

# ZIEGLER INVESTMENT BANKING

## SENIOR LIVING FINANCE Z-NEWS

### FEATURED ARTICLE

## THE CURRENT STATE OF THE SENIOR LIVING CONSTRUCTION MARKET

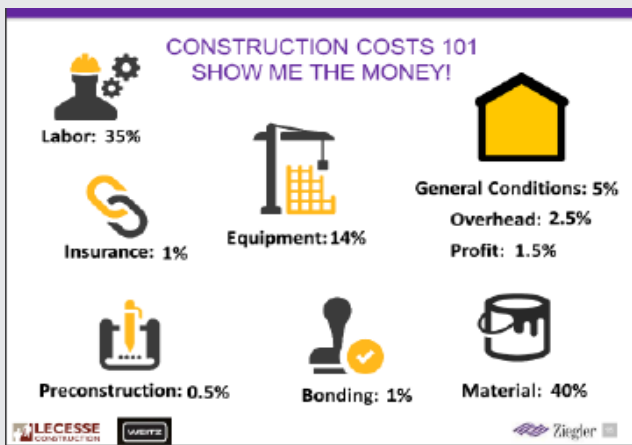
During the Senior Living Finance + Strategy Conference held last month, one of the most heavily-attended sessions was **2018 Senior Living Construction Update**. There was great interest among attendees in hearing the latest trends on workforce pressures, the impact of government tariffs on construction costs, and overall strategies to successfully execute construction projects. Presenters Chris Harrison (The Weitz Company) and Ken Ogden (LECESSE Construction) walked attendees through information on each of these topics and shared case studies of recent senior living projects.

### *Sharing Some Statistics<sup>1</sup>*

A number of statistics were shared related to the impact of labor shortages, as well as government-imposed tariffs on construction projects throughout the United States.

- The annual construction unemployment rate is currently at an all-time low, below the pre-recession figure.
- The Northeast and California are experiencing the greatest shortages of construction workers.
- Labor generally accounts for 35% of construction costs.
- The average cost per square foot in senior living today is just below \$200, similar to the figures in 2007 and early 2008.
- The impact of tariffs (25% tariff on steel and 10% tariff on aluminum) will impact materials such as rebar for foundations, metal framing, ductwork, piping, elevators, fire protection and aluminum windows among others.
- Materials generally account for 40% of project construction costs.

A “101” breakdown of typical construction costs for a senior living project is included below.



### *Suggested Strategies to Mitigate Construction Pressures*

The presenters also shared suggested strategies to overcome the labor shortage. Strategies that they recommended included: engaging subcontractors early, considering pre-fabricated wall panels which require less onsite labor, ensuring that the subcontractor is not a broker, and quick pay cycles. Suggestions were also made with respect to purchasing materials. There are benefits to direct purchase. Organizations need to be cognizant of the markup in materials purchasing by subcontractors, which can impact the overall cost of the job. It is important for project managers to be on top of these details and work to obtain the most competitive costs for materials.

Many not-for-profit senior living organizations are actively reinvesting in their campuses through expansion projects or community repositionings. The 2018 LeadingAge Ziegler 200 report reveals that 7 out of 10 providers are planning to expand or reposition their community(ies) in the next two years. The cost of materials and labor pressures are just some of the key items to be aware of when planning for project execution. It is paramount that project leads have trusted partners to ensure successful project completion at the most competitive prices. Senior living organizations clearly want to avoid significant project delays and cost escalation that exceeds contingency funds.

For questions about this session at the Ziegler Senior Living Finance + Strategy Conference, please refer to the Ziegler banker in your region or contact the representatives from The Weitz Company and LECESSSE Construction.

LISA MCCRACKEN  
DIRECTOR, SENIOR LIVING RESEARCH AND DEVELOPMENT  
ZIEGLER

<sup>1</sup>2018 Senior Living Construction Update. The Weitz Company & LECESSSE Construction.

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CAPITAL :: INVESTMENTS :: ADVICE

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

OCTOBER 15 - 19, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Linden Ponds (MA)	Fitch	BB Stable	Assigned Rating	10/15/18
Garden Spot Village (PA)	S&P	BBB Stable	Affirmed Rating	10/19/18
NewBridge on the Charles (MA)	Fitch	BB+ Stable	Affirmed Rating	10/19/18

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Any non-Ziegler sources referenced in this Z-News are believed to be reliable but cannot be guaranteed.*

**INTEREST RATES/YIELDS**

(AS OF OCTOBER 19, 2018)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.40%	3.41%	2.94%
Senior Living 30-Yr "A"	4.30%	4.26%	3.74%
Senior Living 30-Yr "BBB"	4.50%	4.51%	3.98%
Senior Living Unrated	5.25%	5.26%	4.73%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.57%	1.53%	1.30%
	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.88%	4.88%	1.48%

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

**FEATURED FINANCING**


CAPITAL MANOR  
A Continuing Care Retirement Community

**CAPITAL MANOR**  
Salem, Oregon

The Hospital Facility Authority of  
the City of Salem, Oregon,  
Revenue Bonds, Series 2018

**\$37,030,000**

## MARKET COMMENTARY

## FROM A CAPITAL MARKETS PERSPECTIVE

Continued volatility in the U.S. stock indexes created mixed results for the week. A strong rally early in the week was tempered by Thursday's sell-off. Corporations making up nearly 15% of the S&P 500's market cap released earnings last week. Reports from the financial sector exceeded analysts' approximations and was the driver of the early week rally in the S&P 500. The tech-heavy Nasdaq was again under pressure continuing the sizable sell-offs from early October. Market darling Netflix, which was just moved to the new-fangled communication services sector, was up significantly after announcing better-than-expected subscriber growth, but sold off late in the week along with the indexes.

The Federal Reserve's late-September monetary policy meeting minutes were released, which pushed Treasury yields higher, as Fed policymakers remained firm with their language that a steady pace of rate increases is to be expected to continue. Moreover, the release showed that Fed officials contemplated increasing rates past the neutral zone and into the restrictive zone in an attempt to cool off the economy and slow inflation. U.S. economic data releases were net positive on the week; September industrial production outperformed expectations, and weekly initial jobless claims remained near historic lows with unemployment sitting below 4% since March.

The yield on the benchmark 10-Year Treasury note increased five basis points to 3.20% by the end of the week, but remained below the seven-year high that was reached the second week of October. The corporate bond banking sector outperformed in the investment-grade corporate bond market, mostly due to a lack of new transactions following solid earnings reports. High yield corporate bonds had limited supply and generally supportive technical conditions amid inflows to the sector. Energy bonds were strong in the face of Brent crude oil falling below USD \$80 per barrel for the first time in weeks due to rising U.S. production. The municipal market experienced elevated supply, but was met with solid demand providing much needed support in the municipal bond market. Last week municipal bond funds experienced weekly outflows of \$642 million. In 2018, there have been 27 weeks of inflows and 15 weeks of outflows.

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.*

## MARKET REVIEW

## MONEY MARKET RATES

	10/12/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.25	5.25	5.00	4.25
Federal Funds (weekly average)	2.16	2.16	1.91	1.16
90 Day T-Bills	2.21	2.21	2.10	1.07
30-Day Commercial Paper (taxable)	2.24	2.21	2.06	1.13
Libor (30-day)	2.27	2.28	2.16	1.23
7 Day Tax-Exempt VRDB	1.53	1.53	1.49	0.91
Daily Rate Average	1.50	1.49	1.50	0.82

## COMPARATIVE YIELDS

## TAXABLE REVENUE

	GOVT	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	2.56	3.01	1 Year	1.90	3.15	3.25	3.05	2.60	2.30	2.10
5 Year	3.01	3.86	5 Year	2.30	3.70	3.80	3.55	3.15	2.90	2.65
7 Year	3.10	4.15	7 Year	2.48	4.03	4.23	3.83	3.48	3.28	2.93
10 Year	3.16	4.41	10 Year	2.73	4.58	4.73	4.23	3.83	3.58	3.18
30 Year	3.35	4.95	30 Year	3.41	5.26	5.41	4.91	4.51	4.26	3.86

(\* 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	4.37	4.24	+ .13	4.37	3.44
11 Bond Index	3.84	3.71	+ .13	3.84	2.94
Revenue Bond Index	4.88	4.75	+ .13	4.88	2.92
30 Year MMD	3.41	3.31	+ .10	3.41	2.56
Weekly Tax-Exempt Volume (Bil)	3.62	5.01	-1.39	11.11	0.71
30 Day T/E Visible Supply (Bil)	7.70	5.17	+2.53	14.29	0.63
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	127.16	120.88	+6.28	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)		
10/19/18	1.57	5.25	2.17	2.26	2.27	2.28	4.30	-	3.85
10/12/18	1.53	5.25	2.16	2.21	2.24	2.27	4.26	-	3.86
10/05/18	1.53	5.25	2.16	2.21	2.21	2.28	4.11	-	3.76
09/28/18	1.56	5.25	1.97	2.19	2.13	2.24	4.01	-	3.66
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
07/06/18	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

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