HJ SIMS FINANCED RIGHT®
Member FINRA/SIPC

October 24, 2017

CAPITAL MARKET UPDATE

Tel: 800-HJS-1935 www.hjsims.com

Senior Living New Issue Rates as of 10/24/17

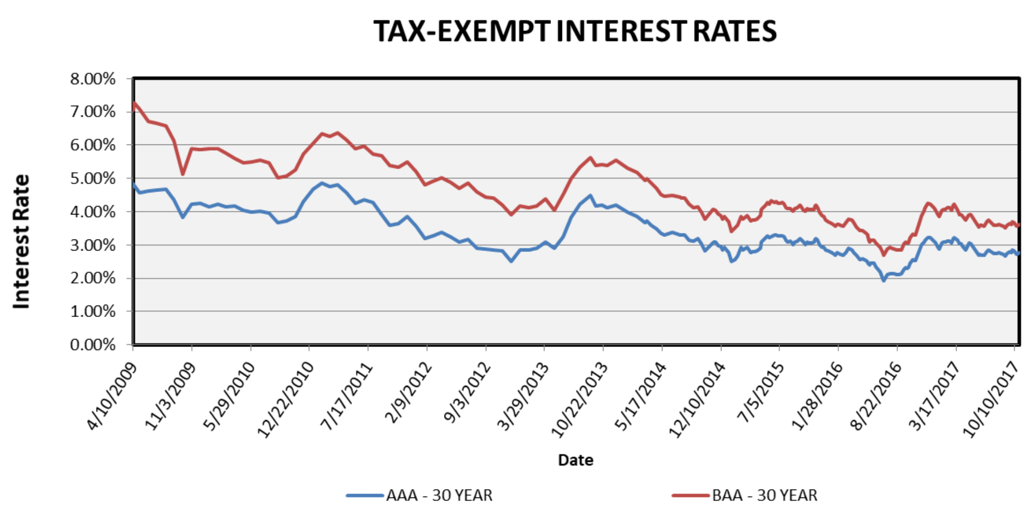
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.390%	2.000%	2.350%	2.60%	2.60-3.10%	4.00-4.50%
10 yr.	NA	2.350%	2.850%	3.100%	3.50%	3.50-4.00%	4.50-5.00%
20 yr.	NA	3.080%	3.550%	3.700%	4.15%	4.15-4.65%	5.25-6.00%
30 yr.	3.500%	3.370%	3.700%	3.900%	4.30%	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
0.91%	1.24%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.86%	2.4170%	2.9330%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.16%	1.40%	1.53%	1.67%	1.81%
Weekly LIBOR Swap Rates	1.62%	1.93%	2.08%	2.20%	2.34%



Source:Thomson-Reuters Municipal Market Data as 10/24/2017

Market Commentary: Municipal Bonds Attract New Investment

A popular TV game show that aired from the mid-60's to early 1970's featured a pretty bachelorette posing a series of insightful questions to three nervous suitors seated behind a screen, visible only to the audience. Viewers delighted in their clever exchanges, quickly determined the best match on the basis of looks and personality and felt disappointed if the wrong fellow was chosen for a chaperoned vacation. The Dating Game was a half hour daytime program with a catchy theme song that regained popularity in syndication through the 1980's and 90's. It was often scheduled before The Newlywed Game, a show in which young married couples revealed how truly little they knew about each other. In 2017, we still enjoy this kind of entertainment. Like the audience in the old black-and-white broadcasts, we still cheer whenever we see good pairings on TV and cringe over all the bloopers and duds. In the political world, we are watching candidates being interviewed for Federal Reserve Chair, courted for tax reform and health care votes, chosen for high office in Austria and placed on a pedestal in China. In the sports world, we follow the courtship of young athletes, free agents and new fans to fill empty stadium seats. And, in the business world, Wall Street names its darlings and duds every day – currently Netflix and Caterpillar, Sears and Whirlpool.

In the financial markets, stocks and municipal bonds were particularly attractive last week. Investors overlooked the ugly Treasury tally of the Fiscal Year 2017 U.S. budget deficit at $666 billion and the unwieldy growth in real per capita federal spending to $12,239. Strong corporate earnings as well as new traction on tax reform boosted equity indices to hit new highs. The Dow finished the week up 456 points to 23,328 while the S&P 500 gained 22 to reach 2,575 and the Nasdaq rose 23 to close at 6,629. Hedge fund industry assets also reached a new peak at $3.152 trillion. Municipals danced through a $10 billion new issue calendar, and muni bond mutual funds wooed $536 million of new investment. By the end of the session, tax-exempts significantly outperformed Treasuries: 10- and 30-year government yields rose more than 10 basis points to finish at 2.38% and 2.90%, respectively, while 10 and 30 year munis preserved the prior week's gains and closed at 1.95% and 2.74%.

Baa3 rated Illinois sold $1.5 billion of state general obligation bonds in competition last week, offering 5.00% coupons with a maximum yield of 3.78% in 2029. The Jefferson County Civic Facilities Development Corporation in New York brought a $92.1 million BBB-minus rated deal for Samaritan Medical Center that was structured with 2047 term bonds priced at 4.00% to yield 4.05%. The St. Louis Industrial Development Authority issued $107.4 million of non-rated development financing revenue bonds for Ballpark Village with a similar maturity priced at 4.75% to yield 4.766%. The Phoenix Industrial Development Authority had a $25.7 million non-rated transaction for the Phoenix campus of Legacy Traditional Schools that priced with a coupon of 4.00% to yield 4.236% in 2022. The Public Finance Authority of Wisconsin brought a $12.9 million charter school revenue refunding for non-rated Jefferson Academy in Kaysville, Utah, with a 2047 final maturity priced at par to yield 5.20%. And the City of Mishawaka, Indiana was in the market with a $15.9 million non-rated financing for the Silver Birch of Mishawaka assisted living facility.

As munis flirt with another $10 billion calendar, HJ Sims is in the market with a $12.5 million non-rated Montgomery County Higher Education and Health Authority financing for Linwood Nursing and Rehabilitation Center in Scranton and Edgehill Nursing and Rehabilitation Center in Glenside. The slate also includes a $4.5 billion Baa3 rated Illinois General Obligation bond issue and a $236.1 million BB+ rated issue for Temple University Health System coming through the Hospitals and Higher Education Facilities Authority of Philadelphia. The Port and Economic Development Authority of Lake County, Ohio is bringing a $49.7 million non-rated revenue bond issue for Tapestry Wickliffe. The Public Authority of Wisconsin is in the market with a $32.9 million BBB-minus rated deal for Mountain Island Charter School in Mount Holly, North Carolina. And Lake County, Florida has a $29 million non-rated senior living financing for Village Veranda at Lady Lake. Also this week we have 2-, 5- and 7-year Treasury auctions and a stream of corporate earnings. We await the release of several key manufacturing indices, as well as reports of new home sales, durable goods and gross domestic product. The European Central Bank is expected to announce a reduction in bond purchases, and the White House is looking to House and Senate leaders to help set a date for a signing ceremony for the FY18 Budget Resolution.

Capital Infusion for Recently Developed Portfolio

Partnered Right	• This Sims financing assisted its trusted partner, Affinity, with its capital needs for a recently developed portfolio.
Structured Right	• Sims' industry expertise and flexible structure met the needs of the client as well as three different Senior Lenders.
Executed Right	• Sims' ability to underwrite a complicated transaction allowed the client to refinance costly subordinate debt and preserve its capital for future projects.
Financed Right®	• Sims successfully placed $6,080,000 of corporate taxable bonds to fund a subordinate loan to complete the refinancing.

Partnered Right

Sims was approached by an Affinity-led joint venture ("Borrower") to assist in refinancing a portfolio of four newly developed assisted living and memory care communities in North Carolina comprised of 120 assisted living beds and 152 memory care beds. The portfolio which is currently in lease-up, is managed by Affinity and was developed by the Borrower who contributed over $7 million of equity to the projects. Despite the large equity contribution by the Borrower, the communities have faced some unexpected challenges since opening between August, 2015 and January, 2017 which resulted in a need for additional capital. In order to recapitalize the portfolio, the existing subordinate loan on one of the communities required repayment. Using its "HUD Plus" program, Sims successfully provided a mezzanine loan totaling $6.080 million to fund working capital and reserves, purchase FF&E and payoff the existing subordinate debt.

Structured Right

There were several challenges associated with this financing:

- The debt needed to be structured in a way that met the requirements of three different Senior Lenders who provided the four construction loans.
- Sims had to underwrite the loan to allow for the current and future capital needs of each community which are in varying states of lease-up.
- The terms of Sims' mezzanine financing had to be flexible enough to allow for a potential refinancing of the construction loans with HUD in the future as well as a potential increase in the Sims' Loan.

Executed Right

To effectuate the refinancing, a new entity was formed to issue taxable bonds. The bonds were successfully sold to Sims' high net worth accredited investors. The proceeds from the bonds were used by the Sims Issuer to fund the subordinate loan to Affinity. This approach allows Sims' high net worth clients to participate in an opportunistic investment but leaves the asset management and key decisions in the hands of Sims and its partner.

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Capital Infusion for Recently Developed Portfolio

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Financed Right®

Sims was able to underwrite and then implement a subordinate debt structure that met the needs of Affinity as well as the Senior Lenders. Sims' ability to be flexible allowed the Borrower to refinance higher cost subordinate debt and avoid making further equity contributions to the portfolio. The creativity of the Sims' structure resulted in both short and long-term cost savings for the Borrower and allowed Affinity to preserve its capital for future projects.

A creative financing solution for increasing the proceeds of a refinancing is an example of Sims using its extensive investor base to provide attractive financing to one of its trusted partners. Sims excels in filling the niches that allow an owner or developer to complete a transaction by providing custom financing such as mezzanine debt or preferred equity.

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