

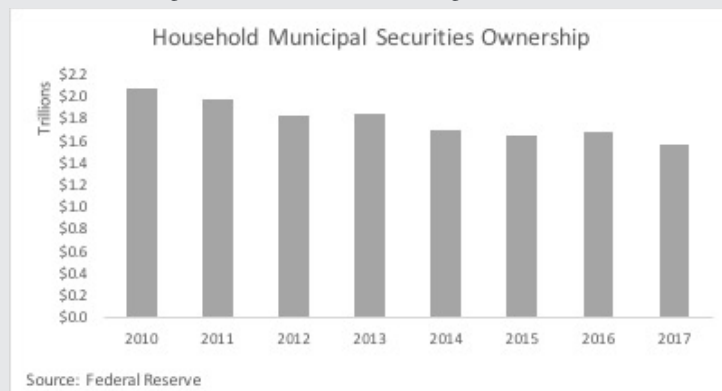
ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

HOUSEHOLD MUNI OWNERSHIP CONTINUES ITS DECLINE

According to the Federal Reserve, direct retail investment in municipal securities has declined by \$500 billion since 2010 – dropping from \$2.07 trillion to \$1.57 trillion. During this same period, total municipal securities outstanding has remained fairly stable between \$3.8 and \$3.9 trillion. As a result, the percent of household direct ownership of municipal securities has also dropped from nearly 53% in 2010 to just under 41% at the end of 2017. While household ownership does continue to represent a meaningful percentage of total municipal securities holdings, this is a shift worth noting.



Contributing Factors

Why are we seeing such a shift in retail ownership? There are a number of different factors, with each impacting individual investors to varying degrees.¹

First, the market has experienced a prolonged period of historically low interest rates since the Great Recession. As municipal bond investments made prior to 2008 mature, reinvestment of these funds in similar securities is likely to occur at much lower yields. These low rates, when compared with a booming equity market, have made investment in municipal bonds less attractive to retail investors compared to investing in stocks. Over this same period, the equity market and retail investor exposure to the equity market reached record highs—though both have come off these record levels in the first part of 2018 with increased market volatility stemming in large part from political and economic policy uncertainty. In addition, as the Fed increases interest rates (widely expected to be three to four times in 2018), investors are likely to remain on the sideline in anticipation of higher yields rather than locking in longer maturities.

In more recent years, the popularity of investing in mutual funds and municipal bond exchange traded funds (ETFs) to diversify portfolios and gain access to institutional money managers at reasonable fees has fueled indirect retail investment in municipal securities. This may be particularly true for non-rated and lower investment grade-rated bonds that require more intense credit scrutiny from investors. This shift, along with the rise of separately managed accounts (SMAs), has led many advisors to move away from advising on individual investments and focusing on selling managed funds. *It should be noted that SMAs, while similar in many ways to a mutual fund, differ in that the investor does actually own individual securities in the SMA account—the mutual fund*

investor owns just a fractional share of the fund itself, not individual securities. These SMA accounts, however, are generally viewed as institutional, not retail, accounts.

And while we'd be remiss not mentioning the Tax Cuts and Jobs Act of 2017, the lowering of individual tax rates only minimally lessens the benefit of owning tax-exempt bonds for most retail investors and would only have been a very recent factor (if any) in the drop in direct retail investment. Interestingly, rather than limit investors' interest in municipal securities, some economists² believe that the potential for even further reduced volume in the municipal market due to the elimination of advanced refundings combined with increased demand for Federal tax deductions for those investors living in high tax states may actually increase the attractiveness of municipal securities for individual investors.

However, with the elimination of advanced refundings, municipal supply has been reduced by approximately 20-25%. So even if demand for Federal tax deductions makes municipal securities more attractive to some individual investors, the demand is offset by reduced supply. Fewer investable securities in the marketplace has naturally reduced retail investors' ability to own bonds, resulting in a marketplace more geared toward large institutional purchases.

Recent MSRB Actions Likely to Further Reduce Direct Retail Ownership

Amendments to MSRB Rules G-15 and G-30—which provide guidance to dealers with issues relating to customer transactions, pricing, and commissions—requiring dealers to post markups and markdowns on municipal bond transaction confirmations of retail customers became effective on May 14, 2018. According to the MSRB, these amendments will lead to greater price transparency, provide greater clarity for investors on dealer compensation, and ultimately lead to lower transaction costs for investors. These are all good for investors and the market. However, it may lead retail investors, at least in the near-term, to increase indirect municipal bond ownership through mutual funds, ETFs, and SMAs to gain access to the lower fees associated with managed funds and the benefits of scale, and continue the downward trend in direct ownership of individual municipal securities.

What This Means for Future Issuance

So what does this mean for senior living issuers of tax-exempt municipal bonds? In the near term, retail ownership of municipal securities continues to be a viable option for the distribution of bonds as it represents nearly 41% of outstanding municipal securities, and in certain high-tax states, retail distribution may still provide real value. However, should this downward trend continue—or even accelerate, institutional distribution may emerge as an even more dominant option for distribution of municipal securities.

AARON M. SCHROEDER
SENIOR VICE PRESIDENT, ZIEGLER

Sources:

¹ Albano, Christine. "Why retail is no longer king of muni investors." *The Bond Buyer*, 2 April 2018.

² Cohen, Marilyn. "What The New Tax Law Means For Muni Bonds." *Forbes*, 23 January 2018

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CAPITAL :: INVESTMENTS :: ADVICE

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

MAY 30 - JUNE 11, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Southminster (NC)	Fitch	BB Stable	Assigned Rating	5/30/18
Carleton Willard Village (MA)	S&P	A-Stable	Affirmed Rating	5/31/18
Acts Retirement-Life Communities (PA)	Fitch	A-Stable	Assigned Rating Affirmed Rating	6/5/18
Blakeford at Green Hills (TN)	Fitch	BBB Stable	Affirmed Rating	6/6/18
Cornerstone Village fka Appalachian Christian Village (TN)	Fitch	BB-Negative	Removed from Rating Watch Negative	6/8/18
Morningside Ministries (TX)	Fitch	BB+ Stable	Downgraded Rating Revised Outlook	6/8/18
Legacy at Willow Bend (TX)	Fitch	BBB-Stable	Affirmed Rating	6/11/18
Deerfield Episcopal Retirement Community (NC)	Fitch	A Stable	Upgraded Rating	6/11/18

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/YIELDS

(AS OF JUNE 8, 2018)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.98%	2.87%	2.82%
Senior Living 30-Yr "A"	3.73%	3.62%	3.68%
Senior Living 30-Yr "BBB"	3.93%	3.82%	4.00%
Senior Living Unrated	4.73%	4.62%	4.68%
Senior Living New Campus	6.50%	6.50%	6.57%
SIFMA Muni Swap Index	1.05%	1.06%	1.10%
	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.66%	4.66%	1.70%

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

IN YOUR CORNER
LEADINGAGE WASHINGTON ANNUAL CONFERENCE & EXPO

Davenport Grand Hotel
Spokane, Washington
June 18-21, 2018

*Ziegler Participant: Sarkis Garabedian
Tuesday, June 19 | 11:00am – 12:30pm
Hot Topics in Senior Living*

*Ziegler Participant: Daren Bell
Wednesday, June 20 | 10:45am – 12:15pm
Improving Your Organization through Benchmarking*

FEATURED FINANCINGS

SUNNYSIDE VILLAGE

Sarasota, Florida

Sarasota County Health Facilities
Authority, Retirement Revenue
Improvement Bonds, Series 2018

\$21,325,000

MARKET REVIEW

MONEY MARKET RATES

	6/8/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.75	4.75	4.75	4.00
Federal Funds (weekly average)	1.69	1.69	1.69	0.91
90 Day T-Bills	1.92	1.91	1.89	1.00
30-Day Commercial Paper (taxable)	1.92	1.86	1.79	1.01
Libor (30-day)	2.02	1.98	1.92	1.09
7 Day Tax-Exempt VRDB	1.05	1.06	1.50	0.74
Daily Rate Average	1.00	0.89	1.33	0.68

COMPARATIVE YIELDS
TAXABLE REVENUE

	GOVT	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	2.28	2.73	1 Year	1.53	2.78	2.88	2.63	2.23	1.93	1.73
5 Year	2.78	3.63	5 Year	1.99	3.39	3.49	3.19	2.84	2.54	2.34
7 Year	2.89	3.94	7 Year	2.24	3.84	3.99	3.49	3.19	2.99	2.69
10 Year	2.94	4.24	10 Year	2.46	4.21	4.46	3.81	3.41	3.21	2.91
30 Year	3.09	4.59	30 Year	2.98	4.73	4.98	4.33	3.93	3.73	3.43

(* 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	3.88	3.78	+ .10	3.97	3.44
11 Bond Index	3.36	3.26	+ .10	3.45	2.94
Revenue Bond Index	4.37	4.27	+ .10	4.46	2.92
30 Year MMD	2.98	2.87	+ .11	3.14	2.56
Weekly Tax-Exempt Volume (Bil)	6.53	2.47	-4.06	6.62	0.71
30 Day T/E Visible Supply (Bil)	4.43	7.07	-2.64	8.29	4.00
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	111.36	118.68	-7.32	126.26%	118.68%

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)		
06/08/18	1.05	4.75	1.69	1.92	1.92	2.02	3.73	-	3.43
06/01/18	1.06	4.75	1.69	1.91	1.86	1.98	3.62	-	3.32
05/24/18	1.20	4.75	1.69	1.85	1.84	1.97	3.74	-	3.44
05/18/18	1.38	4.75	1.69	1.89	1.82	1.94	3.87	-	3.57
05/11/18	1.50	4.75	1.69	1.89	1.79	1.92	3.77	-	3.47
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
03/02/18	1.09	4.50	1.38	1.63	1.65	1.67	3.82	-	3.52
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

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