FEATURED ARTICLE

# A LOOK BEHIND…A LOOK AHEAD

Each year, we use the early weeks to reflect on the year behind us and what to anticipate for the year ahead and this year's opening ***Z-News*** does just that. Throughout 2024, senior living providers worked toward positioning themselves to "Thrive in '25." This included:

- Focusing on workforce recruitment and retention,
- Expanding business lines to improve marketability and create new sources of revenue,
- Investing in new technology platforms to streamline tasks and compliment daily operations and care,
- Right-sizing their unit mix (often eliminating or reducing skilled nursing beds or adding independent living residences),
- Implementing resident fee increases to manage inflationary pressures, and
- Investing in their physical plant to keep up with the needs and desires of the diverse Baby Boomer retirees.

While some senior living organizations focused on future growth by expanding their existing campus and/or acquiring or affiliating with other senior living providers, others entered into new partnerships, third party management agreements, or started new business ventures such as Home & Community-Based Services (HCBS).

While so many senior living organizations have found ways to buoy themselves amidst the many challenges of the past several years, there are still signs that 2025 will be a time for continued vigilance; operators will need to keep their foot on the gas to forge ahead to success.

Workforce pressures are likely to continue to be a key issue, with the turnover rate still high at 40% and competition still fierce among other sectors like hospitality and retail[(1)]. Senior living providers will need to continue to find ways to keep employees engaged by investing in a positive work culture, professional development programs and communicating a clear career path going forward. One way to decrease staff burnout and/or turnover is through investments in technology that can assist staff with time-consuming tasks, support increased engagement, and provide caregiving roles like remote patient monitoring and fall prevention.

According to a Ziegler *CFO Hotline*[SM] in September 2024 on Resident Fee Increases, many providers are planning for lower monthly fee increases than the prior two years. While the average increase among respondents in 2023 was 6.24% and 5.10% in 2024, the average projected increase for 2025 was reported at just 4.38%. This is in line with softening of inflationary pressures (CPI was down from 3.4% in December 2023 to 2.7% at the same time in 2024), as well as the sector seeing a boost in margins from the 14th consecutive quarter of occupancy increases. Entrance fee increases are projected to be slightly more moderate in the coming year, from an average of 5% in 2024 to a projected 4.6% in 2025.

The coming year will also continue to see challenges for expansions and new construction, despite a sector-wide supply shortfall. According to Weitz Construction, the cost of construction materials is likely to increase roughly 3.00% to 6.00% over the next 12 months[(2)], and NIC has indicated that new project timelines are prolonged to around 29 months[(3)]. However, with over half of senior living properties over 25 years old, an increase in capital expenditures to appeal to future residents, as well as boost overall efficiency and functionality will be key for many operators to take advantage of the current demographic "tsunami" and continue to increase occupancy.

Many had hoped that 2025 would be a year for explosive growth and full rebounds in the sector. While there is significant evidence to suggest this is possible, stakeholders will need to continue to find innovative ways to take advantage of opportunities for growth and continued stabilization. The senior housing penetration rate continues to remain around 11%[(3)], even in light of research like the NORC research showing that older adults who live in senior housing communities live longer, receive more home health services, and benefit from greater rehabilitative and preventive care in the two years following move-in than those who do not[(4)]. Senior living organizations will be tasked in 2025 with really getting the message out about their value proposition to modern seniors. Adding innovative wellness solutions like physician services in the comfort of their apartment, expanding technology offerings, and using data to enhance community engagement can give operators the edge over competitors to take advance of increased demand. Improving occupancy and constant attention to mitigating expenses can help balance continued increases in expenses from wages to insurance. With some political and regulatory uncertainty, operators will also need to stay abreast of changes and opportunities to participate in influencing policy in the sector.

Overall, 2025 will present significant growth opportunities for those that can be flexible in addressing the needs and wants of modern seniors among workforce, economic, and regulatory challenges still facing the senior living and care sector.

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1. NICMAP Vision Blog. September 18, 2024. Senior Housing Industry Forecast: What to Expect in 2025 and Beyond | NIC MAP Vision
2. Weitz Construction Senior Living Construction Costs Brief. Fall 2024. Senior Living Construction Costs Brief Fall 2024 – Weitz
3. Senior Housing News. Tim Regan. December 2, 2024. ‘We Can’t Stop’: Senior Living Industry Seeks Development Creativity as Demand Surges – Senior Housing News
4. NIC Blog. March 12 2024. NORC at University of Chicago Releases Study Showing Senior Housing Residents Live Longer – National Investment Center

## NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF JANUARY 17, 2025

| ORGANIZATION | RATING AGENCY | RATING/ OUTLOOK | TYPE OF ACTION | DATE |
|---|---|---|---|---|
| Pennswood Village (PA) | Fitch | A-<br>Stable | Upgraded Rating<br>Upgraded IDR* | 1/6/25 |
| Presbyterian Retirement Communities (FL) | Fitch | A-<br>Stable | Affirmed Rating<br>Affirmed IDR* | 1/13/25 |
| Smith Crossing (IL) | Fitch | BBB-<br>Stable | Affirmed Rating<br>Affirmed IDR* | 1/14/25 |
| Luthercare (PA) | Fitch | BBB+<br>Stable | Assigned Rating<br>Assigned IDR* | 1/17/25 |

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* *IDR – Issuer Default Rating*
*Any non-Ziegler sources referenced in this Z-News are believed to be reliable but cannot be guaranteed.*

## INTEREST RATES/YIELDS

WEEK ENDING JANUARY 17, 2025

| | CURRENT | LAST WEEK | 52-WK AVG |
|---|---|---|---|
| 30-Yr MMD | 4.07% | 3.99% | 3.72% |
| Senior Living 30-Yr "A" | 4.90% | 4.85% | 4.68% |
| Senior Living 30-Yr "BBB" | 5.25% | 5.20% | 5.01% |
| Senior Living Unrated | 6.35% | 6.30% | 6.23% |
| Senior Living New Campus | 7.80% | 7.80% | 7.84% |
| SIFMA Muni Swap Index | 2.54% | 1.83% | 3.34% |

| | CURRENT | WEEKLY AVERAGE | SPREAD TO MMD |
|---|---|---|---|
| ZSLMLB Index† | 5.44% | 5.49% | 1.41% |

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

## FEATURED FINANCINGS

**LUTHERAN SENIOR SERVICES**
**St. Louis, Missouri**

Health & Educational Facilities Authority of the State of Missouri, Senior Living Revenue Bonds, Series 2025A

**$41,830,000**

December, 2024

**CONNECTICUT BAPTIST HOMES**
**Brooklyn, Connecticut**

Bank Placement
New Money / Refunding

**$12,870,000**

December, 2024

**HURON VALLEY PACE (Brio Living Services)**

Bank Placement / New Money

**$4,000,000**

December, 2024

**BRIO LIVING SERVICES**
**Grand Rapids, Michigan**

Bank Placement / Renewal

**$8,154,000**

October, 2024

MARKET REVIEW

## MONEY MARKET RATES

| | 01/17 | Last week |
|---|---|---|
| Prime Rate | 7.50 | 7.50 |
| Federal Funds (weekly average) | 4.32 | 4.32 |
| 90 Day T-Bills | 4.29 | 4.30 |
| 30-Day Commercial Paper (taxable) | 4.32 | 4.32 |
| SOFR (30-day) | 4.37 | 4.44 |
| SOFR | 4.29 | 4.30 |
| 7 Day Tax-Exempt VRDB | 2.54 | 1.83 |
| Daily Rate Average | 1.01 | 0.47 |

## COMPARATIVE YIELDS

**TAXABLE REVENUE**

| | | A |
|---|---|---|
| 2 Year | 4.23 | 4.73 |
| 5 Year | 4.39 | 4.99 |
| 7 Year | 4.50 | 5.25 |
| 10 Year | 4.61 | 5.61 |
| 30 Year | 4.85 | 6.35 |

| | MMD | NR* | BB | BBB | A | AA |
|---|---|---|---|---|---|---|
| 1 Year | 2.83 | 4.83 | 4.23 | 3.48 | 3.18 | 2.83 |
| 5 Year | 2.95 | 5.05 | 4.40 | 3.65 | 3.35 | 2.95 |
| 7 Year | 3.00 | 5.20 | 4.50 | 3.75 | 3.45 | 3.00 |
| 10 Year | 3.18 | 5.48 | 4.73 | 3.98 | 3.68 | 3.18 |
| 30 Year | 4.07 | 6.67 | 5.77 | 5.07 | 4.77 | 4.07 |

*(* Representative of institutional sales)*

## TAX-EXEMPT MARKET INDICATORS

| Bond Buyer | THIS WEEK | LAST WEEK | CHANGE |
|---|---|---|---|
| 20 Bond Index | 4.28 | 4.16 | +0.12 |
| 11 Bond Index | 4.18 | 4.06 | +0.12 |
| Revenue Bond Index | 4.57 | 4.45 | +0.12 |
| 30 Year MMD | 4.07 | 3.99 | +0.08 |
| Weekly Tax-Exempt Volume (Bil) | 10.54 | 10.54 | 0.00 |
| 30 Day T/E Visible Supply (Bil) | 10.22 | 12.71 | -2.49 |
| 30 year “A” Rated Hospitals as a % of 30 Year Treasuries | 98.3 | 95.3 | +3.00 |

Source: Bloomberg