

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

Equities finished the week mixed. The Dow Jones Industrial Average (“DJIA”) achieved its best weekly gain year-to-date. The DJIA has returned 22% for 2017. In a reversal of its year-long momentum, the technology-heavy Nasdaq Composite Index recorded a loss, although it remains the leading major index with year-to-date returns of 27%. The financial sector outperformed on the week as a rise in longer-term Treasury yields improved the outlook for bank lending margins. The increase in yields hurt real estate shares, their relatively strong dividend payments became less attractive in comparison. Energy stocks were solid after crude prices rallied following an accord between OPEC and other key oil exporters to retain current production restrictions through the following year. Stocks got a significant boost late in the week when Senator McCain publicized that he would vote for the tax bill, making it possible for the bill to pass late Friday evening. However, the Senate’s tax plan differed significantly from the House version; GOP brass will still have to work out concessions in committee. The passage of tax reform in both the House and Senate resulted in a strong sell-off in the technology sector midweek as Netflix fell 5% and semiconductor maker Nvidia dropped sharply. These multinational companies presently pay low tax rates, making modifications to the system less positive for their businesses. Both these companies have provided exceptional gains for investors in 2017.

The municipal market had a volatile week. With the changes to municipal borrowers embedded in both the House and Senate now passed tax bills, municipal issuers continue to rush to market amid uncertainty on future market access. Municipal rates responded in the first half of the week, however by the end of the week the market had regained nearly all its losses and finished the week mostly unchanged. Market participants observed that nontraditional buyers have come into the market sensing an opportunity to purchase higher yields. One high yield transaction reported over seventy investors participated in the pricing. With over \$21.5 billion of bond sales the municipal market will be hectic. After accounting for \$2 billion of taxable municipal bond sales, the amount of tax-exempt deals that are set to price is \$19 billion, eclipsing the previous year-to-date high of \$16 billion. Investors in municipal bond funds continued to put cash into funds in the latest week, according to Lipper data released on Friday. The weekly reporters saw \$100.434 million of inflows in the week of Nov. 30, after inflows of \$659 million in the previous 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

TAX BILL UPDATED: TIME IS RUNNING OUT TO VOICE YOUR CONCERNS OVER THE CONTINUED THREATS TO NOT-FOR-PROFIT SENIOR LIVING

Ziegler has been providing periodic updates over the past month regarding the Tax Cuts and Jobs Act. Let us be clear that the threat to not-for-profit senior living, hospitals and colleges/universities (among others) remains just as real today as when the House introduced their draft bill in the beginning of November. In opposition to the House's tax bill, the Senate's version preserved Private Activity Bonds (PAB), which allow not-for-profit senior living providers to borrow on a tax-exempt basis. While we are hopeful the Senate version will survive, new proposals being made in the reconciliation process between the House and Senate versions are causing great concern. Specifically, there is emerging discussion from House Republicans, led by the House Ways and Means Committee Chairman Kevin Brady (R-TX), to more narrowly define the use of PABs to "asphalt and concrete" infrastructure related projects. It is not clear what asphalt and concrete means, but it appears that senior living, hospitals and schools will likely be excluded if differentiators are adopted. The Senate is supportive of the unfettered use of PABs however they lack a champion to lead this fight. We need to act!

We are at a critical juncture as elected officials begin to reconcile the differences between the two versions of the bill. On Thursday, 12/7 the conference committee members were seated and they are listed below. There is anticipation that the committee will work very quickly and that the bulk of their efforts will be completed **before the end of this weekend**. Their final report is anticipated by the end of next week, the week of 12/11.

Your voice and that of your organization is still needed to express opposition during the reconciliation phase. Why?

- There continues to be great uncertainty for PAB's and there are no present signs that they are safe.
- As noted, the House Ways and Means Committee Chairman has proposed limiting the use of PABs to purely infrastructure projects. This may or may not include senior living.
- There are no signs that advanced refundings will be added back to the final tax bill. At best, there could be effective date modifications to delay implementation into the future. We need to continue to voice our opposition to their elimination.

We encourage you to continue to contact your Senators and members of the House of Representatives to oppose this bill. These committee members will be particularly influential in the final outcome of the bill and it will be important that they hear from you as soon as possible.

Senate Republican Conferees:

- Senate Finance Chairman Orrin Hatch (R-UT)
- Senate Budget Chairman Mike Enzi (R-WY)
- Senate Energy and Natural Resources Chairman Lisa Murkowski (R-AK)
- Senate Majority Whip John Cornyn (R-TX)
- Senator Rob Portman (R-OH)
- Senator Pat Toomey (R-PA)
- Senator Tim Scott (R-SC)

House Conferees:

Republicans

- Ways and Means Chairman Kevin Brady (R-TX)
- House Budget Chairman Diane Black (R-TN)
- House Natural Resources Chairman Rob Bishop (R-UT)
- House Energy and Commerce Chairman Greg Walden (R-OR)
- Rep. Peter Roskam (R-IL)
- Rep. Devin Nunes (R-CA)
- Rep. Kristi Noem (R-SD)
- Rep. Don Young (R-AK)
- Rep. John Shimkus (R-IL)

Democrats

- House Ways and Means Ranking Member Richard Neal (D-MA)
- House Natural Resources Committee Ranking Member Raul Grijalva (D-AZ)
- Rep. Sander Levin (D-MI)
- Rep. Lloyd Doggett (D-TX)
- Rep. Kathy Castor (D-FL)

Ziegler will continue to keep you updated on the reconciliation process and any formal outcomes.

LISA McCracken
DIRECTOR
SENIOR LIVING RESEARCH & DEVELOPMENT

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

DECEMBER 1 - 6, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Kendal at Lexington (VA)	Fitch	BBB- Stable	Assigned Rating Affirmed Rating	12/1/17
The Highlands at Wyomissing (PA)	Fitch	BBB Stable	Assigned Rating	12/4/17
Christian Care Centers (TX)	Fitch	BB+ Negative	Downgraded Rating	12/6/17
Horizon House (WA)	Fitch	BBB+ Stable	Assigned Rating	12/6/17

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 DECEMBER 1, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.79%	2.76%	2.90%
Senior Living 30-Yr "A"	3.59%	3.61%	3.96%
Senior Living 30-Yr "BBB"	3.89%	3.76%	4.37%
Senior Living Unrated	4.59%	4.56%	5.00%
Senior Living New Campus	6.50%	6.50%	6.70%
SIFMA Muni Swap Index	0.97%	0.96%	0.79%

Source: Ziegler Capital Markets

FEATURED FINANCINGS

\$71,790,000

North Carolina Medical Care Commission, Retirement Facilities First Mortgage Revenue and Refunding Bonds, Series 2017A

THE UNITED METHODIST RETIREMENT HOMES

Durham, North Carolina


\$20,655,000

New Money
Bank Direct Purchase

UNITED CHURCH HOMES AND SERVICES

Newton, North Carolina

MARKET REVIEW

MONEY MARKET RATES

	12/01/17	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.25	4.25	4.25	3.50
Federal Funds (weekly average)	1.13	1.16	1.14	0.38
90 Day T-Bills	1.26	1.26	1.17	0.47
30-Day Commercial Paper (taxable)	1.18	1.15	1.13	0.50
Libor (30-day)	1.37	1.32	1.24	0.62
7 Day Tax-Exempt VRDB	0.97	0.96	0.92	0.56
Daily Rate Average	0.93	0.93	0.91	0.55

COMPARATIVE YIELDS
TAXABLE REVENUE

	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.61	2.00	2.11	1 Year	1.26	2.51	2.51	2.41	2.01	1.71	1.51
5 Year	2.09	4.25	2.99	5 Year	1.76	3.16	3.43	3.01	2.71	2.41	2.16
7 Year	2.25	4.75	3.00	7 Year	1.91	3.56	3.82	3.31	3.01	2.71	2.41
10 Year	2.35	5.00	3.70	10 Year	2.15	3.95	4.23	3.65	3.25	2.95	2.65
30 Year	2.75	6.25	4.35	30 Year	2.79	4.59	4.83	4.29	3.89	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	3.59	3.51	+0.08	4.02	3.49
11 Bond Index	3.09	3.01	+0.08	3.53	2.99
Revenue Bond Index	4.04	3.97	+0.07	4.17	3.70
30 Year MMD	2.79	2.76	+0.03	3.24	2.62
Weekly Tax-Exempt Volume (Bil)	10.02	9.36	+0.66	10.02	0.46
30 Day T/E Visible Supply (Bil)	16.84	11.55	+5.29	16.84	3.67
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	130.54	131.27	-0.70	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)		
12/01/17	0.97	4.25	1.13	1.26	1.18	1.37	3.59	-	3.29
11/24/17	0.96	4.25	1.16	1.26	1.15	1.32	3.61	-	3.26
11/17/17	0.94	4.25	1.16	1.24	1.16	1.26	3.54	-	3.19
11/10/17	0.92	4.25	1.16	1.20	1.15	1.24	3.47	-	3.12
11/03/17	0.92	4.25	1.14	1.17	1.13	1.24	3.65	-	3.30
10/27/17	0.92	4.25	1.16	1.09	1.14	1.23	3.74	-	3.44
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
09/01/17	0.79	4.25	1.14	0.99	1.11	1.23	3.60	-	3.30
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

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