

CASE STUDY

SEARSTONE

\$6,600,000 | Cary, NC | June 30, 2020



FINANCED RIGHT®

HJ SIMS SUCCESSFULLY COMPLETES \$6.6 MILLION OF TAX-EXEMPT AND TAXABLE REVENUE BONDS TO POSITION COMMUNITY FOR ACCRETIVE PHASE II



PARTNERED RIGHT®

Samaritan Housing Foundation, Inc., d/b/a Searstone Retirement Community, is a life plan community located in Cary, NC. The Community presently consists of 131 independent living apartments, 38 independent living estate homes, 14 assisted living units, and 25 skilled nursing beds. The assisted living and skilled nursing services are offered at the Brittany Place Healthcare Center (“Brittany Place”). Searstone also has gardens, walking trails and an approximately 16-acre lake. In June 2012, HJ Sims financed the first phase of Searstone with a \$117.5 non-rated fixed-rate bond issue. HJ Sims had previously provided \$6.8 million in pre-development capital as well. In December 2016, HJ Sims financed \$8.0 million of tax-exempt fixed-rate bonds, issued on parity with the outstanding Series 2012 bonds, to expand the Brittany Place by 15 beds, improve landscaping across the entire campus, and acquire and control land for a future Phase II expansion. In 2017 with the contemplated elimination of Private Activity Bonds (and therefore tax-exempt financing itself for eligible senior living communities), HJ Sims advance refunded the 2012 bonds for savings, and also issued Series 2017B bonds to provide funds for pursuit of planning and pre-development costs for the anticipated Phase II expansion project.

Searstone At A Glance

| Partnered Right® | Structured Right® | Executed Right® | Financed Right® |
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| <ul style="list-style-type: none">» The Community presently consists of 131 independent living apartments, 38 independent living estate homes, 14 assisted living units, and 25 skilled nursing beds.» HJ Sims financed the first phase of Searstone with a \$117.5 million non-rated fixed-rate bond issue in June of 2012 and an expansion of the Healthcare Center in 2016 with an \$8 million issue.» HJ Sims also provided the original seed capital, as well as funds to advance refund the 2012 issue and provide a portion of the pre-development capital for the anticipated Phase II expansion in 2017. | <ul style="list-style-type: none">» Since the original financing in 2012, Searstone has contemplated a second phase as the community was originally master planned as a larger campus.» Given the growing demand for independent living units at Searstone, preliminary planning commenced in earnest for a Phase II expansion project and pre-development costs were initially funded with \$5.5 million of proceeds from the Series 2017B Bonds.» Phase II as planned will double the size of Searstone and is projected to be financially accretive, but additional pre-development capital was needed to continue pre-development efforts. | <ul style="list-style-type: none">» COVID-19’s adverse impact on the financial markets, and especially on the bond market for senior living, created significant hurdles to accessing capital, as well as to the financing process itself. | <ul style="list-style-type: none">» HJ Sims underwrote \$4.6 million of tax-exempt bonds and \$2.0 million of taxable bonds to provide supplemental pre-development capital for Phase II, scheduled for financing in early 2022. |

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Given the growing demand for independent living units at Searstone, preliminary planning had commenced for a Phase II expansion project. In December 2016, proceeds of the Series 2016 bonds were used to purchase the Phase II expansion site. Phase II will be known as the “Highview at Searstone,” and contemplates the addition of 152 independent living units, 28 assisted living units (14 of which will be specialized memory care units, and 24 skilled nursing suites. It will also provide new dining venues, a new multi-purpose area with capacity for 350 people, new common and green spaces, and funds to renovate existing common areas.

Searstone was originally envisioned as a larger campus, but was downsized to account for economic and market conditions when originally financed in 2012. The Highview will effectively double the size of Searstone, providing significant scale to the operations of the community and is projected to be accretive to financial performance. To date, proceeds of the Series 2017B bonds and prior funds released from the refinancing of the Series 2012 bonds were combined to provide pre-development capital for the Phase II expansion. Pre-development costs included a new stormwater management system, and design, architectural, and developer fees. In order to continue pre-development efforts, additional funds were required to finalize planning efforts and achieve the prerequisites for permanent financing for the Highview, including additional costs for design and architecture, as well as marketing and other pre-development costs.

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Searstone’s financing process faced multiple hurdles. COVID-19’s effects were pervasive throughout the global economy. That was particularly true regarding the tax-exempt bond market for senior living providers, which saw no new issuance of publicly offered bonds throughout April, May and much of June. HJ Sims led the financing team through a number of additional challenges including the local TEFRA process, which by definition legally required holding of an in-person meeting historically, which was not initially possible due to COVID-19 related shelter-in-place restrictions. Additionally, recent changes in accounting standards

have led to relatively new and unfavorable tax treatment of marketing costs related to expansion projects. Because those costs are no longer capitalized, they are no longer eligible for tax-exempt financing to the extent they have been historically. This increased the proportion of taxable bonds required in the financing, which presented additional challenges as the universe of bond buyers since the pandemic, is far narrower. Finally, HJ Sims was instrumental in obtaining the required consent for the additional debt from the outstanding bondholders.

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The financing was successfully completed on June 30, 2020, one of the very first non-rated senior living financings placed in the bond market since the prevalence of COVID-19. As desired, the financing provided close to \$6 million of expendable proceeds, that combined with remaining funds from the Series 2017B Bonds as well as over \$1 million in borrower equity, will fund pre-development costs associated with the future Phase II expansion project. The tax-exempt Series 2020A Bonds were structured with a 33-year term to wrap around the debt service of the existing Series 2016 and 2017 Bonds to create minimal impact on Max Annual Debt Service (“MADS”). This structure also gave Searstone the flexibility to keep the Series 2020A Bond outstanding or refinance them if there is an economic benefit at the time of the issuance of the Phase II permanent financing. The taxable Series 2020B Bonds were structured as a 5-year bullet maturity to reduce interest costs, to provide cushion if the Phase II financing is delayed, and to minimize the impact on the aggregate MADS by utilizing the “smooth out” provisions in the MTI that allow such debt to be amortized over a longer period for purposes of determining MADS. Both series of bonds are subject to an Extraordinary Optional Redemption provision which allows the Series 2020A and 2020B Bonds to be redeemed at par from proceeds of the permanent Phase II financing. On top of obtaining consent to incur the additional debt, HJ Sims also obtained bondholder consent to amend the debt service coverage ratio requirement to 1.1x through 2027, which is the anticipated stabilization period of the Phase II expansion. Interest payments on both series were funded through the anticipated financing date for Phase II in early 2022.

With HJ Sims' leadership and the collaborative work of Searstone's senior management team, Board, Management Company (Retirement Living Associates), Developer (Greenbrier), and the financing working group, Searstone successfully completed the financing and realized its goals. These goals included: 1) obtaining bondholder consent to issue the proposed debt; 2) securing sufficient pre-development capital to pursue Phase II; and 3) providing covenant relief and maintaining sufficient operating, financial and strategic flexibility to implement the future Phase II expansion. With the 2020 proceeds secured, Searstone is well on its way to advancing the Phase II development process to expand and optimize its campus.

"Searstone has, once again, benefited from the superb leadership of Aaron Rulnick and the HJ Sims team. Our financing would have been challenging in any environment, but we were facing a tight time frame in a market shut down by COVID. HJ Sims worked tirelessly and creatively to overcome one obstacle after another and we are so pleased with the result. Searstone can continue to pursue the Highview Expansion project, which will right-size and optimize our campus, with the financial resources and flexibility we need to be successful."

***— Stan Brading, President,
Samaritan Housing Foundation, Inc***

**For more detailed information
on how Searstone was
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