

CASE STUDY

HOMESTEAD AT ROCHESTER

\$32,785,000 | November 2015 | Rochester, MN



FINANCED RIGHT®

FLEXIBLE, LOW-COST FINANCING FOR VOA HOMESTEAD AT ROCHESTER

PARTNERED RIGHT

Sims was hired by Volunteers of America National Services to secure construction and permanent debt financing for the Phase III expansion of The Homestead at Rochester. The Homestead at Rochester, a

Minnesota not-for-profit corporation (The Homestead), was incorporated in 2003 for the development, construction and operation of a CCRC campus in Rochester, MN. Rochester is located approximately 75 miles southeast of the Minneapolis, St Paul area and is home of the world renowned Mayo Clinic. Mayo Clinic provides physician services to the Homestead's SNF and Transitional

Care Facility and is the primary source of admittances to these Homestead facilities.

Phase I of the Homestead, totaling 230,000 square feet, included the construction of 77 independent living units, 44 assisted living units and 16 memory care units. Phase I was financed with a bank loan in 2005 and opened in November, 2006.

Phase II of the campus was developed in 2013 and consisted of 51 additional independent living units and a new 56-bed skilled nursing and transitional care facility. Phase II was financed by Sims with fixed rate non-rated bonds that also refinanced the 2005 Phase I bank loan. The Phase II independent living units opened in February, 2015 and the skilled nursing care facility in April, 2015.

The Homestead Phase III project will include the addition of 48 townhome style independent living units, 30 assisted living units and 32 memory care living units, all of which will be contained in two buildings on the existing campus. The independent living building will be two stories, with a total of 124,000 square feet together with a pavilion connecting 2 wings of 24 units per wing. The new townhouse units will have heated underground parking and storage stalls.



**THE HOMESTEAD AT ROCHESTER,
ROCHESTER, MN**

The residents of the independent living units in Phases I and II have the option of paying a modest entry fee ranging from \$34,500 to \$98,000 or leasing a unit at a higher monthly rent. Phase III independent units will have entry fees ranging from \$53,250 to \$92,350, with monthly service fees averaging \$3,107. A rental option is not included in Phase III. All entry fees are fully refundable.



**NEW HOMESTEAD INDEPENDENT LIVING,
ARCHITECT'S RENDERING**

"The outstanding work that HJ SIMS has done, in this financing and prior phases, has assisted us in creating a state of the art campus in a significant market for Volunteers of America."

***— Wayne Olson, Executive Vice President,
Volunteers of America***



STRUCTURED RIGHT

The financing for Phase III faced several challenges. The Homestead was seeking long-term, fixed-rate, tax-exempt debt financing at a time when the SNF and transitional care facility financed with Phase II bond proceeds was still in initial fill-up stage. The fill-up was somewhat behind original projections due to staffing shortages at Mayo Clinic. Further, certain entry fee redemption series of Phase II bonds were guaranteed by an affiliate of the Homestead. Management wanted to eliminate this outside recourse to support the new entry fee redemption bonds if at all possible. Finally, while 31 of the new 48 independent units had been reserved with a modest deposit, the typical 10% deposit for financing of an entry fee CCRC was not yet in hand.

The contractor and development consultant were anxious for a quick closing as winter was approaching, and all parties wanted to avoid costs for "winter conditions" in the construction costs.

EXECUTED RIGHT

After an aggressive marketing program by the Sims retail salesforce and extensive marketing to Minnesota double exempt bond funds, the bonds were successfully priced on November 19, 2015 with an average coupon of 4.95% for 35 years. Approximately \$10,800,000 of the issue was sold to retail clients of the firm with a minimum purchase requirement of \$25,000. The borrower did not provide any outside support for the Phase III entry fee redemption bonds. Sims was able to provide bond purchasers with assurances that the Phase II SNF unit would fill up in the near future and not negatively impact the overall credit quality of the bonds.

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The concept of "modest entry fee" projects is relatively new to the marketplace, and Sims and the Homestead were successful in educating prospective bondholders of the merits of this concept despite the fact this structure does not immediately produce the days cash on hand liquidity typically associated with traditional entry fee CCRCs.

**For more detailed information
on how Homestead at Rochester
was Financed Right® by HJ Sims,
please call or email:**

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