

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

On the back of positive third-quarter earnings reports, stocks recorded solid gains and continued their progress into record territory. Better-than-expected results from IBM and others on Wednesday, provided a lift to the narrowly dedicated Dow Jones Industrial Average. The overall health care sector also had a good week, Johnson & Johnson beat expectations, giving another boost to the Dow. Financials outperformed as expectation of higher interest rates will improve bank lending margins. The Dow Jones Industrial Average is up 18% year-to-date.

Political developments continue to effect the markets. The possibility of tax reform helped keep a positive market tone early in the week. The Senate's passage of legislation on Thursday evening seemed to affirm investor sentiment providing the equities markets an additional boost on Friday. The nonbinding legislation had no instantaneous impact on the budget, but it did pave the way for Senate Republicans to in due course pass tax reform along party lines. Prospects for robust economic growth also influenced the week's equity gains. Manufacturing data remained firm in the face of the recent natural disasters, and weekly jobless claims declined to their bottommost level since the early 1970s. In the early 1970s the U.S. labor force was roughly a third of its current size.

The risk on tone of the week sent Treasury yields higher, but it had less effect on the municipal bond market yields. Strong demand for new issuance municipals bonds helped produce positive returns for much of the week. The market for intermediate-maturity bonds was principally strong due to the scarcity of intermediate-maturity bonds for available a trend that is expected to continue given the supply calendar. Investors in municipal bond funds again put cash back into the funds in the latest week, according to Lipper data released late Thursday. The weekly reporters saw \$536.158 million of inflows in the week of Oct. 18, after inflows of \$43.576 million in the previous week. High-yield muni funds reported inflows of \$222.947 million in the latest week. The high yield sector of municipals continues to perform well as investor search for incremental yield.

ADAM J. BUCHANAN
SENIOR VICE PRESIDENT

See pages 5-6 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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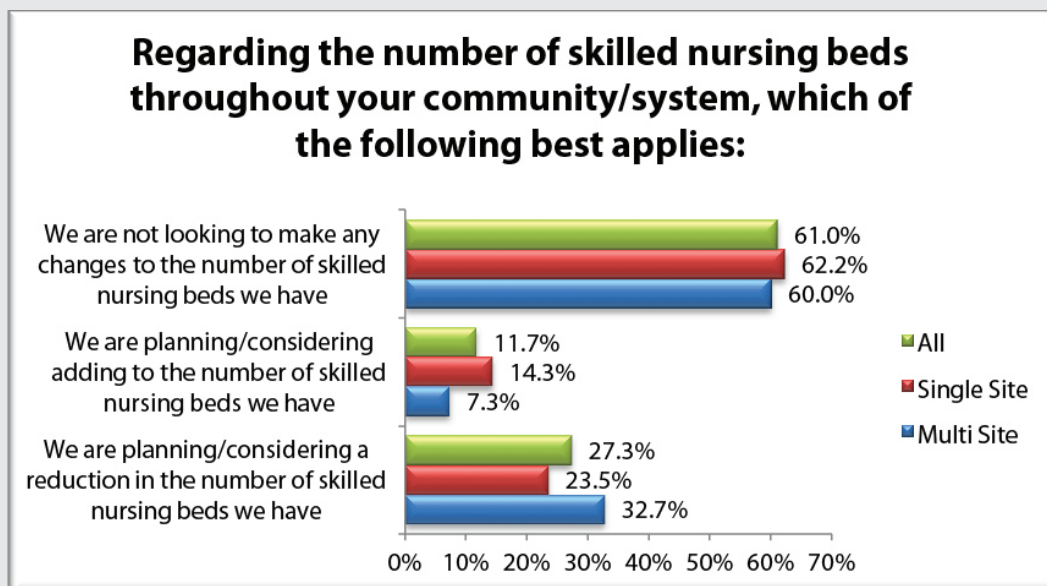
FEATURED ARTICLE

SKILLED NURSING AND THE SENIOR LIVING CONTINUUM

Without a doubt, one of the most significant pressure points for senior living providers today is their skilled nursing offerings. The degree to which providers are feeling the pressure varies by market, varies depending on payor mix, and can vary depending on the number of outside (non-resident) post-acute admissions a community takes. Why is the skilled nursing offering becoming increasingly complex and challenging?

- 1. Payment Reform:** We know that the healthcare system continues to migrate toward less costly alternatives of care. According to Genworth Financial, the cost of care for a private-pay skilled nursing room increased by 5.5% between 2016 and 2017. The cost of care, regardless of payor source, continues to rise. Additionally, with the increase in bundled payments, post-acute providers are at the mercy of the hospital or physician group for payment. That amount is generally less than what the skilled nursing providers would see as ideal for the care that is given. With expectations to have shorter lengths of stay along with reduced payments, many providers are seeing a negative impact on revenue as occupancies decline.
- 2. Changes in the Patient:** As physicians and health systems are looking for the least costly alternatives (and aiming for better outcomes), individuals discharged from the hospital today are often being sent home with intensive home health services rather than having a brief stay at a skilled nursing facility. Those individuals who do get discharged from the hospital and are transferred to the skilled nursing rehab unit, generally have a higher acuity and need more specialized care. This in-turn, is leading to an overall population with higher acuity than in previous years, which means a higher cost of care for the provider.
- 3. Staffing:** Workforce challenges are clearly also contributing to the complexity of the skilled nursing operations. Recruitment and retention are top priorities among providers and for some, the inability to fully staff units has resulted in turning away admissions. For a small proportion, it has even led to shutting down skilled nursing wings or units. Related to the point made previously, the post-acute patient is coming in with greater needs and higher acuity. This also means that the provider needs to staff and train differently than in the past. Today's skilled nursing workforce needs to have a greater degree of knowledge around how to care for patients with more specialized needs.

Within not-for-profit senior living, we know that providing the full continuum of services on one campus (definition of a Life Plan Community) is what has historically been offered. Today, a number of these not-for-profit providers are wrestling with their commitment to skilled nursing moving forward. Again, this can vary by market and depends on the impact of the pressure points noted above (e.g., staffing, local healthcare market, etc.). An August Ziegler CFO HotlineSM poll revealed that the majority of not-for-profit providers (61%) are not looking to make any changes to the number of skilled nursing beds that they have. However, 27% noted that they are planning or considering a reduction in the number of skilled nursing beds. Anecdotally, Ziegler has observed a greater trend toward reducing skilled nursing beds among not-for-profit providers in the western region of the U.S.



Source: Ziegler CFO HotlineSM, August 2017

The soon-to-be-released 2017 LeadingAge Ziegler 150 report reveals that 13 new community locations opened in 2016 among the largest 15 not-for-profit providers. Among the 13, seven of the communities offer skilled nursing. The remaining six communities offer just Independent Living or Assisted Living options.

There is no right answer as to whether or not providers should rethink the commitment to skilled nursing services. What is important is for boards and leadership teams to be educated on this topic. This is a difficult discussion, particularly as boards look to balance not-for-profit mission with the business pressures that accompany today's skilled nursing services. Additionally, these significant decisions are being made during times when a number of uncertainties remain.

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 17-23

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
No Rating Reports this week.				

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*

INTEREST RATES

FOR THE WEEK ENDING OCTOBER 20, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.69%	2.78%	2.91%
Senior Living 30-Yr "A"	3.59%	3.68%	4.00%
Senior Living 30-Yr "BBB"	3.94%	4.03%	4.43%
Senior Living Unrated	4.49%	4.58%	5.04%
Senior Living New Campus	6.50%	6.50%	6.71%
SIFMA Muni Swap Index	0.91%	0.91%	0.75%

Source: Ziegler Capital Markets

FEATURED FINANCINGS

PINNACLE
LIVING

\$50,655,000

Bank Direct Purchase
New Money / Refunding

PINNACLE LIVING *aka* **VIRGINIA UNITED METHODIST HOMES**
Glen Allen, Virginia



\$19,680,127

Bank Direct Purchase
Refunding

LUTHERAN HOMES OF SOUTH CAROLINA
Irmo, South Carolina



THE FOREST AT DUKE

\$20,210,000

Bank Direct Purchase
Refunding

THE FOREST AT DUKE
Durham, North Carolina



SOUTHMINSTER

\$34,000,000

Taxable Term Loan
New Money

SOUTHMINSTER
Charlotte, North Carolina

MARKET REVIEW

MONEY MARKET RATES

	10/20/17	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	1.10	1.07	1.02	0.33
30-Day Commercial Paper (taxable)	1.15	1.13	1.10	0.41
Libor (30-day)	1.23	1.23	1.23	0.52
7 Day Tax-Exempt VRDB	0.91	0.91	0.88	0.74
Daily Rate Average	0.90	0.82	0.89	0.55

COMPARATIVE YIELDS

TAXABLE REVENUE				TAX-EXEMPT REVENUE							
	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.41	2.00	2.01	1 Year	0.94	2.19	2.30	2.09	1.69	1.39	1.19
5 Year	2.02	4.25	3.02	5 Year	1.34	2.74	3.28	2.59	2.34	1.99	1.74
7 Year	2.23	4.75	3.58	7 Year	1.59	3.24	3.70	2.99	2.74	2.39	2.19
10 Year	2.38	5.00	3.78	10 Year	1.92	3.72	4.15	3.42	3.17	2.82	2.52
30 Year	2.89	6.25	4.54	30 Year	2.69	4.49	4.86	4.19	3.94	3.59	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	3.49
11 Bond Index	3.04	3.12	-.08	3.53	3.00
Revenue Bond Index	3.86	3.82	+.04	4.17	3.70
30 Year MMD	2.69	2.78	-.09	3.24	2.66
Weekly Tax-Exempt Volume (Bil)	4.34	5.13	-.79	7.93	0.46
30 Day T/E Visible Supply (Bil)	9.11	9.24	-.13	13.37	3.67
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	127.30	130.49	-3.19	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)		
10/20/17	0.91	4.25	1.16	1.09	1.15	1.23	3.59	-	3.29
10/13/17	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
07/07/17	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.