



FINANCED RIGHT®

Member FINRA/SIPC

December 6, 2016

# CAPITAL MARKET UPDATE

Tel: 800-HJS-1935

www.hjsims.com

## Senior Living New Issue Rates as of 12/6/16

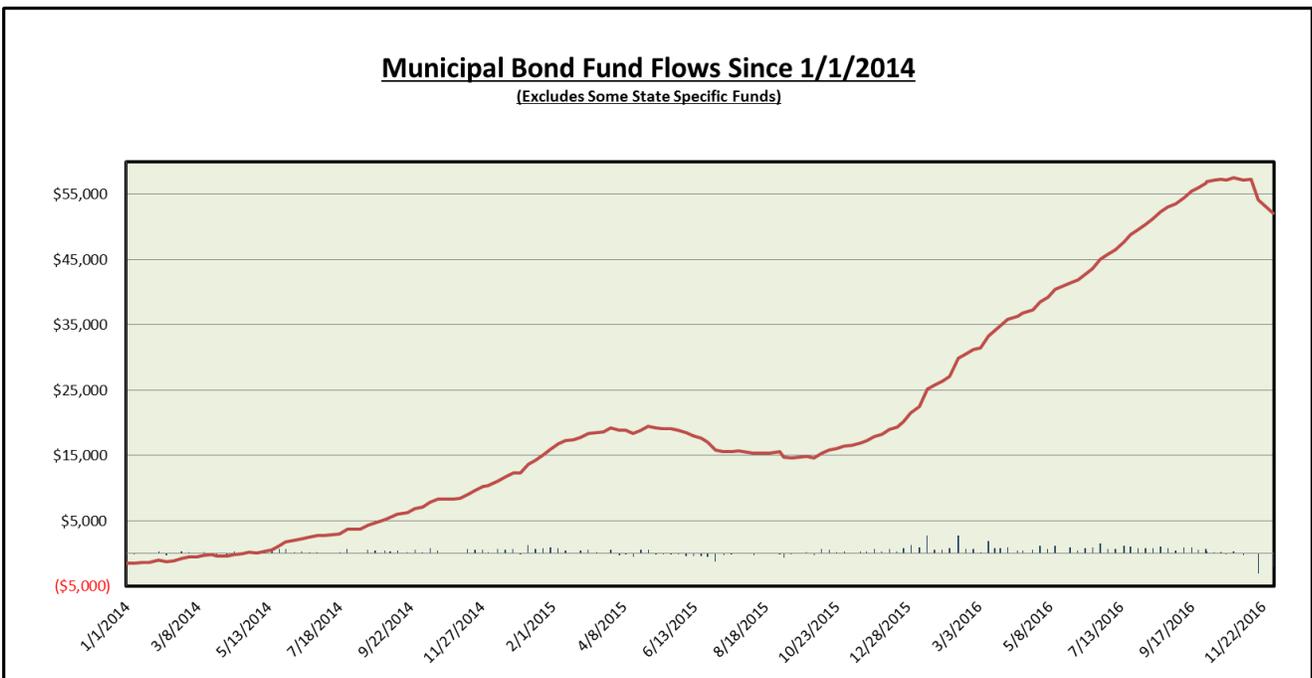
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.910%	2.600%	3.100%	3.45%	3.00-3.75%	4.00-4.50%
10 yr.	NA	2.820%	3.550%	4.100%	4.40%	4.00-4.50%	4.75-5.25%
20 yr.	NA	3.630%	4.450%	4.850%	5.25%	4.75-5.50%	5.25-5.75%
30 yr.	3.600%	3.860%	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
0.56%	0.61%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
4.10%	2.3920%	3.0800%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.82%	1.17%	1.37%	1.54%	1.70%
Weekly LIBOR Swap Rates	1.14%	1.57%	1.87%	2.09%	2.28%



## Market Commentary

“Viva l’Italia” wrote Italian Prime Minister Matteo Renzi on his Facebook page shortly after submitting his resignation on Monday. Renzi, 41, the youngest ever to hold the top job in the eurozone’s fourth largest economy, is expected to leave office later this week. He came to power in 2014 as “the demolition man”, one that was going to take on the establishment, and he staked his leadership position on popular acceptance of a package of constitutional reforms that would have limited the powers of the legislature. But, as newspaper headlines after Sunday’s referendum read: “the constitution beats Renzi 59 to 41.” Euroskeptics claimed victory, and the global press began reporting on this third in a series of populist revolts since June by voters in western democracies.

Global markets largely shook off the results, which were not entirely unexpected, and instead focused on developments in the oil sector, where Brent crude prices rose to a 16-month high after last week’s surprising announcement of a cut in output by the Organization of Petroleum Exporting Countries. The Dow Jones Industrial Index has continued its post-election rally, hitting new record highs six times since November 8, and investors added a net of \$22.3 billion to equity funds. Bonds, on the other hand, have felt nothing but pressure from oil, stocks, upbeat economic data and talk of lower taxes, 100-year Treasury bonds, more frequent rate hikes and tapering by the European Central Bank. The municipal bond sector has been hit the hardest, losing more than 3.45% in November, while Treasuries and investment grade corporate bonds were down about 2.35% on the month.

Municipal issuance in November came in at \$23.7 billion, 9% below 2015 levels, as many deals were pulled during the selloff. Municipal bond funds had withdrawals of \$5.7 billion, including \$2.1 billion last week. But borrowers who still find current rates low and attractive entered the market and found plenty of interested buyers. Among the \$10 billion of new supply last week, Arizona’s Pima County Industrial Development Authority sold \$20.9 million of non-rated refunding bonds for PLC Charter School, including 2046 term bonds priced at par to yield 6.00%. The California School Finance Authority was in the market with a \$58.3 million BBB rated issue for Alliance for College-Ready Public Schools that had 2052 term bonds yielding 5.25%. The Florida Development Finance Corporation had a \$41.2 million non-rated financing for Florida Charter Educational Foundation featuring term bonds maturing in 2046 priced at 6.375% to yield 6.50%. Maryland’s Prince George’s County sold \$21.5 million of charter school revenue bonds for Chesapeake Lighthouse Foundation, including a 30-year term maturity yielding 7.00%. The Maryland Health and Higher Educational Facilities Authority issued \$269.7 million of Baa3 rated revenue bonds for Adventist HealthCare, pricing its 30-year term bonds at 5.50% to yield 5.10%. The City of Bondurant, Iowa brought a \$7.9 million non-rated refunding deal for Luther Park Health Center, which had 2041 term bonds yielding 5.00%. And New York’s Brookhaven Local Development Corporation completed a \$38 million refunding for BBB+ rated Jefferson’s Ferry with 20-year term bonds priced at 5.25% to yield 4.30%.

There is a steady pipeline of new money and refunding deals heading well into 2017, and investors looking for tax-exempt bonds will have plenty of cash to spend. Coupon and principal payments expected this month exceed \$41 billion. HJ Sims is in the market with a \$43.5 million non-rated Florida Capital Trust Agency financing for Tuscan Gardens of Palm Coast. Also on the \$10 billion calendar this week is a \$201 million BBB-minus rated California Municipal Finance Authority deal for Northbay Healthcare Group; a BB+ rated transaction for Jennie Stuart Medical Center in Christian County, Kentucky; a \$108 million non-rated deal in Saint Louis for the National Geospatial Intelligence Agency; a BB+ rated Arizona financing for American Charter Schools Foundation; a BB+ rated deal in Saint Paul for the Hmong College Prep Academy; and a \$36 million non-rated Woodloch, Texas deal for Inspired Living Missouri City.

The 10-year AAA tax-exempt municipal general obligation bond yield is 2.51% at this writing, up 80 basis points from 1.71% on Election Day. Compare this to the 10-year Treasury Note yield at 2.39%, which has risen 54 basis points from 1.85%. The 30-year AAA muni benchmark yield is currently 3.32%, up 78 basis points from 2.54% on November 8. The 30-year Treasury at 3.07% has climbed 46 basis points from 2.61% during the same period. The 30-year bond yields of France and Germany, where the next key elections will be held in 2017, stand at 1.63% and 1.02%. Italy’s 30-year bond yield is 2.98%.

Of the 16 million U.S. veterans who fought in the Second World War, there are approximately 620,000 remaining who remember when Italy’s fascist government collapsed, its people voted to adopt a constitution and King Umberto II abdicated. This week, as they watch Italy work to form its 64<sup>th</sup> government since World War II, many gather to observe the 75<sup>th</sup> National Pearl Harbor Remembrance Day. We join them in paying tribute to the 2,403 Americans who lost their lives that on that day of infamy and to all those who fought for freedom and live for peace.

## *Sims' Financing Repositions 125-Year-Old Organization for the Future...*

*“As a small independent community with no history of debt, we had little experience to bring to financing our expansion and no experience with bond financing. The team from HJ Sims...brought more than the expertise we needed. They brought an understanding of our work as a charitable organization with a mission of affordability and accessibility, tremendous creativity as we navigated a complicated relationship with our leaseholder, and a commitment to completing the financing in an increasingly active bond market. Now that we are moving to construction, I can't imagine going through this process without Sims as our partner.”*

- Pamela Leland, PhD, Executive Director, The Hickman



Architectural Rendering of the Project

<b>Partnered Right</b>	<ul style="list-style-type: none"> <li>• Founded in 1891 as a Quaker boarding home, The Hickman is a licensed Personal Care Home in West Chester, PA</li> <li>• The Hickman Board approved construction of a new Sharpless-Hall Building in 2015 to address several concerns, including:             <ul style="list-style-type: none"> <li>➢ The need for additional secure dementia care services in the area</li> <li>➢ The inadequacy of the existing Sharpless-Hall Building to serve the needs of current residents</li> <li>➢ The need to increase overall Community size to ensure future organizational growth</li> </ul> </li> </ul>
<b>Structured Right</b>	<ul style="list-style-type: none"> <li>• Due to challenges presented by unique Ground Lease restrictions imposed by the West Chester Friends Meeting, The Hickman was unable to obtain commercial bank approval.</li> <li>• Sims then recommended a fixed-rate bond financing; however, Sims also had to effectively address investor concerns regarding Ground Lease restrictions.</li> </ul>
<b>Executed Right</b>	<ul style="list-style-type: none"> <li>• Comprehensive marketing strategy targeted institutional investors and retail buyers through Sims' Private Client Group Financing structure featured serial and term bonds to maximize the universe of investor participants</li> <li>• Aggressive 7-year call feature maximized future refinancing flexibility</li> </ul>
<b>Financed Right</b>	<ul style="list-style-type: none"> <li>• Strength of Sims' investor network and marketing campaign resulted in successful sale of the Series 2016 Bonds, with \$5.4 million placed with retail investors and \$13.6 million with institutions</li> </ul>

### **Partnered Right**

Founded in 1891 as a Quaker boarding home, The Hickman Friends Senior Community of West Chester d/b/a “The Hickman” (“Community”) is a licensed Personal Care Home located in downtown West Chester, Pennsylvania. As an independent, charitable, 501(c)(3) organization, its mission is guided by Quaker principles and a tradition of providing individualized care and assistance to seniors seeking a safe and affordable living environment. The Community provides assistance with Activities of Daily Living in a supportive, non-medical setting. Housing and supportive services are based

## Sims' Financing Repositions

*Cont. from Page 3*

on a rental model in which residents sign an annual contract. The Hickman is co-located on the “Quaker Block” in West Chester with the West Chester Friends Meeting and West Chester Friends School. The block consists of two parcels, the larger of which includes the Hickman Building which, pursuant to a Ground Lease Agreement (“Ground Lease”), is leased by The Hickman from the West Chester Friends Meeting. The smaller parcel is owned by The Hickman and contains the Sharpless-Hall Building. The Sharpless-Hall Building was the original boarding home and has 28 residential units.

In 2015, The Hickman faced a variety of challenges to its future sustainability, including: 1) The need for additional secure dementia care services in a non-medical (i.e. non-skilled nursing) environment in the area; 2) The inadequacy of the existing Sharpless-Hall Building to serve the needs of current residents; and 3) The need to increase the overall size of the Community to ensure future organizational growth. Driven by the expansionary vision of its founders, Sallie Sharpless and Lydia Hall, the Hickman’s Board of Directors approved the construction of a new Sharpless-Hall Building (“Project”) that could meet the changing needs of current and future residents and ensure the organization’s presence in West Chester for generations to come. The new Sharpless-Hall would be a 3-story building with 71 rooms offering:

- A secure, first-floor dementia care program with its own outdoor garden
- Personal care and supportive residential living on the second and third floors
- A “neighborhood model” design, providing a more intimate living environment with more opportunities for social interaction and community gatherings
- Country kitchens and multiple dining rooms to afford residents more choices regarding their dining experience
- Newer technologies and a more efficient and cost-effective building design
- Improved fire safety elements

With plans for the Project in place, Sims partnered with The Hickman to identify the most cost-effective financing solution. The Hickman also embarked on a \$3 million capital campaign to generate additional funding for the new building.

### **Structured Right**

In the beginning of 2016, Sims pursued commercial bank financing. It was originally anticipated that The Hickman would fund the Project through the issuance of approximately \$14 million of senior lien commercial bank debt, a \$2.9 million tranche of subordinate debt underwritten by Sims and \$3.3 million of capital campaign contributions and other funds received from The Hickman. Sims conducted a comprehensive bank solicitation process (“RFP”) targeting the most active lenders to senior living organizations in the Mid-Atlantic region. The proposed security structure of the financing, in part, included a leasehold mortgage on the Hickman Building representing an interest in The Hickman’s rights as Tenant under the Ground Lease. As Landlord, the West Chester Monthly Meeting imposed several restrictions to the leasehold mortgage that precluded several banks from responding to the RFP. Nonetheless, through effectively communicating the organization’s mission and financial strengths, The Hickman received a competitive financing proposal from a commercial bank, which anticipated approval of a final term sheet by its credit committee.

In June 2016, the Sharpless-Hall Building was demolished on schedule as part of the Project. Soon after, The Hickman learned that due to the challenges presented by the unique Ground Lease restrictions, the commercial bank lender was not able to obtain final credit committee approval. In response, The Hickman, with Sims as sole manager, proceeded with the issuance of approximately \$20 million of non-rated traditional fixed-rate bonds (“Series 2016 Bonds”). In pursuing this strategy, the financing team faced the challenge of effectively addressing investor concerns regarding Ground Lease restrictions.



## Sims' Financing Repositions

Cont. from Page 4

### Executed Right

Working with the Hickman's Executive Management Team ("Management") and leveraging the depth of Sims' bond distribution network, a comprehensive marketing strategy was developed that targeted a broad group of institutional investors as well as the retail buyer community through Sims' Private Client Group. Understanding the challenges presented by the Ground Lease restrictions, the core of Sims' investor outreach strategy for the Hickman included a detailed investor presentation which enabled Management and Sims to communicate salient details regarding the organization, Ground Lease and anticipated bond financing.

With respect to timing, it was important that construction of the new Sharpless-Hall building commence by the first week of November in order to minimize the incurrence of additional costs associated with Winter conditions and avoid a disruption to the adjacent West Chester Friends School. Furthermore, to maximize the Hickman's future refinancing flexibility, the bonds were structured with a first call date in 7 years compared to the industry standard 10-year period.

### Financed Right

The weeks leading up to the pricing of the Series 2016 Bonds were characterized by significant market volatility. After more than 50 consecutive weeks of bond fund inflows, the tax-exempt market was pressured by more than \$16 billion of new issuance volume, which significantly constrained investor liquidity. As a result, the fixed income markets experienced a steady erosion in prices, with municipal bonds following Treasuries on a path to higher yields that resulted in the postponement of several bond pricings. Despite deteriorating market conditions and the obstacles presented by Ground Lease restrictions, the strength of Sims' investor network and marketing campaign resulted in a successful sale of the Series 2016 Bonds, with \$5.4 million of debt placed with retail investors and \$13.6 million placed with institutions. The Hickman was able to achieve a closing by the first week of November while still securing funding for the Project at attractive levels.

**For more information on how The Hickman was Financed Right<sup>®</sup> by HJ Sims, please contact Aaron Rulnick at [arulnick@hjsims.com](mailto:arulnick@hjsims.com) (301-424-9135) or Kyrle Turton at [kturton@hjsims.com](mailto:kturton@hjsims.com) (203-418-9038).**

---

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

#### **Fairfield, CT**

William Sims	203-418-9001	<a href="mailto:wsims@hjsims.com">wsims@hjsims.com</a>
Jeff Sands	203-418-9002	<a href="mailto:jsands@hjsims.com">jsands@hjsims.com</a>
Andrew Nesi	551-427-5135	<a href="mailto:anesi@hjsims.com">anesi@hjsims.com</a>
Mackenzie Welch	203-418-9024	<a href="mailto:mwelch@hjsims.com">mwelch@hjsims.com</a>
Krystal Murphy	203-418-9028	<a href="mailto:kmurphy@hjsims.com">kmurphy@hjsims.com</a>

#### **Rockville, MD**

Aaron Rulnick	301-424-9135	<a href="mailto:arulnick@hjsims.com">arulnick@hjsims.com</a>
Kyrle Turton	203-418-9038	<a href="mailto:kturton@hjsims.com">kturton@hjsims.com</a>
Patrick Mallen	203-418-9009	<a href="mailto:pmallen@hjsims.com">pmallen@hjsims.com</a>

#### **Bloomington, MN**

Mark Landreville	952-683-7509	<a href="mailto:mlandreville@hjsims.com">mlandreville@hjsims.com</a>
Jay Hromatka	952-683-7506	<a href="mailto:jhromatka@hjsims.com">jhromatka@hjsims.com</a>
Christina Rappl	952-683-7507	<a href="mailto:crappl@hjsims.com">crappl@hjsims.com</a>

#### **Philadelphia, PA**

James Bodine	215-854-6428	<a href="mailto:jbodine@hjsims.com">jbodine@hjsims.com</a>
--------------	--------------	--

#### **Austin, TX**

Curtis King	512-519-5003	<a href="mailto:cking@hjsims.com">cking@hjsims.com</a>
James Rester	901-652-7378	<a href="mailto:jrester@hjsims.com">jrester@hjsims.com</a>
Brett Edwards	512-519-5001	<a href="mailto:bedwards@hjsims.com">bedwards@hjsims.com</a>

#### **Orlando, FL**

Robert Gall	407-313-1701	<a href="mailto:rgall@hjsims.com">rgall@hjsims.com</a>
Kerry Moynihan	407-313-1702	<a href="mailto:kmoynihan@hjsims.com">kmoynihan@hjsims.com</a>

#### **Montvale, NJ -Sims Mortgage Funding - 201-307-9383**

Anthony Luzzi	<a href="mailto:aluzzi@simsmortgage.com">aluzzi@simsmortgage.com</a>
Kerrie Tomasiewicz	<a href="mailto:ktomasiewicz@simsmortgage.com">ktomasiewicz@simsmortgage.com</a>
Andrew Patykula	<a href="mailto:apatykula@simsmortgage.com">apatykula@simsmortgage.com</a>

---

*The material presented here is for information purposes only and is not to be considered an offer to buy or sell any security. This report was prepared from sources believed to be reliable, but it is not guaranteed as to accuracy, and it is not a complete summary or statement of all available data. Information and opinions are current up to the date of publication and are subject to change without notice. The purchase and sale of securities should be conducted on an individual basis considering the risk tolerance and investment objective of each investor and with the advice and counsel of a professional advisor. All investments involve risk and may result in a loss of principal. Investors should carefully consider their own circumstances before making any investment decision. This is not a solicitation to buy or an offer to sell any particular investment.*