March 14, 2017

CAPITAL MARKET UPDATE

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HJ SIMS FINANCED RIGHT®

Member FINRA/SIPC

Senior Living New Issue Rates as of 3/14/17

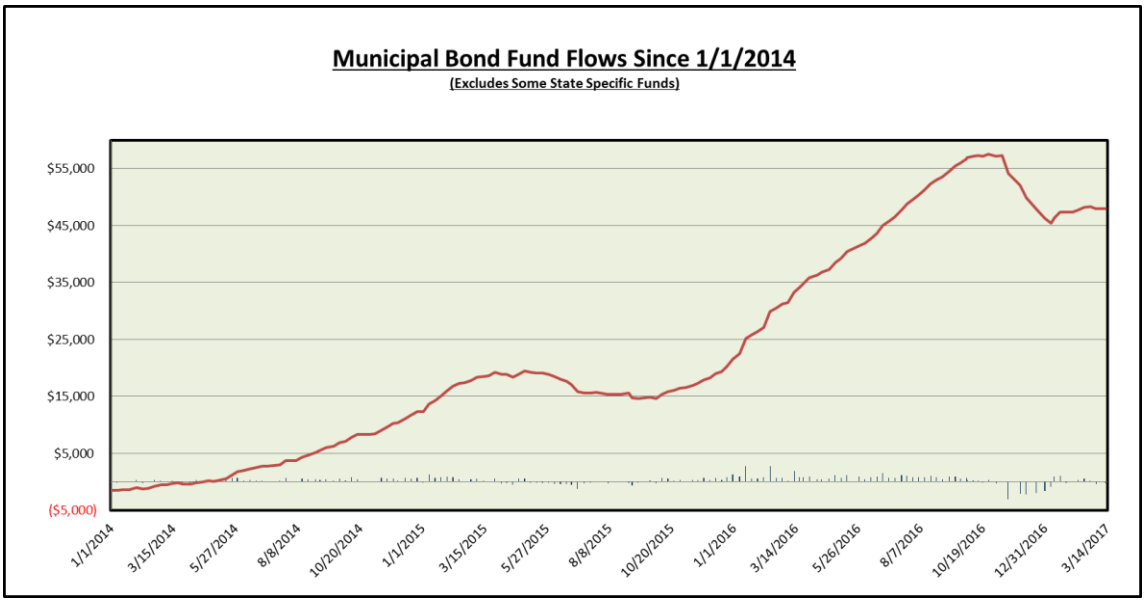
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.810%	2.550%	3.000%	3.30%	3.00-3.60%	4.00-4.50%
10 yr.	NA	2.740%	3.550%	3.850%	4.20%	4.00-4.40%	4.75-5.25%
20 yr.	NA	3.550%	4.400%	4.600%	5.00%	4.75-5.25%	5.50-6.00%
30 yr.	3.660%	3.790%	4.500%	4.750%	5.15%	5.00-5.50%	6.00-6.75%

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

SIFMA Index	LIBOR
0.62%	0.85%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
4.17%	2.6090%	3.1950%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.02%	1.41%	1.63%	1.79%	1.94%
Weekly LIBOR Swap Rates	1.42%	1.93%	2.21%	2.38%	2.56%



Market Commentary

The Ides of March and March Madness are approaching as heavy snow is falling, Fed futures rates are rising, the Administration's 2018 budget is coming, the suspension of the debt ceiling is expiring, the Queen is granting her royal assent to the Brexit Article 50 bill, the central banks of England, Switzerland, Japan and Indonesia are convening, Russia is eyeballing a new U.S. ambassador, Dutch patriots are voting, and the G-20 finance ministers are gathering. The Sugar Moon is upon us, the last full moon of winter, so named for the start of the maple tree-tapping season. Also being tapped this week: nominees for U.S. attorney and sub-Cabinet posts, travelers affected by the new travel ban, Congressional Budget Office staff scoring health care reform legislation, Puerto Rico Oversight Board members approving a 10-year fiscal turnaround plan, and a Journeymen Plumbers union in Illinois dyeing a river green so that it will flow, as legend goes, from Chicago to Ireland by way of the Mississippi River, the Gulf of Mexico, and the Atlantic Ocean to the Irish Sea in time for St. Patrick's Day. It's a very busy week for sap, statesmen, and saints.

Interest rates remain at near record lows in Europe and Japan, and bond-buying programs are expected to continue all year. But here, Federal Reserve officials have been broadcasting their likely approval of a third rate hike, the most aggressive action they have taken in more than 10 years. Employers added more jobs than expected in February, and hourly earnings increased by 2.8% over last year so the Fed got the report they said they wanted, and U.S. financial markets, in rare alignment of views, priced in a 25 basis point rate hike ahead of Wednesday's announcement. The Fed funds futures trade reflects a 60% chance of two or more additional hikes this year.

Analysts report that, since 1971, stocks have fallen an average of 2.2% over 3 months following a third rate hike, but none of the usual rules seem to apply this year. The chairman of JP Morgan Chase recently noted that confidence has skyrocketed, and animal spirits have been awakened by the new president's economic agenda. The S&P 500 Index is up nearly 11% since Election Day, and the Dow is up more than 14% as some investors seeing economic growth on the horizon have adopted a new attitude toward risk-taking. Mutual fund buyers have added $89.4 billion to equity funds since Election Day while withdrawing $20 billion from municipal bond funds. The 10-year Treasury yield has risen 72 basis points from 1.85% to 2.57% while prices have dropped 39%; the 10-year AAA tax-exempt yield is up 76 basis points from 1.71% to 2.47% as prices have fallen 44%.

Last week, the American Society of Civil Engineers issued its latest update on the condition of US roads, bridges, railways, airports, dams and waterways, reporting an overall grade of D, unchanged from 2013. Washington is embroiled in health care for the time being and has not yet addressed tax reform or other stimulus measures that are seen as part of the November election mandate and now built in to market expectations. Experts estimate that it would take about $2 trillion of spending in the next decade to bring U.S. infrastructure up to snuff. In the absence of new initiatives from Washington, state and local governments and non-profit borrowers continue to build and make repairs utilizing the good old-fashioned municipal bond market. Last week saw $9.1 billion of new issuance. In the high yield sector, two California state issuers were in the market with charter school financings; $29.5 billion of non-rated revenue bonds for Guidance Charter School in Palmdale had a 2052 term maturity priced at par to yield 6.75%, and $5.7 million of BBB-minus rated bonds for Granada Hills Charter High School had a 2048 term maturity priced at 5.00% to yield 4.75%. The conduit issuer for senior living borrowers in Tarrant County, Texas priced $21.6 million of BBB-minus rated 30-year revenue bonds for Northwest Senior Housing Corporation and Edgemere in Dallas at 5.25% to yield 5.50%. The Highland Meadows II Community Development District in Florida issued $8 million of non-rated special assessment bonds that included 30-year term maturity priced at 5.50 to yield 5.55%.

This week, as February inflation, retail sales and industrial production data are reported, $5.8 billion of new municipal bond issues are scheduled for sale. These include an $87 million BB+ rated Colorado Health Facilities Authority refunding and improvement issue for Frasier Meadows Retirement Community in Boulder, and the Maryland Economic Development Corporation has a $32.5 million non-rated deal for Metro Centre at Owings Mill. Refinancing plans going forward may be affected by the U.S. Treasury's suspension of sales of State and Local Government Series securities (SLGS) this week. This is an emergency cash management strategy that may be in place until October or November, when Congress will no longer be able to delay raising the debt ceiling. At this writing, the Treasury's cash balance is down to $30.4 billion.

Sims Obtains Bondholder Consent to Enable SearStone to Expand

Picture of Brittany Place Healthcare Center
$8,000,000 in December 2016
(Searstone CCRC Project) – Cary, North Carolina

"Aaron Rulnick and the Sims team were instrumental in negotiating and accomplishing this transaction funded by SearStone's existing bondholders in a difficult market environment. It provides a much needed solution to our health care needs. We are highly appreciative of the Sims team's outstanding efforts."

– Stan Brading, President, Samaritan Housing Foundation

Partnered Right	• SearStone Retirement Community: life plan community in Cary, North Carolina consisting of 169 independent living units, 8 assisted living units and 16 skilled nursing beds • Sims provided $6.8 million of pre-development capital and $117.5 million of permanent financing for initial phase
Structured Right	• Three distinct funding needs: ○ Expand health center by 15 beds as current number of health center beds is inadequate for resident needs ○ Improve landscaping across the entire campus ○ Acquire and control land for future Phase II expansion
Executed Right	• $8.0 million of tax-exempt fixed rate bonds issued on parity with outstanding Series 2012 bonds • Secured consent from majority of Series 2012 bondholders to incur additional debt
Financed Right®	• Series 2017 Bonds wrapped around debt service on outstanding Series 2012 Bonds to minimize debt service burden on existing operations • Secured five-and-a-half year optional call on the Series 2016 Bonds to match call date on Series 2012 Bonds to facilitate more efficient future refinancing

Partnered Right

Samaritan Housing Foundation, Inc. (the "Corporation") owns and operates a life plan community known as "SearStone Retirement Community" ("SearStone") which is located on approximately 59 acres in Cary, North Carolina. In June 2012, Sims financed the first phase of SearStone with a $117.5 non-rated fixed rate bond issue. Sims had previously provided $6.8 million in pre-development capital as well. The first phase consisted of 131 independent living apartments, 38 independent living estate homes, 8 assisted living units and 16 skilled nursing beds. The assisted living and skilled nursing services are offered at the Brittany Place Healthcare Center ("Brittany Place"). SearStone has gardens, walking trails and an approximately 16 acre lake. The Community first accepted residents in the fall of 2013 and was 97% occupied as of February 28, 2017.

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Sims Obtains Bondholder Consent to Enable SearStone to Expand

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Structured Right

Brittany Place has reached a point of maximum functional capacity and has been operating near or at 100% occupancy. Some SearStone residents who need nursing care have had to be cared for at offsite facilities at which SearStone has made prior arrangements. Some residents have remained in their independent living units, and SearStone has been providing home care to meet these residents' needs due to the space limitations at Brittany Place. As soon as space becomes available at Brittany Place, these residents will be transferred back. As such, SearStone is planning an expansion to Brittany Place to add 6 assisted living units and 9 skilled nursing beds, for a total of 15 beds (the "Healthcare Expansion").

In addition, given the growing demand for independent living units at SearStone, preliminary planning has commenced for the development of a Phase II expansion. In order to secure control of the Phase II land, the Corporation entered into a land purchase agreement for $8.55 million, of which an initial installment payment of $2.75 million was required. A significant portion of the land purchase price is deferred until closing of the financing for the Phase II expansion. Finally, Management and residents of SearStone had identified some significant landscaping enhancements and repairs that were needed across the campus.

Executed Right

The total cost of the Brittany Place expansion, initial land loan installment payment and landscaping improvements totaled approximately $6.4 million. Funded interest, a debt service reserve fund and capitalized interest took the new debt up to $8.0 million. The incurrence of this additional debt required consent of the majority of bondholders. Sims and the Corporation have maintained regular update calls with the bondholders and had communicated regularly with them regarding the additional funding needs and the preliminary plans for the Phase II expansion. Accordingly, Sims was able to secure consent from a majority of the Series 2012 bondholders to incur the additional $8.0 million of new parity debt.

Financed Right®

The Series 2016 bond issue closed on December 28, 2016 with a 33-year final maturity. The amortization of the Series 2016 bonds was wrapped around the outstanding Series 2012 Bonds. The Series 2016 Bonds are interest only until the Series 2012 Bonds mature in 2047, with principal on the Series 2016 Bonds to be paid in 2048 and 2049. Even with the deferral of principal to the final two years of the Series 2016 Bonds, the debt service in these years will be less than the average annual debt service while the Series 2012 Bonds are outstanding. This structure minimizes the additional debt service obligation on SearStone's operations.

In addition, Sims was able to secure an optional call date of June 1, 2022 on the Series 2016 bonds that matches the optional call date on the Series 2012 Bonds. This short call date will enable the Corporation to facilitate a more efficient refinancing of both series of outstanding bonds should it elect to do so in the future.

For more information on how SearStone was Financed Right® by HJ Sims, please contact Aaron Rulnick at arulnick@hjsims.com or 301-424-9135.

For more information, please contact an HJ Sims banker.

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