Capital Markets and Investment Banking

Market Update

JANUARY 2020

Building on Ground Leases

A Bifurcated Ground Lease offers an alternative method of financing commercial real estate properties versus a traditional fee simple commercial mortgage loan. At its core, a Bifurcated Ground Lease structure has characteristics that mimic those of Credit Tenant Lease ("CTL") financings of Sale-Leaseback transactions, albeit with different tenant profiles across various commercial real estate asset classes. The structured form of commercial real estate financing legally separates the property's land and improvements which leads to the creation of two key components: leased fee interest, or the ground below the improvements/building (landlord), and leasehold interest, or ownership of the improvements/building above the ground (tenant).

Synthetic Ground Leases are a type of off-balance-sheet financing that offer a way to optimize the overall leverage of a property at a long-term fixed rate, benefiting owners and purchasers of commercial real estate by executing a more efficient, cost-effective, long-term capital structure versus traditional commercial mortgage loans. Lenders also benefit from enhanced structural seniority and highly conservative coverage metrics. Ground rent payments are paramount in that they must be paid by the leasehold owner as a precursor to operating their business and these structurally senior ground rent payments are securitized via a pass-through trust similar to that of CTLs. The fundamental security and structural protections afford highly conservative coverage metrics which earn investment-grade ratings for Bifurcated Ground Leases when structured in bond form.

Buyers and owners of commercial real estate may utilize Bifurcated Ground Leases for various reasons, including:

- Savings on the overall cost of funds to purchase or refinance a property
- Operating leverage efficiency
- Incremental loan proceeds
- Less exposure to market cycle refinancing risk
- Estate planning

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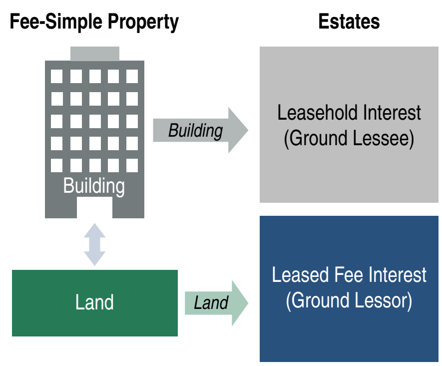
CHART 1 | **Bifurcated Ground Lease Structure**



Ground lenders benefit from a multitude of fundamental and structural safety attributes, including but not limited to low leverage ("LTV"), whereby total loan proceeds typically represent no more than 35 percent to 40 percent of enterprise (look-through) leverage. The ground rent payments that drive the cash flow coverage are typically sized at 20 percent to 30 percent of the net operating income of the income-producing leasehold asset. Mesirow Financial structures Ground Leases with modest annual rent escalations, avoiding pitfalls of fair market value resets or consumer price index escalations. The controlled steps ensure that the leasehold owner does not experience unexpected stress related to unforeseen outsized increases in ground rent. Ground rent payment is generally covered in the range of 3x to 5x on property net operating income.

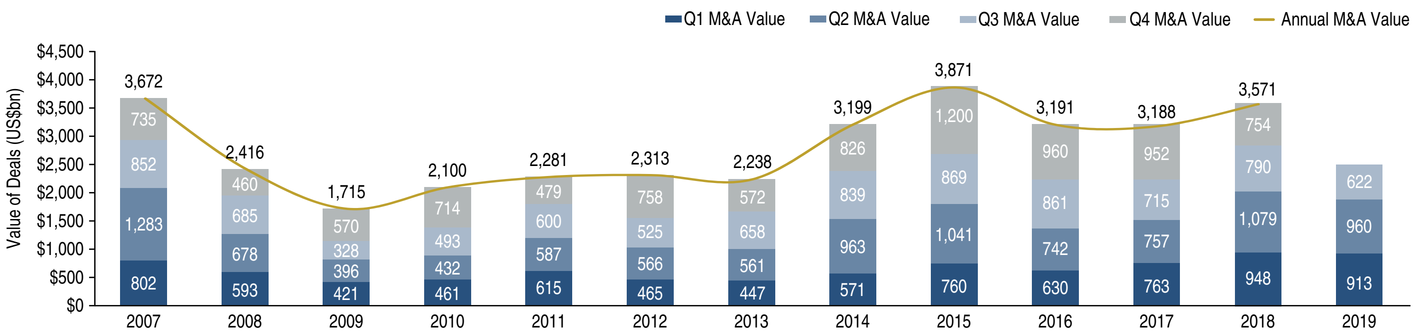
Mesirow Financial

Market Snapshot: Middle-Market Mergers & Acquisitions

2019 At A Glance

- Q1 – Q3 2019 M&A activity trailed Q1 – Q3 2018 by approximately 12%, with Q3 2019 reporting the lowest reported quarterly value since Q1 2016
- Average disclosed deal value of $425 million in Q3 2019, the highest on record
- The trade and tech war between Washington and Beijing continues to hamper global markets
- "Whether they are motivated by the desire to get more growth, or a way to secure future survival, deals are getting larger" – Beranger Guille, Global Editorial Analytics Director, Mergermarket

Quarterly Global M&A Comparison

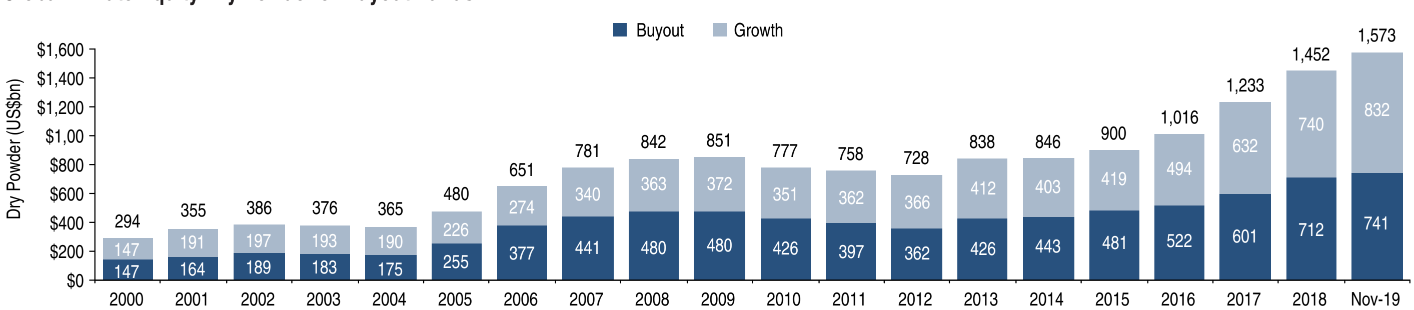


Source: MergerMarket.

Significant opportunities exist to capitalize on the favorable financing environment

- The slowdown in dealmaking spread to the U.S. market in Q3 2019, causing global M&A to drop 11.4% YTD on last year to $2.49 trillion (across 13,304 deals)
- The U.S. market, which had so far seemed immune to the global downward trend at play since the middle of last year, is starting to be impacted
  - At $262.9 billion in Q3 2019, U.S. M&A has fallen to its lowest quarterly value since Q1 2016 ($254.6 billion)
  - Worth $1.25 trillion YTD, U.S. M&A is still marginally up Y-o-Y from $1.23 trillion, managing ~50% YTD share of global M&A activity, down from 52.5% in H1 2019
- Buyout dry powder levels have continued to increase and are currently at a record high of $721 billion
  - Buyout funds account for the majority (46%) of private equity dry powder
- Overall, dry powder has been accumulating despite concerns about high asset pricing and competition for deals

Global Private Equity Dry Powder of Buyout Funds



Source: MergerMarket, Preqin. Others include venture, growth, early stage, fund of funds, early stage, expansion, co-investment, among others

Market Snapshot: Municipal Bonds

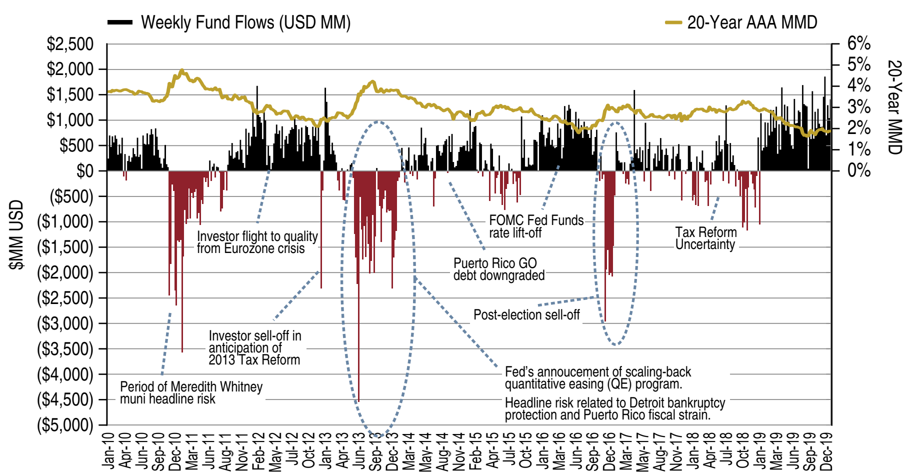
Municipal Bond Fund Flows and Municipal Market Data (MMD)

After losing more than $11 billion in net redemptions during the fourth quarter of 2018, municipal bond funds have rebounded sharply in 2019 – with 45 consecutive weeks of positive inflows.

The decrease in issuance and changes in tax law, specifically the cap on state and local tax deductions, has contributed to the overwhelming demand for municipal bonds as investors flock to municipals to shield their income.

The demand for municipal bonds continued through the end of the first half of 2019. Total volume for municipal bonds in the first half of 2019 is even with issuance in the first half of 2018. It is expected that the second half of 2019 could follow along closely to the volume in 2018. A continued low rate environment and tax-exempt refundings may spur issuance.

Municipal Bond Fund Flows and 20-Year MMD



Trailing 16-Week Data

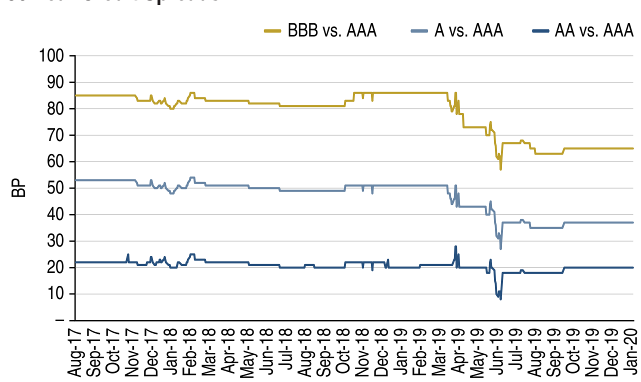
Muni Fund Reporting Date	Weekly Fund Flow ($MM USD)	20-Yr AAA MMD (%)
9/11/2019	747.95	1.83
9/18/2019	629.65	1.93
9/25/2019	1,571.61	1.80
10/2/2019	636.88	1.79
10/9/2019	1,167.19	1.71
10/16/2019	842.96	1.71
10/23/2019	1,225.84	1.92
10/30/2019	932.47	1.96
11/6/2019	867.53	1.95
11/13/2019	873.23	2.01
11/20/2019	1,461.89	1.91
11/27/2019	1,860.14	1.88
12/4/2019	702.86	1.88
12/11/2019	1,296.62	1.84
12/18/2019	1,042.23	1.89
12/25/2019	1,412.63	1.89

As of the weekly reporting date 12/25/2019.
Source: EPFR Global Fund Flows and Allocations Data – All Muni Funds (Retail and Institutional Funds).

Credit Spreads

- Flows into mutual funds and separately managed accounts (“SMAs”) continue to be extremely strong, keeping credit spreads tight.
- Remarks from the Federal Reserve Chairman and various international political strains have pushed the ten-year Treasury bond well through 2 percent (1.685 percent as of August 13, 2019) and inverted the Treasury yield curve while flattening the Municipal curve.
- Opportunities in the tax-exempt market are limited as the market is currently favoring issuers over bond holders. Therefore, we are recommending municipal bond investors maintain a relatively low risk profile.

30-Year Credit Spreads



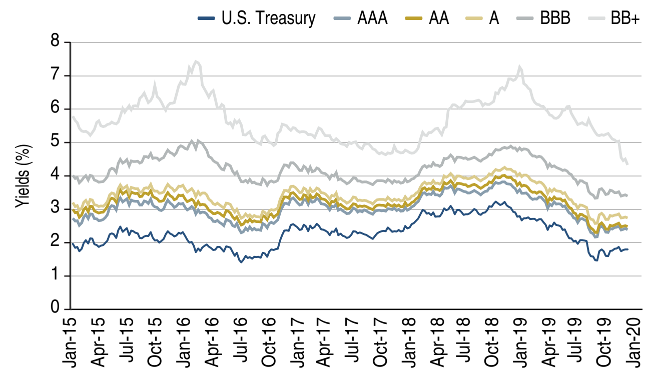
Source: The Municipal Market Monitor (TM3).

Market Snapshot: Corporate Debt and Infrastructure Finance

Corporate Debt Finance – Market Update

- 10-year Treasury yields ended the year at approx. 1.90%, a decrease of approx. 90 basis points ("bps") year-over-year from approx. 2.80% in December 2018. In early September, yields on U.S. 10-year Treasuries dropped to their lowest point, 1.45%, since mid-2016. 10-year Treasuries peaked in late 2018 at around 3.25%.
- Investment grade-rated corporate credit spreads ended the year at historically tight levels, as foreign capital floods the U.S. bond market in search of yield, which remains high relative to other parts of the world. Bonds with junk credit ratings also rallied in December amid newfound optimism about global growth and easing trade tensions.
- Despite predictions at the beginning of 2019 that the Federal Reserve would continue to increase interest rates, the Federal Reserve shifted course and decreased rates three times in the second half of the year in response to the global economic slowdown and continuing trade tensions. It was the first time the Federal Reserve decreased interest rates since 2008, and the consensus among economists it that the Federal Reserve will keep rates steady in 2020.
- Total corporate bond issuance in 2019 was approx. $1,356 billion, which is roughly $43 billion in volume greater than new issuance in 2018, an approx. 3.3% increase in volume year over year. New corporate bond issuances declined in 2018 after peaking in 2017 at $1,652 billion in issuance.[1]

Historical Corporate Bond Yields – 10-Year Maturity

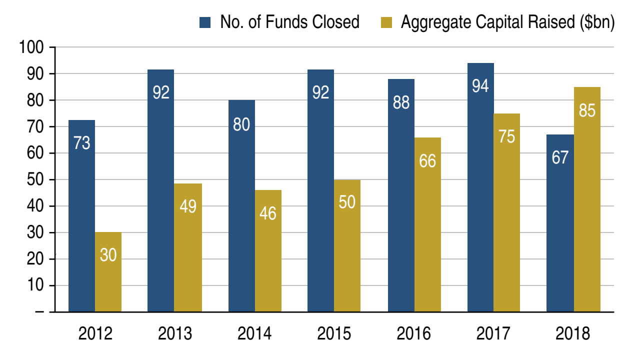


Data as of December 11, 2019. Source: S&P Global Fixed Income Research.

U.S. Infrastructure – Market Update

- U.S. public-private partnership (P3) activity in 2019 was slightly accelerated compared to recent years. For example, the third phase of the North Tarrant Express P3 on interstate I-35W in Texas was financed through the sale of $690 million private activity bonds at the end of July. $264 million in private activity bonds were raised for Virginia's Frederickburg Extension of I-95. A $40 million data center P3 in Hammond, Indiana closed funding with Mesirow's help in the first quarter. A $500 million consolidated rent-a-car facility at Newark Liberty International Airport was privately financed, and Boston's Northeastern University entered into a 50-year agreement with a private partner to manage its campus-wide parking system.
- New infrastructure projects are increasingly being procured as a P3 by local municipalities and universities. For example, Prince George's County in Maryland is in procurement for a schools construction financing. The City of Annapolis, Maryland is currently in procurement for a parking and resilience infrastructure project. The University of Idaho is exploring the potential use of a P3 for the management and operation of the University's utility systems, while the University of Iowa recently selected a preferred bidder for a P3 involving its utility system.
- Infrastructure fundraising reached record levels in 2018 with 208 funds raising $85 billion, according to Preqin. North American-focused funds made up approx. half of global fundraising with 22 funds raising $44 billion[2]. Though fundraising slowed through the first three quarters of 2019, the fundraising boom was expected to continue as Brookfield Asset Management and Global Infrastructure Partners were both anticipated to raise $20 billion in the fourth quarter.

Global Annual Unlisted Infrastructure Fundraising, 2012–2018



Source: Preqin, 2019.

1 SIFMA, US Corporate Bond Issuance, 12.06.19.
2 Preqin, 2019.

Featured Mesirow Financial Deals

$75,000,000
Bifurcated Ground Lease Financing

Confidential Hotel Tenant

Philadelphia Hotel Acquisition
(TENANT)

Bifurcated Ground Lease Financing for Philadelphia Hotel Acquisition

Mesirow Financial successfully structured the bifurcation of a hotel acquisition and arranged cumulative financing in the amount of $75 million on behalf of the purchaser of the ground. The ground, or "Leased Fee" interest, entered into a 99-year Ground Lease to the owner of the hotel sitting atop of it. Those lease payments service the debt placed to finance the acquisition of the ground, a two-acre parcel of land which is improved upon by a 757 room, 30-story 283,000 square foot convention center hotel. The financing was structured in the form of three bonds: a Senior Series A struck at approximately 27 percent loan-to-value ("LTV") rated A+ and paying interest only through and full payment of principal at maturity and Series B Notes at approximately 58 percent LTV, with Series B-1 and B-2 rated BBB and BB respectively, both fully amortizing. Ground Rent was initially set at approximately 44 percent of the hotel's most recent net operating income with the expectation that the percentage will decrease to approximately 27 percent after year three as income has stabilized. This financing illustrates the structural creativity Mesirow utilizes in its thoughtful underwriting to accommodate both the borrower and lenders involved in the transaction.

enchanting
TRAVELS

has been acquired by

Travelopia

a portfolio company of

KKR

— Sell-side Advisor —

M&A Sell-side Advisor to Enchanting Travels AG

Mesirow Financial acted as the exclusive financial advisor to Enchanting Travels AG ("Enchanting Travels" or the "Company") on its sale to Travelopia Holdings Limited, a portfolio company of KKR & Co. Inc. Headquartered in Denver, CO and Munich, Germany, Enchanting Travels is a specialist in high-end tailormade travel and has provided transformative and bespoke travel experiences to over 30,000 guests around the world. Enchanting Travels' cloud-based technology platform, Artemis, enables its travel consultants to rapidly create complex itineraries with dynamic pricing capabilities, transforming the traditional high-end luxury travel segment. The Company's proprietary technology also facilitates seamless execution for booking custom trips with carefully selected travel partners around the world. The transaction represents another successful assignment completed by Mesirow Financial's Investment Banking group and highlights the firm's expertise within the technology sector.

VILLAGE OF BOLINGBROOK
INCORPORATED 1965

Village of Bolingbrook

$22,415,000

February 2019

Special Tax Refunding Bonds,
Series 2019

— Senior Underwriter —

Senior Manager for the Village of Bolingbrook Special Service Area No. 2018-1

Mesirow Financial served as senior underwriter for the Village of Bolingbrook's (the "Village") $22,415,000 Special Tax Refunding Bonds, Series 2019 (the "Bonds") that closed in February 2019. Mesirow earned the transaction through a request for proposal process that highlighted our structuring ideas, investor insights and cost-effective underwriting performance on other Village bond issues. The Series 2019 Bonds refunded outstanding 2005 Special Service Area Bonds (the "Prior Bonds") that were originally issued to fund infrastructure needs for the Village's Promenade Mall. Like many other regional malls housing traditional "brick and mortar" retailers, the Village's Promenade Mall has recently been impacted by decreased foot traffic precipitated by an increase in online shopping. Accordingly, Mesirow Financial worked with the Village's financial advisors, Starwood Capital Group (the "Shops Owner") and holders of the Prior Bonds over the course of several months to create a financing plan which leveraged current very low interest rates and reduced overall debt service by extending the final maturity from 2027 to 2041. Using a strong offering document that focused on sophisticated investors we routinely serve, Mesirow Financial's sales efforts resulted in strong reception for the non-rated, uninsured financing and investor subscriptions for over 2.3x the amount of bonds available. This strong sales effort reduced interest costs below estimates during the RFP process and locked in a debt service structure that met the longer term needs of the community and the Shops Owner.

Capital Markets

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- Fixed Income Sales and Trading
- Public Finance
- Sale-Leaseback Capital
- Structured Debt Products

Investment Banking

Boutique M&A advisor serving the middle-market and providing customized solutions to meet the unique needs of our clients.

About Mesirow Financial
Mesirow Financial is an independent, employee-owned firm founded in 1937. As specialists in investment, risk management and advisory services, we are committed to helping our institutional, corporate and individual clients achieve their objectives. Our professionals are inspired by an entrepreneurial desire to develop tailored solutions designed to deliver measurable results. To learn more, please visit mesirowfinancial.com.

Contact Us

Brian Price
Investment Banking
312.595.6545
bprice@mesirowfinancial.com

Steve Jacobson
CTL and Structured Debt Products
312.595.7920
sjacobson@mesirowfinancial.com

Todd Waldrop
Public Finance
312.595.6242
twaldrop@mesirowfinancial.com

Gerry Levin
Sale-Leaseback Capital
312.595.6070
glevin@mesirowfinancial.com

Dominick Mondi
Institutional Sales and Trading
312.595.7133
dmondi@mesirowfinancial.com