

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

THE ANNUAL “LOOK BEHIND...AND LOOK AHEAD” PART II: SENIOR LIVING FINANCE ACTIVITY

In last week's issue of *Z-News* we took a look at what transpired over the past year while predicting what to expect as we look ahead in the new year. This issue of *Z-News* will review the 2022 municipal bond issuance, capital markets, interest rates, and the nearly 60 transactions Ziegler led this past year.

We are all mindful that 2022 took an unpleasant turn when gas prices doubled at the pump, household expenses rose dramatically, and the Consumer Price Index increased to levels we have not experienced in years. Additionally, the low interest rate environment that we enjoyed the last several years began to increase mid-year as the Fed raised rates seven times in 2022, reflecting levels we have not seen in more than a decade. All-in-all, a number of planned deals went to market, and priced successfully, but with rates that generally climbed as the year progressed.

According to *The Bond Buyer Daily Report* (12/03/2023), total municipal bond issuance in 2022 was \$384.1 billion, nearly \$100 billion (21%) less than 2021.

Ziegler successfully priced several deals in the first half of 2022 before interest rates began to rise, and proficiently completed the remaining deals by year's end. The first deal of the year was with **Kendal at Ithaca (NY)** for an \$11.545 million refunding. Ziegler went on to complete an additional 24 bond financings, more than 30 bank transactions, and a private placement in 2022. This reflects a year-end combined total of nearly \$2.7 billion in not-for-profit senior living bond financings and bank transactions. Ziegler's 2022 tax-exempt bond financings for senior living represented roughly 70% market share reported by Refinitiv data.

Ziegler was pleased to represent several new clients with bond financings in 2022. Among those financings were: **Convivial Cabana at Jensen Dunes (FL)** for more than \$39.3 million along with a private placement in the amount of \$15 million to fund an acquisition; **Convivial Jacaranda Trace (FL)** for nearly \$81.9 million also for an acquisition; **Cypress Cove at HealthPark (FL)** for more than \$68 million, with a portion to fund an expansion; and **Galloway Ridge (NC)** for nearly \$12 million to fund capital

improvements. There was one BANs (Bond Anticipation Notes) deal: **Green Cay Life Plan Village (FL)** for nearly \$36.2 million.

Ziegler also assisted a few clients on bond financings in excess of \$100 million for purposes of refunding prior debt and funding the development of new communities: **Presbyterian Retirement Communities (FL)**, **Forefront Living Plano (Outlook at Windhaven) (TX)**, and **La Posada at Part Centre (La Posada at Pusch Ridge) (AZ)**. There were also financings for a combination of refundings and new money for expansions and capital improvements: **Plymouth Place (IL)** for nearly \$99.9 million; **Westminster Canterbury Richmond (VA)** in April for more than \$98 million; **Smith Crossing (IL)** for more than \$58.4 million; **Capital Manor (OR)** for \$58.4 million; **Westminster-Canterbury of the Blue Ridge (VA)** financed nearly \$53 million; **Brewster Place (KS)** for more than \$49.5 million; **Mt. San Antonio Gardens (CA)** for \$43.8; **Briarwood (MA)** for nearly \$38.9 million; **Carmel Valley Manor (CA)** for more than \$36 million; **Meadowlark Hills (KS)** for more than \$22.8 million; **Kendal at Lexington (VA)** financed more than \$18.9 million; **Whitney Center (CT)** for more than \$18.1 million; and **Tampa Life Plan Village (FL)** for \$9.0 million. Others refinanced prior debt and/or bank loans from **The Redwoods (CA)** for nearly \$23.6 million; and **Eliza Jennings (OH)** for more than \$24.4 million.

The more than 30 Ziegler-assisted bank deals were largely in the form of bank direct purchases, although 2022 also offered up multiple taxable term loans, Cinderella bonds, and lines of credit similar to what has taken place in recent years. Bank-related transactions are traditionally smaller in size than bond financings, but the 2022 average deal was more than \$35 million. This is slightly less than the 2021 average deal of \$37 million and more than the \$30 million in 2020. The bank deals ranged in value from \$6.0 million **Terwilliger Plaza (OR)** to more than \$95.5 million **The Forest at Duke (NC)**.

Five new clients tapped into bank lending in 2022, **Cornwall Manor (PA)** in June for \$45 million, **Eskaton Properties (CA)** in August for more than \$24 million, **Cloverwood Senior Living**

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(NY) in November for more than \$18 million, and **Franke Tobey Jones (WA)** in December for more than \$25 million. Other bank placements that Ziegler assisted with in 2022 included loans for **Friendship Obligated Group (VA)**, a new client, in September for nearly \$38 million for the acquisition of **Salem Terrace at Harrogate (VA)**, and **Well-Spring Retirement Community (NC)** for the acquisition of The Village at Brookwood (NC).

There were several more bank transactions completed in 2022, too many to name them all, and one in conjunction with a bond financing such as **Cedar Crest (WI)** in March and October for a combined total of nearly \$129 million. Moreover, there were a number of providers that utilized multiple bank lending types such as **Emerald Communities (WA)** with a line of credit for Emerald Heights (WA) in the amount of \$56 million and Heron's Key (WA) for more than \$74.5 million in Cinderella bonds; **Wisconsin-Illinois Senior Housing** borrowed nearly \$24 million through a bank direct purchase and taxable term loan; and **The Highlands at Wyomissing (PA)** for more than \$67 million by way of a bank direct purchase and Cinderella bonds. While a number of these transactions were to refinance existing debt, many were for new money issuance to fund campus renovations, repositionings, and various projects, while one provider **Saint Therese (MN)** utilized a construction loan for \$47 million to fund the development of a new community to be known as Saint Therese of Corcoran (MN).

In some cases, the bank lending market remained cautious due to lingering uncertainties from COVID-19 and the challenges facing the senior living sector from inflation, workforce challenges and rising interest rates. Some banks focused largely on existing relationships and tightened terms for new construction projects. Yet, bank debt remained an attractive alternative in 2022 and we believe it will continue to remain attractive in 2023, particularly in regions of the country where competition among banks is strong.

Acute inflation fears in 2022 prompted significant increases in municipal bond fixed rates in the first nine months of the year. Signs that the steep short-term rate increases led by the FOMC may be tempering inflation led to some moderating toward the end of 2022. With the MMD hovering in the 3.35% to 3.50% range in early 2023, we are optimistic that baseline tax-exempt rates will level out and that this stability will lead to some improvement in credit spreads for senior living borrowers, further reducing overall fixed-rate borrowing costs.

We encourage you to reach out to the Ziegler banker in your region to discuss options for the year ahead.

For more information regarding the structure and use of each of these 2022 issues, please see the Electronic Municipal Market Access <https://emma.msrb.org> system's website or contact the Ziegler banker in your area.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF JANUARY 9, 2023

| ORGANIZATION | RATING AGENCY | RATING/ OUTLOOK | TYPE OF ACTION | DATE |
|--------------------------------|---------------|-----------------|---|--------|
| Morningside Ministries (TX) | Fitch | BB+ Negative | Affirmed Rating Affirmed IDR* Revised Outlook | 1/6/23 |
| Community First Solutions (OH) | Fitch | A- Stable | Affirmed Rating Affirmed IDR* | 1/9/23 |

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* IDR – Issuer Default Rating (FitchRatings)

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

INTEREST RATES/YIELDS

WEEK ENDING JANUARY 6, 2023

| | CURRENT | LAST WEEK | 52-WK AVG |
|---------------------------|---------|----------------|---------------|
| 30-Yr MMD | 3.50% | 3.58% | 3.04% |
| Senior Living 30-Yr "A" | 5.10% | 5.15% | 4.43% |
| Senior Living 30-Yr "BBB" | 5.50% | 5.60% | 4.82% |
| Senior Living Unrated | 6.25% | 6.35% | 5.56% |
| Senior Living New Campus | 7.20% | 7.25% | 6.46% |
| SIFMA Muni Swap Index | 3.13% | 3.66% | 1.29% |
| | CURRENT | WEEKLY AVERAGE | SPREAD TO MMD |
| ZSLMLB Index [†] | 5.51% | 5.60% | 2.20% |

[†] Ziegler Senior Living Municipal Long Bond Index

Source: Bloomberg BVALS

FEATURED FINANCINGS

TAMPA LIFE PLAN VILLAGE
 Tampa, Florida

 Florida Development Finance Corporation,
 Senior Living Revenue Bonds,
 Series 2022

\$9,000,000

December, 2022


TERWILLIGER PLAZA
 Portland, Oregon

 Taxable Line of Credit / Term Loan
 New Money

\$6,000,000

September, 2022

MARKET REVIEW

MONEY MARKET RATES

| | 01/06 | Last week |
|-----------------------------------|-------|-----------|
| Prime Rate | 7.50 | 7.50 |
| Federal Funds (weekly average) | 4.32 | 4.32 |
| 90 Day T-Bills | 4.48 | 4.39 |
| 30-Day Commercial Paper (taxable) | 4.25 | 4.25 |
| Libor (30-day) | 4.39 | 4.36 |
| SOFR | 4.31 | 4.30 |
| 7 Day Tax-Exempt VRDB | 3.13 | 3.66 |
| Daily Rate Average | 3.04 | 3.71 |

COMPARATIVE YIELDS

| TAXABLE REVENUE | | | | | | | | | |
|-----------------|------|------|---------|------|------|------|------|------|------|
| | GOVT | A | | MMD | NR* | BB | BBB | A | AAA |
| 2 Year | 4.46 | 5.56 | 1 Year | 2.62 | 4.82 | 4.47 | 3.77 | 3.02 | 2.70 |
| 5 Year | 3.91 | 5.26 | 5 Year | 2.46 | 4.76 | 4.41 | 3.71 | 2.96 | 2.61 |
| 7 Year | 3.83 | 5.33 | 7 Year | 2.48 | 4.88 | 4.58 | 3.88 | 3.08 | 2.73 |
| 10 Year | 3.72 | 5.52 | 10 Year | 2.58 | 5.08 | 4.78 | 4.18 | 3.23 | 2.88 |
| 30 Year | 3.79 | 6.19 | 30 Year | 3.50 | 6.25 | 5.90 | 5.35 | 4.50 | 4.00 |

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

| Bond Buyer | THIS WEEK | LAST WEEK | CHANGE |
|--|-----------|-----------|--------|
| 20 Bond Index | 3.66 | 3.72 | -0.06 |
| 11 Bond Index | 3.56 | 3.62 | -0.06 |
| Revenue Bond Index | 3.94 | 4.00 | -0.06 |
| 30 Year MMD | 3.50 | 3.58 | -0.08 |
| Weekly Tax-Exempt Volume (Bil) | 1.15 | 0.00 | +1.15 |
| 30 Day T/E Visible Supply (Bil) | 4.83 | 3.69 | +1.14 |
| 30 year "A" Rated Hospitals as a % of 30 Year Treasuries | 118.7 | 117.4 | +1.30 |

Source: Bloomberg