

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

THE GROWING POPULARITY OF SATELLITE CAMPUSES

Ziegler has long reported on its tracking of new not-for-profit senior living developments. Overall, the pace of new location development is down among not-for-profit sponsors. What has been an emerging trend across the past several years, however, is the increase in the number of providers who are developing or exploring satellite location developments. In contrast to the new communities that were developed at a rapid pace pre-recession, a number of the post-recession models have taken on a scaled-back footprint and can often be found in close proximity to an existing, full-continuum campus. The not-for-profit providers are known for entrance-fee, Life Plan Communities that generally offer Independent Living, Assisted Living, Memory Care and Skilled Nursing on the same campus with a healthy offering of amenities for residents. Providers looking to grow through new location developments have found that there is benefit to capitalizing on the array of services and amenities available at the full-campus locations. Thus, the emergence of the independent-living focused satellite campuses.

Ziegler has spent time developing a general set of criteria to define typical elements in today's new location satellite campuses.

DEFINITION OF SATELLITE NEW LOCATION DEVELOPMENTS

- Geographic proximity to another campus, often a larger, full-continuum community
- Generally smaller development with fewer amenities than main campus
- Limited, if any, healthcare settings
- Contractual relationship with main campus (primarily for healthcare; access to amenities)
- Would not generally exist without the resources and support of the main campus
- Branding is tied to parent
- Reliant on main campus for governance, leadership, etc.

Source: Ziegler Investment Banking

In addition to a smaller footprint being less risky than building out another full-continuum campus, research supports that a notable proportion of Baby Boomers are looking to retire in urban settings. A number of the satellite campuses under development are located in these higher-population markets. In 2018, AARP wrote that a substantial number of Baby Boomers are "packing up and heading downtown for a major change of pace." The National Association of Realtors has reported roughly 2% annual growth in the number of Boomers closing on homes in urban settings. This urban migration in certain markets supports providers who are exploring downtown satellite campus developments. The one significant barrier to urban development can be the cost of land and zoning to build these new communities. These costs clearly will vary across markets and providers are encouraged to study the markets heavily to determine project feasibility and customer receptivity.

At Ziegler's Senior Living Finance & Strategy Conference, Dan Lavender and Mary Morton from Moorings Park in Naples, Florida, presented alongside of Joe Hassel with Perkins Eastman on the concept of satellite campus developments. Mr. Lavender referenced the conversations Moorings Park had at the board and leadership team level about the need to grow and build off of their strong brand in the local Naples market. Their organization concluded that growth adds and diversifies amenities and services, it will attract and retain better talent, and that overall growth lowers the cost per resident, which leads to lower fee increases. Moorings Park has successfully expanded to add Moorings Park at Grey Oaks, not far from the main Moorings Park Life Plan Community, and construction is underway at a third campus, Moorings Park Grande Lake. This growth is all being done as an outgrowth of the original Moorings Park campus and tapping into the local market demand among retirees.

In closing, there are a number of growth opportunities available to not-for-profit senior providers. The satellite campus concept is simply one of those growth models, but is indeed one that is gaining popularity among providers.

For additional questions about this issue of *Z-News* or other related topics, please refer to the Ziegler banker in your region.

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CAPITAL :: INVESTMENTS :: ADVICE

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF OCTOBER 11, 2019

| ORGANIZATION | RATING AGENCY | RATING/ OUTLOOK | TYPE OF ACTION | DATE |
|--|---------------|-----------------|-------------------|---------|
| Cornerstone Village (TN) | Fitch | B- Negative | Downgraded Rating | 10/7/19 |
| El Castillo Retirement Residences (NM) | S&P | BB+ Negative | Downgraded Rating | 10/9/19 |

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INTEREST RATES/YIELDS

(AS OF OCTOBER 11, 2019)

| | CURRENT | LAST WEEK | 52-WK AVG |
|---------------------------|---------|-----------|-----------|
| 30-Yr MMD | 1.92% | 1.92% | 2.58% |
| Senior Living 30-Yr "A" | 2.92% | 2.92% | 3.51% |
| Senior Living 30-Yr "BBB" | 3.12% | 3.12% | 3.79% |
| Senior Living Unrated | 4.02% | 4.02% | 4.61% |
| Senior Living New Campus | 6.00% | 6.00% | 6.47% |
| SIFMA Muni Swap Index | 1.40% | 1.49% | 1.56% |

| | CURRENT | WEEKLY AVERAGE | SPREAD TO MMD |
|---------------|---------|----------------|---------------|
| *ZSLMLB Index | 4.27% | 4.25% | 2.25% |

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

FEATURED FINANCINGS

| | | | |
|---|---|---|--|
|  THE VISTA THE VISTA Wyckoff, New Jersey New Money Bank Direct Purchase \$57,000,000 |  FALCONS LANDING FALCON'S LANDING Sterling, Virginia New Money Bank Direct Purchase \$47,000,000 |  TERWILLIGER PLAZA TERWILLIGER PLAZA Portland, Oregon Pre-Development Funding Bank Direct Purchase \$25,000,000 |  PEACE VILLAGE PEACE VILLAGE Palos Park, Illinois New Money / Refunding Bank Direct Purchase \$25,950,000 |
|---|---|---|--|

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

Last week in equities, a rally on Friday propelled the major U.S. stock indexes to weekly gains of around 1%, snapping a three-week string of declines. Developments in the U.S.-China trade dispute were the key catalyst, playing a big role in a market decline on Tuesday and Friday's comeback rally. With major banks set to open quarterly earnings season this upcoming week, earnings across the broad market are expected to decline for the third quarter in a row—something that hasn't happened in nearly four years. Profits for companies in the S&P 500 are expected to decline more than 4% compared with the same quarter a year ago, according to FactSet.¹

About 10 minutes before U.S. markets closed on Friday, U.S. and Chinese negotiators announced a partial trade deal between the world's two largest economies. The tentative agreement includes a U.S. retreat from a threatened tariff increase, a Chinese commitment to buy U.S. farm products, and language addressing differences over intellectual property and financial services. The latest reading on U.S. inflation showed that the Consumer Price Index was unchanged in September relative to the prior month, the weakest inflation reading in eight months. The latest data could alleviate concerns that further interest-rate cuts by the U.S. Federal Reserve could unleash a spike in inflation.

In fixed income, the bond price rally of recent weeks stalled, as the yield of the 10-year U.S. Treasury bond climbed to its highest level in three weeks, exceeding 1.70% on Friday (up from 1.56% the previous week). Yields also climbed in other key developed markets, owing in part to indications of progress by negotiators trying to resolve the U.S.-China trade dispute and the Brexit impasse. In Munis, yields matched treasury movements. The 10-Year and 30-Year MMD each increased 8 and 9 bp's from 1.32% to 1.40% and 1.91% to 2.00%, respectively. The tax-exempt bond funds saw an inflow of approximately \$1,385.21 million.

ADAM BUCHANAN

SENIOR VICE PRESIDENT

¹ FactSet. Earnings Insight, Key Metrics, (10/11/2019)*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

| | 10/11/19 | 1 WEEK AGO | 1 MONTH AGO | 1 YEAR AGO |
|-----------------------------------|----------|------------|-------------|------------|
| Prime Rate | 5.00 | 5.00 | 5.25 | 5.25 |
| Federal Funds (weekly average) | 1.80 | 1.85 | 2.10 | 2.16 |
| 90 Day T-Bills | 1.66 | 1.71 | 1.94 | 2.21 |
| 30-Day Commercial Paper (taxable) | 1.90 | 1.90 | 2.05 | 2.24 |
| Libor (30-day) | 1.92 | 1.99 | 2.03 | 2.27 |
| 7 Day Tax-Exempt VRDB | 1.40 | 1.49 | 1.31 | 1.53 |
| Daily Rate Average | 1.37 | 1.47 | 1.35 | 1.50 |

COMPARATIVE YIELDS

TAXABLE REVENUE

| | GOVT | A | | MMD | NR* | BB | BBB | A | AAA |
|---------|------|------|---------|------|------|------|------|------|------|
| 1 Year | 1.64 | 2.24 | 1 Year | 1.09 | 2.79 | 2.49 | 1.89 | 1.54 | 1.39 |
| 5 Year | 1.54 | 2.59 | 5 Year | 1.05 | 2.85 | 2.60 | 2.05 | 1.75 | 1.45 |
| 7 Year | 1.64 | 2.89 | 7 Year | 1.13 | 3.13 | 2.83 | 2.18 | 1.98 | 1.58 |
| 10 Year | 1.73 | 3.52 | 10 Year | 1.32 | 3.42 | 3.12 | 2.52 | 2.32 | 1.77 |
| 30 Year | 2.19 | 3.99 | 30 Year | 1.92 | 4.02 | 3.72 | 3.12 | 2.92 | 2.37 |

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

| | THIS WEEK | LAST WEEK | CHANGE | 2019 HIGH | LOW |
|--|-----------|-----------|--------|--------------|---------|
| Bond Buyer | | | | | |
| 20 Bond Index | 2.59 | 2.62 | -.03 | 4.24 | 2.59 |
| 11 Bond Index | 2.13 | 2.16 | -.03 | 3.71 | 2.13 |
| Revenue Bond Index | 3.07 | 3.10 | -.03 | 4.71 | 3.07 |
| 30 Year MMD | 1.92 | 1.92 | -.00 | 3.11 | 1.84 |
| Weekly Tax-Exempt Volume (Bil) | 4.47 | 7.04 | -2.57 | 9.36 | 0.20 |
| 30 Day T/E Visible Supply (Bil) | 11.49 | 7.38 | +4.12 | 11.49 | .93 |
| 30 year "A" Rated Hospitals as a % of 30 Year Treasuries | 133.33 | 145.27 | -11.94 | 145.27% | 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) | | |
|----------|-------------------|---------------|--------------------------|------------------------|---------------------|-------------------|------------------------------|---|------|
| 10/11/19 | 1.40 | 5.00 | 1.80 | 1.66 | 1.90 | 1.92 | 2.92 | - | 2.37 |
| 10/04/19 | 1.49 | 5.00 | 1.85 | 1.71 | 1.90 | 1.99 | 2.92 | - | 2.37 |
| 09/27/19 | 1.58 | 5.00 | 1.83 | 1.77 | 1.92 | 2.03 | 3.01 | - | 2.46 |
| 09/20/19 | 1.47 | 5.00 | 2.08 | 1.90 | 2.06 | 2.04 | 3.08 | - | 2.53 |
| 09/13/19 | 1.31 | 5.25 | 2.10 | 1.94 | 2.05 | 2.03 | 3.03 | - | 2.48 |
| 09/06/19 | 1.28 | 5.25 | 2.11 | 1.95 | 2.03 | 2.04 | 2.60 | - | 2.05 |
| 08/30/19 | 1.35 | 5.25 | 2.11 | 1.98 | 2.02 | 2.10 | 2.54 | - | 1.99 |
| 08/23/19 | 1.36 | 5.25 | 2.10 | 1.94 | 2.02 | 2.14 | 2.61 | - | 2.06 |
| 08/16/19 | 1.35 | 5.25 | 2.11 | 1.87 | 2.07 | 2.18 | 2.57 | - | 2.02 |
| 08/09/19 | 1.32 | 5.25 | 2.10 | 1.99 | 2.11 | 2.20 | 2.71 | - | 2.16 |
| 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 |
| 07/05/19 | 1.49 | 5.50 | 2.38 | 2.17 | 2.36 | 2.39 | 2.97 | - | 2.47 |
| 06/07/19 | 1.40 | 5.50 | 2.37 | 2.26 | 2.38 | 2.41 | 3.03 | - | 2.53 |
| 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 |

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