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CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 8/2/16

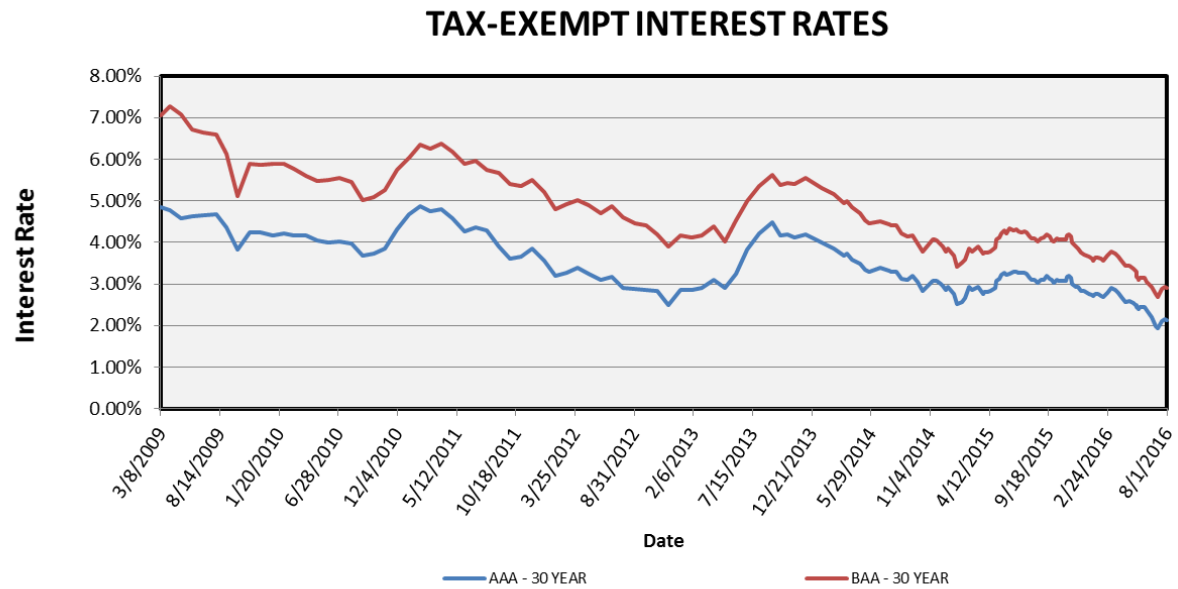
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.080%	1.600%	2.100%	2.40%	2.50-3.00%	3.50-4.00%
10 yr.	NA	1.920%	2.200%	2.600%	3.10%	3.40-3.65%	4.20-4.75%
20 yr.	NA	2.650%	2.800%	3.200%	3.75%	4.125-4.40%	4.75-5.25%
30 yr.	3.530%	2.840%	2.900%	3.350%	3.90%	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
0.44%	0.49%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.06%	1.5420%	2.2990%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.24%	0.48%	0.67%	0.83%	1.04%
Weekly LIBOR Swap Rates	0.86%	0.98%	1.10%	1.24%	1.43%



Source:Thomson-Reuters Municipal Market Data as of 8/1/2016

Market Commentary

The midsummer stretch is upon us. Party nominating conventions are over, the Congress has adjourned until September and family vacations are underway. Pull out your Ouija boards and crystal balls, but the only safe bet is that anything can happen between now and when November 8 election results are tallied.

The Federal Open Market Committee announced its familiar decision to leave rates unchanged last week but hinted that an increase may soon be warranted. A few days later, however, second quarter gross domestic product data showed that the U.S. economy expanded at only 1.2%, less than half the rate expected; the first half of the year was reportedly the weakest since 2011. Once again, this lessened the odds of a rate increase in 2016, so fed funds futures traders can just take the rest of the summer off. Fixed income markets, which had been meandering for most of the month, did some cartwheels, finishing the week on a positive note. The 10-year Treasury yield dropped 11 basis points on the week to 1.45%, and the 30-year fell 10 basis points to 2.18%. On the month, the 10-year was flat while the long bond strengthened by 10 basis points. Municipals also enjoyed a bounce during the last trading week of July: the 10- and 30-year AAA municipal general obligation benchmark yields strengthened by 5 and 3 basis points to close out the month at 1.40% and 2.12%, respectively. During July, however, the 10-year tax-exempt bond lost 5 basis points, and the 30-year was off by 10.

Investors, looking to put cash to work, added $1.4 billion to equity funds and $21.4 billion to taxable fixed income funds in July. Muni bond funds saw $5.7 billion of net investment, keeping the streak going with 43 straight weeks of inflows. But buyers in the municipal market experienced a bit of a dry spell. The total monthly new issue volume shrank to $26 billion, the lowest total for the month in five years and well below the $35.6 billion sold last July. Among the high yield deals in the market during the last trading week of the month, the Yamhill County Hospital Authority sold $42.1 million of non-rated revenue and refunding bonds for Friendsview Retirement Community in Newberg, Oregon; the final maturity in 2051 was priced at 5.00% to yield 4.00%. The Arkansas Development Finance Authority issued $17.2 million of non-rated revenue bonds for Academics Plus Charter School, including 2042 term bonds priced with a coupon of 4.00% to yield 4.13%. And the Illinois Finance Authority issued $1 billion of refunding bonds for Baa3 rated Presence Health Network featuring two tranches of 2041 term bonds priced at 4.00% to yield 4.06% and 5.00% to yield 3.60%

This week, high yield municipal investors will see a $13.5 billion new issue calendar filled with charter school deals. The Idaho Housing and Finance Association has two BBB-minus rated financings: a $7.0 million refunding for Idaho Arts Charter School, and a $4.5 million refunding for Victory Charter School. The New Hope Cultural and Education Facilities Corporation in Texas is bringing a $13.8 million transaction for BB rated Compass Academy Charter School in Odessa. The St. Paul Housing and Redevelopment Authority is scheduled to sell $29.2 million of nonrated revenue bonds for the Community School of Excellence. The Colorado Educational and Cultural Facilities Authority plans a $20.7 million bond issue for Loveland Classical Schools. And the Pottsboro Higher Education Finance Corporation has a $23.2 million non-rated deal for Imagine Academy of North Texas in McKinney. In the senior living sector, the Glendale Industrial Development Authority in Arizona has a $20.2 million non-rated refunding for Glencroft Retirement Community, and the North Carolina Medical Care Commission plans a $25 million non-rated refinancing for Salemtowne in Winston-Salem.

Why Do Interest Rates Remain So Low?

Of course, nobody knows for sure, but two interesting articles on Bloomberg shed some light.

First, Mohamed A. El-Erian points to the contradiction of relatively robust U.S. consumer spending but weak economic growth – approximately 1.2% in the second quarter of this year. He believes that corporations are not reinvesting their profits in business activities and new facilities. Instead, they are sitting on cash, repurchasing their stock and paying higher dividends. He also suggests that this financial engineering could be the reason why the U.S. stock market is performing so well in a slow growth economy.

He also points to corporate concern about the economic health in other countries. Their anemic growth may be a reason why U.S. businesses are worried about expansion. Also on Bloomberg, Sid Verma points to international conditions as to

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Why Do Interest Rates Remain So Low?

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why interest rates in the U.S. are low but still higher than those in other countries. He cites statistics showing that foreign central banks and sovereign funds have been selling U.S. bonds and stocks to support their countries' currencies and to "stem capital outflows". However, individuals outside the U.S. have been investing in the U.S. because our yields are higher than those available at home – but not enough to balance the sales of their governments.

What does all this mean to senior living industry borrowers? First, individuals outside the U.S. are not only buying corporate bonds but even pouring money into U.S. tax-free bond funds, the largest buyers of senior living tax-free bonds. That is one of the reasons corporate and tax-free bond yields are so low. Second, it remains pretty clear that unless current events intervene, the path to higher interest rates remains economic growth – both here and abroad. Given the size of the U.S. economy, we will probably need to lead the world, and U.S. consumers are doing their part. However, another part of economic growth is psychology; Robert Shiller calls this "behavioral economics". When people feel good about economic conditions, they spend, the economy grows and the cycle becomes self-reinforcing.

How can we predict when interest rates will rise? In addition to statistics, watch and read the mood of our population. When people's outlooks improve, the economy should grow, and interest rates should rise.

Sims Adds Bridge Loan Financing, Taxable Municipal Bond Underwriting and Middle Market Institutional Coverage

We are very pleased to have Annamae Logan join the firm as a Senior Vice President and Managing Director. Annamae brings 24 years of bond experience to the firm.

For our banking clients, Annamae's department will enhance Sims' bridge loan expertise. The loans could be bridges to a variety of financing sources, including HUD programs, EB-5 investors and charitable contributions.

The department will also make markets in taxable municipal bonds. Our banking clients often use taxable municipals to fund costs which are not allowed for tax-free bonds. These costs could be as large as acquisitions of housing units to as small as certain costs of tax-free bond issuance.

The buyers of bridge loans and taxable bonds are often termed "middle market" institutional investors. These investors include money managers, investment advisors, community banks and others. Annamae's expertise and experience has expanded these distribution channels for the financing needs of our banking clients. Please contact one of our bankers listed below to learn more about our bridge loan and taxable municipal bond financing strategies.

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