

CASE STUDY

HARBOR'S EDGE

\$201,145,000 | March 28, 2019 | Norfolk, VA



FINANCED RIGHT®

HJ SIMS PARTNERS WITH LONG-TIME CLIENT, HARBOR'S EDGE, TO FACILITATE \$200 MILLION EXPANSION HYBRID FINANCING INVOLVING FIXED-RATE BONDS, CONVERTIBLE SUBORDINATE ENTRANCE FEE PRINCIPAL REDEMPTION BONDSSM, AND BANK-HELD DRAW-DOWN BONDS



PARTNERED RIGHT®

Fort Norfolk Retirement Community, Inc. (d/b/a Harbor's Edge) is an existing life plan community, which opened in September 2006 and consists of approximately 159 independent living apartments, 33 assisted living units, 15 memory-support units, 33 skilled nursing beds and related common amenities. Harbor's Edge is located on the banks of the Elizabeth River in Norfolk, Virginia. The original vision for the community included approximately 300 independent living units, which ultimately was divided into two phases. In October 2017, Harbor's Edge started accepting 10% deposits for the River Tower achieving 70% presales in September 2018. The River Tower will contain 147 additional independent living apartments, 20 assisted living units, parking and expanded dining and other amenities. The expansion project will also include renovation to the existing health center, converting 12 assisted living units to 21 memory care units. HJ Sims has partnered with management and the board of Harbor's Edge since the initial seed capital financing in August 2003 and was engaged again to finance the proposed expansion.

Harbor's Edge At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> » Harbor's Edge was established in 2002 in cooperation with the City of Norfolk as part of a master development called the Fort Norfolk Neighborhood. Harbor's Edge consists of approximately 456,533 square feet that incorporates 159 independent living apartments, 33 assisted living units, 15 memory support units, 33 private nursing rooms and appurtenant common amenities. » HJ Sims has partnered with the management and board of Harbor's Edge since the early 2000s when the community was originally conceived, structuring, placing and/or underwriting the initial seed capital transaction, first phase of development financing, a refinancing in 2014 that contained predevelopment capital for the River Tower to be constructed as phase II and the development financing for the River Tower, which closed at the end of March, 2019. 	<ul style="list-style-type: none"> » Harbor's Edge started accepting 10% deposits for the River Tower in October 2017 and achieved a targeted 70% presales goal by September 2018. » To facilitate the most efficient financing structure, HJ Sims concurrently ran a bank request for proposals process for a portion of the project costs while developing the terms and offering documents for the fixed-rate bonds that would be issued simultaneously with any bank-held piece. » The strong balance sheet and operational history of Harbor's Edge garnered a number of attractive proposals for bank financing that would be repaid first from initial entrance fee proceeds received from River Tower Residents. A challenge with the appraisal during the banks' due diligence phase required a portion of the initial entrance fee bonds to be offered on a convertible subordinate basis to fixed-rate bondholders. 	<ul style="list-style-type: none"> » HJ Sims coordinated with two commercial banks to arrange a \$100 million draw-down bank loan alongside \$101,145,000 of fixed-rate bonds underwritten exclusively by HJ Sims. 	<ul style="list-style-type: none"> » Though the hybrid bond-bank structure with convertible subordinate bonds was a complex structure, it saved Harbor's Edge over \$10 million in par on the long-term debt and \$600,000 in maximum annual debt service. » The bonds were distributed among a diverse pool of institutional and Private Client Group of individual investors creating a broad base of investor interest in Harbor's Edge.

STRUCTURED RIGHT®

Due to the scope of the River Tower expansion and the historically high demand for independent living apartments, Harbor's Edge wished to maximize the amount of initial entrance fees collected from the River Tower to deleverage the project financing. Furthermore, given the size of the project, HJ Sims sought to incorporate draw-down bank construction financing in the capital structure to minimize the negative arbitrage incurred in fully funding project costs at closing as well as to minimize the reserve requirements. As such, HJ Sims simultaneously conducted a bank request for proposals process while preparing the offering documents for the fixed-rate bond financing. The bank solicitation process resulted in a number of proposals, with SunTrust Bank and TD Bank ultimately providing \$100 million in aggregate commitments for a draw-down construction loan. As a result of the banks' appraisal requirements and the amount of the senior debt (including existing Series 2014 Bonds), HJ Sims determined that a portion of the Series 2019 Entrance Fee Principal Redemption BondsSM would need to be subordinated initially to the other Master Obligations, converting at a point at which the banks felt secure that their loan-to-value requirements would be satisfied.

EXECUTED RIGHT®

Further complicating the bond marketing process was the existence of a ground lease from the City of Norfolk, which while containing favorable terms to leasehold mortgagees, still caused some concern among the investor community. As a result, Harbor's Edge and HJ Sims worked together to provide a right for bondholders to request that Harbor's Edge exercise its right to purchase the underlying land from the City of Norfolk in certain circumstances and so long as certain financial thresholds were maintained. On March 21, 2019, HJ Sims successfully priced the \$101,145,000 aggregate Series 2019A and B Bonds, widely distributing the bonds among Private Client Group of individual investors and 20 institutional investors.

FINANCED RIGHT®

HJ Sims successfully integrated the needs of the banks and bond investors with those of Harbor's Edge resulting in an efficient \$201,145,000 financing structure. Despite challenges raised by the appraisal and

ground lease, HJ Sims was able to achieve an excellent execution with an average coupon of 4.84% (including the convertible subordinate bonds). The hybrid bond and bank structure significantly reduced long-term debt resulting in over \$10 million in savings of par and reducing projected maximum annual debt service by approximately \$600,000, minimizing the debt burden on Harbor's Edge as it embarks upon the River Tower expansion.

"When it was time to decide who would handle the financing of our \$200 million expansion, it didn't really take a lot of thought. HJ Sims has been our partner since the beginning in 2003 and have literally become like 'family.' In 2014, when we refinanced our outstanding debt, Sims secured \$6.5 million in additional capital for pre-development costs and \$1.5 million for other capital improvements. That and the improved covenants they secured put us in sound financial condition to move forward with the proposed expansion. When we had a decision to make about whether we would do all bonds or a mix of bonds and bank financing, their recommendation was not what would give them the most commission but what was best financially for Harbor's Edge. As I said, like 'family'."

— Cathy L'Heureux, Chief Financial Officer,
Harbor's Edge

**For more detailed information
on how Harbor's Edge
was Financed Right® by HJ Sims,
please call or email:**

Aaron Runlick

301.424.9135
arulnick@hjsims.com

Melissa Messina

203.418.9015
mmessina@hjsims.com

hjsims.com

HJ Sims is a member of FINRA, SIPC and is not affiliated with Harbor's Edge. Testimonials may not be representative of the experience of other clients and are not indicative of future performance or success.