

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

THE ANNUAL “LOOK BEHIND... AND LOOK AHEAD”: SENIOR LIVING FINANCE ACTIVITY

As we look back at 2018, and prepare for what the capital markets has to offer in 2019, we reflect back on a year overall that provided senior living organizations with slightly higher rates than recent years, but still competitive borrowing rates compared to 10-year and 30-year averages. The year ended with the 30-Year “AAA” MMD closing at 3.02%, below the 4.07% average since 2000. The adoption of the Tax Cuts and Jobs Act had an overall impact on the borrowing rates throughout 2019, particularly for providers with bank debt. The majority of banks elevated rates in response to the reduction in the corporate tax rate, which resulted in a higher cost of bank capital for senior living providers.

Ziegler was active in assisting providers with their capital needs in 2018, providing its expertise in both, the institutional investor market and bank lending market. In 2018, Ziegler completed 60 senior living transactions, inclusive of 37 bond financings, and 23 bank direct purchases, taxable term loans, or other related transactions for a year-end total of nearly \$2.7 billion.

Highlights of the year include an \$81.9 million bond financing for **The Spires at Berry College (GA)**, a new Life Plan Community being developed in Rome, Georgia. Additional providers took advantage of competitive fixed-rate borrowing terms to finance significant campus expansions and repositionings, including **Fleet Landing (FL)** with a \$114 million bond financing, **Menno Haven (PA)** with a \$99 million transaction, and **Lifespace Communities (IA)**, who completed a \$164.9 million bond deal in the late summer. A new client to Ziegler, the **Trousdale Foundation (MA)**, completed a substantial \$200 million financing with the help of Ziegler for the acquisition of four communities across three states (OH, FL, TN). Additional Ziegler bond financings for 2018 included deals for **Acts Retirement-Life Communities (PA)**, **The Hearthstone (WA)**, **Covenant Retirement Communities (IL)**, **Salemtowne (NC)** and **John Knox Village (MO)** to name a few. While a handful of Ziegler deals were greater than \$100 million in 2018, providers tapped varying level of amounts, with the largest proportion in the \$30 million range. Ziegler bond deals ranged from \$3 million for a BANs issue for **Legacy Pointe at UCF (FL)** to the Trousdale transaction at \$200 million. The average bond deal was slightly below the 2017 average, with last year being a record year, but similar to the 2016 figures.

The 23 Ziegler-assisted bank deals were largely in the form of bank direct bank purchases. Bank-related transactions are traditionally smaller in size than bond transactions, but the 2018 average deal was \$29 million, above the roughly \$23 million in 2017. The bank deals ranged in value from just under \$6.0 million for **Huron Valley PACE (MI)**, sponsored by **United Methodist Retirement Communities**

(MI) to a high of \$98.4 million for **RiverWoods Durham (NH)** for the development of a new Life Plan Community for **The RiverWoods Group**. While a number of these transactions were to refinance existing debt, many also reflect new money issuance to fund campus renovation and repositioning projects. The bank lending market continues to be active in senior living and we anticipate that bank direct purchases will continue to be a popular financing mechanism in 2019 even with higher bank lending rates than in previous years.

Ziegler bond financings and bank transactions varied in purpose, with many driven by provider needs for community expansions and repositioning projects. Additionally, in 2018, a few providers utilized taxable term loans to finance acquisitions of other communities or facilities that require an asset purchase. Organizations also often utilize more than one financing mechanism to structure a transaction, such as The Spires, which in addition to the bond issuance, also did a bank direct purchase.

With MMD figures dropping below 3.00% in early 2019, it is anticipated that tax-exempt rates will continue to be favorable for senior living borrowers. A competitive cost of capital will assist providers looking to grow through new location development, whether through full continuums or satellite locations, and will support ongoing community expansion and repositioning projects. The Ziegler banker in your region can work with you to plan for your capital needs in the year ahead and explore the appropriate financing options given your organization’s objectives.

For more information regarding the structure and use of each of these 2018 issues, please see the Electronic Municipal Market Access <https://emma.msrb.org> system’s website or contact the Ziegler banker in your area.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

DECEMBER 18 - 28, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
St. Leonard Healthcare Center (OH)	S&P	BBB- Positive	Affirmed Rating Revised Outlook	12/18/18

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INTEREST RATES/YIELDS

(AS OF JANUARY 4, 2019)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.93%	3.02%	3.01%
Senior Living 30-Yr "A"	3.93%	4.02%	3.87%
Senior Living 30-Yr "BBB"	4.33%	4.42%	4.12%
Senior Living Unrated	5.03%	5.12%	4.87%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.63%	1.71%	1.41%
	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.86%	4.87%	1.42%

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

FEATURED FINANCINGS


Where Loving-Kindness Lives

ACTS RETIREMENT-LIFE COMMUNITIES
 West Point, Pennsylvania

Taxable Term Loan
\$21,722,000



Where Loving-Kindness Lives

ACTS RETIREMENT-LIFE COMMUNITIES
 West Point, Pennsylvania

Delaware County Authority, Bank Direct Purchase / Refunding
\$47,675,000



MENORAH MANOR
 St. Petersburg, Florida

Bank Direct Purchase / Renegotiated
\$12,081,007



AIR FORCE ENLISTED VILLAGE
 Shalimar, Florida

Okaloosa County, Florida, Bank Direct Purchase / New Money / Refunding
\$39,999,991

MARKET REVIEW

MONEY MARKET RATES

	1/04/19	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.50	5.50	5.25	4.50
Federal Funds (weekly average)	2.40	2.39	2.19	1.41
90 Day T-Bills	2.42	2.33	2.39	1.40
30-Day Commercial Paper (taxable)	2.47	2.42	2.30	1.50
Libor (30-day)	2.52	2.51	2.38	1.55
7 Day Tax-Exempt VRDB	1.63	1.71	1.65	1.47
Daily Rate Average	1.50	1.69	1.60	1.30

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A		MMD	NR*	BB	BBB	A	AAA
1 Year	2.55	3.00	1 Year	1.71	3.21	2.96	2.56	2.16	1.91
5 Year	2.50	3.35	5 Year	1.87	3.57	3.27	2.97	2.57	2.22
7 Year	2.56	3.61	7 Year	1.97	3.87	3.52	3.22	2.82	2.42
10 Year	2.66	3.91	10 Year	2.20	4.30	3.95	3.60	3.20	2.65
30 Year	2.98	4.63	30 Year	2.93	5.03	4.68	4.33	3.93	3.38

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

	THIS WEEK	LAST WEEK	CHANGE	2019 HIGH	LOW
Bond Buyer					
20 Bond Index	4.09	4.10	-.01	4.09	4.09
11 Bond Index	3.58	3.59	-.01	3.58	3.58
Revenue Bond Index	4.56	4.58	-.02	4.56	4.56
30 Year MMD	2.93	3.02	-.09	2.93	2.93
Weekly Tax-Exempt Volume (Bil)	0.06	0.00	+.06	0.06	0.06
30 Day T/E Visible Supply (Bil)	6.53	2.53	+4.00	6.53	6.53
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	131.87	133.11	-1.24	131.87%	131.87%

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)		
01/04/19	1.63	5.50	2.40	2.42	2.47	2.52	3.93	-	3.38
12/28/18	1.71	5.50	2.39	2.33	2.42	2.51	4.02	-	3.47
12/21/18	1.68	5.50	2.24	2.37	2.50	2.47	4.04	-	3.49
12/14/18	1.64	5.25	2.19	2.41	2.46	2.45	4.17	-	3.62
12/07/18	1.65	5.25	2.19	2.39	2.30	2.38	4.08	-	3.55
11/30/18	1.69	5.25	2.18	2.35	2.27	2.34	4.14	-	3.69
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
10/05/18	1.53	5.25	2.16	2.21	2.21	2.28	4.11	-	3.76
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

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