

# CAPITAL MARKET UPDATE



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## Senior Living New Issue Rates as of 8/16/16

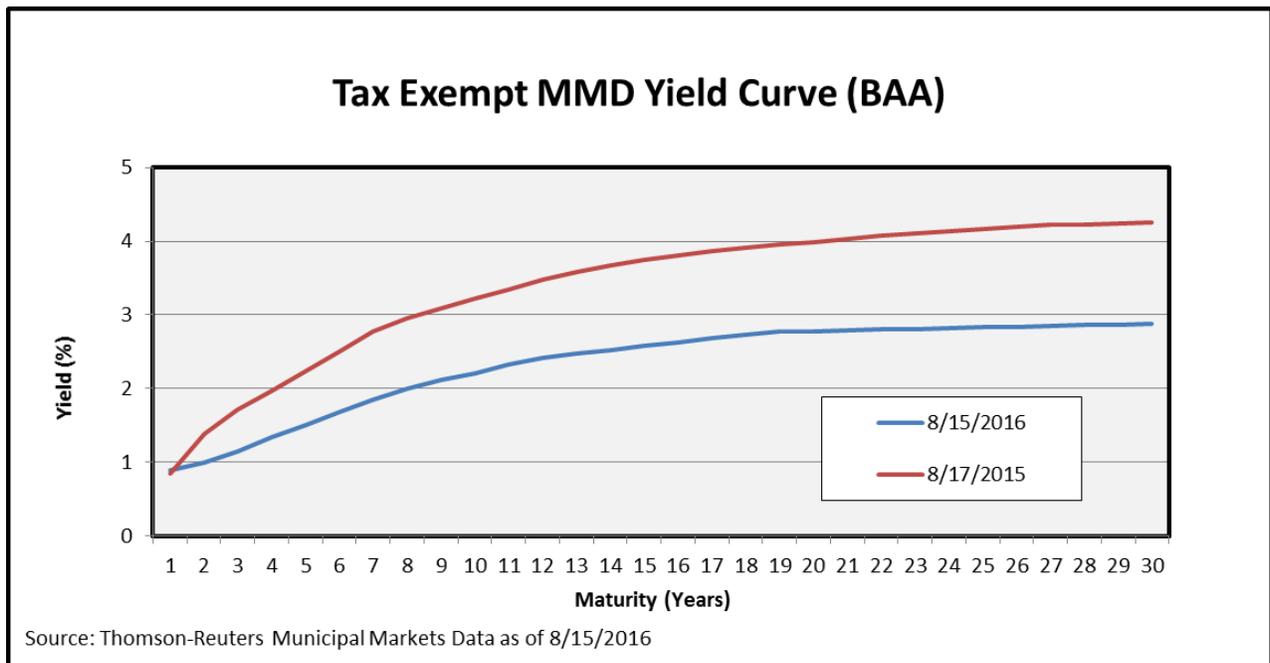
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.070%	1.550%	2.050%	2.35%	2.50-3.00%	3.50-4.00%
10 yr.	NA	1.900%	2.150%	2.550%	3.05%	3.25-3.60%	4.20-4.75%
20 yr.	NA	2.650%	2.750%	3.150%	3.70%	4.00-4.30%	4.75-5.25%
30 yr.	3.400%	2.840%	2.850%	3.300%	3.85%	4.30-4.60%	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
0.46%	0.51%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.06%	1.5780%	2.2980%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.25%	0.50%	0.67%	0.82%	1.02%
Weekly LIBOR Swap Rates	0.91%	1.01%	1.11%	1.23%	1.40%



## Market Commentary

It took more than 100 Brazilian workers at the Casa da Moeda do Brasil to mint the 5,130 medals being awarded at this summer's Olympic Games. The gold, silver and bronze versions each have a curved dome shape, 85 millimeters in diameter, 11 mm thick in the center, weighing in at 500 grams each. Along the outside edges are engraved the names of the events for which the medals were won. On the front is the Rio 2016 logo surrounded by symbolic laurel leaves, and the reverse side has a depiction of Nike, the Greek goddess of victory, standing before Panathinaiko Stadium and the Acropolis. American winners have the privilege of paying U.S. income taxes on the commodity value of their prizes at the time of award. Although priceless to each athlete, the bronze ones, which are made of copper and zinc, are only worth about \$5, and the silver ones \$305. Pure-gold medals made their last appearance at the Stockholm Olympics of 1912, so the first place winners this year will take home prizes comprised of 494 grams of 92.5% sterling silver coated by six grams of gold with 99.9% purity, worth roughly \$567.

At this writing, the price of gold as measured by the spot gold price of 1 troy ounce, or 31.1 grams, is \$1,346.45, well above the 45-year average of \$552.60, but far from the high of \$1,921.41 reached on September 5, 2011 during the peak of the Eurozone debt crisis. Investors look to gold in periods of uncertainty; it can be purchased in virtual form through closed end funds or ETFs, but also in physical form such as collectible coins, the 100 ounce bars standard in Comex futures contract deliveries or 400 ounce ingots which look like construction bricks and stack by the thousands at Fort Knox.

The stock market has just set another Olympic-type record in this eighth year of the Fed-fueled rally, but many investors, fearful of a sharp reversal, have taken \$82.7 billion of net withdrawals from equity funds so far this year. 2015 saw net inflows of \$78.1 billion of net inflows during the same period. Rates on bonds have been declining, but they produce steady income that can be very attractive compared to precious metals stored in vaults and other volatile alternatives. 10- and 30-year Treasury yields currently stand at 1.51% and 2.23%, respectively versus the 10-year German bond at negative 0.07% and the 30-year Japanese government bond yield at 0.347%. \$74.5 billion has been added to U.S. taxable fixed income funds year-to-date, and investors looking to maximize the advantage of tax-exemption have added a net of \$43.4 billion to municipal bond funds, including \$3.2 billion last week alone. The 10-year AAA general obligation tax-exempt yield currently stands at 1.40%, and the 30-year yield is 2.13%. For help in calculating your taxable equivalent yields, please contact your HJ Sims advisor.

Investors in higher yielding municipal bonds are scouring the deals on a small \$5.3 billion new issue calendar this week. HJ Sims plans to price the \$106.9 deal for Bancroft Neurohealth, including \$83.3 million of non-rated Public Finance Authority revenue bonds and \$23.6 million of non-rated refunding bonds to be issued by the New Jersey Economic Development Authority. The Brooklyn Area Local Development Corporation is selling \$483.4 million of Baa3 rated Barclays Center refunding bonds. The Washington State Housing Finance Commission has a \$132.5 million revenue and refunding bond issue rated BB+ for Skyline at First Hill, Fred Lind Manor, and Park Shore. Last week, the Colorado Educational and Cultural Facilities Authority sold \$20.8 million of BB rated bonds for Loveland Classical Schools that had a 30-year final maturity priced at 5.00% to yield 4.52%. The same maturity yielded 4.625% in a \$13.6 million New Hope Cultural and Education Facilities Corporation financing for BB rated Compass Academy in Odessa, Texas and a \$22.3 million non-rated Pottsville Higher Education Finance Corporation transaction for Imagine International Academy of North Texas. In the senior living sector, the Fairfax County Economic Development Authority sold \$65.8 million of BBB rated refunding bonds for Goodwin House in Alexandria, Virginia featuring 2042 term bonds priced with a coupon of 5.00% to yield 2.85%. The Glendale Industrial Development Authority priced \$20.4 million of non-rated revenue bonds for Glencroft Retirement Community in Arizona with a 5.25% coupon to yield 5.10% in 2051. And the Washington County Community Development Agency sold \$17.3 million of non-rated revenue bonds for Birchwood Senior Living in Forest Lake, Minnesota priced at par to yield 5.75% in 2051.

## HUD Changes - Increased Valuations & Processing Speed

In June and July, Sims Mortgage Funding participated in national conferences that highlighted two of HUD's most important initiatives: healthcare lending under the LEAN Section 232/223(f) program and affordable housing development and preservation.

The LEAN conference was a one-day session in Denver attended by HUD's senior production and asset management executives and the lenders active in the Section 232/223(f) program. In order to ensure a maximum level of participation and foster open, transparent dialogue, attendance was limited to one lender representative. Anthony Luzzi, President of Sims Mortgage Funding, participated in the conference. Some of the key takeaways were:

- The new draft LEAN Handbook is likely to increase loan production under the Section 232/223(f) program, as it now contains more flexible provisions regarding the refinancing of bridge loans, operator debt and loans made in connection with related-party sales.
- Capitalization rates for LEAN valuations should be based on market indications, not arbitrary "benchmark" rates that in the past have produced more restrictive valuations. Cap rates for nursing homes and assisted living facilities have been trending downward, and HUD stressed the need to use this market data. As a result, we expect valuations and loan sizings to increase based on lower capitalization rates.
- LEAN continues to move towards greater transparency with its "Decision Circuit" model that helps lenders identify prospective issues before an application is filed and what level of appraisal review might be required. Moreover, HUD is moving to simplify the Decision Making model to improve its functionality. This will help expedite the application review process by HUD and lead to shorter timeframes.

One of the reasons the LEAN program has been so successful to date has been its emphasis on continuous improvement of its practices and on partnership with its participating lenders. This was on full display at its Denver conference, and it is a good sign for the future of the HUD healthcare mortgage insurance programs.

HUD is moving in a similar way with its housing mortgage insurance programs through its *Multifamily for Tomorrow* restructuring initiative, which has led to the consolidation of 51 field offices into five regional and seven satellite offices. Part of the initiative has been to make its mortgage insurance more effective in the development and preservation of affordable housing.

In early July, Chicago played host to the Midwest Lenders Association's Low Income Housing Tax Credits (LIHTC) Workshop. The two-day workshop, which was attended by Andrew Patykula, Senior Vice President at Sims Mortgage Funding, focused on the use of tax credits to promote the development and preservation of affordable multifamily housing. Due to Chicago's central location and HUD's continued emphasis on affordable housing, the workshop was well attended by lenders, housing consultants and senior HUD multifamily officials. Topics included the benefits of tax credits, equity pay-in timing, coordinating the closing process and construction issues. The workshop included two real-world case studies: one for substantial rehabilitation of an existing property and one for the development of a new project.

The major takeaway from the workshop was that LIHTCs are an effective financing tool, representing a unique way to attract private capital to the development and preservation of affordable housing. Moreover, HUD recognizes the key role its mortgage insurance programs can provide in the capital stack for affordable housing transactions, and has tried to make those programs as user friendly as possible.

Sims Mortgage Funding has been approved by HUD to participate in its Tax Credit Pilot Program and stands ready to assist you evaluate a potential LIHTC transaction. **For additional information, please contact Andrew Patykula at 201-307-9383 or [apatykula@simsmortgage.com](mailto:apatykula@simsmortgage.com) or Anthony Luzzi at 201-307-9383 or [aluzzi@simsmortgage.com](mailto:aluzzi@simsmortgage.com).**

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