October 10, 2017

CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 10/10/17

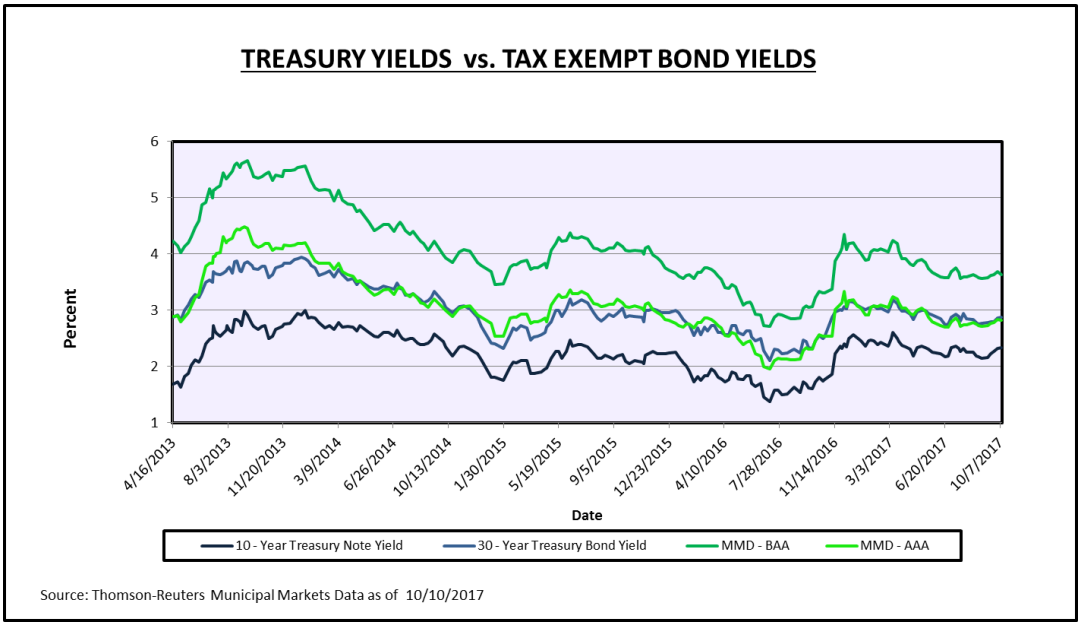
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.380%	1.900%	2.250%	2.50%	2.60-3.10%	4.00-4.50%
10 yr.	NA	2.380%	2.750%	3.000%	3.40%	3.50-4.00%	4.50-5.00%
20 yr.	NA	3.130%	3.450%	3.600%	4.05%	4.15-4.65%	5.25-6.00%
30 yr.	3.570%	3.430%	3.600%	3.800%	4.20%	4.35-4.85%	5.75-6.375%

Senior Living new issue rates for borrowers in specialty states are 20-30 basis points lower in yield.

SIFMA Index	LIBOR
0.92%	1.23%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.84%	2.3430%	2.8740%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.14%	1.37%	1.51%	1.65%	1.80%
Weekly LIBOR Swap Rates	1.60%	1.89%	2.05%	2.18%	2.33%



Market Commentary: An Eye on Interest Rates

Investors have been listening to Federal Reserve officials hum the same tune for so long that they have developed an earworm. Now they cannot seem to shake the darned rate hike refrain out of their heads. Since the last quarter-point increase in June, it seemed unlikely that another would occur until 2018 given the lack of inflation and the costly aftermath of storms that have battered the continental U.S. and its territories. But the Fed brass have stuck to their narrative and their plan for proceeding with gradual increases while commencing a balance sheet reduction. Economic data (with the exception of inflation) have recently looked stronger, a broad outline for tax reform is on the table, a federal budget is in the works and, in the meantime, coffers have been opened for humanitarian aid. While no rate action is expected during the next monetary policy meeting in three weeks, Fed futures trading now reflects an 87% chance of a new target rate in the range of 125-150 basis points after the Committee meeting on December 13. Fed-watchers are also looking to the president's announcement of who will serve as Chair for the next four years if Janet Yellen is not renamed. Her term as Chair officially expires on February 3, 2018, but her appointment as a member of the Board continues through January 31, 2024.

A quarter point is hardly an earth-shattering move, but borrowers always want to get the lowest rates they can. State and local government issuers trying to lock in lower levels have nevertheless driven short-term rates up all by themselves. They have been sending a steady stream of notes into the municipal market, and sales have brought the SIFMA Municipal Swap Index to its highest levels since late December 2008. The Index is comprised of seven-day, high-grade reset rates, and, so far this year, they have risen thirty-five percent from 0.68% to 0.92%. Yields on Puerto Rico bonds spiked to record highs after President Trump remarked that the Commonwealth's debt may need to be "wiped clean." This quip sent shivers down the spines of retail and institutional bondholders. General obligation bonds bearing an 8% coupon due in 2035 were reported to drop to a new low of $32. Losses were somewhat pared after Mick Mulvaney, the Director of the U.S. Office of Management and Budget, encouraged investors not to take the suggestion literally. But trading in Puerto Rico credits was said to account for more than 10% of all secondary market activity on Thursday.

Two equity indices dipped slightly on the news that payrolls in September fell for the first time in seven years, but otherwise all three major stock indicators continued on their record-setting climb. The Dow, S&P 500 and Nasdaq Composite indices all reached new highs again last week, and investor confidence appeared unshakeable. Despite the depth and range of turmoil both at home and abroad, the CBOE SPX Volatility ("Fear") Index closed at an all-time record low of 9.19 on Thursday. The Index reflects a market estimate of future volatility based on the weighted average of the implied volatilities for a wide range of strikes. It has been calculated since 1990 and reached a high of 80.86 on November 20, 2008. Over time it has averaged 19.44; this year, the average is 11.30. A companion index, TYVIX, measuring the expected volatility of the price of 10-year Treasury Note futures, was created on January 2, 2003 and has since averaged 6.50. Its high was also on November 20, 2008 at 14.72, and its record low was on May 8, 2013 at 3.62 when the Dow broke 15,000 for the first time. This year, the TYVIX has averaged 4.69, and it closed at 4.35 on Friday.

Municipal prices generally weakened for the fourth consecutive session alongside Treasuries last week. The 10-year AAA general obligation bond yield increased by 2 basis points to 2.02% as the 10-year Treasury rose 3 basis points to 2.36%. The 30-year muni benchmark yield dipped 1 basis point to 2.83%, while the 30-year Treasury gained 3 basis points to finish at 2.89%. Muni bond funds took in a net of $1.66 billion, and market supply increased by $4.42 billion. In the high yield sector, Howard County, Maryland issued $48.2 million of non-rated special obligation bonds for the Downtown Columbia project, including a 2047 maturity priced at 4.50% to yield 4.45%. The California School Finance Authority sold $28.6 million of Baa3 rated charter school revenue bonds for Summit Public Schools that featured a 2053 maturity priced at par to yield 4.30%. A non-rated Colorado charter school, World Compass Academy, borrowed $23.2 million through the state's Educational and Cultural Facilities Authority; the 2052 term bonds priced at par to yield 5.625%. The Utah Charter School Finance Authority brought a $13.5 million non-rated deal for Rockwell Charter High School structured with 30-year term bonds priced with a coupon of 5.50% to yield 5.604%. The Ohio Housing Finance Agency issued $20.2 million of non-rated bonds with a maximum yield of 5.45% in 2038. And Atchison Hospital in Kansas had a $5.9 million non-rated refunding with serial bonds priced to yield 3.85% in 2029.

Municipal markets, banks, and state and federal government offices were closed on Monday in observance of Columbus Day. This week, investors will be monitoring the progress of NAFTA talks, the fifth round of Brexit talks, developments in Catalonia, wildfires in Sonoma and Napa counties and Hurricane Nate. Third quarter corporate earnings reports are being released as are Fed minutes from the September meeting. Ipreo estimates that the municipal calendar will total $7.2 billion. Among the high yield financings is a $153 million non-rated Nevada Business and Industry green bond issue for Fulcrum Sierra Biofuels, a $41.7 million non-rated Florida Capital Trust Agency deal for Renaissance Charter School and a $24.3 million New Jersey Economic Development Authority deal for BBB-minus rated North Star Academy Charter School. The 30-day visible supply of municipal bonds totals $15.4 billion.

next HEALTHCARE GROUP

Sims Recapitalizes Skilled Nursing Portfolio in Florida

Partnered Right	• Next Healthcare Group specializes in the acquisition and management of high-quality, skilled nursing facilities. • HJ Sims provided a HUD Plus™ subordinate loan to NHG in 2013 to acquire a portfolio of two skilled nursing facilities in Florida. • The Portfolio is leased to Consulate Health Care; Consulate operates 182 facilities offering services ranging from short-term transitional care to Alzheimer's and dementia care.
Structured Right	• NHG approached Sims to evaluate a recapitalization of the Portfolio. • Sims' existing subordinate debt investment needed to remain eligible for a future HUD refinancing.
Executed Right	• Modifying the outstanding Sims subordinate loan provides NHG with the flexibility to refinance the loan with HUD. • The subordinate financing provides additional leverage, allowing NHG to access capital to pursue other projects.
Financed Right®	• Sims successfully placed $7,400,000 of corporate taxable bonds to fund two subordinate loans to complete the recapitalization.

Partnered Right

Next Healthcare Group ("NHG") is a privately held healthcare real estate investment firm specializing in the acquisition and management of high-quality, skilled nursing facilities. NHG is primarily aligned with national operators with a proven track record of operating skilled nursing facilities. NHG has acquired over $250 million of skilled nursing facilities, primarily in the southeast, midwest and west.

In 2013, Sims partnered with a related company of NHG, HBS Assets, providing a HUD Plus™ subordinate loan which, together with a senior bridge loan, was used to finance the acquisition of a portfolio of two nursing homes located in Florida (the "Portfolio"). Upon acquisition, the Portfolio was leased to Consulate Health Care ("Consulate") based in Maitland, Florida. Consulate is one of the nation's leading providers of senior healthcare services, specializing in post-acute care. Consulate operates 182 facilities that offer services ranging from short-term transitional care to Alzheimer's and dementia care.

The Portfolio has consistently demonstrated strong operating and financial performance since it was acquired in 2013. As part of its strategy when acquiring the Portfolio, NHG intended to pursue a HUD refinancing. True to plan, NHG completed a HUD insured refinancing in 2015, repaying the outstanding senior bridge loan and a portion of the Sims HUD Plus™ loan. The balance of the HUD Plus™ loan remained in place upon the HUD refinancing.

Structured Right

Seeking to take advantage of the strong operational performance of the Portfolio, NHG approached Sims to evaluate a recapitalization of the subordinate loan and equity invested in the project. NHG's primary goals for the recapitalization were to a) minimize debt service payments to improve cash flow received from lease payments and b) maximize leverage to access equity invested in the Portfolio. As a second step to the recapitalization strategy, NHG intended to pursue additional HUD financing within 6 to 12 months, the proceeds of which would be used to repay a portion of the existing subordinate debt, presenting a challenge as any new subordinate debt would need to remain eligible for the potential HUD refinancing.

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Sims Recapitalizes Skilled Nursing Portfolio in Florida

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Executed Right

To effectuate the recapitalization, Sims acquired and modified its existing HUD Plus™ loan and provided a new mezzanine loan (collectively the "Sims Loans"). This structure provided NHG with the flexibility to refinance the modified loan with additional HUD debt at a later date. The Sims Loans were structured with graduating amortization schedules, minimizing annual debt service payments for the borrower. Proceeds from the new mezzanine loan were used to recapitalize a portion of NHG's equity interest in the Portfolio, as well as fund an interest reserve and issuance expenses related to the financing.

Financed Right®

A new entity, NHG Funding I, LLC (the "Sims Issuer"), was formed to issue taxable bonds to fund the Sims Loans. Sims successfully sold $7.4 million of subordinate taxable bonds through its Private Client Group to high-net-worth accredited investors. Sims was able to structure the subordinate financing to meet the capital needs of NHG. The modification of Sims' existing loan provided NHG with debt service savings while maintaining NHG's flexibility to retire the loan with a future HUD refinancing. New proceeds from the financing allowed NHG to recapture a portion of its equity interest in the Portfolio, providing NHG with capital to pursue additional investment opportunities.

For more information, please contact Jeff Sands at jsands@hjsims.com (203-418-9002) or Curtis King at cking@hjsims.com (512-519-5003).

Mark Landreville Honored by LeadingAge Minnesota

Mark Landreville
Executive Vice President
HJ Sims - Bloomington, MN

Mark Landreville, Executive Vice President, HJ Sims, was named to "50 for the Next 50" as part of LeadingAge Minnesota's 50th Anniversary. The leaders recognized represent a broad array of professionals who work on behalf of older adults in independent senior living, assisted living, adult day services, home care and skilled nursing as well as organizations that support long term services and support throughout Minnesota.

"50 for the Next 50 are pioneers, challenging the status quo to transform and enhance the experience of aging" said Gayle Kvenvold, President and CEO, LeadingAge Minnesota. "These leaders are making forward-looking innovations in service delivery, elevating the profession of caregiving and best preparing Minnesota for the future needs of its aging population. We are energized by what lies ahead with the mix of these experienced and next generation leaders at the helm."

Congratulations, Mark!

For more information, please contact an HJ Sims banker.

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