

HJ SIMS LEADS HYBRID BANK AND FIXED-RATE FINANCING FOR EXPANSION OF AFFORDABLE AND MODERATE INCOME SENIOR LIVING COMMUNITY



PARTNERED RIGHT®

Friends House Retirement Community (“Friends House”) is a Maryland nonstock corporation that has been in operation since 1962 and is recognized by the Internal Revenue Service as a 501(c)(3) organization. Friends House provides housing and such other related services as a full-service retirement community, including long-term healthcare services, at its approximately 62 acre campus in Sandy Spring, Montgomery County, Maryland. Friends House currently provides 32 independent living units and 75 low-income rental apartments, 82 comprehensive care beds and 21 assisted-living units. Friends House is undertaking the expansion project while also undertaking a joint venture process with Homes For America (“HFA”) for HFA to provide a new 80-unit low income housing tax credit financed apartment building on the Friends House campus to replace its existing low-income rental apartment building. The HFA project is not part of the expansion project, which consists of (i) the renovation and expansion of the existing commons building, (ii) the demolition and removal of two vacant cottages, (iii) the construction, furnishing and equipping of approximately 14 new cottage units and approximately 33 apartment units to be located in approximately 3 buildings (the “Project Independent Living Units”) and (iv) other associated site work and development.

Friends House At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> » Friends House is a 501(c)(3) organization that operates a continuing care retirement community on approximately 62 acres in Sandy Spring, Montgomery County, Maryland. » Friends House provides housing, health-care and other related services to residents on a campus operating a total of 208 units comprised of a combination of rental and entrance fee independent living units, assisted living units and skilled nursing beds. » Established in 1967 by members of the Religious Society of Friends to provide affordable homes for low to moderate income seniors, Friends House sought to expand and renovate existing common areas to be able to serve additional residents in the coming years. 	<ul style="list-style-type: none"> » Friends House’s objectives were to minimize risk and cost in financing its expansion project, which required a hybrid financing structure with short- and intermediate-term, low cost bank debt and long-term, fixed-rate bonds. » Required coordination of a new Master Trust Indenture providing Friends House the flexibility to continue to grow in future years within an industry-standard covenant framework. 	<ul style="list-style-type: none"> » Successfully placed a \$13,200,000 loan with a commercial bank through a request for proposals process allowing Friends House to obtain terms and form a relationship with a new commercial lending partner. » Successfully priced \$16,975,000 in fixed-rate bonds at below feasibility study projections to provide stable long-term financing platform. 	<ul style="list-style-type: none"> » Sims arranged the short- and intermediate-term commercial loan such that \$10,200,000 would be repaid in the first 3 years with proceeds from initial entrance fees and the remaining \$3,000,000 would amortize completely thereafter over 8 years. » Sims utilized its extensive investor network to place the fixed-rate bonds on terms advantageous to Friends House.

STRUCTURED RIGHT®

HJ Sims was engaged by Friends House to facilitate the most cost-effective and lowest risk financing solution. Sims conducted a comprehensive bank solicitation process (“RFP”) targeting the most active lenders to senior living organizations in the Mid-Atlantic region and Friends House’s longstanding commercial lending partner. The proposed security structure included a mortgage on the land but included a carve out and release provisions for the parcel of land that will be occupied by the HFA project. As such, it was important to Friends House to find a commercial lender that could deliver not only a favorable interest rate and terms but also would through some of the complex legal and technical issues posed as a result of the pending subdivision and the Maryland long-term care regulatory environment through its credit approval process.

In addition, to reduce refinancing risk and provide the lowest cost of long-term capital, Sims proceeded with the issuance of approximately \$17 million of non-rated traditional fixed-rate bonds. In pursuing this strategy, the financing team faced the challenge of effectively addressing investor concerns regarding the bank’s participation in the expansion and the unrelated, yet concurrent, HFA project.

EXECUTED RIGHT®

In order to meet the strategic financing objectives of Friends House, HJ Sims recommended a hybrid of a commercial loan and fixed-rate, tax-exempt bond issue (collectively, the “Series 2018 Bonds”). Financing implementation addressed a number of factors. This included integration of multiple components of financing on a parity basis, combining the bank financing with the fixed-rate bond financing, understanding and accounting for the anticipated subdivision of the parcel for the HFA project, and providing flexibility to Friends House, within industry-standard terms, to grow in the future.

FINANCED RIGHT®

On August 23, 2018, Sims successfully closed on the aggregate \$30,175,000 hybrid bond financing with a blended arbitrage yield of approximately 4.63%. The

hybrid structure enabled Friends House to minimize negative arbitrage during the construction of the expansion project, minimize interest costs through a mixture of variable and fixed rate financing vehicles and maximize the term of the long-term fixed rate bonds to provide cash flow flexibility for future years.

“Our community includes a full-service CCRC and independent housing for low-income seniors. Financing our expansion required an investment firm with unusual vision and expertise. We found that in HJ Sims. Their ideas included how to structure future phases as well as our key expansion of our independent living facilities. Most importantly, their understanding of markets for the debt of a small organization like ours was compelling. We are fortunate to have an investment partner such as Sims.”

— Kevin Harrington, Executive Director,
Friends House Retirement Community

For more detailed information
on how Friends House was
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