CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 12/12/17

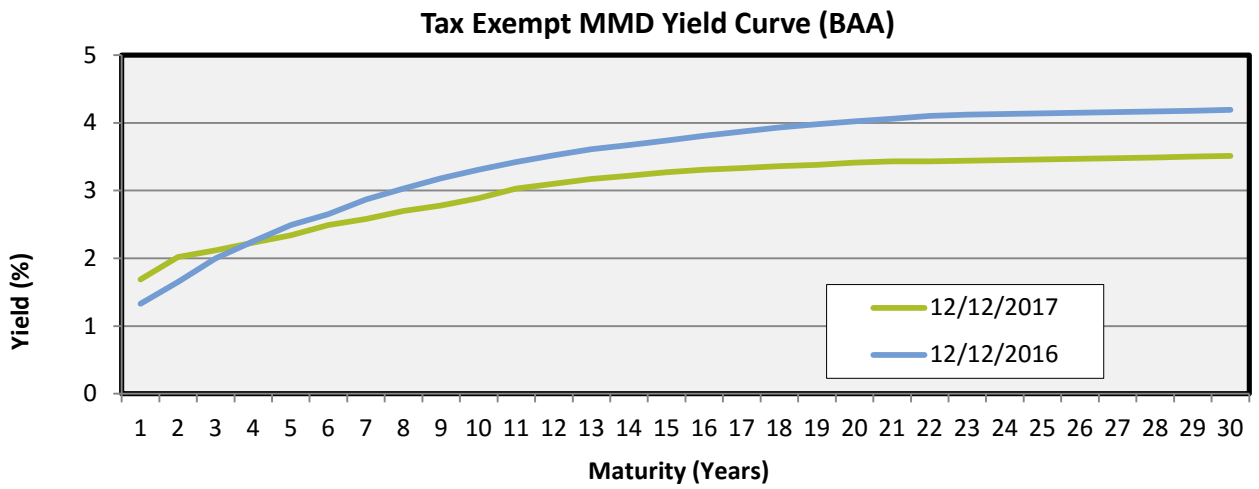
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.510%	2.250%	2.550%	2.70%	2.75-3.25%	4.00-4.50%
10 yr.	NA	2.290%	2.950%	3.250%	3.65%	3.70-4.00%	4.50-5.00%
20 yr.	NA	2.900%	3.500%	3.650%	4.20%	4.25-4.75%	5.25-6.00%
30 yr.	3.410%	3.120%	3.650%	3.850%	4.40%	4.45-5.00%	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
1.00%	1.39%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.77%	2.3980%	2.7800%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.28%	1.52%	1.64%	1.75%	1.87%
Weekly LIBOR Swap Rates	1.83%	2.10%	2.21%	2.29%	2.38%



Source: Thomson-Reuters Municipal Markets Data as of 12/12/2017

Market Commentary: More Records Set as the Municipal Bond Market Awaits Tax Reform

One of the biggest misconceptions in popular circulation is that we only use about 10% of our brains. There is no scientific basis for the theory, but the thought of having such vast untapped resources is quite appealing. In these days of algorithmic trading, Instagram, and the 24/7 news cycle, we all have to admit that there are days when things happen too fast for us to process and others are hard to explain no matter how hard we scratch our heads. Last week on Wall Street, traders were reluctant to leave their desks for even the smallest breaks as news arrived fast and furious, and no one wanted to be left out of the action. Bitcoin came out of nowhere to smash a $15,000 milestone, rising 20% in value in less than a day. The Dow Jones Industrial Average reportedly had its 65th record close of the year. According to a Fitch release, as of December 4, there was $9.7 trillion of negative-yielding sovereign debt outstanding, up from $9.3 trillion one year ago. In an area of Southern California larger than New York City and Boston combined, more than 8,000 firefighters battled six major wildfires while an unusually heavy snowfall blanketed Brownsville, Texas, the Gulf Coast and Florida panhandle. The Department of Defense announced that it has engaged 1,200 auditors to undertake its first ever department-wide financial audit. Reversing 70 years of foreign policy, the President recognized Jerusalem as the capital of Israel. The Congress managed to scrape together a two-week government funding extension with no bells or whistles. Several more Members were pressured into resigning due to disgraceful behavior that, as it turns out, was never much of a secret. The Census Bureau reported that the five richest counties in the United States are all suburbs of Washington, D.C. where, on Capitol Hill, quite a few agreements on thorny tax reform provisions were apparently reached behind closed doors before any House-Senate conference meetings were actually held. Snags clearly remain. It is not as easy as we might think to give away $1.5 trillion, the equivalent of $4,500 for each American citizen.

Last week the municipal bond market was as madcap as it was prior to the 1986 tax reforms. Borrowers rushed to get in ahead of what might be a December 31 deadline for issuing advance refundings and private activity bonds on a tax-exempt basis. More than $20 billion of bonds were sold, fueling a rally oblivious of where Treasuries, stocks, and other markets stood. Munis saw their highest five-day price gains in more than six years. Buyers fearing that the muni supply will shrink dramatically next year grabbed bonds before the ink was dry on the official statements. The 30-year benchmark yield dropped to 2.46%, a level not seen since early October of 2016, and the 10-year benchmark fell to 1.88%, nearly recovering all the ground lost since Election Day. By the end of the week, the market gave back some gains so that the 10-year closed at 1.95%, and the 30-year finished at 2.56% while 10- and 30-year Treasuries finished flat at 2.37% and 2.76%, respectively.

HJ Sims was the bookrunning manager on the $236 million NewBridge on the Charles refunding, the largest fixed rate public bond issue for a single site life plan community on record. The BB+ rated bonds were issued by the Massachusetts Development Finance Agency and featured a 40-year maturity priced at 5.00% to yield 4.125%. Sims also served as sole manager on the $51 million financing for The Preserve, a new construction health care facility with 113 assisted living, memory care, and skilled nursing beds in Fort Myers, Florida. The non-rated bonds were issued by the Lee County Industrial Development Authority for Volunteers of America National Services, and the structure included 2052 term bonds priced at 5.75% to yield 5.90%. Among other higher yielding transactions with 5.00% coupons, the University of Illinois at Chicago was in the market with a $94 million Baa3 rated student housing financing yielding 3.93% in 2050. Village on the Isle in Venice, Florida had a $71 million BBB-minus rated deal with 2052 term bonds yielding 3.77%. Mount Saint Mary's University in Emmitsburg, Maryland came with a $56 million BB+ rated financing that included a 2045 maturity yielding 4.08%. Averett University in Danville, Virginia had a $14 million non-rated revenue and refunding issue with 2047 term bonds yielding 5.20%. The Twin Cities International Schools sold $14 million of non-rated bonds featuring a 30-year term yielding 5.15%. And the Metropolitan Lighthouse Charter School in the Bronx sold $25 million of Ba1 rated bonds with a maximum yield of 4.08% in 2052.

Cont. on Page 3

Market Commentary

Cont. from Page 2

Also in the market, Leman Academy of Excellence in Arizona had a $32 million non-rated issue that included 5.25% bonds due in 2052 yielding 5.375%. Georgian Court University brought a $27 million Baa3 rated revenue and refunding deal that had a maximum yield of 3.81% in 2037. Among multi-family housing deals was a $44 million non-rated financing for la Villa Puente in California that had a 40-year maturity priced at 4.35% to yield 4.45%, a $22 million non-rated variable rate issue for Twelfth and Wedgewood Apartments in Nashville, Tennessee, and a $9 million non-rated issue for John Guy Prindle Apartments in Ilion, New York. The highest yielding public offerings at 7.00% were a $12 million non-rated financing for St. John's Classical Academy in Fleming Island, Florida structured with a single 30-year maturity and an $11 million non-rated issue for Queen City STEM School in Charlotte, North Carolina also due in 2047.

Holiday parties are sparsely attended this year as legislators are full speed ahead on tax reform and spending measures and gearing up for an infrastructure push next month. The Federal Open Market Committee meeting this week will conclude with the third quarter point rate hike of 2017 and Janet Yellen's final press conference. Riding the tidal wave of corporate and municipal bond issuance are investment bankers, underwriters and issuers. Analysts and sales teams are working non-stop. Financial printers are working 24/7 to produce offering documents. Bond lawyers and trustees are lined up on assembly lines operating partly in the dark. It is unclear at this writing how and when negotiations on tax, spending and debt limit measures conclude, but there will be a lot to sort out after the dust clears at midnight on December 31.

This week's municipal calendar is expected to exceed $20 billion, and next week will also be very heavy with refundings and private activity bonds. HJ Sims is in the market with a $34.8 million non-rated refunding for the Sarasota-Manatee Jewish Housing Council. In the high yield sector, other non-rated senior living transactions include a $232 million financing for Mirabella at ASU, a $148 million refunding for Admiral at the Lake in Chicago, $95 million for Longhorn Village in Austin, $92 million for Willamette View in Portland, Oregon, $70 million for The Beatitudes in Phoenix, $51 million for Lifespire of Virginia, $28 million for Beacon Hill at Eastgate in Grand Rapids, Michigan, and $20 million for Carolina Village in Hendersonville, North Carolina. Non-rated charter and private school deals on the slate include $194 million for American Leadership Academy schools, $25 million for Bright Star Schools in California, $22 million for UME Preparatory Academy in Dallas, $20 million for The Hill School in Pottstown, Pennsylvania and $19 million for Epiphany Preparatory School of San Diego. There is a $73 million issue for non-rated Vantage Medical Center in Elsa, Texas, as well as several lower investment grade financings including a $123 million tax-exempt issue and $137 million taxable deal for BBB- rated Prime Healthcare; $135 million for BB- rated United Airlines facilities at Houston Airport; $76 million for the BBB- rated Utah Infrastructure Agency; $56 million for BB+ rated Frazier Meadows Manor in Boulder, Colorado; $25 million for Ba1 rated River Springs Charter School; and $22 million for BBB- rated Kendal at Lexington in Virginia.

A Solution to Tax Reform: "Please Take a Closer Look at HUD"

Recent legislative events in Washington DC relating to tax reform have made the upcoming holiday season a very challenging time for the capital markets. Whether these events will result in a "stocking stuffer" or the proverbial "lump of coal" remain to be seen, but for every challenge Congress presents, there is a commensurate opportunity, if you know where to look. Let Sims Mortgage Funding help you!

Cont. on Page 4

A Solution to Tax Reform: "Please Take a Closer Look at HUD"

Cont. from Page 3

In November, the House of Representatives passed a tax reform bill that terminates after December 31, 2017 the ability to issue private activity tax-exempt bonds for not-for-profit hospitals, seniors housing facilities and nursing homes. The House bill also eliminates tax-exempt bonds for multifamily rental housing. The Senate's recently-passed tax reform bill preserves private activity bonds for these purposes, but it remains to be seen if the House or Senate will prevail. Fasten your seat belts: The House–Senate conference committee on tax legislation will hold an open meeting this week; their goal is to get a final bill to President Trump by the end of the year.

Considering this legislative uncertainty, not-for-profit healthcare and senior housing, and multifamily housing providers should look at HUD's mortgage insurance programs – LEAN for healthcare and senior housing, and Multifamily Accelerated Processing (MAP). Both programs are coming off successful years – for the 12 months ending September 30, 2017, HUD closed about $18.5 billion in loans under LEAN and MAP. Moreover, HUD-insured loans are eligible for securitization through GNMA, resulting in long-term *taxable* financing at very competitive interest rates.

Although HUD's hospital mortgage insurance program has not produced the same level of activity as its LEAN and MAP counterparts, it could see a significant increase in volume if private activity bonds for not-for-profit hospitals are eliminated. Moreover, because hospitals periodically undertake new capital projects and expansions, HUD's supplemental loan program provides an excellent opportunity for hospitals to remain competitive after they have joined the insured loan portfolio.

Contact any member of the Sims Mortgage Funding team at 201-307-9383 to find out if your project is eligible for one of HUD's mortgage insurance programs.

For more information, please contact an HJ Sims banker.

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