November 9, 2016

CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 11/8/16

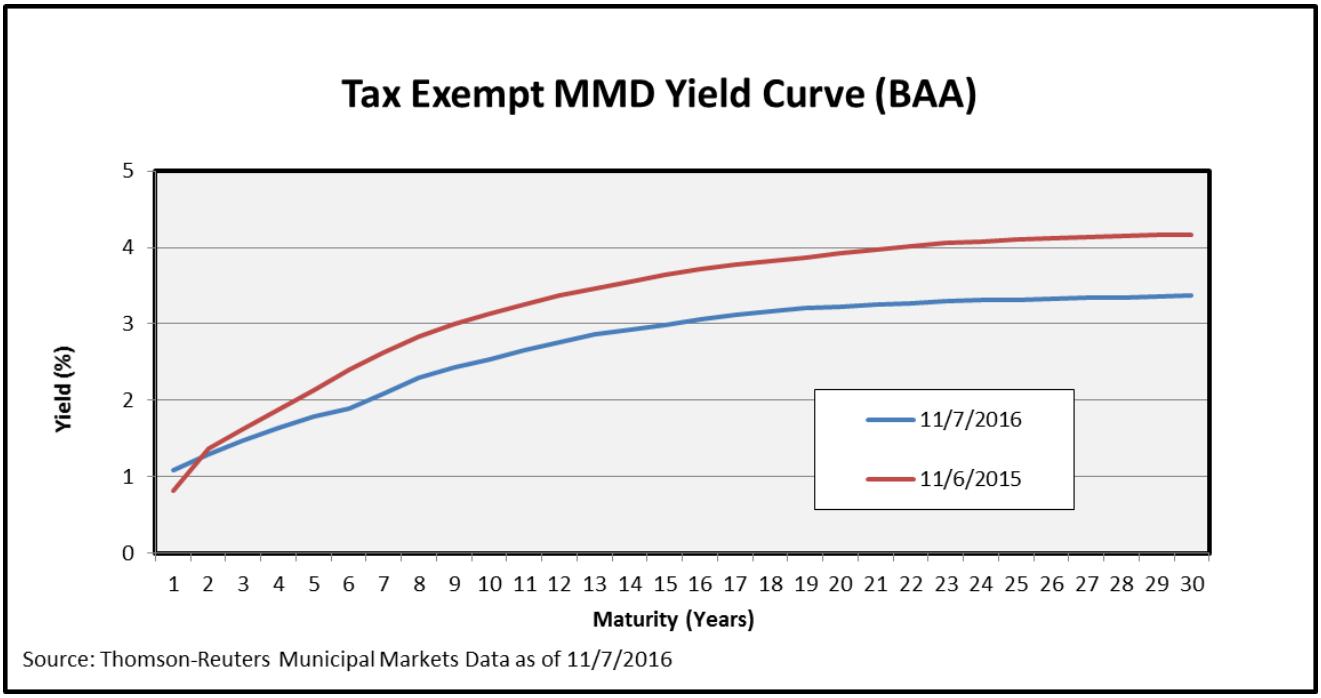
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.210%	2.000%	2.400%	2.75%	2.35-2.90%	3.50-4.00%
10 yr.	NA	2.090%	2.750%	3.200%	3.45%	3.25-3.75%	4.20-4.75%
20 yr.	NA	2.940%	3.550%	3.750%	4.30%	4.00-4.50%	4.75-5.25%
30 yr.	3.250%	3.160%	3.700%	3.900%	4.50%	4.25-4.75%	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
0.56%	0.53%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.44%	1.8640%	2.6250%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.76%	0.86%	0.98%	1.11%	1.25%
Weekly LIBOR Swap Rates	1.01%	1.17%	1.34%	1.51%	1.71%



Market Commentary

Retired WWII army sergeant Richard Overton of Austin, Texas, our nation's oldest living veteran at 110, is just one of the many Americans recapping the historic election returns of 2016 today. The battle for the White House that just ended on Wednesday morning pales in contrast to the fight for freedom that he waged with the Marines in Iwo Jima. But just hours ahead of the federal holiday to honor his service and the sacrifices made by all those in our armed forces, we salute a new commander in chief and prepare for a peaceful transition to new presidential and gubernatorial administrations, the 115th Congress and the 2016-2017 term of the U.S. Supreme Court.

The average adult attention span is 8.25 seconds, but it was stretched beyond all measurable limits this election season. From early on, financial markets sought a stable and predictable outcome and, despite shock after shock, became roiled for 9 sessions only when the victory appeared to be placed in jeopardy by a single letter sent by the FBI to the Congress just eleven days before the election. A remarkable reprieve granted nine days later put expectations back on track and sent stock futures skyrocketing; the Dow Jones Industrial Average had its best single-day rally in 84 years on Monday. Election Day saw skittish trading; then news of the concession sent global markets spinning. Dow futures plummeted by some 800 points, the peso hit a record low, and the flight to quality led away from Treasuries to the yen, the Swiss franc and gold. Markets snapped back after the sun came up as usual, courteous phone calls were exchanged and magnanimous remarks were made. Investors will spend these next weeks of transition to an all-Republican White House and Congress, pondering the depth of voter mandates and speculating on the prospects for inflation, interest rates, infrastructure spending, business investment, health care, tax and regulatory reform.

This is a quiet week for the municipal market, one in which few issuers chose to brave a market primed for volatility. And, at this writing, the Dow has swung by a thousand points to +200, and both Treasury and tax-exempt yields are spiking by 12 basis points. Last week saw $6.3 billion of muni volume, including the $160.3 million Orange County Health Facilities Authority financing for Presbyterian Retirement Communities in Florida; HJ Sims underwrote this A-minus rated transaction, which was structured with 2047 term bonds priced at 5.00% to yield 3.78%. In the high yield sector, the California Statewide Communities Development Authority sold $113.5 million of non-rated refunding bonds for the Lancaster Educational Student Housing project with term bonds in 2046 priced at 5.00% to yield 4.92%. The California Municipal Finance Authority issued $78.6 million of non-rated revenue bonds for California Baptist University with a 30-year term maturity priced with a coupon of 5.00% and maximum yield of 4.75%. The California School Finance Authority had two deals in the market: a $24.7 million BB+ rated issue for Grimmway Schools structured with 2051 maturity priced at par to yield 5.25% and a $13.3 million non-rated issue for ACE charter schools structured with 2052 term bonds priced at 5.00% to yield 5.13%. The Oregon Facilities Authority issued $8 million of non-rated revenue bonds for Redmond Proficiency Academy which had 2051 term bonds priced at par to yield 5.25%. The Minnesota Higher Education Facilities Authority had a $45.9 million Baa3 rated issue for Augsburg College structured with its final maturity priced at 5.00% to yield 3.84%, and the City of Ham Lake brought a $27.3 million charter school lease revenue bond issue for BB rated Parnassus Preparatory School with a 2047 term bond priced at 5.00% to yield 4.625%. The Town of North Manchester, Indiana sold $27.6 million of non-rated refunding bonds for Peabody Retirement Community with a 2025 term bond priced at par to yield 6.25%. The Woodloch Health Facilities Development Corporation of Texas brought a $45.3 million non-rated deal for Inspired Living at Lewisville priced at 6.75% to yield 7.14% in 2051. And Howard County, Maryland brought a $22.5 million non-rated financing to settle in January for Vantage House that priced at 5.00% to yield 4.91% in 2044.

Investors added $454 million to municipal bond funds last week, bringing the year-to-date total to $52.8 million. Daily trading volume was higher than average for the year at $11.3 billion per session. As the market digests local, state and national results in the coming days, borrowers remain in a wait-and-see mode. The 30-day visible supply totals only $7.1 billion, but more than $48 billion of new bond issues are in the pipeline now that they were approved by voters across the country in at least 120 referenda on Tuesday. We certainly wish our newly elected leaders godspeed. So every four years in America, the nation reveals its preferences and divisions, the world adjusts, and the next campaigns begin.

From Financial Recovery to Investment Grade

Lenbrook

"Herbert J. Sims was a valuable asset to Lenbrook. They provided timely market knowledge and adhered to a tight time schedule allowing Lenbrook to structure, price and close the Series 2016 Bonds at a significant debt service savings to the organization."

- Dan Dornblaser, V.P. of Finance and Chief Financial Officer, Lenbrook

Partnered Right	• Lenbrook's opening of a major expansion was hindered by Great Recession, with significant deposit cancellations and attrition • After Great Recession, new Executive Management Team adopted Management Action Plan and addressed financial challenges • Sims sole managed refinancing of outstanding debt in 2016 ("Series 2016 Bonds") to generate debt service savings
Structured Right	• Sims coordinated Fitch Verbal Feedback Review of Lenbrook, indicating that investment grade rating might be attainable on bond refinancing • Objectives for Series 2016 Bonds included: ➢ Securing investment grade rating from Fitch ➢ Identifying optimal redemption strategy for Series 2006B Bonds ➢ Providing financial flexibility to support the acquisition of additional property in furtherance of the Community's long-term strategic expansion efforts
Executed Right	• Rating agency outreach strategy resulted in BBB Fitch rating with stable outlook • Comprehensive marketing campaign developed to maximize investor participation
Financed Right	• Week of pricing characterized by deteriorating bond market conditions, driven by a significant increase in new issuance volume • $6.3 million of bonds placed with retail investors and $80 million with institutional investors • Refinancing generated NPV savings of approximately $14 million, or nearly 15% of bonds refunded

Partnered Right

Founded in 1980, Lenbrook Square Foundation, Inc. d/b/a Lenbrook ("Community" and "Borrower") is a nationally accredited continuing care retirement community located in the affluent Buckhead neighborhood of Atlanta, Georgia. Lenbrook originally consisted of an 18-story building with independent living apartments, skilled nursing services and common areas. In December 2006, Sims underwrote $173 million of tax exempt bonds ("Series 2006 Bonds") for the expansion of Lenbrook, adding a 25-story building connected to the existing apartment tower (Brookhaven Tower), substantial new common area space and a complete re-purposing and renovation of its existing common space. In addition to 134 new independent living residences plus eight unique garden court apartments, another new building (Lenox Tower) provided three new dining venues, fitness and wellness areas and landscaped outdoor areas for the residents to enjoy. Proceeds of the Series 2006 Bonds were also used to relocate 60 skilled nursing beds to a uniquely designed Health Care Center. Today, Lenbrook has 353 total independent living residences, 60 Medicare-certified skilled nursing beds and 16 Personal Care suites.

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From Financial Recovery to Investment Grade

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Lenbrook opened this major expansion in 2008, immediately prior to the Great Recession and collapse of the national real estate market, which reduced the average Atlanta home price by at least 25 percent. After reservations for all new residences had been received, 25% of Lenbrook's deposits were cancelled within six months of opening. In addition, although Lenbrook historically had enjoyed high occupancy levels with a waiting list, its Brookhaven Tower experienced significant attrition and a reduction in occupancy.

Following the Great Recession, under leadership of a new CEO, CFO and marketing team, Lenbrook adopted a Management Action Plan and successfully achieved key measurable outcomes, including an increase in Community occupancy; reduction in outstanding debt; generation of operational savings; maintenance of a break-even operating margin ratio and generation of a positive Change in Net Assets; and increase in Days Cash on Hand. Moreover, in addition to these accomplishments, Lenbrook maintained excellent lender relations and earned tremendous support and confidence from bondholders. In 2016, with market conditions at historical lows, Sims assisted Lenbrook as sole underwriter for a current refunding of $85.8 million of outstanding Series 2006A Bonds and advance refunding of $7.9 million of outstanding Series 2006B Bonds ("Series 2016 Bonds") issued through the Residential Care Facilities for the Elderly Authority of Fulton County to generate debt service savings.

Structured Right

Prior to kick-off of the Series 2016 Bond transaction, Sims coordinated a Fitch Verbal Feedback Review of Lenbrook that provided valuable insight about the Borrower's credit profile, including an indication that an investment grade rating might be attainable. As such, Sims recommended that Lenbrook publish a Fitch underlying rating in connection with its issuance of Series 2016 Bonds. At this stage, the primary objectives identified for the upcoming bond refinancing included:

- Effectively communicating Lenbrook's financial strengths to Fitch to secure an investment grade rating
- Developing the optimal redemption strategy for the Series 2006B Bonds, which were advance refundable and structured as a bullet maturity
- Providing financial flexibility to support the acquisition of additional property in furtherance of the Community's long-term strategic expansion efforts.

Executed Right

To successfully achieve Lenbrook's objectives for the Series 2016 Bonds, Sims worked closely with Management to develop a comprehensive presentation that communicated the organization's financial stability and benefits associated with the anticipated refinancing. Upon completion of the presentation, Sims organized a rating agency site visit in which Management had the opportunity to meet Fitch analysts and answer important questions regarding its financial condition and key structural features of the refinancing. Lenbrook's impressive financial recovery and existing credit strength resulted in the assignment of a BBB Fitch rating with a stable outlook, despite the organization's plans to commit $5.3 million of cash on hand to purchase adjacent condominiums as part of its future expansion efforts.

Building upon the successful rating agency outreach strategy, Sims then developed a comprehensive marketing and distribution campaign for the Series 2016 Bonds expected to maximize investor participation by leveraging the newly-obtained BBB rating. In particular, Sims targeted many of the nation's largest institutional investors, who are active buyers of senior living bonds, in addition to a broad base of retail investors encompassing the Sims Private Client network and existing Community residents. Similar to its presentation to Fitch, Sims worked with Management to conduct an institutional investor conference call, as well as retail investor presentations to Sims' Private Client team and Lenbrook residents. With respect to bond structure, Sims employed several features that accommodated institutional and retail investor preferences, including premium bonds and serial and term bond maturities. Moreover, to reduce the annual debt burden created by the Series 2006B Bonds, which featured a bullet maturity in 2042, the refinancing of this series would be structured with a matched-maturity level-debt service amortization schedule which enabled Lenbrook to deleverage further.

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From Financial Recovery to Investment Grade

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Finally, in an effort to maximize debt service savings associated with the refinancing, an important consideration was the redemption strategy for the Series 2006B Bonds. Because an advance refunding of this series generated significant negative arbitrage, Sims contacted existing bondholders to determine whether it was more cost effective to tender these bonds. Although it was ultimately confirmed that a tender of the Series 2006B Bonds would be more expensive than an advance refunding, Sims' analysis provided Management with valuable assurance that an advance refunding of the Series 2006 Bonds was the best redemption strategy in the prevailing market.

Financed Right

Sims and Lenbrook prepared to price the Series 2016 Bonds during the first week of October. Despite a record 53 consecutive weeks of bond fund inflows at the time, the tax-exempt market was pressured by a substantial increase in new issuance volume, which constrained investor liquidity. As such, the fixed income markets experienced a steady erosion in prices, with municipal bonds following Treasuries on a path to higher yields that was expected to continue for several weeks. Despite highly challenging market conditions, the effectiveness of Sims' comprehensive marketing and distribution strategy resulted in a successful sale of the Series 2016 Bonds, with $6.3 million of debt placed with retail investors and $80 million placed with institutional investors. The Series 2016 Bonds generated approximately $14 million of NPV savings, or nearly 15% of bonds refunded; moreover, Sims maximized Lenbrook's future refinancing flexibility by structuring the bonds with a first call date in seven years (2023) compared to the industry standard period of 10 years.

For more information on how Lenbrook was Financed Right™ by HJ Sims, please contact Aaron Rulnick at 301-424-9135 or arulnick@hjsims.com or Kyrle Turton at kturton@hjsims.com or 301-461-7893.

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