

# ZIEGLER INVESTMENT BANKING

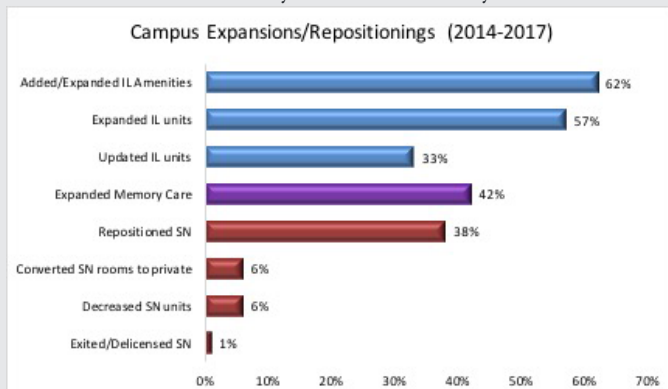
## SENIOR LIVING FINANCE Z-NEWS

### FEATURED ARTICLE

## CAMPUS EXPANSIONS & REPOSITIONINGS IN 2018

This past winter, Ziegler shared the findings from a *Ziegler CFO Hotline<sup>SM</sup>* poll that focused on key issues garnering the attention of providers in the year ahead. Among the top concerns were hot topics such as staffing, skilled nursing and post-acute pressures, and declining reimbursement, among others. The survey not only highlighted areas of concern, but also areas that are stirring up the greatest excitement within senior living. The number one mention was community expansion projects. Campus growth, repositioning projects and community renovations were also common mentions. In this issue of *Z-News*, we wanted to further dissect the community reinvestment that we have observed in recent years.

We know from the 2017 LeadingAge Ziegler 150 survey that three-quarters of providers plan to reposition or expand an existing community within the next two years. That is fairly consistent with the 2016 figure, but slightly above the 2015 percentage, which was around 71%. While this is helpful information to know overall, there is benefit in understanding specifically what types of projects have seen the most activity in the not-for-profit senior living sector. Ziegler examined all of its senior living financings between 2014 and 2017 to identify what the dollars being spent on campus reinvestments were. The graph below shows where the most activity has been in recent years.



Source: Ziegler Investment Banking

### A Focus on Independent Living

The majority of the campus improvement activities have been related to Independent Living units, as well as common areas utilized most heavily by the independent living residents. Common activities in recent years include expanding the size of units, perhaps combining two units into one. Investments are also clearly made in upgrading kitchens and bathrooms. While not tracked as part of Ziegler's research, it is known that many providers are also integrating smart-home technology into new and upgraded Independent Living units and cottages. These innovations often integrate voice commands and/or are controlled via hand-held devices, such as smartphones.

Many providers are also expanding and repositioning common areas such as upgrading dining areas and expanding wellness-related offerings. These wellness-related amenities include fitness centers; social areas like cafes, bistros or similar setups; and outdoor theaters for events such as speakers and performers. All areas that are focused on offerings that enhance quality of life, resident engagement and overall well-being.

All of the Independent living unit upgrades, reconfigurations and/or amenity expansions are clearly being driven by the need to stay on top of the changing consumer preferences, particularly those of the Baby Boomers.

### Carving Out Memory Care

It is no surprise to anyone that providers are working to meet the growing demand for memory support services. As the population ages and a growing number of older adults are experiencing dementia or Alzheimer's Disease, there is a great need for providers to offer, not only specialized programming and protocols for this population, but dedicated living areas within a campus. We also know that in recent years, this has been a tremendous area of growth among for-profit owners and operators as well. The LeadingAge Ziegler report also tells us that the vast majority of new memory care units coming online are within Assisted Living. While some Skilled Nursing Memory Support units exist, they are to a lesser extent than Memory Support within Assisted Living.

### Skilled Nursing- From Institutional to Home

Roughly 40% of the projects financed by Ziegler in the past four years have involved some type of repositioning of the healthcare unit. Generally speaking, providers have been actively working to eliminate skilled nursing settings that have a strong institutional feel, to reduce the number of semi-private units and often to create designs that follow household-type settings. At the upcoming Ziegler LeadingAge National CFO Workshop, there will be a session focused on small house models and how to develop, and even transition units, to this more modern approach to skilled care.

Ziegler will continue to track the trends related to campus expansions and repositionings and, as is done each year, provider case studies will be highlighted in sessions at the annual Ziegler Senior Living Finance + Strategy Conference.

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

APRIL 4-9, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Kendal at Oberlin (OH)	S&P	A- Positive	Affirmed Rating Revised Outlook	4/9/18

*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 APRIL 6, 2018

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.98%	2.95%	2.81%
Senior Living 30-Yr "A"	3.78%	3.75%	3.71%
Senior Living 30-Yr "BBB"	3.98%	4.05%	4.08%
Senior Living Unrated	4.78%	4.75%	4.74%
Senior Living New Campus	6.50%	6.50%	6.61%
SIFMA Muni Swap Index	1.60%	1.58%	0.99%

*Source: Ziegler Capital Markets*

**IN YOUR CORNER**
**LEADINGAGE ILLINOIS 2018 ANNUAL MEETING & EXPO**

Renaissance Schaumburg Convention Center  
Schaumburg, Illinois  
April 17-19, 2018

*Ziegler Participant: Stephen Johnson*  
Wednesday, April 18 | 8:00 – 9:30am  
*Building Financial Strength & Securing Your Future*

*Ziegler Participant: Stephen Johnson*  
Wednesday, April 18 | 1:30 – 2:30pm; 2:45 – 3:45pm; & 4:00 – 5:00pm  
*Senior Management & Board Leadership Forum*

*Ziegler Participant: Will Carney*  
Thursday, April 19 | 8:00 – 8:30am  
*Addressing Changes in Financial Reporting for Life Plan Communities: ASC 606 Income Recognition*

**FEATURED FINANCING**

**THE HIGHLANDS AT WYOMISSING**

Wyomissing, Pennsylvania

Berks County Industrial  
Development Authority,  
Healthcare Facilities Revenue Bonds,  
Series 2018

**\$22,820,000**

## MARKET REVIEW

**MONEY MARKET RATES**

	4/06/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.75	4.75	4.50	4.00
Federal Funds (weekly average)	1.68	1.67	1.41	0.90
90 Day T-Bills	1.71	1.67	1.66	0.81
30-Day Commercial Paper (taxable)	1.82	1.84	1.75	0.86
Libor (30-day)	1.89	1.88	1.71	0.98
7 Day Tax-Exempt VRDB	1.60	1.58	1.13	0.88
Daily Rate Average	1.55	1.60	1.08	0.85

**COMPARATIVE YIELDS**
**TAXABLE REVENUE**

	GOVT	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	2.05	2.55	1 Year	1.59	2.84	2.94	2.74	2.34	2.04	1.84
5 Year	2.59	3.49	5 Year	2.08	3.48	3.58	3.33	2.98	2.73	2.48
7 Year	2.71	3.86	7 Year	2.25	3.90	4.00	3.60	3.25	3.05	2.75
10 Year	2.78	4.13	10 Year	2.45	4.25	4.45	3.90	3.45	3.25	2.95
30 Year	3.02	4.62	30 Year	2.98	4.78	4.98	4.43	3.98	3.78	3.48

(\* Representative of retail sales.); (\*\* Representative of institutional sales.)

**TAX-EXEMPT MARKET INDICATORS**

	THIS WEEK	LAST WEEK	CHANGE	2018 HIGH	LOW
Bond Buyer					
20 Bond Index	3.90	3.89	+0.01	3.90	3.44
11 Bond Index	3.40	3.39	+0.01	3.40	2.94
Revenue Bond Index	4.38	4.37	+0.01	4.46	2.92
30 Year MMD	2.98	2.95	+0.03	3.05	2.56
Weekly Tax-Exempt Volume (Bil)	6.62	2.70	+3.92	6.62	0.71
30 Day T/E Visible Supply (Bil)	5.11	8.29	-3.18	8.29	4.00
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	125.16	126.26	-1.44	126.26%	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)		
04/06/18	1.60	4.75	1.68	1.71	1.82	1.89	3.78	-	3.48
03/30/18	1.58	4.75	1.67	1.67	1.84	1.88	3.75	-	3.45
03/23/18	1.36	4.75	1.48	1.72	1.84	1.86	3.80	-	3.50
03/16/18	1.22	4.50	1.42	1.76	1.79	1.78	3.84	-	3.54
03/09/18	1.13	4.50	1.41	1.66	1.75	1.71	3.85	-	3.55
03/02/18	1.09	4.50	1.38	1.63	1.65	1.67	3.82	-	3.52
02/23/18	1.09	4.50	1.41	1.64	1.57	1.62	3.85	-	3.55
02/16/18	1.00	4.50	1.41	1.59	1.55	1.58	3.83	-	3.53
02/09/18	0.98	4.50	1.41	1.55	1.50	1.57	3.77	-	3.47
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
01/05/18	1.47	4.50	1.41	1.40	1.50	1.55	3.36	-	3.06
12/01/17	0.97	4.25	1.13	1.26	1.18	1.37	3.59	-	3.29
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

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