

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

With a solid start in the first week of 2018, equity indexes started the year just as they ended it. All major indexes touched record breaking new highs. The Dow Jones Industrial Average eclipsed the 25,000 mark midweek — less than a year after breaking through 20,000 for the first time. Less publicized but perhaps more significant was a new record low for Volatility Index (the VIX), the so-called “fear index,” indicating more bullish sentiment going forward.

Midweek brought the Federal Reserve’s December 12-13 policy meeting release of minutes. The minutes publicized that outlooks on rate policy were not undivided, as the two dissenters against raising rates were apprehensive that the rate hike could slow economic growth and further hinder inflation. Inflation continues to be the most closely watched metric at the Federal Reserve. Other developments, such as the flattening of the Treasury yield curve and the externalities of the tax bill signed into law, were also points of deliberation during the discussion. The minutes seemed to halt the 10-year Treasury note yield, which had run-up the previous day.

Friday produced the closely watched monthly jobs report. The report from the Labor Department showed employers adding only 148,000 jobs in December, a significant decrease from November, and a large

miss from the survey. However, a measured deceleration in job gains can be explained by the economy nearing full employment. Some economist are calling for a sub 4% unemployment rate in 2018, which is unprecedented even during the dot com fueled economic expansion in the late 1990s.

Municipal bonds posted marginal gains during the week. New issue and trading volumes remained extremely light after December’s record-breaking surge in borrowings. According to Lipper, muni bond funds saw outflows, investors in municipal bond funds again pulled cash out of the funds in the latest week. The weekly reporters saw \$47.8 million of outflows in the week of Jan. 3, after outflows of \$180 million in the previous week. However, upcoming coupon (dividend) payments, which will need to be reinvested, should provide a strong technical backdrop for the asset class going forward.

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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

THE ANNUAL “LOOK BEHIND...AND LOOK AHEAD”: PART I

As we look back at 2017, and prepare for what the capital markets has to offer in 2018, we reflect back on a year overall that provided senior living organizations with continued low historic borrowing rates. The year ended with the 30-Year “AAA” MMD closing at 2.54, well below the 4.13% average since 2000. The release of the Tax Cuts and Jobs Act draft in early November, and the potential elimination of private activity bonds, clearly changed the financing timelines for a number of providers. In December alone, Ziegler closed 13 bond financings and assisted with closing 14 bank transactions, for a total of 27 senior living deals in the final month of the year, above historic levels for December. Providers took advantage of advanced refunding opportunities prior to their elimination with the final tax bill.

Ziegler was very active in assisting providers with their capital needs in 2017, providing its expertise in both the institutional investor market and bank lending market. In 2017, Ziegler completed 85 transactions, 40 bond financings and 45 bank direct purchase or taxable term loans, for total dollar amounts of nearly \$3.6 billion.

Highlights of the year include a \$232.3 million bond financing for **Buckner Retirement Services (TX)** for the financing of their newest Life Plan Community under development, Ventana. Additional providers took advantage of competitive borrowing rates to finance significant campus expansions and repositionings, including **Mary’s Woods at Marylhurst (OR)** with a \$175 million bond financing, and **Ingleside at King Farm (MD)** who completed a \$224.2 million bond deal in the early fall. While a number of Ziegler deals were greater than \$100 million in 2017, providers tapped a varying level of amounts for their needs. Ziegler bond deals ranged from nearly \$11.5 million to the Buckner project at \$232+ million. The bond deals averaged nearly \$64 million when looking at year-end totals, slightly above the \$54 million average in 2016.

The 45 Ziegler-assisted bank deals were largely in the form of bank direct bank purchases. Bank-related transactions are traditionally smaller in size than bond transactions and in 2017, average roughly \$23 million. The bank deals ranged in value from just under \$4.0 million for **Edgewood Summit (WV)** to a high of \$58.7 million for **Edgewood Retirement Community (MA)**. While a number

of these transactions were to refinance existing debt, many also funded campus renovation and repositioning projects. We anticipate that bank direct purchases will continue to be a popular financing mechanism in 2018 even with likely increases in bank lending rates.

Ziegler bond financings and bank transactions varied in purpose, with many driven by provider needs for community expansions and repositioning projects. Additionally, in 2017, a handful of providers utilized taxable term loans to finance acquisitions of other communities or facilities that require an asset purchase. A few examples of providers who grew via acquisitions in 2017 and tapped into this financing mechanism include **Christian Health Care Center (NJ)** with their Summer Hill acquisition and **Masonicare (CT)** for their acquisition of Chester Village.

With the recent and planned future increases in interest rates by the Federal Reserve, as well as anticipated increases in variable-rate debt as a result of changes from the tax bill, we encourage providers to take advantage of the continued competitive borrowing rates. Advance refundings were eliminated in the final tax bill for tax-exempt organizations, which will also change the playbook for senior living providers and how they approach capital planning. Through 2018, Ziegler will work with clients to structure the best deals to meet their needs and will be ready to provide financing solutions that best meet the short- and long-term interest of senior living providers.

For more information regarding the structure and use of each of these 2017 issues, please see the Electronic Municipal Market Access <http://emma.msrb.org> system’s website or contact the Ziegler banker in your area.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

DECEMBER 21 - 29, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Ohio Living (OH)	Fitch	BBB Stable	Assigned IDR Rating*	12/21/17
Ohio Living (OH)	S&P	BBB-Stable	Affirmed Rating Revised Outlook	12/26/17
Ohio Living (OH)	S&P	NR	Withdrew Rating	12/26/17

*IDR - Issuer Default Rating (FitchRatings)

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 JANUARY 5, 2018

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.56%	2.55%	2.85%
Senior Living 30-Yr "A"	3.36%	3.35%	3.84%
Senior Living 30-Yr "BBB"	3.66%	3.65%	4.24%
Senior Living Unrated	4.36%	4.35%	4.88%
Senior Living New Campus	6.50%	6.50%	6.66%
SIFMA Muni Swap Index	1.47%	1.71%	0.86%

Source: Ziegler Capital Markets

FEATURED FINANCINGS

BEACON HILL AT EASTGATE
Grand Rapids, Michigan

The Economic Development Corporation of the City of Grand Rapids,
Limited Obligation Economic Development Revenue and Revenue Refunding Bonds, Series 2017A

\$42,540,000

FRASIER MEADOWS RETIREMENT COMMUNITY
Boulder, Colorado

Colorado Health Facilities Authority,
Revenue Improvement Bonds, Series 2017B

\$56,000,000

PINNACLE LIVING®

PINNACLE LIVING VILLAGE
Glen Allen, Virginia

Virginia Small Business Financing Authority,
Residential Care Facility Revenue Bonds, Series 2017C

\$54,710,000

UNITED CHURCH HOMES AND SERVICES
Newton, North Carolina

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

\$30,285,000

WOODLAND POND AT NEW PALTZ
New Paltz, New York

Ulster County Capital Resource Corporation,
Tax-Exempt Revenue Refunding Bonds, Series 2017

\$77,800,000

HORIZON HOUSE
Seattle, Washington

Washington State Housing Finance Commission,
Nonprofit Housing Revenue and Refunding Revenue Bonds, Series 2017

\$75,000,000

BENEVOLENT CORPORATION CEDAR COMMUNITY
West Bend, Wisconsin

Wisconsin Health and Educational Facilities Authority,
Revenue Bonds, Series 2017

\$38,185,000

THE ADMIRAL AT THE LAKE
Chicago, Illinois

Illinois Finance Authority,
Revenue Refunding Bonds, Series 2017

\$150,940,000

MARKET REVIEW

MONEY MARKET RATES

	1/5/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.50	4.50	4.25	3.75
Federal Funds (weekly average)	1.41	1.38	1.16	0.62
90 Day T-Bills	1.40	1.35	1.27	0.51
30-Day Commercial Paper (taxable)	1.50	1.49	1.30	0.62
Libor (30-day)	1.55	1.56	1.43	0.76
7 Day Tax-Exempt VRDB	1.47	1.71	1.00	0.68
Daily Rate Average	1.30	1.75	0.88	0.65

COMPARATIVE YIELDS
TAXABLE REVENUE

	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.79	2.00	2.29	1 Year	1.42	2.67	2.60	2.57	2.17	1.87	1.67
5 Year	2.28	4.25	3.18	5 Year	1.66	3.06	3.32	2.91	2.61	2.31	2.06
7 Year	2.40	4.75	3.55	7 Year	1.78	3.43	3.69	3.18	2.88	2.58	2.28
10 Year	2.47	5.25	3.82	10 Year	1.99	3.79	4.02	3.49	3.09	2.79	2.49
30 Year	2.80	6.25	4.40	30 Year	2.56	4.36	4.64	4.06	3.66	3.36	3.06
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	2018 HIGH	LOW
Bond Buyer					
20 Bond Index	3.44	3.44	.00	3.44	3.44
11 Bond Index	2.94	2.94	-.00	2.94	2.94
Revenue Bond Index	3.92	3.92	-.00	2.92	2.92
30 Year MMD	2.56	2.55	+.01	2.56	2.56
Weekly Tax-Exempt Volume (Bil)	0.71	0.59	+.12	.71	0.71
30 Day T/E Visible Supply (Bil)	4.00	2.61	+1.39	4.00	4.00
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	120.43	122.62	-2.19	120.43%	120.43%

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)		
01/05/18	1.47	4.50	1.41	1.40	1.50	1.55	3.36	-	3.06
12/29/17	1.71	4.50	1.38	1.35	1.49	1.56	3.35	-	3.05
12/22/17	1.40	4.50	1.41	1.34	1.65	1.53	3.50	-	3.20
12/15/17	1.11	4.50	1.15	1.29	1.40	1.49	3.37	-	3.07
12/08/17	1.00	4.25	1.16	1.27	1.30	1.43	3.29	-	2.99
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
10/06/17	0.92	4.25	1.16	1.04	1.10	1.23	3.73	-	3.43
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

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