ZIEGLER INVESTMENT BANKING
SENIOR LIVING FINANCE Z-NEWS

Page 1 | Week of January 14, 2019

FEATURED ARTICLE

THE ANNUAL "LOOK BEHIND…AND LOOK AHEAD": PART II- KEY 2019 TRENDS

In last week's issue of ***Z-News***, we took a look behind at what 2018 offered; what the state of the capital lending market presented itself to be for those seeking tax-exempt bond financings and for those opting for bank credit. This week's issue takes a strategic look ahead at the key issues we see on the horizon for providers in 2019. There are clearly some similar pressures to what was experienced in 2018, but there are also signs of a healthy Life Plan Community (aka Continuing Care Retirement Community) sector, which is heavily represented by not-for-profit providers. This overview can serve as education for leadership teams, board members and others involved in setting the strategic direction of your organization.

The year ahead will continue to require senior living organizations to adapt and to think creatively about how to reposition their organizations to succeed in the next generation of our sector. Ziegler sees the trends below as those that will best describe the year ahead.

- **Healthy Life Plan Community (LPC) Occupancy:** In a December issue of ***Z-News***, Lana Peck from National Investment Center for Seniors Housing & Care (NIC) peeled back the layers of the LPC occupancy figures and revealed figures well above other property types. Independent Living occupancy among entry-fee Life Plan Communities was 93% compared to 89% among non-Life Plan Communities. The majority of entry-fee communities are sponsored by not-for-profit providers. While the pace of new development of Life Plan Communities has slowed down post-recession, providers have been actively repositioning and expanding existing campuses. We anticipate that this level of construction activity will continue in 2019 and will put LPCs in a position of strength to meet changing consumer expectations.
- **Competition:** The housing and care options available to today's older adults will continue to grow. Not only will new developments continue to bring additional competition to local markets, but the ability for individuals to age in their home continues to get easier as technologies advance and providers develop models as alternatives to seniors housing options. Branding and consumer education will be increasingly important. Providers need to stay on top of local market dynamics and be nimble enough to adjust to changes taking place.
- **Workforce Pressures Continue:** The good thing about the workforce recruitment and retention issues is that we have moved beyond the acknowledgement phase and are in problem-solving mode. With each passing month, additional promising practices are shared and partnerships, both locally and nationally, are formed to address the challenges senior living providers are facing. The over-arching theme for 2019 with respect to workforce pressures is that we need to come together and work collaboratively to address the challenges. We also need to acknowledge how technology can enhance our ability to recruit and retain staff and redefine historical staffing models that have the potential to be streamlined with recent innovations.
- **A Focus on Technology:** You cannot ignore the potential that technology has for your organization. In fact, the adoption and full integration of technologies to enhance operations and provide solutions to pressing issues is a must. If you are not staying on top of all of the noise around smart-aging technologies, you could be lost in the dust. Organizations need to commit to investing in technologies, many of which will save organizations money in the long-run. The up-front investments are worth the hit. Organizations also need to have a strategic IT leader within their organization who understands the importance of aligning organizational goals with technological innovations. These are exciting times for healthcare and smart-aging technologies and we anticipate 2019 will continue to deliver additional options for senior living organizations.
- **A Skilled-Nursing Market in Transition:** The reality is that our nursing home industry is changing. Consumer preferences are changing, payment models are changing, and providers are needing to make some tough decisions. In October of this year, the Patient Driven Payment Model (PDPM) will be rolled out. Providers will continue to see health systems narrow their networks, demand shorter lengths of stays and seek alternatives to inpatient post-acute stays. The number of older adults enrolled in Medicare Advantage plans will be significantly larger in 2019 than last year. The pressures in this space do vary across states and between local markets. Continuum providers with heavy reliance on skilled nursing and post-acute revenue will continue to feel pressures while Life Plan Communities that are largely Independent Living and Assisted Living will experience fewer pains. The year ahead will continue to be dynamic and providers need to determine their commitment to the business and advance scale and sophistication where able.
- **Partnerships, Partnerships, Partnerships:** If you read any of the previous text, this should have been a clear message for 2019. It is hard to go it alone and we need to expand our partnerships, whether through informal relationships, joint venture agreements, or full affiliations and mergers. Organizations need to choose their partners carefully, but know that there are many, many success stories of organizations coming together to advance missions, develop new business lines, and tackle shared challenges. It will be difficult to operate in isolation in the years ahead.

FEATURED ARTICLE

THE ANNUAL "LOOK BEHIND…AND LOOK AHEAD": PART II- KEY 2019 TRENDS (CONT.)

There are a number of other prognostications for the year ahead, but the list above represents the most salient, top-of-mind topics that senior living organizations will focus on. As a sector, we need to embrace the opportunities presented to us with the aging demographic and not be afraid to demonstrate bold leadership. We should think freely and innovate without mental constraints, even if ideas may be non-traditional or counter to 'that is how we have always done it.' These are times to think creatively about partnerships and build upon existing strengths. We think 2019 will be an exciting year and we are committed to aligning our research with the aforementioned trends while also monitoring emerging topics.

If you have any questions about the content of this issue of ***Z-News*** or other related items, please contact the Ziegler banker in your region.

Best wishes for a healthy and prosperous 2019!

LISA MCCRACKEN
DIRECTOR, SENIOR LIVING RESEARCH AND DEVELOPMENT
ZIEGLER

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

JANUARY 11, 2019

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
No Rating actions to report this week				

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

INTEREST RATES/YIELDS

(AS OF JANUARY 11, 2019)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.05%	2.93%	3.02%
Senior Living 30-Yr "A"	4.05%	3.93%	3.88%
Senior Living 30-Yr "BBB"	4.45%	4.33%	4.13%
Senior Living Unrated	5.15%	5.03%	4.88%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.39%	1.63%	1.42%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.87%	4.87%	1.84%

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

FEATURED FINANCINGS

STILL HOPES

SOUTH CAROLINA EPISCOPAL HOME AT STILL HOPES
Columbia, South Carolina

South Carolina Jobs-Economic Development Authority, Residential Care Facilities Revenue and Revenue Refunding Bonds, Series 2018A

$67,950,000

STILL HOPES

SOUTH CAROLINA EPISCOPAL HOME AT STILL HOPES
Columbia, South Carolina

Bank Direct Purchase / New Money

$32,000,000

THE SPIRES AT BERRY COLLEGE

THE SPIRES AT BERRY COLLEGE
Rome, Georgia

Development Authority of Floyd County, Retirement Facility Revenue Bonds, Series 2018A

$81,930,000

THE SPIRES AT BERRY COLLEGE

THE SPIRES AT BERRY COLLEGE
Rome, Georgia

Bank Direct Purchase / New Money

$37,750,991

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

During the first full week of the new year, major stock indexes climbed between 2% - 3%, marking it the third consecutive week with positive results. At week's end, the Dow finished up 10% higher than its recent low in late December, while the S&P 500 finished the week just over 7% higher in the same time frame. Investors await earnings announcements as major banks are set to begin releasing their quarterly earnings this week. On a similar note, due to the government shutdown, many U.S. economic reports that were expected to be released have been delayed indefinitely, introducing a new element of uncertainty into financial markets.

The December jobs report was strong on many fronts, particularly wages. Data released showed that wages for production and nonsupervisory workers increased by 3.3% YoY, the highest level since April 2009. For the first time in 9 months, U.S. CPI slipped 0.1% in December. This was largely due to a decline in gasoline prices, which was large enough to offset increases in rental housing and healthcare costs. Major retailers such as Macy's and Kohl's saw their share prices fall sharply last Thursday after reporting December sales figures that were below expectations. Despite strong consumer confidence, major retail chains continue to weather headwinds as spending continues to shift online.

Recent market volatility has slowed down the issuance of corporate bonds, and new sales of high-yield bonds were halted. Last Thursday marked the end of a 40-day period in which no high-yield bonds were issued in the U.S. market, as an energy company sold below-investment-grade debt. Last week municipal bond funds experienced $1,554 million of weekly reporting fund inflows. Municipal long term funds had $949 million of weekly inflows, high yield funds had $509 million of weekly inflows, national funds had $1,388 million of weekly inflows, and ETF funds had $205 million of weekly inflows. In 2019, there has been 1 week of inflows and 1 week of outflows. In 2018, there were 29 weeks of inflows and 23 weeks of outflows.

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

	1/11/19	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	2.40	2.19	1.41
90 Day T-Bills	2.42	2.42	2.41	1.41
30-Day Commercial Paper (taxable)	2.51	2.47	2.46	1.51
Libor (30-day)	2.51	2.52	2.45	1.55
7 Day Tax-Exempt VRDB	1.39	1.63	1.64	1.31
Daily Rate Average	1.00	1.50	1.59	1.26

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A
1 Year	2.57	3.02
5 Year	2.52	3.37
7 Year	2.59	3.64
10 Year	2.70	3.95
30 Year	3.03	4.68

	MMD	NR*	BB	BBB	A	AAA
1 Year	1.71	3.21	2.96	2.56	2.16	1.91
5 Year	1.88	3.58	3.28	2.98	2.58	2.23
7 Year	1.99	3.89	3.54	3.24	2.84	2.44
10 Year	2.24	4.34	3.99	3.64	3.24	2.69
30 Year	3.05	5.15	4.80	4.45	4.05	3.50

(Representative of institutional sales)*

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE	2019 HIGH	LOW
20 Bond Index	4.20	4.09	+.11	4.20	4.09
11 Bond Index	3.69	3.58	+.11	3.69	3.58
Revenue Bond Index	4.67	4.56	+.11	4.67	4.56
30 Year MMD	3.05	2.93	+.12	3.05	2.93
Weekly Tax-Exempt Volume (Bil)	5.80	0.20	+5.60	5.80	0.20
30 Day T/E Visible Supply (Bil)	5.34	6.53	-1.19	6.53	5.34
30 year “A” Rated Hospitals as a % of 30 Year Treasuries	134.10	131.87	+2.23	134.10%	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)		
01/11/19	1.39	5.50	2.40	2.42	2.51	2.51	4.05	-	3.50
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
10/05/18	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

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