November 14, 2017

CAPITAL MARKET UPDATE

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HJ SIMS FINANCED RIGHT®

Member FINRA/SIPC

Senior Living New Issue Rates as of 11/14/17

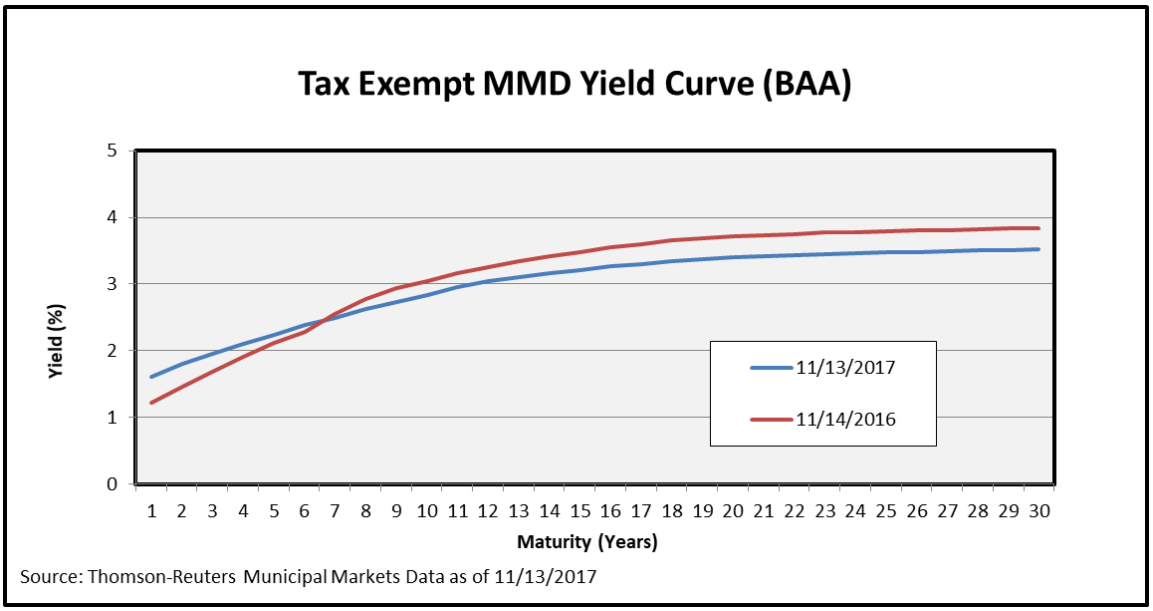
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.470%	2.000%	2.250%	2.50%	2.60-3.10%	4.00-4.50%
10 yr.	NA	2.380%	2.850%	3.100%	3.40%	3.50-4.00%	4.50-5.00%
20 yr.	NA	3.080%	3.400%	3.550%	4.05%	4.15-4.65%	5.25-6.00%
30 yr.	3.410%	3.330%	3.550%	3.750%	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%	1.24%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.86%	2.3770%	2.8370%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.17%	1.43%	1.57%	1.70%	1.85%
Weekly LIBOR Swap Rates	1.70%	1.98%	2.12%	2.24%	2.37%



Market Commentary: Awaiting the Fate of Tax Reform

The fate of tax reform currently rests in the hands of Kevin Patrick Brady, the 62 year-old Republican Chairman of the House Committee on Ways and Means. The amiable Texan will appear before the Rules Committee on Wednesday to seek a very restrictive rule limiting floor debate and amendments to H.R. 1. Then on Thursday, under intense pressure, he is expected to shepherd or shoehorn the tax bill through the full House, where the Constitution's origination clause dictates all revenue raising measures begin. Brady has represented the eighth congressional district just north of Houston since 1997. After 18 years with several chambers of commerce, he won the seat in a most unusual contest involving the Supreme Court, rose through the ranks on The Hill and was elected to replace Paul Ryan as the 65th Chairman of the tax-writing committee in 2015. Brady, who played baseball for the University of South Dakota, rooms with three other Members while he is in Washington, and they all play on the congressional baseball team. He was a four-sport athlete raised in Vermillion, South Dakota along with two sisters and two brothers by a single mother; his father, a lawyer, was killed in a courtroom shooting in 1967. Back in The Woodlands, he resides with his wife, two adopted sons, and Scout, a terrier rescued after Hurricane Ike.

While much attention is focused on amendments and votes in the House this week, the Senate Committee on Finance has its fair share of limelight as Members begin the process of marking up its version of tax reform. Economists busy with the fiscal analyses are also tuning in to seven speeches on monetary policy by Federal Reserve officials and watching for reports on housing starts, retail sales and the October consumer price indices. Markets are reacting quite rapidly to developments on every front. News of the Senate GOP proposal to delay corporate tax reform for one year rattled both stocks and bonds. The Dow Jones Industrial Average, which set new record highs on Wednesday, closed the week down 116 points to 23,422. The 10- and 30-year Treasury yields rose 6 basis points to 2.39% and 2.87%, respectively. Municipals were preoccupied with tax reform proposals that would significantly reduce supply after January 1. The Senate draft version preserved private activity bonds targeted by the House for elimination, but included the same repeal on advance refundings. After rallying in the early part of the week, munis gave up some gains but still managed to outperform their taxable counterparts. The 10-year AAA general obligation yield fell one basis point to 1.98%, and the 30-year benchmark yield closed down seven basis points to 2.68%. Investors added $862 million of new money to municipal bond mutual funds.

The high-yield muni market was active last week. The Massachusetts Development Finance Agency sold $65.6 million of BB+ rated revenue bonds for Lawrence General Hospital structured with 2047 term bonds priced at 5.00% to yield 4.00%. The Town of Guilderland Industrial Development Authority in New York issued $31.7 million of 35-year non-rated assisted senior living revenue bonds for Albany Place Development priced at par to yield 5.875%. The Public Finance Authority of Wisconsin issued $23.8 million of non-rated retirement facilities first mortgage revenue refunding bonds for WhiteStone that featured a 2052 maturity priced with a 5.00% coupon to yield 4.40%. The Lancaster County Hospital Authority in Pennsylvania brought a $20 million non-rated issue for United Zion Retirement Community that included a 2047 maturity priced at 5.00% to yield 4.50%. And the South Carolina Jobs and Economic Development Authority had a $12.8 million non-rated deal for The Lutheran Homes of South Carolina that priced at 5.00% to yield 4.32% in 2042. In the non-rated charter school sector, the Metropolitan Government of Nashville and Davidson County Health and Educational Facilities Board came with a $26.8 million issue for Knowledge Academies that priced at par to yield 5.625% in 2047, while the Maricopa County Industrial Development Authority in Arizona sold $22.9 million of revenue bonds for Heritage Academy yielding 5.25% in 2027. The Newark Higher Education Finance Corporation of Texas issued $20.5 million for Village Tech Schools; bonds yielded 5.25% in 2047. The Collier County Industrial Development Authority of Florida had an $8.8 million deal for Gulf Coast Charter Academy priced with 2047 term bonds yielding 5.10%, and the Arizona Industrial Development Authority sold $6.2 million of refunding bonds for Montessori Academy that yielded 6.25% in 2050.

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Market Commentary

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Investors are watching the new issue market once again this week. Heavy volume is expected through the end of the year as borrowers prepare for worst case scenarios involved in House and Senate tax reform proposals. New structures with shorter calls, lower coupons and no premiums may appear, and bonds in high tax states may become even more pricey. HJ Sims is in the market with a $43.8 million non-rated St. Johns County, Florida Industrial Development Authority financing for Westminster at St. Augustine. The bonds are structured with a $34.9 million taxable series yielding 5.50% in 2044 and an $8.8 million tax-exempt series yielding 4.125% in 2047; both series are priced to a mandatory put in 2024. Also on the high-yield calendar this week is the $922 million of Chicago Board of Education bond issue and $475 million of BB+ rated Metropolitan Pier and Exposition Authority revenue and refunding bonds. The Ohio Air Quality Development Authority is bringing a $210 million non-rated issue for Pratt Paper, and the Guam Waterworks Authority has a $100 million refunding. The Arizona Industrial Development Authority plans to issue $90 million of non-rated bonds for Odyssey Preparatory Academy, the Public Finance Authority has a $29 million BB rated issue for American Preparatory Academy, and the North Carolina Medical Care Commission has a $68 million non-rated revenue and refunding deal for The United Methodist Retirement Homes.

AFFINITY Living Group

Increased Refinancing Proceeds with Sims' HUD Plus Program

Partnered Right	• This Sims financing allowed its trusted partner, Affinity, to fully recapitalize a portfolio of six assisted living facilities.
Structured Right	• Sims used its HUD Plus program to provide the funds needed to complete the subordinate refinancing while simultaneously satisfying requirements under the recent HUD refinancing.
Executed Right	• A new entity was formed to issue taxable bonds to fund the subordinate loan to Affinity.
Financed Right®	• Sims privately placed $4,635,000 of corporate taxable bonds to fund a subordinate loan to complete the refinancing.

Partnered Right

Sims was approached by an affiliate of Affinity ("Affinity" or the "Borrower") to assist in refinancing existing subordinate debt remaining on a portfolio of six assisted living communities in North Carolina after it had been refinanced with HUD. Affinity acquired the 360 bed portfolio in June 2015. The average occupancy at that time was 69.2%. Under Affinity's management, the performance of the portfolio significantly improved, with occupancy reaching 91.9% by the end of 2015. In June 2017, Affinity refinanced the first mortgages and repaid a portion of the subordinate debt that was used to acquire the portfolio with six HUD-insured first mortgages at an interest rate including MIP of 4.25% and a 35-year term. Using its "HUD Plus" program, Sims successfully provided a mezzanine loan totaling $4.635 million to repay the remaining subordinate debt, fund required reserves and pay transaction costs associated with the refinancing.

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Increased Financing Proceeds

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Structured Right

There were a couple of challenges associated with this financing:

- There were time constraints to complete the refinancing to accommodate the payoff of costly remaining subordinate debt.
- The debt needed to be structured in a way that was flexible and met the requirements of six recently completed HUD financings.

This Sims HUD Plus financing satisfied both the Borrower and HUD's requirements, allowing Affinity to lower its overall cost of capital and increase the proceeds of a refinancing.

Executed Right

A new entity, Affinity Portfolio Funding VI, was formed to issue one series of 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 attractive investment but leaves the asset management and key decisions in the hands of Sims and its trusted partner, Affinity.

Financed Right®

Sims was able to underwrite and then implement a subordinate debt structure that met the needs of Affinity as well as HUD. Sims' unique "HUD Plus" program allowed the Borrower to increase the proceeds of a refinancing to refinance the higher-cost subordinate debt. Thus, the flexibility and expertise of Sims' bankers resulted in both short- and long-term cost savings for the Borrower and allowed Affinity to preserve its capital for future projects.

This Sims HUD Plus financing solution 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 to allow an owner or developer to complete a transaction by providing custom financing such as mezzanine debt or preferred equity.

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

Participate in HJ Sims' *Capital Market Update* Survey

We appreciate the time you take to read our weekly newsletter and hope you find it interesting and useful. As we look to improve our *Capital Market Update* and because we value your opinion, we have designed a brief 5-question survey to help us better understand what information you find most meaningful and relevant. This is a multiple choice survey and should take only a few minutes to complete and submit.

We will then closely examine the important information from your survey responses and use it to improve your weekly newsletter in the future. Your feedback is confidential. Thank you for your time and your continued business.

Take the Survey

For more information, please contact an HJ Sims banker.

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