidenced by the 2017 *CARF Financial Ratios & Trend Analysis* publication. During that same time, however, average age of facility has jumped to all-time highs, between 11 and 12 years, suggesting not-for-profit providers are not reinvesting at the rate they should be. Occupancy, however, remains high overall for not-for-profits, particularly for Life Plan Communities, with occupancy numbers well above the private sector figures.

The senior living capital markets remains vibrant, whether it is in the bank lending environment or the long-term fixed-rate investor market. The slowdown in new location development among not-for-profits is not connected to cost of capital, as rates remain at very low, historically competitive levels. Tom Meyers from Ziegler reported on the graph below which shows year-end 2016 with record levels and 2017 figures on their way to similar high levels. The bank volume has lessened somewhat in 2017 compared to levels across the past several years. Much of the bank issuance has been through regional banks and in many markets, the senior living providers have many choices of bank lenders who have strong interest in the senior living space.

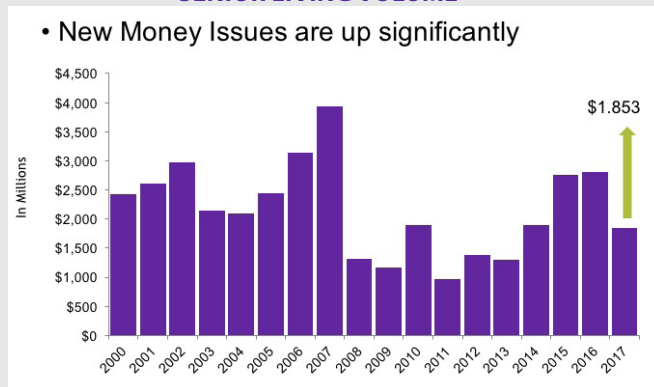
### NOT-FOR-PROFIT SENIOR LIVING FINANCINGS ALL MARKET



Source: Thomson Financial Securities Data, as of 9/22/2017, Ziegler Investment Banking, Volume & Other Bank Credit Estimates thru 9/12/2017

Rich Scanlon from Ziegler further elaborated on the fixed-rate bond market. Some newer trends he touched on included issues without debt service reserve funds. While some have been brought to the market without these reserve funds, investor resistance remains. Draw-Down Bonds are increasingly gaining attention as are Bond Anticipation Notes (BANs), specifically for funding new development costs. Generally speaking, the industry track record for public BANs has been very good. Lastly, Scanlon noted that new money issuances are up significantly the past several years compared to the several years in the midst of the recession. This is a function of competitive rates and also renewed provider interest in growth initiatives.

### STATE OF SENIOR LIVING CAPITAL MARKETS SENIOR LIVING VOLUME



Source: Thomson Financial Municipal Market Monitor, as of 9/22/17

Ziegler regularly provides similar “State of Senior Living” presentations to senior living boards throughout the year. In 2016, Ziegler provided over 50 such strategy sessions and 2017 will be a similar number. If you are interested in having Ziegler provide a similar educational session to your board or leadership team, please reach out to the Ziegler banker in your region.

For questions about this issue of *Z-News* or other related topics, please refer to the Ziegler banker in your region.

LISA McCracken  
DIRECTOR  
SENIOR LIVING RESEARCH & DEVELOPMENT

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

OCTOBER 13-16

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Friendship Village of Chesterfield (MO)	Fitch	BBB+ Stable	Upgraded Rating	10/13/17
Friendship Village of Sunset Hills (MO)	Fitch	BBB+ Stable	Dwongraded Rating	10/13/17
Friendship Village of St. Louis Obligated Group (MO)	Fitch	BBB+ Stable	Assigned Rating	10/13/17
Trinity Terrace (TX)	Fitch	BBB+ Stable	Affirmed Rating	10/13/17
Saint John's Communities (WI)	Fitch	BBB+ Stable	Affirmed Rating	10/16/17
Pennswood Village (PA)	Fitch	BBB+ Stable	Affirmed Rating	10/16/17

*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 OCTOBER 13, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.78%	2.83%	2.91%
Senior Living 30-Yr "A"	3.68%	3.73%	4.01%
Senior Living 30-Yr "BBB"	4.03%	4.08%	4.44%
Senior Living Unrated	4.58%	4.63%	5.05%
Senior Living New Campus	6.50%	6.50%	6.71%
SIFMA Muni Swap Index	0.91%	0.92%	0.75%

Source: Ziegler Capital Markets

**IN YOUR CORNER**
**2017 LEADINGAGE ANNUAL MEETING & EXPO**

Ernest N. Morial Convention Center  
New Orleans, Louisiana  
October 29-November 1, 2017

***Are Not-For-Profits Relevant and Sustainable?***

Session 36-A | Sunday, October 29 | 3:30-5:00 pm  
Ziegler Participant: *Mary Muñoz*

***Insights From the Next Generation of Leaders***

Session: 151-B | Monday, October 30 | 8:00-9:30 am  
Ziegler Participant: *Dan Hermann*

***Expansion Beyond an Existing Life Plan Community***

Session: 39-C | Monday, October 30 | 3:30-5:00 pm  
Ziegler Participant: *Rich Scanlon*

***CEMO Leadership Forum***

Session: 161-I | Tuesday, October 31 | 12:30-5:00 pm  
Ziegler Participant: *Dan Hermann*

***Essential Financial Benchmarks for Life Plan Communities***

Session: 51-G | Wednesday, November 1 | 8:00-9:30 am  
Ziegler Participant: *Amy Castleberry*

**FEATURED FINANCING**

**\$11,445,000**

City of Sartell, Minnesota, Health Care  
Facilities Revenue Refunding Bonds,  
Series 2017

**COUNTRY MANOR CAMPUS**

Sartell, Minnesota

## MARKET REVIEW

## MONEY MARKET RATES

	10/13/17	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.25	4.25	4.25	3.50
Federal Funds (weekly average)	1.16	1.16	1.16	0.40
90 Day T-Bills	1.07	1.04	1.03	0.29
30-Day Commercial Paper (taxable)	1.13	1.10	1.11	0.50
Libor (30-day)	1.23	1.23	1.23	0.53
7 Day Tax-Exempt VRDB	0.91	0.92	0.85	0.83
Daily Rate Average	0.82	0.83	0.82	0.75

## COMPARATIVE YIELDS

TAXABLE REVENUE				TAX-EXEMPT REVENUE							
	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.39	2.00	1.99	1 Year	0.94	2.19	2.30	2.09	1.69	1.39	1.19
5 Year	1.90	4.25	2.90	5 Year	1.35	2.75	3.28	2.60	2.35	2.00	1.75
7 Year	2.11	4.75	3.46	7 Year	1.61	3.26	3.70	3.01	2.76	2.41	2.21
10 Year	2.28	5.00	3.68	10 Year	1.98	3.78	4.20	3.48	3.23	2.88	2.58
30 Year	2.82	6.25	4.47	30 Year	2.78	4.58	4.91	4.28	4.03	3.68	3.38
				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	3.61	3.63	-.02	4.02	3.49
11 Bond Index	3.12	3.14	-.02	3.53	3.00
Revenue Bond Index	3.82	3.84	-.02	4.17	3.70
30 Year MMD	2.78	2.83	-.05	3.24	2.66
Weekly Tax-Exempt Volume (Bil)	5.13	2.29	+.28	7.93	0.46
30 Day T/E Visible Supply (Bil)	9.24	5.69	+3.55	13.37	3.67
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	130.49	129.06	+1.43	147.05%	120.39%

## INTEREST RATE COMPARISON

DATE	7-DAY T/E VRDB	PRIME RATE	FED FUNDS WEEKLY AVG.	13-WEEK		LIBOR (30-DAY)	30-YEAR		
				T-BILL RATE	C.P.RATE TAXABLE		T/E BONDS (A-AAA)		
10/13/13	0.91	4.25	1.16	1.07	1.13	1.23	3.68	-	3.38
10/06/17	0.92	4.25	1.16	1.04	1.10	1.23	3.73	-	3.43
09/29/17	0.94	4.25	1.16	1.05	1.09	1.23	3.75	-	3.45
09/22/17	.0.88	4.25	1.16	1.02	1.10	1.23	3.70	-	3.40
09/15/17	0.82	4.25	1.16	1.03	1.11	1.23	3.66	-	3.36
09/08/17	0.78	4.25	1.16	1.03	1.11	1.23	3.56	-	3.26
09/01/17	0.79	4.25	1.14	0.99	1.11	1.23	3.60	-	3.30
08/25/17	0.78	4.25	1.16	1.01	1.10	1.23	3.63	-	3.33
08/18/17	0.77	4.25	1.16	0.99	1.07	1.22	3.67	-	3.37
08/11/17	0.78	4.25	1.16	1.03	1.11	1.22	3.63	-	3.33
08/04/17	0.79	4.25	1.14	1.07	1.12	1.23	3.61	-	3.31
07/28/17	0.82	4.25	1.16	1.08	1.09	1.23	3.64	-	3.34
07/07/17	0.86	4.25	1.16	1.03	1.08	1.22	3.82	-	3.42
06/02/17	0.76	4.00	0.89	0.95	0.86	1.08	3.75	-	3.35
05/05/17	0.85	4.00	0.91	0.88	0.83	0.99	4.08	-	3.63
04/07/17	0.88	4.00	0.90	0.81	0.86	0.98	4.09	-	3.59
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

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