



**Creative Financing during Challenging Times:
How Phasing and Financing can help your project get done**

MOMENTUM
**2023 ANNUAL
MEETING & EXPO**

Renaissance Schaumburg
Convention Center - Schaumburg, IL

Creative Financing during Challenging Times: How Phasing and Financing can help your project get done

Lynn Daly
Executive Vice President



Session 80G

Wednesday, March 8, 2023

2:45pm-3:45pm

Kyle DeHenau
Vice President



HJ Sims

- HJ Sims has provided the ***Right*** financing solutions since 1935
 - **Over \$30 billion** in senior living financings since 1965
 - Innovative and efficient financing structures for **repositioning, expansion and start-up projects as well as refinancings**
 - **Unparalleled distribution** of tax-exempt bonds to **individual** and **institutional** investors
 - **Strong relationships** with commercial banks **for direct bank financing**
 - Ability to **secure financing** in **difficult market conditions**
 - Seek to achieve the **lowest cost of capital** and **most favorable financing terms**
 - **Sims Advisory Services** routinely works with not-for-profit and for-profit providers on mergers/acquisitions, sponsorship transitions, and divestitures/sales.
- Approximately **120 employees including over 25 investment bankers**
- Strong **commitment to Board education** at national, state and community level
 - Many Sims bankers **serve on non-profit boards**
 - **Part owners** of 70+ senior living communities.

PMLF Introduction

The next level of senior living services

Plante Moran Living Forward™ (PMLF) provides **unbiased, value-driven** senior living development consulting services under a single point of contact to help senior living providers stay competitive, grow, and provide quality care. We are dedicated to providing **unrivalled advocacy and support** to senior living operators, owners, and developers from concept to completion.

From concept through completion, we offer a holistic solution

We help you plan projects

Site selection

Project definition & master planning

Market feasibility

Selection & management of project team

Design process oversight

Real estate due diligence

We help you coordinate financing for projects

Project budget development

Financial modeling

Financing coordination

Cash flow management

Incentives procurement

We help you complete projects

Owner's representation

Construction monitoring & change order management

Payment application & Invoice processing

FF&E & technology coordination

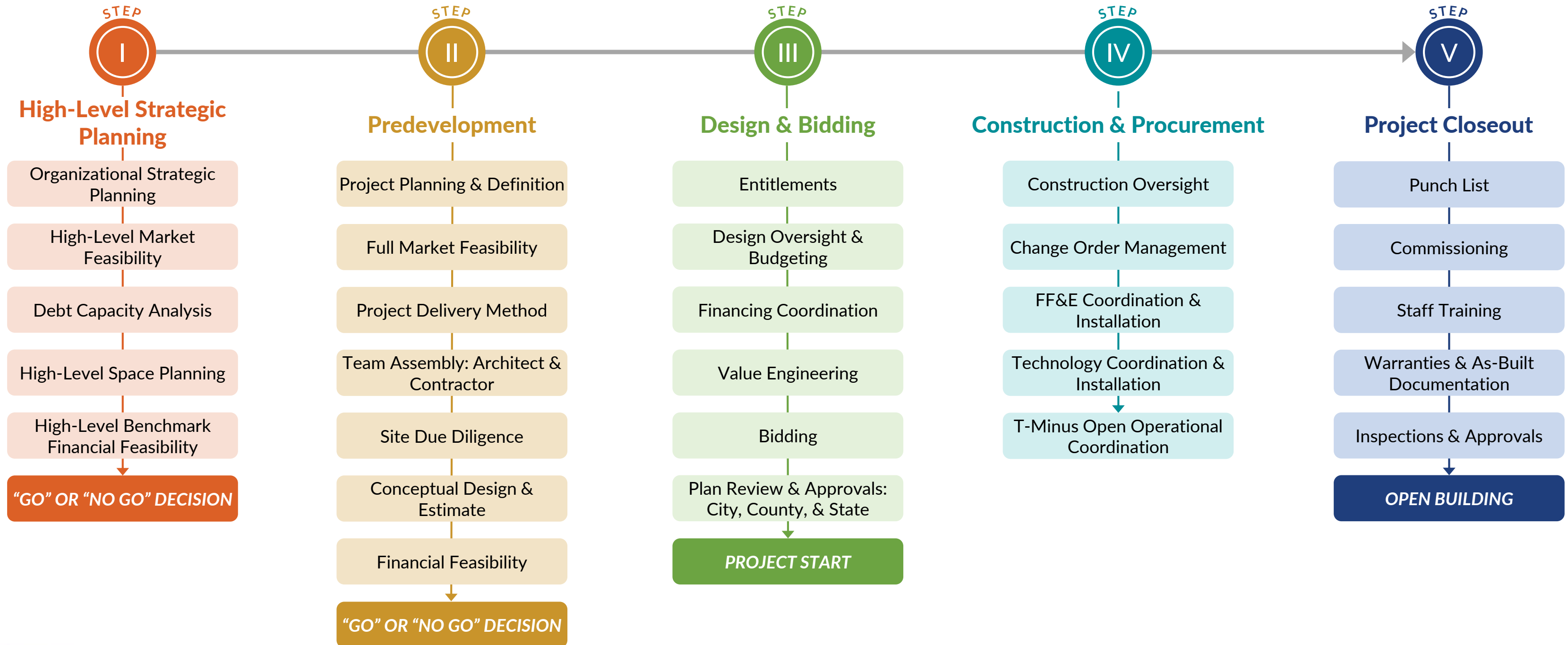
Project closeout & move coordination

Learning Objectives:

1. Understand the importance of continuing to plan and move forward, even in tougher times.
2. Learn how Phasing a project and incorporating some creative financing options can make a project viable.
3. Explore how two Illinois Providers used phasing and creative financing to close on their transformative projects in 2022, despite the increases in construction costs and interest rates.

The Power of Phasing

Project Development Tasks – Single Project



Development Tasks – Phased Project



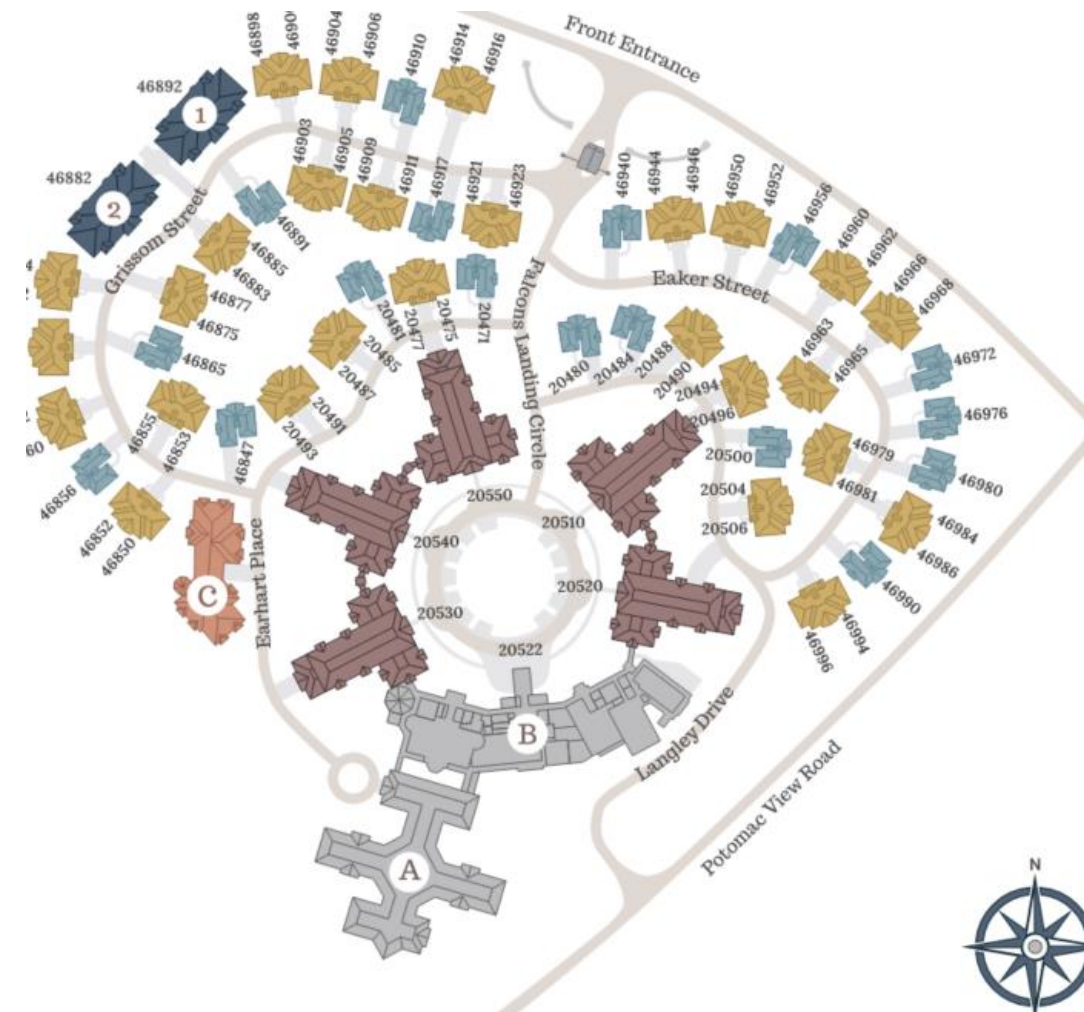
Why Phase a Project?

1. Inability to fund entire project at once
2. Desire or need to generate initial accretive revenue
3. Mitigate against overdevelopment
4. Maintain census on campus
5. Lack of space

Revenue and Overdevelopment

1. Identify opportunities to create revenue before declining census
2. Evaluate the debt capacity of the organization over time

Space



Items to Consider

Parking



Water Retention



Soil Conditions



Items to Consider

Hazardous Material



Easements & Utilities



Construction Access



Case Study - Clark-Lindsey Village

1. Limited Space
2. Opportunity to generate revenue
3. Existing residents to consider



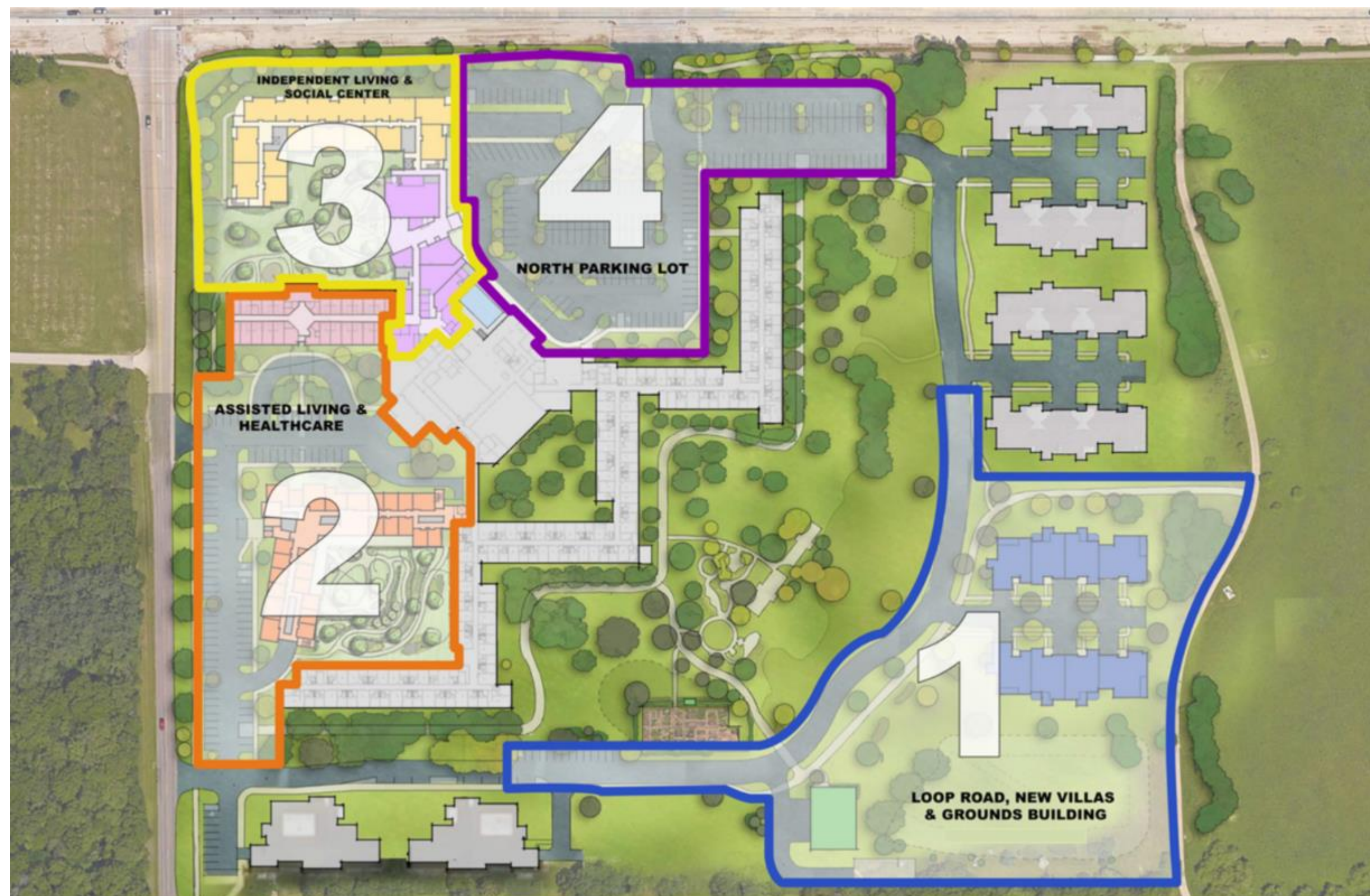
Existing Campus



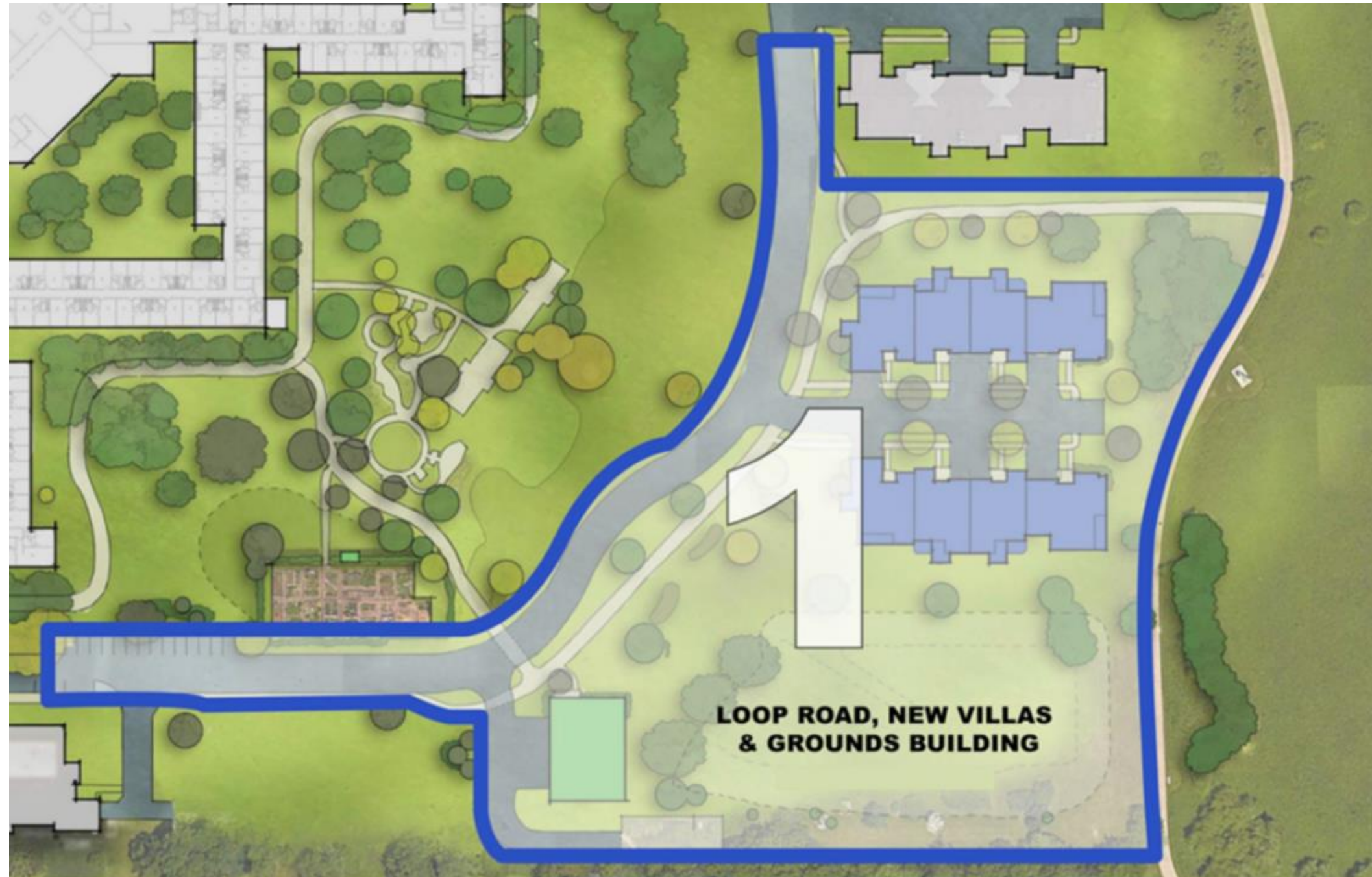
Planned Project



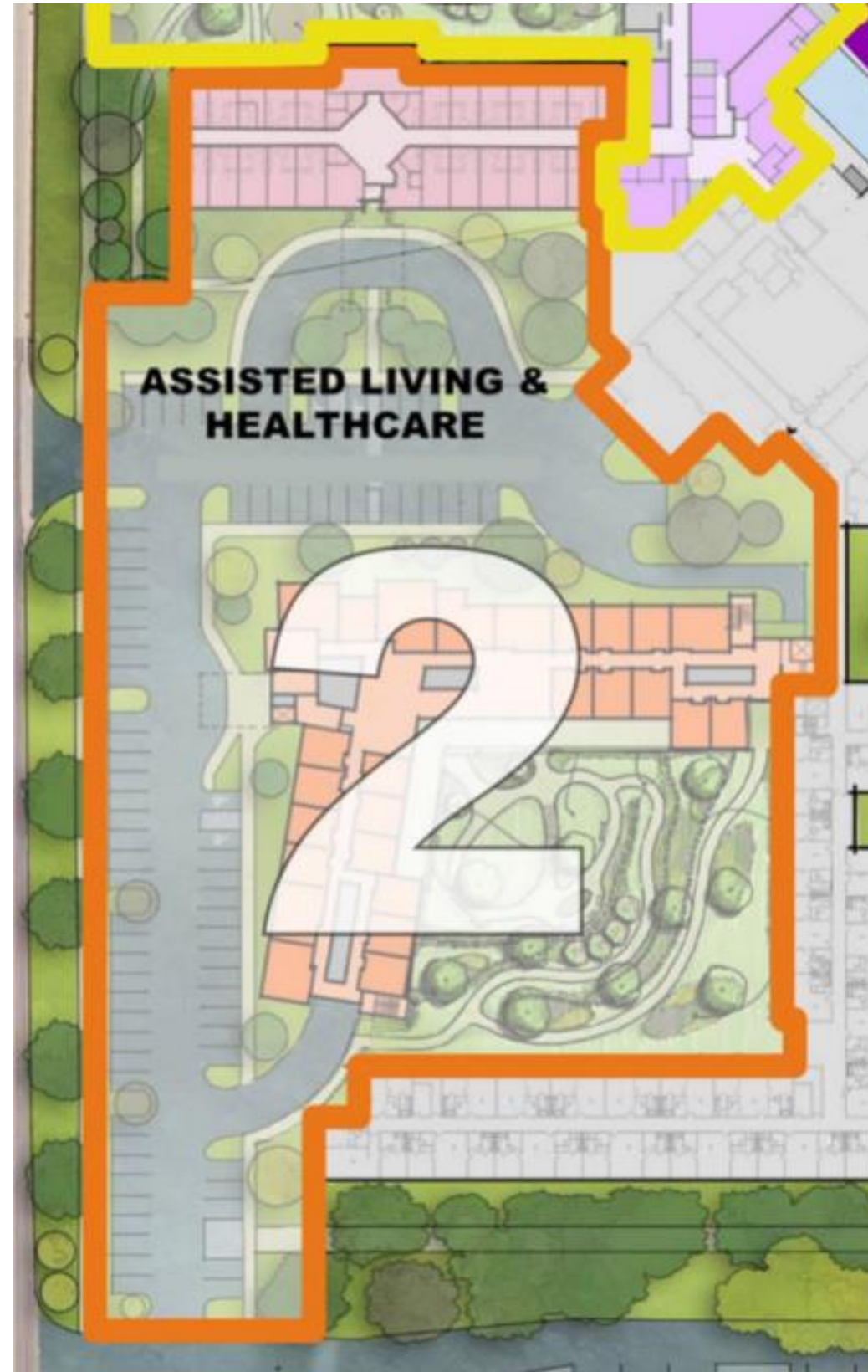
Phasing Plan



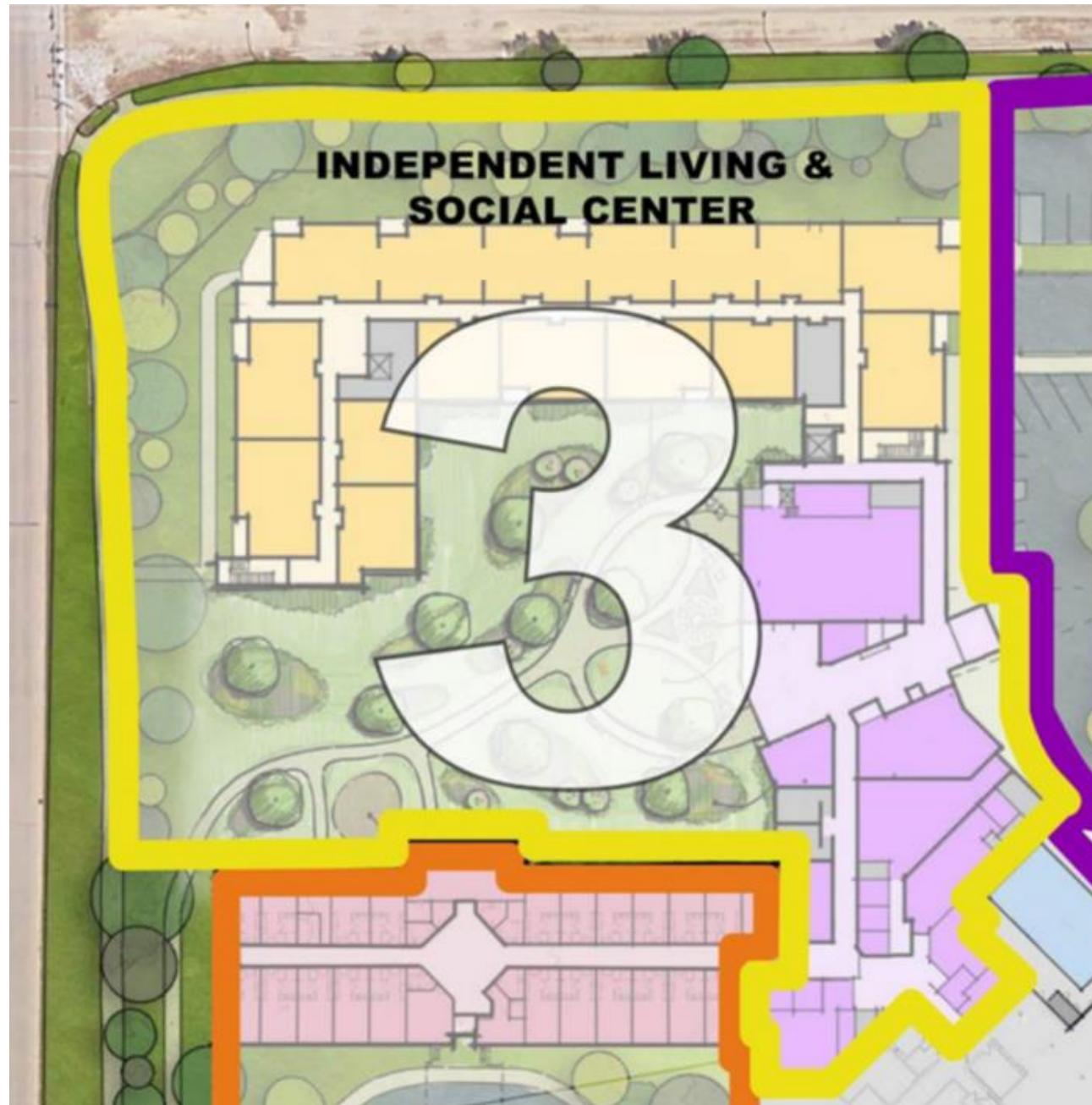
Phase 1



Phase 2



Phase 3



The Flexibility of Financing

Financing Constraints

- Cash Flow – Debt Service Coverage
 - At Stabilization
- Liquidity – Days Cash on Hand
 - At Stabilization
 - Sufficient cash to cover start-up costs
 - Can be cash on hand or Working Capital
- Loan to Value
 - Only relevant for bank financing



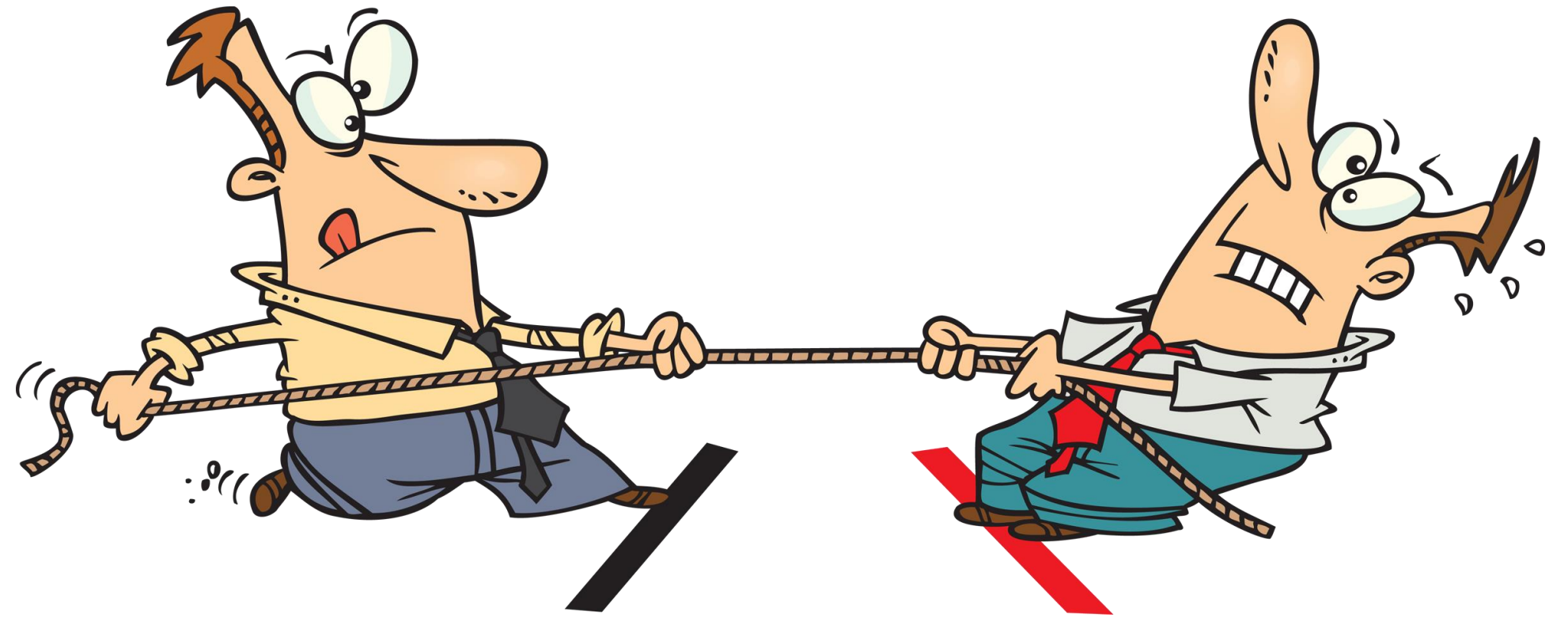
Cash Flow

- Debt Service Coverage on new project calculated the first full fiscal year following stabilization
 - Timing of Stabilization
- Actual Debt Service vs. Maximum Annual Debt Service
- Amortization
- Refinancing of existing debt
- Use of Entrance Fees to pay-down debt
- Use of Equity to reduce debt load



Liquidity

- Use of Entrance Fees
 - Keep on balance sheet
- Equity in the project
- Borrowing for Working Capital and/or Capex
- Reimbursement of prior capex
- Line of Credit



Leverage

- Use of Entrance Fees to pay-down debt
- Use of Equity to reduce debt load
- PACE debt
 - Not secured by mortgage
- Subordinated debt
 - A/B Tranches



Other Levers

- Speed to Opening
 - Less Capitalized Interest
- Type of Financing
 - Bank Debt vs. Bonds
 - Hybrid Debt
- USDA Financing
 - Other Agency Financing



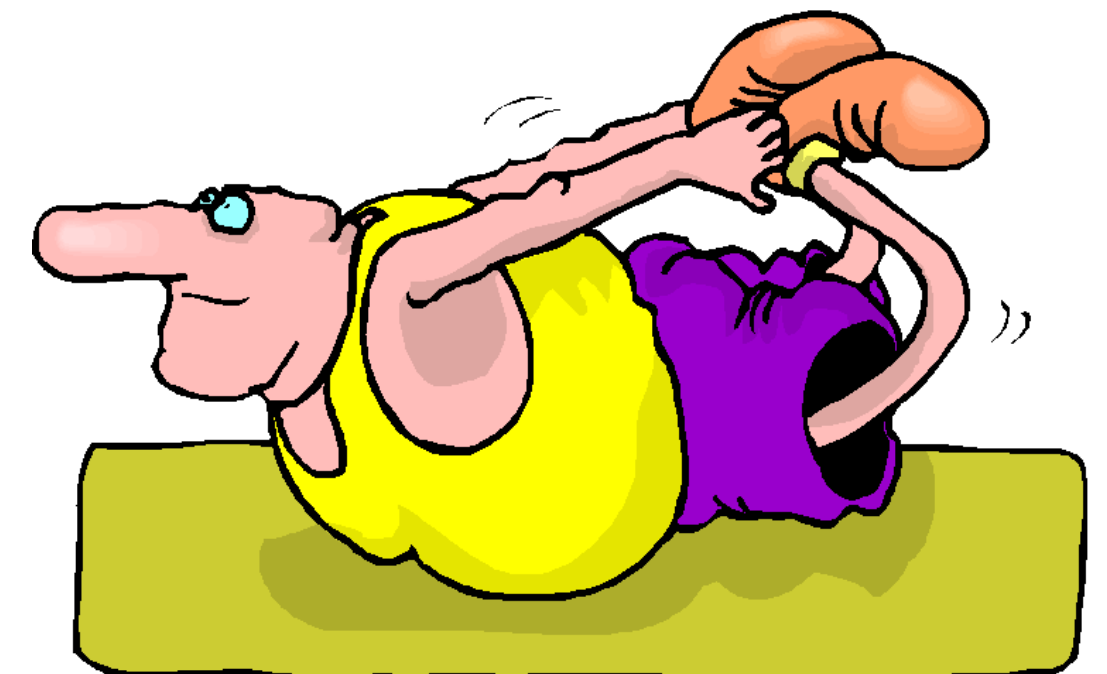
Work with someone who can help you access all different types of financings

Resthaven Case Study

- Increasing Construction Costs
- Increasing Interest Rates
 - Bank Debt
 - Capitalized Interest
- Prior receipt of Tax-Exempt approval for a max amount
- Fed Increasing rates monthly 0.75bps each time
 - Delays would be costly
- Time to get *really* creative
 - Banks flexible



Resthaven



The Craft of Construction

Scheduling/Procurement/GMP

How To Phase

1. Complete site and building due diligence early
2. Select the best team for your vision & remain focused on existing operations
3. Develop a project schedule
4. Execute guaranteed maximum price with consideration
5. Resist the urge to make changes
6. Evaluate project feasibility at regular intervals

Project Due Diligence

1. Determine market demand
2. Hazardous material survey
3. Environmental Phase I and Phase II (if necessary)
4. Initial zoning review
5. Geotechnical investigation
6. Build a financial proforma
7. Develop building programs

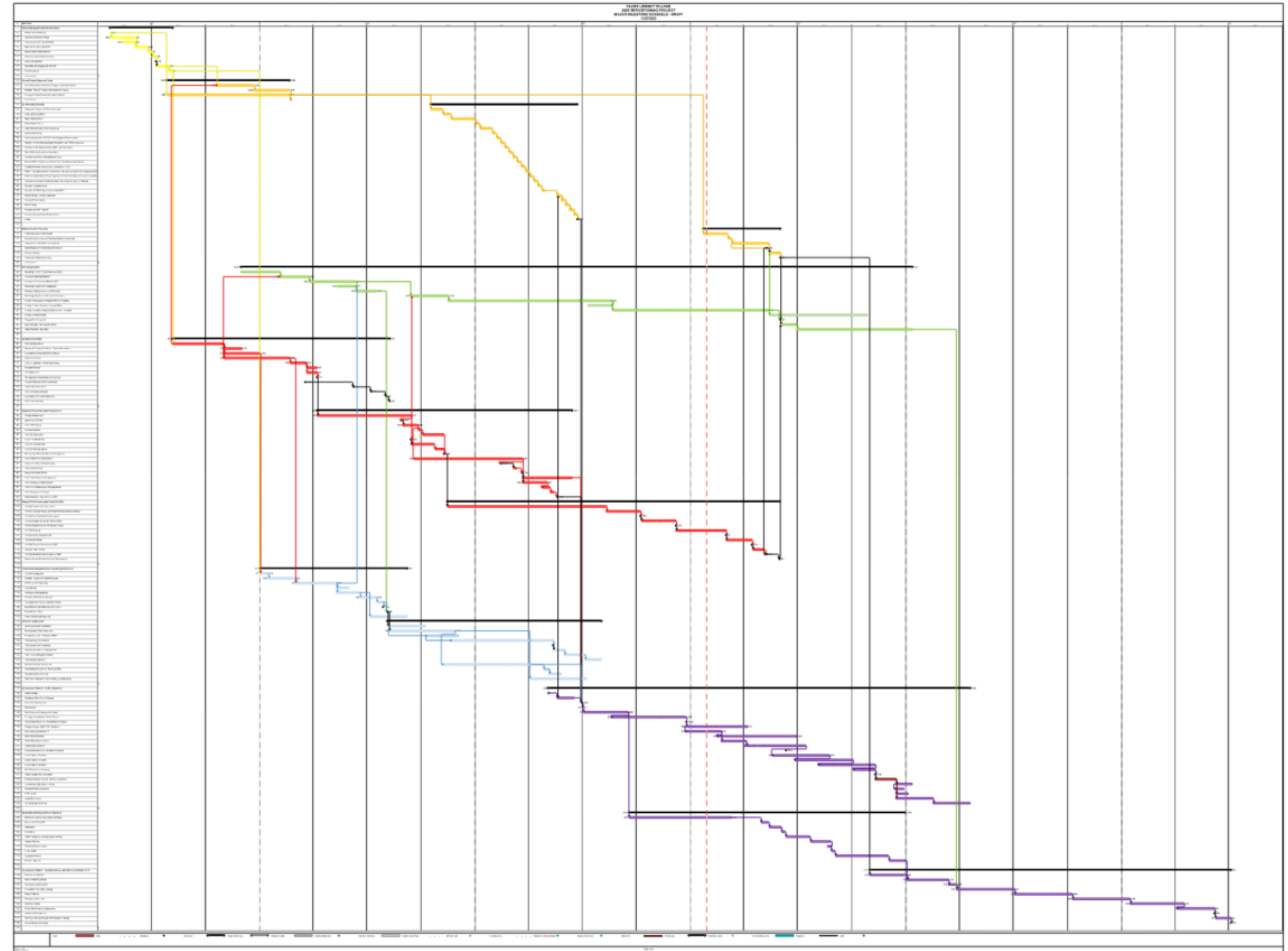
Team Selection

1. Architect
2. Contractor
3. Marketing Firm
4. Investment Banker
5. Development Advisor

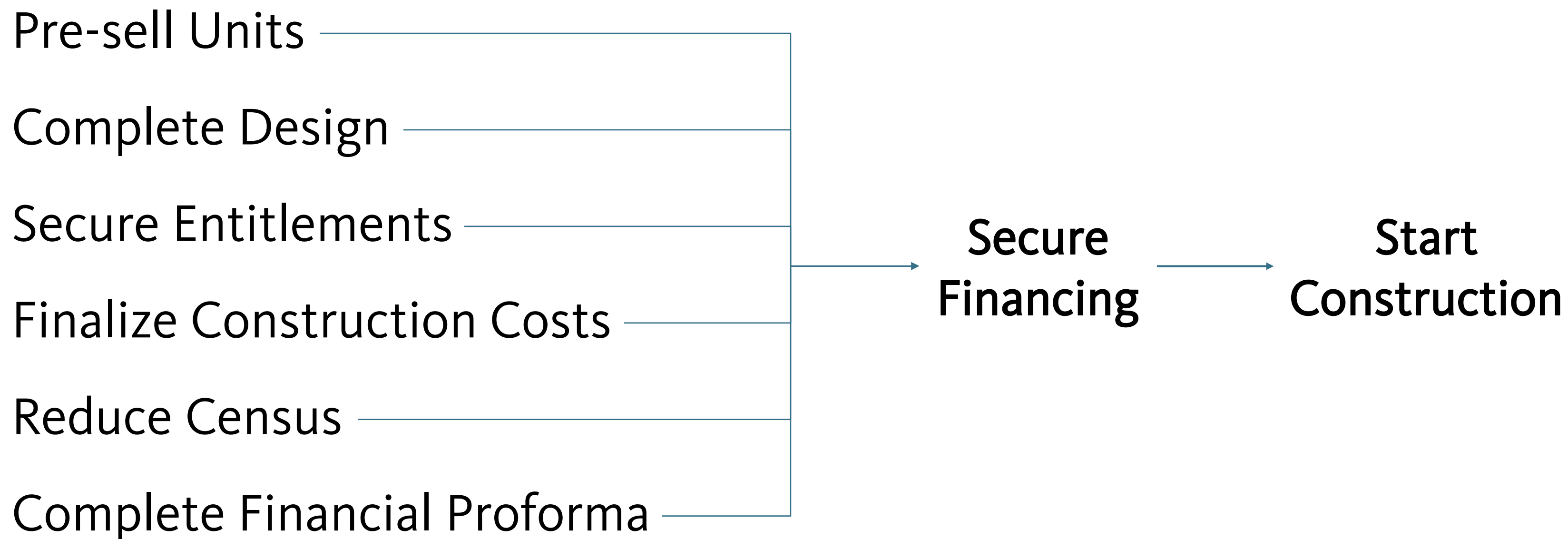
Remain Focused on:

1. Census
2. Staffing
3. Expenses & Revenue

Develop Project Schedule

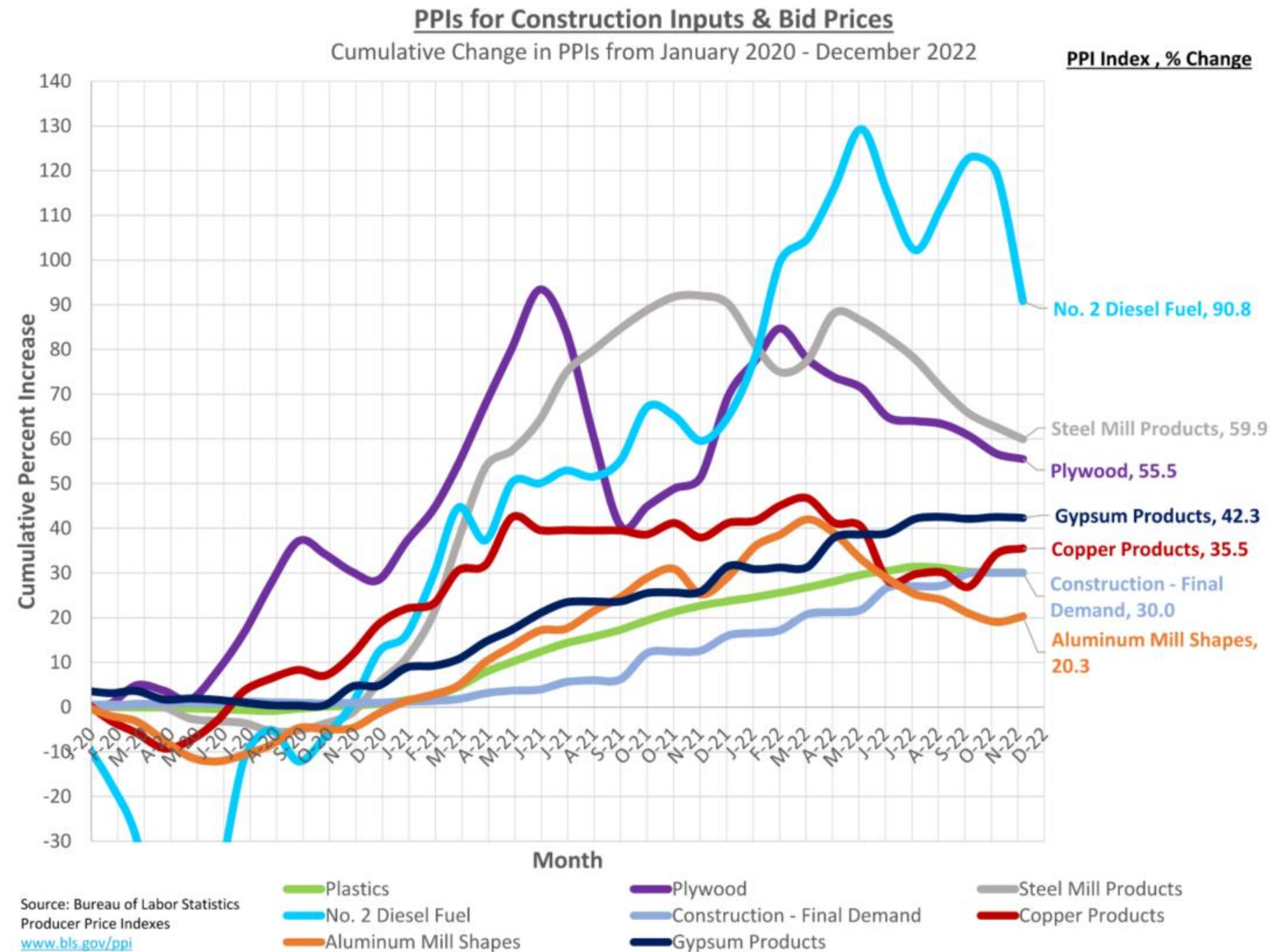


Develop a Project Schedule



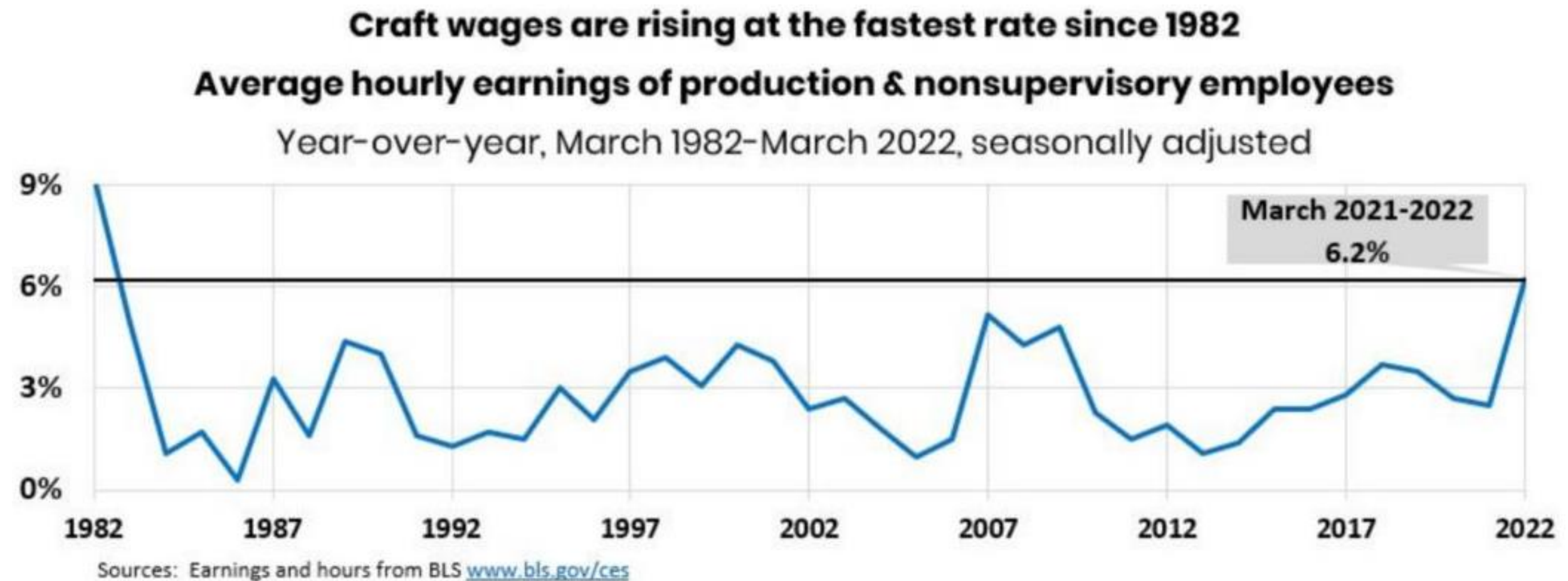
When to Execute a Guaranteed Maximum Price?

Consider
Material
Escalation



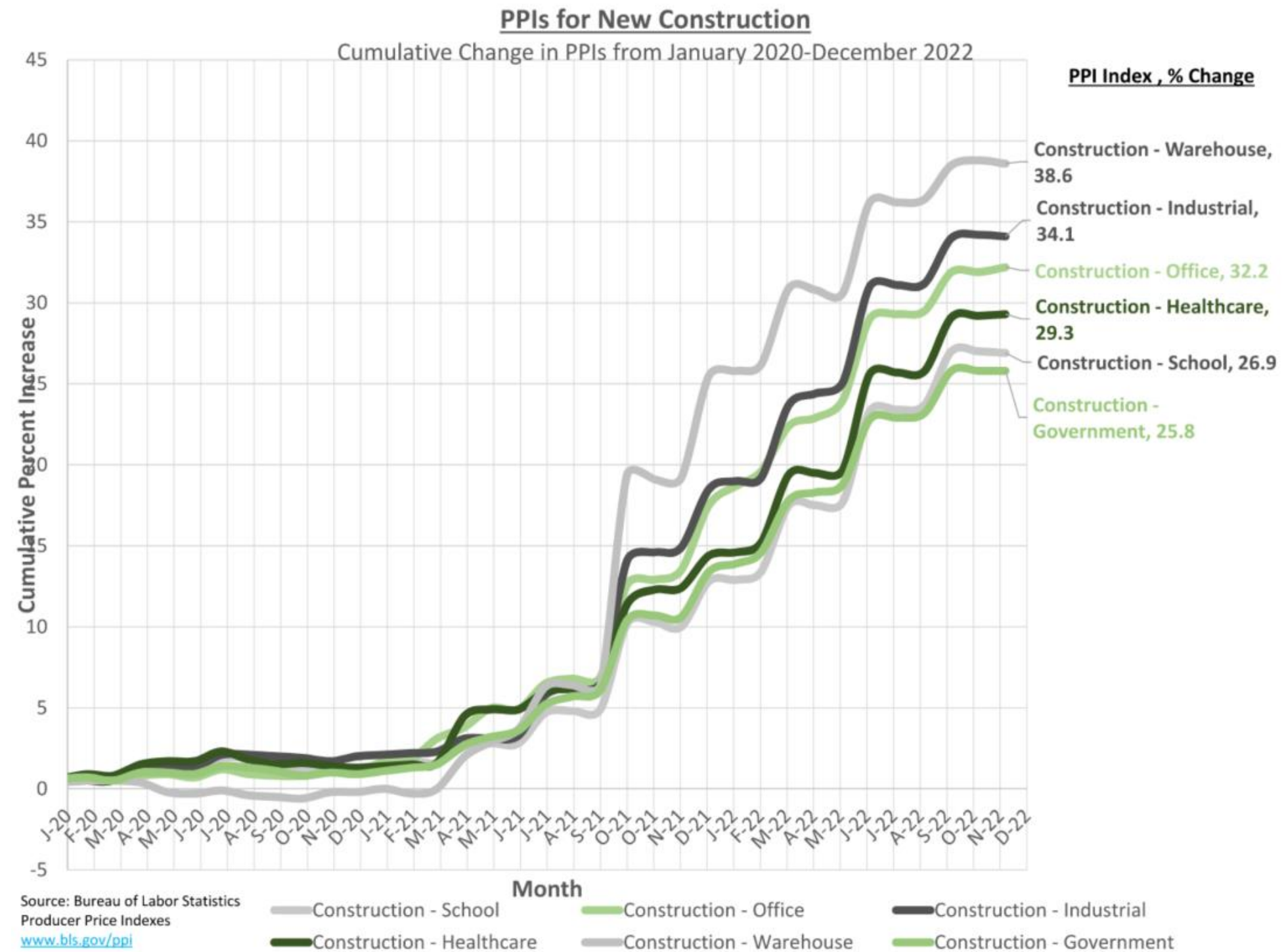
When to Execute a Guaranteed Maximum Price?

Consider
Labor
Escalation



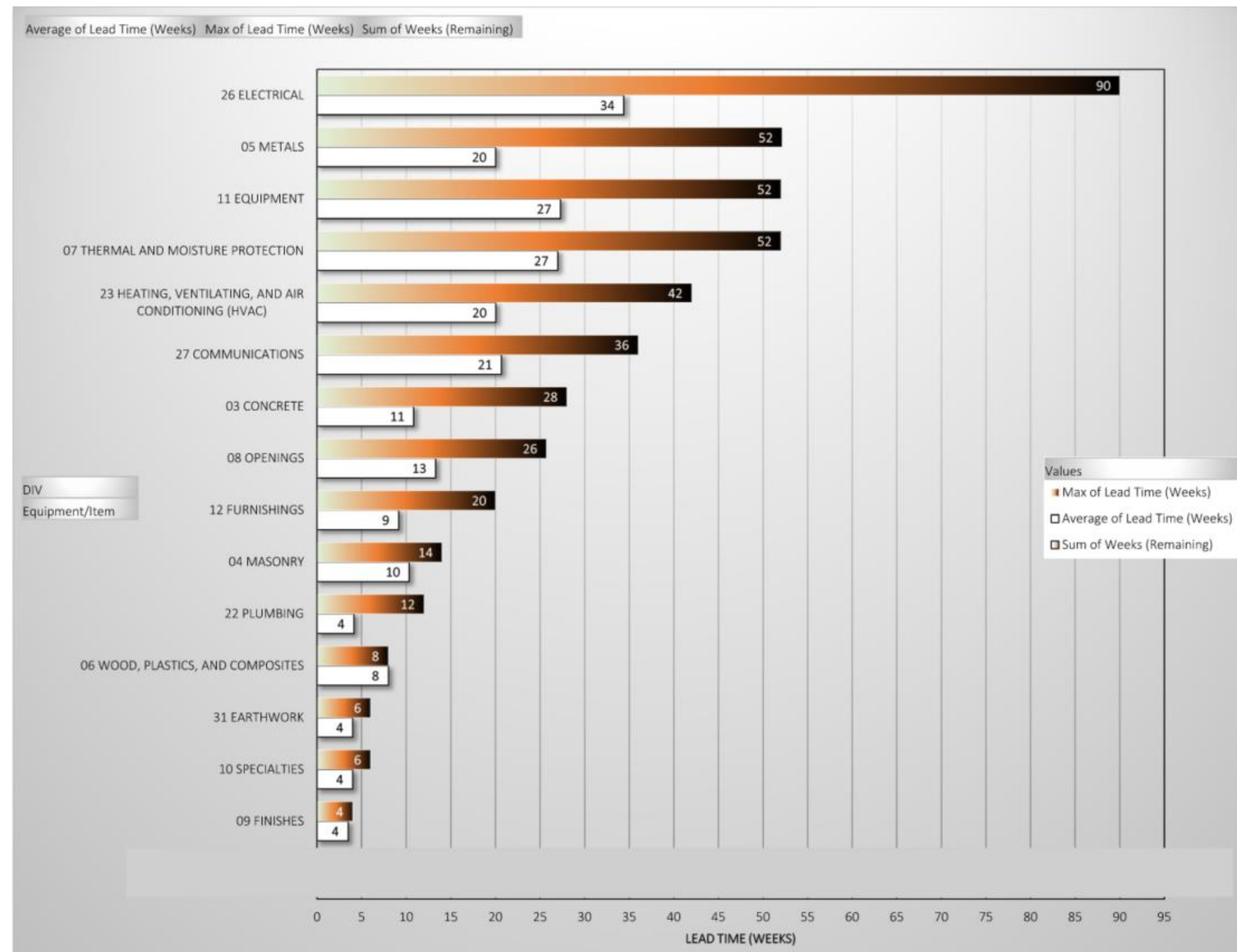
When to Execute a Guaranteed Maximum Price?

Consider
Construction
Escalation



When to Execute a Guaranteed Maximum Price

Consider Material
Lead Times

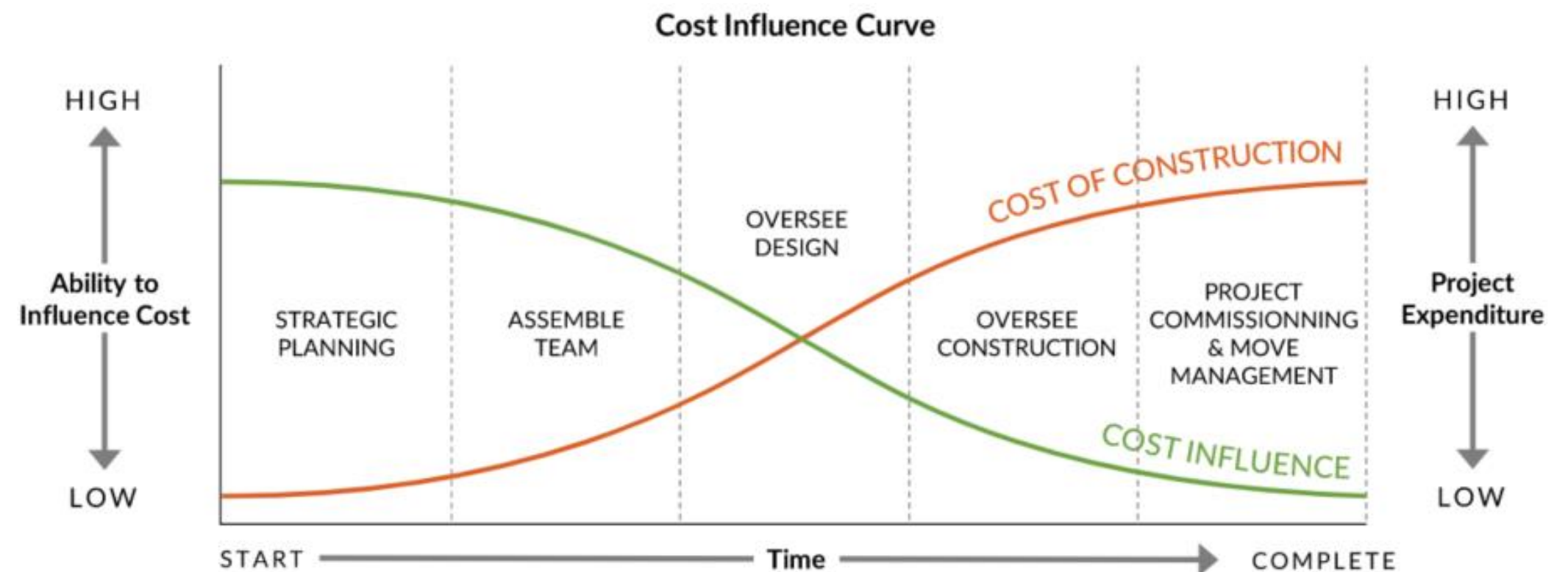


When to Execute a Guaranteed Maximum Price?

1. Set GMP just ahead of closing financing
2. Allow sufficient time to order materials
3. Be prepared to release long lead items before finance closing
4. Consider multiple GMP's for each phase

Resist Changes

1. Takes time
2. Pay additional fees
3. Subject to additional escalation
4. Subject to interest rate increases



Evaluate Project Feasibility

1. Evaluate interest rates, operational costs, existing census, and market conditions at regular intervals
2. Conservatively design a project to absorb future costs
3. Build what you can afford and don't max out the budget
4. Be prepared to evaluate:
 - Level of finishes
 - Type of mechanical, electrical, and plumbing systems
 - Size of non-revenue generating square footage

Disclaimer

Additionally, Information and opinions are current up to March 8, 2023, and are subject to change without notice. The opinions expressed by Lynn Daly are strictly her own and do not necessarily reflect those of HJ Sims or its affiliates. HJ Sims is not providing any financial, economic, legal, accounting, or tax advice or recommendations.



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THANK YOU FOR ATTENDING

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