August 9, 2016

CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 8/9/16

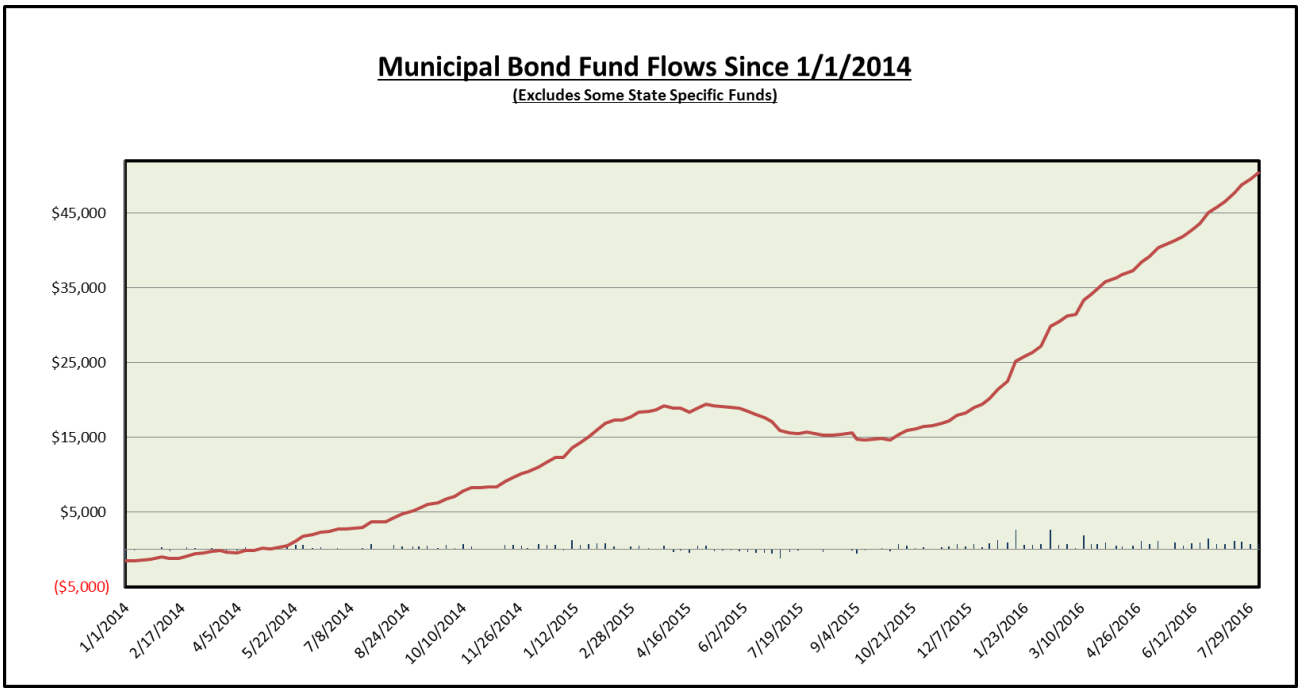
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.070%	1.600%	2.100%	2.40%	2.50-3.00%	3.50-4.00%
10 yr.	NA	1.930%	2.200%	2.600%	3.10%	3.25-3.60%	4.20-4.75%
20 yr.	NA	2.670%	2.800%	3.200%	3.75%	4.00-4.30%	4.75-5.25%
30 yr.	3.500%	2.870%	2.900%	3.350%	3.90%	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
0.44%	0.49%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.06%	1.5540%	2.2260%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	0.26%	0.51%	0.71%	0.88%	1.08%
Weekly LIBOR Swap Rates	0.95%	1.08%	1.20%	1.33%	1.49%



Market Commentary

It is August, and much of the western hemisphere is on vacation, but the world does not take a holiday. The Emperor of Japan shocked his nation by appearing on television to say that he would like to step down. With Zika, doping scandals, polluted lagoons and the cupping craze, the Summer Olympics in Rio have produced more than the usual amount of drama. The refugee crisis in Europe continues to spark social unrest and fears of terrorism. In the wake of Brexit, the Bank of England cut its main interest rate to an all-time low and announced a massive bond-buying plan. Iran executed a nuclear scientist accused of spying for the U.S. American air strikes against ISIS targets have now expanded from Iraq, Syria, and Afghanistan to a fourth country – Libya. Our leading presidential candidates are unveiling plans for tax reform, trade and infrastructure spending. The S&P 500 and the NASDAQ indices have hit new record highs and the VIX, the Chicago Board of Options Volatility Index, better known as the fear index, has dropped to a nearly carefree level of 11.50, well below the 20-year average of 20.86.

Municipal bonds slumped on Friday after Labor Department data indicated that non-farm payrolls were up 255,000 in July, a total well above the 188,000 expected, and revised June payrolls were also slightly higher than previously reported. The 10-year AAA general obligation bond yield rose 4 basis points to 1.44% and the 30-year benchmark was up 5 basis points to close at 2.17%. Treasuries were hit harder by the news, with both the 10- and 30-year prices weakening by 13 basis points on the week. The 10-year muni to Treasury ratio at the close on Friday stood at 91.1% while the 30-year ratio was 94.0%. The Dow Jones Industrial Average finished the week at 18,543 up 111 points. The S&P 500 also rallied Friday to close at an all-time intraday high of 2,182 while oil stayed flat at 41.98. Wary investors pulled $8.1 billion out of U.S. and global equity funds, while adding $2.2 billion to taxable fixed income funds and $1.4 billion to municipal bond funds. Muni funds have enjoyed an uninterrupted streak of 44 weeks of inflows totaling $48.2 billion while equity funds have suffered $95.1 billion of outflows during that period.

$10.5 billion of new muni issues came to market last week. In the senior living sector, the North Carolina Medical Care Commission sold $25 million of non-rated refunding bonds for Moravian Homes and priced 2030 term bonds with a coupon of 5.00% to yield 3.50%. The City of Vergas, Minnesota issued $10 million of non-rated bonds for CDL Homes, including a 2043 maturity priced at par to yield 4.25%. In the charter school sector, HJ Sims co-managed a $6.2 million BB+ rated financing for Eagle Ridge Academy in Minnesota featuring 4.00% bonds maturing in 2037 priced to yield 4.15%. The Idaho Housing and Finance Association sold $6.8 million of BBB-minus rated refunding bonds for the Idaho Arts Charter School; 2038 term bonds came at 5.00% to yield 3.75%. The Association also sold $4.5 million of BBB-minus rated bonds for Victory Charter School and priced the 2039 term bonds with a coupon of 5.00% to yield 3.75%.

The new issue municipal calendar is estimated to be back in the normal range of $7.8 billion this week. HJ Sims is in the market with a $106.9 deal for Bancroft Neurohealth, including $83.3 million of non-rated Public Finance Authority revenue bonds and $23.6 million of refunding bonds to be issued by the New Jersey Economic Development Authority. The Industrial Development Authority of Glendale, Arizona has a $20.2 million non-rated financing for Glencroft Retirement Community. The Colorado Educational and Cultural Facilities Authority is in the market with a $20.7 million BB rated transaction for Loveland Classical Schools, and the New Hope Cultural Education Facilities Finance Corporation has a $13.4 million BB rated deal for Compass Academy Charter School in Odessa, Texas. The Pottsboro Higher Education Finance Authority is issuing $22.1 million of non-rated bonds for Imagine International Academy of North Texas, and the St. Paul Housing and Redevelopment Authority plans a $29.2 million non-rated sale for Community School of Excellence. Markets will be looking to retail sales, import and export prices, as well as business inventory data later this week to help build or flatten expectations for a Fed rate hike later this year. CME Group 30-Day Fed Funds futures prices currently reflect the market's views on the likelihood of a 25-50 basis point increase at roughly 18% on September 21 and November 2 (just before the elections) and 36% when the Federal Open Market Committee meets for the last time this year on December 14.

Sims Assists Client in Securing Investment Grade Rating and Significant Refinancing Savings

Partnered Right	• Legacy at Willow Bend: 441 unit Life Plan Community located in Plano, Texas • Maintains stable occupancy, strong financial performance and cash reserves • Managed by Legacy Senior Communities
Structured Right	• Reduced cost of capital and annual debt service, improving operational cash flow • Allowed for flexibility to provide development capital for Midtown Project • Provided more attractive covenant and financial flexibility
Executed Right	• Evaluated multiple financing plans and scenarios • Secured 'BBB-' credit rating from Fitch, the first rating for the organization
Financed Right®	• True Interest Cost of 4.10% • Present Value Savings of approximately $6.3 million, or 12.4% of the refunded debt • Provided carve-out to allow usage of up to $4.5mm for affiliated development project • Reduced Days Cash on Hand covenant from 250 days to 150 days

Partnered Right

The Legacy at Willow Bend Retirement Community, Inc. ("Willow Bend" or the "Community") is a Life Plan Community located on 24 acres approximately 20 miles north of downtown Dallas in Plano, Texas. The community consists of 12 independent living villas, 102 independent living apartments, 40 assisted living units, 18 memory care units and 60 nursing beds.

Since opening in 2008, Legacy at Willow Bend has achieved occupancy in excess of 90% across all levels of care and average occupancy of 95% as of May 31, 2016. Willow Bend consistently produced strong financial results with positive debt service coverage and a strong liquidity position with 379 days cash on hand as of the six months ending March 31, 2016.

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Securing Investment Grade Rating and Significant Refinancing Savings

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The Legacy at Willow Bend is operated by The Legacy Senior Communities, Inc. ("Legacy"). Legacy has managed skilled nursing, assisted living and independent living properties since 1952. Originally under the name Dallas Home for Jewish Aged, Inc., Legacy owned and managed Golden Acres, a skilled nursing and independent living facility, from inception until its sale in 2007. In 2007, Legacy acquired The Legacy at Preston Hollow, a skilled nursing and assisted living facility and managed it until its sale in 2016. In addition, Legacy managed ECHAD, a 200 unit elderly independent living housing complex, from its inception in 1981 until its sale in 2014.

Legacy is in the process of developing a new senior living community, Legacy at Midtown Park, that will be located in Dallas, Texas (the "Midtown Project"). In order to better fulfill Legacy's overall mission, the Midtown Project will include rental independent living and a significant number of Medicaid nursing beds.

Structured Right

Engaged by Willow Bend to refinance its Series 2006 bonds, HJ Sims worked with the organization to achieve the following strategic objectives:

a) Reduce Willow Bend's overall cost of capital and annual debt service, improving operating cash flow;
b) Allow Willow Bend to provide development capital for the Midtown Project to further advance Legacy's mission; and,
c) Provide more attractive financial covenants and maintain financial flexibility.

Executed Right

In order to meet Willow Bend's strategic financing objectives, HJ Sims worked with the Community to produce and evaluate multiple refinancing structures and scenarios. HJ Sims performed detailed analysis of Willow Bend's financial ratios compared to industry medians and benchmarks to determine if the Community should pursue a credit rating. HJ Sims also worked with the Community to quantify the amount of financial support Willow Bend could provide to the Midtown Project, while maintaining an attractive credit profile with strong liquidity levels.

Willow Bend elected to move forward with a fixed rate, tax-exempt bond issue (the "2016 bonds") to refund its outstanding 2006 bonds. In addition, Legacy elected to pursue a credit rating from Fitch Ratings for the 2016 bonds. Initial verbal feedback from Fitch indicated the potential rating for the 2016 bonds was likely between a 'BB+' and 'BBB-' rating. HJ Sims worked with Willow Bend to demonstrate significant improvement in pro forma financial performance along with the ability to generate cash to replenish liquidity after the planned capital contribution to the Midtown Project. Willow Bend was able to secure an investment grade rating of "BBB-" with a stable outlook for the 2016 bonds.

Financed Right®

HJ Sims successfully priced the $45,355,000 refunding issue on July 12th, 2016 with an all in True-Interest-Cost of 4.10%. On a present value basis, the refunding saves Willow Bend approximately $6.285 million, or 12.4% of the par amount of the refunded bonds. On an annual basis, the refinancing saves Willow Bend over $1.5 million through the final term of the prior bonds and allows Willow Bend to provide $4.5 million in financial support to the Midtown Project.

The 2016 bonds were priced with a 7-year call option providing greater flexibility to call or refinance the bonds prior to a standard 10-year call option. Additionally, the new bond issue provides more flexible financial covenants and reporting requirements; notably, Willow Bend's Days Cash on Hand requirement decreased from 250 days to 150 days.

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