

ZIEGLER INVESTMENT BANKING

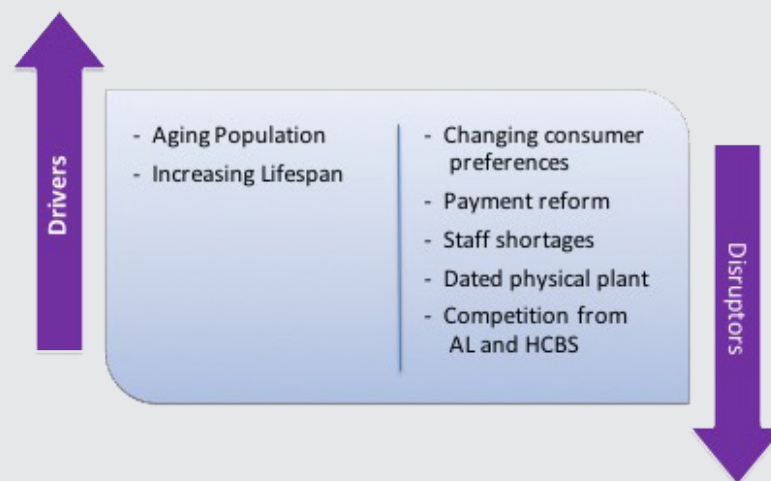
SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

THE VIABILITY OF SKILLED NURSING IN THE CONTINUUM OF TOMORROW

Ziegler has devoted previous issues of *Z-News* to the topic of skilled nursing and in particular, the post-acute skilled nursing sector. Given the ever-changing skilled care marketplace and increased pressures being felt by providers, it is worth additional attention. Roughly, two weeks ago at the 20th Annual *Ziegler LeadingAge National Senior Living CFO Workshop*, more than 100 attendees sat in a session entitled, **The Viability of Skilled Nursing in the Continuum of Tomorrow**. This was one of the most heavily attended sessions at the conference. Just this week at the *LeadingAge California* conference, Ziegler's Mary Muñoz, along with representatives from Episcopal Communities & Services and Eskaton, presented on a similar topic to a packed room of attendees. CFOs reported in a recent *Ziegler CFO HotlineSM* survey that this issue is one of their primary concerns for 2018. It is safe to say that this is a top-of-mind issue for providers.

An aging population and the wave of Baby Boomers certainly suggests a growing need for skilled nursing beds in the decade or so ahead. Despite this demographic shift, there is great disruption in the skilled care environment, from changing consumer preference to shifting payment models. These forces are clearly having a national impact on skilled nursing occupancy and profitability.



A 2017 Ziegler survey revealed that roughly 30% of not-for-profit providers are exploring a decrease in the number of their skilled nursing beds. Many providers are strategically having a “right-sizing” conversation regarding their number of skilled nursing beds compared to assisted living and independent living. We know that a large proportion of full-continuum providers are increasingly offering home care and other similar support services within a resident’s particular unit, thus enhancing preventative care and often reducing the need, or delaying the need, for a transition to the skilled nursing center. For the short-stay, post-acute customer, providers are increasingly feeling squeezed out of referral networks, are admitting individuals with a higher acuity than in the past, and are pressured to reduce length of stay while maintaining the highest quality outcomes.

For organizations who having strategic conversations about the future of their skilled nursing offerings, the list below can serve as a starting point for robust generative discussion.

- *Do we have too many skilled nursing beds for our market? Are there nearby providers who specialize in skilled nursing services and perhaps do it better than we do?*
- *If we stay committed to, and invest in, our skilled nursing, can we be in the top two in our market?*
- *What are options within our organization, and within regulatory constraints, for a higher-acuity assisted living product?*
- *Should the skilled nursing stay open or closed?*

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- *Could we expand into higher-margin business lines to supplement the skilled nursing operation?*
- *Should we explore being more in the driver's seat from a reimbursement standpoint and explore establishing our own Medicare Advantage (I-SNP) plan?*

It is important to acknowledge that the skilled nursing and post-acute environment can be very local. While the national average for skilled nursing occupancy is in the low 80s, there are some markets that are much higher and fewer providers are feeling the impact of the aforementioned pressures. Additionally, every provider will vary in the proportion of post-acute versus more long-term skilled nursing beds, thus variations in the impacts being felt. In fact, we do continue to see providers reinvesting in their skilled nursing offerings and planning for future needs and changing customer preferences. While a proportion of providers may be looking to reduce their skilled nursing exposure, many remain in-the-game and are meeting a significant community need. In the not-for-profit world, the care for the neediest older adults has long been a part of our history and while it is indeed changing, it is anticipated that skilled care needs will continue for some time.

If your organization is wrestling with this topic and would benefit from additional data or industry insight from Ziegler, please do not hesitate to contact the Ziegler banker in your region.

LISA McCracken
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ZIEGLER

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

MAY 2 - 7, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Vinson Hall (VA)	Fitch	BBB+ Stable	Assigned Rating	5/1/18
Ohio Living (OH)	Fitch	BBB Stable	Assigned Rating	5/2/18
Ohio Living (OH)	Fitch	BBB Stable	Affirmed IDR* Rating	5/2/18
Sunnyside Village (FL)	Fitch	BBB Stable	Assigned Rating	5/7/18
Terwilliger Plaza (OR)	Fitch	BBB Stable	Affirmed Rating	5/7/18

**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.

IN YOUR CORNER

LEADINGAGE ARIZONA 2018 ANNUAL CONFERENCE & EXPO
 We-Ko-Pa Resort & Conference Center
 Scottsdale, Arizona
 May 30-June 1, 2018

Ziegler Participant: Daren Bell
 Session 3O: Friday, June 1 | 9:30 – 11:00am
Hot Topics in Senior Living


INTEREST RATES/YIELDS

(AS OF MAY 4, 2018)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.00%	3.14%	2.82%
Senior Living 30-Yr "A"	3.80%	3.94%	3.69%
Senior Living 30-Yr "BBB"	4.00%	4.14%	4.04%
Senior Living Unrated	4.80%	4.94%	4.72%
Senior Living New Campus	6.50%	6.50%	6.60%
SIFMA Muni Swap Index	1.61%	1.75%	1.06%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.67%	4.69%	1.65%

**Ziegler Senior Living Municipal Long Bond Index*
 Source: Ziegler Capital Markets

FEATURED FINANCING


MARY'S WOODS AT MARYLHURST
 Lake Oswego, Oregon

Hospital Facility Authority of Clackamas County, Oregon,
 Senior Living Revenue Bonds, Series 2018

\$41,400,000

MARKET REVIEW

MONEY MARKET RATES

	5/4/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.75	4.75	4.75	4.00
Federal Funds (weekly average)	1.68	1.68	1.68	0.91
90 Day T-Bills	1.83	1.77	1.71	0.88
30-Day Commercial Paper (taxable)	1.85	1.83	1.82	0.83
Libor (30-day)	1.92	1.90	1.89	0.99
7 Day Tax-Exempt VRDB	1.61	1.75	1.60	0.85
Daily Rate Average	1.42	1.68	1.55	0.75

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	2.23	2.73	1 Year	1.75	3.00	3.10	2.85	2.50	2.20	2.00
5 Year	2.78	3.68	5 Year	2.14	3.54	3.64	3.34	3.04	2.79	2.54
7 Year	2.89	4.04	7 Year	2.29	3.94	4.04	3.59	3.29	3.09	2.79
10 Year	2.94	4.29	10 Year	2.45	4.25	4.45	3.85	3.45	3.25	2.95
30 Year	3.11	4.71	30 Year	3.00	4.80	5.00	4.40	4.00	3.80	3.50

(* 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	3.89	3.97	-0.08	3.97	3.44
11 Bond Index	3.37	3.45	-0.08	3.45	2.94
Revenue Bond Index	4.38	4.46	-0.08	4.46	2.92
30 Year MMD	3.00	3.14	-0.14	3.14	2.56
Weekly Tax-Exempt Volume (Bil)	2.89	5.35	-2.46	6.62	0.71
30 Day T/E Visible Supply (Bil)	7.33	3.32	+4.01	8.29	4.00
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	122.58	126.28	-3.70	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)		
05/04/18	1.61	4.75	1.68	1.83	1.85	1.92	3.80	-	3.50
04/27/18	1.75	4.75	1.68	1.77	1.83	1.90	3.94	-	3.64
04/20/18	1.81	4.75	1.68	1.80	1.87	1.89	3.80	-	3.50
04/13/18	1.70	4.75	1.68	1.75	1.81	1.89	3.74	-	3.44
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
02/02/18	1.08	4.50	1.39	1.48	1.49	1.57	3.73	-	3.43
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

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