CASE STUDY

ENCORE ON THE LAKE

$29,300,000 | June 30, 2020 | North Strabane, PA

HJ SIMS

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HJ SIMS COMPLETES INNOVATIVE DUAL BANK SENIOR-SUPPLEMENTAL DEBT FINANCING FOR NEW MIDDLE MARKET INDEPENDENT LIVING CAMPUS

Artist's rendering

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Encore on the Lake is a planned 80-unit Independent Living Community to be constructed on a 6.8 acre site in North Strabane Township, Washington County, PA (the "Project" and the "Community"). It is an affiliate of Presbyterian SeniorCare Network ("PSCN") and parent organization (Presbyterian SeniorCare ("PSC")). The Project is being undertaken in partnership with Senior Housing Partners ("SHP"), a subsidiary of Presbyterian Homes & Services (MN), with SHP providing project development and marketing services.

The Community will be situated on a residential peninsula with scenic views of Canonsburg Lake, located approximately 10 miles from PSCN's existing campus in Washington County, consisting of Southminster Place (Assisted Living/Personal Care), Southmont (Skilled Nursing) and Woodside Place (Dementia Care). The Community will include 80 independent living apartment homes, with underground parking, in a four-story building. The

Encore on the Lake At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
» PSC is a not-for-profit, faith-based, multisite network of living and care options, serving more than 6,500 older adults in Western Pennsylvania. » HJ Sims has completed multiple financings including new capital and refinancing at various PSC communities. Most recently, Sims engaged to implement financing for a new 80-unit, stand-alone, middle-market seniors housing community – "Encore on the Lake".	» Financing comprised of multiple components including senior debt, supplemental debt and PSC equity with the supplemental debt and equity combined to comply with Loan-to-Value requirements. » Bank financing was selected as primary source of financing, as senior debt, based on the construction-related use of proceeds and most attractive cost and terms of financing. Structured with draw-down feature to reduce interest expense and total debt service. » Explored multiple supplemental debt options, ultimately opting to use additional bank financing, secured primarily by the pledge of unencumbered liquid assets of PSC.	» Debt repayment structured with combination of Entrance Fee Redemption and Permanent components. Three years interest only with Entrance Fee Redemption debt repaid during initial 3-5 years, post construction, followed by 25-year maturity/ amortization of Permanent Debt. » Combination of unhedged variable rates on Entrance Fee Redemption debt given historically low interest rates and desire for earlier repayment flexibility, if applicable, with fixed rates on Permanent debt, incorporating forward starting floating-to-fixed rate on senior debt component and bank-held fixed rate on supplemental debt component.	» Successfully navigating uncertainty associated with the global pandemic with financing completed on June 30, 2020 allowing project commencement to take advantage of a full construction season. » Locked-in attractive fixed interest rates, at multi-decade lows, enhancing project financial feasibility.

apartment mix will consist of nine one-bedroom, 27 one-bedroom plus den, and 44 two-bedrooms plus den floorplans, with apartment sizes ranging from 865 to 1,595 square feet and each apartment having a private balcony.

Presbyterian SeniorCare Network is a not-for-profit, faith-based, multi-site network of living and care options, serving more than 6,500 older adults in 10 counties of Western Pennsylvania. It offers a comprehensive continuum of care and service options to older adults through a combination of 53 senior living communities, affordable housing facilities and at-home programs and services.

Encore on the Lake is envisioned by PSC to be the first of multiple "middle-market" communities targeted to serve residents of more modest economic means. PSC's middle-market strategy imbeds wellness, care coordination and use of smart home technology as integral components of residential living options for seniors combined with the provision of other value-add services.

HJ Sims has provided investment banking services to PSC and its affiliates for several years. This includes implementation of bank financing in 2017 for the PSC-Obligated Group with the addition of Woodside Place memory care facility at the Washington campus and in 2019 with refinancing and new capital for an independent living expansion, via bank financing, at Shenango on the Green. With project planning for the Encore on the Lake project nearing completion in the fall of 2019, PSC engaged HJ Sims to provide a similar scope of services for the Encore on the Lake project financing, focused on the exploration and implementation of financing to permit project commencement in early.

Presbyterian SeniorCare NETWORK™

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The business model for the Encore on the Lake project represents a unique and needed offering to underserved "middle-market" seniors. However, the pricing framework, including use of a lower-priced residency membership deposit in lieu of larger Entrance fees, required an alternative approach in plan of finance formulation. Among other considerations, preliminary valuation analysis suggested that total anticipated Project debt would likely exceed 80% of Loan-to-Value, a regulatory threshold for potential commercial bank financing.

Accordingly, HJ Sims analyzed several primary financing options including bank financing, a public bond offering and private placement bond offering. Further, HJ Sims also considered the potential need for supplemental debt financing to be combined with the senior debt and PSC-provided equity to fully fund the project and related capital needs. Based on the amount and use of proceeds (new capital vs. replacement and/or refinancing), coupled with the relative all-in cost of financing, HJ Sims identified commercial bank financing as the preferred option for the senior debt – with the need for supplemental/subordinate debt to be determined upon the bank solicitation and appraisal process. HJ Sims then led a bank solicitation process in late 2019 which generated several very competitive financing proposals. Following proposal evaluation and a series of negotiations, PSC, in consultation with HJ Sims, selected First National Bank of Pennsylvania ("FNB") as the preferred commercial banking partner in early 2020.

Following the selection of FNB, key elements of plan of finance work included: i) advancing conditions precedent to financing including completion of an appraisal (with a maximum 80% Loan-to-Value ("LTV")), ii) finalizing the balance of financing required to fully fund the Project and related uses of funds including the likely need for supplemental financing to complement the senior debt financing and PSC equity and the source of this financing, iii) finalizing the structure of the financing including the application of entrance fees in order to reduce outstanding debt following project opening/stabilization as well as interest rate mode on the multiple financing components and iv) closing financing to enable a full construction season in 2020 before the onset of winter and more unpredictable construction conditions.

Most importantly, within the key conditions precedent, the appraisal confirmed a valuation at which total debt would exceed the 80% LTV threshold required by FNB. While the excess was not substantial, this confirmed the need for additional capital, added equity and/or supplemental debt from PSC or another source. Accordingly, HJ Sims worked to more fully assess the potential sources of supplemental debt, particularly focused on interest rate and all-in cost along with debt security and covenant provisions that included the security/covenant interplay between the supplemental debt and senior debt. Available options included a: i) private placement of subordinate bonds, ii) additional commercial bank financing, secured on a subordinate or alternate basis and iii) additional financing from PSC, whether as equity or subordinate debt.

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Weighing the factors pertaining to supplemental debt noted above (capital availability, interest and total cost and debt security and covenant considerations), HJ Sims, in consultation with PSC, quickly narrowed the range of options to either: 1) further funding from PSC or 2) financing from another external source, including commercial banks. Among the banks included in the original bank financing solicitation, several expressed interest in participating in the financing via a smaller loan commitment. One of these banks, Washington Financial Bank ("WFB"), had an existing positive relationship with PSC. With this financing need identified, PSC and HJ Sims approached WFB. WFB expressed interest and ultimately committed to providing this additional financing, rounding out the total capital need. WFB's financing was supported by a security interest in a portion of an otherwise unencumbered investment portfolio of PSC. This fully complemented the security senior security interest in gross revenues and mortgage to be granted to FNB as senior lender, which was to be combined with a limited PSC guaranty of debt service on the financing.

In concert with finalizing the sourcing of the total financing need, HJ Sims also sought to solidify the structure of financing, for both debt components. Primary objectives focused on the appropriate magnitude of debt amortization given anticipated entrance fee cash flows, following project completion and during fill-up, to be followed by application of projected annual revenue and cash flow available to service the debt on an ongoing basis. Given the "middle market" positioning of the Community (with more modest residency membership deposits of $47,000-$88,000 on 80 total units), the pool of available entrance fees from initial lease-up was lower than in typical life lease independent living projects. Nonetheless, application of a portion of these funds was beneficial in the early reduction of outstanding debt and related debt service. Accordingly, HJ Sims incorporated Entrance Fee Redemption components as part of both the senior debt from FNB and supplemental debt with WFB, with a first tranche of entrance fees applied to repay a portion of the FNB debt and followed by a second tranche applied to repay a portion of the WFB debt.

Overall, debt maturity and amortization was 25 years, following a three year interest only period, with the more sizeable senior debt repaid over this period and the higher cost supplemental debt repaid fully over 10 years. Given the historically low level of interest rates and attractive loan pricing from both FNB and WFB, PSC opted to fix the interest rate on all of the permanent debt, combining a forward starting floating-to-fixed interest rate swap, through the 13-year put date, on the FNB debt with a balance sheet-based fixed rate on the WFB debt.

The typical variables and challenges in financing execution were amplified in the final stages of financing preparation in March 2020, with the onset of the global COVID-19 crisis. A range of factors came into play including further monitoring and assessment of the potential impact of the pandemic on the senior housing sector, PSC and its various operations and the Encore on the Lake Project, specifically, as well as the impact on interest rates and financing terms. PSC's commitment to the Project was unwavering with Project and financing proceeding on schedule. This was achieved through the collaborative efforts of PSC and SHP on Project development, FNB and WFB, as bank partners and the full financing working group, with HJ Sims leadership – all working together to close the financing by mid-year on June 30, 2020.

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The $29.3 million financing closed on June 30th, 2020 as direct bank financings with First National Bank and Washington Financial Bank.

As noted above, In order to reduce the interest cost of long term senior debt and the higher cost of supplemental debt, both components included portions with early repayment using residency membership deposits. Approximately 80%, or $3.5 million of residency membership deposits, will be used to repay portions of each debt component, with a $1.76 million 3-year tranche of senior debt combined with a $1.755 million 5-year tranche of supplemental debt.

The tax-exempt Senior Debt with FNB includes a $24.24 million loan amortized over 25 years after a 3-year, interest-only period, and $1.76 million loan to be repaid with member fee deposits in three years. The long-term component of Senior debt was hedged with an interest rate swap for a synthetic fixed rated of 2.26% through the 13-year put date with the entrance fee redemption debt component remaining in floating rate mode with an initial interest rate of 2.11%.

The taxable supplemental debt with WFB includes the $1.755 million short term debt to be repaid with member deposits, and $1.54 million of long-term debt amortized over 10 years. As with the senior debt, the entrance fee redemption debt will remain in a floating rate mode, with an initial interest rate of 1.27%, and the long-term component of this debt will a carry a balance sheet-based fixed rate of 3.158%.

"For the third time in three years, the HJ Sims team partnered with our Presbyterian SeniorCare Network team to achieve success with a financing and favorable terms for another mission-critical project, a new Independent Living rental model to serve moderate income older adults, which we hope to replicate. The Sims team did this in the midst of the disruptive COVID pandemic environment and a CFO transition. Our organization places great value on collaboration, and the HJ Sims philosophy and culture align extremely well with ours."

— Paul Winkler, Chief Executive Officer, Presbyterian SeniorCare

For more detailed information on how Encore on the Lake was Financed Right® by HJ Sims, please call or email:

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