ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

ZIEGLER SENIOR LIVING RESEARCH: CFO HOTLINE℠ REVIEW

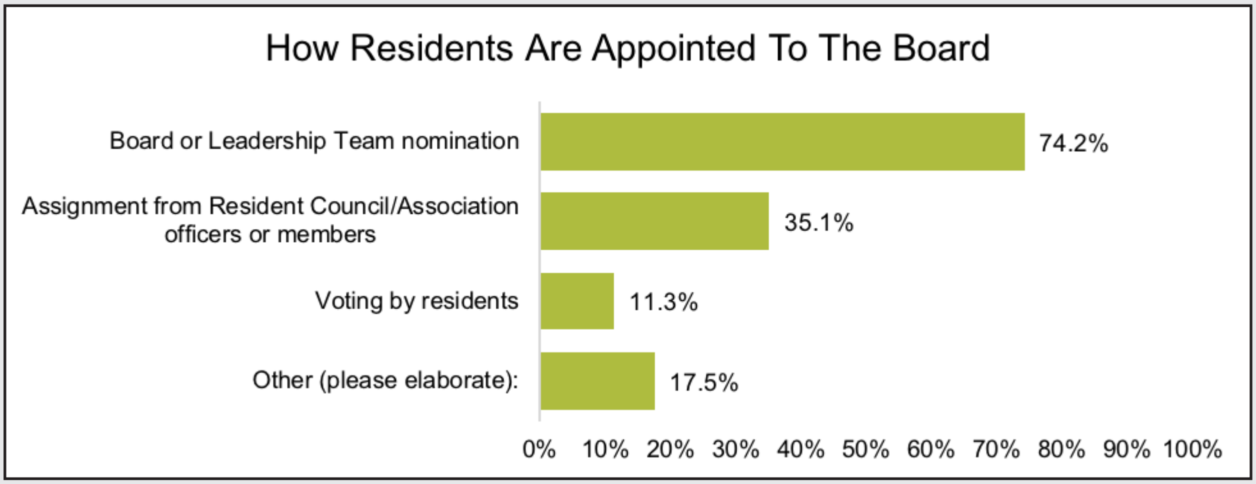
For nearly 15 years, Ziegler has been conducting regular surveys of senior living financial professionals through the *Ziegler CFO Hotline℠* platform. In fact, Ziegler has conducted nearly 100 surveys through this hotline framework. The intent is to gather timely data on hot topics that are relevant to senior living operators and finance professionals. The purpose of this issue of ***Z-News*** is to ensure that the public is aware of this resource and to provide an update on surveys conducted across the past year or so.

Across the past 12-15 months, Ziegler conducted surveys on the following topics:

- Post-Acute Activities (underway now)
- Resident Participation on Boards
- Executive Incentive Compensation
- Technology Spending
- Monthly Fee Increases
- Staffing Pressures
- Succession Planning

The **skilled-nursing** environment, particularly the **post-acute** space, has been going through a transformation as the overall healthcare and reimbursement system has shifted. For the past three years, Ziegler has surveyed CFOs to ask about their overall plans for their skilled nursing beds. Is there a plan to expand, maintain or decrease the number of skilled nursing beds? This has been a common question in recent years as providers plan for their future offerings. Last year, around 6 out of 10 providers indicated that they are not looking to make any changes to their number of skilled nursing beds while 3 out of 10 noted considerations to scale-back the number of beds. Stay tuned in the coming weeks for the 2019 updates to this question.

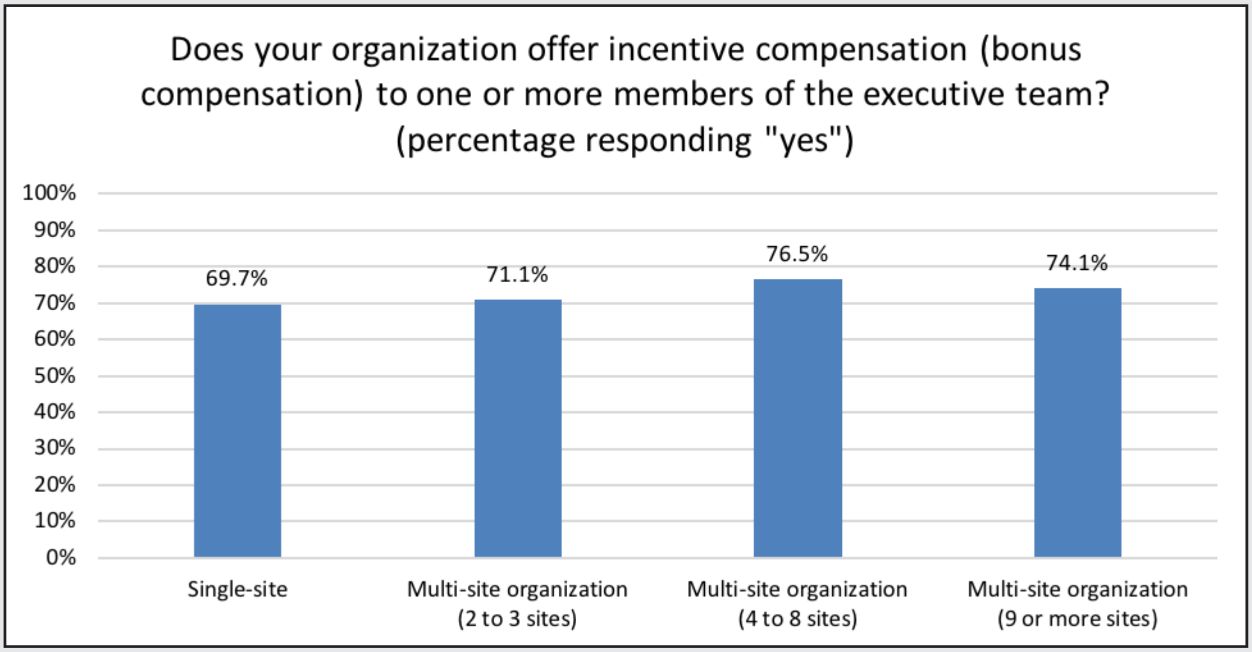
We shared earlier this summer the results of a survey we did on **resident participation on not-for-profit boards**. Roughly 6 out of 10 organizations indicated that they have a resident(s) on some type of board, whether the corporate board or advisory board. This is slightly above the roughly 50% from a survey conducted by Ziegler several years ago. As noted below, most resident board members are nominated by other board members or individuals on the leadership team.



A spring 2019 survey revealed that roughly 7 out of 10 organizations have an **incentive compensation** plan for their C-Suite team. This is most likely to be present for the CEO, followed by the CFO and then the COO. The amount is generally determined as a portion/percentage of their overall salary.

FEATURED ARTICLE

ZIEGLER SENIOR LIVING RESEARCH: CFO HOTLINE℠ REVIEW (CONT.)



In late 2018/early 2019, Ziegler conducted another survey on **technology spending**, the fourth time for this type of survey. The survey delved into specific types of investments made in the past year and plans for the year ahead, as well as budgeting for technology. On average, about 3% of operating budgets are devoted to investment in technologies. This has been fairly similar to previous years.

The ever-popular **resident monthly-fee increase** survey takes place every fall. The survey has consistently revealed that senior living providers are increasing the monthly fee by about 3% each year. The increase in fees has been driven largely by pressures put on providers regarding employee wages and benefits. The 2019 poll will be conducted again at the end of September/early October.

On the topic of **staffing pressures**, a summer 2018 survey took the pulse of the sector as it relates to staffing pressures. At that time, more than 60% of providers indicated that they have used temp agencies to fill vacancies among direct area staff. Providers reported on average, a vacancy rate of about 12% for direct care positions. The vacancy rates ranged from a low of 0% to figures in the 30% range. The CFOs also reported that, on average, 57% of their budget is devoted to compensation. That is similar to results from a comparable 2016 survey.

We encourage providers and industry professionals to fully utilize the data provided in these free reports. We also encourage individuals to reach out with suggested survey topics. We will do our best to incorporate your suggested questions into future surveys. To access the full reports of *Ziegler CFO Hotline℠* surveys from the past several years, please go to the Ziegler website or click here. For more information or questions related to this article, please contact the Ziegler banker in your region.

LISA MCCRACKEN
DIRECTOR, SENIOR LIVING RESEARCH AND DEVELOPMENT
ZIEGLER

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF AUGUST 12, 2019

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Springpoint at Lewes d/b/a The Moorings at Lewes (DE)	Fitch	BBB Negative	Affirmed Rating Revised Outlook	7/31/19
Holland Home Obligated Group (MI)	Fitch	BBB- Stable	Assigned Rating Affirmed Rating	8/1/19
Heritage Community of Kalamazoo (MI)	Fitch	BB Stable	Assigned Rating	8/8/19
Westminster Manor (TX)	Fitch	BBB+ Stable	Affirmed Rating	8/8/19
The Mayflower Retirement Center (FL)	Fitch	BBB Negative	Downgraded Rating	8/9/19

INTEREST RATES/YIELDS

(AS OF AUGUST 9, 2019)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.01%	2.19%	2.79%
Senior Living 30-Yr "A"	2.71%	2.89%	3.66%
Senior Living 30-Yr "BBB"	2.91%	3.09%	3.95%
Senior Living Unrated	3.81%	3.99%	4.75%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.32%	1.40%	1.58%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.24%	4.25%	2.22%

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

FEATURED FINANCINGS

WILLOW VALLEY COMMUNITIES

WILLOW VALLEY COMMUNITIES
Lancaster, Pennsylvania

Lancaster Industrial Development Authority, Revenue Bonds, Series 2019

$37,250,000

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

Last week in equities, the major stock indices fell for the second straight week. That said, last week's decline was benign given the shaky start that began Monday's trading session. On Monday, indices tumbled roughly 3%, this year's largest single-day decline. Indices paired the early week's losses, yet still ended the week down WoW, as the S&P 500, at the end of Friday's trading session, ended down 0.5%.

The U.S. and China continue to make headlines, as feuds between the world's two largest economies drove much of the week's market volatility. Atop the recent U.S. sanctions imposed on China, the People's Bank of China moved to devalue their currency as a ploy to boost demand for domestic goods. In essence, China is transferring more of the purchasing power to buy Chinese goods away from home, and into the hands of Americans. This comes as a result of Chinese exports becoming more attractive to American buyers, a dogma that China hopes will help bypass U.S. sanctions and catalyze the country's stagnant growth.

In fixed income, yields continued to tumble last week. The yield on the 10-year benchmark briefly sunk below 1.60% on Wednesday. However, this level on the 10-year is far from the depressed yields present in many other developed markets. Take, for example, the yield on Germany's 10-year bond, which sank deeper into negative territory to a level as low as -0.60%. Munis continued to follow suit with the rally in the Treasury market, although lagging on a percentage change basis. The buy-side appears wary of the current levels in the market, as yields in many specialty states are trading at fractional yields. Conclusively, accounts appear to be content sitting on their cash from continued inflows, and are alternatively investing more frequently in lower coupon bonds to compensate; lower coupon bonds (i.e., 3% and 4% coupons) deliver better performance with longer dated durations, and are used tactically to protect against volatility in a changing rate environment.

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

	8/9/19	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.25	5.25	5.50	5.00
Federal Funds (weekly average)	2.10	2.28	2.38	1.90
90 Day T-Bills	1.99	2.05	2.13	2.03
30-Day Commercial Paper (taxable)	2.11	2.18	2.23	1.94
Libor (30-day)	2.20	2.24	2.32	2.06
7 Day Tax-Exempt VRDB	1.32	1.40	1.18	1.57
Daily Rate Average	1.20	1.38	1.03	1.46

COMPARATIVE YIELDS

	TAXABLE REVENUE	
	GOVT	A
1 Year	1.77	2.07
5 Year	1.56	2.31
7 Year	1.63	2.58
10 Year	1.73	3.23
30 Year	2.24	3.74

	MMD	NR*	BB	BBB	A	AAA
1 Year	0.95	2.35	2.05	1.45	1.10	0.95
5 Year	0.99	2.49	2.24	1.69	1.39	1.09
7 Year	1.12	2.82	2.52	1.97	1.67	1.27
10 Year	1.33	3.13	2.83	2.23	2.03	1.48
30 Year	2.01	3.81	3.51	2.91	2.71	2.16

(Representative of institutional sales)*

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE	2019 HIGH	LOW
20 Bond Index	3.22	3.42	-.20	4.24	3.22
11 Bond Index	2.76	2.96	-.20	3.71	2.76
Revenue Bond Index	3.70	3.90	-.20	4.71	3.70
30 Year MMD	2.01	2.19	-.18	3.11	2.01
Weekly Tax-Exempt Volume (Bil)	9.36	3.93	+5.43	9.36	0.20
30 Day T/E Visible Supply (Bil)	6.77	11.23	-4.46	11.23	.93
30 year “A” Rated Hospitals as a % of 30 Year Treasuries	123.74	120.92	+2.82	134.42%	109.21%

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)		
08/09/19	1.32	5.25	2.10	1.99	2.11	2.20	2.71	-	2.16x
08/02/19	1.40	5.25	2.28	2.05	2.18	2.24	2.89	-	2.34
07/26/19	1.40	5.50	2.40	2.10	2.22	2.27	2.95	-	2.40
07/19/19	1.27	5.50	2.38	2.04	2.28	2.27	2.97	-	2.42
07/12/09	1.18	5.50	2.38	2.13	2.23	2.32	2.98	-	2.43
07/05/19	1.49	5.50	2.38	2.17	2.36	2.39	2.97	-	2.47
06/28/19	1.90	5.50	2.36	2.13	2.28	2.40	3.01	-	2.51
06/21/19	1.90	5.50	2.36	2.11	2.34	2.38	3.02	-	2.52
06/14/19	1.71	5.50	2.36	2.18	2.38	2.40	3.05	-	2.55
06/07/19	1.40	5.50	2.37	2.26	2.38	2.41	3.03	-	2.53
05/31/19	1.42	5.50	2.37	2.34	2.42	2.43	3.06	-	2.56
05/24/19	1.32	5.50	2.37	2.33	2.40	2.43	3.12	-	2.62
05/03/19	2.12	5.50	2.42	2.41	2.42	2.48	3.23	-	2.73
04/05/19	1.48	5.50	2.40	2.42	2.47	2.47	3.40	-	2.90
03/01/19	1.74	5.50	2.40	2.43	2.43	2.49	3.88	-	3.43
02/01/19	1.43	5.50	2.40	2.39	2.40	2.51	4.02	-	3.47
01/04/19	1.63	5.50	2.40	2.42	2.47	2.52	3.93	-	3.38
12/07/18	1.65	5.25	2.19	2.39	2.30	2.38	4.08	-	3.55
11/02/18	1.61	5.25	2.18	2.25	2.25	2.31	3.83	-	3.38
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

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