CAPITAL MARKET UPDATE

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

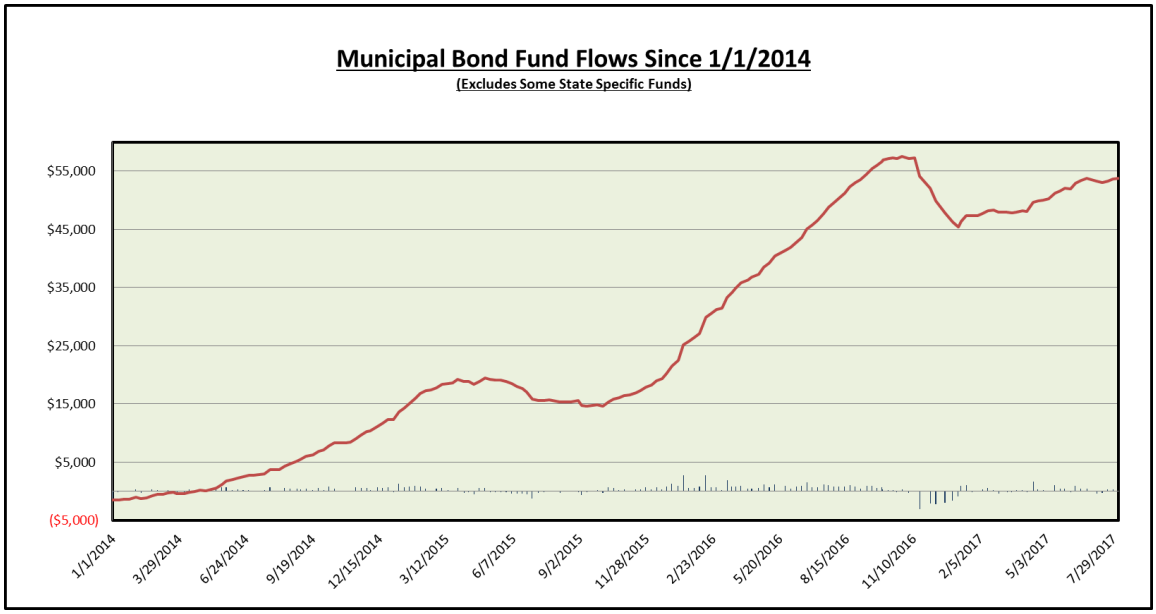
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.270%	1.850%	2.250%	2.55%	2.65-3.20%	4.00-4.50%
10 yr.	NA	2.330%	2.800%	3.050%	3.45%	3.625-4.00%	4.50-5.00%
20 yr.	NA	3.050%	3.500%	3.800%	4.35%	4.25-4.75%	5.25-5.75%
30 yr.	3.480%	3.330%	3.650%	4.000%	4.55%	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
0.79%	1.23%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
3.70%	2.2690%	2.8520%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.06%	1.26%	1.42%	1.56%	1.74%
Weekly LIBOR Swap Rates	1.47%	1.72%	1.90%	2.05%	2.23%



Market Commentary

With nothing to focus on in Washington until after Labor Day, financial markets have come up with their own version of Dancing with the Stars. S&P 500 companies in the red-hot information technology, banking and energy sectors have reported strong second quarter earnings, and the Dow Jones Industrial Average has recorded nine consecutive record highs as of this writing. In the past week, U.S. Treasuries, as well as top-rated 10- and 30- year tax-exempt general obligation bonds, have strengthened by more than 2 basis points: Treasury benchmark yields ended Friday at 2.26% and 2.84%, respectively, while muni benchmarks closed at 1.93% and 2.72%. The President and Congress waltzed off to their vacations, the Federal Reserve does not tap dance again until September 19, and traders only see a 47% chance of any tango with target rates through the end of the year, so bonds are trading on more technical factors. In the muni market, supply remains low relative to the demand, so borrowers continue to obtain stellar rates on everything from start-up assisted living facilities to investment grade charter schools with a decade of operating history.

Given the facts, investors are unsure of next steps. U.S. gross domestic product grew 2.6% in the second quarter, the Atlanta Fed forecasts 3.7% growth for the third quarter and the 4.3% unemployment rate is at a 16-year low. But consumer spending has slowed, wage growth is stubbornly low and U.S. households now have $1.021 trillion of credit card debt and $12.73 trillion of collective debt outstanding, new all-time highs. The Secretary of Treasury has estimated that the $19.8 trillion national debt limit will be hit on Friday, September 29, and former Fed Chair Alan Greenspan suddenly re-appeared, warning that there is a bubble in the bond market that is about to burst due to the abnormally low interest rate environment that has prevailed for so long. The Fed may start to decrease its reinvestment of maturing Treasuries, agencies and mortgage-backed securities this fall, but other central banks may sit out the rest of the year. And, although there has been a backflip in post-election expectations for major reforms and stimulus, new United Nations sanctions against North Korea and new U.S. sanctions against Iran and Russia, there is a surreal absence of volatility in both stock and bond swing indicators. During the past seven weeks, as the Dow has gained 682 points or more than 3%, investors have reacted by withdrawing a net of $18 billion from equity funds while adding nearly $25 billion to taxable fixed income funds and $1 billion to muni funds.

$7 billion dollars of municipal bonds were issued last week and quickly scooped up. Among senior living financings, the Philadelphia Authority for Industrial Development issued $124.7 million of BB rated bonds for Wesley Enhanced Living, pricing the 2049 term bonds with a coupon of 5.00% to yield 4.82%, and the Tarrant County Cultural Education Facilities Finance Corporation brought a $52.4 million A rated transaction for Buckner Retirement Services which had 2046 term bonds priced at 5.00% to yield 3.56%. In the education sector, the Executive Education Academy Charter School in Allentown, Pennsylvania had a $41.6 million non-rated deal with 30-year term bonds priced at par to yield 6.25%; the same maturity in the non-rated $38.5 million Hempstead, New York Academy Charter School financing priced at par to yield 6.24%. The KIPP Los Angeles BBB rated financing had a 5% coupon rate priced to yield 3.50% in 2047.

This week, HJ Sims is in the market with a $54.7 million non-rated financing for Elim Senior Housing and Trinity Springs in Wildwood, Florida. The 35-year transaction is structured with four term bonds and will finance the construction of a new assisted living and memory care community on a site adjacent to The Villages. The $7.3 billion muni calendar also includes a $14.3 million BB rated financing for Rockwell Charter High School in Utah. The economic calendar this week includes releases on job openings as well as the Producer Price Index and the Consumer Price Index.

Sims' Speed in Providing Mezzanine Financing

Partnered Right	• Sims' subordinate financing helped an experienced operator acquire a nursing home which it plans to turn around and refinance with HUD.
Structured Right	• Sims' industry expertise and flexible structure met the needs of the client, the Senior Lender, the AR Lender and HUD.
Executed Right	• Sims' ability to underwrite a complicated transaction quickly and efficiently allowed the client to execute on the purchase contract and avoid additional fees.
Financed Right®	• Sims successfully placed $2,000,000 of corporate taxable bonds with its high net worth investors to complete the acquisition.

Partnered Right

Sims was approached by affiliates of the Borrower to provide financing in connection with the acquisition of a skilled nursing facility. The facility is comprised of 120 skilled nursing beds and 7 independent living beds and will be leased by the Borrower to an experienced skilled nursing operator. The Borrower was under considerable time pressure. Using its "HUD Plus" program, Sims successfully provided a mezzanine loan totaling $2.0 million to complete the acquisition.

Structured Right

There were several challenges associated with this financing:

- The debt needed to be structured in a way that met the very demanding requirements of the Senior Lender and the Accounts Receivable (AR) Lender;
- Sims had to underwrite the operator's anticipated operational improvements to both revenue and expense line items and substantiate all adjustments.
- The terms of Sims' mezzanine financing had to be flexible enough to allow for a potential refinancing with HUD in the future.
- The project experienced some regulatory delay that made the time deadlines very tight.

Executed Right

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 the Borrower. This approach allows Sims' high net worth clients to invest in selected transactions but leaves the asset management and key decisions in the hands of Sims and its partner.

Financed Right®

Sims was able to underwrite and then implement a subordinate debt structure that met the needs of the Borrower as well as those of the Senior Lender and AR Lender in a timely fashion. Sims' ability to meet a tight deadline and be flexible resulted in a successful acquisition, allowing the client to continue to grow its portfolio.

A creative financing solution for strategic growth is an example of Sims using its extensive investor base to provide attractive financing to senior housing providers. 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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For more information, please contact an HJ Sims banker.

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