FEATURED ARTICLE

# THE ANNUAL "LOOK BEHIND…AND LOOK AHEAD": PART II – KEY 2022 PREDICTIONS

In last week's issue of ***Z-News***, we took a look behind at what 2021 offered in terms of the capital lending environment and how Ziegler executed more than 80 transactions to finance campus development projects and refinance existing debt. This week's issue takes a strategic look ahead at the key issues we see on the horizon for providers in 2022. We take this approach every year for the second issue of ***Z-News*** for the year. What is an obvious, consistent trend which has been with us the past two years is the COVID-19 pandemic. While we will not call that out in a specific deep-dive prediction for 2022, it will clearly have an impact of nearly all other trends that are shaping the sector from workforce to technology to growth strategies.

### *What can we expect for 2022?*

One thing we have realized is that predicting the future during pandemic times can be difficult. However, it is clear that acknowledging that the pandemic is going to be with us in some form for an extended period of time rather than taking an approach of "waiting for things to pass" will force organizations to focus on more than just pandemic pressures and more on their strategic goals. How can we have the pandemic be one spoke of the wheel and not the entire wheel? Sure, this can be easier said than done. The points is, it is important that an organization's strategic progress not repeatedly be stymied by operational barriers and distractions.

So what do we see as the hot topics and areas of greatest focus as we forge ahead in 2022? The topics below are not mutually exclusive, but represent areas of opportunities, areas in transition, and certainly some areas that will challenge us as a sector.

**Our Critical Workforce:** We could not avoid a conversation about trends without highlighting the elephant in the room. The trickle-down effect of the recruitment and retention challenges into nearly every aspect of the organization is significant. The pressures cross many departments, but the caregiving staff in particular. There is not one solution. Providers need to not only ensure their culture and brand is inviting and a place where people want to work, but be smart about who they are hiring. Technology can certainly play a role with "smart hiring" using data analytics. There are also some robotics, machine learning innovations and point solutions that can all improve efficiencies on the staffing front. Navigating the workforce focus will require a financial commitment (increased wages, meaningful benefits), creativity, strong partners to help fill the staffing pipeline and stamina for the long-haul. If there is any consolation, there are some (emphasis on 'some') providers in the country who are not experiencing significant staffing shortages. So, there is reason for optimism.

**Skilled Nursing Upended & Redefined:** The focus on the skilled nursing sector has been with us for several years now, even before the pandemic. It has been shifting in a number of ways and frankly, in some respects, we were turning the other way in response to trends that were right in front of us. The pandemic took away the ability to continue as-is and is forcing us to think differently about how we provide care to the frailest of those we serve. Is it in the setting of their choosing (skilled care that is site-agnostic)? Does it support what the consumer is demanding? Is your skilled setting warm, inviting, of high-quality and where people want to live (rather than dread!)? Do you have the level of sophistication needed to be in at-risk arrangements? Do you have a setting and model that attracts talent or pushes them away? These are all critical questions that providers need to ask themselves. Embrace the change being forced on us and do not be afraid to reinvent. Skilled nursing is not going away, but it will look different moving forward.

**Revenue Diversification:** As we talk with CEOs, CFOs, and board members, we often get asked what peer organizations are doing to diversify above and beyond bricks-and-mortar housing and care for seniors. The good news is that there are indeed examples of this happening in our field. Sure, there are the more common home-and-community-based service offerings (home care, home health, hospice, etc.), but there can be service lines such as pharmacy, care navigation, third-party management companies, and staffing agencies. There are even providers who own storage units and golf courses! We are not necessarily recommending everyone go out and acquire a golf course, but the point is, if you do your due diligence appropriately, you should not be afraid to think outside the box. Having a for-profit subsidiary is not uncommon with some of these entities. Not all of these diverse service lines may open up the financial flood gates, but they can have many secondary benefits for your brand and overall mission advancement.

**Better Together?** We have known for some time that there can be great benefit from having scale and greater depth in resources. The past two years has brought that lesson home. This is NOT to say that single-site organizations cannot thrive on their own for many years. The local market often defines the narrative, but at the end of the day, organizations need to understand the difference between surviving and thriving. The organizations who are on the cusp of survival and currently at risk, really need not be afraid to make hard decisions and engage in conversations to ensure the organization/community continues into the future. Many organizations are exploring affiliation, acquisition, or even disposition opportunities. The pressures of the pandemic have accelerated this trend. These partnerships can take many forms from seeking help from a third-party manager to a full affiliation. Evaluating the pros/cons is a healthy exercise to undertake, even for the strongest of organizations.

**Bold & Decisive Governance:** Does anyone else tire of the not-for-profit stereotype that boards can be slow to act and risk averse? Is this the year to change that stereotype and prove them wrong? We are not suggesting a shift to recklessness and poor leadership, but we need to be bold in our thinking and see change as a thing that has the potential to make us better. This means making difficult decisions and putting the interests of the organization first, ahead of individuals or even perhaps the historical makeup of the organization. CEOs need to make sure that their boards are educated, engaged and represent diverse perspectives.

**Consumer is King (or Queen):** This is by no means a new or shocking trend. However, in today's environment, we are at the mercy of the prospective resident, customer, adult child and court of public opinion (whether accurate or not). Do we have a service or product that the consumer wants? Are we able to offer the choices that incoming seniors want today (unit types, contract offerings, dining options)? How are we helping advance the goals of the third act and not simply be a place where people come when they stop working full-time? We need to fully understand market dynamics, public perception of who we are, and the true wants and needs of those who we market to.

**Technology:** This is the macro theme that covers all of the above! It is paramount that organizations take a look at their strategic plans and ask where technology can play a role in advancing those initiatives. There is a plethora of innovation at your fingertips. The challenge is not a lack of technology or solutions, but probably more of how to effectively navigate through all of the options that exist. The innovators follow the pain points. See what exists out there regarding workforce solutions or skilled nursing settings. Explore the growth in technology solutions for the growing home and community-based services sector. Ignoring these technologies can not only help advance organizations, but can help prevent them from falling too far behind.

**Access to Capital:** You did not think we were going to forget to mention capital, did you? As in 2021, early 2022 is signaling that there is continued access to low-cost capital for tax-exempt borrowers. Both institutional investors and bank lenders remain committed to this sector and support established, strong senior living borrowers. You have demonstrated your resilience the past two years and that has not gone unnoticed by the markets. It is also important to mention a trend related to ESG (Environmental, Social, Governance). Ziegler was the first to bring forth a "Green Bonds" designation for a senior living transaction in 2021 (Enso Village, a Kendal Affiliate). ESG criteria continues to attract increased attention and we envision that provider organizations will hear more throughout the year about this trend. Ziegler will devote a future issue of ***Z-News*** to conduct a deeper dive into this topic.

Ziegler remains committed in the year ahead to bringing forth the most up-to-date research and trend information and feeding that back out to the sector. We offer up this thought leadership to organizations who are looking to educate their boards and leadership teams and for those embarking upon strategic planning processes. If you have questions related to the topics mentioned in this article or other related items, please contact the Ziegler banker in your region.

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## NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF JANUARY 11, 2022

| ORGANIZATION | RATING AGENCY | RATING/ OUTLOOK | TYPE OF ACTION | DATE |
|---|---|---|---|---|
| Broadmead (MD) | Fitch | BBB+<br>Positive | Affirmed Rating<br>Revised Outlook<br>Assigned IDR* | 1/6/22 |
| Presbyterian Retirement Communities Obligated Group (FL) | Fitch | A-<br>Stable | Assigned Rating<br>Affirmed Rating<br>Affirmed IDR* | 1/7/22 |
| Morningside Ministries (TX) | Fitch | BB+<br>Stable | Assigned Rating<br>Affirmed Rating<br>Assigned IDR* | 1/10/22 |
| Westminster-Canterbury of the Blue Ridge (VA) | Fitch | BBB+<br>Stable | Assigned Rating<br>Assigned IDR* | 1/11/22 |



** IDR – Issuer Default Rating (FitchRatings)*

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

## FEATURED FINANCING

KENDAL® at Ithaca

*Together, transforming the experience of aging.®*

**KENDAL AT ITHACA**

**Ithaca, New York**

Tompkins County Development Corporation,
Revenue Bonds,
Series 2022A and 2022B Forward Delivery

**$11,545,000**

January, 2022

## INTEREST RATES/YIELDS

WEEK ENDING JANUARY 7, 2022

| | CURRENT | LAST WEEK | 52-WK AVG |
|---|---|---|---|
| 30-Yr MMD | 1.58% | 1.49% | 1.54% |
| Senior Living 30-Yr "A" | 2.20% | 2.10% | 2.13% |
| Senior Living 30-Yr "BBB" | 2.40% | 2.30% | 2.43% |
| Senior Living Unrated | 3.40% | 3.30% | 3.62% |
| Senior Living New Campus | 5.00% | 5.00% | 5.41% |
| SIFMA Muni Swap Index | 0.06% | 0.10% | 0.04% |

| | CURRENT | WEEKLY AVERAGE | SPREAD TO MMD |
|---|---|---|---|
| ZSLMLB Index† | 3.91% | 3.87% | 2.34% |

*† Ziegler Senior Living Municipal Long Bond Index*

*Source: Bloomberg BVALS*

## MARKET REVIEW

### MONEY MARKET RATES

| | 1/07 | LAST WEEK |
|---|---|---|
| Prime Rate | 3.25 | 3.25 |
| Federal Funds (weekly average) | 0.07 | 0.07 |
| 90 Day T-Bills | 0.09 | 0.06 |
| 30-Day Commercial Paper (taxable) | 0.08 | 0.05 |
| Libor (30-day) | 0.10 | 0.10 |
| 7 Day Tax-Exempt VRDB | 0.06 | 0.10 |
| Daily Rate Average | 0.02 | 0.06 |

### COMPARATIVE YIELDS

| TAXABLE REVENUE | GOVT | A |
|---|---|---|
| 1 Year | 0.43 | 1.03 |
| 5 Year | 1.50 | 2.30 |
| 7 Year | 1.69 | 2.64 |
| 10 Year | 1.76 | 2.86 |
| 30 Year | 2.11 | 3.66 |

| | MMD | NR* | BB | BBB | A | AAA |
|---|---|---|---|---|---|---|
| 1 Year | 0.25 | 1.65 | 1.05 | 0.65 | 0.40 | 0.30 |
| 5 Year | 0.68 | 2.18 | 1.58 | 1.13 | 0.88 | 0.75 |
| 7 Year | 0.95 | 2.55 | 1.90 | 1.45 | 1.20 | 1.05 |
| 10 Year | 1.12 | 2.82 | 2.17 | 1.72 | 1.47 | 1.25 |
| 30 Year | 1.58 | 3.48 | 2.83 | 2.38 | 2.03 | 1.78 |

*(* Representative of institutional sales)*

### TAX-EXEMPT MARKET INDICATORS

| Bond Buyer | THIS WEEK | LAST WEEK | CHANGE |
|---|---|---|---|
| 20 Bond Index | 2.12 | 2.06 | +0.06 |
| 11 Bond Index | 1.65 | 1.59 | +0.06 |
| Revenue Bond Index | 2.03 | 1.97 | +0.06 |
| 30 Year MMD | 1.58 | 1.49 | +0.09 |
| Weekly Tax-Exempt Volume (Bil) | 0.91 | 0.91 | 0.00 |
| 30 Day T/E Visible Supply (Bil) | 6.01 | 3.10 | +2.91 |
| 30 year "A" Rated Hospitals as a % of 30 Year Treasuries | 96.2 | 99.4 | -3.20 |