

CASE STUDY

BURCHAM HILLS

\$32,000,000 | July 17, 2020 | East Lansing, MI



FINANCED RIGHT®

HJ SIMS PIVOTS, PLACING CONSTRUCTION LOAN WITH REPLACEMENT LENDER AFTER INCUMBENT LENDER HALTS LENDING DURING COVID-19 PANDEMIC



PARTNERED RIGHT®

Burcham Hills Retirement Center II (“Burcham Hills”) is a Michigan not-for-profit corporation formed in 1989 that owns and operates a rental retirement community located in the City of East Lansing, Michigan currently consisting of (i) 164 residential units, comprised of 57 independent living units, 39 assisted living units, and 68 memory care units located in a five-story, three wing building and (ii) a 133-bed skilled nursing facility, comprised of 72 beds dually licensed as Medicaid/Medicare and 61 beds licensed as Medicare only. Life Care Services, Inc. serves as the Manager of Burcham Hills. Since Burcham Hills was formed, HJ Sims has served as its investment banker, providing advisory services and serving as underwriter on its fixed-rate bond financings for multiple financings, most recently refunding its outstanding bonds to provide a stable platform upon which to layer its expansion debt and serving as financial advisor and placement agent for a loan for the multi-phased construction project.

Burcham Hills At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> » Burcham Hills, a Life Plan Community in East Lansing, Michigan, managed by Life Care Services, Inc., consists of 164 residential units comprised of 57 rental independent living units, 39 assisted living units, and 68 memory care units, and a 133-bed skilled nursing facility. » Partnered with HJ Sims on multiple financings since 1989. 	<ul style="list-style-type: none"> » Burcham Hills sought a maximum \$32 million construction loan for their StoneBriar independent living expansion that introduces an entrance fee independent living option at the Community. » Burcham Hills started taking 10% deposits in April of 2019 and achieved 75% presales just five months later. As of closing and notwithstanding the COVID-19 pandemic, Burcham Hills had increased their net presales to approximately 82%. » The final structure included a draw-down construction loan with a portion of the loan to be repaid by up to 85% of the initial entrance fees from the expansion with the balance amortizing on a 25-year basis. 	<ul style="list-style-type: none"> » In 2018, HJ Sims coordinated a bank request for proposals process that was widely distributed resulting in a number of attractive proposals, including two proposals issued for both phases of the expansion project. » When the incumbent lender indicated they were not comfortable proceeding two days prior to closing due to the COVID-19 pandemic, HJ Sims immediately huddled with management and the board and discussed alternative methods of financing the full project, which was well into site development. 	<ul style="list-style-type: none"> » During the height of the early COVID-19 pandemic and while the Governor of Michigan had declared a stop work on all non-essential activities (including commercial construction), HJ Sims was able to procure a replacement lender and work alongside the replacement lender to close approximately three months after the initial closing target date. » The board and management of Burcham Hills were thrilled to ultimately partner with Michigan State University Federal Credit Union, an organization that has strong local ties and a robust lending practice.

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In 2018, HJ Sims conducted a robust bank solicitation on behalf of Burcham Hills seeking financing for the multi-phased construction project – the first phase covered improvements to the common areas and created additional amenities as well as funded pre-development costs for the expansion; the second phase consisted of a 44-unit entrance fee independent living expansion known as StoneBriar. In January 2019, HJ Sims closed a \$5,925,000 taxable draw-down loan for the purpose of funding the first phase of the expansion project and received a commitment for the financing of the expansion project at that time. The expansion project financing commitment was structured to become available at the time the requisite pre-sales were achieved and the guaranteed maximum price contract (GMP) was executed at which time Burcham Hills would have access to a draw-down construction loan to pay the costs of the StoneBriar expansion.

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Pre-sales for StoneBriar started in April 2019, and the community achieved 75% just five months later, outpacing expectations. Burcham Hills began early site work to minimize the draw period once the GMP was finalized, and such work was to be funded by the existing lender. As Burcham Hills finalized GMP negotiations for vertical development of StoneBriar, the COVID-19 pandemic descended upon the United States, and Governor Whitmer (MI) issued a stay-at-home order, which required all non-essential services to halt, including commercial construction. Just three days prior to the date on which the parties expected to increase the available commitment for the vertical development, Burcham Hills' incumbent lender indicated that, due to the COVID-19 pandemic, they were unable to proceed with the loan at that moment.

While the incumbent lender was not outright denying the request, there was no definite answer as to when the pause on lending would be lifted. As such, HJ Sims immediately caucused with the Board of Trustees and management of Burcham Hills to discuss alternate plans – including approaching the respondents from the initial solicitation, running a new, targeted solicitation, or financing the expansion with fixed-rate bonds.

Ultimately, the preferred plan was to have HJ Sims reach out to Michigan State University Federal Credit Union (“MSUFCU”), which had been narrowly edged out in the initial solicitation. MSUFCU knew Burcham Hills well, remembered the transaction and was happy to reconsider the transaction. HJ Sims then prepared a credit package for MSUFCU to provide them with the materials they would need to move the transaction through their credit approval process rapidly. MSUFCU knew that Burcham Hills wanted to maintain momentum with pre-sales and that a pause in construction could create uncertainty, and they agreed to proceed towards an expedited closing.

During the period of time while MSUFCU was processing the credit approval, HJ Sims met at least weekly with management and the Board of Trustees of Burcham Hills, providing regular updates on the financing process. HJ Sims also held weekly calls with the entire deal team facilitating delivery and review of information.

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On July 17, 2020, MSUFCU and Burcham Hills closed the construction loan, in the amount of \$32,000,000, refinancing the incumbent lender and providing a full draw-down commitment for the StoneBriar expansion. Due to the communications among the HJ Sims, management and the Board of Burcham Hills, the deal team, and the contractor, there was no stoppage of work and the project continued on pace. The loan included an interest-only draw-down period through June 10, 2022 by which time at least \$7 million or 85% of the initial entrance fees received from StoneBriar were to be applied to pay down the debt and after which it would convert to an amortizing term loan for an additional five years with a 25-year amortization period. MSUFCU agreed to be bound by all of the covenants in the existing Master Trust Indenture, which was a matter of key importance to Burcham Hills given the outstanding Series 2018 Bonds.

“Melissa Messina, Aaron Rulnick, and the HJ Sims approach to paving Burcham Hills’ path toward our expansion project has been incredible! We listened to our community and recognized that residential expansion was the key to our long-term financial success, and our solid partnership with HJ Sims has once again served us well. Our organization places great value on collaboration, and the HJ Sims philosophy and culture align extremely well with ours. Their creativity and unwavering advocacy allowed us to obtain an optimal plan during a time of great uncertainty. We are excited about the growth of our community and bringing the new Inspired Independent Living, StoneBriar at Burcham Hills, dream to a reality as we continue to bring value and quality experiences to the seniors we serve!”

— Kari Rennis, Executive Director
Burcham Hills

**For more detailed information
on how Burcham Hills 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

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