ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

THE 2018 STATE OF SENIOR LIVING & SENIOR LIVING CAPITAL MARKETS

Last week, Ziegler wrapped up another successful Annual Senior Living Finance + Strategy Conference. As part of this week's Z-News, we would like to take the opportunity to share highlights from our opening general session, The State of Senior Living and Capital Markets. The purpose of this opening session is to provide a broad-based overview of the general environment within the not-for-profit senior living sector. How are not-for-profit providers behaving? How are they growing (or not)? What is having the greatest influence on how they do business? How are the senior living capital markets supporting, or hindering, growth? The summary that follows is intended to touch on several of the key items that were presented.

In the senior living trends portion of the session, the following key areas were highlighted, along with data that provides additional insight into these trends.

- **It's All About the Customer:** The increasing number of older adults in the U.S. cannot be denied, but we also know that they have different needs and preferences than previous generations. Ziegler's Lisa McCracken talked about the importance of delivering both quality of life and care and catering to the passions of the individual. At the same time, our workforce is just as important to a customer. Without staff, we are unable to execute on our missions and facilitate growth. Organizations needs to be just as committed to understanding the needs of both of these populations.

- **Not-for-Profit Growth Defined:** The not-for-profit growth is picking up pace in select markets, but new location development remains relatively flat. We know that affiliations and acquisitions have surpassed growth through new locations, a reverse of the trend seen in the 1990s and early 2000s. Providers are very active with campus repositioning and expansion projects as well as the exploration of satellite campus concepts. The ongoing expansion of the continuum through growth of home and community-based services remains a focus area for a number of not-for-profit providers as well.

- **The Pace of Not-for-Profit Sponsorship Transitions:** Did you know that nearly 500 not-for-profit communities have changed hands since 2010? That is a significant number. Of those, we know that roughly 6 out of 10 have been transactions where a not-for-profit community/facility has been sold to a buyer in the private sector. Among all property types, the Life Plan Communities are the most likely to remain with not-for-profit sponsors. What is driving the increased pace of sponsorship transitions? What tops that list includes: Complexities of Healthcare, Leadership Turnover, Competition, Ability to Attract & Retain Talent and Board Strength are among the top five drivers according to Ziegler's research.

- **Catalysts & Disruptors:** With the dynamic pace of change and external pressures, additional challenges can be put on providers, but at the same time, these forces also present great opportunity. What does Ziegler see as the primary catalysts and disruptors shaping the not-for-profit senior living sector?

  * Older adults have more choices than ever…competition
  * Local markets are being disrupted by heavy for-profit construction in recent years
  * Healthcare and payment reform is moving fast, presenting pressures in the skilled nursing and post-acute space
  * Innovation in technology abounds and offers solutions to many of today's challenges

- **How Healthy is the Not-for-Profit Senior Living Sector?** Mary Muñoz from Ziegler covered key elements of how the sector is assessed in terms of operational and financial health. Not-for-profit occupancy remains roughly 5% above the for-profit sector, a trend reflective of all property types within the not-for-profit space. Some of this is attributed to the large amount of new, unfilled inventory in the for-profits sector. Nonetheless, occupancy is the highest among not-for-profits than it has been in some time. Long-term trends remain positive for Net Operating Margin, Days Cash on Hand, and Debt Service Coverage. Concerning is the Average Age of Facility Ratio, which continues to creep up for both single-site and multi-site providers. Upgrades and downgrades in credit ratings were fairly even in 2018, with most downgrades related to organizational growth and its short-term impact on certain financial ratios.

To fund growth initiatives, not-for-profit providers generally have to rely on debt capital, whether it be through the bank sources or the fixed-rate bond market. Tom Meyers from Ziegler updated attendees on the impact of the Tax Cut and Jobs Act and specifically how that has changed the cost of capital in the bank market. Nonetheless, accessing capital through local, regional and national banks remains popular among provider organizations. The narrowing of the spread between bank rates and 30-year fixed rates has driven some providers to replace bank direct purchase

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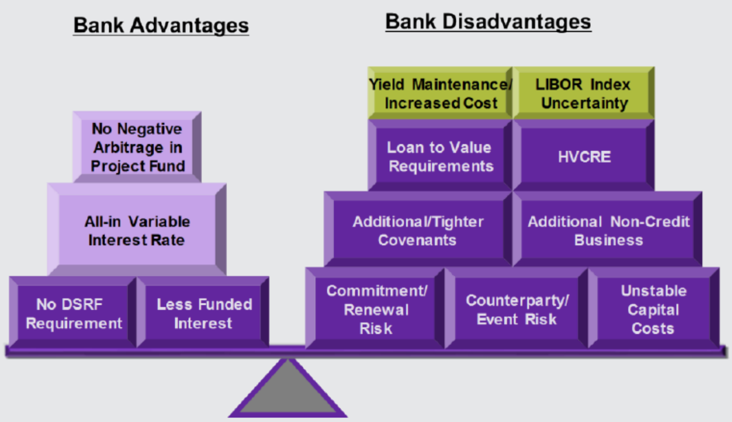
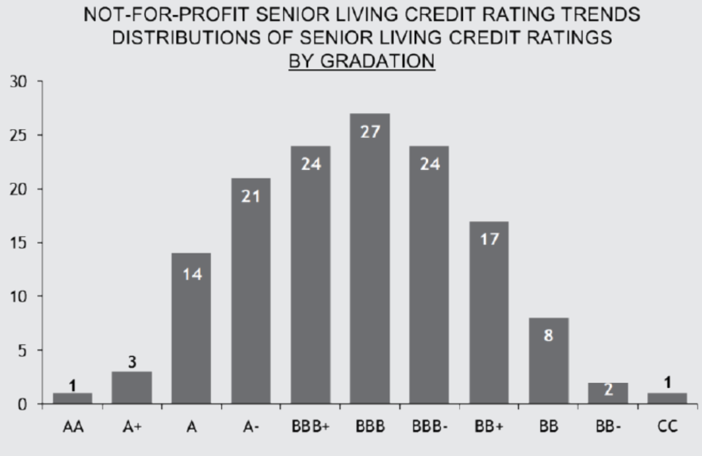
debt with public fixed rate debt. Ziegler continues to assist providers in finding the right bank lending partner and, in 2018, facilitated a number of these financings with both multi-site and single-site providers. The image below is a graphic that Ziegler has developed to summarize the advantages and disadvantages of bank debt.



Source: Ziegler Investment Banking

Rich Scanlon continued the capital markets discussion with an overview of the fixed-rate bond market. He noted that the marketplace for senior living continues to be steady and that investors are looking for consistent execution and quality situations. Thus far in 2018, new money transactions are up 77% compared to 2017. There was a significant amount of refunding at the end of 2017 driven by the uncertainly of the then-pending tax bill. The past year has seen a healthy balance between single-sites and multi-site systems in bond issuance. The institutional market continues to demonstrate a healthy appetite for senior living bonds, but that the retail market has declined somewhat nationally as a result of the Tax Cuts and Jobs Act. With regard to credit ratings, Fitch continues to expand their presence and commitment to the not-for-profit senior living sector, with the vast majority of the current ratings coming from their agency. The graph below depicts the distribution of senior living credit ratings.



SOURCE: Ziegler Investment Banking, as of 9/14/18

Ziegler's Executive Managing Director and Head of Capital Markets, Kevin Strom, closed out the capital markets commentary with an overview of the interest rate environment and overall economic outlook. Generally speaking, municipal bond inflows have been positive throughout 2018 with over $681 billion in net assets. Overall, borrowing rates across all credit spreads remain competitive. Strom provided a profile of institutional purchasers of not-for-profit senior living debt, noting that the top 20 institutional buyers purchase roughly 75% of institutionally-placed senior living debt.

Ziegler regularly provides similar "State of Senior Living" presentations to senior living boards throughout the year. In 2017, Ziegler provided nearly 50 such strategy sessions and 2018 is anticipated to be a similar number. If you are interested in having Ziegler provide a similar educational session to your board or leadership team, please reach out to the Ziegler banker in your region.

For questions about this issue of Z-News or other related topics, please refer to the Ziegler banker in your region.

LISA MCCRACKEN
DIRECTOR, SENIOR LIVING RESEARCH AND DEVELOPMENT
ZIEGLER

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

SEPTEMBER 19 - SEPTEMBER 24, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
No Ratings to Report this Week				

INTEREST RATES/YIELDS

(AS OF SEPTEMBER 21, 2018)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.23%	3.14%	2.90%
Senior Living 30-Yr "A"	4.03%	3.94%	3.70%
Senior Living 30-Yr "BBB"	4.28%	4.14%	3.95%
Senior Living Unrated	5.03%	4.94%	4.68%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.49%	1.49%	1.26%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.79%	4.76%	1.55%

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

FEATURED FINANCING

QUALITY *Life* SERVICES

QUALITY LIFE SERVICES
Butler, Pennsylvania

Taxable Loan / Revolving Line of Credit
New Money / Refunding

$71,000,000

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

The Dow Jones Industrial Average reached an all-time high and is up 8% year-to-date while most municipal mutual funds are down ~2%; a relationship worth keeping a close eye on in the fourth quarter. The S&P 500 Index also reached an all-time high, while the technology-focused Nasdaq Composite Index and the smaller-cap benchmarks recorded minor declines. The surge in longer-term bond yield on Monday and Tuesday advanced financials stocks by enhancing bank lending margins. On the contrary, bond rate increases applied pressure on real estate investment trusts and utilities shares, whose dividend yields became less attractive in comparison. The stout performance of the financial sector and marginal performance of technology stocks allowed value stocks to outperform their growth counterparts for the first week in recent memory. However, value stocks have a long way to go to catch up with growth stocks performance for 2018.

Bullish equity sentiment may also have received a boost from solid U.S. economic data. Weekly jobless claims, reported Thursday, fell to 200,000, the lowest level in more than 50 years. Regional manufacturing indexes were also robust. Housing data was mixed, with housing starts jumping in August, but new permits falling, suggesting some weakness ahead. Reports of a softening real-estate market in New York City grabs some headlines. The past week also saw increased tensions in the trade conflict between the U.S. and China, but it didn't have a week long negative affect on equities. Early in the week, President Trump delivered on a statement he made in August and indicated that $200 billion worth of Chinese goods would receive a 10% tariff, escalating to 25% by year-end.

As for fixed income, yields are increasing. The yield on the benchmark 10-year Treasury hit 3.10% late in the week, its highest since early May. It is the market consensus that the Federal Reserve will raise short-term interest rates when it meets this week. Municipal bonds registered losses through the week, as trading volumes declined and investors withdrew cash from municipal bond mutual funds. The municipal market saw credit spreads widening, particularly in the high yield municipal segment. The market softness also affected new issue transactions; in many instances borrowers had to cheapen their pricings (increase yields and reduce prices) to clear the market. The weekly reporters saw $140 million of inflows in the week ended Sept. 19 after outflows of $136 million in the previous week.

ADAM J. BUCHANAN
SENIOR VICE PRESIDENT

See pages 5-6 for current market rates

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

MARKET REVIEW

MONEY MARKET RATES

	9/21/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.00	5.00	5.00	4.25
Federal Funds (weekly average)	1.91	1.91	1.91	1.16
90 Day T-Bills	2.12	2.10	2.09	1.02
30-Day Commercial Paper (taxable)	2.10	2.06	1.98	1.10
Libor (30-day)	2.21	2.16	2.06	1.23
7 Day Tax-Exempt VRDB	1.48	1.49	1.58	0.88
Daily Rate Average	1.50	1.50	1.50	0.89

COMPARATIVE YIELDS

	TAXABLE REVENUE	
	GOVT	A
1 Year	2.48	2.93
5 Year	2.94	3.79
7 Year	3.02	4.07
10 Year	3.06	4.31
30 Year	3.20	4.80

	MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.86	3.06	3.21	2.96	2.56	2.26	2.06
5 Year	2.17	3.52	3.67	3.37	3.02	2.72	2.52
7 Year	2.36	3.91	4.11	3.61	3.36	3.16	2.81
10 Year	2.59	4.39	4.59	3.94	3.64	3.39	3.04
30 Year	3.23	5.03	5.23	4.58	4.28	4.03	3.68

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

TAX-EXEMPT MARKET INDICATORS

				2018	
Bond Buyer	THIS WEEK	LAST WEEK	CHANGE	HIGH	LOW
20 Bond Index	4.15	4.06	+.09	4.15	3.44
11 Bond Index	3.62	3.53	+.09	3.62	2.94
Revenue Bond Index	4.66	4.57	+.09	4.66	2.92
30 Year MMD	3.23	3.14	+.09	3.23	2.56
Weekly Tax-Exempt Volume (Bil)	5.27	4.42	+.85	11.11	0.71
30 Day T/E Visible Supply (Bil)	3.45	5.85	-2.40	14.29	0.63
30 year “A” Rated Hospitals as a % of 30 Year Treasuries	125.93	125.87	+.06	128.37%	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)		
09/21/18	1.48	5.00	1.91	2.12	2.10	2.21	4.03	-	3.68
09/14/18	1.49	5.00	1.91	2.10	2.06	2.16	3.94	-	3.59
09/07/18	1.49	5.00	1.91	2.13	2.04	2.12	3.86	-	3.51
08/31/18	1.56	5.00	1.91	2.09	2.02	2.07	3.83	-	3.48
08/24/18	1.58	5.00	1.91	2.09	1.98	2.06	3.80	-	3.45
08/17/18	1.57	5.00	1.90	2.03	1.94	2.06	3.76	-	3.46
08/10/18	1.45	5.00	1.90	2.04	1.98	2.06	3.82	-	3.52
08/03/18	1.29	5.00	1.90	2.00	1.94	2.08	3.80	-	3.50
07/27/18	0.94	5.00	1.90	1.99	1.92	2.07	3.75	-	3.45
07/20/18	0.94	5.00	1.90	1.98	1.96	2.08	3.66	-	3.36
07/13/18	1.01	5.00	1.90	1.96	1.97	2.07	3.66	-	3.36
07/06/18	1.19	5.00	1.90	1.91	1.96	2.09	3.67	-	3.37
06/01/18	1.06	4.75	1.69	1.91	1.86	1.98	3.62	-	3.32
05/04/18	1.61	4.75	1.68	1.83	1.85	1.92	3.80	-	3.50
04/06/18	1.60	4.75	1.68	1.71	1.82	1.89	3.78	-	3.48
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

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