

CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 8/15/17

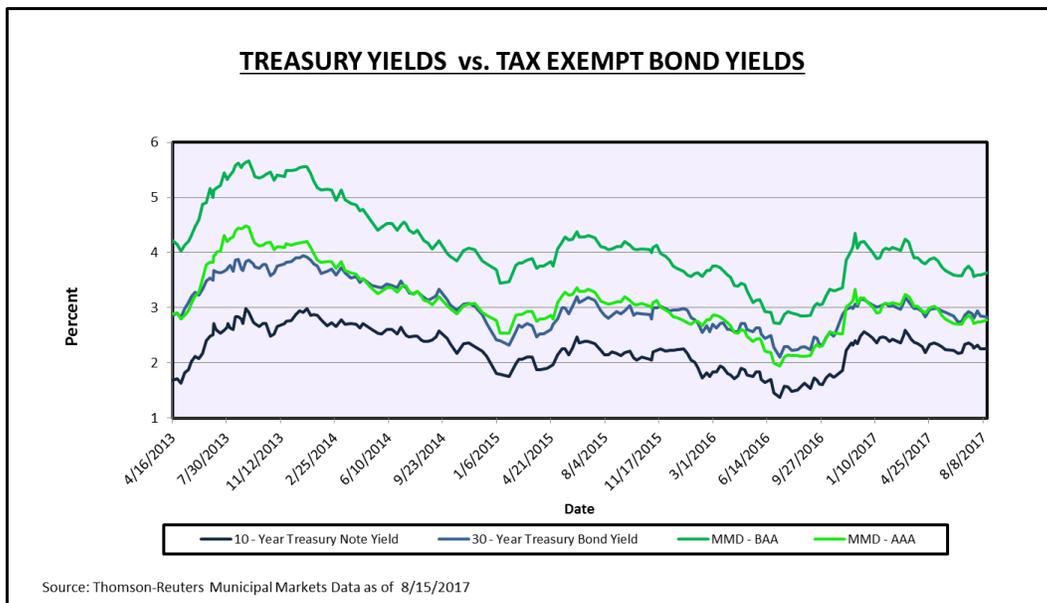
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.230%	1.900%	2.300%	2.60%	2.65-3.20%	4.00-4.50%
10 yr.	NA	2.300%	2.850%	3.100%	3.50%	3.625-4.00%	4.50-5.00%
20 yr.	NA	3.050%	3.550%	3.850%	4.40%	4.25-4.75%	5.25-5.75%
30 yr.	3.480%	3.340%	3.700%	4.050%	4.60%	4.50-5.00%	5.85-6.60%

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

SIFMA Index	LIBOR
0.78%	1.23%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.73%	2.2610%	2.8400%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.06%	1.25%	1.40%	1.54%	1.72%
Weekly LIBOR Swap Rates	1.45%	1.67%	1.84%	2.00%	2.17%



Market Commentary

Umbraphiles from around the world are coming to the U.S. to watch the moon cross in front of the sun on Monday, August 21. The total eclipse of the sun will darken skies in cities across the nation from 10:15 am local time in Salem, Oregon to 2:49 pm in Charleston, South Carolina. It will be the first time since 1918 that the umbral shadow will span the U.S. coasts, and it will cover 2,500 miles on a path averaging 70 miles wide in 90 minutes, moving at an average speed of 1,651 mph. The longest duration at the closest point will be in Hopkinsville, Kentucky at 1:24 pm, where the totality of the eclipse will last for 2 minutes and 40 seconds. Since the celestial event will not be visible from any other country, it is being called the [Great American Eclipse](#). Partial eclipses will be observable in Southwestern and Northeastern states until the next best viewing opportunity presents itself on April 8, 2024, when the path will span from Texas to Maine.

A very different type of dark shadow hung over the range from North Korea to Guam to Charlottesville last week as nuclear threats and violence eclipsed the news. The escalating war of words with Pyongyang sent shivers through the financial markets; the volatility index spiked from 9.93 to 16.04 and stocks reversed course. The Dow Jones Industrial Average fell 234 points, and the Nasdaq Composite Index 95 points by the end of the week. Many investors turned again to the steady safety of bonds, and both Treasuries and municipals saw yields fall. Ten- and thirty-year governments closed stronger by 7 basis points to 2.19% and 2.78%, respectively. The 10-year AAA general obligation bond rallied by 5 basis points to finish the week at 1.88% while the long tax-exempt benchmark basically ended flat. There was solid demand for the 3-year and 30-year Treasury auctions as well as for new tax-exempt issuance. Municipal bond funds saw net inflows of \$1.62 billion, and \$5.5 billion of issues were snapped up in the primary market.

HJ Sims underwrote the \$53 million Capital Trust Agency financing for Elim Senior Housing and Trinity Springs in Wildwood, Florida for a start-up assisted living and memory care community, after re-pricing the non-rated 2052 term bonds up to par to yield 5.875%. The Agency also issued \$11.8 million of non-rated multifamily mortgage backed securities maturing in 2027 with a rate of 2.77% yielding 2.563%. The Public Finance Authority of Wisconsin sold \$5.1 million of Baa3 rated bonds for Dogwood Housing in Alabama that featured a 2052 maturity priced at 5.00% to yield 5.07%. The Newark Higher Education Finance Corporation in Texas had a \$22.4 million non-rated financing for Austin Achieve Public Schools that were issued with 2048 term bonds priced at 5.25% to yield 5.20%. The Wisconsin Health and Educational Facilities Authority sold \$4.5 million of non-rated bonds for Presbyterian Homes and Services with a single term maturity in 2052 priced at par to yield 4.85%. The City of Campbellsville, Kentucky was in the market with a \$15.9 million non-rated refunding for Campbellsville University that had 30-year term bonds priced at 4.50% to yield 4.72%. And the highest yielding issue we have seen in some time was a \$14.8 million 10% note due in 2020 from the Virgin Islands Water and Power Authority with a triple tax-exempt yield of 10.85%.

This week, we have the Alabama Senate race, minutes from the last Fed meeting, and economic data releases on retail sales, business inventories, housing starts and building permits. The \$6.7 billion muni calendar includes a \$226 million Colorado Health Facilities Authority revenue and refunding bond issue rated BBB for The Evangelical Lutheran Good Samaritan Society that HJ Sims is co-managing. There are also two Baa3 rated deals in Missouri for Southeast Health, including an \$87 million issue of the Cape Girardeau County Industrial Development Authority, and a \$6.5 million financing through the Stoddard County Industrial Development Authority. As we head into the last few trading weeks of August, the 30-day visible supply of municipal bond totals \$9 billion.

Sims Finances Preferred Equity Investment in Start-Up Assisted Living Community



Partnered Right	<ul style="list-style-type: none"> A joint venture between Link Development and Watermark Retirement Communities is developing an assisted living and memory care project outside of Tucson, AZ.
Structured Right	<ul style="list-style-type: none"> The investment needed to be structured to: <ol style="list-style-type: none"> 1) Meet the regulatory needs of the senior lender, and 2) Fulfill the capital needs of the client from the development period through certificate of occupancy, while providing sufficient returns for the Joint Venture Owners.
Executed Right	<ul style="list-style-type: none"> Sims structured a preferred equity investment, meeting the needs of the senior lender and the Joint Venture Owners while providing attractive returns to HJ Sims’ investors.
Financed Right®	<ul style="list-style-type: none"> Sims successfully placed \$3,800,000 of corporate taxable bonds to fund a preferred equity investment in the project.

Partnered Right

Sims was approached to provide subordinate financing for the development of The Watermark at Continental Ranch (the “Community”), a proposed 99-unit assisted living and memory care community in Marana, AZ, which is a suburb of Tucson. The Community will be owned and developed by a joint venture (the “JV Owners” or the “Developer”) between affiliates of Link Development, LLC (“Link”) and Watermark Retirement Communities, LLC, who will also operate the Community (“Watermark”). Link is an experienced developer with a strong track record; the Community will be Link’s fourth senior housing development in Arizona. Watermark is an experienced developer and operator, currently managing 40 senior housing communities in 21 states.

Sims Finances Preferred Equity Investment

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Structured Right

There were two primary challenges associated with this financing:

- 1) The subordinate financing needed to be structured in a way that met the requirements of the senior lenders and High Volatility Commercial Real Estate Regulations, while also providing sufficient returns to all investors.
- 2) The terms of Sims' financing had to be flexible enough to fulfill the capital needs of the client during the development period through certificate of occupancy, while providing sufficient returns for the JV Owners.

Executed Right

Sims worked with the JV Owners to structure a preferred equity investment in the project. The preferred equity structure allowed the investment to be categorized as contributed capital on behalf of the JV Owners, meeting regulatory requirements for the senior construction lender. By securing a preferred position, the equity investment receives a quarterly priority return before any distributions are made to the JV owners, providing an attractive source of income for HJ Sims' investors. In consideration for the preferred position, the investment was structured with a capped all-in return, providing an attractive upside to the JV owners upon repayment of the preferred equity.

Financed Right®

A new entity, LW Development Funding I, LLC (the "Sims Issuer"), was formed to issue \$3.8 million 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 preferred equity investment to the JV Owners. The financing marks Sims' third successful financing with Watermark Retirement Communities and second successful financing with Link Development.

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