



# THE STATE OF SENIOR LIVING AND SENIOR LIVING CAPITAL MARKETS AUGUST 1, 2014



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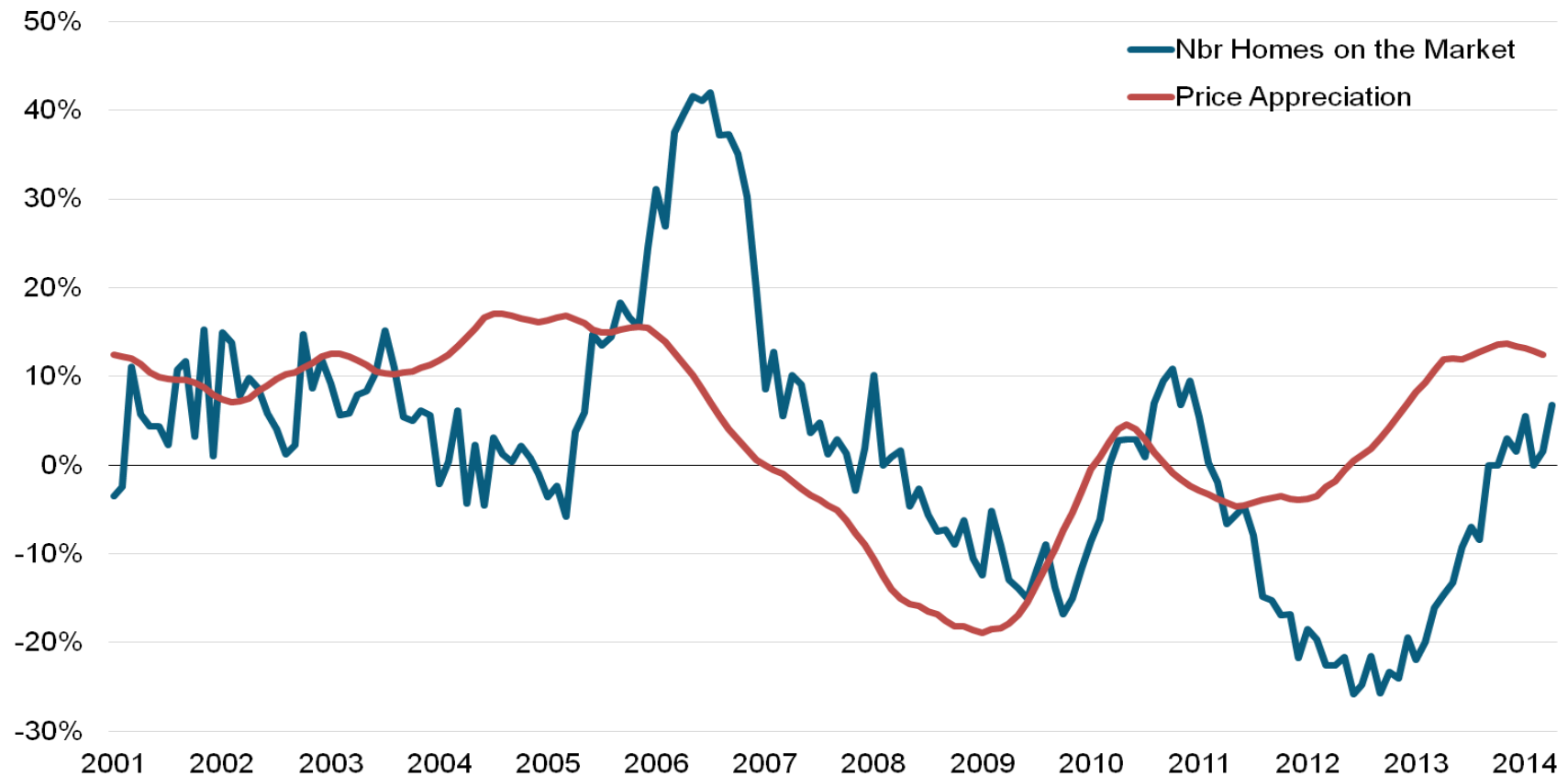
- I. The State of Senior Living
- II. Senior Living Bond Markets
- III. Banks
- IV. Investment Grade Ratings
- V. 2014 Outlook

## Housing and Senior Living Headlines

- Existing home sales are turning the corner
- Senior living occupancy is healthy in 2014
- Senior living construction starts are lower in first quarter 2014 – could be the result of the long winter
- Senior living construction focused by product offering and location
- For-profit senior living developers are the most active in 2014

Rising Prices → More Listings → Eventually ... More Sales

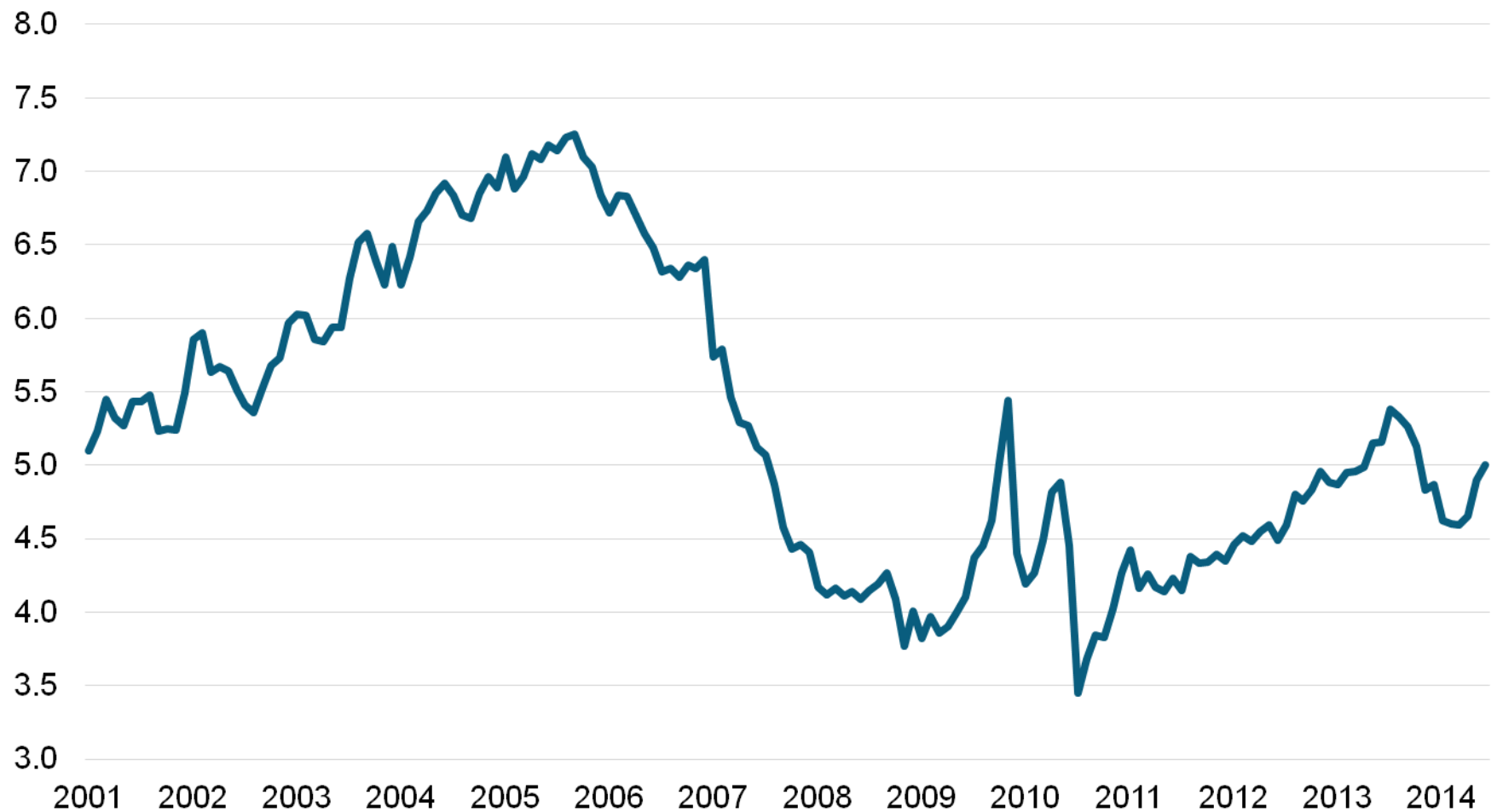
**Existing Home Inventory and Price Appreciation**  
Annual % Change | Jan. '01 – Apr. '14



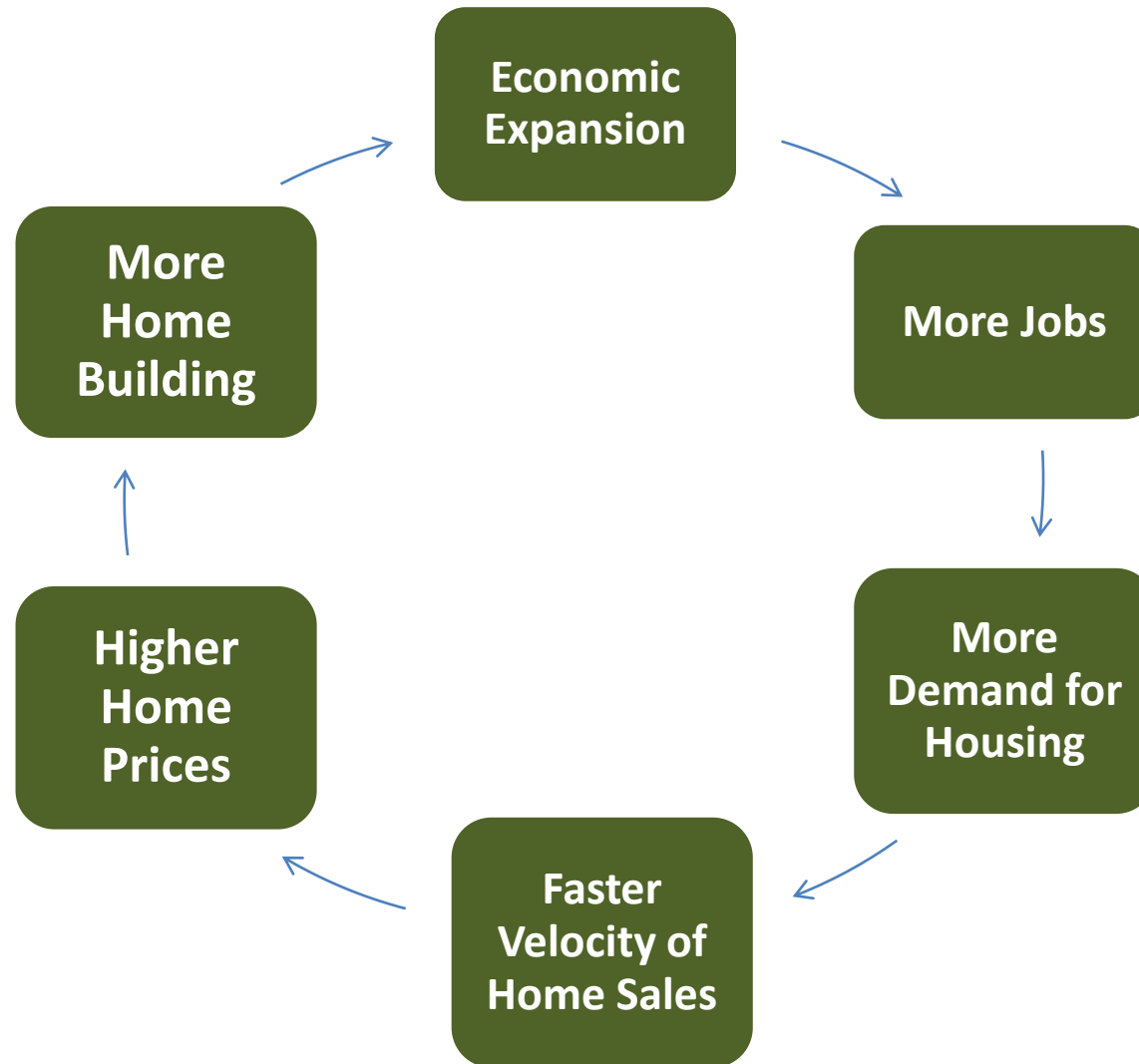
Source: National Association of Realtors; Case-Shiller; NIC Research

## Velocity of Home Sales Thawed from the Cold Winter

**Existing Home Sales (mil.)**  
**Seasonally Adjusted Annual Rate | Jan '01 – June '14**

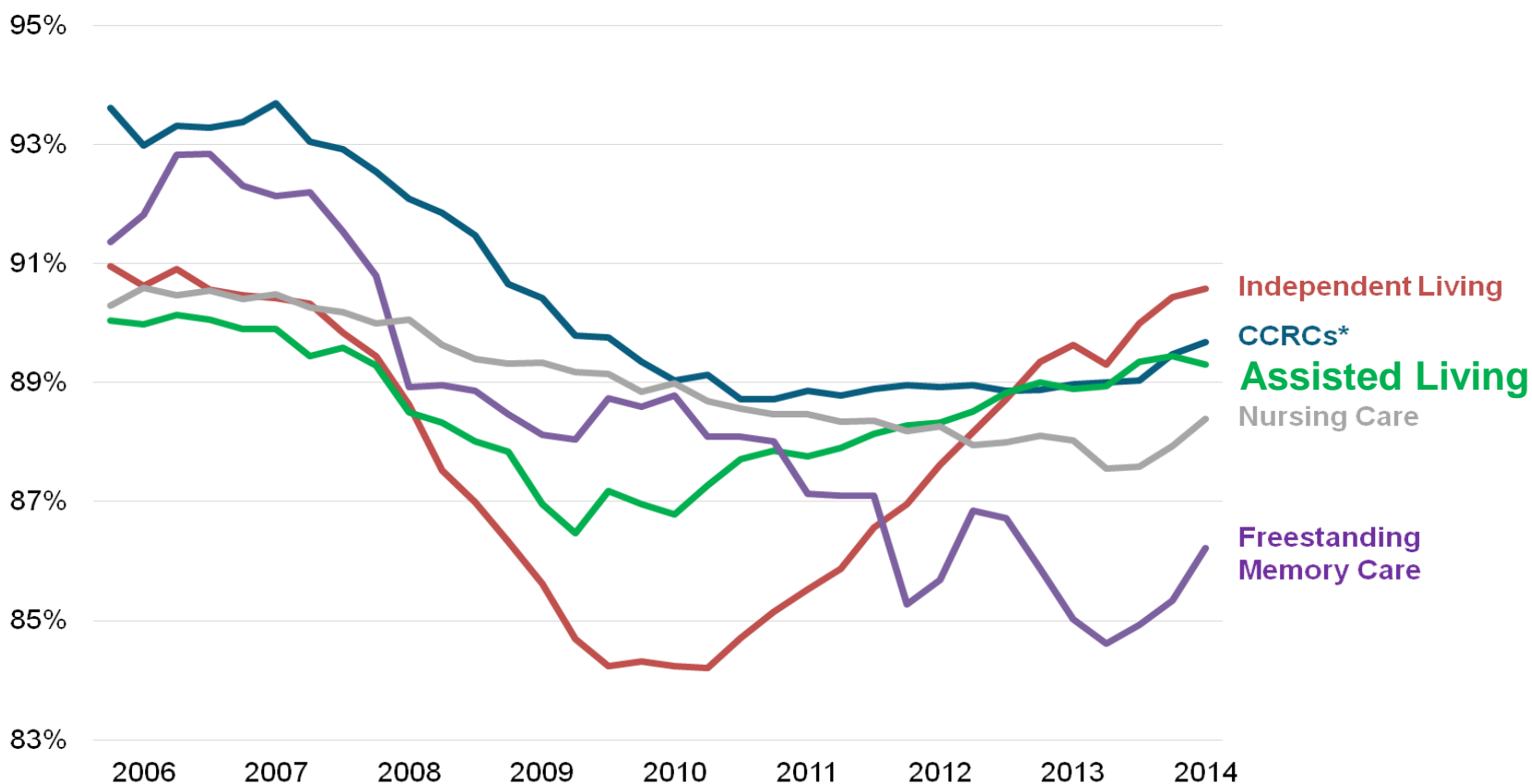


## Housing Market And Economic Recovery



## Seasonality Hits Assisted Living, Occupancy Rises for Other Properties

Occupancy by Campus Type; Primary Markets  
4Q05 – 1Q14



Source: NIC MAP® Data & Analysis Service

\* Includes CCRCs and other entrance fee properties.



## 2014 Performance

### Entrance Fee CCRCs

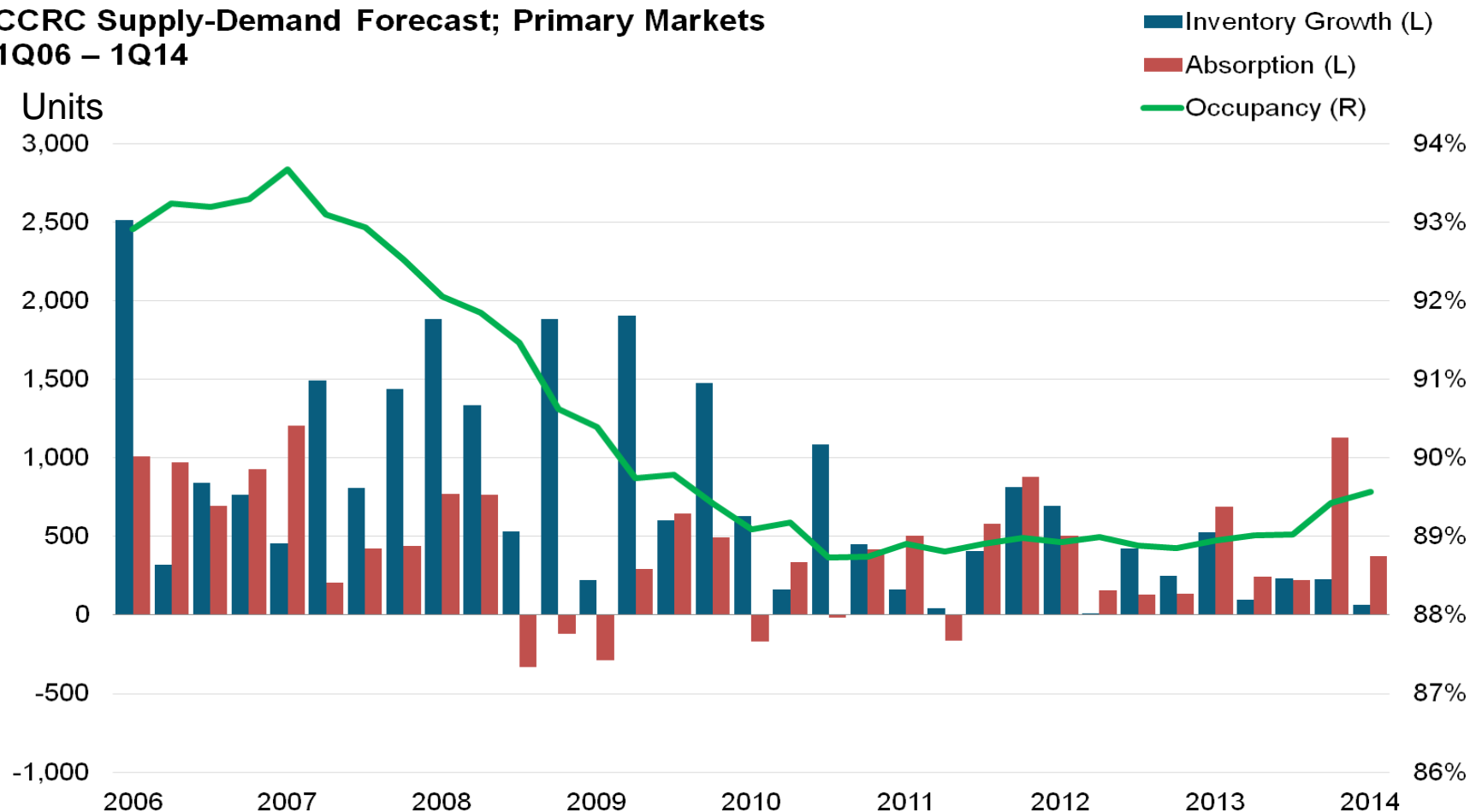
- Performing well in healthy housing markets –

STATE	EXAMPLE
Florida	Sinai Residences
North Carolina	SearStone
Texas	EdenHill

- Improvement in stable housing markets
- Limited new supply
- 89.5% average occupancy

## CCRC Occupancy Beginning to Show Traction

**CCRC Supply-Demand Forecast; Primary Markets**  
1Q06 – 1Q14



Source: NIC MAP® Data & Analysis Service

## 2014 Performance

### Rental Independent Living

- Remains strong
- Older entrance age – could become younger with recovering economy
- More healthcare needed
- 91% average occupancy
- 78% lowest quartile

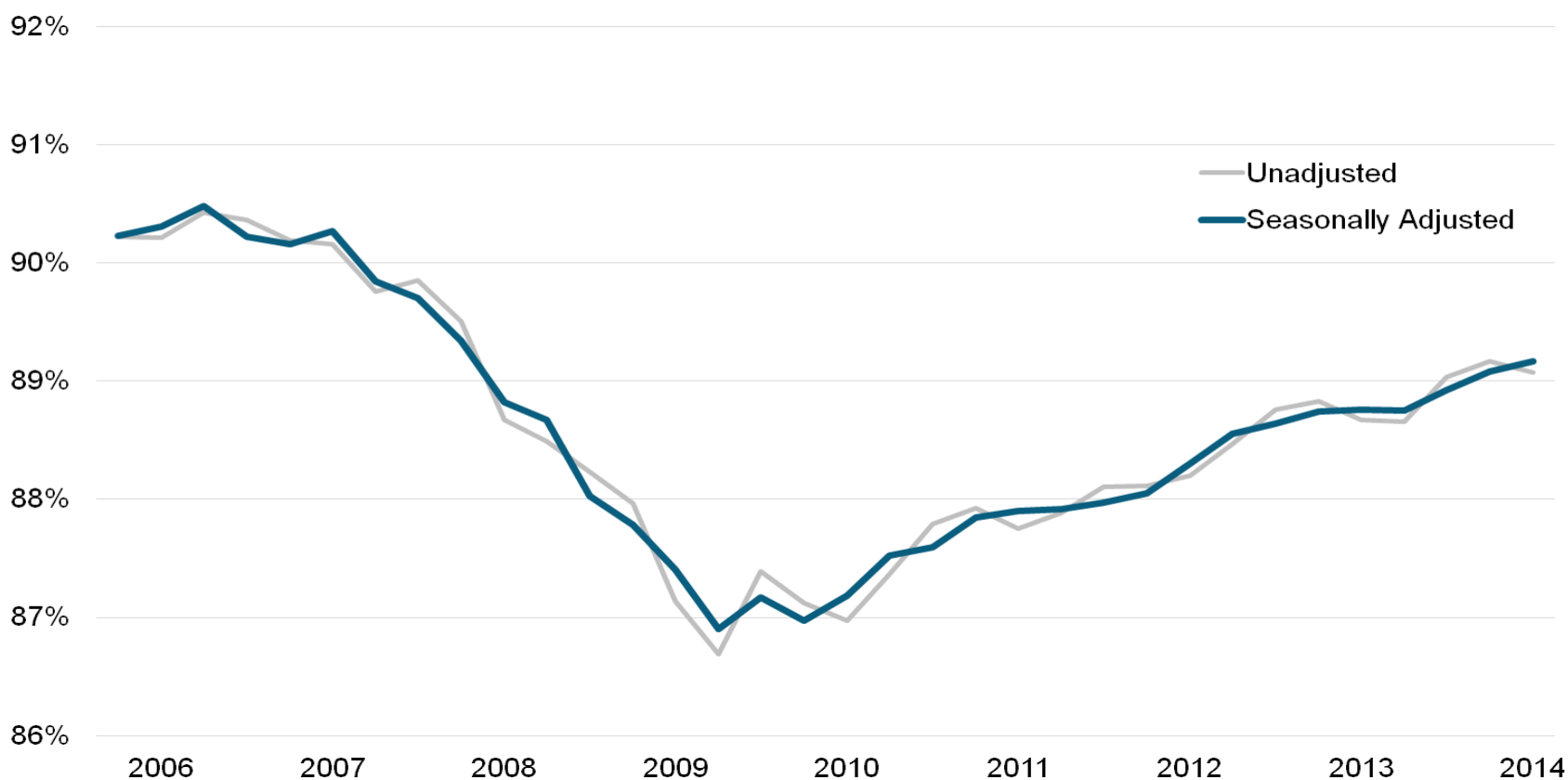
## 2014 Performance

### Assisted Living

- Remains strong
- More healthcare
- Some oversupply concerns in strong markets
- 89% average occupancy
- 80% lowest quartile

## Seasonality Hits Assisted Living

**Majority Assisted Living Occupancy – Seasonally Adjusted  
Primary Markets | 4Q05 – 1Q14**



Source: NIC MAP® Data & Analysis Service

## 2014 Performance

### Memory Care

- Strongest segment
- 86% average occupancy
- 79% lowest quartile
- Concerns about high resident pricing combined with active new development

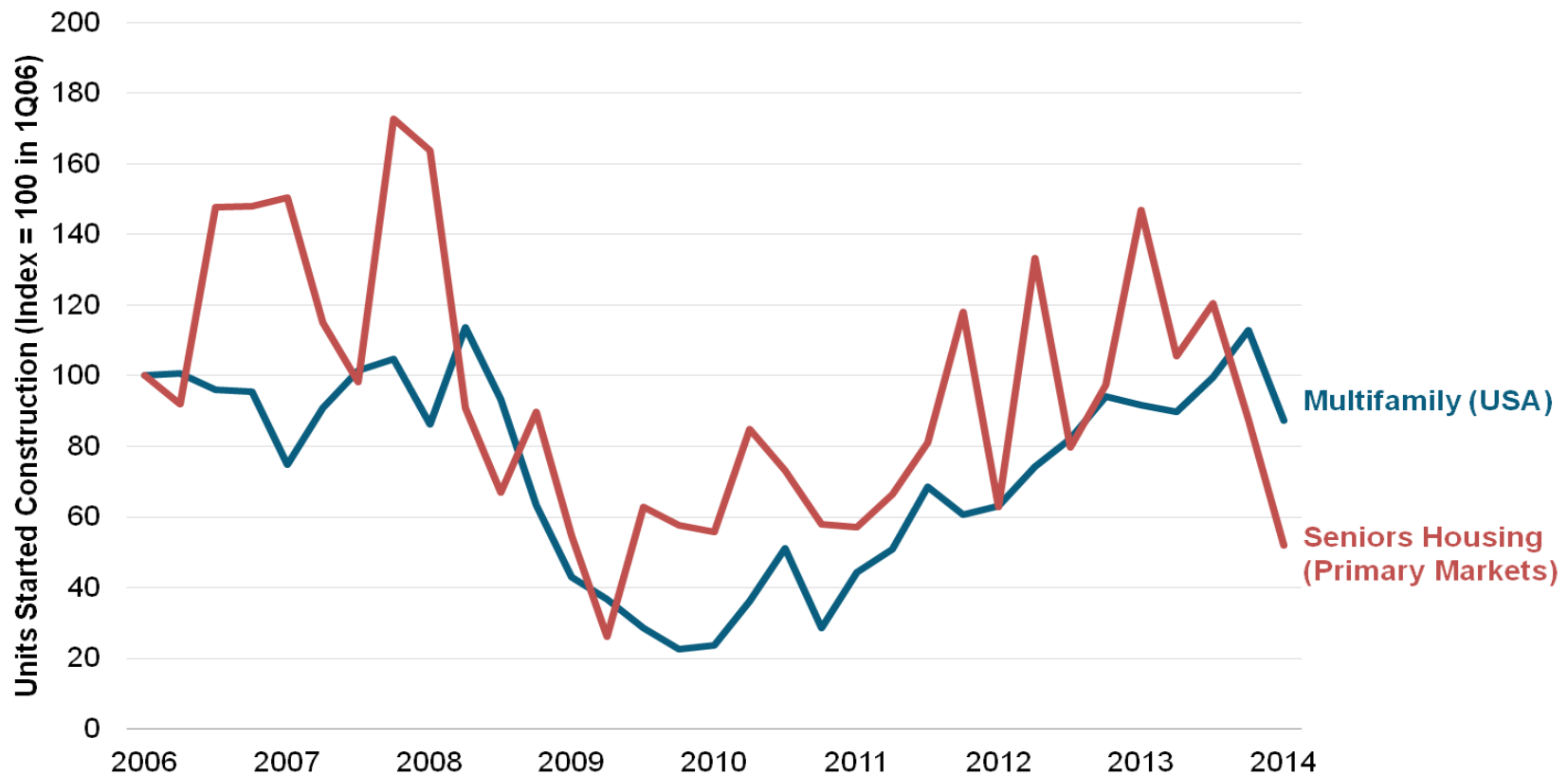
## 2014 Performance

### Nursing Homes

- Steady Medicaid reimbursement with improving state economies
- Post acute care = generous reimbursement and quality care at lower costs than hospitals
- Many certificate of need states = little new construction  
Other states = construction around rehabilitation and hospice services
- Average occupancy = 89%
- Lowest quartile = 72%
- Greater product and service differentiation than other senior living segments

## Construction Starts Decline

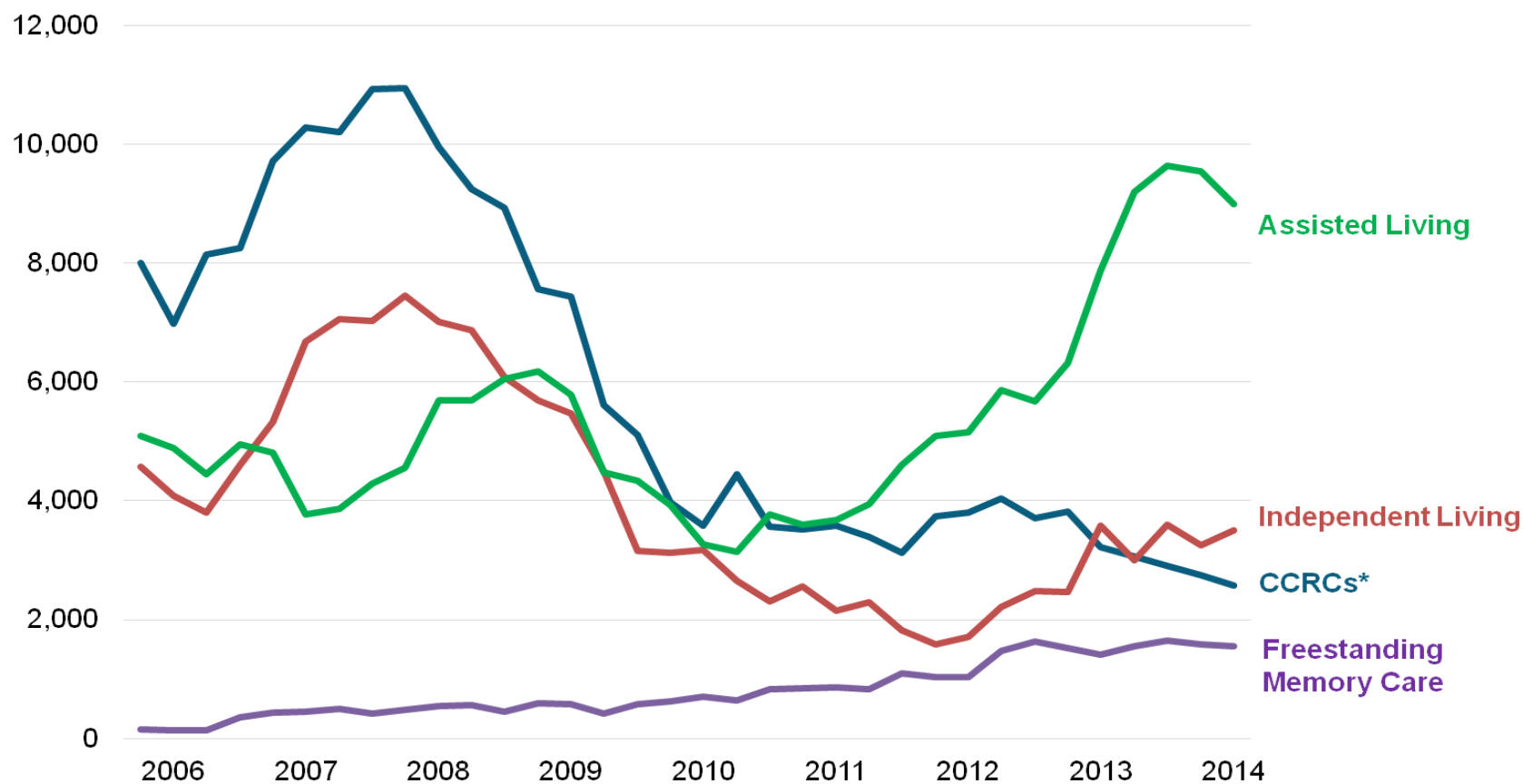
**Construction Starts**  
1Q06 – 1Q14





## Senior Living Construction Activity

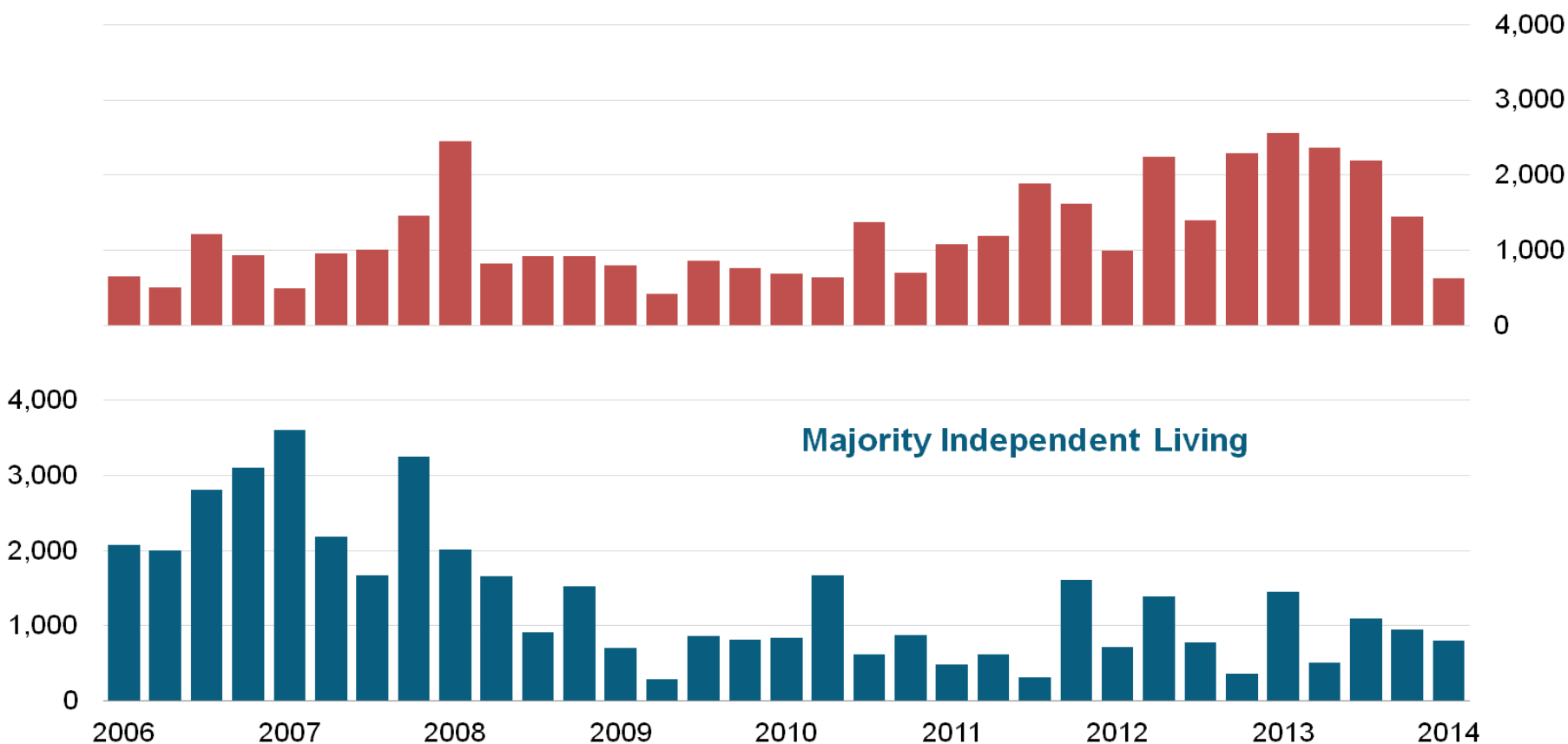
**Units Under Construction by Campus Type; Primary Markets  
4Q05 – 1Q14**



Source: NIC MAP® Data & Analysis Service; US Census

## Assisted Living Construction Starts Moderate

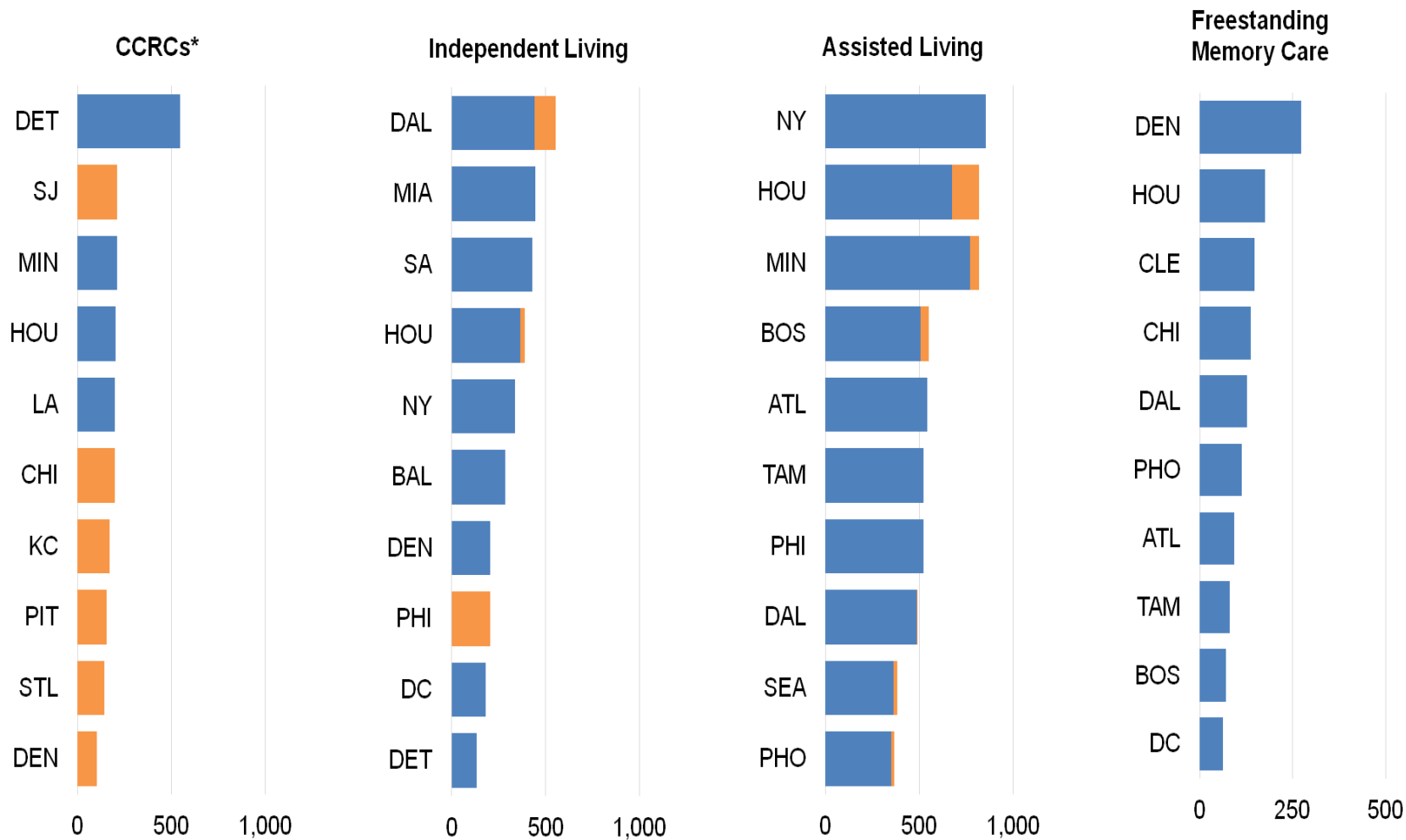
Construction Starts (Nbr Units); Primary Markets  
1Q06 – 1Q14



Source: NIC MAP® Data & Analysis Service; US Census

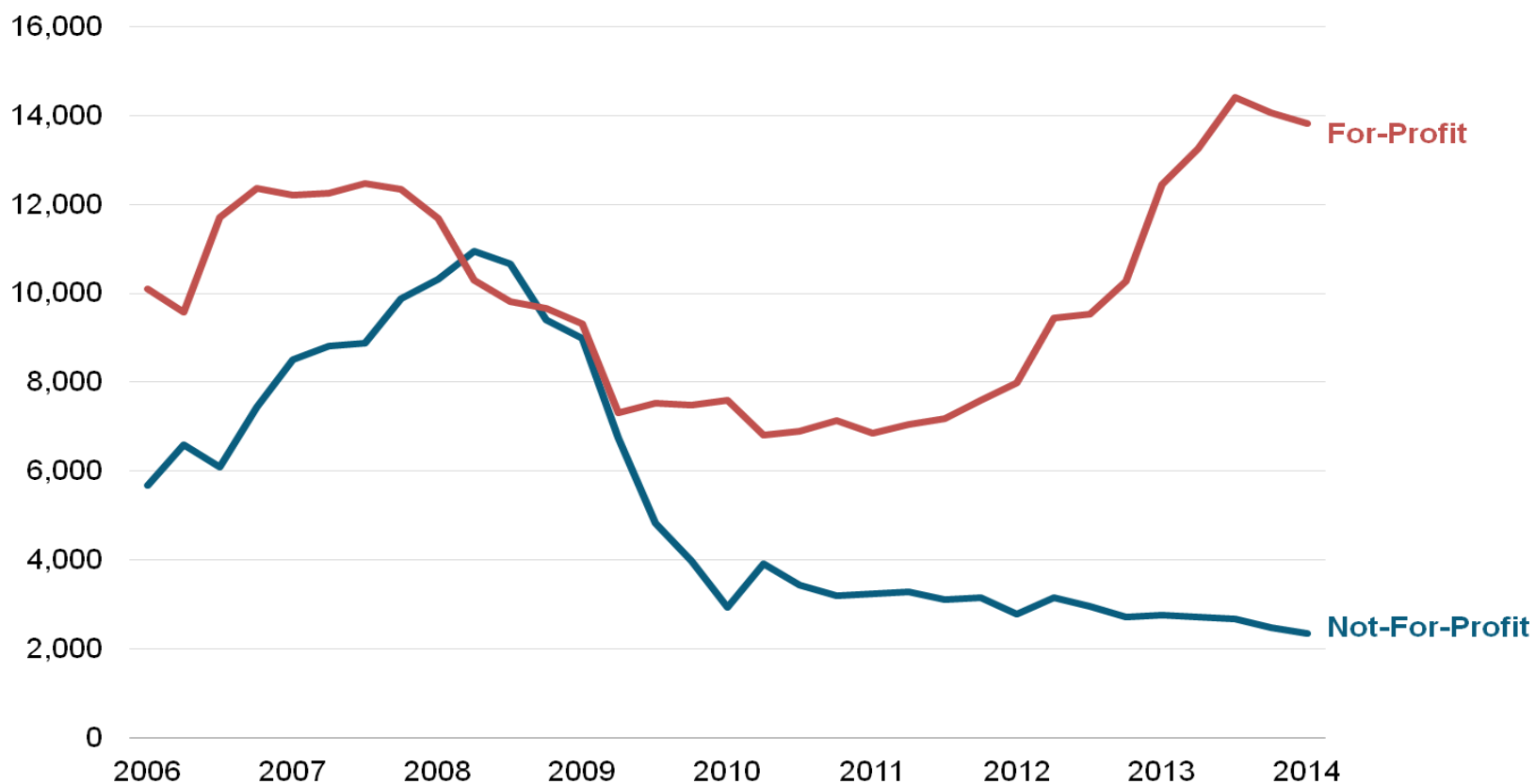
## Construction Varies by City and Concentrated in Assisted Living/Memory Care

### Current Construction Rankings (New/Expansions)



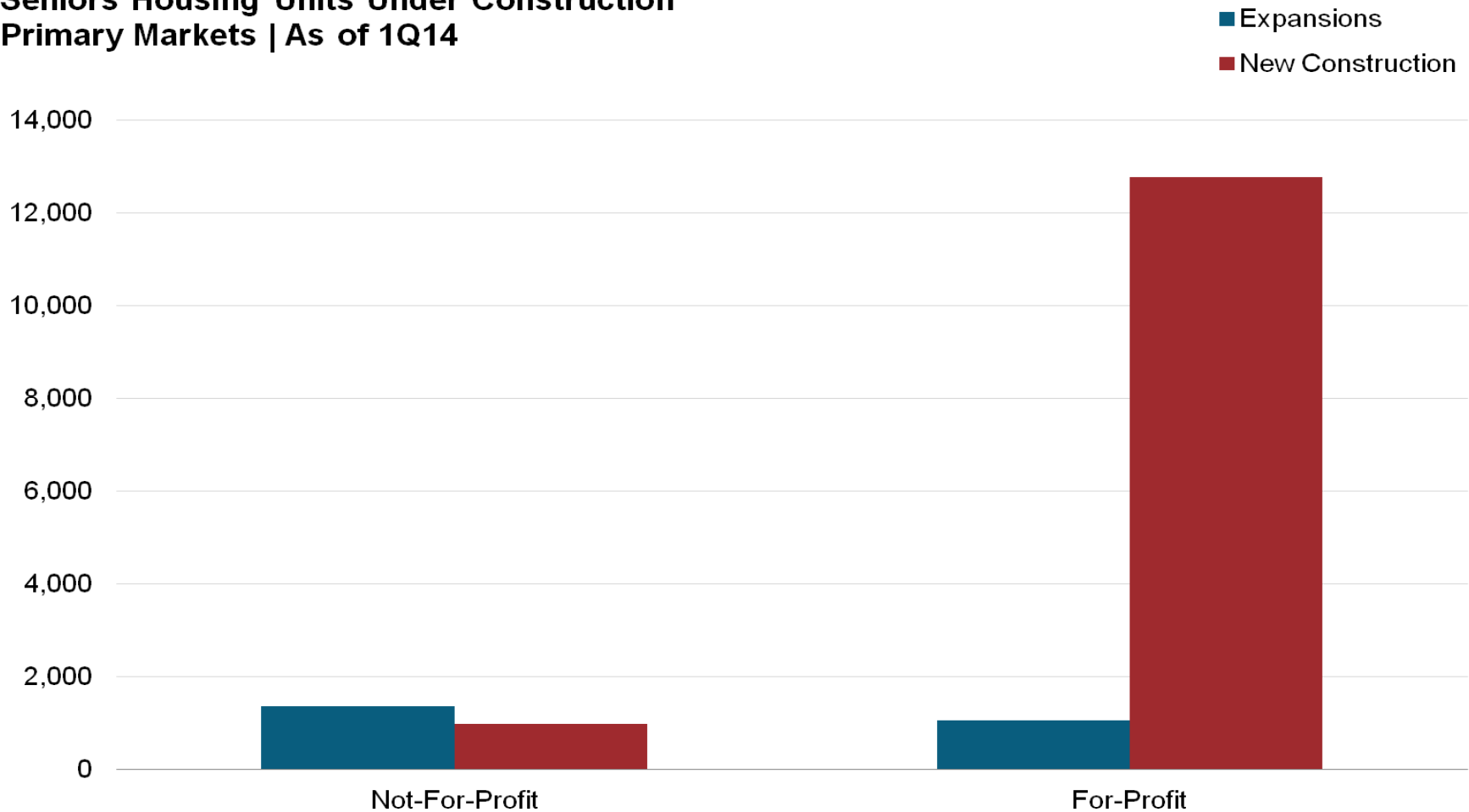
## For-Profits Are the Active Developers

**Seniors Housing Units Under Construction**  
Primary Markets | 1Q06 – 1Q14

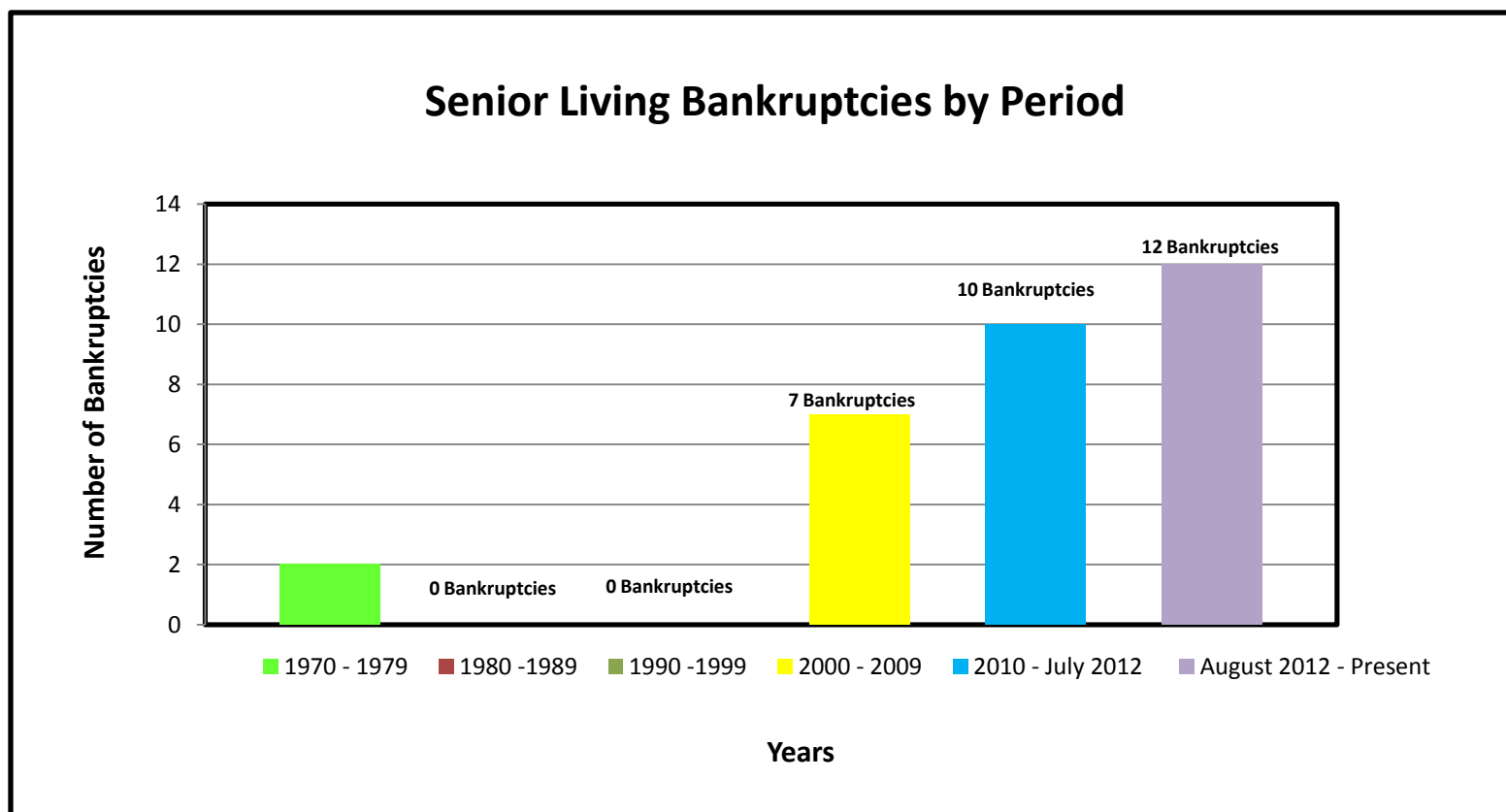


### Limited New Development Occurring in Not-For-Profits

**Seniors Housing Units Under Construction**  
**Primary Markets | As of 1Q14**



- Small number of CCRC bankruptcies: 31 in past 35 years (approximately 1.5% of the nearly 1,900 CCRCs)
- More CCRCs entered into forbearance agreements, sales, permanent restructurings and bond exchanges
- CCRC bankruptcy rate is similar to local government bankruptcy rate of 1.2% in the past 77 years (651 out of approximately 55,000 local governments) (*source: James Spiotto, Chapman & Cutler*)
- In the past 21 years there were seven major government bankruptcies: four in California; four occurred since 2008 (Vallejo, Stockton and San Bernardino, California and Detroit Michigan)



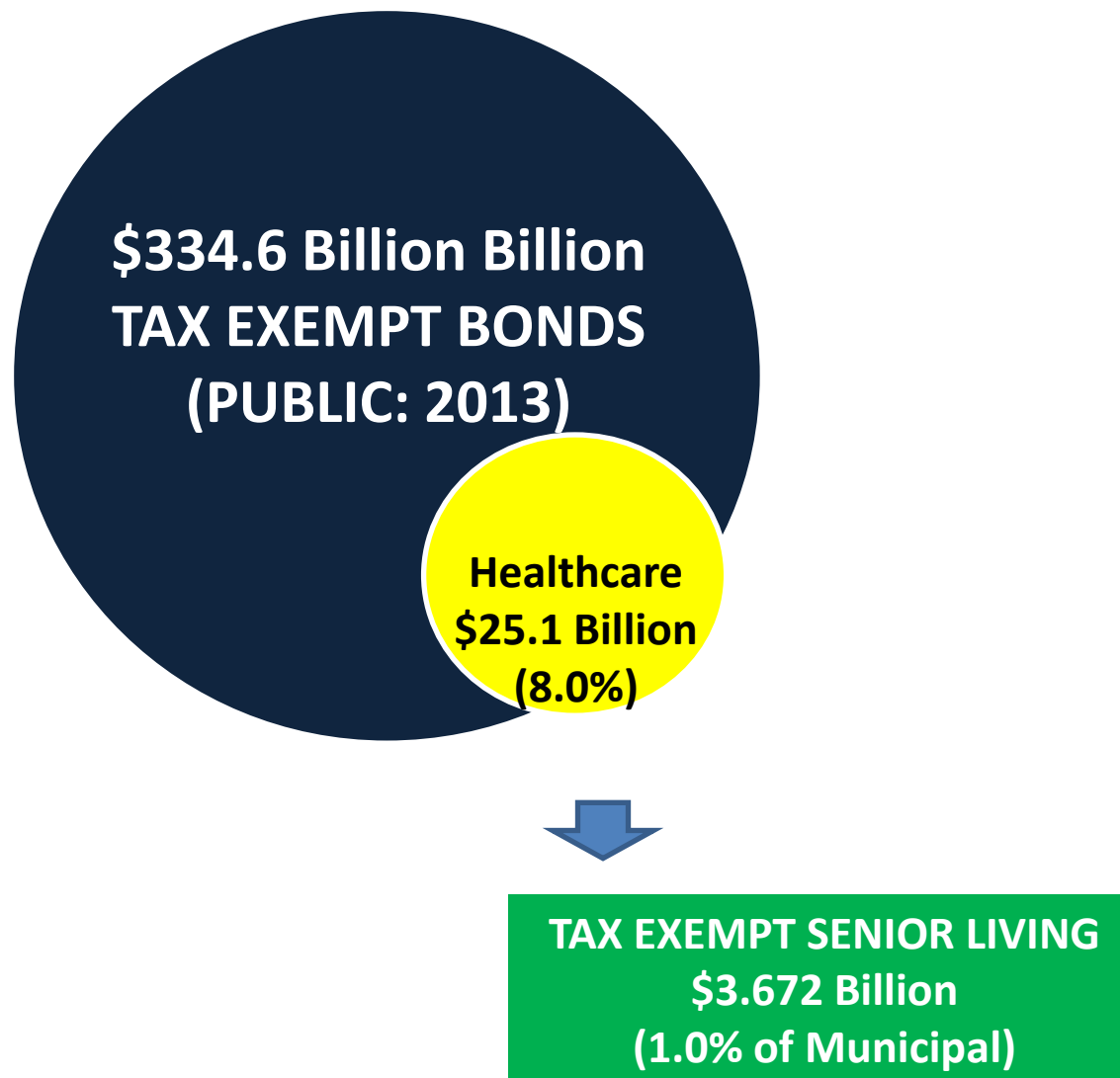
Source: HJ Sims and independent counsel

## Financial Headlines

- 2014 tax-exempt bond rates approaching lowest levels in 2013
  - ~ A reduction in tax-exempt bond supply and increased demand from investors has caused rates to drop since the beginning of 2014
- Municipal Bond Fund inflows confirm investor appetite for tax-exempt bond issues
- Treasury yields have also followed this declining trend as well as short term interest rates

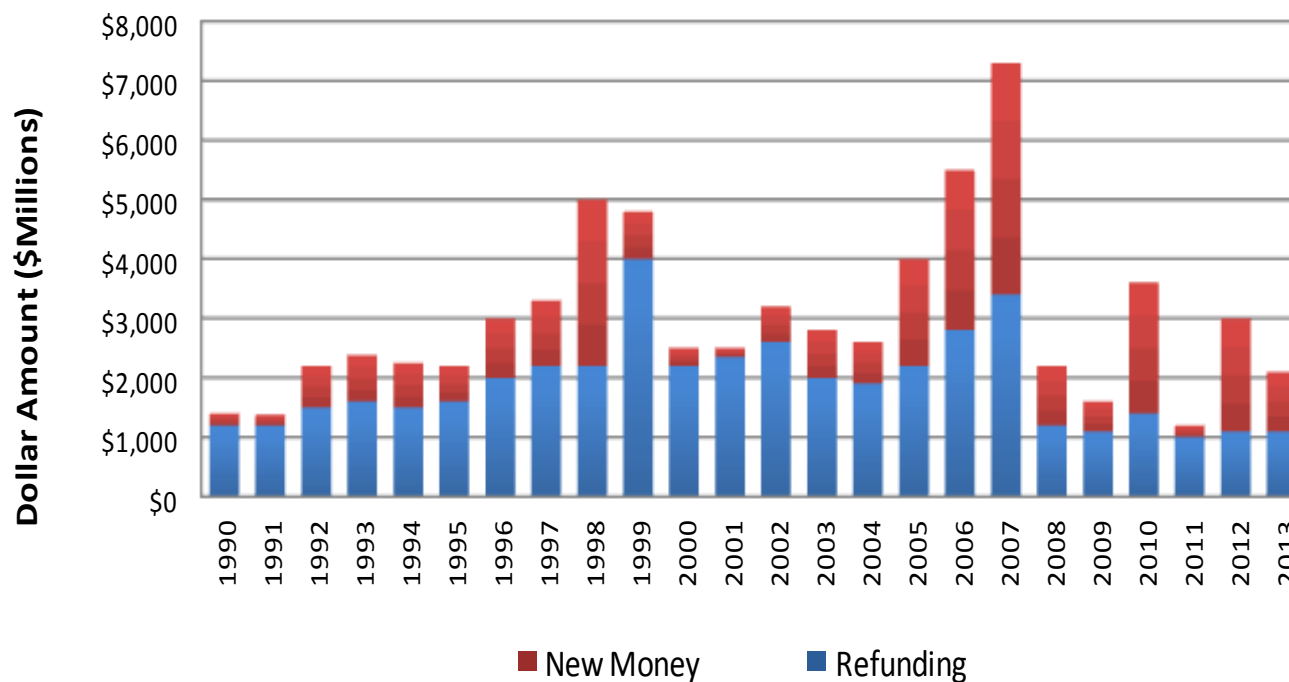


## Senior Living Tax Exempt Bonds



## Senior Living Tax Exempt Bonds

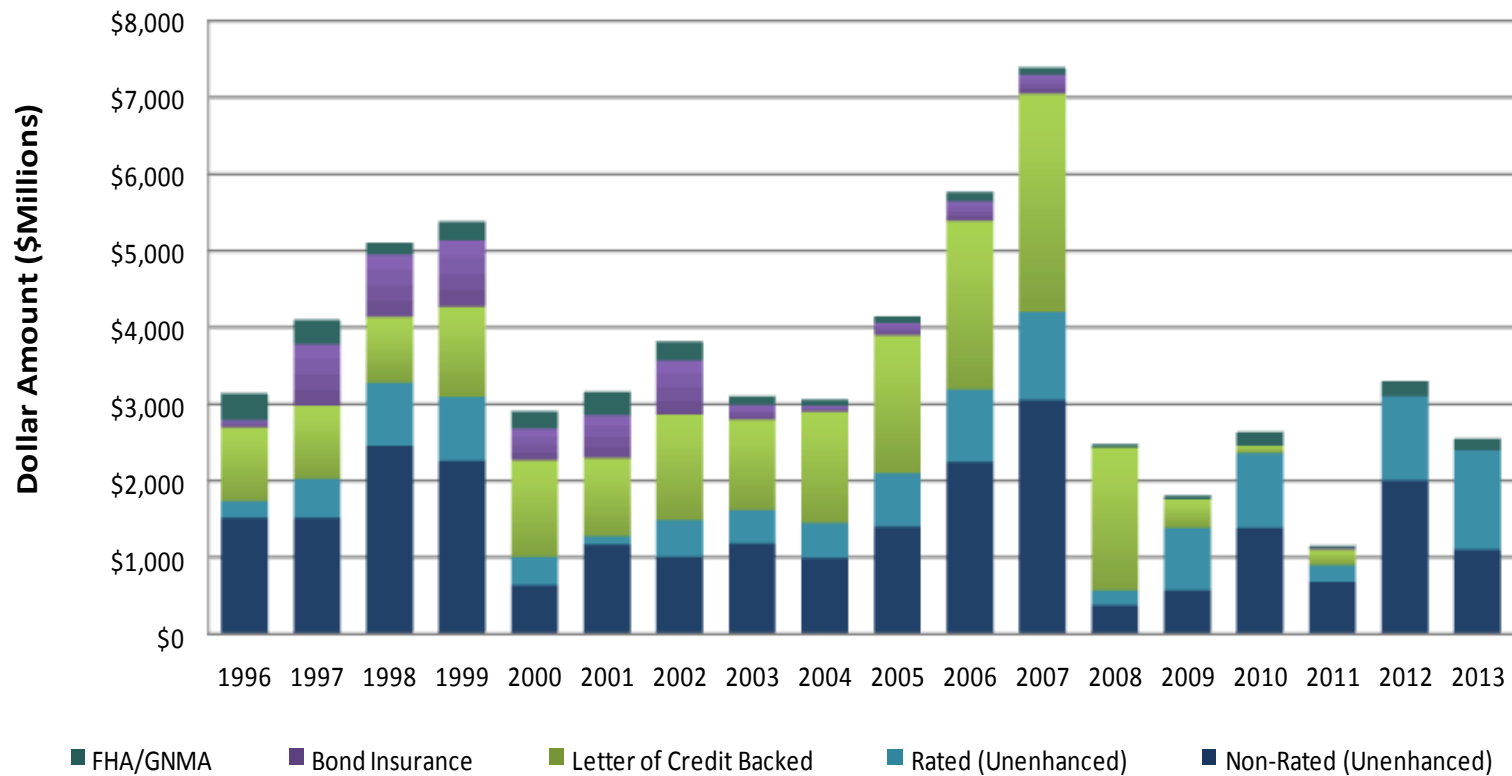
### Volume by Use of Funds



Source: Thomson Reuters

## Senior Living Tax Exempt Bonds

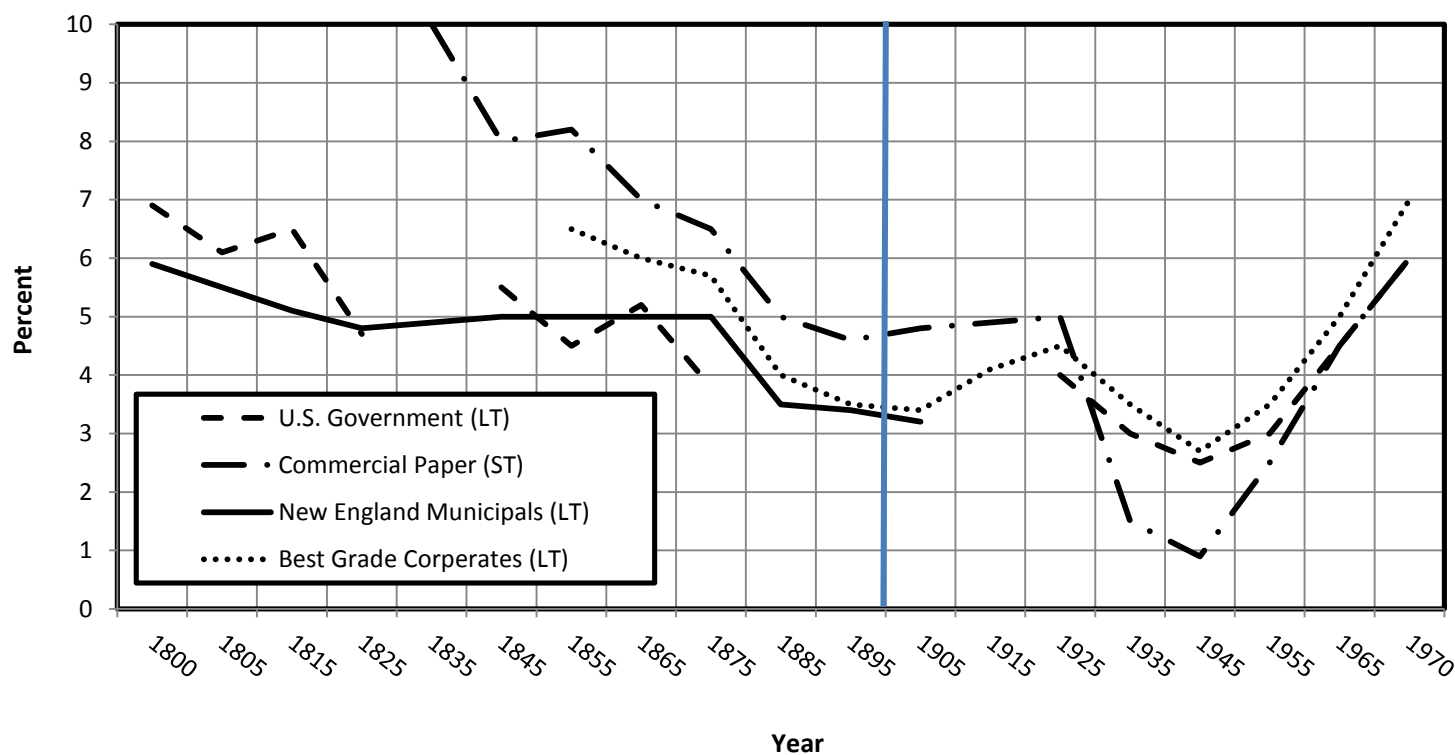
### Volume by Rating Enhancement



Source: Thomson Reuters

## Historic Interest Rates

### U.S. Interest Rates from 1800 - 1970



Source: *A History of Interest Rates* (Homer)

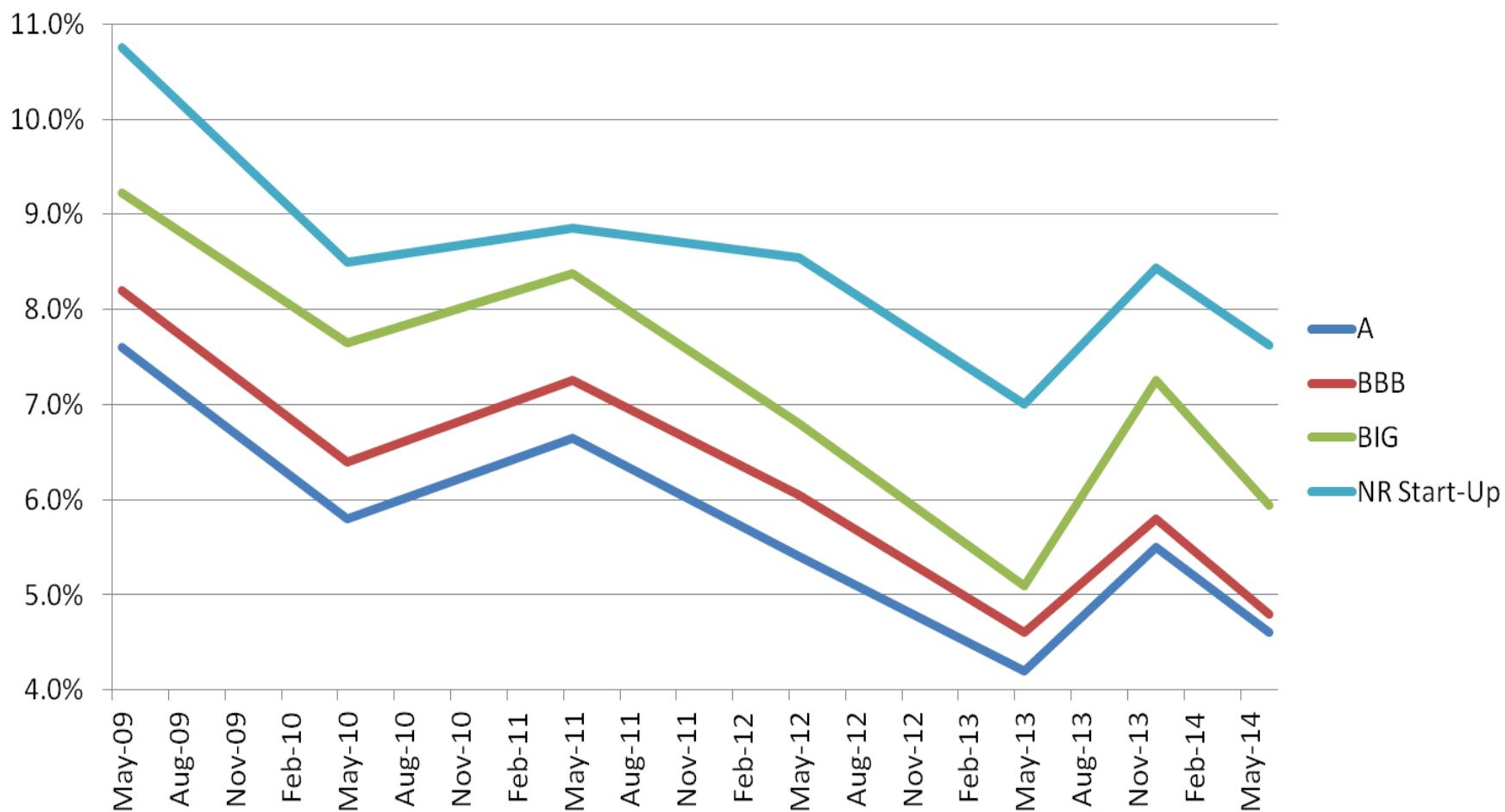
## Long Term Decline in Tax Exempt Rates

### Bond Buyer Index Since 1946

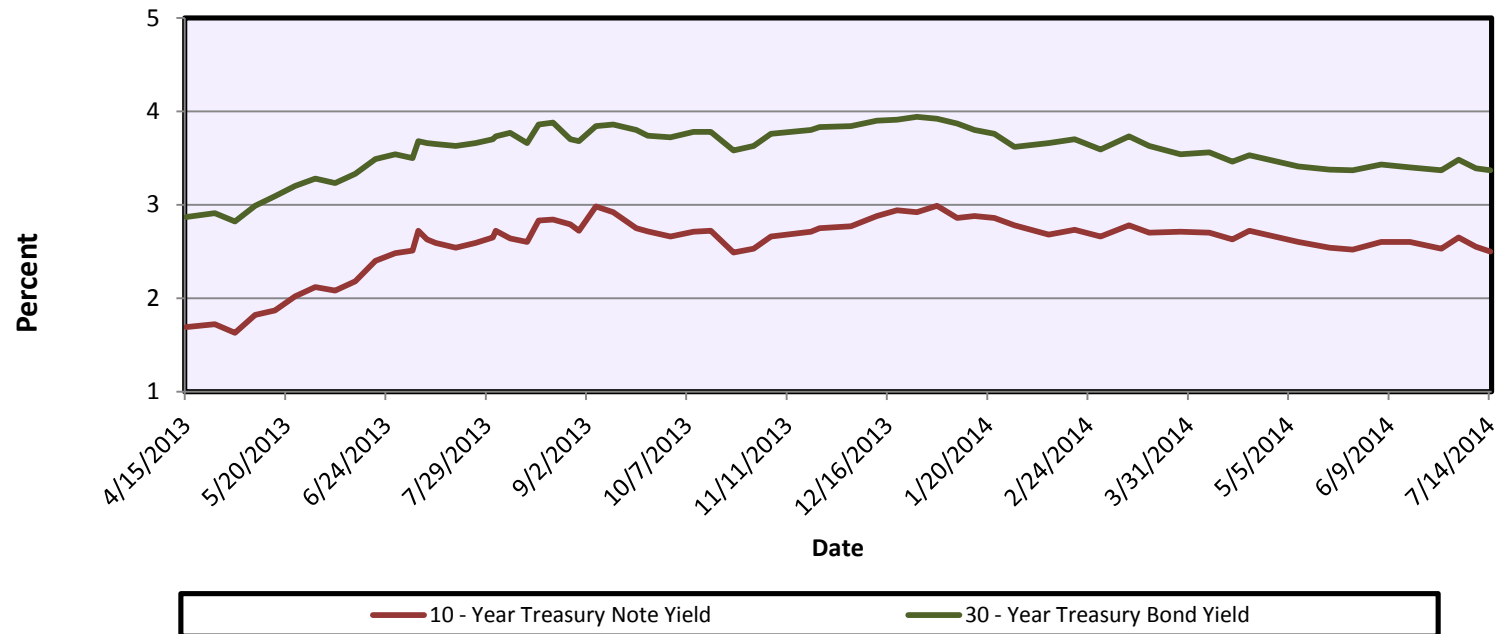


Source: Investment Company Institute

## Tax Exempt Rates Trend Lower

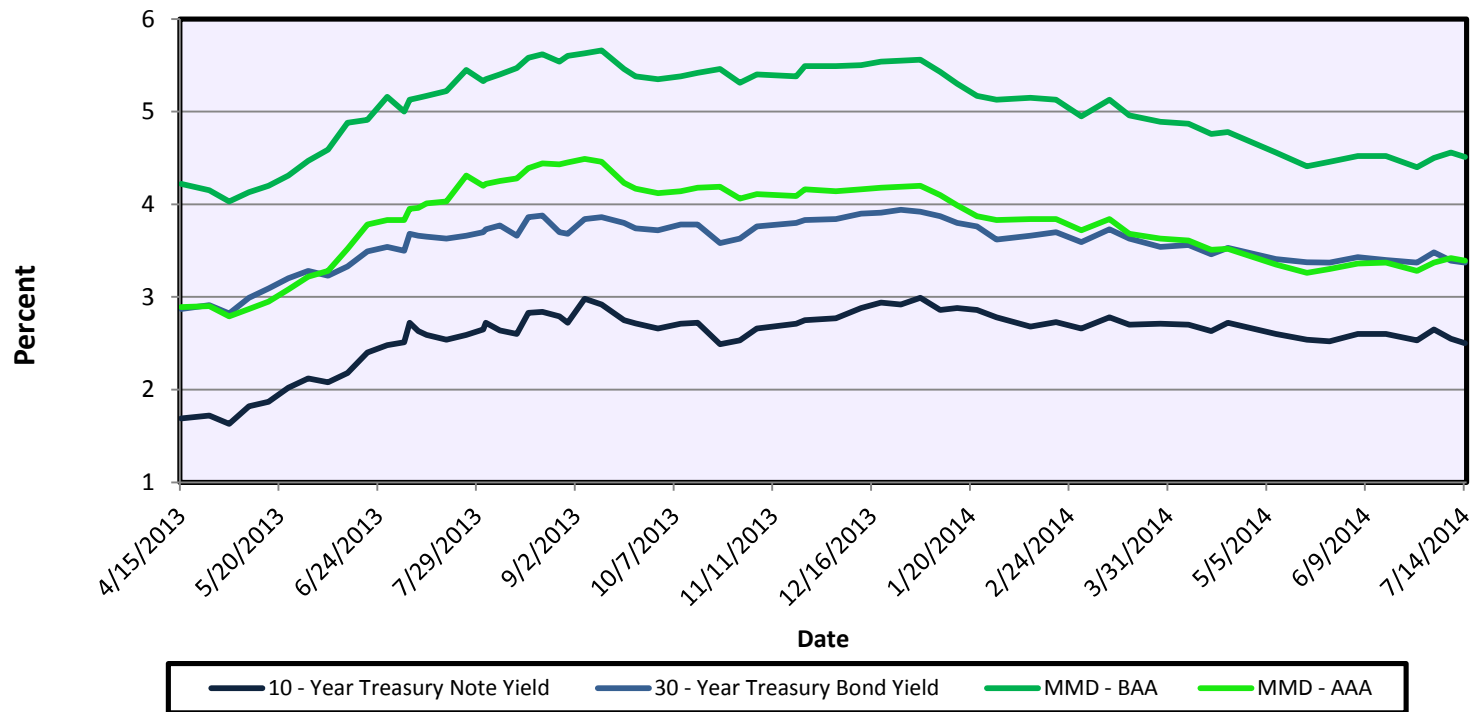


## Treasury Yields Remain Low



Source: Thompson-Reuters Municipal Markets Data

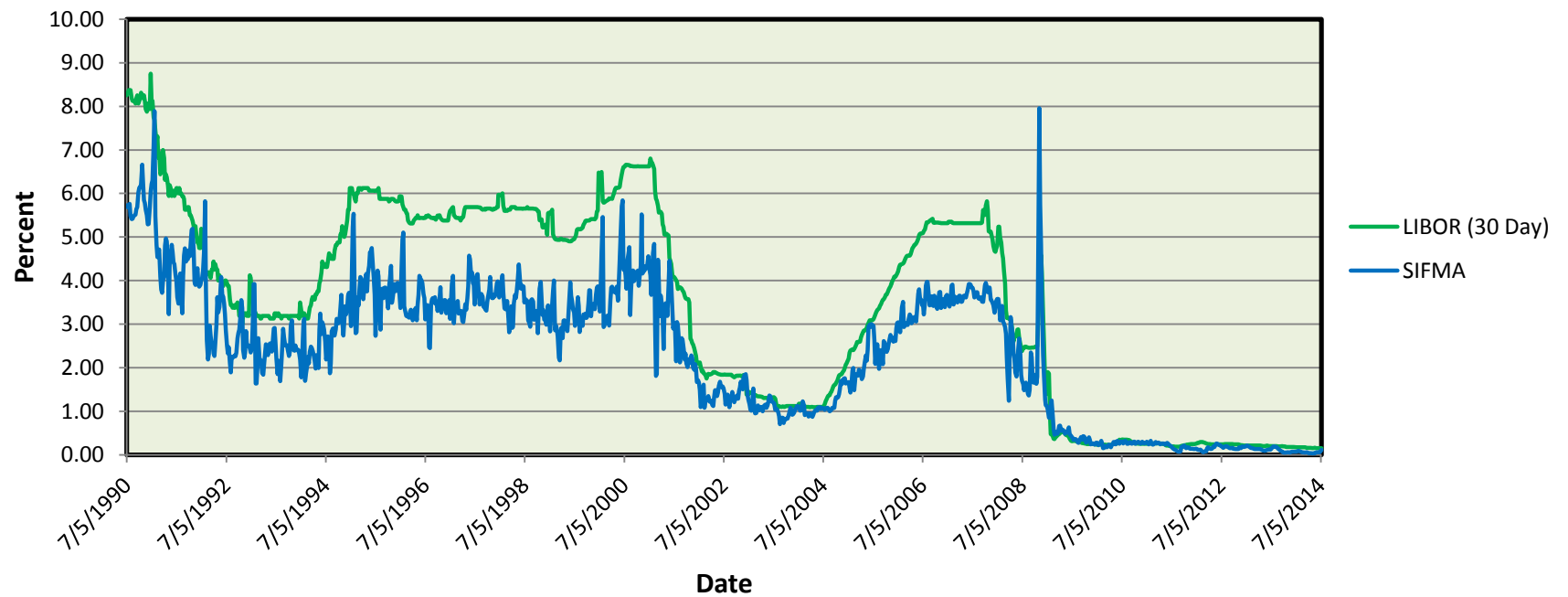
## Tax Exempt Bond Yields Are High Compared To Treasury Yields



Source: Thompson-Reuters Municipal Markets Data



## Historic Low Short Term Rates

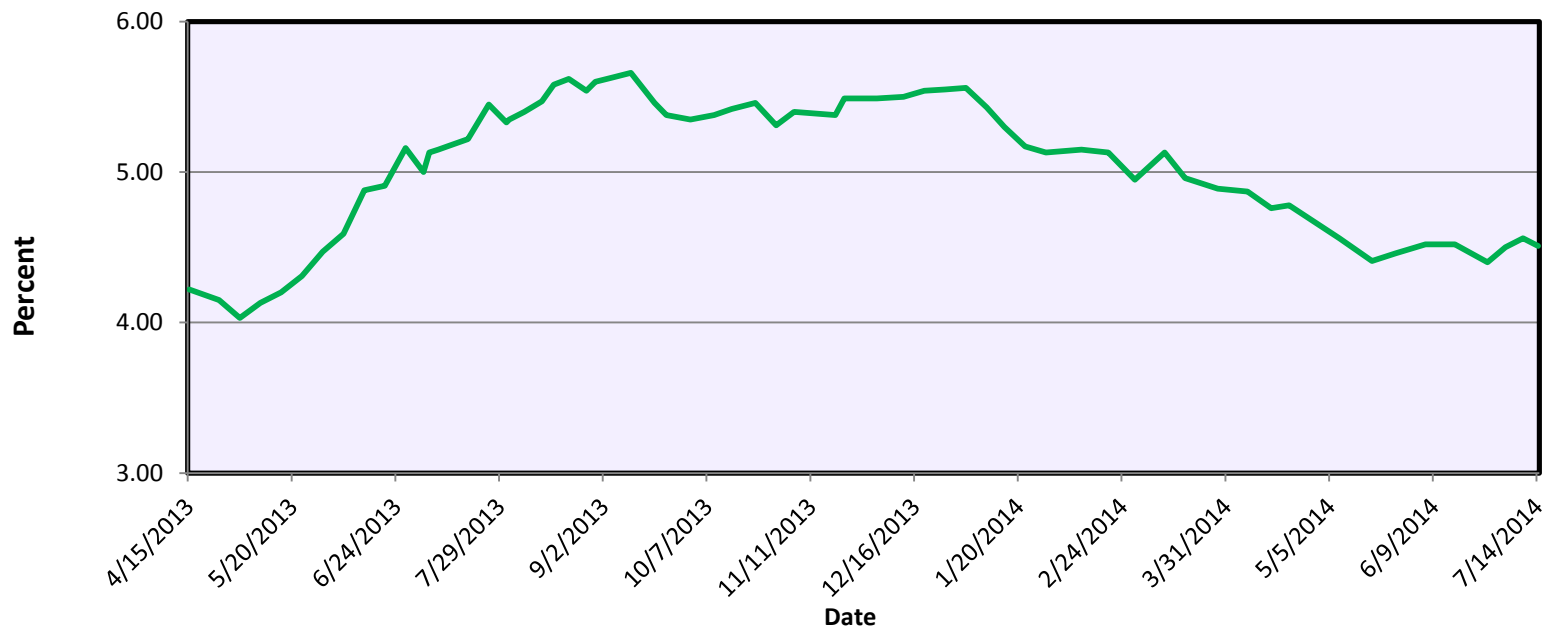


## Historic Interest Rates

Date	Maturity	Tax Free Rates			
		A	BBB	Non-Rated	
				Below Investment Grade	Start-Up
5/1/2009	30 yr.	7.60%	8.20%	9.00% - 9.45%	10.750%
5/1/2010	30 yr.	5.80%	6.40%	7.55% - 7.75%	8.500%
5/1/2011	30 yr.	6.65%	7.25%	8.25% - 8.50%	8.850%
5/1/2012	30 yr.	5.40%	6.05%	6.75% - 6.85%	8.10% - 9.00%
5/1/2013	30 yr.	4.20%	4.60%	4.75% - 5.45%	6.75% - 7.25%
5/1/2014	30 yr.	4.70%	4.90%	5.62% - 6.25%	7.50% - 7.75%
7/1/2014	30 yr.	4.45%	4.70%	5.25% - 5.75%	6.75% - 7.25%

## Investment Grade Rates Trend Lower

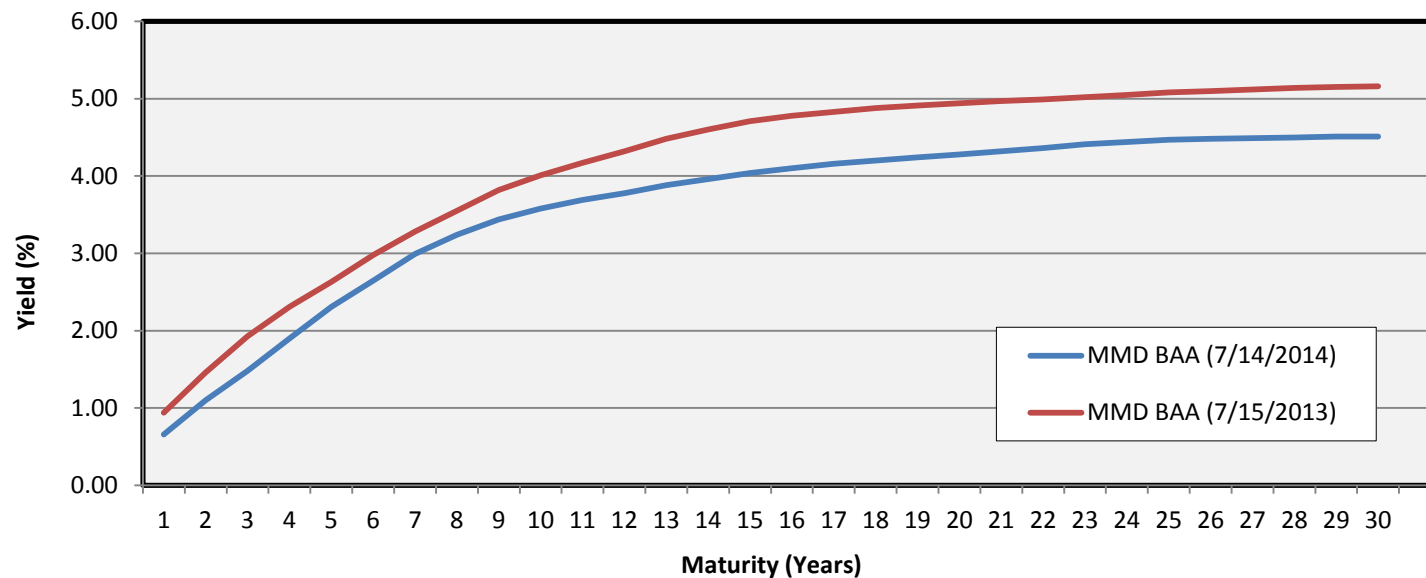
### 30 Year MMD Daily Rate (BAA Rating)



Source: Thompson-Reuters Municipal Markets Data

## Investment Grade Rates Trend Lower

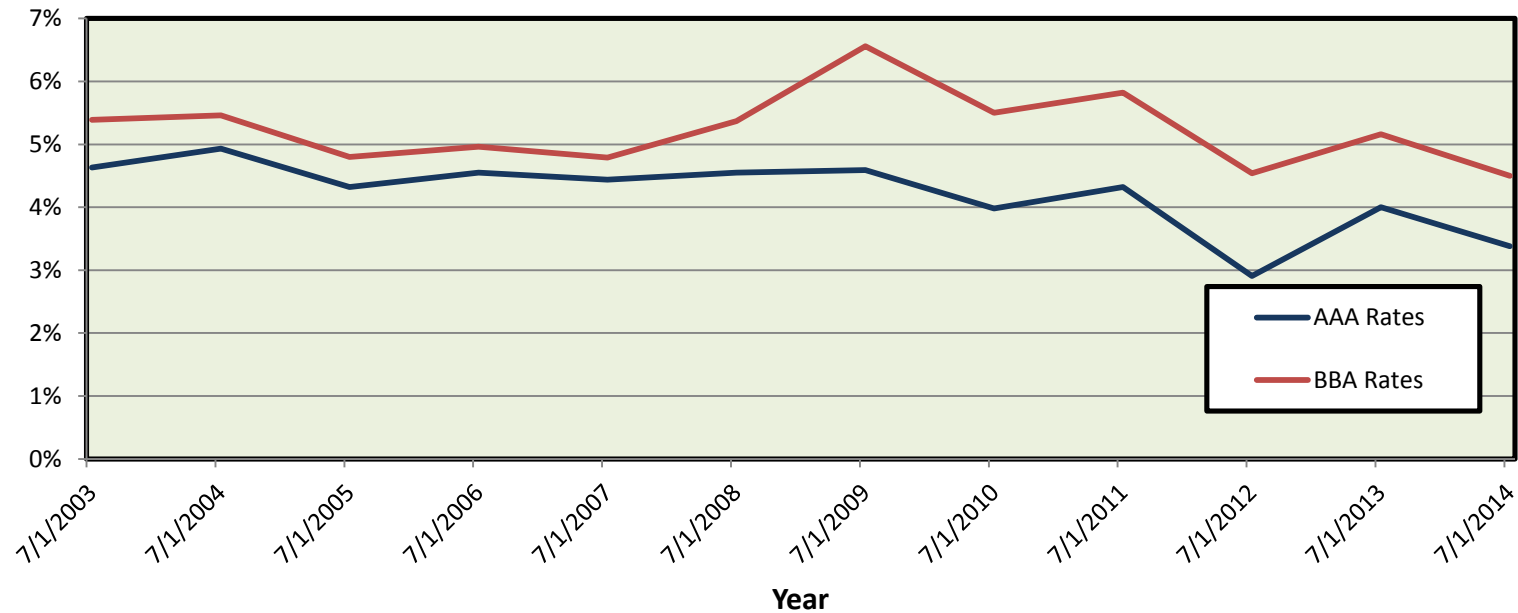
**Tax Exempt MMD Yield Curve (BAA)**



Source: Thompson-Reuters Municipal Markets Data

## Quality Spreads Begin to Narrow

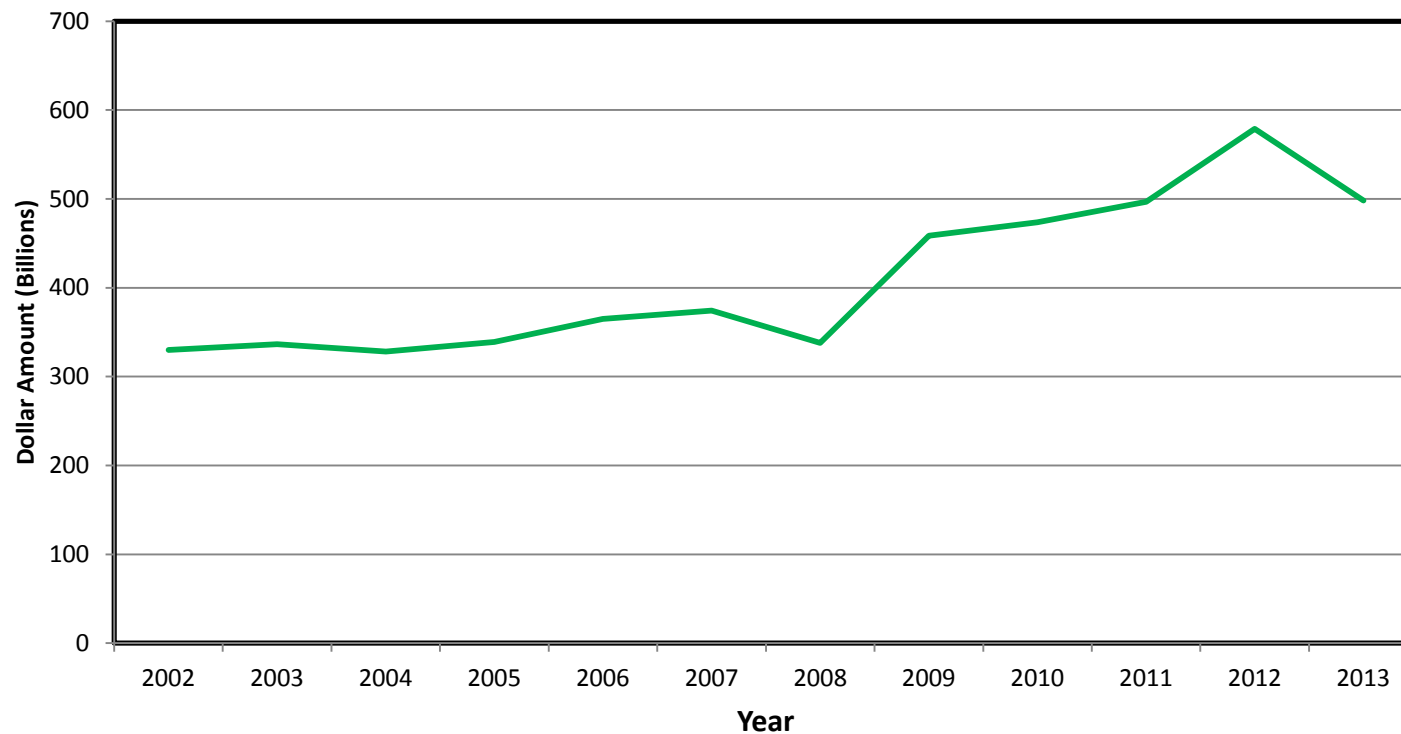
### Interest Rate Quality Spreads: BAA and AAA



Source: Thompson-Reuters Municipal Markets Data

## Mutual Funds Own a Large Amount of Tax Exempt Bonds

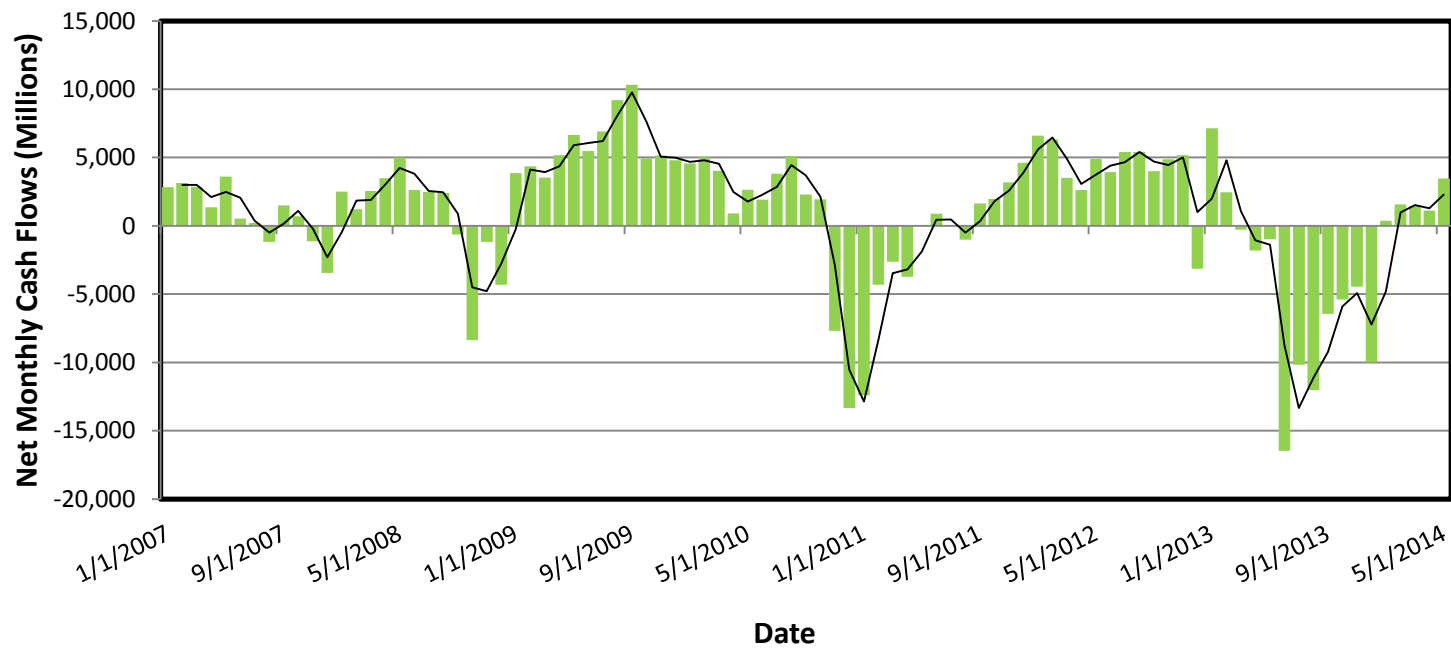
### Municipal Bond Fund Assets



Source: Investment Company Institute

## Mutual Funds – Recent Cash in Flows

### Long - Term Municipal Bond Fund Flows



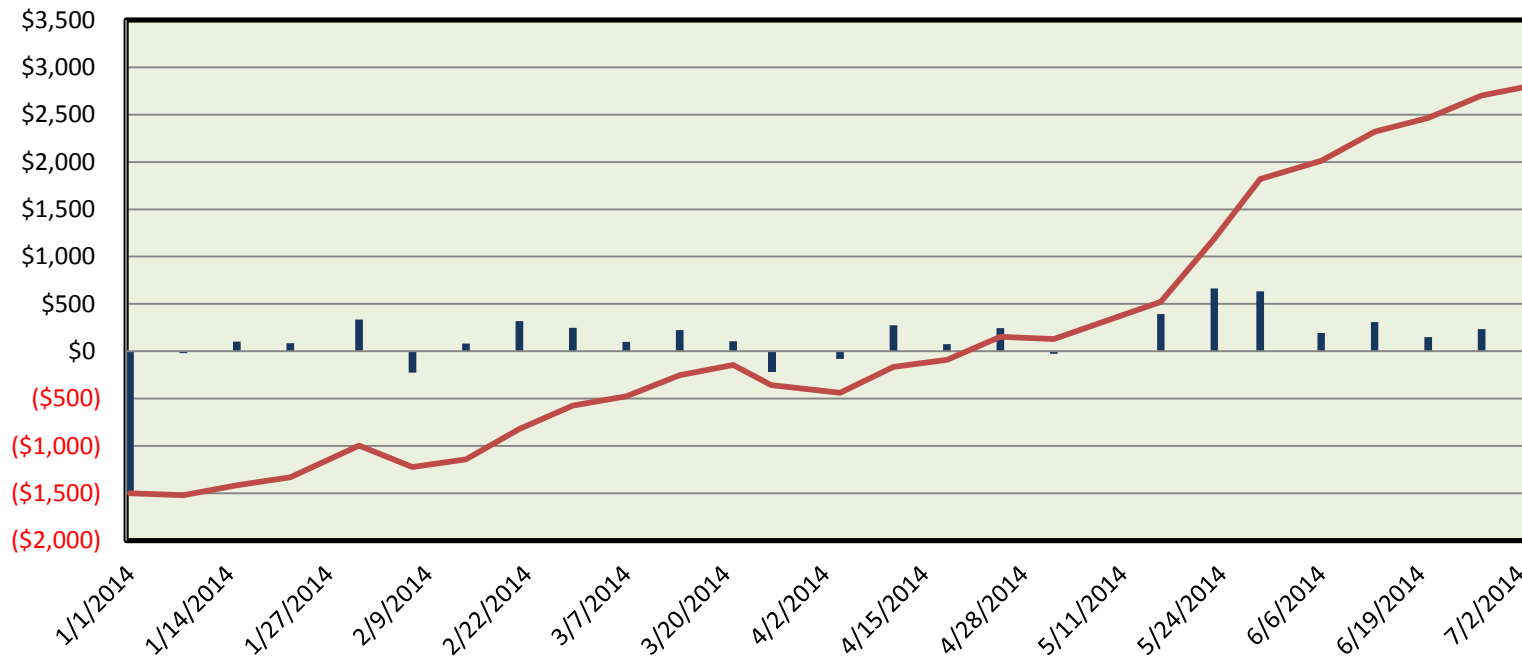
Source: Investment Company Institute

## Recent Increase in Demand for Tax-Exempt Bonds

- Individual investors are buying bond mutual fund shares. Fund managers have cash to invest, which means greater demand for new issues and lower new issue interest rates.

### 2014 Municipal Bond Fund Flows

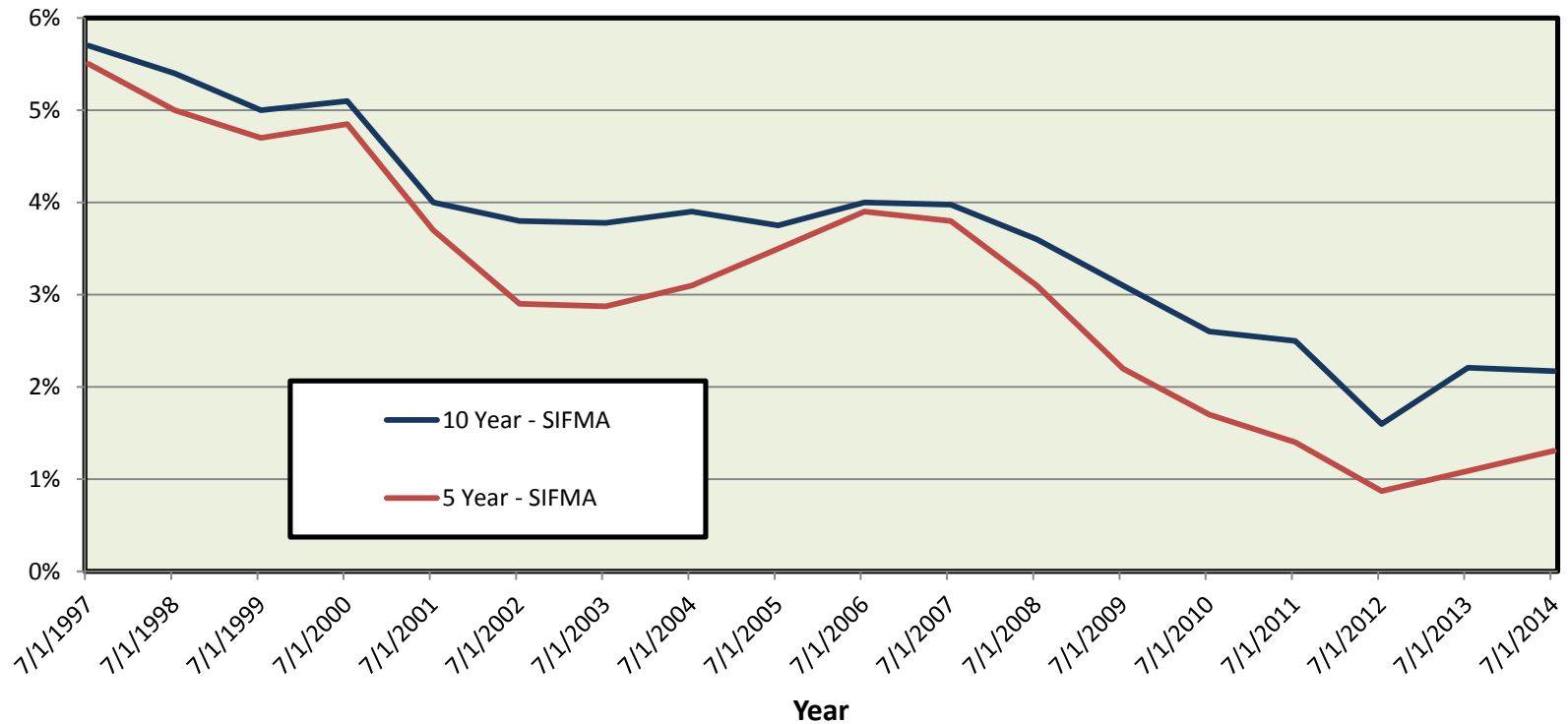
(Excludes Some State Specific Funds)



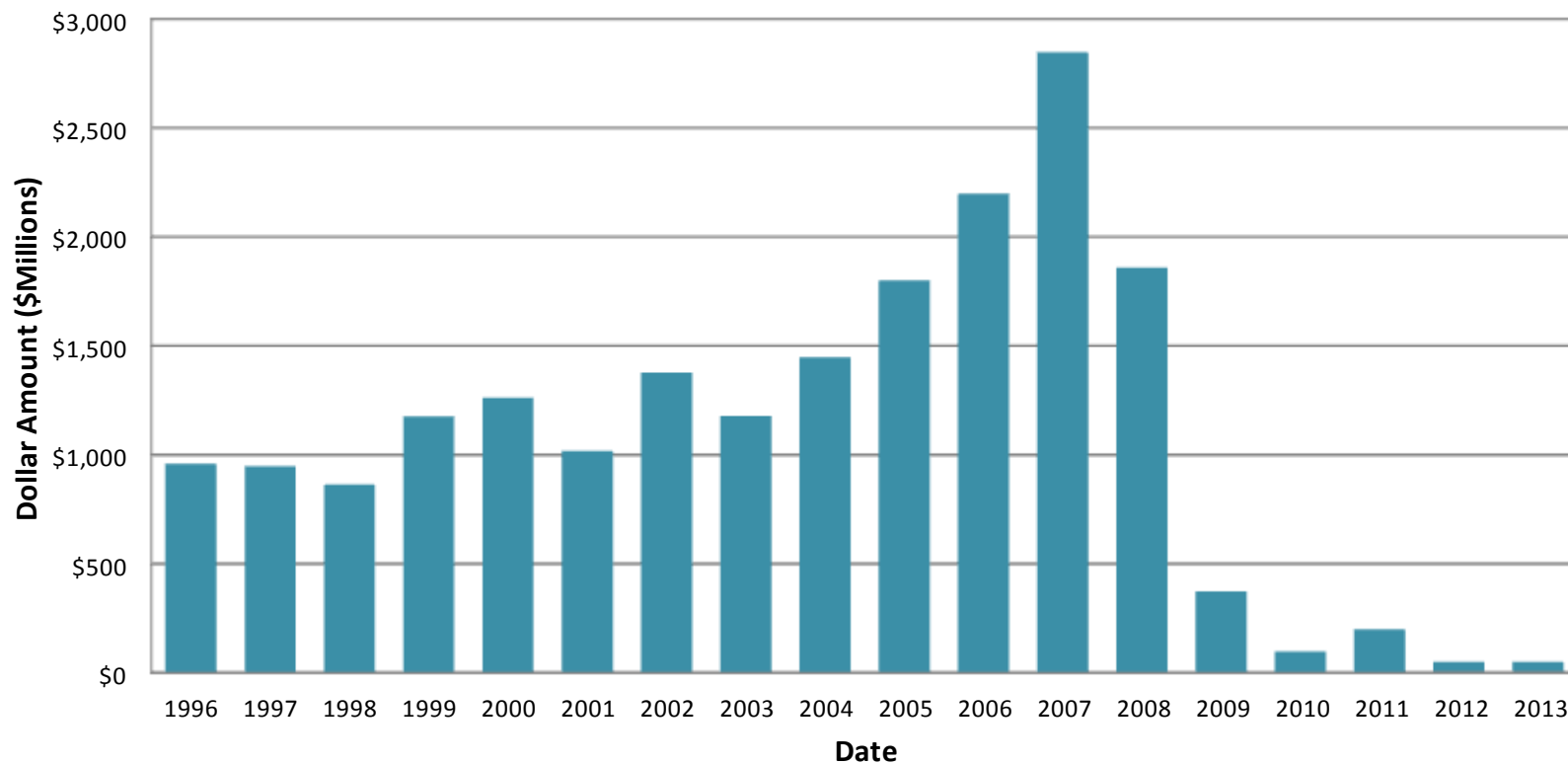


### Fixed Rates Available Through Swaps Are at Historic Lows

#### SIFMA Interest Rate Swaps



## Letter of Credit Backed



Source: Thomson Reuters

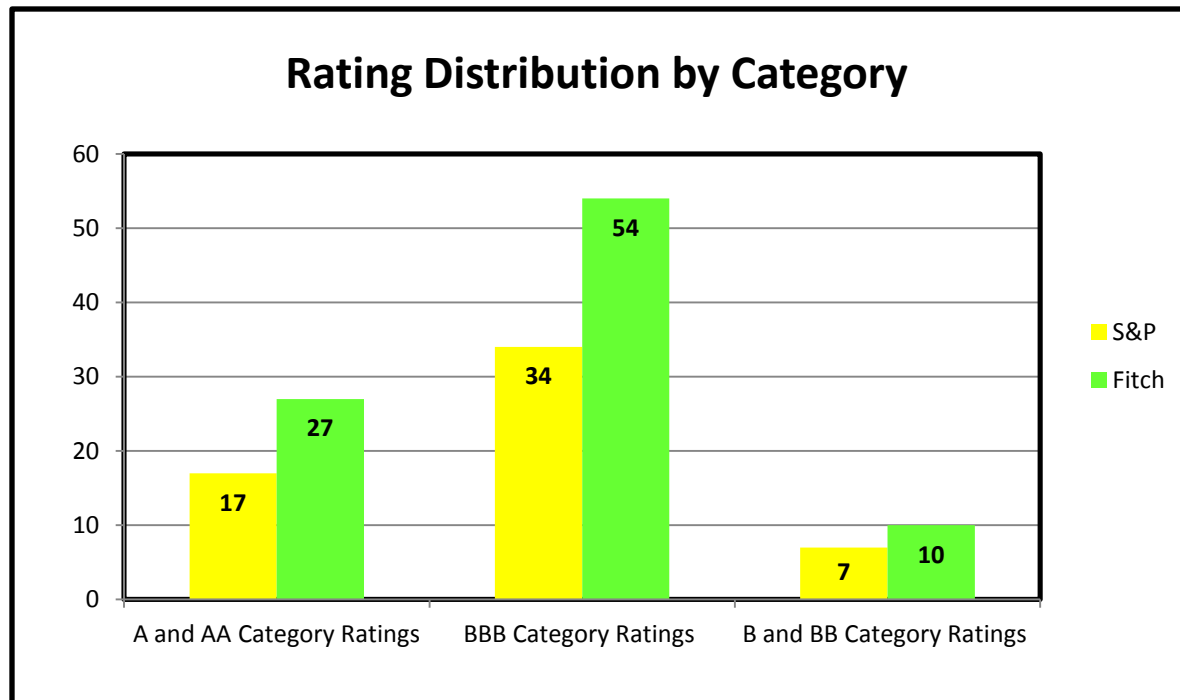
- Significant number of banks continue to purchase tax exempt bonds. Rate is typically calculated as (spread over LIBOR) x fraction which converts taxable rate to tax exempt rate
- Rate is fixed with an interest rate swap
- Direct purchase often contains longer term than letter of credit (up to 15 years) – reduced renewal and replacement and interest rate risk
- Bank agrees to own the direct purchase bonds for a fixed time period (i.e. term). At the end of the term the bank may renew or put the bonds back to the borrower. New bank may purchase the bonds if the original bank does not renew purchase agreement.

- Increase in number of rated senior living communities
- Many of the rated organizations are obligated groups and own multiple campuses \*

Rated Borrowers as of October, 2013	
S&P	58
Fitch	91
	149

\* More than 25 of the rated borrowers include multiple campuses

- 59% of the ratings are in the BBB category
- 30% are in the A and AA category
- 11% are in the B and BB category



## SUMMARY

- The senior living market remains healthy
- Capital costs are historically low
- The 2014 outlook is favorable