

# CAPITAL MARKET UPDATE

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## Senior Living New Issue Rates as of 12/20/16

Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.870%	2.700%	3.200%	3.50%	3.00-3.75%	4.00-4.50%
10 yr.	NA	2.730%	3.600%	4.150%	4.45%	4.00-4.50%	4.75-5.25%
20 yr.	NA	3.490%	4.450%	4.850%	5.25%	4.75-5.50%	5.25-5.75%
30 yr.	3.760%	3.700%	4.600%	5.000%	5.35%	5.00-5.75%	6.00-6.50%

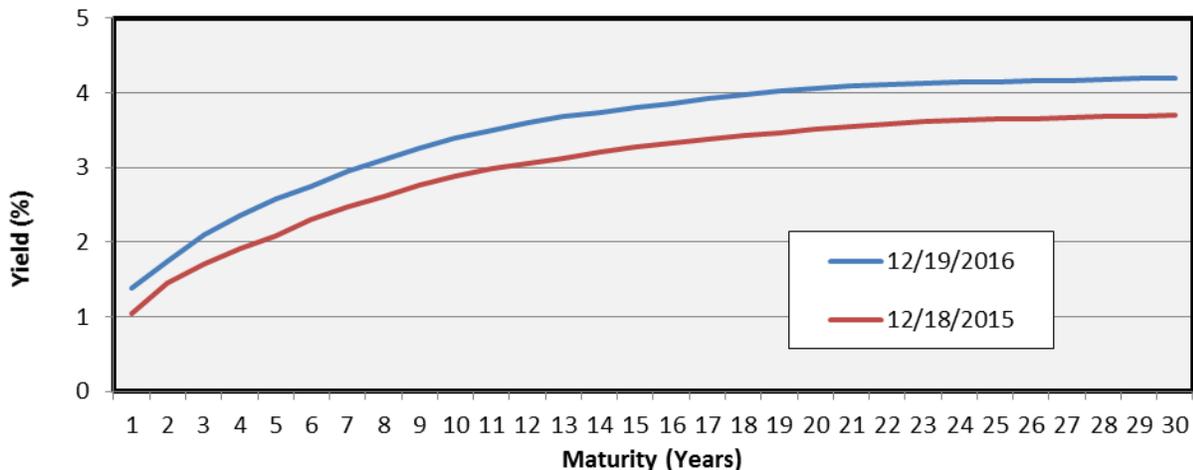
Senior Living new issue rates for borrowers in specialty states are 20-30 basis points lower in yield.

SIFMA Index	LIBOR
0.66%	0.74%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.99%	2.5640%	3.1500%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.86%	1.23%	1.48%	1.67%	1.84%
Weekly LIBOR Swap Rates	1.21%	1.73%	2.06%	2.27%	2.46%

### Tax Exempt MMD Yield Curve (BAA)



Source: Thomson-Reuters Municipal Markets Data as of 12/19/2016

## Market Commentary

It is an exceptionally merry Christmas at the U.S. stock exchanges this year. The Dow Jones Industrial Average, the S&P 500 Index and the Nasdaq composite are extending a series of record highs in the post-election rally. But members will have to wait until next year to see if all the anticipated gifts are eventually delivered: business and personal tax cuts, increased infrastructure and defense spending, deregulation, health care reform and economic growth in the range of 3-4%. The Electoral College made the presidential and vice presidential election results official on Monday and will soon deliver its certificates to the Congress and the National Archives. U.S. mayors felt as though they received an early present from the president-elect last week when he indicated his support of tax-exemption for municipal bonds financing public purpose projects. The Federal Reserve Chair has been given a holiday for the first time in 10 years as the spotlight finally turns from the central bank and monetary policy to fiscal policy and the executive and legislative branches. She, in turn, spread some cheer to graduating college seniors, promising in her commencement speech at the University of Baltimore that they will find the strongest job market in a decade.

U.S. Treasuries and municipal bonds have, however, been handed big lumps of coal since Election Day. Optimism in the form of rising inflation and global growth expectations has caused investors to cash in some of their bonds and move into riskier sectors. Bonds suffered selloffs again last week when voting members of the Federal Reserve's policy arm unexpectedly predicted three interest rate hikes instead of two for 2017 after raising rates for only the second time in a decade. The 10-year Treasury yield has shot up for six weeks in a row, climbing from 1.85% on Election Day to a high of 2.59%; it currently stands at 2.55%. The 30-year Treasury has risen from 2.61% on November 8 to 3.17% and yields 3.14% at this writing. The 10-year AAA municipal general obligation bond yield is up 74 basis points from 1.71% to 2.45% after reaching a high of 2.58% on December 1. The 30-year muni benchmark yield hit a high of 3.35% earlier this month but has risen 64 basis points since Election Day to 3.18%.

Muni investors enjoyed significant December 1 coupon and principal payments and expect even more on January 1. While some are looking for replacements and executing last minute tax strategies, others are unsure of what to do. A total of \$13.9 billion has been withdrawn from municipal bond funds since Election Day. Bid-wanted lists now have more than three thousand line items, and shoppers can find some great bargains during these final days of the year. In the primary market, muni issuance has virtually ground to a halt, and the focus is now on the holidays which start this weekend. At this writing, the dollar index has passed the 103 mark and is at its highest level in 13 years. Oil is at \$52.42 a barrel, just below its high for the year. Argentina's 10-year bond yield is 7.18%, while that of Japan is 0.06%. The S&P Volatility Index (VIX) is at 11.57, right around the low point for the year.

The PNC Christmas Price Index, which has been calculated for the last 30 years, tracks annual inflation by totaling the prices of all the gifts in the "Twelve Days of Christmas" carol. The 2016 Index totaling \$34,363.49 was just released, and it is up 0.7% from 2015 due to the wage increases for the Drummers and Pipers and the lack of availability of Turtle Doves. The long-observed tradition of gift-giving during these special holidays has an enormous impact on our economy, with retail sales now exceeding \$600 billion and employment swelling by as much as 800,000. But we are inspired by those among us who spread their generosity to others in need in other ways throughout the year. This week, we wanted to take a moment to single out two key members of the HJ Sims team who made a real difference in the lives of others in 2016. Nick Squitieri, a Senior Vice President in our Fairfield office, spent his summer vacation in rural Kentucky with his son and nearly 200 others from the Jesse Lee Methodist Church. They participated in the Appalachia Service Project, a labor-intensive effort to repair damaged homes for dozens of families in one of the most poverty-stricken areas of our country. Volunteering in a separate Appalachia Service mission was Kevin Herbert, a Vice President in our Iselin office, who traveled to Preston County, West Virginia with his wife, daughter and 60 fellow parishioners from the Church of Saint Gregory the Great. Over the course of 8 days, they assisted very low income families with plumbing, roof, and other urgent repairs to their homes. They all viewed their volunteer work as humbling and rewarding in unexpected ways. We appreciate their sacrifices and thank them for their inspiration.

This will be our last market update for 2016. We thank you and, on behalf of all in the HJ Sims family of companies, we wish you and your families happy holidays.

## Smooth, Fast Acquisition Financing with Subordinate Debt

<b>Partnered Right</b>	<ul style="list-style-type: none"> <li>This is the fourth transaction with Affinity to assist in the reorganization and strategic growth of its portfolio of properties.</li> </ul>
<b>Structured Right</b>	<ul style="list-style-type: none"> <li>Sims' flexible structure met the needs of the client as well other lenders.</li> </ul>
<b>Executed Right</b>	<ul style="list-style-type: none"> <li>Sims' ability to execute a complicated transaction in a timely fashion allowed the client to execute on the purchase contract and avoid extension fees.</li> </ul>
<b>Financed Right</b>	<ul style="list-style-type: none"> <li>Sims successfully placed \$9,570,000 of corporate taxable bonds to fund a subordinate loan to complete the acquisition.</li> </ul>

### Partnered Right

Sims was approached by an affiliate of Affinity Living Group ("Affinity") to provide financing in connection with the acquisition of a Portfolio of seven senior living communities in North Carolina. The Portfolio is comprised of 221 assisted living beds and 301 memory care beds. Sims successfully provided a mezzanine loan totaling \$9.570 million to Affinity to complete the acquisition. This is the third financing that Sims has completed for Affinity, allowing it to reorganize and grow its portfolio resulting in more flexibility and savings.

### Structured Right

There were several challenges associated with this financing:

- The debt needed to be structured in a way that met the requirements of the letters of credit and banks.
- Sims need to deal with multiple lenders and successfully negotiate complicated intercreditor arrangements.
- The terms of Sims' mezzanine financing had to be flexible enough to allow for a potential refinancing with HUD in the future.

### Executed Right

A new entity, Affinity Portfolio Funding III, LLC (the "Sims Issuer"), was formed to issue taxable bonds. The bonds were successfully sold to Sims' high net worth accredited investors. The proceeds from the bonds were used by the Sims Issuer to fund the subordinate loan to Affinity. This approach allows Sims' high net worth clients to invest in selected transactions but leaves the asset management and key decisions in the hands of Sims and its partner.

### Financed Right®

Sims was able to underwrite and then implement a subordinate debt structure that met the needs of Affinity as well as the Senior Lenders in a timely fashion. Sims' ability to be flexible resulted in both short- and long-term cost savings for Affinity and allowed Affinity to preserve its capital for future projects.

A creative financing solution for strategic growth is an example of Sims using its extensive investor base to provide attractive financing to senior housing providers. Sims excels in filling the niches that allow an owner or developer to complete a transaction by providing custom financing such as mezzanine debt or preferred equity.

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