

# CASE STUDY

## LENBROOK

\$106,686,000 | April 2020 | Atlanta, GA



FINANCED RIGHT®

### HJ SIMS STEERS EXPANSION FINANCING THROUGH THE COVID-19 STORM TO CLOSING.



#### PARTNERED RIGHT®

Lenbrook is an existing life plan community which consists of 350 independent living residences located in two adjoining towers, the Brookhaven Tower and the Lenox Tower. Lenbrook also offers 16 assisted living units with a capacity of 25 and 60 Medicare certified skilled nursing beds and owns a home care agency known as Menders by Lenbrook, which serves Lenbrook residents and the adjacent community. Menders is not part of the obligated group. Lenbrook is located in Atlanta, Georgia, in the affluent Buckhead neighborhood. Lenbrook opened its doors in 1980 and conducted its initial campus expansion in 2006. HJ Sims has partnered with Lenbrook since 2015, facilitating a successful refinancing of their Series 2006 Bonds in 2016 and garnering their first investment grade rating. Lenbrook partnered with HJ Sims to arrange pre-development full financing for the Kingsboro at Lenbrook expansion project.

#### Lenbrook At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> <li>» Lenbrook: A Life Plan Community in Atlanta, Georgia, consisting of 350 independent living residences, 60 Medicare-certified skilled nursing beds and 16 assisted living suites sought financing to bridge pre-development costs in connection with a campus expansion project.</li> <li>» After a successful refinancing in 2016 and a pre-development financing in 2018, management of Lenbrook teamed up with HJ Sims to manage the financing process of their 53 unit approximately \$107 million expansion for Kingsboro at Lenbrook.</li> </ul>	<ul style="list-style-type: none"> <li>» A strong performer with a solid cash position, Lenbrook wanted the ability to deleverage all of the debt associated with the financing without premium or penalty.</li> <li>» The intermediate-term debt to be repaid from initial entrance fees was maximized, and the long-term debt may be repaid on an amortizing basis or on a more rapid basis at Lenbrook's discretion from excess operating cash or cash from entrance fee turnover.</li> <li>» In connection with the pre-development financing in 2018, HJ Sims had facilitated a lending relationship between Truist and Lenbrook in anticipation of Truist potentially being the lending partner for all or a part of the full expansion financing.</li> </ul>	<ul style="list-style-type: none"> <li>» Though the relationship with Truist was strong, HJ Sims still coordinated a small-scale request for proposals process to ensure that the terms and conditions for the expansion financing were in line with the market.</li> <li>» Due to disruptions caused by the COVID-19 pandemic with respect to the public bond market and the availability of local municipal issuers, HJ Sims was able to pivot the transaction twice, from the initial hybrid bank short-term financing and long-term fixed rate bonds financing, to an all bank tax-exempt financing, to an all bank taxable financing, ultimately closing two weeks ahead of schedule.</li> </ul>	<ul style="list-style-type: none"> <li>» HJ Sims facilitated a \$76,705,000 intermediate-term loan with a maturity of seven years to be repaid from initial entrance fees, representing approximately 93% of the initial entrance fees from the Kingsboro at Lenbrook expansion and a \$29,981,000 amortizing, long-term loan having a 15-year term and no prepayment premium.</li> <li>» The covenants for the loan match the covenants in the Master Trust Indenture executed in connection with the Series 2016 Bonds.</li> <li>» After the pre-development loan in 2018 and in anticipation of the expansion project, Fitch had placed the BBB rated Series 2016 Bonds on Rating Watch Negative. Due to the favorable terms and anticipated deleveraging of the expansion financing, Fitch downgraded the rating on the Series 2016 Bonds to BBB- but revised their outlook to Stable.</li> </ul>

### STRUCTURED RIGHT®

Given the demand for independent living units on Lenbrook's campus, as well as its desire to expand options available to its residents, provide safer and more convenient egress from the Community, increase parking, and protect current views, Lenbrook embarked on an expansion and repositioning project known as Kingsboro at Lenbrook. The 53-unit independent living expansion includes 14 villa-style apartments as well as 39 flats, with an average size of over 2,200 square feet, an underground parking garage, additional greenspace and community space, and a traffic light to facilitate residential egress from the community.

The Kingsboro at Lenbrook project is expected to be accretive and further reduce reliance on turnover entrance fees. As such, Lenbrook wanted to structure the financing to allow it to use its net turnover entrance fees each year, at its option, to deleverage the long-term debt associated with the financing. Lenbrook also wanted to maintain the flexibility to apply the turnover entrance fees for other uses, including potentially refunding the Series 2016 Bonds after their optional redemption date in 2023. Finally, Lenbrook wished to maintain the flexibility contained in the Master Trust Indenture executed in connection with the Series 2016 Bonds and the 2018 loan. In anticipation of the financing, Lenbrook utilized its cash flow and the 2018 loan to commence substantial site work to minimize the construction period once the full financing would close. As of the closing date, Lenbrook had over \$23 million in work completed that had been funded primarily through its own cash reserves.

### EXECUTED RIGHT®

Though Lenbrook had a strong relationship with Truist Bank, their incumbent lender, they asked HJ Sims to conduct an impartial request for proposals process given the size and duration of the financing for the Kingsboro at Lenbrook expansion. Lenbrook received a number of favorable proposals and ultimately decided in late February 2020 to proceed with a hybrid financing with Truist Bank continuing as their lender for the intermediate-term, tax-exempt loan to be repaid by initial entrance fees and a publicly offered fixed-rate, tax-exempt bond financing for the long-term debt.

As the financing kicked off in earnest in early March, the HJ Sims team monitored the world stage as COVID-19 grew into a full-blown pandemic impacting the financial markets and closing local economies. Not even two weeks after the initial approval of the financing, HJ Sims updated the management team and finance committee of Lenbrook on market conditions and potential impacts on their financing. At that time HJ Sims noted that, even though the world equity markets were decompensating and causing investors to flee to the quality of municipal bonds returning the 30-year MMD to historic lows, there were red flags in the secondary market emerging, as trades on senior living bonds were starting to be discounted from earlier premium prices. HJ Sims asked the Lenbrook team to consider allowing HJ Sims to approach Truist to gauge their amenability to dual-track their credit approval process, and obtain approval for either the intermediate-term, tax-exempt loan alone or potentially the full financing, as a backup if the secondary market red flags spread to the primary market. Lenbrook agreed, and Truist also agreed to dual-track the credit approval.

Less than a week later, the 30-year MMD had started to experience an unprecedented dislocation with intraday swings up to 60 basis points (versus normal single-digit intraday moves) validating the decision to dual-track the approval. Simultaneously, states and local communities were starting to shut down non-essential businesses, and HJ Sims anticipated that a TEFRA hearing and the subsequent Georgia validation procedures, which had been planned to start in late March, would be adversely impacted. On a Friday, HJ Sims communicated with the Lenbrook team a request to switch the financing from taxable to tax-exempt which demonstrated the financial impact of such a switch. Due to historic low bank rates resulting from two Federal Reserve interest rate cuts to a target range of 0.00% to 0.25%, the impact was relatively minor, and Lenbrook agreed to proceed with a request to Truist for a full taxable deal. HJ Sims facilitated the request the same day, and by Sunday, the Supreme Court of Georgia Chief Justice had amended its declaration of Statewide Judicial Emergency putting the judicial validation procedures on indefinite hold.

### FINANCED RIGHT®

On April 30, 2020, HJ Sims facilitated the closing of the \$106,686,000 Kingsboro at Lenbrook expansion financing, which was structured as a \$76,705,000 taxable intermediate-term loan to be repaid from initial entrance fees from the expansion project and a \$29,981,000 taxable long-term, amortizing loan (the “Series 2020 Financing”). The Series 2020 Financing had an interest-only period of four years, after which the long-term loan would amortize over a 26-year straight-line amortization schedule and be callable on April 30, 2035. Furthermore, the elimination of the debt service reserve funds and increased funded interest attributable to a fixed-rate bond deal permitted the financing to come over \$7 million below budget. HJ Sims also negotiated no requirement for a hedge on the long-term loan and cemented the ability to prepay it at any time without premium or penalty. On the closing date, the interest rate on the intermediate-term loan was 1.43% and on the long-term loan was 1.53%. Because HJ Sims deftly navigated the changing markets and anticipated the government closures, the Lenbrook financing was able to proceed without stalling, which allowed Lenbrook to continue the project uninterrupted and receive the reimbursements for its outlays prior to closing.

*“Following a very successful bond refinancing during 2016 and a pre-development loan during 2018, we turned to our investment banking partners once again to assist us in arranging construction financing for our 53 IL unit expansion project known as “Kingsboro by Lenbrook.” Aaron Rulnick and Melissa Messina initially structured a hybrid bank and tax-exempt bond financing backed by first generation entrance fees and project cash flows. Following a successful bank meeting and RFP process, the COVID-19 pandemic alarms started to sound. With the financial and political spheres quickly changing, that’s when you know the value of a seasoned investment banking partner. Drawing on years of experience, strong relationships and taking quick action, our partners were able to navigate through the turbulence in the capital markets allowing us to follow through with our project on which we had already broken ground. In the end, the transaction was well-structured, providing financial flexibility, alignment with our existing MTI covenants, and closed ahead of schedule. Aaron and Melissa are true partners who take the time to understand our financial needs and recommend the best solution for our organization. Thank you!” — Dan Dornblaser, CFO, Lenbrook*

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

**Aaron Rulnick**

301.424.9135  
arulnick@hjsims.com

**Melissa Messina**

203.418.9015  
mmessina@hjsims.com

**Brady Richardson**

240.207.1362  
brichardson@hjsims.com

**hjsims.com**

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