

# CASE STUDY

## MERCY RETIREMENT AND CARE CENTER

\$25,000,000 | March 26, 2019 | Oakland, CA



FINANCED RIGHT®

Artist's rendering



### HJ SIMS ARRANGES COMMERCIAL LOAN FOR HEALTHCARE REPOSITIONING AT MERCY RETIREMENT AND CARE CENTER, AN ELDER CARE ALLIANCE COMMUNITY

#### Mercy At A Glance

#### PARTNERED RIGHT®

Mercy Retirement and Care Center, an Elder Care Alliance community (“Mercy”) is almost 150 years old and has a long-standing tradition of excellence in care for older adults by providing high-quality assisted living, memory care or skilled nursing care to its over 165 residents. Mercy is a not-for-profit public benefit corporation, and Elder Care Alliance (“ECA”) is the sole corporate member and manager of Mercy. The Sisters of Mercy West Midwest Community sponsor Mercy. They are co-corporate members with the Sierra Pacific Synod of the Evangelical Lutheran Church in America of Elder Care Alliance. ECA provides and arranges comprehensive management and project services for Mercy. In addition to providing care for its over 165 residents, Mercy provides over 6,000 seniors in Alameda County with nutritious groceries twice monthly through its Mercy Brown Bag Program, an outreach of seniors helping seniors through volunteerism. After completing a strategic planning process in 2018, Mercy embarked upon a campus renovation project that would enable it to continue to provide the same quality care to its residents in a more modernized community.

#### STRUCTURED RIGHT®

To facilitate the mission of Mercy, HJ Sims partnered with ECA to establish a financing

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> <li>» Mercy currently provides assisted living, memory care and skilled nursing care to approximately 166 residents as well as a brown-bag grocery program serving over 6,000 low-income elders per month. Mercy is situated in the historic neighborhood of Fruitvale in Oakland, California.</li> <li>» ECA is the corporate member of Mercy in addition to the manager of the community.</li> <li>» Mercy sought \$25 million to finance project costs related to renovations to the existing 85 assisted living apartments, as well as updates to the designs of the apartments, renovations to common areas on the first floor and exterior improvements.</li> </ul>	<ul style="list-style-type: none"> <li>» Total project costs were \$35 million with Mercy providing up to \$10 million in equity towards the project.</li> <li>» Mercy sought a multiple draw construction loan in the amount of \$25 million with a three-year draw period and a subsequent 10-year term for a total term of 13 years.</li> </ul>	<ul style="list-style-type: none"> <li>» HJ Sims coordinated a bank request for proposals process that was widely distributed to prospective commercial lending institutions and facilitated site visits for those prospectives resulting in a number of attractive proposals.</li> <li>» HJ Sims along with the selected lender, ECA and their legal teams, closed the transaction on time.</li> </ul>	<ul style="list-style-type: none"> <li>» Mercy was able to obtain a loan with a three-year, interest-only period that would allow them to minimize cash impact during the renovation period and then amortize the outstanding balance for an additional 10-year period on a 30-year amortization schedule.</li> <li>» Critical to the selection by Mercy was the prevailing lender’s flexibility in real estate due diligence and ability to underwrite Mercy as an operating organization that could service the debt without an appraisal or other restrictive real estate-related covenants.</li> <li>» At closing, Mercy executed a three-year forward swap on \$10 million of the anticipated future outstanding balance allowing them to lock in an all-in rate for the 10 year period ending in 2032 that was approximately 35 basis points higher than One Month LIBOR as of the date of execution.</li> </ul>

structure that would allow for the most efficient use of capital and provide Mercy with a stable platform upon which to continue to provide its services to the community. The project that Mercy was undertaking would entail renovations to the existing 85 assisted living tower apartments, adding private showers on three of the five floors of the existing apartments and reconfiguring them to bring them in line with more modern design, upgrading existing mechanical systems in the assisted living tower; and renovating the common space in the assisted living tower by adding dining options, resident gathering spaces and relocating resident amenity spaces to make them more accessible to residents; and expanding their chapel that is used daily. Other campus renovations include the creation of a new entry and reception area, additional parking, additional resident amenities in the form of a library and theater room, enhanced outdoor space and an outdoor area dedicated for memory care residents. To facilitate fulfillment of a recent strategic planning process, Mercy sought \$25 million to finance project costs with Mercy providing up to \$10 million in equity for a total project cost of \$35 million. HJ Sims prepared a request for proposals for a maximum \$25 million draw down construction loan with a three-year, interest-only period and a subsequent 10-year term for a total term of 13 years. The time period would allow Mercy to borrow funds only as needed and to minimize cash impact during construction and the period following construction as the assisted living tower achieves stabilization.

### EXECUTED RIGHT®

HJ Sims conducted an extensive request for proposal process and worked closely with management of ECA to evaluate and consider the financing proposals provided. It was widely distributed to prospective commercial lending institutions and facilitated site visits for prospective lending institutions resulting in a number of attractive proposals. Furthermore, HJ Sims worked alongside ECA and its counsel, its selected lending partner, BBVA Compass and its counsel to lead the deal team through the financing process to a successful closing.

### FINANCED RIGHT®

On March 26, 2019, HJ Sims facilitated the closing of the \$25,000,000 draw-down construction loan (the

“Series 2019 Loan”). Critical to the selection by Mercy was the prevailing lender’s flexibility in real estate due diligence and ability to underwrite Mercy as an operating organization that could service the debt without an appraisal or other restrictive real estate related covenants. Furthermore, HJ Sims assisted ECA and Mercy in evaluating and executing a forward swap transaction for approximately \$10 million of the anticipated future outstanding balance that would be in place after the three-year, interest-only period until 2032. This allowed Mercy to lock in an all-in rate for the 10-year period ending in 2032 that was approximately 35 basis points higher than One Month LIBOR as of the date of execution.

*“We have worked with Aaron Rulnick and HJ Sims for several years, so it was natural that they would assist us in putting in place the financing for a major repositioning of our Mercy campus. What I appreciate most about Aaron and the team is their transparency and honesty, ensuring they put in place the right solution that fits the needs of the project and our project goals. Having a trusted advisor as we moved through this process was critical.”*

— Adriene Iverson, Chief Executive Officer,  
Elder Care Alliance

**For more detailed information  
on how Mercy was  
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