HJ SIMS FINANCED RIGHT®
Member FINRA/SIPC

February 6, 2018

CAPITAL MARKET UPDATE

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

Senior Living New Issue Rates as of 2/6/18

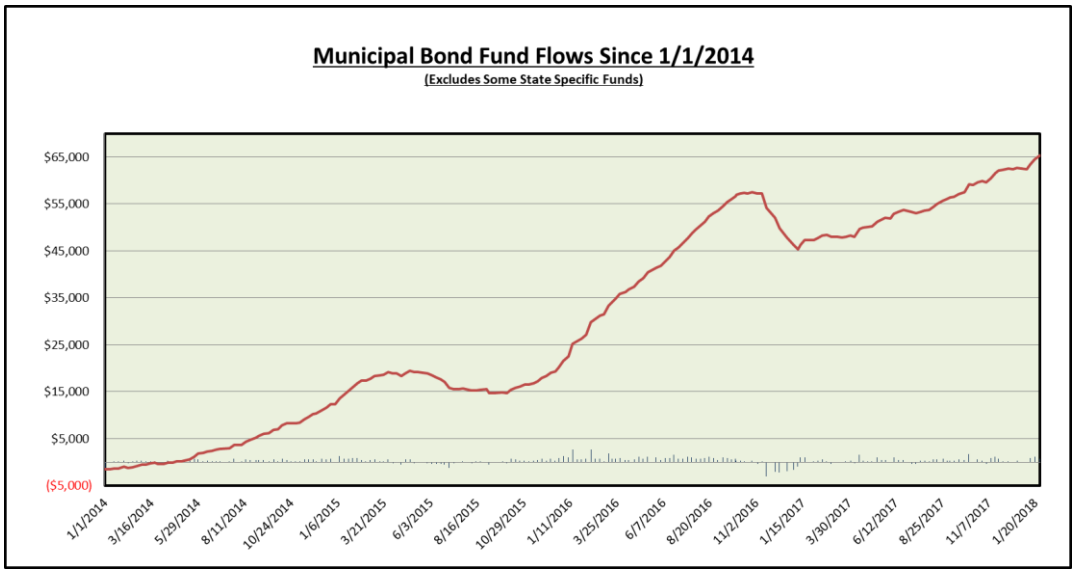
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.870%	2.600%	2.750%	3.00%	2.85-3.35%	4.10-4.60%
10 yr.	NA	2.740%	3.150%	3.450%	3.75%	3.60-4.10%	4.60-5.10%
20 yr.	NA	3.290%	3.650%	3.850%	4.20%	4.20-4.70%	5.35-6.10%
30 yr.	3.770%	3.500%	3.800%	4.000%	4.30%	4.35-4.85%	5.85-6.45%

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

SIFMA Index	LIBOR
1.08%	1.57%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
4.21%	2.8040%	3.0600%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.54%	1.85%	1.99%	2.14%	2.34%
Weekly LIBOR Swap Rates	2.12%	2.52%	2.68%	2.79%	2.89%



Market Commentary: Market Volatility Takes Center Stage

The sudden global selloff in equities and spike in market volatility have stolen the headlines away from memos in Washington, the swearing-in of the new Federal Reserve Chair, opening ceremonies at the Winter Olympics and Philadelphia's Super Bowl victory. Although only a relatively small percentage of the population is directly affected by the large swings in the stock market, people around the world cannot help but be struck by the flashing red numbers and reported disappearance of $4 trillion over the course of a mere week. The huge rally in stocks since the 2016 presidential election added nearly $7 trillion in paper value to the U.S. stock market, but much of that has been concentrated in one group of investors. A recent New York University study found that 84 percent of the stock in the United States is owned by the top 10 percent of households, as measured by net wealth, and 80 percent of households owns just 7 percent. The 2016 data included both direct ownership of stocks and indirect ownership through mutual funds, trusts and retirement accounts.

While some analysts have been predicting a stock market correction for several months, many investors were stunned by the sudden turnabout in the absence of a change in fundamentals or major development on the world stage. After all, stocks have been setting one record high after another for 14 consecutive months. The President in his State of the Union address described a robust domestic economy. And North and South Korea announced that they would compete together at the Olympics. But volatility that had hovered at historic lows suddenly returned, and the complacency prevalent for so long took a leave. Program trading has fueled the moves, but, as of this writing at least, a sense of control prevails even in the midst of some wild point swings. The culprit, or at least one of the key triggers for the selloff, was the big jump in bond yields, which are now at four year highs. On Friday, 10-year Treasury yields were at 2.84%, up 44 basis points since the start of the year, 19 basis points in the past week alone. The 30-year yield at 3.08% has risen 35 basis points, with half of that increase coming in the last week. Bond prices have fallen on fears of inflation after recent data documented wages increasing at the fastest pace in nearly a decade. And the Federal Open Market Committee, which met last week, made no changes to monetary policy, cited market measures of inflation as having increased in recent months and noted that economic conditions are expected to warrant further gradual increases in the federal funds rate -- as many as three in 2018. So the terror of rising rates seized the markets again.

Municipal bonds have been hit even harder than Treasuries so far this year. The 10-year AAA general obligation bond lost 23 basis points last week and closed at a yield of 2.46%. It opened the year at 1.98%. The 30-year muni benchmark yield weakened by 19 basis points last week to 3.00% and is 46 basis points higher than where it closed in 2017. The general muni market registered a return of negative 0.95% during the first trading month of the year. But market technicals continue to look strong. Demand still greatly exceeds supply. Investors added another $543 million of new money to municipal bond mutual funds, bringing the 2018 total to $3.3 billion, while January issuance totaled only $16.8 billion, the lowest level in seven years. Among the few high yield issues in the market, the Industrial Development Authority of Pima County, Arizona sold $15.5 million of non-rated revenue bonds for Grande Innovations Academy, including 2052 term bonds priced at 5.375% to yield 5.50%, and the Capital Trust Agency of Florida had a $9.4 million financing for Seaside Community Charter School that priced at par to yield 7.00% in 2048.

This week, we await another continuing resolution to keep the government funded and keep an eye on the ticker tape. The municipal calendar again offers slim pickings, particularly for high yield buyers. The new issue slate is led by several Texas deals including a $567 million AA rated toll road refunding, a $134 million BB-minus rated Houston airport financing for United Airlines and a $38 million non-rated deal for Legacy Preparatory Charter Academy. Wherever the stock market is headed, we at HJ Sims continue to count on the steady flow of compounding tax-exempt income provided by municipal bonds. As investors, we welcome the increase in rates and the chance to replace some of our lower coupon bonds. As bankers, we welcome conditions that are still highly favorable for borrowers as rates still remain in the range of historic lows. And as conference hosts, we are planning to head to Orlando for our annual gathering of non-profit and for-profit senior living providers. We look forward to seeing you at ChampionsGate from February 28 to March 2 For more information, please visit HJ Sims 2018 Conference.

In Scottsdale, Arizona, Sims' Refinancing Provides Debt Service Savings and Liquidity Relief

OUR GOOD FORTUNE

"Sometimes in life, you just get lucky. We knew our debt was due/maturing in 2018 and we knew we needed help, but where to turn, who to trust. In 1994, SIMS was there for Westminster Village, underwriting the debt then. So, we attended a SIMS "sponsored" event; met with H J Sims and Jimmy Rester, scheduled a campus visit and what we were impressed with was how enthusiastic Mr. Sims and Jimmy were about our campus, our culture. We felt SIMS was the first "broker" who understood who we were, what we were about.

'So, we closed on our new tax exempt bonds in mid-December, 2017; Jimmy and SIMS leading the way. During a tempestuous rush for many to close on tax exempt borrowings by many, many campuses like Westminster Village, we were treated like we were the only SIMS client. SIMS was with us every step of the way, controlling, managing, always looking out for what was in our best interest. In a time where we should all be counting our blessings, our greatest blessing was starting the conversation with Mr. Sims, with Jimmy.

'Sometimes in life, you just get lucky."

– **Bud Hart, CEO/CFO, Westminster Village**

Westminster Village
RESORT-STYLE LIVING

Cont. on Page 4

In Scottsdale, Arizona, Sims Provides Refinancing

Cont. from Page 3

Partnered Right	• Westminster Village, Inc. is Scottsdale's premier, not-for-profit life care retirement community with 250 independent living units, 23 assisted living units and 49 skilled nursing beds • Nearly 100% occupancy in all units • Opened in 1988
Structured Right	• Goal of lowering debt service and increasing liquidity • Considered swap proposals and the effect of LIBOR's pending elimination • Protected the Borrower from changes in tax law
Executed Right	• Distributed a bank financing request for proposals to over 30 banks • Received 7 viable term sheet options • Secured low, fixed-rate interest rate with a 25 year amortization and a fixed rate for 10 years • Debt service savings of over $1,060,000 per year • If the additional debt $5 million is borrowed for capital expenditures, the debt service savings will still be over $760,000 annually • Took into account weighted average life considerations to extend the final maturity of the debt, lowering annual debt service for the client while increasing its borrowing capacity
Financed Right®	• Westminster Village recognized considerable interest savings refinancing its existing debt that had a 6.29% interest rate • The use of a line of credit for capital expenditures, coupled with annual debt service savings of over $1,060,000 on refinanced debt will allow Westminster Village to accumulate liquidity • Westminster Village's interest rate risk is hedged against changes in tax law, and Westminster Village has the ability to call the loan at par after 7 years, providing flexibility in future capital planning

Partnered Right

Westminster Village, Inc. (the "Community") is Scottsdale's premier, not-for-profit life care retirement community that provides resort style amenities, housing, health care and other related services to residents through the operation of a retirement community containing 250 independent living apartments, 23 assisted living units in The June & Frank Sackton Assisted Living Center and 49 beds in the Weyrich Health Care Center located on 16 acres in Scottsdale, Arizona. The Community has historically operated near full occupancy.

Structured Right

After evaluating several financing options with management of Westminster Village, Sims recommended a bank loan financing to obtain the lowest cost of capital. Additionally, after evaluating weighted average life considerations on the outstanding debt, Sims determined that Westminster Village could extend the amortization on the outstanding loan by 14 years and maintain the tax-exempt status on the debt. With these observations in mind, Sims crafted an RFP that was distributed to over 30 banks, resulting in 7 term sheet proposals matching the terms Westminster Village was seeking at considerably lower rates than its current interest rate.

Cont. on Page 5

In Scottsdale, Arizona, Sims Provides Refinancing

Cont. from Page 4

Executed Right

After a detailed evaluation process, Sims weighed the benefits of the seven proposals, five of which proposed swap solutions. Though the swap rates were attractive, the news of the pending elimination of LIBOR brought uncertainty to the future of the swap contracts. Thus, Sims negotiated with Western Alliance Bank (the "Bank") a financing structure at a "natural" fixed interest rate below the interest rates quoted from other banks that were utilizing a swap. The loan can be called after 7 years without penalty. Ultimately, Sims was able to lock in a 3.42% fixed rate through a 10 year commitment for the Borrower.

With news of pending tax law changes making headlines daily during the negotiation process, Sims was able to request language in the documentation that effectively put a cap on the amount that the Bank could increase the rate on the loan in the event of a change in tax law affecting the bank's profitability. The provisions limit Westminster Village's exposure to any changes in tax law, capping the amount that their interest rate can increase.

Finally, the Bank offered Westminster Village a $5,000,000 non-revolving line of credit that can be used for capital expenditures with a two-year draw period, with draws to be termed out coterminous with the refunding term loan.

Financed Right®

As a result of the transaction, Westminster Village lowered the rate on its outstanding interest rate from 6.29% to 3.42%. With the refinancing of the existing debt, the Community lowered its debt service payment by over $1 million annually over the next 10 years. The transaction also provides for flexibility in future capital planning by allowing for the debt to be called without penalty after 7 years. Additionally, the new non-revolving line of credit will allow Westminster Village to save operating cash flow that it would otherwise have used for capital expenditures over the next two years, which is expected to add nearly $5 million to the Community's liquid reserves (and allowing it to nearly double its days cash on hand in a relatively short amount of time). Ultimately, after a diligent process and intentional vetting of each proposed option, Westminster Village obtained a financing option that provided for more financial flexibility and borrowing capacity at a significantly lower cost of capital.

For more information, please contact James Rester at jrester@hjsims.com or (214) 559-7175.

For more information, please contact an HJ Sims banker.

Fairfield, CT

William Sims	203-418-9001	wsims@hjsims.com
Jeff Sands	203-418-9002	jsands@hjsims.com
Andrew Nesi	551-427-5135	anesi@hjsims.com
Mackenzie Welch	203-418-9024	mwelch@hjsims.com
Krystal Murphy	203-418-9028	kmurphy@hjsims.com

Rockville, MD

Aaron Rulnick	301-424-9135	arulnick@hjsims.com
Melissa Messina	203-418-9015	mmessina@hjsims.com
Patrick Mallen	203-418-9009	pmallen@hjsims.com
Joseph Melville	203-418-9069	jmelville@hjsims.com

Bloomington, MN

Mark Landreville	952-683-7509	mlandreville@hjsims.com
Jay Hromatka	952-683-7506	jhromatka@hjsims.com
Christina Rappl	952-683-7507	crappl@hjsims.com

Philadelphia, PA

James Bodine	215-854-6428	jbodine@hjsims.com

Austin, TX

Curtis King	512-519-5003	cking@hjsims.com
James Rester	901-652-7378	jrester@hjsims.com
Brett Edwards	512-519-5001	bedwards@hjsims.com

Orlando, FL

Robert Gall	407-313-1701	rgall@hjsims.com

Montvale, NJ -Sims Mortgage Funding - 201-307-9383

Anthony Luzzi	aluzzi@simsmortgage.com
Kerrie Tomasiewicz	ktomasiewicz@simsmortgage.com
Andrew Patykula	apatykula@simsmortgage.com
