

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

THIRD-PARTY MANAGEMENT IN SENIOR LIVING: TRENDS & PROVIDER CONSIDERATIONS

One of the clear lessons that the most recent recession has taught senior living providers is the importance of a strong operational framework. The required sophistication for senior living organizations to survive and thrive in today's environment has arguably increased in recent years. Pressures such as workforce recruitment and retention challenges, changing consumer expectations, and the complexity of the skilled nursing side of our business are demanding a strong operations and leadership team. Among private-sector seniors housing and long-term care organizations, it is quite common for the owners and operators to be from two different organizations. For not-for-profit providers, much of the operational oversight comes from the sponsor of the community. However, third-party management can be a great fit for certain organizations.

Among the LeadingAge Ziegler 200 organizations, roughly one-third provide third-party management to another senior living organization. Additionally, there are a number of reputable, experienced third-party organizations who provide management services. Is this something that is to be considered for your organization? The following discussion points can be helpful in assessing this option for your organization, whether you consider being a third-party manager or hiring a management firm to oversee your community.

- Generally speaking, most not-for-profit organizations who are under management by a third-party are single-site organizations or smaller multi-site groups. This is often due to the fact that the larger an organization is, the higher the probability that they have a leadership team with depth and the ability to tap into the resources that increased scale has provided them.
- As was mentioned previously, a number of the largest not-for-profit senior living providers provide management services to other not-for-profit communities. However, there are indeed options for not-for-profit providers to provide management services to high-quality for-profit senior living communities. Ziegler has shared about the significant growth in recent years among for-profit providers and many of those organizations are looking for operators who are experienced and can oversee the community and deliver positive outcomes. This is also a consideration as not-for-profit providers are continually looking for diverse revenue streams.
- In some cases, third party management by other providers can be an initial step to a future affiliation. This allows each party to get to know one another better and to understand the potential fit for a deeper relationship in the future.

- There are also times in the life of a community where third-party management can provide a solution to specific challenges. If a community is experiencing some vulnerability, whether it be the start of financial struggles, occupancy decline, or challenges with recruiting leaders, the ability to bring in a seasoned third-party management group can assist with providing stability. Assuming the right third-party manager is brought in, this can also be a strategy for getting an organization back on track to healthy financial and operational functioning.
- The third-party managers obviously bring forth a management team to oversee the community operations, but in most instances, these other providers or companies also bring other resources that may come in the form of corporate-level support, tools and resources, and connections to experts that would not be available otherwise.

What would be the scenario upon which your organization would consider hiring a third-party manager? What would be the criteria and expectations of whoever is hired? When would it make sense for your organization to offer third-party management to others? Being a not-for-profit who manages other providers may not be deemed a fit for your organization or there may be resistance to considering an outsource of management, but these conversations are good to have. These are the types of generative conversations that boards and executive leadership teams need to have. Regardless of the end answer, having the conversation will produce a board and leadership who is smarter and has greater clarity on internal preferences.

For further information on Ziegler, or anything included in this article, please contact the Ziegler banker in your region.

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Ziegler

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF APRIL 16, 2019

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Brethren Hillcrest Homes (CA)	Fitch	BBB- Stable	Affirmed Rating	4/16/19

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INTEREST RATES/YIELDS

(AS OF APRIL 12, 2019)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.68%	2.70%	3.00%
Senior Living 30-Yr "A"	3.38%	3.40%	3.88%
Senior Living 30-Yr "BBB"	3.68%	3.70%	4.15%
Senior Living Unrated	4.68%	4.70%	4.92%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.54%	1.48%	1.49%
	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.73%	4.73%	2.05%

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

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

Last week, equities struggled to find direction aside from a slight rally on Friday, but nonetheless remained mostly unchanged overall. The major indexes showed little change as a result, sitting roughly 1% below the record highs they achieved more than six months ago. Strong earnings were reported from several major banks, as many of them posted results that exceeded expectations. That being said, earnings across the board are expected to decline for the first time in nearly three years. Earnings for S&P 500 companies are expected to decline between 4% and 5% compared to a year ago. This expectation stems from issues in both sales and margins, as nominal GDP—a generally accepted proxy for sales—likely slowed in 1Q19 due to the fading effects of the late 2017 tax reform that largely boosted 1Q18 earnings. This atop a slowdown in global trade and manufacturing are leaving investors cautious for the time being.

In the UK, another delay is in order as lawmakers extended their exit from the EU until October just a few days before the country had been scheduled to exit EU jurisdiction. As a result, Prime Minister Theresa May has bought more time to try and gain majority support in Parliament for a Brexit deal. The International Monetary Fund released a forecast showing that global economic growth is off to a slower start than expected this year, as the IMF cut its growth rate expectations to 3.3%; compared to the 3.5% forecasted in January.

Government bond prices fell last week, sending the yield on the 10-year benchmark back above 2.50%, landing at the end of the week firmly at 2.56%. In late March, the yield of the 10-year bond fell as low as 2.39%, creating an inversion where short-term government debt carried higher yields than longer-term debt. Last week, the 10-year MMD remained net unchanged on Friday, while the 30-year MMD saw a two basis point bump from 2.70% to 2.68%.

ADAM J. BUCHANAN
SENIOR VICE PRESIDENT

See pages 4 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

	4/12/19	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.50	5.50	5.50	4.75
Federal Funds (weekly average)	2.40	2.40	2.40	3.68
90 Day T-Bills	2.44	2.42	2.41	1.71
30-Day Commercial Paper (taxable)	2.43	2.47	2.45	1.82
Libor (30-day)	2.48	2.47	2.51	1.89
7 Day Tax-Exempt VRDB	1.54	1.48	1.51	1.60
Daily Rate Average	1.38	1.38	1.48	1.55

COMPARATIVE YIELDS

TAXABLE REVENUE									
	GOVT	A		MMD	NR*	BB	BBB	A	AAA
1 Year	2.36	2.66	1 Year	1.53	3.03	2.73	2.13	1.68	1.53
5 Year	2.31	3.06	5 Year	1.67	3.27	3.02	2.47	2.07	1.82
7 Year	2.40	3.35	7 Year	1.74	3.54	3.24	2.69	2.29	1.94
10 Year	2.51	3.59	10 Year	1.93	3.93	3.53	2.93	2.63	2.13
30 Year	2.94	4.34	30 Year	2.68	4.68	4.28	3.68	3.38	2.88

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE	2019	
				HIGH	LOW
20 Bond Index	3.85	3.88	+03	4.24	3.79
11 Bond Index	3.36	3.39	+03	3.71	3.30
Revenue Bond Index	4.32	4.35	+03	4.71	4.26
30 Year MMD	2.68	2.70	+02	3.11	2.60
Weekly Tax-Exempt Volume (Bil)	5.44	5.43	+01	5.80	0.20
30 Day T/E Visible Supply (Bil)	5.07	6.24	+1.17	6.60	1.92
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	117.24	117.24	-.19	134.42%	117.24%