



Financing Senior Housing Development

Presented by:

HTG Consultants, LLC

2 Penn's Way, Suite 405

New Castle, Delaware 19720

(302) 322-4100

e-mail: rturner@hermanturner.com

Web site: www.htgconsultants.com

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Outline

- 1. Current state of financial markets**
- 2. Financing needs**
- 3. Financing options for new construction**
- 4. Financing new development through tax-exempt bond issue**



1. Financial Markets-Current State

- Ω **Prime lending rate, after two Federal Reserve interest rate cuts, stands at 7.75%, one-year LIBOR currently at 5.09% (common pricing base)**
- Ω **Flat yield curve for treasury securities**
- Ω **“Flight to quality” mentality of financial markets-ensuing credit crunch in debt markets**
- Ω **While U.S. equity markets rebound, there are fundamental global problems affecting institutional investors**



2. Financing Needs

- ⌚ **Equity, working capital and debt considerations**
- ⌚ **Construction financing?**
- ⌚ **Permanent or “take-out” at or before stabilization?**
- ⌚ **Sale/leaseback or sale/”manage back”?**
- ⌚ **Participatory mortgage?**



Financing Decision Points and Trade-offs Among Alternatives

- ∩ **Recourse**
- ∩ **Timing**
- ∩ **Leverage**
- ∩ **Structure**
- ∩ **Time Horizon/Exit Strategy**
- ∩ **Covenants and Reporting Requirements**
- ∩ **Rate/Pricing**



Key Underwriting Issues Facing Lenders

- ❧ **Loan to value ratio**
- ❧ **Deal structure**
- ❧ **Operator track record**
- ❧ **Collateral**
- ❧ **Market / Need Analysis**
- ❧ **Feasibility /Ability to support cash flow**
- ❧ **Credit Analysis**
- ❧ **Equity Requirements**
- ❧ **Exit strategy for lender and borrower**
- ❧ **Timing requirements**
- ❧ **Financial Ratios**
- ❧ **Liquidity of the loan**



3. Financing Options for New Construction

- 1. Conventional taxable or tax-exempt mortgage (regional/local bank)**
- 2. Private debt source (credit company)**
- 3. Real Estate Investment Trust (REIT)**
- 4. Quasi-government (HUD, Fannie Mae, Freddie Mac)**
- 5. Institutional investor**
- 6. Tax-exempt bond issue (Public or private placement)**



4. Financing new development through tax-exempt bond issue

- ✧ **Why Tax-exempt Bond Financing?**
- ✧ **Not-for-profit ownership**
- ✧ **Governmental Issuer--state agency or local authority**
- ✧ **Credit Enhancers--banks, insurers state/local government agencies**
- ✧ **Timing--90 to 270 days**



Critical Choices

- ✧ **Tax Status of Bond Interest**
- ✧ **Interest Rate Mode**
- ✧ **Term to Maturity and Amortization**
- ✧ **Underlying Credit Quality**
- ✧ **Project Size**
- ✧ **Offering Format**
- ✧ **Prepayment Flexibility**
- ✧ **Security/Deal Structure**



Bond Issue Options

- ✧ **Letter of Credit (L/C) Backed Variable Rate Bonds (VRBs)**
- ✧ **L/C Backed Fixed Rate Bonds**
- ✧ **Privately Insured Fixed Rate Bonds**
- ✧ **“Naturally” Rated Fixed Rate Bonds**
- ✧ **Unrated Fixed Rate Bonds (Unenhanced)**

Costs of Issuance

✧ **1.75% to 3.25% of Bond Amount**

(assuming \$10 million median size)

✧ **Only 2.00% payable from Bond Proceeds**

✧ **Typical Costs** (excluding standard real estate-related closing costs such as appraisal, environmental, title insurance , etc.)

- ✓ **Issuer**
- ✓ **Issuer's Counsel**
- ✓ **Bond Counsel**
- ✓ **Credit Enhancer's Counsel**
- ✓ **Underwriter/Placement Agent**
- ✓ **Feasibility Study**
- ✓ **Underwriter's Counsel**
- ✓ **Trustee Bank**
- ✓ **Trustee's Counsel**
- ✓ **Rating**
- ✓ **Printing**

Comparison of Costs of Issuance

\$10,000,000 Bond Issue	L/C Backed VRBs	L/C Backed Fixed	Prvt. Insured Fixed	Naturally Rated Fixed	Unrated Fixed
Issuer	10,000	10,000	10,000	10,000	10,000
Issuer's Counsel	10,000	10,000	10,000	10,000	10,000
Bond Counsel	35,000	35,000	35,000	40,000	40,000
Credit Enhancer's Counsel	15,000	15,000	8,000	0	7,000
Underwriter	75,000	100,000	100,000	125,000	175,000
Underwriter's Counsel	15,000	15,000	15,000	25,000	25,000
Trustee	3,500	3,500	3,500	3,500	3,500
Trustee's Counsel	4,500	4,500	4,500	4,500	4,500
Rating	15,000	10,000	8,000	15,000	0
Printing	7,000	6,000	8,000	8,000	10,000
Feasibility Study	0	0	30,000	30,000	30,000
Total	190,000	194,000	232,000	271,000	315,000
% of Bond Issue	1.90%	1.94%	2.32%	2.71%	3.15%

Rate Illustrations

Tax-exempt Bonds					
Years	Insured "AA"	"A" L/C Backed Fixed	"BBB" (Natural) Unenhanced Fixed	Unrated (Natural) Unenhanced Fixed	"A-1/P-1" L/C Backed VRBs
5	3.85%	4.00%	4.10%	4.75%	3.30%
10	4.30	4.45	4.55	5.25	
20	5.05	5.20	5.30	5.75	↓
30	5.15	5.30	5.40	6.00	↓



Conclusions

- **Current interest rates are relatively low**
- **Several financing options available but qualified not-for-profits usually choose tax-exempt bonds**
- **Bonds can be credit-enhanced by third parties**
- **Focus on annual debt service, not upfront costs**