FEATURED ARTICLE

# 2019: A YEAR OF HIGHS AND LOWS IN NOT-FOR-PROFIT SENIOR LIVING

As 2019 comes to a close, we thought it would be pertinent to take a look back at the past year, celebrate the positive developments in the not-for-profit senior living sector, and take note of the issues that continue to put pressure on the sector. These are unique times indeed with monumental change occurring at a rapid pace, but in much of that change and turmoil lies great opportunity.

## The Bright Spots of 2019

**Demographics, Demographics, Demographics:** Need we say more? Sure, the customer is changing and is demanding we respond and evolve as well, but what a great opportunity! Across the next several decades, we will have unprecedented growth in the older adult population. For organizations who have long histories of providing quality care and housing for seniors, these demographic trends support continued growth and fulfillment of that mission.

**Occupancy:** In 2019 and recent years, much attention has been on the tremendous growth within the private sector of seniors housing, but at the same time, there has been a lot of focus on challenged occupancy levels among many of these developers and operators. As of the third quarter, not-for-profit seniors housing occupancy was nearly 7% higher than the for-profit space. The third quarter represented the highest occupancy levels for not-for-profit providers since 2007. Many providers are back to healthy wait lists with overall robust occupancy levels.

**Rise of the Strategic Affiliations:** During and in the few years following the recession, most not-for-profit sponsorship transitions were pressured situations where the organization was in some kind of financial or significant operational distress. While those situations unfortunately still exist, we have seen the emergence of the strategy-driven affiliations and mergers. We see boards and leadership teams looking strategically about their future and the power of doing so in partnership with another like-minded organization. As one board member of a merging organization stated, “We could survive in the years ahead, but could we thrive?”

**Embracing Candid Conversations:** The posture of peer dialogue has shifted across the past year. Ziegler, along with others, have reported on the marked slowdown in not-for-profit growth, which in combination with the large number of not-for-profit dispositions to for-profit buyers, has resulted in a loss in total not-for-profit seniors housing inventory. That trend is not necessarily a bright spot, but we have observed not-for-profit providers being much more vocal about the need to preserve the not-for-profit legacy and be more committed to growing and evolving our models. It is also important to note that there are not-for-profit organizations who are bucking the national trends. Examples include Presbyterian Homes and Services (MN), Buckner Retirement Services (TX) and The RiverWoods Group (NH), all who opened new communities in 2019.

**Technology & Innovation:** Bravo to the not-for-profit leaders who are innovating, who are leading with creative technology pilots, and adopting solutions that put them ahead of the curve operationally and with their customers. If there is one area for excitement, this can certainly be it. The sky is the limit, which can be overwhelming at times, but for every “low” outlined below, rest assured that there are a plethora of solutions coming to the marketplace each month to help you combat those pressures. We also want to commend the partnerships that have been created, including the companies and Limited Partners of the Ziegler Link.Age Funds, that bring together providers and entrepreneurs to work together to advance the field. There are leaders such as Majd Alwan (LeadingAge CAST), Mary Furlong (Mary Furlong & Associates), Kari Olson (Front Porch, CA) and many others who are true visionaries in the space. Get to know these people and learn from them. The Longevity Economy is still in the early stages and there is much more to come.

## The Unfortunate Lows of 2019

**Workforce:** This one, unfortunately, is not likely to rotate off the list for the foreseeable future. As an economy, we celebrate the low unemployment rates, but that also contributes to difficulty recruiting qualified staff. This issue is a perfect storm of sorts. We

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have low unemployment rates, rising minimum wages, immigration pressures, Boomer retirements, and continued image issues. This issue is larger than any one of us and we need to continue to work together to find meaningful solutions to mitigate recruitment and retention challenges.

**Skilled Nursing & Post-Acute Complexity:** Within seniors housing and care, the skilled nursing environment is arguably the most disruptive right now. The workforce pressures are not helping on the operational side, but it is the pivotal shifts in how providers get paid, referral patterns that skip inpatient rehabilitation altogether and expectations for better outcomes in less time that are creating a difficult environment. This sector does vary across markets, but in general, providers are taking a hard look at their commitment to this space and entering into risk-bearing scenarios that they would not have considered just several years ago. This will continue to play out and the stronger providers will rise to the top while unfortunately those that do not have the sophistication to compete will be left behind.

**Decline in Not-for-Profit Market Share:** Let us first say that this is not called out to escalate any not-for-profit versus private-sector competitive landscape. The demographics fully support that there is and will be sufficient demand for multiple parties to be at the table for housing and care for seniors in the years ahead. We will absolutely need that. What is being said, however, is that the growth has been largely one-sided. As not-for-profit providers, the speed of decision-making and risk tolerance could benefit from an enhanced pace. The private sector is moving quickly and in many markets, reducing the need for growth coming from not-for-profit providers. At a minimum, if not-for-profit providers could think about maintaining market share, even if now growing in the coming years, that could be a healthy goal.

Overall, we look back through 2019 and acknowledge the challenges we have faced, but we also see it as a year of good health for not-for-profit senior living. We look forward to turning the page into 2020 and continuing to work with many of you on navigating your lows and applauding your highs.

If you have additional questions regarding this issue or if you are looking for additional resources, please reach out to the Ziegler banker in your region.

LISA MCCRACKEN
DIRECTOR, SENIOR LIVING RESEARCH & DEVELOPMENT
ZIEGLER

## NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF DECEMBER 18, 2019

| ORGANIZATION | RATING AGENCY | RATING/ OUTLOOK | TYPE OF ACTION | DATE |
|---|---|---|---|---|
| Aberdeen Heights (MO) | Fitch | BB<br>Negative | Affirmed Rating<br>Revised Outlook | 12/13/19 |
| EHM Obligated Group (MI) | Fitch | BB+<br>Stable | Affirmed Rating | 12/18/19 |



## INTEREST RATES/YIELDS

(AS OF DECEMBER 13, 2019)

| | CURRENT | LAST WEEK | 52-WK AVG |
|---|---|---|---|
| 30-Yr MMD | 2.06% | 2.05% | 2.38% |
| Senior Living 30-Yr "A" | 2.96% | 2.95% | 3.27% |
| Senior Living 30-Yr "BBB" | 3.26% | 3.25% | 3.55% |
| Senior Living Unrated | 4.26% | 4.25% | 4.41% |
| Senior Living New Campus | 6.00% | 6.00% | 6.37% |
| SIFMA Muni Swap Index | 1.11% | 1.06% | 1.47% |

| | CURRENT | WEEKLY AVERAGE | SPREAD TO MMD |
|---|---|---|---|
| ZSLMLB Index | 4.34% | 4.34% | 2.29% |

**Ziegler Senior Living Municipal Long Bond Index*
*Source: Bloomberg BVALS*

## FEATURED FINANCINGS

St.Camillus
A Life Plan Community

**ST. CAMILLUS SYSTEM, INC.**
**Milwaukee, Wisconsin**

Wisconsin Health and Educational Facilities Authority,
Revenue Bonds,
Series 2019

**$200,440,000**

WESLEYAN HOMES

**WESLEYAN HOMES, INC.**
**Georgetown, Texas**

New Hope Cultural Education Facilities Finance Corporation,
Retirement Facility Revenue Bonds,
Series 2019

**$30,545,000**

Sharon Towers

**SHARON TOWERS**
**Charlotte, North Carolina**

North Carolina Medical Care Commission,
Retirement Facilities First Mortgage Revenue Bonds,
Series 2019A

**$75,940,000**

LUTHERAN LIFE COMMUNITIES

**LUTHERAN LIFE COMMUNITIES OBLIGATED GROUP**
**Arlington Heights, Illinois**

Illinois Finance Authority,
Revenue Bonds,
Series 2019A

**$153,360,000**

MARKET COMMENTARY

# FROM A CAPITAL MARKETS PERSPECTIVE

Last week in equities, U.S. stocks rallied on Thursday but showed little change the remainder of the week while the major indexes ended up with overall gains of slightly less than 1.00%. The results extended the market's generally positive direction since early October — a trend that has sent indexes to new record highs.

The U.S. Federal Reserve board unanimously agreed to keep interest rates unchanged, and projections indicate that majority of members expect to leave rates at current levels through 2020, absent any big shifts in their currently favorable economic outlook.

In fixed income, the yield of the 10-year U.S. Treasury bond fell two basis points to 1.82%. In muni's, the 10-Year and 30-Year MMD each decreased six and three bp's from 1.48% to 1.42% and 2.07% to 2.04%, respectively. The tax-exempt bond funds saw an inflow of approximately $1,558.29 million.

ADAM 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

| | 12/13/19 | 1 WEEK AGO | 1 MONTH AGO | 1 YEAR AGO |
|---|---|---|---|---|
| Prime Rate | 4.75 | 4.75 | 4.75 | 5.25 |
| Federal Funds (weekly average) | 1.54 | 1.54 | 1.54 | 2.19 |
| 90 Day T-Bills | 1.56 | 1.52 | 1.56 | 2.41 |
| 30-Day Commercial Paper (taxable) | 1.70 | 1.58 | 1.63 | 2.46 |
| Libor (30-day) | 1.74 | 1.71 | 1.76 | 2.45 |
| 7 Day Tax-Exempt VRDB | 1.11 | 1.06 | 1.12 | 1.64 |
| Daily Rate Average | 1.11 | 1.02 | 1.09 | 1.59 |

### COMPARATIVE YIELDS

**TAXABLE REVENUE**

| | GOVT | A |
|---|---|---|
| 1 Year | 1.51 | 2.11 |
| 5 Year | 1.65 | 2.70 |
| 7 Year | 1.75 | 3.00 |
| 10 Year | 1.81 | 3.61 |
| 30 Year | 2.25 | 4.05 |

| | MMD | NR* | BB | BBB | A | AAA |
|---|---|---|---|---|---|---|
| 1 Year | 1.04 | 2.74 | 2.44 | 1.84 | 1.49 | 1.34 |
| 5 Year | 1.10 | 2.90 | 2.65 | 2.10 | 1.80 | 1.50 |
| 7 Year | 1.24 | 3.24 | 2.94 | 2.29 | 2.09 | 1.69 |
| 10 Year | 1.44 | 3.54 | 3.24 | 2.64 | 2.34 | 1.89 |
| 30 Year | 2.06 | 4.26 | 3.86 | 3.26 | 2.96 | 2.51 |

*(* Representative of institutional sales)*

### TAX-EXEMPT MARKET INDICATORS

| | | | | 2019 | |
|---|---|---|---|---|---|
| Bond Buyer | THIS WEEK | LAST WEEK | CHANGE | HIGH | LOW |
| 20 Bond Index | 2.74 | 2.77 | -.03 | 4.24 | 2.59 |
| 11 Bond Index | 2.27 | 2.30 | -.03 | 3.71 | 2.13 |
| Revenue Bond Index | 3.21 | 3.24 | -.03 | 4.71 | 3.07 |
| 30 Year MMD | 2.06 | 2.05 | +.01 | 3.20 | 1.84 |
| Weekly Tax-Exempt Volume (Bil) | 11.63 | 14.75 | -3.12 | 14.75 | 0.20 |
| 30 Day T/E Visible Supply (Bil) | 6.87 | 15.25 | -8.38 | 19.40 | .93 |
| 30 year “A” Rated Hospitals as a % of 30 Year Treasuries | 131.55 | 129.38 | +2.17 | 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) | | |
|---|---|---|---|---|---|---|---|---|---|
| 12/13/19 | 1.11 | 4.75 | 1.54 | 1.56 | 1.70 | 1.74 | 2.96 | - | 2.51 |
| 12/06/19 | 1.06 | 4.75 | 1.54 | 1.52 | 1.58 | 1.71 | 2.95 | - | 2.50 |
| 11/29/19 | 1.10 | 4.75 | 1.55 | 1.59 | 1.58 | 1.70 | 2.96 | - | 2.51 |
| 11/22/19 | 1.07 | 4.75 | 1.55 | 1.58 | 1.58 | 1.70 | 3.09 | - | 2.54 |
| 11/15/19 | 1.12 | 4.75 | 1.54 | 1.56 | 1.63 | 1.76 | 3.15 | - | 2.60 |
| 11/08/19 | 1.09 | 4.75 | 1.54 | 1.55 | 1.61 | 1.75 | 3.20 | - | 2.65 |
| 11/01/19 | 1.12 | 4.75 | 1.70 | 1.52 | 1.66 | 1.78 | 3.06 | - | 2.51 |
| 10/25/19 | 1.19 | 5.00 | 1.83 | 1.66 | 1.83 | 1.80 | 3.10 | - | 2.55 |
| 10/18/19 | 1.29 | 5.00 | 1.85 | 1.66 | 1.87 | 1.84 | 3.05 | - | 2.50 |
| 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 |
| 09/06/19 | 1.28 | 5.25 | 2.11 | 1.95 | 2.03 | 2.04 | 2.60 | - | 2.05 |
| 08/02/19 | 1.40 | 5.25 | 2.28 | 2.05 | 2.18 | 2.24 | 2.89 | - | 2.34 |
| 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 |

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