

# ZIEGLER INVESTMENT BANKING

## SENIOR LIVING FINANCE Z-NEWS

### FEATURED ARTICLE

## FINANCIAL RATIOS FOR LIFE PLAN COMMUNITIES: 2018 UPDATES

Coinciding with the LeadingAge Annual Meeting a few weeks ago, CARF released the *2018 edition of the CARF Financial Ratios & Trend Analysis*. Ziegler's own Amy Castleberry, along with representatives from Baker Tilly, have partnered with CARF International to produce this valuable report. The 2018 edition contains data for single-site and multi-site organizations across 17 different financial ratios. Comparative information is provided based upon contract type and quartile rankings. This year's publication also highlights key changes in accounting standards for Life Plan Communities, as well as tax reform changes that impact financing and bond issuance. Below are some key findings from this year's report.

- Profitability ratios were generally stable for single-site and multi-site providers. Both provider types experienced some improvement and some decline among the five key profitability ratios, with a slight weakening in core operating ratios, but improvement in broader profitability ratios.
- The median Net Operating Margin (NOM) for single-site providers dipped slightly to 4.84% from 4.96% the prior year. The median NOM for multi-sites also declined from 6.28% to 4.61%.
- Skilled nursing occupancy saw significant declines between 2016 and 2017, falling from 89% to 84%. Independent living occupancy was stable and assisted living showed a slight dip.

In addition to the CARF publication, there are other reports on key ratios for Life Plan Communities that are generally released on an annual basis. Just recently, Ziegler Research released its publication *Financial Ratio Medians for Not-For-Profit Entrance Fee Continuing Care Retirement Communities*. Unlike the CARF publication, which reflects communities that have a CARF accreditation, the Ziegler Research report includes communities for which Ziegler has underwritten debt. The most recent report reflects figures for 110 not-for-profit Continuing Care Retirement Communities (CCRCs). Slightly above the CARF comparison, the median NOM figure was 5.8% for fiscal year 2017. Days Cash on Hand was slightly above the previous year's figure at 330 days. To access the full Ziegler Research Medians report, please [click here](#).

Two additional highly anticipated annual reports are the *2018 Median Ratios for Nonprofit Continuing Care Retirement Communities*, prepared by FitchRatings (Fitch), and Standard & Poor's (S&P) median ratios report *The U.S. Not-For-Profit Senior Living Sector Remains Stable, Supported By Favorable Demand And Growing Liquidity and Financial Flexibility*. These reports obviously reflect communities that are investment-grade and rated through Fitch and S&P.

Fitch upgraded its ratings on two CCRCs, downgraded five and affirmed 43 in the first half of 2018, compared to seven upgrades and seven downgrades for 2017. The investment-grade median NOM decreased slightly to 7.2% in 2017 from 7.9% in 2016. For the sixth consecutive year, Fitch has a stable rating outlook for the sector. While Fitch largely envisions continued operating stability throughout the remainder of 2018, the largest driver of negative rating pressures will come from the impact of additional debt to fund renovation and expansion projects. Post-acute dynamics and labor woes also continue to be on the agency's radar.

In July of this year, S&P released its report on the 28 not-for-profit debt ratings for senior living obligors. Similar to Fitch, their outlook for the sector is stable, supported by favorable demand and growing liquidity.

Each of these reports, as well as other benchmarking resources, present a unique universe of communities. Organizations are encouraged to utilize the respective reports as additional perspective on their own ratios, knowing that some reports may align more closely to their peer group than others.

If you are interested in further information on Ziegler, or any of the publications included in this article, please contact the Ziegler banker in your region.

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

NOVEMBER 19 - 20, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Christian Care Centers (TX)	Fitch	BB+ Negative	Affirmed Rating	11/19/18
Buckingham Senior Living (TX)	Fitch	D	Downgraded Rating	11/20/18

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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 NOVEMBER 23, 2018)


	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.28%	3.35%	3.00%
Senior Living 30-Yr "A"	4.18%	4.25%	3.80%
Senior Living 30-Yr "BBB"	4.43%	4.50%	4.04%
Senior Living Unrated	5.13%	5.20%	4.78%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.69%	1.66%	1.37%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.92%	4.92%	1.64%

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

**FEATURED FINANCING**



**SALEMTOWNE**  
SALEMTOWNE  
Winston-Salem, North Carolina

North Carolina Medical Care  
Commission, Retirement Facilities  
First Mortgage Revenue Bonds,  
Series 2018

**\$38,250,000**

## MARKET COMMENTARY

## FROM A CAPITAL MARKETS PERSPECTIVE

Stocks tumbled for the second straight week, as Monday and Tuesday of last week saw a two-day cumulative drop of 4.7% on the Nasdaq. Stocks continued to fall further later in the week on the abbreviated post-holiday trading day on Friday. At week's end, all three major indexes were down 4%. The recent sell-off has erased year-to-date gains for the S&P 500 and the DJIA. The S&P 500 experienced a correction on Friday, as it fell to 10% lower than its record high in September. That marked the index's second correction this year, following one in early February.

A large number of economic indicators continue to point in a positive direction, despite the recent sell-off in the market. The Conference Board Leading Economic Index recorded a small gain this month, and its current level suggests a low probability of a near-term recession. The Fed has also seen recent pressure not to proceed with its fourth rate hike this year, as its next policy meeting on December 18th and 19th approaches. Crude oil continued its recent slide as the price decline accelerated with a weekly decline of about 11%. In comparison to oil price's year-to-date high in early October, prices currently sit at about one-third of that October mark, as concerns over a global oversupply and weakening demand continue.

On Friday, the MMD 10-year AAA benchmark was down one basis point to 2.61%, up 63 basis points year-to-date (1.98%). In the municipal bond market, following a light week of supply, the week of November 26th is expected to see supply of about \$5.8 billion. This week municipal bond funds reported weekly outflows of \$332.24 million; municipal long-term funds had \$63.64 million of weekly outflows; high yield funds had \$227.86 million of weekly outflows; national funds had \$156.49 million of weekly outflows; while ETF funds had weekly inflows of \$447.56 million. In 2018, there have been 27 weeks of inflows and 20 weeks of outflows, with this week being the 9th consecutive week 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**

	11/23/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.25	5.25	5.25	4.25
Federal Funds (weekly average)	2.18	2.18	2.17	1.16
90 Day T-Bills	2.39	2.36	2.32	1.26
30-Day Commercial Paper (taxable)	2.25	2.34	2.23	1.15
Libor (30-day)	2.31	2.31	2.29	1.32
7 Day Tax-Exempt VRDB	1.69	1.66	1.60	0.96
Daily Rate Average	1.69	1.68	1.59	0.93

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

	GOVT	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	2.65	3.10	1 Year	1.92	3.17	3.27	3.07	2.62	2.32	2.12
5 Year	2.87	3.72	5 Year	2.24	3.64	3.74	3.49	3.09	2.84	2.59
7 Year	2.96	4.01	7 Year	2.38	3.93	4.13	3.73	3.38	3.18	2.83
10 Year	3.05	4.30	10 Year	2.62	4.47	4.62	4.12	3.77	3.52	3.07
30 Year	3.30	4.90	30 Year	3.28	5.13	5.28	4.78	4.43	4.18	3.73

(\* 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	4.26	4.30	-.04	4.37	3.44
11 Bond Index	3.76	3.79	-.03	3.85	2.94
Revenue Bond Index	4.75	4.79	-.04	4.88	2.92
30 Year MMD	3.28	3.35	-.07	3.44	2.56
Weekly Tax-Exempt Volume (Bil)	4.92	0.58	+4.34	11.11	0.71
30 Day T/E Visible Supply (Bil)	6.09	2.51	+3.58	14.29	0.63
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	126.66	127.24	-.58	128.37%	111.81%

## 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)		
11/23/18	1.69	5.25	2.18	2.39	2.25	2.31	4.18	-	3.73
11/16/18	1.66	5.25	2.18	2.36	2.34	2.31	4.25	-	3.80
11/09/18	1.62	5.25	2.18	2.35	2.29	2.31	4.34	-	3.89
11/02/18	1.61	5.25	2.18	2.25	2.25	2.31	3.83	-	3.38
10/26/18	1.60	5.25	2.17	2.32	2.23	2.29	4.24	-	3.79
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
08/03/18	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

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