

CASE STUDY

INGLESIDE AT ROCK CREEK

\$190,095,000 | August 4, 2017 | Washington, D.C.



FINANCED RIGHT®

SIMS COMBINES BANKS AND BONDS TO SAVE \$6 MILLION ON REPOSITIONING FINANCING



PARTNERED RIGHT

Ingleside has served the northwest Washington, D.C. community for 100+ years through its Ingleside at Rock Creek ("IRC") campus. The IRC campus currently consists of 127 independent living apartments, 7 assisted living units and 60 skilled nursing beds. IRC is affiliated with two other life plan communities, Westminster at Lake Ridge in Lake Ridge, Virginia and Ingleside at King Farm in Rockville, Maryland. IRC also has a related foundation, home care agency and for-profit development company.

To address its growing wait list and its healthcare offering on campus, IRC embarked on a 105-unit independent living expansion as well as construction of a new health services building which will include 32 memory care units, 34 skilled nursing suites with a rehabilitation center and 21 assisted living apartments with therapy spaces. However, given the tight site constraints, repositioning the campus is challenging. Moreover, the campus has a disproportionate level of health care relative to independent living, and in order to accommodate the expansion of independent living

units and the new health services building, a significant portion of the existing assisted living units was recently taken offline. These factors create a negative impact on operations and result in a 30-month construction period.

Ingleside at Rock Creek At A Glance

Partnered Right	Structured Right	Executed Right	Financed Right®
<ul style="list-style-type: none"> » Ingleside at Rock Creek. 100+ year history of serving Washington, DC, life plan community consisting of 127 independent living apartments, 7 assisted living units and 60 skilled nursing beds. » Expansion to include 105 new independent living units and new replacement health center consisting of 32 memory care units, 34 skilled nursing suites and 21 assisted living apartments. 	<ul style="list-style-type: none"> » Maximized bank draw-down financing to reduce capitalized interest and reserves during 30-month construction period. » Required subordinate debt to satisfy banks' loan-to-value requirements. » Entrance Fee Principal Redemption BondsSM ("EFPRBsSM") not repaid until the banks have been fully repaid; bondholder taking "back-end" of fill-up risk. 	<ul style="list-style-type: none"> » \$190 million non-rated bond financing – an average coupon of approximately 4.75%, including \$21 million of subordinate bonds. » Hybrid draw-down bank/ fixed rate bond financing structure saved approximately \$6 million in long-term debt 	<ul style="list-style-type: none"> » Secured \$60.5 million in new bank financing and retained \$26.8 million of existing bank debt. » Over \$112 million sold to institutional bond funds, and over \$17 million sold to individual investors.

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These challenges presented the need for a creative financing solution. Sims endeavored to maximize the amount of bank financing, enabling IRC to draw down a portion of funds as needed, to minimize the capitalized interest costs during the prolonged construction period as opposed to a fixed-rate bond financing structure where interest begins to accrue on the full amount of bonds issued at closing of the financing. Minimizing the long-term debt service burden on operations required the integration of short-term bank financing with long-term bond financing. This hybrid structure presented additional complexity, as the banks and bond investors have different requirements including the banks' loan-to-value (LTV) constraints. Since the senior debt for the IRC financing exceeded the 85% LTV constraint, Sims structured a tranche of subordinate debt, which will be converted to senior debt once a portion of the bank debt is repaid below the LTV constraint. This tranche of subordinate debt consists of Sims' proprietary Entrance Fee Redemption Bonds®, which satisfies the subordinate debt requirement and will be repaid at approximately 85% occupancy after the banks have been repaid in full. In addition, Sims worked with IRC's existing bank to modify its outstanding bank bonds and to integrate them into the new financing structure.

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Sims gained consensus with the banks and bond investors to integrate the various tranches of debt into an efficient \$190 million financing structure for IRC. Despite these unique challenges, Sims achieved excellent execution with very attractive interest rates – an average coupon of approximately 4.75% (including the subordinate bonds). Sims' financing structure saved IRC approximately \$6 million of long-term debt. Along with securing \$60.5 million in new bank financing and retaining \$26.8 million of existing bank debt, Sims secured strong investor participation in the bond issue, with over \$112 million sold to institutional bond funds and over \$17 million sold to individual investors.

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"In nearly 30 years of doing tax-exempt financings, this is one of the best results I have ever seen. Even the most optimistic amongst us would not have guessed how favorable this bond pricing would actually be."

— Tim Myers, CFO – Ingleside



For more detailed information on how Ingleside at Rock Creek was Financed Right® by HJ Sims, please call or email:

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