ZIEGLER INVESTMENT BANKING
SENIOR LIVING FINANCE Z-NEWS

Page 1 | Week of January 15, 2018

FEATURED ARTICLE

THE ANNUAL "LOOK BEHIND…AND LOOK AHEAD": PART II – KEY 2018 TRENDS

In last week's issue of ***Z-News***, we took a look behind at 2017; what the state of the capital lending market presented itself to be for those seeking tax-exempt bond financings or those opting for bank credit. This week's issue takes a strategic look at what key issues we see on the horizon for providers in 2018. There are clearly a number of demographic trends and paradigm shifts that are disrupting business as we've known it, but there is also a greater proportion of solutions and opportunities present in those changes. The list below outlines the key forces we see shaping not-for-profit senior living throughout the next year.

- **Workforce:** Bottom-line, the challenges many organizations are facing with staff recruitment and retention is having a significant trickle-down within organizations. We need solutions.
- **Post-Acute Skilled Nursing:** Many providers are taking a hard look at the current skilled nursing environment and assessing their commitment to this service line moving forward.
- **Maintaining Occupancy:** Overall seniors housing occupancy has struggled across the past year to get out of the high 80s, but there is variation across property type level of care.
- **New Era of Not-For-Profit Financing:** The new tax law presents some changes for not-for-profit financing. Providers will need to retool their playbook for capital planning.
- **Technology:** Here the solutions come into play. Technology is shaping our world and senior living is no exception.
- **Thinking Big:** We know that consolidation continues and this will not change in 2018.

Workforce: Ziegler has conducted a number of surveys that reinforce the fact that senior living providers are facing an array of pressures related to staffing. Wages and benefits continue to rise and the cost of turnover has never been more painful. Providers need to not only embrace true employee engagement, but they need to be smart about exploring alternative staffing and caregiving models. Technology may play a role here, but solutions demand innovative thinking and efforts that are collaborative.

Post-Acute Skilled Nursing: For a number of years, we waited to see some of the true shifts put forth in the healthcare reform act of 2010. Nearly eight years later, we sit here with significantly reduced lengths of stays, patients with a higher acuity, narrowed networks, and many treatment protocols that skip skilled nursing rehab altogether. Occupancy within skilled nursing continues to set record lows. All of these pressures are forcing providers to take a hard look at their quality of care, their partnerships, and their overall unit mix. It is clear that this will not subside and there is a new normal in the post-acute world. This has been a big driver on the affiliation front and will continue to be in 2018.

Maintaining Occupancy: The good news is that we know from data reported by National Investment Center for Seniors Housing and Care that not-for-profit occupancy remains several percentage points above the private sector. Candidly, some of that is because of limited new inventory being put forth among not-for-profits in recent years. Independent Living occupancy appears to be the most stable, but there is variation across markets and providers. Communities who have not kept up with reinvestment requirements and who are financially strained may need to make some difficult decisions. For those who have occupancies 97% and above and benefit from long wait lists need to explore growth opportunities to serve the demand. If you do not, others will.

New Era of Not-for-Profit Financing: While not-for-profit financing dodged a bullet with the preservation of private activity bonds, the new tax laws bring forth changes. First, advance refunding of bonds is no longer permitted, which will constrain provider ability to take advantage of lower rate environments. Additionally, as the corporate tax rate lowers, in-turn, the variable bank rates will likely go up. Thus far, we are seeing banks respond in different ways to this change, but it appears inevitable that most providers with bank debt will face some degree of increased costs. All of these changes will impact capital planning and financial forecasting. Chief Financial Officers and others will use 2018 to determine how to best move forward given their capital needs.

Technology: It is a safe bet that technology will not be taking a back seat in 2018. How can some of our everyday technologies have a role in senior living and care? Tablets, mobile devices, activity monitors and wearables have all become mainstream and each have applications within the workplace and with our customers. The next level of innovations includes telehealth options, voice command software and yes, even robots. The opportunities surrounding technology can indeed be overwhelming. Use 2018 to think about your strategy to stay on top of the rapid changes and how to be smart about your investments.

Thinking Big: This trend is intended to cover several different domains. First, as our industry and the surrounding environment evolves, we should as well. We need to be more sophisticated and be better, bolder thinkers. No, not reckless, but bold. We cannot operate at a slow, steady pace anymore and expect to remain competitive. We need to enhance our business models and our operations and redefine who we are to remain relevant with tomorrow's consumer. Thinking big not only suggests growth, but it can also translate into hard decisions to stop doing certain things. It might make sense to close that home health agency that has lost money every year for the past 10 years or it may mean a repositioning of your brand and image. Don't be afraid to make the right decision. Sometimes one step back positions us for two steps forward. The second element of the big-thinking trend relates to the ongoing activity with partnerships, joint ventures and consolidation. We know that 2018 will continue to reveal new organizations that are comprised of existing ones that decided a unified effort is better than a solo strategy.

This list isn't meant to be exhaustive. There are many additional trends that will be underpinnings of our planning throughout 2018. The changing consumer, continued for-profit competition, and succession planning are just a few examples. What we know is that organizational leadership, including boards, need to be educated on these issues. You cannot govern in a vacuum. In 2017 alone, Ziegler met with nearly 50 leadership teams and boards to conduct strategy sessions around these trends and more. If this would benefit your organization, please follow-up with the Ziegler banker in your region.

Best wishes for a healthy and prosperous 2018!

LISA McCRACKEN
DIRECTOR
SENIOR LIVING RESEARCH & DEVELOPMENT

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

JANUARY 11 - 16, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
East Ridge Retirement Village (FL)	Fitch	BB- Negative	Downgraded Rating	1/11/18
Aldersly (CA)	Fitch	BBB+ Stable	Affirmed Rating	1/16/18

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 12, 2018

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.71%	2.56%	2.84%
Senior Living 30-Yr "A"	3.51%	3.36%	3.82%
Senior Living 30-Yr "BBB"	3.81%	3.66%	4.22%
Senior Living Unrated	4.51%	4.36%	4.86%
Senior Living New Campus	6.50%	6.50%	6.66%
SIFMA Muni Swap Index	1.31%	1.47%	0.87%

Source: Ziegler Capital Markets

FEATURED FINANCINGS

RIVERWOODS AT EXETER
Exeter, New Hampshire
Taxable Term Loan / New Money
$7,154,498

MASONICARE (CHESTER VILLAGE)
Chester, Connecticut
Taxable Term Loan / Acquisition
$10,000,000

RIDDLE VILLAGE
Media, Pennsylvania
Bank Direct Purchase / New Money / Refunding
$53,765,000

KENDAL AT LEXINGTON
Lexington, Virginia
Bank Direct Purchase / New Money
$13,000,000

RIVERMEAD
Peterborough, New Hampshire
Bank Direct Purchase / New Money
$34,500,000

NORTH HILL
Needham, Massachusetts
Bank Direct Purchase / Refunding
$57,810,000

MARKET REVIEW

MONEY MARKET RATES

	1/12/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.50	4.50	4.50	3.75
Federal Funds (weekly average)	1.41	1.41	1.26	0.66
90 Day T-Bills	1.41	1.40	1.29	0.51
30-Day Commercial Paper (taxable)	1.51	1.50	1.40	0.61
Libor (30-day)	1.55	1.55	1.49	0.76
7 Day Tax-Exempt VRDB	1.31	1.47	1.11	0.67
Daily Rate Average	1.26	1.30	1.07	0.65

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	NR*	A
1 Year	1.73	2.00	2.23
5 Year	2.33	4.25	3.23
7 Year	2.46	4.75	3.61
10 Year	2.52	5.25	3.87
30 Year	2.83	6.25	4.43

	MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.42	2.67	2.60	2.57	2.17	1.87	1.67
5 Year	1.70	3.10	3.36	2.95	2.65	2.35	2.10
7 Year	1.87	3.52	3.77	3.27	2.97	2.67	2.37
10 Year	2.12	3.92	4.13	3.62	3.22	2.92	2.62
30 Year	2.71	4.51	4.78	4.21	3.81	3.51	3.21
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

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE	2018 HIGH	LOW
20 Bond Index	3.54	3.44	+.10	3.54	3.44
11 Bond Index	3.04	2.94	+.10	3.04	2.94
Revenue Bond Index	4.03	3.92	+.11	4.03	2.92
30 Year MMD	2.71	2.56	+.15	2.71	2.56
Weekly Tax-Exempt Volume (Bil)	1.72	0.71	+1.01	1.72	0.71
30 Day T/E Visible Supply (Bil)	4.23	4.00	+.23	4.23	4.00
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	124.02	120.43	+3.59	124.02%	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)		
01/12/18	1.31	4.50	1.41	1.41	1.51	1.55	3.51	-	3.21
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
10/06/17	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.