October 4, 2016

# CAPITAL MARKET UPDATE

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## Senior Living New Issue Rates as of 10/4/16

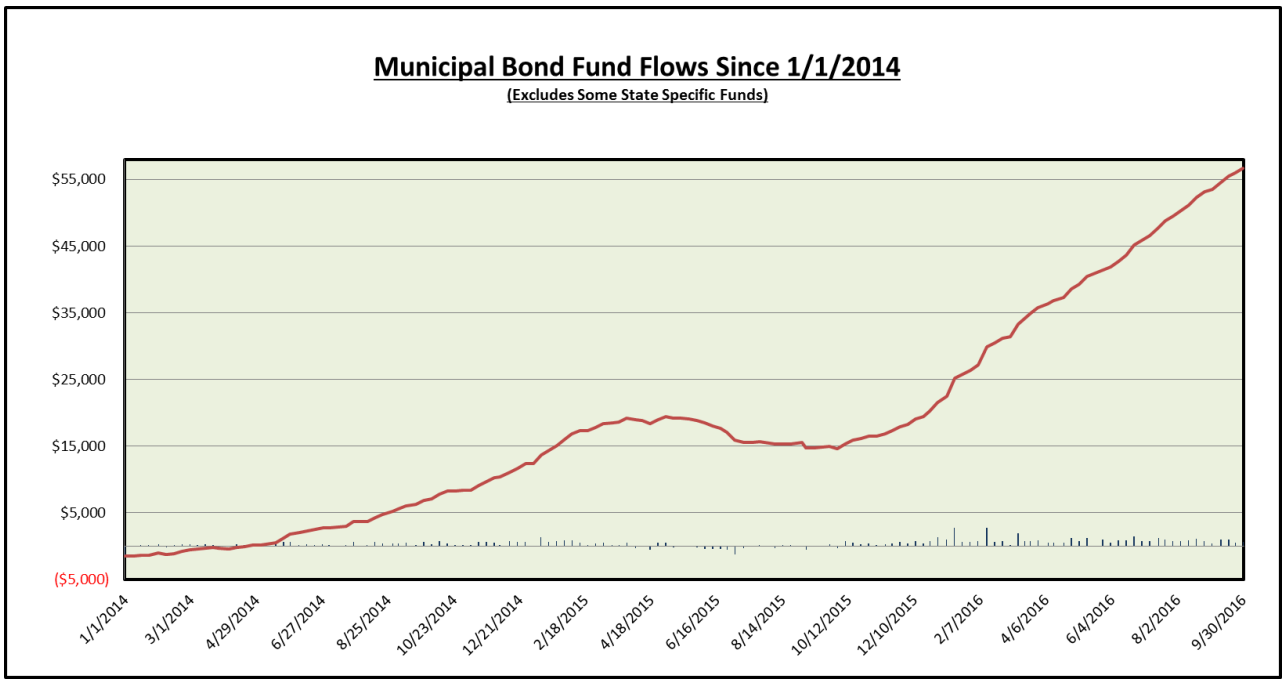
| Maturity | Taxable Rates | Tax Free Rates | | | | | |
|---|---|---|---|---|---|---|---|
| | GNMA Taxable | FHA Tax-Exempt | A | BBB | BB | Refinancing & Expansion | Start-Up |
| 5 yr. | NA | 1.160% | 1.750% | 2.100% | 2.45% | 2.25-2.75% | 3.50-4.00% |
| 10 yr. | NA | 1.970% | 2.350% | 2.700% | 3.05% | 3.00-3.375% | 4.20-4.75% |
| 20 yr. | NA | 2.780% | 3.050% | 3.300% | 3.75% | 3.75-4.125% | 4.75-5.25% |
| 30 yr. | 3.200% | 2.990% | 3.250% | 3.400% | 3.90% | 4.00-4.375% | 5.10-5.50% |

*Senior Living new issue rates for borrowers in specialty states are 20-30 basis points lower in yield.*

| SIFMA Index | LIBOR |
|---|---|
| 0.84% | 0.52% |

| Revenue Bond Index (RBI) | 10 Year Treasury | 30 Year Treasury |
|---|---|---|
| 3.31% | 1.6880% | 2.4130% |

| | 1 Year | 3 Year | 5 Year | 7 Year | 10 Year |
|---|---|---|---|---|---|
| Weekly SIFMA Swap Rates | 0.26% | 0.52% | 0.71% | 0.88% | 1.07% |
| Weekly LIBOR Swap Rates | 0.96% | 1.07% | 1.18% | 1.30% | 1.47% |



# Market Commentary

As with Hurricane Matthew, it is hard to tell which path the United States will take. Every four years, the financial markets try to brace themselves for winds of change impacting taxes, regulations, monetary and fiscal policy, trade and the business climate in general. This year, trackers have mostly failed in their predictions, so investors are unsure of what to prepare for. Voters have their chance to scrutinize the presidential and vice presidential candidates in debates this week, with only 30 days left before Election Day. At this time it appears that the U.S. House looks certain to remain in Republican hands, but the Senate is a real toss-up. The Supreme Court has an ideologically split 4-4 bench with a gaping vacancy that awaits a nomination from the next president and confirmation by the upper chamber. There are two key vacancies on the seven member Board of Governors at the Federal Reserve which also require nomination and confirmation; the two new members will be voting on interest rates along with the other five governors and five Reserve Bank presidents who sit on the Federal Open Market Committee. New Cabinet secretaries will carry out new domestic and foreign policies involving everything from health care to homeland security and Brexit to banking. There is a lot up in the air these days.

Troubles at Deutsche Bank and Wells Fargo have dominated the financial trade press of late, along with the drop in the pound, the possibility of an OPEC agreement on oil output, and U.S. economic data that seem to threaten a rate hike. Although consumer spending in August rose by only 0.1% after a 0.4% increase in July and personal income rose 0.2% versus 0.4% in the prior month, consumer sentiment and consumer confidence came in above expectations in September. The producer price index fell 0.4% in July, and the pending home sales index fell 2.4% in August to the second lowest reading this year; but the Institute for Supply Management's manufacturing index rose to 51.5 in September from 49.4 in August, and the Chicago Purchasing Managers Index came in higher than anticipated at 54.2. New orders for durable goods fell by $100 million in August, but real gross domestic product in the second quarter was revised upward to 1.4% from 1.1%, and Fed Chair Janet Yellen told Congress that she is "pleasantly surprised" by unemployment trends.

After nearly two years of advance notice, the Securities and Exchange Commission's new money market fund reforms affecting institutional buyers take effect next week. Regulations are intended to make the $2.7 trillion market for short-term debt (one day to one year) safer for investors in times of stress by requiring the daily asset values of all funds except government funds to float and allowing for certain redemption and liquidity fees and restrictions. In anticipation, more than $106.9 billion has been withdrawn from tax-exempt money market funds this year. Last week, these funds had outflows of $5.9 billion while taxable money market funds took in the same amount. In bond trading sessions, 10-and 30-year Treasuries closed the week stronger by about 3 basis points to yield 1.59% and 2.31%, respectively. The AAA municipal general obligation bond benchmarks ended fairly flat on Friday with the 10-year at 1.51% and the 30-year at 2.31%.

The Bridgeton Industrial Development Authority in Missouri came to market last week with a $16 million non-rated refunding for The Sarah Community that priced with 2033 term bonds at 4.00% to yield 3.80%. The Michigan Strategic Fund issued $14.8 million of non-rated bonds, and the Economic Development Corporation of Waterford Charter Township sold $20.1 million of non-rated refunding bonds for Canterbury-on-the-Lake featuring 2051 term bonds priced at 5.00% to yield 5.10%. The California Municipal Finance Authority sold $11.6 million of non-rated revenue bonds for Riverside School priced at par to yield 7.00% in 2046, and the Utah Charter School Finance Authority priced 30-year term bonds for BBB-minus rated Hawthorn Academy at 5.00% to yield 3.08%. The Wisconsin Public Finance Authority had a $12.4 million charter school financing for Renaissance Secondary School with a single term bond in 2046 priced at par to yield 5.50%.

This week marks the start of the fourth quarter and HJ Sims is in the market with an $86.6 million BBB rated issue of the Fulton County Residential Care Facilities for the Elderly Authority in Georgia for Lenbrook Square. Also on the calendar, which may boast the second highest level of issuance on record at $15.5 billion, the North Carolina Medical Care Commission is bringing a $59.2 million non-rated refunding deal for Southminster in Charlotte, and Howard County, Maryland has a two series financing for Vantage House in Columbia, with $27.1 million expected to settle in 2016 and $22.3 million in January. The Industrial Development Authority of Maricopa County has a $45.1 million BB+ rated deal for Paradise Schools in Surprise, Arizona. And the South Carolina Jobs-Economic Development Authority plans a $28.9 million refunding for Wesley Commons in Greenwood. At this writing, the 30-day visible supply of municipal bonds totals $19.1 billion.

# Lessons Learned From The National Investment Center for Seniors Housing & Care 2016 NIC Fall Conference

More than 2,700 seniors housing operators, owners and capital providers attended the 2016 NIC Fall Conference held in mid-September. The conference provides participants the chance to learn and discuss industry trends, opportunities and challenges through insightful educational sections and facilitated networking opportunities. HJ Sims had five attendees at the conference who learned a variety of valuable lessons such as:

- **The strong pace of development continues.** Inventory growth for assisted living and memory care continues to remain high and is accelerating for independent living. Many developers have a pipeline of new projects they are hoping to break ground on late this year and into 2017. Providers must be cautious when evaluating certain markets which have the potential to be over-supplied.

- **Construction lender terms are less favorable.** New banking regulations such as the High Volatility Commercial Real Estate (HVCRE) rule have resulted in increased interest rates and lower leverage for some construction lenders. As a result, alternative forms of capital such as subordinate debt and tax-exempt bonds have become increasingly important financing options for new development.

- **Acquisition volume is down.** This was one of the main points illustrated in the session "*Double Your Current Knowledge"* and supported by conversations with brokers who predicted fewer transactions at last year's conference. Due to higher costs of capital and many large portfolios having recently been sold, transaction volume may continue to be lower than the levels seen from 2011 to 2015.

- **Industry data is improving.** NIC leaders discussed recent initiatives to expand the amount of data available for the industry. Of particular note is the skilled nursing initiative launched in March 2016 that provides information on key occupancy and revenue trends. The improved data collection and reporting is important for providers in two significant ways. First, operators are better able to benchmark themselves to others in the industry. Second, improved and timely data is important for educating financial institutions on the fundamental strengths of the industry which in turn attracts more capital to the industry.

HJ Sims is looking forward to more discussions with industry leaders on new trends and challenges at the upcoming LeadingAge Annual Meeting. To meet with an HJ Sims Banker, please contact Aaron Rulnick at (301) 424-9135 or alrulnick@hjsims.com or stop by the HJ Sims Booth #3416.

***For more information, please contact an HJ Sims banker.***

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