June 28, 2016

CAPITAL MARKET UPDATE

Tel: 800-HJS-1935 www.hjsims.com

HJ SIMS FINANCED RIGHT®

Member FINRA/SIPC

Senior Living New Issue Rates as of 6/28/16

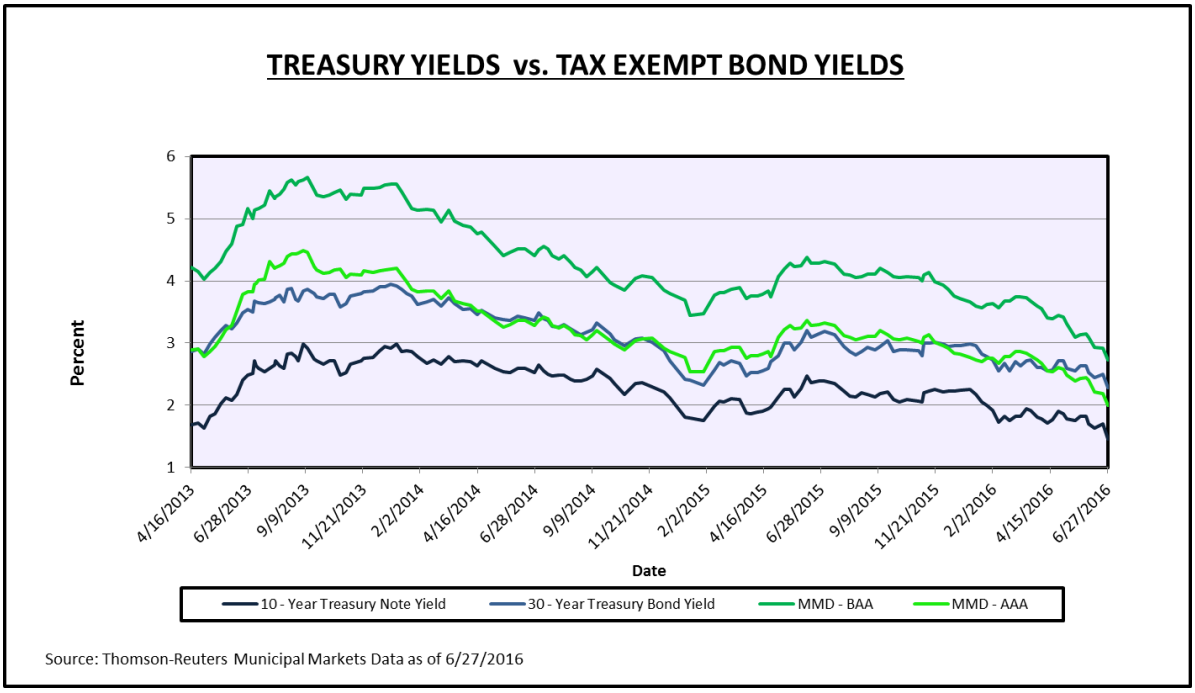
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.200%	1.550%	2.000%	2.40%	2.50-3.00%	3.50-4.00%
10 yr.	NA	2.010%	2.250%	2.700%	3.10%	3.40-3.65%	4.20-4.75%
20 yr.	NA	2.690%	2.850%	3.300%	3.70%	4.125-4.40%	4.75-5.25%
30 yr.	3.560%	2.880%	3.000%	3.450%	3.90%	4.50-4.75%	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
0.43%	0.45%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.52%	1.5790%	2.4330%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.19%	0.43%	0.65%	0.84%	1.07%
Weekly LIBOR Swap Rates	0.71%	0.88%	1.07%	1.25%	1.47%



Market Commentary

The traditional set of dominoes features 28 pieces which, as with the 28-member European Union, you can set on edge in such a way that one might topple independently or it might cause all the others to fall down. The United Kingdom (population 65 million, gross domestic product $2.9 trillion), voted by a 52% to 48% margin to secede from the EU (population 508 million, GDP $18.5 trillion) last week, a move that shocked pollsters, pundits and traders but re-invigorated independence movements from Catalonia to Scotland and Northern Ireland to Taiwan. The British Prime Minister immediately announced his resignation, and European heads of state began to reassess their own futures in the context of mounting euroskepticism and unpopular tax, monetary, regulatory and immigration policies. Reactions within the EU ranged from angry calls for a quick divorce to plans for delisting English as an official language, and from proposals for a new Euro-Army to sober discussions on how to close ranks and prevent the spread of separationist fever. In the U.S., the chattering class gasped in disbelief at how they underestimated the strength of anti-establishment movements organized to "take back our country". Spanish elections held on Sunday produced no upsets for the conservative *Partido Popular*, but the potential for surprises in November (U.S.), March (Netherlands) and April (France) remain.

Financial markets, never much for surprises, were roiled for two days after the Brexit vote. On Friday, the global equity markets suffered the biggest single-day loss in history at approximately $2.08 trillion, the British pound sterling fell to a three-decade low of $1.31, and the CBOE Market Volatility Index VIX jumped to its highest level since Standard & Poor's downgraded the rating of the United States of America in 2011. There is a tremendous amount of uncertainty over the political, economic and fiscal implications of the pending separation. After all, the UK has been a key member of the European economic community for 43 years, and so many of their operations are cobwebbed. But nothing has changed for the time being, and nothing is likely to change for several years. Trading, investment, cross-border travel, legal and regulatory activity will continue, but on different terms going forward as detailed negotiations are finalized with EU members. Investors already rattled by oil prices, central bank interventions and weak economic data face further periods of volatility as banks and businesses in the UK address the changing conditions and the future of the EU is openly debated. The chances of an interest rate hike in the next six to eight months by the Federal Open Market Committee have now dwindled below 17%.

In times of market panic, investors typically get defensive and seek out safe havens, just as they did after the referendum results were announced at Manchester Town Hall early Friday morning. U.S. Treasury prices took off, and yields, which move in the opposite direction, sank. The 10-year yield dropped from 1.74% at the close on Thursday to 1.55% on Friday and fell another 12 basis points to 1.43% on Monday. The 30-year yield fell from 2.55% on Thursday to close the week at 2.41% and finished Monday down 15 basis points at 2.26%. The municipal market once again set a number of new records. The 10-year AAA general obligation bond closed the week at a yield of 1.36%, down 17 basis points from the week's high, and the 30-year tax-exempt benchmark dropped 19 basis points to finish at 2.04%. Demand for munis, even at these historically low levels, has remained steady for 38 straight weeks; fund flows during this period have exceeded $40.3 billion, including a net of $1.4 billion from last week, while equity funds have lost $80.4 billion.

This week, once again, news that would otherwise be considered major is being drowned out by the speculation on the impacts of Brexit: the Supreme Court issuing its last rulings of the 2015-16 term on abortion, affirmative action, public corruption, police searches and immigration cases; the devastating flooding in West Virginia; last minute regrets issued by Bank of England Governor Mark Carney and Federal Reserve Chair Yellen for the annual European Central Bank conference in Sintra, Portugal; Volkswagen's $14.7 billion emissions test settlement; and Puerto Rico's looming July 1 default. In the increasingly popular municipal bond world, we expect to see $8.2 billion of new issues, including a $58.8 million non-rated refunding and improvement financing brought by HJ Sims for The Carillon Senior LifeCare Community in Lubbock, Texas through the New Hope Cultural and Education Facilities Finance Corporation. There is also a $51.8 million non-rated Florida

Cont. on Page 3

Market Commentary

Cont. from Page 2

Development Finance Corporation financing for Franklin Academy charter schools in Boynton Beach and Cooper City, and three issues totaling $213.5 million for A-minus rated ACTS Retirement-Life Communities in Pennsylvania, Florida and Georgia. Last week, the Arlington Higher Education Finance Corporation in Texas sold $42.9 million of BBB-minus rated revenue bonds for Uplift Education, a financing that included 2051 term bonds priced at 5.00% to yield 3.35%. The Public Finance Authority of Wisconsin sold $6.5 million of non-rated revenue bonds for Global Village Academy in Aurora, Colorado, and the 2044 term bonds priced at par to yield 5.87%. In the senior living sector, the Montgomery County Industrial Development Authority issued $28.8 million of BBB rated revenue refunding bonds for Foulkeways at Gwynedd in Lower Gwynedd, Pennsylvania, featuring 2036 term bonds priced at 5.00% to yield 3.125%. And the City of Wichita had a $32.7 million non-rated deal for Kansas Masonic Home with 2046 term bonds priced at 5.375% to yield 5.25%.

This is a very difficult market for investors, retirees on fixed incomes and those trying to save for education and downpayments for a home. However, it is a dream come true for those looking to refinance or borrow. We at HJ Sims have been assisting clients with their borrowing and investment needs in periods of volatility as well as relative calm since 1935. Just four years after our founding, the now famous call to "Keep Calm and Carry On" was issued by the British Ministry of Information to boost the morale of its citizens as the country prepared for World War II, and we bear this call in mind as we help our clients to navigate through turbulent markets. The forthcoming holiday, the 240th anniversary of our own declaration of independence from the British Empire, offers investors a bit of a breather. We note that bond markets close early on Friday and remain closed on Monday and wish our readers a Happy Fourth. Carry on with safe travels.

HJ Sims Increases Its Taxable Municipal and Bank Qualified Bond Expertise

HJ Sims is very pleased to welcome Annamae Logan as a Senior Vice President. For the past 24 years, Annamae has enjoyed tremendous success as a trader for firms like RBC, Southwest Securities, ABN Amro and most recently Oppenheimer & Co. where she worked with Retail and Institutional Sales covering Middle Market Banks, Insurance Companies, Investment Advisors and Municipalities. For our investment banking clients, Annamae's expertise in taxable municipal and bank qualified bonds increases HJ Sims' capabilities in funding acquisitions, expansions and new construction.

Outdated Skilled Nursing Facilities – Financing the Need for Change

Currently, nearly 50% of the skilled nursing facilities (SNF) in the country are at least 35 to 40 years old. In the private-pay seniors housing market, 20 years is considered old, and 15 years can be considered out-of-date. With half of the nation's skilled nursing facilities in the 40-year-old bracket and demand expected to increase over the next 10 years, it is important to look at the future of the 40-year-old nursing facility. HJ Sims has been providing capital for Skilled Nursing Facilities for over 50 years through a wide variety of financing methods. With options such as bond financing (tax-exempt and taxable), bank financing, FHA insured loans and subordinate debt, there are many ways Sims provides the capital needed to renovate, expand, reposition, refinance or build a new facility. HJ Sims works with clients through the entire process in order to determine the right course of action.

Cont. on Page 4

Outdated Skilled Nursing Facilities

Cont. from Page 3

The SeniorCare Investor hosted a webinar on the future of 40-year-old skilled nursing facilities in order to analyze the state of the oldest nursing homes and provide some potential solutions. While outcomes are still the best measures of quality, it is often easier to attract the best staff, receive favorable attention from hospital discharge planners and influence members of a prospective resident's family at a modern facility with many amenities. The basic conclusion of the panel was that if you own a 40-year-old SNF and do not invest in renovations and upgrades in the near future, you may be in trouble. Fortunately, in today's market capital is at historically low cost, especially on the debt side. Current 30 year tax-exempt interest rates are in the 3% - 4% range, and banks are lending on longer terms with more lenient covenants. HJ Sims also has an affiliate (Sims Mortgage Funding) that specializes in FHA insured financing. Sims Mortgage Funding (SMF) recently served as Financial Advisor in connection with a $13,656,333 FHA-insured loan for a 120-bed skilled nursing facility located in New York. Using a LEAN note modification, Sims was able to reduce the previous interest rate by 24%. The interest rate reduction saved the client approximately $1.9 million, enabling them to reinvest in the facility. Additionally, SMF and HJ Sims have developed the HUD Plus program, which enables our clients to increase their leverage on a healthcare transaction beyond the standard 80% loan-to-value threshold up to 92.5% of value through the issuance of secondary financing (mezzanine debt) structured in accordance with HUD's requirements. Our clients have used it to acquire or recapitalize healthcare properties with bridge financing that eventually will be refinanced with HUD-insured loans.

If demand exists, there are options for renovations and expansion opportunities. Converting a current wing to accommodate more post-acute beds in a renovated Medicare wing or adding a new wing entirely are options in markets in which the Medicare population is expected to grow (urban or just outside city limits). Facility-wide renovations that turn an average facility into a new attractive facility can expand the Medicare and managed care census, and thereby increase cash flow. If there is demand in the market for assisted living, it might be worthwhile to analyze the impact of converting an existing wing to assisted living or building a new assisted living wing. However, without renovations to the entire facility, it could be hard to compete with newer assisted living communities in the market.

Finally, there is the option to tear down and build a new facility. This option is more feasible if there is enough land to maintain existing operations and move patients when the new building is completed. HJ Sims recently worked with a 360-bed skilled nursing facility in Connecticut on a campus repositioning project. The existing facility was no longer adequate to keep up with the changing skilled nursing landscape, and management decided that the household model was best suited for its market area. HJ Sims acted as financial advisor and was successful in obtaining 12-year term bank financing for the repositioning project. With construction on the new campus nearly complete, the residents and staff are excited to move into a new, state-of-the-art skilled nursing facility.

During the SeniorCare webinar, there was unanimous consensus that if you own a 40-year old facility, especially one showing its age in appearance and census, now is the time to act. Without major change or renovation, censuses could drop to unsustainable levels, and asset value could be reduced to land value. All options should be considered in order to survive and succeed in the quickly evolving skilled nursing environment. With its 50-year history of funding nursing homes, Sims will provide the right financing solution.

(Based on: "The SeniorCare Investor", Volume 28 – Issue 5)

For more information, please contact an HJ Sims banker.

Fairfield, CT

William Sims	203-418-9001	wsims@hjsims.com
Jeff Sands	203-418-9002	jsands@hjsims.com
Andrew Nesi	551-427-5135	anesi@hjsims.com
Mackenzie Welch	203-418-9024	mwelch@hjsims.com
Krystal Murphy	203-418-9028	kmurphy@hjsims.com

Rockville, MD

Aaron Rulnick	301-424-9135	arulnick@hjsims.com
Kyrle Turton	203-418-9038	kturton@hjsims.com
Patrick Mallen	203-418-9009	pmallen@hjsims.com

Bloomington, MN

Mark Landreville	952-683-7509	mlandreville@hjsims.com
Jay Hromatka	952-683-7506	jhromatka@hjsims.com
Christina Rappl	952-683-7507	crappl@hjsims.com

Philadelphia, PA

James Bodine	215-854-6428	jbodine@hjsims.com

Austin, TX

Curtis King	512-519-5003	cking@hjsims.com
James Rester	901-652-7378	jrester@hjsims.com
Brett Edwards	512-519-5001	bedwards@hjsims.com
Elizabeth Sims	512-519-5002	esims@hjsims.com

Orlando, FL

Robert Gall	407-313-1701	rgall@hjsims.com
Kerry Moynihan	407-313-1702	kmoynihan@hjsims.com

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

Anthony Luzzi	aluzzi@simsmortgage.com
Kerrie Tomasiewicz	ktomasiewicz@simsmortgage.com
Andrew Patykula	apatykula@simsmortgage.com