

# ZIEGLER INVESTMENT BANKING

## SENIOR LIVING FINANCE Z-NEWS

### MARKET COMMENTARY

## FROM A CAPITAL MARKETS PERSPECTIVE

For the first time in 2018, stocks recorded a large weekly loss, with the large-cap S&P 500 Index logging its worst weekly decline since 2016. Energy stocks led the selloff due to late in the week lower-than-expected earnings results from Chevron and ExxonMobil. The health care sector was also particularly weak after falling Tuesday on news that Amazon.com, Berkshire Hathaway, and JPMorgan Chase were planning to cooperate in establishing a health care system for their U.S. employees. Assisted by rising bond yields, financials outperformed other sectors, higher rates should result in improved lending margins. Market volatility (as measured by the VIX index) hit multi-month highs late in the week.

There was positive economic news, including January private payroll gains and an increase in pending home sales. This economic news applied upward pressure on long-term bond yields. On Friday the Labor Department announced that employers had added 200,000 non-farm jobs in January, a result better than consensus estimates. The markets seemed to pay greater attention to the data on average hourly earnings, which improved at their best year-over-year levels in more than 9 years. The numbers gave the equity markets two concerns; (1) they suggest that the extremely taut labor market is creating increased labor costs; and (2) it is giving the Federal Reserve a strong reason to increase its pace of interest rate hikes.

In the fixed income markets, the week was defined by a spike in bond yields. The yield on the 10-year Treasury note jumped to its highest level since 2014 and by week's end the 30-year Treasury yield surged through a 3% for the first time since May. Municipal bond prices fell with Treasuries, but municipal investor demand continues to remain strong as new issue supply lags. Investors in municipal bond funds again put cash into the funds in the latest week, according to Lipper data released on Thursday. The weekly reporters saw \$235 million of inflows the week of Jan. 31, after inflows of \$781 million in the previous week. In a reversal, High-yield tax-exempt funds reported outflows of \$143 million in the latest week, after inflows of \$32.551 million 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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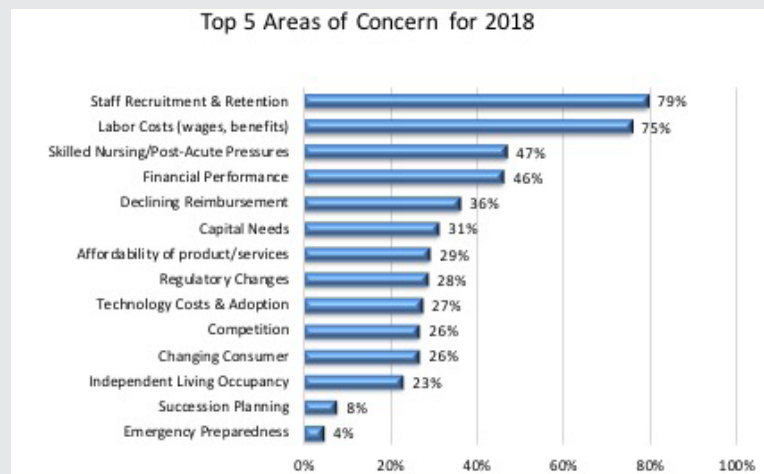


## FEATURED ARTICLE

## ZIEGLER CFO HOTLINE<sup>SM</sup>: OUTLOOK FOR 2018

Heading into 2018, we wanted to devote a *Ziegler CFO Hotline<sup>SM</sup>* poll to taking the temperature of the key issues facing senior living Chief Financial Officers (CFOs). Roughly 160 not-for-profit CFOs from around the country participated in the survey.

The initial survey question asked respondents to pick their top five concerns as they look ahead throughout 2018. Not surprisingly, staffing-related issues (wages, recruitment, retention) came in at the top, followed by pressures in the skilled nursing/post-acute service lines. Financial performance, largely related to the healthcare sides of the business, were noted as focal points as well. The table below details the other top areas of concern.



Source: *Ziegler CFO Hotline*, January 2018

Conversely, respondents were asked to identify what they are most excited about as they think ahead to their organization's top priorities in 2018. Expansion plans, overall growth initiatives and strategic planning topped the list of mentions.

Most Excited About in 2018	Number of mentions
Expansion plans	30
Growth in general	13
Strategic Planning	11
Capital Improvements	10
Technology Upgrades	9
Repositioning projects	7
Community Renovations	6
Affiliations/Partnerships	5
HCBS	4

CFOs were also asked to comment on their outlook with respect to their organization's ability to participate in at-risk relationships with payors, whether they feel they are well-positioned for the next generation of consumers and whether they have the scope and sophistication needed to remain competitive. While feedback was mixed, the greatest level of agreement among CFOs was the ongoing work to further diversify product and service offerings throughout 2018.

To access the full copy of the current report and to review previous *Ziegler CFO Hotline<sup>SM</sup>* reports, please [click here](#). If you have any questions related to this article or any other issues, please contact the Ziegler banker in your region.

LISA McCracken  
DIRECTOR, SENIOR LIVING RESEARCH & DEVELOPMENT  
ZIEGLER

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

JANUARY 30 - FEBRUARY 5, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Christian Horizons (IL)	Fitch	BBB- Stable	Affirmed Rating	1/30/18
Fellowship Senior Living (NJ)	Fitch	BBB+ Stable	Affirmed Rating	2/1/18
Army Retirement Residence Foundation (TX)	S&P	BBB Stable	Assigned Rating	2/2/18

*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 FEBRUARY 2, 2018

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.93%	2.78%	2.83%
Senior Living 30-Yr "A"	3.73%	3.58%	3.78%
Senior Living 30-Yr "BBB"	4.03%	3.88%	4.18%
Senior Living Unrated	4.73%	4.58%	4.82%
Senior Living New Campus	6.50%	6.50%	6.64%
SIFMA Muni Swap Index	1.08%	1.16%	0.90%

*Source: Ziegler Capital Markets*

**IN YOUR CORNER**
**LEADINGAGE PEAK LEADERSHIP SUMMIT**

Marriott Wardman Park Hotel  
 Washington, D.C.  
 March 18-21, 2018

*Ziegler Participants: Amy Castleberry & Keith Robertson*  
 Tuesday, March 20 | 8:00 - 9:30 am  
 Session: 16-D: CFO Forum

*Ziegler Participant: Dan Hermann*  
 Tuesday, March 20 | 8:00 - 9:30 am  
 Session: 15-D: Technology Forum

*Ziegler Participant: Tom Meyers*  
 Tuesday, March 20 | 10:00 - 11:30 am  
 Session: 17-E: Panel of Pundits: New Partnership Opportunities

## MARKET REVIEW

## MONEY MARKET RATES

	2/02/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.50	4.50	4.50	3.75
Federal Funds (weekly average)	1.39	1.41	1.41	0.64
90 Day T-Bills	1.48	1.42	1.40	0.49
30-Day Commercial Paper (taxable)	1.49	1.50	1.50	0.61
Libor (30-day)	1.57	1.56	1.55	0.78
7 Day Tax-Exempt VRDB	1.08	1.16	1.47	0.65
Daily Rate Average	1.01	1.02	1.30	0.60

## COMPARATIVE YIELDS

## TAXABLE REVENUE

	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.87	2.00	2.37	1 Year	1.35	2.60	2.56	2.50	2.10	1.80	1.60
5 Year	2.59	4.25	3.49	5 Year	1.86	3.26	3.55	3.11	2.81	2.51	2.26
7 Year	2.76	4.75	3.91	7 Year	2.10	3.75	3.90	3.50	3.20	2.90	2.60
10 Year	2.84	5.00	4.19	10 Year	2.83	4.63	4.35	4.33	3.93	3.63	3.33
30 Year	3.08	6.25	4.68	30 Year	2.93	4.73	4.90	4.43	4.03	3.73	3.43
				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	3.72	3.59	+ .13	3.72	3.44
11 Bond Index	3.22	3.09	+ .13	3.22	2.94
Revenue Bond Index	4.21	4.08	+ .13	4.21	2.92
30 Year MMD	2.93	2.78	+ .15	2.93	2.56
Weekly Tax-Exempt Volume (Bil)	5.08	5.56	- .48	5.56	0.71
30 Day T/E Visible Supply (Bil)	4.36	6.21	-1.85	7.16	4.00
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	121.89	122.60	-.71	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)		
02/02/18	1.08	4.50	1.39	1.48	1.49	1.57	3.73	-	3.43
01/26/18	1.16	4.50	1.41	1.42	1.50	1.56	3.58	-	3.28
01/19/18	1.23	4.50	1.41	1.42	1.51	1.55	3.51	-	3.21
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
11/03/17	0.92	4.25	1.14	1.17	1.13	1.24	3.65	-	3.30
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

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