

CASE STUDY

MADISON FUNDING I

\$5,115,000 | June 27, 2019 | Mesa, AZ



FINANCED RIGHT®



SECOND-MORTGAGE FINANCING FUNDS RECAPITALIZATION AND EXPANSION IN ARIZONA

PARTNERED RIGHT®

Heritage Village Assisted Living (“Heritage Village” or the “Community”) is a 96-unit, 138-bed assisted living and memory care community located in Mesa, Arizona. Acquired in 2017 by Madison Realty Companies (“Madison”), the community consists of six custom-built assisted living and memory care homes and a medical office building.

Based in Pasadena, California, Madison is a private real estate firm with expertise in acquiring income-producing real estate. Madison’s primary seniors housing strategy focuses on acquiring undervalued properties and expanding / upgrading those properties to add value and increase cash flow. Madison and its affiliates own 23 assisted living and memory care properties located primarily in the southwest and western states.

Heritage Village is operated by SAL Management Group, LLC (“SAL”). SAL operates 26 communities with over 1,200 assisted living and memory care units. SAL also currently operates all nine of Madison’s communities including three properties in the greater Mesa, AZ market.

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Madison was seeking to expand the Heritage Village with the development of two additional assisted living and memory care buildings each consisting of 16 units and 23 beds. To facilitate the expansion, Madison was looking for a new lender to refinance the Community’s existing senior loan and repay a third-party note.

HJ Sims partnered with a national bank (the “Bank Partner”) to propose a high-leverage financing solution to fund the expansion and recapitalize existing debt, with the Bank Partner providing a first-mortgage loan and HJ Sims funding a subordinate second-mortgage loan (the “Sims Loan”). Collectively the first and second mortgage loan funded i) the repayment an existing senior loan, ii) repayment of a third-party note, iii) the development of two additional assisted living and memory care buildings, and iv) required reserves and transaction costs associated with the financing.

Madison Funding I At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none">» Madison Realty Companies is recapitalizing and expanding Heritage Village Assisted Living located in Mesa, AZ.» Madison and its affiliates have ownership interests in 24 assisted living and memory care properties.» SAL Management Group operates the community; SAL operates 26 communities consisting of over 1,200 assisted living and memory care units.	<ul style="list-style-type: none">» HJ Sims had the opportunity to provide a second-mortgage loan, which, together with first-mortgage financing (“Senior Loan”) will repay a first mortgage loan, a third-party note, and fund the expansion of the Community, required reserves and transaction costs.» The second-mortgage Sims Loan will be subordinate to the first-mortgage Senior Loan.	<ul style="list-style-type: none">» Combined first and second mortgage loans provide leverage needed repay existing loans and expand the Community, preventing the need to raise additional capital.» First-mortgage loan provides opportunity for an “Earn-out” once certain thresholds are achieved.	<ul style="list-style-type: none">» HJ Sims successfully placed \$5,115,000 of corporate taxable bonds to fund the Sims Loan.

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The combined first and second mortgage loans proved to be an attractive option as it provided higher leverage compared to a conventional bank loan, allowing Madison to avoid raising unsecured subordinate debt at a higher cost of capital or diluting its ownership in the property from taking on additional equity partners. The Sims Loan was structured with a one-year, interest-only period and amortizes based on a 25-year schedule thereafter, allowing Madison to limit debt service expense over the near-term as it completes the expansion project. Additionally the first mortgage loan includes provisions to fund an “Earn-out” once certain thresholds are met, allowing the Madison to access equity in the Community to pursue other opportunities.

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A new entity, Madison Funding I, LLC (the “Sims Issuer”), was formed to issue taxable bonds to fund the Sims Loan. HJ Sims successfully sold \$5.115 million of subordinate taxable bonds through its Private Client Group to high-net-worth accredited investors.

**For more detailed information
on how Madison Funding I was
Financed Right® by HJ Sims,
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