FEATURED ARTICLE

ZIEGLER'S 27TH ANNUAL SENIOR LIVING FINANCE + STRATEGY CONFERENCE: THE 2024 STATE OF SENIOR LIVING & THE SENIOR LIVING CAPITAL MARKETS RECAP

Late last month, Ziegler hosted its ***27th Annual Senior Living Finance + Strategy Conference*** at the JW Marriott Desert Springs & Spa in Palm Desert, California. This issue of ***Z-News*** will recap Thursday's opening general session on the "*2024 State of Senior Living & The Senior Living Capital Markets*," which highlighted key trends in the sector, the latest industry research, the current capital markets environment, and economic indicators.

Ziegler's Dan Hermann and Mimi Rossi presented on the key trends in the senior living and care sector such as demographics, workforce challenges, sector growth, technology, and more. The highlights are summarized below.

- **Demographic Trends:** Across the next 10 years, the U.S. population 75 and older will grow by another 11.7 million individuals, furthering the wave of Baby Boomers who will be accessing housing and services in the years to come. Providers will need to be on top of the changing consumer preferences and characteristics to pivot accordingly.
- **Senior Living & Care Workforce:** While the workforce headwinds continue, many providers are reporting decreased agency usage and improvements in the rate of wage escalation compared to one year ago. Nonetheless, demographic trends will necessitate ongoing innovation with new staffing models and technologies that make us operationally smarter, as the amount of potential care providers is dwindling — by 2030 its projected that there will be 4 care providers to every patient, down from the current 6:1 ratio.
- **Not-for-Profit Sector Growth:** During this portion of the presentation, multiple key growth trends were detailed. For not-for-profit provider organizations, the primary growth strategies in recent years have been community expansions and merger/acquisition/affiliation activity. The sector has been gradually consolidating over the past decade, while at the same time, new community development among not-for-profits has slowed down considerably while there is a projected 800,00 additional new units needed by 2030. This is the reverse trend to what is being observed among the for-profit owners and operators whereby much of the growth has been through the development of new communities primarily comprised of Independent Living, Assisted Living and Memory Care.
- **Skilled Nursing Environment:** There have been a significant number of freestanding, not-for-profit nursing homes sold to the for-profit sector. At the same time, many Life Plan Communities have downsized their skilled nursing footprint, with greater rotation to IL, AL and MC offerings. The skilled nursing service line has been impacted by workforce pressures, an increasingly difficult regulatory environment, changing hospital referral patterns and reimbursement shortfall among others. The aging population will demand services, but when, how and where they receive those services is indeed shifting — do we need to consider skilled care as a service, rather than a place?
- **Ancillary Service Lines:** The emergence of home and community-based services continues to unfold as roughly 45% of not-for-profit providers have some type of commitment to these services. Additionally, as providers continue to look for additional revenue and complementary services to core businesses, providers have invested in ancillary businesses such as pharmacy, technology, physician practices, third-party management, and more.
- **Technology:** Technology is the over-arching trend that aligns with every other trend unfolding in the sector. Attendees were encouraged to align technology adoption and innovation with the organization's strategic goals.

The *2024 State of the Senior Living Capital Markets* section was presented by Ziegler's Tom Meyers and Sarkis Garabedian. They highlighted the 2023 credit performance by senior living providers as well as activity in the bank credit marketplace, fixed-rate tax-exempt bond environment, and overall economic landscape through the last year are noted below.

- **Provider Financial Performance:** Ziegler reviewed data sets from three provider credit benchmarks (Fitch, CARF International and Ziegler Credit Surveillance) based on recently released financial medians for the calendar year 2023. While the results of each data set varied, all three pointed to the common theme of financial stability if not outright improved financial performance. Occupancy gains coupled with monthly service fee increases during the year set the basis for this recovery. Improved revenues along with stabilized, albeit higher, operating expenses (including labor) allowed operators to improve their financial margins as well as cash flows. Cash positions improved as a result and providers enjoyed stronger cash flows for the year. Fitch's recent credit comments said that 2023 was a year of resurgence and Ziegler agrees. Lastly, Fitch recently revised its credit ratings guidelines which were commented on in this presentation.

- **Senior Living Bank Market:** The overall volume for senior living bank financing in year-to-date 2024 is comparable to full year 2023 volumes. It was noted that these two years represented less than half of the annual bank debt volumes experienced from 2020-2022. A few factors came into play for these lower financing amounts with the first being the dramatic rise in short-term interest rates to levels not seen since the housing crisis as the Federal Reserve mounted its campaign to fight inflation. This caused senior living borrower demand for bank capital to diminish precipitously. Further, the supply of bank capital remained constrained as a function of aftereffects from the regional bank crisis that took place in the spring of 2023. The result of this is some banks stopped lending leaving fewer banks to lend – some were being selective, some implemented stricter policies, and other banks were only lending to existing customers. As banks have been attempting to increase their capital reserves, there has also been a new focus on garnering fresh customer deposits by way of new loans. Lastly, the number of banks' lending to senior living providers continues to shrink as bank markets consolidate further. It is Ziegler's expectation that the bank environment for senior living will improve as the Fed continues to cut short-term interest rates, but this will take time to evolve.

- **Tax-Exempt Bond Market:** Year-to-date, fixed-rate tax-exempt volume has nearly eclipsed all of 2023 and is expected to reach a multi-year high in 2024. This volume increase has been fueled by significant investor demand, reduced borrowing costs and a backlog of expansion projects hitting the market to capitalize on improving financial and operational trends. Fixed interest rates are near their lows of the year across the rating spectrum as investors continue to pour cash into high yield bond funds, setting up a positive picture for senior living providers as the pipeline continues to build with larger scale projects.

- **Economic Outlook:** Ziegler's Sarkis Garabedian presented insights regarding the economic outlook including its impact for senior living borrowers and fixed-rate capital markets activity, which is now on the upswing. Much of the recent focus has centered around the Federal Reserve's ability to deliver a soft economic landing as Chairman Powell grapples with the Fed's dual mandate of stable prices and full employment. While the path toward a soft landing has at times felt elusive and turbulent, it has now emerged as market consensus with inflation tracking toward the Fed's 2% goal while the economy remains on solid footing as measured by GDP and the employment picture. This backdrop gave the Fed confidence to cut rates by 50 basis points at its September meeting, signaling the Fed is now turning the page to focus more on the economy over inflation. These developments are positive for senior living borrowers with rates on floating rate debt trending lower and a continuation of robust investor demand for tax-exempt bonds.

Once again, we thank the more than 75 guest speakers who partnered with the Ziegler team members to make this year's educational component among one of the best.

If you have any questions regarding this year's conference or other related matters, we encourage you to reach out to the Ziegler representative in your region.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF OCTOBER 4, 2024

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
LifeSpire of Virginia (VA)	Fitch	BBB Stable	Assigned Rating Affirmed Rating Affirmed IDR*	10/1/24
Good Shepherd Village at Endwell (NY)	Fitch	BBB- Stable	Affirmed Rating Affirmed IDR* Revised Outlook	10/3/24
Greencroft Obligated Group (IN)	Fitch	BBB- Stable	Affirmed Rating Affirmed IDR*	10/4/24

* *IDR – Issuer Default Rating*

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

FEATURED FINANCING

SHELL POINT
RETIREMENT COMMUNITY

SHELL POINT
Fort Myers, Florida

Lee County Industrial Development Authority,
Healthcare Facilities Revenue Bonds,
Series 2024C

$98,675,000

September, 2024

INTEREST RATES/YIELDS

WEEK ENDING OCTOBER 4, 2024

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.49%	3.52%	3.74%
Senior Living 30-Yr "A"	4.42%	4.45%	4.88%
Senior Living 30-Yr "BBB"	4.77%	4.80%	5.25%
Senior Living Unrated	5.92%	5.95%	6.43%
Senior Living New Campus	7.72%	7.75%	7.91%
SIFMA Muni Swap Index	3.00%	3.15%	3.46%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
ZSLMLB Index†	5.12%	5.09%	1.58%

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

MARKET REVIEW

MONEY MARKET RATES

	10/04	Last week
Prime Rate	8.00	8.00
Federal Funds (weekly average)	4.81	4.81
90 Day T-Bills	4.58	4.61
30-Day Commercial Paper (taxable)	4.82	4.79
SOFR (30-day)	4.85	4.95
SOFR	4.85	4.83
7 Day Tax-Exempt VRDB	3.00	3.15
Daily Rate Average	2.32	3.34

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A
2 Year	3.70	4.20
5 Year	3.62	4.22
7 Year	3.71	4.46
10 Year	3.84	4.84
30 Year	4.17	5.67

	MMD	NR*	BB	BBB	A	AA
1 Year	2.55	4.55	3.95	3.20	2.90	2.55
5 Year	2.27	4.37	3.72	2.97	2.67	2.27
7 Year	2.40	4.60	3.90	3.15	2.85	2.40
10 Year	2.54	4.84	4.09	3.34	3.04	2.54
30 Year	3.49	6.09	5.19	4.49	4.19	3.49

(Representative of institutional sales)*

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE
20 Bond Index	3.74	3.81	-0.07
11 Bond Index	3.64	3.71	-0.07
Revenue Bond Index	4.03	4.10	-0.07
30 Year MMD	3.49	3.52	-0.03
Weekly Tax-Exempt Volume (Bil)	7.36	11.55	-4.19
30 Day T/E Visible Supply (Bil)	13.36	10.78	+2.58
30 year “A” Rated Hospitals as a % of 30 Year Treasuries	100.4	102.1	-1.70

Source: Bloomberg