July 5, 2016

CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 7/5/16

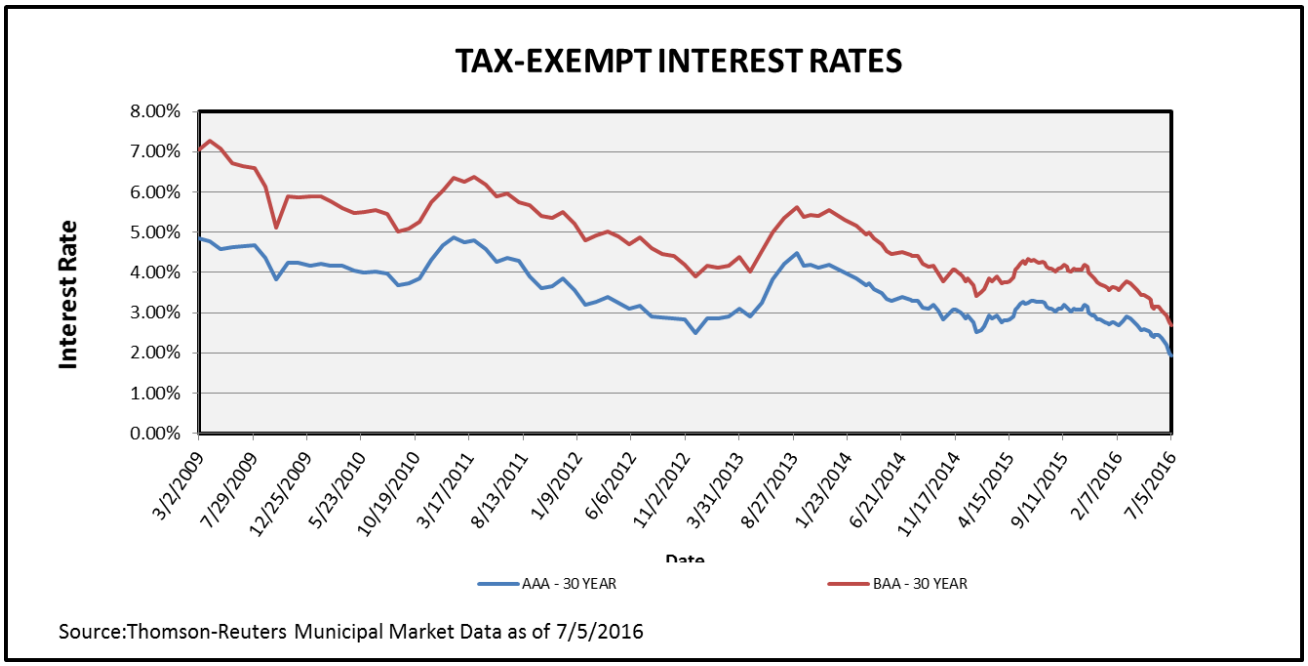
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.170%	1.550%	2.000%	2.40%	2.50-3.00%	3.50-4.00%
10 yr.	NA	1.960%	2.200%	2.600%	3.00%	3.40-3.65%	4.20-4.75%
20 yr.	NA	2.620%	2.800%	3.150%	3.60%	4.125-4.40%	4.75-5.25%
30 yr.	3.490%	2.800%	2.900%	3.300%	3.80%	4.375-4.625%	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
0.41%	0.46%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.52%	1.3750%	2.1540%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.19%	0.42%	0.62%	0.80%	1.01%
Weekly LIBOR Swap Rates	0.71%	0.85%	1.02%	1.18%	1.39%



Market Commentary

It was not just a slow summer news day but the Friday kicking off the Fourth of July weekend – the perfect time to release data and announce decisions or make admissions that would otherwise create a tsunami of headlines. Junior press secretaries for corporations and politicians relish moments like these to dump data and announce fare hikes, pardons, controversial hires and major layoffs, knowing that only those with short straws and limited attention spans are manning the news and trading desks. As it happens, on this sleepy first Friday in July, Puerto Rico chose the moment to break its own record and become the largest state-level bond defaulter in U.S history.

The Commonwealth, together with five of its authorities, defaulted on approximately $911 million of the $2 billion of principal and interest payments due on that day, the first day of its new fiscal year. This included $779 million of general obligation (GO) debt which, according to Puerto Rico's 1952 Constitution, is first in line to be paid, ahead of schools and jails, hospitals, highways and all other essential services. Governor Alejandro Garcia Padilla declared a moratorium on payments of general obligation and Commonwealth-guaranteed debt along with that of certain of its agencies until at least January 31, 2017. He announced: "If anybody had any doubt as to whether we would continue providing public services or paying Wall Street bondholders, I choose to provide services to our people." So, for the first time since the Great Depression year of 1933, when the State of Arkansas could not make a $770,500 interest payment after historic floods followed by record drought devastated its cotton crop and reduced its general revenue fund balance to a reported $4.63, a U.S. territory or state has failed to pay its GO debt when due.

Market reaction to the default in Arkansas kept that state out of the bond market for 16 years. In the case of Puerto Rico, the response so far has been muted -- but that does not mean investors are eager to buy any new Commonwealth debt. The 8.00% general obligation bond due July 1, 2035 hit a high of $76.80 on October 9, 2015 and a low of $63.375 on May 6, 2016. Traders saw a rebound when PROMESA finally gained traction in the Congress, but it soon became clear that there were no quick and easy solutions on tap for Puerto Rico. Cleaning up the Commonwealth's financial situation will take years. The composition of the oversight board, expected by September 15, may foreshadow how bondholders, pensioners and citizens will be affected.

Global attention is still focused on Brexit impacts this week, as well as second quarter earnings, banks in Italy and the recent series of radical Islamist terrorist attacks in Istanbul, Bangladesh, Baghdad and three cities in Saudi Arabia. In a seemingly unstoppable search for safe havens, Japan's 20-year government bond yield fell below zero for the first time this week, and 10-year Treasuries and Australian note yields have dropped to new lows. Worries about the effects of prolonged low and negative rates amid the signs of economic slowdowns offer central bankers little chance of vacation this summer. Investors, however, are looking under every beach towel for yield if not return and are either staying in cash or buying long-dated, liquid names. In the period ended June 29, $27.5 billion was added to taxable money market funds and $716 million to municipal bond funds while $6.9 billion was withdrawn from equity funds. At this writing, the 10-year AAA general obligation muni yield is 1.30% while the 10-year Treasury Note yields 1.39%; the 30-year benchmark muni yield is down to a staggering 1.94% versus the 30-year Treasury at 2.15%.

Despite the fireworks on July 1, the municipal market is quiet this week with only $1.5 billion of issuance expected, mainly high grade offerings. The 30-day visible supply totals only $7.9 billion after last month's $43.9 billion volume, the highest in eight years. During the last week of June, $8.7 billion of new issues were sold. HJ Sims underwrote $58.8 million of non-rated revenues for Carillon LifeCare Community in Lubbock, Texas; 30-year term bonds issued through the New Hope

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Cultural Education Facilities Finance Corporation were priced with a coupon of 5.00% to yield 4.625%. The Industrial Development Authority of Kansas City, Missouri was in the market with a $28.7 million non-rated senior sales tax refunding and improvement bond issue for Ward Parkway Shopping Center and sold 2046 term bonds at par to yield 5.00%. The Idaho Health Facilities Authority issued $44.1 million of BB+ rated refunding bonds for Madison Memorial Hospital and priced the 2037 term bonds at 5.00% to yield 3.31%. The Florida Development Finance Corporation had a $12.1 million non-rated financing for Pepin Academies which featured 30-year term bonds priced at par to yield 5.125%. The Philadelphia Authority for Industrial Development issued $29.6 million of A-rated senior housing revenue bonds for The Pavilion with a final maturity in 2051 priced at 4.00% to yield 4.07%. And three issuers in Pennsylvania, Georgia and Florida brought a combined $209.9 million of A-minus rated revenue bonds for Acts Retirement-Life Communities; a 20-year final maturity priced at 5.00% to yield 2.73%.

Buying and Selling CCRCs and Life Plan Communities

Jeff Sands, a Managing Principal at HJ Sims, moderated a webinar by Irving Levin Associates entitled "CCRCs and Independent Living Communities: Buying, Selling and Valuing". The panelists included Allen McMurtry from Cushman & Wakefield; Brett Mehlman from Senior Care Development and Dan Lahey from LCS. The wide-ranging discussion touched on numerous items. The panelists felt that there is a viable future for the non-profit entrance fee CCRC but recognized that new development is being driven by the for-profit rental model. While there are pros and cons to each, the panelists agreed that there is room for both products in the growing senior market.

The panelists made an interesting observation regarding the makeup of recent CCRC sales. Allen McMurtry commented that the sale market has been dominated by (i) troubled non-profit CCRCs and (ii) very highly successful for profit CCRCs. There has been very little in the middle. The troubled deals stem mostly from deals that opened in the 2008 – 2010 period at the height of the real estate bust and just could not recover. These sales have been driven by the debt holders on the projects and have often attracted those looking for a discount. Brett Mehlman explained how his company buys a troubled CCRC with all cash so that it can take its time to reposition the project with a goal to refinancing it later. On the other hand, there have been a number of mostly high end, for profit CCRCs that were being sold to take advantage of the hot real estate market that existed in 2014 - 2015. Dan Lahey provided a case study of a CCRC that LCS and a financial partner purchased at 82% occupancy. They invested in capital expenditures, made operational improvements and were able to increase occupancy to 92% within several years. They then refinanced the project and cashed out the original partner at a very attractive return. The panelists explained that financing for the acquisition of a CCRC is still somewhat limited with most banks not participating. In 2014 and into 2015, many CCRC transactions were financed by REITs. Currently, private equity and insurance companies seem to be the most common financing partners. Tax-free and taxable municipal bonds underwritten by HJ Sims and others can also be utilized for acquisition financing.

While CCRCs are still dominated by the non-profit sector, the panelists agreed that pure rental independent living is mostly being developed by for-profit developers and operators. It was noted that independent living development was dormant for a number of years because of the real estate slump but has been the fastest growing segment recently. Financing is more readily available and there is a much broader market of buyers for rental product. Both Brett Mehlman and Dan Lahey said that their companies are seeking opportunities to buy or build rental product with a continuum of care including independent living, assisted living and memory care.

Savannah Commons' Executive Director Named "Greatest Boss"

Congratulations to Joyce Crowder-McBride, Executive Director of Savannah Commons Retirement Community in Savannah, Georgia for having been named "Greatest Boss" in Savannah by *South Magazine*. The publication conducts its annual "Greatest Bosses" competition to recognize "the folks in our community who are inspiring greatness in their employees, innovation in our community and making work a darn good place to be."

Joyce, in commenting on her honor, shared it with the Savannah Commons staff:

> "My staff inspires me every day. We are in the business of providing a comfortable, safe environment for seniors 24 hours a day, seven days a week. To know that my staff, from the overnight shift LPN to the human resource director, love and genuinely care for the seniors we serve inspires me. I would have to say to inspire my employees is sharing those stories of the employees that make it a piece of their heart and soul to give our residents every piece of themselves."

Joyce Crowder-McBride

We at HJ Sims are extremely proud of our association with Savannah Commons and its excellent leadership and staff.

For more information, please contact an HJ Sims banker.

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